

CHAPTER 3: STATEMENT OF RISKS

- The budget projections are sensitive to a number of upside and downside risks (both economic and fiscal) and contingent assets and liabilities.
- Major risks to the Victorian economic projections include the intensifying drought conditions and possible wage and inflationary pressures resulting in further interest rate rises.
- Contingency provisions within the budget estimates provide general protection against fiscal risks, including increased demand for government services.
- A number of contingent assets and liabilities have been identified, particularly relating to the public transport rail agreements.

ECONOMIC RISKS

The main risks to the Victorian economic projections stem from the intensifying drought conditions and possible wage and inflationary pressures resulting in further interest rate rises. Any major disruption to world economic growth would also impact on the national and Victorian economy.

As discussed in Chapter 1, *Economic Conditions and Outlook*, drought conditions are likely to result in significantly lower output in the agricultural sector. To gauge the extent of the potential risk to the gross state product (GSP) forecasts, Department of Treasury and Finance modelling, using Australian Bureau of Agricultural and Resource Economics (ABARE) forecasts and experience from past droughts, estimates that widespread drought conditions, relative to normal seasonal conditions, could result in a reduction in Victorian GSP growth of between 0.5 and 1.0 percentage points. A substantial allowance for the impact of the drought has been incorporated into the GSP forecasts.

Inflation risks, on balance, appear to be on the upside. Although oil prices have eased more recently, the potential for another surge in oil prices is linked to uncertainty regarding oil supply and geopolitical concerns. There is also evidence of heightened input cost pressures, consistent with an economy operating near full capacity and with an historically tight labour market. Higher inflation carries with it the risk of higher interest rates, which could place pressure on the growth forecasts. As at early November, financial markets had almost fully priced in another rise in the official cash rate by the end of the year.

The main downside risk to the global outlook stems from a significant contraction in the US housing market. However, the world economy may continue to surprise on the upside, especially with growth becoming more broadly based. Other upside risks to the Victorian and national economic outlook include supportive fiscal policy, the strong labour market conditions and the positive effects from a potential depreciation of the Australian dollar.

Sensitivity analysis

The sensitivity analysis quantifies the impact on revenue, expenses and the net result from transactions associated with variations to forecasts or projections of selected economic and financial variables. The major variables that affect Victoria's net result from transactions are economic growth, employment, prices, wages, interest rates, share prices, property prices and property transaction levels.

To assess sensitivity to change, the level of the economic variable in each case is permanently increased by one percentage point for one year, and then allowed to grow at the previously forecast rate. It is assumed during the analysis of each variable that all other variables follow their forecast growth. As such, the analysis captures the effect on the net result from transactions of changing one variable only, and does not attempt to capture the linkages with other variables in the economy.

Table 3.1: Impact on the general government net result from transactions of a one percentage point increase in selected economic indicators in 2006-07 ^{(a)(b)}

	(\$ million)			
	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
GSP				
Taxes, regulatory fees and fines ^(c)	41	42	45	47
Other income ^(d)	105	120	133	143
Superannuation expenses	..	..	..	..
Other expenses	..	..	1	2
Net result from transactions	147	162	176	187
Superannuation - actuarial gains (losses)	..	..	..	..
Net result	147	162	176	187
Employment				
Taxes, regulatory fees and fines	34	35	36	38
Other income ^(d)	1	3	5	7
Superannuation expenses	..	..	..	..
Other expenses	..	..	..	..
Net result from transactions	35	38	41	45
Superannuation - actuarial gains (losses)	..	..	..	..
Net result	35	38	41	45
Consumer prices				
Taxes, regulatory fees and fines ^(c)	51	53	55	57
Other income ^(d)	173	187	192	195
Superannuation expenses	..	6	7	7
Other expenses	40	193	199	203
Net result from transactions	184	40	41	42

Table 3.1: Impact on the general government net result from transactions of a one percentage point increase in selected economic indicators in 2006-07^{(a)(b)}
(continued)

	(\$ million)			
	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Superannuation - actuarial gains (losses)	-106	..	..	..
Net result	78	40	41	42
Average weekly earnings^(e)				
Taxes, regulatory fees and fines	34	35	36	38
Other income ^(d)	-13	-12	3	5
Superannuation expenses	..	17	18	19
Other expenses	..	..	..	..
Net result from transactions	21	6	22	25
Superannuation - actuarial gains (losses)	-179	..	..	..
Net result	-158	6	22	25
Domestic share prices				
Taxes, regulatory fees and fines	..	..	..	..
Other income ^(d)	5	5	..	..
Superannuation expenses	..	-4	-4	-5
Other expenses	..	..	..	..
Net result from transactions	5	9	5	5
Superannuation - actuarial gains (losses)	59	..	..	..
Net result	63	9	5	5
Overseas share prices				
Taxes, regulatory fees and fines	..	..	..	..
Other income ^(d)	4	4	..	..
Superannuation expenses	..	-3	-3	-4
Other expenses	..	..	..	..
Net result from transactions	4	7	4	4
Superannuation - actuarial gains (losses)	47	..	..	..
Net result	51	7	4	4
Property prices				
Taxes, regulatory fees and fines	37	38	53	53
Other income ^(d)	2	4	6	9
Superannuation expenses	..	-1	-1	-1
Other expenses	..	..	..	..
Net result from transactions	40	43	59	63
Superannuation - actuarial gains (losses)	10	..	..	..
Net result	50	43	59	63
Property transaction volumes				
Taxes, regulatory fees and fines	27	27	27	28
Other income ^(d)	2	3	4	5
Superannuation expenses	..	..	..	..
Other expenses	..	..	..	..
Net result from transactions	29	30	31	33
Superannuation - actuarial gains (losses)	..	..	..	..
Net result	29	30	31	33

Table 3.1: Impact on the general government net result from transactions of a one percentage point increase in selected economic indicators in 2006-07 ^{(a)(b)}
(continued)

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
	Estimate	Estimate	Estimate	Estimate
Interest rates ^(f)				
Taxes, regulatory fees and fines	..	..	..	..
Other income ^(d)	77	80	41	43
Superannuation expenses	-8	2	8	16
Other expenses	1	5	9	13
Net result from transactions	84	73	25	13
Superannuation - actuarial gains (losses)	3 234	..	..	..
Net result	3 318	73	25	13

Source: Department of Treasury and Finance

Notes:

- (a) A positive number for taxes, regulatory fees and fines, and other income denotes an increase in revenue. A positive number for superannuation expenses and other expenses denotes an increase in expenses (and hence a reduction in the net result from transactions and net result). A positive number for the net result from transactions and net result denotes an improvement. Numbers may not balance due to rounding.
- (b) An equivalent one percentage point decrease in each indicator would have an opposite impact to that shown.
- (c) The increase in the estimated impact of gross state product and consumer prices on the net result and net result from transactions, relative to that published in the 2006-07 Budget, reflects a revision to the assumed sensitivity of other taxation revenue.
- (d) Other income includes general and specific purpose grants, including grants for on passing, as well as changes in dividends and income tax equivalent payments from public authorities. Dividends and income tax equivalent payments are based on an estimated dividend payout ratio. However, dividends paid by government business enterprises are determined by the Treasurer having regard to relevant commercial considerations, including reported profit/loss, operating cash flow, gearing and interest cover, capital requirements and the views of the Board and the portfolio Minister. Therefore, the actual impact on this revenue source is dependent on the current circumstances of the relevant public authority.
- (e) Following the implementation of the departmental funding model, employee entitlements, included as part of other expenses, are now sensitive to changes in prices, whereas in previous years these impacts would have been identified under average weekly earnings.
- (f) Assumes a one percentage point increase across the entire term structure, i.e. short and long rates, over the entire forward estimates period.

The sensitivity analysis in Table 3.1 presents the sensitivity of both the net result from transactions and the net result to selected economic and financial indicators.

Sensitivity to economic growth

An increase in GSP would increase household consumption, leading to higher GST grant revenue and taxation revenue which would increase both the net result from transactions and the net result.

Sensitivity to employment

An increase in employment growth is expected to result in additional payroll tax revenue, and would increase both the net result from transactions and the net result.

Sensitivity to prices

Increased consumer prices would lead to higher Commonwealth-sourced revenue (due to indexation), as well as higher GST and taxation revenue as the value of tax bases rises in nominal terms. However, the higher revenue is partly offset by the higher cost of supplies and services, and some increases in outlays on grants and transfers. In accordance with the departmental funding model, while higher prices would have no impact in the budget year, they could flow through into increased output funding for departmental expenses in the forward years. Overall, there is a positive impact on the net result from transactions.

The increase in consumer prices would also result in an immediate actuarial-based increase in superannuation liabilities negatively impacting the net result. In subsequent years, the now higher superannuation liabilities result in a slightly higher superannuation expense which reduces the net result from transactions.

Sensitivity to wages

A rise in the level of economy wide wages would result in higher payroll tax revenue although this is partially offset by a reduction in TAC dividends.

The increased wages would increase the value of superannuation fund lump-sum liabilities and result in a reduction in the net result for the budget year. The higher superannuation fund liabilities would flow through into an increase in the superannuation expense in the remaining out years. The overall impact would be to increase the net result from transactions and net result from 2007-08 onwards.

Sensitivity to domestic and overseas share prices

The State's public financial corporations (PFCs) and superannuation funds have holdings of domestic and international shares as part of their respective investment portfolios. Increased domestic and international share prices thus raise the profits of the PFCs and reduce the valuation of the unfunded superannuation liability.

The net result from transactions responds positively to increases in share prices as PFC dividends rise with profits, with later year positive impacts reflecting the reduced valuation of unfunded superannuation liabilities on future superannuation expenses.

Sensitivity to property prices

Increased property prices have an immediate impact on the net result from transactions through increased collections of conveyancing duty. At the same time, the valuation of the unfunded superannuation liability is reduced (due to the increased value of holdings of property in the investment portfolio of superannuation funds) which also increases the net result. In later years the increase in property prices continues to be reflected in higher conveyancing duty and land tax while the previous reduction in the unfunded superannuation liability reduces ongoing superannuation expenses.

Sensitivity to property transaction volumes

An increase in property transaction volumes would increase conveyancing duty revenue leading to a rise in the net result from transactions and net result.

Sensitivity to interest rates

A one percentage point increase in interest rates is assumed to reflect an increase in the cash rate of one percentage point over the entire forward estimates period, resulting in a one percentage point increase across the entire term structure.

The increase in interest rates reduces the valuation of long term liabilities of the PFCs and raises measured profits of these entities for distribution to the general government (GG) sector. The higher income would be fully distributed as dividends and income tax equivalents in the first two years. This is partly offset by lower water authority dividends due to higher borrowing costs, as well as an increase in the borrowing costs of the GG sector.

At the same time, the increase in interest rates reduces the valuation of superannuation fund liabilities. In terms of ongoing superannuation expenses, the impact of a reduction in the unfunded liability is slightly more than offset by an increase in the annual interest expense on the unfunded liability going forward – leading to an increase in annual superannuation expenses. The resulting rise in both the net result from transactions and the net result is minimal by the end of the forward estimates.

FISCAL RISKS

Expenditure Risks

With the introduction of the departmental funding model from 2004-05, departments need to plan for, and manage, all costs associated with delivering services. Under the model, variations to previous budget CPI forecast growth rates applied to output prices for the coming budget and forward estimates years are to be determined in the

context of the next annual Budget. There are several general risks such as unforeseen changes in the size and structure of the Victorian population, which can affect the expenditure and revenue outlook. These risks can be classified into those affecting all government departments and those that are department specific.

The main risks to specific departmental expenditures relate to growth in demand for key services, government commitments contingent on external factors, and government responses to unforeseen events such as natural disasters, including bushfires.

The 2006-07 revised estimates and forward estimates include a contingency provision to allow for the likelihood that some of these department-specific and government-wide expenditure risks will be realised during the remainder of the budget year or over the course of the forward years. The contingency provision includes a general allowance for:

- growth in Victoria's population, and consequent derived demand for government services;
- an allowance for depreciation expenditure that would be associated with new asset investments funded from the unallocated capital provision (subject to government approval); and
- other expenditure risks, including interest cost risks which were unforeseen or not able to be quantified, or were not formalised at the time of construction of the budget estimates.

In addition, the budget estimates include a contingency from 2007-08 that acknowledges funding for a number of existing decisions which will conclude in 2006-07 or the following years. A provision is made on the basis that Government may endorse a number of these decisions to continue or be replaced to meet service delivery priorities.

The inclusion of an operating contingency provision in the budget estimates mitigates the potential impact of expenditure risks on the overall budget position. Realised expenditure risks will only impact on total expenditure and the annual budget position to the extent that they cannot be accommodated within the contingency provision built into the budget estimates. The aggregate level of the operating contingency provisions contained within the budget estimates is shown in Note 10 of the Estimated Financial Statements (see Chapter 4, *Estimated Financial Statements and Notes*).

The budget estimates also include an unallocated capital provision to provide capacity for future asset investment requirements. With a capital program the size of that funded by the Government, there are always likely to be variations in actual costs (compared to budget) for individual asset investment projects. However, the

forward estimates assume that capital cost pressures are managed within the existing forward estimates. Management of capital cost pressures may occur in one of three ways:

- the reallocation of resourcing within departments' global capital budgets (reflecting the likelihood that cost over runs on some projects will be offset by cost under runs in other areas); and/or
- re-scoping a project to fit within funding parameters (subject to government approval); and/or
- funding from the unallocated capital funding set aside in the forward estimates (subject to government approval).

