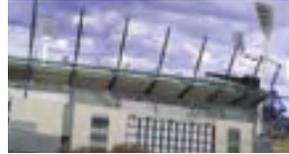




# 2006-07



## BUDGET UPDATE

incorporating Quarterly Financial Report No. 1

2006-07 BUDGET UPDATE

incorporating Quarterly Financial Report No. 1

Presented by the Honourable John Brumby MP  
Treasurer of the State of Victoria



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Budget Paper No. 2 - Strategy and Outlook  
Budget Paper No. 3 - Service Delivery  
Budget Paper No. 4 - Statement of Finances  
(incorporating Quarterly Financial Report No. 3)  
Budget Overview

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# **Budget Update**



Presented by

**The Honourable John Brumby, M.P.**

Treasurer of the State of Victoria

For the information of Honourable Members

This Budget Update refers to the general government sector throughout, except where specifically stated.

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## HIGHLIGHTS

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The 2006-07 Budget Update contains a mid cycle review of the annual Budget, which is presented in Parliament each May. The update provides revised estimated financial statements relative to the 2006-07 Budget published in May 2006, which include the projected outcome for the end of the current financial year and revised estimates for the forward years, as well as an update on the State's economy and the underlying parameters used for the Budget.

- The 2006-07 Budget Update demonstrates that the Government continues to achieve its commitment to maintaining its \$100 million budget surplus target.
- The revised 2006-07 net result from transactions for the general government sector is \$374 million, an increase of \$57 million compared with the May 2006 Budget estimate of \$317 million. This increase mainly reflects higher than originally projected taxation income and Commonwealth specific purpose grants. The net result from transactions is expected to average \$352 million a year from 2007-08 to 2009-10.
- The 2006-07 Budget Update shows that the Government has commenced implementing its election commitments. Since the publication of the Pre-Election Budget Update, policy decisions taken to date have reduced the net result from transactions by \$45 million in 2006-07, and \$52 million a year on average over the forward estimates period.
- The Government will improve quality, access and equity in service delivery to all Victorians through the implementation of its 2006 election commitments and 2006-07 Budget initiatives. The net impact of election commitments published in *Labor's Financial Statement 2006* total approximately \$64 million in 2006-07, \$173 million in 2007-08, \$126 million in 2008-09, \$155 million in 2009-10 and \$153 million in 2010-11. The cost of funding asset investment commitments is estimated to total approximately \$3 277 million. Three of these commitments have been formally approved by the Government and are incorporated into the estimates published in this 2006-07 Budget Update (see Appendix C, *Election Commitments – Implementation Report Card*).
- Including the non-cash impact of actuarial adjustments and revaluations, the net result for the general government sector is projected to be a surplus of \$174.4 million in 2006-07, reflecting the impact of market and bond rate movements on superannuation liabilities.

- The Government is helping to create greater capacity for economic growth in Victoria through significant investments in infrastructure projects. Net infrastructure investment is projected to be \$3.1 billion in 2006-07. Over the forward estimates period, from 2007-08 to 2009-10, net infrastructure investment is expected to average \$3.4 billion a year.
- Victoria is maintaining modest and sustainable levels of net financial liabilities, consistent with its triple-A credit rating. The Government is using its strong balance sheet to fund key investment projects that generate long-term benefits.
- The Government is committed to providing a fair and efficient tax system to Victorian businesses and households that is competitive with other states. After allowing for known future tax policy changes in all states, Victoria's taxes as a share of GSP are set to be around the Australian average.
- Forecast economic growth in Victoria in 2006-07 has been revised down since the May 2006 Budget to 2.75 per cent, predominantly reflecting the impact of drought conditions on agricultural output. Growth in the non-farm economy is expected to be solid.
- The Victorian labour market has been strong in 2006, with a lower unemployment rate and a higher labour force participation rate than that projected in the May 2006 Budget. The forecast for employment growth in 2006-07 has been revised up to 2.25 per cent.
- Inflationary pressures have intensified since the May 2006 Budget, with the 2006-07 forecast for CPI inflation revised up to 3.25 per cent.
- To maintain solid economic growth over the coming decades, Victoria has been a strong advocate for an ongoing national reform agenda to create higher participation and productivity levels, respond effectively to climate change challenges and reduce the regulatory burden faced by businesses. Victoria is working to pursue these goals at a national level within the Council of Australian Governments, with other states and territories (bilaterally and through the Council for the Australian Federation) and within Victoria's own areas of responsibility.

## CHAPTER 1: FINANCIAL POLICY OBJECTIVES AND STRATEGY

---

- The Government is committed to maintaining its \$100 million budget surplus target, ensuring that businesses and families in Victoria have a stable financial environment in which to invest and plan for the future.
- The revised estimate of the 2006-07 general government operating surplus (net result from transactions) is \$374 million, higher than the \$317 million 2006-07 Budget estimate. Over the following three year period, the net result from transactions is now projected to average \$352 million a year.
- The Government is helping to create greater capacity for economic growth in Victoria through significant investments in infrastructure projects. In line with this goal, general government net infrastructure investment is projected to be \$3.1 billion in 2006-07. Over the forward estimates period, from 2007-08 to 2009-10, net infrastructure investment is expected to average \$3.4 billion a year.
- The Government will improve quality, access and equity in service delivery to all Victorians through the implementation of its election commitments and 2006-07 Budget initiatives. Three of these commitments have been formally approved by the Government (see Appendix C, *Election Commitments – Implementation Report Card*), the impact of these election commitments is incorporated into the budget estimates.
- The Government is committed to providing a fair and efficient tax system to Victorian businesses and households that is competitive with other states. After allowing for known future tax policy changes in all states, Victoria's taxes as a share of GSP are set to be around the Australian average.
- Victoria is maintaining modest and sustainable levels of net financial liabilities, consistent with its triple-A credit rating. The Government is using its strong balance sheet to fund key investment projects that generate long-term benefits.

## FINANCIAL STRATEGY

This chapter sets out the Government's financial policy objectives and strategies as required by the *Financial Management Act 1994*. The Act includes a set of sound financial management principles. These are to:

- manage financial risks faced by the State prudently, taking into consideration economic circumstances;
- pursue spending and taxation policies that are consistent with a reasonable degree of stability and predictability in the level of the tax burden;
- maintain the integrity of the Victorian tax system;
- ensure that government policy decisions have regard to their effects on future generations; and
- provide full, accurate and timely disclosure of financial information relating to the activities of the Government and its agencies.

These financial management principles underpin the Government's financial policy objectives and strategies.

With the broad strategic priority of providing a sound and stable financial basis from which growth can be promoted across the whole State, the Government will continue to deliver world-class infrastructure to drive economic growth, and improve quality, access and equity in key services to all Victorians, while maintaining a sound financial position.

The Government's financial responsibility legislation requires a statement of its short and long-term financial objectives. These objectives are summarised in Table 1.1.

**Table 1.1: 2006-07 Financial objectives**

<i>Long-term</i>	<i>Short-term</i>
Maintain a substantial budget operating surplus	Operating surplus of at least \$100 million in each year
Deliver world-class infrastructure to maximise economic, social and environmental benefits	Implement strategic infrastructure projects
Provide improved service delivery to all Victorians	Complete the implementation of election commitments
Provide a fair and efficient tax system that is competitive with other states	Implement reforms to Victoria's business taxation system
Maintain state government net financial liabilities at prudent levels	Maintain a triple-A credit rating

## Objective one: Operating surplus

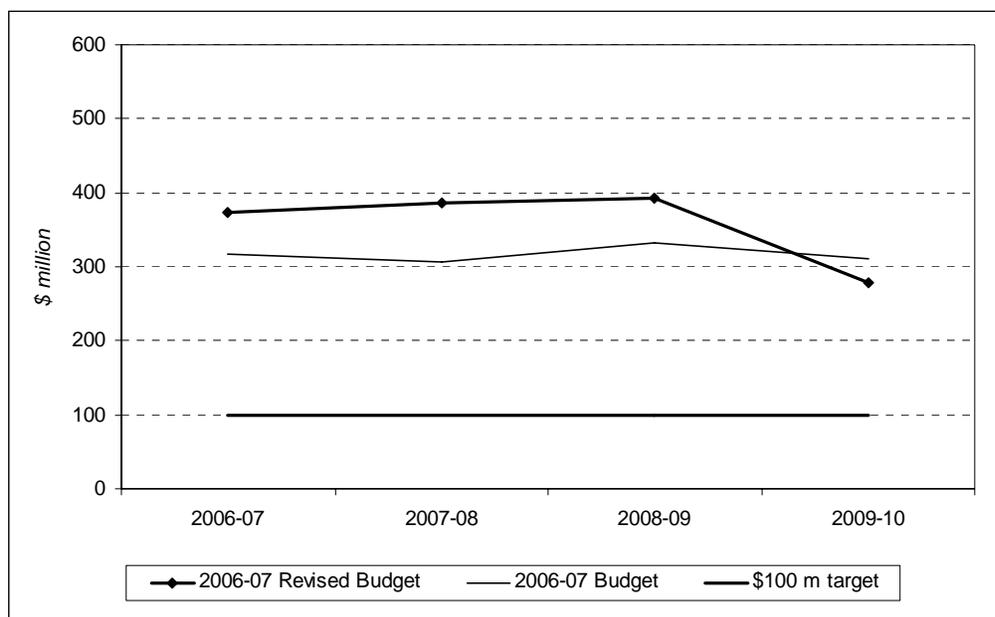
The Government continues to meet its target of maintaining an operating surplus of at least \$100 million. While achieving this objective, the Government has also reduced taxes, increased investment and kept net financial liabilities at prudent levels. This strong operating performance has increased the State's net worth and contributed to economic stability and business growth in Victoria.

Chart 1.1 shows the change in the surplus for the current and forward years since the 2006-07 Budget. The net result from transactions is forecast to be \$374 million in 2006-07, higher than the \$317 million 2006-07 Budget estimate. This mainly reflects higher than originally projected taxation income and Commonwealth specific purpose grants. Over the following three year period, the net result from transactions is now projected to average \$352 million a year.

The estimates contained in the 2006-07 Budget Update take into account all decisions of the Government, including the implementation to date of its election commitments.

Chapter 3, *Budget Position and Outlook*, provides further detail, including the main contributions to the change in the surplus.

**Chart 1.1: General government sector net result from transactions**



Source: Department of Treasury and Finance

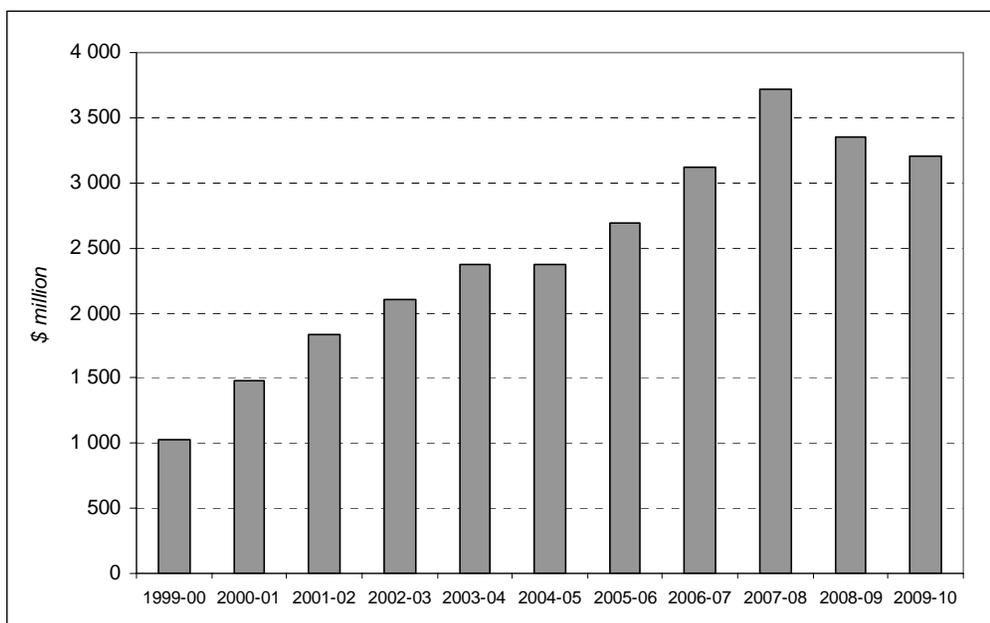
## Objective two: Infrastructure

The Government is committed to delivering world-class infrastructure.

Since 2000-01, the Government has invested around \$13 billion in infrastructure, averaging over \$2 billion a year. This is around double the average annual investment in the five years prior to 2000-01.

Chart 1.2 shows the general government net infrastructure investment since the beginning of the decade, together with projections for the forward estimates period. Net infrastructure investment is projected to be \$3.1 billion in 2006-07. Over the forward estimates period, from 2007-08 to 2009-10, net infrastructure investment is expected to average \$3.4 billion a year.

**Chart 1.2: General government sector net infrastructure investment <sup>(a)</sup>**



Source: Department of Treasury and Finance

Note:

(a) Includes purchases of property, plant and equipment and net contributions to other sectors of government less proceeds from sale of property, plant and equipment.

The significant boost to Victoria's infrastructure has been made possible by Victoria's strong financial position. The forecast strong net result from transactions over the forward estimates period, coupled with the strength of the balance sheet, enables the Government to continue its major program of building, upgrading and modernising infrastructure.

Since the release of the 2006-07 Budget, the Government announced additional infrastructure projects to assist regional communities and ameliorate skill shortages, including:

- over \$100 million total estimated investment (TEI) as part of the *Drought Response*, including \$71 million to interconnect the Waranga Channel with the Ballarat Urban Water Supply System and \$24 million to bring forward road upgrades in drought affected areas;
- \$61 million TEI (asset component) for the maintenance of the country passenger rail network;
- \$65 million TEI for regional rolling stock for the VLocity regional rail fleet; and
- \$50 million TEI for technical wings and equipment in government secondary colleges to encourage students to take up apprenticeships and trades.

Implementation of the Government's election commitments as described in *Labor's Financial Statement 2006* will also improve infrastructure provision across the State. Initiatives announced for future implementation include \$1.9 billion (TEI) for modernisation, regeneration, replacement schools and other projects, \$404 million for *Linking Victoria* and \$184 million to expand Sunshine Hospital.

A significant portion of the funding of these projects will be sourced from the \$2.5 billion unallocated provision for future investment discussed in Chapter 3, *Budget Position and Outlook*.

### **Objective three: Service delivery**

The Government is continuing to improve quality, access and equity in service delivery to all Victorians through the implementation of the Government's election commitments and its 2006-07 Budget initiatives.

The 2006-07 Budget Update includes two major initiatives since the 2006-07 Budget. The Government responded to the drought by providing \$131 million over four years to support rural communities as part of the *Drought Response* package and will make available \$187 million over four years as part of the *Our Environment Our Future – Sustainability Action Statement 2006*.

Full implementation of the Government's 2006 election commitments as outlined in *Labor's Financial Statement 2006* will also boost service delivery in Victoria. Initiatives announced for future implementation include:

- \$476 million over four years to increase hospital emergency department capacity;
- \$394 million over four years to expand hospital and outpatient capacity;
- \$167 million over four years toward education and skills initiatives (including \$80 million for primary welfare officers); and
- \$94 million towards the *Fare Go* package for public transport users.

## Objective four: Taxation

A key financial objective of the Government is to provide a fair and efficient tax system that is competitive with other states. To achieve this, the Government continues to implement a range of reforms to strengthen incentives for business to grow, workforce participation to expand and population to increase.

The competitiveness of Victoria's tax regime plays an important role in underpinning economic growth and investment. The Government aims to ensure that Victoria's taxes remain competitive with the Australian average.

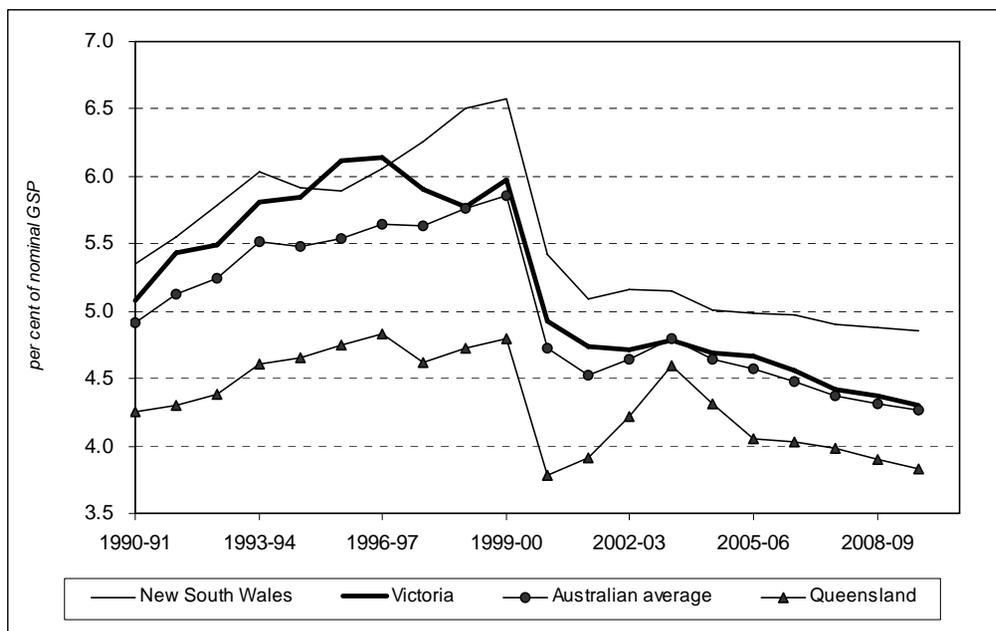
Victoria's preferred measure of tax competitiveness is state taxation expressed as a share of nominal gross state product (GSP). This measure relates the level of taxation revenue to economic capacity. Taxation revenue as a share of nominal GSP projected to 2009-10 for Victoria, New South Wales, Queensland and the Australian average is shown in Chart 1.3. Victoria's tax ratio initially fell sharply as Victoria abolished several taxes as part of the *Intergovernmental Agreement on the Reform of Commonwealth – State Financial Relations* (IGA) when the GST was introduced. Since then, the ratio has generally fallen steadily.

The tax competitiveness estimates are based on taxation estimates from the 2006-07 Budget Update for Victoria combined with the 2006-07 Budget estimates of all other jurisdictions. The 2006-07 Budget Update includes the following revenue initiatives, promised in *Labor's Financial Statement 2006*:

- continuation of the \$3 000 *First Home Bonus* for first home buyers of existing properties to 30 June 2009 for properties not exceeding \$500 000;
- an increase in the Bonus to \$5 000 for first home buyers purchasing newly constructed properties with effect from 1 January 2007;
- reduction in stamp duty from 1 January 2007 for properties priced between \$115 000 and \$500 000 bought as the principal place of residence, with first home buyers having a choice between the new stamp duty rate and the *First Home Bonus*; and
- bringing forward the previously announced payroll tax cut from 5.15 per cent to 5.05 per cent effective from 1 January 2007 instead of 1 July 2007.

In 2006-07, Victoria's tax ratio is projected to fall to 4.57 per cent, an estimated 0.40 percentage points (\$1.0 billion) below New South Wales and around the Australian average. Over the forward estimates period, Victoria's taxation as a share of nominal GSP is forecast to decline further to be 4.30 per cent of nominal GSP by 2009-10.

**Chart 1.3: Taxation revenue as a share of nominal GSP**



Source: Australian Bureau of Statistics, Department of Treasury and Finance, 2006-07 Budgets of all jurisdictions).

### Objective five: Net financial liabilities

Victoria’s balance sheet remains strong. Victoria’s triple-A credit rating was re-affirmed by international credit rating agencies Moody’s Investors Service (in December 2005) and Standard & Poor’s (in November 2006). Both agencies cited Victoria’s strong fiscal position, low debt levels and prudent financial management as the key factors behind the triple-A credit rating.

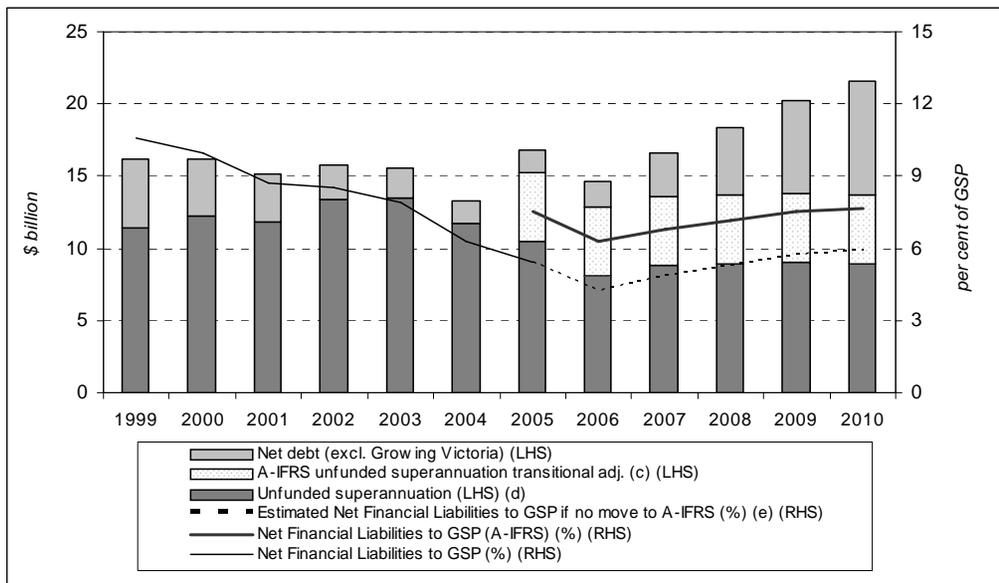
Around 70 per cent of the general government infrastructure program will be financed by the net cash inflow from operations – which is equivalent to the operating surplus excluding depreciation and other net non-cash provisions. For the remainder, the Government will use the strength of its balance sheet and strong budget position to fund key public investment projects that provide long-term economic and social benefits to Victoria.

Accordingly, Chart 1.4 shows that general government net debt is projected to increase from \$1.8 billion at June 2006 to \$7.8 billion at June 2010. The increase in net debt since the 2006-07 Budget partly reflects the impact of required changes in accounting policy treatment that were adopted in the 2005-06 Financial Report for the State of Victoria (discussed in more detail in Chapter 3, *Budget Position and Outlook*). Net debt continues to remain low by historical and international standards. For example, the projected general government net debt of \$7.8 billion in 2010 is equivalent to 2.8 per cent of GSP, compared to 3.1 per cent in 1999 and 15.9 per cent in 1995.

In addition, the State's largest liability, unfunded superannuation, will remain fairly steady over the forward estimates period. However, as a proportion of GSP, unfunded superannuation liabilities are forecast to decline from 5.5 per cent in June 2006 to 4.9 per cent in June 2010.

The ratio of net financial liabilities (the sum of net debt and unfunded superannuation liabilities) to GSP is expected to increase modestly from 6.3 per cent in June 2006 to 7.6 per cent in June 2010, but remain well below the 10.6 per cent value in June 1999. Most importantly, the proportion of budget revenue absorbed by superannuation and interest expense is projected to remain fairly steady at 6.6 per cent over the next four years.

**Chart 1.4: General government net financial liabilities, as at 30 June** <sup>(a)(b)</sup>



Source: Department of Treasury and Finance

Notes:

- (a) General government net financial liabilities are calculated as the sum of the net debt and unfunded superannuation liabilities.
- (b) Net debt is calculated as gross debt less liquid financial assets. For the years relevant, Growing Victoria investments are excluded as an offset to gross debt on the grounds that these investments were earmarked for infrastructure projects and were therefore not available to redeem gross debt.
- (c) For comparative purposes only, the transitional adjustment applied to unfunded superannuation liabilities in 2004-05 has also been separately identified in the period 2005 to 2010.
- (d) Unfunded superannuation liabilities between 1999 and 2004 are calculated under the old Australian accounting standards, whereas between 2005 and 2010 the relevant A-IFRS standard has been applied.
- (e) The net financial liabilities to GSP (as calculated applying the old Australian accounting standard) between 2005 and 2010 are estimates, and should be used for illustrative purposes only.

## CHAPTER 2: ECONOMIC CONDITIONS AND OUTLOOK

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- Forecast economic growth in Victoria in 2006-07 has been revised down from 3.25 per cent at Budget to 2.75 per cent, predominantly reflecting the impact of drought conditions on agricultural output. Growth in the non-farm economy is expected to be solid.
- The Victorian labour market has been strong in 2006, with a lower unemployment rate and a higher labour force participation rate than projected at Budget time. The forecast for employment growth in 2006-07 has been revised up to 2.25 per cent.
- Inflationary pressures have intensified since the Budget, with the 2006-07 forecast for CPI inflation revised up to 3.25 per cent.

### THE ECONOMY SINCE BUDGET

#### World economic conditions

Global economic conditions remained robust in the first half of 2006, with most economies recording growth in line with, or stronger than, expectations. This has seen a slight upgrading of world economic growth forecasts, with the International Monetary Fund (IMF) raising the expected growth in the world economy in its September *World Economic Outlook* to 5.1 per cent in 2006 (from 4.9 per cent) and 4.9 per cent in 2007 (from 4.7 per cent). Private sector forecasters surveyed by Consensus Economics have also revised up their outlook for the world economy over the past six months.

The US economy has been expanding for five years and inflation has edged up because of diminishing excess capacity and high energy prices. Growth has started to slow primarily in response to past interest rate increases and a weaker housing market.

China has been growing rapidly, and although measures have been put in place to limit the pace of expansion, the IMF is still expecting double-digit growth to continue in 2006 and 2007. China's expansion is supporting growth in the rest of the East Asian region, including Japan, where the recovery is looking increasingly entrenched, and should be sustained by solid domestic demand.

European economic growth has increased in 2006, supported by stronger growth in Germany, France and the United Kingdom, and some one-off events, such as the soccer World Cup. It can also be attributed to improved business confidence, stronger corporate balance sheets and rising employment. Growth is expected to slow in 2007, with some dampening effects on consumer spending from the increase in the value added tax in Germany and the effects of rising interest rates.

A major feature of the world economy has been the increase in inflationary pressures. While largely driven by oil and other commodity price rises, there is also evidence of increases in underlying inflation as economies reach capacity constraints and inflationary expectations rise. This has seen most of the major central banks move towards tighter monetary policy.

## **Victorian economy**

Victorian gross state product (GSP) grew by 2.7 per cent in 2005-06, broadly in line with national gross domestic product (GDP) growth of 2.8 per cent. This compares with the Budget estimate of 2.50 per cent, and represents a mild strengthening on the revised growth of 2.4 per cent in 2004-05.

The key driver of economic growth in 2005-06 was private business investment, which rose by 13.1 per cent, with strong gains in both machinery and equipment and non-residential construction. This represented the eighth year of the private business investment boom in Victoria, with average annual growth of 9.4 per cent since 1997-98.

Consumer spending growth slowed in 2005-06 to 2.1 per cent, as households restrained their spending in light of higher petrol prices and interest rates, and a subdued housing market. Consumer spending growth has experienced a modest recovery so far in 2006, aided by strong growth in employment and income.

Dwelling investment declined for the second consecutive year in 2005-06, and recent interest rate rises are likely to contribute to further near-term softness. Nonetheless, the dwelling investment downturn has been relatively mild by historical standards, in part due to strong population and employment growth.

Net merchandise exports detracted from economic growth in 2005-06 overall, reflecting the impacts of the high exchange rate and ongoing international competitive pressures. However, over the past three quarters net merchandise exports have contributed to Victorian output growth. Merchandise exports have risen, particularly for machinery and transport equipment, beverages and pharmaceutical goods, and merchandise import growth has slowed.

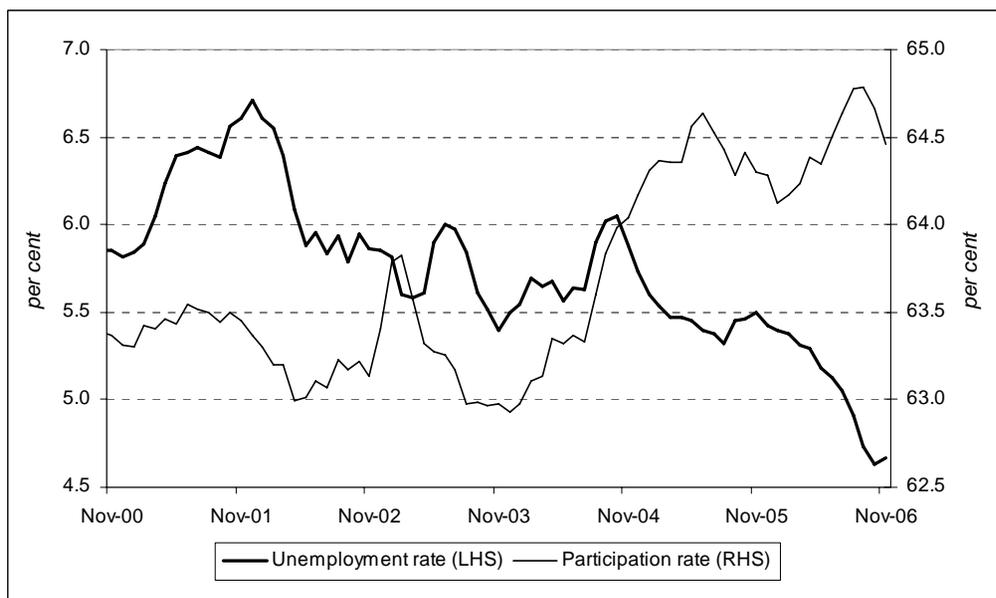
The Victorian labour market has performed strongly since the 2006-07 Budget. Employment has increased by 2.1 per cent so far this year, the unemployment rate has fallen and labour force participation has increased (Chart 2.1). The high participation rate appears to be reflecting a combination of higher skilled migration,

delayed retirement and a buoyant labour market encouraging more people into the labour force. Rising labour force participation is also likely to have acted as a moderating influence on wage growth.

Recent population data have also been positive for Victoria, with continued strong gains from overseas migration. This has contributed to population growth in Victoria of 1.4 per cent over 2005-06, the highest yearly growth rate since the late 1980s.

Inflationary pressures have intensified since the Budget, with headline inflation above 3 per cent. Although there are several temporary influences behind this high inflation result, such as petrol prices and the impact of Cyclone Larry on fruit prices, it also appears that inflation is becoming more broad-based. Underlying inflation has increased to around 3 per cent, consistent with an economy reaching capacity. Against this background, the Reserve Bank of Australia has increased the official cash rate three times this year, to now be 6.25 per cent.

**Chart 2.1: Victorian participation and unemployment rates (three-month moving average)**



Source: Australian Bureau of Statistics

## SHORT-TERM ECONOMIC OUTLOOK

Revised projections for the Victorian economy are presented in Table 2.1. These projections assume constant exchange rates, and that oil prices follow the path implied by oil futures contracts.

Forecast growth of Victorian GSP in 2006-07 has been revised down to 2.75 per cent, predominantly reflecting the impact of drought conditions on agricultural output. Growth in the non-farm economy is expected to be consistent with Budget projections. The drivers of non-farm growth in 2006-07 are expected to be a modest improvement in consumption growth and strengthening dwelling investment and net exports, partly offset by slower business investment growth. In the out-years, GSP growth is expected to return to around trend rates of 3.25 per cent.

**Table 2.1: Victorian economic projections <sup>(a)</sup>**

*(Projections in the 2006–07 Budget, where different, are in parentheses.)*

	2005-06	2006-07	2007-08	2008-09	2009-10
	<i>Actual</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Real gross state product	2.7 (2.50)	2.75 (3.25)	3.25 (3.50)	3.25	3.25
Employment	1.7 (1.50)	2.25 (1.25)	1.25 (1.50)	1.25	1.25
Unemployment rate <sup>(b)</sup>	5.3 (5.50)	5.00 (5.50)	5.25	5.25	5.25
Wage price index <sup>(c)</sup>	3.8 (3.75)	3.75 (3.50)	3.50	3.50	3.50
Consumer price index	3.1 (3.00)	3.25 (2.50)	2.50	2.50	2.50
Population <sup>(d)</sup>	1.4 (1.10)	1.10 (1.00)	1.10 (1.00)	1.10 (1.00)	1.10 (1.00)

*Sources: Australian Bureau of Statistics, Department of Treasury and Finance*

*Notes:*

- (a) Year-average per cent change on previous year unless otherwise indicated. All economic projections are rounded to the nearest 0.25 percentage point, except population projections which are rounded to the nearest 0.1 percentage point.*
- (b) Year-average level, per cent.*
- (c) Total hourly rate excluding bonuses.*
- (d) June quarter, per cent change on previous June quarter.*

Victoria's agricultural sector has been adversely affected by the intensifying drought conditions. According to the Bureau of Meteorology, rainfall deficiencies have been observed across much of Victoria during winter and spring. Water shortages are particularly severe in western and north-western parts of Victoria. In addition, the US National Oceanic and Atmospheric Administration has observed the re-occurrence of El Niño conditions. As a result, farm output is likely to be significantly lower than envisaged at Budget time. According to the Australian Bureau of Agricultural and Resource Economics, Victorian winter crop production in 2006-07 is expected to be only about a quarter of that in 2005-06. If realised, this would be the lowest crop in over twenty years for Victoria. Cattle slaughterings are likely to rise because of limited feed and water, and Dairy Australia forecasts that Victorian milk production will fall by 11.4 per cent in 2006-07. Also, frosts in late September are likely to result in noticeably lower fruit production.

Outside the farm sector, growth is projected to be solid. Consumer spending is expected to show modest improvement in 2006-07, supported by the strong labour market and income tax cuts. However, consumers are likely to remain cautious in view of recent interest rate rises, which are likely to squeeze discretionary spending power because of high levels of household debt.

Recent interest rate rises, by adversely affecting housing affordability, are likely to have delayed the recovery in dwelling investment. A recovery is nonetheless expected by mid 2007, driven by pent-up demand. Recent dwelling commencements have been running below underlying demand requirements, rental vacancy rates have fallen to very low levels and rents are rising strongly.

Although the growth of business investment is likely to moderate, it should remain an important driver of economic growth. There are substantial levels of non-residential construction, including engineering work, in the pipeline. The current environment is still conducive to continued growth of business investment, with a robust global economy, high capacity utilisation, and strong business profitability and balance sheets.

Net merchandise exports have been positive for output growth over the past three quarters, and this momentum provides some support for continued improvement through 2006-07. Despite this, net exports are still expected to detract marginally from growth in 2006-07. The minerals commodity boom, by contributing to a high exchange rate and the reallocation of labour and capital to mineral-rich regions, may continue to place pressure on Victoria's non-mineral exports. Victoria's agricultural exports are also likely to be adversely affected by drought conditions.

The labour market outlook remains positive for 2006-07, with recent strong data leading to an upward revision to forecast employment growth to 2.25 per cent, and a downward revision to the unemployment rate. In the out-years, employment growth is expected to slow from recent above-trend rates to be more in line with growth of the working-age population, and the unemployment rate is expected to settle around 5.25 per cent. One noticeable feature of the labour market has been the rise in the labour force participation rate, which should be supported over the forecast period by demographic and policy changes.

Population projections have also been raised, in line with recent developments that show stronger net overseas migration, less outflow via interstate migration and a rising birth rate.

Wage growth is projected to be moderate over the forecast period. This is despite the low unemployment rate and reports that firms are having difficulty finding suitable labour. Some of the moderating influences are coming from the rising participation rate, well-anchored inflation expectations as well as increased competition from labour in developing economies. Nonetheless, wage pressures remain a risk to the economic outlook.

Inflationary pressures have built up over the past six months, and the 2006-07 inflation forecast has been lifted to 3.25 per cent. This reflects the impact of recent stronger-than-expected inflation and signs of heightened input cost pressures. Although most of these effects are likely to have washed out by 2007-08, the broad-based nature of the rise in underlying inflation, the tight labour market and evidence of capacity constraints suggest that the risks to inflation lie on the upside.

## **RISKS TO THE SHORT-TERM ECONOMIC OUTLOOK**

The short-term economic projections are sensitive to several upside and downside risks. The main downside risks stem from intensifying drought conditions and possible wage and inflationary pressures resulting in further interest rate rises. Also, any major disruption to world economic growth would impact on the national and Victorian economy. These are discussed in Chapter 5, *Statement of Risks*.

## **LONGER-TERM ECONOMIC GROWTH**

In the longer term, the Victorian economy faces additional risks to sustained economic growth. Recent years have been characterised by relatively favourable economic conditions. This reflected initially the housing and consumption booms, which were then followed by the terms of trade and investment booms. However, it cannot be assumed that such benign conditions will continue. As the economic expansion matures and the economy hits capacity constraints, growth will be more reliant on underlying determinants.

The underlying drivers of sustainable economic growth in Victoria are growth of the labour force and labour productivity. These in turn are functions of demographic and market factors, including changes at the global level. In coming years demographic changes such as ageing will result in a slower rate of growth of the labour force because those at older ages generally participate much less in the labour force than younger people. In addition, there is evidence that productivity growth is easing. In order to maintain or enhance Victoria's potential growth rate, and thereby contribute to better living standards for Victorians, reforms will be needed to boost labour market participation and productivity.

The most important potential contribution would come from a more highly skilled workforce. Higher skills are associated with higher rates of labour force participation and higher levels of labour productivity. A higher skills base also leads to a more innovative economy, which will help Victoria respond to increasing global competitive pressures. In addition, re-invigorating productivity growth will also depend upon market-based reforms that promote more efficient and productive use of resources. This is particularly relevant in areas such as water and energy, which are likely to exert an increasing influence on economic growth, and where market mechanisms can help ensure both economic and environmental outcomes. Ensuring

that State taxes and charges remain competitive, reducing red tape and investing in essential economic infrastructure will also be critical in providing the basis for a favourable growth environment. Some of these themes are discussed in more detail in Chapter 4, *The Economic Reform Agenda*.



## CHAPTER 3: BUDGET POSITION AND OUTLOOK

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- The revised 2006-07 net result from transactions for the general government sector is \$374 million, an increase of \$57 million compared with the May 2006 Budget estimate of \$317 million. This increase mainly reflects higher than originally projected taxation income and Commonwealth specific purpose grants.
- The 2006-07 Budget Update shows that the Government has commenced implementing its election commitments. Since the publication of the Pre-Election Budget Update, policy decisions taken to date and other changes have reduced the net result from transactions by \$45 million in 2006-07, and \$52 million a year on average over the remainder of the forward estimates period.
- The net result from transactions is expected to average \$352 million a year from 2007-08 to 2009-10.
  - Including the non-cash impact of actuarial adjustments and revaluations, the net result for the general government sector is projected to be a surplus of \$174.4 million in 2006-07, reflecting the impact of market and bond rate movements on superannuation liabilities.
- Net infrastructure investment is projected to be \$3.1 billion in 2006-07. Over the forward estimates period, from 2007-08 to 2009-10, net infrastructure investment is expected to average \$3.4 billion a year.
- The Government will improve quality, access and equity in service delivery to all Victorians through the implementation of its 2006 election commitments and 2006-07 Budget initiatives. The net impact of election commitments published in *Labor's Financial Statement 2006* total approximately \$64 million in 2006-07, \$173 million in 2007-08, \$126 million in 2008-09, \$155 million in 2009-10 and \$153 million in 2010-11. The cost of funding asset investment commitments is estimated to total approximately \$3 277 million. Three of these commitments have been formally approved by the Government and are incorporated into the estimates published in this 2006-07 Budget Update (see Appendix C, *Election Commitments – Implementation Report Card*).

