

# **Budget Statement**

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**2002-03**



Presented by

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

Treasurer of the State of Victoria

for the information of Honourable Members

**Budget Paper No.2**



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## 2002-03 BUDGET HIGHLIGHTS

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### ***Growing Victoria Together* – priorities for the 2002-03 Budget**

- The Bracks Government's vision for Victoria is that by 2010 we will be a State where:
  - innovation leads to thriving industries generating high quality jobs;
  - protecting the environment for future generations is built into all government decision making;
  - there are caring, safe communities with equitable opportunities; and
  - all Victorians have access to the highest quality health and education services all through their lives.
- The priority actions required to deliver these long-term commitments are identified in *Growing Victoria Together* and have guided budget choices and the directions of government departments in the 2002-03 Budget.
- The 2002-03 Budget invests for Victoria's future. It invests in more jobs and stronger communities, with education and innovation driving new opportunities.

### **Sound financial management**

- The Bracks Government believes that a strong and secure financial base provides an essential foundation for Victoria's long-term economic, social and environmental wellbeing.
- Demonstrating the Government's commitment to sound financial management, the 2002-03 Budget delivers:
  - a substantial general government operating surplus of \$522 million in 2002-03, and surpluses averaging around \$600 million for the following three years;

- a reduction in general government net financial liabilities, excluding Growing Victoria infrastructure reserve, from \$16.3 billion or 10.8 per cent of gross state product (GSP) at 30 June 1999 to an estimated \$15.9 billion or 7.1 per cent of GSP at 30 June 2006;
  - over the same period general government net debt, excluding Growing Victoria infrastructure reserve, is expected fall by more than half from \$4.9 billion or 3.3 per cent of GSP in June 1999 to \$2.3 billion or 1.0 per cent of GSP in June 2006;
  - new output initiatives worth \$317 million in 2002-03 and averaging \$326 million per annum over the following three years;
  - \$3 billion total estimated investment (TEI) to boost infrastructure assets, including the Scoresby Freeway; and
  - through *Building Tomorrow's Businesses Today*, tax cuts of \$262 million over the next four years.
- The Government's prudent financial management was acknowledged recently with the international ratings agencies Standard and Poor's and Moody's affirming Victoria's triple-A credit rating.

### **A growing economy – Victoria leads the way**

- Despite the global slowdown, the Victorian economy performed strongly over the past year, exceeding the national average in key measures such as consumer spending, business investment and employment.
- Domestic demand rebounded strongly during calendar 2001, particularly in the second half, underpinned by consumer spending, government capital expenditure and acceleration in housing construction.
- The Victorian labour market recorded further solid gains following on from its exceptionally strong employment growth in 2000-01.
- Recent evidence of a global recovery is positive for the 2002-03 outlook.
- Victorian economic growth is now estimated at 3.75 per cent in 2001-02, exceeding the original budget estimate of 2.75 per cent, and 3.5 per cent in 2002-03.
- Employment is forecast to grow 1.5 per cent in 2002-03, following 1.25 per cent in 2001-02.

## **Investing for our future – stronger communities**

- The Government is committed to growing and linking the whole State. The Government recognises that the key to Victoria's future lies in strong communities, contributing to and sharing in the benefits of a thriving and innovative state economy.
- The 2002-03 Budget provides a major boost to infrastructure focusing on generating more jobs, strengthening our communities and securing new opportunities across Victoria's suburbs, regions and growth corridors, including a \$101 million redevelopment of the Royal Melbourne Showgrounds.
- Key highlights of investment in Melbourne's growing suburbs include:
  - \$637 million TEI (excluding Federal Government funding) in new public transport and upgrading roads, including Scoresby Freeway, electrification of rail line to Craigieburn, key arterial road upgrades and extension of Knox tram service;
  - \$36 million over four years for 25 new and upgraded bus routes around Melbourne;
  - additional investment in 2002-03 in education and training facilities in Melbourne's growing suburbs; and
  - the redevelopment of the Royal Melbourne, Dandenong and Angliss Hospitals.
- The 2002-03 Budget continues to build stronger rural and regional communities. Key highlights include:
  - \$77 million TEI for the construction of the Wimmera-Mallee pipeline;
  - a \$94 million investment package, including duplication of the Calder Highway between Kyneton and Faraday and other major regional road upgrades and upgrading the Warrnambool rail line, in addition to \$8 million over four years to enhance bus services;
  - \$40 million to continue the redevelopment and upgrade of rural health and public sector residential aged care facilities;
  - \$130 million over four years for the sustainable use of Victoria's natural resources; and
  - improving access and excellence in regional education and training.

### **Thriving and innovative industries across Victoria**

- Innovation is the 21<sup>st</sup> Century driver of economic growth, high quality jobs, wealth and improved living standards. The 2002-03 Budget focuses on enhancing Victoria as an innovative economy by:
  - committing \$139 million over four years to new output initiatives as well as \$148 million TEI. This includes doubling of the current level of funding for medical research infrastructure and the construction of Australia's first synchrotron facility;
  - allocating \$364 million over four years to create a more competitive business environment through *Building Tomorrow's Businesses Today* initiatives. This comprises \$262 million in significant business taxation relief and \$63 million in new output initiatives, in addition to \$39 million in asset investment aimed at improving the way that Victoria does business; and
  - targeting agriculture and regional industries by providing \$26 million over four years to promote innovation, improve skills and business management, tackle disease and boost exports in the food and fibre industries.

### **Valuing and investing in lifelong education**

- Improving access and driving innovation and excellence in education, from preschool to post-compulsory levels, is the Government's top priority. The 2002-03 Budget builds on major investments in education in the previous two budgets.
- The budget provides \$27 million over four years to improve the health, development, learning and wellbeing of children before they start school through reforms to preschools and the new BEST START initiative.
- \$334 million over four years in output initiatives, as well as asset investment of \$216 million TEI, is allocated to:
  - support learning in the early years of schooling through reducing the average class size in prep to year 2 and the implementation of an early years numeracy program;
  - improve participation and achievement in education through a new Access to Excellence initiative and a Middle Years Reform and Innovations program;

- address equity and access issues through funding additional Koori educators and home liaison officers to provide education services and support to Koori students;
- place at least 900 additional teachers into schools across Victoria; and
- the modernisation of over 110 government schools and TAFE institutes across Victoria.

### **Ensuring high quality, accessible health and community services**

- The 2002-03 Budget continues to turn around Victoria's health system with better facilities, new approaches and more health workers to give Victorians the highest quality of care.
- In this budget the Government has committed \$1.2 billion over four years, as well as asset investment of \$217 million TEI, to:
  - extend the multi-year Hospital Demand Management Strategy to provide more beds to treat extra patients, including 30 000 patients in hospital emergency departments and 14 000 extra elective surgery, renal, palliative care and radiotherapy patients;
  - deliver enhanced community services through a new approach to the delivery of child protection and placement services;
  - support older people to live active lives in the community through the ongoing implementation of a program to upgrade and redevelop residential aged care and expanding the Home and Community Care program; and
  - respond to the growing need for community and home-based disability support services and tackle homelessness.

### **Creating safe streets, homes and workplaces**

- The Government is committed to preventing crime and maintaining community safety whether in public places, roads, homes or workplaces. The 2002-03 Budget provides \$81 million TEI in asset investment, as well as \$34 million over four years in new output initiatives, to:
  - enhance police services by providing police with upgraded equipment, and modernising and replacing metropolitan and rural police stations;

- ensure seamless transition of emergency call taking and dispatch services and implementation of the Statewide Integrated Public Safety Communications Strategy; and
- improve the safety of all Victorian road and transport users through substantial investment towards reducing death and serious injury from road accidents by 20 per cent over five years.

### **Promoting sustainable development and protecting the environment for future generations**

- The 2002-03 Budget provides key initiatives designed to value Victoria's natural resources. The Government is allocating \$130 million over four years, as well as asset investment of \$77 million TEI, specifically designed to value and protect Victoria's water, forest and land resources by:
  - protecting the health of Victoria's most precious rivers and providing more secure and higher quality water supply;
  - the construction of the Wimmera-Mallee pipeline;
  - ensuring the long-term future of Victorian forests and regional communities, including the Box Ironbark package; and
  - supporting the sustainable management of Victoria's agricultural land and ski fields.
- Funding will be provided for a Centre for Energy and Greenhouse Technologies in Gippsland and the Cooperative Research Centre for Clean Power from Lignite.

### **Building cohesive communities and reducing inequalities**

- The Government has committed \$192 million over four years to build strong communities to ensure that there are job opportunities, support for families and improved access to affordable, high quality services, and making communities good places in which to live and work. This includes:
  - additional funding of \$12 million over four years to target areas of indigenous disadvantage and to progress reconciliation between indigenous and non-indigenous Victorians;

- expanding the supply of public housing and making housing more affordable. At least an extra 1500 public and community housing units will be created and \$12 million provided from the Office of Housing for neighbourhood renewal across the State. The budget also allocates \$13 million in 2002-03 to reform, streamline and expand concessional arrangements to enable more Victorian families and people on low incomes to purchase their own homes; and
- an injection of \$84 million into Victorian sport with a focus on developing state-of-the-art facilities ahead of the 2006 Commonwealth Games, including an upgrade of the Melbourne Sports and Aquatic Centre and detailed planning and coordination of the Melbourne 2006 Commonwealth Games.
- The budget also provides a \$106 million boost for arts and cultural projects, including new exhibitions, maintenance of state collections and the Yarra Precinct Arts Integration project.

### **Promoting rights and respecting diversity**

- The Government recognises that the diverse cultural backgrounds, languages and abilities of Victorians are some of the State's greatest strengths.
- The 2002-03 Budget builds on the Government's commitment to support and enhance the role of the Victorian Multicultural Commission through the continuation and expansion of the current community grants program.
- The Government has committed \$8.3 million to improve access to legal aid, victim support and alternative resolution procedures.



## CHAPTER 1: FINANCIAL POLICY OBJECTIVES AND STRATEGIES

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- The Government's strategic priorities for Victoria are highlighted in *Growing Victoria Together*, the framework that balances economic, social and environmental goals and actions.
- The Government is committed to maintaining a substantial operating surplus of at least \$100 million in each year.
- The Government is using operating surpluses to invest for the future, providing capital works to enhance social and economic infrastructure throughout Victoria, with expenditure on strategic infrastructure projects boosted by funding from the Growing Victoria infrastructure reserve.
- Improved services will be delivered to all Victorians, with the key priorities being education, health and community safety.
- The Government is committed to ensuring competitive and fair taxes and charges apply to Victorian businesses and households through implementation of the Government's *Better Business Taxes* and *Building Tomorrow's Businesses Today* packages.
- Victoria's triple-A credit rating will be maintained by keeping net financial liabilities at prudent levels.

### FINANCIAL STRATEGIES, OBJECTIVES AND PRIORITIES

This chapter set outs the Government's financial policy objectives and strategies as required by the *Financial Management (Financial Responsibility) Act 2000*. The Act includes a set of sound financial management principles. These are to:

- manage financial risks faced by the State prudently, having regard to 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 financial effects on future generations; and
- provide full, accurate and timely disclosure of financial information relating to the activities of the Government and its agencies.

The Government's financial responsibility legislation requires a statement of its short and long-term financial objectives in each budget and budget update. It is also a necessary element of the financial management principle of providing full, accurate and timely disclosure of financial information relating to the activities of the Government and its agencies.

Consistent with *Growing Victoria Together* the Government has a number of short and long-term financial objectives, as shown in Table 1.1.

**Table 1.1: 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
Provide capital works to enhance social and economic infrastructure throughout Victoria	Implement strategic infrastructure projects, including those funded from the Growing Victoria infrastructure reserve
Provide improved service delivery to all Victorians	Expenditure priority on education, health and community safety
Ensure competitive and fair taxes and charges to Victorian businesses and households	Implement reforms to Victoria's business taxation system
Maintain state government net financial liabilities at prudent levels	Maintain a triple-A credit rating

The Government has met its commitment to maintain an operating surplus of at least \$100 million. At the same time the Government has used the operating surplus to upgrade and modernise the State's infrastructure to address economic, social and environmental outcomes, without incurring additional borrowings. Victoria's triple-A credit rating has been maintained. Net financial liabilities are projected to fall over the forward estimates period as a proportion of gross state product (GSP).

### **Operating surplus**

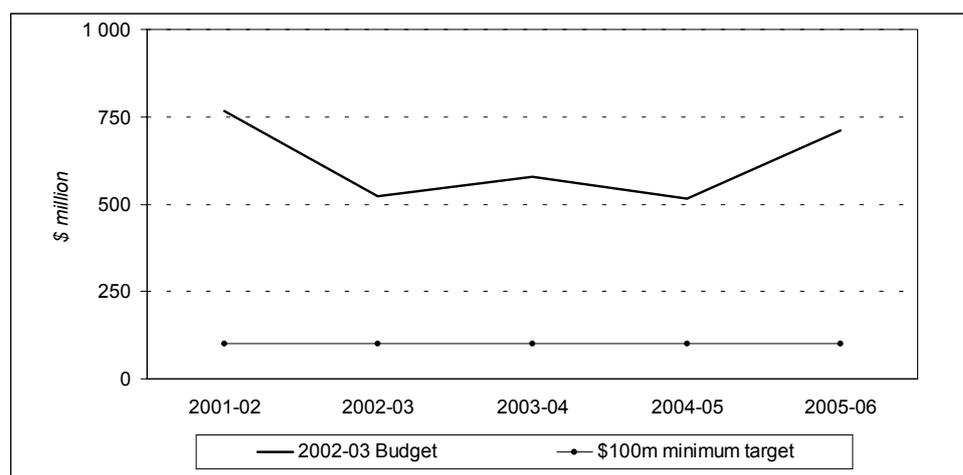
The outlook for the budget surplus remains consistent with this objective, as can be seen in Chart 1.1. Following an estimated surplus of \$765 million in 2001-02, the operating surplus is now forecast to be \$522 million in 2002-03 and to average

around \$600 million in the following three years. This substantial operating surplus is an important funding source for the Government's strong capital investment program.

The operating surplus has been achieved despite relatively low growth in taxation revenue, which is expected to grow by 0.5 per cent in 2002-03 and by an average of 1.8 per cent in the following three years. The low average annual growth over the projection period reflects a forecast moderation of property and other asset markets, the business tax cuts announced in the Government's *Better Business Taxes* and *Building Tomorrow's Businesses Today* packages, and the abolition of debits tax from 1 July 2005 (subject to review by the Ministerial Council in accordance with the Intergovernmental Agreement).

Given the continued uncertainties in the world economy (see Chapter 3, *Economic Conditions and Outlook* for further information), the Government is maintaining a buffer above the \$100 million minimum operating surplus target. This provides protection of the operating surplus target against a moderate deterioration in the national and world economies and asset markets. For a more detailed discussion of economic and other risks, and the sensitivity of the operating surplus to changes in economic conditions, see Chapter 6, *Statement of Risks*.

**Chart 1.1: General government sector operating surplus <sup>(a)</sup>**



Source: Department of Treasury and Finance

Note:

(a) The general government sector operating surplus is equivalent to the 'net result' in the statement of financial performance in Chapter 7, *Estimated Financial Statements and Notes*.

The operating surplus objective and buffer are in accord with the financial management principle of pursuing expenditure and taxation policies that allow reasonable stability and predictability in tax burden levels. Thus, businesses and households can have confidence that tax rates and the level of service delivery will not need to be adjusted markedly and unexpectedly at some future date to retrieve the State's financial position.

Table 1.2 shows that the substantial operating surpluses and Growing Victoria infrastructure reserve are being used to fund the significant infrastructure spending program. For example, 2002-03 net infrastructure investment of \$2 066 million is more than double the depreciation expense of \$952 million, with the shortfall being sourced from the operating surplus (\$522 million) and a drawdown in the Growing Victoria infrastructure reserve of \$570 million. As a consequence, and despite the large infrastructure program, net debt falls slightly in the budget and forward estimate years.

**Table 1.2: Application of cash resources**

	(\$ million)				
	2001-02 Revised	2002-03 Budget	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
<b>Budget operating surplus</b>	<b>765</b>	<b>522</b>	<b>580</b>	<b>517</b>	<b>712</b>
Plus: Depreciation expense	895	952	1003	1067	1115
Plus: Other non-cash expenses (net) <sup>(a)</sup>	1041	123	388	648	307
Plus: Net drawdown from Growing Victoria infrastructure reserve	-174	570	426	170	130
<b>Cash available for asset investment</b>	<b>2528</b>	<b>2166</b>	<b>2397</b>	<b>2403</b>	<b>2264</b>
Less: Net infrastructure investment	1929	2066	2292	2299	2166
Less: Other investment activities (net) <sup>(b)</sup>	-56	13	13	12	10
<b>Reduction in net debt excluding Growing Victoria</b> <sup>(c)</sup>	<b>655</b>	<b>87</b>	<b>92</b>	<b>91</b>	<b>88</b>

Source: Department of Treasury and Finance

Notes:

- (a) Includes increase in unfunded superannuation liability and increase in liability for employee entitlements.
- (b) Comprises increase in other financial assets and decrease in gross borrowing.
- (c) Growing Victoria investments are excluded as an offset to gross debt on grounds that these investments are earmarked for infrastructure projects and are therefore not available to redeem gross debt.

The Government uses the Australian Accounting Standards Board (AAS 31) operating result as its measure of the headline budget surplus. A method of presentation alternative to AAS 31 is the Government Finance Statistics (GFS) system employed by the Australian Bureau of Statistics (ABS). AAS 31 and GFS measures are shown in Table 1.3. For a detailed reconciliation between AAS 31 and the GFS measures refer to Table E.12 in Appendix E, *Uniform Presentation of Government Finance Statistics*.

The operating result – designed to match taxes, grants and other revenue earned in the year to expenses incurred – is similar under both generally accepted accounting principles (AAS 31) and the ABS (GFS) frameworks. The other two GFS measures incorporate a mixture of operating statement and balance sheet items. Traditionally GFS cash surplus has closely mirrored the change in net debt, although recent accounting changes have loosened this link.

GFS cash surplus measures the surplus of cash receipts over cash payments, and produces a lower surplus largely because of the inclusion of infrastructure asset expenditure as a cash payment.

GFS net lending (or fiscal balance) is equal to the change in net debt and other financial liabilities. It moves into deficit over the forward estimates because the increasing present value of accrued members' benefit entitlements pushes up the State's unfunded superannuation liability. However, as noted below, net financial liabilities fall as a proportion of GSP over the period and the Government's commitment is to eliminate the unfunded superannuation liability by 2035.

**Table 1.3: AAS 31 net result and GFS budget measures (excluding Growing Victoria)**

	(\$ million)				
	2001-02 Revised	2002-03 Budget	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
Net operating result (AAS 31)	765	522	580	517	712
Net operating balance (GFS)	1161	489	545	483	680
GFS net lending <sup>(a)</sup>	-30	163	-145	-359	-89
GFS cash surplus <sup>(a)</sup>	663	305	265	315	240

Source: Department of Treasury and Finance

Note:

(a) The table shows GFS net lending (+) / borrowing (-) and GFS cash surplus (+) / deficit (-) excluding the impact of Growing Victoria. Growing Victoria investments are excluded as an offset to gross debt on grounds that these investments are earmarked for infrastructure projects and are therefore not available to redeem gross debt.

## Infrastructure

The Government recognises that building effective infrastructure is essential for delivering improved services and promoting growth across the whole State. In *Growing Victoria Together* the Government identified the following priority infrastructure actions:

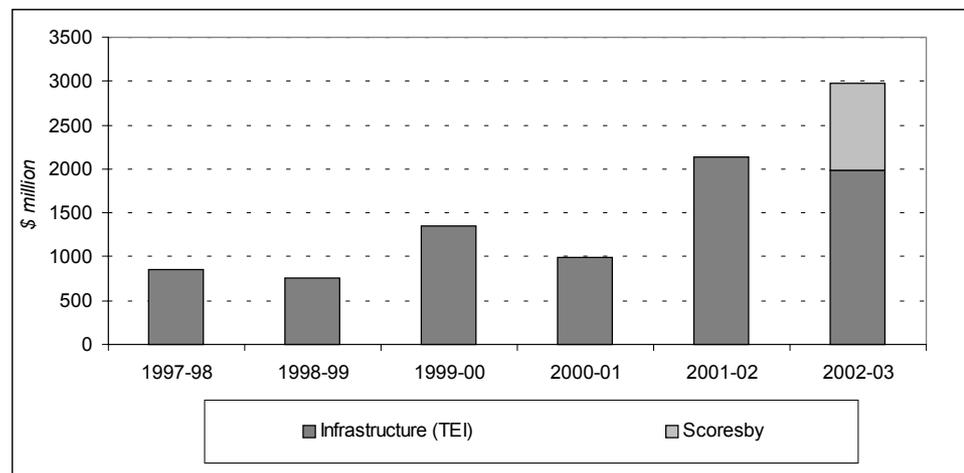
- building fast, reliable and efficient transport and communication infrastructure;

- better linking Melbourne and regional ports to industry and agricultural centres across Victoria; and
- connecting more Victorians to the internet and other new technologies.

In addition, the Government is aiming to rebuild and modernise the State’s social infrastructure including schools, hospitals, prisons, police stations, community services and recreational and culture resources – the foundations for a prosperous and equitable society.

The 2002-03 Budget commits \$3.0 billion (total estimated investment – TEI) to boost infrastructure assets (see Chart 1.2). A significant component of this program is the Scoresby Freeway. The Victorian Government has matched the Commonwealth Government’s contribution of \$445 million, in addition to the \$110 million in land purchases. The Scoresby Freeway will deliver significant road and public transport improvements in one of Melbourne’s most important growth corridors, creating a seamless link stretching between Ringwood and Frankston and improving east-west connections for travel to the CBD and beyond.

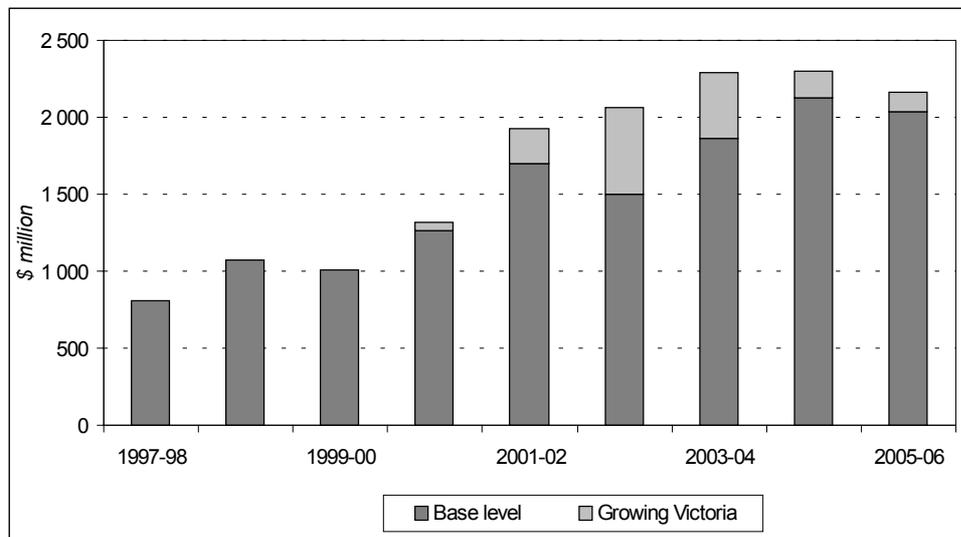
**Chart 1.2: Infrastructure spending commitments in recent budgets (TEI)**



Source: Department of Treasury and Finance

Chart 1.3 shows past actual yearly expenditure on net infrastructure investment, together with forward projections.

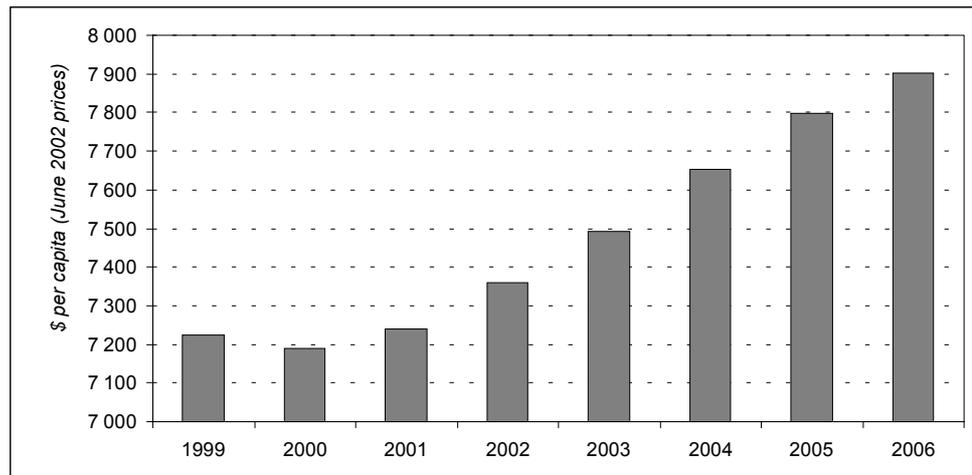
**Chart 1.3: General government sector net infrastructure investment**



Source: Department of Treasury and Finance

Over the period 2002-03 to 2005-06 annual expenditure on fixed assets will average \$2.2 billion. This increased level of expenditure far outstrips estimated depreciation of around \$1 billion per annum, and results in growth of the real capital stock over the four years to June 2006 of over 11 per cent compared to projected population growth of around 4 per cent (see Chart 1.4).

**Chart 1.4: Real capital stock per capita as at 30 June**



Source: Department of Treasury and Finance

### **Service delivery**

The Government is building on last year's service delivery initiatives by continuing with medium to long-term strategies to improve quality, access and equity, particularly in education, health and community safety.

Since coming to office, the Government has lifted Victoria's spending in the areas of education, health and community safety. Chart 1.5 shows that the level of the Government's spending per capita in health has outstripped that of New South Wales and Queensland. Government expenditure per capita on education is higher than that in New South Wales and closely aligned to that in Queensland (the growth per capita in education spending has been higher in Victoria than Queensland).

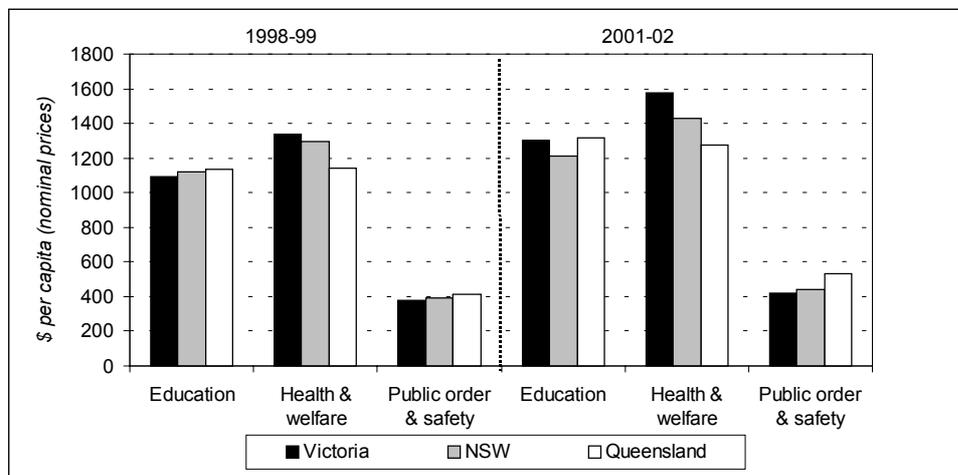
This expenditure has produced better outcomes for health, education and community safety:

- emergency department ambulance bypass rates have fallen significantly during 2002, while the number of patients waiting for more than 12 hours in emergency departments for admission to a ward has also decreased. Metropolitan emergency departments continue to treat more patients, and hospital capacity taken up by people waiting for residential aged care has reduced;

- year 7-12 retention rates for Victorian government schools increased from 69.8 per cent in 1999 to 73.7 per cent in 2001. For the first time in many years Victorian government school retention rates were better than all other States excluding the ACT; and
- in 2000, Victoria had the lowest proportion of victims of crime against both property and persons of all the States.

The 2002-03 Budget provides additional funding for new output initiatives of \$317 million in 2002-03 and an average of \$326 million over the following three years. This is net of \$163 million of funding in 2002-03 from existing forward estimates demand contingencies (put aside for increasing service delivery required by population and demonstrated demand growth). It is also in addition to \$161 million in 2002-03 of output initiatives announced since the 2001-02 Budget and reflected in the *2001-02 Budget Update*.

**Chart 1.5: Per capita spending in selected portfolios**



Source: Australian Bureau of Statistics; Victorian Department of Treasury and Finance; NSW Department of Treasury; Queensland Department of Treasury

In 2002-03, resources are targeted towards the following key service areas identified in *Growing Victoria Together*:

- valuing and investing in lifelong education;
- high quality, accessible health and community services; and
- safe streets, homes and workplaces.

The 2002-03 Budget continues the expenditure to date by focusing on initiatives which will give all schools and students the opportunity to participate in

Victoria's drive towards excellence in education and training, with \$334 million in new output initiatives over four years, as well as \$216 million (TEI) in asset investment. The priority initiatives targeted in the 2002-03 Budget are focused on achieving the education and training goals and targets.

The 2002-03 Budget continues to turn around Victoria's health and community services system, building on new service delivery approaches implemented in the last budget, with \$1.2 billion in new initiatives over four years. The budget also continues to rebuild the health and community services system with a \$217 million investment in new human services infrastructure.

In the 2002-03 Budget the Government has allocated \$81 million TEI and \$34 million in new output initiatives over four years to preventing crime and maintaining community safety, whether in public places, homes or workplaces. The Government is committed to improving road and workplace safety and to reducing offending and re-offending.

## **Taxation**

In *Growing Victoria Together* the Government reiterated its commitment to ensuring a competitive tax system in Victoria in order to foster a business environment conducive to investment and job creation.

The Government's tax reform package, *Better Business Taxes* announced tax cuts of \$774 million on 26 April 2001, which reduced the burden of payroll tax, cut the number of state business taxes, and reduced paperwork and red tape.

The *Building Tomorrow's Businesses Today* statement, released on 22 April 2002, continues the Government's ongoing commitment to ensure a competitive tax regime for Victorian businesses. The Government's strong financial position enables further cuts in business taxes of \$262 million to 2005-06, providing an additional boost to jobs and growth in Victoria by:

- raising the payroll tax threshold from \$515 000 to \$550 000 from 1 July 2002, a year ahead of schedule;
- reducing the payroll tax rate from 5.45 per cent to 5.35 per cent from 1 July 2002, a year ahead of schedule;
- further reducing the payroll tax rate from 5.35 per cent to 5.25 per cent from 1 July 2003. The payroll tax initiatives will further stimulate business growth and employment and will represent a 9 per cent reduction in the payroll tax rate under the Bracks Government;
- raising the land tax threshold from \$125 000 to \$150 000 from 2002-03; and
- abolishing the stamp duty on unquoted marketable securities from 1 July 2002, a year ahead of schedule.

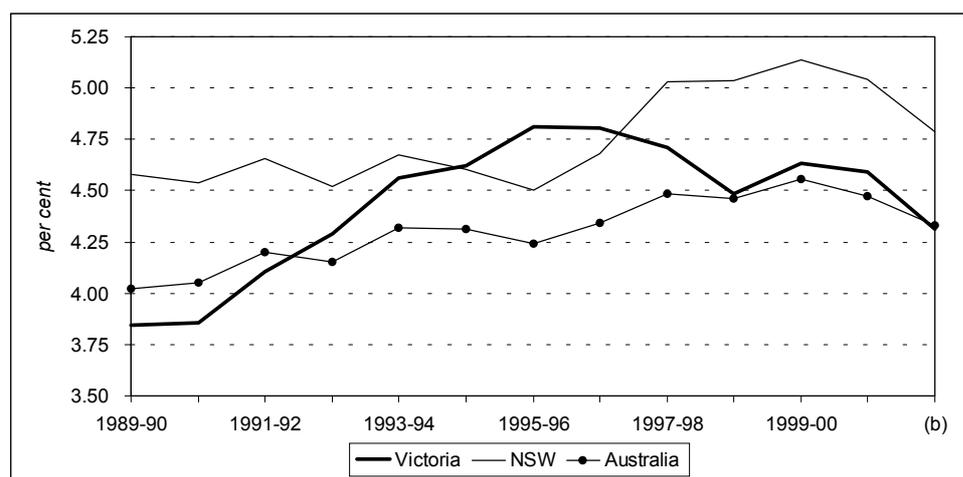
In total, across *Better Business Taxes* and *Building Tomorrow's Businesses Today*, the Government has announced tax cuts of over \$1 billion in its first term of office.

This budget allocates \$13 million in 2002-03 to reform, streamline and expand existing concessions on conveyancing duty to enable more Victorian families and people on low incomes to purchase their own homes. The maximum concession available will rise to \$4 660. This will double the numbers of concession card holders and families with dependent children expected to receive a concession in 2002-03.

The competitiveness of Victoria's tax regime plays an important role in underpinning economic growth and investment. Consistent with the Government's strategic priority to promote growth across the whole of Victoria, the Government is aiming to ensure Victoria's taxes remain competitive with the Australian average.

State taxation revenue expressed as a share of nominal GSP is Victoria's preferred measure of tax competitiveness as it relates the level of taxation revenue to economic capacity. Taxation revenue as a share of nominal GSP for Victoria, New South Wales and the Australian average is shown in Chart 1.6.

**Chart 1.6: Taxation revenue as a share of nominal GSP<sup>(a)</sup>**



Source: Australian Bureau of Statistics; Department of Treasury and Finance

Notes:

- (a) Historical taxation data have been recast to reflect only those taxes that remain after 1 July 2001.
- (b) 2000-01 data further adjusted for Victorian tax changes announced in this budget, but assuming no further tax changes in other States in their 2002-03 budgets.

Using 2000-01 actual taxation data (the latest year which is available from the ABS) and adjusting for all tax changes announced in the 2001-02 budgets of all States, as well as tax changes announced in this budget, Victoria's taxation as a share of nominal GSP is estimated to be slightly below the Australian average and a substantial 0.48 percentage points of GSP below that of New South Wales.

### **Net financial liabilities**

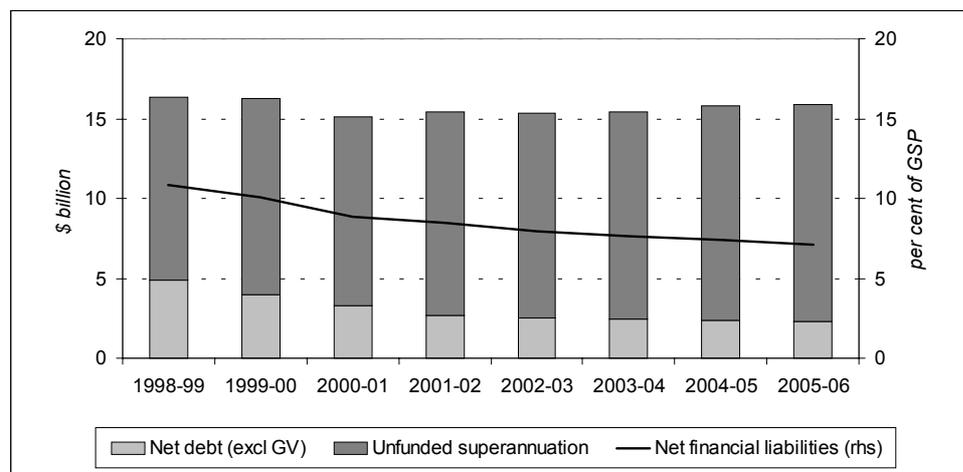
The Government is committed to maintaining net financial liabilities (net debt and unfunded superannuation liability) at prudent levels in order to achieve its objective of maintaining Victoria's triple-A credit rating.

Victoria's triple-A long-term local currency rating was reaffirmed by Standard and Poor's on 24 January 2002 and by Moody's on 28 March 2002. Both ratings agencies cited Victoria's low debt levels, strong fiscal position and very strong financial performance in recent years as key reasons behind their decision.

The 2002-03 budget outlook reinforces these positive factors. Substantial operating surpluses are projected for 2002-03 and the remainder of the forward estimates period. General government net financial liabilities (excluding Growing Victoria) were \$16.3 billion or 10.8 per cent of GSP at June 1999. In nominal terms, they are projected to reach \$15.4 **billion** as at June 2002 and \$15.9 billion as at June 2006 (see Chart 1.7). The change during the forward estimates period reflects movement in unfunded superannuation liabilities arising from the increasing present value of accrued members' benefit entitlements. As a proportion of GSP net financial liabilities are expected to decrease to 7.1 per cent of GSP by June 2006.

Net debt as a component of net financial liabilities is forecast to fall by more than half from \$4.9 billion (3.3 per cent of GSP) in 1999 to \$2.3 billion (1.0 per cent of GSP) by 2006. Victoria's net financial liabilities position is expected to remain comparable with other triple-A jurisdictions.

**Chart 1.7: General government net financial liabilities excluding Growing Victoria** <sup>(a) (b)</sup>



Source: Department of Treasury and Finance

Notes:

- (a) General government net financial liabilities are calculated as the sum of net debt and net unfunded superannuation liabilities.
- (b) Net debt is calculated as gross debt less liquid financial assets. Growing Victoria investments are excluded as an offset to gross debt on grounds that these investments are earmarked for infrastructure projects and are therefore not available to redeem gross debt.

## SEEKING A BETTER COMMONWEALTH-STATE FUNDING DEAL

The distribution of Commonwealth grants between the States and Territories is important to the achievement of the Government's financial objectives. The existing Commonwealth arrangements are in need of reform. The poor grant shares flowing to Victoria under existing arrangements reduces Victoria's capacity to deliver services, provide additional infrastructure investment and reduce taxes.

The share of Commonwealth general purpose grants redistributed away from Victoria under the Commonwealth Grants Commission (CGC) process continues to increase. Table 1.4 shows the levels and changes in cross-subsidies for each State and Territory as a result of the CGC's 2002 Update. Victoria's cross-subsidy to the other States and Territories for 2002-03, compared to the equal per capita share, is now estimated at over \$1 billion, an increase of \$120 million from 2001-02.

In addition, for every dollar of GST revenue raised from Victorians, it is estimated that only 83 cents is returned as revenue to Victoria. This is a result of the CGC determinations and the fact that Victorians spend more per head on goods and services than the average Australian.

The cross-subsidy from Victoria, New South Wales and Western Australia has been growing steadily since the current CGC relativities were introduced in 1999 and is projected to double to \$3.4 billion from 1999-2000 to 2005-06 (see Chart 1.8). This compares with projected Victorian nominal GSP growth of around 40 per cent over the same period. Such an increasing burden on Victoria and the other subsidising States is clearly unsustainable.

In particular, the cross-subsidy to Queensland (\$207 million) and ACT (\$90 million) cannot be justified on fiscal grounds when:

- Queensland's tax rates are the lowest in Australia;
- Queensland and the ACT are the only jurisdictions in a negative net debt position; and
- ACT residents have income 40 per cent higher than the national average.

**Table 1.4: Estimates of cross-subsidy paid and received for 2002-03 and changes from 2001-02**

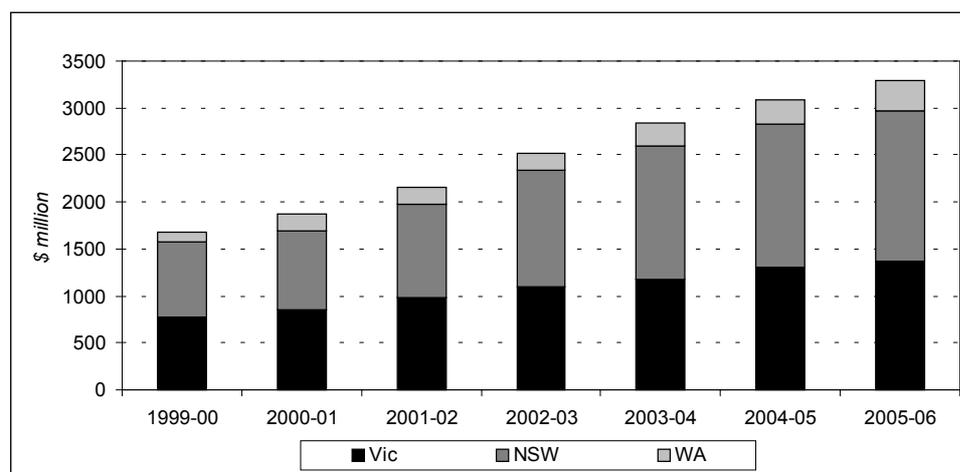
	(\$ million)								
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total <sup>(a)</sup>
Cross-subsidy paid	1 242	1 096		185					2 522
Change	245	120		-2					363
Cross-subsidy received			207		596	480	90	1 150	2 522
Change			112		55	56	12	128	363

Source: Department of Treasury and Finance

Note:

(a) Totals may not add due to rounding.

**Chart 1.8: Cross-subsidisation by Victoria, New South Wales and Western Australia**



Source: Department of Treasury and Finance

The unsustainable grant shares are the result of the CGC's outdated method of constructing relativities. Victoria, along with New South Wales and Western Australia, representing 70 per cent of Australia's population, has been calling for an independent review of the current system for some years. The Commonwealth has continued to ignore these calls. Given this lack of support, on 30 November 2001, the three States commissioned a review into the methods for allocating Commonwealth grants to the States and Territories.

The Committee established to undertake this review is independent of the three governments and will examine the efficiency, equity, simplicity and transparency of the current system.

Key conclusions emerging from the review so far suggest that the current system:

- results in an Australian economy-wide efficiency loss of between \$150 million and \$250 million per annum; and
- delivers no improvement to overall equity.

The Committee will deliver its Final Report around the middle of 2002.



## CHAPTER 2: BUDGET POSITION AND OUTLOOK

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- The budget incorporates the impact of significant new policy measures, including funding for new output initiatives with a net budget impact of \$317 million in 2002-03.
- The 2002-03 Budget provides funding for the commencement of new infrastructure investment projects with a total estimated investment of \$3.0 billion (including both the Victorian and Commonwealth Government's contribution to the Scoresby Freeway).
- The Government's strong financial position enables further cuts in business taxes of \$262 million over the next four years, including \$83 million in 2002-03, announced in *Building Tomorrow's Businesses Today*.
- Total operating expenses are expected to increase by 2.1 per cent in 2002-03, in part reflecting the impact of 2002-03 Budget funding initiatives, with growth remaining stable at around 2.2 per cent per annum on average in the following three years.
- A budget operating surplus of \$522 million is forecast for 2002-03. The operating surplus is expected to average around \$600 million over the remainder of the outlook period.

This chapter provides details of the projected budget position for the period 2002-03 to 2005-06. The discussion of the budget and forward estimates focuses on trends in the aggregate budget position, as well as reconciliation of major variations in key budget aggregates since the 2001-02 Budget released in May 2001 and the *2001-02 Budget Update* published in January 2002.

The forward estimates outlined in this chapter are based on the economic projections outlined in Chapter 3, *Economic Conditions and Outlook* and reflect the detailed accounting policies and assumptions documented in Chapter 7, *Estimated Financial Statements and Notes*. The estimates take into account all announced policy commitments of the Victorian Government. Appendix G, *Commonwealth-State Financial Relations* provides additional information on the impact of intergovernmental financial issues on the State Budget.

The forward estimates presented in this chapter represent planning projections for future budgets based on an unchanged policy assumption.

## **2002-03 BUDGET INITIATIVES**

Responsible financial management has enabled the Government to continue to deliver improved services and promote growth across the whole State. In the 2002-03 Budget the Government builds on last year's service delivery initiatives by continuing with medium to long-term strategies to improve quality, access and equity, particularly in education, health and community services, community safety and transport.

### **Initiatives affecting operating expenses**

The 2002-03 Budget provides additional funding for new output initiatives of \$317 million in 2002-03, decreasing slightly to \$284 million in 2005-06. This is net of \$147 million funding from existing forward estimates demand contingencies (put aside for increasing service delivery on account of population and demonstrated client demand growth). Further new initiatives totalling \$113 million in 2002-03 will be funded from reprioritisation of existing departmental resources and other funding sources. It is also in addition to \$161 million of output initiatives in 2002-03 already announced and reflected in the *2001-02 Budget Update*.

Table 2.1 shows the total value of net additional funding provided for output initiatives by Departments in 2002-03. In 2002-03, resources are targeted towards the following key service areas identified in *Growing Victoria Together*:

- creating more jobs and thriving innovative industries across Victoria;
- valuing and investing in lifelong education;
- high quality, accessible health and community services;
- safe streets, homes and workplaces; and
- growing and linking all of Victoria.

Other elements of *Growing Victoria Together* are also addressed in this budget and include boosting investment in suburbs, growth corridors and regions, protecting the environment, promoting sustainable development, and building cohesive communities and reducing inequalities.

Chapter 4, *Budget Initiatives* provides more detailed information on the Government's service delivery and revenue priorities and strategy, while Appendix A, *Specific Policy Initiatives Affecting the Budget Position*, provides a detailed list and description of all service delivery and revenue initiatives implemented in this budget.

**Table 2.1: New output initiatives by Department since the 2001-02 Budget**

<i>Department</i> <sup>(a)</sup>	(\$ million)			
	2002-03 Budget	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
Education and Training	55.9	98.4	99.3	76.8
Human Services	250.1	244.3	245.2	229.0
Infrastructure	52.3	43.3	42.4	49.8
Innovation, Industry and Regional Development	28.1	42.5	38.4	33.5
Justice	8.1	13.0	13.1	14.2
Natural Resources and Environment	36.1	51.4	17.3	8.9
Premier and Cabinet	10.0	8.7	8.3	8.3
Tourism, Sport and the Commonwealth Games	10.5	1.8	1.8	1.8
Treasury and Finance	9.9	9.0	7.4	7.4
Parliament	3.0	2.8	1.1	0.9
Less: Funding from demand contingency	146.9	146.9	146.9	146.9
<b>Total 2002-03 Budget output initiatives</b>	<b>317.0</b>	<b>368.2</b>	<b>327.3</b>	<b>283.7</b>
Initiatives announced in 2001-02 Budget Update	160.8	172.7	199.5	211.7
<b>Total output initiatives</b>	<b>477.8</b>	<b>540.9</b>	<b>526.8</b>	<b>495.4</b>

Source: Department of Treasury and Finance

Note:

(a) Excludes initiatives funded through internal reprioritisation or other existing fund sources.

In addition, a number of savings initiatives have been implemented in this budget including:

- whole of Government motor vehicle savings, intended to curtail or reduce costs associated with the motor vehicle fleet and reduce associated greenhouse emissions (\$3.5 million in 2002-03 rising to \$10.5 million ongoing by 2005-06);
- suspension of the issue of motor vehicle registration labels from 2003-04 (\$1.0 million in 2003-04 rising to \$3.4 million ongoing by 2005-06);
- a redirection of funding from the Living Regions, Living Suburbs Fund to other rural and regional activities (\$2 million ongoing); and
- centralisation of a number of corporate businesses across the Justice portfolio to assist in improving coordination and consistency across the portfolio (rising to \$1.2 million ongoing by 2005-06).

For detail on these initiatives refer to Appendix A, *Specific Policy Initiatives Affecting the Budget Position*.

## Asset investment initiatives

The 2002-03 Budget provides funding for the commencement of new infrastructure investment projects with a total estimated investment of \$3 045 million, including both Victorian and Commonwealth Government funding for Scoresby Freeway and investment expenditure in 2002-03 of \$505 million. This includes the balance of the Growing Victoria infrastructure reserve, including additional funding of \$400 million for 2002-03 and 2003-04.

The scale of the 2002-03 infrastructure program and the scope and nature of projects approved demonstrate the Government's commitment to promoting economic, social and sustainable development across the whole State.

Table 2.2 provides a summary of new infrastructure asset investment funding by Department. Chapter 4, *Budget Initiatives*, Appendix A, *Specific Policy Initiatives Affecting the Budget Position*, and Appendix B, *Growing Victoria Infrastructure Reserve* provide more detailed information on the Government's 2002-03 infrastructure investment initiatives.

**Table 2.2: New asset funding by Department**

<i>Department</i>	<i>(\$ million)</i>	
	<i>2002-03 Budget</i>	<i>TEI<sup>(a)</sup></i>
Education and Training	82.1	216.4
Human Services	79.8	217.2
Infrastructure <sup>(b)(c)</sup>	169.7	1,336.3
Innovation, Industry and Regional Development <sup>(b)</sup>	55.8	187.7
Justice	37.0	84.0
Natural Resources and Environment	57.5	236.6
Premier and Cabinet	8.4	78.3
Tourism, Sport and the Commonwealth Games	7.8	50.8
Treasury and Finance	2.9	4.9
Parliament	3.5	3.5
Other <sup>(d)</sup>		629.1
<b>Total</b>	<b>504.5</b>	<b>3 044.6</b>

*Source: Department of Treasury and Finance*

*Notes:*

- (a) Total estimated investment. Includes funding in 2001-02 for the Departments of Human Services, Infrastructure, Innovation, Industry and Regional Development, Justice and Premier and Cabinet.*
- (b) Includes initiatives announced in the 2001-02 Budget Update – Scoresby Transport Corridor (includes Victorian and Commonwealth funding) and the Film and Television Studio.*
- (c) Includes projects funded from the Better Roads Victoria Trust.*
- (d) Partnerships Victoria project funding is provided for in the forward estimates for Berwick Community Hospital, the redevelopment of Spencer Street Station and Metropolitan Mobile Radio. However, project cost information will not be published until after completion of the tender process due to commercial sensitivity.*

## Revenue initiatives

The Government's *Building Tomorrow's Businesses Today* statement, released on 22 April 2002, continues the Government's ongoing commitment to ensuring a competitive tax regime for Victorian businesses. The Government's strong financial position enables further cuts in business taxes of \$262 million to 2005-06, providing an additional boost to jobs and growth in Victoria by:

- raising the payroll tax threshold from \$515 000 to \$550 000 from 1 July 2002, a year ahead of schedule;
- reducing the payroll tax rate from 5.45 per cent to 5.35 per cent from 1 July 2002, a year ahead of schedule;
- further reducing the payroll tax rate from 5.35 per cent to 5.25 per cent from 1 July 2003. The payroll tax initiatives will further stimulate business growth and employment and will represent a 9 per cent reduction in the payroll tax rate under the Bracks Government;
- raising the land tax threshold from \$125 000 to \$150 000 from 2002-03; and
- abolishing the stamp duty on unquoted marketable securities from 1 July 2002, a year ahead of schedule.