The aggregate level of the unallocated capital contingency provisions contained within the budget estimates, including purchases of property, plant and equipment and contributions to other sectors, is shown in Table 2.5, Application of Cash Resources, in Chapter 2, *Budget Position and Outlook*.

Significant events that could represent a call on the operating contingency or unallocated capital funding and/or impact on total budget expenditure forecasts are detailed below.

Insurance exposures

The availability and affordability of commercial insurance has improved during the past year, although difficulties remain for particular clients and risks, particularly professional indemnity insurance for some highly specialised professions. The State no longer provides cover for tourism ventures or heritage and tourist railways, which have reverted to commercial insurance arrangements.

Pressures on private sector medical indemnity premiums have also eased, but there is still a risk that increasing medical costs and lack of availability of private doctors in some regions may result in the State assuming larger numbers of high risk medical procedures. This risk, together with the impact of claims that arise from current levels of public medical services, means that there is a continuing need to closely monitor the State's medical indemnity liabilities and expenses.

As set out in the contingent liabilities section, as the insurer for the Victorian general government sector, the Victorian Managed Insurance Authority (VMIA) insures any additional risks assumed by the general government sector. It does so either explicitly through indemnities provided to non-government bodies, or implicitly through transfer of activities from private sector to general government sector service providers. However, the State continues to directly bear the risks of losses arising from events for which VMIA does not provide insurance, such as terrorist attacks.

Air Ambulance and Victoria Police air wing co-location

The Government has commenced negotiations with Essendon Fields Pty Ltd to lease a section of land at Essendon Airport to continue to locate both the Victoria Police and Air Ambulance Victoria air wings within the airport. Once the lease has been finalised, the Government will need to construct facilities for the accommodation of the air wings. As the current accommodation leases expire during 2007 and 2008, the facilities will need to be constructed at separate times. Funding has been provided in 2006-07 for the Victoria Police and ambulance rotary wing, with further funding for the Air Ambulance Victoria fixed wing to be considered in 2007-08.

Port Phillip Prison

In line with the existing contract, the government is currently undertaking a review of the Prison Services Agreement for Port Phillip Prison. This review is expected to be finalised in 2007. The forward estimates reflect existing contractual arrangements.

Traffic Camera and Infringement Processing Contract

The current Traffic Camera and Infringement Processing Contract is due to expire in late 2007. The forward estimates reflect existing contractual arrangements.

Transfer of Social Housing Units in the Commonwealth Games Village to Housing Associations

Subject to a successful tender process, the Government expects to transfer the social housing units at the Commonwealth Games Village to the successful Housing Association(s) progressively as the units become available for occupation.

United States study centre

The Prime Minister announced in May 2006 that the Commonwealth Government would provide \$25 million towards the establishment of a United States Study Centre. The Victorian Government is committing \$10 million in partnership with the University of Melbourne and other participants toward a bid to host the United States Study Centre. If the bid is successful then the Victorian Government will realise expenditure of \$10 million.

COAG National Reform Agenda

Over the next six months the Commonwealth and State and Territory Governments will be considering specific reform proposals to increase productivity and participation. The details of these proposals are still being developed. The funding required for these proposals will not be known until the proposals are fully developed and funding arrangements with the Commonwealth are agreed.

Changes to Exceptional Circumstances Declared Areas and Eligibility Criteria

The Commonwealth Government recently announced changes to the Exceptional Circumstances eligibility criteria, including an extension of income and business support and interest rate subsidies, and funding will be required to meet Victoria's contribution to this scheme. Any further changes to eligibility criteria or an increase in the number of Exceptional Circumstance declared areas in Victoria would impact on Victoria's position. No allowances have been made in the forward estimates for any further possible changes to Commonwealth Government Exceptional Circumstances declared areas.

Country Rail Network – Primary Infrastructure Lease

In October 2006, the Government entered into a non-binding agreement with Toll Holdings to re-acquire Pacific National's below-rail interests in Victoria (and southern NSW connected to the Victorian broad gauge network), as well as all associated assets (including train control and safety systems), and the transfer of all employees.

Toll Holdings Ltd has agreed to the terms on which it will sell the remainder of the Pacific National's 45 year lease over Victoria's intrastate rail network, first entered into in 1999. The non-binding agreement, which is at the discretion of the new Government to execute, provides for a purchase price of \$133.8 million (with adjustments to be made following completion of due diligence), including the settlement of minor outstanding claims.

In the event of future State control, the Government would be responsible for the maintenance and operation of the country rail network, the cost of which will be partly offset by track access revenues from third party rail operators. The State will also need to meet the costs associated with transition of the business to State control.

Revenue Risks

Commonwealth grants

Commonwealth grants are a major source of revenue for the Victorian Government, with an estimated grants income of approximately \$15 billion in 2006-07. Commonwealth grants include general purpose grants (GST grants) and specific purpose payments (SPPs).

The level of SPPs is determined by the policies of the Commonwealth Government and is published on an annual basis in the Commonwealth budget papers. The level of GST grants is affected by the general level of activity in the Australian economy and the GST revenue sharing relativities as calculated by the Commonwealth Grants Commission (CGC).

The CGC provides updates of its GST revenue sharing relativities in February each year. These are then subject to the approval of the Commonwealth Treasurer at the annual Ministerial Council for Commonwealth State Financial Relations.

The Commonwealth grants estimates in this *Pre-Election Budget Update* (GST grants and SPPs) are based on data published in the Commonwealth's 2006-07 Budget, released on 9 May 2006, plus variations since Budget time based on Commonwealth Government advice. The GST estimates are based on the Commonwealth's latest forecasts for Australia-wide economic activity, as published in the 2006-07 Commonwealth Budget. Any changes to economic conditions over the forward estimates period will have a direct impact on the amount of GST revenue to be distributed among the States.

There is a potential upside risk to the GST forecasts reflecting a possible upward shift in the GST base as a result of the higher GST pool outcome for 2005-06 published by the Commonwealth, and expected higher inflation in 2006-07. These factors could result in an increase in GST revenue over the *Pre-Election Budget Update* estimate of around \$90 million in 2006-07 and an average of around \$100 million for each of the forward years.

Lotteries licence

The Government is currently undertaking a licensing process for the next public lotteries licence(s) to apply in Victoria. An announcement in relation to the next public lotteries licence or licences is expected to be made in early 2007. While the budget estimates have been based on historical lotteries sales growth, no assumptions have been made concerning possible changes to future licensing structures.

CONTINGENT ASSETS AND LIABILITIES

Contingent Assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

These can be classified into either quantifiable, where the potential economic benefit is known, or non-quantifiable.

Quantifiable contingent assets

Table 3.2: Quantifiable contingent assets as at 30 June

	(\$ million)	
	2005	2006 ^(a)
Guarantees, indemnities	1.4	..
Potential early termination of contractual arrangements ^(b)	100.0	100.0
Legal proceedings and disputes	1.4	1.0
Other ^(c)	134.2	107.7
Total contingent assets	237.0	208.7

Source: Department of Treasury and Finance

Notes:

- (a) There have been no material changes to quantifiable contingent assets since last reported in the 2005-06 Financial Report for the State of Victoria.
- (b) Included under 'potential early termination of contractual arrangements' are any additional costs arising to the Director of Public Transport on early termination of the public transport partnership agreements. The operator must, to the extent of the performance bonds, indemnify the Director for any losses, damages or costs incurred by him as a result of early termination. If the operator does not do so, the Director has the right to draw on the operator's performance bonds for the amount of losses, damages or costs. The nominal value of these bonds is \$100 million.
- (c) 'Other' includes the EastLink project of \$92 million. The remaining amounts in 'Other' relate to smaller individual contingencies.

EastLink

On 14 October 2004, the State entered into a concession deed with ConnectEast to design, construct, finance and operate EastLink. Various performance bonds provided under the concession deed can be drawn by the State in circumstances where the concessionaire (ConnectEast) or one of its contractors fails to meet its obligations. These bonds include a construction bond (\$87 million) and an operation phase bond (\$5 million). In the event of certain default events, there is potential for the \$5 million to increase to \$20 million.

Non-quantifiable contingent assets

Public transport partnership agreements

On 19 February 2004, the Director of Public Transport, on behalf of the Crown, entered into contractual arrangements with Connex and Yarra Trams to operate rail transport services in the State. The major contingent asset arising from those arrangements is profit sharing in which the Director is entitled to receive payment from Connex and Yarra Trams should franchisee profits exceed defined thresholds.

CityLink compensable enhancement claims

The Melbourne CityLink Concession Deed contains compensable enhancement provisions that enable the Victorian Government to claim 50 per cent of additional revenue derived by CityLink Melbourne Limited as a result of certain events that particularly benefit CityLink, including changes to the adjoining road network.

On 20 May 2005, the Victorian Government lodged a compensable enhancement claim relating to works to improve the traffic flow on the Westgate Freeway between Lorimer and Montague Streets.

Under the Monash-Westgate Freeways Improvement project, the Victorian Government's share of revenue uplifts will be calculated and paid three years after the completion of the project.

EastLink

As indicated above, on 14 October 2004, the State entered into a concession deed with ConnectEast to design, construct, finance and operate EastLink. In addition to the quantifiable contingent assets listed above, there is a non-quantifiable contingent asset relating to the Hand Over Bond through which ConnectEast has an obligation, in certain limited circumstances, to the State to provide a bond to cover project rectification costs to the end of the concession period in 2043.

Contingent liabilities

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognised because:
 - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - the amount of the obligation cannot be measured with sufficient reliability.

As with contingent assets, contingent liabilities are also classified as either quantifiable or non-quantifiable.

Quantifiable contingent liabilities

Table 3.3: Quantifiable contingent liabilities as at 30 June

	(\$ million)	
	2005	2006 ^(a)
Guarantees, indemnities	400.6	404.0
Potential early termination of contractual arrangements ^(b)	633.7	579.5
Legal proceedings and disputes	281.7	233.2
Other	28.6	43.9
Non-general government debt ^(c)	3 115.2	3 310.7
Total contingent liabilities	4 459.8	4 571.3

Source: Department of Treasury and Finance

Notes:

- (a) There have been no material changes to quantifiable contingent liabilities since last reported in the 2005-06 Financial Report for the State of Victoria.
- (b) Under 'potential early termination of contractual arrangements' is a contractual agreement of \$579.5 million (\$633.7 million for 2005) relating to the cost of correctional services beyond the current contract period. The State has the option to re-tender for the provision of correctional services every three years, after the initial five year period for each contract.
- (c) Represents guarantees for loans made by the general government sector to agencies in the public non-financial corporations sector, primarily the water entities and other non-general government sector entities.

Non-quantifiable contingent liabilities

A number of potential obligations, which are non-quantifiable at this time, have been recognised by the Government arising from:

- indemnities provided in relation to transactions, including financial arrangements and consultancy services, as well as for directors and administrators;
- performance guarantees, warranties, letters of comfort, and the like;
- deeds in respect of certain obligations; and
- unclaimed moneys which may be subject to future claims by the general public against the State.

Asset sales

Potential exposures are associated with the sale of a number of assets and services where the purchaser was provided with various indemnities and warranties.

Royal Melbourne Showgrounds

A contingent liability exists relative to any claims which may be made against the Showgrounds Nominees Pty Ltd arising from joint venture dealings as outlined in the Development and Operations Agreement for the Royal Melbourne Showgrounds.

An undertaking has been given by the joint venture parties to meet the unindexed service fees payable to the Concessionaire (Developer) under the Development and Operations Agreement as and when they fall due.

Under the State Support Deed, Core Land, the State undertakes to ensure the performance of the payment obligations in favour of the Concessionaire and the performance of the joint venture financial obligations in favour of the security trustee.

Under the State Commitment to the Royal Agricultural Society (RAS), the State has agreed to support certain obligations of the RAS which may arise out of the Joint Venture Agreement. In accordance with the terms in the State Commitment to the RAS, the State will pay (in the form of a loan), the amount requested by the RAS. If any outstanding loan amount remains unpaid at a date which is 25 years after the commencement of the operation term under the Development and Operation Agreement, the RAS will be obliged to satisfy and discharge each such outstanding loan amount. This may take the form of the transfer to the State of the whole of the RAS' participating interest in the joint venture.

The State has also entered into an agreement (State Support Deed – Non-Core Land) with Showgrounds Retail Developments Pty Ltd whereby the State agrees to support certain payment obligations of the Royal Agricultural Society of Victoria Limited that may arise under the agreement.

Public transport rail partnership agreements

The Director of Public Transport, on behalf of the Crown, entered into new partnership contractual arrangements with franchisees to operate rail transport services in the State, operative from 18 April 2004. The following summarises the major contingent liabilities arising from those arrangements.

Contingent liabilities arising during the agreement period

There are a number of contingent liabilities arising from the new Partnership Agreements between the Director of Public Transport and Connex and Yarra Trams, which were signed on 19 February 2004.

These potential liabilities refer to payments to be made by the Director of Public Transport to Connex and Yarra Trams should certain events occur:

Farebox risk sharing: the Director is obliged to make payments should farebox receipts fall below defined thresholds.

New ticketing revenue guarantee payment: franchisees have an option to elect to permanently move to a revenue guarantee payment regime should implementation matters or new ticket fare structures associated with the introduction of the new ticketing system cause a real reduction in the farebox.

The revenue guarantee payment will be based on the prior period's farebox including an estimate for patronage growth and inflation. Under the above arrangement, the Director is liable for the difference between actual farebox received and the guaranteed revenue amount.