- Net debt will remain at low levels by historical and international standards and is consistent with prudent financial management that maintains the State's triple-A credit rating. Projected general government net debt of \$7.8 billion (or 2.8 per cent of GSP) by 30 June 2010 is still low compared to 3.1 per cent in 1999 and 15.9 per cent in 1995.
- The broader measure of net financial liabilities is projected to increase modestly from 6.3 per cent of GSP in 2006 to 7.6 per cent of GSP in 2010.

This chapter provides an overview of the revised budget position for the period 2006-07 to 2009-10 for the general government sector.

The general government sector financial statements as presented in this chapter take into account the Government's 2006 election commitments implemented to date.

The net impact of election commitments published in *Labor's Financial Statement 2006* total approximately \$64 million in 2006-07, \$173 million in 2007-08, \$126 million in 2008-09, \$155 million in 2009-10 and \$153 million in 2010-11. The cost of funding asset investment commitments is estimated to total approximately \$3 277 million. Three commitments have been formally approved by the Government and are shown in Appendix C, *Election Commitments – Implementation Report Card*.

The budget and forward estimates are based on the economic projections outlined in Chapter 2, *Economic Conditions and Outlook*, and reflect the accounting policies and assumptions documented in Chapter 6, *Estimated Financial Statements and Notes*. The estimates take into account the financial impacts of all policy decisions taken by the Victorian Government, as well as Commonwealth funding revisions and other information that affect the projected general government sector financial statements as at 4 December 2006. Specific policy decisions that have been taken since the May 2006 Budget, that affect the Budget position are summarised in Appendix A, *Specific Policy Decisions Affecting the Budget Position*.

The 2006-07 Budget and forward estimates years, 2007-08 to 2009-10, represent planning projections based on unchanged policy and other assumptions throughout the forecast period. Outcomes will differ from these projections for many reasons, including the implementation of new policies by the incoming Government and any materialisation of the risks, such as the impact of fire and drought, described in Chapter 5, *Statement of Risks*.

The estimates from 2006-07 (as detailed in Chapter 6, *Estimated Financial Statements and Notes*) used in this chapter are presented on the basis of the Australian equivalents to International Financial Reporting Standards (A-IFRS).

## FORWARD ESTIMATES OUTLOOK 2006-07 TO 2009-10

Table 3.1 sets out the projected aggregate outlook over the budget and forward estimates period for the general government sector. A more detailed operating statement is provided in Chapter 6, *Estimated Financial Statements and Notes*.

As Table 3.1 shows, the net result from transactions is forecast to be \$373.6 million in 2006-07. The net result from transactions is projected to be \$385.8 million in 2007-08, \$392.9 million in 2008-09 and \$278.3 million by the end of the forward period.

The net result is obtained when various revaluation gains and losses on assets and liabilities and provisions for doubtful receivables are added to the net result from transactions. These revaluations are closely related to market movements and as such are highly volatile. As Table 3.1 shows, the net result for the general government sector is projected to be a surplus of \$174.4 million in 2006-07.

As discussed below in *Other economic flows*, the revised 2006-07 net result is lower than the revised net result from transactions largely due to movements in the long-term Commonwealth bond rate that underpins the discount rate used to value superannuation liabilities. This bond rate decreased between 30 June 2006 and 24 November 2006, giving rise to a non-cash actuarial loss of \$788.0 million. However, this was partially offset by better than expected returns on superannuation assets for the financial year to 24 November 2006. This favourable investment performance reduced the previously mentioned loss by \$605.3 million. Changes in the reported value of the superannuation liability resulting from movements in the discount rate have no impact on the amount of cash required to fund this liability but are reported in accordance with the relevant accounting standard.

**Table 3.1 Summary operating statement for the period 2006-07 to 2009-10** <sup>(a)(b)</sup>

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	Budget	Revised	Estimate	Estimate	Estimate
Taxation	10 971.0	11 156.8	11 344.5	11 759.7	12 158.7
Dividends and income tax equivalent and rate equivalent revenue <sup>(c)</sup>	1 251.2	1 260.0	1 094.5	1 046.9	1 155.1
Grants	15 077.9	15 160.3	15 987.2	16 449.4	16 936.2
Sales of goods and services	2 552.4	2 532.2	2 570.3	2 635.2	2 640.3
Other income <sup>(d)</sup>	2 589.7	2 639.8	2 704.7	2 901.1	2 714.0
<b>Total income from transactions</b>	<b>32 442.1</b>	<b>32 749.1</b>	<b>33 701.2</b>	<b>34 792.3</b>	<b>35 604.4</b>
% change			2.9%	3.2%	2.3%
Employee benefits	12 019.5	12 091.4	12 372.0	12 725.5	12 985.9
Superannuation	1 710.4	1 674.4	1 675.5	1 709.5	1 741.1
Depreciation and amortisation	1 322.1	1 366.6	1 438.0	1 506.0	1 586.1
Finance costs	428.0	473.4	499.0	604.2	677.5
Grants and transfer payments	6 207.2	6 408.0	6 216.0	6 053.9	5 934.4
Supplies and services	10 437.7	10 361.3	11 114.3	11 799.9	12 400.7
Other expenses	0.5	0.5	0.5	0.5	0.5
<b>Total expenses from transactions</b>	<b>32 125.3</b>	<b>32 375.5</b>	<b>33 315.4</b>	<b>34 399.4</b>	<b>35 326.1</b>
% change			2.9%	3.3%	2.7%
<b>Net result from transactions</b>	<b>316.8</b>	<b>373.6</b>	<b>385.8</b>	<b>392.9</b>	<b>278.3</b>
Actuarial gains/(losses) on superannuation defined benefit plans	..	( 182.7)	..	..	..
Other gains/(losses) from other economic flows <sup>(e)</sup>	( 41.2)	( 16.5)	( 35.7)	( 30.7)	( 30.3)
<b>Total other economic flows</b>	<b>( 41.2)</b>	<b>( 199.2)</b>	<b>( 35.7)</b>	<b>( 30.7)</b>	<b>( 30.3)</b>
<b>Net result</b>	<b>275.6</b>	<b>174.4</b>	<b>350.1</b>	<b>362.2</b>	<b>248.0</b>

Source: Department of Treasury and Finance

Notes:

- This table may not add due to rounding.
- This is an abbreviated operating statement. The full statement is shown in Chapter 6, Estimated Financial Statements and Notes.
- Comprises dividends, income tax and rate equivalent revenue and interest.
- Other income comprises regulatory fees and fines, fair value of assets received free from charge, inter-sector capital asset charge and other miscellaneous income (such as unclaimed monies refunds and donations to schools and hospitals).
- This includes gains and losses on the disposal of physical assets and other income and expenses from other economic flows.

## Alternative measures of financial performance

Alternative measures of financial performance are set out in Table 3.2. These include Government Finance Statistics (GFS) measures used by the Australian Bureau of Statistics and the net result.

**Table 3.2 A-IFRS and GFS budget measures**

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
A-IFRS Net result from transactions / GFS net operating balance	316.8	373.6	385.8	392.9	278.3
A-IFRS Net result	275.6	174.4	350.1	362.2	248.0
GFS net lending/(borrowing) <sup>(a)</sup>	( 582.2)	( 882.0)	( 885.3)	(1 121.4)	( 923.0)
GFS cash surplus/(deficit) - excluding the impact of finance leases <sup>(b)</sup>	156.9	56.2	( 612.6)	( 808.2)	( 953.1)

Source: Department of Treasury and Finance

Notes:

- (a) *GFS net borrowing, or fiscal balance, includes net capital expenditure but excludes depreciation, thereby giving a measure of the State's call on financial markets. GFS net borrowing also equals net transactions in financial assets less net transactions in liabilities.*
- (b) *International Monetary Fund/GFS cash surplus/deficit equals the net cash flows from operating activities less investments in non-financial assets, and excludes acquisitions under finance leases.*

The *GFS net operating balance* for the general government sector is identical to the net result from transactions. Both measures exclude the effects of revaluation (holding gains or losses) arising from changes in market prices and other changes in the volume of assets. The GFS net operating balance is the conceptual basis for budgets in most other Australian states and the Commonwealth, and provides comparability with these jurisdictions.

The *GFS net lending/borrowing* result is equal to the GFS net operating balance less net acquisitions of non-financial assets. GFS net borrowing represents, in broad terms, the extent to which the general government sector's net acquisition of physical assets has been funded by incurring liabilities to other sectors. As the net lending/borrowing takes into account total spending on fixed assets during the period, rather than just the current year's expense, it is lower than the GFS net operating balance and the net result from transactions. The GFS net borrowing measure is projected to be \$882.0 million in 2006-07. Over the forward period, it is projected that the general government sector will remain in a net borrowing position.

The *GFS cash surplus/deficit* result is equal to net cash flows from operating activities, less net cash investment in non-financial assets and excludes acquisitions under finance leases. Although both net borrowing and the cash surplus include the immediate impact of expenditure on fixed assets, the cash surplus removes non-cash revenues and expenses (including the imputed superannuation interest cost and employee benefits) and allows for cash contributions made to the unfunded superannuation liability. The projected general government sector GFS cash surplus is \$56.2 million in 2006-07.

Over the forward estimates period, both GFS net borrowing and GFS cash deficits reflect the profile of infrastructure spending over the period. In particular GFS net borrowing is projected to peak in 2008-09, reflecting the completion of *Partnerships Victoria* projects, which are further explained below.

## **Income from transactions**

Total income from transactions in 2006-07 is projected to be \$32 749.1 million. When compared to the 2006-07 Budget estimate published in May 2006, total income from transactions has been revised upwards by \$307.0 million (or 0.9 per cent). The upward revision mainly reflects growth in taxation (\$185.8 million), and Commonwealth specific purpose grants (\$82.4 million).

From 2007-08, and over the remainder of the forward estimates period, total income from transactions is projected to grow on average by \$951.8 million (or 2.8 per cent).

Taxation income is projected to be \$11 156.8 million in 2006-07 and is expected to grow by an average of \$334.0 million (or 2.9 per cent) a year over the forward estimates period. The projected year-on-year growth in taxation income over the outlook period reflects the anticipated economic conditions for the State resulting in higher payroll and motor vehicle tax income.

Dividend and income tax equivalent and rate equivalent income in 2006-07 is anticipated to be substantially in line with the 2006-07 Budget estimate. This income is expected to decline by 17 per cent in 2007-08, largely reflecting lower distributions expected from the Transport Accident Commission and the Victorian WorkCover Authority and is consistent with the assumed average long-term market rate of return on their investments. Dividend and income tax and rate equivalent income is expected to decrease by a further 5.3 per cent in 2008-09 before increasing by 16.2 per cent in 2009-10. The increase in 2009-10 is consistent with projected higher dividends from the State Electricity Commission of Victoria.

When compared with the 2006-07 Budget estimate, income from Commonwealth grants has been revised upwards by \$82.4 million in 2006-07 due to additional specific purpose grants for a number of new and existing programs such as the Exceptional Circumstances Drought Relief Package, the Snowy River Environment Flows, the Macalister Irrigation Project, Wimmera Mallee Pipeline, Immunisation Program and Young People with Disabilities in Residential Aged Care. This additional Commonwealth funding has been partly offset by a downward revision to funding for the Australian Health Care Agreement and the Highly Specialised Drugs Program. Income from Commonwealth grants is projected to grow over the forward period by an average of \$592.0 million (or 3.8 per cent) a year mainly due to growth in GST revenue projected in the 2006-07 Budget estimates.

The estimates of GST revenue have not been revised since the 2006-07 Budget was published in May 2006, as at the time of print the Commonwealth had not issued a formal revised estimate of the GST pool.

Income from both the sale of goods and services and other income sources such as fines and regulatory fees and agency own-source revenue is projected to remain relatively stable over the forward period. Other income is projected to peak in 2008-09 reflecting the return of land to the State in relation to completion of EastLink.

## **Expenses from transactions**

Total expenses from transactions are projected to be \$32 375.5 million in 2006-07, an increase of \$250.2 million (or 0.8 per cent) compared to the 2006-07 Budget estimates published in May 2006. This increase largely reflects a combination of revisions, including:

- an upward revision to expenditure on employee entitlements by \$71.9 million, reflecting expenditure associated with an increase in hospital own-source revenue and a reclassification of expenditure by VicRoads from operating supplies and services to employee entitlements;
- an upward revision of finance costs by \$45.4 million and depreciation and amortisation expenses by \$44.5 million. These reflect required changes in accounting policy treatment that were adopted in the 2005-06 Financial Report for the State of Victoria, including:
  - a change in asset recognition for projects associated with the State-wide Integrated Public Safety Communication Strategy; and
  - the requirement to capitalise, in 2005-06, the Victorian County Court and private prisons by recognising a finance lease agreement and the amended existing finance lease treatment for private prisons;
- an upward revision of grants and transfer payments by \$200.8 million mainly reflecting the on-passing of additional Commonwealth specific purpose grants, as well as an increase in transfer payments to the public non-financial corporations and public financial corporations sectors in relation to a number of new State Government drought and water-related initiatives.

These increases are partially offset in 2006-07 by downward revisions to:

- supplies and services of \$76.4 million, primarily reflecting a reduction in the projected operating lease payments associated with the changes in accounting treatment for finance leases explained above; and
- superannuation expense of \$36.0 million largely reflecting the results of the triennial actuarial review of the Emergency Services Superannuation Scheme (explained further below).

Consistent with forecast growth in total income from transactions over the forward period, total expenses are projected to increase by an average of \$983.4 million (or 3.0 per cent) a year from 2007-08 to 2009-10.

Year-on-year growth in employee entitlements over the forward estimates period is expected to average \$298.2 million (or 2.4 per cent) a year. This growth reflects existing enterprise bargaining agreement wage increases and the implementation of policy decisions by Government.

Over the forward estimates period, superannuation expenses are projected to increase on average by \$22.2 million (or 1.3 per cent) a year reflecting the year-on-year projected growth in employee entitlements.

Over the forward period, supplies and services expenditure is projected to increase by an average of \$679.8 million (or 6.2 per cent) a year. This year-on-year growth mainly reflects the implementation of output decisions announced by Government combined with additional expenditure associated with the projected increase in own-source revenues (income received through fees charged by agencies for services) particularly in education and the hospital sectors.

### **Other economic flows**

Differences between the net result from transactions and the net result are due to other economic flows. This includes actuarial adjustments, gains and losses on the disposal of physical assets and income and expenses from other economic flows.

Other economic flows in 2006-07 are primarily driven by movements in the long-term Commonwealth bond rate that underpins the discount rate used to value superannuation liabilities. This bond rate decreased between 30 June 2006 and 24 November 2006, giving rise to a non-cash actuarial loss of \$788.0 million. However, better than expected returns on superannuation assets for the financial year to 24 November 2006 reduced the aforementioned loss by \$605.3 million. Changes in the reported value of the superannuation liability resulting from movements in the discount rate have no impact on the amount of cash required to fund this liability but are reported in accordance with the relevant accounting standard.

## **RECONCILIATION OF FORWARD ESTIMATES TO PREVIOUSLY PUBLISHED ESTIMATES**

Table 3.3 compares the revised outlook for the net result from transactions for the period 2006-07 to 2009-10 to the estimates published in the 2006-07 Budget in May 2006.

With the exception of the taxation policy changes incorporated following the State election, the major variations described below are consistent with those outlined in the recent Pre-Election Budget Update.

**Table 3.3 Reconciliation of estimates to the 2006-07 Budget <sup>(a)</sup>**

	(\$ million)			
	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
<b>Net result from transactions: 2006-07 Budget <sup>(b)</sup></b>	<b>316.8</b>	<b>305.4</b>	<b>331.3</b>	<b>311.9</b>
<b>Plus: Variations in income from transactions since 2006-07 Budget</b>				
<b>Policy decision variations</b>	<b>( 44.8)</b>	<b>( 31.5)</b>	<b>30.9</b>	<b>( 17.7)</b>
<b>Economic/demographic variations</b>				
Taxation	230.8	224.2	159.5	69.3
Investment income <sup>(c)</sup>	8.8	( 3.3)	( 27.6)	75.2
<b>Total economic/demographic variations</b>	<b>239.6</b>	<b>220.9</b>	<b>132.0</b>	<b>144.5</b>
<b>Commonwealth grant variations</b>				
General purpose grants	..	..	..	..
Specific purpose payment grants	82.4	61.7	( 6.7)	( 67.0)
<b>Total Commonwealth grant variations</b>	<b>82.4</b>	<b>61.7</b>	<b>( 6.7)</b>	<b>( 67.0)</b>
<b>Increase in own-source revenue</b>	<b>55.0</b>	<b>43.7</b>	<b>46.2</b>	<b>48.2</b>
<b>Administrative variations</b>	<b>( 25.2)</b>	<b>( 56.5)</b>	<b>( 4.7)</b>	<b>( 3.4)</b>
<b>Total variation in income from transactions since 2006-07 Budget</b>	<b>307.0</b>	<b>238.3</b>	<b>197.7</b>	<b>104.6</b>
<b>Less: Variations in expenses from transactions since 2006-07 Budget</b>				
<b>Policy decision variations <sup>(d)</sup></b>	<b>125.5</b>	<b>179.8</b>	<b>225.8</b>	<b>116.4</b>
<b>Commonwealth variations</b>	<b>67.2</b>	<b>28.4</b>	<b>5.7</b>	<b>( 7.1)</b>
<b>Variations due to changes in own-source revenue</b>	<b>63.7</b>	<b>52.5</b>	<b>51.2</b>	<b>49.8</b>
<b>Administrative variations</b>				
Superannuation variations	( 36.0)	( 85.2)	( 74.7)	( 75.6)
Other administrative variations	29.8	( 17.6)	( 71.9)	54.7
<b>Total administrative variations</b>	<b>( 6.2)</b>	<b>( 102.8)</b>	<b>( 146.6)</b>	<b>( 20.9)</b>
<b>Total variation in expenses from transactions since 2006-07 Budget</b>	<b>250.2</b>	<b>157.9</b>	<b>136.1</b>	<b>138.2</b>
<b>Revised net result from transactions</b>	<b>373.6</b>	<b>385.8</b>	<b>392.9</b>	<b>278.3</b>

Source: Department of Treasury and Finance

Notes:

- (a) Table may not add due to rounding.
- (b) 2006-07 Budget net result from transactions as published in the May 2006 Budget.
- (c) Investment income includes dividends, income tax and rate equivalent revenue and interest.
- (d) The total expenditure for each year may differ to Appendix A, Specific Policy Decisions Affecting the Budget Position, for certain decisions due to the impact of departmental reprioritisations being included in Appendix A.

## Variations to income from transactions

Compared to the estimates published in the 2006-07 Budget, total income from transactions is expected to be \$307.0 million higher in 2006-07 and \$180.2 million a year higher on average over the remainder of the forward estimates period.

Policy decisions of Government resulting in changes to taxation income estimates include:

- continuation of the Environmental Contribution Levy. As part of the Government's 2004 *White Paper – Securing Our Water Future Together* statement, urban and rural water authorities were required to pay a proportion of their existing revenue base to fund water-related initiatives. Water authorities were initially required to contribute until June 2008, but this has now been extended to June 2012 to provide funding for new water initiatives; and
- changes to the Prescribed Industrial Waste Levy. In July 2006, the Government committed to apply differential levies to each class of prescribed industrial waste to reduce the generation of waste, effective from 1 July 2007. The revenue generated from the differential levies will be re-invested in waste reduction programs by the Environment Protection Authority in partnership with industry.

Since the formation of the new Government, policy decisions that have resulted in changes to taxation income estimates include:

- The Government has brought forward to 1 January 2007 the reduction in the payroll tax rate from 5.15 per cent to 5.05 per cent which was originally scheduled to apply from 1 July 2007; and
- The Government will provide land transfer duty relief for home buyers for contracts entered into from 1 January 2007 in respect of principal places of residence. For properties with dutiable values between \$115 000 and \$400 000 the current 6.0 per cent marginal rate will be reduced to 5.0 per cent. Over the subsequent \$100 000 range from \$400 000 to \$500 000 a duty saving of \$2 850 will apply. Any first home buyer that qualifies for both the *First Home Bonus* and the land transfer duty concession is required to choose between the two.

Favourable economic and demographic changes, together with these policy decisions, have caused taxation estimates to be revised upwards by \$185.8 million in 2006-07, and \$137.2 million a year on average to 2009-10, including:

- payroll tax has been revised downwards in 2006-07 by \$9.6 million and upwards over the remaining forward estimates period from 2007-08 by an average of \$25.8 million a year. This is largely due to stronger than expected employment growth, offset by the bring forward of the payroll tax cut in 2006-07;
- taxes on immovable property income have been revised upwards in both 2006-07 (\$34 million) and 2007-08 (\$10 million) mainly due to a one-off carry forward in land tax revenue from 2005-06 to 2006-07 following a delay in the issue of assessments for properties held by trusts; and

- income from financial and capital transactions, largely comprising duty on land transfers revenue, has been revised upwards by \$228.1 million in 2006-07, \$173.9 million in 2007-08, \$103.0 million in 2008-09 and downwards by \$35.2 million in 2009-10. On an unchanged policy basis, land transfer duty has been revised upwards over the forward estimates period largely because of the current robust nature of the non-residential property market. There is some evidence that the growing pool of superannuation funds is contributing to strong institutional activity.

In the residential market, high-value properties have proven resilient, with apparent growth in prices and turnover. Tempering this is the uncertain impact of recent interest rate rises, high levels of household debt and declining housing affordability on the first home buyers' market as well as the market for lower to middle range residential properties. This combination in factors is expected to lead to slower growth in property turnover over the forward estimates period, albeit from a higher level compared with 2006-07 Budget estimates. In addition, land transfer duty relief for home buyers will reduce revenue.

These increases have been only partly offset by the effects of rising interest rates and petrol prices, including:

- a downward revision to gambling taxation income by \$38 million (or 2.4 per cent) in 2006-07, \$12 million in 2007-08, and \$7 million in 2008-09, with income in 2009-10 expected to remain in line with the 2006-07 Budget. The downward revision for 2006-07, 2007-08 and 2008-09, is the consequence of the lower-than-expected 2005-06 actual outcome for gambling taxation income, which reflected the effects of restrained gambling expenditure by households due to higher petrol prices and interest rate increases; and
- a downward revision to motor vehicle taxation income by \$31.6 million in 2006-07, with estimates reduced by an average of \$34.1 million a year over the forward estimates period. The weaker outlook over these years is due to the lower level of new and private sale transactions, which reflects the impact of higher petrol prices combined with lower than expected average duty per transaction as a result of motorists shifting purchases to smaller and cheaper motor vehicles.

Variations to taxation income also reflect the progressive recognition of concession fees. In accordance with the CityLink Concession Deed, CityLink Melbourne Limited is required to pay concession fees to the State in the form of semi-annual concession notes during the concession period. In 2006-07, the State assigned to the Transurban Group the concession notes it currently holds and all future concession notes it was to receive over the remaining concession period. In exchange, Transurban agreed to a payment stream to the State totalling \$614 million over a four-year period. The consideration is to fund the upgrade of the Monash and

Westgate freeways. Transurban will fund the CityLink works while the State will fund the non-CityLink works. Based on independent accounting advice, the upfront consideration received is to be progressively recognised as revenue over the remaining life of the concession term.

Investment income (which includes dividend and income tax and rate equivalent income and interest) in 2006-07 is anticipated to be substantially in line with the 2006-07 Budget estimate. This income is expected to be revised upwards by \$8.8 million in 2006-07 and downwards by \$3.3 million in 2007-08 and \$27.6 million in 2008-09 partly due to lower projected profits from the metropolitan water sector including the impact of water restrictions and the success of water-use campaigns. The upwards revision in 2009-10 is consistent with projected higher dividends from the State Electricity Commission of Victoria.

Compared to the 2006-07 Budget estimates, Commonwealth specific purpose payments have been revised upwards by \$82.4 million in 2006-07, upwards by \$61.7 million in 2007-08, downwards in 2008-09 by \$6.7 million and downwards in 2009-10 by \$67 million, reflecting variations including:

- an increase in Commonwealth funding in 2006-07 for the Exceptional Circumstances Drought Relief Package;
- additional funding in 2006-07 and over the forward estimates period for the Snowy River Environment Flows, Macalister Irrigation District and revised funding estimates for the Wimmera Mallee Pipeline – State and Commonwealth Components, as the majority of Stage One works will now be completed in 2006-07;
- revised funding estimates for capital expenditure on roads programs;
- an average \$20 million a year downward revision over the forward estimates period for Australian Health Care Agreement funding, based on recent changes to both Australian Bureau of Statistics population data estimates and the Commonwealth wage cost index used in the agreement; and
- reduced Commonwealth funding for the Highly Specialised Drugs Program to reflect new inclusions in the Pharmaceutical Benefits Scheme. This downward revision in Commonwealth health funding is partially offset by an upward revision over the forward estimates period in Commonwealth special purpose payments for the Immunisation and Young People with Disabilities in Residential Aged Care programs.

Own-source revenue (income received through fees charged by agencies for services) has been revised upwards by \$55 million in 2006-07 and is projected to increase over the forward estimates period by an average of \$46 million a year. The upward revision to the estimates primarily reflects:

- growth in hospital own-source revenue, consistent with higher than expected income received in 2005-06;

- growth in own-source revenue in education, reflecting higher volumes of international students consistent with higher than expected income received in 2005-06; and
- an increase in other income in 2006-07, and over the forward estimates period, associated with funding from various sources, including the Murray Darling Basin Commission for the Goulburn System Strategic Measurement project and the New South Wales and South Australian Governments for the Living Murray Initiative.

Administrative variations have resulted in a downward revision of \$25.2 million in 2006-07, and on average a year-on-year reduction of \$21.5 million. This reflects the impact of variations including:

- a downward revision to estimates of the Development Contribution Levy which have been revised consistent with the timing and scope of infrastructure projects contained within the Initial State Development Contribution Plans;
- a downward revision to the estimates relating to the establishment of VicForests and appropriate treatment of forestry revenues which are now recognised in the VicForests public non-financial corporation entity; and
- offset by an increase in income arising from the liquidation and return of capital to the State from Tri-Continental Holdings Limited, which was the merchant banking arm of the former State Bank of Victoria. Liquidation is scheduled to be completed in 2006-07.

Since the publication of the Pre-Election Budget Update, administrative variations have included an adjustment to recognise capital asset charge income received by the general government sector from VicTrack, which is directly offset by the on-passing of the associated capital asset charge expense.

## Variations to expenses from transactions

When compared to the 2006-07 Budget estimates, total expenses from transactions are expected to be \$250.2 million higher in 2006-07 and \$144.1 million higher on average a year over the remainder of the forward estimates period.

New output policy decisions taken since the 2006-07 Budget account for additional expenses of \$125.5 million in 2006-07 (with the impact on operating expenses in this year offset by forward estimates contingency funding) and \$174.0 million a year on average over the forward estimates period. Since the formation of the new Government, policy decisions include the Government's decision to extend the assistance for first home buyers by extending the \$3 000 *First Home Bonus* until June 2009 and increasing the Bonus to \$5 000, where the property is a newly constructed home, from 1 January 2007.

Details of specific policy decisions since the 2006-07 Budget are summarised in Appendix A, *Specific Policy Decisions Affecting the Budget Position*.

Changes to Commonwealth grant funding are projected to increase expenditure in 2006-07 by \$67.2 million, reflecting the on-passing of additional Commonwealth specific purpose grants, as well as an increase in transfer payments to the public non-financial corporations and public financial corporations sectors in relation to a number of new State Government drought and water-related initiatives.

Expenditure associated with the increase in own-source revenue described earlier is projected to be \$63.7 million higher in 2006-07 and an average of \$51.2 million a year higher over the remaining forward estimates period.

Administrative variations are expected to decrease expenses by \$6.2 million in 2006-07, and are projected to be an average \$90.1 million lower a year over the forward estimates period. The major variations include:

- a downward revision to superannuation expense by \$36.0 million (or 2.2 per cent) in 2006-07, with an average projected downward revision of \$78.5 million a year over the forward estimates period. These adjustments are due to the results of the triennial actuarial review of the Emergency Services Superannuation Scheme which was conducted as at 30 June 2006. As a result of this review, a number of assumptions used to calculate the superannuation expense were changed to reflect recent experience and the economic outlook. In particular, the annual expected investment return on assets was increased (by 0.5 percentage points), allowance was made for improvements in mortality and the rates at which members leave the scheme were revised;
- a reduction in the contingency provision in 2006-07 and over the forward estimates period to fund new output decisions since the 2006-07 Budget;
- a net increase in operating expenses on average over the forward years of \$44 million, reflecting required changes in accounting policy treatment for finance lease arrangements that were adopted in the 2005-06 Financial Report for the State of Victoria;
- an increase in operating expenses of \$35 million in 2006-07 and increase in the forward period due to accounting policy related reclassifications of expenditure from capital to operating to better reflect the nature of bus, rail and roads projects; and
- the bring forward of \$59.3 million of roads related expenditure to 2006-07 from 2008-09 and 2009-10, reflecting updated forecasts for road projects milestones, including the project's operating expenditure profile.

Since the publication of the Pre-Election Budget Update, administrative variations have included an adjustment to recognise the capital asset charge expense relating to capital asset charge income received from VicTrack as explained earlier.

## SUMMARY STATEMENT OF FINANCIAL POSITION

Table 3.4 provides a summary of the general government sector balance sheet. A more detailed balance sheet is provided in Chapter 6, *Estimated Financial Statements and Notes*.

**Table 3.4 General Government sector summary balance sheet as at 30 June** <sup>(a)(b)</sup>

	(\$ million)				
	2006 Actual <sup>(c)</sup>	2007 Revised	2008 Estimate	2009 Estimate	2010 Estimate
<b>Assets</b>					
Capital stock <sup>(d)</sup>	56 350.5	60 419.4	64 755.3	69 753.6	74 836.9
Financial assets <sup>(e)</sup>	5 462.9	4 848.7	4 784.2	4 360.5	3 816.6
Other assets	2 565.9	2 606.9	2 728.5	2 880.3	2 971.7
<b>Total assets</b>	<b>64 379.3</b>	<b>67 875.0</b>	<b>72 268.0</b>	<b>76 994.4</b>	<b>81 625.1</b>
<b>Liabilities</b>					
Superannuation	12 896.5	13 571.3	13 705.7	13 777.1	13 735.3
Borrowings	6 180.4	6 826.7	8 369.7	9 708.7	10 543.5
Other liabilities	7 777.4	7 887.5	8 137.6	8 325.9	8 462.7
<b>Total liabilities</b>	<b>26 854.3</b>	<b>28 285.5</b>	<b>30 213.1</b>	<b>31 811.8</b>	<b>32 741.5</b>
<b>Net assets</b>	<b>37 525.1</b>	<b>39 589.4</b>	<b>42 054.9</b>	<b>45 182.6</b>	<b>48 883.7</b>

Source: Department of Treasury and Finance

Notes:

- (a) Table may not add due to rounding.
- (b) This is an abbreviated balance sheet. The full balance sheet for the general government sector is reported in Chapter 6, *Estimated Financial Statements and Notes*.
- (c) As published in the 2005-06 Financial Report for the State of Victoria.
- (d) Capital stock includes land and buildings, plant and equipment, roads and earthworks, intangibles, cultural and other assets.
- (e) Financial assets include cash assets, investments, loans and placements.

General government sector net assets are expected to grow by 30.3 per cent from \$37 525.1 million as at 30 June 2006 to \$48 883.7 million at 30 June 2010. This growth reflects the projected increase in the value of capital stock over the forward estimates period associated with the purchase of property, plant and equipment to support the general government sector's infrastructure investment, as well as the projected upwards revaluations of non-current physical assets.

This increase is partly offset by growth in the value of the unfunded superannuation liability over the forward estimates period. The projected unfunded superannuation liability has increased since the 2006-07 Budget, primarily due to the results of the triennial actuarial review of the Emergency Services Superannuation Scheme conducted as at 30 June 2006. As part of this review, a number of valuation assumptions were changed to reflect recent experience and the economic outlook. In particular, an allowance for improving mortality and fewer resignations increased the superannuation liability. However, the increase in the liability that resulted from the actuarial review was partially offset by an increase in the long term Commonwealth bond rate that underpins the discount rate used to value the superannuation liability.

While having no impact on funding requirements, the discount rate used for the revised Budget estimates is higher than that used for the May 2006 Budget estimates, which reduced the reported superannuation liability.

Over the forward period borrowings are projected to grow reflecting the growth in the general government sector's capital stock explained above. More commentary on the general government sector's projected net debt level is provided below.

Policy decisions taken by Government have reduced forecast general government sector net assets at 30 June 2010. These changes reflect the projected drawdown of current assets for expenditure related to the extension of the *First Home Bonus* and other taxation initiatives as explained earlier.

## CASH FLOWS

Table 3.5 provides a summary of cash generated through the operations of Victorian Government departments and other general government sector agencies, and how that cash is applied to infrastructure investment, and the impact on net debt.

**Table 3.5 Application of cash resources** <sup>(a)</sup>

	(\$ million)				
	2006-07 Budget <sup>(b)</sup>	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
<b>Net result from transactions</b>	<b>316.8</b>	<b>373.6</b>	<b>385.8</b>	<b>392.9</b>	<b>278.3</b>
Add back: Non-cash income and expenses (net) <sup>(c)</sup>	2 060.6	1 897.5	1 710.1	1 441.8	1 555.4
<b>Net cash flows from operating activities</b>	<b>2 377.4</b>	<b>2 271.1</b>	<b>2 095.9</b>	<b>1 834.7</b>	<b>1 833.8</b>
Less:					
<b>Net investment in fixed assets</b>					
Expenditure on approved projects	3 294.1	3 278.2	3 392.4	2 642.4	1 767.0
Unallocated provision for future investment <sup>(d)</sup>	..	..	463.0	715.0	1 332.0
<i>Meeting Our Transport Challenges Reserve to be allocated in future</i> <sup>(e)</sup>	20.0	20.0	65.6	114.8	199.7
Proceeds from asset sales	( 130.8)	( 173.5)	( 204.8)	( 115.1)	( 95.5)
<b>Total net investment in fixed assets</b> <sup>(f)</sup>	<b>3 183.3</b>	<b>3 124.7</b>	<b>3 716.2</b>	<b>3 357.0</b>	<b>3 203.2</b>
Finance leases <sup>(g)</sup>	..	398.7	..	231.4	..
Other investment activities (net)	146.4	13.0	( 0.8)	22.6	22.9
<b>Decrease/(increase) in net debt</b>	<b>( 952.3)</b>	<b>( 1 265.4)</b>	<b>( 1 619.5)</b>	<b>( 1 776.3)</b>	<b>( 1 392.3)</b>

Source: Department of Treasury and Finance

Notes:

- (a) Table may not add due to rounding.
- (b) The balances shown do not reconcile directly to the cash flow statement as published in the 2006-07 Budget Papers in May 2006 due to the restatement of opening balances to reflect the actual balance as at 30 June 2006 and due to the accounting reclassification of inventory from supplies and services to purchases of non-financial assets consistent with the accounting treatment as published in the 2005-06 Financial Report for the State of Victoria.
- (c) Includes depreciation and non-cash movements in liabilities such as unfunded superannuation and employee benefits.

Notes (continued):

- (d) Amount available to be allocated to specific departments and projects in future budgets, including contributions to other sectors.
- (e) Reflects the unallocated balance of the Meeting Our Transport Challenges Reserve which was announced in the May 2006 Budget.
- (f) Includes purchases of property, plant and equipment plus contributions to other sectors less proceeds from asset sales.
- (g) Reflects the recognition of new finance lease arrangements which are being delivered under the Partnerships Victoria model, with an equivalent increase in fixed assets following their expected completion and handover. Projects include Southern Cross Station in 2006-07 and the Royal Women's Hospital in 2008-09.

Table 3.5 shows an expected net result from transactions for 2006-07 of \$373.6 million and averaging \$352.3 million over the remainder of the forward estimates period. Adjusting for a number of expense and income items that do not require or provide cash resources during the year (principally depreciation, but also including growth in unfunded superannuation liabilities and employee benefit liabilities) yields a projected net cash inflow from operating activities for 2006-07 of \$2 271.1 million, and an average of \$1 921.5 million a year for the remaining period.

Total net investment in fixed assets (which includes total purchases of property, plant and equipment, capital contributions to other sectors of government and net proceeds from sale of assets) is projected to peak in 2007-08 before stabilising over the remainder of the forward estimates period. This profile reflects the scheduled completion of major capital projects, including:

- expected projected completion of several road programs such as the Geelong Bypass, Calder Highway and Deer Park Bypass;
- the scheduled completion and transfer of projects being undertaken by the public non-financial corporation sector such as *New Ticketing Solution*.

Projected infrastructure spending from 2007-08 includes an unallocated capital provision that will be used to fund new projects in future budgets. This is in accordance with existing budget practice to ensure realistic forward projections of asset investment.

The projections for the increase in net debt for 2006-07 has been revised upwards in the 2006-07 Budget Update by \$313.1 million to \$1 265.4 million when compared to the May 2006 Budget. This upward revision primarily reflects the impact of required changes in accounting policy treatment that were adopted in the 2005-06 Financial Report for the State of Victoria. These changes in accounting policy treatment required the reclassification of capital projects such as the Victorian County Court and private prisons to finance leases as explained earlier.

## NET DEBT AND NET FINANCIAL LIABILITIES

The key measures of financial position are the GFS measures of net debt and net financial liabilities. The international credit rating agencies focus on both net debt and net financial liabilities of the general government sector as measures of overall indebtedness. Table 3.6 highlights these key measures for the general government sector.