These changes represent a further \$262 million reduction in the tax burden on Victorian businesses, in addition to the \$774 million announced last year. This brings the total tax cuts announced by the Bracks Government to over \$1 billion in its first term of office.

In addition to the *Building Tomorrow's Businesses Today* package, the Government will make housing more affordable by targeting assistance to families buying their first home and concession card holders at an additional cost to revenue of \$13 million per annum (see Table 2.3). The number of purchasers receiving a concession is likely to almost double to about 8 000.

**Table 2.3: Revenue Initiatives**

	(\$ million)				
	2001-02	2002-03	2003-04	2004-05	2005-06
Bring forward payroll tax threshold increase to 1 July 2002	..	-23.0	-2.0	..	..
Bring forward payroll tax rate cut to 5.35 per cent to 1 July 2002	..	-47.0	-4.0	..	..
Payroll tax rate reduction to 5.25 per cent from 1 July 2003	..	-	-49.0	-56.0	-59.0
Increase in land tax threshold	..	-3.0	-3.0	-3.0	-3.0
Bring forward abolition of stamp duty on unquoted marketable securities	..	-10.0	..	..	..
Reforming existing concessions on conveyancing duty	..	-13.0	-13.0	-13.0	-13.0
<b>Total revenue initiatives</b>	<b>0.0</b>	<b>-96.0</b>	<b>-71.0</b>	<b>-72.0</b>	<b>-75.0</b>

Source: Department of Treasury and Finance

## 2002-03 BUDGET ESTIMATES

Table 2.4 provides a summary of the statement of financial performance for the 2002-03 Budget compared to the revised estimated outcome for 2001-02. For a detailed discussion of the revised estimates of the 2001-02 budget sector outcome, including an explanation of the variation from the published 2001-02 Budget estimates, see Appendix C, *Revised 2001-02 Budget Outcome*.

**Table 2.4: Summary statement of financial performance 2002-03**

	(\$ million)			
	2001-02 Revised	2002-03 Budget	Change \$m	Change %
Taxation	8 758.0	8 802.7	44.7	0.5
Investment income	1 049.4	1 061.6	12.2	1.2
Grants	11 755.3	11 753.5	- 1.8	0.0
Sales of goods and services	2 037.7	2 049.9	12.3	0.6
Other revenue <sup>(a)</sup>	1 406.4	1 614.0	207.6	14.8
<b>Total revenue</b>	<b>25 006.8</b>	<b>25 281.7</b>	<b>275.0</b>	<b>1.1</b>
Superannuation	2 048.8	1 713.1	- 335.7	-16.4
Depreciation	895.4	952.2	56.8	6.3
Borrowing costs	496.2	495.2	- 1.0	-0.2
Employee entitlements	8 531.7	9 041.5	509.8	6.0
Supplies and services	7 830.0	8 299.9	469.9	6.0
Other expenses <sup>(b)</sup>	4 439.4	4 258.1	- 181.3	-4.1
<b>Total expenses</b>	<b>24 241.5</b>	<b>24 760.0</b>	<b>518.5</b>	<b>2.1</b>
<b>Operating surplus</b>	<b>765.3</b>	<b>521.8</b>	<b>- 243.5</b>	<b>-31.8</b>

Source: Department of Treasury and Finance

Notes:

(a) Comprises regulatory fees and fines, fair value of assets received free of charge, gains/losses on disposal of physical assets, capital asset charge revenues and other miscellaneous revenue.

(b) Includes grants and transfer payments and amortisation expense.

As indicated in Table 2.4, the operating surplus is expected to decline from \$765 million in 2001-02 to \$522 million in 2002-03, a reduction of \$244 million.

The projected decline in the operating surplus in 2002-03 reflects a small increase in operating revenue of \$275 million and projected growth in operating expenses of \$519 million. The increase in operating expenses in part reflects the significant new service delivery initiatives announced by the Government since the 2001-02 Budget. The low growth in revenue forecast for 2002-03 is largely due to an expected moderation in property market activity and to the wind-down of distributions from the gas industry.

## **Operating expenses**

Total operating expenses are budgeted at \$24 760 million in 2002-03, representing an increase of \$519 million (2.1 per cent) on the 2001-02 revised estimate. Low growth in operating expenses reflects a combination of a number of factors. Policy decisions contributing to the increase in expenses include:

- 2002-03 Budget output initiatives of \$317 million;
- output initiatives totalling \$161 million previously announced in the *2001-02 Budget Update*;
- the full-year impact of output initiatives announced in the 2001-02 Budget (\$47 million); and
- an increase in depreciation expense (\$57 million), reflecting the combined impact of revaluation of existing assets and the substantial boost to infrastructure provided by the Bracks Government since the 2001-02 Budget.

These factors are partly offset by a number of factors which boosted operating expenses in 2001-02 including:

- a decline in superannuation expense (\$336 million), following a higher than expected expense in 2001-02 due to the poor equity market performance of superannuation funds and one-off actuarial revisions;
- the impact of one-off policy initiatives in 2001-02 including:
- the \$118 million Special Power Payment in 2001-02;
- \$84 million for a range of one-off initiatives including boosting water flows in the Murray River (\$15 million), funding for the Timber Communities in Partnership package (\$9 million) to assist rural and regional areas adversely affected by the restructuring of the State's timber industry, and \$6 million for initiatives which aim to reduce elective surgery patient waiting times and lists; and

- a decline in First Home Owner grants and the cessation of the Commonwealth Additional Grant for first home owners in 2002-03 (\$271 million).

The balance of the growth in 2002-03 operating expenses (\$749 million or 3.1 per cent) is broadly in line with expected wage and price inflation and population growth.

## Operating revenue

Total operating revenue amounts to \$25 282 million in 2002-03, representing a \$275 million increase on the 2001-02 revised estimate.

The moderate increase in revenue is essentially the result of low growth in taxation revenue, of only 0.5 per cent in 2002-03, which is lower than the expected growth in nominal gross state product, together with a largely unchanged level of Commonwealth grants.

The low growth in taxation revenue in 2002-03 compared to the 2001-02 revised estimate largely reflects:

- an expected moderation in property market activity in 2002-03 resulting in a return towards long-term trend in levels of conveyancing and mortgage duties (\$284 million) (see section on land transfers and Chart 2.1 below);
- the full-year effect of the Government's 2001-02 tax reform initiatives which were announced in the 26 April 2001 tax reform package, *Better Business Taxes*, combined with the \$96 million of tax relief measures announced in *Building Tomorrow's Businesses Today* and in this budget;
- the full-year effect of the abolition of financial institutions duty (\$36 million) and stamp duty on quoted marketable securities from 1 July 2001 (\$10 million) as part of changes agreed to in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*;
- offset by a \$92 million increase in land tax and underlying growth in a range of other taxes.

A \$168 million increase in regulatory fees and fines is the main contributor to the \$208 million increase in other revenue. This largely reflects the continuing impact of recent initiatives introduced as part of an effort to reduce Victoria's road toll (see Chapter 4, *Budget Initiatives* for more details). The balance of the increase in other revenue is mainly due to:

- asset recoveries associated with the winding down of Tri-Continental which is expected to be deregistered by 2003 (\$28 million); and
- capital assets charges revenue received from VicTrack (\$12 million).

A moderate increase in investment income of \$12 million is primarily due to an increase in interest revenue and higher distributions (tax equivalent revenue and dividends) from the Transport Accident Commission (\$102 million impact), based on investment market returns equivalent to a long-term average real return of 5 per cent per annum. This is offset by:

- lower distributions from the gas industry following the expected introduction of full retail contestability in the gas market (\$120 million); and
- lower distributions from the metropolitan water industry reflecting a forecast lower level of land developer activity (\$20 million).

Commonwealth grants are expected to decline by \$1.8 million in 2002-03 compared with the revised estimate for 2001-02. This largely reflects the reduction in Victoria's share of the grants pool (\$84 million), cessation of the Commonwealth Additional Grant for first home owners (\$93 million) and a decline in GST transitional grants driven by revised estimates of the First Home Owners' Grant scheme (\$180 million). In addition, the level of transitional assistance that Victoria will receive in 2002-03 is \$30 million lower than that consistent with the Intergovernmental Agreement. This is due to the Commonwealth unilaterally withdrawing \$134 million of funding in 2002-03 from the States and Territories under the pretence that it was collecting less petrol excise following its decision to cease the indexation of petroleum excise.

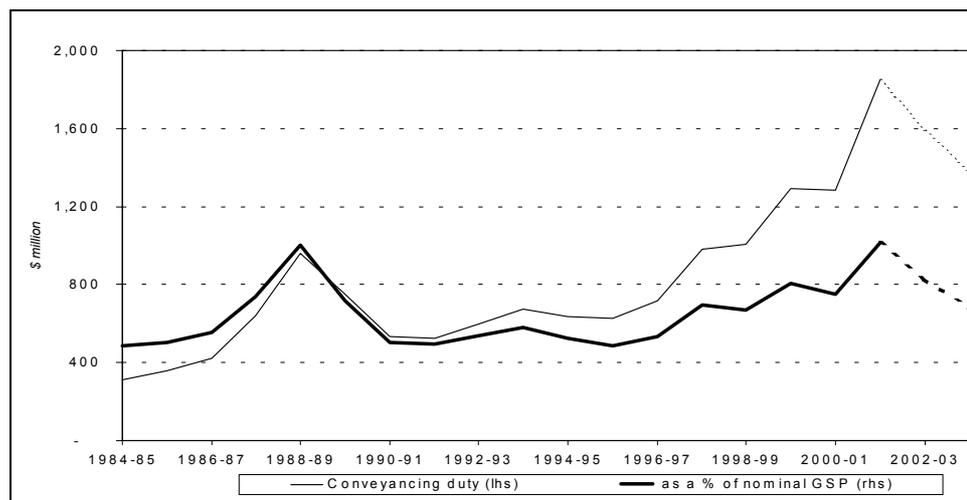
### ***Land transfers***

The 2001-02 Budget estimates assumed a slowdown in property market activity which has yet to occur. Indeed the property market became stronger in 2001-02 in terms of both prices and volumes transacted.

The continuing strength in 2001-02 reflects several factors including strong population growth from interstate migration, the relative resilience of the Victorian economy and labour market during the current global slowdown, the First Home Owners' Grant, low interest rates and instability in equity markets.

Chart 2.1 shows conveyancing duty revenue and as a share of gross state product (GSP), and includes estimates for the period 2002-03 to 2005-06. Conveyancing duty is projected to return towards long-term trends over the projection period, in particular towards its long-term average ratio of around 0.7 per cent of GSP.

**Chart 2.1: Conveyancing duty revenue <sup>(a)</sup>**



Source: Department of Treasury and Finance

Note:

(a) Dashed sections of lines show forecasts 2002-03 to 2005-06.

The Department of Treasury and Finance forecasts that the moderation in 2002-03 will predominantly reflect a reduction in the turnover, with some moderation in price growth, on the back of:

- an expected rise in interest rates during 2002-03;
- the cessation of the Commonwealth Additional Grant for first home owners from 1 July 2002; and
- a decline in speculative housing investment as buyers realise recent dramatic house price growth cannot continue and vacancy rates remain high.

Recent housing approval statistics are consistent with these forecasts.

## **FORWARD ESTIMATES OUTLOOK 2002-03 TO 2005-06**

Table 2.5 provides a snapshot of the aggregate budget outlook over the forward estimates period 2002-03 to 2005-06. (A more detailed statement of financial performance for the outlook period is provided in Chapter 7, *Estimated Financial Statements and Notes*.) The forward estimate projections take into account all announced policy initiatives.

As indicated in Table 2.5, an operating surplus of \$522 million is forecast for 2002-03 and expected to average around \$600 million over the remainder of the outlook period.

The projected moderate increase in the operating surplus in 2003-04 reflects continued low growth in both operating revenue and expenses expected in that year.

The operating surplus is expected to increase from \$517 million in 2004-05 to \$712 million in 2005-06. The increase in 2005-06 is due mainly to a return to normal taxation revenue growth following completion of the implementation of the Government's business tax reforms.

**Table 2.5: Summary statement of financial performance 2002-03 to 2005-06**

	(\$ million)				
	2001-02 Revised	2002-03 Budget	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
Taxation	8 758.0	8 802.7	8 926.7	9 101.7	9 281.6
Investment income	1 049.4	1 061.6	991.9	1 017.7	1 056.8
Grants	11 755.3	11 753.5	12 072.2	12 462.5	13 070.9
Sales of goods and services	2 037.7	2 049.9	2 082.4	2 113.5	2 146.1
Other revenue <sup>(a)</sup>	1 406.4	1 614.0	1 615.4	1 683.0	1 617.1
<b>Total revenue</b>	<b>25 006.8</b>	<b>25 281.7</b>	<b>25 688.6</b>	<b>26 378.4</b>	<b>27 172.5</b>
% change		1.1	1.6	2.7	3.0
Superannuation	2 048.8	1 713.1	1 725.3	1 765.9	1 804.3
Depreciation	895.4	952.2	1 002.7	1 067.0	1 115.1
Borrowing costs	496.2	495.2	494.6	492.1	488.4
Employee entitlements	8 531.7	9 041.5	9 386.0	9 687.6	10 001.3
Supplies and services	7 830.0	8 299.9	8 363.9	8 694.1	8 840.0
Other expenses <sup>(b)</sup>	4 439.4	4 258.1	4 136.1	4 154.4	4 211.5
<b>Total expenses</b>	<b>24 241.5</b>	<b>24 760.0</b>	<b>25 108.6</b>	<b>25 861.1</b>	<b>26 460.6</b>
% change		2.1	1.4	3.0	2.3
<b>Operating surplus</b>	<b>765.3</b>	<b>521.8</b>	<b>580.0</b>	<b>517.3</b>	<b>711.9</b>

Source: Department of Treasury and Finance

Notes:

- (a) Comprises regulatory fees and fines, fair value of assets received free of charge, gains/losses on disposal of physical assets, capital asset charge revenue and other miscellaneous revenue.
- (b) Includes grants and transfer payments and amortisation expense.

## Operating expenses

Total operating expenses are expected to increase by 2.2 per cent per annum on average between 2002-03 and 2005-06, which is broadly in line with expected price and wage inflation net of productivity growth.

Employee entitlements are expected to increase on average 3.4 per cent per annum over the period, the result of underlying wage increases and policy decisions taken by the Government. These are expected to have a positive impact on service delivery outcomes through the attraction and retention of high quality staff across the public service, including in education, policing, nursing and community services.

Finance costs are expected to decline by an average 0.5 per cent per annum over the forecast period. This mainly reflects the flow-through impact of lower interest rates as the debt portfolio gradually matures and is refinanced.

However, the decline in finance costs is more than offset by projected growth in depreciation expenses of around 5.4 per cent per annum on average over this period. The increase in depreciation expenses is due to the substantial investment in new infrastructure to be undertaken over this period.

Growth in total operating expenses is expected to moderate to 1.4 per cent in 2003-04, mainly reflecting the completion in 2002-03 of a four-year program of election commitments in relation to various grants programs.

### **Operating revenue**

Total revenue is expected to increase by 2.4 per cent per annum on average between 2002-03 and 2005-06. This reflects projected low growth in taxation revenue and Commonwealth grants.

Victoria's own-source revenue is expected to grow by an average 1.4 per cent between 2002-03 and 2005-06, lower than growth in nominal GSP. This reflects underlying growth in payroll tax and most other taxes in line with forecast employment, wages and economic growth (see Chapter 3, *Economic Conditions and Outlook*), offset by:

- lower land transfer tax collections as activity in the property market declines further towards long-term trend levels (see Chart 2.1 and commentary above);
- tax cuts for business announced as part of the 2001 *Better Business Taxes* and 2002 *Building Tomorrow's Businesses Today* statements such as payroll tax reductions in 2002-03 and 2003-04 and mortgage duty removal in 2004-05; and
- removal of debits tax in 2005-06 as specified in the Intergovernmental Agreement.

With respect to other major revenue categories:

- revenue from Commonwealth grants is expected to grow by 3.6 per cent per annum over the forward estimates period reflecting higher specific purpose payments and higher GST grants stemming from the Commonwealth's forecasts of nominal consumption growth and additional compliance effort by the Australian Tax Office; and
- revenue from sales of goods and services exhibits moderate growth over the forward estimates period. The impact of this growth in sales revenue on the budget bottom line is offset by a similar growth assumption for operating expenses related to the cost of goods and services sold.

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

Table 2.6 compares the revised outlook for the operating surplus for the period 2002-03 to 2004-05 to previously published budget estimates.

The projected budget operating surplus has improved from the original 2001-02 Budget estimates published in May 2001. The operating surplus is now expected to average around \$540 million per annum over this period compared to an original budget estimate of around \$500 million.

A better than expected outlook for taxation revenue is forecast resulting from stronger land tax revenues and a less severe downturn in the property market than that originally assessed in the 2001-02 Budget. The outlook for both Commonwealth grants and regulatory fees and fines has also improved. These changes have been offset by:

- an increase in operating expenses, mainly reflecting implementation of 2002-03 Budget output initiatives; and
- tax initiatives announced as part of the *Building Tomorrow's Businesses Today* package.

### **Variations to total operating revenue**

Table 2.6 highlights the increase in projected operating revenue for the period 2002-03 to 2004-05 relative to the original budget estimates published in May 2001. The projected operating revenue for 2002-03 is \$1 357 million higher than the published budget estimates, with the improvement over the remainder of the outlook period averaging around \$1 374 million per year.

A large component of this improvement in revenue (\$634 million in 2002-03) was factored into the revised 2001-02 Budget estimates published in the *2001-02 Budget Update* in January 2002. The factors underlying this improvement mainly reflected the impact of strong employment and strong property market conditions on taxation revenue and higher Commonwealth grants, and were detailed in the Budget Update.

As indicated in Table 2.6, there has been a further improvement in the revenue outlook since the publication of the *2001-02 Budget Update*. Total revenue for 2002-03 has been revised up by \$723 million, \$921 million in 2003-04 and \$957 million in 2004-05.

**Table 2.6: Reconciliation of 2002-03 Budget estimates to 2001-02 Budget**

	(\$ million)		
	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
<b>General government sector operating surplus – 2001-02 Budget</b>	<b>346.3</b>	<b>602.4</b>	<b>546.7</b>
Plus: Revenue variations in Budget Update	634.0	395.7	472.9
Less: Expense variations in Budget Update	352.3	406.0	468.5
<b>Budget sector operating surplus – 2001-02 Budget Update</b>	<b>628.1</b>	<b>592.1</b>	<b>551.1</b>
Plus: Revenue variations since Budget Update			
Economic/demographic effects			
Taxation revenue	405.8	350.4	229.9
Investment income	1.2	44.4	46.8
Sales of goods and services	76.7	81.0	96.1
<b>Total economic/demographic variations</b>	<b>483.8</b>	<b>475.7</b>	<b>372.8</b>
Policy decisions			
Taxation initiatives	- 96.0	- 71.0	- 72.0
Other initiatives affecting revenue	134.1	150.2	149.7
<b>Total policy variations</b>	<b>38.1</b>	<b>79.2</b>	<b>77.7</b>
Commonwealth funding revisions			
General purpose grants	- 4.0	85.9	102.3
Specific purpose payments	113.5	171.3	253.9
<b>Total Commonwealth funding variations</b>	<b>109.5</b>	<b>257.2</b>	<b>356.2</b>
Administrative variations			
Fines and regulatory fees	51.5	53.6	55.2
Other miscellaneous variations	40.5	55.6	95.4
<b>Total administrative variations</b>	<b>92.0</b>	<b>109.2</b>	<b>150.6</b>
<b>Total variation in operating revenue since Budget Update</b>	<b>723.4</b>	<b>921.2</b>	<b>957.3</b>

**Table 2.6: Reconciliation of 2002-03 Budget estimates to 2001-02 Budget - continued**

(\$ million)			
	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
<b>Less: Variations in operating expenses since Budget Update</b>			
<b>Economic/demographic effects</b>			
Expenses funded by increased sales	76.7	81.0	96.1
<b>Total economic/demographic variations</b>	<b>76.7</b>	<b>81.0</b>	<b>96.1</b>
<b>Policy decisions</b>			
2002-03 Budget output initiatives	477.8	540.9	526.8
Less: Amount included in 2001-02 Budget Update	- 160.8	- 172.7	- 199.5
<b>Total output initiatives</b>	<b>317.0</b>	<b>368.2</b>	<b>327.3</b>
Less: 2002-03 Budget saving initiatives	- 5.5	- 11.1	- 15.6
<b>Total policy variations</b>	<b>311.5</b>	<b>357.1</b>	<b>311.8</b>
<b>Commonwealth funding revisions</b>	<b>12.6</b>	<b>95.8</b>	<b>113.7</b>
<b>Administrative variations</b>			
Budget financing – borrowing costs	7.8	9.5	10.9
Superannuation – actuarial revisions	10.2	8.7	10.2
Other administrative variations	405.3	370.2	432.8
<b>Total administrative variations</b>	<b>423.3</b>	<b>388.4</b>	<b>453.9</b>
<b>Total variation in operating expenses since Budget Update</b>	<b>829.7</b>	<b>933.4</b>	<b>991.1</b>
<b>General government sector operating surplus – 2002-03 Budget</b>	<b>521.8</b>	<b>580.0</b>	<b>517.3</b>

Source: Department of Treasury and Finance

The combined effect of economic conditions on taxes, investment income and other revenue accounts for around half of the aggregate increase, boosting projected revenues since the *2001-02 Budget Update* by \$484 million in 2002-03 and an average of \$424 million per annum over the outlook period (see Table 2.6). This reflects a number of factors:

- changes to land tax revenue resulting from revised land valuation data provided by the Valuer General's Office;
- the continued strength of property markets and property prices which has resulted in increased projected revenues from stamp duties on conveyancing. The property market has not slowed to the extent predicted at the time of the Budget Update, but is expected to moderate over the forward estimates period; and
- projected revenue from sales of goods and services has also been revised up by \$77 million in 2002-03 since the Budget Update.

The increase in revenue from these sources has been partly offset by:

- decreases in distributions anticipated from the Transport Accident Commission, due to higher estimates of future long-term care costs and a lower investment base following weaker than expected investment returns in 2000-01 and 2001-02.

Policy decisions taken since the 2001-02 Budget have the effect of increasing revenue (relative to the 2001-02 Budget Update) by around \$65 million per annum on average over the period. This reflects a reduction in business taxes announced in the Government's business statement *Building Tomorrow's Businesses Today*, and an increase in revenue from fines associated with the implementation of the Government's road safety strategy – *arrive alive!*

Total Commonwealth funding revisions are expected to result in an increase in total revenue, relative to the *2001-02 Budget Update* estimates, of \$110 million in 2002-03 rising to \$356 million per annum in 2005-06. Higher projected specific purpose payments from the Commonwealth totalling \$114 million in 2002-03, and rising to \$254 million in 2005-06, are mainly due to:

- additional Commonwealth capital grants funding for the Scoresby Freeway;
- increased health funding grants under the Australian Health Care Agreement, Home and Community Care funding and the Commonwealth-State Disability Agreement; and
- higher grants associated with the National Heritage Trust.

The increase in specific purpose payments is partly offset by general purpose grants, which are estimated to decline in 2002-03 relative to the published update estimate driven by Commonwealth revisions to Victoria's GST transitional grants. At the recent Treasurer's Conference the Commonwealth unilaterally withdrew funding of \$134 million in 2002-03 from the States and Territories, including \$30 million from Victoria, on the pretence that it was collecting less petrol excise following its decision to cease the indexation of petroleum excise.

Administrative variations (comprising miscellaneous variations such as revisions to interest revenue, non-public account revenue and fines) contribute to an increase in total revenue in 2002-03, relative to the *2001-02 Budget Update* estimates, of \$92 million.

### **Variations to total operating expenses**

Projected operating expenses for 2002-03 are \$1 182 million higher than the budget estimates published in the May 2001 Budget, with the increase over the remainder of the outlook period averaging around \$1 400 million per year.

As indicated in Table 2.6, some of this increase (\$352 million in 2002-03) was factored into the revised estimates published in the *2001-02 Budget Update*. Implementation of new policy initiatives, Commonwealth funding revisions and revised actuarial assessments of superannuation expenses accounted for the major part of the revision, which was explained in detail in the *2001-02 Budget Update*.

As indicated in Table 2.6, projected operating expenses for 2002-03 have increased by a further \$830 million since the *2001-02 Budget Update*, with the increase for the following two years averaging \$960 million per annum.

New policy initiatives announced in this budget account for a large part of this increase. As noted earlier, the 2002-03 Budget provides additional funding for new output initiatives of \$317 million increasing slightly to \$327 million in 2004-05. A range of savings initiatives included in this budget reduce expenses by an average of \$11 million over the period (see Appendix A, *Specific Policy Initiatives Affecting the Budget Position*, for details).

An increase in the cost of goods and services funded by increased sales revenue accounts for a further \$77 million of the overall increase in 2002-03 operating expenses since the *2001-02 Budget Update*.

Commonwealth funding variations, including revised estimates of the First Home Owners' Grant scheme, increase expenses by an average \$74 million over the period.

A range of other administrative variations has resulted in a net increase in expenses of \$405 million in 2002-03 and \$433 million in 2004-05. Around half the increase is due to increases in expenses in outer budget agencies funded by own-source revenue. This is largely due to the inclusion in the general government budget estimates for the first time of a range of non-budget agencies including the Docklands Authority, Building Control Commission, Eco Recycle Victoria, Royal Botanical Gardens Board and Melbourne Parks and Waterways. This ensures alignment between the general government budget estimates and the annual financial results published in the *Financial Report for the State of Victoria*. There is no impact on the overall budget, since revenue of these agencies has also been included and contributes to an equivalent revenue variation.

The balance of the administrative variations is mainly due to updated actuarial revisions to the superannuation expense, an increase in the contingency to take account of various risks facing the budget and the amortisation of motor vehicle leases largely associated with the centrally managed vehicle leasing facility.

## USE OF CASH RESOURCES

Table 2.7 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 financing activities. The table also provides a reconciliation of the projected budget operating result to the projected change in general government net debt over the forward estimates period.

The estimated statement of cash flows presented in Chapter 7, *Estimated Financial Statements and Notes* provides a detailed breakdown of the projected source and application of cash resources generated in the course of general government sector activities.

Table 2.7 shows that the expected budget operating surplus for 2002-03 is \$522 million. However, the operating result is affected by a number of expense and revenue items which do not require or provide cash resources during the year. These include depreciation, amortisation and growth in unfunded superannuation liabilities and employee entitlement liabilities. Subtracting these non-cash items yields projected net cash inflow from operating activities for 2002-03 of \$1 597 million, compared to a revised estimate of \$2 702 million for 2001-02.

Expenditure on the purchase of infrastructure and other fixed assets is projected to increase to \$2 066 million in 2002-03, compared to a revised estimate of \$1 929 million for 2001-02. The \$1 597 million cash surplus from operating activities will be the main source of funding for the 2002-03 infrastructure program, with the balance sourced from a \$570 million drawdown of the Growing Victoria reserve financial assets, which were explicitly put aside in 1999-2000, 2000-01 and 2001-02 to provide a boost to future infrastructure spending. An additional \$400 million has been allocated to the reserve in the 2002-03 Budget. (For further details on the Growing Victoria infrastructure program see Appendix B, *Growing Victoria Infrastructure Reserve*.)

**Table 2.7: Application of cash resources**

	(\$ million)				
	2001-02 Revised	2002-03 Budget	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
<b>Budget operating surplus</b>	<b>765.3</b>	<b>521.8</b>	<b>580.0</b>	<b>517.3</b>	<b>711.9</b>
Plus: Non-cash expenses (net) <sup>(a)</sup>	1 936.8	1 074.7	1 391.0	1 715.4	1 422.4
<b>Net cash flow from operating activities</b>	<b>2 702.1</b>	<b>1 596.5</b>	<b>1 971.0</b>	<b>2 232.8</b>	<b>2 134.4</b>
Plus: Net drawdown of Growing Victoria infrastructure reserve	- 174.0	570.0	426.0	170.0	130.0
<b>Total cash available for asset investment</b>	<b>2 528.1</b>	<b>2 166.5</b>	<b>2 397.0</b>	<b>2 402.8</b>	<b>2 264.4</b>
Less:					
Net investment in fixed assets <sup>(b)</sup>	1 929.2	2 066.1	2 292.0	2 299.5	2 166.5
Other investment activities (net)	- 56.4	13.5	13.0	12.0	9.7
<b>Decrease in net debt (excluding Growing Victoria)</b>	<b>655</b>	<b>87</b>	<b>92</b>	<b>91</b>	<b>88</b>

Source: Department of Treasury and Finance

Notes:

- (d) Includes depreciation and increase in unfunded superannuation liability and increase in liability for employee entitlements.
- (e) Includes net contribution to other sectors of government.

As indicated in Table 2.7, as a consequence of these activities general government sector net debt (excluding Growing Victoria) is expected to decline by \$87 million in 2002-03.

The cash surplus from operating activities is expected to increase to \$1 971 million in 2003-04 (consistent with the projected increase in the operating surplus). Expenditure on the purchase of infrastructure and other fixed assets is expected to remain strong over the forward estimates period. This reflects maintenance of underlying infrastructure expenditure in line with growth in nominal GSP, together with the additional boost to infrastructure spending provided by the Growing Victoria infrastructure reserve.

The cash surplus from operating activities (combined with a further progressive drawdown of the Growing Victoria infrastructure reserve) will continue to be applied to financing infrastructure investment over the remainder of the forward estimates period. The balance of the cash surplus will mainly be applied to reducing net debt (excluding Growing Victoria) through a modest increase in financial assets, with borrowings expected to remain fairly steady over the outlook period.



## CHAPTER 3: ECONOMIC CONDITIONS AND OUTLOOK

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- Global economic conditions weakened over the past year, with the downturn exacerbated by the 11 September terrorist attacks on the United States.
- The Australian economy has proved resilient to the global slowdown. Domestic demand rebounded strongly over calendar 2001, particularly in the second half, underpinned by consumer spending, government expenditure and an acceleration in housing construction.
- The Victorian economy performed strongly over the past year, exceeding the national average in key measures such as consumer spending, business investment and population growth. Forward indicators are positive, notably non-residential building approvals which are at record levels.
- The Victorian labour market recorded further solid gains following on from exceptionally strong growth in 2000-01. The unemployment rate is now approaching levels of the early 1990s, and has been consistently at or below the national average for almost two years.
- Recent evidence of a global recovery is positive for the 2002-03 outlook.
- Victorian economic growth is now estimated at 3.75 per cent in 2001-02, exceeding the original budget estimate of 2.75 per cent. Growth in 2002-03 is forecast at 3.5 per cent.

### WORLD AND AUSTRALIAN ECONOMIC ENVIRONMENT

Global economic conditions deteriorated over the past year, reflected in a progressive lowering of consensus growth forecasts. The most significant revisions occurred after the 11 September terrorist attacks on the United States, although a global downturn was well underway prior to these events.

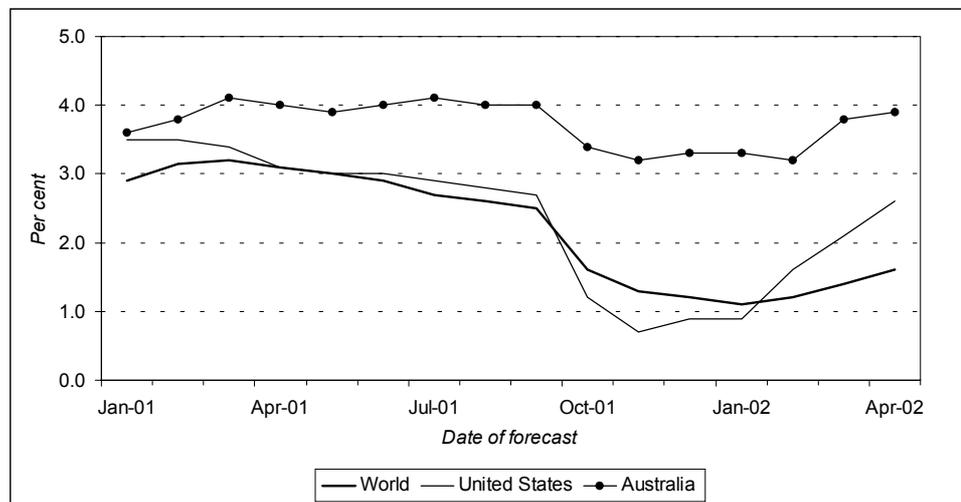
The US economy grew by just 1.2 per cent in 2001 (following 4.1 per cent in 2000), with negative contributions from business investment, inventories and net exports. However, the economy appears to have defied expectations of a prolonged post-11 September downturn. With the US economy slowing and

subdued global demand for IT products, growth in our trading partners in Asia also weakened, particularly in Japan which entered a recession. Activity in Europe slowed, although not to the same extent as in the United States.

Global interest rates were reduced sharply during 2001, including a coordinated reduction post-11 September. With significant stimulus in the pipeline, there is increasing evidence that global economic conditions are improving.

According to the April 2002 Consensus Economics survey, world economic growth is set to improve from 1.2 per cent in 2001 to 1.6 per cent in 2002 and 3.0 per cent in 2003. The 2002 growth forecast has been upgraded slightly in recent months (see Chart 3.1) due to a markedly improved outlook in the United States. US GDP growth is currently predicted to be 2.6 per cent in 2002 and 3.5 per cent in 2003. The Consensus Economics survey also sees an improvement in growth in Europe and Asia, excluding Japan where a recovery is not expected until 2003.

**Chart 3.1: World, US and Australian 2002 consensus growth forecasts<sup>(a)</sup>**



Source: Consensus Economics

Note:

(a) The world growth forecast is a weighted average using 1995 GDP weights, converted at average 1995 exchange rates.

The Australian economy has proved resilient to this global slowdown. Although GDP grew by just 1.9 per cent in 2000-01, this was due to weakness in the first half of the year following the introduction of the GST. Domestic demand rebounded strongly over calendar 2001, particularly in the second half of the year, underpinned by consumer spending, government expenditure and an acceleration in housing construction. The events of 11 September had only a temporary impact on business and consumer sentiment, and both have rebounded to high levels.

The national economy therefore entered 2002 on a solid footing, supported by historically low interest rates. The major area of weakness in the economy has been exports and, until recently, business investment.

Private sector forecasts of Australian economic growth improved in March following the release of unexpectedly strong December quarter GDP data (see Chart 3.1). Average forecasts reported in the Consensus Economics survey imply growth of around 3.6 per cent in 2001-02 and 3.7 per cent in 2002-03. The forecasts show an increase in business investment in 2002-03, which will offset an anticipated slowing in the housing sector.

The Reserve Bank of Australia (as at end April) has left interest rates unchanged since December 2001, at 4.25 per cent, following a cumulative easing of 200 basis points from 6.25 per cent in February 2001. Financial market commentators expect a gradual return to tighter policy conditions over the remainder of 2002.

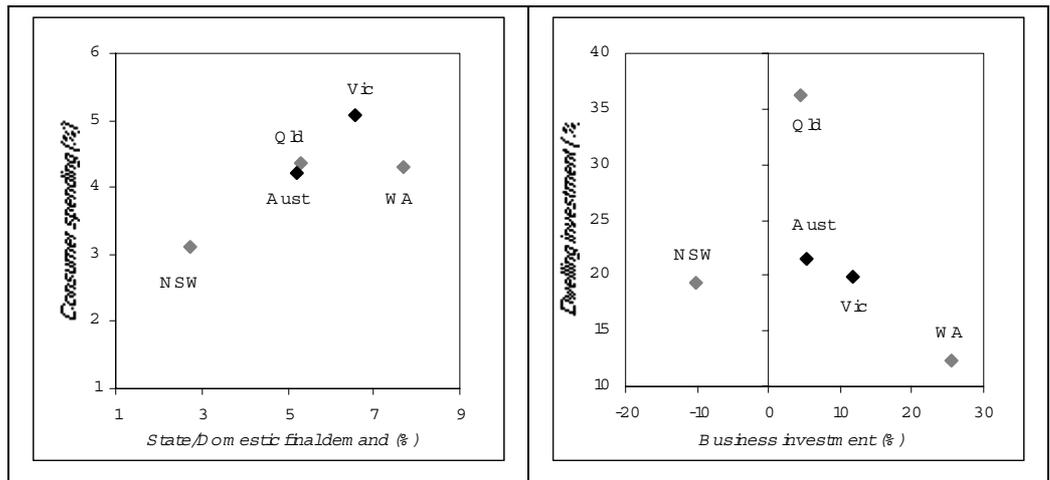
## **VICTORIAN ECONOMIC CONDITIONS**

The Victorian economy performed well over the past year, exceeding the national average in key measures such as consumer spending and business investment (see Chart 3.2). As with the national economy, strong domestic demand growth offset weaker exports as the global economy slowed.

In year-average terms, state final demand (i.e. total private and public final consumption and investment spending) grew by 2.3 per cent in Victoria in 2001. However, the growth rate in the year to the December quarter 2001 was 6.6 per cent (5.2 per cent nationally) as demand growth accelerated through the year. Consumer spending growth was higher in Victoria than nationally over the past year, as was business investment. Dwelling investment rebounded strongly, although a little below the national average as the post-GST decline in Victoria was not as marked. Merchandise exports rose in the June and September quarters of 2001, but declined in the December quarter.

Labour market conditions improved, although the gains were more moderate compared with the exceptionally strong performance of 2000-01. The State's economic performance of recent years continues to support an influx of people from other States, with net interstate immigration at record levels.

**Chart 3.2: Comparative growth in domestic demand<sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

(a) Per cent change between the December quarter 2000 and December quarter 2001. Seasonally adjusted, chain volume measures (1999-2000 prices).

The following sections provide more detail on recent trends in the Victorian economy.

### Consumer spending

Consumer spending was one of the key drivers of growth in 2001, and recent retail sales, motor vehicle and consumer sentiment data indicate this momentum was sustained into the new year. Consumer spending in Victoria rose by 5.1 per cent during 2001, the strongest increase of all the States. The events of 11 September appear to have had minimal impact on consumer spending, and the impact on sentiment was short-lived.

A number of factors supported this growth in spending, including the reduction in interest rates over 2001, falling petrol prices and moderate growth in income. The significant rise in Melbourne house prices has also been important due its impact on household wealth.

The housing boom has further contributed to the growth in consumer spending via increased expenditure on home furnishings and related items. The household goods component of Victorian retail sales surged more than 16 per cent in calendar 2001 (see Chart 3.3).

**Chart 3.3: Retail sales growth by industry group, 2001<sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

(a) Per cent change on calendar year 2000, original data at current prices.

## Housing

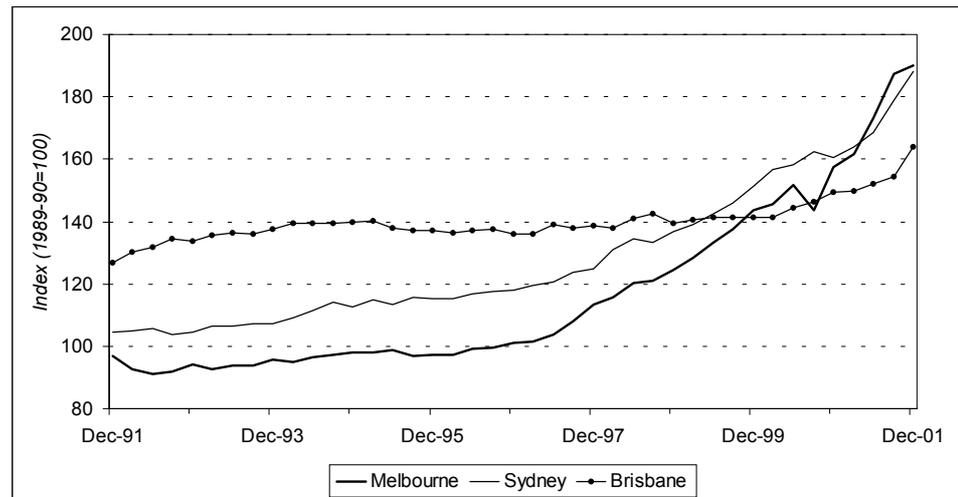
Housing construction has been an important driver of growth in the Victorian (and national) economy over the past year, reversing the GST-induced slump of late 2000.

Forward indicators of housing activity such as building approvals suggest that activity will likely stabilise around current high levels in the first half of 2002. The number of private housing approvals in Victoria rose strongly over the past year, to be 70 per cent above their post-GST trough, although it now seems approvals have peaked for this cycle. Victoria accounted for 30 per cent of national private dwelling approvals in 2001, well above its population share of 25 per cent.

The key factors supporting the Victorian housing market have been historically low interest rates, the operation of the first home owners' grant, continued strong population gains and greater latent demand in Victoria.

The strength of the Victorian housing market is clearly reflected in house price movements. According to the Australian Bureau of Statistics, established house prices in Melbourne rose by 21 per cent in the year to December 2001, the strongest increase of any capital city (see Chart 3.4).

**Chart 3.4: Established house price indices<sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

(a) Quarterly data, index (1989-90=100).

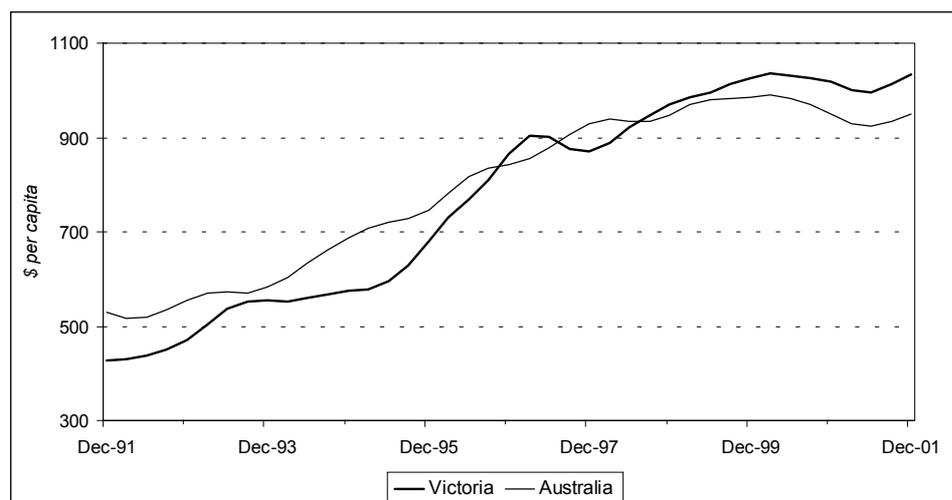
## Business investment

Private business investment in Victoria grew moderately in 2001, outperforming the national average. In year-average terms, machinery and equipment investment was marginally weaker (although it rebounded strongly in the December quarter), other building and structures investment was flat, while intangible fixed assets investment (mainly computer software) recorded further growth, albeit at a slower pace than in recent years. The uncertain outlook for the global economy may partly explain the investment pause over much of 2001.

In a longer-term context, business investment in Victoria has grown strongly (see Chart 3.5). There has been a cumulative increase of almost 36 per cent in the five years to 2001, the strongest increase of all States.

The investment environment is expected to be more favourable in 2002-03. The outlook for the global economy has improved, business confidence is at high levels, and there is evidence that corporate profitability is on the improve. There is also a large pipeline of non-residential construction work to be done in Victoria. The value of private non-residential building approvals rose 17 per cent in 2001 (compared to only 3 per cent in the rest of Australia) and was at a record level in the December quarter.

**Chart 3.5: Business investment per capita<sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

(a) Business investment is quarterly trend data, chain volume measure (1999-2000 prices). Trend data abstract from major second-hand asset sales from the public to private sector.

## International trade

Victoria enjoyed a reasonable export performance for much of 2001, although the global slowdown had impacted by year-end. The low value of the Australian dollar has provided support to exporters, as has the increase in some key commodity prices.

In value terms, merchandise exports (excluding gold) rose 12.2 per cent to \$21.1 billion in 2001, despite a fall in the December quarter. There was an increase in exports to most major destinations. By commodity, strong growth was recorded in food exports (notably dairy, cereals and meat), textile fibres (wool), and a number of advanced manufactures, including medicinal and pharmaceutical products, motor vehicles, and professional and scientific instruments.

In volume terms, exports fell sharply in the December quarter following two quarters of growth. In contrast, imports rose strongly in the December quarter. Overall, net exports detracted from Victorian growth in the first half of 2001-02. The strength of domestic demand and the soft global economy suggest the net exports contribution will remain subdued in the second half of the year.

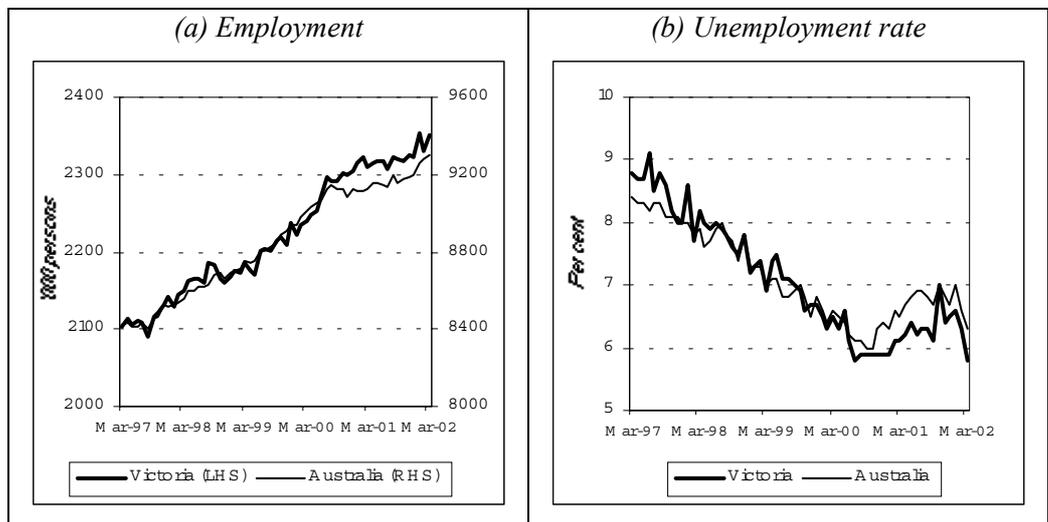
## Labour market

The Victorian labour market improved over the past year, although not to the same extent as in 2000-01 when employment growth was exceptionally strong. In March 2002, 2.35 million Victorians were employed, which was 1.8 per cent higher than a year earlier.

Victorian employment was relatively flat over much of 2001, a delayed response to the GST-induced slowing in demand in the second half of 2000. Uncertainty surrounding the global economic outlook is also likely to have been a key factor. In the March quarter 2002, however, employment growth rebounded strongly (see Chart 3.6a).

The Victorian unemployment rate edged higher over the second half of 2001, in line with slower employment growth, before declining again more recently. Victoria's seasonally adjusted unemployment rate fell 0.3 percentage points over the year to March 2002 to 5.8 per cent (see Chart 3.6b). This was below the national average (6.3 per cent) and the second lowest rate of all States. The Victorian participation rate has remained at high levels.

**Chart 3.6: Victorian labour market conditions<sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

(a) Monthly seasonally adjusted data.

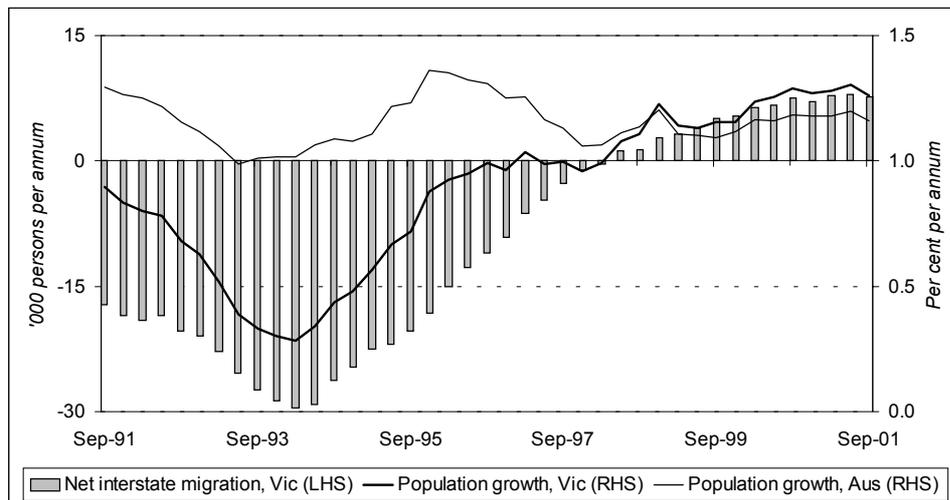
## Population

Victoria's population was 4.84 million as at September 2001, representing 24.9 per cent of the Australian total. During the year to September, the State's population grew 1.3 per cent (or 60 400 persons), the third consecutive year that Victoria's population growth has exceeded the national average (1.2 per cent). Current growth rates are well above the State's long-term average of 1.0 per cent per annum.

The largest contribution to Victoria's population growth last year was from natural increase (26 600 persons), closely followed by net overseas migration (26 100). Net interstate migration contributed 7 700 persons (see Chart 3.7). Over the past few years, the largest net flows have been from New South Wales, South Australia and Tasmania.

Victoria's population growth in 2000-01 was concentrated in Melbourne, large regional centres (such as Ballarat, Bendigo, Geelong, Mildura, Shepparton and Wodonga), and coastal areas (such as the Bass Coast and Surf Coast). This continues the long-term trend towards inner city and coastal living which is also evident in other parts of Australia.

**Chart 3.7: Interstate migration and population growth<sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

(a) Annual original data.

## Prices and wages

The Melbourne consumer price index rose by 2.9 per cent over the year to the March quarter 2002, in line with the national increase and well down from the peak following the introduction of the GST (6.3 per cent).

Wages growth, as measured by the wage cost index, remained moderate over the past year, rising 3.4 per cent in the year to the December quarter 2001. This was consistent with the national increase.

## VICTORIAN ECONOMIC OUTLOOK

The economic projections used in the 2002-03 Budget are set out in Table 3.1. As usual, these have been prepared on a no policy change basis.