New ticketing system start up: the State is obliged to pay any additional labour costs associated with training and deployment of staff in relation to the establishment of the new ticketing system.

Regional Fast Rail: the Director is required to meet the incremental costs incurred by Connex associated with the introduction of Regional Fast Rail.

Connex and Mainco indemnity

The Department has indemnified Connex and Mainco (including agents and contractors) against any loss caused by Regional Rail Link while undertaking Regional Fast Rail within the Connex network.

The Director indemnifies VicTrack and the Southern Cross Station Authority from any claim brought by the franchisees under the Infrastructure Lease.

Contingent liabilities on early termination or expiry of franchise agreement

Franchise assets: to maintain continuity of services the Director at early termination or expiry of the franchise agreement will:

- for new rolling stock – either acquire the new rolling stock at predetermined values or have the lease payment obligations transferred to the Director or a successor franchise; and
- for franchise assets – either purchase the assets or have the assets transferred to the successor.

Unfunded superannuation: at the early termination or expiry of the contract, the Director will assume any unfunded superannuation amounts (apart from contributions the franchisee is required to pay over the contract term) to the extent that the State becomes the successor operator.

Contingent liabilities arising from potential changes to existing conditions

Change in Victorian law: franchisees may make a claim against the Director for any net losses incurred as a result of a change in Victorian law which directly relates to the franchise business.

Latent Defects: the Director is responsible for leased infrastructure defects above a threshold amount.

Pre-existing contamination: the Director is responsible for all costs associated with pre-existing contamination clean up. The Director also indemnifies the franchisee from and against all losses, damages, actions, suits, claims, demands, costs and expenses associated with pre-existing contamination.

Native Title: the Director is liable for payments of any valid compensation claim to Native Title holders made under any Native Title law in respect of the land defined in the infrastructure leases entered into with franchisees.

National Express receivership

In December 2002, the Government appointed receivers and managers to the National Express train and tram franchises, in order to protect Government interests, ensure continuation of services up to the commencement of new franchise agreements, and deal with any subsequent termination issues.

The Treasurer, under the Receivership Deed of Indemnity, has agreed to indemnify the receivers for debts properly incurred by them in the course of receivership. The Treasurer has also agreed to remunerate the receivers in accordance with the rates set out in the deed.

Country Train Safety System

Country Train Safety System is the project under which the Train Protection and Warning System is being installed. The Director of Public Transport undertakes to reimburse Pacific National (Victoria) Limited (previously Freight Victoria Limited) for reasonable costs and expenses related to the installation, testing and rectification and repair of the Train Protection Warning System and will indemnify Pacific National (Victoria) Limited for any loss, or cost, or liability it suffers arising from the Director's installation.

Melbourne CityLink

An outstanding claim exists from Transurban CityLink Limited, pursuant to the Melbourne CityLink Concession Deed, relating to an alleged Material Adverse Effect in respect of the construction of Wurundjeri Way. Expert determination found in favour of the State. However, the claim has now been appealed to arbitration, which is yet to proceed. VicRoads is defending this claim and is unable to assess the likelihood of success at this time.

EastLink

On 14 October 2004, the State entered into a Concession Deed with ConnectEast to design, construct, finance and operate EastLink. The major non-quantifiable contingent liability arising from the concession deed relates to the Key Risk Management Regime. The Regime relates to the occurrence of certain circumstances that may have a detrimental impact on the concessionaire's ability to achieve its forecast returns. It identifies the areas that enable the concessionaire to claim redress from the State. These may include acts of prevention, failure to support a principal road interface, changes in state law, Native Title and the environmental effects statement.

Native Title

A number of claims have been filed with the Federal Court under the *Native Title Act* 1993 that affect Victoria. While many such claims are being processed through the legal system, the Government has committed itself to resolving claims through mediation, where possible. It is not feasible at this time to quantify any future liability.

HIH Insurance

The State's quantifiable direct exposures arising from the collapse of the HIH Insurance Group are included in the liabilities shown in the financial statements of the agencies directly responsible for them – such as the Victorian WorkCover Authority and the Victorian Managed Insurance Authority (VMIA) – and are consolidated in the financial statements of the State.

The State's obligations in respect of its builders' warranty insurance rescue package are direct liabilities of the State itself. They do not form part of the liabilities of the VMIA which manages claims on behalf of the State, this responsibility having been transferred to VMIA from the Housing Guarantee Fund Limited, under the *House Contracts Guarantee (Amendment) Act* 2005.

The State also retains some unquantifiable contingent exposures arising from the collapse of the HIH Insurance Group. These contingent exposures arise primarily through the possibility that the State may be involved in litigation in which it would be entitled to recover damages from third parties. If these third parties were insured by HIH, recovery in full may not be possible.

Land remediation – environmental concerns

A number of Victorian government properties have been identified as potentially contaminated sites. The State does not admit any liability in respect of these sites. However, remedial expenditure may be incurred to restore the sites to an acceptable environmental standard in the event of future developments taking place.

Victorian Managed Insurance Authority – property and public liability

The VMIA was established in 1996 as a captive insurer for departments and participating bodies, predominantly in the general government sector. VMIA provides its client bodies with a range of insurance cover, including for property, public and products liability, professional indemnity and contract works. VMIA reinsures in the private market for losses above \$50 million arising out of any one event, up to a maximum for each type of cover (e.g. \$1 500 million for property and \$750 million for public liability). The risk of losses above these reinsured levels and below \$50 million is borne by the State.

Victorian Managed Insurance Authority – public healthcare insurances

VMIA insures the public healthcare system for a range of insurances, including medical indemnity risks. The Government has indemnified VMIA for losses on its public sector medical indemnity portfolio that exceed 120 per cent of claims estimates to be incurred in any one policy year.

Gambling licences

In 1994, the State sold a wagering licence and a gaming licence to TABCORP Holdings Limited (TABCORP) for \$597 million. The *Gambling Regulation Act 2003* requires the State to provide a refund to TABCORP in 2012 of an amount equal to the licence value of the former licences or the premium payment paid by the new licensee, whichever is the lesser. While this creates an obligation on the State to refund the licence value to TABCORP, it will be offset by the premium payment from the issue of any new licences. In 1992, a gaming operator's licence was issued to the Trustees of the Will and Estate of the late George Adams (the licensee). The *Gambling Regulation Act 2003* entitles the licensee to be paid, at the end of its current licence period in 2012, an amount equal to the value of its current licence or the premium payment paid by the new licensee, whichever is the lesser. This entitlement is contingent on the licensee not being granted a new licence.

The gambling licences are currently under review and a public submission and consultation process is being conducted for the review of the electronic gaming machine, Club Keno and wagering licences and funding arrangements for the racing industry post 2012. In July 2004 the Government indicated an announcement on the post 2012 licence structures, funding arrangements and the timing and approach to the awarding of licences will be made in 2007.

Builders' warranty

The builders' warranty insurance market, like other insurance markets, was affected by the events of 11 September 2001 and adverse claims experience. In mid April 2002, the State agreed to provide temporary reinsurance support to builders' warranty insurance provider Dexta Corporation, following the withdrawal of some of its commercial reinsurance support. The State received reinsurance premiums for this participation and is required to contribute to payment of reinsured claims, as well as paying management fees. The precise timing and value of claims-related payments is uncertain, as claims may be made by home owners for up to six and a half years after the arrangement ceased.

Based on Dexta's previous levels of activity, the central estimate of the State's gross exposure (i.e. before premium receipts) is not more than \$6 million. While the State expects, along with the commercial re-insurers who are party to the agreement, to at least break even on these arrangements, the State retains a non-quantifiable contingent liability that claims may exceed the central estimate.

On 13 March 2002, Victoria and New South Wales jointly announced a series of reforms to builders' warranty insurance arrangements, which included a commitment to provide a catastrophe fund capable of supporting claims above \$10 million. To meet this commitment, the two States (and from 31 December 2004, South Australia) offered reinsurance arrangements to all builders' warranty insurers covering claims in respect of any one builder exceeding \$10 million. The arrangements require the insurer to pay reinsurance premiums to the three States that are estimated to be sufficient for the States to at least break even. However, while no such claims have been recorded, the State retains a non-quantifiable contingent liability.

CHAPTER 4: ESTIMATED FINANCIAL STATEMENTS AND NOTES

INTRODUCTION

This chapter provides the formal accounting statements that were summarised in Chapter 2, *Budget Position and Outlook*, and are required to be presented in a *Pre-Election Budget Update* by the *Financial Management Act 1994*.

The prospective nature of these statements reflect a number of professional judgements about the most likely operating and financial conditions for the Victorian general government sector. Variations in these assumed conditions, such as international developments and other risks to the national economy, from which Victoria would not be immune, may cause the general government actual result to differ from the projections.

The statements have been prepared in accordance with applicable pronouncements and interpretations of the Australian Accounting Standards Board (AASB), including the Australian equivalents to International Financial Reporting Standards (A-IFRS). However, because there is no specific Australian accounting standard or other authoritative pronouncement that prescribes the preparation and presentation of prospective financial statements, the Estimated Financial Statements have been prepared consistent with New Zealand Financial Reporting Standard *Prospective Financial Information* (FRS 42), and presented with a format that complies with AASB 101 *Presentation of Financial Statements*.

The accompanying notes to the estimated financial statements provide details of the material economic and other assumptions used, and the specific forecast assumptions underlying material items in the financial statements. A number of these assumptions are subject to inherent uncertainties, which are outside the control of the Government.

ESTIMATED FINANCIAL STATEMENTS FOR THE VICTORIAN GENERAL GOVERNMENT SECTOR

Table 4.1: Estimated operating statement for the period ended 30 June

(\$ million)						
Notes	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate	
Income from transactions						
Taxation	2	10 971.0	11 201.8	11 391.5	11 806.7	12 253.7
Fines and regulatory fees		832.4	824.0	830.9	836.1	841.5
Dividends and income tax equivalent and rate equivalent revenue	3	958.1	945.4	784.6	742.9	863.1
Interest		293.1	314.6	309.9	304.0	291.9
Grants	4	15 077.9	15 160.3	15 987.2	16 449.4	16 936.2
Sale of goods and services		2 552.4	2 532.2	2 570.3	2 635.2	2 640.3
Fair value of assets received free of charge or for nominal consideration		..	..	..	181.0	..
Other income	5	1 757.2	1 807.0	1 842.2	1 827.6	1 799.0
Total income from transactions		32 442.1	32 785.2	33 716.5	34 783.0	35 625.8
Expenses from transactions						
Employee benefits		12 019.5	12 085.2	12 366.3	12 719.8	12 978.8
Superannuation	6(a)	1 710.4	1 673.9	1 684.8	1 719.5	1 751.8
Depreciation and amortisation	7	1 322.1	1 366.6	1 438.0	1 506.0	1 586.1
Finance costs	8	428.0	473.4	499.0	604.2	677.5
Grants and transfer payments	9	6 207.2	6 404.0	6 116.0	5 934.9	5 923.4
Supplies and services		10 437.7	10 363.2	11 188.9	11 868.7	12 345.7
Other expenses		0.5	0.5	0.5	0.5	0.5
Total expenses from transactions	10	32 125.3	32 366.7	33 293.5	34 353.7	35 263.8
Net result from transactions		316.8	418.6	423.0	429.4	361.9
Income/(expenses) from other economic flows						
Net gain/(loss) from disposal of physical assets		9.7	34.3	5.0	5.0	5.4
Actuarial gains/(losses) on superannuation defined benefit plans	6(a)	..	111.8	..	..	..
Net gains/(losses) on financial assets at fair value		0.1	0.1	0.1	0.1	0.1
Other gains/(losses) from other economic flows	11	(51.0)	(50.9)	(40.8)	(35.8)	(35.8)
Total other economic flows		(41.2)	95.3	(35.7)	(30.7)	(30.3)
Net result		275.6	513.9	387.4	398.7	331.6

The accompanying notes form part of these Estimated Financial Statements.

Table 4.2: Estimated balance sheet as at 30 June

(\$ million)						
	Notes	2007 Budget ^(a)	2007 Revised	2008 Estimate	2009 Estimate	2010 Estimate
Current assets						
Cash and cash equivalents	16(a)	2 534.2	2 518.4	2 517.8	2 506.2	2 499.3
Receivables		1 935.0	1 981.1	2 218.1	2 458.2	2 572.5
Prepayments		103.1	103.1	103.3	103.5	103.7
Inventories		137.8	137.6	139.2	140.7	142.3
Other financial assets		1 290.6	1 288.7	1 249.2	860.1	394.0
		6 000.7	6 028.8	6 227.6	6 068.8	5 711.9
Non-current assets classified as held for sale		59.2	59.2	59.2	59.2	59.2
Total current assets		6 059.9	6 088.0	6 286.8	6 128.1	5 771.1
Non-current assets						
Receivables		252.9	325.5	244.1	187.9	163.3
Investments accounted for using the equity method		607.6	607.6	612.6	617.6	622.6
Other financial assets		479.1	479.1	496.5	515.6	534.7
Property, plant and equipment	12, 13	59 668.6	60 033.5	64 389.8	69 353.1	74 445.9
Intangibles		159.4	176.5	163.4	164.0	146.0
Other assets	14	209.8	209.8	166.7	167.2	175.6
Total non-current assets		61 377.4	61 831.9	66 073.1	71 005.3	76 088.0
Total assets		67 437.3	67 920.0	72 360.0	77 133.4	81 859.1
Current liabilities						
Payables		2 427.6	2 310.8	2 348.3	2 386.4	2 424.5
Interest-bearing liabilities		191.5	160.2	152.5	148.1	132.6
Employee benefits	15	2 746.9	2 745.8	2 791.5	2 836.6	2 881.7
Superannuation	6(d)	510.1	335.1	417.1	535.1	639.3
Other provisions		110.4	110.4	74.8	47.1	19.4
Other liabilities		419.1	499.1	614.4	695.5	732.0
Total current liabilities		6 405.5	6 161.3	6 398.6	6 648.8	6 829.5
Non-current liabilities						
Payables		531.6	529.3	528.9	513.0	468.0
Interest-bearing liabilities		6 251.7	6 666.5	8 217.2	9 560.6	10 410.8
Employee benefits	15	848.1	849.1	928.3	1 007.9	1 088.6
Superannuation	6(d)	12 923.2	12 941.7	13 003.9	12 967.7	12 833.1
Other provisions		595.3	592.9	608.2	624.2	640.3
Other liabilities		244.3	250.2	243.2	215.2	208.2
Total non-current liabilities		21 394.1	21 829.7	23 529.7	24 888.7	25 649.0
Total liabilities		27 799.7	27 991.0	29 928.3	31 537.5	32 478.6
Net assets		39 637.6	39 929.0	42 431.7	45 595.9	49 380.6

The accompanying notes form part of these Estimated Financial Statements.