**Table 3.6 General government sector net debt and net financial liabilities as at 30 June <sup>(a)</sup>**

	(\$ million)				
	2006 Actual <sup>(b)</sup>	2007 Revised	2008 Estimate	2009 Estimate	2010 Estimate
<b>Financial assets</b>					
Cash and deposits	2 698.2	2 518.4	2 517.8	2 306.2	1 999.3
Advances paid	69.9	69.3	68.7	68.0	67.4
Investments, loans and placements	2 162.1	1 722.8	1 653.8	1 436.7	1 194.7
<b>Total financial assets</b>	<b>4 930.2</b>	<b>4 310.5</b>	<b>4 240.3</b>	<b>3 811.0</b>	<b>3 261.4</b>
<b>Financial liabilities</b>					
Deposits held	519.8	519.1	525.5	533.5	541.4
Advances received and borrowings	6 179.5	6 825.9	8 368.9	9 707.9	10 542.6
<b>Total financial liabilities</b>	<b>6 699.4</b>	<b>7 345.0</b>	<b>8 894.3</b>	<b>10 241.3</b>	<b>11 084.0</b>
<b>Net debt <sup>(c)</sup></b>	<b>1 769.1</b>	<b>3 034.5</b>	<b>4 654.0</b>	<b>6 430.3</b>	<b>7 822.7</b>
Unfunded superannuation	12 896.5	13 571.3	13 705.7	13 777.1	13 735.3
<b>Net financial liabilities <sup>(d)</sup></b>	<b>14 665.6</b>	<b>16 605.8</b>	<b>18 359.8</b>	<b>20 207.4</b>	<b>21 557.9</b>
	(per cent)				
General government net debt to GSP	0.8	1.2	1.8	2.4	2.8
General government net financial liabilities to GSP	6.3	6.8	7.2	7.5	7.6

Source: Department of Treasury and Finance

Notes:

- (a) Table may not add due to rounding.
- (b) As published in the 2005-06 Financial Report for the State of Victoria.
- (c) Net debt is calculated as gross debt less liquid financial assets (Total financial liabilities less Total financial assets).
- (d) General government net financial liabilities are calculated as the sum of net debt and unfunded superannuation liabilities.

Net debt, which is a measure used to assess general government indebtedness, is determined by deducting liquid financial assets from gross debt. Net debt is a widely-recognised measure of the strength of a government's financial position.

As Table 3.6 shows, net debt is projected to be 2.8 per cent of GSP at 30 June 2010 which is low by historic standards. The Government is prudently making use of its strong financial capacity to fund key public infrastructure. As a result general government net debt will increase from \$1 769.1 million as at 30 June 2006 to \$7 822.7 million as at 30 June 2010. This is mainly due to the size of the projected infrastructure investment program over the forward period. Of the \$6 054 million increase in net debt from 30 June 2006, \$1 669 million will be funded by a reduction in financial assets accumulated from prior years' strong operating surpluses. The balance will be funded by additional borrowings.

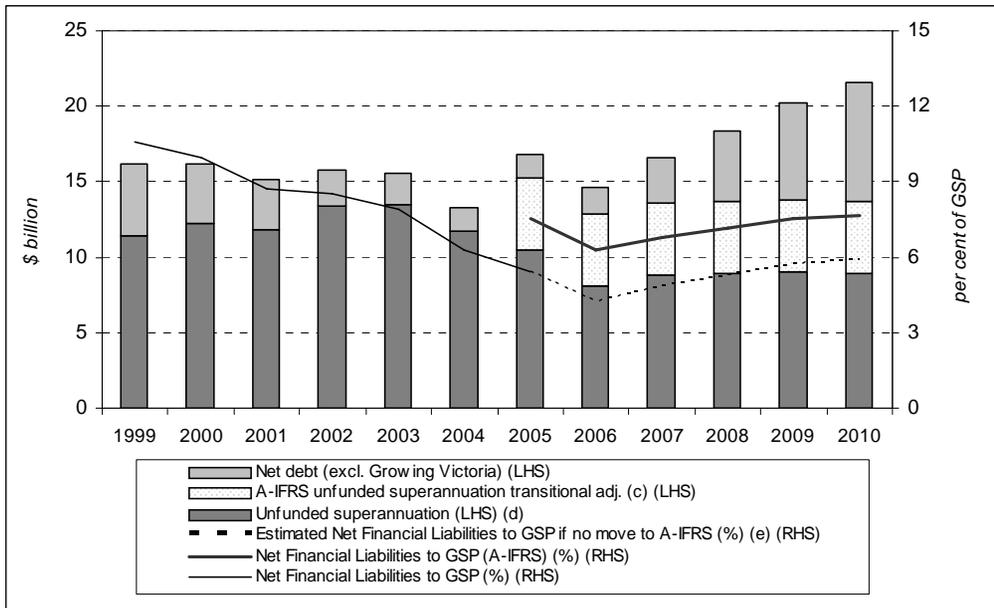
Net financial liabilities, which is calculated as the sum of net debt and unfunded superannuation liabilities, is a broader measure of the general government sector's overall indebtedness and is important in gauging the strength of a government's fiscal position. This measure is commonly used by international credit ratings agencies as it targets the significant financial assets and liabilities held by most governments.

Since the publication of the Pre-Election Budget Update, projected net financial liabilities as at 30 June 2010 have been revised upwards primarily due to the upward revision in net debt as well as the upwards revaluation of the general government sector's unfunded superannuation liability as explained earlier.

Chart 3.1 shows that, as a share of GSP, general government net financial liabilities are expected to increase modestly from 6.3 per cent in 2006 to 7.6 per cent in 2010, but remain well below the 10.6 per cent recorded in 1999.

This increase is in line with the growth of the Victorian economy and reinforces the Government's commitment to maintaining financial liabilities at prudent and manageable levels.

**Chart 3.1 General government net financial liabilities as at 30 June (a)(b)**



Source: Department of Treasury and Finance

Notes:

- (a) General government net financial liabilities are calculated as the sum of net debt and unfunded superannuation liabilities.
- (b) Net debt is calculated as gross debt less liquid financial assets. In the years applicable, Growing Victoria investments are excluded as an offset to gross debt on the grounds that these investments are earmarked for infrastructure projects and are therefore not available to redeem gross debt.
- (c) Unfunded superannuation liabilities between 1999 and 2004 are calculated under A-GAAP, whereas between 2005 and 2010 A-IFRS has been applied.
- (d) For comparative purposes only, the transitional adjustment applied to unfunded superannuation liabilities in 2004-05 has also been separately identified in the period 2005 to 2010.
- (e) The net financial liabilities to GSP (as calculated applying A-GAAP) between 2005 and 2010 are estimates, and should be used for illustrative purposes only.

## CHAPTER 4: THE ECONOMIC REFORM AGENDA

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Economic reforms initiated nationally during the 1980s and 1990s helped sustain strong economic growth and produce a more dynamic, competitive and innovative business environment.

Victoria has made the case for the energy of these reforms to be carried into a new reform agenda at the national level. There are three key elements:

- **Making best use of our human capital**
  - People’s knowledge and skills will be the most important driver of future productivity and prosperity as the population ages.
  - Knowledge and skills will be enhanced by further improvements in vocational education and training, literacy and numeracy levels in schools and the provision of targeted early childhood programs.
  - Prevention and early detection of disease could improve the health of the population and contribute to greater workforce participation and productivity.
- **Responding to climate change**
  - Responses to mitigating greenhouse risk will need to be carefully structured within the nation’s overall goals.
  - Innovative, balanced policies for water security and greenhouse gas reductions (including appropriate use of market instruments) will be the key to improving environmental outcomes and maintaining growth.
- **Regulatory reform**
  - Reducing the regulatory burden can reduce business costs and significantly boost our productive capacity.

Victoria is working to progress these issues: at the national level through the Council of Australian Governments; with other state and territory governments (bilaterally and through the Council for the Australian Federation); and within Victoria itself as opportunities arise.

## THE IMPORTANCE OF ONGOING REFORM

Economic reforms initiated during the 1980s and 1990s helped generate strong growth in Australia as a whole and in Victoria in particular. Victoria was a leader in the implementation of the National Competition Policy and a range of taxation changes and as a result, has gained a more dynamic, competitive and innovative business environment.

Victoria has made the case that the momentum of these reforms need to continue through a new reform agenda. Australia faces significant demographic change as the population ages. With a smaller proportion of the population projected to be working and higher demands on government services, governments across Australia will face major challenges.

In overcoming these challenges, there are three key areas that need to receive a greater policy focus over the next five to 10 years:

- making the most of Australia's human capital is critical. People's knowledge and skills will be the most important driver of our future prosperity as the population ages. Expanding and strengthening education and skills can lift workforce participation and productivity. A strategic approach to the provision of health services can contribute to better health outcomes, higher workforce participation and stronger economic growth;
- responses to climate change will need to be carefully structured within the nation's overall goals, balancing greenhouse risk, water security and the competitive advantage provided by access to abundant, low cost coal and other energy reserves; and
- ongoing regulatory reform is needed to ensure Australia's business environment fosters innovation and growth.

The benefits of a broad based reform agenda (including these areas and a number of others) can be significant. Modelling by the Department of Treasury and Finance suggests GDP could be higher by up to 13.6 per cent after 25 years and the fiscal dividend to Australian governments around \$40 billion over 25 years.

The policy challenges involved can clearly be best tackled if all levels of government work together. Policy changes often require the cooperation of all jurisdictions, resources held at the state and territory level do not match those available at the Commonwealth level and the fiscal benefits from most reform measures accrue disproportionately to the Commonwealth. For these reasons, Victoria has played a leading role to help create a National Reform Agenda under the sponsorship of the Council of Australian Governments (COAG).

Amongst other proposals, COAG is considering the case for investment in diabetes prevention, early childhood development, and literacy and numeracy. A range of potential policy changes in the areas of competition and regulation and climate change are also being discussed. COAG is due to consider recommendations in these areas in April 2007.

Victoria is also pursuing opportunities for working with other States and Territories. For example, earlier this year Victoria and NSW agreed to implement a ten-point action plan to harmonise WorkCover schemes. Based on this model, on 13 October the recently established Council for the Australian Federation (comprising Premiers and Chief Ministers of all States and Territories) committed all States and Territories to harmonisation in several areas. These included key areas of workers compensation and occupational health and safety schemes and, in the next six months, development of proposals to further harmonise the administration of workers compensation and occupational health and safety systems, teacher registration and administration of payroll tax.

Within its own borders, Victoria is also working to apply the principles it is advocating in broader forums and discussion of a number of these initiatives is included below.

## **MAKING BEST USE OF VICTORIA'S HUMAN CAPITAL**

People's knowledge and skills and their capacity to participate in the workforce will largely determine Victoria's growth over the next two decades. Improving educational attainment has been identified as the single most important policy driver contributing to improved aggregate labour force participation. Victoria's education and training systems (vocational education, school education and early childhood services) and its health system are all important in mobilising a skilled workforce to achieve increased productivity and higher incomes.

### **Vocational education and training**

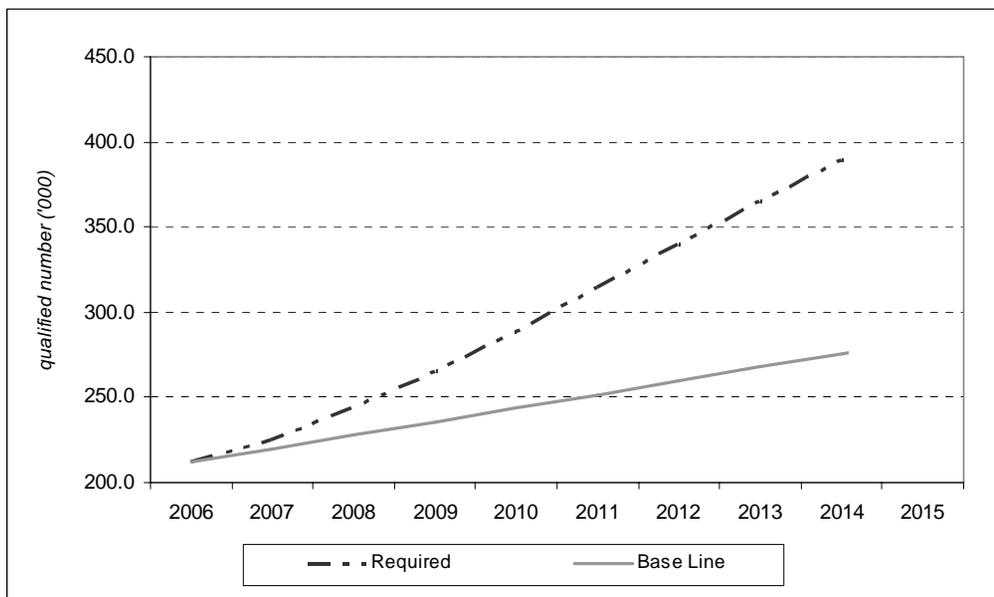
The Government has invested an additional \$900 million in vocational education and training since 1999. This includes \$240 million in the Government's skills strategy, *Maintaining the Advantage: Skilled Victorians*, and additional investments announced in the recent election. Initiatives have included providing additional training places, establishing four Technical Education Centres and modernising 30 technical wings at secondary colleges. However, more needs to be done to ensure that the VET system can deliver the skills required to sustain economic growth.

Over the next decade, Victoria faces an increasing skills shortage. Monash University’s Centre for the Economics of Education and Training recently compared the supply of, and demand for, qualifications by level over the next ten years. The main finding was that there will be a major increase in the demand for workers with qualifications at the diploma or advanced diploma level. Monash University estimated that the target number of workers across 35 occupation types holding their highest qualification at the diploma or advanced diploma level would double by 2015.

The main driver of this increased demand is skill deepening, the process by which higher level qualifications are needed to perform increasingly sophisticated functions in each occupational group. Skill deepening requires the net number of students completing diplomas or advanced diplomas to increase from the current 11 300 per year to 23 600 for each of the next ten years.

Chart 4.1 shows the gap between current and projected numbers of people with diploma and advanced diploma qualifications needed between now and 2015.

**Chart 4.1: Victorians Working with Diploma and Advanced Diploma Qualifications, Required and Base line supply, thousands, 2005 to 2015**



Sources: Shah and Burke, *The labour market and qualifications in Victoria*, Centre for the Economics of Education and Training, Melbourne 2005 and DTF estimates.

In addition, people undertaking training need the right skills. Around three quarters of Victoria's VET students say they are undertaking training to improve their employment, career or business prospects. Yet research on student outcomes shows that Australia-wide, around two out of three VET graduates do not work in an occupation that matches their training. This suggests that the administration and delivery of training will need to become more responsive and flexible to meet future labour market needs.

Tackling skill shortages will require expansion of the overall number of VET places, a shift in emphasis towards higher level qualifications, and a VET sector that is more responsive to trainees and employers.

### **Schools and early childhood**

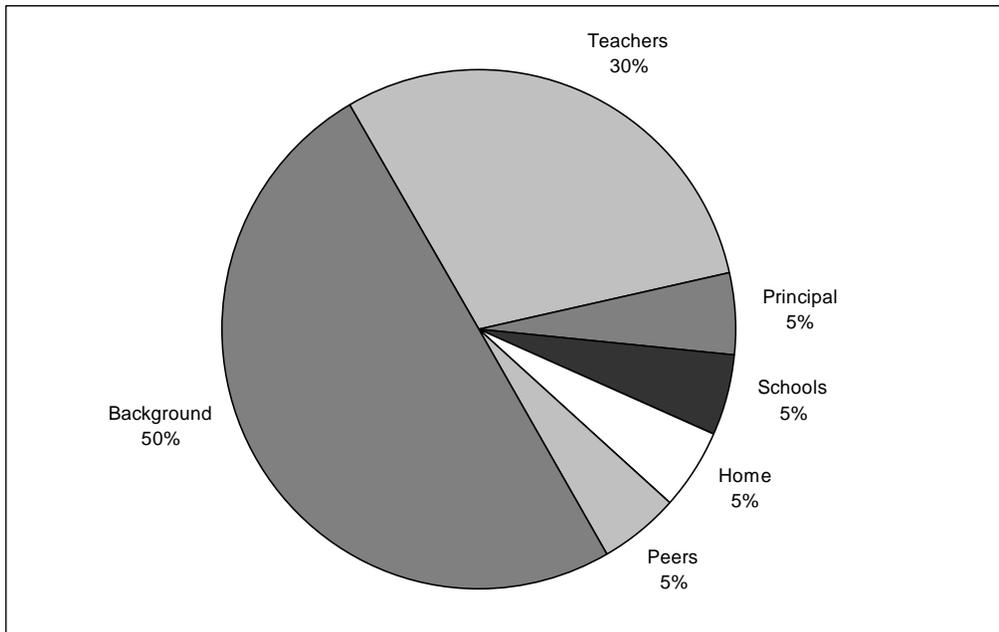
Victoria has a good school system but would receive a large return from further improvements in basic literacy and numeracy, which is highly correlated with later working life outcomes. Higher skills are also associated with increased workforce participation and productivity, providing a direct benefit to economic growth. One study estimates that one extra year of schooling on average could add from 0.3 to 0.8 percentage points to aggregate productivity growth rates. However, despite good overall results, Victoria is still below world's best practice, particularly for students in lower socio-economic groups.

The *Blueprint for Government Schools* has updated the operating framework and increased accountability and autonomy in the school system. A major capital investment program to modernise and renew schools was announced by the Government during the recent election campaign. Additional resources and effort have been put into the early childhood sector to ensure children enter schools with a better chance of success. However, there are still opportunities to improve performance in every part of the system.

In addition to the Government's program of rebuilding and modernising schools, increased use of teacher assistants and greater access to support in the form of welfare officers, will all help to improve school performance.

Having the best possible teacher workforce is the remaining key to improved student outcomes (Chart 4.2). International evidence suggest that, of the variables which policy makers are able to influence, those involving teachers have the biggest impact on student achievement. Over the next 10 years around half of the current teaching workforce will retire. This presents a significant opportunity and challenge to create a teaching workforce to nurture the next generation.

**Chart 4.2: Influences on Student Achievement**



Source: Kenneth J. Rowe *The Importance of Teaching* (paper presented at Melbourne Institute Summit Conference on the Performance, Management and Funding of Australian Schools, August 2004)

School improvement needs to be driven at the local level. This was the underlying premise of the Government's agenda of recent years. Reforms included greater parental choice over the school their children attend, greater school level autonomy to meet the needs of local communities and provide diverse educational options, and greater accountability for schools to produce quality outcomes for all students.

Even before school, early childhood experiences shape brain development and help form the basis for later learning. The challenge in the early childhood area is to provide effective, timely interventions for those who need it most.

Victoria has a strong universal service delivery network for early childhood and the Government has announced a number of policies that it will implement during this term of government. Reduced kindergarten fees for health care card holders will assist low income families to access services. The provision of new children's centres has strong support from Victorian early childhood professionals and will provide another important plank in the range of services generally available.

### **A healthy workforce**

The provision of health services presents particular opportunities and challenges. Demographic, technological and economic changes will raise the demand for increasingly expensive health services which deliver better health outcomes and present fiscal pressures over coming years. At the same time, an increasing focus on

the prevention and early detection of disease can enhance the health of the population and make an important contribution to improving labour force participation and productivity.

The drivers of likely increases in health spending are threefold. First, an ageing population will consume an increasing share of resources. Second, new technology is likely to offer opportunities for better treatment and improved health outcomes, often at higher cost. Third, rising incomes are correlated with community expectations about the quality of health care.

These trends are consistent with, and should contribute to, a higher standard of living. However, the costs need careful analysis, including:

- the contributions made by the Commonwealth Government and the States and Territories to the provision of hospital care;
- the most effective ways to utilise the health workforce;
- the best settings in which to provide care;
- the right mix of spending between preventative health care, early treatment and acute care; and
- investing in cost effective technologies.

Traditionally, the health care system has been geared towards the treatment of disease, with relatively few resources allocated to the prevention and early diagnosis of disease.

In the coming year, negotiations with the Commonwealth Government will commence for a new Australian Health Care Agreement. This is the major funding instrument for joint Commonwealth-State investment in the acute health care system, accounting for over \$2 billion in funding to Victoria in 2006-07. The current agreement expires in 2008. Renegotiation provides an opportunity to encourage health system reform by providing:

- adequate base resources and indexation of funds, in line with cost growth, growing demand and community expectations;
- flexibility for States to provide health enhancing services at the most effective intervention stage (for example, balancing preventative and acute care) and in the most appropriate setting;
- incentives to integrate services across funding and institutional boundaries; and
- incentives for States to develop, pilot and implement reforms focused on improving health outcomes.

COAG's immediate discussions about the National Reform Agenda are focused on the prevention, early detection and improved management of type 2 diabetes. Research has found that without adequate management, a person with type 2 diabetes is two to five times more likely than the general population to have a heart attack or

stroke. The late diagnosis and poor management of type 2 diabetes can also lead to other complications such as kidney disease, blindness and amputations, which in turn impose additional pressures on Victoria's hospital system.

The Victorian Government has recently released a Plan to tackle the challenges imposed by type 2 diabetes. This Plan includes programs to encourage healthy and active lifestyles, and efforts to prevent and better manage type 2 diabetes. Key features of the Plan include initiatives related to:

- primary prevention to target modifiable lifestyle risk factors for type 2 diabetes;
- early detection and intervention for those at risk of type 2 diabetes or undiagnosed; and
- integrated health care for people with type 2 diabetes.

In addition, discussions are continuing on other policies that could be adopted under a National Reform Agenda with respect to health workforce issues and broader investment opportunities.

## **RESPONDING TO CLIMATE CHANGE**

Climate change is one of the most significant environmental challenge facing Victoria (and Australia). It calls for both adaptation and mitigation responses. Adaptation to climate change will require a particular focus on securing Victoria's future water supplies. Mitigation strategies focusing on greenhouse gas abatement will require the most efficient policy tools available to maintain economic competitiveness. This is a particular issue for Victoria because abundant low cost energy from local brown coal supplies is one of Victoria's competitive strengths.

### **Water**

A key challenge over the next decade will be to meet the State's household, industrial and agricultural water requirements in the face of drought and climate change and fulfil environmental stewardship responsibilities for the resource.

Over recent years, action has focused on implementation of commitments made in the White Paper *Our Water Our Future*, agreements to increase river flows, and agreements under the National Water Initiative to further develop water markets and minimise barriers to interstate trade. Key areas of activity included:

- establishment of a new management framework for Victoria's water resources;
- unbundling of irrigation water entitlements;
- price regulation of water authorities by the Essential Services Commission (ESC);
- creation of an environmental water reserve;
- establishing a comprehensive water register;

- development of the first of a series of regional Sustainable Water Strategies, commencing with the central region of Victoria, and including supply and demand forecasting and identification of possible augmentation options for further development; and
- significant new investment in water pipeline infrastructure (e.g. Wimmera Mallee pipeline).

The main issues in relation to water policy over the coming few years are:

- drought management and adaptive management of climate change;
- securing future urban water supplies;
- implementing interstate water trading;
- continuing to pursue irrigation efficiency targets;
- final implementation of unbundling arrangements;
- completion of further Sustainable Water Strategies;
- full implementation of ESC regulation of rural water authorities; and
- further investment in pipeline infrastructure and water recycling projects.

A key reform objective is an efficient water trading market, with low barriers to trade, which can facilitate the movement of water to its highest value uses. States and Territories have agreed to progressively remove barriers to water trade (in the National Water Initiative, 2004). An open water trading market is the ultimate objective. To support this objective, Victoria has taken a number of steps including the unbundling of water entitlements from land, effective from 1 July 2007, and the development of a water register to support enhanced trade. However, there must be a level playing field before interstate water trading can be fully implemented, including an agreed approach to 'exit' fees where water trades permanently out of any district.

## **Greenhouse**

Climate change has moved recently from a predominantly scientific debate to widespread acknowledgement that this is a significant economic issue because of the potentially large economic impacts of doing nothing to reduce greenhouse gas emissions or to adapt to climate change.

While reducing its greenhouse gas emissions, Victoria needs to protect the State's cost competitiveness. Accordingly, as well as encouraging renewable energy alternatives, Victoria simultaneously needs to pursue medium to longer term low emissions options such as clean coal technologies. One way of facilitating this balance would be through a carbon price signal, which could bring forward investment in these technologies. In addition, industry and business would benefit if greater regulatory certainty could be provided, particularly in the generation sector where new investments in very long lived assets are required in the coming decade.

Important initiatives in recent years have included:

- support for development of a National Emissions Trading Scheme (NETS);
- establishment of a Victorian Renewable Energy Target (VRET) and supporting scheme;
- introduction of the Energy Technology Innovation Strategy (ETIS);
- reducing or offsetting emissions arising from government energy and vehicle use;
- a range of energy efficiency programs aimed at households and home builders, including 5 star energy efficiency ratings for new homes and rollout of smart electricity meters; and
- a range of energy efficiency and emissions reduction programs aimed at industry, administered through the Environment Protection Authority and Sustainability Victoria.

In addition, Victoria is participating in COAG work to streamline mandatory emissions reporting and develop strategies on adaptation, technology, science and renewables.

Solutions to lowering emissions will require large investments and the right choices between different technologies. Providing certainty to business about the future business environment is an increasingly urgent priority.

The Commonwealth has explicitly ruled out a carbon price until its very recent announcement of an inquiry into international emissions trading. It has focused instead on a technology-driven approach to abatement, particularly through its AP6 forum of large emitting countries. The Commonwealth declined an invitation from the States and Territories to participate in the development of a national emissions trading scheme.

However, without some form of broad-based national or international emissions trading scheme it is unlikely that large scale reductions in emissions will be achieved. There is merit in a portfolio of greenhouse policies that encompasses budgetary, regulatory and market-based measures (e.g. a national emissions trading scheme can be complemented by energy efficiency measures and by investment in research and development into low greenhouse gas technologies). The advantage of a broad market-based measure such as national emissions trading is that it enables industry to source the most efficient and lowest cost abatement options. These advantages can be very significant as exemplified in a review of the US acid rain (sulphur dioxide) trading scheme, which showed that over its first ten years, the scheme delivered significant reductions in pollution at two thirds of the cost of achieving those reductions using a 'command and control' system.

## REGULATORY REFORM

Earlier this year, the Government released *Reducing the Regulatory Burden*, Victoria's policy for reducing the cost of regulation for businesses and not-for-profit organisations. COAG is also considering policy measures to reduce the regulatory burden.

Victoria's strategy commits the Government to reducing both the administrative and compliance burdens of regulation. The Government has announced it is:

- committing to cut the existing administrative burden of regulation by 15 per cent over three years and 25 per cent over five years;
- ensuring the administrative burden of any new regulation is met by an offsetting simplification in the same or related area; and
- undertaking a program of reviews to identify the necessary actions to reduce compliance burdens.

The Department of Treasury and Finance's preliminary estimate of the administrative cost imposed on businesses each year by Victorian regulation is \$3.3 billion.

The first series of reviews were agreed in September 2006 and include food regulation (to be undertaken by the Victorian Competition and Efficiency Commission) and common starting dates for new regulation.

Government departments have each been asked to prepare Three Year Administrative Burden Reduction Statements. These Statements will include high level analysis of the areas of regulation with the most significant burden, and a summary of the proposed initiatives to reduce the burden. Departments will measure their administrative burden reductions using the Standard Cost Model (an internationally accepted measure developed by the Netherlands).

Victoria continues to work as part of the COAG process on multilateral regulatory reform initiatives. These include a series of hotspot reviews targeted at reducing regulatory burdens on firms operating in several jurisdictions, and development of guidelines on best practice regulation.

## PRIORITIES FOR THE FUTURE

Victoria will continue to press for policy change at the national level to tackle the challenges described above. Where possible, Victoria may also be able to make significant contributions on its own account or by working with other States and Territories.

Recent changes to the structure of the public service will also assist, for example:

- increasing the linkages between industry and skills development by locating responsibility for vocational education in the Department of Innovation, Industry and Regional Development;
- creation of a dedicated Office for Climate Change within the Department of Premier and Cabinet; and
- creation of an Office for Water within the Department of Sustainability and Environment.

## CHAPTER 5: STATEMENT OF RISKS

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- 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 2, *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.

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 5.1: Impact on the general government net result from transactions of a one percentage point increase in selected economic indicators in 2006-07<sup>(a) (b)</sup>**

	(\$ million)			
	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
<b>GSP</b>				
Taxes, regulatory fees and fines <sup>(c)</sup>	41	42	45	47
Other income <sup>(d)</sup>	105	120	133	143
Superannuation expenses	..	..	..	..
Other expenses	(1)	..	2	3
<b>Net result from transactions</b>	<b>147</b>	<b>162</b>	<b>176</b>	<b>187</b>
Superannuation - actuarial gains (losses)	..	..	..	..
<b>Net result</b>	<b>147</b>	<b>162</b>	<b>176</b>	<b>187</b>
<b>Employment</b>				
Taxes, regulatory fees and fines	34	35	36	38
Other income <sup>(d)</sup>	1	3	5	7
Superannuation expenses	..	..	..	..
Other expenses	..	..	..	..
<b>Net result from transactions</b>	<b>35</b>	<b>38</b>	<b>41</b>	<b>45</b>
Superannuation - actuarial gains (losses)	..	..	..	..
<b>Net result</b>	<b>35</b>	<b>38</b>	<b>41</b>	<b>45</b>
<b>Consumer prices</b>				
Taxes, regulatory fees and fines <sup>(c)</sup>	51	53	55	57
Other income <sup>(d)</sup>	173	187	192	195
Superannuation expenses	..	7	8	8
Other expenses	40	194	199	203
<b>Net result from transactions</b>	<b>184</b>	<b>39</b>	<b>40</b>	<b>41</b>

**Table 5.1: Impact on the general government net result from transactions of a one percentage point increase in selected economic indicators in 2006-07 <sup>(a) (b)</sup> – (continued)**

	(\$ million)			
	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Superannuation - actuarial gains (losses)	(123)	..	..	..
<b>Net result</b>	<b>62</b>	<b>39</b>	<b>40</b>	<b>41</b>
<b>Average weekly earnings <sup>(e)</sup></b>				
Taxes, regulatory fees and fines	34	35	36	38
Other income <sup>(d)</sup>	(13)	(12)	3	5
Superannuation expenses	..	16	17	18
Other expenses	..	..	..	..
<b>Net result from transactions</b>	<b>21</b>	<b>7</b>	<b>22</b>	<b>25</b>
Superannuation - actuarial gains (losses)	(171)	..	..	..
<b>Net result</b>	<b>(150)</b>	<b>7</b>	<b>22</b>	<b>25</b>
<b>Domestic share prices</b>				
Taxes, regulatory fees and fines	..	..	..	..
Other income <sup>(d)</sup>	5	5	..	..
Superannuation expenses	..	(4)	(5)	(5)
Other expenses	..	..	..	..
<b>Net result from transactions</b>	<b>5</b>	<b>9</b>	<b>5</b>	<b>5</b>
Superannuation - actuarial gains (losses)	59	..	..	..
<b>Net result</b>	<b>63</b>	<b>9</b>	<b>5</b>	<b>5</b>
<b>Overseas share prices</b>				
Taxes, regulatory fees and fines	..	..	..	..
Other income <sup>(d)</sup>	4	4	..	..
Superannuation expenses	..	(3)	(4)	(4)
Other expenses	..	..	..	..
<b>Net result from transactions</b>	<b>4</b>	<b>7</b>	<b>4</b>	<b>4</b>
Superannuation - actuarial gains (losses)	47	..	..	..
<b>Net result</b>	<b>51</b>	<b>7</b>	<b>4</b>	<b>4</b>
<b>Property prices</b>				
Taxes, regulatory fees and fines	37	37	52	52
Other income <sup>(d)</sup>	2	4	6	9
Superannuation expenses	..	(1)	(1)	(1)
Other expenses	..	..	..	..
<b>Net result from transactions</b>	<b>39</b>	<b>42</b>	<b>59</b>	<b>62</b>
Superannuation - actuarial gains (losses)	10	..	..	..
<b>Net result</b>	<b>49</b>	<b>42</b>	<b>59</b>	<b>62</b>
<b>Property transaction volumes</b>				
Taxes, regulatory fees and fines	26	27	27	27
Other income <sup>(d)</sup>	2	3	4	5
Superannuation expenses	..	..	..	..
Other expenses	..	..	..	..
<b>Net result from transactions</b>	<b>28</b>	<b>30</b>	<b>31</b>	<b>32</b>
Superannuation - actuarial gains (losses)	..	..	..	..
<b>Net result</b>	<b>28</b>	<b>30</b>	<b>31</b>	<b>32</b>

**Table 5.1: Impact on the general government net result from transactions of a one percentage point increase in selected economic indicators in 2006-07<sup>(a) (b)</sup> – (continued)**

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
	Estimate	Estimate	Estimate	Estimate
<b>Interest rates<sup>(1)</sup></b>				
Taxes, regulatory fees and fines	..	..	..	..
Other income <sup>(d)</sup>	78	80	41	43
Superannuation expenses	..	(13)	6	14
Other expenses	1	5	8	13
<b>Net result from transactions</b>	<b>77</b>	<b>88</b>	<b>27</b>	<b>16</b>
Superannuation - actuarial gains (losses)	3 322	..	..	..
<b>Net result</b>	<b>3 399</b>	<b>88</b>	<b>27</b>	<b>16</b>

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 5.1 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 by way of an actuarial loss. 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 cost associated with a lower unfunded superannuation liability.

### ***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 and gives rise to an actuarial gain. In terms of ongoing superannuation expenses, the impact of a higher discount rate on service costs 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 overall 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 6, *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 3.5, Application of Cash Resources, in Chapter 3, *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.

### ***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 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. Discussions to finalise the deal re-commenced following the election.

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 2006-07 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.

## 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 5.2: Quantifiable contingent assets as at 30 June**

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

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 5.3: Quantifiable contingent liabilities as at 30 June**

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

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.

### ***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 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 has been 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 6: ESTIMATED FINANCIAL STATEMENTS AND NOTES

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### INTRODUCTION

This chapter provides the formal accounting statements that were summarised in Chapter 3, *Budget Position and Outlook*, and are required to be presented in a 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 is consistent 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 6.1: 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
<b>Income from transactions</b>						
Taxation	2	10 971.0	11 156.8	11 344.5	11 759.7	12 158.7
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	1 815.8	1 873.8	1 883.9	1 872.5
<b>Total income from transactions</b>		<b>32 442.1</b>	<b>32 749.1</b>	<b>33 701.2</b>	<b>34 792.3</b>	<b>35 604.4</b>
<b>Expenses from transactions</b>						
Employee benefits		12 019.5	12 091.4	12 372.0	12 725.5	12 985.9
Superannuation	6 (a)	1 710.4	1 674.4	1 675.5	1 709.5	1 741.1
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	6 408.0	6 216.0	6 053.9	5 934.4
Supplies and services		10 437.7	10 361.3	11 114.3	11 799.9	12 400.7
Other expenses		0.5	0.5	0.5	0.5	0.5
<b>Total expenses from transactions</b>	<b>10</b>	<b>32 125.3</b>	<b>32 375.5</b>	<b>33 315.4</b>	<b>34 399.4</b>	<b>35 326.1</b>
<b>Net result from transactions</b>		<b>316.8</b>	<b>373.6</b>	<b>385.8</b>	<b>392.9</b>	<b>278.3</b>
<b>Income/(expenses) from other economic flows</b>						
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)	..	( 182.7)	..	..	..
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)
<b>Total other economic flows</b>		<b>( 41.2)</b>	<b>( 199.2)</b>	<b>( 35.7)</b>	<b>( 30.7)</b>	<b>( 30.3)</b>
<b>Net result</b>		<b>275.6</b>	<b>174.4</b>	<b>350.1</b>	<b>362.2</b>	<b>248.0</b>

*The accompanying notes form part of these Estimated Financial Statements.*

**Table 6.2: Estimated balance sheet as at 30 June**

(\$ million)						
	Notes	2007 Budget <sup>(a)</sup>	2007 Revised	2008 Estimate	2009 Estimate	2010 Estimate
<b>Current assets</b>						
Cash and cash equivalents	17(a)	2 534.2	2 518.4	2 517.8	2 306.2	1 999.3
Receivables		1 935.0	1 981.5	2 182.8	2 388.9	2 503.1
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	1 243.7	1 157.2	921.1	660.0
		<b>6 000.7</b>	<b>5 984.2</b>	<b>6 100.3</b>	<b>5 860.5</b>	<b>5 408.5</b>
Non-current assets classified as held for sale		59.2	59.2	59.2	59.2	59.2
<b>Total current assets</b>		<b>6 059.9</b>	<b>6 043.4</b>	<b>6 159.5</b>	<b>5 919.8</b>	<b>5 467.7</b>
<b>Non-current assets</b>						
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	60 033.1	64 425.2	69 422.4	74 515.2
Intangibles	14	159.4	176.5	163.4	164.0	146.0
Other assets	15	209.8	209.8	166.7	167.2	175.6
<b>Total non-current assets</b>		<b>61 377.4</b>	<b>61 831.5</b>	<b>66 108.5</b>	<b>71 074.6</b>	<b>76 157.4</b>
<b>Total assets</b>		<b>67 437.3</b>	<b>67 875.0</b>	<b>72 268.0</b>	<b>76 994.4</b>	<b>81 625.1</b>
<b>Current liabilities</b>						
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	16	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
<b>Total current liabilities</b>		<b>6 405.5</b>	<b>6 161.3</b>	<b>6 398.6</b>	<b>6 648.8</b>	<b>6 829.5</b>
<b>Non-current liabilities</b>						
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	16	848.1	849.1	928.3	1 007.9	1 088.6
Superannuation	6(d)	12 923.2	13 236.2	13 288.7	13 242.0	13 096.0
Other provisions		595.3	592.9	608.2	624.2	640.3
Other liabilities		244.3	250.2	243.2	215.2	208.2
<b>Total non-current liabilities</b>		<b>21 394.1</b>	<b>22 124.2</b>	<b>23 814.5</b>	<b>25 163.0</b>	<b>25 912.0</b>
<b>Total liabilities</b>		<b>27 799.7</b>	<b>28 285.5</b>	<b>30 213.1</b>	<b>31 811.8</b>	<b>32 741.5</b>
<b>Net assets</b>		<b>39 637.6</b>	<b>39 589.4</b>	<b>42 054.9</b>	<b>45 182.6</b>	<b>48 883.7</b>

*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 6.3: 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
<b>Net income recognised directly in equity</b>		<b>2 799.8</b>	<b>2 799.8</b>	<b>3 123.0</b>	<b>3 479.6</b>	<b>3 869.4</b>
<b>Net result for the period</b>		<b>275.6</b>	<b>174.4</b>	<b>350.1</b>	<b>362.2</b>	<b>248.0</b>
<b>Total recognised income and expense for the period</b>		<b>3 075.4</b>	<b>2 974.2</b>	<b>3 473.1</b>	<b>3 841.8</b>	<b>4 117.4</b>

*The accompanying note forms part of these Estimated Financial Statements.*

**Table 6.4: Estimated statement of cash flows for the year ending 30 June**

		(\$ million)				
	Notes	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Taxation		11 176.8	11 281.8	11 428.8	11 814.6	12 182.0
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	1 809.7	1 869.8	1 821.5	1 849.2
<b>Total receipts</b>		<b>32 462.0</b>	<b>32 735.8</b>	<b>33 636.7</b>	<b>34 466.6</b>	<b>35 496.3</b>
<b>Payments</b>						
Employee benefits		(11 853.7)	(11 925.7)	(12 247.1)	(12 600.8)	(12 860.0)
Superannuation		(1 173.6)	(1 182.4)	(1 541.1)	(1 638.2)	(1 782.9)
Interest paid		( 414.3)	( 461.1)	( 463.2)	( 555.4)	( 622.3)
Grants and transfer payments		(6 151.9)	(6 412.4)	(6 178.4)	(6 038.0)	(5 942.7)
Supplies and services <sup>(a)</sup>		(10 491.0)	(10 483.1)	(11 111.1)	(11 799.7)	(12 454.7)
<b>Total payments</b>		<b>(30 084.5)</b>	<b>(30 464.7)</b>	<b>(31 540.7)</b>	<b>(32 632.0)</b>	<b>(33 662.5)</b>
<b>Net cash flows from operating activities</b>	<b>17(b)</b>	<b>2 377.4</b>	<b>2 271.1</b>	<b>2 095.9</b>	<b>1 834.7</b>	<b>1 833.8</b>
<b>Cash flows from investing activities</b>						
Purchases of non-financial assets <sup>(a)</sup>	18	(2 351.2)	(2 388.4)	(2 913.3)	(2 758.0)	(2 882.3)
Proceeds from sale of non-financial assets		130.8	173.5	204.8	115.1	95.5
Net disposal/(purchase) of investments		387.5	434.4	64.1	212.1	237.1
Net customer loans (granted)/repaid		0.6	0.6	0.6	0.7	0.7
Net contribution to other sectors of government <sup>(a)</sup>		( 962.9)	( 909.8)	(1 007.7)	( 714.1)	( 416.4)
<b>Net cash flows from investing activities</b>		<b>(2 795.2)</b>	<b>(2 689.7)</b>	<b>(3 651.5)</b>	<b>(3 144.2)</b>	<b>(2 965.4)</b>
<b>Cash flows from financing activities</b>						
Net borrowings		253.8	238.8	1 555.0	1 097.9	824.7
<b>Net cash flows from financing activities</b>		<b>253.8</b>	<b>238.8</b>	<b>1 555.0</b>	<b>1 097.9</b>	<b>824.7</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>( 164.0)</b>	<b>( 179.8)</b>	<b>( 0.5)</b>	<b>( 211.6)</b>	<b>( 306.9)</b>

**Table 6.4: 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	2 303.0
<b>Cash and cash equivalents at end of reporting period</b>	<b>17(a)</b>	<b>2 531.0</b>	<b>2 515.1</b>	<b>2 514.6</b>	<b>2 303.0</b>	<b>1 996.1</b>

*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).*

<b>Cash surplus/(deficit)</b>	<b>157.1</b>	<b>56.2</b>	<b>( 612.6)</b>	<b>( 808.2)</b>	<b>( 953.1)</b>
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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 <sup>(a)</sup>

	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 <sup>(b)</sup>	3.75	3.50	3.50	3.50
Population <sup>(c)</sup>	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.