The Victorian economy performed strongly in 2001-02, and it is anticipated that GSP growth will exceed the original Budget estimate of 2.75 per cent. Economic growth is now estimated at 3.75 per cent in 2001-02, with growth of 3.5 per cent in 2002-03.

Over 2002-03, the composition of growth is expected to see a switch towards an improved export performance and a change in the drivers of state final demand.

While consumer spending will remain an important contributor to growth in 2002-03, housing investment is expected to recede as the first home owners' scheme is wound back and interest rates are raised. However, private business investment is forecast to be stronger in 2002-03 and merchandise exports should rebound over the year as the international recovery firms.

Employment growth is forecast to rise from 1.25 per cent in 2001-02 (up from the original budget estimate of 0.5 per cent) to 1.5 per cent in 2002-03 in year-average terms. The participation rate is expected to ease slightly from current high levels, with the unemployment rate to average around 6.00 per cent in 2002-03.

Consumer price inflation is forecast to moderate to 2.25 per cent in 2002-03, from an estimated 2.75 per cent in 2001-02. The economic projections assume annual wage growth will remain moderate at around 3.5 per cent over the forecast period.

The population growth projections are based on the ABS Series R projections which assume, among other things, net interstate migration eventually eases to a gain of 2 000 persons per year. Of the range of population projections prepared by the ABS, Series R is the most consistent with recent Victorian trends. A slight adjustment has been made to the near-term population growth rates to reflect the fact that interstate and overseas migration continue to exceed the Series R assumptions.

**Table 3.1: Victorian economic projections<sup>(a)</sup>**

	2000-01	2001-02	2002-03
	<i>Actual</i>	<i>Forecast</i>	<i>Forecast</i>
Gross state product	2.4	3.75	3.50
Employment	3.5	1.25	1.50
Unemployment rate <sup>(b)</sup>	6.0	6.25	6.00
Consumer price index	6.0	2.75	2.25
Wage cost index <sup>(c)</sup>	3.4	3.75	3.50
Population <sup>(d)</sup>	1.3	1.20	1.00

Source: Australian Bureau of Statistics; 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.
- (b) Year-average level, per cent.
- (c) Total hourly rate excluding bonuses.
- (d) June quarter, per cent change on previous June quarter. Based on ABS Series R projections.

A discussion of the major risks to the economic projections is included in Chapter 6, *Statement of Risks*.



## CHAPTER 4: BUDGET INITIATIVES

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- The Government's vision for Victoria is highlighted under *Growing Victoria Together*, the framework that balances economic, social and environmental goals and actions in growing all of Victoria.
- The 2002-03 Budget delivers initiatives that advance the Government's priorities in the strategic issues of importance to Victoria over the next ten years as set out in *Growing Victoria Together*.
- Key new initiatives of the 2002-03 Budget include:
  - \$202 million over four years in output initiatives, as well as asset investment of \$187 million TEI, to create more jobs and thriving innovative industries across Victoria;
  - \$334 million over four years in output initiatives, as well as asset investment of \$216 million TEI, that value and invest in lifelong education;
  - \$1.2 billion over four years, as well as asset investment of \$217 million, to ensure the provision of high quality, accessible health and community services;
  - \$81 million TEI in asset investment, as well as \$34 million over four years in new output initiatives, to make our streets, homes and workplaces safe;
  - \$1.3 billion TEI (including contributions for Scoresby Freeway) in asset investment, as well as \$76 million over four years in new output initiatives, to grow and link Victoria, including initiatives that link regional centres to Melbourne and improve road and rail;
  - \$130 million over four years, as well as asset investment of \$77 million TEI to promote sustainable development and protect the environment for future generations; and
  - \$192 million over four years towards building cohesive communities and reducing inequalities.

## **GROWING VICTORIA TOGETHER**

The Government's vision is that by 2010 Victoria will be a State where:

- innovation leads to thriving industries generating high quality jobs;
- all Victorians have access to the highest quality health and education services;
- there are caring, safe communities with equitable opportunities; and
- protecting the environment for future generations is built into all government decision making.

This vision is expressed in *Growing Victoria Together*, which was released in November 2001. *Growing Victoria Together* identifies the important strategic issues that will guide budget and policy choices. The strategic issues of importance identified are:

- sound financial management;
- more jobs and thriving, innovative industries across Victoria;
- valuing and investing in lifelong education;
- high quality, accessible health and community services;
- safe streets, homes and workplaces;
- growing and linking all of Victoria;
- protecting the environment for future generations and promoting sustainable development;
- building cohesive communities and reducing inequalities;
- promoting rights and respecting diversity; and
- government that listens and leads.

The 2002-03 Budget invests for our future. It invests in more jobs and stronger communities – with record investment in education and innovation driving new opportunities for all Victorians.

This chapter concentrates on the key budget initiatives in these priority areas, whilst also outlining some of the initiatives under the other elements of the *Growing Victoria Together* framework.

## **INVESTING FOR OUR FUTURE – STRONGER COMMUNITIES**

*Growing Victoria Together* commits the Government to growing and linking the whole State. The Government recognises that the key to Victoria's future lies in strong communities, contributing to and sharing in the benefits of a thriving and innovative state economy.

Community access to quality services such as health, education, community safety and transport is essential to building strong and inclusive communities. At the same time, communities must also be assisted to attract new investment, create jobs and increase their capacity to connect with each other, with the rest of Victoria and with the global economy.

The 2002-03 Budget provides a major \$3.0 billion boost to infrastructure focusing on generating more jobs, strengthening our communities and securing new opportunities across Victoria's suburbs, regions and growth corridors.

### **Stronger suburbs**

In the period between 1996 and 2001, the population of Melbourne's outer suburbs grew by more than 10 per cent and continuing strong growth is expected in the years ahead. These growing communities are a vital and dynamic part of the Victorian economy. Measures in the 2002-03 Budget build improved social infrastructure and target key drivers of economic growth in these suburbs.

Greater detail on these initiatives is provided in other sections of this chapter.

Key highlights of investment in Melbourne's growing suburbs include:

- \$1.2 billion TEI for Linking the Suburbs strategy to improve road, rail, and tram transport, including construction of the Scoresby Freeway (including a \$445 million contribution from the Federal Government) and extending the electrification of the rail line to Craigieburn;
- a Transit Cities program to restructure parts of the metropolitan area and the establishment of the Dandenong Development Board;
- \$36 million over four years for new and enhanced bus services in outer metropolitan areas;
- additional investment in 2002-03 in education and training facilities in Melbourne's growing suburbs, including the construction of new schools in outer metropolitan areas, the modernisation of school facilities in high growth suburbs, and new TAFE facilities in Epping; and
- the redevelopment of the Royal Melbourne, Dandenong and Angliss Hospitals.

High growth suburbs will also benefit from the redevelopment and upgrading of residential aged care facilities, the expansion of the Home and Community Care program, mental health and public dental services, and improvements to the delivery of metropolitan ambulance services.

Further strategies to strengthen Melbourne's suburbs will be released later in 2002 as part of the draft Metropolitan Strategy which will outline the Government's approach to managing urban growth and change in Melbourne.

### **Stronger regions**

The Government is continuing to rebuild rural and regional communities.

Over the past two years, funding for improved services and new projects has been distributed more evenly across the State and the Government's Connecting Victoria and Linking Victoria programs are delivering major improvements in regional communications and transport links. Across Victoria, vital regional infrastructure is being built, upgraded and replaced.

The 2002-03 Budget initiatives target the drivers of growth across regional Victoria, including education, skills and innovation, and focus on improving regional links and continuing to build stronger rural and regional communities.

Greater detail on these initiatives is provided in other sections of this chapter.

Key highlights include:

- a major \$101 million redevelopment of the Royal Melbourne Showgrounds to secure the future of the Royal Melbourne Show with an increased focus on promoting Victorian agriculture and regional industry;
- Victoria's contribution of \$77 million TEI to provide a more secure and higher quality water supply for 40 regional communities through the construction of a new Wimmera-Mallee pipeline;
- a \$94 million TEI package and an additional \$8 million over four years to create better transport links for regional Victoria, including improved bus services, an upgrade of the Warrnambool rail line and investment in key regional arterial roads and highways;
- funding of \$130 million over four years for the sustainable use of Victoria's natural resources, including the *Our Forests, Our Future*, Box-Ironbark forests, Gippsland Lakes rescue packages and increased funding for Landcare and stressed Victorian rivers;

- improving access and excellence in regional education and training, including the construction of a new secondary college at Lara and a major school redevelopment on the Bellarine Peninsula, a new specialist school in Bairnsdale, the development of an education precinct in Maryborough and increases in allowances for rural and regional school bus travel;
- a major \$51 million investment for country health and aged care facilities, including new investment in Warrnambool, Maryborough, Geelong, Bairnsdale, Beechworth, Lorne and Stawell, and improvements in the delivery of ambulance services; and
- improving community safety in rural and regional communities through the replacement of inadequate and substandard police stations.

Regional communities will also benefit from statewide initiatives including school modernisation, additional teaching staff, improvements to public housing and neighbourhood renewals and expanded health and community services.

## **THRIVING AND INNOVATIVE INDUSTRIES ACROSS VICTORIA**

Innovation is the 21<sup>st</sup> Century driver of economic growth, high quality jobs, wealth and improved living standards. The Government is committed to placing innovation at the heart of the Victorian economy – turning ideas and knowledge into positive economic outcomes for the whole State.

Since 1999, the Victorian Government has made a substantial investment in Victoria's future economic prosperity. Initiatives undertaken in the last two budgets include:

- \$287 million in investment in education and training infrastructure with a particular focus on science and technology;
- \$72 million investment in research and education institutions, particularly in the areas of agriculture, viticulture and gene technology;
- establishment of the biotechnology precinct Bio21 which will enhance Victoria's standing as a global leader in biotechnology and scientific research;
- \$40 million for a high technology film and television studio facility at the Melbourne Docklands; and
- establishment of the Technology Commercialisation Program which turns good ideas into good business.

In addition, the Government recently created a new portfolio of innovation.

## **Driving innovation**

The Government recognises its key role in ensuring Victoria has globally competitive industries and sustainable high-value jobs. The Government is committed to positioning Victoria as a global player in fields such as biotechnology, advanced manufacturing, design, information and communication technologies (ICT), and environmental technologies.

Innovation and new technologies not only transform existing industries but also create the industries of the future. Key initiatives in the 2002-03 Budget target these industries and assist Victorian businesses become more innovative and competitive.

In addition, the Government is showing leadership in its ICT uptake and modernisation of the delivery of public and community services.

## ***Synchrotron***

The Government has committed \$100 million TEI as its contribution towards the construction of a \$157 million synchrotron facility at Monash University's Clayton campus. This facility will be a major addition to Australia's research infrastructure, as well as a long-term investment in the Victorian economy.

In addition, \$2.9 million per annum has been committed to project and clients management costs associated with its construction. The synchrotron is expected to be ready for use in 2007.

## ***Biotechnology***

Biotechnology is an enabling technology that is transforming many sectors of the economy, including food and animal production, pharmaceuticals and medical instruments.

In June 2001 the Government released its Biotechnology Strategic Plan which aims to develop Victoria as one of the top five locations in the world for biotechnology.

Funding to implement the biotechnology strategy will total \$4.5 million in 2002-03 and \$22 million over the following three years.

## ***Commercialisation***

Turning good ideas into good businesses, in order to generate new jobs and opportunities, is a key component of a successful innovative economy. The Government is funding a range of measures to enhance the level of commercialisation in the State and turn world-class Victorian research into commercial products, ventures and outcomes.

Individual initiatives include funding for a Centre for Innovation and Technology Commercialisation, cooperative research centres and a technology transfer program. The additional funding for commercialisation is \$6.7 million over four years. These measures build on the existing \$20 million Technology Commercialisation Program.

## ***Medical research***

Victoria is home to Australia's leading health and medical research institutes. Victoria's universities and health and medical research institutes win 40 per cent of the national competitive medical research grants annually.

To consolidate Victoria's position at the forefront of international medical research the Government is providing a significant boost to medical research infrastructure.

In 2002-03 the Government will commit additional funding of \$35 million over the next four years to Victoria's medical research institutes. This additional operational support to institutes will progressively rise to \$13 million per annum by 2005-06. In conjunction with the Government's existing \$310 million Science, Technology and Innovation program this investment will sustain Victoria's leadership position for medical research.

## ***Developing knowledge based industries***

### ***Design***

Good design is an area of fundamental importance to an innovative economy, playing a crucial role in industries as diverse as engineering, aerospace, IT, fashion, automotive and environmental technologies. The 2002-03 Budget provides \$9.2 million over two years to boost Victoria's already strong design capabilities and position Victoria as an international centre of design.

Budget initiatives will lead to more jobs in key industries, improve design skills and qualifications and create stronger links between design education, training, research and business.

### ***Environmental technologies***

In 2002-03 the Government will fund the establishment of the Centre for Energy and Greenhouse Technologies in Gippsland. The Centre will facilitate research, development, demonstration and commercialisation of technologies to reduce the greenhouse intensity of energy supply and use in Victoria.

While the Centre will not undertake research itself, it will coordinate, facilitate and fund relevant energy projects, act as an information centre and database for energy and greenhouse technologies, and promote and establish links within the Victorian energy sector. The funding for this initiative is \$12 million over the next three years.

The Government will also allocate \$2.8 million towards the Cooperative Research Centre for Clean Power from Lignite.

### ***New manufacturing***

Manufacturing accounts for almost three-quarters of world trade and underpins all of the world's fastest-growing economies. Almost one-third of Australia's manufacturing output comes from Victoria and the manufacturing sector is the largest employer of full-time workers in Victoria. The Government has announced its Agenda for New Manufacturing designed to maximise the industry's capacity to innovate, grow and contribute to Victoria's prosperity.

The 2002-03 Budget provides \$27 million over four years for initiatives to stimulate growth in the manufacturing industry and create high value, high skilled jobs through a greater focus on export and innovation.

### ***Building Tomorrow's Businesses Today***

On 22 April 2002, the Government released its *Building Tomorrow's Businesses Today* statement. The statement lays out how Government and business can work together to make Victoria a more competitive, innovative and connected place to do business. *Building Tomorrow's Businesses Today* delivers the strategic direction, resources and on-the-ground support to give Victoria:

- a more highly competitive, friction-free business environment;
- more innovative businesses and an innovation driven economy;
- a stronger international focus;
- better business linkages and networks;
- sustained performance in starting and growing new businesses; and
- more productive and cooperative workplaces.

A competitive cost environment is critical to business success, and that means keeping taxes low. Maintaining a low taxation environment plays an important role in enhancing the ability of firms and consumers to drive economic activity, jobs growth and higher standards of living. In 2002-03, the Government is:

- increasing the payroll tax threshold from \$515 000 to \$550 000 from 1 July 2002, a year ahead of schedule;
- reducing the payroll tax rate from 5.45 per cent to 5.35 per cent from 1 July 2002, a year ahead of schedule;
- further reducing the payroll tax rate from 5.35 per cent to 5.25 per cent from 1 July 2003;
- increasing the land tax threshold from \$125 000 to \$150 000 from 2002-03; and
- abolishing stamp duty on unquoted marketable securities from 1 July 2002, a year earlier than scheduled.

Together these initiatives will deliver an additional \$262 million worth of taxation cuts over four years, bringing total business tax relief announced since October 1999 to over \$1 billion.

In addition, *Building Tomorrow's Businesses Today* announces measures that will stabilise and simplify WorkCover premiums. For the second year running, businesses with an annual remuneration of \$1 million or less will pay the same premium rate in 2002-03 as in the previous year. For the third year running, the average WorkCover premium rate will remain at 2.22 per cent of wages in 2002-03.

*Building Tomorrow's Businesses Today* also includes a range of initiatives aimed at improving the way Victoria does business. This will promote innovation, competitiveness and sustainable growth.

## **Modernising government**

The Government is continuing to lead the way in its uptake and application of ICT and the modernisation of public and community service delivery.

The 2002-03 Budget provides a major funding boost to improve the ICT interface between government and the community and build the capacity of the public sector to manage communications and information. Key initiatives include:

- \$48 million TEI as well as \$23 million in output funding over four years for the Telecommunications Purchasing and Management Strategy (TPAMS) to streamline the Government's telecommunications needs and establish a whole-of-government electronic directory;
- funding for a Statewide Integrated Public Safety Communications Strategy (SIPSaCS) to improve communications systems for emergency services across Victoria, including funding for a Mobile Data Network Project to equip emergency service vehicles with data terminals, a Statewide Personnel Alerting System to provide pagers to emergency services across the State, and for the Metropolitan Mobile Radio project. Funding will be determined upon the appointment of successful tenders;
- \$5.5 million TEI for the development of appropriate infrastructure as part of the Victorian Electronic Records Strategy to ensure important digital information is securely managed and accessible in the long term;
- \$2 million over four years for the first stage of EASY government that will enable people wanting to start up a new business to lodge all necessary application forms in the one office; and
- \$24 million TEI for a new electronic Land Exchange, providing business with a single point of access to state and local government land information and transactions.

These initiatives will contribute to Victoria's growing status as an international leader in the modernisation of government.

## **VALUING AND INVESTING IN LIFELONG EDUCATION**

Improving access and driving innovation and excellence in education, from preschool to post-compulsory education, is one of the Government's major priorities.

Access to world-class, lifelong education is the key to our children's future, Victoria's prosperity and the success of an innovative economy. Education and training opens the door to high quality jobs, to a full and creative life and a sense of common citizenship.

*Growing Victoria Together* underpins the Government's commitment to education. That commitment is reinforced by the major investment in education and training made by the Government in its previous two budgets. The 2002-03 Budget continues to ensure that Victoria's preschool services, schools and TAFE institutes have the people, resources, community links and technology they need to access excellence, create exciting learning environments, boost student participation and achievement, and improve opportunities for all Victorians.

## **Education goals and targets**

The Victorian Government has set education and training goals and targets for 2005 and beyond including:

- Victorian primary school children will be at or above national benchmark levels for reading, writing and numeracy by 2005;
- 90 per cent of young people in Victoria will successfully complete year 12 or its equivalent by 2010;
- the percentage of young people aged 15-19 years in rural and regional Victoria engaged in education and training will rise by 6 per cent by 2005; and
- the proportion of Victorians learning new skills will increase.

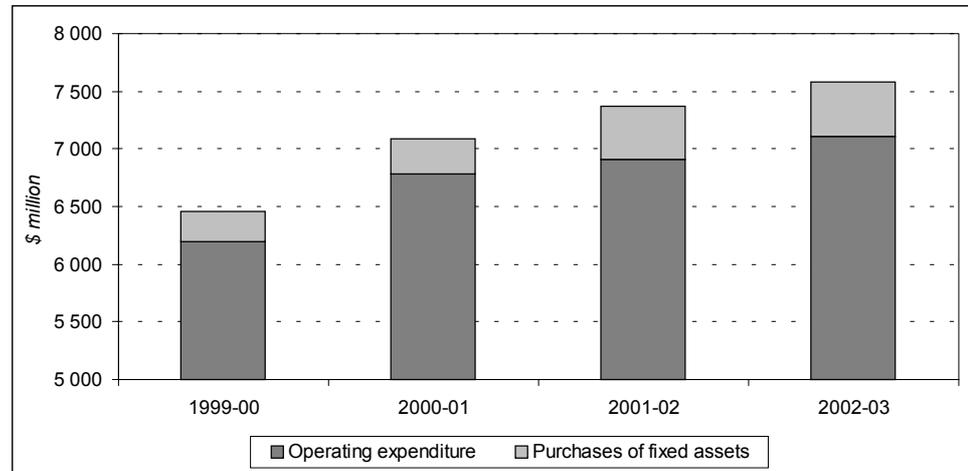
The priority actions to help deliver on these targets include improving overall participation, driving innovation and excellence in education and training, providing better links between schools, business and communities, and expanding opportunities for training and learning throughout life.

Substantial resources have already been committed by the Government to achieve the goals and targets in the following areas:

- the rebuilding of many public schools and TAFE institutes;
- reaching over 100 000 apprenticeships and traineeships for the first time in Victoria;
- reductions in class sizes;
- ensuring there is at least one computer to every five students – one of the best computer to student ratios in the world;
- assisting young people to move from school to work through Local Learning and Employment Networks; and
- funding nine Learning Towns and over 500 Neighbourhood Houses and Adult Community Learning Centres to deliver lifelong learning.

The commitment to education by the Victorian Government is reflected in Chart 4.1, which shows the significant increase in funding for education and training since October 1999.

**Chart 4.1: Expenditure on education and training**



*Source: Department of Treasury and Finance*

### **Key strategies in education**

The 2002-03 Budget strengthens this investment by boosting funding for initiatives which improve access to education, and drive excellence across all Victorian schools and TAFEs, building on the solid foundations laid over the past two years in the Victorian education and training system.

The priority initiatives targeted in the 2002-03 Budget are focused on achieving the Government's goals and targets for education and training:

- \$27 million over four years and \$5 million committed in 2001-02 to improve the health, development, learning and wellbeing of children before they start school, through initiatives in preschools and the BEST START initiative;
- funding of \$78 million over four years to improve the standards of literacy and numeracy in the early years of schooling and meet higher than expected enrolment growth in government schools;

- \$214 million over four years to improve participation and achievement so as to increase the percentage of young people who successfully complete year 12 or its equivalent, including initiatives aimed at the middle years of schooling;
- policy initiatives that drive excellence and improve access, particularly in rural and regional Victoria and among groups where it is presently low, including \$3.6 million over four years for additional Koori educators and home liaison officers;
- \$31 million over four years to make Victoria's school bus services fairer, safer and more accessible for all students; and
- \$216 million TEI to continue the Government's commitment to bringing Victoria's government education and training facilities into line with world-class standards, including \$52 million not previously allocated of Growing Victoria projects to enhance learning environments in schools.

The 2002-03 Budget initiatives in education will provide at least 900 extra teachers across Victorian government schools.

## **Investing for our children's future**

### ***Better preschool services and facilities***

The Government recognises that preschools play an important role in the early development of young children. In response to community concerns about the preschool system, the Government established an independent *Review of the Issues that Impact on the Delivery of Preschool Services to Children and Their Families in Victoria* in 2001 which highlighted the need for increased support to restructure and renew preschool services.

A new professional career structure for preschool teachers that has substantially improved salaries has been implemented, and the Government is working in partnership with preschool teachers and parents to strengthen the preschool system, and improve the quality of preschool services for all Victorian children.

Funding of \$23 million has been provided over four years to support the implementation of a range of initiatives which improve preschool participation for Koori children and children with disability or special needs, provide additional places for children who require a second year of preschool, and ease the workload of parents' committees of management through the commencement of the group employment model.

In addition, the Government has committed \$5 million in 2001-02 to assist community-based preschools to upgrade facilities to meet new service standards.

## **BEST START**

BEST START is a prevention and early intervention project being delivered jointly by the Department of Human Services and the Department of Education and Training to improve the health, development, learning and wellbeing of all Victorian children from before birth and through the transition to school.

Funding of \$4 million has been allocated over three years to implement demonstration projects that support communities, parents and service providers to develop innovative approaches to services for children in the early years, and to improve access to child and family support, health services and early education.

### **Early years initiatives**

Support for learning in the early years is critical to giving children a good start in life. Research shows that the greatest gains come from investment in the early years of life. Early years initiatives implemented since 1999 and in 2002-03 will see further increases in the number of children achieving a firm grounding in the 'basics' as a platform for further learning and participation in the education and training system.

Government primary schools will receive additional funding of \$35 million over four years to further enhance the skills and understanding of early years teachers as part of the coordinated early years numeracy program. This initiative has a clear focus on improving student learning and the professional development of teachers. The initiative is also aligned to the BEST START strategy.

The numeracy program is also well integrated with the years prep to 2 class size initiative. In 2000-01 the Government made a commitment to reduce the average years prep to 2 class size to 21 by 2003. The Government is well placed to achieve this commitment with average years prep to 2 class sizes in 2002 at a ten-year low of 21.8. Additional funding of \$43 million over three years is provided to meet higher than expected enrolments in years prep to 2 in government primary schools.

### **Driving excellence and innovation in education**

Improving student participation and achievement in education is a priority action under the *Growing Victoria Together* framework. The Government is committed to ensuring that all Victorians have the opportunity to access quality education and training pathways. The 2002-03 Budget provides an additional \$214 million over four years in output funding, to fulfil this commitment.

Teaching and learning strategies which promote attendance, active engagement and participation of students through the middle years are vital to ensure as many young people as possible gain a base qualification (year 12 or equivalent) that links them to further education and skilled work as a starting point for their adult life.

Development of a strategy for reform in the middle years of schooling began in 1999 to address the issues of poor performance and disengagement of students in years 5 to 9. Substantial funding was provided in the 2001-02 Budget for initiatives aimed at enhancing student engagement, improving literacy and numeracy outcomes and increasing student attendance rates.

Building on this investment, the next phase of the strategy is to substantially change the way middle years education is delivered, particularly the approaches to teaching and learning, class and school organisation, and effective connections between the school, home and the community. The focus will be on the engagement and performance of students in the middle years so as to encourage retention, and provide the necessary incentives for completion of year 12 or its equivalent.

To meet these challenges, the Government will commit additional funding of \$84 million over four years for a Middle Years Reform and Innovations program aimed at providing systemic support for primary and secondary schools to implement innovative curriculum and structural reform in the middle years. The program will focus on innovative and strategic programs aimed at stimulating the learning environment and providing students with the best chance of success in the future. It will target 250 school clusters, and be supported by an initial innovation grant to support reform implementation.

In addition, the Government will commit \$82 million over four years to provide a boost for targeted secondary schools continuing to experience difficulties in relation to absenteeism, disengagement, or where literacy and numeracy skills are below standard. The Access to Excellence initiative will provide these targeted schools with additional teaching resources to increase face-to-face teaching efforts, provide additional educational mentoring and engage students in learning outcomes.

Continuing the focus across all educational years, the 2002-03 Budget provides for statewide rollout of the Victorian Certificate of Applied Learning (VCAL). The VCAL offers an alternative vocational pathway for young people whose needs are not being met by the current range of available qualifications in the

senior years. The VCAL provides a distinctive qualification, based on a coherent and challenging program of applied learning which aims to improve the employment opportunities of young people by giving them skills and pathway choices.

### **Improving access**

For the Government's goals and targets to be achieved, programs that reduce educational disadvantage, in particular for young people in rural and regional Victoria and indigenous groups, are essential. In particular, equity programs which allow students to achieve their personal best outcomes regardless of their circumstances will need to be implemented.

The 2002-03 Budget provides additional funding to support policy initiatives aimed at improving equity in Victoria's school system, including \$3.6 million over four years to appoint additional Koori educators and home liaison officers. The Koori educators and home liaison officers will provide valuable support to Koori students and their communities, focusing on lifting literacy and numeracy outcomes, reducing absenteeism and increasing retention towards achieving the Government's benchmarks.

To support the implementation of the recommendations of the 2001 *Review of School Bus Services*, which examined the adequacy of bus services and the impact of route closures in rural Victoria, \$31 million over four years is provided in the 2002-03 Budget. The funds will be used to assist students meet the costs of transport in rural and regional Victoria as well as further assist a number of existing recipients of the conveyance allowance. Implementation of the initiatives will commence at the beginning of the 2003 school year.

Programs that maximise opportunities for the development and wellbeing of young Victorians remain a priority for Government. Achievement of the *Growing Victoria Together* framework will rely on the input of young people and specific approaches that address their needs and interests. The Government will provide \$8 million over four years to fund Freeza events which provide opportunities for young people to develop skills and training as well as creating employment paths in music and entertainment related industries.

### **Building better schools and TAFE institutes**

In 2002-03 the Government continues its commitment to providing world-class learning and training environments for Victoria's students. Evidence shows that sound education and training environments have a demonstrable and quantifiable impact on educational outcomes and the motivation of both students and teachers.

The 2002-03 Budget provides a further \$216 million TEI designed to enhance and improve Victoria's education and training facilities. This investment builds on the \$658 million in asset investment the Government has committed since 1999 to build, upgrade and modernise Victoria's learning institutions.

Of the total asset investment of \$216 million TEI allocated in this budget, \$141 million TEI is provided for the modernisation of over 110 government schools and TAFE institutes across Victoria, including asset funding of \$52 million TEI from the Growing Victoria infrastructure reserve not previously allocated to projects.

To meet increasing populations in the growth centres of Victoria, asset investment of \$32 million TEI will also be provided for the development of a new special school, two new primary and five new secondary schools in various metropolitan and rural regions. Funding will also be provided for the replacement of schools destroyed by fire, redevelopments and upgrades for both primary and secondary schools and TAFE institutes in various locations.

The 2002-03 Budget allocates \$52 million TEI from the Growing Victoria infrastructure reserve to projects designed to provide Victoria's schools and TAFE institutes with high technology learning tools and facilities.

## **HIGH QUALITY, ACCESSIBLE HEALTH AND COMMUNITY SERVICES**

Delivering high quality, accessible health and community services is one of the Government's highest priorities under *Growing Victoria Together*. The Government is turning around Victoria's health and community system in response to challenges including:

- responding to demand for services from a growing and ageing population;
- sustaining and improving essential hospital, community health, aged care, mental health, disability, child protection and family support services;
- enhancing service quality and efficiency by attracting and retaining high quality staff in the health and community services system, and implementing new technologies and infrastructure; and
- developing service models to respond to complex needs and reduce inequalities.

The Victorian Government recognises the importance of access by all Victorians to high quality services. Priorities in this budget include health and community services. Many of the initiatives will improve the quality of services available to people in outer metropolitan and regional areas, as well as targeting groups such as the elderly.

The 2002-03 Budget continues to restore Victoria's human services system, building on new service delivery approaches implemented in the last budget, with \$1.2 billion in new output initiatives over four years. The 2002-03 Budget also delivers \$217 million TEI in new human services infrastructure.

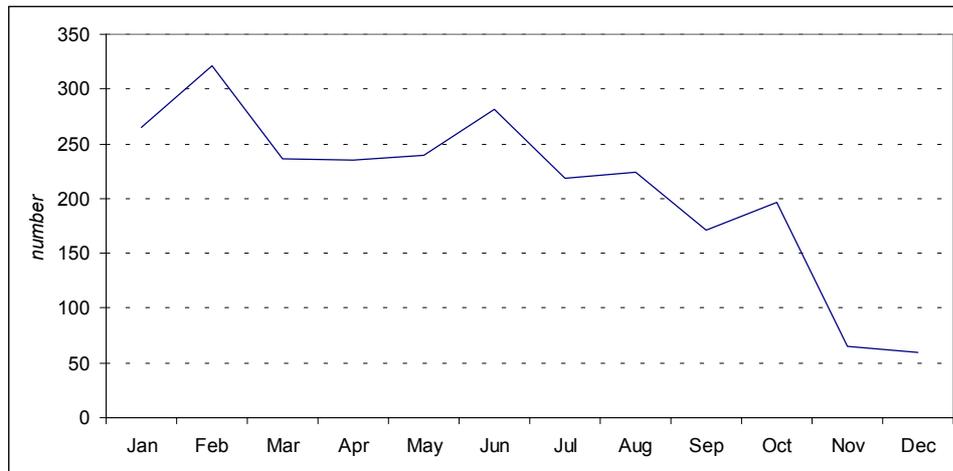
The Hospital Demand Management Strategy has been enhanced in 2002-03 by broadening the range of services used to respond to needs, and increasing funding for initiatives that will reduce future service demands and costs.

In 2002-03 the Government will extend the demand management approach through new strategies focusing on child protection and placement services, and mental health services.

### **A new approach to managing demand for hospital services**

Since its introduction in 2001-02, the Hospital Demand Management Strategy has improved the quality and effectiveness of Victoria's public hospital system. Emergency department ambulance bypass rates have fallen significantly, as shown in Chart 4.2, and the number of patients waiting for more than 12 hours in emergency departments for admission to a ward has decreased. Metropolitan emergency departments continue to treat more patients, and hospital capacity taken up by people waiting for residential aged care has reduced.

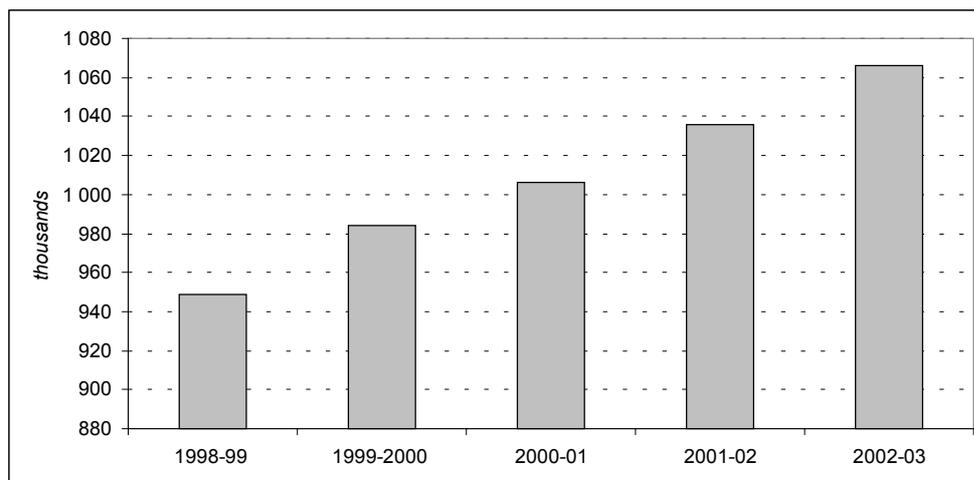
**Chart 4.2: Number of incidents of ambulance bypass in Victorian public hospitals in 2001**



Source: Department of Human Services

The number of patients treated in Victorian hospitals has continued to increase in 2001-02 (see Chart 4.3), while the elective surgery waiting list fell by 5.5 per cent in the 12 months to December 2001, and 100 per cent of urgent cases were treated within clinically ideal waiting times.

**Chart 4.3: Number of public patients treated in Victorian public hospitals**



Source: Department of Human Services

In the 2002-03 Budget, the Government will extend the multi-year Hospital Demand Management Strategy with new funding totalling \$464 million over four years to:

- expand public hospitals' capacity to respond to demand growth, with additional funding of \$381 million over four years focused on emergency services and elective surgery. This will enable hospitals to respond to expected growth in emergency admissions; and
- commence greater diversion of emergency department and inpatient services to other more appropriate services, as well as investing in improved clinical practice and service efficiency in sub-acute services. This will include redesign of inpatient care and continued development of community care, with additional funding of \$83 million over four years.

An additional \$16 million will be available to boost investment in prevention initiatives that are directed at improving the quality of care for the elderly and other frequent users of emergency services, in order to reduce the need for emergency department presentation and hospital readmission. Funding will also enable continuing clinical practice reform with an emphasis on the use of same-day surgery and admitting patients to hospital on the day of surgery. Funding for these initiatives was allocated in the 2001-02 Budget.

As a result of the Hospital Demand Management Strategy there will be:

- 30 000 extra patients treated in public hospital emergency departments;
- 16 000 extra patients admitted from emergency departments;
- additional mental health services for 3 500 people; and
- 14 000 extra elective surgery, renal, palliative care and radiotherapy patients treated.

The Government will also support the ongoing viability of the public hospital system with funding of \$169 million over four years to meet increased costs associated with medical and pharmaceutical supplies and consumables, and employer superannuation costs.

### **Better hospital facilities**

The 2002-03 Budget continues the rebuilding of Victoria's public health system with a significant investment in new hospitals, equipment upgrades and redevelopments.

An additional \$25 million in 2001-02 and \$20 million in 2002-03 will be provided to replace, upgrade and expand medical equipment and instruments to meet service needs in hospitals, dental health facilities and laboratories.

New health infrastructure investment include:

- a \$32 million TEI major redevelopment at the Royal Melbourne Hospital for a new helipad to further develop the trauma service and 120-bed new ward accommodation;
- \$10 million TEI for the Dandenong Hospital for redevelopment and new wards;
- \$19 million TEI for the Angliss Hospital; and
- \$6 million TEI for Stawell District Hospital and Lorne Community Hospital.

## **Enhancing health services**

Improved access to health and community services, and a clear focus on early intervention and prevention are fundamental to helping address issues of inequality and assisting Victorians of all ages and abilities to live healthy and active lives.

The 2002-03 Budget continues the Government's commitment to provide comprehensive and timely ambulance services for all Victorians. Funding of \$20 million over four years has been provided to:

- maintain emergency ambulance response times at 13 minutes in metropolitan areas;
- respond to ambulance services caseload growth across Victoria;
- deliver new and upgraded ambulance services across metropolitan and regional areas, including the recruitment and training of additional paramedics; and
- implement a telephone triage service to ensure that callers to 000 who do not require an emergency ambulance response are referred to appropriate alternative services.

As part of the Government's policy to treat more people with a mental illness at home and in the community and to improve access to hospital services, funding of \$61 million has been provided over the next four years for inpatient services as part of the Hospital Demand Management Strategy and non-hospital based community mental health services. The initiatives to be implemented include:

- an increase in the provision of acute inpatient services, adult and aged clinical community services and psychiatric disability support services to clients and areas with high needs; and
- new diversion, early intervention and prevention initiatives, including sub-acute beds, intensive support for homeless people with a mental illness

and co-existing substance abuse, and expansion of the dual diagnosis program to young people with mental illness and co-existing substance abuse.

Free breast screening services will continue to be provided to women aged 50-69 years. Additional funding of \$5.7 million over four years will maintain the participation rate for free breast screening services for women in this age group, reducing avoidable deaths and health care costs associated with breast cancer. Breast screening services are an important tool for early detection and prevention of cancer for women, and reduce the need for invasive diagnosis and treatment.

The Government has targeted \$2 million to primary health services in 2002-03 and ongoing under the Hospital Demand Management Strategy. Funding is provided for allied health services for children, older people and people with chronic conditions and will assist to prevent avoidable admissions to hospital.

The Government is committed to a public dental health program which provides a critical platform from which to address equality of access to health services throughout the community. Since coming to office, the Government has expanded the school dental program which now covers children from preschool to year 12, and reduced the cost of dentures for people receiving public dental treatment from a maximum of \$200 to a maximum of \$100.

The 2002-03 Budget commits a further \$4 million over four years to treat an additional 2 800 Victorians requiring public dental services.

The Government has committed \$1 million in 2001-02 to support the development of the Nerve Centre, a national neurological centre for services to people with multiple sclerosis and other neurological conditions.

### **Investing in improved community services**

In 2002-03 the Government continues its commitment to delivering better community services with a significant investment in families, children, people with a disability, older people and homeless people. This budget builds on funding provided last year to turn around and enhance community services, including residential care services for young people at risk of abuse and neglect, disability services and juvenile justice.

### ***Integrated strategy for child protection and placement services***

As in most States and Territories in Australia, the number of notifications of suspected child abuse and neglect in Victoria has increased substantially over the past decade. The current system is effective in identifying cases of child abuse and neglect, but can do more to support children and families through prevention and early intervention services and to respond to their diverse needs and circumstances.

The Government has committed funding of \$60 million over the next four years to implement a new approach to the delivery of child protection services in Victoria.

The new approach includes a mixture of short-term actions designed to manage demand through an increased focus on early intervention initiatives to prevent families and children entering the system, and initiatives to divert clients to more appropriate services. In 2002-03 six new innovation projects will be established in areas that have some of the highest rates of notification of suspected child abuse and neglect in Victoria. In addition, two innovation projects will also be established to support Koori communities.

The child protection workforce will be increased to ease the workload on direct line staff and to build a stronger system.

In addition, the Government is providing an additional \$5 million TEI for the upgrade of residential care facilities for placement and support programs.

In the 2002-03 Budget, the Government has provided \$15 million TEI to redevelop its Senior Youth Training facilities. This will include closing the substandard Turana buildings by the end of 2004 and building new facilities on the Parkville and Malmsbury sites.

This substantial investment in juvenile justice facilities builds upon Government's Juvenile Justice Reform Strategy with a focus on diversion, rehabilitation and transitional post-release support. This strategy has been successful in helping to break the cycle of re-offending for a large number of young offenders. However, the increasing incidence of drug related offences has meant that it is necessary to redevelop and upgrade the existing custodial facilities for young offenders.

### ***Improving disability services***

The 2002-03 Budget delivers a substantial investment to help build stronger communities through targeting high need areas to improve services for people with disabilities. Every person has a right to be an active member of a community that maximises their ability for participation and independent living.

The 2002-03 Budget provides for increased home-based support for people with a disability, more post-educational services for young adults with a disability, and the first stage of the closure and redevelopment of Kew Residential Services.

The redevelopment of Kew Residential Services is a major turnaround in the quality of disability services provided for 460 residents with an intellectual disability. Funding of \$25 million over four years has been provided to relocate 100 residents into 20 new community houses. Funding for the relocation of the remaining residents will be factored into subsequent years' budgets.

An additional \$20 million has been provided over four years in response to the growing need for community and home-based disability support services, and to provide additional places in the Futures for Young Adults program.

The Futures for Young Adults program assists people with disabilities in their transition from school to a range of adult options including supported and open employment, vocational training and further education, community participation, recreation and leisure activities.

### ***Supporting senior Victorians***

The 2002-03 Budget builds on the Government's commitment to promote the wellbeing of senior Victorians and to support active, independent living in the community. Initiatives to improve services for senior Victorians in the 2002-03 Budget include:

- \$40 million TEI for the ongoing implementation of the residential aged care strategy to upgrade and redevelop residential aged care and rural health services to meet Victorian requirements and Commonwealth certification and accreditation standards. This funding builds on previous investments of \$92 million since the Bracks Government was elected;
- fire safety upgrades for residential aged care facilities, funded from the \$10 million fire risk management strategy for human services facilities;
- \$29 million over four years to expand Home and Community Care services to support people to live independent lives with support in their own homes and communities.

Senior Victorians will also benefit from the Hospital Demand Management Strategy initiatives that prevent hospital admissions and improve the quality of hospital care for the elderly. Funding of \$3.7 million has been committed in 2002-03 and ongoing to programs including aged care and primary health services aimed at managing complex and chronic conditions and reducing the need for emergency services.

### ***Improving access to housing for people in need***

The Government is committed to enhancing and protecting the health and wellbeing of all Victorians, with an emphasis on vulnerable groups and those most in need.

The Victorian Homelessness Strategy, *Directions for Change* was released in February 2002. The Government will invest an additional \$8.8 million in funding over four years in homelessness support services to help tackle homelessness, address critical service gaps and increase capacity, particularly in areas such as Melbourne's growing south eastern suburbs, boosting services to young people in

major centres such as Bendigo, and improving services for people with complex needs.

In addition, funding for non-hospital based mental health services includes \$4.6 million over four years to implement a housing and mental health partnership to provide specialist mental health treatment and support services and pathways out of homelessness for people with a mental illness.

The Government has reformed, streamlined and expanded existing concessions for conveyancing duty to target concession card holders and first home buying families with dependent children. As a result, a full concession of up to \$4 660 will be available from 1 July 2002 for the purchase of homes valued up to \$150 000 for eligible persons and a partial concession for the purchase of homes valued between \$150 000 and \$200 000. The income test for families will be removed. About 8 000 Victorians on low incomes and families with children are expected to receive a concession in 2002-03.

Currently first home buyers with families receive a full stamp duty concession when they purchase a home up to \$115 000 in value, with a partial concession payable when they purchase a home from \$115 000 to \$165 000 in value, provided they have income below a maximum threshold. Concession card holders currently receive a full stamp duty concession where they purchase a home up to \$100 000 in value, with a partial concession from \$100 000 to \$130 000.

### ***Neighbourhood renewal and housing quality***

In 2002-03, the Office of Housing budget will provide at least an extra 1500 homes for low income Victorians through buying, building, replacing or leasing additional housing across Victoria, with a focus on meeting growing demand in areas such as Melbourne's south east suburbs and regional centres such as Bendigo, Bairnsdale, Kyneton and Wangaratta.

The physical form of older public housing estates is being progressively transformed as part of a concerted whole-of-government effort in community building. These projects involve coordinated action with local communities linking housing renewal with employment, education and training, community safety and local involvement in decision making.

This includes provision for ongoing work on the redevelopment of rundown public housing estates in areas such as East Geelong, Bendigo, Wodonga, Ashburton, Richmond and Port Melbourne.

Funding will also be provided to upgrade and improve the security and energy efficiency of public and community housing, and rebuild communities through new neighbourhood renewal schemes in communities such as Geelong North, Bendigo, Seymour, Shepparton, Maidstone/Braybrook and Collingwood/Fitzroy,

as well the Latrobe Valley and Wendouree West where renewal projects have already commenced.

## **PUBLIC SAFETY AND JUSTICE**

Improving safety and confidence in the places Victorians live and work is one of the Government's key priorities under *Growing Victoria Together*.

The Government is committed to preventing crime and maintaining community safety, in public places, roads, homes and workplaces. This requires highly skilled, well-resourced police and emergency services, working together to improve safety through both preventative actions and improved response capabilities.

### **Responsive police and emergency communication services**

The Government is committed to building a highly professional and well-resourced police force, through increasing the number of frontline police officers, improving pay and conditions of police, upgrading and building new police stations, and upgrading equipment.

The Government has over the past two years provided funding for an additional 800 frontline police. The Government has also committed significant additional funding over a period of five years and four months from 1 August 2001 for an Enterprise Bargaining Agreement for Victoria Police. The Agreement achieves significant benefits for police built around key reforms sought by the Chief Commissioner and aimed at bringing wage certainty during this period.

The 2002-03 Budget also provides \$26 million TEI for new police stations in Footscray, Coburg and 12 replacement stations in small country towns.

To ensure a seamless transition and improved operational efficiency and reliability of emergency call taking and dispatch services, the Government has provided net additional funding of \$15 million in 2001-02, with a net additional \$18 million allocated over four years, as well as net asset funding of \$1 million in 2001-02 and \$23 million over four years.

### **Improved safety**

*Growing Victoria Together* sets out the Government's priorities for improved safety for Victorians. This budget provides funding for initiatives that target the safety of women, strengthens the Government's public safety communications capability and improves the safety of Victoria's roads.

The Government has endorsed a five-year Women's Safety Strategy. The objective of the strategy is to improve women's safety, wellbeing and capacity to

fully participate in Victorian life by reducing the level, and fear, of violence towards women and improving the responses available to women affected by family violence.

### **Statewide Integrated Public Safety Communications Strategy**

Funding is provided in 2001-02 and ongoing for the management of a number of emergency service telecommunications projects. The additional resources will strengthen the capacity of the Government to deliver efficient and reliable communication services to Victoria's emergency service organisations. The Statewide Integrated Public Safety Communications Strategy is a ten-year strategy to ensure Victoria's emergency services organisations are equipped with robust and appropriate communications equipment. The strategy identified the following priority projects:

- an integrated and flexible Statewide Personal Alerting System for the Country Fire Authority, the Victorian State Emergency Service and Rural Ambulance Victoria;
- the Metropolitan Mobile Radio project, which will provide Victoria Police, the Metropolitan Fire and Emergency Services Board and the Metropolitan Ambulance Service with an up-to-date digital trunked radio system. Radio coverage will be extended in metropolitan areas, and for the first time the various emergency services organisations will be using the same radio system allowing for direct multi-agency operational communications. The level of funding will be determined following appointment of a successful tenderer; and
- the Mobile Data Network project to equip emergency service vehicles with data terminals. The equipment will enable automated dispatch and onscreen vehicle location, as well as providing personnel with remote data access from their vehicles.

### **Improving road safety**

Improving the safety of all Victorian road and transport users is a key objective of *Growing Victoria Together*. In particular, the Government is committed to reducing death and serious injury from road accidents by 20 per cent over five years. The 2002-03 Budget contains several important initiatives designed to continue improvements in Victoria's road safety.

These include the installation of new and converted digital red light and speed detection cameras at key intersections (\$6 million), the installation of new median barriers on the Monash Freeway (\$5 million), a new program focusing on the

safety of motorcyclists, and \$48 million TEI of unallocated funds from the Accident Blackspot program, targeting the outer metropolitan areas of Melbourne.

In addition to the road safety initiatives above, 2002-03 will see the first full-year impact of previously funded road safety measures. These measures include \$12 million of initiatives announced in 2001-02, such as the installation of fixed speed and point-to-point cameras, the purchase of speed measuring devices, and drink driving programs including the upgrade and purchase of additional 'booze buses' for Victoria Police.

The Government's Road Safety Strategy 2002-2007, *arrive alive!*, will provide the framework for the development of new programs in areas such as crash investigation, road design, fatigue management, occupant protection, post-crash trauma support and measures to target high-risk groups such as novice and older drivers, motorcyclists and pedestrians. New initiatives will range from additional research into the causes of road crashes and the performance of road safety audits to the construction of new rest areas and innovative public education programs.

These road safety initiatives complement the Government's substantial investment in 2002-03 in new roads, road upgrades and safety improvements across the whole state.

The Government is also providing \$3 million per annum to manage improvements to the safety of railway pedestrian crossings and wheelchair access.

## **OTHER GROWING VICTORIA TOGETHER STRATEGIES**

While the 2002-03 Budget has focused on the priority areas of innovation, lifelong education, high quality health and community services and public safety, other elements of *Growing Victoria Together* have also received attention. Important new initiatives relate to the areas of infrastructure delivery and sustainable development and environment management.

### **Infrastructure – growing and linking all of Victoria**

Fast, reliable and integrated transport services are critical to achieving sustainable economic growth and accessible communities across the State. Melbourne is now the transport hub of south-east Australia and the gateway for 25 per cent of the nation's exports and imports. In addition, regional areas are critical to Victoria's export earnings. The Government's infrastructure investment strategy is led by these factors and its commitment to:

- ensure efficient freight transfer between transport modes, reduce bottlenecks and handling delays;

- respond to the effects of transport globalisation and changes in supply and delivery chains;
- reduce the impact of traffic congestion and adverse environmental effects on major urban and regional roads; and
- encourage the use of public transport and focus on the changing needs of users and communities.

The centrepiece to the Government's transport policy is the \$3.5 billion Linking Victoria program – an integrated strategy to upgrade Victoria's ports, roads and rail networks. These strong themes of supporting sustainable economic growth and community accessibility through infrastructure provision are continued in the 2002-03 Budget with initiatives focusing on developing Victoria's ports and roads, including the construction of the Scoresby Freeway, and enhancing Victoria's rail network.

### ***Linking the Suburbs***

The Government is committed to improving infrastructure and services that support growing populations in Melbourne's outer suburbs and to developing integrated transport solutions which enhance economic development and create new opportunities in growth corridors.