Note:

(a) 2006-07 Budget above and its accompanying notes are based on actual opening balances at 1 July 2006 plus 2006-07 budgeted movement.

Table 4.3: Estimated statement of recognised income and expense for the financial year ending 30 June

		(\$ million)				
	Notes	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Gain on revaluation of property plant and equipment	13	2 799.8	2 799.8	3 123.0	3 479.6	3 869.4
Net income recognised directly in equity		2 799.8	2 799.8	3 123.0	3 479.6	3 869.4
Net result for the period		275.6	513.9	387.4	398.7	331.6
Total recognised income and expense for the period		3 075.4	3 313.7	3 510.4	3 878.3	4 201.1

The accompanying note forms part of these Estimated Financial Statements.

Table 4.4: Estimated statement of cash flows for the year ending 30 June

		(\$ million)				
	Notes	2006-07	2006-07	2007-08	2008-09	2009-10
		Budget	Revised	Estimate	Estimate	Estimate
Cash flows from operating activities						
Receipts						
Taxation		11 176.8	11 326.8	11 475.8	11 861.6	12 277.0
Fines and regulatory fees		699.5	691.0	708.0	718.2	723.6
Grants		15 078.2	15 160.6	15 987.5	16 449.7	16 936.5
Sales of goods and services		2 540.5	2 527.1	2 559.7	2 629.2	2 634.0
Interest received		292.9	314.4	309.7	303.8	291.7
Dividends and income tax equivalent and rate equivalent revenue		965.0	951.1	773.2	729.6	879.2
Other receipts		1 709.1	1 801.2	1 802.5	1 731.2	1 775.6
Total receipts		32 462.0	32 772.3	33 616.4	34 423.4	35 517.6
Payments						
Employee benefits		(11 853.7)	(11 919.6)	(12 241.4)	(12 595.1)	(12 853.0)
Superannuation		(1 173.6)	(1 181.8)	(1 540.5)	(1 637.6)	(1 782.2)
Interest paid		(414.3)	(461.1)	(463.2)	(555.4)	(622.3)
Grants and transfer payments		(6 151.9)	(6 408.4)	(6 078.4)	(5 919.0)	(5 931.7)
Supplies and services ^(a)		(10 491.0)	(10 484.9)	(11 185.7)	(11 904.0)	(12 399.8)
Total payments		(30 084.5)	(30 455.8)	(31 509.1)	(32 611.2)	(33 589.0)
Net cash flows from operating activities	16 (b)	2 377.4	2 316.5	2 107.2	1 812.2	1 928.7
Cash flows from investing activities						
Purchases of non-financial assets ^(a)	17	(2 351.2)	(2 388.7)	(2 877.6)	(2 688.5)	(2 882.2)
Proceeds from sale of non-financial assets		130.8	173.5	204.8	115.1	95.5
Net disposal/(purchase) of investments		387.5	389.4	17.1	365.1	442.1
Net customer loans (granted)/repaid		0.6	0.6	0.6	0.7	0.7
Net contribution to other sectors of government ^(a)		(962.9)	(909.8)	(1 007.7)	(714.1)	(416.4)
Net cash flows from investing activities		(2 795.2)	(2 735.1)	(3 662.8)	(2 921.7)	(2 760.3)
Cash flows from financing activities						
Net borrowings		253.8	238.8	1 555.0	1 097.9	824.7
Net cash flows from financing activities		253.8	238.8	1 555.0	1 097.9	824.7
Net increase/(decrease) in cash and cash equivalents		(164.0)	(179.8)	(0.5)	(11.6)	(6.9)

Table 4.4: Estimated statement of cash flows for the year ending 30 June
(continued)

		(\$ million)				
	Notes	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Cash and cash equivalents at beginning of reporting period		2 695.0	2 695.0	2 515.1	2 514.6	2 503.0
Cash and cash equivalents at end of reporting period	16 (a)	2 531.0	2 515.1	2 514.6	2 503.0	2 496.1

The accompanying notes form part of these Estimated Financial Statements.

Memorandum item: The International Monetary Fund GFS cash surplus/(deficit) shown below can be calculated from the statement of cash flows above and is equal to the net cash flows from operating activities less the net purchase of property, plant and equipment (i.e. purchases less sale proceeds).

Cash surplus/(deficit)	157.1	101.2	(565.6)	(761.2)	(858.1)
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Note:

(a) *Reclassification to purchases of non financial assets from supplies and services (relates to inventories) and from net contribution to other sectors of government.*

NOTES TO THE ESTIMATED FINANCIAL STATEMENTS

Due to the possibility that circumstances or events outlined in the Estimated Financial Statements may not occur as expected, actual results may differ from those forecast and the difference may be material. Accordingly, no guarantee is given that the financial results will be achieved. However, the best professional judgement has been applied in preparing the Estimated Financial Statements.

Assumptions

The Estimated Financial Statements have been prepared using the material economic and other assumptions listed below.

Material economic and other assumptions ^(a)

	2006-07	2007-08	2008-09	2009-10
Gross state product	2.75	3.25	3.25	3.25
Employment	2.25	1.25	1.25	1.25
Consumer price index	3.25	2.50	2.50	2.50
Wage cost index ^(b)	3.75	3.50	3.50	3.50
Population ^(c)	1.10	1.10	1.10	1.10

Source: Department of Treasury and Finance

Notes:

- (a) Year-average per cent change on previous year unless otherwise indicated. All projections apart from population are rounded to the nearest 0.25 percentage point. Projections of population are rounded to the nearest 0.1 percentage point.
- (b) Total hourly rate excluding bonuses.
- (c) June quarter, per cent change on previous June quarter.

Note 1: Statement of significant accounting policies

The following summary sets out the significant accounting policies and forecast assumptions that have been adopted in preparing and presenting the Estimated Financial Statements for the forecast period (which includes the budget year and the estimates for the three subsequent years).

(A) Statement of compliance framework

The Estimated Financial Statements have generally been prepared in accordance with Australian equivalents to International Financial Reporting Standards (A-IFRS), including those paragraphs applicable to not for profit entities. However, the prospective nature of the Estimated Financial Statements means that not all A-IFRS disclosures are relevant or practical and so have been omitted. Because A-IFRS do not include pronouncements that prescribe the preparation and presentation of prospective financial statements, the Estimated Financial Statements have been prepared consistent with New Zealand Financial Reporting Standard *Prospective Financial Statements* (FRS 42).

In addition to A-IFRS and FRS 42, these Estimated Financial Statements have been prepared in accordance with sections 23H to 23K of the *Financial Management Act 1994* (FMA), Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). The information presented in the Estimated Financial Statements takes into account government decisions and other circumstances that may have a material effect on the statements.

(B) Basis of accounting and measurement

The accrual basis of accounting has been employed in the preparation of the Estimated Financial Statements whereby assets, liabilities, equity, revenues and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid. Australian dollars is the functional currency of the Victorian Government.

The report has been prepared in accordance with the historical cost convention except for:

- non-current physical assets (excluding plant, equipment and vehicles, and certain infrastructure assets held by water and rail entities, which are valued at historical cost), which subsequent to acquisition are measured at valuation and are reassessed with sufficient regularity to ensure the carrying amount does not materially differ from their fair value;
- investments and productive trees in commercial native forests, which are recognised at their net market value;
- derivative financial instruments and interest bearing liabilities of the State, which are measured at fair value through profit and loss;
- available-for-sale investments, which are measured at fair value with movements reflected in equity until the asset is derecognised; and
- certain liabilities, most notably unfunded superannuation, workers' compensation and transport accident compensation, which are calculated with regard to actuarial assessments.

Cost is based on the fair values of the consideration given in exchange for assets.

(C) Reporting entity

The Victorian general government sector includes all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. The general government sector is not a separate entity but represents a sector within the State of Victoria reporting entity.

The primary function of entities within the general government sector is to provide public services (outputs), which are mainly non-market in nature, for the collective consumption of the community, and involve the transfer or redistribution of income and are financed mainly through taxes and other compulsory levies.

(D) Basis of consolidation

The Estimated Financial Statements include all reporting entities in the Victorian general government sector. Entities in the public non-financial corporations and public financial corporations sectors are not consolidated because the intent of the Estimated Financial Statements is to convey the operating statement, balance sheet and cash flows of the general government sector alone. All material inter-agency transactions and balances are eliminated in the Statements.

(E) Developments in financial reporting standards

The AASB has recently approved a new accounting standard AASB 1049 *Financial Reporting of General Government Sectors by Governments*, which applies to the general government sector (GGS) of government. The Standard will be applicable for annual reporting periods beginning on or after 1 July 2008, and requires compliance with other Australian accounting standards except as specifically required by the Standard. It also includes additional disclosure requirements.

The effect of any changes to recognition or measurement requirements as a result of this new Standard is being evaluated.

The AASB has also advised its intention to withdraw the accounting standards specific to Government Departments (AAS 29) and Government (AAS 31) and replace them where required by topic specific financial reporting standards. The final outcome and timing of this project is uncertain, but there is not expected to be a significant effect on the results or financial position of the general government sector.

The AASB also continues to make new and revise existing financial reporting standards, including the July 2004 'stable platform of A-IFRS'. These changes result from both the AASB's own activities and changes made to International Financial Reporting Standards. The impact that may occur as a result of these changes is unknown and is not accounted for in the Estimated Financial Statements.

(F) Forecast reporting periods

The reporting period for the general government sector is the year ending 30 June. However, for those entities with a reporting period other than 30 June, the most recently audited financial year results are used as a basis for the opening balance beginning 1 July 2006. For example, TAFE institutes have a reporting period ending on 31 December.

(G) Income from transactions

Income is recognised to the extent that it is probable that the economic benefits will flow to the entity and the income can be reliably measured.

Taxation

State taxation and fee revenue is recognised upon either the earlier of the receipt by the State of a taxpayer's self assessment or the time the taxpayer's obligation to pay arises, pursuant to the issue of an assessment.

The types of taxation revenue raised by the State include:

- payroll tax;
- land tax;
- duties levied principally on conveyances and land transfers and rental business;
- gambling taxes levied mainly on public lotteries, electronic gaming machines, casino operations and racing;
- insurance duties relating to compulsory third party, life and non life policies;
- insurance company contributions to fire brigades;
- motor vehicle taxes, including registration fees and duty on registrations and transfers;
- other taxes, including landfill levies, progressive recognition of upfront concession fees paid by Transurban in respect of Melbourne CityLink, and licence fees; and
- levies on statutory corporations (including the environmental levy).

Forecast assumption

The State's tax revenues are forecast by a process that involves:

- application of the Department of Treasury and Finance's economic forecasts, where there is a relationship between taxation revenue and economic variables. This enables an assessment of economic and other factors influencing the tax bases from which taxes are sourced (e.g. for payroll tax, an assessment of the outlook for employment and wages; for motor vehicle taxes, assessment of the outlook for demand for vehicles reflecting various economic influences; for gambling taxes, assessment of the outlook for consumer spending);
- progressive recognition of the upfront concession notes received from Transurban over the remaining life of the concession term;

- analysis of historical information and relationships using econometric and other statistical methods; and
- consultation with private sector economists, industry associations, and relevant government authorities.

The government announced that it is undertaking a licence-awarding process for the next public lotteries licence(s) to apply from 2007 to 2017. The current estimates are based on existing policy and therefore do not take into account any possible changes to future licensing structures.

Fines and regulatory fees

Revenue is recognised at the time the fine is issued or the regulatory fee is billed. Drivers licence fees are included in regulatory fees.

Forecast assumption

The forecasts of regulatory fees and fines are prepared by those government agencies that collect them. Some of the components may be based on contractual obligations, while the prediction of fines principally involves assessment for the behaviour of road users. Automatic indexation is applied to fees and fines payable under provisions in the *Monetary Units Act* 2004. An indexation factor of 2.5 per cent has been applied for the forecast period to fines and regulatory fees.

Dividends, income tax and rate equivalent revenue

This represents revenue received from other sectors of government. Revenue is recognised when dividends are determined.