Assets, liabilities, income or expenses arise from past transactions or other past events and estimates are recognised for those transactions or other events that on best information are expected to occur or have occurred during each estimated financial reporting period. Where the transactions would result from an agreement between the government and other parties, the estimated transactions are only recognised when the agreement has, or there is a reasonable expectation that it will have, become irrevocable during the reporting period.

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

There is currently no consistent or authoritative Australian accounting guidance on the recognition or measurement of the right of the State to receive assets in the future from such concession arrangements. The International Financial Reporting Interpretations Committee has very recently finalised an international accounting Interpretation dealing with operator (private sector) accounting for service concessions. Adoption of this Interpretation in Australia, and whether to extend it to the public sector, has not been addressed by the AASB. Accordingly these assets are not recognised pending 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	2006-07	2007-08	2008-09	2009-10
	<i>Budget</i>	<i>Revised</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
<b>Payroll tax</b>	<b>3 418.1</b>	<b>3 408.5</b>	<b>3 517.7</b>	<b>3 641.8</b>	<b>3 810.9</b>
<b>Taxes on immovable property</b>					
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
<b>Total taxes on immovable property</b>	<b>919.3</b>	<b>953.3</b>	<b>945.1</b>	<b>965.4</b>	<b>957.3</b>
<b>Financial and capital transactions</b>					
Land transfer duty	2 424.4	2 653.4	2 632.7	2 679.1	2 696.2
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
<b>Total financial and capital transactions</b>	<b>2 493.4</b>	<b>2 721.5</b>	<b>2 661.7</b>	<b>2 713.7</b>	<b>2 732.9</b>
<b>Levies on statutory corporations</b>	<b>60.4</b>	<b>60.4</b>	<b>61.6</b>	<b>73.7</b>	<b>73.7</b>
<b>Gambling taxes</b>					
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
<b>Total gambling taxes</b>	<b>1 556.3</b>	<b>1 518.3</b>	<b>1 513.5</b>	<b>1 594.6</b>	<b>1 683.9</b>
<b>Taxes on insurance</b>	<b>1 104.1</b>	<b>1 100.1</b>	<b>1 161.9</b>	<b>1 216.0</b>	<b>1 271.0</b>
<b>Motor vehicle taxes</b>					
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
<b>Total motor vehicle taxes</b>	<b>1 339.1</b>	<b>1 307.5</b>	<b>1 391.6</b>	<b>1 466.8</b>	<b>1 546.5</b>
<b>Other taxes</b>	<b>80.3</b>	<b>87.2</b>	<b>91.4</b>	<b>87.8</b>	<b>82.5</b>
<b>Total taxation</b>	<b>10 971.0</b>	<b>11 156.8</b>	<b>11 344.5</b>	<b>11 759.7</b>	<b>12 158.7</b>

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

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
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
<b>Total dividends and income tax equivalent and rate equivalent revenue</b>	<b>958.1</b>	<b>945.4</b>	<b>784.6</b>	<b>742.9</b>	<b>863.1</b>

### Note 4: Grants

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
<b>Operating grants</b>					
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
<b>Total operating grants</b>	<b>14 303.5</b>	<b>14 376.8</b>	<b>15 112.4</b>	<b>15 812.6</b>	<b>16 389.1</b>
<b>Capital grants</b>					
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
<b>Total capital grants</b>	<b>774.5</b>	<b>783.5</b>	<b>874.8</b>	<b>636.7</b>	<b>547.1</b>
<b>Total grants</b>	<b>15 077.9</b>	<b>15 160.3</b>	<b>15 987.2</b>	<b>16 449.4</b>	<b>16 936.2</b>

### Note 5: Other income

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Inter-sector capital asset charge	833.5	842.3	886.9	914.3	919.3
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
<b>Total other income</b>	<b>1 757.2</b>	<b>1 815.8</b>	<b>1 873.8</b>	<b>1 883.9</b>	<b>1 872.5</b>

## 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 these unfunded superannuation liabilities is the responsibility of the State and is recognised accordingly.

### (a) Superannuation expense recognised in the operating statement

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	Budget	Revised	Estimate	Estimate	Estimate
<b>Defined benefit plans</b>					
Current service cost <sup>(a)</sup>	683.7	640.0	634.1	643.3	641.1
Interest cost <sup>(a)</sup>	1 554.7	1 707.8	1 738.7	1 766.8	1 790.7
Expected return on plan assets (net of expenses) <sup>(a)</sup>	(1 206.0)	(1 288.7)	(1 347.5)	(1 374.7)	(1 402.7)
Amortisation of past service cost <sup>(a)</sup>	( 14.5)	( 14.5)	( 14.5)	( 14.5)	( 10.2)
Actuarial (gains)/losses <sup>(b)</sup>	..	( 182.7)	..	..	..
<b>Total expense recognised in respect of defined benefit plans</b>	<b>1 018.0</b>	<b>861.9</b>	<b>1 010.8</b>	<b>1 020.9</b>	<b>1 018.8</b>
<b>Defined contribution plans</b>					
Employer contributions to defined contribution plans <sup>(a)</sup>	652.1	589.5	622.8	645.0	676.9
Other (including pensions) <sup>(a)</sup>	40.3	40.3	41.9	43.6	45.3
<b>Total expense recognised in respect of defined contribution plans</b>	<b>692.4</b>	<b>629.8</b>	<b>664.7</b>	<b>688.6</b>	<b>722.2</b>
<b>Total superannuation expense recognised in operating statement</b>	<b>1 710.4</b>	<b>1 491.7</b>	<b>1 675.5</b>	<b>1 709.5</b>	<b>1 741.1</b>

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 Budget <sup>(a)</sup>	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
<b>Opening balance of defined benefit obligation</b>	<b>30 302.6</b>	<b>30 302.9</b>	<b>31 552.9</b>	<b>32 079.9</b>	<b>32 548.1</b>
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	..	788.0	..	..	..
Benefits paid	(1 866.9)	(2 109.2)	(2 061.0)	(2 148.6)	(2 262.1)
<b>Closing balance of defined benefit obligation</b>	<b>30 889.2</b>	<b>31 552.9</b>	<b>32 079.9</b>	<b>32 548.1</b>	<b>32 915.8</b>

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 Budget <sup>(a)</sup>	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
<b>Opening balance of plan assets</b>	<b>17 459.8</b>	<b>17 459.8</b>	<b>18 020.8</b>	<b>18 398.8</b>	<b>18 781.2</b>
Expected return on plan assets	1 206.0	1 288.7	1 347.5	1 374.7	1 402.7
Actuarial gains/(losses)	..	605.3	..	..	..
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)
<b>Closing balance of plan assets</b>	<b>17 495.2</b>	<b>18 020.8</b>	<b>18 398.8</b>	<b>18 781.2</b>	<b>19 180.5</b>

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
<b>ESSS (including SSF)</b>					
Defined benefit obligation	28 168.2	29 006.4	29 521.2	29 975.6	30 333.5
Tax liability <sup>(a)</sup>	977.4	850.1	840.1	836.2	829.8
Plan assets	(16 220.9)	(16 758.0)	(17 119.1)	(17 488.3)	(17 877.5)
Unrecognised past service cost <sup>(b)</sup>	39.2	39.2	24.7	10.2	..
<b>Net liability/(asset)</b>	<b>12 963.9</b>	<b>13 137.7</b>	<b>13 267.0</b>	<b>13 333.7</b>	<b>13 285.8</b>
<b>Other funds <sup>(a)</sup></b>					
Defined benefit obligation	1 739.2	1 684.6	1 709.7	1 730.4	1 749.4
Tax liability <sup>(a)</sup>	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 <sup>(b)</sup>	..	..	..	..	..
<b>Net liability/(asset)</b>	<b>469.4</b>	<b>433.6</b>	<b>438.8</b>	<b>443.5</b>	<b>449.5</b>
<b>Total unfunded superannuation</b>					
Defined benefit obligation	29 907.3	30 691.0	31 230.9	31 706.0	32 082.8
Tax liability <sup>(a)</sup>	982.0	861.9	849.0	842.1	833.0
Plan assets	(17 495.2)	(18 020.8)	(18 398.8)	(18 781.2)	(19 180.5)
Unrecognised past service cost <sup>(b)</sup>	39.2	39.2	24.7	10.2	..
<b>Unfunded superannuation liability</b>	<b>13 433.3</b>	<b>13 571.3</b>	<b>13 705.7</b>	<b>13 777.1</b>	<b>13 735.3</b>
<b>Represented by:</b>					
Current liability	510.1	335.1	417.1	535.1	639.3
Non-current liability	12 923.2	13 236.2	13 288.7	13 242.0	13 096.0
	<b>13 433.3</b>	<b>13 571.3</b>	<b>13 705.7</b>	<b>13 777.1</b>	<b>13 735.3</b>

*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 in the operating statement.*

## Note 7: Depreciation and amortisation

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
<b>Depreciation</b>					
Buildings <sup>(a)</sup>	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
<b>Total depreciation</b>	<b>1 271.0</b>	<b>1 276.4</b>	<b>1 361.3</b>	<b>1 422.0</b>	<b>1 492.0</b>
<b>Amortisation</b>					
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
<b>Total amortisation</b>	<b>51.1</b>	<b>90.2</b>	<b>76.7</b>	<b>84.0</b>	<b>94.0</b>
<b>Total depreciation and amortisation</b>	<b>1 322.1</b>	<b>1 366.6</b>	<b>1 438.0</b>	<b>1 506.0</b>	<b>1 586.1</b>

Note:

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

## Note 8: Finance costs

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 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
<b>Total finance costs</b>	<b>428.0</b>	<b>473.4</b>	<b>499.0</b>	<b>604.2</b>	<b>677.5</b>

## Note 9: Grants and transfer payments

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 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	3 687.7	3 644.7	3 678.4	3 546.9
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
<b>Total grants and transfer payments</b>	<b>6 207.2</b>	<b>6 408.0</b>	<b>6 216.0</b>	<b>6 053.9</b>	<b>5 934.4</b>

## Note 10: Total expenses from transactions by department <sup>(d)</sup>

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	Budget	Revised	Estimate	Estimate	Estimate
<b>Expenses from transactions</b>					
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	12 313.7	12 578.6	12 914.8	13 294.6
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	1 777.2	1 798.3	1 918.5	1 892.4
Victorian Communities	815.5	903.3	791.6	742.4	726.4
Contingencies not allocated to departments <sup>(a)</sup>	( 60.1)	( 293.2)	614.8	999.3	1 345.5
Regulatory bodies and other part budget funded agencies <sup>(b)</sup>	1 075.7	1 075.4	1 106.9	1 126.5	1 126.5
<b>Total</b>	<b>35 011.4</b>	<b>35 331.4</b>	<b>36 324.8</b>	<b>37 418.2</b>	<b>38 382.5</b>
<i>Less eliminations <sup>(c)</sup></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>
<b>Total expenses from transactions</b>	<b>32 125.3</b>	<b>32 375.5</b>	<b>33 315.4</b>	<b>34 399.4</b>	<b>35 326.1</b>

### 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.
- (d) Does not include the effects of transfer of functions under Administrative Arrangements Orders issued on 5 December 2006.

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

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	Budget	Revised	Estimate	Estimate	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)
<b>Total other gains/(losses) from other economic flows</b>	<b>( 51.0)</b>	<b>( 50.9)</b>	<b>( 40.8)</b>	<b>( 35.8)</b>	<b>( 35.8)</b>

## Note 12: Property, plant and equipment

### (a) Total property, plant and equipment

	(\$ million)				
	2007 Budget	2007 Revised	2008 Estimate	2009 Estimate	2010 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	19 387.8	20 895.9	22 611.1	24 558.4
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
<b>Total property, plant and equipment</b>	<b>59 668.6</b>	<b>60 033.1</b>	<b>64 425.2</b>	<b>69 422.4</b>	<b>74 515.2</b>

### (b) Land and buildings

	(\$ million)				
	2007 Budget	2007 Revised	2008 Estimate	2009 Estimate	2010 Estimate
Buildings <sup>(a)</sup>	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)
<b>Buildings (written down value)</b>	<b>14 939.2</b>	<b>14 846.0</b>	<b>16 255.7</b>	<b>18 170.7</b>	<b>20 365.0</b>
Land	17 400.2	17 402.0	18 903.9	20 619.1	22 566.5
National parks and other 'land only' holdings	1 985.9	1 985.9	1 992.0	1 992.0	1 992.0
<b>Land and national parks</b>	<b>19 386.1</b>	<b>19 387.8</b>	<b>20 895.9</b>	<b>22 611.1</b>	<b>24 558.4</b>
<b>Total land and buildings</b>	<b>34 325.2</b>	<b>34 233.8</b>	<b>37 151.6</b>	<b>40 781.8</b>	<b>44 923.4</b>

Note:

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

### (c) Plant, equipment and infrastructure systems

	(\$ million)				
	2007 Budget	2007 Revised	2008 Estimate	2009 Estimate	2010 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)
<b>Infrastructure systems (written down value)</b>	<b>291.0</b>	<b>695.6</b>	<b>840.6</b>	<b>942.9</b>	<b>950.7</b>
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)
<b>Plant, equipment and vehicles (written down value)</b>	<b>2 065.5</b>	<b>2 141.5</b>	<b>1 994.2</b>	<b>1 774.2</b>	<b>1 530.0</b>
<b>Total plant, equipment and infrastructure systems</b>	<b>2 356.5</b>	<b>2 837.1</b>	<b>2 834.8</b>	<b>2 717.1</b>	<b>2 480.7</b>

**(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)
<b>Roads (written down value)</b>	<b>15 002.1</b>	<b>14 977.5</b>	<b>16 361.9</b>	<b>17 750.5</b>	<b>18 837.9</b>
<b>Earthworks</b>	<b>4 426.2</b>				
<b>Total road networks and earthworks</b>	<b>19 428.3</b>	<b>19 403.6</b>	<b>20 788.1</b>	<b>22 176.6</b>	<b>23 264.0</b>

**(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)
<b>Total cultural assets (written down value)</b>	<b>3 558.6</b>	<b>3 558.6</b>	<b>3 650.7</b>	<b>3 746.9</b>	<b>3 847.1</b>

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 property plant and equipment**

	(\$ million)				
	2007	2007	2008	2009	2010
	Budget	Revised	Estimate	Estimate	Estimate
Carrying amount at the start of the year <sup>(a)</sup>	55 953.8	55 953.8	60 033.1	64 425.2	69 422.4
Additions <sup>(b)</sup>	2 329.4	2 756.4	2 905.9	3 111.3	2 872.0
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)
<b>Carrying amount at the end of the year</b>	<b>59 668.6</b>	<b>60 033.1</b>	<b>64 425.2</b>	<b>69 422.4</b>	<b>74 515.2</b>

Notes:

- (a) *Comprises land and buildings, infrastructure systems, plant, equipment, vehicles, road networks and cultural assets. Excludes movements in intangibles and other assets in Notes 14 and 15 below.*
- (b) *Includes assets acquired under finance lease arrangements.*

## Note 14: Intangibles

	(\$ million)				
	2007	2007	2008	2009	2010
	Budget	Revised	Estimate	Estimate	Estimate
Intangible produced assets	303.4	354.3	360.8	383.5	393.0
<i>Intangible produced assets - amortisation</i>	( 148.3)	( 182.1)	( 201.7)	( 223.9)	( 251.3)
Intangible non-produced assets	14.4	14.4	14.4	14.4	14.4
<i>Intangible non-produced assets - amortisation</i>	( 10.1)	( 10.1)	( 10.1)	( 10.1)	( 10.1)
<b>Intangibles (written down value)</b>	<b>159.4</b>	<b>176.5</b>	<b>163.4</b>	<b>164.0</b>	<b>146.0</b>

## Note 15: Other assets

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

Note:

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

## Note 16: Employee benefits

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	Budget	Revised	Estimate	Estimate	Estimate
<b>Current</b>					
Accrued salaries and wages <sup>(a)</sup>	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
<b>Total current employee benefits</b>	<b>2 746.9</b>	<b>2 745.8</b>	<b>2 791.5</b>	<b>2 836.6</b>	<b>2 881.7</b>
<b>Non-current</b>					
Accrued salaries and wages <sup>(a)</sup>	20.0	20.0	20.0	20.0	20.0
Long service leave	828.0	829.0	908.2	987.8	1 068.6
<b>Total non-current employee benefits</b>	<b>848.1</b>	<b>849.1</b>	<b>928.3</b>	<b>1 007.9</b>	<b>1 088.6</b>
<b>Total employee benefits</b>	<b>3 595.0</b>	<b>3 594.8</b>	<b>3 719.8</b>	<b>3 844.4</b>	<b>3 970.3</b>

Note:

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

## Note 17: 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	1 531.1	1 208.8
<b>Cash and cash equivalent</b>	<b>2 534.2</b>	<b>2 518.4</b>	<b>2 517.8</b>	<b>2 306.2</b>	<b>1 999.3</b>
Bank overdraft	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)
<b>Balances as per cash flow statement</b>	<b>2 531.0</b>	<b>2 515.1</b>	<b>2 514.6</b>	<b>2 303.0</b>	<b>1 996.1</b>

### (b) Reconciliation of net cash flows from operating activities

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	Budget	Revised	Estimate	Estimate	Estimate
<b>Net result</b>	275.6	174.4	350.1	362.2	248.0
<b>Non-cash movements</b>					
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)	..	(145.5)	..
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
<b>Movements included in investing and financing activities</b>					
Net revenue from sale of property, plant and equipment	(9.7)	(34.3)	(5.0)	(5.0)	(5.4)
<b>Movements in assets and liabilities</b>					
Increase/(decrease) in provision of doubtful debts	59.0	59.0	49.0	43.9	43.9
Increase/(decrease) in payables	17.1	(101.9)	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	674.8	134.5	71.3	(41.8)
Increase/(decrease) in other provisions	(30.0)	(32.4)	(20.3)	(11.7)	(11.7)
Increase/(decrease) in other liabilities	(22.7)	63.0	108.4	53.2	29.4
(Increase)/decrease in receivables	31.8	(87.3)	(167.7)	(192.7)	(132.4)
(Increase)/decrease in other assets <sup>(a)</sup>	34.7	34.7	50.7	7.1	(0.7)
<b>Net cash flows from operating activities<sup>(a)</sup></b>	<b>2 377.4</b>	<b>2 271.1</b>	<b>2 095.9</b>	<b>1 834.7</b>	<b>1 833.8</b>

Notes:

(a) Inventories were reclassified from net cash flows from operating activities to net cash flows from investing activities.

## Note 18: Purchase of property, plant and equipment by department <sup>(a)</sup>

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 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 <sup>(b)</sup>	704.7	685.4	1 005.4	789.3	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 <sup>(c)(e)</sup>	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 <sup>(d)(e)</sup>	( 358.6)	( 361.0)	305.0	653.1	1 364.7
<b>Total purchase of property, plant and equipment</b>	<b>2 351.2</b>	<b>2 388.4</b>	<b>2 913.3</b>	<b>2 758.0</b>	<b>2 882.3</b>

### Notes:

- (a) Does not include the effects of transfer of functions under Administrative Arrangements Orders issued on 5 December 2006.
- (b) Inventories were reclassified from purchase of property, plant and equipment to supplies and services.
- (c) Includes amounts under the vehicle leasing facility not allocated to departments.
- (d) 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.
- (e) Eliminations were previously included in Treasury and Finance.

## **Note 19: 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 2006-07 Budget Paper No. 4, *Statement of Finances*.

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### **General government sector entities**

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#### **Education and Training**

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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

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**General government sector entities**

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**Human Services**

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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

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**General government sector entities**

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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  
Moyne 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

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**General government sector entities**

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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

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**Infrastructure**

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

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**Innovation Industry and Regional Development**

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Prince Henry's Institute of Medical Research  
Tourism Victoria

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**Justice**

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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

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**General government sector entities**

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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

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**Parliament**

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Victorian Auditor-General's Office

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**Premier and Cabinet**

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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

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**Primary Industries**

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Veterinary Practitioners Registration Board of Victoria

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**Sustainability and Environment**

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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  
Growth Areas Authority  
Heritage Council  
Office of the Commissioner for Environmental Sustainability

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**General government sector entities**

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Parks Victoria

Plumbing Industry Commission

Royal Botanic Gardens Board

Surveyors Registration Board of Victoria

Sustainability Victoria

Trust for Nature (Victoria)

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**Treasury and Finance**

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Domestic Building (HH) Indemnity Fund and Housing Guarantee Claims Fund

Essential Services Commission

Victorian Competition and Efficiency Commission

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**Victorian Communities**

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2007 World Swimming Championships Corporation

Shrine of Remembrance Trustees

Victorian Institute of Sport Limited

Victorian Institute of Sport Trust

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## **CHAPTER 7: ACCRUAL UNIFORM PRESENTATION OF GOVERNMENT FINANCES STATISTICS**

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### **THE ACCRUAL GFS PRESENTATION**

The Government Finance Statistics (GFS) system employed by the Australian Bureau of Statistics (ABS) is designed to provide statistics relating to all Australian public sector entities. The statistics show consolidated transactions of the various institutional sectors of government from an economic viewpoint, providing details of the revenue, expenses, payments, receipts, assets and liabilities. It includes only those transactions over which a government exercises control under its legislative or policy framework and excludes from the calculation of net operating balance both revaluations (holding gains or losses) arising from a change in market prices, and other changes in the volume of assets that result from discoveries, depletion and destruction of assets.

### **GAAP/GFS harmonisation**

In September 2006, the Australian Accounting Standards Board (AASB) issued a new standard for Financial Reporting of General Government Sectors by Governments, applicable from 1 July 2008. Early adoption of the standard is permitted. The objective as set out by the Financial Reporting Council in December 2002 is 'to achieve an Australian accounting standard for a single set of government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements'.

This new standard for reporting the general government sector implements the first of three stages of the strategy to create a single standard for general government sector entities, the general government sector itself, and for all other government entities.

For the first time, an accounting standard will require that, in addition to complying with all other relevant accounting standards, the report for the general government sector must also include key fiscal aggregates determined in a manner consistent with the ABS GFS Manual. Any differences between 'pure' GFS and the amounts presented under GAAP must also be reconciled.

Given the complexities of implementing the new standard, timing factors, and the expected impact on a newly harmonised whole of government reporting standard which has not been developed, Victoria has decided that it will not early adopt the new standard. However, major components of the standard such as the recognition of ‘transactions’ and ‘other economic flows’ in the operating statement on a GFS basis, have already been incorporated into the estimated financial statements in Chapter 6 and in the financial statements for the general government sector included in the 2006-07 Budget Papers.

## **Operating statement**

The operating statement, also referred to as a Statement of Financial Performance, is designed to capture the composition of GFS revenues and GFS expenses and the net cost of a government’s activities within a financial year. It shows the full cost of resources consumed by government in achieving its objectives, and how these costs are met from various revenue sources.

Unlike a standard accounting operating statement, the GFS operating statement reports two major fiscal measures: the GFS net operating balance and GFS net lending. The GFS net operating balance is calculated as GFS revenue minus GFS expenses. GFS net lending, or fiscal balance, includes net capital expenditure but excludes depreciation, thereby giving a measure of a jurisdiction’s call on financial markets.

## **Balance sheet**

The balance sheet records a government’s stocks of financial and non-financial assets and liabilities. This statement, also referred to as a Statement of Financial Position, discloses the resources over which a government maintains control.

The GFS balance sheet differs from the standard accounting presentation in that it provides information on financial and non-financial assets, and does not distinguish between current and non-current assets and liabilities.

## **Cash flow statement**

The cash flow statement records a government’s cash receipts and payments and shows how a government obtains and expends cash.

The GFS cash flow statement reports two major fiscal measures: the net increase in cash held and the cash surplus. Net increase in cash held is the sum of net cash flows from all operating, investing and financing activities. The GFS cash flow statement measures the cash surplus/deficit excluding finance leases and similar arrangements consistent with the International Monetary Fund definition. However, the Australian GFS measure continues to adjust for non-cash finance leased capital formation. This is a follow on from the old GFS cash series which ended in 1998-99. In the Australian context, this presentation of non-cash items in the cash flow statement is being reviewed as part of the GAAP/GFS harmonisation process.

## **INSTITUTIONAL SECTORS**

### **General government sector**

The general government sector comprises all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. General government services include those which are mainly non-market in nature, those which are largely for collective consumption by the community, and those which involve the transfer or redistribution of income. These services are financed mainly through taxes, other compulsory levies and user charges.

### **Public non-financial corporations sector**

The public non-financial corporations sector was formerly known as the public trading enterprises sector. It comprises bodies mainly engaged in the production of goods and services (of a non-financial nature) for sale in the market place at prices that aim to recover most of the costs involved (e.g. water and port authorities). In general, public non-financial corporations are legally distinguishable from the governments which own them.

### **Non-financial public sector**

The non-financial public sector represents the consolidated transactions and assets and liabilities of the general government and public non-financial corporations sectors. In compiling statistics for the non-financial public sector, transactions and debtor-creditor relationships between sub-sectors are eliminated to avoid double counting.

### **Public financial corporations**

Public financial corporations are bodies primarily engaged in the provision of financial intermediation services or auxiliary financial services. They are able to incur financial liabilities on their own account (e.g. taking deposits, issuing securities or providing insurance services). The public financial corporations sector includes the Treasury Corporation of Victoria and the Transport Accident Commission. Estimates are not published for the public financial corporations sector.

**Table 7.1: General government sector operating statement**

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	Budget	Revised	Estimate	Estimate	Estimate
<b>GFS revenue</b>					
Taxation revenue	10 971	11 157	11 345	11 760	12 159
Current grants and subsidies	14 303	14 377	15 112	15 813	16 389
Capital grants	774	784	875	637	547
Sales of goods and services	3 790	3 770	3 856	3 946	3 960
Interest income	293	315	310	304	292
Other	2 310	2 347	2 203	2 333	2 257
<b>Total revenue</b>	<b>32 442</b>	<b>32 749</b>	<b>33 701</b>	<b>34 792</b>	<b>35 604</b>
<b>GFS expenses</b>					
Employee expenses	13 603	13 568	13 884	14 273	14 574
Depreciation	1 322	1 367	1 438	1 506	1 586
Other operating expenses	10 282	10 161	10 899	11 547	12 180
Nominal superannuation interest expense	349	419	391	392	388
Other interest expense	415	461	486	591	664
Other property expenses	..	..	..	..	..
Current transfers	5 855	6 101	5 932	5 785	5 795
Capital transfers	299	299	284	305	140
<b>Total expenses</b>	<b>32 125</b>	<b>32 376</b>	<b>33 315</b>	<b>34 399</b>	<b>35 326</b>
<b>GFS net operating balance</b>	<b>317</b>	<b>374</b>	<b>386</b>	<b>393</b>	<b>278</b>
Less: Net acquisition of non-financial assets					
Purchases of non-financial assets	2 351	2 388	2 913	2 758	2 882
Sales of non-financial assets	- 131	- 173	- 205	- 115	- 95
Less: Depreciation	1 322	1 367	1 438	1 506	1 586
Plus: Change in inventories	1	1	1	1	1
Plus: Other movements in non-financial assets	..	407	..	377	..
<b>Total net acquisition of non-financial assets</b>	<b>899</b>	<b>1 256</b>	<b>1 271</b>	<b>1 514</b>	<b>1 201</b>
<b>GFS net lending (+) / borrowing (-)</b>	<b>- 582</b>	<b>- 882</b>	<b>- 885</b>	<b>-1 121</b>	<b>- 923</b>

Source: Department of Treasury and Finance

**Table 7.2: Public non-financial corporations sector operating statement**

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
<b>GFS revenue</b>					
Sales of goods and services	3 410	3 326	3 532	3 713	3 691
Current grants and subsidies	1 676	1 726	1 776	1 698	1 694
Capital grants	191	192	179	184	185
Interest income	94	81	74	69	68
Other	396	410	411	450	461
<b>Total revenue</b>	<b>5 767</b>	<b>5 735</b>	<b>5 971</b>	<b>6 114</b>	<b>6 099</b>
<b>GFS expenses</b>					
Employee expenses <sup>(a)</sup>	650	644	667	692	711
Depreciation	853	858	901	941	971
Other operating expenses	3 344	3 380	3 569	3 565	3 504
Property expenses	876	770	833	816	925
Current transfers	90	101	89	83	83
Capital transfers	49	49	12	12	10
<b>Total expenses</b>	<b>5 863</b>	<b>5 801</b>	<b>6 071</b>	<b>6 108</b>	<b>6 204</b>
<b>GFS net operating balance</b>	<b>- 96</b>	<b>- 66</b>	<b>- 100</b>	<b>6</b>	<b>- 105</b>
Less: Net acquisition of non-financial assets					
Purchases of non-financial assets	2 317	2 228	2 298	2 034	1 956
Sales of non-financial assets	- 68	- 64	- 81	- 81	- 74
Less: Depreciation	853	858	901	941	971
Plus: Change in inventories	2	2	4	3	7
Plus: Other movements in non-financial assets	133	134	129	126	123
<b>Total net acquisition of non-financial assets</b>	<b>1 531</b>	<b>1 442</b>	<b>1 449</b>	<b>1 141</b>	<b>1 041</b>
<b>GFS net lending (+) / borrowing (-)</b>	<b>-1 627</b>	<b>-1 508</b>	<b>-1 549</b>	<b>-1 136</b>	<b>-1 147</b>

Source: Department of Treasury and Finance

Note:

(a) Employee expenses have decreased marginally since the 2006-07 Budget mainly due to a revision and re-classification of estimates by Goulburn-Murray Rural Water Authority.

**Table 7.3: Non-financial public sector operating statement**

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
<b>GFS revenue</b>					
Taxation revenue	10 827	11 015	11 195	11 663	12 059
Current grants and subsidies	14 303	14 377	15 113	15 813	16 389
Capital grants	775	787	878	640	550
Sales of goods and services	6 335	6 209	6 457	6 700	6 687
Interest income	363	371	359	349	337
Other	2 190	2 326	2 134	2 330	2 169
<b>Total revenue</b>	<b>34 794</b>	<b>35 085</b>	<b>36 135</b>	<b>37 494</b>	<b>38 191</b>
<b>GFS expenses</b>					
Employee expenses	14 253	14 212	14 551	14 965	15 284
Depreciation	2 175	2 224	2 339	2 447	2 557
Other operating expenses	12 619	12 562	13 320	13 913	14 502
Nominal superannuation interest expense	349	419	391	392	388
Other interest expense	749	788	834	969	1 064
Other property expenses	..	..	..	..	..
Current transfers	4 010	4 141	4 015	4 003	4 012
Capital transfers	346	345	294	315	150
<b>Total expenses</b>	<b>34 501</b>	<b>34 692</b>	<b>35 746</b>	<b>37 004</b>	<b>37 957</b>
<b>GFS net operating balance</b>	<b>292</b>	<b>394</b>	<b>389</b>	<b>490</b>	<b>234</b>
Less: Net acquisition of non-financial assets					
Purchases of non-financial assets	4 668	4 616	5 202	4 792	4 838
Sales of non-financial assets	- 199	- 237	- 286	- 196	- 169
Less: Depreciation	2 175	2 224	2 339	2 447	2 557
Plus: Change in inventories	3	3	5	3	7
Plus: Other movements in non-financial assets	133	142	129	272	123
<b>Total net acquisition of non-financial assets</b>	<b>2 430</b>	<b>2 299</b>	<b>2 711</b>	<b>2 424</b>	<b>2 243</b>
<b>GFS net lending (+) / borrowing (-)</b>	<b>-2 137</b>	<b>-1 906</b>	<b>-2 322</b>	<b>-1 934</b>	<b>-2 009</b>

Source: Department of Treasury and Finance

**Table 7.4: General government sector balance sheet**

	(\$ million)					
as at 30 June	2006 Opening <sup>(a)</sup>	2007 Budget	2007 Revised	2008 Estimate	2009 Estimate	2010 Estimate
<b>Assets</b>						
<b>Financial assets</b>						
Cash and deposits	2 698	2 313	2 518	2 518	2 306	1 999
Advances paid	70	69	69	69	68	67
Investments, loans and placements	2 162	1 537	1 723	1 654	1 437	1 195
Other non-equity assets	2 579	2 554	2 677	2 847	3 041	3 176
Equity	38 261	39 344	39 341	40 563	41 599	42 070
<b>Total financial assets</b>	<b>45 770</b>	<b>45 816</b>	<b>46 329</b>	<b>47 650</b>	<b>48 452</b>	<b>48 507</b>
<b>Non-financial assets</b>						
Land and fixed assets	54 185	57 891	58 257	62 645	67 644	72 738
Other non-financial assets	2 463	2 444	2 462	2 412	2 413	2 404
<b>Total non-financial assets</b>	<b>56 648</b>	<b>60 335</b>	<b>60 719</b>	<b>65 057</b>	<b>70 057</b>	<b>75 142</b>
<b>Total assets</b>	<b>102 418</b>	<b>106 151</b>	<b>107 048</b>	<b>112 707</b>	<b>118 509</b>	<b>123 649</b>
<b>Liabilities</b>						
Deposits held	520	198	519	525	533	541
Advances received	4	4	4	3	2	2
Borrowing	6 175	6 439	6 822	8 366	9 706	10 541
Superannuation liability	12 896	13 433	13 571	13 706	13 777	13 735
Other employee entitlements and provisions	4 170	4 309	4 303	4 408	4 521	4 635
Other non-equity liabilities	3 088	3 084	3 066	3 205	3 272	3 287
<b>Total liabilities</b>	<b>26 854</b>	<b>27 466</b>	<b>28 286</b>	<b>30 213</b>	<b>31 812</b>	<b>32 741</b>
<b>Net worth</b>	<b>75 564</b>	<b>78 685</b>	<b>78 763</b>	<b>82 494</b>	<b>86 697</b>	<b>90 908</b>
<b>Net financial worth <sup>(b)</sup></b>	<b>18 916</b>	<b>18 350</b>	<b>18 044</b>	<b>17 437</b>	<b>16 640</b>	<b>15 766</b>
<b>Net debt <sup>(c)</sup></b>	<b>1 769</b>	<b>2 721</b>	<b>3 035</b>	<b>4 654</b>	<b>6 430</b>	<b>7 823</b>

Source: Department of Treasury and Finance

Notes:

- (a) The opening balances of 1 July 2006 are based on the most recent audited financial reports of consolidated entities, with an adjustment to Equity that has been changed to reflect the correct treatment of the State's investment in minority interests in joint ventures.
- (b) Net financial worth equals total financial assets minus total liabilities.
- (c) Net debt equals the sum of deposits held, advances received and borrowings, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

**Table 7.5: Public non-financial corporations sector balance sheet**

	(\$ million)					
as at 30 June	2006	2007	2007	2008	2009	2010
	Opening	Budget	Revised	Estimate	Estimate	Estimate
<b>Assets</b>						
<b>Financial assets</b>						
Cash and deposits	532	420	502	506	674	639
Advances paid	137	119	136	117	105	96
Investments, loans and placements	1 066	980	835	734	676	642
Other non-equity assets	940	984	995	1 069	1 109	1 106
Equity	376	376	376	376	376	376
<b>Total financial assets</b>	<b>3 051</b>	<b>2 878</b>	<b>2 843</b>	<b>2 803</b>	<b>2 940</b>	<b>2 860</b>
<b>Non-financial assets</b>						
Land and fixed assets	39 334	41 035	40 965	42 734	44 239	45 468
Other non-financial assets	248	324	291	289	280	275
<b>Total non-financial assets</b>	<b>39 582</b>	<b>41 359</b>	<b>41 257</b>	<b>43 023</b>	<b>44 520</b>	<b>45 743</b>
<b>Total assets</b>	<b>42 633</b>	<b>44 237</b>	<b>44 100</b>	<b>45 826</b>	<b>47 460</b>	<b>48 603</b>
<b>Liabilities</b>						
Deposits held	84	80	62	60	60	59
Advances received	1	..	..	..	..	..
Borrowing	4 631	4 977	5 123	5 580	6 137	6 816
Superannuation liability	38	37	44	45	45	45
Other employee entitlements and provisions	2 654	2 822	2 621	2 661	2 702	2 685
Other non-equity liabilities	685	702	635	648	653	670
<b>Total liabilities</b>	<b>8 094</b>	<b>8 620</b>	<b>8 485</b>	<b>8 995</b>	<b>9 597</b>	<b>10 274</b>
<b>Shares and other contributed capital</b>	<b>34 539</b>	<b>35 618</b>	<b>35 615</b>	<b>36 832</b>	<b>37 863</b>	<b>38 329</b>
<b>Net worth</b>	..	..	..	..	..	..
<b>Net financial worth <sup>(a)</sup></b>	<b>-39 582</b>	<b>-41 359</b>	<b>-41 257</b>	<b>-43 023</b>	<b>-44 520</b>	<b>-45 743</b>
<b>Net debt <sup>(b)</sup></b>	<b>2 982</b>	<b>3 539</b>	<b>3 713</b>	<b>4 283</b>	<b>4 742</b>	<b>5 498</b>