Residents in Melbourne's growing suburbs and growth corridors will benefit from investment of \$637 million TEI (excluding Federal Government funding) in new public transport and upgraded roads, consisting of:

- \$445 million for Scoresby Freeway to integrate transport infrastructure services in Melbourne's south-east, creating a link between Ringwood and Frankston and improved east-west connections for travel to the CBD and beyond;
- \$98 million for electrification of the train service from Broadmeadows to Craigieburn, including the construction of a new station at Roxburgh Park and the redevelopment of the existing Craigieburn Station;
- \$63 million to upgrade key arterial roads in outer suburbs to improve road safety and reduce congestion; and
- \$31 million for extension of the Knox tram service along Burwood Highway to Vermont South Shopping Centre.

The Linking the Suburbs package also comprises operating funding of \$67 million over four years, including:

- a boost to suburban bus services of \$36 million over four years; and
- \$13 million over four years to undertake rail safety works.

In October 2001, the Government signed an agreement with the Commonwealth Government to secure joint funding of the construction of the Scoresby Freeway in Melbourne's south-east. As part of this agreement, the Victorian Government has committed to provide \$445 million TEI towards the cost of the Freeway. This is in addition to \$110 million the Victorian Government has spent in land purchases for the Freeway.

The Freeway development will offer enormous benefits to this high-growth area, which is home to one million people, 40 per cent of Victoria's manufacturing activity and 28 per cent of Melbourne's jobs. The Freeway will deliver better links to ports, airports, freight terminals and other industrial centres, relieving congestion and providing a boost to business in the area. The removal of heavy trucks from local and arterial roads will also improve safety and community amenity.

### ***Transit Cities***

The Government has identified several 'Transit Cities' that are located on key transport nodes and are well suited to further residential and commercial development. The Government sees these Transit Cities as critical to connecting communities in Melbourne's growing suburbs, creating new opportunities for investment and jobs, and managing urban growth.

Funding of \$4 million over four years has been allocated for the establishment and operation of the Dandenong Development Board to coordinate local involvement. An additional \$6.5 million TEI will be used to target opportunities within designated Transit Cities through land assembly and other measures to facilitate investment.

### ***Better links for regional Victoria***

Transport links across regional Victoria will be boosted with a \$94 million program, continuing the Government's commitment to modernising and restoring transport services in rural and regional communities.

Initiatives funded in the 2002-03 Budget include:

- \$70 million TEI to duplicate the Calder Highway between Kyneton and Faraday;
- \$15 million TEI to upgrade major regional roads, including the Bayside Road in Geelong, safety improvements along the Maroondah Highway between Healesville and Narbethong and upgrades along the Henty Highway; and
- \$9 million TEI to upgrade the Warrnambool rail line.

In addition, funding of \$8 million will be provided over four years for new and enhanced regional bus services that will focus on high demand areas.

### ***Developing Victoria's ports***

The *Ports Agenda 2001* set the foundation for the Government's integrated approach to growing and enhancing the ports and marine sectors including generating economic benefits to the State through improving access to Victoria's ports. The Government has approved \$5.2 million TEI for detailed investigations into a proposal to deepen the shipping channels in Port Phillip Bay to allow access for the world's largest container ships. This will ensure the Port of Melbourne's continued status as Australia's biggest container port, handling 37 per cent of the nation's containerised imports and exports and \$60 billion of trade per annum. The investigations will cover technical issues and environmental impacts.

In addition, \$5.1 million TEI has been allocated for a rail connection at Lascelles Wharf in Geelong. The initiative will eliminate freight double handling, leading to increased efficiency and reduced costs for regional exporters.

### ***Redeveloping Spencer Street Station***

During 2001, the Government announced the redevelopment of Spencer Street Station as a world-class public transport interchange to meet the needs of Victorian, national and international users. This substantial project, with estimated TEI of \$200–300 million, will be delivered under the *Partnerships Victoria* framework and is expected to create around 2 000 jobs during construction. The redevelopment plans include a high-quality passenger rail terminal and infrastructure to facilitate transfers to bus, tram and taxi services and services and amenities to meet the needs of both business travellers and tourists.

The redeveloped Spencer Street Station will significantly improve links and access to Melbourne's central city from outer metropolitan Melbourne and the city's growth corridors, and regional Victoria.

### **Promoting sustainable development and protecting the environment**

The Victorian Government already has in place a number of programs in response to the challenges of sustainable development and protecting the environment.

In conjunction with the Commonwealth Government, the Victorian Government is working on an action plan to address the impact of salinity on the environment and economic growth. Victoria's contribution to the program is expected to be \$157 million over seven years.

The Victorian Government has committed \$244 million to restore the Snowy River, including \$150 million to fund the tripartite \$375 million agreement between Victoria, New South Wales and the Commonwealth to restore the Snowy River flows and to improve flows in the rivers in the Kosciuszko National Park and also the River Murray. It is expected that the first increase in environmental flows in the Snowy River will commence this year.

Sustainable Energy Authority Victoria was established in 2000 to ensure Victorians have access to energy efficient choices, programs and rebates. Moreover, the implementation of RESCODE aims to secure the character of local neighbourhoods and make housing more environmentally friendly. The Victorian Government has also committed to the establishment of marine national parks and sanctuaries and the protection of an additional 450 000 hectares of forest through the Regional Forest Agreement process.

To further its commitment to balancing social, economic and environmental goals, the Government will introduce in 2002-03 a range of additional initiatives to progress the *Growing Victoria Together* objectives of promoting sustainable development and protecting the environment for future generations. These initiatives are designed to value Victoria's forest, water and land resources.

### ***Valuing our resources – forests***

Our Forests, Our Future is an \$80 million package over the next four years to ensure the long-term future of our forests and regional communities. It comprises initiatives to assist affected workers and communities, to improve information on timber resources, and establish a new timber licensing and pricing system, the Sustainable Timber Industry Council and an assistance program for industry and regional communities, and new institutional arrangements.

Under the new timber licensing and pricing system, all new short and long-term (up to ten-years) licences will be sufficiently flexible to ensure that they remain consistent with the latest sustainable yield and resource data. Furthermore, to ensure a fair return to the State for resources supplied to the industry, licences will be based on market prices.

A Sustainable Timber Industry Council will be established to provide advice on strategic issues affecting industry reform, including supply chain management, occupational health and safety, new products and markets, and plantation establishment and management.

The key elements of the assistance package and new institutional arrangements include a voluntary licence reduction program and a comprehensive workers assistance program. As part of the new institutional arrangements, a new fully

commercial forest service entity will be established to transparently disentangle the commercial objectives from the regulatory functions of forest management.

Box-Ironbark forests is a \$21 million package over the next four years in response to the Environment Conservation Council's recommendations in relation to Box-Ironbark forests and woodlands. This package includes a structural adjustment package for affected forest industry workers and businesses, and establishment costs for parks, state forests and reserves. The latter involves ongoing public land management, including integrated pest plant and animal management. The package also includes community capacity building and participation and the development of an energy strategy to replace the reliance on firewood from Box-Ironbark forests.

### **Valuing our resources – water**

Improving the health of Victoria's rivers and waterways and effective action to reduce salinity are priority actions in the Government's *Growing Victoria Together* framework.

These initiatives will generate significant benefits for regional Victoria. Key benefits arise from increasing the security of water supply for domestic, agricultural and recreational purposes and improving the environmental health of our rivers. This will open up opportunities for new industry and high value added agriculture, while safeguarding existing agricultural activities. There will also be opportunities for increased tourism and recreation.

Healthy Rivers is an \$11 million package over three years to improve the health of Victoria's rivers. The initiative will make an important contribution to meeting Victoria's commitments under the Council of Australian Governments' water reform framework. The initiative includes:

- the development of regional river health strategies and the improvement of environmental flows in priority stressed rivers;
- complementary works including riparian restoration, fishways enhancement and instream habitat restoration; and
- the enhancement of the Environment Protection Authority's regular monitoring and evaluation of water quality and river health.

The construction of a new Wimmera-Mallee pipeline will provide a more secure and higher quality water supply for domestic and stock use. The Victorian Government's contribution of \$77 million TEI over ten years is subject to Commonwealth matching funding and confirmation of the package's feasibility through detailed design. Under this package, a new pipeline to 9 000 service points and 40 towns throughout the Wimmera-Mallee region will replace the

existing 17 500 kilometres of open channels. Converting the open channels to a pipeline system will release up to 93 000 megalitres of water for return to the environment, particularly stressed river systems, and potential new developments such as agricultural and mineral sand exploration.

The Government will commit a further \$13 million over four years to the Gippsland Lakes rescue package. This initiative, aimed at reducing the severity and occurrence of algal blooms in the Gippsland Lakes, is part of the Government's broader commitment to best practice water resource management across Victoria.

The package will establish the priority areas for nutrient management works, provide incentives for landowners to implement best practice to reduce fertiliser run-off and undertake on-ground works to complement nutrient management works. Further technical and scientific investigation into algal control and a second ocean entrance will also be undertaken. Collectively, these initiatives will enhance Gippsland's water dependent regional fishing, tourism and recreation. It will also be a key element to improved agricultural production.

### ***Valuing our resources – land***

The 2002-03 Budget will build on the highly successful Landcare movement which started in Victoria. In 2002-03 the Second Generation Landcare Action Plan will provide \$6 million over four years to support the volunteer-based Landcare network. Funding will provide a statewide Landcare Coordinator and nine Regional Landcare Coordinators to implement the ten-year action plan and provide training for volunteers and on-ground project support to Landcare groups. Support for the Landcare network will enable its efforts to be targeted on Victoria's highest priority environmental issues: salinisation of land, water quality, pest animal programs and loss of biodiversity.

### **Building cohesive communities and reducing inequalities**

*Growing Victoria Together* provides a framework for building cohesive communities and reducing inequalities. Both approaches are important to ensure there is support for families, job opportunities and improved access to affordable, high-quality services. The approach to cohesive communities and reducing inequalities is based on the Government listening to local experience, supporting local connections, providing responsive services and investing in infrastructure which makes communities good places to live and work.

### ***Reducing inequalities and strengthening communities***

Within *Growing Victoria Together* the Government is strongly committed to achieving reconciliation between indigenous and non-indigenous Victorians. The

2002-03 Budget will provide funding for initiatives that target significant areas of indigenous disadvantage identified by Government and the indigenous community.

Building on that investment, the Government is committing additional funding of \$12 million over four years to target areas of indigenous disadvantage. The package includes funding for the:

- implementation of an Indigenous Family Violence Strategy, which will support and resource the indigenous community to prevent, reduce and respond to high levels of family violence;
- establishment of a stolen generations organisation to provide a range of counselling, support, self-help and advocacy, family tracing and reunion services; and
- implementation of the Indigenous Community Capacity Building program which aims to increase the stability and effectiveness of local Aboriginal community organisations in strengthening indigenous communities.

As previously mentioned in this chapter, in 2002-03 the Government is also providing funding of \$27 million over four years towards initiatives that improve participation and access in preschools and schools, with particular focus on Koori children.

### ***Better places to live and work***

In addition to the initiatives aimed at community building and reducing inequality, the Government has committed funding for projects which will make communities better places to live and work.

In 2002-03 the Government will commit \$101 million TEI for the redevelopment of the Royal Melbourne Showgrounds at Ascot Vale. The project will secure the future of the Royal Melbourne Show, which will have an increased focus on providing opportunities for agricultural and industry development and promotion. It is expected that the upgraded Showgrounds and continuation of the Show will have significant economic benefits for Victoria, particularly rural and regional areas of the State.

In response to more people using and enjoying Melbourne's waterways, in particular the Yarra River, the revitalized Docklands precinct and the Bayside, the Government is committing funding of \$7 million over 2002-03 and 2003-04 for the development of the Sandridge Bridge and the Queensbridge Square, a public space located at the southern end of the bridge. The increased use of Melbourne's waterways means there is a greater need for attractive and safe access. This investment is consistent with the Yarra Plan, announced by the Government in

2001, which envisages that major activities and amenities will be linked by pedestrian and bike paths, water taxi services and public transport.

Funding of up to \$50 million TEI will be provided for the redevelopment of the Melbourne Sports and Aquatic Centre. The redevelopment will involve the construction of a 12 000 seat capacity competition pool as well as car parking and leisure water facilities.

Public library resources will be enhanced in 2001-02 by \$1.2 million, to be used by the State's local libraries for book purchases. Additional grants will also be provided to each of the country services operated by rural and regional councils.

To enable the Melbourne Museum and the State Library of Victoria to continue to deliver current levels of visitor experience, improved research, new exhibitions and maintenance of state collections, \$21 million has been provided over four years. Also as part of the Government's commitment to creating better places to live and work, the 2002-03 Budget will provide \$2.7 million over two years to enable the Scienceworks campus of Museum Victoria to refresh and renew a number of its permanent exhibits. Further, to ensure that the community benefits are maximised at the refurbished Heide Museum of Modern Art and at the new Malthouse Plaza complex additional funding of \$2.8 million over four years has been provided in the 2002-03 Budget.

### ***Melbourne 2006 Commonwealth Games***

The Government is committing funding in 2002-03 to continue the detailed planning and coordination of the Melbourne 2006 Commonwealth Games. Funded initiatives include \$10.4 million contribution from the State Government in 2002-03 to the Melbourne 2006 Commonwealth Games Organising Committee (M2006).

Funding for the Commonwealth Games is for 2002-03 only at this stage as the Government, in conjunction with M2006, is currently undertaking a full budget review of the requirements for the Games. The review is expected to be finalised following, and drawing on the experience of, the Commonwealth Games in Manchester to be held in late July 2002.

In addition, funding has been provided in 2001-02 for an upfront payment of the remaining licence fees to the Australian Commonwealth Games Association and the Commonwealth Games Federation. This will meet in full the State's remaining obligations to pay licence fees under the Endorsement and Host City contracts.

## **Promoting rights and respecting diversity**

The Victorian Government recognises that the diverse cultural backgrounds, languages and abilities of Victorians are some of the State's greatest strengths.

The 2002-03 Budget builds on the Government's commitment to support and enhance the role of the Victorian Multicultural Commission through the continuation and expansion of the current Community Grants Program. The program provides support to ethnic and community-based organisations for activities and projects that support the State's culturally and linguistically diverse communities.

In addition, a number of new initiatives will be introduced in 2002-03 to improve access to services for culturally and linguistically diverse Victorians. The Victorian Office of Multicultural Affairs, in consultation with government departments, will be implementing a number of innovations and improvements to the quality and provision of interpreting services for Victorians accessing government services.

Specific initiatives include the establishment of regional and metropolitan TAFE courses to expand the capacity to train accredited interpreters, the piloting of new and innovative technologies in the provision of language services, greater use of bilingual employees and information and awareness projects. A particular emphasis of these initiatives will be on improving language services for rural and regional communities.



## CHAPTER 5: BALANCE SHEET MANAGEMENT AND OUTLOOK

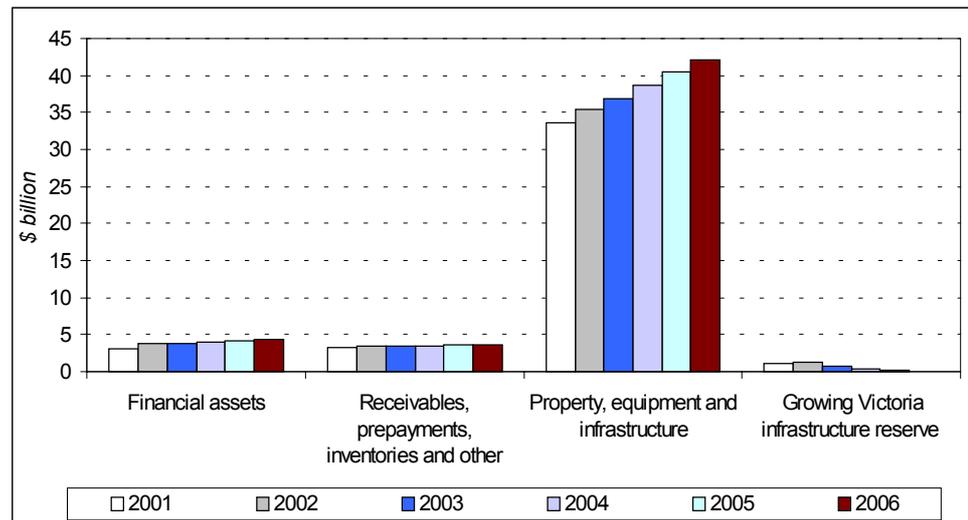
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- Moody's and Standard and Poor's have both cited Victoria's low debt levels, high degree of financial flexibility, strong fiscal position and the Government's commitment to financial responsibility as the key reasons for Victoria's triple-A credit rating.
- General government net debt (excluding Growing Victoria infrastructure reserve) is forecast to fall by more than half from \$4.9 billion or 3.3 per cent of GSP in June 1999 to \$2.3 billion or 1.0 per cent of GSP by June 2006.
- General government net financial liabilities (excluding Growing Victoria infrastructure reserve) are expected to fall from \$16.3 billion as at June 1999 (10.8 per cent of GSP) to \$15.9 billion by June 2006 (7.1 per cent of GSP).
- Unfunded superannuation liabilities, at \$12.8 billion in June 2002, represent the State's largest liability. The State has adopted a funding framework with the aim of achieving 100 per cent funding of this liability by 2035.
- The growth in general government assets is expected to average 4.3 per cent per annum between June 2001 and June 2006. As a result, the real capital stock deployed in the general government sector will grow at more than twice the rate of population growth over this period. This underlines the Government's ongoing commitment to building effective infrastructure for delivering improved services and promoting growth across the whole State.
- The Government's *Partnerships Victoria* policy provides the framework for a whole-of-government approach to the provision of public infrastructure and related ancillary services through public-private partnerships.
- Around \$1 billion of *Partnerships Victoria* projects are in the market, including the Spencer Street Station redevelopment and Berwick Community Hospital, with other projects, including two new prisons, being prepared for market.

## ASSET MANAGEMENT STRATEGY

As shown in Chart 5.1, the main component of general government assets is property, equipment and infrastructure. The Government is committed to growing and maintaining a portfolio of assets to enable services to be delivered effectively to the community, and to provide a strong foundation for economic growth across the whole State.

**Chart 5.1: General government assets by category as at 30 June**



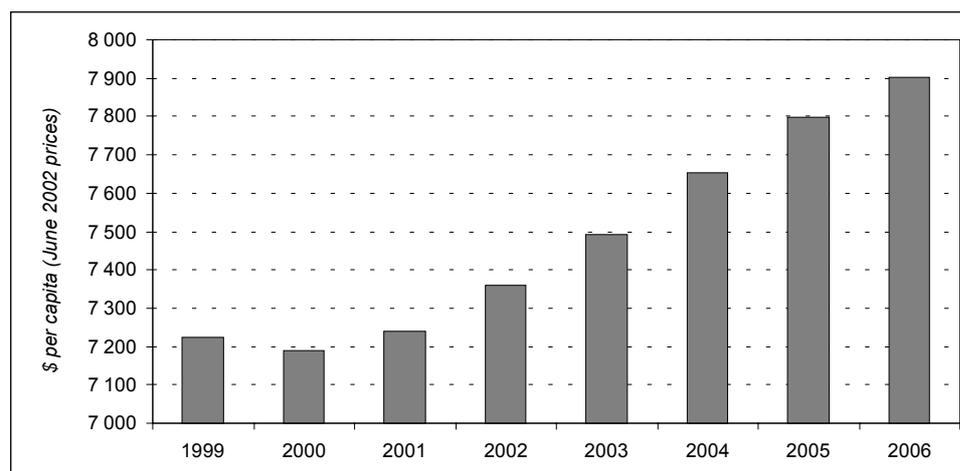
Source: Department of Treasury and Finance

### Capital stock

Preserving the level of capital stock used to deliver services is broadly achieved by ensuring that investment in refurbishing and replacing assets is equivalent to the expected depreciation of the asset stock during the year. The Government also plans to pursue growth in the level of the capital stock in order to meet increased demand and to improve the quality of the services provided to the whole community.

Growth in real capital stock of over 11 per cent is expected to more than double the rate of growth in the population over the four years to June 2006. Chart 5.2 shows an increase in real capital stock per capita from \$7 223 at June 1999 to \$7 901 at June 2006. This reflects the Government's commitment to a major program of infrastructure investment expenditure over this period, with net purchases of fixed assets expected to average approximately \$2.2 billion per annum between 2001-02 and 2005-06.

**Chart 5.2: Real capital stock per capita as at 30 June**



Source: Department of Treasury and Finance

This substantial infrastructure investment program will be funded in part by the Growing Victoria infrastructure reserve. In 2001-02, the Government approved a \$400 million addition to the Growing Victoria infrastructure reserve to fund planned future capital projects. The reserve will gradually decline over the forward estimates period, reflecting the drawdown to fund infrastructure investment expenditure over the period, particularly in the areas of transport, education and information and communications technology. The Government's policy is to finance additional asset investment from the budget operating surpluses, or from the Growing Victoria infrastructure reserve, avoiding the need to incur additional borrowings.

The Government has established the Infrastructure Planning Council as a forum for providing advice on the planning and evaluation of the State's infrastructure strategy. This forum, along with government initiatives such as the *Partnerships Victoria* public-private partnership policy, are being used to drive economic growth and improve service delivery in Victoria through more efficient asset investment.

### ***Partnerships Victoria* projects**

The Government is committed to maximising the value of infrastructure spending through the responsible use of both public and private sectors. *Partnerships Victoria*, launched in June 2000, provides the policy for a whole-of-government approach to the provision of public infrastructure and related ancillary services

through public-private partnerships and for integrating private sector investment in public infrastructure. The policy focuses on whole-of-life costing and a full consideration of the benefits of risk transfer to private parties.

Where there is the potential to offer enhanced value for money compared to conventional procurement approaches, the *Partnerships Victoria* framework allows the Government to provide improved services at lower cost. The potential for this is likely to occur in larger projects where there is scope for some or all of the following attributes:

- integration of design, construction, operation and maintenance over the life of an asset, within a single project package;
- significant transfer of risk to the private sector; and
- appropriate third party usage of facilities, either concurrently or 'out-of-hours', thereby reducing net cost to government.

Under *Partnerships Victoria*, the Government will retain direct control over those core services where it is in the public interest to do so (such as police, government schools and judiciary).

Value for money, rather than capital scarcity or balance sheet treatment, is the driver for use of a *Partnerships Victoria* approach. Full budget funding will be set aside for non self-funding projects before market interest is formally sought, while some projects are likely to be recorded on the State's balance sheet.

At present, procurement processes are underway for about \$1 billion of *Partnerships Victoria* projects across a range of industry sectors and a number of other projects are being prepared for tender. Projects in the market include:

- Echuca/Rochester Wastewater Treatment Plant – the plant will comply with the necessary Environmental Protection Agency (EPA) standards and will meet anticipated requirements for the next 25 years;
- Enviro Altona – the project involves redevelopment of the existing Altona Wastewater Treatment Plant to enable the plant to meet new EPA standards for discharge into Port Phillip Bay and cater for significant salt loads due to infiltration of the reticulation system;
- Fibre Optic Cable – the project involves rollout of fibre optic cable to regional fast rail destinations;
- Spencer Street redevelopment – the project will deliver a state-of-the-art intermodal hub for passengers on country and metropolitan rail services, trams and regional buses;

- Berwick Community Hospital – the project involves design, construction, finance, and maintenance of hospital accommodation services for the Berwick Community Hospital, while the Government will directly provide patient care services;
- Box Hill Hospital Carpark – the project seeks to engage the private sector to build a new multistorey carpark on the hospital site and operate the new and existing carpark facilities;
- Westgate Container Terminal – the project involves the possible development of a third independent international container terminal in the Port of Melbourne; and
- TV and Film Studio – the project will see a private operator establish a film and TV studio to grow the local industry and attract new productions to Victoria.

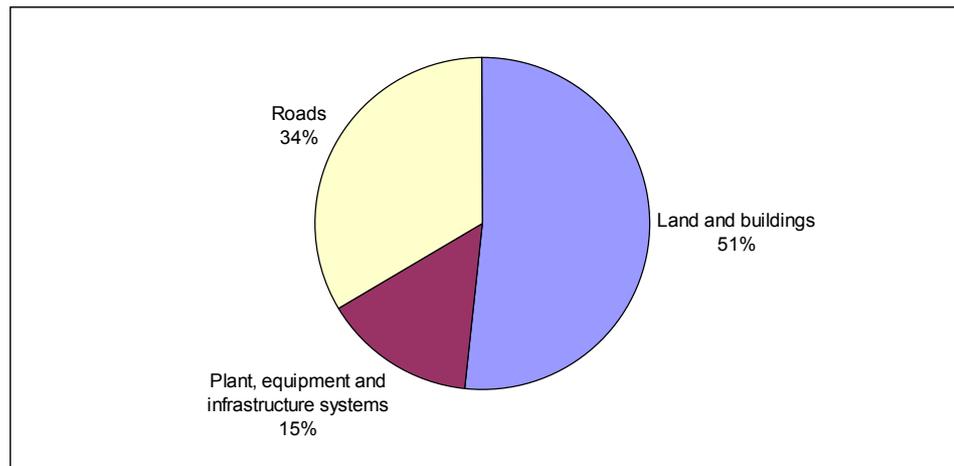
Projects being prepared for market include:

- Permanent new prisons – the project involves building, financing and maintaining two new metropolitan men’s prisons with the public sector providing custodial services and the private sector providing accommodation and ancillary services;
- Statewide Personnel Alerting System (SPAS) – the project is a multi-agency initiative to equip career and volunteer emergency services personnel throughout Victoria with alerting devices;
- Mobile Data Network (MDN) – the project involves equipping emergency services vehicles with data terminals. The equipment will enable automated dispatch and onscreen vehicle location, as well as providing personnel with remote data access from their vehicles; and
- Metropolitan Mobile Radio – the project is an initiative to replace and modernise radio infrastructure for metropolitan police officers and vehicles.

### **Composition of capital stock**

Chart 5.3 shows the composition of general government sector non-financial assets for 2002-03.

**Chart 5.3: Property, equipment and infrastructure projected for 30 June 2003**



*Source: Department of Treasury and Finance*

Physical infrastructure, including land and buildings, plant and equipment and roads, accounts for the majority of general government non-financial assets. The value of infrastructure assets is expected to grow strongly over the forecast period, from \$33.7 billion as at June 2001 to \$42.2 billion by June 2006.

Land and buildings are projected to account for the largest proportion of Victorian general government infrastructure assets (\$19.0 billion in June 2003 or 51 per cent), followed by roads (\$12.4 billion in June 2003 or 34 per cent) and other plant, equipment and infrastructure systems (\$5.5 billion in June 2003 or 15 per cent).

As shown in Table 5.4, annual growth in non-current physical assets averaging around 4.5 per cent is expected. This rate indicates the net change in the asset base after allowing for additions to, and disposals of, assets.

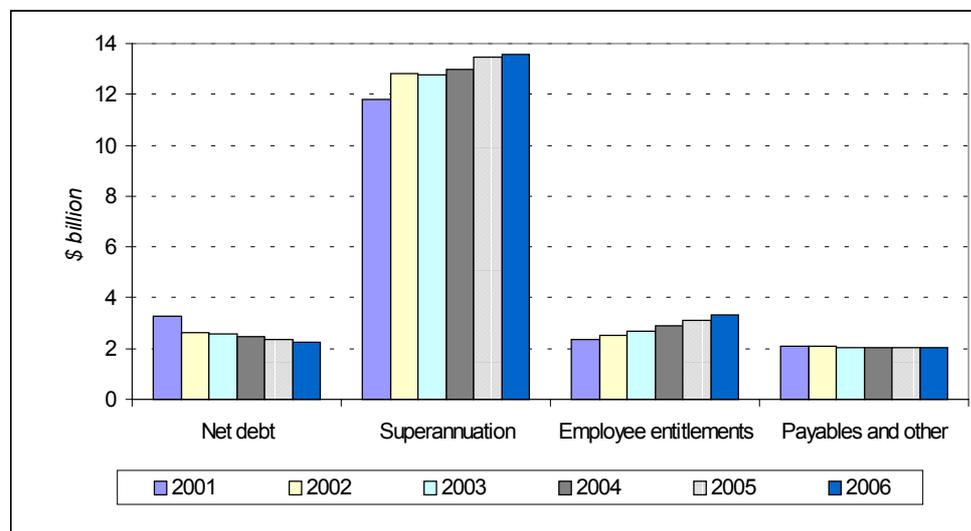
## **LIABILITY MANAGEMENT STRATEGY**

The main components of general government liabilities are debt and unfunded superannuation associated with the defined benefit schemes of the State Superannuation Fund (SSF).

The Government is committed to maintaining net financial liabilities at prudent levels. Moody's Investors Service and Standard and Poor's rating agencies have both cited Victoria's exceptionally low debt levels, high degree of financial flexibility, strong fiscal position and the Government's commitment to financial responsibility as the key reasons for Victoria's triple-A credit rating.

The budget and forward estimates assume future cash resources are held as financial assets, thereby reducing net debt. The application of these financial assets to reducing liabilities by debt repayment or reducing unfunded superannuation will be based on the economic return to the State and market opportunities at the time. Chart 5.4 shows the trend of general government liabilities over the forward estimates period by category.

**Chart 5.4: General government sector liabilities by category as at 30 June**



Source: Department of Treasury and Finance

Note:

(a) Net debt is gross debt less liquid financial assets (excluding Growing Victoria infrastructure reserve).

## Debt

General government gross debt is expected to be \$6.3 billion at June 2002 and remain stable over the forecast period. Management of the general government debt portfolio continues to be based on the key objectives of achieving relative certainty of interest costs, while minimising borrowing costs and refinancing risk, and managing the financial and operational risks of the general government sector treasury operations in a prudent manner. The debt portfolio is primarily comprised of a fixed rate borrowing facility from Treasury Corporation of Victoria, with an evenly spread maturity profile. This ensures that a relatively small proportion of the debt portfolio is subject to repricing and hence uncertainty in any one period. The standard measure used to assess state government indebtedness is non-financial public sector net debt, as defined in the *Uniform Presentation Framework* and reported in Appendix E, *Uniform Presentation of Government*

*Finance Statistics.* Under this framework, net debt is determined by deducting liquid financial assets from gross borrowings. The rationale for deducting liquid financial assets is that in a period of financial difficulty they would be readily available to redeem debt. Following this logic, Growing Victoria financial assets are not deducted from net debt, as these assets have been earmarked and, in many cases, committed to infrastructure projects.

The budget forecasts include an assumption that all future cash surpluses are held as financial assets. Given this, general government sector net debt (excluding Growing Victoria infrastructure reserve) is projected to fall from \$4.9 billion as at June 1999 to \$2.6 billion at June 2002 and further to \$2.3 billion as at June 2006 (see Table 5.1).

General government sector net debt to GSP is also expected to decline from 3.3 per cent in 1998-99 to 1.0 per cent in 2005-06. The general government debt-servicing ratio is projected to decline from 3.6 per cent in 1998-99 to 1.8 per cent in 2005-06 (see Table 5.4).

Chart 5.5 shows the reduction in both general government net debt and non-financial public sector net debt in dollar terms and as a percentage of GSP over the forecast period.

**Table 5.1: General government net debt and non-financial public sector (excluding Growing Victoria) as at 30 June <sup>(a)</sup>**

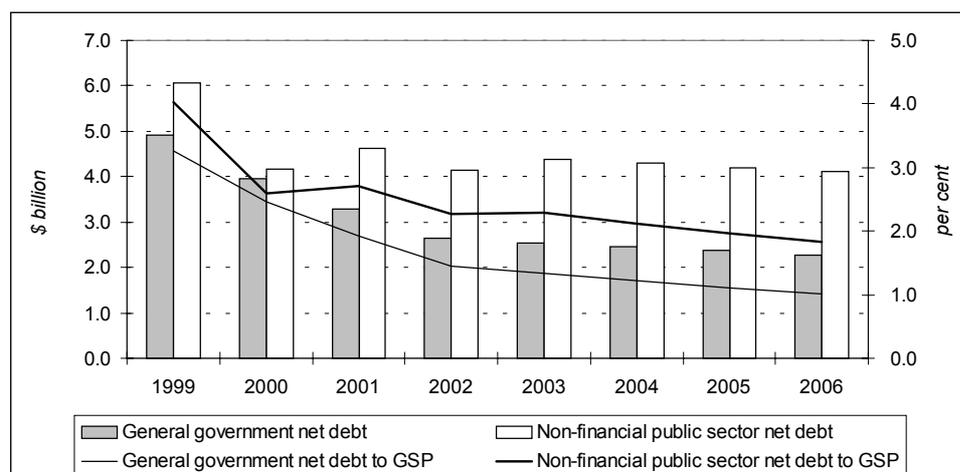
	(\$ billion)							
	1999 Actual	2000 Actual	2001 Actual	2002 Revised	2003 Budget	2004 Estimate	2005 Estimate	2006 Estimate
General government net debt	4.9	3.9	3.3	2.6	2.5	2.5	2.4	2.3
Non-financial public sector net debt <sup>(b)</sup>	6.1	4.2	4.6	4.1	4.4	4.3	4.2	4.1
General government net debt to GSP	3.3	2.5	1.9	1.4	1.3	1.2	1.1	1.0
Non-financial public sector net debt to GSP <sup>(b)</sup>	4.0	2.6	2.7	2.3	2.3	2.1	2.0	1.8

Source: Department of Treasury and Finance

Note:

- (a) Growing Victoria investments are excluded as an offset to gross debt on grounds that these investments are earmarked for infrastructure projects and are therefore not available to redeem gross debt.
- (b) Non-financial public sector net debt is the sum of general government net debt plus public non-financial corporations net debt, less inter-sector transactions. As public non-financial corporations data is not available for the years 2003-04 to 2005-06, the data for this sector has been assumed to be constant from the year 2002-03.

**Chart 5.5: General government net debt and non-financial public sector net debt (excluding Growing Victoria) as at 30 June**



Source: Department of Treasury and Finance

### Unfunded superannuation liabilities

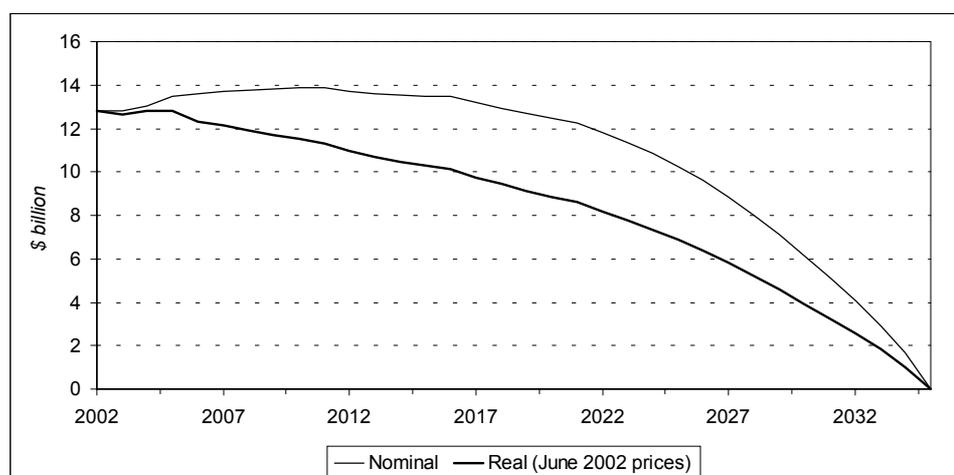
Unfunded superannuation is the most significant liability on the State's balance sheet. At 30 June 2002, the State's unfunded superannuation liability is projected to be \$12.8 billion.

The unfunded liability of Victoria's superannuation schemes represents the present value of future benefits that members have already accrued that are not covered by fund assets. The prior service costs are being funded by an annual payment determined on the basis of actuarial advice that is consistent with the Government's aim of 100 per cent funding of the State's unfunded superannuation liabilities by 2035.

The superannuation liabilities reported in the general government sector's balance sheet exclude the Commonwealth's share of unfunded superannuation liabilities reported by universities. (The Commonwealth is responsible for funding the majority of superannuation liabilities associated with universities.)

The fund actuary estimates that the unfunded superannuation liability will grow to \$13.6 billion on a nominal basis by June 2006 (6.1 per cent of GSP). This represents an average annual growth rate of 1.9 per cent. The level of unfunded superannuation liabilities is expected to peak at \$13.9 billion in 2011. However, Chart 5.6 shows the level of unfunded liabilities, measured in real terms (June 2002 dollars), is expected to fall as the impact of previous policy changes takes effect.

**Chart 5.6: General government sector unfunded superannuation liabilities – long-term projections**



Source: Department of Treasury and Finance

The Beneficiary Choice Program was implemented during 2001 and provided:

- SSF pensioners with a one-off opportunity to commute half or all of their pensions to a lump sum;
- SSF deferred benefit members with the opportunity to convert their deferred pension benefit entitlement to a lump sum to be rolled over into a fund of their choice; and
- pensioners whose pensions were administered by the Emergency Services Superannuation Board with a one-off opportunity to commute their pensions to a lump sum.

In addition, the program introduced changes to fund rules expanding the commutation options of those who become eligible for pensions or deferred benefits in the future.

Overall, 35 per cent of pensioners took the opportunity to commute half or all of their pension to a lump sum with 25 per cent opting for full commutation. Approximately 29 per cent of deferred beneficiaries took the opportunity to commute their deferred benefit to a present lump sum that was then transferred to a superannuation fund of their choice.

These take-up rates exceeded expectations. Prior to the commencement of the program, the actuary estimated that a take-up rate in the order of 20 per cent might be expected (based on the results of similar previous commutation programs in other jurisdictions).

The actuary has estimated that all other things being equal, the program reduced unfunded liabilities by \$538 million. As lump sum payments were made in several tranches spanning 30 June 2001, \$368 million of this amount was recognised in the 2000-01 financial year, with the balance of \$170 million to be recognised in 2001-02.

In addition, the program increased the Emergency Services Superannuation Scheme's surplus by \$43 million. As this scheme was already in surplus, this increase has no immediate effect on the State's reported financial position or performance.

## Net financial liabilities

The Government is committed to maintaining net financial liabilities (net debt and unfunded superannuation liabilities) at prudent levels in order to maintain Victoria's triple-A credit rating. Table 5.2 shows projected general government net financial liabilities for the period from June 2001 to June 2006.

**Table 5.2: General government net financial liabilities as at 30 June<sup>(a)</sup>**

	(\$ billion)					
	2001	2002	2003	2004	2005	2006
	Actual	Revised	Budget	Estimate	Estimate	Estimate
<b>Financial assets</b>						
Cash and deposits	0.9	0.9	0.9	1.0	1.0	1.0
Advances paid	0.3	0.3	0.3	0.2	0.2	0.1
Investments, loans and placements	2.2	2.9	2.9	3.0	3.2	3.3
Growing Victoria	1.1	1.3	0.7	0.3	0.1	0.0
<b>Total</b>	<b>4.5</b>	<b>5.3</b>	<b>4.8</b>	<b>4.5</b>	<b>4.4</b>	<b>4.4</b>
<b>Financial liabilities</b>						
Deposits held	0.3	0.3	0.3	0.3	0.3	0.3
Advances received	0.0	0.0	0.0	0.0	0.0	0.0
Borrowings	6.4	6.3	6.3	6.3	6.3	6.3
<b>Total</b>	<b>6.7</b>	<b>6.6</b>	<b>6.6</b>	<b>6.6</b>	<b>6.6</b>	<b>6.6</b>
Net debt	2.2	1.3	1.8	2.2	2.2	2.3
<b>Net debt (excl. Growing Victoria)</b>	<b>3.3</b>	<b>2.6</b>	<b>2.5</b>	<b>2.5</b>	<b>2.4</b>	<b>2.3</b>
<b>Unfunded superannuation</b>	<b>11.8</b>	<b>12.8</b>	<b>12.8</b>	<b>13.0</b>	<b>13.5</b>	<b>13.6</b>
Net financial liabilities	14.0	14.1	14.6	15.1	15.7	15.9
<b>Net financial liabilities (excl. Growing Victoria)</b>	<b>15.1</b>	<b>15.4</b>	<b>15.3</b>	<b>15.4</b>	<b>15.8</b>	<b>15.9</b>
Net financial liabilities to GSP (excl. Growing Victoria) - %	8.8	8.5	8.0	7.6	7.4	7.1

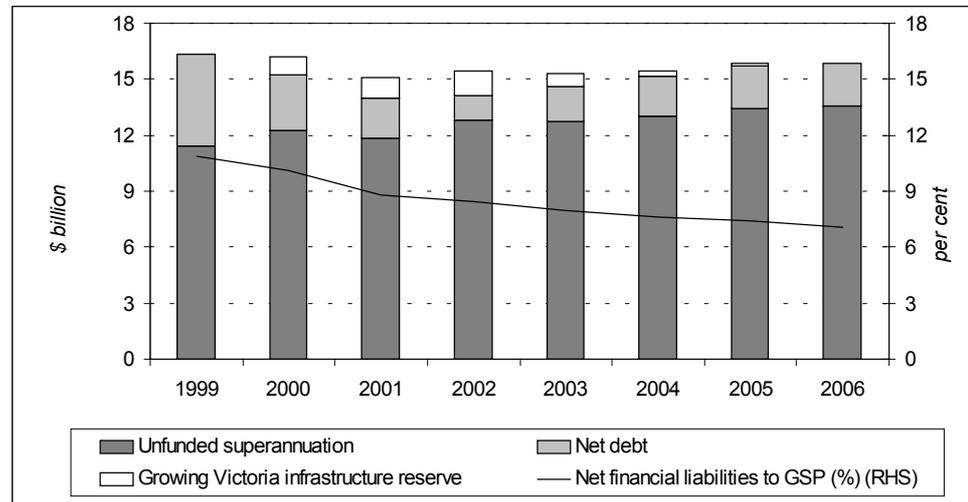
Source: Department of Treasury and Finance

Note:

(a) This table is based on Table E.4, General government sector balance sheet, in Appendix E. Totals may not add due to rounding.

General government net financial liabilities (excluding Growing Victoria infrastructure reserve) are projected to decrease from \$16.3 billion as at June 1999 to \$15.4 billion at June 2002 and \$15.9 billion as at June 2006. The latter movement is a result of the forecast increase in unfunded superannuation liabilities. As a percentage of GSP, net financial liabilities are forecast to decline from 10.8 per cent as at June 1999 to 7.1 per cent as at June 2006 (see Chart 5.7).

**Chart 5.7: General government net financial liabilities as at 30 June**



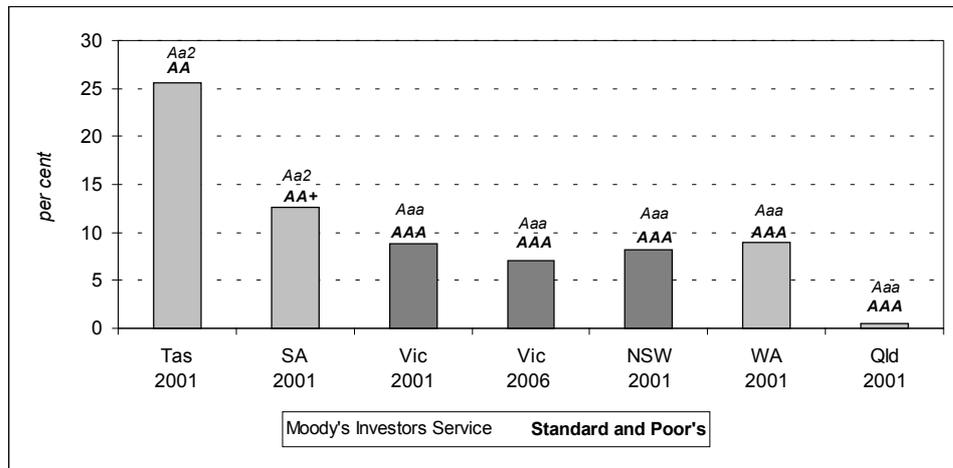
Source: Department of Treasury and Finance

Note:

(a) Net debt equals net debt (excluding Growing Victoria infrastructure reserve) plus Growing Victoria infrastructure reserve.

Chart 5.8 shows that the ratio of Victoria's net financial liabilities to GSP (as reported by the ABS) compares favourably with other triple-A rated States such as New South Wales and Western Australia.

**Chart 5.8: Comparison of general government net financial liabilities to GSP as at 30 June and current Australian state ratings**



Source: Department of Treasury and Finance

## NET ASSETS

The estimated statement of financial position in Table 5.3 shows an increase in general government net assets from \$18.6 billion as at June 2001 to \$24.8 billion as at June 2006. The projected \$6.2 billion growth in net assets over this period primarily reflects the projected operating surpluses over the forward estimates period.

**Table 5.3: General government sector statement of financial position as at 30 June**

	(\$ billion)					
	2001 Actual	2002 Revised	2003 Budget	2004 Estimate	2005 Estimate	2006 Estimate
<b>Assets</b>						
Financial assets <sup>(a)</sup>	3.1	3.7	3.8	4.0	4.1	4.3
Receivables, prepayments, inventories and other	3.3	3.4	3.5	3.5	3.5	3.6
Property, equipment and infrastructure	33.7	35.4	36.9	38.7	40.5	42.2
Growing Victoria infrastructure reserve <sup>(b)</sup>	1.1	1.3	0.7	0.3	0.1	0.0
<b>Total assets</b>	<b>41.2</b>	<b>43.8</b>	<b>44.9</b>	<b>46.5</b>	<b>48.3</b>	<b>50.0</b>
<b>Liabilities</b>						
Borrowings	6.4	6.3	6.3	6.3	6.3	6.3
Superannuation	11.8	12.8	12.8	13.0	13.5	13.6
Other liabilities	4.4	4.6	4.8	5.0	5.2	5.4
<b>Total liabilities</b>	<b>22.6</b>	<b>23.7</b>	<b>23.8</b>	<b>24.2</b>	<b>24.9</b>	<b>25.3</b>
<b>Net assets</b>	<b>18.6</b>	<b>20.1</b>	<b>21.1</b>	<b>22.3</b>	<b>23.4</b>	<b>24.8</b>

Source: Department of Treasury and Finance

Notes:

- (a) Financial assets include cash assets, and other financial assets. It does not include the Growing Victoria infrastructure reserve, which is currently invested in financial assets.
- (b) Growing Victoria infrastructure reserve is earmarked for physical asset investment and therefore treated as non-financial.

Over the forward estimates period, the growth in total assets is expected to average 4.3 per cent per annum between June 2001 and June 2006. This anticipated increase in total assets reflects increased investment and the Government's ongoing commitment to delivering improved services, and promoting growth across the whole State. Total general government liabilities are projected to increase from \$22.6 billion at June 2001 to \$25.3 billion at June 2006, averaging growth of 2.0 per cent per annum over the same period. As a percentage of total assets, total liabilities are projected to decline from 54.9 per cent as at June 2001 to 50.5 per cent by June 2006.

Gearing ratios (or indebtedness in terms of borrowings or liabilities to total assets or to GSP) of the general government sector are projected to decrease over the forward estimates period, as a result of the application of budget surpluses to financial assets (see Table 5.4 below). Declines are also projected in the ratios of total and long-term borrowings to total assets, and total borrowings to GSP for the general government sector.

**Table 5.4: Indicators of financial condition – general government**

	2000-01 <i>Actual</i>	2001-02 <i>Revised</i>	2002-03 <i>Budget</i>	2003-04 <i>Estimate</i>	2004-05 <i>Estimate</i>	2005-06 <i>Estimate</i>
<b>Gearing ratios</b>						
Long-term borrowings to total assets	15.1	14.2	13.8	13.3	12.8	12.4
Total borrowings to total assets	15.4	14.4	14.0	13.5	13.0	12.6
Unfunded superannuation liabilities to total assets	28.7	29.3	28.4	27.9	27.9	27.2
Total liabilities to total assets	54.9	54.1	53.0	52.1	51.6	50.5
Long-term borrowings to GSP	3.6	3.4	3.2	3.1	2.9	2.8
Total borrowings to GSP	3.7	3.5	3.3	3.1	3.0	2.8
Unfunded superannuation to GSP	6.9	7.0	6.6	6.4	6.3	6.1
Total liabilities to GSP	13.2	13.0	12.4	12.0	11.7	11.3
<b>Debt servicing ratios</b>						
Borrowing costs to total revenue	2.5	2.0	2.0	1.9	1.9	1.8
Superannuation expenses to total revenue	6.0	8.2	6.8	6.7	6.7	6.6
Superannuation expenses and borrowing costs to total revenue	8.6	10.2	8.7	8.6	8.6	8.4
<b>Capital stock ratios</b>						
Growth in non-current physical assets	3.8	4.9	4.4	4.9	4.6	4.2
Asset investment to non-current physical assets	n/a	5.7	5.2	5.6	5.3	4.9

*Source: Department of Treasury and Finance*



## CHAPTER 6: STATEMENT OF RISKS

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- The general government operating surplus is sensitive to a range of economic and financial developments.
- Key economic risks include uncertainties associated with international economic growth, potential inflationary pressures due to strong domestic demand, and changes in net interstate migration patterns.
- Key financial uncertainties include variations in equity, property and bond markets.
- Changes in economic activity, inflation and wages impact on the general government operating surplus through taxation and grants revenue and departmental expenses.
- Variations in equity, property and bond markets affect the operating surplus through their impact on investment income, taxation revenue and changes to unfunded superannuation liabilities.
- A number of contingent liabilities have been identified.

### ECONOMIC RISKS

The main risks to the Victorian economic projections stem from international developments and other risks to the national economy from which Victoria would not be immune. Specific to Victoria is the risk that population growth may vary due to unexpected changes in net interstate migration patterns.

The balance of risks to the global economic outlook appears to have changed slightly over 2002, from weaker growth prospects post-11 September to the risk that growth may surprise on the upside. Underpinned by significant monetary policy stimulus, the US economy has shown signs of recovery since late 2001, as have the economies of Asia (excluding Japan) and Europe. Under this scenario, demand for Victorian exports could be stronger than expected, although it is also likely that global interest rates would be higher.

However, the risk still remains that the global recovery will not be sustained or that the rebound will not be as strong as financial markets are anticipating. This would limit the scope for a rise in Victoria's overseas exports and have implications for global equity markets, although it would also reduce pressure on interest rates. Changes in global economic growth also have implications for Victoria via the impact on national economic growth prospects and hence interstate demand for Victorian output.