Forecast assumption

In determining the forecast dividend payments, the following two general benchmarks are used:

- 50 per cent of net profit after tax; or
- dividends and income tax equivalent amounts paid or payable of 65 per cent of pre-tax profit.

Other commercial factors considered that will affect the dividend forecasts include the views of each agency's board of directors, the liquidity, operating cash flow and forecast cash requirements of each government business enterprise, gearing and interest cover of the business, retained earnings and any other specific commercial factors relating to individual businesses.

Dividend and income tax equivalent forecasts can be significantly influenced by a number of factors, including the volatility of the financial markets and climatic conditions impacting on the water authorities. Revenue raised under the National Tax Equivalent Regime (NTER), administered by the Australian Taxation Office, remains with the State. Currently, about 40 government business enterprises (including subsidiaries) are subject to the NTER.

Interest revenue

Interest revenue includes interest received, discount interest on financial assets and interest on bank term deposits and other investments. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset. Net realised and unrealised gains and losses on the revaluation of investments do not form part of income from transactions, but are reported as part of income from other economic flows in the operating statement or as unrealised gains or losses taken direct to equity in the statement of changes in equity.

Forecast assumption

Forecast interest revenue assumes projected budget cash surpluses are invested.

Grants income

Grants mainly comprise funds provided by the Commonwealth to assist the State in meeting general or specific service delivery obligations, primarily for the purpose of aiding in the financing of the operations of the recipient, capital purposes and/or for on passing to other recipients. Grants also include grants from other jurisdictions. Revenue is recognised when the State obtains control over these funds.

Forecast assumption

The forecast receipt of financial assistance from the Commonwealth is determined on the latest available advice from the Commonwealth at the time of preparation of the Estimated Financial Statements, taking into account the payment schedules and escalation factors relevant to each type of grant.

Forecasts of Goods and Services Tax (GST) grants are based on the latest published Commonwealth forecast of the national GST pool. Victoria's annual per capita relativities are assumed to converge to their current five year average by 2009-10. Victoria's share of future GST grants is based on the Commonwealth's population projections and a rolling five year average of the future annual per capita relativities, in accordance with Commonwealth Grants Commission procedures. In addition, an adjustment is made to the share to reflect anticipated movements in the assessed relativities as a result of the phased abolition of certain State duties over the forward estimates period.

Sale of goods and services

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the revenue can be reliably measured.

Revenue from rendering of services is recognised on a stage of completion basis and is measured by reference to the labour hours supplied or as a percentage of total services to be performed.

Forecast assumption

Revenues arising from the sale of goods and rendering of services are forecast by taking into account all known factors, such as proposed fee increases imposed by departments and budget sector agencies in line with the *Guidelines for Setting Fees and Charges* and/or indexation as provided for under the *Monetary Units Act 2004*. Unless government policy states otherwise, fees will be set to recover the full costs of the goods or services provided.

Fair value of assets received free of charge or for nominal consideration

Income arising from assets received free of charge or for nominal consideration are measured at the fair value of the contribution and are recognised when the State gains control of the contribution or the right to receive the contribution.

(H) Expenses from transactions

Expenses are recognised when they are incurred, and reported in the financial year to which they relate.

Employee benefits

These expenses include all costs related to employment (other than superannuation which is accounted for separately) including wages and salaries, fringe benefits tax, leave entitlements and redundancy payments.

Forecast assumption

Employee benefits are forecast on the basis of staffing profiles and current salaries and conditions. For the forecast period, employee benefits are adjusted for approved wage agreements with allowance made for further changes in the future consistent with the Government's wage policy. Under this policy, costs associated with Enterprise Bargaining Agreement outcomes beyond the maintenance of real wages (based on the normal indexation factor used to escalate departmental output revenue) are funded from real and sustainable productivity improvements, cost savings and improved service delivery.

Superannuation

Superannuation expense is determined on the following basis:

- for defined contribution plans, the amount recognised as an expense reflects the State's contribution, paid or accrued, in respect of the reporting period; and
- for defined benefit plans, the superannuation expense relates to service cost (the cost of employer financed benefits that are expected to accrue for defined benefit members during the reporting period), interest cost and the expected return on assets. This excludes the impact of actuarial gains and losses which are not classified as transactions and are therefore reported separately as superannuation expenses from other economic flows.

Forecast assumption

Future defined contribution superannuation expenses are based on assumptions regarding future salaries, rates of increase and legislated contribution rates.

Future defined benefit superannuation expenses are based on actuarial projections of the components outlined above.

Depreciation

All infrastructure assets, buildings, plant and equipment and other non-current physical assets (excluding items under operating leases, assets held for sale and investment properties) that have a limited useful life are depreciated. Depreciation is generally calculated on a straight line basis, at rates that allocate the asset's value, less any residual value, over its estimated useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following are typical estimated useful lives for the different asset classes for both current and prior years:

<i>Asset class</i>	<i>Useful life</i>
Dwellings	40 to 50 years
Other buildings	30 to 60 years
Road pavement	60 years
Bridges	90 years
Plant, equipment and vehicles	3 to 10 years
Cultural assets	100 years
Water infrastructure – storage facilities	25 to 300 years
Water infrastructure – other	25 to 100 years
Rail infrastructure	2 to 50 years
Other infrastructure	10 to 32 years

Land and earthworks associated with the declared road network, and core cultural assets which are considered to have an indefinite life, are not depreciated. Depreciation is not recognised in respect of these assets as their service potential has not, in any material sense, been consumed during the reporting period.

Forecast assumption

Depreciation is forecast on the basis of known asset profiles, asset sales programs and approved new asset investment programs. The expense is based on the assumption that there will be no change in depreciation rates over the forecast period, but includes the estimated impact of future revaluation of assets. However, any future changes in depreciable lives, carrying value, residual value, or methodology would result in a change in future depreciation expense.

Finance costs

Finance costs are recognised as expenses in the period in which they are incurred, and include:

- interest on outstanding borrowings;
- amortisation of discounts or premiums relating to borrowings;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
- finance lease charges; and
- the increase in financial liabilities and provisions due to the unwinding of discount to reflect the passage of time.

Forecast assumption

Estimates for finance costs are based on the forecast level of outstanding general government sector debt and expected changes in current financial liabilities and provisions. General government debt is expected to mainly comprise a fixed rate facility, and index-linked securities from the Treasury Corporation of Victoria. All maturities in the forecast period are assumed to be refinanced at forward interest rates.

Grants and transfer payments

Grants and transfer payments to third parties are recognised as an expense in the reporting period in which they are paid or payable. They include transactions such as grants, subsidies and other transfer payments made to local government, non-government schools, community groups and, for the general government sector those payments to public non-financial corporations and public financial corporations.

Forecast assumption

Grants and transfer payments are forecast on the basis of known activity and adjusted by the appropriate economic parameters. Where payments are tied to third party revenue, such as Commonwealth grants for on-passing, forecasts are in line with estimated receipts.

Supplies and services

Supplies and services generally represent cost of goods sold and the day-to-day running costs, including maintenance costs, incurred in the normal operation of the State. These items are recognised as an expense in the reporting period in which they are incurred. The carrying amount of any inventories held for distribution are expensed when distributed.

Forecast assumption

Supplies and services are forecast on the basis of experience and known activity changes, including the application of government policy such as savings strategies, changes in the method of service delivery, and the application of the appropriate economic parameters. An allowance is made for emerging demand that may arise over the forecast period.

(I) Income and expenses from other economic flows

Other economic flows measure the change in volume or value of assets or liabilities that does not result from a transaction. This includes realised or unrealised gains and losses from disposals, revaluations and impairment of non-current physical assets and intangible assets; actuarial gains and losses from superannuation defined benefit plans; fair value changes of financial instruments and agricultural assets; foreign exchange gains or losses; and depletion of natural resources.

Net gain/(loss) from disposal of physical assets

Any gain or loss on disposal of physical assets is recognised at the date of disposal and is determined after deducting from the proceeds the carrying value of the asset at that time.

Actuarial gains/(losses) on superannuation defined benefit plans

Actuarial gains or losses on superannuation defined benefit plans represents the impact on the net superannuation defined benefit liability of differences between actual experience and the assumptions used to calculate the superannuation expense from transactions. Actuarial gains or losses are recognised in the operating statement in the period in which they occur.

Gains/(losses) from disposal of investments

Any gains or losses on disposal of financial assets are recognised at the expected date of disposal and are determined after deducting from the proceeds the carrying value of the asset at that time.

(J) Assets

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank, deposits at call and highly liquid investments with short periods to maturity, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Forecast assumption

Cash assets are assumed to be held at levels sufficient to cover operating requirements over the forecast period.

Prepayments

Prepayments represent payments in advance of receipt of goods or services or an expenditure made in one accounting period covering a term extending into the next accounting period.

Forecast assumption

Unless otherwise stated, prepayments for expenditure extending into the next accounting period are assumed to apply only to minor contractual obligations for goods and service.

Receivables

Receivables consist predominantly of debtors in relation to goods and services, taxes and fines, accrued investment income, and GST input tax credits recoverable.

Receivables and loans are recorded at amortised cost, using the effective interest method, less any accumulated impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

Forecast assumption

Receivables are forecast on the basis of revenue activity levels.

Investments and other financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Other investments are classified in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets. The classification depends on the purpose for which the investments were acquired and this is determined at initial recognition.

Investments held for trading purposes are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in profit or loss.

Other investments held are classified as being available for sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in profit or loss for the period.

Forecast assumption

All surplus cash resources for the period 2006-07 to 2009-10 are assumed to be held as financial assets (investments) to preserve budget decision making flexibility.

Assets held for sale

Those non-current assets classified as held for sale, for which the carrying amount of the asset will be recovered principally through a sale transaction rather than through continuing use. An asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell and is not subject to depreciation.

Forecast assumption

Assets held for sale are forecast on the basis of experience and known asset sales programs including the application of government policy such as asset management strategies and changes in the method of output delivery.

Property, plant and equipment

Land and buildings are measured initially at cost and subsequently revalued at the amounts for which assets could be exchanged between knowledgeable willing parties in an arm's length transaction (that is, fair value).

National parks, land underlying State forests and other Crown land is measured with regard to the property's highest and best use after due consideration is made for any legal or constructive restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset. Theoretical opportunities that may be available in relation to the asset are not taken into account until it is virtually certain that the restrictions will no longer apply.

Road network assets (including earthworks of the declared road networks but excluding land under roads) are measured at fair value, determined by reference to the asset's depreciated replacement cost. Land under roads is not recognised.

Cultural depreciated assets and collections, heritage assets and other non-current physical assets that the State intends to preserve because of their unique historical, cultural or environmental attributes are measured at the cost of replacing the asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

Plant, equipment, vehicles and water infrastructure assets and rail infrastructure assets are measured at cost.

Forecast assumption

The value of non-current physical assets will change during the forecast period to account for acquisitions, disposals and the impact of depreciation and revaluation.

Biological Assets

Commercial native forests are measured at their fair value less estimated point of sale costs. The fair value is determined as the difference between the net present value of cash flows expected to be generated by the commercial native forests (discounted at a current market determined rate, which reflects the risks associated with the forests) less the fair value of the land on which the commercial native forests are growing.

Forecast assumption

The value of biological assets will change during the forecast period to account for acquisitions, disposals and the impact of revaluations.

Land under roads

Forecast assumption

AASB 1045 *Land Under Roads* provides transitional relief to governments to not recognise land under roads until the reporting period ending 30 June 2007. As permitted by AASB 1045, the State has adopted an accounting policy to not recognise land under roads. The State has not yet established the policy that will apply for the recognition and measurement of land under roads. Accordingly, land under roads has not been recognised during the forecast period.

Partnerships Victoria projects

Infrastructure projects that are approved in principle by the Government for possible delivery under the *Partnerships Victoria* model are initially included in the Estimated Financial Statements as non current physical assets (with associated financing and depreciation costs). An exception to this is EastLink which will be funded by user pay tolls.

A final decision on whether an infrastructure project is to proceed with a *Partnerships Victoria* delivery approach will be made following evaluation of bids arising from the tender process for the project and will be based on an assessment of value for money and satisfaction of the public interest. If, at the conclusion of the tender process, a decision is made to proceed with a *Partnerships Victoria* delivery approach, the budget treatment will be adjusted as required, to convert the budgeted asset investment, depreciation and financing flows to ensure appropriate disclosure as either an operating or finance lease.

Leases

A distinction is made between finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased assets from the lessor to the lessee, and operating leases, where the lessor effectively retains all such risks and benefits.

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance leases are recognised as assets and liabilities at amounts equal to the fair value of the lease property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. The lease asset is depreciated over the shorter of the estimated useful life of the asset or the term of the lease. Minimum lease payments are allocated between the principal component of the lease liability, and the interest expense calculated using the interest rate implicit in the lease, and charged directly to the operating statement. Contingent rentals associated with finance leases are recognised as an expense in the period in which they are incurred.

Operating lease payments, including any contingent rentals, are recognised as an expense in the operating statement on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset.

The aggregate cost (or benefit) associated with operating lease incentives are recognised as a reduction of rental income (or rental expense) on a straight line basis over the lease term.

The cost of leasehold improvements is capitalised as an asset and depreciated over the remaining term of the lease or the estimated useful life of the improvements, whichever is the shorter.

Forecast assumption

Unless otherwise stated, existing leases are assumed to be replaced by leases with similar terms and conditions.