Source: Department of Treasury and Finance

Notes:

- (a) Net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital.
- (b) Net debt equals the sum of deposits held, advances received and borrowings, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

**Table 7.6: Non-financial public sector balance sheet**

	(\$ million)					
as at 30 June	2006 Opening <sup>(a)</sup>	2007 Budget	2007 Revised	2008 Estimate	2009 Estimate	2010 Estimate
<b>Assets</b>						
<b>Financial assets</b>						
Cash and deposits	3 234	2 736	3 023	3 027	2 983	2 642
Advances paid	207	188	203	184	170	161
Investments, loans and placements	3 228	2 517	2 558	2 388	2 113	1 837
Other non-equity assets	3 047	3 021	3 176	3 391	3 629	3 780
Equity	4 097	4 102	4 102	4 107	4 112	4 117
<b>Total financial assets</b>	<b>13 813</b>	<b>12 564</b>	<b>13 062</b>	<b>13 097</b>	<b>13 008</b>	<b>12 537</b>
<b>Non-financial assets</b>						
Land and fixed assets	93 517	98 924	99 221	105 378	111 882	118 205
Other non-financial assets	2 632	2 677	2 665	2 605	2 593	2 573
<b>Total non-financial assets</b>	<b>96 149</b>	<b>101 601</b>	<b>101 886</b>	<b>107 983</b>	<b>114 475</b>	<b>120 778</b>
<b>Total assets</b>	<b>109 962</b>	<b>114 165</b>	<b>114 948</b>	<b>121 080</b>	<b>127 483</b>	<b>133 314</b>
<b>Liabilities</b>						
Deposits held	604	278	581	586	594	601
Advances received	5	4	4	3	3	2
Borrowing	10 805	11 414	11 941	13 942	15 838	17 352
Superannuation liability	12 934	13 470	13 616	13 750	13 822	13 780
Other employee entitlements and provisions	5 176	5 398	5 212	5 246	5 304	5 348
Other non-equity liabilities	3 339	3 310	3 205	3 305	3 360	3 399
<b>Total liabilities</b>	<b>32 864</b>	<b>33 875</b>	<b>34 559</b>	<b>36 833</b>	<b>38 919</b>	<b>40 482</b>
<b>Net worth</b>	<b>77 098</b>	<b>80 291</b>	<b>80 389</b>	<b>84 247</b>	<b>88 564</b>	<b>92 833</b>
<b>Net financial worth <sup>(b)</sup></b>	<b>-19 051</b>	<b>-21 310</b>	<b>-21 497</b>	<b>-23 736</b>	<b>-25 911</b>	<b>-27 945</b>
<b>Net debt <sup>(c)</sup></b>	<b>4 746</b>	<b>6 255</b>	<b>6 742</b>	<b>8 933</b>	<b>11 167</b>	<b>13 315</b>

Source: Department of Treasury and Finance

Notes:

- (a) The opening balances of 1 July 2006 are based on the most recent audited financial reports of consolidated entities, with an adjustment to Equity that has been changed to reflect the correct treatment of the State's investment in minority interests in joint ventures.
- (b) Net financial worth equals total financial assets minus total liabilities.
- (c) Net debt equals the sum of deposits held, advances received and borrowings, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

**Table 7.7: General government sector cash flow statement**

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
<b>Cash receipts from operating activities</b>					
Taxes received	11 177	11 282	11 429	11 815	12 182
Receipts from sales of goods and services	3 712	3 785	3 905	3 949	3 939
Grants/subsidies received	15 078	15 161	15 987	16 450	16 937
Other receipts	2 500	2 514	2 321	2 258	2 444
<b>Total receipts</b>	<b>32 467</b>	<b>32 741</b>	<b>33 642</b>	<b>34 472</b>	<b>35 501</b>
<b>Cash payments from operating activities</b>					
Payment for goods and services	-23 580	-23 597	-24 933	-26 038	-27 069
Grants and subsidies paid	-5 432	-5 691	-5 474	-5 319	-5 211
Interest paid	- 402	- 449	- 451	- 543	- 609
Other payments	- 676	- 733	- 687	- 737	- 779
<b>Total payments</b>	<b>-30 090</b>	<b>-30 470</b>	<b>-31 546</b>	<b>-32 637</b>	<b>-33 668</b>
<b>Net cash flows from operating activities</b>	<b>2 377</b>	<b>2 271</b>	<b>2 096</b>	<b>1 835</b>	<b>1 834</b>
<b>Net cash flows from investing in non-financial assets</b>					
Sales of non-financial assets	131	173	205	115	95
Purchases of non-financial assets	-2 351	-2 388	-2 913	-2 758	-2 882
<b>Total cash flows - non-financial assets</b>	<b>-2 220</b>	<b>-2 215</b>	<b>-2 709</b>	<b>-2 643</b>	<b>-2 787</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>- 962</b>	<b>- 909</b>	<b>-1 007</b>	<b>- 713</b>	<b>- 416</b>
<b>Net cash flows from investments in financial assets for liquidity</b>	<b>387</b>	<b>434</b>	<b>64</b>	<b>212</b>	<b>237</b>
<b>Net cash flows from financing activities</b>					
Advances received (net)	- 1	- 1	- 1	- 1	- 1
Borrowings (net)	254	239	1 556	1 099	825
Deposits received (net)	..	..	..	..	..
Other financing (net)	..	..	..	..	..
<b>Net cash flows from financing activities</b>	<b>254</b>	<b>239</b>	<b>1 555</b>	<b>1 098</b>	<b>825</b>
<b>Net increase in cash held</b>	<b>- 164</b>	<b>- 180</b>	<b>- 1</b>	<b>- 212</b>	<b>- 307</b>
<b>Surplus (+) /deficit (-) excluding acquisitions under finance leases <sup>(a)</sup></b>	<b>157</b>	<b>56</b>	<b>- 613</b>	<b>- 808</b>	<b>- 953</b>
Acquisitions under finance leases	..	399	..	231	..
<b>Surplus (+) /deficit (-) including finance leases</b>	<b>157</b>	<b>- 343</b>	<b>- 613</b>	<b>-1 040</b>	<b>- 953</b>

Source: Department of Treasury and Finance

Note:

(a) Net cash flows from operating activities less investments in non-financial assets.

**Table 7.8: Public non-financial corporations sector cash flow statement**

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
<b>Cash receipts from operating activities</b>					
Receipts from sales of goods and services	3 385	3 286	3 509	3 683	3 675
Grants/subsidies received	1 877	1 953	1 991	1 940	1 959
Other receipts	308	337	320	355	370
<b>Total receipts</b>	<b>5 570</b>	<b>5 576</b>	<b>5 819</b>	<b>5 978</b>	<b>6 005</b>
<b>Cash payments from operating activities</b>					
Payment for goods and services	-3 009	-3 079	-3 195	-3 201	-3 149
Grants and subsidies paid <sup>(a)</sup>	- 15	- 217	- 162	- 151	- 160
Interest paid	- 328	- 329	- 348	- 377	- 399
Other payments	-1 033	-1 065	-1 093	-1 112	-1 122
<b>Total payments</b>	<b>-4 384</b>	<b>-4 691</b>	<b>-4 798</b>	<b>-4 841</b>	<b>-4 829</b>
<b>Net cash flows from operating activities</b>	<b>1 185</b>	<b>886</b>	<b>1 021</b>	<b>1 137</b>	<b>1 176</b>
<b>Net cash flows from investing in non-financial assets</b>					
Sales of non-financial assets	68	64	81	81	74
Purchases of non-financial assets	-2 317	-2 228	-2 298	-2 034	-1 956
<b>Total cash flows from investing in non-financial assets</b>	<b>-2 249</b>	<b>-2 164</b>	<b>-2 217</b>	<b>-1 953</b>	<b>-1 882</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>963</b>	<b>886</b>	<b>995</b>	<b>688</b>	<b>411</b>
<b>Net cash flows from investments in financial assets for liquidity</b>	<b>86</b>	<b>84</b>	<b>- 10</b>	<b>- 7</b>	<b>- 7</b>
<b>Net cash flows from financing activities</b>					
Advances received (net)	..	..	..	..	..
Borrowings (net) <sup>(a)</sup>	349	641	571	624	723
Deposits received (net)	..	..	..	..	..
Distributions paid	- 446	- 364	- 356	- 321	- 454
Other Financing (net)	..	..	..	..	..
<b>Total net cash flows from financing activities</b>	<b>- 97</b>	<b>278</b>	<b>215</b>	<b>303</b>	<b>268</b>
<b>Net increase in cash held</b>	<b>- 112</b>	<b>- 31</b>	<b>4</b>	<b>168</b>	<b>- 35</b>
<b>Surplus (+) /deficit (-) excluding acquisitions under finance leases <sup>(b)</sup></b>	<b>-1 510</b>	<b>-1 642</b>	<b>-1 553</b>	<b>-1 137</b>	<b>-1 161</b>
Acquisition of assets under finance leases and similar arrangements	..	..	..	..	..
<b>Surplus (+) /deficit (-) including finance leases</b>	<b>-1 510</b>	<b>-1 642</b>	<b>-1 553</b>	<b>-1 137</b>	<b>-1 161</b>

Source: Department of Treasury and Finance

Notes:

(a) Movements between the 2006-07 Budget and 2006-07 Revised in 'Grants and subsidies paid' and 'Borrowings (net)' are largely offsetting and are mainly related to items in the SECV which are now grossed up under A-IFRS but previously were on a net basis.

(b) Net cash flows from operating activities less investments in non-financial assets and distributions paid.

**Table 7.9: Non-financial public sector cash flow statement**

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	Budget	Revised	Estimate	Estimate	Estimate
<b>Cash receipts from operating activities</b>					
Taxes received	11 033	11 137	11 279	11 718	12 083
Receipts from sales of goods and services	6 232	6 183	6 483	6 674	6 651
Grants/subsidies received	15 097	15 228	16 054	16 504	16 974
Other receipts	2 303	2 394	2 137	2 138	2 267
<b>Total receipts</b>	<b>34 665</b>	<b>34 942</b>	<b>35 952</b>	<b>37 034</b>	<b>37 975</b>
<b>Cash payments from operating activities</b>					
Payment for goods and services	-26 543	-26 666	-27 999	-29 090	-30 076
Grants and subsidies paid	-3 586	-3 940	-3 713	-3 652	-3 528
Interest paid	- 729	- 777	- 798	- 919	-1 007
Other payments	- 690	- 772	- 705	- 745	- 806
<b>Total payments</b>	<b>-31 549</b>	<b>-32 156</b>	<b>-33 215</b>	<b>-34 406</b>	<b>-35 417</b>
<b>Net cash flows from operating activities</b>	<b>3 116</b>	<b>2 787</b>	<b>2 737</b>	<b>2 629</b>	<b>2 558</b>
<b>Net cash flows from investing in non-financial assets</b>					
Sales of non-financial assets	199	237	286	196	169
Purchases of non-financial assets	-4 668	-4 616	-5 202	-4 792	-4 838
<b>Total cash flows from investing in non-financial assets</b>	<b>-4 469</b>	<b>-4 379</b>	<b>-4 916</b>	<b>-4 596</b>	<b>-4 669</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>1</b>	<b>- 14</b>	<b>2</b>	<b>- 3</b>	<b>- 7</b>
<b>Net cash flows from investments in financial assets for liquidity</b>	<b>474</b>	<b>518</b>	<b>54</b>	<b>205</b>	<b>230</b>
<b>Net cash flows from financing activities</b>					
Advances received (net)	- 1	- 1	- 1	- 1	- 1
Borrowings (net)	603	879	2 127	1 722	1 548
Deposits received (net)	..	..	..	..	..
<b>Other financing (net)</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>Total net cash flows from financing activities</b>	<b>602</b>	<b>878</b>	<b>2 126</b>	<b>1 721</b>	<b>1 547</b>
<b>Net increase in cash held</b>	<b>- 276</b>	<b>- 211</b>	<b>4</b>	<b>- 44</b>	<b>- 342</b>
<b>Surplus (+) /deficit (-) excluding acquisitions under finance leases <sup>(a)</sup></b>	<b>-1 353</b>	<b>-1 592</b>	<b>-2 179</b>	<b>-1 967</b>	<b>-2 111</b>
Acquisition of assets under finance leases and similar arrangements	..	399	..	231	..
<b>Surplus (+) /deficit (-) including finance leases</b>	<b>-1 353</b>	<b>-1 991</b>	<b>-2 179</b>	<b>-2 198</b>	<b>-2 111</b>

Source: Department of Treasury and Finance

Note:

(a) Net cash flows from operating activities less investments in non-financial assets.

**Table 7.10: General government AAS 31 net result reconciled to GFS measures**

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	Budget	Revised	Estimate	Estimate	Estimate
<b>General government net result from transactions</b>	<b>317</b>	<b>374</b>	<b>386</b>	<b>393</b>	<b>278</b>
equals: <b>General government net operating balance (GFS)</b>					
Less: Gross fixed capital formation	2 220	2 622	2 709	3 020	2 787
Plus: Depreciation	1 322	1 367	1 438	1 506	1 586
Less: Change in inventories	1	1	1	1	1
<b>GFS net lending(+)/borrowing(-)</b>	<b>- 582</b>	<b>- 882</b>	<b>- 885</b>	<b>-1 121</b>	<b>- 923</b>
Plus:					
Superannuation expense (difference between operating statement, including nominal interest, and cash flow statement)	537	492	134	71	- 42
Acquisitions under finance leases	..	399	..	231	..
Other non-cash items	202	- 351	138	- 221	12
<b>GFS cash surplus(+)/deficit(-)</b>	<b>157</b>	<b>- 343</b>	<b>- 613</b>	<b>-1 040</b>	<b>- 953</b>
Less: Net contributions to other sectors of government	962	909	1 007	713	416
Other non-cash items	147	14	..	23	24
<b>Decrease in general government net debt</b>	<b>- 952</b>	<b>-1 265</b>	<b>-1 620</b>	<b>-1 776</b>	<b>-1 392</b>

Source: Department of Treasury and Finance

## Victoria's 2006–07 Loan Council Allocation

As required under the Uniform Presentation Framework, Victoria is required to publish the Loan Council Allocation (LCA) estimates. The LCA is a measure of each government's net call on financial markets in a given financial year to meet its budget obligations. The method of public release is the responsibility of each individual jurisdiction. Victoria discloses its LCA information through the Financial Report for the State of Victoria, Budget Paper No. 4, *Statement of Finances* and Budget Update.

Table 7.11 compares Victoria's 2006-07 LCA as approved by Loan Council in March 2006 with the revised LCA based on 2006-07 Budget Update estimates.

**Table 7.11: Loan Council Allocation 2006-07**

	(\$ million)	
	2006-07 Nomination <sup>(a)</sup>	2006-07 Revised
General government sector cash (+) deficit / (-) surplus	714	343
Public non-financial corporation sector cash (+) deficit / (-) surplus	1 231	1 642
Non-financial public sector cash (+) deficit / (-) surplus <sup>(b)</sup>	1 945	1 991
Less: Net cash flows from investments in financial assets for policy purposes <sup>(c)</sup>	1	- 14
Plus: Memorandum items <sup>(d)</sup>	2	163
<b>Loan Council Allocation</b>	<b>1 946</b>	<b>2 168</b>
Tolerance limit (2 per cent of non-financial public sector cash receipts from operating activities) <sup>(e)</sup>	678	678

Source: Department of Treasury and Finance

*Notes:*

- (a) 2006-07 Budget Paper No 4, *Statement of Finances*.
- (b) The sum of the surplus/deficit of the general government and public non-financial corporation sector does not directly equal the non-financial public sector surplus due to intersectoral transfers, which are netted out in the calculation of the non-financial public sector figure. Surplus (+)/deficit(-) includes finance lease acquisitions.
- (c) The non-financial public sector surplus/deficit relating to 2006-07 includes net cash flows from investments in financial assets for policy purposes.
- (d) Memorandum items are used to adjust the ABS deficit to include in LCAs certain transactions, such as operating leases, that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the ABS deficit certain transactions that Loan Council has agreed should not be included in LCAs (e.g. the over/under funding of employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities).
- (e) A tolerance limit equal to 2 per cent of 'total non-financial public sector cash receipts from operating activities' (2005-06 Budget Update) applies to jurisdictions' LCA nomination and revised LCA at budget time, and between the budget time LCA and LCA outcome. The tolerance limit applying to Victoria in 2006-07 is \$678 million (2 per cent of \$33 877 million – sourced from 2005-06 Budget Update).

As part of the Loan Council arrangements, Loan Council has agreed that if at any time a jurisdiction finds that it is likely to exceed its tolerance limit, in either direction, it is required to provide an explanation to Loan Council and, in line with the emphasis of the increased transparency, to make the explanation public. The 2006-07 revised LCA (deficit of \$2 168 million) remained within the tolerance limit. The change of \$222 million in the LCA between 2006-07 nomination and 2006-07 revised is mainly due to:

- a revision in the general government sector cash position from \$714 million deficit to \$343 million deficit primary due to higher than expected net cash flows from taxation revenue;
- a \$411 million higher than expected cash deficit in the public non-financial corporations sector due to higher infrastructure investment, which is primarily funded by an increase in contribution from the general government sector; and
- a revision to memorandum items from \$2 million to \$163 million due to an increase in capital expenditure by Local Government Councils, and operating leases identified by the Department of Sustainability and Environment following a recent review.

In the interests of transparency, the State is required to disclose the details of infrastructure projects with private sector involvement and to report full contingent exposure, if any. Exposure is to be measured by the government's termination liabilities in a case of private sector default and disclosed as a footnote to, rather than a component, of LCAs. The amount payable will not exceed the fair market value of the net present value of the project (which is usually calculated by an independent valuer) less any costs incurred by government as a result of the default.

Listed below are details of such an infrastructure project for Barwon Water, which are expected to be contracted in the 2006-07 financial year.

### **Barwon Water – Biosolids Management Project**

The objective of this project is to manage the biosolids removed during the sewage treatment process at Black Rock Sewage Treatment Plant and other treatment plants in the Barwon Water region. Management of biosolids includes a treatment process to ensure that the final product is suitable for beneficial re-use in accordance with EPA requirements.

The project contract is expected to include an obligation for government to make a payment to the contractor should government terminate the contract for default. The quantum of the payment is not expected to exceed the remaining balance of the approved project funding at any time.

The project is expected to be contracted during the 2006-07 financial year.



## APPENDIX A: SPECIFIC POLICY DECISIONS AFFECTING THE BUDGET POSITION

Appendix A outlines specific government policy decisions that affect output, asset investment and revenue positions, including Treasurer's Advances, made since the 2006-07 Budget. Appendix A does not reflect the effects of transfer of functions under Administrative Arrangements Orders issued on 5 December 2006.

### OUTPUT AND ASSET DECISIONS

#### Government-wide decisions

The following table provides details of the total cost of Government-wide output decisions (initiatives that are administered and delivered by more than one Department). The figures included are the total cost of decisions. Funding from reprioritisation and existing fund sources has not been deducted from the total cost of the decision.

**Table A1: Output decisions – Government-wide**

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
Air Ambulance Victoria and Victoria Police Air Wing Co-location	..	0.1	0.1	0.1
Allergy training <sup>(a)</sup>	0.6	0.5	0.5	0.5
Fire Preparedness - Additional Resources for Bushfire Suppression	6.1	..	..	..
Liquefied Petroleum Gas (LPG) Conversions	1.2	..	..	..
2007 FINA World Swimming Championships Security Requirements <sup>(b)</sup>	..	..	..	..
<b>Drought Response</b>				
Apprenticeships initiative	3.8	..	..	..
Providing water security for sportsgrounds through summer	0.8	..	..	..
<b>Our Environment Our Future – Sustainability Action Statement 2006</b>				
Adapting for Victoria's Future	1.8	4.0	4.3	4.7
Support for National Emissions Trading	0.1	0.1	..	..
<b>Total output decisions <sup>(b)</sup></b>	<b>14.4</b>	<b>4.8</b>	<b>4.9</b>	<b>5.3</b>

Source: Department of Treasury and Finance

Notes:

(a) Allergy training has \$0.3 million funding in 2010-11.

(b) 2007 FINA World Swimming Championships Security Requirements details withheld as security plans and arrangements of this kind are subject to an elevated level of sensitivity and confidentiality.

### **Air Ambulance Victoria and Victoria Police Air Wing Co-location**

The Department of Human Services and the Department of Justice have been provided with funding for the establishment of new facilities for the accommodation of the Air Ambulance Victoria and Victoria Police rotary air wing at Essendon Airport. This funding will develop a purpose-built Emergency Services Precinct.

### **Allergy training**

The Department of Education and Training and the Department of Human Services will introduce uniform policy and training for teachers and children's services workers in response to life threatening allergies.

### **Fire Preparedness – Additional Resources for Bushfire Suppression**

Funding is provided to the Department of Justice, Country Fire Authority and the Department of Sustainability and Environment for additional air support and supplementary fire equipment including water tanks, specialist water relay equipment and water transport to enhance existing fire suppression capability during the 2006-07 fire season.

### **Liquefied Petroleum Gas (LPG) Conversions**

The Liquefied Petroleum Gas (LPG) Training decision has provided for 500 training places at TAFE Institutes to upgrade the skills of mechanics and related tradespersons to meet registration requirements for LPG installations and conversions. The Department of Education and Training has been provided funding of \$0.7 million, as well as \$0.1 million from the Skill-Up program to address immediate skill shortages in the production of LPG kits.

The Department of Innovation, Industry and Regional Development has also been provided with funding of \$0.4 million to implement the LPG Communications Strategy, which focuses on encouraging public confidence and emphasising safety and national standards.

### **2007 FINA World Swimming Championships Security Requirements**

This decision provides funding for the Department of Justice and the Department for Victorian Communities to ensure the delivery of a safe and secure World Swimming Championships in Melbourne in March 2007.

### **Drought Response**

#### *Apprenticeships initiative*

The Department of Primary Industries and the Department for Victorian Communities will provide funding to support the retention of apprentices employed in businesses located in Exceptional Circumstances areas that derive the majority of their income from servicing primary producers. One-off grants of \$1 500 will be paid to employers (sole traders, partnerships and private companies) for each apprentice that is retained to 31 December 2006.

### *Providing water security for sportsgrounds through summer*

The Department of Sustainability and Environment and the Department for Victorian Communities will provide funding to assist regional and rural councils to keep municipal sportsgrounds open over this summer.

## **Our Environment, Our Future – Sustainability Action Statement 2006**

### *Adapting for Victoria's Future*

This decision, being implemented by the Department of Human Services, the Department of Primary Industries and the Department of Sustainability and Environment, will increase Victoria's scientific knowledge and technical expertise to help communities adapt to climate change. Specific components will include improving the resilience of Victoria's natural assets and agricultural systems and making our infrastructure more adaptable to climate change.

### *Support for National Emissions Trading*

This decision, being implemented by the Department of Infrastructure and the Department of Sustainability and Environment, will provide for further analysis and assessment of emission trading options to inform Victoria's involvement in the National Emissions Trading Taskforce.

**Table A2: Asset decisions – Government-wide**

	<i>(\$ million)</i>				
	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>TEI</i>
Air Ambulance Victoria and Victoria Police Air Wing Co-location	3.8	7.6	..	..	11.4
<b>Total asset decisions</b>	<b>3.8</b>	<b>7.6</b>	<b>..</b>	<b>..</b>	<b>11.4</b>

*Source: Department of Treasury and Finance*

### **Air Ambulance Victoria and Victoria Police Air Wing Co-location**

See output decisions.

## **Departmental decisions**

The following tables provide details of output and asset investment decisions since the 2006-07 Budget, for each applicable department. Except where specified, figures indicate the total cost of decisions. Funding from reprioritisation and existing funding sources has not been deducted from the total cost of the decision.

## Education and Training

### Output decisions

**Table A3: Output decisions – Education and Training**

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
<b>Our Environment Our Future – Sustainability Action Statement 2006</b>				
Greening our Schools	1.0	..	..	..
Sustainability Skills	2.5	5.0	2.5	..
Sustainable Schools	0.1	0.1	0.1	0.1
Training for Tradies	0.2	0.3	0.3	..
<b>Total output decisions</b>	<b>3.8</b>	<b>5.4</b>	<b>2.9</b>	<b>0.1</b>

Source: Department of Treasury and Finance

### Our Environment, Our Future – Sustainability Action Statement 2006

#### Greening our Schools

Funds will be invested for schools and education facilities to be more energy efficient through technology upgrades, education and behaviour change programs and improvements to construction, operation and maintenance guidelines. All new government schools will be built using the latest green rating tools.

#### Sustainability Skills

Funds will be invested to develop a National Centre for Sustainability, Environmental Design and Land Management at Swinburne TAFE's Wantirna campus and appoint a Statewide Sustainability Skills Advisor. Once completed, the Centre will focus on developing skills in sustainable land management and design that reduce impacts on the environment.

#### Sustainable Schools

This decision provides for an expansion of environmental sustainability programs to more government schools. Linkages that exist between schools and their local communities will be broadened under this program to include biodiversity and energy and water use.

### *Training for Trades*

Funds will be invested to bring more tradespeople and professionals up to speed on sustainable practices. This will complement proposed developments at the national level and support the implementation of 5 Star building regulations by working with electricians, residential heating/air conditioning installers and home sustainability assessors.

### *Asset decisions*

**Table A4: Asset decisions – Education and Training**

	<i>(\$ million)</i>				
	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>TEI</i>
Technical Wings and Trade Equipment for government schools <sup>(a)</sup>	..	19.7	9.3	8.8	50.0
<b>Total asset decisions</b>	<b>..</b>	<b>19.7</b>	<b>9.3</b>	<b>8.8</b>	<b>50.0</b>

*Source: Department of Treasury and Finance*

*Note:*

(a) *Technical Wings and Trade Equipment for government schools has \$8.2 million funding in 2010-11 and \$4.1 million in 2011-12.*

### **Technical Wings and Trade Equipment for government schools**

Funding has been provided for building works and equipment in government secondary colleges, to encourage students to take up apprenticeships and trades. New trade wings will be built in 30 government secondary colleges with all other secondary colleges receiving grants of up to \$100 000 to purchase items such as computer aided drafting and manufacturing equipment and software, machining equipment, digital lathes and automotive and engineering equipment.

## Human Services

### Output decisions

**Table A5: Output decisions – Human Services**

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
Children's Sexual Assault Counselling Services	0.8	..	..	..
Council of Australian Governments: Health Workforce	6.8	6.3	6.2	7.7
Ensuring our hospitals are as clean and safe as possible <sup>(a)</sup>	..	2.0	0.9	0.9
Fire Preparedness - Community Development Officers	0.6	..	..	..
Health Workforce Recruitment and Retention	3.8	5.3	6.7	7.9
Non-Government Organisations Price Indexation	5.9	12.0	18.9	16.9
Royal Children's Hospital	12.4	15.9	16.3	16.7
Royal Melbourne Showgrounds Crèche Relocation	..	..	0.6	..
<b>Drought Response</b>				
Supporting families through drought	0.9	0.1	..	..
Supporting the human side of drought	3.8	..	..	..
Tackling mental health	0.9	..	..	..
Tackling rural poverty	0.3	..	..	..
<b>Our Environment Our Future – Sustainability Action Statement 2006</b>				
Greening our Hospitals	1.0	1.2	1.1	0.6
Water Efficiency in Public Housing	0.4	1.1	1.2	1.3
<b>Protecting our Communities: New Initiatives to Combat Terrorism</b>				
Health and medical response	0.7	..	..	..
<b>Total output decisions</b>	<b>38.1</b>	<b>43.9</b>	<b>51.9</b>	<b>52.0</b>

Source: Department of Treasury and Finance

Note:

(a) Ensuring our hospitals are as clean and safe as possible has \$0.9 million funding in 2010-11.

### Children's Sexual Assault Counselling Services

Funding has been provided to increase the availability of counselling services for sexual assault.

### Council of Australian Governments: Health Workforce

Funding has been provided to resource the additional growth in undergraduate medical, nursing and allied health places in order to meet Victoria's commitments to the COAG Health workforce reform package.

### **Ensuring our hospitals are as clean and safe as possible**

Funding has been provided to expand Victoria's anti-superbug handwash program to all hospital visitors and to place microbiological rapid testing units in all major hospitals.

### **Fire Preparedness – Community Development Officers**

Funding is provided for the employment of Community Development Officers to work with community groups to provide grants, food relief, augmentation of health services and counsellors and assist in the development and implementation of local recovery initiatives to support capacity building in high risk fire areas.

### **Health Workforce Recruitment and Retention**

Funding has been provided to expand Victoria's health workforce through the provision of additional medical intern and specialist training positions as well as an international recruitment campaign.

### **Non-Government Organisations Price Indexation**

This decision will provide indexation for Non-Government Organisations (NGOs) providing disability, community care, housing assistance, palliative care and drug services.

Funding has also been provided in 2006-07 to 2008-09 to establish an infrastructure fund to assist NGOs in meeting the costs of infrastructure purchase, replacement or upgrade.

### **Royal Children's Hospital**

Funding has been provided to the Royal Children's Hospital to manage increased demand for general and paediatric orthopaedic services.

### **Royal Melbourne Showgrounds Crèche Relocation**

Funding has been provided for the relocation of existing crèche facilities.

### **Drought Response**

#### *Supporting families through drought*

Funding has been provided to help families maintain important aspects of family life for example Christmas hampers, toys and back to school costs.

#### *Supporting the human side of drought*

Funding has been provided for mental health counsellors and mental health projects, community engagement and public information campaigns and fee relief for kindergartens in drought affected areas.

### *Tackling mental health*

Funding has been provided to strengthen and improve local community capacity to deal more effectively with local issues around mental health. This will be achieved through professional development of service providers and local leaders, improving information and referral networks and local health promotion initiatives.

### *Tackling rural poverty*

Funding has been provided to strengthen and improve local community capacity to deal more effectively with local issues around rural poverty. This will be achieved through professional development of service providers and local leaders, enhancing information and referral networks, facilitating local information sharing forums and funding for prioritised emergency relief needs across drought affected municipalities.

## **Our Environment, Our Future – Sustainability Action Statement 2006**

### *Greening our Hospitals*

Funding has been provided to enhance the environmental performance of hospitals and aged care facilities by implementing a program of energy and water efficiency retrofits.

### *Water Efficiency in Public Housing*

Funding has been provided to install AAA shower heads and dual flush toilets in all public housing over the next four years.

## **Protecting Our Communities: New Initiatives to Combat Terrorism**

### *Health and medical response*

Funding has been provided for training and equipment to the Department of Human Services and ambulance services to better respond to critical incidents.

## *Asset decisions*

**Table A6: Asset decisions – Human Services**

	<i>(\$ million)</i>				
	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>TEI</i>
Ensuring our hospitals are as clean and safe as possible <sup>(a)</sup>	..	2.0	1.0	1.0	5.0
Royal Melbourne Hospital Brickwork Rectification	15.1	..	..	..	15.1
<b>Our Environment Our Future – Sustainability Action Statement 2006</b>					
Greening our Hospitals	..	1.5	0.9	0.9	3.3
<b>Total asset decisions</b>	<b>15.1</b>	<b>3.5</b>	<b>1.9</b>	<b>1.9</b>	<b>23.4</b>

*Source: Department of Treasury and Finance*

*Note:*

*(a) Ensuring our hospitals are as clean and safe as possible has \$1.0 million funding in 2010-11.*

## Ensuring our hospitals are as clean and safe as possible

See output decisions.

### Royal Melbourne Hospital Brickwork Rectification

Funding has been provided for the continuation of works to rectify brickwork in the facades at the Royal Melbourne Hospital.

## Our Environment, Our Future – Sustainability Action Statement 2006

### Greening our Hospitals

See output decisions.

## Infrastructure

### Output decisions

**Table A7: Output decisions – Department of Infrastructure**

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
Country Rail Network Maintenance - Passenger Initiative	23.0	23.6	..	..
New Young Driver Safety and Graduated Licensing Package	2.1	2.5	..	..
<b>Our Environment Our Future – Sustainability Action Statement 2006</b>				
Smart Metering	1.4	0.6	0.1	0.1
Victorian Renewable Energy Target	1.0	0.5	..	..
<b>Total output decisions</b>	<b>27.5</b>	<b>27.2</b>	<b>0.1</b>	<b>0.1</b>

Source: Department of Treasury and Finance

### Country Rail Network Maintenance - Passenger Initiative

Funding has been provided for the maintenance of the country passenger rail network to ensure that the integrity of the infrastructure is retained.

### New Young Driver Safety and Graduated Licensing Package

Funding is provided for a package of measures to improve the safety of young drivers, including a longer learner phase and increased supervised driving experience, an improved driving test, a two staged probationary period, a requirement for good driving record to move through licence stages and alcohol ignition interlocks for first time drink driving offenders.

## Our Environment, Our Future – Sustainability Action Statement 2006

### Smart Metering

This decision provides for pricing and metering trials to record power usage by households and identify ways to reduce power usage during peak periods. The roll out of the two-way interval meters will be sped up to provide two million households with access to this technology over the next three to five years.

## Victorian Renewable Energy Target

This project provides for the establishment of a renewable energy target to drive new investment in renewable energy projects and reduce greenhouse gas emissions.

## Asset decisions

**Table A8: Asset decisions – Department of Infrastructure**

	(\$ million)				
	2006-07	2007-08	2008-09	2009-10	TEI
Country Rail Network Maintenance - Passenger Initiative	30.0	30.8	..	..	60.8
Frankston Bypass Bridges	6.5	..	..	..	6.5
Geelong Bypass Stage 4 Planning <sup>(a)</sup>	0.8	2.2	..	..	3.0
New Young Driver Safety and Graduated Licensing Package	1.0	1.5	..	..	2.5
Plummer Street Bypass <sup>(a)</sup>	4.8	13.3	..	..	19.2
Regional Rolling Stock Requirements	18.9	16.1	16.5	13.6	65.1
<b>Drought Response</b>					
Road upgrades in drought affected communities	16.1	7.6	0.3	..	24.0
<b>Protecting our Communities: New Initiatives to Combat Terrorism</b>					
Motorised rail trolleys	0.5	..	..	..	0.5
Radio Re-broadcasting System	1.0	..	..	..	1.0
<b>Total asset decisions <sup>(a)</sup></b>	<b>79.6</b>	<b>71.5</b>	<b>16.8</b>	<b>13.6</b>	<b>182.6</b>

Source: Department of Treasury and Finance

Note:

(a) TEI includes funding in 2005-06.

### Country Rail Network Maintenance – Passenger Initiative

See output decisions.

### Frankston Bypass Bridges

Funding has been provided to construct three ramps at the EastLink and Mornington Peninsula Freeway interchange to provide access to the future Frankston Bypass. These works are being conducted as a State Initiated Modification to EastLink and are to be funded from the Better Roads Victoria Trust.

### Geelong Bypass Stage 4 Planning

Funding has been provided to undertake a planning study of a possible fourth stage of the Geelong Bypass. This study will examine the design and costs of extending the Bypass to rejoin the Princes Highway west of the Wearn Ponds Valley, as well as consider the feasibility of a link to the Surf Coast Highway.

## **New Young Driver Safety and Graduated Licensing Package**

See output decisions.

### **Plummer Street Bypass**

Funding has been provided from the Better Roads Victoria Trust Account for a local truck bypass in Port Melbourne. The Bypass includes an upgrade of Graham Street north of Williamstown Road and Plummer Street between Graham and Prohasky Streets, and an extension of Prohasky Street to connect into the West Gate Freeway. This project will see a 50 per cent reduction in truck traffic on residential areas of Williamstown Road, as well as more direct access to the West Gate Freeway in Port Melbourne.

### **Regional Rolling Stock Requirements**

This decision has brought forward funding announced in *Meeting Our Transport Challenges* from 2010-11 (beyond the forward estimates period) for 14 centre (trailer) cars for the VLocity regional rail fleet. This will enable train configurations to be more flexible and better match fluctuations in demand for regional rail services.

### **Drought Response**

#### *Road upgrades in drought affected communities*

A package of road upgrades in drought affected communities will be brought forward to commence in 2006-07. The package, to be funded from the Better Roads Victoria Trust Account, includes shoulder sealing of the Midland Highway from Elmore to east of Stanhope and road widening of Lismore Skipton Road, Heathcote Rochester Road, Natimuk Frances Road, Boort Wycheproof Road, and Wangaratta-Whitford Road.

### **Protecting Our Communities: New Initiatives to Combat Terrorism**

#### *Motorised rail trolleys*

Funding has been provided to enable the purchase of a number of small battery operated trolleys to enable rapid evacuation of the City Loop in case of emergency.

#### *Radio Re-broadcasting System*

Funding has been provided for the installation of a radio re-broadcasting system within the City Loop to facilitate the broadcast of emergency information in case of an incident.

## ***Innovation, Industry and Regional Development***

### *Output decisions*

**Table A9: Output decisions – Department of Innovation, Industry and Regional Development**

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
Cooperative airline marketing program	2.0	..	..	..
Grand Plaza Project, Docklands	10.0	..	..	..
Team Melbourne	0.3	..	..	..
<b>Drought Response</b>				
Business Continuity Package	1.5	..	..	..
Grants to local government for minor works and local infrastructure	11.1	..	..	..
Regional Infrastructure Development Fund projects - for projects in drought affected areas	10.0	..	..	..
Small Towns Development Fund projects - for innovative water projects	5.0	..	..	..
Small Towns Development Fund projects - for projects in drought affected areas	2.9	..	..	..
<b>Our Environment Our Future – Sustainability Action Statement 2006</b>				
Enhanced Sustainability in New Investment	1.0	1.2	1.3	..
<b>Total output decisions</b>	<b>43.8</b>	<b>1.2</b>	<b>1.3</b>	<b>..</b>

Source: Department of Treasury and Finance

### **Cooperative airline marketing program**

Funding has been provided for cooperative marketing activities to promote Victoria internationally as a tourism destination in alliance with commercial airline operators in Victoria.

### **Grand Plaza Project, Docklands**

Funding has been provided to accelerate works on the Grand Plaza project at the Docklands, now scheduled for completion in 2006-07. The works involve demolishing the existing wharf and constructing a new wharf at a lower level, as well as removing the existing level changes and stairs to enhance pedestrian circulation. The works will also improve safety by separating pedestrians and bicycles.

### **Team Melbourne**

Funding has been provided to an alliance of Melbourne-based and Melbourne-named sporting clubs, as part of the branding and marketing of Victorian activities.

### **Drought Response**

#### *Business Continuity Package*

Funding has been provided for direct counselling and group forums/workshops for businesses in drought affected areas.

### *Grants to local government for minor works and local infrastructure*

Funding has been provided to give 37 local councils in Exceptional Circumstances affected areas cash grants of \$300 000 for minor works and local infrastructure projects. These funds will be provided on a 2:1 matched funding basis with councils, matching either in-kind or cash contributions.