The strong growth in domestic demand over the past year appears to have placed some upward pressure on consumer prices. If the strength in domestic demand continues, aided by a strong global economy, there is the risk of further pressure on prices and the potential for a flow through to higher wage claims. This could result in interest rates being higher and economic growth lower than would otherwise occur.

The Victorian population projections assume net interstate migration gains stabilise at 2 000 persons per annum over the forecast period. This is below the gains recorded in the past three years, but well above the average net loss of 10 000 persons per annum recorded over the past two decades. A change in net interstate migration of 10 000 persons per annum in either direction would, other things equal, change Victoria's annual population and GSP growth by around 0.25 percentage points.

Potentially mitigating these adverse risks is the likelihood of only limited further downside to the Australian dollar, which will ease some pressure on consumer prices and hence interest rates.

## **SENSITIVITY OF THE BUDGET TO ECONOMIC CONDITIONS**

The importance of these economic risks can be gauged by the sensitivity of the budget to changes in economic conditions. This section shows the sensitivity of the general government operating surplus to changes in key economic and financial indicators.

### **Sensitivity analysis**

The sensitivity analysis estimates the impact on revenue, expenses and the operating surplus of an increase in selected economic and financial indicators, and in so doing, indicates the risk associated with the forecasts or projections of each variable. The major variables that affect Victoria's operating surplus are economic growth, employment, prices, wages, interest rates and volatility within asset markets.

To assess sensitivity to change, the level of the economic indicator, in each case, is permanently increased by 1 percentage point in the first year (above the forecasts detailed in Chapter 3, *Economic Conditions and Outlook*), and is then reverted back to the forecast growth rate. It is assumed during the analysis of each indicator that all others follow their forecast growth rates.

Table 6.1 shows the full-year impact, beginning 2002-03, of this 1 percentage point increase in each indicator on the general government operating surplus over a four-year period.

**Table 6.1: Impact on the general government operating surplus of a 1 percentage point increase in selected economic indicators in 2002-03<sup>(a)</sup>**

	(\$ million)			
	2002-03	2003-04	2004-05	2005-06
<b>GSP</b>				
Taxes, regulatory fees and fines	25	27	28	28
Other revenue	18	21	23	24
Superannuation expenses	..	..	..	..
Other expenses	..	1	2	1
<b>Operating surplus</b>	<b>43</b>	<b>47</b>	<b>49</b>	<b>51</b>
<b>Employment</b>				
Taxes, regulatory fees and fines	27	28	30	31
Other revenue	1	2	4	6
Superannuation expenses	..	..	..	..
Other expenses	..	..	..	..
<b>Operating surplus</b>	<b>28</b>	<b>30</b>	<b>34</b>	<b>37</b>
<b>Consumer prices</b>				
Taxes, regulatory fees and fines	26	27	28	28
Other revenue	122	130	138	148
Superannuation expenses	95	..	..	..
Other expenses	57	56	57	58
<b>Operating surplus</b>	<b>-4</b>	<b>101</b>	<b>110</b>	<b>119</b>
<b>Average weekly earnings<sup>(b)</sup></b>				
Taxes, regulatory fees and fines	27	27	29	30
Other revenue	-16	-21	-12	-17
Superannuation expenses	58	8	9	9
Other expenses	87	91	93	96
<b>Operating surplus</b>	<b>-135</b>	<b>-92</b>	<b>-85</b>	<b>-92</b>

**Table 6.1 (cont): Impact on the general government operating surplus of a 1 percentage point increase in selected economic indicators in 2002-03<sup>(a)</sup>**

	(\$ million)			
	2002-03	2003-04	2004-05	2005-06
<b>Share prices</b>				
Taxes, regulatory fees and fines	..	..	..	..
Other revenue	8	9	1	2
Superannuation expenses	-41	-3	-3	-3
Other expenses	..	..	..	..
<b>Operating surplus</b>	<b>49</b>	<b>12</b>	<b>4</b>	<b>4</b>
<b>Property prices (volumes) <sup>(c)</sup></b>				
Taxes, regulatory fees and fines	24 (17)	21 (15)	29 (14)	30 (15)
Other revenue	2 (..)	3 (1)	4 (2)	5 (3)
Superannuation expenses	-6 (..)	.. (..)	.. (..)	.. (..)
Other expenses	.. (..)	.. (..)	.. (..)	.. (..)
<b>Operating surplus</b>	<b>32 (18)</b>	<b>24 (17)</b>	<b>33 (16)</b>	<b>36 (18)</b>
<b>Interest rates <sup>(d)</sup></b>				
Taxes, regulatory fees and fines	..	..	..	..
Other revenue	89	93	44	47
Superannuation expenses	42	..	..	..
Other expenses	3	7	12	17
<b>Operating surplus</b>	<b>45</b>	<b>86</b>	<b>32</b>	<b>30</b>

Source: Department of Treasury and Finance

Notes:

- (a) A positive number for taxes, regulatory fees and fines, and other revenue 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 operating surplus). A positive number for the operating surplus denotes an improvement in the operating surplus. Numbers may not balance due to rounding.
- (b) Assumes wages of Victorian Government employees also increase by 1 per cent above what was expected.
- (c) Numbers in brackets represent the impact of 1 per cent change in property volumes holding property prices constant.
- (d) Assumes a 1 percentage point increase in interest rates over the entire period.

### ***Sensitivity to economic growth***

An assumed 1 per cent increase in GSP is estimated to increase the operating surplus by \$43 million in 2002-03, growing to \$51 million by 2005-06. The majority of this increase is due to a rise in a broad range of taxation receipts resulting from the heightened level of economic activity.

There is little impact on the combined level of GST grants and transitional assistance during this period as any resulting increase in GST grants to Victoria would be largely offset by a reduction in transitional assistance (as the estimated level of revenue forgone is not increased by variations in GSP).

### ***Sensitivity to employment growth***

Employment growth directly affects the operating surplus through its impact on payroll tax revenue. A 1 per cent rise in employment above forecast growth is estimated to increase the operating surplus by \$28 million in 2002-03, growing to \$37 million by 2005-06.

### ***Sensitivity to prices***

A 1 per cent rise in the level of consumer prices is estimated to result in substantial rises in revenue. Combined GST grants and transitional assistance will be raised by an increase in prices, as a number of components of estimated forgone revenue (principally financial assistance grants and safety net revenues) are raised by higher inflation. Other sources of revenue likely to rise (albeit to a lesser extent) include gambling taxes and revenue from sales of goods and services. Nevertheless, there is estimated to be almost no impact on the operating surplus in 2002-03 as there is a large offsetting one-off increase in superannuation expenses due to the impact of the CPI on the present value of deferred pensions and benefits in the State Superannuation Fund.

However, in subsequent years the CPI rise will have a positive influence on the operating position. This is because a number of revenue sources (including some taxes, grants and sales of goods and services) are more sensitive to inflation than is departmental expenditure.

The sensitivity of the operating result to variations in inflation has reduced since the 2001-02 Budget due to a less price sensitive superannuation expense component of the operating surplus. This is a result of a large take up of the Government's beneficiary choice program which has reduced superannuation pension liabilities, the component of the liability most sensitive to inflation.

### ***Sensitivity to wages***

As with an increase in prices, a 1 per cent rise in the level of wages also has a substantial one-off increase in the net unfunded superannuation liability, and as a result, the operating surplus would be reduced by \$135 million in 2002-03.

A one-off wage rise would have an ongoing substantial negative impact on the operating surplus, as a rise in departmental salary and superannuation expenses, combined with a reduction in dividends payments received (primarily from a reduction in the value of assets held by the Transport Accident Commission), is only partly offset by an increase in payroll tax receipts.

### ***Sensitivity to share prices***

In aggregate, it is estimated that a 1 per cent rise in both domestic and international equity prices would improve the 2002-03 operating surplus by \$49 million, with the benefit then falling to only \$4 million in the fourth year. The initial improvement arises from a reduction in superannuation expenses due to a gain in the value of assets held by the State Superannuation Fund (and hence reduction in the unfunded liability), and increases in the receipt of dividend payments (largely a result of gains in the value of assets held by the Transport Accident Commission).

### ***Sensitivity to property prices and volumes***

A 1 per cent increase in property prices is estimated to improve the operating surplus by \$32 million in 2002-03, falling to \$24 million in the next year before rising over the ensuing two years.

The rise in property prices (assuming a constant number of property transfers) would increase conveyancing, land transfer and mortgage stamp duty receipts by \$24 million in 2002-03. In addition, the improvement in 2002-03 would be boosted by a one-off decrease in superannuation expenses resulting from a rise in the value of superannuation fund property asset holdings.

Revenues are less sensitive to the volume of property transfers. A 1 per cent rise in the number of property transfers (holding prices constant) would increase receipts from property taxes and the operating surplus by \$18 million in 2002-03.

### ***Sensitivity to interest rates***

A 1 per cent rise in interest rates (over what is already assumed in the yield curve) increases the operating surplus by \$45 million in 2002-03. This is due primarily to an increase in interest revenue (from general government financial assets), and

higher dividends received as a result of a reduction in the Transport Accident Commission claims liabilities emanating from higher discount factors (assuming an unchanged dividend payout ratio).

However, this positive impact is partly offset in 2002-03 by a one-off increase in superannuation expenses arising from a reduction in the value of fixed interest assets held by the State Superannuation Fund.

Over the remaining forward estimates period, the rate rise has a net positive impact on the operating position, as the increased interest revenue from the general government financial assets offsets higher general government sector borrowing costs and reduced dividend payments from various public authorities exposed to increased debt servicing costs.

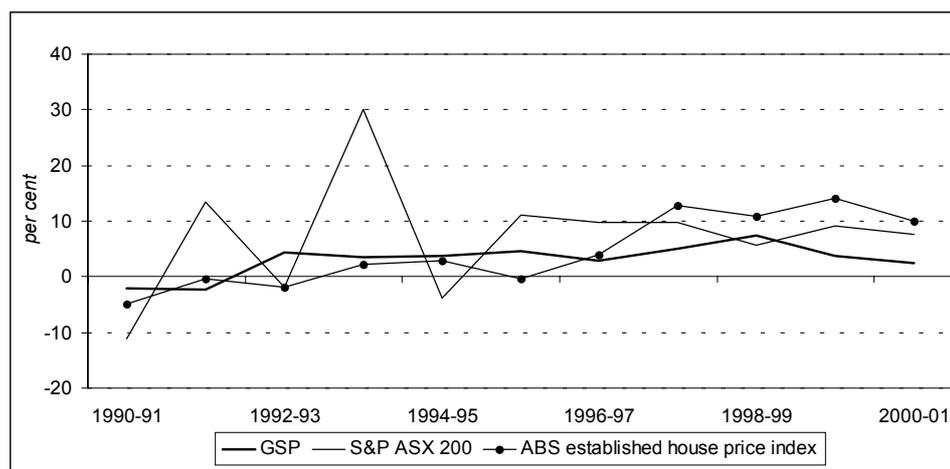
The interest rate sensitivity of interest revenue is greater than the sensitivity of borrowing costs as a result of a larger proportion of the general government financial assets (on which interest revenue is calculated) being exposed in the year of the interest rate shock than general government debt (on which borrowing costs are calculated). This is because the average duration of general government financial assets is around 3½ years, compared with around 10 years for general government debt.

The interest rate sensitivity of the surplus has increased significantly since the 2001-02 Budget largely because there is now a higher base level of general government financial assets, compared with last budget, on which the sensitivity of interest revenue is calculated. The higher level of general government financial assets is a result of the Government's policy of investing cash surpluses into financial assets.

### **Variability of economic indicators**

In interpreting the estimates in Table 6.1, it is worth noting that historically, some of the economic indicators listed have been more volatile than others. In particular, although variations in GSP and employment growth, wage and consumer price inflation, and interest rates have been broadly similar since the mid-1980s, property and share markets have been considerably more volatile (see Chart 6.1).

**Chart 6.1: Comparison of volatility of economic parameters<sup>(a)</sup>**



Source: Department of Treasury and Finance

Note:

(a) Annual percentage growth on preceding year.

In combination with the outcomes of the sensitivity analysis, these results suggest:

- share prices, due to their inherent volatility, are likely to be a major source of variation in the operating surplus in the year in which they occur;
- property prices, like share prices, are also relatively volatile. Although their initial impact on the operating surplus is smaller than that of share prices, property prices have a more substantial ongoing impact;
- interest rate fluctuations will also have a significant impact on the operating surplus. However, due to the comparative lack of volatility in interest rates, this variable poses little risk to the outlook;
- fluctuations in economic activity (GSP and employment) and wages are also likely to be a major source of variation in the operating surplus, over the entire forward estimates period, not just in the first year; and
- variations in inflation rates are likely to have a significant impact on the operating surplus after the first year (although they are not volatile and pose little risk to the outlook).

## EXPENDITURE AND REVENUE RISKS

There are a number of general risks, such as unforeseen changes in the size and structure of the Victorian population, which can impact on the expenditure outlook. These risks can be classified into those that affect all government departments and those that are department specific.

A government-wide factor that has the potential to increase general expenditures above those allowed for in the forward estimates is unplanned increases in award wage costs.

The main risks to specific departmental expenditures relate to growth in demand for key services and the modernisation of assets. Examples of these types of impacts include emerging pressures related to the need to maintain government schools and TAFE institutes.

The 2002-03 Budget 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 budget year or over the course of the outlook period. The contingency provision includes a general allowance for:

- the impact of planned award wage increases, consistent with government policy, on departmental operating costs;
- growth in Victoria's population, and from it, derived demand for government services;
- asset investment funding to be allocated in future budgets to meet emerging needs; and
- other expenditure risks which are unforeseen or not able to be quantified at the time of construction of the budget estimates.

The inclusion of a contingency provision in the budget estimates serves to mitigate the potential impact of expenditure risks on the overall budget position. Realised expenditure risks will only impact on total expenditure and the overall budget position to the extent that they cannot be accommodated within the contingency provision built into the budget estimates.

Significant events that could represent a call on this contingency provision and/or impact on the total budget expenditure forecasts are detailed below.

## **Commonwealth Games**

Melbourne will be hosting the 2006 Commonwealth Games and the State has an obligation under the Endorsement and Host City contracts to underwrite the Games. The Government has committed to undertake a full budget review of the requirements for the Games and this review is expected to be finalised following, and drawing on the experience of, the 2002 Commonwealth Games in Manchester. The level of support provided by Commonwealth and local governments will also affect the net cost to the State Government.

## **Public transport franchise arrangements**

In February 2002, the Government and the rail franchisees reached an interim agreement that brought an increased level of certainty and stability to Victoria's rail businesses. Since then the Government is continuing to work with the rail franchisees on possible business recovery proposals to grow patronage and revenue, ensuring an appropriate level of service is provided to passengers.

## **Roads**

Roads of National Importance are funded on a 50:50 basis between state and Commonwealth governments. Depending on the size and timing of announcements made by the Commonwealth, the Victorian Government may be required to provide matching funding for road construction and operating expenditure.

## **Gas industry dividends**

No dividends from the gas industry have been incorporated in the 2002-03 Budget estimates. However, negotiations are underway on the resolution of commercial contractual matters arising from the deferral of full retail contestability in the Victorian gas market. It was originally envisaged that full retail contestability in the Victorian gas market would occur on 1 September 2001. However, due to delays with the finalisation of proposed business rules and the availability of systems and procedures, full retail contestability is now expected in the second half of 2002. Any further dividends from the gas industry are dependent on the resolution of these commercial contractual matters.

## **CONTINGENT LIABILITIES**

Contingent liabilities represent circumstances under which there is a possibility, due to some future event or situation, the outcome of which is uncertain, that an actual liability could arise. Quantifiable contingent liabilities are set out in Table 6.2.

## Quantifiable contingent liabilities

**Table 6.2: General government quantifiable contingent liabilities at 30 June**

	(\$ million)	
	2000	2001
Guarantees and indemnities	254.1	218.8
Legal proceedings and disputes	111.9	166.5
Other	791.7	722.3
Non-general government debt	2 629.6	2 638.7
<b>Total contingent liabilities</b>	<b>3 787.3</b>	<b>3 746.3</b>

Source: Department of Treasury and Finance

Guarantees and indemnities comprise specific guarantees and indemnities under statute in respect of Co-operative Housing Societies Guarantees, Co-operative Housing Indemnities and Co-operatives (General). In addition, the category includes other guarantees for loans under statute.

The category 'Legal proceedings and disputes' includes contingent liabilities that arise from legal disputes or legal claims made on departments and agencies.

The largest quantifiable contingent liability item, in the 'Other' category, relates to a commercial arrangement for the provision of correctional services beyond an initial five-year contract period amount. 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. Therefore, payments for the provision of services beyond the current tender period are treated as a contingent liability rather than a contractual commitment.

Non-general government debt relates to loans, guaranteed by the Treasurer of Victoria, to agencies outside of the general government sector. Treasury Corporation of Victoria has provided most of these loans to metropolitan water companies, and other participating authorities.

## Non-quantifiable contingent liabilities

A number of potential obligations, which are non-quantifiable at this time, have been made 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 of the Docklands Authority; and
- unclaimed moneys which may be subject to future claims by the general public against the State.

### **Asset sales**

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

### **Commonwealth Games**

In winning the bid to host the 2006 Commonwealth Games in Melbourne, the State entered into two contracts:

- Endorsement Contract with the Australian Commonwealth Games Association; and
- Host City Contract with the Commonwealth Games Federation.

Subsequent to winning the rights to host the Games, the Government established the Melbourne 2006 Commonwealth Games Pty Ltd (M2006) as the Organising Committee for the Games with the Premier as the single shareholder. An agreement between the State and the company provides the basis for funding the company from 2001 to 2007.

Under the Endorsement Contract, the State is obliged to underwrite any shortfall between revenue and expenditure of the Organising Committee for the organisation of the Games. The State has also agreed to buy out the Association's marketing and fundraising rights under the Joint Marketing Program.

The Host City Contract specifies the rights and obligations of the Organising Committee in relation to organising the Games. The contract also includes the licence fee payable for broadcast and sponsorship rights and the commitment the State gave in its bid document to offer travel grants to competitors and team officials attending the Games. Also under this contract, any remaining surplus resulting from the Games after the Organising Committee has discharged all financial commitments and other obligations, is to be transferred to the Association. This surplus is, in turn, required to be paid to the State to be used for the benefit of sport in Victoria.

M2006 has an agreement with Nine Network Australia Pty Ltd in relation to broadcast rights to the Games for Australia and Papua New Guinea. The agreement includes certain force majeure and major change provisions, which may be invoked in certain circumstances. M2006 has obtained insurance against the risk of these circumstances arising and resulting in payments becoming refundable to the Nine Network.

### ***Automated ticketing***

In May 1994, the Public Transport Corporation (PTC) entered into contracts with the OneLink Consortium to provide automated ticketing and fare collection services to the PTC for its metropolitan public transport services over a period of ten years ending in 2007. Payments under the Automated Ticketing Service Contract will be in the order of \$300 million over the term of the contract, on a performance basis. This amount does not include any additional payments relating to variations to the system which have been, or may be, implemented under this contract.

The Treasurer of Victoria has guaranteed the payment obligations of the PTC under the terms of the Service Contract. As a result of the restructuring of the public transport system, it is proposed that the rights and obligations of the PTC under the Service Contract are to be transferred to a corporation named Revenue Clearing House Pty Ltd (RCH). The shareholders of RCH are the franchisees of the passenger transport businesses and the Secretary of the Department of Infrastructure, on behalf of the private bus operators. Contract assignment from the PTC to RCH has not yet occurred. However, RCH currently manages the Service Contract on behalf of the PTC under an interim arrangement. After assignment, it is proposed that the Treasurer will guarantee the payment obligations of RCH under the Service Contract.

In April 2000, OneLink Transit Systems Pty Ltd (OLT) lodged a claim under the Consolidated Service Contract claiming that the scope of the automatic ticketing project was increased during the period between the signing of the contract in May 1994 and September 1995. The amount of the claim is \$132 million plus \$17 million per annum for ongoing maintenance of the equipment. Negotiations in relation to this claim are continuing.

### ***Land remediation — environmental concerns***

A number of 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.

### ***Melbourne City Link***

The key arrangements for Melbourne City Link are set out in the Concession Deed, which has effect from 20 October 1995.

Under the arrangements as set out in the Concession Deed and the legislation, the State is responsible for acquiring and paying for the land necessary for the project to proceed, paying for certain state works and general project costs. It is also subject to certain compensation claims in the event that it can be shown that Transurban's revenue has been adversely affected by state actions.

While virtually all land has been acquired, the final compensation payable is subject to resolution in some instances. The balance of the state works will be funded by underspent funds carried forward from the 2000-01 year.

There is currently an outstanding claim from Transurban relating to an alleged 'Appendix Event' and leading to a Material Adverse Event claim from Transurban in relation to the construction of Wurundjeri Way and widening of the Westgate Freeway. This claim is currently being handled by the documented dispute resolution processes and the Department of Infrastructure is managing the claim for the State.

As regards to compensation for land acquisitions, some matters remain in the negotiation/determination phase in an effort to agree the ultimate level of compensation for the acquisitions.

In accordance with the *Melbourne City Link (Miscellaneous Amendments) Act 2000*, the Melbourne City Link Authority was abolished on 28 February 2002 and all responsibilities and functions were transferred to the Department of Infrastructure.

### ***Public Transport Corporation lease arrangements***

Under various transport lease arrangements made by the PTC, the Treasurer of Victoria has indemnified the lessors against adverse tax rulings and third party personal injury claims, where the third party is injured by the operation of the equipment during the period of the lease. The last of these lease arrangements was terminated by June 1998. The normal statute of limitations is five years for tax claims and six years for personal injury claims.

### ***Public transport rail franchise agreements***

During 1999-2000 the Director of Public Transport, on behalf of the Crown, entered into contractual arrangements with franchisees to operate passenger rail transport services in the State. The following summarises the major contingent liabilities arising from those arrangements.

### ***Contingent liabilities on early termination or expiry of franchise agreements***

***New rolling stock lease direct agreements:*** As part of the franchising arrangements, the franchisee of each passenger rail business has undertaken to provide new rolling stock. Each franchisee is expected to enter into a lease with a third party lessor with respect to this rolling stock. In addition, the Director is expected to enter into rolling stock direct agreements with the respective lessors to protect the State's interest in the rolling stock. In the event of expiry or on early termination of the franchises the Director can either exercise a right to acquire the new rolling stock at predetermined values or the lease payment obligations are transferred to the Director or a successor franchisee. At 31 March 2002, four of the five required rolling stock direct agreements have been entered into. The contingent liability of the Director to take over the lease payments only commences upon delivery of the units of new rolling stock. A total of 24 units of new rolling stock have been delivered as at 31 March 2002.

***Other direct agreements:*** The Director is also party to a number of other direct agreements with the providers of key services to franchisees in respect of carrying out their operations. The intention of these agreements is that in the event of a 'Step-in Event' occurring or on early termination or expiry of a franchise that the key services will be (at the option of the Director), continued by the providers for the Director or his nominee under the same terms and conditions as the original contract where the Director or his nominee assumes the rights and obligations of the original franchisee.

***Payments on termination:*** On termination of the franchise agreements by expiry or otherwise the Director will have a liability:

- to pay for certain assets and liabilities on the basis set out in the agreements. If on termination there is a net liability, then franchisees will pay the Director; and
- for termination value payments in respect of designated rolling stock improvements and capital projects (estimated contingent liability at 31 March 2002 of \$42 million).

### ***Contingent liability offsets on early termination of franchise agreements***

With respect to any additional costs arising to the Director on the early termination of a franchise, the franchisee must indemnify the Director for any losses, damages or costs incurred by him as a result of the early termination. If the franchisee does not do so, the Director has the right to draw on the franchisee's

performance bond for the amount of those losses, damages or costs. These bonds total \$235 million as at 31 March 2002 as a result new initiatives announced by the Victorian Government to the franchisees on 26 February 2002.

The Director also has a fixed and floating charge over franchisee assets as security for amounts payable by franchisees.

### ***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:* If a latent defect is identified in any part of the infrastructure which has been leased to the franchisees, and the cost of rectifying the defect is in excess of a threshold amount, then the Director will indemnify the franchisee for the amount by which the cost of the works to rectify the defect exceeds the threshold amount.

*Pre-existing contamination:* The Director has indemnified franchisees from and against all losses, damages, liabilities, actions, suits, claims, demands, costs and expenses of every kind arising from a failure by the Director to clean up the land as defined in the infrastructure leases entered into with franchisees.

*Native Title:* The Director is liable for payments of any valid compensation claim to native title holders made under the *Native Title Act 1993* or other laws relating to native and aboriginal title in respect of the land as defined in the infrastructure leases entered into with franchisees.

*Net gain and net loss provisions:* On the occurrence of certain events specified in the franchise agreements, including the undertaking of infrastructure works by the State, the franchisees may make a claim against the Director if the franchisee incurs a net loss as a result of those events. The Director also has the right to claim against the franchisees any net gain as a result of those events.

### ***Other***

A number of minor contractual issues are being addressed in ongoing negotiations between the Director of Public Transport and the franchisees.

### ***Contingent liabilities relating to the Department of Infrastructure as bus industry representative***

The Secretary of the Department is a shareholder in the Revenue Clearing House Pty Ltd (RCH) and VicTrip Pty Ltd as the appointed representative of route bus operators with whom the Department has a bus service contract.

The RCH Shareholders Agreement and the VicTrip Shareholders Agreement contain several clauses which mean that the State (along with the franchisees) will become liable for additional capital requirements for the RCH and VicTrip to remain solvent and any losses suffered by the RCH and VicTrip.

The MetCard Management Agreement with the RCH contains several clauses in the agreement which mean that the State (along with the franchisees) will become liable for any shortfalls suffered by the RCH in specific circumstances.

### ***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.

### ***Victorian Managed Insurance Authority (VMIA)***

VMIA was established in 1996 as a captive insurer for departments and participating bodies (predominantly 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 re-insures 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. \$1 250 million for property and \$750 million for public liability). The risk of losses above these re-insured levels is borne by the State.

### ***Gas supply incident***

The State, and a number of its instrumentalities, have been named as parties in a class action before the Supreme Court arising from the explosion and fire in September 1998 at Esso's gas processing plant at Longford.

## ***Transmission of business under Section 149 of the Workplace Relations Act 1996***

Contractors now performing government functions have sometimes engaged staff on lesser rates and conditions than those that previously applied under awards for public sector employees. This matter specifically involves hospital employees.

Federal Court decisions have indicated that previous award rates and conditions may apply to the contractor's employees in that situation. The application of this principle requires transfer of part of the business (of the Government) and the test that is generally applied is whether there is a 'substantial identity' between the activities before and after the outsourcing. If applicable, the principle would generally cause increases in employment costs for the contractor.

Following an appeal by the State of Victoria, the High Court has referred the case to mediation outside of court. Pending the outcome relating to hospital employees, there may be widespread application for the State. The financial implications remain unclear.

### ***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 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 Housing Guarantee Fund Limited, which manages claims on behalf of the State.

The State also retains some unquantifiable contingent exposures arising from the collapse. 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.

### ***Builders' warranty***

The builders' warranty insurance market, like other insurance markets, has been affected by the 11 September 2001 terrorist attacks in the United States and adverse claims experience. In mid-April 2002, the State agreed to provide temporary (to 30 June 2002) re-insurance support to builders' warranty insurance provider Dexta Corporation following the withdrawal of some of its commercial re-insurance support. The State will receive re-insurance premiums for this

participation, and will be required to contribute to payment of re-insured claims, as well as paying management fees. The precise timing and value of these receipts and payments is uncertain, as claims may be made by home owners for up to 6½ years after the arrangement ceases.

Details of the arrangements had not been finalised at the time of preparation of these budget papers, and receipts and payments will be contingent on the volume of insurance underwritten and re-insured by 30 June 2002. 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 \$3 million. While the State expects, like the commercial re-insurers who are party to the agreement, to at least break even on these arrangements, the State retains an unquantifiable contingent liability that claims may exceed the central estimate.

As part of the agreement between the State and the insurance industry on revisions to the builders' warranty product, the State may assume further contingent liabilities in relation to builders' warranty insurance. However, no formal arrangements have yet been concluded.

### ***Gambling / gaming licences***

In 1994, the State sold TABCORP Holdings Limited (TABCORP) a wagering and gambling licence for \$597 million. The *Gaming and Betting Act 1994* requires the State to provide in 2012 a refund to TABCORP 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 *Gaming Machine Control Act 1991* 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.



## CHAPTER 7: ESTIMATED FINANCIAL STATEMENTS AND NOTES

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### INTRODUCTION

The Estimated Financial Statements in this chapter have been prepared in accordance with the provisions in the *Financial Management Act 1994*. This Act requires the Estimated Financial Statements to be based on generally accepted accounting principles (GAAP) and to be consistent with the Financial Policy Objectives and Strategies Statement (see Chapter 1).

The purpose of the Estimated Financial Statements is to set out the forecast financial results for the Victorian general government (budget) sector. Because of the prospective nature of these statements they reflect a number of professional judgements about the most likely operating and financial conditions for the Victorian general government (budget) sector.

The accompanying notes to the Estimated Financial Statements provide details of 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.

The Auditor-General's review was conducted to ensure that the Estimated Financial Statements:

- have been prepared on a basis consistent with the accounting policies on which they are stated to be based;
- are consistent with the Government's key financial measure;
- have been prepared on the basis of the economic assumptions stated in the accompanying notes to the statements; and
- employ assumptions that are determined using methodology that is reasonable.

The Auditor-General's Report on the Estimated Financial Statements can be found at the end of this chapter.

## ESTIMATED FINANCIAL STATEMENTS FOR THE VICTORIAN GENERAL GOVERNMENT (BUDGET) SECTOR

**Table 7.1: Estimated statement of financial performance for the year ending  
30 June**

(\$ million)					
	Note	2002-03 Budget	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
<b>Revenue from ordinary activities</b>					
Taxation	2	8 802.7	8 926.7	9 101.7	9 281.6
Fines and regulatory fees		554.0	556.6	579.1	577.1
Investment revenue	3	1 061.6	991.9	1 017.7	1 056.8
Grants revenue	4	11 753.5	12 072.2	12 462.5	13 070.9
Sale of goods and services		2 049.9	2 082.4	2 113.5	2 146.1
Gains/(losses) on the disposal of physical assets		19.6	12.9	13.0	13.2
Fair value of assets received free of charge		1.1	1.1	6.2	1.2
Inter sector capital asset charge		501.0	514.0	514.0	514.0
Other revenue		538.3	530.8	570.8	511.7
<b>Total revenue</b>		<b>25 281.7</b>	<b>25 688.6</b>	<b>26 378.4</b>	<b>27 172.5</b>
<b>Expenses from ordinary activities</b>					
Employee entitlements		9 041.5	9 386.0	9 687.6	10 001.3
Superannuation		1 713.1	1 725.3	1 765.9	1 804.3
Depreciation	5	952.2	1 002.7	1 067.0	1 115.1
Amortisation	6	70.6	65.4	65.3	65.4
Borrowing costs	7	495.2	494.6	492.1	488.4
Grants and transfer payments	8	4 118.9	4 001.1	4 017.2	4 077.2
Supplies and services		8 299.9	8 363.9	8 694.1	8 840.0
Other expenses		68.6	69.6	71.9	68.8
<b>Total expenses</b>	9	<b>24 760.0</b>	<b>25 108.6</b>	<b>25 861.1</b>	<b>26 460.6</b>
<b>Net result</b>		<b>521.8</b>	<b>580.0</b>	<b>517.3</b>	<b>711.9</b>
Movements in asset revaluation reserve		737.8	768.6	800.6	833.8
<b>Total changes in equity other than contributions to other sectors by the State in its capacity as owner</b>		<b>1 259.6</b>	<b>1 348.6</b>	<b>1 317.9</b>	<b>1 545.7</b>

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

**Table 7.2: Estimated statement of financial position as at 30 June**

(\$ million)					
	Note	2003 Budget	2004 Estimate	2005 Estimate	2006 Estimate
<b>Current assets</b>					
Cash assets		912.8	960.4	973.6	987.7
Other financial assets		1 219.1	1 238.5	1 266.5	1 294.4
Receivables		1 084.5	1 165.3	1 236.3	1 307.6
Prepayments		37.0	37.1	37.1	37.1
Inventories		163.9	163.9	164.0	164.0
Other assets	13	0.1	0.1	0.1	0.1
<b>Total current assets</b>		<b>3 417.4</b>	<b>3 565.3</b>	<b>3 677.6</b>	<b>3 790.9</b>
<b>Non-current assets</b>					
Other financial assets		2 418.4	2 080.8	2 015.1	1 981.8
Receivables		248.4	196.3	164.3	141.7
Inventories		135.0	135.0	135.0	135.0
Property, plant and equipment	10	23 921.6	25 264.6	26 539.3	27 726.7
Roads and earthworks	11	12 996.0	13 468.4	13 952.0	14 444.7
Other assets	13	1 794.2	1 814.0	1 819.9	1 823.2
<b>Total non-current assets</b>		<b>41 513.7</b>	<b>42 959.2</b>	<b>44 625.7</b>	<b>46 253.1</b>
<b>Total assets</b>		<b>44 931.1</b>	<b>46 524.4</b>	<b>48 303.3</b>	<b>50 044.0</b>
<b>Current liabilities</b>					
Payables		1 154.7	1 162.2	1 171.1	1 180.0
Interest-bearing liabilities		85.5	89.2	102.6	118.5
Employee entitlements	14	826.6	873.2	904.0	934.6
Superannuation	15	990.1	713.9	487.7	866.4
Other liabilities		531.1	513.7	512.3	511.0
<b>Total current liabilities</b>		<b>3 588.0</b>	<b>3 352.2</b>	<b>3 177.6</b>	<b>3 610.6</b>
<b>Non-current liabilities</b>					
Payables		8.6	8.5	8.4	8.3
Interest-bearing liabilities		6 215.8	6 208.0	6 200.1	6 189.8
Employee entitlements	14	1 879.4	2 047.1	2 226.5	2 410.4
Superannuation	15	11 771.0	12 274.9	12 974.4	12 727.2
Other liabilities		358.5	348.7	337.9	326.2
<b>Total non-current liabilities</b>		<b>20 233.4</b>	<b>20 887.2</b>	<b>21 747.3</b>	<b>21 661.9</b>
<b>Total liabilities</b>		<b>23 821.4</b>	<b>24 239.4</b>	<b>24 924.9</b>	<b>25 272.5</b>
<b>Net assets</b>		<b>21 109.8</b>	<b>22 285.1</b>	<b>23 378.4</b>	<b>24 771.5</b>
<b>Equity</b>					
Retained earnings	..	13 918.8	14 267.3	14 622.7	14 987.4
Reserves		6 669.2	7 437.8	8 238.4	9 072.1
Net result for year		521.8	580.0	517.3	711.9
<b>Total equity</b>	16	<b>21 109.8</b>	<b>22 285.1</b>	<b>23 378.4</b>	<b>24 771.5</b>

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

**Table 7.3: Estimated statement of cash flows for the year ending 30 June**

	(\$ million)				
	Note	2002-03 Budget	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Taxation		8 788.0	8 911.1	9 084.8	9 259.2
Fines and regulatory fees		429.6	430.5	450.1	451.4
Grants		11 752.0	12 072.2	12 462.5	13 070.9
Sale of goods and services		2 052.0	2 077.8	2 110.6	2 143.4
Interest received		338.1	316.7	320.4	334.0
Dividends received		406.5	356.8	367.3	377.1
Capital asset charge received		501.0	514.0	514.0	514.0
Other receipts		842.4	817.9	877.1	831.9
<b>Total receipts</b>		<b>25 109.6</b>	<b>25 497.0</b>	<b>26 186.8</b>	<b>26 982.0</b>
<b>Payments</b>					
Employee entitlements		8 844.4	9 171.8	9 477.4	9 786.8
Superannuation		1 757.9	1 497.7	1 292.7	1 672.6
Grants and transfer payments		4 117.2	3 999.4	4 015.5	4 075.5
Supplies and services		8 308.3	8 371.9	8 684.6	8 830.2
Interest paid		479.3	479.0	477.4	475.9
Other payments		6.0	6.2	6.4	6.7
<b>Total payments</b>		<b>23 513.1</b>	<b>23 526.0</b>	<b>23 954.0</b>	<b>24 847.7</b>
<b>Net cash flows from operating activities</b>	17	<b>1 596.5</b>	<b>1 971.0</b>	<b>2 232.8</b>	<b>2 134.4</b>
<b>Cash flows from investing activities</b>					
Net customer loans repaid		1.8	67.6	48.8	44.8
Net disposal/(purchase) of investments		518.6	318.1	37.6	5.3
Net contribution to other sectors of government	1B	( 218.0)	( 173.3)	( 224.6)	( 152.6)
Proceeds from sale of property, plant and equipment		79.2	62.5	54.0	49.3
Purchases of property, plant and equipment		(1 927.3)	(2 181.3)	(2 128.9)	(2 063.1)
<b>Net cash flows from investing activities</b>		<b>(1 545.6)</b>	<b>(1 906.4)</b>	<b>(2 213.1)</b>	<b>(2 116.4)</b>
<b>Cash flows from financing activities</b>					
Net repayments of borrowings		( 19.0)	( 17.6)	( 5.8)	( 2.9)
<b>Net cash flows from financing activities</b>		<b>( 19.0)</b>	<b>( 17.6)</b>	<b>( 5.8)</b>	<b>( 2.9)</b>
<b>Net increase in cash and deposits held</b>		<b>31.9</b>	<b>47.0</b>	<b>13.9</b>	<b>15.1</b>
Cash at beginning of reporting period		877.5	909.4	956.4	970.3
<b>Cash and deposits at end of reporting period</b>		<b>909.4</b>	<b>956.4</b>	<b>970.3</b>	<b>985.4</b>

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

## 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.

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## 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>*

	2002-03	2003-04	2004-05	2005-06
Gross state product	3.50	3.50	3.50	3.50
Employment	1.50	1.50	1.50	1.50
Consumer price index	2.25	2.25	2.25	2.25
Wage cost index <sup>(b)</sup>	3.50	3.50	3.50	3.50
Population <sup>(c)</sup>	1.00	1.00	0.90	0.90

*Source: Australian Bureau of Statistics, 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.*
- (b) Total hourly rate excluding bonuses and Superannuation Guarantee Levy.*
- (c) June quarter, per cent change on previous June quarter. Based on ABS Series R projections.*

## **Economic risks**

The material economic and other assumptions and specific forecast assumptions underlying the material items in the Estimated Financial Statements are subject to uncertainties, all of which are beyond the control of the Government. The Department of Treasury and Finance has identified a number of risks to the Victorian economic outlook.

The main uncertainties to the Victorian economic outlook stem from:

- the global recovery not being sustained, which would limit the scope for a rise in Victoria's overseas exports and potentially reduce demand for Victorian goods in interstate markets due to weaker national growth prospects;
- the risk that continued strength in domestic demand could place upward pressure on consumer prices, with the potential for a flow through to higher wage claims and, hence, interest rates being higher and economic growth lower than would otherwise be the case; and
- the impact on gross state product from adverse movements in population growth.

These potential adverse impacts may be mitigated by:

- the stimulus to global growth prospects from current low global interest rate settings; and
- the likelihood of only limited further downside to the Australian dollar, which will ease some pressure on consumer prices and hence interest rates.

### **Key financial measure**

The Government has set out its key financial measure in the Financial Policy Objectives and Strategies Statement. The key financial measure of a substantial budget operating surplus (referred to as 'net result' in the statement of financial performance) is expected to be achieved throughout the forecast period.

#### *Fiscal target*

<i>Key financial measure</i>	<i>Target</i>
Maintain a substantial budget sector operating surplus	At least \$100 million

### **Sensitivity analysis**

The estimates of revenue, expenses and the budget sector's operating surplus have been subject to sensitivity analysis by the Department of Treasury and Finance.

The Department's analysis shows that if there was a 1 per cent rise in each of the following key economic variables, the budget's operating position over the forward estimates period would change as follows:

#### **Impact of a 1 percentage point increase in the economic variable on the budget operating surplus<sup>(a)</sup>**

	<i>(\$ million)</i>			
	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>
Gross state product	43	47	49	51
Employment	28	30	34	37
Consumer prices	-4	101	110	119
Average weekly earnings	-135	-92	-85	-92
Share prices	49	12	4	4
Property prices	32	24	33	36
Property volumes	18	17	16	18
Interest rates	45	86	32	30

*Source: Department of Treasury and Finance*

*Note:*

*(a) A positive number denotes an improvement in the operating surplus.*

## **Note 1: Statement of significant accounting policies and forecast assumptions**

In order to assist in understanding the financial information presented, the following summary presents the significant accounting policies and forecast assumptions which 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. Compliance framework**

These Estimated Financial Statements have been prepared in accordance with sections 23H–23N of the *Financial Management Act 1994* (the FMA) and are based on Australian GAAP. In accordance with the FMA, the information presented in the Estimated Financial Statements take into account Government decisions and other circumstances that may have a material effect on the statements.

In accordance with Australian GAAP, all applicable Australian Accounting Standards (AAS) have been applied in the preparation and presentation of the Estimated Financial Statements. However, as there is no specific AAS or other Australian authoritative pronouncements on the preparation and presentation of prospective financial statements, AAS6 Accounting Policies permits the application of pronouncements of other national accounting standard setting bodies. Because Australian and New Zealand accounting standards are closely harmonised, the major requirements of New Zealand Financial Reporting Standard (FRS29) Prospective Financial Information have been applied in presenting the Estimated Financial Statements. The requirements of FRS29 have been modified to achieve presentation consistency with AAS1 Statement of Financial Performance, AAS36 Statement of Financial Position and AAS37 Financial Report Presentation and Disclosures.

#### **Future reporting basis**

The *Financial Management Act 1994* requires the identification of the reporting basis on which subsequent government financial reports will be prepared.

Future Estimated Financial Statements are expected to be prepared on a consistent basis, except for any changes in reporting required by new or revised Australian Accounting Standards.

## **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.

The actual (audited) opening balances as at 30 June 2001 are based on either a cost or a fair value basis. Those items measured at valuation include:

- non-current physical assets which are reassessed with sufficient regularity to ensure that the carrying amount does not differ from its fair value;
- investments and productive trees in commercial native forests which are recognised at their net market value; and
- certain liabilities (e.g. unfunded superannuation) which are calculated with regard to actuarial assessment.

The estimated impact of future revaluations of non-current physical assets is included in the forecasts at the total general government level.

Liabilities other than those actuarially determined do not include the impact of revaluations due to the inherent difficulties in identifying and forecasting these amounts.

### **Change in accounting policy for contributed capital**

In previous reporting periods up to 30 June 2001, the following items were recognised as revenues and expenses in the statement of financial performance:

- assets received free of charge from other government sectors, and
- grants paid to other sectors of government for capital purposes.

For the reporting period ending 30 June 2002, these transactions between wholly-owned public sector entities, which are designated by the Government as additions to and divestment of net assets, are not recognised as revenues and expenses and are only recognised in the estimated statement of cash flows as contributions to/from other sectors of government.

This change in accounting policy for transfers of assets and liabilities is in compliance with the accounting requirements of Urgent Issues Group Abstract 38 '*Contributions by Owners Made to Wholly-Owned Public Sector Entities*' and the Accounting and Financial Reporting Bulletin No. 39 '*Accounting for Contributed Capital*', issued under authority of the FMA 1994.

As a result of this change in accounting policy, \$177.2 million was recognised as an adjustment to net assets in the budget reporting period.

### **C. Basis of consolidation**

The Estimated Financial Statements include all reporting entities in the Victorian general government (budget) sector, which is a sector of the State of Victoria reporting entity. Entities in the public non-financial corporations and public financial corporations sectors are not consolidated as the intent of the Estimated Financial Statements is to convey the financial performance, position and cash flows of the general government (budget) sector alone.

In reporting on the general government (budget) sector, all material inter-agency transactions and balances are eliminated. In addition, all capital transactions between the general government sector and the public non-financial corporations and public financial corporations sectors are eliminated in the Estimated Statement of Financial Position.

### **D. Forecast reporting periods**

The reporting period for the general government (budget) sector is the year ending 30 June. However, for those entities with a reporting period other than the year ending 30 June, the latest audited financial statements since that date are used as the basis of the opening balance for 1 July 2002. For example, TAFE institutes have reporting periods ending 31 December.

### **E. Revenues**

#### *Taxation*

#### **Accounting policy**

Budget sector taxation and fee revenue is recognised upon the earlier of either 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 revenue included in the estimates are as follows:

- payroll tax;
- land tax;
- stamp duties – including conveyancing, land transfers, and mortgages;
- bank accounts debit tax;
- gambling taxes – including private lotteries, electronic gaming machines, casino and racing;
- insurance duty – compulsory third party, life and non-life; and
- motor vehicle taxes – registration fees, stamp duty and driver licence fees.

### **Forecast assumption**

The state's tax revenues are forecast by a process, which involves:

- assessment of demand and supply conditions in the markets from which the taxes are sourced (e.g. in the case of payroll tax, assessment of employment and wages outlooks; in the case of motor vehicle fees, assessment of the outlook for demand for cars reflecting long-term underlying demand factors and cyclical demand factors);
- analysis of historical information and relationships using econometric and other statistical methods;
- application of the Department of Treasury and Finance's economic forecasts where there is a relationship between taxation variables and economic variables; and
- consultation with private sector economists, industry associations, and relevant government authorities (e.g. State Revenue Office, Vic Roads, Office of Gambling Regulation).

Some State taxes are sourced from tax bases, which are particularly volatile, hence, tax revenue from these sources is subject to substantial annual variation. Stamp duty on land transfers and mortgages are clear examples of this.

### ***Regulatory fees and fines***

#### **Accounting policy**

Revenue is recognised at the time the fine or regulatory fee is issued.

#### **Forecast assumption**

The forecasts of regulatory fees and fines are prepared by those government agencies which collect them. Some of the components may be based on contractual obligations, while the prediction of fines involves assessment of the behaviour of people on the roads and elsewhere. The estimation of the many small, miscellaneous fees is based on an assessment of recent experience in each of the markets.

### ***Investment revenue***

#### **Accounting policy**

This revenue category includes interest, dividends, income tax and rate equivalent revenue and other revenue earned during the financial year from bank term deposits, shares and other investments. Interest revenue is recognised on an accrual basis and dividend income is recognised when dividends are determined. Net realised and unrealised gains/losses on the revaluation of investments form part of investment revenue.

### **Forecast assumption**

As part of the budget process, government business enterprises provide their best available estimates of these future payments for the forecast period.

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 paid or payable of 65 per cent of pre-tax profit.

Other commercial factors which are considered and will affect the dividend forecasts include the views of the board of directors, the liquidity, operating cash flow and forecast cash requirements of each government business enterprise (including planned capital works), 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. The National Tax Equivalent Regime (NTER), administered by the ATO, will over time replace the existing Victorian Income Tax Equivalent Regime. Fifteen government business enterprises commenced under the NTER on 1 July 2001. A further twenty government businesses will commence on 1 July 2002. Revenue raised under the NTER will remain with the State.

Forecast interest revenue is based on projected cash budget surpluses being invested.

### ***Grants***

#### **Accounting policy**

These are mainly funds provided by the Commonwealth to assist the State in meeting general or specific service delivery obligations. They are recognised when the State obtains control over them. They also include grants from other jurisdictions.

#### **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. The payment schedules for

some financial assistance from the Commonwealth are on a monthly, quarterly or annual basis, while others are on an irregular basis such as on a project-progress basis.

### ***Sale of goods and services***

#### **Accounting policy**

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

Revenue from sale of goods and services is recognised when control of goods has passed to the buyer.

For rendering of services, where the contract outcome can be reliably measured, revenue is recognised when control of the right to be compensated for the services and the stage of completion can be reliably measured.

#### **Forecast assumption**

Revenues arising from the sale of goods and services are forecast by taking into account all known factors, such as proposed fee increases in line with the *Guidelines for Setting Fees and Charges Imposed by Departments and Budget Sector Agencies* issued by the Department of Treasury and Finance, and projected variations in activities. Unless government policy states otherwise, fees will be set to recover the full costs of the goods or services provided.

## ***F. Expenses***

Expenses are recognised on an accrual basis, that is, when they are incurred, and are thereby reported in the financial year to which they relate.

### ***Employee entitlements***

#### **Accounting policy**

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 entitlements are forecast on the basis of staffing profiles and current salaries and conditions. For the forecast period employee entitlements are adjusted for approved wage agreements with allowance made for further changes in the future.

## *Superannuation*

### **Accounting policy**

Superannuation expense is determined on the following basis:

- funded schemes: the expense reflects the superannuation contribution payable by entities within the general government (budget) sector; and
- unfunded schemes: the expense includes the superannuation contributions payable by public sector employers, the net movement in the unfunded superannuation liability during each period and the annual payments by the State.

### **Forecast assumption**

The net movement in the unfunded superannuation liability becomes more sensitive to investment earnings as fund assets increase. The budget assumes a standard fund earning rate across the budget and forward estimates consistent with long-term actuarial assumptions. However in any year, the actual fund earnings can vary significantly from assumed earnings producing a large variance in the actual result compared to budget.

For the forecast period, superannuation expenses for unfunded schemes have been estimated by the Department of Treasury and Finance and are consistent with projections provided by various actuaries of each superannuation fund (Refer to Note 15).

## *Depreciation*

### **Accounting policy**

All infrastructure, buildings, plant and equipment and other non-current physical assets that have a limited useful life are depreciated. Depreciation is generally calculated on a straight-line basis at a rate, that allocates the asset's value, less any residual value, over its estimated useful life.

The following are typical estimated useful lives for the different asset classes used by the budget sector entities and in developing forecasts:

<i>Asset class</i>	<i>Useful life</i>
Dwellings	40 to 50 years
Other buildings	30 to 60 years
Other infrastructure	10 to 32 years
Road pavement	60 years
Bridges	90 years
Plant and equipment	3 to 10 years
Heritage assets	100 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 will not, in any material sense, be consumed over an extended 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. The estimated impact of future revaluation of assets on depreciation is also included.

#### ***Borrowing costs***

##### **Accounting policy**

Borrowing costs, other than those capitalised in relation to qualifying assets, are recognised as expenses in the period in which they are forecast to be incurred. Borrowing costs 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;
- indexation of principal outstanding for capital indexed securities and indexed annuities in line with movements in the Consumer Price Index;
- capital gains/losses incurred on debt retirement or debt portfolio restructuring, and
- finance lease charges.