Restrictive nature of cultural and heritage assets, Crown land and infrastructure

Certain agencies in the Victorian general government sector hold cultural assets, heritage assets, Crown land and infrastructure which are deemed worthy of preservation because of the social rather than financial benefits they provide to the community.

Consequently, there are certain limitations and restrictions imposed on their use and/or disposal.

Investments in associated entities and joint ventures

Associates are those entities over which the State exercises significant influence, but not control.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the State's share of the post acquisition profits or losses of associates is recognised in the consolidated operating statement and its share of post-acquisition movements in reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment.

Joint ventures are contractual arrangements between the State or a subsidiary entity and one or more other parties to undertake an economic activity that is subject to joint control. Joint control only exists when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Interests in jointly controlled operations and jointly controlled assets are accounted for by recognising in the State's financial statements, its share of the assets, liabilities and any revenue and expenses of such joint ventures.

Interests in jointly controlled entities are accounted for in the consolidated financial statements using the equity method. Under this method, the State's share of the post-acquisition profits or losses of jointly controlled entities is recognised in the consolidated operating statement and its share of post acquisition movements in reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the cost of the jointly controlled entity.

Intangible assets

Intangible assets represent identifiable non-monetary assets without physical substance.

Intangible assets are recognised at cost. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the State.

Amortisation is allocated to intangible assets with finite useful lives on a systematic basis over the asset's useful life. Amortisation commences when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each annual reporting period. In addition, an assessment is made at each reporting date to determine whether there are indicators that the intangible asset concerned is impaired. If so, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount.

Intangible assets with indefinite useful lives are not amortised. The useful lives of intangible assets that are not being amortised are reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. In addition, as previously mentioned, all intangible assets with indefinite useful lives are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired by comparing its recoverable amount with its carrying amount. Any excess of the carrying amount over the recoverable amount is recognised as an impairment loss.

Forecast assumption

The value of intangible assets during the forecast period will change to account for forecast acquisitions, disposals and the impact of amortisation.

Impairment of assets

Goodwill and intangible assets with indefinite useful lives are tested annually as to whether their carrying value exceeds their recoverable amount. All other assets are assessed annually for indications of impairment, except for:

- inventories;
- assets arising from construction contracts;
- assets arising from employee benefits;
- deferred tax assets;
- financial assets;
- investment property that is measured at fair value;
- certain biological assets related to agricultural activity;
- certain deferred acquisition costs and intangible assets arising from an insurer's contractual rights; and
- non current assets classified as held for sale.

If there is an indication of possible impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written-off by a charge to the operating statement except to the extent that the write-down can be debited to an asset revaluation reserve amount applicable to that class of asset.

It is deemed that, in the event of the loss of an asset, the future economic benefits arising from the use of the asset will be replaced unless a specific decision to the contrary has been made. The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs to sell. The recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

Revaluations

Assets other than those that are carried at cost are re-valued with sufficient regularity to ensure that the carrying amount of each asset does not differ materially from its fair value. This revaluation process normally occurs every five years. Revaluation increments or decrements arise from differences between an asset's depreciated cost or deemed cost and fair value.

Revaluation increments are credited directly to equity in the revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the net result, the increment is recognised as revenue (other economic flows) in determining the net result.

Revaluation decrements are recognised immediately as expenses (other economic flows) in the net result, except that, to the extent that a credit balance exists in the revaluation reserve in respect of the same class of assets, they are debited to the revaluation reserve.

Revaluation increments and decrements relating to individual assets within a class of property, plant and equipment are offset against one another within the same class of non-current assets but are not offset in respect of assets in different classes.

Revaluation reserves are not normally transferred to accumulated funds on derecognition of the relevant asset.

(K) Liabilities

Payables

Payables consist predominantly of creditors and other sundry liabilities. Payables arise when the State becomes obliged to make future payments in respect of the purchase of these goods and services.

Forecast assumption

For the forecast period, payables are based on known movements in contractual arrangements and other outstanding payables.

Interest-bearing liabilities

The State's interest-bearing liabilities mainly represent funds raised from the following sources:

- the residual amount outstanding for loans raised in previous years by the Commonwealth Government on behalf of the State;
- public borrowings mainly raised through the Treasury Corporation of Victoria; and
- finance leases.

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings held by the State are subsequently measured at fair value with gains and losses recognised in profit or loss.

For the general government sector, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Forecast assumption

General government sector debt is assumed to be refinanced at forward interest rates.

Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits are measured based on their expected settlement. Provisions which are expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the State in respect of services provided by employees up to reporting date.

Regardless of the expected timing of settlement, provisions made in respect of employee benefits are classified as a current liability unless there is an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date, in which case it would be classified as a non-current liability. The non-current liability as presented includes long service leave entitlements accrued for employees with less than seven years of continuous service.

Forecast assumption

Employee benefits are forecast on the basis of staffing profiles and current salaries and conditions. For the forecast period, employee benefits are adjusted for approved wage agreements with an allowance made for future movements.

Superannuation

At each forward estimate reporting date, a liability or asset in respect of defined benefit superannuation is recognised and is measured as the difference between the present value of employees' accrued benefits at the reporting date and the net market value of the superannuation plan's assets at that date.

The present value of accrued benefits is based on expected future payments which arise from membership of the plans to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using rates on long term Commonwealth Bonds.

The superannuation liability recognised in the balance sheet also allows for any past service cost that has not yet been recognised in the operating statement.

Forecast assumptions

The general government sector's superannuation liabilities at future balance dates are estimated in accordance with the above policy using projections provided by the actuaries of the various defined benefit plans. These projections are based on a number of demographic and financial assumptions which include, in particular, an expected return on the assets of the defined benefit plans and a discount rate for determining the present value of accrued benefits. Consistent with the long-term actuarial assumptions, the expected return on assets is assumed to remain constant across the budget and forecast periods. The discount rates used are based on prevailing long-term Commonwealth bond rates which are also assumed to remain constant across the forward estimates period. Actual experience may differ significantly from the assumptions used, which may cause significant variation in the superannuation liabilities. Any such variation primarily impacts on other economic flows in the operating statement.

Other provisions

Other provisions include a liability for outstanding insurance claims, which is independently assessed by actuaries. This liability covers claims reported but not yet paid, claims incurred but not yet reported, and the anticipated direct and indirect costs of settling those claims. The actuaries take into account projected inflation and other factors to arrive at expected future payments. These are then discounted at the reporting date using a market determined, risk adjusted discount rate.

Forecast assumption

The level of outstanding insurance claims liability at the end of each forecast year is based on historical trends, existing actuarial valuations and projections adjusted for forecast activity levels.

Other liabilities

All other liabilities are recognised at the estimated amounts payable. The upfront receipt of concession notes from Transurban is recognised as unearned income liability. The unearned income liability will reduce each year as revenue is progressively brought to account over the remaining period of the concession term.

(L) Right to receive assets

The State has entered into a number of concession arrangements with independent private sector entities. These private sector entities typically lease land and sometimes State works, from the State and construct an asset. During the concession period the operator has the right to obtain revenue from services that utilise the asset and has the obligation to supply agreed upon services including maintenance of the asset. At the end of the concession period the land and State works, together with the constructed facilities will be returned to the State. In the literature these are sometimes referred to as Build, Own, Operate, Transfer arrangements.

Significant arrangements include the CityLink network which charges tolls to motorists during the concession period which has a nominal term of 33.5 years expiring 15 January 2034 and EastLink which will also be a tollway with a nominal term of 35 years expiring 30 November 2043.

There is currently no consistent or authoritative accounting guidance on the recognition or measurement of the right of the State to receive assets in the future from such concession arrangements. This matter is being considered by the accounting profession, in particular the International Financial Reporting Interpretations Committee (IFRIC), which is considering this matter as part of its review of accounting treatment for service concessions. A decision on the appropriate accounting treatment (for Australia) has been deferred until authoritative guidance is available internationally. Accordingly these assets are not recognised pending authoritative guidance or the development of relevant Australian accounting standards.

(M) Accounting for the goods and services tax (GST)

Revenues, expenses and assets are recognised net of GST, except where the amount of GST incurred is not recoverable, in which case it is recognised as part of the cost of acquisition of an asset or part of an item of expense. GST receivable from and payable to the Australian Taxation Office is included in receivables and other liabilities.

(N) Estimated cash flow statement

For the purposes of the estimated cash flow statement, cash and cash equivalents comprises cash on hand, cash at bank, bank overdrafts and deposits at call, and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(O) Rounding

All amounts in the financial report have been rounded to the nearest hundred thousand dollars unless otherwise stated. Figures in the financial report may not add due to rounding.

Note 2: Taxation

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Payroll tax	3 418.1	3 434.5	3 517.7	3 641.8	3 810.9
Taxes on immovable property					
Land tax	747.6	781.6	768.4	782.8	770.3
Congestion levy	38.8	38.8	39.7	40.6	41.5
Metropolitan improvement levy	97.3	97.3	100.6	104.0	107.5
Property owner contributions to fire brigades	35.6	35.6	36.4	38.0	38.0
Total taxes on immovable property	919.3	953.3	945.1	965.4	957.3
Financial and capital transactions					
Land transfer duty	2 424.4	2 672.4	2 679.7	2 726.1	2 791.2
Rental business duty	43.3	42.8	..	..	..
Other property duties	9.3	9.3	9.8	10.2	10.9
Financial accommodation levy	16.4	16.0	19.2	24.4	25.8
Total financial and capital transactions	2 493.4	2 740.5	2 708.7	2 760.7	2 827.9
Levies on statutory corporations	60.4	60.4	61.6	73.7	73.7
Gambling taxes					
Public lotteries	309.3	323.0	323.8	330.9	338.2
Electronic gaming machines	1 006.4	955.5	943.7	1 002.8	1 068.5
Casino	118.1	116.2	124.4	135.2	147.0
Racing	119.0	119.6	117.3	121.1	125.3
Other	3.5	4.0	4.3	4.6	4.9
Total gambling taxes	1 556.3	1 518.3	1 513.5	1 594.6	1 683.9
Taxes on insurance	1 104.1	1 100.1	1 161.9	1 216.0	1 271.0
Motor vehicle taxes					
Vehicle registration fees	747.6	749.7	800.5	846.2	894.9
Duty on vehicle registrations and transfers	591.5	557.8	591.1	620.6	651.6
Total motor vehicle taxes	1 339.1	1 307.5	1 391.6	1 466.8	1 546.5
Other taxes	80.3	87.2	91.4	87.8	82.5
Total taxation	10 971.0	11 201.8	11 391.5	11 806.7	12 253.7

Note 3: Dividends and income tax equivalent and rate equivalent revenue

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	<i>Budget</i>	<i>Revised</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
Dividends	769.9	727.7	531.3	446.7	548.3
Income tax equivalent and rate equivalent revenue	188.2	217.7	253.3	296.3	314.8
Total dividends and income tax equivalent and rate equivalent revenue	958.1	945.4	784.6	742.9	863.1

Note 4: Grants

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	<i>Budget</i>	<i>Revised</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
Operating grants					
General purpose grants	8 469.2	8 469.2	9 006.4	9 544.1	9 961.0
Specific purpose grants for on-passing	1 740.2	1 740.5	1 798.5	1 858.9	1 858.9
Other specific purpose grants	4 094.0	4 167.1	4 307.5	4 409.6	4 569.2
Total operating grants	14 303.5	14 376.8	15 112.4	15 812.6	16 389.1
Capital grants					
Specific purpose grants for on-passing	136.4	137.1	137.7	138.4	138.4
Other specific purpose grants	638.1	646.5	737.1	498.3	408.7
Total capital grants	774.5	783.5	874.8	636.7	547.1
Total grants	15 077.9	15 160.3	15 987.2	16 449.4	16 936.2

Note 5: Other income

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	<i>Budget</i>	<i>Revised</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
Inter-sector capital asset charge	833.5	833.5	855.2	858.0	845.7
Royalties	63.1	41.1	41.4	42.0	42.5
Rents	15.4	15.4	15.5	15.6	15.6
Donations and gifts	183.4	146.1	152.4	159.0	164.4
Other non-property rental	0.2	0.2	0.2	0.2	0.2
Other miscellaneous income	661.8	770.8	777.5	753.0	730.6
Total other income	1 757.2	1 807.0	1 842.2	1 827.6	1 799.0

Note 6: Superannuation

The liability for employee superannuation benefits in the general government sector, is the responsibility of the State's public sector superannuation funds. These funds are not consolidated in the Estimated Financial Statements as they are not controlled by the State. However, the major proportion of unfunded superannuation liabilities is the responsibility of the State and is recognised accordingly.

(a) Superannuation expense recognised in the operating statement

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Defined benefit plans					
Current service cost ^(a)	683.7	640.0	634.1	643.3	641.1
Interest cost ^(a)	1 554.7	1 707.8	1 738.7	1 766.8	1 790.7
Expected return on plan assets (net of expenses) ^(a)	(1 206.0)	(1 288.7)	(1 337.8)	(1 364.1)	(1 391.3)
Amortisation of past service cost ^(a)	(14.5)	(14.5)	(14.5)	(14.5)	(10.2)
Actuarial (gains)/losses ^(b)	..	(111.8)	..	..	..
Total expense recognised in respect of defined benefit plans	1 018.0	932.8	1 020.6	1 031.5	1 030.2
Defined contribution plans					
Employer contributions to defined contribution plans ^(a)	652.1	588.9	622.3	644.5	676.3
Other (including pensions) ^(a)	40.3	40.3	41.9	43.6	45.3
Total expense recognised in respect of defined contribution plans	692.4	629.3	664.2	688.1	721.6
Total superannuation expense recognised in operating statement	1 710.4	1 562.0	1 684.8	1 719.5	1 751.8

Notes:

(a) Superannuation expense from transactions.