### *Regional Infrastructure Development Fund projects – for projects in drought affected areas*

Funding has been brought forward under the Regional Infrastructure Development Fund for projects in drought affected regions.

### *Small Towns Development Fund projects – for innovative water projects*

Funding has been brought forward under the Small Towns Development Fund for innovative water projects in drought affected regions.

### *Small Towns Development Fund projects – for projects in drought affected areas*

Funding has been brought forward under the Small Towns Development Fund for other projects in drought affected regions.

## **Our Environment, Our Future – Sustainability Action Statement 2006**

### *Enhanced Sustainability in New Investment*

This decision will encourage companies considering investment or expansion in Victoria to adopt technologies and processes that deliver enhanced sustainability outcomes. This action will expand the successful greenhouse-specific investment facilitation program, and provide matched incentives for investment in water saving and waste management, as well as greenhouse friendly technologies.

## **Justice**

### *Output decisions*

**Table A10: Output decisions – Department of Justice**

	<i>(\$ million)</i>			
	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>
Fire Preparedness - Community Awareness and Engagement of Bushfires	0.9	..	..	..
Living Country Racing Program <sup>(a)</sup>	..	0.4	0.4	0.4
<b>Protecting our Communities: New Initiatives to Combat Terrorism</b>				
Emergency Management Exercise Group - Operations <sup>(b)</sup>	..	0.4	0.4	0.4
<b>Total output decisions</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>

*Source: Department of Treasury and Finance*

*Notes:*

*(a) Living Country Racing Program has \$0.4 million funding in 2010-11.*

*(b) Emergency Management Exercise Group - Operations has \$0.4 million funding in 2010-11.*

## Fire Preparedness – Community Awareness and Engagement of Bushfires

Funding is provided to enhance a range of existing community awareness and engagement activities such as targeted communications in relation to fire preparedness and safety information including *Fire Ready Victoria*, community engagement facilitators and integrating fire emergency management, engagement and communications.

## Living Country Racing Program

Funding is provided for the continuation of the Living Country Racing Program which aims to upgrade and improve racing infrastructure in regional Victoria and to increase opportunities for access to racing facilities for the non-racing community.

## Protecting Our Communities: New Initiatives to Combat Terrorism

### *Emergency Management Exercise Group – Operations*

Funding has been provided for the establishment of a multi agency emergency incident training coordination unit within the Department of Justice.

## *Asset decisions*

**Table A11: Asset decisions – Department of Justice**

	(\$ million)				TEI
	2006-07	2007-08	2008-09	2009-10	
Police Cells Upgrade	3.8	..	..	..	3.8
<b>Protecting our Communities: New Initiatives to Combat Terrorism</b>					
CCTV Van	0.3	..	..	..	0.3
Emergency Management Exercise Group - Equipment	0.2	..	..	..	0.2
<b>Total asset decisions</b>	<b>4.3</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>4.3</b>

*Source: Department of Treasury and Finance*

## **Police Cells Upgrade**

This decision has provided funding for lighting and ventilation upgrades in police cells in 14 locations across the State, including the Melbourne Custody Centre.

## **Protecting Our Communities: New Initiatives to Combat Terrorism**

### *CCTV Van*

Funding has been provided for the purchase of a mobile CCTV Van to enable better management of major emergencies and events.

### *Emergency Management Exercise Group – Equipment*

Funding has been provided for the purchase of necessary equipment for the new Emergency Management Exercise Group.

## Premier and Cabinet

### Output decisions

**Table A12: Output decisions – Department of Premier and Cabinet**

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
Cultural Program for the 2007 FINA World Swimming Championships	2.3	..	..	..
New Jewish Community Centre, Caulfield	2.3	..	..	..
Purchase of Von Guerard Painting 'View of Geelong'	1.5	..	..	..
<b>Protecting our Communities: New Initiatives to Combat Terrorism</b>				
Centre for Dialogue	..	0.2	0.1	..
Counter Terrorism Research and Development	0.1	0.1	0.1	0.1
Global Terrorism Research Centre <sup>(a)</sup>	0.2	0.3	0.3	0.3
<b>Total output decisions</b>	<b>6.3</b>	<b>0.6</b>	<b>0.5</b>	<b>0.4</b>

Source: Department of Treasury and Finance

Note:

(a) Global Terrorism Research Centre has \$0.2 million funding in 2010-11.

#### **Cultural Program: 2007 FINA World Swimming Championships**

Funding has been provided for a free outdoor cultural program to be held in March 2007 during the FINA World Swimming Championships.

#### **New Jewish Community Centre, Caulfield**

Funding has been provided to enable the purchase of land in Caulfield for the development of a new Jewish Community Centre.

#### **Purchase of Von Guerard Painting 'View of Geelong'**

Funding has been provided to the Geelong Gallery for the purchase of the early Australian painting 'View of Geelong' by Eugene von Guerard.

#### **Protecting Our Communities: New Initiatives to Combat Terrorism**

##### *Centre for Dialogue*

Funding will be provided for the Centre for Dialogue at La Trobe University.

##### *Counter Terrorism Research and Development*

Funding has been provided to the operations of the National Security and Technology Unit and for research and consultation on the causes of terrorism.

##### *Global Terrorism Research Centre*

Funding will be provided for the establishment of a new Global Terrorism Research Centre at Monash University from January 2007.

## Asset decisions

**Table A13: Asset decisions – Department of Premier and Cabinet**

	(\$ million)				
	2006-07	2007-08	2008-09	2009-10	TEI
Australian Centre for the Moving Image Ground Floor Planning and Redevelopment Works	3.0	..	..	..	3.0
<b>Total asset decisions</b>	<b>3.0</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>3.0</b>

Source: Department of Treasury and Finance

### Australian Centre for the Moving Image Ground Floor Planning and Redevelopment Works

Funding has been provided for ground floor planning and redevelopment works at the Australian Centre for the Moving Image.

## Primary Industries

### Output decisions

**Table A14: Output decisions – Primary Industries**

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
Leasing of Aquaculture Sites	0.5	0.8	0.4	0.2
Locust Control in northern Victoria	3.0	..	..	..
<b>Drought Response</b>				
Additional Rural Financial Counsellors	0.6	0.6	..	..
Domestic and Stock Water Tank rebates	5.4	..	..	..
Drought communications	0.1	..	..	..
Exceptional Circumstances package - Business Interest Rate Subsidies	2.0	..	..	..
Extending Municipal Rates Subsidy to 2007-08	..	5.0	..	..
Future farm planning	0.7	0.7	..	..
One-on-one extension services for farmers	0.5	0.5	..	..
Stock slaughter program	1.0	..	..	..
Supplementary re-establishment grants	0.5	..	..	..
<b>Our Environment Our Future – Sustainability Action Statement 2006</b>				
Healthy Soil	1.0	1.0	1.0	1.0
Responding to Community Expectations of Mining	0.8	0.8	0.6	0.4
Reducing Emissions from the Agricultural Sector	0.4	..	..	..
<b>Total output decisions</b>	<b>16.3</b>	<b>9.3</b>	<b>2.1</b>	<b>1.6</b>

Source: Department of Treasury and Finance

### **Leasing of Aquaculture Sites**

Funding has been provided to meet costs associated with the leasing of marine aquaculture sites on Crown land in Port Phillip Bay and Western Port.

### **Locust control in northern Victoria**

Funding has been provided to meet the cost of undertaking urgent locust control activities in northern Victoria.

### **Drought Response**

#### *Additional Rural Financial Counsellors*

Funding has been provided for four rural financial counsellors in Ouyen, Kerang, Kyabram and the Wimmera over the next two years.

#### *Domestic and Stock Water Tank rebates*

This decision will provide rebates on the cost of installing a water tank for eligible Grampians Wimmera Mallee Water stock and domestic water customers.

#### *Drought communications*

Funding has been provided to promote combined State Government drought response measures.

#### *Exceptional Circumstances package – Business Interest Rate Subsidies*

The funding represents the State's commitment to assist farmers affected by recent frosts at Goulburn Valley. A major component of the assistance is to provide business interest rate subsidies for eligible farmers in the area.

#### *Extending Municipal Rates Subsidy to 2007-08*

This decision will extend the 50 per cent municipal rates subsidy program into 2007-08.

#### *Future farm planning*

This decision will provide services and support for primary producers making decisions for the future.

#### *One-on-one extension services for farmers*

This decision has provided funding for one-on-one extension services and advice for farmers in drought 'hot spots' across the State.

#### *Stock Slaughter Program*

Funding has been provided to assist local councils with the costs of disposing of sheep or cattle that are in unsaleable condition due to drought conditions.

#### *Supplementary re-establishment grants*

This decision offers 12 months of support to retrain farmers choosing to exit the industry, assisting them with the process of leaving their landholdings, and often their homes. This decision complements a Commonwealth Government program.

## Our Environment, Our Future – Sustainability Action Statement 2006

### *Healthy Soil*

This decision will help primary producers responsibly manage their soil assets to help achieve production and environmental benefits. This will include putting them in touch with the best available information sources, diagnosing the condition and health of their soil, comparing their soil management against other local producers and pursuing improved soil productivity and environmental services.

### *Responding to Community Expectations of Mining*

The major boom in the resource sector is bringing new pressures and new issues for communities and the environment. This decision will minimise conflict by ensuring the resources sector talks with communities at an early stage and consults on how it will improve environmental and social outcomes and protect rural amenities through sustainable development practices.

### *Reducing Emissions from the Agricultural Sector*

Funding will be invested to support research into greenhouse emissions from Victorian agricultural activities, with a particular focus on the dairy industry. These emissions can be reduced through more efficient use of resources such as fertiliser and water, as well as being affected by animal treatment.

## **Sustainability and Environment**

### *Output decisions*

**Table A15: Output decisions – Department of Sustainability and Environment**

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
Analysis of Large Scale Water Supply Options for Melbourne	2.9	6.4	..	..
Analysis of Water Supply Options for Geelong	1.3	2.8	..	..
Annual Review of Factors Influencing Water Supply and Demand	2.3	..	..	..
Industrial Waste Reduction Programs	..	4.8	7.6	7.6
Mullum Mullum Creek Regional Park <sup>(a)</sup>	..	0.4	0.7	0.8
Sustainable Water Projects <sup>(b)</sup>	..	..	69.3	69.3
<b>Drought Response</b>				
Emergency bore and water supply network	3.0	..	..	..
Fire Ready Victoria for rural and isolated communities	0.6	..	..	..
Investing in Catchment and Land Protection	5.0	..	..	..
Municipal pools assistance program	1.1	..	..	..
Northern grid - promoting interconnections	2.0	6.0	..	..
Pumping Waranga Basin	4.3	..	..	..
Stock containment facilities	0.5	..	..	..
Using groundwater to secure urban water supplies	1.0	..	..	..
Water Rates Subsidies	40.0	2.0	2.0	2.0
Wimmera Mallee Pipeline - Fire Hydrants and Tanks	1.2	..	..	..

**Table A15: Output decisions – Department of Sustainability and Environment**  
(continued)

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
<b>Our Environment Our Future – Sustainability</b>				
<b>Action Statement 2006</b>				
Air Quality Monitoring Stations	3.0	..	..	..
Alternative Fuels	0.7	0.2	..	..
Cities for Climate Protection	0.4	..	..	..
Eco-innovation Hub	0.3	0.4	0.4	0.4
Eco-living	0.8	0.8	0.8	0.8
Energy Efficiency and Sustainability Campaign	2.4	5.0	..	..
Energy Smart Business	0.5	0.3	0.8	1.0
Extending Bush Tender	..	0.9	0.9	0.9
Gippsland Lakes	2.3	2.0	1.8	..
Green Communities - Smart Energy Zones	1.0	1.1	1.1	0.8
GreenHomes	0.6	1.2	1.2	1.2
Greening our Car Fleet	0.5	..	..	..
It's Easy Being Green	0.4	0.4	0.4	0.4
Landcare	2.0	2.0	2.0	2.0
Learning to Live Sustainably	0.5	1.5	2.0	1.9
Lifecycle Management in Business and Industry	3.0	3.0	3.0	..
Litter Strategy	0.1	..	..	..
Market Solutions	1.3	4.3	4.2	4.2
Native Vegetation Trust	1.6	2.6	0.1	0.1
Neighbourhood Renewal (Environmental Initiatives)	0.3	0.4	0.3	0.3
Protecting Our Coastline	0.2	0.2	0.2	0.2
Rebates for Being Green	0.3	0.6	0.6	..
Recreational Parks -Trail Bikes	0.9	1.5	1.6	1.1
Regional Sustainability	0.3	0.7	0.7	0.8
Right Advice at the Right Place	0.9	1.2	..	..
Support for Renewable Energy Technologies	4.4	4.0	4.0	..
Support Smart Business	0.5	0.3	0.8	1.0
Sustainable Forestry	0.5	..	..	..
Sustainability Fund Grants	3.0	3.0	3.0	3.0
Take-back and Recycling Centres	1.6	1.4	0.5	0.5
Trade Waste	1.0	1.0	1.0	1.0
Victorian Local Sustainability Accord	1.0	1.4	1.3	1.3
Werribee Plains	0.2	0.2	0.2	..
Yarra Hot Spots	0.6	1.2	1.3	1.4
<b>Total output decisions</b>	<b>102.2</b>	<b>64.9</b>	<b>113.7</b>	<b>103.7</b>

Source: Department of Treasury and Finance

Notes:

- (a) Mullum Mullum Creek Regional Park has \$0.6 million funding in 2010-11.  
 (b) Sustainable Water Projects will provide \$69.3 million funding in 2010-11 and 2011-12.

### **Analysis of Large Scale Water Supply Options for Melbourne**

A State Government contribution is provided to undertake development of business cases for large scale water supply options for Melbourne such as the Eastern Treatment Water Recycling proposal and other augmentation feasibility studies including seawater desalination and stormwater re-use options.

### **Analysis of Water Supply Options for Geelong**

A State Government contribution is provided to undertake feasibility studies of water supply options in Geelong and surrounding regions such as Newlingbrook and Jan Juc. Groundwater opportunities, aquifer storage and recovery initiatives and the potential for a Melbourne to Geelong interconnection will also be investigated.

### **Annual Review of Factors Influencing Water Supply and Demand**

Funding has been provided to deliver an annual review of water availability and demand compared to predicted forecasts, the evaluation of progress in meeting water conservation targets and a program of community and stakeholder engagement on the outcomes of the annual review.

### **Industrial Waste Reduction Programs**

Industry support programs will be established by the Environment Protection Authority in partnership with industry to reduce the generation of prescribed industrial waste. These programs will be funded from additional revenues arising from the introduction from 1 July 2007 of increased and differential landfill levies for the disposal of prescribed industrial waste.

### **Mullum Mullum Creek Regional Park**

Funding is provided to establish the Mullum Mullum Creek Regional Park to provide recreational and environmental benefits to the communities of Nunawading, Ringwood and surrounding areas. The natural values contained along Mullum Mullum Creek will be protected through the establishment of natural features reserves.

### **Sustainable Water Projects**

Funding is provided for water-related initiatives that seek to promote the sustainable management of water and to address adverse environmental impacts associated with water use. Funding is sourced from the second tranche of revenue from the Environmental Contribution Levy beginning 1 July 2008.

### **Drought Response**

#### *Emergency bore and water supply network*

Funding has been provided to prepare an updated inventory of reliable and accessible emergency water supply points for water cartage across the State, as well as to upgrade existing water supply points and identify and establish new sites.

#### *Fire Ready Victoria for rural and isolated communities*

Funding has been provided to extend the Fire Ready Victoria model to isolated rural communities in higher drought and bushfire risk areas.

#### *Investing in Catchment and Land Protection*

Catchment Management Authorities will deliver fencing works, pest management, stock containment and environmental works to mitigate the impacts of drought.

#### *Municipal pools assistance program*

Funding is provided to approximately 20 regional and rural councils to assist keep municipal pools open over this summer.

#### *Northern grid - promoting interconnections*

Funding is provided for stage one of a northern irrigation district upgrade, comprising program development, system design, feasibility studies and business cases for piping, channel automation, channel lining, improved metering and system interconnections.

#### *Pumping Waranga Basin*

Funding is provided for Goulburn-Murray Water to pump 'dead water' from the Waranga Basin to increase water allocations.

#### *Stock containment facilities*

Funding is provided to respond to the impacts of soil erosion and soil health decline exacerbated by drought.

#### *Using groundwater to secure urban water supplies*

This decision has provided funding to help rural towns secure urban water supplies by identifying and accessing groundwater supplies.

#### *Water Rates Subsidies*

Funding has been provided by the Government towards the first \$5 000 of fixed water charges for all irrigators and stock and domestic farmers who received less than 50 per cent of their water entitlements in 2006-07 only. In addition, for those irrigators whose water bill is greater than \$5 000 the balance will be able to be deferred and repaid over the following four years in annual instalments, interest free.

#### *Wimmera Mallee Pipeline - Fire Hydrants and Tanks*

Funding is provided to assist eight local councils in the Wimmera Mallee region to install fire hydrants and fire tanks along trunk mains and distribution pipelines being renewed as part of the Wimmera Mallee Pipeline Project.

## **Our Environment, Our Future – Sustainability Action Statement 2006**

### *Air Quality Monitoring Stations*

In partnership with Ecotech Pty Ltd, the Environment Protection Authority will update the current metropolitan air monitoring network with new instrumentation, new shelters and infrastructure. Two new stations will be established in Melbourne's northern and western suburbs.

### *Alternative Fuels*

Funding is provided to develop 'A Biofuels Action Plan for Victoria' that will focus on building the capacity of the local biofuels industry and position the Victorian automotive industry for a low carbon future. The project also contributes to a hybrid bus trial that is designed to demonstrate the capability and accessibility of alternative technologies to the broader public.

### *Cities for Climate Protection*

This decision will cut greenhouse emissions by providing funding assistance to help local councils implement energy reduction measures and green purchasing policies, as outlined in their environmental action plans.

### *Eco-innovation Hub*

This decision will seek to identify applications for new technologies that have the potential to provide significant environmental benefits. This will be done by linking university students across a range of design disciplines to sustainability projects with industry, Government, communities and a sustainable cities network.

### *Eco-living*

Seed funding will be provided to local councils to establish six community buildings that demonstrate sustainability in action, based on the successful Port Phillip Eco-House and the CERES Centre in Brunswick. Funding will also be provided for practical examples of sustainability improvements in kindergartens, libraries, community centres, offices and small shops.

### *Energy Efficiency and Sustainability Campaign*

This decision will provide for a high-profile, sustained media campaign to increase awareness of climate change and demonstrate how household actions can reduce energy use and greenhouse gas emissions.

### *Energy Smart Business*

Funding support is provided for projects in the business and retail sectors which demonstrate the benefits of energy efficiency with the aim of promoting wider uptake. Funding is also provided to start benchmarking Victoria's energy performance in key business sectors, as well as the residential sector.

### *Extending Bush Tender*

The BushTender program will be rolled out across the State, building on the successful expansion announced in the Provincial Statement. BushTender is an auction based approach where landholders competitively tender for contracts to improve their native vegetation.

### *Gippsland Lakes*

This decision aims to improve water quality in the Gippsland Lakes and assist reduction of the frequency and severity of algal blooms. The third phase of the *Gippsland Lakes Future Directions and Action Plan* will continue major nutrient reduction programs, support wetlands biodiversity and increase the capacity of the catchment community to improve the environmental health of the Lakes.

### *Green Communities – Smart Energy Zones*

This decision will demonstrate how leading Victorian communities can dramatically reduce their greenhouse gas emissions through integrating energy efficiency measures. Opportunities will be identified for communities to demonstrate how they can develop their own power through sustainable energy solutions.

### *GreenHomes*

In partnership with local government and environment groups, the State Government will help households make eco-friendly choices covering energy, waste, packaging, transport, gardens and water.

### *Greening our Car Fleet*

The State Government will operate a carbon neutral vehicle fleet by maintaining 150 hybrid vehicles and investing in offsetting greenhouse emissions.

### *It's Easy Being Green*

The ECOBuy green purchasing scheme has been successful in empowering local governments to achieve environmentally friendly outcomes in their purchasing decisions. The scheme will be extended beyond local government, with the establishment of an ECOBuy Environmental Purchasing Centre in Melbourne.

### *Landcare*

Building on the success of the *Victorian Action Plan for Second Generation Landcare*, this decision will increase the capacity of local and regional communities to participate in coordinated natural resources management activities, address key information gaps to improve the effectiveness of existing programs and facilitate sub catchment scale partnership projects. Funding will also help Landcare Groups recruit more Victorians to the Landcare movement.

### *Learning to Live Sustainably*

This decision provides for an effective, efficient, Whole-of-State approach to education and behaviour change for environmental sustainability. Funding is provided for key elements of the 10-year *Learning to Live Sustainably Strategy*, including a major household behaviour change program led by the Australian Conservation Foundation and Environment Victoria, and incentive programs, including seed funding, accreditation, awards and locally targeted behaviour change campaigns.

### *Lifecycle Management in Business and Industry*

The Environment Protection Authority will work with the Victorian Employers' Chamber of Commerce and Industry, the Australian Industry Group and the Plastic and Chemicals Industry Association to support environmental and efficiency improvements across the lifecycle of products and services in key industries.

### *Litter Strategy*

In conjunction with the Victorian Litter Action Alliance and local councils, the State Government will develop a litter strategy to cover enforcement, better education and awareness raising programs. This strategy is intended to advance the State Government's goal of improving litter behaviour by 25 per cent.

### *Market Solutions*

This decision involves the use of specially designed markets (such as auctions, tradeable permits and offset markets) to provide landholders with incentives to further integrate environmental considerations with the business decisions of the farm. Through this decision, a large scale pilot of EcoTender will be run in regional Victoria, enabling State government funding to be allocated to environmental initiatives identified by the private and community sectors that deliver multiple environmental benefits.

### *Native Vegetation Trust*

Consistent with the State Government's goal of net vegetation gain, this decision establishes an offset market for native vegetation to allow developers to pay into a pooled fund for investment in native vegetation.

### *Neighbourhood Renewal (Environmental Initiatives)*

This decision will further integrate the State Government's social and environmental sustainability goals, by focusing on practical environmental initiatives in areas of disadvantage.

### *Protecting Our Coastline*

This decision provides assistance to coastal councils to implement the *Coastal Spaces Settlement Framework*. This will enable coastal councils to respond to development pressures from 'Seachange' demographic shifts, as well as to the risks of climate change and its effects on the coastal zone.

### *Rebates for Being Green*

Targeted rebates will be provided to encourage Victorians to replace inefficient household appliances that require the most power to operate. The rebates could include old fridges, upgrading old gas-ducting and insulation.

### *Recreational Parks – Trail Bikes*

This decision will enhance the management of recreational vehicle use in State Forests. Specifically it will reduce environmental impacts from trail bike use, rehabilitate tracks, establish new trail bike unloading areas and create new buffer zones to protect residential areas and environmental assets.

### *Regional Sustainability*

Regional sustainability strategies will be developed that set out the contribution each region will make to the State's sustainability objectives, identify regional needs, challenges and priorities and set out actions for driving better outcomes.

### *Right Advice at the Right Place*

This decision will engage hardware stores and appliance and lighting retailers to provide Victorians with the best energy-saving advice at the point of sale. This will empower households to buy energy efficient appliances for the home.

### *Support for Renewable Energy Technologies*

The decision provides funding support for renewable energy technology research and development. Grants will be provided to world-class research proposals that can leverage additional support from industry and the Commonwealth Government.

### *Support Smart Business*

Funding is provided to expand successful business energy innovation programs to provide support for businesses investing in leading edge eco-efficient solutions that demonstrate the benefits of material efficiency, waste reduction and water conservation.

### *Sustainable Forestry*

This decision will ensure that timber harvesting in Victoria is accredited with the highest possible environmental standards. Victoria will progress with achieving both the Australian Forestry Standard and Forest Stewardship Council certification standards.

### *Sustainability Fund Grants*

Funding of \$12 million will be provided over the next four years under the annual Sustainability Fund allocations process to initiatives that improve our environment and have economic and social benefits.

### *Take-Back and Recycling Centres*

Funding is provided to establish 12 'byte-back' and 'detox' centres to recycle household chemicals, paints and batteries, TVs, computers and other electronic equipment.

### Trade Waste

Funding is provided to support rural food and dairy manufacturers reduce their trade waste volumes and use of potable water.

### Victorian Local Sustainability Accord

Funding is provided to support local environmental priorities as part of agreements with local government, under the *Victorian Local Sustainability Accord*.

### Werribee Plains

A *Regional Sustainability Framework for Werribee Plains* will be developed in partnership with the Australian Conservation Foundation to identify specific opportunities within the region to pursue and market sustainable development practices and technologies. This decision will help make the Werribee region a unique sustainable location to live, work and invest.

### Yarra Hot Spots

This decision will enable the Environment Protection Authority to establish a high profile team to conduct field investigations, scientific evaluation and infrastructure audits along the Yarra River and its tributaries (including the Maribyrnong River). Funding is also provided to identify 'hot spots' for action and to assist business and the community to take actions to protect the river.

## Asset decisions

**Table A16: Asset decisions – Department of Sustainability and Environment**

	(\$ million)				
	2006-07	2007-08	2008-09	2009-10	TEI
Barwon Water/Shell Recycling Project	0.1	2.1	7.3	0.1	9.4
Sustainable Water Projects <sup>(a)</sup>	..	..	4.4	4.4	17.7
<b>Drought Response</b>					
Interconnect Warranga Channel with the Ballarat Urban Water Supply System <sup>(b)</sup>	2.9	7.0	20.5	40.7	71.0
Investing in Catchment and Land Protection	5.0	..	..	..	5.0
Northern grid - promoting interconnections	0.8	1.8	..	..	2.5
<b>Our Environment Our Future – Sustainability Action Statement 2006</b>					
Better Parks (Great Parks for a Liveable City)	3.3	6.4	2.4	1.1	13.3
<b>Total asset decisions</b>	<b>12.1</b>	<b>17.2</b>	<b>34.6</b>	<b>46.3</b>	<b>118.9</b>

Source: Department of Treasury and Finance

#### Notes:

- (a) Sustainable Water Projects will provide \$4.4 million funding in 2010-11 and 2011-12.  
(b) The phasing information for this project is indicative only and will be finalised after the completion of the tender process and contract negotiations.

## **Barwon Water/Shell Recycling Project**

Funding over four years has been provided to assist delivery of a water recycling plant at Shell Refinery in Geelong as part of a Barwon Water/Shell alliance.

## **Sustainable Water Projects**

See output decisions.

## **Drought Response**

### *Interconnect Waranga Channel with the Ballarat Urban Water Supply System*

This project links the Goulburn system to the Ballarat water system, providing Ballarat with access to a more reliable and secure supply of water. The State Government will contribute \$71.0 million to redistribute up to 20 gigalitres of water via a new pipeline.

### *Investing in Catchment and Land Protection*

See output decisions.

### *Northern grid – promoting interconnections*

This decision provides for a State Government contribution to Goulburn-Murray Water for construction of an interconnect from the Waranga Channel to the Campaspe Irrigation District.

## **Our Environment, Our Future – Sustainability Action Statement 2006**

### *Better Parks (Great Parks for a Liveable City)*

This decision involves the development of three new parks in Melbourne's key growth corridors at Werribee, Melton and Craigieburn. New and expanded visitor facilities will be provided at the Point Gellibrand Coastal Park. Funding is also provided to undertake landscape and environment enhancement works at the four sites.

## **Treasury and Finance**

### *Output decisions*

**Table A17: Output decisions – Department of Treasury and Finance**

*(\$ million)*

	2006-07	2007-08	2008-09	2009-10
Domestic Building Indemnity Fund	3.7	..	..	..
First Home Bonus	4.0	100.0	119.0	11.0
<b>Total output decisions</b>	<b>7.7</b>	<b>100.0</b>	<b>119.0</b>	<b>11.0</b>

*Source: Department of Treasury and Finance*

## **Domestic Building Indemnity Fund**

Funding has been provided to process and settle claims from policyholders of builders' warranty insurance products issued by the HIH Insurance Group.

## First Home Bonus

Funding has been provided to extend the Government's \$3 000 *First Home Bonus* until June 2009 and increase the Bonus to \$5 000 from 1 January 2007, where the property is a newly constructed home.

## Victorian Communities

### Output decisions

**Table A18: Output decisions – Department for Victorian Communities**

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
2007 FINA World Swimming Championships	3.8	..	..	..
Commonwealth Games Legacy Projects <sup>(a)</sup>	23.0	..	..	..
<b>Drought Response</b>				
Building Resilient Communities	0.8	0.8		
<b>Total output decisions</b>	<b>27.6</b>	<b>0.8</b>	..	..

Source: Department of Treasury and Finance

Note:

(a) Individual projects and phasings will be considered in the 2007-08 Budget.

### 2007 FINA World Swimming Championships

Funding has been provided in 2006-07 to enhance the benefits from the 2007 FINA World Swimming Championships.

### Commonwealth Games Legacy Projects

Funding from Melbourne 2006 Commonwealth Games Budget savings will be provided for sporting and other community-related initiatives. Program examples include Growing Sporting Participation, Community Walking Group grants and Improved School Sports Facilities.

### Drought Response

#### *Building Resilient Communities*

This decision has provided funding over two years to the 15 most drought affected municipalities in Victoria for the development of local initiatives that build community resilience.

## Asset decisions

**Table A19: Asset decisions – Department for Victorian Communities**

	(\$ million)				
	2006-07	2007-08	2008-09	2009-10	TEI
Commonwealth Games Legacy Projects - Demountable Pools <sup>(a)</sup>	2.9	..	..	..	2.9
<b>Total asset decisions</b>	<b>2.9</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>2.9</b>

Source: Department of Treasury and Finance

Note:

(a) Final funding and phasings will be considered in the 2007-08 Budget.

### Commonwealth Games Legacy Projects - Demountable Pools

Funding has been provided for the purchase of two temporary demountable swimming pools and associated plant and equipment to cater for the 2007 FINA World Swimming Championships. The pools will subsequently be distributed to local councils for future use as community swimming pools.

## DEPARTMENTAL CONTRIBUTION LEVY – DROUGHT ASSISTANCE

**Table A20: Departmental Contribution Levy – Drought Assistance**

	(\$ million)				
	2006-07	2007-08	2008-09	2009-10	
Education and Training	10.0	..	..	..	
Human Services	10.0	..	..	..	
Infrastructure	5.0	..	..	..	
Innovation, Industry and Regional Development	5.0	..	..	..	
Justice	5.0	..	..	..	
Premier and Cabinet	1.7	..	..	..	
Primary Industries	1.7	..	..	..	
Sustainability and Environment	5.0	..	..	..	
Treasury and Finance	1.7	..	..	..	
Victorian Communities	5.0	..	..	..	
<b>Total Departmental Contribution Levy - Drought Assistance</b>	<b>50.0</b>	<b>..</b>	<b>..</b>	<b>..</b>	

Source: Department of Treasury and Finance

### Departmental Contribution Levy – Drought Assistance

In recognition of the exceptional circumstances created by the drought, a Departmental Contribution Levy has been applied totalling \$50 million in 2006-07 and sourced from existing appropriations for all departments. The Departmental Contribution Levy enables the implementation of a package of drought assistance decisions (as outlined throughout this Appendix).

## REVENUE DECISIONS

**Table A21: Revenue decisions**

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
Environmental Contribution Levy <sup>(a)</sup>	..	..	73.7	73.7
Land Transfer Duty	- 19.0	- 47.0	- 47.0	- 95.0
Payroll Tax	- 26.0	..	..	..
Prescribed Industrial Waste Levy	..	15.3	4.0	3.4
<b>Total revenue decisions</b>	<b>- 45.0</b>	<b>- 31.7</b>	<b>30.7</b>	<b>- 17.9</b>

Source: Department of Treasury and Finance

Note:

(a) Environmental Contribution Levy will collect \$73.7 million in 2010-11 and 2011-12.

### Environmental Contribution Levy

This is a continuation of the Environmental Contribution Levy to fund water-related initiatives that seek to promote the sustainable management of water and to address adverse environmental impacts associated with water use. The funding shown is indicative only, with the final funding profile being determined in accordance with the process set out in the *Water Industry Act 1994*.

### Land Transfer Duty

The Government will provide land transfer duty relief for home buyers for contracts entered into from 1 January 2007 in respect of principal places of residence. For properties with dutiable values between \$115 000 and \$400 000 the current 6 per cent marginal rate will be reduced to 5 per cent. Over the subsequent \$100 000 range from \$400 000 to \$500 000 a duty saving of \$2 850 will apply.

Any first home buyer that qualifies for both the *First Home Bonus* and the land transfer duty concession is required to elect between the two.

### Payroll Tax

The Government has brought forward to 1 January 2007 the reduction in the payroll tax rate from 5.15 per cent to 5.05 per cent which was originally scheduled to apply from 1 July 2007.

### Prescribed Industrial Waste Levy

From 1 July 2007, increased and differential landfill levies will apply for the disposal of prescribed industrial waste. The revenue raised from the levy increases will be reinvested by the EPA in partnership with industry to reduce the generation of prescribed industrial waste.

A levy of \$130 per tonne of higher level hazard prescribed industrial waste (Class B) will apply, as will a levy of \$50 per tonne of lower level prescribed industrial waste (Class C). Under the *Environment Protection (Amendment) Act 2006*, all Class A prescribed industrial waste must be treated to at least Class B standard before disposal. No levy will apply to the deposit of wastes to the long-term containment facility.



## APPENDIX B: TAX EXPENDITURES AND CONCESSIONS

Under the *Financial Management Act 1994*, the Government is required to provide an overview of tax expenditures.

Tax expenditures are tax concessions granted to certain taxpayers, activities or assets, which are a deviation from the normal taxation treatment. This includes tax-free thresholds and can also take the form of exempting or applying a lower rate, deduction or rebate of a tax for a certain class of taxpayer, activity or asset (this excludes generally applying marginal tax rates).

Table B.1 shows aggregate tax expenditures by the main categories of tax for the period 2005-06 to 2009-10. The 2006-07 Budget Update estimate for total estimated tax expenditures for 2006-07 is \$2 667 million, \$104 million higher than the 2006-07 Budget estimate of \$2 563 million. The variations from the forecast estimates published in the 2006-07 Budget are mainly associated with:

- higher land tax expenditures as a result of updated information from the SRO with respect to non-taxable properties;
- higher payroll tax expenditures associated with higher payroll tax forecasts resulting from strong labour market outcomes;
- lower than expected exemptions for corporate reconstructions;
- bringing forward the payroll tax rate cut from 5.15 per cent to 5.05 per cent effective from 1 January 2007; and
- the introduction of an initiative that reduces the stamp duty for properties priced between \$115 000 and \$500 000 bought as the principal place of residence.

**Table B.1: Aggregate tax expenditures (excluding thresholds) by type of tax**

<i>Description</i>	<i>(\$ million)</i>				
	<i>2005-06 Estimate</i>	<i>2006-07 Estimate</i>	<i>2007-08 Estimate</i>	<i>2008-09 Estimate</i>	<i>2009-10 Estimate</i>
Land tax	1 619	1 608	1 633	1 663	1 637
Payroll tax	670	698	717	736	763
Gambling tax	71	73	72	77	82
Other stamp duties	262	170	212	212	261
Motor vehicle taxes	67	68	72	76	80
Congestion levy	25	50	51	52	54
<b>Total estimated tax expenditures</b>	<b>2 714</b>	<b>2 667</b>	<b>2 758</b>	<b>2 817</b>	<b>2 877</b>

## CONCESSIONS

Concessions are a direct budget outlay or reduction in government charges that have the effect of reducing the price of a good or service for particular groups. Certain characteristics of the consumer, such as possession of a Commonwealth pensioner card or a health care card, are the basis for entitlement. Concessions allow certain groups in the community to access and/or purchase important amenities like energy, education, health and transportation at a cheaper rate or zero cost.

Table B.2 classifies the major concessions provided by the Victorian Government by the various categories. The current estimated total value of concession for 2006-07 is \$1 111 million, \$103 million higher than the \$1 009 million estimated in the 2006-07 Budget. The variations from the forecast estimates published in the 2006-07 Budget are mainly associated with the inclusion of the School Start Bonus as a concession and an upward revision to ambulance concessions in the health category.

**Table B.2: Concessions by category** <sup>(a)</sup>

<i>Description</i>	<i>(\$ million)</i>		
	<i>2004-05 Estimate</i>	<i>2005-06 Estimate</i>	<i>2006-07 Estimate</i>
Energy, municipal rates, water and sewerage	239	237	249
Education	121	150	175
Health	323	397	426
Hardship assistance	21	21	24
Transport	208	227	237
<b>Total for items estimated</b>	<b>912</b>	<b>1 033</b>	<b>1 111</b>

*Notes:*

(a) *These figures include the cost of administration.*

## APPENDIX C: ELECTION COMMITMENTS – IMPLEMENTATION REPORT CARD

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*Labor's Financial Statement 2006 – The third term of a Bracks Labor Government* provides an overview of the Government's election policy commitments and their budgetary impact.

Implementation of the Government's 2006 election commitments as outlined in *Labor's Financial Statement 2006* will increase service delivery in Victoria. Initiatives announced include:

- \$476 million over four years to increase hospital emergency department capacity;
- \$394 million over four years to expand hospital and outpatient capacity;
- \$167 million over four years toward education and skills initiatives (including \$80 million for primary welfare officers); and
- \$106 million over five years for the transport and liveability package (including \$94 million towards *A Fare Go* for public transport users).

The Government's election commitments as described in *Labor's Financial Statement 2006* will also expand infrastructure provision across the State. Initiatives announced include \$1.9 billion (total estimated investment) for modernisation, regeneration, replacement schools and other projects, \$404 million for *Linking Victoria* (including \$134 million to buy back the regional freight network from Pacific National) and \$184 million to expand Sunshine Hospital.

The 2006-07 Budget Update takes into account the following initiatives announced in *Labor's Financial Statement 2006* and endorsed by the Government on 4 December 2006:

- reduction in stamp duty for properties priced between \$115 000 and \$500 000 bought as the principal place of residence, with first home buyers having a choice between the new stamp duty rate and the *First Home Bonus*;
- extension of the \$3 000 First Home Bonus for first home buyers of existing properties to 30 June 2009 for properties under \$500 000 purchased as the principal place of residence, with the Bonus for those purchasing newly constructed properties increased to \$5 000; and
- bringing forward the previously announced payroll tax cut from 5.15 per cent to 5.05 per cent effective from 1 January 2007 instead of 1 July 2007.

A full listing of the Government's service delivery election commitments to be considered as part of the 2007-08 and future Budgets is provided in Table C.3. Table C.4 provides a full listing the Government's asset investment election commitments.