##### **Forecast assumption**

Estimates for borrowing costs are based on the forecast level of outstanding general government (budget) sector debt. This is expected to mainly comprise approximately \$5 billion in a fixed rate facility, \$1 billion of indexed-linked securities from the Treasury Corporation of Victoria and a motor vehicle finance lease facility with forecast liability \$280 million. All maturities in the forecast period are assumed to be refinanced at forward interest rates. The indexed securities are adjusted in line with movements in the Consumer Price Index and any movements in the principal outstanding is recognised as a finance cost.

## *Grants and transfer payments*

### **Accounting policy**

Payments to third parties are recognised as an expense during the financial year 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, 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 (including maintenance)*

### **Accounting policy**

These generally represent the day-to-day running costs incurred in the normal operation of budget sector entities. These items are recognised as an expense in the financial year in which they are forecast to be incurred.

### **Forecast assumption**

Supplies and services are forecast on the basis of 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.

## **G. Assets**

### *Other financial assets*

#### **Accounting policy**

The opening balance of other financial assets represents the audited value as at 1 July 2001 revised for estimated movements for 2001-02. It comprises marketable securities (less provision for diminution) and deposits that are valued at market value, except for long-term investments. Long-term investments, such as international bonds, are investments that are expected to be held for greater than 12 months. Long-term investments are recognised using the cost method of

valuation, being the cost at the date of acquisition. Any discount or premium is amortised over the life of the investments and gains or losses arising from the investments prior to maturity are recognised in the statement of financial performance.

#### **Forecast assumption**

All surplus cash resources for the period 2002-03 to 2005-06 are assumed to be held as financial assets to preserve budget decision-making flexibility.

#### ***Receivables***

Receivables include debtors in relation to goods and services, taxes and fines, accrued investment income and the GST input tax credits recoverable. Receivables are recognised at the nominal amounts due, less any provision for bad and doubtful debts.

#### **Accounting policy**

The opening balance of receivables represents the audited value as at 1 July 2001, revised for estimated movements for 2001-02 and is recognised at the nominal amounts due, less any provision for bad and doubtful debts forecast to be collected.

#### **Forecast assumption**

Receivables are forecast on the basis of revenue activity levels.

#### ***Inventories***

#### **Accounting policy**

The opening balance of inventories represents the audited value as at 1 July 2001, revised for estimated movements for 2001-02 and is valued at the lower of cost and net realisable value. The methods used to assign costs to inventories, other than land held for resale, are based on purchase cost on a weighted average cost and cost on a 'first-in first-out' basis.

Land held for resale is valued at the lower of cost and net realisable value.

#### **Forecast assumption**

Inventories forecast to be purchased are valued at the forecast cost.

#### ***Non-current physical assets***

#### ***Capitalisation***

In general, all non-current physical assets with a value over \$1 000 are capitalised.

### *Valuation*

Designated plant, equipment and vehicles (both owned and leased) are required to be measured on a cost basis. Cost is either of the following:

- (a) where the assets had not been revalued in the preceding reporting period, cost is the cost of acquisition less any accumulated depreciation and accumulated recoverable amount write-downs or impairment losses, or
- (b) where the assets had been revalued in the preceding reporting period, cost is deemed to be the carrying amount of the asset less any subsequent accumulated depreciation and any subsequent recoverable amount write-downs or impairment losses.

Non-current physical assets other than designated plant, equipment and vehicles are required to be measured on a fair value basis. Fair value is determined on the following basis:

- (a) where there is a quoted market price in an active and liquid market for an asset, the market price would represent the fair value of the asset, or
- (b) where there is no quoted market price for an asset, but there is available market evidence of fair value with respect to similar assets, the market evidence would represent the estimated fair value, or
- (c) where the market buying and selling prices differ materially or where no market exists for the asset, the fair value is determined in reference to the asset's market buying price, the best indicator of this is usually the replacement cost of the asset's remaining future economic benefits.

New investments in assets are valued at the forecast purchase price or, where appropriate, recognised progressively over the estimated construction period.

The opening balance of non-current physical assets is the actual audited balances as at 1 July 2001 revised for estimated movements in 2001-02. The forward estimates now include the estimated impact of revaluations of non-current physical assets. These estimates have been derived based on examination and extrapolation of historical trends in asset revaluations by major asset class. These estimates have been included in the forward estimates at a total general government level.

### *Partnership Victoria projects*

Budget funded infrastructure projects approved in-principle by the Government for possible delivery under the Partnerships Victoria model are initially reflected in the financial statements as non-current physical assets (with associated financing and depreciation costs).

A final decision on whether 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 a value for money assessment. If, at the conclusion of the tender process, a decision is made to proceed with a Partnerships Victoria delivery approach, the financial statements will be adjusted as required, to convert the budgeted asset investment, depreciation and financing flows to an appropriate stream of service payments to the private sector.

### *Land and buildings*

#### **Accounting policy**

The opening balance of land and buildings is recognised at historical cost or at the latest available valuation.

#### **Forecast assumption**

The value of land and buildings will change during the forecast period to account for acquisitions, disposals, and the impact of depreciation and revaluation.

### *Plant and equipment*

#### **Accounting policy**

The opening balance of certain classes of plant and equipment are recognised at historical cost, others are recognised at the latest available valuation.

#### **Forecast assumption**

The value of plant and equipment will change during the forecast period to account for acquisitions, disposals, and the impact of depreciation and revaluation.

### *Infrastructure assets*

Infrastructure assets include such items as road pavements, bridges, earthworks, and construction in-progress. Individual components of infrastructure assets are valued as follows.

### *Road pavements and bridges*

#### **Accounting policy**

The opening balance of road pavements and bridges are recognised at written down replacement cost.

#### **Forecast assumption**

The value of road pavements and bridges will change during the forecast period to account for acquisitions, disposals, and the impact of depreciation and revaluation.

## *Earthworks*

### **Accounting policy**

The opening balance of earthworks is recognised at replacement cost.

### **Forecast assumption**

The value of earthworks will change during the forecast period to account for acquisitions and disposals and the impact of revaluation.

## *Land under roads*

### **Accounting policy**

Land under roads and road reserves has not been recognised.

## ***Other non-current physical assets***

### *National parks, state forests and other Crown land*

#### **Accounting policy**

National parks and state forests are generally recognised at the estimated current market-buying price of adjacent land, discounted to adjust for the restricted nature of current use. This valuation methodology does not take into account the intrinsic value of these assets to the community.

Other Crown land in rural areas has been recognised at values determined by applying an average valuation for broad area rural improved land (cropping and grazing) and unimproved land (bushland and water) for all parishes and townships in the State.

#### **Forecast assumption**

The value of national parks, state forests and other Crown land will change during the forecast period to account for acquisitions and disposals and the impact of revaluation.

### *Natural resources*

The majority of natural resource assets comprise of commercial native forests.

#### **Accounting policy**

The opening value of native forests is measured at their net market value. The net market value is determined as the difference between the net present value of cash flows expected to be generated by the native forests (discounted at a risk adjusted interest rate) less the net market value of the land on which the native forests are growing.

The net market value of the land has been determined in accordance with an independent valuation.

#### **Forecast assumption**

The value of natural resources will change during the forecast period to account for acquisitions and disposals and the impact of revaluations.

### *Heritage assets and collections*

#### **Accounting policy**

Heritage assets and collections are defined as those non-current physical assets that the State intends to preserve because of their unique historical, cultural or environmental attributes. These assets include items such as the Royal Botanical Gardens Herbarium, State Library, Government House, Parliament House, historic houses, monuments, certain museum exhibits, art collections, archival collections and other items of cultural significance.

The opening balances of heritage assets and collections are generally recognised at their estimated current value. In particular, core heritage assets and collections that generate substantial revenues are valued at the greater of current market buying price and net present value. All other core heritage assets and collections are valued at estimated written-down replacement cost. All natural non-core heritage assets and collections are valued at estimated realisable value or net present value, whichever is the higher.

#### **Forecast assumption**

The value of heritage assets and collections will change during the forecast period to account for acquisitions, disposals, and the impact of depreciation and revaluation.

### *Leases*

#### **Accounting policy**

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

Finance leases are recognised as assets and liabilities at the present value of the minimum lease payments. The lease asset is amortised 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 statement of financial performance.

Operating lease payments are recognised as an expense on a straight-line basis in the statement of financial performance.

Any lease incentive liability in relation to a non-cancellable operating lease is reduced on an imputed interest basis over the lease term at the rate implicit in the lease.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

The cost of leasehold improvements is capitalised as an asset and amortised 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.

**H. Liabilities**

*Payables*

**Accounting policy**

This item consists predominantly of creditors and other sundry liabilities.

They are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed as at 30 June to the economic entity.

**Forecast assumption**

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

*Interest-bearing liabilities*

**Accounting policy**

The interest bearing liabilities of the State represent funds raised from the following sources:

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

The opening balance of interest bearing liabilities represents the audited value as at 1 July 2001, revised for estimated movements for 2001-02.

**Forecast assumption**

For forecasting, budget sector debt is valued at its historical cost including unamortised premiums/discounts.

***Employee entitlements*****Accounting policy**

An estimate of the provision is made in the Estimated Financial Statements for entitlements not taken at the end of each forecast reporting date in respect of wages and salaries, annual leave and long service leave. The amounts are accrued consistent with the level of wages included in the statement of financial performance except for long service leave, which is estimated at the present value of the estimated future cash outflows arising from forecast employees' service at the end of each period.

**Forecast assumption**

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

***Superannuation*****Accounting policy**

The opening balance of the State's superannuation obligations is based on the latest actuarial assessment of the members' entitlements, net of scheme assets, and represents the audited value as at 1 July 2001 revised for estimated movements in 2001-02, in respect of the contributory service of current and past government employees. The valuation is determined by discounting to present value the gross benefit payments at a current, actuarially determined, risk-adjusted discount rate appropriate to the plan.

**Forecast assumption**

For the forecast period the superannuation liability has been estimated by the Department of Treasury and Finance and is consistent with projections provided by the various fund actuaries (refer to Note 15).

***Other liabilities*****Accounting policy**

All other liabilities are recognised at the estimated amounts payable.

## ***I. Accounting for the goods and services tax (GST)***

### **Accounting policy**

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 the statement of financial position.

## ***J. Statement of cash flows***

### **Accounting policy**

For the purposes of the statement of cash flows, cash comprises cash on hand, cash at bank, bank overdrafts and deposits at call, and highly liquid investments with short periods to maturity, which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

## ***K. Rounding***

### **Accounting policy**

All amounts in the Estimated Financial Statements have been rounded to the nearest hundred thousand dollars unless otherwise stated.

Figures in the financial statements may not add due to rounding.

## Note 2: Taxation

	(\$ million)			
	2002-03	2003-04	2004-05	2005-06
	Budget	Estimate	Estimate	Estimate
Payroll tax	2 710.1	2 797.4	2 939.6	3 102.4
Taxes on immovable property	709.8	807.9	796.1	783.8
Financial and capital transactions	2 054.3	1 826.1	1 725.8	1 582.9
Gambling	1 455.0	1 536.1	1 620.1	1 708.8
Insurance	789.8	841.3	869.7	912.2
Motor vehicles	1 050.8	1 083.5	1 114.5	1 150.3
Other licences and levies	32.8	34.4	35.8	41.2
<b>Total taxation</b>	<b>8 802.7</b>	<b>8 926.7</b>	<b>9 101.7</b>	<b>9 281.6</b>

## Note 3: Investment revenue

	(\$ million)			
	2002-03	2003-04	2004-05	2005-06
	Budget	Estimate	Estimate	Estimate
Dividends	406.5	356.8	367.3	377.1
Tax and rate equivalent revenue	106.4	141.1	154.9	170.4
Interest	338.1	316.7	320.4	334.0
Royalties	41.4	43.3	38.8	39.8
Rents	16.6	16.7	16.9	16.8
Other	152.7	117.3	119.5	118.5
<b>Total investment revenue</b>	<b>1 061.6</b>	<b>991.9</b>	<b>1 017.7</b>	<b>1 056.8</b>

## Note 4: Grants revenue

	(\$ million)			
	2002-03	2003-04	2004-05	2005-06
	Budget	Estimate	Estimate	Estimate
<b>Current grants</b>				
General purpose grants	6 772.4	7 019.5	7 151.5	7 603.2
Specific purpose grants for onpassing	1 179.4	1 216.0	1 253.8	1 262.3
Other specific purpose grants	3 146.1	3 232.7	3 375.0	3 532.5
<b>Total current grants</b>	<b>11 097.9</b>	<b>11 468.2</b>	<b>11 780.2</b>	<b>12 398.0</b>
<b>Capital grants</b>				
Specific purpose grants for onpassing	116.9	120.6	124.4	127.5
Other specific purpose grants	538.7	483.4	557.9	545.4
<b>Total capital grants</b>	<b>655.6</b>	<b>604.0</b>	<b>682.3</b>	<b>672.9</b>
<b>Total grants</b>	<b>11 753.5</b>	<b>12 072.2</b>	<b>12 462.5</b>	<b>13 070.9</b>

## Note 5: Depreciation

(\$ million)

	2002-03	2003-04	2004-05	2005-06
	Budget	Estimate	Estimate	Estimate
Plant, equipment and infrastructure	451.2	470.2	489.9	490.1
Buildings <sup>(a)</sup>	274.8	303.8	345.5	390.5
Roads	223.9	226.8	229.7	232.5
Other assets	2.3	1.9	1.9	2.0
<b>Total depreciation</b>	<b>952.2</b>	<b>1 002.7</b>	<b>1 067.0</b>	<b>1 115.1</b>

Note:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2002-03 to 2005-06.

## Note 6: Amortisation

(\$ million)

	2002-03	2003-04	2004-05	2005-06
	Budget	Estimate	Estimate	Estimate
Plant and equipment	56.6	53.6	53.5	53.6
Buildings	5.5	5.5	5.5	5.5
Intangible assets	8.6	6.3	6.3	6.3
<b>Total amortisation</b>	<b>70.6</b>	<b>65.4</b>	<b>65.3</b>	<b>65.4</b>

## Note 7: Borrowing costs

(\$ million)

	2002-03	2003-04	2004-05	2005-06
	Budget	Estimate	Estimate	Estimate
Interest on long-term interest bearing liabilities	432.0	432.2	430.6	429.2
Interest on short-term interest bearing liabilities	13.0	13.6	14.5	15.7
Finance charges on finance leases	12.5	11.8	10.8	9.4
Other borrowing costs	37.7	37.0	36.2	34.1
<b>Total borrowing costs</b>	<b>495.2</b>	<b>494.6</b>	<b>492.1</b>	<b>488.4</b>

## Note 8: Grants and transfer payments

(\$ million)

	2002-03 Budget	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
Commonwealth	5.0	5.1	5.3	5.5
Local government	547.9	425.3	429.5	437.7
Private sector	2 509.0	2 566.8	2 592.3	2 649.8
Grants within-Victorian Government	1 055.9	1 002.4	988.8	982.7
Other	1.0	1.5	1.5	1.5
<b>Total grants and transfer payments</b>	<b>4 118.9</b>	<b>4 001.1</b>	<b>4 017.2</b>	<b>4 077.2</b>

## Note 9: Total expenses from ordinary activities by Department

(\$ million)

	2002-03 Budget	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
<b>Expenses from ordinary activities</b>				
Education and Training	7 140.0	7 297.4	7 329.2	7 302.6
Human Services	8 905.5	8 953.8	9 038.2	9 079.3
Infrastructure	3 030.9	2 857.5	2 996.8	2 997.5
Justice	2 192.9	2 182.7	2 258.8	2 263.6
Natural Resources and Environment	1 142.4	1 056.5	1 003.8	998.4
Premier and Cabinet	508.8	497.6	536.3	543.7
Innovation, Industry and Regional Development	431.9	266.7	202.6	194.1
Tourism, Sport and the Commonwealth Games	105.1	85.0	75.7	72.4
Treasury and Finance	2 018.4	2 067.2	2 091.3	2 135.4
Parliament	102.6	100.0	98.2	98.6
Contingencies not allocated to departments <sup>(a)</sup>	427.0	1 008.0	1 507.2	2 030.0
Regulatory bodies and other part budget funded agencies <sup>(b)</sup>	835.1	856.5	879.1	903.0
<b>Total</b>	<b>26 840.7</b>	<b>27 228.9</b>	<b>28 017.2</b>	<b>28 618.7</b>
Less eliminations <sup>(c)</sup>	(2 080.7)	(2 120.3)	(2 156.1)	(2 158.1)
<b>Total expenses from ordinary activities</b>	<b>24 760.0</b>	<b>25 108.6</b>	<b>25 861.1</b>	<b>26 460.6</b>

Notes:

- (a) Departmental expenses will be supplemented for certain costs that are provided for in contingencies.
- (b) Other general government sector agencies which receive less than 50 per cent of their revenue from appropriations.
- (c) Comprised of payroll tax, capital assets charge and inter-departmental transfers.

## Note 10: Property, plant and equipment

(\$ million)

	2003 Budget	2004 Estimate	2005 Estimate	2006 Estimate
<b>Land, national parks and other land only holdings</b>	<b>7 569.9</b>	<b>7 861.4</b>	<b>8 172.5</b>	<b>8 500.9</b>
Buildings <sup>(a)</sup>	11 895.5	13 122.3	14 423.1	15 613.0
Less: Accumulated depreciation	(1 074.9)	(1 383.3)	(1 738.7)	(2 138.6)
<b>Buildings (written down value)</b>	<b>10 820.6</b>	<b>11 739.0</b>	<b>12 684.4</b>	<b>13 474.4</b>
Infrastructure systems	4 902.6	5 147.5	5 331.2	5 549.0
Less: Accumulated depreciation	(1 148.0)	(1 163.0)	(1 183.9)	(1 204.6)
<b>Infrastructure systems (written down value)</b>	<b>3 754.6</b>	<b>3 984.5</b>	<b>4 147.4</b>	<b>4 344.4</b>
Plant, equipment and vehicles	4 113.4	4 478.1	4 800.7	5 137.6
Less: Accumulated depreciation	(2 517.7)	(2 952.5)	(3 393.2)	(3 831.4)
<b>Plant, equipment and vehicles (written down value)</b>	<b>1 595.7</b>	<b>1 525.6</b>	<b>1 407.5</b>	<b>1 306.2</b>
Leased plant, equipment and vehicles	310.8	337.8	364.8	391.7
Less: Accumulated amortisation	( 130.1)	( 183.7)	( 237.2)	( 290.9)
<b>Leased plant, equipment and vehicles (written down value)</b>	<b>180.8</b>	<b>154.1</b>	<b>127.6</b>	<b>100.9</b>
<b>Total property, plant and equipment</b>	<b>23 921.6</b>	<b>25 264.6</b>	<b>26 539.3</b>	<b>27 726.7</b>

Note:

(a) Includes amounts not yet allocated to projects in 2003-04 to 2005-06.

## Note 11: Roads and earthworks

(\$ million)

	2003 Budget	2004 Estimate	2005 Estimate	2006 Estimate
Roads and earthworks	16 642.1	17 341.2	18 054.6	18 779.7
Less: Accumulated depreciation	(3 646.0)	(3 872.9)	(4 102.6)	(4 335.1)
<b>Total roads and earthworks</b>	<b>12 996.0</b>	<b>13 468.4</b>	<b>13 952.0</b>	<b>14 444.7</b>

## Note 12: Reconciliation of movements in fixed assets<sup>(a)</sup>

(\$ million)

	2003	2004	2005	2006
	Budget	Estimate	Estimate	Estimate
Carrying amount at start of the year	35 360.1	36 917.7	38 733.0	40 491.4
Additions	1 927.3	2 181.3	2 128.9	2 063.1
Disposals at written down value	( 89.3)	( 68.4)	( 40.6)	( 38.3)
Revaluation increments	731.5	762.3	794.2	827.4
Depreciation/amortisation expense	(1 012.0)	(1 059.8)	(1 124.1)	(1 172.2)
<b>Carrying amount at end of the year</b>	<b>36 917.7</b>	<b>38 733.0</b>	<b>40 491.4</b>	<b>42 171.4</b>

Note:

(a) Fixed assets comprise land and buildings, infrastructure systems, plant, equipment, vehicles, roads and earthworks. Excludes movements in other non-current assets in Note 13 below.

## Note 13: Other assets

(\$ million)

	2003	2004	2005	2006
	Budget	Estimate	Estimate	Estimate
<b>Current</b>				
Other assets	0.1	0.1	0.1	0.1
<b>Total current</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
<b>Non-current</b>				
Natural resource reserves at valuation	315.1	318.2	321.3	324.4
Other assets-including works of art, museum collections, rare book collections and intangibles	1 550.0	1 576.6	1 589.2	1 599.4
Less: Accumulated depreciation/amortisation	( 71.0)	( 80.9)	( 90.7)	( 100.7)
<b>Total non-current</b>	<b>1 794.2</b>	<b>1 814.0</b>	<b>1 819.9</b>	<b>1 823.2</b>

## Note 14: Employee entitlements

(\$ million)

	2003	2004	2005	2006
	Budget	Estimate	Estimate	Estimate
<b>Current</b>				
Accrued salaries and wages	130.3	151.0	165.2	179.3
Annual leave	460.9	462.8	464.8	466.7
Long service leave	235.4	259.4	274.0	288.6
<b>Total current employee entitlements</b>	<b>826.6</b>	<b>873.2</b>	<b>904.0</b>	<b>934.6</b>
<b>Non-current</b>				
Long service leave	1 878.8	2 046.4	2 225.9	2 409.8
Other employee entitlements	0.7	0.6	0.6	0.6
<b>Total non-current employee entitlements</b>	<b>1 879.4</b>	<b>2 047.1</b>	<b>2 226.5</b>	<b>2 410.4</b>
<b>Total employee entitlements</b>	<b>2 706.0</b>	<b>2 920.2</b>	<b>3 130.5</b>	<b>3 345.0</b>

## Note 15: Superannuation

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

Changes have been made to some of the assumptions used in the calculation of the liability since the release of the 2001-02 budget based on actuarial advice and actual investment returns achieved for the period 1 July 2001 through to 31 March 2002. These changes reflect an increasing rate of resignations between the ages of 54 and 55 within the Revised Scheme of the State Superannuation Fund, a slowing of the retirement rate after age 55 within the State Superannuation Fund, and assumed earnings for the State Superannuation Fund in 2001-02 of 1 per cent.

The State's share of the unfunded superannuation liability based on Department of Treasury and Finance estimates is as follows:

	(\$ million)			
	2003 Budget	2004 Estimate	2005 Estimate	2006 Estimate
State Superannuation Fund	12 561.0	12 770.7	13 224.3	13 334.5
Other	200.1	218.2	237.8	259.2
<b>Total unfunded superannuation liability</b>	<b>12 761.2</b>	<b>12 988.8</b>	<b>13 462.0</b>	<b>13 593.7</b>
Current liability	990.1	713.9	487.7	866.4
Non-current liability	11 771.0	12 274.9	12 974.4	12 727.2
<b>Total liability</b>	<b>12 761.2</b>	<b>12 988.8</b>	<b>13 462.0</b>	<b>13 593.7</b>

The weighted average discount rate used by the Actuary is 7 per cent per annum and the weighted average rate of salary increases assumed is 4 per cent per annum (excluding promotions). A long-term rate of 3 per cent per annum is assumed for inflation growth. However, a rate of 2.5 per cent has been used for 2001-02, 2.25 per cent for 2002-03 and 3.0 per cent for the out years.

The long-term rates assumed by the Actuary can differ from the economic assumptions that are listed at the start of the Notes to the Estimated Financial Statements.

## Note 16: Reconciliation of changes in equity

(\$ million)

	2003 Budget	2004 Estimate	2005 Estimate	2006 Estimate
Total equity at beginning of year	20 068.2	21 109.8	22 285.1	23 378.4
Movements in revaluation reserves	737.8	768.6	800.6	833.8
Contributions by the State to other sectors in its capacity as owner	( 218.0)	( 173.3)	( 224.6)	( 152.6)
Net result for year	521.8	580.0	517.3	711.9
<b>Total movements in equity</b>	<b>1 041.6</b>	<b>1 175.3</b>	<b>1 093.3</b>	<b>1 393.1</b>
<b>Total equity at end of year</b>	<b>21 109.8</b>	<b>22 285.1</b>	<b>23 378.4</b>	<b>24 771.5</b>

## Note 17: Cash flow information

(\$ million)

	2002-03 Budget	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
<b>(a) Reconciliation of cash</b>				
Cash	354.0	379.6	372.0	365.3
Deposits at call	558.8	580.8	601.6	622.4
Bank overdraft	( 3.4)	( 4.0)	( 3.3)	( 2.3)
<b>Cash held as at 30 June</b>	<b>909.4</b>	<b>956.4</b>	<b>970.3</b>	<b>985.4</b>
<b>(b) Reconciliation of the net result to net cash flows from operating activities</b>				
<b>Net result</b>	<b>521.8</b>	<b>580.0</b>	<b>517.3</b>	<b>711.9</b>
<b>Non-cash movements</b>				
Depreciation	952.2	1 002.7	1 067.0	1 115.1
Amortisation	70.6	65.4	65.3	65.4
Revaluation of investments	0.1	0.1	0.1	0.1
Assets received/given free of charge	..	..	( 5.0)	..
Revaluation of assets	( 3.1)	( 3.1)	( 3.1)	( 3.1)
Discount/premium on other financial assets/interest bearing liabilities	14.9	14.5	13.5	11.3
Write down of liabilities	( 1.5)	( 1.6)	( 1.6)	( 1.7)
<b>Movements included in investing and financing activities</b>				
Net revenues from sale of property, plant & equipment	( 19.6)	( 12.9)	( 13.0)	( 13.2)
<b>Movements in assets and liabilities</b>				
Increase/(decrease) in provision for doubtful debts	( 0.2)	0.1	0.0	0.0
Increase/(decrease) in payables	10.6	7.5	8.9	8.8
Increase/(decrease) in employee entitlements	197.3	214.3	210.1	214.6
Increase/(decrease) in superannuation	( 44.8)	227.7	473.2	131.6
Increase/(decrease) in other liabilities	( 32.2)	( 27.3)	( 12.1)	( 13.0)
(Increase)/decrease in receivables	( 69.4)	( 96.3)	( 87.8)	( 93.5)
(Increase)/decrease in other current assets	( 0.2)	( 0.0)	( 0.1)	0.0
<b>Net cash flows from operating activities</b>	<b>1 596.5</b>	<b>1 971.0</b>	<b>2 232.8</b>	<b>2 134.4</b>

## **Note 18: General government (budget) 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 C, Basis of Consolidation.

Public non-financial and public financial corporations do not form part of the general government (budget) sector and are therefore not included in this list of controlled entities. For a complete listing of all government entities, please refer to the Annual Financial Report and the Mid-Year Financial Report.

### **General government (budget) sector entities**

Department of Education and Training  
Adult, Community and Further Education Board  
Adult Multicultural Education Services  
Bendigo Regional Institute of TAFE  
Box Hill Institute of TAFE  
Central Gippsland Institute of TAFE  
Centre for Adult Education  
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)  
Victorian Curriculum and Assessment Authority  
Victorian Learning and Employment Skills Commission  
Victorian Qualifications Authority  
William Angliss Institute of TAFE  
Wodonga Institute of TAFE

**General government (budget) sector entities (continued)**

Department of Human Services

Alexandra and District Ambulance Service

Alexandra District Hospital

Alpine Health

Ambulance Service Victoria Metropolitan Region

Austin and Repatriation Medical Centre

Bairnsdale Regional Health Service

Ballarat Health Services

Barwon Health

Bayside Health

Beaufort and Skipton Health Service

Beechworth Hospital

Benalla and District Memorial Hospital

Bendigo Health Care Group

Boort District Hospital

Casterton Memorial Hospital

Central Gippsland Health Service

Chinese Medicine Registration Board of Victoria

Chiropractors Registration Board of Victoria

Cobram District Hospital

Cohuna District Hospital

Colac Community Health Services

Coleraine District Health Services

Dental Health Services Victoria

Dental Practice Board of 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

Far East Gippsland Health and Support Service

Gippsland Southern Health Service

Goulburn Valley Health

Hepburn Health Service

Hesse Rural Health Service

Heywood and District Memorial Hospital

Infertility Treatment Authority

Inglewood and District Health Service

Kerang and District Hospital

Kilmore and District Hospital,

Kooweerup Regional Health Service

Kyabram and District Memorial Community Hospital

Kyneton District Health Service

Latrobe Regional Hospital

Lorne Community Hospital

Maldon Hospital

Mallee Track Health and Community Services

**General government (budget) sector entities (continued)**

Manangatang and District Hospital  
Mansfield District Hospital  
Maryborough District Health Service  
Mclvor Health and Community Services  
Medical Practitioners Board of Victoria  
Melbourne Health  
Mental Health Review Board  
Moyne Health Services  
Mt Alexander Hospital  
Nathalia District Hospital  
Northern Health  
Numurkah District Health Service  
Nurses Board of Victoria  
Omeo District Hospital  
Optometrists Registration Board of Victoria  
Osteopaths Registration Board of Victoria  
Otway Health and Community Services  
Peninsula Health  
Peter MacCallum Cancer Institute  
Pharmacy Board of Victoria  
Physiotherapists Registration Board of Victoria  
Podiatrists Registration Board of Victoria  
Portland and District Hospital  
Prince Henry's Institute of Medical Research  
Psychologists Registration Board of Victoria  
Psychosurgery Review Board  
Queen Elizabeth Centre  
Robinvale District Health Service  
Rochester and Elmore District Health Service  
Royal Victorian Eye and Ear Hospital  
Rural Ambulance Victoria  
Rural Northwest Health  
Seymour District Memorial Hospital  
South Gippsland Hospital  
South West Healthcare  
Southern Health  
Stawell District Hospital  
Swan Hill District Hospital  
Tallangatta Health Service  
Terang and Mortlake Health Service  
Timboon and District Health Care Service  
Tweddle Child and Family Health Service  
Upper Murray Health and Community Services  
Victorian Health Promotion Foundation  
Victorian Institute of Forensic Mental Health  
Wangaratta District Base Hospital  
West Gippsland Health Care Group  
West Wimmera Health Service  
Western District Health Service  
Western Health  
Wimmera Health Care Group

**General government (budget) sector entities (continued)**

Wodonga Regional Health Service  
Women's and Children's Health  
Wonthaggi and District Hospital  
Yarram and District Health Service  
Yarrawonga District Health Service  
Yea and District Memorial Hospital

**Department of Infrastructure**

Architects Registration Board of Victoria  
Building Control Commission  
Docklands Authority  
Heritage Council  
Marine Board of Victoria  
Plumbing Industry Commission  
Roads Corporation  
Spencer Street Station Authority

**Department of Justice**

Country Fire Authority  
Domestic Building (HH) Indemnity Fund  
Equal Opportunity Commission  
Legal Practice Board  
Metropolitan Fire and Emergency Services Board  
Office of Public Prosecutions  
Office of the Legal Ombudsman  
Office of the Public Advocate  
Victoria Legal Aid  
Victoria Police (Office of the Chief Commissioner of Police)  
Victorian Electoral Commission  
Victorian Institute of Forensic Medicine  
Victorian Law Reform Commission

**Department of Natural Resources and Environment**

Corangamite Catchment Management Authority  
East Gippsland Catchment Management Authority  
EcoRecycle Victoria  
Environment Protection Authority  
Glenelg-Hopkins Catchment Management Authority  
Goulburn-Broken Catchment Management Authority  
Mallee Catchment Management Authority  
Melbourne Parks and Waterways (shell)  
North Central Catchment Management Authority  
North East Catchment Management Authority  
Office of Gas Safety  
Office of the Chief Electrical Inspector  
Parks Victoria  
Royal Botanic Gardens Board  
Shrine of Remembrance Trustees  
Surveyors Board  
Trust for Nature (Victoria)  
Veterinary Practitioners Registration Board of Victoria

**General government (budget) sector entities (continued)**

Department of Premier and Cabinet

Australian Centre for Moving Image

Film Victoria

Library Board of Victoria

Museums Board of Victoria

National Gallery of Victoria, Council of Trustees

Office of Public Employment

Office of the Ombudsman

Victorian Relief Committee

Department of Innovation, Industry and Regional Development

Liquor Licensing Panel

Department of Tourism, Sport and the Commonwealth Games

Melbourne 2006 Commonwealth Games Pty Ltd

Tourism Victoria

Victorian Institute of Sport Ltd

Victorian Institute of Sport Trust

Department of Treasury and Finance

Gambling Research Panel

Office of the Regulator-General

Victorian Casino and Gaming Authority

Parliament of Victoria

Victorian Auditor-General's Office

## DEPARTMENT OF TREASURY AND FINANCE STATEMENT IN RELATION TO THE ESTIMATED FINANCIAL STATEMENTS

The Estimated Financial Statements for the Victorian general government (budget) sector have been prepared on the basis of the economic and fiscal information available to the Department of Treasury and Finance. Given the prospective nature of the Estimated Financial Statements, it has been necessary to apply the best professional judgment in preparing the Estimated Financial Statements.

In my opinion, the Estimated Financial Statements have been properly prepared for the purposes of sections 23H – 23K of the *Financial Management Act 1994* and take into account government decisions and other circumstances that have a material effect.



Ian W Little

Secretary

Department of Treasury and Finance

May 2002



AUDITOR GENERAL  
VICTORIA

**AUDITOR-GENERAL'S REPORT**

To the Members of the Parliament of Victoria

**Scope of Review**

I have reviewed the accompanying estimated financial statements of the Victorian General Government (Budget) Sector, as defined in note 18 to the statements, for the financial year ended 30 June 2003 and the three forward financial years ended 30 June 2004, 2005 and 2006. The statements comprise an estimated statement of financial performance, an estimated statement of financial position, an estimated statement of cash flows and accompanying notes. The remaining parts of the Budget Papers have not been subject to my review.

The Treasurer of Victoria is responsible for the preparation and presentation of the estimated financial statements and the information they contain. The estimated financial statements have been prepared for inclusion in the State Budget which is presented to the Parliament. Any assumption of responsibility for any reliance on this report or on the estimated financial statements of the Victorian General Government (Budget) Sector to which this report relates is disclaimed to any person other than the Members of the Parliament of Victoria.

My review of the estimated financial statements has been conducted under section 16B of the Audit Act 1994 which requires me to state whether anything has come to my attention that would cause me to not believe that the statements have been prepared on a basis consistent with the accounting policies on which they are stated to be based, are consistent with the target established for the key financial measure specified in the accompanying notes to the statements and have been properly prepared on the basis of the economic assumptions stated in the accompanying notes to the statements, and the methodologies used to determine those assumptions were reasonable.

The review has been conducted in accordance with Australian Auditing Standards applicable to review engagements, and has been limited primarily to inquiries of relevant personnel and assessments of the reasonableness of the key methodologies and processes followed to determine the assumptions and data upon which the estimated financial statements are based, and appropriate analytical procedures. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that which would be given in an audit. Accordingly, an audit has not been performed and an audit opinion is not expressed.

Prospective financial information relates to events and actions that have not yet occurred and may not occur. While evidence may be available to support the assumptions and underlying data upon which prospective financial information is based, such evidence is generally future oriented and therefore less certain in nature. As a result, I am not in a position to obtain the level of assurance necessary to express a positive opinion on those assumptions and the accompanying forecast information included in the estimated financial statements. Accordingly, an opinion is not expressed on whether the forecasts will be achieved.

**Review Statement**

Based on my review, which is not an audit, nothing has come to my attention that causes me to not believe that:

- the estimated financial statements have been prepared on a basis consistent with the accounting policies on which they are stated to be based;
- the estimated financial statements are consistent with the target established for the key financial measure specified in the accompanying notes to the statements;
- the estimated financial statements have been properly prepared on the basis of the economic assumptions stated in the accompanying notes to the statements; and
- the methodologies used to determine those assumptions were reasonable.

Actual results achieved by the Victorian General Government (Budget) Sector are likely to be different from those forecast in the estimated financial statements since anticipated results frequently do not occur as expected and the variation may be material. Accordingly, I express no opinion as to whether the forecasts will be achieved.

MELBOURNE  
2 / 5 / 2002

J W CAMERON  
Auditor-General

*Victorian Auditor-General's Office Level 34, 140 William Street, Melbourne Victoria 3000  
Telephone (03) 8601 7000 Facsimile (03) 8601 7010 Email comments @audit. vic.gov. an Website www.audit.vic.gov.au*



Auditing in the Public Interest

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

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Appendix A outlines output, asset investment, revenue and savings initiatives since the 2001-02 Budget.

### OUTPUT AND ASSET INVESTMENT INITIATIVES

#### Government-wide initiatives

The following table provides details of the total cost of government-wide output initiatives. The figures included are the total cost of initiatives. Funding from reprioritisation and existing fund sources has not been deducted from the total cost of the initiative.

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

	(\$ million)				
	2001-02	2002-03	2003-04	2004-05	2005-06
Victorian Public Service EBA <sup>(a)</sup>	10.0	23.5	23.5	23.4	23.4
Enhancing women's safety	..	1.1	1.1	1.1	..
<b>Total output initiatives</b>	<b>10.0</b>	<b>24.6</b>	<b>24.6</b>	<b>24.5</b>	<b>23.4</b>

Source: Department of Treasury and Finance

Note:

(a) Figures are net of wage contingency funding.

#### Victorian Public Service Enterprise Bargaining Agreement

The Government and the Community and Public Sector Union (CPSU) have reached agreement on a service-wide collective agreement. The agreement has been negotiated with the CPSU, as the union covering public service staff, under section 170LJ (Agreement with organisations of employees) of the Commonwealth *Workplace Relations Act 1996*.

The agreement covers non-executive employees in all public service departments and agencies and the following benefits are payable under the agreement:

- salary increases of 3 per cent applying from 1 July 2001 and 1 July 2002;

- performance payments based on performance ratings received through the applicable performance management system; and
- three lump sum non-recurrent payments equivalent to 0.5 per cent of salary payable from 1 July 2001, 1 July 2002 and 1 July 2003.

### **Enhancing women's safety**

Funding has been provided to address two key areas identified in the Women's Safety Strategy which is expected to be finalised in mid-2002. The areas cover improving and increasing housing and support options available for women in situations of family violence and enhancing the capacity of local communities to prevent and respond to violence against women. The strategy is coordinated by the Office of Women's Policy with the identified initiatives being delivered through the Department of Human Services.

### **Departmental initiatives**

The following tables provide details of output and asset investment initiatives for each department. Except where specified, figures indicate the total cost of initiatives. Funding from reprioritisation and existing fund sources has not been deducted from the total cost of the initiative.

The budget incorporates the impact of significant new policy measures, including additional funding of \$322 million in 2002-03 decreasing slightly to \$278 million by 2005-06. An additional \$163 million in initiatives in 2002-03 will be funded through existing forward estimates demand contingencies. The budget also provides funding for new asset investment initiatives of \$3 billion.

## Education and Training

### Output initiatives

**Table A2: Output initiatives – Department of Education and Training**

	(\$ million)				
	2001-02	2002-03	2003-04	2004-05	2005-06
Early years numeracy – school based coordinators	..	5.7	11.7	11.5	5.7
Reduction of average class sizes in prep to year 2	..	10.8	19.0	13.5	..
Literacy intervention and improved participation	4.6	9.2	9.5	9.5	9.5
Middle years reform and innovation (years 5–9)	..	7.9	20.1	28.5	27.8
Victorian Certificate of Applied Learning	..	10.8	13.0	12.8	11.1
Access to excellence	..	11.4	23.2	23.5	23.5
Koori educators and Koori home school liaison officers	..	0.9	0.9	0.9	0.9
School bus services	..	6.6	9.2	7.5	7.8
Feeeza - urban and regional youth events	..	2.0	2.0	2.0	2.0
Pacific School Games	..	0.2	0.7	1.1	1.1
TAFE EBA framework <sup>(a)</sup>	..	0.5	0.5	0.5	0.5
Assistance package for retrenched Ansett staff	1.5	..	..	..	..
Sports and physical equipment – schools	5.0	..	..	..	..
School library resources – schools	5.0	..	..	..	..
<b>Total output initiatives</b>	<b>16.1</b>	<b>65.9</b>	<b>109.7</b>	<b>111.1</b>	<b>89.7</b>

Source: Department of Treasury and Finance

Note:

(a) Net of wage contingency

#### Early years numeracy – school-based coordinators

Funding is provided for the appointment of school based coordinators and regional infrastructure support. The school-based coordinators will facilitate the implementation of the early years numeracy program to improve numeracy outcomes for students in the early years of schooling.

### **Reduction of average class sizes in prep to year 2**

Class sizes for years prep to 2 (P-2) are being reduced to an average of 21 students to improve student learning outcomes in the areas of literacy and numeracy. Funding is provided for additional teachers in years P-2 to meet enrolment growth pressures within this age cohort over the next three years. This will ensure that the Government meets its target of an average P-2 class size of 21 students per teacher.

### **Literacy intervention and improved participation**

Funding was provided in January 2002 for the recruitment of 121 new teachers in 2002 to implement a literacy intervention program and pilot the Victorian Certificate of Applied Learning. Both programs are targeted towards secondary students by assisting junior secondary students to achieve national literacy and numeracy benchmarks, and by providing senior secondary students with alternative education options to support continuing participation in the education system.

### **Middle years reform and innovation (years 5-9)**

The middle years reform and innovation program aims to improve student participation and achievement for years 5 to 9 students. Funding has been allocated to provide grants to 250 education clusters of government primary and secondary schools across Victoria to work together with local communities to reform middle school curriculum and education structures through the implementation of innovative projects.

### **Victorian Certificate of Applied Learning**

The Victorian Certificate of Applied Learning (VCAL) is a recently developed qualification for years 11 and 12 students to provide an alternative option to the Victorian Certificate of Education. In 2002 VCAL is being piloted in a number of government, Catholic and independent schools across Victoria. Funding in 2002-03 will enable statewide implementation of the Victorian Certificate of Applied Learning to all Victorian schools in 2003.

### **Access to excellence**

Funding is provided to enable the appointment of 300 additional teachers to facilitate teacher release and flexibility to deliver a variety of teaching and learning outcomes. Outcomes will include enhanced student literacy and numeracy, participation and retention, and improved VCE performance in identified target schools across Victoria.

### **Koori educators and Koori home school liaison officers**

The initiative aims to improve the education and social outcomes for Koori students and builds on Yalca, an existing formal education and training partnership between the Government and the Aboriginal Education Association.

Funding is provided for additional Koori educators and home school liaison officers to enhance the provision of education and support services for Koori students within schools and their community.

#### **School bus services**

This initiative implements key recommendations of the Government's 2001 Review of School Bus Services, which focus on rural and regional Victoria. Funding is provided for enhancements to the conveyance allowances paid for private car travel, bus travel to schools for government and non-government students, and travel for disabled students.

#### **Freeza – urban and regional youth events**

Funding has been allocated to enhance the Freeza program, which funds local drug and alcohol-free music entertainment events that are organised and attended by young people. Involvement in Freeza events strengthens young people's links to their communities.

#### **Pacific School Games**

Melbourne will host the 2005 Pacific School Games in the lead up to the 2006 Commonwealth Games. Funding is provided for additional resources to facilitate the planning and hosting of the Pacific School Games.

#### **TAFE EBA framework**

Additional supplementation was provided for TAFE Enterprise Bargaining Agreements (EBAs) negotiated with individual TAFE institutes and the Council for Adult Education. Separate agreements for teaching staff, and professional administration, clerical computing and technical (PACCT) staff were negotiated to reflect different roles and responsibilities.

#### **Assistance package for retrenched Ansett staff**

Funding of \$1.5 million is provided in 2001-02 only for employment and training assistance for retrenched Ansett workers. While the package is particularly targeted at semi-skilled and unskilled workers, assistance will be available to all Ansett workers retrenched since September 2001. Separate initiatives include a telephone help line, and employment placement and support services.

#### **Sports and physical equipment – schools**

Additional funding is provided in 2001-02 only for the purchase of sports and physical equipment in all government primary, secondary, special and language schools.

#### **School library resources – schools**

Additional funding is provided in 2001-02 only for the purchase of library resources in all government primary, secondary, special and language schools.

## Asset investment initiatives

**Table A3: Asset investment initiatives – Department of Education and Training**

	(\$ million)					
	2001-02	2002-03	2003-04	2004-05	2005-06	TEI
Construction and upgrade of schools – <i>Labor's Financial Statement</i>	..	5.9	13.8	..	..	19.7
New facilities - TAFE institutes	..	1.1	9.4	4.8	..	15.3
Construction of new schools	..	3.3	7.8	..	..	11.1
Replacement schools	..	4.1	9.5	..	..	13.5
Reinstatement projects in schools	..	3.0	4.5	..	..	7.5
Planning projects – schools	..	2.5	..	..	..	2.5
Maryborough Community Education Precinct	..	0.8	3.2	..	..	4.0
Modernisation of facilities – schools <sup>(a)</sup>	..	61.0	80.3	..	..	141.3
Modernisation of TAFE institutes	..	0.4	1.0	..	..	1.4
<b>Total asset investment initiatives</b>	<b>0.0</b>	<b>82.1</b>	<b>129.5</b>	<b>4.8</b>	<b>0.0</b>	<b>216.4</b>

Source: Department of Treasury and Finance

Note:

(a) Includes \$52.1 million of Growing Victoria funding approved in 2001-02, which was not allocated.

### Construction and upgrade of schools – *Labor's Financial Statement*

Consistent with *Labor's Financial Statement*, funding is provided for the development of new schools, which are currently at various stages of construction, and the upgrade of existing schools. New schools under construction include: Lara Secondary College, Narre Warren P-12 College, Berwick South Secondary College and Carrum Downs Secondary College. Funding is provided for the redevelopment and upgrade of Bellarine Secondary College.

### New facilities – TAFE institutes

Funding is provided for the establishment of new TAFE facilities including the completion of the construction of new facilities at the Epping Campus of North Melbourne Institute.

### Construction of new schools

Funding is provided for the construction of Gourlay East Primary School (Melton East) and Stage 2 of the construction of Roxburgh Park Secondary College. Funding is also provided for the construction of a specialist school in Bairnsdale for students with disabilities.

**Replacement schools**

Funding is provided for the replacement of Deer Park Primary and Peninsula Special Development School and the re-opening of Fitzroy Secondary College for years 7–10.

**Reinstatement projects in schools**

Funding is provided for the replacement of facilities destroyed by fire at Mooroopna Primary School, Copperfield College, Corio Bay Senior College and the complete replacement of Leopold Primary School.

**Planning projects – schools**

Funding is provided in 2002-03 to develop project and architectural plans for general building projects and community education clusters. This will enable schools to undertake adequate planning and design for specific school building projects such as extensions and upgrades, as well as evaluate other construction alternatives.

**Maryborough Community Education Precinct**

Funding is provided for stage 1 of the development of an education precinct in Maryborough. Once established, a single committee of management will govern the Maryborough Community Education Precinct, which will include primary and specialist schools, and the Maryborough Regional College.

**Modernisation of facilities – schools**

Funding is provided to modernise 98 schools across Victoria. In addition to making the school facilities better suited to modern teaching methods, the modernisation projects will significantly reduce the maintenance backlogs at each school. This includes \$52.1 million of funding from the Growing Victoria Infrastructure Reserve.

**Modernisation of TAFE institutes**

Funding is provided for the completion of stage 2 of the development of a Cyber Centre at William Angliss Institute of TAFE and modernisation of the Food Technology and Koori Education Centre at Wodonga Institute.

## Human Services

### Output initiatives

**Table A4: Output initiatives – Department of Human Services**

	(\$ million)				
	2001-02	2002-03	2003-04	2004-05	2005-06
Hospital Demand Management Strategy	..	113.0	116.0	117.0	118.0
Public hospital superannuation costs	..	48.3	45.2	42.1	21.8
Increased costs of medical and pharmaceutical supplies and consumables	..	12.0	..	..	..
Elective surgery strategy	6.0	..	..	..	..
Expansion and enhancement of community mental health services	..	9.0	9.0	9.0	9.0
Metropolitan and rural ambulance services	..	5.0	5.0	5.0	5.0
Home and community care services	..	6.9	7.1	7.3	7.4
Targeted assistance for low-cost supported accommodation services at significant risk of closure	0.8	1.0	..	..	..
Nerve Centre development	1.0	..	..	..	..
Public dental services	..	1.0	1.0	1.0	1.0
Early detection and prevention of breast cancer	..	1.4	1.4	1.5	1.5
Women's Health and Wellbeing Strategy <sup>(a)</sup>	..	1.0	0.9	0.9	..
Operational infrastructure support for medical research institutes	..	4.9	7.3	9.9	12.6
BEST START	..	1.4	1.4	1.0	..
Enhancement of child protection and placement services	..	15.0	15.0	15.0	15.0
Support to preschools	..	3.2	6.5	6.7	6.9
Better preschools facilities	5.0	..	..	..	..
Enhancements to technological infrastructure for children's services	0.4	..	..	..	..
Specialist resources for children services	0.2	..	..	..	..
Enhancing technologies – neighbourhood houses and telephone counselling services	0.4	..	..	..	..
Expansion of disability services	..	5.0	5.0	5.0	5.0
Kew Residential Services redevelopment	..	6.2	6.4	6.4	6.4
Latrobe Valley Public Housing Project	4.0	5.0	4.5	3.5	..
Assistance for homeless people	..	2.2	2.2	2.2	2.2
Neighbourhood renewal projects	0.8	..	..	..	..
Security projects for public housing estates	0.8	..	..	..	..

**Table A4: Output initiatives – Department of Human Services – continued**

	(\$ million)				
	2001-02	2002-03	2003-04	2004-05	2005-06
Support to non-government organisations	..	4.5	4.5	4.5	4.5
Human Services industrial relations issues <sup>(b)</sup>	82.9	73.1	77.3	77.0	77.0
<b>Total output initiatives</b>	<b>102.3</b>	<b>319.1</b>	<b>315.7</b>	<b>315.0</b>	<b>293.3</b>

Source: Department of Treasury and Finance

Notes:

(a) Funding includes an additional \$0.31m in 2002-03 and \$0.42m ongoing from new demand growth funding in recognition of the importance of improving women's health and wellbeing outcomes.