(b) Superannuation expense from other economic flows.

(b) Reconciliation of the present value of the defined benefit obligation

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	Budget ^(a)	Revised	Estimate	Estimate	Estimate
Opening balance of defined benefit obligation	30 302.6	30 302.9	31 136.6	31 663.5	32 131.8
Current service cost	682.7	640.0	634.1	643.3	641.1
Interest cost	1 554.7	1 707.8	1 738.7	1 766.8	1 790.7
Contributions by plan participants	216.0	223.4	215.2	206.7	198.1
Actuarial (gains)/losses	..	371.6	..	..	..
Benefits paid	(1 866.9)	(2 109.2)	(2 061.0)	(2 148.6)	(2 262.1)
Closing balance of defined benefit obligation	30 889.2	31 136.6	31 663.5	32 131.8	32 499.5

Note:

(a) 2006-07 Budget above is based on actual opening balances at 1 July 2006 plus 2006-07 budgeted movement.

(c) Reconciliation of the fair value of superannuation plan assets

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	Budget ^(a)	Revised	Estimate	Estimate	Estimate
Opening balance of plan assets	17 459.8	17 459.8	17 899.0	18 267.3	18 639.1
Expected return on plan assets	1 206.0	1 288.7	1 337.8	1 364.1	1 391.3
Actuarial gains/(losses)	..	483.5	..	..	..
Employer contributions	480.3	552.8	876.4	949.6	1 060.7
Contributions by plan participants	216.0	223.4	215.2	206.7	198.1
Benefits paid (including tax paid)	(1 866.9)	(2 109.2)	(2 061.0)	(2 148.6)	(2 262.1)
Closing balance of plan assets	17 495.2	17 899.0	18 267.3	18 639.1	19 027.1

Note:

(a) 2006-07 Budget above is based on actual opening balances at 1 July 2006 plus 2006-07 budgeted movement.

(d) **Reconciliation of the assets and liabilities recognised in the balance sheet**

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
ESSS (including SSF)					
Defined benefit obligation	28 168.2	28 590.0	29 104.9	29 559.2	29 917.1
Tax liability ^(a)	977.4	850.1	840.1	836.2	829.8
Plan assets	(16 220.9)	(16 636.2)	(16 987.5)	(17 346.2)	(17 724.1)
Unrecognised past service cost ^(b)	39.2	39.2	24.7	10.2	..
Net liability/(asset)	12 963.9	12 843.1	12 982.2	13 059.4	13 022.9
Other funds ^(a)					
Defined benefit obligation	1 739.2	1 684.6	1 709.7	1 730.4	1 749.4
Tax liability ^(a)	4.6	11.8	8.8	5.9	3.1
Plan assets	(1 274.3)	(1 262.8)	(1 279.8)	(1 292.9)	(1 303.0)
Unrecognised past service cost ^(b)	..	..	..	..	..
Net liability/(asset)	469.4	433.6	438.8	443.5	449.5
Total unfunded superannuation					
Defined benefit obligation	29 907.3	30 274.6	30 814.6	31 289.5	31 666.5
Tax liability ^(a)	982.0	861.9	849.0	842.1	833.0
Plan assets	(17 495.2)	(17 899.0)	(18 267.3)	(18 639.1)	(19 027.1)
Unrecognised past service cost ^(b)	39.2	39.2	24.7	10.2	..
Unfunded superannuation liability	13 433.3	13 276.7	13 420.9	13 502.8	13 472.3
Represented by:					
Current liability	510.1	335.1	417.1	535.1	639.3
Non-current liability	12 923.2	12 941.7	13 003.9	12 967.7	12 833.1
	13 433.3	13 276.7	13 420.9	13 502.8	13 472.3

Notes:

- (a) The tax liability represents the present value of expected future tax payments, relating to both investment tax and contributions tax.
- (b) Past service cost arises due to a change in benefits payable. This cost is recognised as an expense over the period until the benefits become vested. Unrecognised past service cost represents the amount of past service cost yet to be recognised as an expense.

Note 7: Depreciation and amortisation

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	Budget	Revised	Estimate	Estimate	Estimate
Depreciation					
Buildings ^(a)	363.4	363.4	401.4	433.9	478.9
Plant, equipment and infrastructure systems	570.4	570.8	607.7	621.8	630.1
Road networks	308.0	308.0	321.6	335.6	352.2
Other assets	29.2	34.2	30.6	30.7	30.8
Total depreciation	1 271.0	1 276.4	1 361.3	1 422.0	1 492.0
Amortisation					
Leased plant and equipment	7.7	20.9	8.5	8.4	8.5
Leasehold buildings	22.9	48.9	48.8	53.5	58.3
Intangible produced assets	20.4	20.4	19.5	22.1	27.3
Total amortisation	51.1	90.2	76.7	84.0	94.0
Total depreciation and amortisation	1 322.1	1 366.6	1 438.0	1 506.0	1 586.1

Notes:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2007-08 to 2009-10.

Note 8: Finance costs

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	Budget	Revised	Estimate	Estimate	Estimate
Interest on long-term interest-bearing liabilities	318.7	318.7	343.5	436.1	503.6
Interest on short-term interest-bearing liabilities	26.1	26.1	26.4	26.3	26.3
Finance charges on finance leases	41.4	88.1	80.9	80.3	79.0
Discount interest on payables	23.8	22.5	30.8	41.1	47.2
Fees and other finance costs	18.0	17.9	17.5	20.3	21.4
Total finance costs	428.0	473.4	499.0	604.2	677.5

Note 9: Grants and transfer payments

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	Budget	Revised	Estimate	Estimate	Estimate
Commonwealth Government	65.8	66.6	67.3	69.2	71.2
Local Government	547.9	558.6	525.9	496.3	506.0
Private sector	3 700.3	3 683.7	3 544.7	3 559.4	3 535.9
Grants within the Victorian Government	1 887.8	2 089.5	1 974.4	1 806.1	1 806.5
Other	5.3	5.6	3.9	3.9	3.9
Total grants and transfer payments	6 207.2	6 404.0	6 116.0	5 934.9	5 923.4

Note 10: Total expenses from transactions by department

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Expenses from transactions					
Parliament	116.1	118.3	114.0	115.0	116.9
Education and Training	9 545.3	9 521.8	9 712.0	9 930.9	10 110.7
Human Services	12 223.5	12 306.9	12 572.3	12 908.6	13 286.9
Infrastructure	3 865.5	4 026.2	4 036.3	4 079.6	4 177.2
Innovation, Industry and Regional Development	433.5	467.1	404.6	329.3	327.6
Justice	3 119.4	3 180.9	3 130.4	3 194.4	3 239.6
Premier and Cabinet	539.5	542.9	550.7	589.7	556.5
Primary Industries	398.7	503.7	372.9	338.3	339.0
Sustainability and Environment	1 089.8	1 193.9	1 113.6	1 139.6	1 129.6
Treasury and Finance	1 848.9	1 773.2	1 708.1	1 810.1	1 892.7
Victorian Communities	815.5	903.3	791.6	742.4	726.4
Contingencies not allocated to departments ^(a)	(60.1)	(291.3)	689.5	1 068.2	1 290.6
Regulatory bodies and other part budget funded agencies ^(b)	1 075.7	1 075.4	1 106.9	1 126.5	1 126.5
Total	35 011.4	35 322.6	36 302.9	37 372.5	38 320.3
<i>Less eliminations ^(c)</i>	<i>(2 886.1)</i>	<i>(2 955.9)</i>	<i>(3 009.5)</i>	<i>(3 018.8)</i>	<i>(3 056.4)</i>
Total expenses from transactions	32 125.3	32 366.7	33 293.5	34 353.7	35 263.8

Notes:

- (a) This contingency includes a provision for programs lapsing, future demand growth, items not yet formalised at the time of the Budget, and an allowance for departmental underspending in 2006-07 which may be subject to carryover into 2007-08. Under the departmental funding model, since 1 July 2004, departments have been required to manage all costs within their departmental budgets.
- (b) Other general government sector agencies, which receive less than 50 per cent of their revenue from appropriations and therefore are not allocated to departments.
- (c) Comprising payroll tax, capital asset charge and inter-departmental transfers.

Note 11: Other gains/(losses) from other economic flows

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Net gain from revaluation of biological assets	8.4	8.4	8.4	8.4	8.4
Net (increase)/decrease in provision for doubtful receivables	(59.1)	(59.1)	(49.1)	(44.1)	(44.1)
Other gains/(losses)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Total other gains/(losses) from other economic flows	(51.0)	(50.9)	(40.8)	(35.8)	(35.8)

Note 12: Property, plant and equipment

(a) Total property, plant and equipment

	(\$ million)				
	2007	2007	2008	2009	2010
	Budget	Revised	Estimate	Estimate	Estimate
Buildings (written down value)	14 939.2	14 846.0	16 255.7	18 170.7	20 365.0
Land and national parks	19 386.1	19 388.2	20 860.6	22 541.8	24 489.0
Infrastructure systems (written down value)	291.0	695.6	840.6	942.9	950.7
Plant, equipment and vehicles (written down value)	2 065.5	2 141.5	1 994.2	1 774.2	1 530.0
Roads (written down value)	15 002.1	14 977.5	16 361.9	17 750.5	18 837.9
Earthworks	4 426.2	4 426.2	4 426.2	4 426.2	4 426.2
Cultural assets (written down value)	3 558.6	3 558.6	3 650.7	3 746.9	3 847.1
Total property, plant and equipment	59 668.6	60 033.5	64 389.8	69 353.1	74 445.9

(b) Land and buildings

	(\$ million)				
	2007	2007	2008	2009	2010
	Budget	Revised	Estimate	Estimate	Estimate
Buildings ^(a)	16 427.1	16 359.8	18 208.3	20 601.4	23 324.4
Accumulated depreciation	(1 487.9)	(1 513.8)	(1 952.6)	(2 430.7)	(2 959.4)
Buildings (written down value)	14 939.2	14 846.0	16 255.7	18 170.7	20 365.0
Land	17 400.2	17 402.3	18 868.6	20 549.9	22 497.1
National parks and other 'land only' holdings	1 985.9	1 985.9	1 992.0	1 992.0	1 992.0
Land and national parks	19 386.1	19 388.2	20 860.6	22 541.8	24 489.0
Total land and buildings	34 325.2	34 234.2	37 116.3	40 712.5	44 854.1

Note:

(a) Includes amounts not yet allocated to projects in 2007-08 to 2009-10.

(c) Plant, equipment and infrastructure systems

	(\$ million)				
	2007	2007	2008	2009	2010
	Budget	Revised	Estimate	Estimate	Estimate
Infrastructure systems	321.6	726.2	895.4	1 023.7	1 058.6
Accumulated depreciation	(30.6)	(30.6)	(54.8)	(80.8)	(107.9)
Infrastructure systems (written down value)	291.0	695.6	840.6	942.9	950.7
Plant, equipment and vehicles	4 899.3	4 959.5	5 338.8	5 655.0	5 955.1
Accumulated depreciation	(3 050.8)	(3 018.4)	(3 541.7)	(4 074.7)	(4 615.8)
Leased plant, equipment and vehicles	361.8	343.9	343.9	343.9	343.8
Accumulated depreciation	(144.8)	(143.5)	(146.8)	(150.0)	(153.2)
Plant, equipment and vehicles (written down value)	2 065.5	2 141.5	1 994.2	1 774.2	1 530.0
Total plant, equipment and infrastructure systems	2 356.5	2 837.1	2 834.8	2 717.1	2 480.7

(d) Road networks and earthworks

(\$ million)

	2007	2007	2008	2009	2010
	Budget	Revised	Estimate	Estimate	Estimate
Roads	17 258.9	17 243.3	18 705.0	20 117.2	21 100.6
Accumulated depreciation	(6 276.7)	(6 276.7)	(6 534.3)	(6 803.1)	(7 085.6)
Road infrastructure	6 022.1	6 013.1	6 257.4	6 569.3	7 025.5
Accumulated depreciation	(2 002.2)	(2 002.2)	(2 066.2)	(2 132.9)	(2 202.7)
Roads (written down value)	15 002.1	14 977.5	16 361.9	17 750.5	18 837.9
Earthworks	4 426.2	4 426.2	4 426.2	4 426.2	4 426.2
Total road networks and earthworks	19 428.3	19 403.6	20 788.1	22 176.6	23 264.0

(e) Cultural assets

(\$ million)

	2007	2007	2008	2009	2010
	Budget	Revised	Estimate	Estimate	Estimate
Cultural assets	3 657.0	3 657.0	3 757.1	3 861.2	3 969.4
Accumulated depreciation	(98.4)	(98.4)	(106.4)	(114.3)	(122.3)
Total cultural assets (written down value)	3 558.6	3 558.6	3 650.7	3 746.9	3 847.1

Cultural assets comprise non-current physical assets intended to be preserved because of their unique historical, cultural or environmental attributes, such as the Royal Botanic Gardens, Government House, Parliament House, historic houses, monuments, museum exhibits, art collections and archival collections.