**Table C.1: Labor's Financial Statement 2006 output initiatives approved as part of the Budget Update**

	(\$million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Housing Affordability</b>					
First Home Bonus	4.0	100.0	119.0	11.0	..
<i>Less Offsets</i>	<i>4.0</i>	<i>100.0</i>	<i>119.0</i>	<i>11.0</i>	<i>..</i>
<b>Total Housing Affordability</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>NET IMPACT OF NEW OUTPUT INITIATIVES</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>

Source: Department of Treasury and Finance

**Table C.2: Labor's Financial Statement 2006 revenue initiatives approved as part of the Budget Update**

	(\$million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Housing Affordability</b>					
Stamp duty cuts	- 19.0	- 47.0	- 47.0	- 95.0	- 97.0
<b>Total Housing Affordability</b>	<b>- 19.0</b>	<b>- 47.0</b>	<b>- 47.0</b>	<b>- 95.0</b>	<b>- 97.0</b>
<b>Jobs and Exports</b>					
Payroll Tax: bring forward rate cut	- 26.0	..	..	..	..
<b>Total Jobs and Exports</b>	<b>- 26.0</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>TOTAL NEW REVENUE INITIATIVES</b>	<b>- 45.0</b>	<b>- 47.0</b>	<b>- 47.0</b>	<b>- 95.0</b>	<b>- 97.0</b>

Source: Department of Treasury and Finance

**Table C.3: Labor's Financial Statement 2006 output initiatives to be considered in the 2007-08 and future Budgets <sup>(a)</sup>**

	(\$ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Education and Skills</b>					
Career change program		0.3	0.5	0.5	0.5
50 Science graduate scholarships		0.2	0.2	0.5	0.5
Maths and Science equipment grants		11.1	..	..	..
Primary Welfare officers		19.1	19.7	20.2	20.9
300 Teacher Assistants		2.3	4.8	10.8	17.1
Non Government school capital grants		7.5	7.5	7.5	7.5
Experience Counts		1.0	1.0	1.0	1.0
Equipment grants for ACE providers		4.0	..	..	..
<b>Total Education and Skills</b>	<b>..</b>	<b>45.5</b>	<b>33.7</b>	<b>40.5</b>	<b>47.5</b>
<b>Health</b>					
<b>Health Services</b>					
Expand elective surgery capacity		22.1	23.9	26.0	28.0
Expand activity at the Alfred Centre		10.0	10.0	10.0	10.0
Increasing Emergency Department Capacity		61.5	138.5	138.0	138.0
Meet growing demand - expand hospital and outpatient capacity		58.5	111.5	112.0	112.0
Ambulance response times		3.1	7.1	7.2	7.4
Rural Ambulance response times		1.8	3.1	3.2	3.2
More Doctors for Country Victoria and recruitment		6.3	6.3	6.0	6.1
Mental Health - network for carers <sup>(b)</sup>	..	0.1	0.1	0.1	0.1
<b>Active Seniors</b>					
Increase HACC Funding		11.0	22.3	22.8	23.4
Personal Alarms		0.9	0.4	0.4	0.4
Men's Sheds		0.3	0.5	0.6	0.6
Better vision and dental health for Seniors		1.8	1.8	2.0	2.0
Increased dental services for SRS residents		0.4	0.5	0.5	0.5
Assist people with Dementia		0.8	0.8	0.8	0.9
<b>Go For Your Life</b>					
Life! Lifestyle change programs		2.5	4.1	4.2	5.2
Free Fruit Friday		1.6	2.7	3.3	3.5
Better Pools Program		11.5	11.5	11.5	11.5
Community Sport Grants		4.5	8.5	8.5	8.5
Reinvest the Commonwealth Games Surplus	9.7	11.5	4.7	..	..
<b>Total Health</b>	<b>9.7</b>	<b>210.2</b>	<b>358.3</b>	<b>357.1</b>	<b>361.3</b>
<b>Justice</b>					
<b>Community Safety</b>					
350 sworn police officers		6.0	15.1	25.1	32.6
25 Forensic officers		0.7	1.5	2.4	2.5
25 crime specialists and analysts		0.8	1.6	2.6	2.7
Freeing up police time		1.4	1.5	1.6	1.6
Anti Graffiti campaign		2.2	2.3	..	..
Police cars and facial recognition technology		0.6	1.1	..	..

**Table C.3: Labor's Financial Statement 2006 output initiatives to be considered in the 2007-08 and future Budgets <sup>(a)</sup> (continued)**

	(\$ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Access to Justice</b>					
Expand community legal services		2.2	2.2	2.2	2.2
Increase the maximum payment for crime compensation		1.1	2.3	2.4	2.6
Require judicial officers to do professional development		0.6	0.6	0.6	0.6
Homeless Persons Legal Assistance		0.2	0.2	0.2	0.2
Blue Jacket Project		0.1	0.1	0.1	0.1
<b>Ready for any Emergency</b>					
SES equipment		0.4	0.4	0.6	0.6
Valuing volunteers grants		0.8	0.8	0.8	0.8
Community Safety and Emergency Support Program		2.8	2.8	2.8	2.8
<b>Total Justice</b>	<b>..</b>	<b>19.8</b>	<b>32.4</b>	<b>41.3</b>	<b>49.2</b>
<b>Water, Environment and Climate Change</b>					
<b>Victoria's water grid</b>					
Barmah Choke Interconnect feasibility study	1.0	2.0	..	..	..
Northern Irrigation Revitalisation design works	1.0	4.0	..	..	..
<b>Making every drop count</b>					
Water rebates (including tanks)		5.0	5.0	5.0	5.0
Top 1500 industry program		0.3	0.3	0.3	0.3
Small Towns Water Quality Fund		2.5	6.0	6.0	5.5
Water Smart Farms initiative		2.5	2.5	2.5	2.5
Stormwater & Urban Recycling		0.5	3.0	3.0	3.5
Continue Werribee Vision		0.5	3.0	3.0	3.5
Recycling Water Project - Leongatha		2.0	2.0	..	..
Tackling Climate Change					
Rebates for Being Green		3.6	3.6	3.4	3.4
Energy Taskforce program		0.5	0.5	0.5	0.6
Increase Government purchase of Green power		0.2	0.8	2.0	3.0
Solar Panels at schools		1.3	1.3	1.3	1.3
Motor registration discount for hybrid cars		0.1	0.2	0.3	0.4
National Parks and Biodiversity					
Park Rangers		6.0	6.1	6.3	6.5
Support for East Gippsland industry		1.4	0.4	..	..
Landcare recruitment drive		0.5	0.5	0.5	0.5
Otways transition		..	2.7	..	..
Urban parks and paths		1.9	1.5	0.8	0.7
<b>Total Water, Environment and Climate Change</b>	<b>2.0</b>	<b>34.7</b>	<b>39.3</b>	<b>34.8</b>	<b>36.6</b>

**Table C.3: Labor's Financial Statement 2006 output initiatives to be considered in the 2007-08 and future Budgets <sup>(a)</sup> (continued)**

	(\$ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
<b>A Fairer Victoria</b>					
<b>Stronger Communities</b>					
Community Support Grants		5.0	12.2	13.0	13.0
Libraries		6.0	5.0	5.0	5.0
Community Centres		5.0	5.0	5.0	5.0
Neighbourhood Houses		1.3	1.3	1.3	1.3
Volunteering Grants		1.5	1.5	1.5	1.5
Community Enterprise		0.8	0.8	0.8	0.8
Community Renewal		1.0	1.0	1.0	1.0
<b>A Fairer Victoria</b>					
Disability support services		10.0	26.0	26.7	27.3
Technability program		0.8	0.8	0.8	0.8
Acquired Brain Injury		..	4.0	4.1	4.2
Support for Young People		0.3	0.3	0.3	0.3
Improved Employment opportunities		0.5	0.5	0.5	0.5
Training for Homeless support workers		0.5	0.8	0.8	..
Carers		5.0	5.1	5.2	5.2
<b>Giving Children the Best Start in Life</b>					
Kindergarten programs in child care		2.5	2.5	2.5	2.5
Free Kindergarten for low income families		7.0	7.1	7.3	7.5
Centralised child care register		0.5	0.5	0.5	0.5
Clusters and Kindergarten Parents Victoria		1.7	1.7	1.7	1.1
Kindergarten and children's services refurbishment		3.8	3.8	3.8	3.8
Children's Centres grants		5.0	5.0	5.0	5.0
Teacher support and training		1.0	1.0	1.0	1.0
Neonatal hearing tests		0.6	1.6	2.8	4.0
Maternal and child health, parenting advice		1.5	1.5	1.6	1.6
Early Intervention		1.5	1.5	1.6	1.6
Young Reader's program		0.5	0.5	0.5	0.5
<b>Total A Fairer Victoria</b>	<b>..</b>	<b>63.1</b>	<b>90.8</b>	<b>94.2</b>	<b>94.8</b>
<b>Victoria Communities</b>					
<b>Respecting Victoria's Veterans</b>					
Extend commemorative grants		0.5	0.5	0.5	0.5
RSL club redevelopments		0.5	0.5	0.5	0.5
<b>Promoting Diversity</b>					
Ethnic precincts development		3.0	3.0	2.0	..
Ethnic Communities Council		0.1	0.1	0.1	0.1
D W Hope Centre		1.0	..	..	..
Multicultural community grants		1.0	1.0	1.0	1.0
Community harmony initiatives		1.0	1.0	..	..
After Hours Ethnic Schools program		1.0	0.7	0.7	0.7

**Table C.3: Labor's Financial Statement 2006 output initiatives to be considered in the 2007-08 and future Budgets <sup>(a)</sup> (continued)**

	(\$ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Women</b>					
Returning to Earning		3.3	3.3	3.3	3.3
Workplace Toolkit		0.3	0.3	0.3	0.3
Safer Families Training Program		1.0	1.0	..	..
Financial Literacy		0.3	0.3	0.3	0.3
Centenary of Women's Suffrage		0.7	..	..	..
<b>Protecting work rights, family time &amp; workplace safety</b>					
Workplace Pay & Conditions Standard		0.5	0.2	0.2	0.1
Conciliation prior to court proceedings		0.1	0.1	0.1	0.1
Protecting workers from discrimination		0.1	0.1	0.1	0.1
Expand role of EOC in workplace discrimination		0.1	0.1	0.1	0.1
Working Families Council		0.1	0.2	0.2	0.2
<b>Connect: New Ideas for Young Victorians</b>					
Victoria Rocks - Big Break		1.8	1.8	1.8	1.8
Advance program		1.5	1.5	1.5	1.5
Marijuana and 'Ice' risk awareness program		0.6	0.4	..	..
Advocacy body support		0.3	0.3	0.3	0.3
<b>Total Victorian Communities</b>	<b>..</b>	<b>18.4</b>	<b>16.0</b>	<b>12.7</b>	<b>10.6</b>
<b>Culture and Recreation</b>					
<b>Hunting and 4 Wheel Driving Opportunities</b>					
Firearms Safety Foundation		0.1	0.1	0.1	0.1
Shotgun safety education		0.1	0.1	0.1	0.1
Upgrade 4WD tracks		2.0	2.0	..	..
Six new iconic 4WD routes		..	0.3	..	..
4WD track classification system		0.2	0.2	..	..
<b>Recreational Fishing and Boating</b>					
Increase fish stocking		0.3	0.3	0.3	0.3
Extend 13 FISH		0.3	0.3	0.3	0.3
Enhanced fishing grants program		2.6	2.6	2.9	3.9
Boating fund grants		5.0	5.0	5.0	5.0
Queenscliff Marine Discovery Centre		0.3	0.3	0.3	0.3
<b>Caring for Pets</b>					
Increased support for the RSPCA		1.0	1.0	1.0	1.0
Grants for wildlife refuges		0.3	0.3	..	..
Responsible pet ownership		0.1	0.1	0.1	0.1
<b>Arts opportunities for everyone</b>					
Arts in the Suburbs	0.9	3.1	2.0	2.0	2.0
Imagination Unlimited		1.8	1.8	1.8	1.8
Next Generation Film, Television & Digital media		1.4	1.4	..	..
Creative Communities		1.8	1.8	1.8	1.8
City of Literature		0.3	0.3	0.3	0.3
<b>Total Cultural and Recreation</b>	<b>0.9</b>	<b>20.4</b>	<b>19.6</b>	<b>15.8</b>	<b>16.8</b>

**Table C.3: Labor's Financial Statement 2006 output initiatives to be considered in the 2007-08 and future Budgets <sup>(a)</sup> (continued)**

	(\$ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Transport and Liveability</b>					
A Fare Go for public transport users	9.0	20.5	21.0	21.5	22.1
<b>Local Government</b>					
Future of Local Government Project		2.0	2.0	..	..
<b>Planning</b>					
Expert Planning Teams	..	1.5	1.5	..	..
Green wedge management	0.4	..	..	..	..
Melbourne 2030 five year audit	0.4	0.6	..	..	..
Regional town development plans	0.5	..	..	..	..
Rural zones - support for councils	0.5	..	..	..	..
Maritime heritage study	0.1	..	..	..	..
Planning rules and problem gambling	0.1	0.2	..	..	..
Community history grants	..	0.4	0.4	0.4	0.4
<b>Total Transport and Liveability</b>	<b>11.0</b>	<b>25.2</b>	<b>24.9</b>	<b>21.9</b>	<b>22.5</b>
<b>Industry and Regional Development</b>					
<b>Victorian Tourism</b>					
Marketing of international tourism		0.7	0.7	1.9	1.9
Promotion of natural attractions and car based touring		1.0	1.0	2.0	2.0
Promotion of food and wine to interstate markets		0.3	0.3	0.3	0.3
Fly-drive holidays to regional centres		0.2	0.2	0.3	0.3
Expand use of the Internet by regional tourist operators		0.2	0.2	0.3	0.3
Excellence in service standards		0.2	0.2	0.3	0.3
Wonthaggi mine redevelopment		1.0	0.5	..	..
Regional community tourism events		0.5	0.5	0.5	0.5
<b>Jobs and Exports</b>					
Tiger Teams		0.3	0.3	0.3	0.3
Expand ICN		0.8	0.8	0.8	0.8
Business Capability Advisers		0.3	0.3	0.3	0.3
Industry Champions		0.3	0.3	0.3	0.3
Victorian Export Network		1.2	1.2	1.2	1.2
Expand Opening Doors to Export		1.2	1.2	1.2	1.2
Victorians Abroad		0.3	0.3	0.3	0.3
<b>Provincial Victoria: Moving Forward</b>					
Regional Aviation Fund		2.0	2.0	1.0	..
Skilled Migration		2.0	2.0	2.0	2.0
New Regional Dental School		1.5	..	..	..
Clean Coal Authority		2.5	1.5	1.5	1.6
Rediscover Victoria		1.3	1.8	1.0	1.0
Weeds - New		1.0	1.0	1.0	1.0
Weeds - Extension		6.3	6.4	6.6	6.8
ID for Sheep		1.0	..	..	..
Farmers' Markets		0.5	0.5	0.5	0.5

**Table C.3: Labor's Financial Statement 2006 output initiatives to be considered in the 2007-08 and future Budgets <sup>(a)</sup> (continued)**

	(\$ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Local Roads to Markets		1.0	2.0	2.0	..
On Farm Energy Grants		1.0	1.0	1.0	1.0
Rural showgrounds		1.0	1.0	1.0	1.0
Eureka Centre		2.5	2.5	..	..
Moe Town Centre		1.0	1.0	..	..
<b>Total Industry and Regional Development</b>	<b>..</b>	<b>32.8</b>	<b>30.4</b>	<b>27.4</b>	<b>24.7</b>
<b>Efficient Government</b>					
Buying Smarter, Buying Less		- 51.0	- 65.0	- 80.0	- 96.0
Shared Services		- 5.0	- 10.0	- 20.0	- 25.0
Best Practice Grant Administration		- 5.0	- 10.0	- 10.0	- 10.0
Fleet Management		- 5.0	- 5.0	- 5.0	- 5.0
Advertising and Consultancies		- 5.0	- 5.0	- 5.0	- 5.0
Integrated focus on ICT		- 5.0	- 5.0	- 5.0	- 5.0
<b>Total Efficient Government</b>	<b>..</b>	<b>- 76.0</b>	<b>- 100.0</b>	<b>- 125.0</b>	<b>- 146.0</b>
<b>TOTAL INITIATIVES</b>	<b>23.6</b>	<b>394.0</b>	<b>545.4</b>	<b>520.5</b>	<b>517.9</b>
<i>Less Offsets</i>	<i>4.9</i>	<i>268.4</i>	<i>466.5</i>	<i>460.6</i>	<i>461.7</i>
<b>TOTAL NET NEW OUTPUT INITIATIVES<sup>(c)</sup></b>	<b>18.7</b>	<b>125.6</b>	<b>78.9</b>	<b>60.0</b>	<b>56.2</b>

Source: Department of Treasury and Finance

Notes:

- (a) Totals may not add due to rounding. Most initiatives have been rounded to one decimal place, see individual policies as published in Labor's Financial Statements 2006 for further detail.
- (b) Mental Health treatment teams (\$8 million) funded from demand contingency for Hospital Futures.
- (c) Excludes those initiatives already approved as part of this Budget Update.

**Table C.4: Labor's Financial Statement 2006 asset investment to be considered in the 2007-08 and future Budgets**

(\$ million)	<i>TEI</i>
<b>Education</b>	
Two select entry high schools	40.0
200 Science rooms redevelopment	50.0
Sir John Monash Science School and Maribyrnong Sport school	30.0
Three science centres	12.0
Modernisation, regeneration, replacement schools and other projects	1 227.0
20 new schools in growth corridors	219.0
400 relocatable classrooms	45.0
Ultranet	60.0
Computers	28.0
Modernise 30 tech wings at secondary colleges and renew equipment at all secondary schools	50.0
Kangan Batman Docklands - Stage 2	30.0
Gordon Institute - Wool Classing	3.0
Nursing Centre of Excellence (Box Hill)	4.5
Northern Institute of TAFE (Epping)	10.5
Small rural schools	70.0
<b>Total Education</b>	<b>1 879.0</b>
<b>Health and Community Services</b>	
<b>Health Services</b>	
Austin Surgery Centre	8.0
St Vincent's Surgery Centre	7.0
Emergency Departments - Short stay units	7.0
Sunshine Hospital	184.0
Frankston Hospital Stage 2A	45.0
Dandenong Hospital	25.0
Sunbury Day Hospital	15.0
Royal Victorian Eye and Ear Hospital	2.0
Monash Medical Centre Children's Wing	2.0
Community Health Centres	23.0
Ambulance Capital Upgrades (MAS)	4.7
Olivia Newton John Cancer Centre	25.0
Warrnambool Hospital	90.0
Ballarat Hospital	10.0
Bendigo Health - design	2.0
Bendigo Health - Stella Anderson	12.0
Barwon Health - Geelong Hospital planning	2.0
Alexandra and District Hospital	15.0
Nathalia Aged Care	18.0
Leongatha Aged Care	10.0
Trentham Aged Care	8.0
Latrobe Community Health Centre - Morwell	21.0
Stawell Community Health Centre	20.0
Rural ambulance capital upgrades	11.4
BreastScreen digitalisation	10.0

**Table C.4: Labor's Financial Statement 2006 asset investment to be considered in the 2007-08 and future Budgets (continued)**

(\$ million)

	<i>TEI</i>
<b>Mental Health</b>	
Dandenong Hospital	69.0
Northern Hospital	16.0
Prevention and Recovery Care (PARCS)	20.0
<b>Active Seniors</b>	
Land Bank	12.5
<b>Total Health</b>	<b>694.6</b>
<b>Justice</b>	
<b>Community Safety</b>	
Police Stations	85.5
Facial recognition technology	2.5
Police cars	3.9
Tablet computers for detectives	0.7
Forensic equipment	1.7
Weapons fund	10.0
Equipment vests and thigh holsters	3.9
<b>Ready for any Emergency</b>	
New and replacement CFA/MFB stations, AVCG facility and protective clothing <sup>(a)</sup>	17.8
New and replacement SES Units and training facilities	7.5
<b>Total Justice</b>	<b>133.5</b>
<b>Water, Environment and Climate Change</b>	
<b>Water grid</b>	
Campaspe pipeline to Waranga Channel	2.5
<b>National Parks and Biodiversity</b>	
Tourism assets in East Gippsland	1.8
Piers and jetties	8.0
Protection of beaches and foreshores	8.0
Point Nepean and walking track	10.6
Urban Parks and bike paths	37.1
<b>Total water, environment and climate change</b>	<b>68.0</b>
<b>A Fairer Victoria</b>	
<b>Addressing disadvantage</b>	
Supported accommodation	15.0
Support for young people	6.3
Out of home Care accommodation	14.2
<b>Giving Children the Best Start in Life</b>	
Neonatal hearing tests	1.2
<b>Total A Fairer Victoria</b>	<b>36.7</b>
<b>Housing Affordability</b>	
Affordable Housing	60.0

**Table C.4: Labor's Financial Statement 2006 asset investment to be considered in the 2007-08 and future Budgets (continued)**

(\$ million)

	<i>TEI</i>
<b>Victorian Communities</b>	
<b><i>Respecting Victorian Veterans</i></b>	
Mental health facility at Austin Health	10.0
<b>Total Victorian Communities</b>	<b>10.0</b>
<b>Culture and Recreation</b>	
<b><i>Recreational Fishing and Boating</i></b>	
New recreational fishing in Westernport	5.0
Establish a new fish hatchery in Northern Victoria	1.3
Rebuild Flinders pier in Westernport Bay	2.0
<b><i>Arts</i></b>	
City of Literature	8.0
Arts Centre precinct	5.0
Australian Centre for the Moving Image (ACMI)	5.8
<b>Total Culture and Recreation</b>	<b>27.1</b>
<b>Transport and Liveability</b>	
<b><i>Linking Victoria</i></b>	
Pacific National Buyback	133.8
Geelong Bypass - Stage 4	62.5
Duplication of Thompsons Road - Cranbourne	22.0
Duplication of Thompsons Road - Carrum Downs	30.0
Vineyard Road	25.0
Ferntree Gully Road - widening	32.0
Frankston Intersections	20.0
Traffic signals - Springvale	3.0
Yarra Glen Truck Bypass	9.0
Frankston Bypass EES	5.0
Glenelg Highway passing lanes	3.0
Signalisation Lower Dandenong Road/Boundary Road	5.0
Prahran and Windsor station upgrades	3.0
Hallam Station Park and Ride	2.0
Coolaroo Station	36.0
Local Transport Initiatives	12.9
<b>Total Transport and Liveability</b>	<b>404.2</b>
<b>Industry and Regional Development</b>	
<b><i>Tourism</i></b>	
National Park camping facilities - Wilsons Promontory and Grampians	6.5
Visitor facilities at Loch Ard and 12 Apostles	3.2
Cranbourne Australian Garden	21.0
<b><i>Provincial Victoria</i></b>	
New VLocity Trains - <i>Meeting our Transport Challenges Reserve</i>	65.2
New Dental School chairs	13.0
<b>Total Industry and Regional Development</b>	<b>108.9</b>
<b>Total Capital Investment</b>	<b>3 422.0</b>

**Table C.4: Labor's Financial Statement 2006 asset investment to be considered in the 2007-08 and future Budgets (continued)**

(\$ million)

	<i>TEI</i>
<b>LESS: ALLOCATED CAPITAL</b>	
Skills for a Growing Economy - tech wings and grants	50.0
Campaspe pipeline to Waranga Channel	2.5
National Parks and Biodiversity - <i>Meeting our Transport Challenges Reserve</i>	14.1
New VLocity Trains - <i>Meeting our Transport Challenges Reserve</i>	65.2
Local Transport Initiatives (VicRoads)	12.9
<b>Total Net Capital Investment</b>	<b>3 277.3</b>

*Source: Department of Treasury and Finance*

*Note:*

(a) *Government contribution.*

## **APPENDIX D: QUARTERLY FINANCIAL REPORT FOR THE VICTORIAN GENERAL GOVERNMENT SECTOR**

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### **OVERVIEW**

This financial report presents the Victorian general government sector financial statements prepared under the Australian equivalents to International Financial Reporting Standards for the three-month period ended 30 September 2006. Comparisons are made to the budget estimates included in the 2006-07 Budget papers as well as to the revised figures published in the 2006-07 Budget Update. Caution should be exercised in extrapolating the likely outcome for the year based on quarterly results presented in this report due to their inherent volatility and seasonal factors impacting on the results.

### **General government sector outcome**

The general government sector net result from transactions for the three-month period to 30 September 2006 was \$271 million, compared with the 2006-07 budgeted full year net result from transactions of \$374 million.

Once actuarial adjustments and revaluations are included, the net result for the three month period to 30 September 2006 is a deficit of \$461 million. The difference between this and the net result from transactions is largely due to actuarial losses caused by a decrease in the discount rate. The discount rate is used to calculate the Net Present Value of superannuation liabilities. This is partially offset by better than expected returns on the State's superannuation scheme assets.

The overall aggregates of income and expenses from transactions are broadly on track with the full year estimates published in the Budget Update. The result for the first quarter of 2006-07 primarily reflects normal seasonal variations in income and the timing of expenses for a range of departments within the general government sector.

Income from transactions was \$7 833 million, or 23.9 per cent of the budget estimate for the year of \$32 749 million, slightly below pro rata. Taxation revenue is largely on track, while revenue from fines and regulatory fees and grants income are slightly below pro rata.

Taxation at 24.4 per cent for the quarter is consistent with the full year budget estimate. Payroll tax, gambling taxes and motor vehicle taxes are broadly on track with the full year estimate.

Land tax revenue was lower than pro rata as the majority of this revenue is not recognised until the March quarter each year when assessment notices are issued. This was offset by stronger than anticipated land transfer revenue that reflects the robust nature of the property market which has experienced higher levels of activity than estimated at budget time.

Fines and regulatory fees for the first quarter of 2006-07 are \$152 million. This amount is consistent with the amount collected at the same time last year.

Dividends and income tax equivalent and rate equivalent revenue for the first quarter is 9.5 per cent of the full year budget estimate. This is consistent with the usual pattern of dividends from public authorities, which are generally paid and recognised in October and April each year.

Expenses from transactions were \$7 562 million, or 23.4 per cent of the full year budget estimate. This is marginally below pro rata and reflects normal seasonal patterns of expenses together with timing differences for grants and transfer payments and supplies and services. Examples of these timing differences include payments to the Transport Ticketing Authority which is scheduled to be paid in the second half of 2006-07, and new road projects which are yet to enter implementation phases.

### ***Financial position***

Net assets decreased over the quarter by \$586 million to \$36 940 million at 30 September 2006. Total assets decreased by \$270 million to \$64 109 million, while total liabilities increased by \$316 million to \$27 170 million.

The decrease in assets was primarily due to lower current receivables. Land Tax assessments are issued in January-March and as a result the lower level of current receivables at 30 September 2006 is due to amounts yet to be received. This decrease was offset by an increase in prepayments by the Department of Education and Training and the Department of Human Services as a result of paying certain annual expenses in a lump sum in the first quarter of 2006-07.

The increase in liabilities primarily relates to an increase in non-current superannuation liabilities of \$833 million. This reflects a decrease in the discount rate and growth in the underlying accrued superannuation liability. This is partially offset by higher than expected investment returns on assets invested by the schemes.

### ***Cash flows***

Net cash flows from operating activities amounted to \$211 million. This was offset by outlays in investing activities and borrowings of \$939 million. This resulted in a decrease in cash and deposits of \$728 million for the quarter.

# FINANCIAL STATEMENTS FOR THE GENERAL GOVERNMENT SECTOR

## Operating statement for the period ended 30 September

(\$ million)					
2005-06 Actual to Sept.	Notes	Actual to Sept.	2006-07 Revised Budget	Published Budget	
2 566.2	Taxation	2 727.6	11 156.8	10 971.0	2
167.4	Fines and regulatory fees	152.3	824.0	832.4	3
75.7	Dividends and income tax equivalent and rate equivalent revenue	89.9	945.4	958.1	4
82.0	Interest	81.8	314.6	293.1	
3 407.6	Grants	3 688.6	15 160.3	15 077.9	5
572.9	Sale of goods and services	627.3	2 532.2	2 552.4	
0.2	Fair value of assets received free of charge or for nominal consideration	0.3	..	..	
420.4	Other income	465.5	1 815.8	1 757.2	
<b>7 292.4</b>	<b>Total income from transactions</b>	<b>7 833.3</b>	<b>32 749.1</b>	<b>32 442.1</b>	
	<b>Expenses from transactions</b>				
2 769.8	Employee benefits	2 920.2	12 091.4	12 019.5	
439.9	Superannuation	425.9	1 674.4	1 710.4	6
297.8	Depreciation and amortisation	331.1	1 366.6	1 322.1	7
110.6	Finance costs	118.7	473.4	428.0	
1 336.8	Grants and transfer payments	1 414.5	6 408.0	6 207.2	
2 248.8	Supplies and services	2 351.8	10 361.3	10 437.7	
1.5	Other expenses	0.2	0.5	0.5	
<b>7 205.1</b>	<b>Total expenses from transactions</b>	<b>7 562.4</b>	<b>32 375.5</b>	<b>32 125.3</b>	
<b>87.3</b>	<b>Net result from transactions</b>	<b>270.9</b>	<b>373.6</b>	<b>316.8</b>	
	<b>Income/(expenses) from other economic flows</b>				
( 8.4)	Net gain/(loss) from disposal of physical assets	( 8.1)	34.3	9.7	
1 284.9	Actuarial gains/(losses) of superannuation defined benefit plans	( 698.2)	( 182.7)	..	6
..	Share of net profits of associates and joint venture entities	..	..	..	
0.6	Net gains/(losses) on financial assets at fair value	( 0.8)	0.1	0.1	
( 6.9)	Other gains/(losses) from other economic flows	( 24.6)	( 50.9)	( 51.0)	
<b>1 270.2</b>	<b>Total other economic flows</b>	<b>( 731.7)</b>	<b>( 199.2)</b>	<b>( 41.2)</b>	
<b>1 357.5</b>	<b>Net result</b>	<b>( 460.8)</b>	<b>174.4</b>	<b>275.6</b>	

The accompanying notes form part of these Financial Statements.

## Balance sheet as at 30 September

(\$ million)

2005-06 Actual	Notes	2006-07			
		Opening 1 July	Actual 30 Sept.	Revised Budget ( <sup>b</sup> ) 30 June	Published Budget ( <sup>b</sup> ) 30 June
30 Sept. ( <sup>a</sup> )					
<b>Current assets</b>					
1 862.3	14	2 698.2	1 970.0	2 518.4	2 534.2
1 527.1	9	1 877.3	1 650.3	1 981.5	1 935.0
272.4		102.6	375.4	103.1	103.1
127.1		135.8	139.7	137.6	137.8
2 162.4		1 700.2	1 988.1	1 243.7	1 290.6
<b>5 951.4</b>		<b>6 514.0</b>	<b>6 123.6</b>	<b>5 984.2</b>	<b>6 000.7</b>
44.8		59.2	37.9	59.2	59.2
classified as held for sale					
<b>5 996.1</b>		<b>6 573.3</b>	<b>6 161.5</b>	<b>6 043.4</b>	<b>6 059.9</b>
<b>Non-current assets</b>					
269.9	9	391.0	334.8	325.5	252.9
433.6		602.6	602.6	607.6	607.6
using the equity method					
396.8		462.0	461.5	479.1	479.1
52 887.7	10	55 953.8	56 127.6	60 033.1	59 668.6
139.0	11	159.6	186.6	176.5	159.4
276.5	12	237.1	234.8	209.8	209.8
<b>54 403.5</b>		<b>57 806.1</b>	<b>57 947.9</b>	<b>61 831.5</b>	<b>61 377.4</b>
<b>60 399.7</b>		<b>64 379.4</b>	<b>64 109.4</b>	<b>67 875.0</b>	<b>67 437.3</b>
<b>Current liabilities</b>					
1 942.8		2 415.5	1 947.4	2 310.8	2 427.6
286.2		311.0	304.3	160.2	191.5
2 207.1	13	2 701.1	2 537.2	2 745.8	2 746.9
40.2		..	0.1	335.1	510.1
182.7		155.3	169.3	110.4	110.4
373.4		413.2	406.5	499.1	419.1
<b>5 032.5</b>		<b>5 996.0</b>	<b>5 364.7</b>	<b>6 161.3</b>	<b>6 405.5</b>
<b>Non-current liabilities</b>					
1 126.3		526.6	524.2	529.3	531.6
5 529.3		5 869.4	5 873.2	6 666.5	6 251.7
906.9	13	728.1	836.2	849.1	848.1
14 126.3		12 896.5	13 729.9	13 236.2	12 923.2
555.5		580.6	585.9	592.9	595.3
239.9		257.1	255.7	250.2	244.3
<b>22 484.3</b>		<b>20 858.3</b>	<b>21 805.2</b>	<b>22 124.2</b>	<b>21 394.1</b>
<b>27 516.7</b>		<b>26 854.3</b>	<b>27 169.9</b>	<b>28 285.5</b>	<b>27 799.7</b>
<b>32 882.9</b>		<b>37 525.1</b>	<b>36 939.5</b>	<b>39 589.4</b>	<b>39 637.6</b>

The accompanying notes form part of these Financial Statements.

Notes:

- (a) Differences in 2005-06 from previously reported September balances are due to A-IFRS opening balance adjustments made during the 2005-06 Annual Financial Report.
- (b) 2006-07 Budget and its accompanying notes are based on actual opening balances at 1 July 2006 plus 2006-07 budgeted movement.

## Statement of cash flows for the period ended 30 September

(\$ million)

2005-06 Actual to Sept.	Notes	Actual to Sept.	2006-07 Revised Budget	Published Budget
<b>Cash flows from operating activities</b>				
<b>Receipts</b>				
2 874.0	Taxation	2 873.9	11 281.8	11 176.8
78.1	Fines and regulatory fees	67.2	691.0	699.5
116.1	Dividends and income tax equivalent and rate equivalent revenue	40.1	951.1	965.0
82.7	Interest received	82.5	314.4	292.9
3 430.9	Grants	3 685.0	15 160.6	15 078.2
562.5	Sale of goods and services	626.0	2 527.1	2 540.5
593.8	Other receipts	706.3	1 809.7	1 709.1
<b>7 738.0</b>	<b>Total receipts</b>	<b>8 081.1</b>	<b>32 735.8</b>	<b>32 462.0</b>
<b>Payments</b>				
(2 863.4)	Employee benefits	(2 976.0)	(11 925.7)	(11 853.7)
( 276.3)	Superannuation	( 290.7)	(1 182.4)	(1 173.6)
( 110.8)	Interest paid	( 115.9)	( 461.1)	( 414.3)
(1 514.7)	Grants and transfer payments	(1 654.8)	(6 412.4)	(6 151.9)
(2 478.5)	Supplies and services	(2 832.5)	(10 483.1)	(10 491.0)
<b>(7 243.7)</b>	<b>Total payments</b>	<b>(7 869.9)</b>	<b>(30 464.7)</b>	<b>(30 084.5)</b>
<b>494.4</b>	<b>Net cash flows from operating activities</b>	<b>14 (b)</b>	<b>2 271.1</b>	<b>2 377.4</b>
<b>Cash flows from investing activities</b>				
( 397.4)	Purchase of non-financial assets	( 571.8)	(2 388.4)	(2 351.2)
44.6	Proceeds from sale of non-financial assets	25.9	173.5	130.8
( 12.9)	Net (purchase)/disposal of investments	( 289.1)	434.4	387.5
33.6	Net customer loans (granted)/repaid	4.0	0.6	0.6
( 18.9)	Net contribution to other sectors of government	( 60.8)	( 909.8)	( 962.9)
<b>( 351.0)</b>	<b>Net cash flows from investing activities</b>	<b>( 891.8)</b>	<b>(2 689.7)</b>	<b>(2 795.2)</b>
<b>Cash flows from financing activities</b>				
( 102.4)	Net borrowings	( 47.6)	238.8	253.8
<b>( 102.4)</b>	<b>Net cash flows from financing activities</b>	<b>( 47.6)</b>	<b>238.8</b>	<b>253.8</b>
<b>41.1</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>( 728.1)</b>	<b>( 179.8)</b>	<b>( 164.0)</b>
1 816.9	Cash and cash equivalents at beginning of reporting period	2 695.0	2 695.0	2 695.0
<b>1 857.9</b>	<b>Cash and cash equivalents at end of reporting period</b>	<b>1 966.8</b>	<b>2 515.1</b>	<b>2 531.0</b>

The accompanying notes form part of these Financial Statements.

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## **Note 1: Statement of significant accounting policies**

The following summarises the significant accounting policies that have been adopted in preparing and presenting this Quarterly Financial Report.

### *(A) Compliance framework*

This report is a specific purpose consolidated financial report of the general government sector for the quarter ending 30 September 2006 as required by Section 26 of the *Financial Management Act 1994*.

The Quarterly Financial Report has been prepared in accordance with the *Financial Management Act 1994*, relevant Australian equivalents to International Financial Reporting Standards, (A-IFRS), including those paragraphs applicable to not-for-profit entities, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. The quarterly results from the prior year are consistent with A-IFRS.

This unaudited specific purpose financial report should be read in conjunction with the 2005-06 Financial Report for the State of Victoria. It only includes explanatory notes that provide relevant information on a quarterly reporting basis.

### *(B) Basis of accounting and measurement*

The accrual basis of accounting has been employed in the preparation of this financial report whereby assets, liabilities, equity, revenues and expenses are recognised in the reporting period to which they relate, regardless of when cash will be received or paid.

### *(C) General government sector reporting entity*

The general government sector includes all government departments, offices and other government bodies engaged in providing services free of charge or at prices significantly below their cost of production. The services provided by these entities are financed mainly through taxes, other compulsory levies and user charges. The general government sector is not a separate entity but represents a sector within the State of Victoria reporting entity.

### *(D) Basis of consolidation*

The Quarterly Financial Report includes all reporting entities in the general government sector that are controlled by the State. Details of entities consolidated for the general government sector are included in Note 19 in Chapter 6, *Estimated Financial Statements and Notes*. In the process of reporting the general government sector as a single economic entity, all material transactions and balances within the sector are eliminated.