(b) Figures are net of wage contingency funding.

### Hospital Demand Management Strategy

The Government will continue to support a multi-year approach to respond to and manage demand for public hospital services. The Hospital Demand Management Strategy incorporates close collaboration with clinicians and hospital management in responding to demand pressures, and reform of patient care processes. A key component of the Strategy is funding to respond to growth in demand and increase hospital capacity. This includes funding of \$25 million over four years for expansion of mental health services provided within the hospital setting.

Funds will also be used to implement hospital diversion programs which provide patients with more appropriate, lower-cost care options such as sub-acute and home-based care, with the aim of keeping people out of hospitals and assisting them to continue living independently within the community.

The Hospitals Admission Risk Program will also be expanded and prevention measures implemented to reduce hospital admissions and emergency presentations for conditions that could be more appropriately treated or prevented. This includes expansion of primary health services and community health programs such as allied health treatment, community nursing and health promotion. Funding for public hospital prevention services was provided in the 2001-02 Budget for four years. An additional \$16 million for prevention initiatives was provided for 2002-03, bringing the overall prevention component of the Strategy to \$33 million in 2002-03. Funding for prevention is in recognition that these initiatives typically take time to impact on the pattern of demand growth, and that development and application of new approaches to prevention is best undertaken where there is funding certainty.

### **Public hospital superannuation costs**

Public hospitals will receive assistance to meet increased employer superannuation costs arising from increases in the Commonwealth Superannuation Guarantee Levy from 1 July 2002, and increased employer contributions in 2002-03 to the defined benefits scheme of Health Super.

### **Increased costs of medical and pharmaceutical supplies and consumables**

Supplementation is provided to address continued significant cost increases for medical and pharmaceutical supplies and consumables.

### **Elective surgery strategy**

Funding is provided for initiatives which aim to reduce elective surgery patient waiting times and waiting lists. A new model of referral for rural and metropolitan health services will be implemented with particular emphasis on ophthalmology, orthopaedic and plastic surgery patients. A number of health services have also been identified to deliver additional elective surgery activity for 2001-02.

### **Expansion and enhancement of community mental health services**

Funding provides for the expansion and enhancement of a range of community-based and residential programs and support services for Victorians who suffer from a serious mental illness. Existing adult and aged community services will be increased and new prevention and early intervention initiatives for young adults will be implemented. Crisis and relapse prevention services will be made available for people with serious mental illness, and people with dual diagnosis of drug and alcohol abuse as well as mental illness. Housing support for homeless people with a mental illness will also be provided. In addition, support will be available through the Hospital Demand Management Strategy for the expansion of hospital inpatient programs provided to clients with a mental illness.

### **Metropolitan and rural ambulance services**

Funding is provided to expand and improve emergency and non-emergency ambulance transport services. New and upgraded services will be provided through the recruitment and training of new paramedics in Albert Park/St Kilda, Bentleigh/Brighton, Bundoora/Reservoir, Shepparton and Mildura. The increasing caseload on ambulance services will be better managed through the implementation of a referral service that will redirect calls not requiring an ambulance emergency response to appropriate alternate services.

### **Home and community care services**

The needs of frail aged people, people with disabilities, and their carers will continue to be met through the expansion of home and community care services. A range of services will support individuals to continue living independently in

their own homes and actively participate in the community for as long as possible, thereby enhancing quality of life, reducing unnecessary or premature admissions to a hospital or residential care and improving care after discharge from hospital.

**Targeted assistance for low-cost supported accommodation services at significant risk of closure**

Assistance will be provided for selected supported residential services requiring one-off assistance to comply with new fire safety regulations which come into force in August 2002. The continued operation of the supported residential service sector provides for low-cost supported accommodation and care for people with a significant disability who are on a pension level income.

**Nerve Centre development**

Funding will provide support for the development of a National Neurological Centre (the 'Nerve Centre') which will provide services for people with multiple sclerosis and other neurological conditions. The Nerve Centre will house an information service, lifestyle assessment program, health centre and clinical unit.

**Public dental services**

Funding will expand the service capacity of public dental services in community dental clinics across Victoria. This initiative will help improve the accessibility of dental services for people in specific target groups, including concession cardholders and their dependents.

**Early detection and prevention of breast cancer**

Funding is provided to enhance early detection and prevention of breast cancer through increased provision of free mammograms for Victorian women aged 50 to 69.

**Women's Health and Wellbeing Strategy**

Funding will provide for the commencement of the Women's Health and Wellbeing Strategy which aims to improve the health and welfare of women in Victoria. The Strategy involves a range of service initiatives, which seek primarily to improve women's mental and emotional health, increase women's participation and leadership in the community, and extend knowledge about women's health.

**Operational infrastructure support for medical research institutes**

In recognition of the positive impact of research activities in generating major health and economic benefits for the State, operational infrastructure support for Victoria's medical research institutes will be boosted. This will help sustain the ability to attract additional national and international research and development funds into Victoria.

## **BEST START**

Funding is provided for the implementation of the first stage of the BEST START initiative by the Department of Human Services in partnership with the Department of Education and Training. This prevention and early intervention project aims to improve the health, development, learning and wellbeing of Victorian children up to eight years of age by supporting communities, parents and service providers. The first stage, implemented in partnership with local communities, comprises ten projects in 2002-03 that trial ways of improving the effectiveness, responsiveness and inclusiveness of universal local early years services.

### **Enhancement of child protection and placement services**

Funding will expand and enhance child protection and placement services that aim to protect children and adolescents at risk from abuse and neglect. In particular, new diversion and prevention services will be piloted in six selected rural and regional areas of Victoria, and in indigenous communities. The new innovation projects will be established in areas that have some of the highest rates of notification of suspected child abuse and neglect in Victoria. Two indigenous innovation projects will also be established in 2002-03. The preventative capacity of current services will be strengthened through community-based services that enhance support for vulnerable families. Funds will also improve the quality of care for children and young people in out of home care. The child protection workforce will also be increased to ease the workload on direct line staff and to build a stronger system.

### **Support to preschools**

Preschools will receive additional support to implement a range of initiatives arising from the Government's response to the independent *Review of the Issues that Impact on the Delivery of Preschool Services to Children and their Families in Victoria*. These initiatives focus on improving access for indigenous children and children with complex needs, improving administration and easing the workload of parents' committees of management through the commencement of group employment models, and providing improved access to children who require a second year of preschool.

### **Better preschools facilities**

Funding is provided to assist community-based preschool services meet new Children's Services Regulations which come into force on 1 June 2003. Funding will support preschools to provide childproof fencing, toilet visibility works and toilet and hand basin works.

### **Enhancements to technological infrastructure for children's services**

Funding will enable enhancements to the technological infrastructure and training of funded non-government early childhood intervention agencies.

### **Specialist resources for children's services**

Funding will provide specialist resources for funded non-government early childhood intervention agencies. Standardised assessment tools and specialised equipment and resources are an integral part of the provision of services for children with disabilities and/or developmental delay.

### **Enhancing technologies – neighbourhood houses and telephone counselling services**

Funding is to provide computer upgrades in neighbourhood houses and technological enhancements to statewide telephone counselling services including the Women's Information Referral Exchange, Men's Referral Services and Lifeline Melbourne. Funding will be used to develop and enhance websites, develop online responses to clients, improve telephone technology and develop intranet sites.

### **Expansion of disability services**

Additional community and home-based support services, and shared supported accommodation services for people with disabilities will be provided to allow people to continue living and participating within the community. Funding will also allow the expansion of the Futures for Young Adults program, which assists students with disabilities in their transition from school to a range of post school options including supported and open employment, vocational training, further education, community participation, and recreational and leisure activities.

### **Kew Residential Services redevelopment**

Funding is provided for the relocation of residents as part of the first stage of the redevelopment of Kew Residential Services. This will enable the transfer of 100 people from Kew Residential Services into 20 new community residential units. The proceeds from the sale of land at the Kew site will be used to provide accommodation for current residents of Kew Residential Services.

### **Latrobe Valley Public Housing Project**

Funding has been provided to transform and renew the public housing stock in the Latrobe Valley. This program will be linked with community building processes, involving the community and local government in renewal projects in the Moe/Morwell/Traralgon areas.

### **Assistance for homeless people**

Funding will address demand and enhance service capacity to deal with increased complexity of need among homeless people. Services for victims of domestic violence and people with multiple service needs, such as drug or alcohol dependence, disability or mental health issues, will also be strengthened. Funding will enhance the ability of people exiting homelessness to better access independent housing and appropriate community support services.

### **Neighbourhood renewal projects**

Public housing tenants will benefit from improvements to Office of Housing estates in broad acre estates and regional centres, which involve front and side fencing and gardening to improve security and amenity to a total of 280 properties.

### **Security projects for public housing estates**

Public housing tenants will benefit from increased security and occupational health and safety in inner city housing estates such as Fitzroy and Collingwood high-rise estates and the Horace Petty Estate in Prahran.

### **Support to non-government organisations**

Funding will be provided to support the financial viability of non-government organisations which deliver health and community services to the community. Allowance will be made for cost increases through price adjustments for services provided by non-government organisations.

### **Human Services industrial relations issues**

Funding has been provided to implement new enterprise agreements for disability, ambulance, psychiatric services and health sector professionals, and to extend the existing Early Childhood Teachers Multi-employer Certified Agreement. These industrial agreements will improve service delivery outcomes through initiatives to improve recruitment and retention of high quality staff, career structures, workplace flexibility, workload and conditions.

Funding is also provided for wage rises, increases in staff numbers and improved conditions in a number of areas, including hospital, psychiatric and departmental nurses, radiation therapists, ambulance administrative staff, and community services provided by the non-government sector.

## Asset investment initiatives

**Table A5: Asset investment initiatives – Department of Human Services**

	(\$ million)					
	2001-02	2002-03	2003-04	2004-05	2005-06	TEI
Berwick Community Hospital <sup>(a)</sup>	..	tbd	tbd	tbd	tbd	tbd
Royal Melbourne Hospital redevelopment	..	8.0	18.0	6.0	..	32.0
Stawell District Hospital redevelopment	..	0.5	2.0	0.5	..	3.0
Angliss Hospital redevelopment	..	2.0	11.0	5.5	..	18.5
Dandenong Hospital redevelopment	..	3.0	7.0	..	..	10.0
Lorne Community Hospital redevelopment	..	0.3	2.8			3.0
Hospital IT systems replacement	..	1.0	..	..	..	1.0
Rural Ambulance co-locations	..	0.5	0.9	..	..	1.4
Ambulance services facilities development	..	0.5	2.0	0.9	..	3.4
Residential aged care and rural health redevelopment and upgrade	..	8.0	20.0	12.0	..	40.0
Upgrade of residential care facilities for placement and support program	..	1.5	3.5	..	..	5.0
Juvenile justice facility redevelopment	..	7.0	7.8	..	..	14.8
Community disability services	..	2.5	5.0	2.5	..	10.0
Fire risk management strategy	..	10.0	..	..	..	10.0
Equipment upgrade program	25.0	20.0	..	..	..	45.0
Infrastructure upgrade program	..	15.0	5.0	..	..	20.0
<b>Total asset investment initiatives</b>	<b>25.0</b>	<b>79.8</b>	<b>85.0</b>	<b>27.4</b>	<b>0.0</b>	<b>217.1</b>

Source: Department of Treasury and Finance

Note:

(a) Detailed project cost information will be published following tender processes.

### Berwick Community Hospital

The Government has committed to building the Berwick Community Hospital. The facility will consist of 229 beds, including 141 inpatient beds, 40 sub-acute beds, 25 adult mental health inpatient beds, ambulatory day places, with 24-hour emergency department, medical and surgical care, renal dialysis services and community mental health services. The project is to be delivered under the Partnerships Victoria framework. Southern Health will operate the new hospital, which is expected to open in the second quarter of 2004.

### **Royal Melbourne Hospital redevelopment**

Redevelopment funding will allow for the extension of the front entry building, replacement of ward accommodation on three new floors with fit out of two floors to provide 120-beds, installation of a helipad to further develop the trauma service and the upgrade of infrastructure services to support the new facilities.

### **Stawell District Hospital redevelopment**

Funding is provided to enhance operating theatres and the radiology unit and to provide new accident and emergency services. This initiative builds on the redevelopment and expansion announced in last year's budget.

### **Angliss Hospital redevelopment**

The second stage of redevelopment at the Angliss Hospital includes a new and expanded emergency department, a new eight-bed short stay unit, creation of a new critical care/high dependency unit and a new general x-ray facility.

### **Dandenong Hospital redevelopment**

Funding is for the commencement of refurbishment and expansion works as part of the Dandenong Hospital Stage 2 redevelopment.

### **Lorne Community Hospital redevelopment**

Additional funding to enable the redevelopment of the Lorne Community Hospital on its current site, to provide for integrated acute, aged care and primary care services. The redevelopment will provide a total of 30 acute and residential aged care beds and enhance community health facilities.

### **Hospital IT systems replacement**

Funding is provided as an initial contribution towards replacement of core hospital patient management and financial systems. Funding will allow work on scoping a replacement system to begin, while extending the license for the current system.

### **Rural Ambulance co-locations**

The replacement and co-locating of four Rural Ambulance stations with health services in Kyneton, Ararat, Colac and Hopetoun will provide service linkages and substantial service delivery improvements.

### **Ambulance services facilities development**

This initiative will support the enhancement and expansion of ambulance services across Victoria. This includes land purchase and building costs for the two new rural ambulance stations, together with the purchase of new ambulance vehicles and equipment for these stations and the three new services to be established in metropolitan Melbourne. It also provides for the enhancement of the call-taking system used in the metropolitan ambulance communications centre to enable the identification of calls that do not require an ambulance emergency response.

### **Residential aged care and rural health redevelopment and upgrade**

Continuation of the redevelopment and upgrade of rural health and public sector residential aged care facilities at locations including Warrnambool, Maryborough, Geelong, Omeo, Bairnsdale and Beechworth. This will ensure these facilities meet both state requirements and Commonwealth certification and accreditation standards.

### **Upgrade of residential care facilities for placement and support program**

Funding for the continuation of the program to refurbish and replace existing residential facilities that are used to provide residential services for children removed from their families or primary carer.

### **Juvenile justice facility redevelopment**

Funding will enable a new 26-bed facility at Parkville to be constructed to replace the existing Senior Youth Training facility (Turana) and a 16-bed demountable at Malmsbury that will enable the redevelopment to proceed without losing bed capacity. Construction of the demountable facility during 2002-03 will allow commencement of movement of young offenders out of substandard facilities at Turana, with the Parkville site to be operational by late 2004.

### **Community disability services**

This project will continue to address the provision of accommodation to assist more people with a disability to live in the community, target initiatives aiming to involve people with a disability in their local communities by increasing access to a range of local government and funded sector facilities and address priority upgrade works for existing day services facilities.

### **Fire risk management strategy**

The continuation of the fire risk management strategy aims to ensure that facilities, which the Department of Human Services is responsible for, attain an acceptable level of safety for clients. This includes the conduct of fire safety audits, fire risk assessments and associated upgrade works.

### **Equipment upgrade program**

The equipment upgrade program provides for the replacement, upgrade and expansion of medical equipment to meet service needs. The funding will address medical equipment needs for health services, dental health facilities and public health laboratories.

### **Infrastructure upgrade program**

Funding for the renewal of critical infrastructure investment requirements including plant upgrade and renewal, trunk reticulation services and demolition works to support improved reliability of health service delivery.

## Infrastructure

### Output initiatives

**Table A6: Output initiatives – Department of Infrastructure**

	(\$ million)				
	2001-02	2002-03	2003-04	2004-05	2005-06
New bus services - growth suburbs	..	8.2	8.7	9.2	9.8
New bus services - regional	..	1.8	1.9	2.0	2.1
Transit Cities	..	1.0	1.0	1.0	1.0
Revenue Clearing House	..	8.5	8.7	8.9	9.2
Office of City Link - contract management and safety	..	4.1	4.2	4.3	4.4
Railway pedestrian crossings – wheelchair access	..	3.0	3.1	3.2	3.2
Linking the Suburbs - Knox tram extension to Vermont South	..	2.0	2.3	3.4	4.4
Linking the Suburbs – Craigieburn rail line electrification	..	..	..	..	7.2
Multi-purpose taxi program	..	7.2	..	..	..
Design works - new integrated transport projects	..	3.0	3.0	2.0	..
Transport for World Masters Games	..	1.2	..	..	..
Pride of Place	..	4.0	4.0	..	..
Maintaining the road network	..	17.0	17.0	17.0	17.0
Melbourne Exhibition and Convention Centre - feasibility	..	2.0	..	..	..
Public heritage services and restoration project	..	4.0	..	..	..
Public libraries grant	1.3	..	..	..	..
<b>Total output initiatives</b>	<b>1.3</b>	<b>67.0</b>	<b>53.9</b>	<b>51.0</b>	<b>58.3</b>

Source: Department of Treasury and Finance

#### **New bus services – growth suburbs and regional**

A total of 25 new and enhanced bus services are to be provided in outer metropolitan Melbourne to meet community needs and recognise demographic changes. Regional Victoria will also see 27 new and improved services in areas including Phillip Island, Bellarine Peninsula, Wodonga, Latrobe Valley, Echuca, Warrnambool and Mildura. These services will support access to work, education, community services and recreation.

#### **Transit Cities**

The Transit Cities project targets cities on transport nodes for residential and commercial development. Dandenong has been announced as a Transit City and a Regional Development Board will be established to coordinate local public and private sector investment in the city.

### **Revenue Clearing House**

The Revenue Clearing House allocates revenue between Melbourne's public transport operators based upon an agreed formula. The additional funding reflects the new revenue allocation formula agreed by all public transport operators in December 2001.

### **Office of City Link – contract management and safety**

The Melbourne City Link Authority was established in December 1994 to oversee the Melbourne City Link project on behalf of the Government. This Authority has been abolished and an Office of City Link has been established within the Department of Infrastructure to oversee public safety, operational matters, including contract management, concession fees, enforcement issues, transport policy changes, overview maintenance and traffic management.

### **Railway pedestrian crossings – wheelchair access**

To ensure the continued safety of the railway system, several issues need to be addressed to enhance safety levels at identified crossing hazards for users, especially those requiring wheelchair access. A Railway Crossing Upgrade Committee will be established to manage risk mitigation works at stand-alone pedestrian crossings. In addition, funding has been provided to improve suburban train signalling.

### **Linking the Suburbs – Knox tram extension to Vermont South**

Tram Route 75, which currently terminates at the intersection of Burwood Highway and Blackburn Road, will be extended along the Burwood Highway to Vermont South Shopping Centre as the first stage of an extension to Knox City.

### **Linking the Suburbs – Craigieburn rail electrification**

Electrified rail services are to be extended to Craigieburn from the suburban rail terminus at Broadmeadows to meet strong demand in this growth corridor. A new station will be constructed at Roxburgh Park and the Craigieburn Station will be redeveloped.

### **Multi-purpose taxi program**

The multi-purpose taxi program provides concessions on the metered taxi fares for people with eligible disabilities. Additional capacity will be provided to enhance delivery of the program.

### **Design works – new integrated transport projects**

The Department of Infrastructure's capacity for integrated transport planning and policy development will be strengthened, and the strategic planning function broadened. Increased resources will be provided for improved development of new integrated transport projects.

**Transport for World Masters Games**

Participants, delegates and officials in the 2002 World Masters Games will receive free public transport travel in Zone 1 and free travel between Melbourne and the four regional venues during the period of the games.

**Pride of Place**

This program will assist councils, residents and traders to develop and implement urban design solutions to improve public places.

**Maintaining the road network**

Fuel and bitumen costs represent a significant component of road maintenance expenditure and are heavily influenced by movements in crude oil prices and the exchange rate. Contract prices for the fuel increases have increased in recent years, following the upturn in world oil prices. Funding has been provided to ensure that the standard of Victoria's road network is maintained.

**Melbourne Exhibition and Convention Centre – feasibility**

Funding will be provided to undertake a feasibility study for an upgrade of the Melbourne Exhibition and Convention Centre at Southbank. The study will examine options for constructing a 5 000-seat plenary centre.

**Public heritage services and restoration project**

Funding is provided to maintain Victoria's position as a world leader in the preservation of public heritage. This program provides grants to local government and community groups for the repair and adaptation of heritage assets in public use.

**Public libraries grant**

Funding is provided for one-off grants to public libraries for book purchases. Grants of \$15 000 are to be given to the 78 local libraries and two print disabled libraries (Vision Australia and Victorian Institute for the Blind). In addition, grants of \$4 000 are to be given to each of the 19 country library services operated by rural and regional councils.

## Asset investment initiatives

**Table A7: Asset investment initiatives – Department of Infrastructure**

	(\$ million)					
	2001-02	2002-03	2003-04	2004-05	2005-06	TEI
Spencer Street Station <sup>(a)</sup>	..	tbd	tbd	tbd	tbd	tbd
Scoresby Transport Corridor <sup>(b)</sup>	25.3	73.4	83.3	103.0	130.0	1000.0
Linking the Suburbs – Knox tram extension to Vermont South	..	2.0	14.1	14.4	..	30.5
Linking the Suburbs – rail electrification to Craigieburn	..	3.0	46.6	22.1	26.3	98.0
Linking the Suburbs – major road improvements	..	20.3	30.1	12.0	..	62.4
Linking rural economies	..	7.1	6.5	1.7	..	15.3
Calder Highway upgrade (Kyneton to Faraday)	..	21.5	21.0	19.0	8.5	70.0
Channel deepening – investigation	..	5.2	..	..	..	5.2
Road safety initiatives	..	5.0	..	..	..	5.0
Motorcycle safety	..	2.5	3.4	3.4	0.9	10.2
Commonwealth Games planning	..	3.3	..	..	..	3.3
Yarra Precinct <sup>(c)</sup>	..	8.8	7.0	..	..	15.8
Lascelles Wharf rail connection	..	5.1	..	..	..	5.1
Warrnambool rail line upgrade	..	9.0	..	..	..	9.0
Transit cities	..	3.5	2.0	1.0	..	6.5
<b>Total asset investment initiatives</b>	<b>25.3</b>	<b>169.7</b>	<b>214.0</b>	<b>176.6</b>	<b>165.7</b>	<b>1336.3</b>

Source: Department of Treasury and Finance

Note:

(a) Detailed project cost information will be published following tender processes.

(b) Subject to change following tender processes.

(c) Includes private sector contributions.

### Spencer Street Station

The Government is redeveloping the Spencer Street Station transport interchange and integrating Melbourne's West End with the emerging Docklands development. The project will link Victoria and the rest of Australia. The new station will offer world-class facilities to Victorian, national and international travellers.

The project will be delivered under the Partnerships Victoria framework and is expected to cost \$200 million to \$300 million. Further project cost information will be published following the tender process.

### **Scoresby Transport Corridor**

In October 2001 the Victorian Government secured the agreement of the Commonwealth Government to 50/50 funding for the construction of the Scoresby Freeway as a Road of National Importance. The Commonwealth Government's initial \$445 million contribution has been matched by Victoria's \$445 million in addition to the \$110 million in land purchases already made. The Freeway will be developed in conjunction with a program of public transport initiatives. This project will create integrated transport infrastructure and services in Melbourne's south-east, creating a link between Ringwood and Frankston and improved east-west connections for travel to the CBD and beyond.

### **Linking the Suburbs – Knox tram extension to Vermont South**

Tram Route 75, which currently terminates at the intersection of Burwood Highway and Blackburn Road, will be extended along the Burwood Highway to Vermont South Shopping Centre and an enhanced bus service will operate from there to the Knox Activity Centre.

### **Linking the Suburbs – Craigieburn rail electrification**

Electrified rail services are to be extended to Craigieburn from the suburban rail terminus at Broadmeadows. A new station will be constructed at Roxburgh Park and the Craigieburn Station will be redeveloped.

### **Linking the Suburbs – major road improvements**

Several roads will be upgraded to improve safety and road capacity in Melbourne's growth suburbs for drivers and other users. Sites that will be funded include Narre Warren-Cranbourne Road, Frankston-Cranbourne Road, and Fitzgerald Road in Laverton. Other major road projects will be undertaken at Macedon Street Bridge (Sunbury), Edgars Road Extension and Duplication (Epping) and continuing the planning work on Plummer St, Port Melbourne.

### **Linking rural economies – roads**

Several key roads in rural areas will be upgraded to support the effective flow of goods and people. Road upgrading will take place on Bayside Road in Geelong, the Maroondah Highway between Healesville and Narbethong, the Henty Highway from Heywood to the south of McKenzies and the Wallan Road Overpass, Wallan.

### **Calder Highway upgrade (Kyneton to Faraday)**

A 21-kilometre divided highway is to be constructed on the Calder Highway between Kyneton and Faraday. This is part of the progressive upgrading and duplication of the highway between Melbourne and Bendigo. As this is a Road of National Importance, Victoria will be seeking matching funding from the Commonwealth Government.

### **Channel deepening – investigation**

A detailed investigation will be undertaken of the proposal to deepen the approach channels to the Port of Melbourne in Port Phillip Heads, Port Phillip Bay and the Yarra River. The investigations will examine the engineering, economic and social issues associated with channel deepening. Extensive stakeholder consultation across all issues will also be undertaken.

### **Road safety initiatives**

Median barriers will be fitted on a 20-kilometre section of the Monash Freeway, as part of the Government's commitment to improving road safety.

### **Motorcycle safety**

The Transport Accident Commission will establish a fund to focus on the safety of motorcyclists, a high-risk road user group. Planned initiatives include engineering, training and licensing projects.

### **Commonwealth Games planning**

A detailed transport and traffic plan for the 2006 Commonwealth Games will be developed in conjunction with the Office of Commonwealth Games Coordination. In addition to this, scoping studies will be undertaken for potential infrastructure projects that, if undertaken, would be scheduled to be completed for use during the 2006 Commonwealth Games.

### **Yarra Precinct**

Development of Melbourne as a riverside city demands effective access for potential users. Major attractions and activities will be linked together by pedestrian paths, bike routes, water taxis and public transport. As part of this plan, Sandridge Bridge will be redeveloped and will include Queensbridge Square as a public space at the southern end of the bridge.

### **Lascelles Wharf rail connection**

Lascelles Wharf (in Geelong) will be connected to the rail system. This will eliminate the current double handling of freight between the rail yard and the wharf thereby increasing efficiency and reducing freight costs.

### **Warrnambool rail line upgrade**

The Warrnambool rail track is to be upgraded to a standard that conforms with the majority of the rest of Victoria's country passenger rail network. Resleepering, ballast replacement and drainage works are to be undertaken to improve the track formation.

## Transit Cities

The Government's Transit Cities program aims to restructure parts of the metropolitan area and regional cities by focusing higher density mixed use development around key transport nodes. It will unlock the potential for commercial and residential development in these centres through land assembly and other means to help attract activity and services to targeted regions.

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

### *Output initiatives*

**Table A8: Output initiatives – Department of Innovation, Industry and Regional Development**

	(\$ million)				
	2001-02	2002-03	2003-04	2004-05	2005-06
Australian synchrotron project – client management	..	2.9	2.9	2.9	2.9
Biotechnology	..	4.5	7.4	7.5	7.6
Science, technology and innovation commercialisation	..	1.8	2.0	1.9	1.0
Centre for Energy and Greenhouse Technologies	..	3.0	4.5	4.5	..
Developing Victoria's design capabilities	..	4.0	5.2	..	..
Telecommunications Purchasing and Management Strategy	..	1.0	7.3	7.3	7.3
Agenda for New Manufacturing	..	8.0	6.4	6.4	6.4
Investment and internationalisation for the innovation economy	..	1.8	1.8	1.8	1.8
EASY Government – Victorian Government made EASY	..	0.4	0.6	0.6	0.4
Transport and logistics supply chain	..	0.4	0.3	0.3	..
Trade fairs and missions program	..	0.3	0.3	0.3	0.3
Regional small business mentoring trial	..	0.1	..	..	..
ICT centre of excellence	..	..	4.0	5.0	6.0
Timber Communities in Partnership	9.0	..	..	..	..
Dried fruit industry assistance	0.8	..	..	..	..
Development of a strategic vision for the mineral sands industry in the Murray Basin	0.2	..	..	..	..
Biocomm Capital Pool	1.7	..	..	..	..
<b>Total output initiatives</b>	<b>11.6</b>	<b>28.1</b>	<b>42.5</b>	<b>38.4</b>	<b>33.6</b>

*Source: Department of Treasury and Finance*

### **Australian synchrotron project**

The Government has committed \$100 million as its contribution towards construction of an Australian synchrotron facility at Clayton. Developed with other contributions, including the private sector, the synchrotron will provide Victoria with an important element of scientific research infrastructure. It will be used for basic and applied research and development by industry and academia.

### **Biotechnology**

Funding is provided to implement the Biotechnology Strategic Development Plan that was released in June 2001. Initiatives will focus on commercialisation of biotechnology research and development, training and career development, international marketing and promotion of the Victorian biotechnology sector, and providing strategic direction and support for the industry.

### **Science, technology and innovation commercialisation**

Funding is provided to enhance the State's commercialisation infrastructure for science, technology and innovation research and development. Individual initiatives include ongoing funding for a number of cooperative research centres, an extension of technology diffusion contracts, and additional funding for the Centre of Innovation and Technology Commercialisation.

### **Centre for Energy and Greenhouse Technologies**

The Government proposes to establish a centre which will facilitate research, development, demonstration and commercialisation of technologies to reduce the greenhouse intensity of energy supply and use in Victoria. This is subject to obtaining matching Commonwealth funds.

### **Developing Victoria's design capabilities**

Funding is provided for initiatives aimed at expanding Victoria's profile as an international design centre. Individual initiatives will target the enhancement of design in education, training, research and development. This also includes the international promotion of Victoria as a recognised design centre by showcasing Victorian design through an international exhibition.

### **Telecommunications Purchasing and Management Strategy**

Funding is provided to introduce a whole-of-government Telecommunications Purchasing and Management Strategy (TPAMS). TPAMS will establish a streamlined integrated telecommunications service through a single connectivity hub. TPAMS will include a whole-of-government electronic directory and competition to providers of network services to government.

### **Agenda for New Manufacturing**

Funding is provided to encourage the growth of the manufacturing industry and to create high-value manufacturing employment in Victoria. Specific initiatives will aim to assist current and potential exporters, assist skills development in the manufacturing industry, and undertake promotion in the community on the value of manufacturing.

### **Investment and internationalisation for the innovation economy**

Funding is provided to strengthen a range of activities to promote Victoria as a destination for foreign direct investment. Additional functions will focus on promotional activities in key overseas markets, and relationship building with existing and potential foreign investors. Funding is also provided to open a Victorian Government Business Office in San Francisco.

### **EASY Government – Victorian Government made EASY**

Funding is provided to develop and implement streamlined licensing application systems for business. This will eventually enable on-the-spot business licence processing at all Victorian Business Centres across the State, and by telephone and the internet. A new application form to combine applications for small business will also be developed and implemented.

### **Transport and logistics supply chain**

Funding is provided for establishing a survey to identify Victorian supply chains that are internationally competitive, to be used for industry-wide benchmarking. Demonstration projects, to promote supply chain best practice, will also be funded.

### **Trade fairs and missions program**

Funding is provided to increase the level of assistance to Victorian companies to enter and expand into export markets, through participation in trade fairs and missions.

### **Regional small business mentoring trial**

Funding is provided for a business-based mentoring trial for small regional businesses. The aim of the initiative is use the skills and experience of successful retired people in rural and regional areas to assist existing small businesses.

### **ICT centre of excellence**

The government has committed \$15 million over three years, from 2004–05, as its contribution to the Victorian bid for a national ICT centre of excellence. Funding is conditional on the Federation Consortium's bid being successful.

### Timber Communities in Partnership

Funding is provided to assist rural and regional areas adversely affected by the restructuring of the State's timber industry. Most projects will be undertaken in partnership with local governments and should particularly benefit regions such as Gippsland, where timber is an important local industry.

### Dried fruit industry assistance

The Australian Dried Fruit Association will receive a grant which will be used to ensure the sustainability of the Victorian dried fruit industry by restructuring the industry. Industry reform will be aimed at improving the performance of Victorian participants through restructure and consolidation. The grant will assist companies in their streamlining efforts.

### Development of a strategic vision for the mineral sands industry in the Murray Basin

Funding of \$150 000 is provided for the production of a joint strategic plan for the mineral sands industry in the Murray Basin. Planning will be aimed at providing vision and direction for the attraction of investment to create an industry capable of fully exploiting the rich mineral sands deposit identified in the area.

### Biocomm Capital Pool

The Government will provide \$1.7 million to the Biocomm Capital Pool, a fund which will provide seeding finance to biotechnology start-up companies based in Victoria. The funding will represent the Government's contribution towards the Pool's administrative costs.

### Asset investment initiatives

**Table A9: Asset investment initiatives – Department of Innovation, Industry and Regional Development**

	(\$ million)					
	2001-02	2002-03	2003-04	2004-05	2005-06	TEI
Film and television studio	19.6	20.4	..	..	..	40.0
Telecommunications	..	21.9	25.8	..	..	47.7
Purchasing and Management Strategy <sup>(a)</sup>	..	..	..	..	..	..
Australian synchrotron project <sup>(a)</sup>	..	13.5	35.9	35.5	15.1	100.0
<b>Total asset investment initiatives</b>	<b>19.6</b>	<b>55.8</b>	<b>61.7</b>	<b>35.5</b>	<b>15.1</b>	<b>187.7</b>

Source: Department of Treasury and Finance

Note:

(a) Refer to output initiatives for the description of this initiative.

## Film and television studio

Funding is provided for the Government's contribution towards the development of a film and television studio complex at the Melbourne Docklands. The studio will cater for all forms of film production, and address the infrastructure gap of the industry in Victoria.

## Justice

### Output initiatives

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

	(\$ million)				
	2001-02	2002-03	2003-04	2004-05	2005-06
Mobile Data Network project <sup>(a)</sup>	..	tbd	tbd	tbd	tbd
Police EBA <sup>(b)</sup>	38.0	58.5	64.3	79.3	95.1
Statewide Personnel Alerting System <sup>(a)</sup>	..	tbd	tbd	tbd	tbd
Improved emergency communications services <sup>(c)</sup>	18.5	32.1	29.7	30.3	31.1
Justice Statement project	..	0.7	..	..	..
Strengthening alternative dispute resolution	..	1.9	0.9	0.5	0.4
Police management information system pilot	..	0.3	..	..	..
Custodial services	..	2.4	2.4	2.4	2.4
Support for Victorian Legal Aid	1.4	2.5	-0.5	-0.5	-0.5
State Emergency Services volunteers	0.7	..	..	..	..
<b>Total output initiatives</b>	<b>58.6</b>	<b>98.4</b>	<b>96.8</b>	<b>112.0</b>	<b>128.5</b>

Source: Department of Treasury and Finance

#### Note:

(a) Project cost information will be published following tender processes.

(b) Figures are net of wage contingency funding.

(c) Figures include existing funding of \$3.6m in 2001–02, \$32.1m in 2002–03, \$24.5m in 2003–04, \$24.5m in 2004–05 and \$24.5m in 2005–06. The figure for 2001–02 does not include current service payments for call taking and dispatch.

### Mobile Data Network project

Additional funding will be provided for the Mobile Data Network project to equip emergency service vehicles with data terminals. The equipment will enable automated dispatch and onscreen vehicle location, as well as providing personnel with remote data access from their vehicles. Victoria Police and the Metropolitan Ambulance Service will be the first agencies to implement the technology. It is anticipated that the full service will be delivered by July 2004.

The project will be delivered under the Partnerships Victoria framework and is expected to cost greater than \$100 million. Further costs information will be published following the tender process.

#### **Police Enterprise Bargaining Agreement**

The Government has entered into an Enterprise Bargaining Agreement for Victoria Police. The Agreement achieves significant benefits for police including a revamped police career structure, key reforms sought by the Chief Commissioner, and provides certainty of wage outcomes during this period.

#### **Statewide Personnel Alerting System**

As a priority component of the Government's Statewide Integrated Public Safety Communications Strategy (SIPSaCS), funding is provided to implement the Statewide Personnel Alerting System (SPAS) for alerting emergency services personnel throughout Victoria. The network will enable the Country Fire Authority, Victorian State Emergency Service and Rural Ambulance Victoria to contact career and volunteer staff individually or en masse to alert them to emergency situations and communicate situation specific information.

The project will be delivered under the Partnerships Victoria framework and is expected to cost greater than \$100 million. Further cost information will be published following the tender process.

#### **Improved emergency communications services**

Funding has been provided to ensure the seamless transition and improved operational efficiency and reliability of emergency call taking and dispatch services as operations are transferred from Intergraph to Government control. Funding is also being provided for the ongoing management of a number of other emergency services telecommunications projects. The additional resources will strengthen the capacity of government to deliver efficient and reliable communication services to Victoria's emergency service organisations.

#### **Justice Statement project**

Funding is provided for the Justice Statement development project. The Justice Statement focuses on the development of a clear vision and future direction for the Victorian Justice system over the next five years. As well, the project will produce a strategic plan for the State's court system.

**Strengthening alternative dispute resolution**

Funding is provided for a pilot program to develop online tools to aid Victorians in resolving their own disputes without having to refer the matter to a court. This involves development of an interactive web site as well as researching leading edge technical and support facilities necessary to permit interactive online dispute resolution anywhere in Victoria. A key element of the project is to support dispute resolution in rural and remote areas which presently experience difficulties in accessing such services.

**Police management information system pilot**

Funding is provided in 2002-03 for a pilot program to evaluate the establishment of a management information system to facilitate proactive policing strategies.

**Custodial services**

Funding is provided for the Public Correctional Enterprise (CORE) to assume responsibility for custodial services at the new County Court, the Supreme Court and the higher courts at Geelong from May 2002. CORE will provide custodial services as well as managing prisoners detained within the Courts' custody centres.

**Support for Victorian Legal Aid**

Funding is provided for initiatives including development of a videoconferencing network linking Victoria Legal Aid's 12 offices and five Department of Human Services non-metropolitan regions, improvements to Community Legal Centres including disability access and installation of basic amenities, the translation and/or publication and distribution of Victorian Legal Aid publications, and the creation of an interactive website for communication between Community Legal Centres.

Funding is also provided for enhancement of Victoria Legal Aid computer system to enable the implementation of a fully integrated information technology system to provide document, case and grants management functions.

**State Emergency Services volunteers**

Funding of \$0.7 million in 2001-02 to provide support of State Emergency Services volunteers for training and personal protective equipment.

## Asset investment initiatives

**Table A11: Asset investment initiatives – Department of Justice**

	(\$ million)					
	2001-02	2002-03	2003-04	2004-05	2005-06	TEI
Improved emergency services <sup>(a)(b)</sup>	0.8	18.9	6.1	0.1	0.1	25.9
Correctional services prisoner information system	..	3.4	0.4	..	..	3.8
Consolidated logistics facility	..	2.2	9.0	3.7	..	14.9
Office of Public Prosecutions, Lonsdale Street refurbishment	..	1.3	..	..	..	1.3
Courts upgrade program	..	2.0	..	..	..	2.0
New police stations	..	4.2	10.5	10.4	..	25.1
Rural police station replacement program stage 5	..	2.0	3.0	..	..	5.0
Metropolitan Mobile Radio <sup>(c)</sup>	..	tbd	tbd	tbd	tbd	tbd
Road safety investment	..	3.0	3.0	..	..	6.0
<b>Total asset investment initiatives</b>	<b>0.8</b>	<b>37.0</b>	<b>31.9</b>	<b>14.2</b>	<b>0.1</b>	<b>84.0</b>

Source: Department of Treasury and Finance

Notes:

- (a) Refer to output initiatives for the description of this initiative.
- (b) Figures include existing funding of \$2.1m in 2002–03.
- (c) Project cost information will be published following tender processes.

### Correctional Services Prisoner Information System

Funding for replacement and upgrade of existing information technology assets in the Correctional Services Prisoner Information System (PIMS), which will contribute to better management of the corrections system particularly given increased prisoner numbers. This is essential to the functioning of diversion and rehabilitation programs in prisons, community corrections and drug courts.

### Consolidated logistics facility

Funding is provided for the amalgamation and rationalisation of various Victoria Police logistic services within a centralised facility located in Melbourne. This initiative will involve consolidating 12 existing facilities located throughout metropolitan Melbourne.

### Office of Public Prosecutions, Lonsdale Street refurbishment

This project will provide improvements to meet occupational, health and safety standards.

### Courts upgrade program

Funding to upgrade facilities at Bendigo and Wangaratta.

**New police stations**

Funding is provided for new police stations in Footscray and Coburg. Additional funding is also provided for the completion of Rowville police station. These projects will improve the local management and delivery of Victoria Police services and achieve a safer community.

**Rural police station replacement program stage 5**

Funding is provided to replace existing 8 and 16-hour police stations in rural Victoria, at Bendoc, Beaufort, Bunyip, Cressy, Gordon, Inglewood, Macarthur, Merbein, Pyramid Hill, Smythesdale, Tarnagulla and Whitfield. Most of the existing facilities fail to meet operational requirements.

**Metropolitan Mobile Radio**

The Metropolitan Mobile Radio project will provide Victoria Police, the Metropolitan Fire and Emergency Services Board and the Metropolitan Ambulance Service with new digital trunked radio system. Radio coverage will extend to 95 per cent of metropolitan areas, and for the first time the various emergency services organisations will be using the same radio system allowing for direct multi-agency operational communications. The Metropolitan Mobile Radio project will help to deliver best practice multi-agency emergency services to the community and strengthen the capacity of our emergency services organisations to continue to set high standards for service delivery.

The project will be delivered under the Partnerships Victoria framework and is expected to cost in excess of \$130 million. Further cost information will be published following the tender process.

**Road safety investment**

As part of the Government's commitment to improving road safety, 25 new digital red light and speed detection cameras will be fitted at intersections throughout Victoria. A further 26 existing red light cameras will be upgraded to speed and red light cameras.

## Natural Resources and Environment

### Output initiatives

**Table A12: Output initiatives – Department of Natural Resources and Environment**

	(\$ million)				
	2001-02	2002-03	2003-04	2004-05	2005-06
Special Power Payment	118.0	..	..	..	..
Imported red fire ants eradication	4.3	..	..	..	..
New directions for sustainable forestry	..	25.0	40.0	11.0	4.0
Community building – achieving reconciliation with indigenous Victorian communities	..	3.6	3.6	2.6	1.9
FarmBis	..	4.0	4.0	..	..
Marine national parks	..	..	1.1	1.0	1.1
Community engagement in enhanced fox management	..	0.9	1.1	1.1	..
Implementation of the Box–Ironbark Forests Adjustment Package	..	5.6	5.6	5.3	4.3
Victorian Ovine Johne's disease control program	..	2.5	2.5	2.6	2.7
Gippsland Lakes rescue package	..	2.7	3.2	3.7	3.2
Implementation of Second Generation Landcare Action Plan	..	1.5	1.5	1.5	1.5
Risk mitigation for alpine resorts	..	1.0	1.0	1.0	1.0
Protecting Victoria's food and agricultural exports	..	1.1	1.1	1.1	1.1
Healthy Rivers and Environmental Flows	..	3.5	3.6	3.5	..
Victorian Agribusiness Network – Think Globally, Act Locally	..	0.8	0.8	0.8	0.8
River Murray environmental flows	15.0	..	..	..	..
<b>Total output initiatives</b>	<b>137.3</b>	<b>52.0</b>	<b>69.0</b>	<b>35.2</b>	<b>21.6</b>

Source: Department of Treasury and Finance

### Special Power Payment

The Government has allocated \$118 million in 2001-02 to provide assistance to householders, small businesses, and farmers in outer suburban and regional and rural areas. The rebate means the average power bill paid by these customers will generally be no more than the highest average bill in the city for customers on equivalent tariffs.

The \$118 million rebate package includes additional assistance for small business and farm customers on higher consumption tariffs who have an unusually high level of off-peak use.

### **Imported red fire ants eradication**

The Government has committed funds under a national campaign to eradicate fire ants. The eradication program involves baiting of ants and extensive monitoring and surveillance. Funding provided in 2001-02 represents Victoria's matching contribution to the national red fire ant eradication program.

### **New directions for sustainable forestry**

The Government is taking swift action to save the hardwood timber industry and give it a long-term sustainable future. Funding is provided over the next four-years for a voluntary reduction scheme to buy back licences, assist workers and affected communities, implement the recommendations of the Expert Data Reference Group, set up a new entity (VicForests) to manage the state forests on a sustainable and commercial footing, establish a sustainable Timber Industry Council and improve the stewardship of our forests. Our Forests, Our Future will ensure our forests, the timber industry and their communities are protected for the long-term.

### **Community building – achieving reconciliation with indigenous Victorian communities**

This initiative targets areas of indigenous disadvantage and will progress reconciliation between indigenous and non-indigenous Victorians. The initiative includes three components – Indigenous Family Violence Strategy, Stolen Generation Initiative, and an Indigenous Community Capacity Building Program.

### **FarmBis**

The FarmBis initiative matches Commonwealth funding and will continue to provide grants to farmers undertaking training to upgrade their farm business and natural resource management skills. The national FarmBis program aims to improve the financial self-reliance of the farming sector.

### **Marine national parks**

The Government is committed to introducing a world-class system of 13 marine national parks and 11 sanctuaries along the Victorian coastline. This additional funding will cover increased implementation costs.

### **Community engagement in enhanced fox management**

Funding is provided for fox management which will include a trial bounty program and regional fox action plans. Research based monitoring and evaluation processes and alternate fox management technologies will also be developed. Fox management will be based on the different landscapes, and will enhance biodiversity.

### **Implementation of the Box–Ironbark Forests Adjustment Package**

This initiative implements the Government's response to the Environment Conservation Council's recommendations in relation to box-ironbark forests and woodlands. The funding is for a structural adjustment package for affected forest industry workers and businesses, establishment costs for parks, state forests and reserves, ongoing public land management including integrated pest plant and animal management, community capacity building and participation and development of an energy strategy.

### **Victorian Ovine Johne's disease control program**

The Victorian Ovine Johne's Disease (OJD) control program will shift the emphasis from eradicating to controlling it. The program will also provide active support for producers through on-farm management plans and greatly improved communication with affected producers. The initiative provides coordination of counselling and other assistance at the local community level, and communication and information dissemination.

### **Gippsland Lakes rescue package**

This initiative will reduce the severity and occurrence of algal blooms in the Gippsland Lakes. Specific components are to: establish priority areas for nutrient management works and the nutrient reduction targets within these areas; provide incentives for landowners to implement best practices to reduce fertiliser run-off; undertake on-ground works to complement nutrient management works (e.g. revegetation, water management structures); and complete further technical and scientific investigation into the control and management of algal blooms.

### **Implementation of Second Generation Landcare Action Plan**

The Second Generation Landcare Action Plan will improve land management and use, including the uptake of sustainable practices, by funding support for Landcare groups. It will provide nine regional Landcare coordinators and a statewide Landcare position to develop and implement regional five-year support strategies, engage the community and undertake community advocacy, and fund support for volunteers and community engagement.

### **Risk mitigation for alpine resorts**

This initiative will continue implementation of a land stability/risk management program (geotechnical engineering investigations, remedial works, and monitoring systems) in Victoria's alpine resorts to support their sustainable use and development.

### **Protecting Victoria's food and agricultural exports**

This initiative will help to upgrade the Department of Natural Resources and Environment's biosecurity services for diseases and pests, particularly foot and mouth disease and mad cow disease, thereby addressing the increasing risks to market access, food safety and supply, human health, the rural economy and the environment.

### **Healthy Rivers and Environmental Flows**

This initiative will improve environmental flows in priority stressed rivers by developing regional river health strategies, implementing priority works and implementing measures to improve irrigators' water use efficiency. It forms a major contribution towards meeting Victoria's 2002 environmental commitments under the Council of Australian Governments' water reform framework. It will also include complementary works (such as riparian restoration, fishways enhancement and instream habitat restoration), and will enable the Environment Protection Authority to undertake regular monitoring and evaluation of water quality and river health.

### **Victorian Agribusiness Network – Think Globally, Act Locally**

Funding for this initiative will set up additional infrastructure to extend the agribusiness forum framework. The Agribusiness Network will promote regional agribusiness development through activities such as regional agribusiness audits, regional branding, regional agribusiness development plans, participation in trade shows, the distribution of market information, and export training.

### **River Murray environmental flows**

Victoria has allocated \$15 million to improve the health of the River Murray. South Australia will also contribute funding to this goal, providing \$10 million of the total \$25 million by 1 July 2005. The funding aims to achieve a range of environmental objectives, including increasing flows in the River Murray by up to 30–gigalitres on top of the 70–gigalitres targeted in the outcomes of the Snowy Water Inquiry.

## Asset investment initiatives

**Table A13: Asset investment initiatives – Department of Natural Resources and Environment**

	(\$ million)					TEI
	2001-02	2002-03	2003-04	2004-05	2005-06	
Improving quality and access to Victoria's parks	..	0.7	1.5	1.7	0.1	4.0
Cooperative Research Centre for Clean Power from Lignite	..	0.7	0.7	0.7	0.7	2.8
Bendigo consolidation and Bairnsdale replacement	..	2.8	7.6	0.4	..	10.8
CBD accommodation consolidation	..	9.2	8.3	..	..	17.5
Piping the System – Wimmera-Mallee (state component only)	..	7.8	7.7	7.7	7.7	76.8
Land Exchange	..	11.2	10.3	2.5	..	24.0
Showgrounds redevelopment	..	25.2	50.3	25.2	..	100.7
<b>Total asset investment initiatives</b>	<b>0.0</b>	<b>57.5</b>	<b>86.4</b>	<b>38.2</b>	<b>8.5</b>	<b>236.6</b>

Source: Department of Treasury and Finance

### Improving quality and access to Victoria's parks

This initiative is for works involving repairs and upgrades to four dam structures and decommissioning of two dams. The works are to reduce risks to acceptable levels following evaluations by the Snowy Mountain Engineering Corporation in light of the probability and potential consequences of failure.

### Cooperative Research Centre for Clean Power from Lignite

Funding for the Cooperative Research Centre for Clean Power from Lignite will jointly fund (with the Commonwealth Government, industry and academia) Australia's only research body that develops technologies to reduce greenhouse emissions from brown coal. Development of this technology is likely to maintain Victoria's comparative advantage in low-cost electricity generation, which will contribute to the State's environmentally sustainable economic growth.