Note 13: Reconciliation of movements in fixed assets

(\$ million)

	2007	2007	2008	2009	2010
	Budget	Revised	Estimate	Estimate	Estimate
Carrying amount at the start of the year ^(a)	55 953.8	55 953.8	60 033.5	64 389.8	69 353.1
Additions ^(b)	2 329.4	2 756.8	2 870.2	3 077.3	2 871.9
Disposals at written down value	(112.7)	(130.7)	(218.4)	(109.7)	(89.7)
Revaluations increments	2 799.8	2 799.8	3 123.0	3 479.6	3 869.4
Depreciation/amortisation expense	(1 301.7)	(1 346.2)	(1 418.5)	(1 483.9)	(1 558.8)
Carrying amount at the end of the year	59 668.6	60 033.5	64 389.8	69 353.1	74 445.9

Notes:

(a) Comprises land and buildings, infrastructure systems, plant, equipment, vehicles, road networks and cultural assets. Excludes movements in other assets in Note 14 below.

(b) Includes assets acquired under finance lease arrangements.

Note 14: Other assets

	(\$ million)				
	2007	2007	2008	2009	2010
	Budget	Revised	Estimate	Estimate	Estimate
Non-current other assets					
Investment properties	13.4	13.4	13.4	13.4	13.4
Biological assets ^(a)	89.4	89.4	97.8	106.2	114.6
Other assets	107.0	107.0	55.5	47.6	47.6
Total non-current other assets	209.8	209.8	166.7	167.2	175.6

Note:

(a) The majority of biological assets comprises of commercial forests.

Note 15: Employee benefits

	(\$ million)				
	2007	2007	2008	2009	2010
	Budget	Revised	Estimate	Estimate	Estimate
Current					
Accrued salaries and wages ^(a)	991.1	991.1	1 011.5	1 031.4	1 051.2
Long service leave	1 755.9	1 754.7	1 780.0	1 805.2	1 830.5
Total current employee benefits	2 746.9	2 745.8	2 791.5	2 836.6	2 881.7
Non-current					
Accrued salaries and wages ^(a)	20.0	20.0	20.0	20.0	20.0
Long service leave	828.0	829.0	908.2	987.8	1 068.6
Total non-current employee benefits	848.1	849.1	928.3	1 007.9	1 088.6
Total employee benefits	3 595.0	3 594.8	3 719.8	3 844.4	3 970.3

Note:

(a) Includes accrued annual leave, payroll tax and other similar on-costs.

Note 16: Cash flow information

(a) Reconciliation of cash

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	Budget	Revised	Estimate	Estimate	Estimate
Cash	744.2	744.2	759.7	775.1	790.5
Deposits at call	1 790.0	1 774.1	1 758.1	1 731.1	1 708.8
Cash and cash equivalent	2 534.2	2 518.4	2 517.8	2 506.2	2 499.3
Bank overdraft	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)
Balances as per cash flow statement	2 531.0	2 515.1	2 514.6	2 503.0	2 496.1

(b) Reconciliation of net cash flows from operating activities

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Net result	275.6	513.9	387.4	398.7	331.6
Non-cash movements					
Depreciation and amortisation	1 322.1	1 366.6	1 438.0	1 506.0	1 586.1
Revaluation of investments	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Assets (received)/given free of charge	..	(8.0)	..	(181.0)	..
Revaluation of assets	(8.4)	(8.4)	(8.4)	(8.4)	(8.4)
Discount/premium on other financial assets/interest bearing liabilities	5.4	5.4	4.8	7.5	7.8
Movements included in investing and financing activities					
Net revenue from sale of property, plant and equipment	(9.7)	(34.3)	(5.0)	(5.0)	(5.4)
Movements in assets and liabilities					
Increase/(decrease) in provision of doubtful debts	59.0	59.0	49.0	43.9	43.9
Increase/(decrease) in payables	1.3	(117.9)	37.0	22.2	(6.8)
Increase/(decrease) in employee benefits	165.8	165.6	124.9	124.7	125.9
Increase/(decrease) in superannuation	536.8	380.2	144.2	81.9	(30.5)
Increase/(decrease) in other provisions ^(a)	(30.0)	(32.4)	(20.3)	(11.7)	(11.7)
Increase/(decrease) in other liabilities ^(a)	(6.9)	79.0	108.4	53.2	29.4
(Increase)/decrease in receivables	31.8	(86.9)	(203.4)	(226.7)	(132.5)
(Increase)/decrease in other assets ^(b)	34.7	34.7	50.7	7.1	(0.7)
Net cash flows from operating activities ^(b)	2 377.4	2 316.5	2 107.2	1 812.2	1 928.7

Notes:

- (a) *Other provisions has been renamed from outstanding insurance claims, as it appeared in the 2005-06 Budget Papers, and the definition has been broadened to include certain items previously classified as other liabilities.*
- (b) *Inventories were reclassified from net cash flows from operating activities to net cash flows from investing activities.*

Note 17: Purchase of property, plant and equipment by department

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	Budget	Revised	Estimate	Estimate	Estimate
Parliament	9.3	13.1	7.3	2.7	2.7
Education and Training	716.5	729.3	465.9	247.8	231.2
Human Services	659.9	612.5	603.6	681.3	369.0
Infrastructure ^(a)	704.7	685.4	963.7	748.4	591.4
Innovation, Industry and Regional Development	11.6	19.0	11.7	11.7	16.7
Justice	205.2	258.0	153.2	132.6	118.4
Premier and Cabinet	66.6	73.1	81.6	2.4	12.3
Primary Industries	6.6	7.5	7.9	6.8	6.1
Sustainability and Environment	147.6	151.8	144.5	99.0	25.1
Treasury and Finance ^{(b)(c)}	52.9	47.9	36.1	39.9	53.3
Victorian Communities	10.2	28.4	6.3	6.2	6.2
Regulatory bodies and other part budget funded agencies	118.6	123.4	84.9	85.3	85.3
Not allocated to departments ^{(c)(d)}	(358.6)	(360.6)	311.0	624.5	1 364.6
Total purchase of property, plant and equipment	2 351.2	2 388.7	2 877.6	2 688.5	2 882.2

Notes:

- (a) Inventories were reclassified from supplies and services to purchase of property, plant and equipment.
- (b) Includes amounts under the vehicle leasing facility not allocated to departments.
- (c) Amount available to be allocated to specific departments and projects in future budgets. This includes an allowance for departmental underspending in 2006-07 which may be subject to carryover in 2007-08.
- (d) Eliminations were previously included in Treasury and Finance.

Note 18: General government sector entities

The following is a list of entities, which have been consolidated for the purposes of the Estimated Financial Statements. For further details on consolidation policy see Note 1 D, Basis of Consolidation.

Public non-financial and public financial corporations do not form part of the general government sector and are therefore not included in this list of controlled entities. For a complete listing of all government entities, please refer to the 2006-07, Budget Paper No. 4, *Statement of Finances*.

General government sector entities

Education and Training

Adult Community and Further Education Board

Adult Multicultural Education Services

Centre for Adult Education

TAFEs including:

Bendigo Regional Institute of TAFE

Box Hill Institute of TAFE

Central Gippsland Institute of TAFE

Chisholm Institute of TAFE

Driver Education Centre of Australia Ltd

East Gippsland Institute of TAFE

Gordon Institute of TAFE

Goulburn Ovens Institute of TAFE

Holmesglen Institute of TAFE

Institute of Land and Food Resources (TAFE Division)

International Fibre Centre Limited

Kangan Batman Institute of TAFE

Northern Melbourne Institute of TAFE

Royal Melbourne Institute of Technology (TAFE Division)

South West Institute of TAFE

Sunraysia Institute of TAFE

Swinburne University of Technology (TAFE Division)

University of Ballarat (TAFE Division)

Victoria University of Technology (TAFE Division)

William Angliss Institute of TAFE

Wodonga Institute of TAFE

Victorian Curriculum and Assessment Authority

Victorian Institute of Teaching

Victorian Learning and Employment Skills Commission

Victorian Qualifications Authority

General government sector entities

Human Services

Health Purchasing Victoria

Hospitals and Ambulance Services including:

Alexandra District Ambulance Service
Alexandra District Hospital
Alpine Health
Ambulance Service Victoria Metropolitan Region
Austin Health
Bairnsdale Regional Health Service
Ballarat Health Services
Barwon Health
Bass Coast Regional Health
Bayside Health
Beaufort and Skipton Health Service
Beechworth Health Service
Benalla and District Memorial Hospital
Bendigo Health Care Group
Boort District Hospital
Casterton Memorial Hospital
Central Gippsland Health Service
Cobram District Hospital
Cohuna District Hospital
Colac Area Health
Dental Health Services Victoria
Djerriwarrh Health Services
Dunmunkle Health Services
East Grampians Health Service
East Wimmera Health Service
Eastern Health
Echuca Regional Health
Edenhope and District Memorial Hospital
Gippsland Southern Health Service
Goulburn Valley Health
Hepburn Health Service
Hesse Rural Health Service
Heywood Rural Health
Inglewood and District Health Service
Kerang and District Hospital
Kooweerup Regional Health Service
Kyabram and District Health Services
Kyneton District Health Service
Latrobe Regional Hospital
Lorne Community Hospital

General government sector entities

Maldon Hospital
Mallee Track Health and Community Services
Manangatang and District Hospital
Mansfield District Hospital
Maryborough District Health Service
McIvor Health and Community Services
Melbourne Health
Moyness Health Services
Mt Alexander Hospital
Nathalia District Hospital
Northeast Health Wangaratta
Northern Health
Numurkah District Health Service
Omeo District Health
Orbost Regional Health
Otway Health and Community Services
Peninsula Health
Peter MacCallum Cancer Institute
Portland District Health
Robinvale District Health Services
Rochester and Elmore District Health Service
Rural Ambulance Victoria
Rural Northwest Health
Seymour District Memorial Hospital
South Gippsland Hospital
South West Healthcare
Southern Health
Stawell Regional Health
Swan Hill District Hospital
Tallangatta Health Service
Terang and Mortlake Health Service
The Kilmore and District Hospital
The Queen Elizabeth Centre
The Royal Children's Hospital
The Royal Victorian Eye and Ear Hospital
The Royal Women's Hospital
Timboon and District Health Care Service
Tweddle Child and Family Health Service
Upper Murray Health and Community Services
Victorian Institute of Forensic Mental Health
West Gippsland Health Care Group
West Wimmera Health Service
Western District Health Service

General government sector entities

Western Health
Wimmera Health Care Group
Wodonga Regional Health Service
Yarram and District Health Service
Yarrawonga District Health Service
Yea and District Memorial Hospital
Infertility Treatment Authority
Mental Health Review Board
Psychosurgery Review Board
Registration Boards including:
Chinese Medicine Registration Board of Victoria
Chiropractors Registration Board of Victoria
Dental Practice Board of Victoria
Medical Practitioners Board of Victoria
Nurses Board of Victoria
Optometrists Registration Board of Victoria
Osteopaths Registration Board of Victoria
Pharmacy Board of Victoria
Physiotherapists Registration Board of Victoria
Podiatrists Registration Board of Victoria
Psychologists Registration Board of Victoria
Victorian Health Promotion Foundation
Victorian Relief Committee

Infrastructure

Energy Safe Victoria
Roads Corporation
Southern and Eastern Integrated Transport Authority
Southern Cross Station Authority

Innovation Industry and Regional Development

Prince Henry's Institute of Medical Research
Tourism Victoria

Justice

Country Fire Authority
Emergency Services Telecommunications Authority
Equal Opportunity Commission
Judicial College of Victoria
Legal Services Board (formerly Legal Practice Board)
Legal Services Commissioner (formerly Office of the Legal Ombudsman)
Liquor Licensing Panel
Metropolitan Fire and Emergency Services Board
Office of Police Integrity

General government sector entities

Office of Public Prosecutions
Office of the Public Advocate
Office of the Victorian Privacy Commissioner
Sentencing Advisory Council
Victoria Legal Aid
Victoria Police (Office of the Chief Commissioner of Police)
Victoria State Emergency Service Authority
Victorian Commission for Gambling Regulation
Victorian Electoral Commission
Victorian Institute of Forensic Medicine
Victorian Law Reform Commission

Parliament

Victorian Auditor-General's Office

Premier and Cabinet

Australian Centre for the Moving Image
Film Victoria
Library Board of Victoria
Museums Board of Victoria
National Gallery of Victoria, Council of Trustees
Office of the Ombudsman
State Services Authority

Primary Industries

Veterinary Practitioners Registration Board of Victoria

Sustainability and Environment

Architects Registration Board of Victoria
Building Commission
Catchment Management Authorities including:
 Corangamite Catchment Management Authority
 East Gippsland Catchment Management Authority
 Glenelg Hopkins Catchment Management Authority
 Goulburn Broken Catchment Management Authority
 Mallee Catchment Management Authority
 North Central Catchment Management Authority
 North East Catchment Management Authority
 Port Phillip and Westernport Catchment Management Authority
 West Gippsland Catchment Management Authority
 Wimmera Catchment Management Authority
Environment Protection Authority
Heritage Council
Office of the Commissioner for Environmental Sustainability
Parks Victoria

General government sector entities

Plumbing Industry Commission
Royal Botanic Gardens Board
Surveyors Registration Board of Victoria
Sustainability Victoria
Trust for Nature (Victoria)

Treasury and Finance

Domestic Building (HH) Indemnity Fund and Housing Guarantee Claims Fund
Essential Services Commission
Victorian Competition and Efficiency Commission

Victorian Communities

2007 World Swimming Championships Corporation
Shrine of Remembrance Trustees
Victorian Institute of Sport Limited
Victorian Institute of Sport Trust