## Note 2: Taxation

(\$ million)

2005-06 Actual to Sept.	2006-07		
	Actual to Sept.	Revised Budget	Published Budget
<b>826.5 Payroll tax</b>	<b>882.7</b>	<b>3 408.5</b>	<b>3 418.1</b>
<b>Taxes on immovable property</b>			
.. Land tax	42.7	781.6	747.6
.. Congestion levy	2.2	38.8	38.8
47.2 Metropolitan improvement levy	31.5	97.3	97.3
9.6 Property owner contributions to fire brigades	11.1	35.6	35.6
<b>56.8 Total taxes on immovable property</b>	<b>87.5</b>	<b>953.3</b>	<b>919.3</b>
<b>Financial and capital transactions</b>			
627.5 Land transfer duty	671.2	2 653.4	2 424.4
14.8 Rental business duty	15.3	42.8	43.3
2.6 Other property duties	2.6	9.3	9.3
22.3 Debits tax <sup>(a)</sup>	0.6	..	..
2.5 Financial accommodation levy	3.9	16.0	16.4
<b>669.6 Total financial and capital transactions</b>	<b>693.5</b>	<b>2 721.5</b>	<b>2 493.4</b>
<b>12.7 Levies on statutory corporations</b>	<b>60.2</b>	<b>60.4</b>	<b>60.4</b>
<b>Gambling taxes</b>			
79.6 Private lotteries	83.4	323.0	309.3
234.5 Electronic gaming machines	222.2	955.5	1 006.4
28.9 Casino	27.2	116.2	118.1
26.3 Racing	29.0	119.6	119.0
1.3 Other	1.7	4.0	3.5
<b>370.7 Total gambling taxes</b>	<b>363.4</b>	<b>1 518.3</b>	<b>1 556.3</b>
<b>292.5 Taxes on insurance</b>	<b>306.1</b>	<b>1 100.1</b>	<b>1 104.1</b>
<b>Motor vehicle taxes</b>			
182.9 Vehicle registration fees	187.9	749.7	747.6
146.4 Stamp duty on vehicle transfers	136.5	557.8	591.5
<b>329.4 Total motor vehicle taxes</b>	<b>324.4</b>	<b>1 307.5</b>	<b>1 339.1</b>
<b>8.0 Other taxes</b>	<b>9.9</b>	<b>87.2</b>	<b>80.3</b>
<b>2 566.2 Total taxation</b>	<b>2 727.6</b>	<b>11 156.8</b>	<b>10 971.0</b>

Note:

(a) Debits tax was abolished on 1 July 2005. Revenue in 2006-07 represents unpaid monies still being collected.

## Note 3: Fines and regulatory fees

(\$ million)

2005-06 Actual to Sept.	2006-07		
	Actual to Sept.	Revised Budget	Published Budget
82.4 Fines	82.5	507.0	506.8
32.1 Motor vehicle regulatory fees	29.4	107.5	115.6
52.9 Other regulatory fees	40.4	209.5	210.0
<b>167.4 Total fines and regulatory fees</b>	<b>152.3</b>	<b>824.0</b>	<b>832.4</b>

**Note 4: Dividends and income tax equivalent and rate equivalent revenue**

(\$ million)

2005-06 Actual to Sept.		2006-07		
		Actual to Sept.	Revised Budget	Published Budget
1.7	Dividends	..	727.7	769.9
74.0	Income tax equivalent and rate equivalent revenue	89.9	217.7	188.2
<b>75.7</b>	<b>Total dividends and income tax equivalent and rate equivalent revenue</b>	<b>89.9</b>	<b>945.4</b>	<b>958.1</b>

**Note 5: Grants**

(\$ million)

2005-06 Actual to Sept.		2006-07		
		Actual to Sept.	Revised Budget	Published Budget
	<b>Specific purpose grants</b>			
..	Parliament	..	..	..
197.1	Education and Training	269.8	935.2	929.4
732.2	Human Services	775.2	3 026.2	3 037.9
4.0	Infrastructure	120.8	302.5	326.0
..	Innovation, Industry and Regional Development	0.1	0.1	..
12.3	Justice	14.4	52.5	49.7
0.2	Premier and Cabinet	0.2	..	..
6.4	Primary Industries	7.0	86.8	11.7
2.7	Sustainability and Environment	20.0	136.1	117.5
26.2	Treasury and Finance	..	0.3	0.3
..	Victorian Communities	..	..	..
7.6	Regulatory bodies and other part budget funded agencies	7.7	28.9	28.9
	<b>Grants for on-passing <sup>(a)</sup></b>			
331.6	Education and Training	362.4	1 482.4	1 482.4
95.2	Victorian Communities	98.8	395.1	394.2
<b>1 415.5</b>	<b>Total specific purpose and on-passing grants</b>	<b>1 676.2</b>	<b>6 446.1</b>	<b>6 378.0</b>
1 945.1	General purpose Commonwealth grants	1 980.2	8 469.2	8 469.2
19.5	Inter-sector grants	( 5.0)	81.7	78.6
27.5	Other specific purpose grants <sup>(b)</sup>	37.1	163.4	152.1
<b>3 407.6</b>	<b>Total grants</b>	<b>3 688.6</b>	<b>15 160.3</b>	<b>15 077.9</b>

Notes:

(a) Grants for on-passing represent grants made by the Commonwealth Government to State governments to be passed on to third parties such as non-government schools and local governments.

(b) Specific purpose grants not allocated to departments.

## Note 6: Superannuation

(\$ million)

2005-06 Actual to Sept.	2006-07			
	Actual to Sept.	Revised Budget	Published Budget	
<b>Defined benefit plans</b>				
154.6	Current service cost <sup>(a)</sup>	171.8	640.0	683.7
350.4	Interest cost <sup>(a)</sup>	391.9	1 707.8	1 554.7
( 239.7)	Expected return on plan assets (net of expenses) <sup>(a)</sup>	( 304.0)	(1 288.7)	(1 206.0)
( 3.0)	Amortisation of past service cost <sup>(a)</sup>	( 3.7)	( 14.5)	( 14.5)
(1 284.9)	Actuarial (gains)/losses <sup>(b)</sup>	698.2	182.7	..
<b>(1 022.5)</b>	<b>Total expense recognised in respect of defined benefit plans</b>	<b>954.3</b>	<b>1 227.3</b>	<b>1 018.0</b>
<b>Defined contribution plans</b>				
165.4	Employer contributions to defined contribution plans <sup>(a)</sup>	160.6	589.5	652.1
12.1	Other (including pensions) <sup>(a)</sup>	9.2	40.3	40.3
<b>177.5</b>	<b>Total expense recognised in respect of defined contribution plans</b>	<b>169.9</b>	<b>629.8</b>	<b>692.4</b>
<b>( 845.0)</b>	<b>Total superannuation expense recognised in operating statement</b>	<b>1 124.2</b>	<b>1 857.2</b>	<b>1 710.4</b>

Notes:

(a) Superannuation expense from transactions.

(b) Superannuation expense from other economic flows.

## Note 7: Depreciation and amortisation

(\$ million)

2005-06 Actual to Sept.	2006-07			
	Actual to Sept.	Revised Budget	Published Budget	
<b>Depreciation</b>				
83.8	Buildings	93.4	363.4	363.4
120.2	Plant, equipment and infrastructure systems	124.7	596.1	590.8
72.7	Road networks	81.1	308.0	308.0
3.4	Other assets	2.4	8.8	8.8
<b>280.0</b>	<b>Total depreciation</b>	<b>301.5</b>	<b>1 276.4</b>	<b>1 271.0</b>
<b>Amortisation</b>				
4.5	Leased plant and equipment	8.4	20.9	7.7
6.3	Leasehold improvements	14.9	48.9	22.9
6.9	Intangible produced assets	6.3	20.4	20.4
<b>17.7</b>	<b>Total amortisation</b>	<b>29.6</b>	<b>90.2</b>	<b>51.1</b>
<b>297.8</b>	<b>Total depreciation and amortisation</b>	<b>331.1</b>	<b>1 366.6</b>	<b>1 322.1</b>

## Note 8: Total expenses from transactions by departments

(\$ million)

2005-06 Actual to Sept.	2006-07		
	Actual to Sept.	Revised Budget	Published Budget
<b>Expenses from transactions</b>			
25.9 Parliament	26.3	118.3	116.1
2 174.9 Education and Training	2 333.5	9 521.8	9 545.3
2 751.9 Human Services	2 966.5	12 313.7	12 223.5
783.0 Infrastructure	844.5	4 026.2	3 865.5
53.1 Innovation, Industry and Regional Development	90.2	467.1	433.5
653.2 Justice	726.6	3 180.9	3 119.4
119.6 Premier and Cabinet	122.6	542.9	539.5
97.8 Primary Industries	86.9	503.7	398.7
257.6 Sustainability and Environment	268.5	1 193.9	1 089.8
507.9 Treasury and Finance	455.5	1 634.1	1 848.9
192.5 Victorian Communities	202.4	903.3	815.5
.. Contingencies not allocated to departments <sup>(a)</sup>	..	( 150.1)	( 60.1)
290.9 Regulatory bodies and other part budget funded agencies <sup>(b)</sup>	266.4	1 075.4	1 075.7
( 703.4) Less eliminations <sup>(c)</sup>	( 827.4)	(2 955.9)	(2 886.1)
<b>7 205.1 Total expenses from transactions</b>	<b>7 562.4</b>	<b>32 375.5</b>	<b>32 125.3</b>

Notes:

- (a) 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.
- (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) Mainly comprises payroll tax, capital asset charge and inter-departmental and inter-agency transfers.

## Note 9: Receivables

(\$ million)

2005-06		2006-07			
Actual 30 Sept. <sup>(a)</sup>		Opening 1 July	Actual 30 Sept.	Revised Budget 30 June	Published Budget 30 June
<b>Current receivables</b>					
390.9	Sale of goods and services	448.2	448.8	433.0	439.8
361.8	Taxes receivable	536.4	390.1	472.9	486.9
711.0	Fines and regulatory fees	732.8	814.5	865.7	865.7
213.6	Accrued investment income	102.7	101.3	169.7	95.2
12.1	Loans	12.0	3.5	12.0	12.0
47.4	Other receivables	165.7	81.4	207.2	214.4
175.9	GST input tax credits recoverable	252.6	206.3	253.1	253.1
( 385.8)	Provision for doubtful receivables	( 373.2)	( 395.6)	( 432.2)	( 432.2)
<b>1 527.1</b>	<b>Total current receivables</b>	<b>1 877.3</b>	<b>1 650.3</b>	<b>1 981.5</b>	<b>1 935.0</b>
<b>Non-current receivables</b>					
32.9	Sale of goods and services	15.7	15.7	15.3	15.3
166.8	Taxes receivable	219.6	219.6	158.0	63.3
59.5	Loans	57.6	62.0	57.0	57.0
20.1	Other receivables	105.7	45.1	102.7	124.9
( 9.3)	Provision for doubtful receivables	( 7.6)	( 7.6)	( 7.6)	( 7.6)
<b>269.9</b>	<b>Total non-current receivables</b>	<b>391.0</b>	<b>334.8</b>	<b>325.5</b>	<b>252.9</b>
<b>1 796.9</b>	<b>Total receivables</b>	<b>2 268.3</b>	<b>1 985.1</b>	<b>2 306.9</b>	<b>2 187.8</b>

Note:

- (a) Differences in 2005-06 from previously reported September balances are due to A-IFRS opening balance adjustments made during the 2005-06 Annual Financial Report.

## Note 10: Property, plant and equipment

### (a) Total Property, plant and equipment

(\$ million)

2005-06	2006-07			
	Actual 30 Sept. <sup>(a)</sup>	Opening 1 July	Actual 30 Sept.	Revised Budget 30 June
12 583.1 Buildings (written down value)	13 924.2	13 946.3	14 846.0	14 939.2
17 425.6 Land and national parks	17 942.5	17 971.8	19 387.8	19 386.1
766.2 Infrastructure systems (written down value)	155.6	154.6	695.6	291.0
1 829.8 Plant, equipment and vehicles (written down value)	2 072.4	2 115.2	2 141.5	2 065.5
18 497.4 Roads (written down value)	20 329.7	20 433.4	21 405.8	21 430.5
(1 657.3) Earthworks	(1 940.9)	(1 957.2)	(2 002.2)	(2 002.2)
3 443.0 Cultural assets (written down value)	3 470.3	3 463.4	3 558.6	3 558.6
<b>52 887.7 Total property, plant and equipment</b>	<b>55 953.8</b>	<b>56 127.6</b>	<b>60 033.1</b>	<b>59 668.6</b>

Note:

(a) Differences in 2005-06 from previously reported September balances are due to A-IFRS opening balance adjustments made during the 2005-06 Annual Financial Report.

### (b) Land and buildings

(\$ million)

2005-06	2006-07			
	Actual 30 Sept. <sup>(a)</sup>	Opening 1 July	Actual 30 Sept.	Revised Budget 30 June
13 461.4 Buildings	15 037.6	15 164.4	16 359.8	16 427.1
( 878.2) Accumulated depreciation	(1 113.4)	(1 218.1)	(1 513.8)	(1 487.9)
<b>12 583.1 Buildings (written down value)</b>	<b>13 924.2</b>	<b>13 946.3</b>	<b>14 846.0</b>	<b>14 939.2</b>
15 718.4 Land	15 965.0	16 015.5	17 402.0	17 400.2
1 707.2 National Parks and other 'land only' holdings	1 977.5	1 956.3	1 985.9	1 985.9
<b>17 425.6 Land and national parks</b>	<b>17 942.5</b>	<b>17 971.8</b>	<b>19 387.8</b>	<b>19 386.1</b>
<b>30 008.7 Total land and buildings</b>	<b>31 866.8</b>	<b>31 918.1</b>	<b>34 233.8</b>	<b>34 325.2</b>

Note:

(a) Differences in 2005-06 from previously reported September balances are due to A-IFRS opening balance adjustments made during the 2005-06 Annual Financial Report.

**(c) Plant, equipment and infrastructure systems**

(\$ million)

2005-06		2006-07			
Actual 30 Sept. <sup>(a)</sup>		Opening 1 July	Actual 30 Sept.	Revised Budget 30 June	Published Budget 30 June
787.1	Infrastructure systems	164.4	166.5	726.2	321.6
(20.8)	Accumulated depreciation	(8.9)	(11.9)	(30.6)	(30.6)
<b>766.2</b>	<b>Infrastructure systems (written down value)</b>	<b>155.6</b>	<b>154.6</b>	<b>695.6</b>	<b>291.0</b>
4 177.3	Plant, equipment and vehicles	4 407.4	4 572.0	4 959.5	4 899.3
(2 434.4)	Accumulated depreciation	(2 564.5)	(2 671.7)	(3 018.4)	(3 050.8)
221.9	Leased plant, equipment and vehicles	376.5	362.3	343.9	361.8
(135.0)	Accumulated amortisation	(147.0)	(147.3)	(143.5)	(144.8)
<b>1 829.8</b>	<b>Plant, equipment and vehicles (written down value)</b>	<b>2 072.4</b>	<b>2 115.2</b>	<b>2 141.5</b>	<b>2 065.5</b>
<b>2 596.0</b>	<b>Total plant, equipment and infrastructure systems</b>	<b>2 228.0</b>	<b>2 269.8</b>	<b>2 837.1</b>	<b>2 356.5</b>

Note:

(a) Differences in 2005-06 from previously reported September balances are due to A-IFRS opening balance adjustments made during the 2005-06 Annual Financial Report.

**(d) Road networks and earthworks**

(\$ million)

2005-06		2006-07			
Actual 30 Sept. <sup>(a)</sup>		Opening 1 July	Actual 30 Sept.	Revised Budget 30 June	Published Budget 30 June
(698.8)	Roads	(1 603.8)	(1 668.6)	(1 850.5)	(1 850.5)
14 501.5	Accumulated depreciation	16 108.8	16 277.3	17 243.3	17 258.9
	.. Road infrastructure	..	..	..	..
4 694.7	Accumulated depreciation	5 824.8	5 824.8	6 013.1	6 022.1
<b>18 497.4</b>	<b>Roads (written down value)</b>	<b>20 329.7</b>	<b>20 433.4</b>	<b>21 405.8</b>	<b>21 430.5</b>
(1 657.3)	Earthworks	(1 940.9)	(1 957.2)	(2 002.2)	(2 002.2)
<b>16 840.0</b>	<b>Total road networks and earthworks</b>	<b>18 388.8</b>	<b>18 476.2</b>	<b>19 403.6</b>	<b>19 428.3</b>

Note:

(a) Differences in 2005-06 from previously reported September balances are due to A-IFRS opening balance adjustments made during the 2005-06 Annual Financial Report.

**(e) Cultural assets**

(\$ million)

2005-06	2006-07			
	Actual 30 Sept. <sup>(a)</sup>	Opening 1 July	Actual 30 Sept.	Revised Budget 30 June
3 525.6 Cultural assets	3 560.2	3 565.5	3 657.0	3 657.0
( 82.7) Accumulated depreciation	( 90.0)	( 102.1)	( 98.4)	( 98.4)
<b>3 443.0 Total cultural assets (written down value)</b>	<b>3 470.3</b>	<b>3 463.4</b>	<b>3 558.6</b>	<b>3 558.6</b>

Note:

(a) Differences in 2005-06 from previously reported September balances are due to A-IFRS opening balance adjustments made during the 2005-06 Annual Financial Report.

**Note 11: Intangibles**

(\$ million)

2005-06	2006-07			
	Actual 30 Sept. <sup>(a)</sup>	Opening 1 July	Actual 30 Sept.	Revised Budget 30 June
214.5 Intangibles produced assets	283.1	295.8	354.3	303.4
( 77.3) Accumulated amortisation	( 127.8)	( 113.5)	( 182.1)	( 148.3)
3.4 Intangibles non produced assets	14.4	14.4	14.4	14.4
( 1.6) Accumulated amortisation	( 10.1)	( 10.1)	( 10.1)	( 10.1)
<b>139.0 Intangibles (written down value)</b>	<b>159.6</b>	<b>186.6</b>	<b>176.5</b>	<b>159.4</b>

Note:

(a) Differences in 2005-06 from previously reported September balances are due to A-IFRS opening balance adjustments made during the 2005-06 Annual Financial Report.

**Note 12: Other assets**

(\$ million)

2005-06	2006-07			
	Actual 30 Sept.	Opening 1 July	Actual 30 Sept.	Revised Budget 30 June
<b>Non-current other assets</b>				
29.7 Investment properties	13.4	13.4	13.4	13.4
78.9 Biological assets	81.0	78.6	89.4	89.4
167.8 Other assets	142.7	142.9	107.0	107.0
<b>276.5 Total non-current other assets</b>	<b>237.1</b>	<b>234.8</b>	<b>209.8</b>	<b>209.8</b>

## Note 13: Employee benefits

(\$ million)

2005-06		2006-07			
Actual 30 Sept. <sup>(a)</sup>		Opening 1 July	Actual 30 Sept.	Revised Budget 30 June	Published Budget 30 June
<b>Current</b>					
626.5	Accrued salaries and wages <sup>(b)</sup>	971.7	835.5	991.1	991.1
1 580.6	Long service leave	1 729.3	1 701.7	1 754.7	1 755.9
<b>2 207.1</b>	<b>Total current employee benefits</b>	<b>2 701.1</b>	<b>2 537.2</b>	<b>2 745.8</b>	<b>2 746.9</b>
<b>Non-current</b>					
138.2	Accrued salaries and wages <sup>(b)</sup>	20.0	25.9	20.0	20.0
768.7	Long service leave	708.1	810.4	829.0	828.0
<b>906.9</b>	<b>Total non-current employee benefits</b>	<b>728.1</b>	<b>836.2</b>	<b>849.1</b>	<b>848.1</b>
<b>3 114.0</b>	<b>Total employee benefits</b>	<b>3 429.2</b>	<b>3 373.4</b>	<b>3 594.8</b>	<b>3 595.0</b>

Notes:

- (a) Differences in 2005-06 from previously reported September balances are due to A-IFRS opening balance adjustments made during the 2005-06 Annual Financial Report.
- (b) Includes accrued annual leave, payroll tax and other similar on-costs.

## Note 14: Cash flow information

### (a) Reconciliation of cash and cash equivalents

(\$ million)

2005-06		2006-07
Actual 30 Sept. <sup>(a)</sup>		Actual to Sept.
717.0	Cash	790.1
1 145.3	Deposits at call	1 179.9
<b>1 862.3</b>	<b>Cash and cash equivalents</b>	<b>1 970.0</b>
( 4.4)	Bank overdraft	( 3.2)
<b>1 857.9</b>	<b>Cash and cash deposits held as at 30 June</b>	<b>1 966.8</b>

Note:

- (a) Differences in 2005-06 from previously reported September balances are due to A-IFRS opening balance adjustments made during the 2005-06 Annual Financial Report.

**(b) Reconciliation of the net results to net cash flows from operating activities for the period ended 30 September**

(\$ million)

2005-06 Actual 30 Sept. <sup>(a)</sup>	2006-07 Actual to Sept.
<b>1 357.5 Net result</b>	<b>( 460.8)</b>
<b>Non-cash movements</b>	
297.8 Depreciation and amortisation	331.1
( 0.6) Revaluation of investments	0.9
( 0.2) Assets received/(provided) free of charge	0.2
( 6.2) Assets not previously recognised	..
1.8 Revaluation of other assets	..
1.3 Discount/(premium) on other financial assets/interest-bearing liabilities	3.6
<b>Movements included in investing and financing activities</b>	
8.4 Net revenues from sale of property, plant and equipment	8.1
.. Net revenues from sale of investments	( 0.1)
<b>Movements in assets and liabilities</b>	
1.9 Increase/(decrease) in provision of doubtful debts	22.4
( 185.1) Increase/(decrease) in payables	( 463.6)
( 93.6) Increase/(decrease) in employee benefits	( 55.8)
(1 121.3) Increase/(decrease) in superannuation	833.5
( 6.4) Increase/(decrease) in other provisions	19.3
( 29.4) Increase/(decrease) in other liabilities	( 8.6)
490.3 (Increase)/decrease in receivables	254.9
( 221.7) (Increase)/decrease in other assets	( 273.9)
<b>494.4 Net cash flows from operating activities</b>	<b>211.2</b>

Note:

(a) Differences in 2005-06 from previously reported September balances are due to A-IFRS opening balance adjustments made during the 2005-06 Annual Financial Report.

**Note 15: Public Account**

**(a) Consolidated Fund receipts and payments**

(\$ million)

2005-06 <i>Actual to Sep.</i>		2006-07	
		<i>Actual to Sep.</i>	<i>Revise Budget</i>
<b>Receipts</b>			
2 827.8	Taxation	2 840.9	11 240.8
40.9	Fines and regulatory fees	29.2	540.8
2 851.2	Grants received	3 106.0	12 735.9
127.7	Sales of goods and services	162.0	668.8
17.2	Interest received	15.1	59.8
116.0	Public authority receipts	90.6	878.5
677.2	Other receipts	705.4	3 005.4
<b>6 658.0</b>	<b>Total operating activities</b>	<b>6 949.2</b>	<b>29 130.1</b>
17.5	Total inflows from investing and financing	26.9	84.4
<b>6 675.5</b>	<b>Total receipts</b>	<b>6 976.1</b>	<b>29 214.5</b>
<b>Payments to Departments</b>			
1 685.1	Education	1 871.9	6 521.2
2 571.4	Human Services	2 882.8	10 643.0
911.7	Infrastructure	1 140.0	4 085.7
68.5	Innovation, Industry and Regional Development	125.0	448.2
713.8	Justice	793.2	2 755.8
118.7	Premier and Cabinet	123.0	454.4
85.7	Primary Industries	86.7	551.6
148.0	Sustainability and Environment	222.4	1 128.0
337.5	Treasury and Finance	318.2	1 412.5
119.9	Victorian Communities	111.6	474.8
27.0	Parliament	28.2	91.4
<b>6 787.4</b>	<b>Total payments</b>	<b>7 703.1</b>	<b>28 566.6</b>
<b>( 111.9)</b>	<b>Net receipts</b>	<b>( 727.0)</b>	<b>647.9</b>

## Note 15: Public Account (continued)

### (b) Trust Fund cash flow statement

(\$ million)

2005-06 Actual to Sep.	2006-07	
	Actual to Sep.	Revised Budget
<b>Cash flows from operating activities</b>		
<b>Receipts</b>		
54.9 Taxation	39.4	143.1
11.7 Regulatory fees and fines	12.5	52.3
566.0 Grants received	609.4	2 363.0
52.7 Sale of goods and services	59.7	239.0
25.0 Interest received	29.8	100.5
2 122.5 Other receipts	2 376.5	9 059.5
<b>2 832.9 Total receipts</b>	<b>3 127.4</b>	<b>11 957.3</b>
<b>Payments</b>		
( 19.7) Employee entitlements	37.7	( 73.7)
( 1.5) Superannuation	( 1.4)	( 5.2)
( 2.2) Interest paid	(2 283.9)	(9 697.8)
(2 199.3) Grants paid	( 650.0)	(2 295.0)
( 649.9) Supplies and consumables	( 7.4)	( 21.3)
.. Other payments	..	..
<b>(2 872.6) Total payments</b>	<b>(2 905.0)</b>	<b>(12 092.9)</b>
<b>( 39.7) Net cash flows from operating activities</b>	<b>222.4</b>	<b>( 135.6)</b>
<b>Cash flows from investing activities</b>		
.. Net proceeds from customer loans	0.1	..
5.1 Proceeds from sale of property, plant and equipment	5.8	..
( 13.1) Purchases of property, plant and equipment	12.0	( 43.7)
( 13.6) Other investing activities	( 65.9)	( 43.8)
<b>( 21.6) Net cash flows from investing activities</b>	<b>( 48.0)</b>	<b>( 87.5)</b>
<b>Cash flows from financing activities</b>		
31.2 Net proceeds (repayments) from borrowings	( 32.7)	30.9
Other financing		
<b>31.2 Net cash flows from financing activities</b>	<b>( 32.7)</b>	<b>30.9</b>
<b>( 30.2) Net cash inflow/(outflow)</b>	<b>141.6</b>	<b>( 192.2)</b>

## Note 15: Public Account (continued)

### (c) Details of securities held

(\$ million)

2005-06 Actual Sep		2006-07 Opening 1 July	Actual 30-Sep
630.5	Amounts invested on behalf of specific trust accounts	589.1	710.0
1.3	Amounts invested on behalf of general trust accounts	1.3	1.3
1 488.1	General account balances	1 839.4	1 154.4
<b>2 119.9</b>	<b>Total Public Account</b>	<b>2 429.8</b>	<b>1 865.7</b>
	<b>Represented by:</b>		
631.8	Stocks and securities	590.4	711.3
1 270.5	Cash and investments	1 525.6	851.5
<b>1 902.3</b>	<b>Total stock, securities, cash and investments</b>	<b>2 115.9</b>	<b>1 562.8</b>
	Add cash advanced for:		
217.6	Advances pursuant to sections 36 and 37 of the FMA 1994 <sup>(a)</sup>	313.8	302.9
<b>2 119.9</b>	<b>Total Public Account</b>	<b>2 429.8</b>	<b>1 865.7</b>

Note:

(a) Financial Management Act 1994

## Note 16: Controlled entities

For a complete listing of general government sector entities, please refer to Note 19 in Chapter 6, *Estimated Financial Statements and Notes*.

## RESULTS QUARTER BY QUARTER – VICTORIAN GENERAL GOVERNMENT SECTOR

### Operating statement for the last five quarters

	(\$ million)				
	Sept.	2005-06			2006-07
		Dec.	Mar.	June	Sept.
<b>Income from transactions</b>					
Taxation	2 566.2	2 548.2	3 117.0	2 654.1	2 727.6
Fines and regulatory fees	167.4	163.5	186.3	196.7	152.3
Dividends and income tax equivalent and rate equivalent revenue	75.7	565.3	56.7	311.5	89.9
Interest	82.0	83.5	93.3	131.7	81.8
Grants	3 407.6	3 821.7	3 602.1	3 792.9	3 688.6
Sale of goods and services	572.9	615.6	677.5	660.3	627.3
Fair value of assets received free of charge or for nominal consideration	0.2	11.3	0.1	20.4	0.3
Other income	420.4	470.1	415.7	484.2	465.5
<b>Total income from transactions</b>	<b>7 292.4</b>	<b>8 279.2</b>	<b>8 148.8</b>	<b>8 251.7</b>	<b>7 833.3</b>
<b>Expenses from transactions</b>					
Employee benefits	2 769.8	2 851.4	2 875.3	2 977.0	2 920.2
Superannuation	439.9	433.4	441.0	603.0	425.9
Depreciation and amortisation	297.8	294.2	289.2	398.0	331.1
Finance costs	110.6	106.9	114.6	141.5	118.7
Grants and transfer payments	1 336.8	1 489.1	1 579.7	1 389.3	1 414.5
Supplies and services	2 248.8	2 379.9	2 664.5	2 872.1	2 351.8
Other expenses	1.5	1.0	14.5	26.7	0.2
<b>Total expenses from transactions</b>	<b>7 205.1</b>	<b>7 555.9</b>	<b>7 978.9</b>	<b>8 407.6</b>	<b>7 562.4</b>
<b>Net result from transactions</b>	<b>87.3</b>	<b>723.3</b>	<b>169.8</b>	<b>( 155.9)</b>	<b>270.9</b>
<b>Income/(expenses) from other economic flows</b>					
Net gain/(loss) from disposal of physical assets	( 8.4)	( 15.1)	( 9.2)	( 20.6)	( 8.1)
Actuarial gains/(losses) of superannuation defined benefit plans	1 284.9	( 275.1)	1 987.2	( 576.0)	( 698.2)
Share of net profits of associates and joint venture entities	..	..	..	132.3	..
Net gains/(losses) on financial assets at fair value	0.6	4.8	0.9	0.7	( 0.8)
Other gains/(losses) from other economic flows	( 6.9)	( 6.3)	( 0.1)	603.7	( 24.6)
<b>Total other economic flows</b>	<b>1 270.2</b>	<b>( 291.7)</b>	<b>1 978.8</b>	<b>139.9</b>	<b>( 731.7)</b>
<b>Net result</b>	<b>1 357.5</b>	<b>431.7</b>	<b>2 148.7</b>	<b>( 16.0)</b>	<b>( 460.8)</b>

## Balance sheet as at the end of the quarter

(\$ million)

	2005-06				2006-07
	Sept. <sup>(a)</sup>	Dec. <sup>(a)</sup>	Mar. <sup>(a)</sup>	June	Sept.
<b>Current assets</b>					
Cash and cash equivalents	1 862.3	1 353.8	1 316.8	2 698.2	1 970.0
Receivables	1 527.1	1 415.5	2 195.8	1 877.3	1 650.3
Prepayments	272.4	220.9	490.6	102.6	375.4
Inventories	127.1	132.8	129.1	135.8	139.7
Other financial assets	2 162.4	3 293.1	3 294.4	1 700.2	1 988.1
	<b>5 951.4</b>	<b>6 416.1</b>	<b>7 426.7</b>	<b>6 514.0</b>	<b>6 123.6</b>
Non-current assets classified as held for sale	44.8	43.9	45.2	59.2	37.9
<b>Total current assets</b>	<b>5 996.1</b>	<b>6 460.0</b>	<b>7 471.9</b>	<b>6 573.3</b>	<b>6 161.5</b>
<b>Non-current assets</b>					
Receivables	269.9	277.0	359.3	391.0	334.8
Investments accounted for using the equity method	433.6	433.0	433.3	602.6	602.6
Other financial assets	396.8	403.4	399.3	462.0	461.5
Property, plant and equipment	52 887.7	53 169.0	53 209.2	55 953.8	56 127.6
Intangibles	139.0	144.7	189.4	159.6	186.6
Other assets	276.5	284.3	279.1	237.1	234.8
<b>Total non-current assets</b>	<b>54 403.5</b>	<b>54 711.3</b>	<b>54 869.7</b>	<b>57 806.1</b>	<b>57 947.9</b>
<b>Total assets</b>	<b>60 399.7</b>	<b>61 171.4</b>	<b>62 341.6</b>	<b>64 379.4</b>	<b>64 109.4</b>
<b>Current liabilities</b>					
Payables	1 942.8	1 776.0	2 334.8	2 415.5	1 947.4
Interest-bearing liabilities	286.2	318.0	394.9	311.0	304.3
Employee benefits <sup>(b)</sup>	2 207.1	2 347.9	2 254.7	2 701.1	2 537.2
Superannuation	40.2	38.8	40.2	..	0.1
Other provisions	182.7	176.7	171.5	155.3	169.3
Other liabilities	373.4	508.2	815.6	413.2	406.5
<b>Total current liabilities</b>	<b>5 032.5</b>	<b>5 165.6</b>	<b>6 011.8</b>	<b>5 996.0</b>	<b>5 364.7</b>
<b>Non-current liabilities</b>					
Payables	1 126.3	1 005.7	1 073.4	526.6	524.2
Interest-bearing liabilities	5 529.3	5 507.0	5 466.6	5 869.4	5 873.2
Employee benefits <sup>(b)</sup>	906.9	956.9	999.0	728.1	836.2
Superannuation	14 126.3	14 557.8	12 729.7	12 896.5	13 729.9
Other provisions	555.5	544.2	563.3	580.6	585.9
Other liabilities	239.9	238.1	237.1	257.1	255.7
<b>Total non-current liabilities</b>	<b>22 484.3</b>	<b>22 809.7</b>	<b>21 069.1</b>	<b>20 858.3</b>	<b>21 805.2</b>
<b>Total liabilities</b>	<b>27 516.7</b>	<b>27 975.3</b>	<b>27 080.9</b>	<b>26 854.3</b>	<b>27 169.9</b>
<b>Net assets</b>	<b>32 882.9</b>	<b>33 196.0</b>	<b>35 260.7</b>	<b>37 525.1</b>	<b>36 939.5</b>

Note:

- (a) Differences in 2005-06 from previously reported figures are due to A-IFRS opening balance adjustments made during the 2005-06 Annual Financial Report.
- (b) Differences in September, December and March are due to new reclassification requirements under A-IFRS.

## Statement of cash flows for the past five quarters

(\$ million)

	Sept.	2005-06		June	2006-07
		Dec.	Mar.		Sept.
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Taxation	2 874.0	2 586.7	2 529.5	2 984.1	2 873.9
Fines and regulatory fees	78.1	152.0	158.2	172.2	67.2
Dividends and income tax equivalent and rate equivalent revenue	116.1	731.7	57.3	326.9	40.1
Interest received	82.7	82.4	94.1	114.6	82.5
Grants	3 430.9	3 799.2	3 848.2	3 541.3	3 685.0
Sale of goods and services	562.5	931.5	592.2	1 154.7	626.0
Other receipts	593.8	533.5	365.2	303.6	706.3
<b>Total receipts</b>	<b>7 738.0</b>	<b>8 816.9</b>	<b>7 644.6</b>	<b>8 597.4</b>	<b>8 081.1</b>
<b>Payments</b>					
Employee benefits	(2 863.4)	(2 660.6)	(2 926.4)	(2 801.5)	(2 976.0)
Superannuation	( 276.3)	( 278.4)	( 280.4)	(1 052.5)	( 290.7)
Interest paid	( 110.8)	( 75.9)	( 143.7)	( 100.5)	( 115.9)
Grants and transfer payments	(1 514.7)	(1 504.5)	(1 933.5)	( 966.2)	(1 654.8)
Supplies and services	(2 478.5)	(3 006.3)	(1 900.1)	(3 302.0)	(2 832.5)
Other payments	..	..	..	20.0	..
<b>Total payments</b>	<b>(7 243.7)</b>	<b>(7 525.8)</b>	<b>(7 184.1)</b>	<b>(8 202.7)</b>	<b>(7 869.9)</b>
<b>Net cash flows from operating activities</b>	<b>494.4</b>	<b>1 291.1</b>	<b>460.5</b>	<b>394.7</b>	<b>211.2</b>
<b>Cash flows from investing activities</b>					
Purchase of non-financial assets	( 397.4)	( 684.7)	( 420.3)	( 799.2)	( 571.8)
Proceeds from sale of non-financial assets	44.6	22.7	17.2	74.3	25.9
Net (purchase)/disposal of investments	( 12.9)	(1 130.9)	4.1	1 608.4	( 289.1)
Net customer loans (granted)/repaid	33.6	10.5	( 0.1)	( 8.3)	4.0
Net contribution to other sectors of government	( 18.9)	( 105.4)	( 87.5)	262.9	( 60.8)
<b>Net cash flows from investing activities</b>	<b>( 351.0)</b>	<b>(1 887.7)</b>	<b>( 486.4)</b>	<b>1 138.1</b>	<b>( 891.8)</b>
<b>Cash flows from financing activities</b>					
Net borrowings	( 102.4)	86.4	( 11.0)	( 148.5)	( 47.6)
<b>Net cash flows from financing activities</b>	<b>( 102.4)</b>	<b>86.4</b>	<b>( 11.0)</b>	<b>( 148.5)</b>	<b>( 47.6)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>41.1</b>	<b>( 510.2)</b>	<b>( 37.0)</b>	<b>1 384.2</b>	<b>( 728.1)</b>
Cash and cash equivalents at beginning of reporting period	1 816.9	1 857.9	1 347.7	1 310.7	2 695.0
<b>Cash and cash equivalents at end of reporting period</b>	<b>1 857.9</b>	<b>1 347.7</b>	<b>1 310.7</b>	<b>2 695.0</b>	<b>1 966.8</b>



## APPENDIX E: REQUIREMENTS OF THE *FINANCIAL MANAGEMENT ACT 1994*

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The *Financial Management Act 1994* (the Act) requires the Minister to prepare a budget update for tabling in Parliament each financial year. The provisions of the Act have been complied with in the 2006-07 Budget Update.

Table E.1 details the statements required to be included in this document under the provisions of the Act together with appropriate chapter references.

**Table E.1: Statements required by the *Financial Management Act 1994* and their location in the 2006-07 Budget Update**

<i>Relevant section of the Act and corresponding requirement</i>	<i>Location</i>
<b>Sections 23 E-G</b>	
Statement of financial policy objectives and strategies for the year.	Chapter 1, <i>Financial Policy Objectives and Strategy</i>
<b>Sections 23 H-N</b>	
Estimated financial statements for the year comprising: <ul style="list-style-type: none"><li>– an estimated statement of financial performance over the year;</li><li>– an estimated statement of financial position at the end of the year;</li><li>– an estimated statement of cash flows for the year; and</li><li>– a statement of the accounting policies on which these statements are based and explanatory notes.</li></ul>	Chapter 6, <i>Estimated Financial Statements and Notes</i>
Accompanying statement to estimated financial statements which: <ul style="list-style-type: none"><li>– outlines the material economic assumptions used in preparation of the estimated financial statements;</li></ul>	Chapter 2, <i>Economic Conditions and Outlook</i> and Chapter 6, <i>Estimated Financial Statements and Notes</i>

**Table E.1: Statements required by the *Financial Management Act 1994* and their location in the 2006-07 Budget Update (continued)**

<i>Relevant section of the Act and corresponding requirement</i>	<i>Location</i>
– discusses the sensitivity of the estimated financial statements to changes in these assumptions;	Chapter 5, <i>Statement of Risks</i>
– provides an overview of estimated tax expenditures for the financial years covered by the estimated financial statements; and	Appendix B, <i>Tax Expenditures and Concessions</i>
– provides a statement of the risks that may have a material effect on the estimated financial statements.	Chapter 5, <i>Statement of Risks</i>

## STYLE CONVENTIONS

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Figures in the tables and in the text have been rounded. Discrepancies in tables between totals and sums of components reflect rounding. Percentage changes in all tables are based on the underlying unrounded amounts.

The notation used in the tables and charts is as follows:

LHS	left-hand-side
RHS	right-hand-side
s.a.	seasonally adjusted
n.a. or na	not available or not applicable
Cat. No.	catalogue number
1 billion	1 000 million
1 basis point	0.01 per cent
nm	new measure
..	zero, or rounded to zero
tbd	to be determined
ongoing	continuing output, program, project etc.
(xxx.x)	negative numbers
budget estimate	budget estimates presented in November 2006.