### **Bendigo consolidation and Bairnsdale replacement**

This funding is to consolidate four separate Department of Natural Resources and Environment locations onto one existing site in Bairnsdale and to consolidate two locations and extend the existing office facility for new programs in Bendigo. Emergency response infrastructure will be upgraded in Bairnsdale as well as providing a 'One-Stop Shop' and addressing occupational health and safety issues. The Bendigo consolidation will provide facilities for existing programs at Epsom and provision for staff to manage new programs related to the National Action Plan for Water Quality and Salinity and Box-Ironbark.

### **CBD accommodation consolidation**

This initiative will provide for the fit-out of new CBD accommodation for the Department's Melbourne offices. This will consolidate the Department's activities (excluding Land Victoria) into one CBD location. This consolidation will take advantage of the completion of current leasing arrangements to address accommodation occupational health and safety issues and improve the Department's operational effectiveness.

### **Piping the System – Wimmera-Mallee**

Subject to Commonwealth matching funding and confirmation of feasibility, this initiative will replace the existing 17 500 kilometres of open channels with a new pipeline system in the Wimmera-Mallee region. This system will provide a more secure and higher quality water supply for domestic and stock use. Water saved by curtailing the current massive losses of over 70 per cent from evaporation and seepage will be allocated to stressed river systems and new agricultural and other developments in the Wimmera-Mallee region.

### **Land Exchange**

The Land Exchange will provide business with a single point of access to state and local government land information and transactions through a comprehensive commercial online marketplace. The Land Exchange will also include an electronic conveyancing system for transferring ownership in land, a digital vendor certificate system, and an online application/planning permit process.

### **Showgrounds redevelopment**

Funding of \$101 million has been provided to redevelop the Royal Melbourne Showgrounds at Ascot Vale. The redevelopment will address compliance and safety issues at the Showgrounds, and will provide high quality facilities for the Royal Melbourne Show and other activities held at the site.

## Premier and Cabinet

### Output initiatives

**Table A14: Output initiatives – Department of Premier and Cabinet**

	(\$ million)				
	2001-02	2002-03	2003-04	2004-05	2005-06
Victorian Electronic Records Strategy – Centre of Excellence	..	1.5	1.2	..	..
Australian Graduate School of Government	..	2.4	0.4	0.5	0.5
Museum Victoria new spaces	4.8	4.3	4.3	4.3	4.3
State Library of Victoria new spaces	..	0.3	0.8	1.5	1.5
State-owned facilities new spaces	..	0.7	0.7	0.7	0.7
Language services provision	..	0.5	0.5	0.5	0.5
Victorian Multicultural Commission grant program	..	0.3	0.8	0.8	0.8
Enhancing skills and capabilities of the public sector	..	2.3	2.3	2.3	2.3
Regional Arts Infrastructure Fund	..	0.5	0.5	0.5	0.5
Melbourne Symphony Orchestra	0.4	..	..	..	..
Gift to East Timor	0.1	..	..	..	..
<b>Total output initiatives</b>	<b>5.3</b>	<b>12.7</b>	<b>11.4</b>	<b>11.0</b>	<b>11.0</b>

Source: Department of Treasury and Finance

#### Victorian Electronic Records Strategy – Centre of Excellence

Funding is provided for the Electronic Records Centre of Excellence which is the first step in the implementation of the Public Record Office Victoria's Victorian Electronic Records Strategy across Government. This will ensure that the important digital information of the Government is securely managed and accessible in the long term (20+ years).

#### Australian Graduate School of Government

In February 2001 the Premier announced that Victoria would work with universities and other governments to develop a world-class school of government. Funding has been provided to support the initial set-up costs associated with the School and an ongoing endowment.

#### Museum Victoria new spaces

Since opening the Melbourne Museum at Carlton Gardens in October 2000, Museum Victoria revised its costs and revenues estimates for the operation of the campus. The additional funding is designed to enable the Melbourne Museum to continue to deliver the current levels of visitor experience, improved research, new exhibitions and maintenance of collections and the building.

**State Library of Victoria new spaces**

Additional funds have been provided to address operating costs associated with increased open access spaces resulting from the Library's redevelopment.

**State-owned facilities new spaces**

Funding has been provided for the Malthouse Plaza and the Museum of Modern Art at Heide to address additional costs associated with maintenance, essential services, programming and increased gallery spaces.

**Language services provision**

Funding has been provided to enable the Victorian Office of Multicultural Affairs to implement a range of ongoing improvements to service delivery designed to generally improve the level of supply and quality of interpreters.

**Victorian Multicultural Commission grant program**

Funding has been provided to continue the Government's commitment to expanding the Victorian Multicultural Commission community grants program.

**Enhancing skills and capabilities of the public sector**

Funding has been provided for a new division within the Department to lead public service employment issues and represent the interests of government as employer. This involves a transfer of functions from the Office of Public Employment and Industrial Relations Victoria.

**Regional Arts Infrastructure Fund**

Funds have been provided to continue the Government's election commitment to a Regional Arts Infrastructure Fund to tackle the backlog of arts infrastructure projects in regional Victoria. This fund will provide additional capital funds to improve regional museum buildings, concert halls, theatre and other cultural facilities.

**Melbourne Symphony Orchestra**

The State Government has provided funds to support the Melbourne Symphony Orchestra's tour of China and participation in the Shanghai International Festival.

**Gift to East Timor**

Funds have been provided to help develop soccer infrastructure in East Timor through the East Timor Football Federation and provide equipment and uniforms for the sporting events that will take place as part of the East Timor independence celebrations.

## Asset investment initiatives

**Table A15: Asset investment initiatives – Department of Premier and Cabinet**

	(\$ million)					TEI
	2001-02	2002-03	2003-04	2004-05	2005-06	
Victorian Electronic Records Strategy – Repository	..	2.5	3.0	..	..	5.5
Exhibition redevelopment – Museum Victoria	..	1.3	1.4	..	..	2.7
Victorian Arts Centre Trust	..	2.1	2.1	2.1	2.1	8.4
Yarra Precinct arts integration project	..	2.5	10.0	14.0	15.5	61.0
Malthouse Plaza	0.7	..	..	..	..	0.7
<b>Total asset investment initiatives</b>	<b>0.7</b>	<b>8.4</b>	<b>16.5</b>	<b>16.1</b>	<b>17.6</b>	<b>78.3</b>

Source: Department of Treasury and Finance

### Victorian Electronic Records Strategy – Repository

This funding is to enable the Public Records Office Victoria to build appropriate infrastructure to support the Victorian Electronic Records Strategy and house the permanent electronic records of the State.

### Exhibition redevelopment – Museum Victoria

Additional funds are provided to enable the Scienceworks campus of Museum Victoria to refresh and renew a number of its permanent exhibits.

### Victorian Arts Centre Trust

Funding is provided to enable the Victorian Arts Centre Trust to implement its 25-year asset management plan which focuses on the responsible management of the Trust's significant physical assets.

### Yarra Precinct arts integration project

Funding for a new project to provide a 1000-seat recital hall, a permanent home for the Melbourne Theatre Company and a pedestrian connection between the arts precinct and Southbank.

### Malthouse Plaza

Additional funds have been provided to enable the completion of public open space amenity works surrounding the new contemporary art complex at the Malthouse Plaza.

## Tourism, Sport and the Commonwealth Games

### Output initiatives

**Table A16: Output initiatives – Department of Tourism, Sport and the Commonwealth Games**

	(\$ million)				
	2001-02	2002-03	2003-04	2004-05	2005-06
Assistance to Victorian racing industry	..	4.0	4.0	4.0	4.0
Tourism recovery package	10.0	..	..	..	..
Commonwealth Games Organising Committee	..	10.4	..	..	..
Office of Commonwealth Games Coordination	..	1.8	..	..	..
Commonwealth Games Athletes' Village	..	1.5	..	..	..
Safer and improved aquatic recreation	..	2.2	..	..	..
Injury prevention and women's participation in sport	..	0.3	0.3	0.3	0.3
Melbourne Convention and Visitors Bureau	..	1.5	1.5	1.5	1.5
Tourism marketing	..	0.6	..	..	..
Licence fees for the Australian Commonwealth Games Association and the Commonwealth Games Federation	21.4	..	..	..	..
Victorian Institute of Sport	1.5	..	..	..	..
Kardinia Park redevelopment	0.2	..	..	..	..
<b>Total output initiatives</b>	<b>33.1</b>	<b>22.3</b>	<b>5.8</b>	<b>5.8</b>	<b>5.8</b>

Source: Department of Treasury and Finance

#### Assistance to Victorian racing industry

The 2001-02 Budget provided transitional funding to compensate the Victorian racing industry from the impact of the additional government levy on gaming machines. Compensation funding is now being extended beyond the 2001-02 financial year to cover future year impacts of the additional gaming machine levy on the Victorian racing industry. This is to be reviewed in 2004-05.

#### Tourism recovery package

Funding is allocated in 2001-02 to provide assistance to the tourism industry in response to the Ansett collapse and terrorism. The funding is to be directed to domestic and international marketing and promotion of Victoria to help minimise the impacts.

### **Commonwealth Games Organising Committee (M2006)**

Funding is provided to the 2006 Commonwealth Games Organising Committee to continue the detailed planning and coordination for the Melbourne 2006 Commonwealth Games.

### **Office of Commonwealth Games Coordination**

Funding is provided to establish a dedicated Office of Commonwealth Games Coordination within the Department of Tourism, Sport and the Commonwealth Games. The office will be the Government's liaison point with M2006 and manage the Government's involvement in the preparations for the Melbourne 2006 Commonwealth Games.

### **Commonwealth Games Athletes' Village**

Funding is provided for the continuation of project management and the tender process for the design and construction of the Commonwealth Games Athletes' Village. The village will accommodate the 6 000 athletes and officials involved in the Commonwealth Games. The Commonwealth Games Athletes' Village project is a joint venture between the private and public sectors.

### **Safer and improved aquatic recreation**

Funding is provided from the Community Support Fund for the continuation of the Government's safer and improved aquatic recreation policy. Specific initiatives include improved water safety signage and public awareness campaign designed to prevent toddler drownings.

### **Injury prevention and women's participation in sport**

Funding is provided from the footy tipping competition revenue for improved research and evaluation in the areas of women's sport and sports injury. This policy includes funding for up to eight research grants in this area.

### **Melbourne Convention and Visitors Bureau**

Funding is provided for the Melbourne Convention and Visitors Bureau to expand international sales activities in key markets and expand current levels of promotional programs established around conference-related trade events.

### **Tourism marketing**

Funding is provided to Tourism Victoria for activities to be undertaken as part of tourism promotion at the Manchester 2002 Commonwealth Games. These activities include international promotional activities in key Commonwealth markets, familiarisation programs with inbound operators and journalists, and local and interstate campaigns to increase interest in the 2006 Commonwealth Games.

### **Licence fees for the Australian Commonwealth Games Association and the Commonwealth Games Federation**

Funding is provided in 2001-02 for upfront payment of the remaining outstanding licence fees to the Australian Commonwealth Games Association and the Commonwealth Games Federation.

### **Victorian Institute of Sport**

Additional funding is provided in 2001-02 to enable the Victorian Institute of Sport to intensify talent identification in Commonwealth Games sports, for example to boost the Victorian representation at the Melbourne 2006 Commonwealth Games.

### **Kardinia Park redevelopment**

Funding is provided in 2001-02 to undertake additional work on the proposed redevelopment of Kardinia Park. This involves examining issues such as the socio-economic impacts on Geelong and the region, options for project delivery and options for future stadium management.

### *Asset investment initiatives*

**Table A17: Asset investment initiatives – Department of Tourism, Sport and the Commonwealth Games**

	(\$ million)					
	2001-02	2002-03	2003-04	2004-05	2005-06	TEI
Melbourne Sports and Aquatic Centre	..	7.0	22.0	21.0	..	50.0
Sports and recreation camps	..	0.8	..	..	..	0.8
<b>Total asset investment initiatives</b>	<b>0.0</b>	<b>7.8</b>	<b>22.0</b>	<b>21.0</b>	<b>0.0</b>	<b>50.8</b>

*Source: Department of Treasury and Finance*

### **Melbourne Sports and Aquatic Centre**

Funding is provided for the redevelopment of the Melbourne Sports and Aquatic Centre (MSAC). The MSAC redevelopment will involve the construction of a 12 000-seat capacity competition pool as well as car parking and leisure water facilities.

### **Sport and recreation camps**

Funding is provided for upgrading sport and recreation camps located at Howman's Gap, Manyung and Mt Evelyn to eliminate potential risks to employees and the general public using these facilities.

## Treasury and Finance

### Output initiatives

**Table A18: Output initiatives – Department of Treasury and Finance**

	(\$ million)				
	2001-02	2002-03	2003-04	2004-05	2005-06
Essential Services Commission	..	4.3	4.4	4.4	4.4
SRO compliance activity	..	2.6	1.6	..	..
Ensuring DTF's policy and risk management capability	..	3.5	3.5	3.5	3.5
<b>Total output initiatives</b>	<b>0.0</b>	<b>10.4</b>	<b>9.5</b>	<b>7.9</b>	<b>7.9</b>

Source: Department of Treasury and Finance

#### Essential Services Commission

Additional funds to provide for the ongoing operation of the Commission which is charged with ensuring high quality, reliable and safe provision of electricity, gas and water services for all Victorians. Funding for the Commission follows the completion of the budget and management review that was undertaken during 2001-02.

#### SRO compliance activity

Funding is provided to the State Revenue Office to increase the level of compliance activity, using online compliance measures and data-matching methodology with respect to payroll tax and document return duty on behalf of the State Revenue Office.

#### Ensuring DTF's policy and risk management capability

Additional funding is provided to enable the Department to meet its expanded service delivery requirements.

### Asset investment initiatives

**Table A19: Asset investment initiatives – Department of Treasury and Finance**

	(\$ million)					
	2001-02	2002-03	2003-04	2004-05	2005-06	TEI
Refurbishment of floors 1 and 2 of 565 Lonsdale Street	..	2.9	..	..	..	2.9
IT network upgrade	2.0	..	..	..	..	2.0
<b>Total asset investment initiatives</b>	<b>2.0</b>	<b>2.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>4.9</b>

Source: Department of Treasury and Finance

### **Refurbishment of floors 1 and 2 of 565 Lonsdale Street**

Funding has been approved to allow the refurbishment of two floors at 565 Lonsdale Street vacated by the County Court. The project will convert the current specific purpose courtrooms and central congregation areas to office space to enable the Victorian Government Reporting Service to occupy the floors, following the expiry of the Service's current lease.

### **IT network upgrade**

Funding has been provided to assist with the upgrade of the present IT network configuration supporting the Departments of Treasury and Finance and Premier and Cabinet, which has been in place for the last 3½ years and is considered to be old technology by current industry standards.

## **Parliament**

### **Output initiatives**

**Table A20: Output initiatives – Parliament**

	(\$ million)				
	2001-02	2002-03	2003-04	2004-05	2005-06
Electorate Office redistribution	..	..	1.9	..	..
IT catch-up initiatives	..	2.8	0.8	0.9	0.8
Human resource system (Empower)	..	0.1	0.0	0.0	0.0
Electronic news service	..	0.3	0.3	0.3	0.3
Parliamentary Chambers audio system	..	0.1	0.1	0.1	0.1
<b>Total output initiatives</b>	<b>0.0</b>	<b>3.3</b>	<b>3.0</b>	<b>1.3</b>	<b>1.1</b>

*Source: Department of Treasury and Finance*

### **Electorate Office redistribution**

Additional funds have been provided to enable the relocation of 14 member offices as a result of the Australian Electorate Commission redistribution of Victoria's state electoral boundaries.

### **IT catch-up initiatives**

Funding is provided to enable Parliament to address a number of critical shortfalls. This initiative will provide Parliament with a standard operating environment consistent with government departments and enable it to interact online with these departments and agencies.

### **Human resource system (Empower)**

Funding is provided to allow Parliament to enter into an ongoing contract with Empower to provide its human resource system and to implement a number of improvements to optimise the use of technology-based solutions for a broader range of HR issues.

### Electronic news service

Parliament will implement an electronic news service for Members of Parliament in partnership with Australian Associated Press.

### Parliamentary Chambers audio system

Funding has been provided for the ongoing maintenance of the audio system in the Legislative Council and Legislative Assembly.

### Asset investment initiatives

**Table A21: Asset investment initiatives – Parliament**

	(\$ million)					
	2001-02	2002-03	2003-04	2004-05	2005-06	TEI
Air quality improvement project (stage 3 and 4)	..	1.4	..	..	..	1.4
Refurbishment of the Legislative Assembly Chamber	..	0.9	..	..	..	0.9
Refurbishment of office accommodation at 157 Spring Street	..	1.2	..	..	..	1.2
<b>Total asset investment initiatives</b>	<b>0.0</b>	<b>3.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>3.5</b>

Source: Department of Treasury and Finance

#### Air quality improvement project (stage 3 and 4)

Additional funds have been provided to complete the installation of air conditioning throughout Parliament House and address additional requirements related to the heritage status of the building.

#### Refurbishment of the Legislative Assembly Chamber

Additional funds have been provided for this project to address costs associated with heritage considerations and to take advantage of the refurbishment to complete disability access to the public and press gallery spaces and install integrated technology for lighting, audio and data cabling.

#### Refurbishment of office accommodation at 157 Spring Street

Funding is provided for costs associated with the fit-out and refurbishment of office space located at 157 Spring Street.

## REVENUE INITIATIVES

**Table A22: Revenue initiatives**

	(\$ million)				
	2001-02	2002-03	2003-04	2004-05	2005-06
Bring forward payroll tax threshold increase to 1 July 2002	..	-23.0	-2.0	..	..
Bring forward payroll tax rate cut to 5.35 per cent to 1 July 2002	..	-47.0	-4.0	..	..
Payroll tax rate reduction to 5.25 per cent from 1 July 2003	..	-	-49.0	-56.0	-59.0
Increase in land tax threshold	..	-3.0	-3.0	-3.0	-3.0
Bring forward abolition of stamp duty on unquoted marketable securities	..	-10.0	..	..	..
Reforming existing concessions on conveyancing duty	..	-13.0	-13.0	-13.0	-13.0
<b>Total revenue initiatives</b>	<b>0.0</b>	<b>-96.0</b>	<b>-71.0</b>	<b>-72.0</b>	<b>-75.0</b>

Source: Department of Treasury and Finance

### **Bring forward the payroll tax threshold increase to 1 July 2002**

The decision to increase the payroll tax threshold to \$550 000 (from \$515 000) on 1 July 2003 was part of the Bracks Government's package of *Better Business Taxes* aimed at, among other things, reducing the burden of payroll tax for all Victorian businesses.

This initiative, announced in the Government's *Building Tomorrow's Businesses Today* package, brings forward the previously announced increase in the payroll tax threshold to \$550 000 by one year to 1 July 2002. This will have a one-off impact on business growth and employment in Victoria. Over 300 small Victorian businesses that have been liable to payroll tax in the past will now drop out of the net one year earlier than they would otherwise. The majority of these businesses are likely to be in the manufacturing, wholesale trade and the property and business services sectors. This change will also reduce tax compliance costs for small businesses that will move below the payroll tax threshold.

### **Bring forward the payroll tax rate cut to 1 July 2002**

The decision to reduce the payroll tax rate to 5.35 per cent (from 5.45 per cent) on 1 July 2003 was also part of the Bracks Government's package of *Better Business Taxes* aimed at, among other things, reducing the burden of payroll tax for all Victorian businesses and consolidating Victoria's payroll tax competitiveness position.

This initiative, announced in *Building Tomorrow's Businesses Today*, brings forward the previously announced reduction in the payroll tax rate to 5.35 per cent by one year to 1 July 2002.

Reducing the payroll tax rate will lower the payroll tax burden by 1.8 per cent for around 12 000 payroll tax paying employer groups one year earlier than would otherwise occur, providing a boost to employment for the Victorian economy.

**Payroll tax rate reduction to 5.25 per cent from 1 July 2003**

The Victorian Government will further reduce the payroll tax rate to 5.25 per cent from 1 July 2003 in light of its commitment to improve the tax environment for business. This *Building Tomorrow's Businesses Today* initiative will represent a 9 per cent reduction in the payroll tax rate under the Bracks Government.

**Increase in land tax threshold to \$150 000 from \$125 000**

The land tax threshold was raised from \$85 000 to \$125 000 as part of the Bracks Government's *Better Business Taxes* package. At the time, this reform was expected to remove 46 000 small businesses, investors and self-funded retirees from the land tax net in 2001-02.

The *Building Tomorrow's Businesses Today* initiative to increase the land tax threshold to \$150 000 will remove 21 000 land tax payers from the burden of paying land tax in the 2003 land tax year.

**Bring forward the abolition of stamp duty on unquoted marketable securities**

Stamp duty on unquoted marketable securities impedes investment decisions and financing, especially for small businesses. As part of the Government's commitment to improve business outcomes through the *Building Tomorrow's Businesses Today* package, it will bring forward the previously announced abolition of unquoted marketable securities by one year (from 1 July 2003 to 1 July 2002).

**Reforming existing concessions on conveyancing duty**

The Government has reformed, streamlined and expanded existing concessions for conveyancing duty to target concession card holders and first home buying families with dependent children. As a result, a full concession of up to \$4 660 will be available from 1 July 2002 for the purchase of homes valued up to \$150 000 for eligible persons and a partial concession for the purchase of homes valued between \$150 000 and \$200 000. The income test for families will be removed. Total beneficiaries under both schemes are likely to almost double to about 8 000.

## SAVINGS INITIATIVES

	(\$ million)			
	2002-03	2003-04	2004-05	2005-06
Government motor vehicle fleet savings	-3.5	-7.5	-9.0	-10.5
Motor vehicle registration labels (DOI)	..	-1.0	-3.4	-3.4
Rural and regional (DIIRD)	-2.0	-2.0	-2.0	-2.0
Corporate service savings (DoJ)	..	-0.6	-1.2	-1.2
<b>Total revenue initiatives</b>	<b>-5.5</b>	<b>-11.1</b>	<b>-15.6</b>	<b>-17.1</b>

Source: Department of Treasury and Finance

### Government motor vehicle fleet savings

A range of initiatives will be implemented across Government to curtail costs associated with the motor vehicle fleet and reduce the associated greenhouse emissions. These initiatives include changed vehicle retention regimes, a modest reduction in the fleet size, the appropriate use of high environmental performance vehicles, increased use of LPG and four cylinder vehicles, the examination of options for regional car pools and more comprehensive driver training.

### Motor vehicle registration labels

Savings will be generated by VicRoads as a result of the suspension of the issue of motor vehicle registration labels from the 2003-04 financial year. The issue of registration labels is not required as they are not used by Victoria Police or VicRoads to authenticate vehicle registration. Verification of vehicle registration can only reliably occur by contacting VicRoads directly. Motorists will continue to receive invoices.

### Living Regions, Living Suburbs

The Living Regions, Living Suburbs fund will be reduced by \$2 million ongoing. This funding will be redirected to the Government's other rural and regional activities.

### Corporate service savings

Streamlining a number of corporate business units across the Justice portfolio will result in operational savings of \$0.6 million in 2003-04 and \$1.2 million ongoing. The streamlining of business functions such as finance, human resources, IT support, property management and fleet services will assist in improving coordination and consistency across the Justice portfolio.

## APPENDIX B: GROWING VICTORIA INFRASTRUCTURE RESERVE

**Table B1: Growing Victoria infrastructure reserve – funding by project**

<i>Project</i>	<i>(\$ million)</i>					<i>TEI<sup>(a)</sup></i>
	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>	<i>from GV</i>
<b>Linking Victoria</b>						
Fast rail links to regional centres (DOI)	32.0	110.0	110.0	170.0	128.0	550.0
<b>Total allocated to Linking Victoria</b>	<b>32.0</b>	<b>110.0</b>	<b>110.0</b>	<b>170.0</b>	<b>128.0</b>	<b>550.0</b>
<b>Skilling Victoria</b>						
Modernisation/upgrade of facilities – schools (DE&T) <sup>(b)</sup>	53.0	..	..	..	..	110.0
Innovating Victoria: Enhanced learning environments – schools (DE&T)	21.9	36.8	31.3	..	..	90.0
Innovating Victoria: Enhanced learning environments – TAFE (DE&T)	9.2	23.3	12.5	..	..	45.0
Education precinct in Gippsland (DE&T)	2.5	7.0	1.0	..	..	10.5
Ballarat Vocational Education and Training Centre (DE&T)	2.0	3.0	..	..	..	5.0
Modernisation of facilities – Maryborough education precinct (DE&T)	0.6	..	..	..	..	0.6
Australian College of Wine (DE&T)	4.0	3.4	..	..	..	7.4
Bacchus Marsh Science and Technology Centre (DE&T)	1.8	2.2	..	..	..	4.0
Gene Technology Access Centre (DE&T)	2.2	1.4	0.6	..	..	4.2
Space Science Education Centre (DE&T)	2.4	2.8	1.2	..	..	6.4
Science innovation and education precincts across regional Victoria (DNRE)	10.0	20.0	20.0	..	..	50.0
<b>Total allocated to Skilling Victoria</b>	<b>109.6</b>	<b>99.9</b>	<b>66.6</b>	<b>..</b>	<b>..</b>	<b>333.1</b>

**Table B1 (cont): Growing Victoria infrastructure reserve – funding by project**

<i>Project</i>	(\$ million)					<i>TEJ<sup>(a)</sup></i>
	2001-02	2002-03	2003-04	2004-05	2005-06	from GV
<b>Connecting Victoria</b>						
E-Government – redevelopment of vic.gov.au portal (DIIRD)	4.0	..	..	..	..	4.0
Modernisation of school facilities to incorporate ICT (DE&T)	20.0	20.0	..	..	..	40.0
Broadband ICT delivery infrastructure for TAFE (DE&T)	6.8	8.1	4.1	..	..	19.0
Regional telecommunications infrastructure (DNRE)	2.4	0.3	0.3	..	..	3.0
Bridging the Digital Divide (DE&T)	17.0	3.0	3.0	..	..	23.0
Information and communication technology strategy for health care (DHS)	9.5	14.0	6.5	..	..	30.0
Land titles automation project (DNRE)	18.2	..	..	..	..	18.2
Information technology document management centre (DNRE)	4.8	..	..	..	..	4.8
<b>Total allocated to Connecting Victoria</b>	<b>82.7</b>	<b>45.4</b>	<b>13.9</b>	<b>..</b>	<b>..</b>	<b>142.0</b>
<b>Other asset projects <sup>(c)</sup></b>		315.0				<b>315.0</b>
<b>Total Growing Victoria allocation to date <sup>(b)</sup></b>	<b>224.2</b>	<b>570.3</b>	<b>190.5</b>	<b>170.0</b>	<b>128.0</b>	<b>1340.0</b>
<b>Unallocated <sup>(d)</sup></b>			<b>235.0</b>			<b>235.0</b>
<b>Total Growing Victoria infrastructure reserve</b>						<b>1575.0</b>

Source: Department of Treasury and Finance

Notes:

- (a) Total estimated investment.
- (b) Total estimated investment includes \$57 million expenditure in 2000-01, which is the difference between the sum of the years and the \$1340 million total.
- (c) Allocated to fund projects approved as part of 2002-03 asset program generally.
- (d) The unallocated component will contribute to funding Government's general asset investment initiatives in the 2003-04 Budget.

## **APPENDIX C: REVISED 2001-02 BUDGET OUTCOME**

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This appendix provides revised estimates of the reported budget outcome for the 2001-02 financial year. The revised 2001-02 estimates take into account government policy decisions and economic developments impacting on both revenue and expenses since the presentation of the 2001-02 Budget to Parliament.

### **REVISED 2001-02 STATEMENT OF FINANCIAL PERFORMANCE**

The revised 2001-02 statement of financial performance is presented in Table C1. The revised budget sector operating result for 2001-02 is a surplus of \$765 million, which is \$257 million higher than published at budget time in May 2001. The improvement in the budget outlook over this period is mainly attributable to stronger than expected revenue growth, partly offset by an increase in operating expenses. The latest estimate is marginally lower than the \$792 million forecast provided in the January 2002 Budget Update.

#### **Operating revenue**

Total estimated operating revenue for 2001-02 has been revised upward by \$1 541 million, or 6.6 per cent, from the budget estimate of \$23 466 million. A large part of the improvement in the revenue outlook is attributable to the continued strength of the Victorian economy. Property market activity, in particular, is much stronger than anticipated at budget time. There has also been higher than budgeted revenue from Commonwealth grants, investments and from a range of other miscellaneous revenue items.

**Table C1: 2001-02 Statement of financial performance**

	(\$ million)			
	2001-02 Budget	2001-02 Revised	Change	Change %
<b>Revenue</b>				
Taxation	7 976.5	8 758.0	781.4	9.8
Fines and regulatory fees	374.2	386.6	12.4	3.3
Investment revenue	938.2	1 049.4	111.3	11.9
Grants	11 311.7	11 755.3	443.6	3.9
Sale of goods and services	2 111.6	2 037.7	- 74.0	-3.5
Gains on the disposal of physical assets	13.2	24.0	10.8	81.6
Fair value of assets received free of charge	..	4.5	4.5	..
Inter sector capital asset charge	489.0	489.0	..	..
Other revenue	251.0	502.4	251.4	100.1
<b>Total revenue</b>	<b>23 465.5</b>	<b>25 006.8</b>	<b>1 541.3</b>	<b>6.6</b>
<b>Expenses</b>				
Employee entitlements	8 411.5	8 531.7	120.2	1.4
Superannuation	1 506.9	2 048.8	541.9	36.0
Depreciation	871.3	895.4	24.2	2.8
Amortisation	23.8	59.1	35.4	148.8
Borrowing costs	477.6	496.2	18.7	3.9
Grants and transfer payments	3 954.9	4 347.4	392.5	9.9
Supplies and services	7 672.3	7 830.0	157.7	2.1
Other expenses	38.8	32.8	- 6.0	-15.4
<b>Total expenses</b>	<b>22 957.0</b>	<b>24 241.5</b>	<b>1 284.5</b>	<b>5.6</b>
<b>Operating surplus</b>	<b>508.5</b>	<b>765.3</b>	<b>256.8</b>	<b>50.5</b>

Source: Department of Treasury and Finance

### Taxation

In 2001-02, state taxation revenue is expected to total \$8 758 million, \$781 million or 9.8 per cent higher than the 2001-02 Budget estimate (see Table C2). The anticipated additional revenue for 2001-02 mainly reflects higher collections of conveyancing and mortgage stamp duty revenue.

**Table C2: 2001-02 Taxation**

	(\$ million)			
	2001-02 Budget	2001-02 Revised	Change	Change %
Payroll tax	2 607.2	2 608.5	1.3	0.0
Taxes on property	659.7	614.4	- 45.3	-6.9
Financial and capital transactions	1 618.0	2 391.0	772.9	47.8
Gambling	1 374.1	1 373.4	- 0.7	-0.1
Insurance	695.8	725.5	29.7	4.3
Motor vehicles	989.9	1 013.4	23.5	2.4
Other licences and levies	31.7	31.7	..	..
<b>Total taxation</b>	<b>7 976.5</b>	<b>8 758.0</b>	<b>781.4</b>	<b>9.8</b>

Source: Department of Treasury and Finance

### ***Payroll tax***

Payroll tax revenue in 2001-02 is estimated to be \$2 609 million, which is on track with the 2001-02 Budget estimate.

### ***Taxes on property***

Taxes on property include land tax, the metropolitan improvement levy and local government contributions to fire brigades.

Total property tax collections in 2001-02 are estimated to be \$614 million, \$45 million or 6.9 per cent lower than the budget estimate, mainly due to lower than expected land tax revenue. The 2001-02 budget estimate for land tax was based on estimated land values as at 1 January 2000 using indicative equalisation factors provided by the Valuer-General while the current revised estimate is based on the actual site value of land as at 1 January 2000, as determined by individual local councils.

### ***Taxes on financial and capital transactions***

Taxes on financial and capital transactions include stamp duties principally from land transfers, mortgages and debits tax.

Total taxation revenue from financial and capital transactions in 2001-02 is estimated to be \$2 391 million, \$773 million or 47.8 per cent higher than the 2001-02 Budget estimate.

Stamp duty revenue from land transfers and mortgages accounts for \$759 million of the increase. The 2001-02 Budget estimates assumed a slowdown in property market activity which has failed to occur, indeed the property market has become stronger in terms of both prices and volumes.

The continuing strength in 2001-02 reflects several factors including strong population growth from interstate migration, the relative resilience of the Victorian economy and labour market during the current global slowdown, the First Home Owners' Grant, low interest rates and instability in equity markets.

### ***Gambling***

Aggregate gambling tax revenue in 2001-02 is estimated at \$1 373 million, largely unchanged from the 2001-02 Budget estimate.

### ***Insurance***

Insurance tax revenue in 2001-02 is estimated at \$726 million, which is \$30 million or 4.3 per cent higher than the 2001-02 Budget estimate.

Stamp duty from general (non-life) insurance accounts for the majority of the growth. Premiums for some risk categories (e.g. public liability and professional indemnity) rose substantially while household and motor vehicle premiums showed more moderate growth. The reasons for the strong premium growth include balance sheet improvements by insurers, cyclical price movements, recent world events and issues under investigation by the HIH Royal Commission.

### ***Motor vehicles***

Motor vehicle taxation revenue in 2001-02 is estimated at \$1 013 million which is \$24 million or 2.4 per cent higher than the 2001-02 Budget estimate. The higher than expected revenue largely reflects increases in both heavy vehicle registration fees and stamp duty revenue on motor vehicle transfers, reflecting strong population growth.

### ***Other licences and levies***

Revenue from other licences and levies comprises the landfill levy and Transurban concession fees and is in line with the 2001-02 Budget estimate.

### ***Fines and regulatory fees***

Revenue from fines and regulatory fees is estimated at \$387 million, which is \$12 million or 3.3 per cent higher than the 2001-02 Budget estimate. The estimated increase reflects stronger than expected growth in Traffic Camera Office fines.

### ***Investment income***

Total investment income is expected to be \$111 million higher than forecast in the 2001-02 Budget (see Table C3). This is largely due to an increase in interest revenue of \$111 million, mainly reflecting investment returns generated on higher than expected general government sector cash surpluses. 'Other' investment revenue is also higher than budgeted by \$60 million, mainly reflecting an increase in notional revenue of \$39 million associated with the centrally managed vehicle leasing facility and building rental and signage income (\$15 million) of hospitals.

These increases are partially offset by lower income tax equivalent revenue of \$68 million, mainly attributable to a refund for the overpayment of income tax by the Transport Accident Commission (TAC) in 2000-01, and the impact of lower than expected investment returns for the TAC in 2001-02. Dividend revenue is expected to be broadly in line with the 2001-02 Budget, with higher than anticipated dividends from water sector enterprises (reflecting increased activity in the property market) being offset by lower than anticipated dividends from the TAC.

**Table C3: 2001-02 Investment income**

	(\$ million)			
	2001-02 Budget	2001-02 Revised	Change	Change %
Dividends	498.9	505.1	6.2	1.2
Tax and rate equivalent revenue	120.3	52.4	- 67.9	-56.4
Interest	206.7	318.1	111.4	53.9
Investment gains	..	9.4	9.4	..
Royalties	42.0	41.3	- 0.6	-1.5
Rents	23.9	17.2	- 6.8	-28.3
Other	46.4	106.0	59.5	128.2
<b>Total investment revenue</b>	<b>938.2</b>	<b>1 049.4</b>	<b>111.3</b>	<b>11.9</b>

Source: Department of Treasury and Finance

## Grants

As highlighted in Table C4, total grants received are now expected to be \$444 million higher than budget, with both general purpose and specific purpose grants contributing approximately equal proportions to the overall grants increase. It is noteworthy that in both cases there is typically an associated spending pressure such as a price increase, increased service need linked to population growth or a requirement to deliver agreed Commonwealth programs.

The increase in general purpose grants largely relates to increased expenditure on the First Home Owners Grant scheme, revised estimates of Victoria's share of the national population and CPI linked adjustments.

The increase in specific purpose payments from the Commonwealth, mainly relates to the Commonwealth New First Home Owners' Grant, fringe benefits tax transitional grants for public hospitals and higher than budgeted grants to TAFE by the Australian National Training Authority (ANTA) to fund extra training outcomes.

**Table C4: 2001-02 Grants**

	(\$ million)			
	2001-02 Budget	2001-02 Revised	Change	Change %
<b>Current grants</b>				
General purpose grants	6 583.7	6 799.3	215.6	3.3
Specific purpose grants for onpassing	1 146.1	1 143.9	- 2.2	-0.2
Other specific purpose grants	2 949.6	3 166.8	217.2	7.4
<b>Total current grants</b>	10 679.4	11 110.0	430.6	4.0
<b>Capital grants</b>				
Specific purpose grants for onpassing	110.7	113.3	2.6	2.3
Other specific purpose grants	521.6	532.0	10.4	2.0
<b>Total capital grants</b>	632.3	645.3	13.0	2.1
<b>Total grants</b>	11 311.7	11 755.3	443.6	3.9

Source: Department of Treasury and Finance

### **Sales of goods and services**

The 2001-02 revised estimate for sales of goods and services is \$2 038 million, which is \$74 million lower than the budgeted estimate of \$2 112 million. The variation is largely attributable to a \$170 million reclassification to 'Other revenue' to better reflect the nature of revenue raised by schools from their own external activities. This is partially offset by a range of miscellaneous variations including:

- a correction to the General Government Budget estimates to recognise, for the first time, revenue and expenses of a range of non-budget sector agencies (including the Building Control Commission, Docklands Authority, Melbourne Parks and Waterways, Shrine of Remembrance Trustees) has led to an increase in revenue of \$67 million;
- an increase in titles office revenue of \$20 million, resulting from strong activity in the property market; and
- increased fees of \$15 million received by Victorian hospitals for Veterans and repatriation services.

### **Other revenue**

The 2001-02 revised estimate for other revenue is \$502 million, which is \$251 million higher than the budget estimate. This is largely due to the \$170 million reclassification from 'Sales of goods and services' of miscellaneous revenue from schools' own external activities. Other factors contributing to the variance include an increase in third party revenue which is mainly from schools' locally raised funds, additional revenue from private donations to schools and the receipt of recovery money from Tricontinental which is paid as a dividend back to the State.

## Operating expenses

As shown in Table C1, general government sector operating expenses for 2001-02 are now forecast to be \$24 242 million, around 5.6 per cent or \$1 285 million above the budget estimate of \$22 957 million.

The increase in operating expenses since the 2001-02 published budget is attributable to a number of factors including:

- superannuation expenses being revised up since the 2001-02 Budget by \$542 million. This mainly reflects the impact of new actuarial projections of the State's unfunded superannuation liability which take into account a downward revision to the fund earnings assumption for 2001-02 due to weaker than expected equity markets as well as other revisions to underlying actuarial and economic assumptions, partly offset by savings from the Beneficiary Choice Program;
- higher than budgeted costs associated with implementation of changes to the national taxation system (\$123 million in 2001-02), mainly reflecting increased costs associated with the First Home Owners Grant Scheme;
- the impact of the Special Power Payment of \$118 million, which provides assistance to householders, small businesses and farmers in outer suburban and regional and rural areas;
- post-budget revisions to Commonwealth specific purpose grants are expected to contribute to an increase in expenses of \$105 million in 2001-02. This mainly reflects increased expenditure on the Commonwealth New First Home Owners' Grant. The First Home Owners' Grant was supposed to cease on 31 December 2001, however the Federal Government has extended it to 30 June 2002 resulting in estimated expenditure being revised up by \$67 million. Higher than budgeted Commonwealth funding for TAFE programs, the Commonwealth State Disability Agreement and special education programs in health services also contribute to the increase in specific purpose grants;
- increases in expenses of outer budget agencies funded by own source revenue of \$116 million (including first time recognition of expenses noted above in sales of goods and services);
- a range of further one-off output initiatives (\$84 million), details of which are provided in Appendix A, *Specific Policy Initiatives Affecting The Budget Position*, including:
  - \$6 million for initiatives which aim to reduce elective surgery patient waiting times and elective surgery waiting lists;

- funding for the Timber Communities in Partnership package (\$9 million) to assist rural and regional areas adversely affected by the restructuring of the State's timber industry;
- \$15 million to a joint fund shared with South Australia to boost water flows in the Murray River;
- additional funding for the purchase of sports and physical equipment (\$5 million) and for the purchase of library resources (\$5 million) in all government primary, secondary, special and language schools; and
- \$21 million for upfront payment of the remaining outstanding licence fees to the Australian Commonwealth Games Association (ACGA) and the Commonwealth Games Federation;
- amortisation of motor vehicle leases largely associated with the centrally managed vehicle leasing facility (\$32 million);
- costs of \$69 million in relation to an interim agreement with tram and train franchisees to enable settlement of contractual claims and disputes and a one-off payment tied to future agreements with operators on business recovery proposals. The interim agreement will bring greater certainty and stability to the franchised public transport system; and
- a range of miscellaneous variations including increased expenses funded by miscellaneous revenue sources, such as increased fees received by Victorian hospitals for Veterans and repatriation services, building rental and signage income and third party revenue in schools.

## **REVISED 2001-02 CASH FLOW STATEMENT**

Table C5 provides the revised cash flow statement for 2001-02.

Net cash flow from operating activities is now expected to be \$2 702 million compared with the published estimate of \$1 579 million. The \$1 124 million variation reflects a \$1 489 million increase in operating receipts and a \$365 million increase in payments in relation to operating activities.

The expected increase in receipts is attributable to the factors underpinning the \$1 541 million increase in operating revenue outlined earlier in this Appendix (see Table C1). The projected increase in payments is lower than the corresponding variance in operating expenses, mainly due to:

- lower than budgeted cash contributions to the State Superannuation Fund of \$353 million, reflecting post budget changes to the timing of superannuation contributions, including the bringing forward of the budgeted 2001-02 contribution to 2000-01;

- variations in expenses reflected in the revised operating result but not requiring a cash outlay (mainly in relation to the growth in unfunded superannuation liabilities) of \$542 million.

Net infrastructure investment (including net contributions to other sectors of government and the purchase of property, plant and equipment net of asset sales) is expected to total \$1 929 million in 2001-02, \$190 million higher than the original budget estimate. This increase reflects the result of the following asset investment developments since the 2001-02 Budget of:

- \$20 million being invested in 2001-02 in the development of a film and television studio complex at the Melbourne Docklands;
- a range of one-off initiatives (\$28 million) which includes \$25 million for the purchase of medical equipment for public hospitals;
- \$27 million relating to motor vehicle finance leases due to the upwards escalation of new car prices, largely through exchange rate variations;
- an additional \$44 million in 2001-02 towards the completion of Federation Square; and
- increased assets funded by own-source revenue in outer budget agencies accounts for the bulk of the balance, the most significant being \$41 million in schools.

Net additions to cash and financial investments (including net customer loans repaid and purchases of investments) totals \$809 million, which is \$1 035 million higher than the budget estimate. This reflects the impact of the higher than expected cash surplus, after allowing for the increased funding requirements of infrastructure investment activities.

**Table C5: 2001-02 Cash flow statement**

(\$ million)

	2001-02 Budget	2001-02 Revised	Change	Change %
<b>Cash flows from operating activities</b>				
<b>Receipts</b>				
Taxation	7 963.1	8 744.4	781.3	9.8
Fines and regulatory fees	304.7	302.7	- 2.0	-0.7
Grants	11 311.7	11 755.4	443.7	3.9
Sale of goods and services	2 110.3	2 021.7	- 88.6	-4.2
Interest received	206.7	318.0	111.3	53.9
Dividends received	498.9	505.1	6.2	1.2
Capital asset charge received	489.0	489.0	..	0.0
Other receipts	484.1	720.9	236.8	48.9
<b>Total receipts</b>	<b>23 368.4</b>	<b>24 857.2</b>	<b>1 488.8</b>	<b>6.4</b>
<b>Payments</b>				
Employee entitlements	8 245.2	8 366.9	121.7	1.5
Superannuation	1 371.8	1 060.4	- 311.4	-22.7
Grants and transfer payments	3 953.0	4 345.8	392.8	9.9
Supplies and services	7 661.6	7 836.0	174.4	2.3
Interest paid	558.1	540.4	- 17.6	-3.2
Other payments	0.2	5.7	5.6	3249.1
<b>Total payments</b>	<b>21 789.8</b>	<b>22 155.1</b>	<b>365.3</b>	<b>1.7</b>
<b>Net cash flows from operating activities</b>	<b>1 578.6</b>	<b>2 702.1</b>	<b>1 123.5</b>	<b>71.2</b>
<b>Cash flows from investing activities</b>				
Net customer loans repaid	70.6	45.6	- 25.0	-35.5
Net purchases of investments	126.0	- 830.2	- 956.1	-759.0
Net contribution to other sectors of government	..	- 18.2	- 18.2	..
Sale of property, plant and equipment	98.2	105.5	7.3	7.4
Purchases of property, plant and equipment	-1 837.6	-2 016.5	- 178.9	9.7
<b>Net cash flows from investing activities</b>	<b>-1 542.7</b>	<b>-2 713.8</b>	<b>-1 171.0</b>	<b>75.9</b>
<b>Cash flows from financing activities</b>				
Net repayments of borrowings	- 6.0	- 12.6	- 6.6	109.3
<b>Net cash flows from financing activities</b>	<b>- 6.0</b>	<b>- 12.6</b>	<b>- 6.6</b>	<b>109.3</b>
<b>Net increase in cash held</b>	<b>29.9</b>	<b>- 24.3</b>	<b>- 54.1</b>	<b>-181.2</b>
Cash at beginning of reporting period	901.8	901.8	..	..
<b>Cash at end of reporting period</b>	<b>931.7</b>	<b>877.5</b>	<b>- 54.1</b>	<b>-5.8</b>

Source: Department of Treasury and Finance

## **REVISED 2001-02 STATEMENT OF FINANCIAL POSITION**

The revised 2001-02 statement of financial position is presented in Table C6. Net assets are projected to increase from \$18 616 million as at 30 June 2001 to \$20 068 million at 30 June 2002. This represents an increase of \$1 452 million (7.6 per cent) over the course of 2001-02.

The increase in net assets reflects the impact of the projected operating surplus of \$765 million, asset revaluations of \$173 million and an increase in accumulated contributions and accumulated surpluses of \$514 million (largely due to the integration of the Melbourne Parks and Waterways into the Department of Natural Resources and Environment).

The increase in total assets of \$2 519 million is mainly due to an increase in infrastructure expenditure over the period (including projects to be funded by the Growing Victoria infrastructure reserve) and to a lesser extent, growth in general government sector financial investments.

The increase in liabilities of \$1 067 million mainly results from an increase in the unfunded superannuation liability for the reasons mentioned earlier.

**Table C6: Budget sector statement of financial position as at 30 June**

	(\$ million)				
	2001 Actual	2002 Budget	2002 Revised	Change	Change %
<b>Current assets</b>					
Cash assets	908.4	937.6	880.6	- 27.8	-3.0
Other financial assets	1 186.7	1 199.7	1 193.4	6.6	0.6
Receivables	976.9	1 002.8	1 028.7	51.8	5.2
Prepayments	37.1	37.2	37.0	- 0.1	-0.3
Inventories	165.4	165.6	163.7	- 1.7	-1.0
Other assets	0.1	0.1	0.1	..	0.0
<b>Total current assets</b>	<b>3 274.6</b>	<b>3 343.0</b>	<b>3 303.5</b>	<b>28.8</b>	<b>0.9</b>
<b>Non-current assets</b>					
Other financial assets	2 129.9	1 991.0	2 962.9	833.0	41.8
Receivables	269.2	211.4	236.4	- 32.8	-15.5
Inventories	135.0	135.0	135.0	..	0.0
Property, plant and equipment	21 667.6	22 353.8	22 853.3	1 185.7	5.3
Roads and earthworks	12 028.0	12 174.4	12 506.8	478.8	3.9
Other assets	1 740.8	1 765.9	1 766.0	25.2	1.4
<b>Total non-current assets</b>	<b>37 970.5</b>	<b>38 631.5</b>	<b>40 460.4</b>	<b>2 489.9</b>	<b>6.4</b>
<b>Total assets</b>	<b>41 245.2</b>	<b>41 974.5</b>	<b>43 763.9</b>	<b>2 518.7</b>	<b>6.0</b>
<b>Current liabilities</b>					
Payables	1 156.8	1 171.4	1 144.0	- 12.8	-1.1
Interest-bearing liabilities	157.2	63.5	80.6	- 76.6	-120.6
Employee entitlements	758.2	763.6	791.9	33.7	4.4
Superannuation	63.6	119.4	382.4	318.8	266.9
Other liabilities	549.7	548.8	549.8	0.2	0.0
<b>Total current liabilities</b>	<b>2 685.5</b>	<b>2 666.8</b>	<b>2 948.7</b>	<b>263.2</b>	<b>9.9</b>
<b>Non-current liabilities</b>					
Payables	8.7	8.7	8.6	- 0.1	-1.2
Interest-bearing liabilities	6 212.1	6 218.3	6 226.0	13.9	0.2
Employee entitlements	1 585.8	1 746.8	1 717.0	131.2	7.5
Superannuation	11 754.0	11 833.2	12 423.6	669.6	5.7
Other liabilities	382.6	375.8	371.8	- 10.8	-2.9
<b>Total non-current liabilities</b>	<b>19 943.3</b>	<b>20 182.8</b>	<b>20 747.0</b>	<b>803.7</b>	<b>4.0</b>
<b>Total liabilities</b>	<b>22 628.8</b>	<b>22 849.6</b>	<b>23 695.7</b>	<b>1 066.9</b>	<b>4.7</b>
<b>Net assets</b>	<b>18 616.4</b>	<b>19 124.9</b>	<b>20 068.2</b>	<b>1 451.8</b>	<b>7.6</b>
<b>Equity</b>					
Accumulated contributions by the Victorian Government including prior year surpluses	12 858.0	12 858.0	13 371.5	513.5	4.0
Reserves	5 758.4	5 758.4	5 931.4	173.0	3.0
Net result for year		508.5	765.3	765.3	150.5
<b>Total equity</b>	<b>18 616.4</b>	<b>19 124.9</b>	<b>20 068.2</b>	<b>1 451.8</b>	<b>7.6</b>

Source: Department of Treasury and Finance

Note:

(a) 2001-02 Budget is based on actual opening balances as at 1 July 2001 plus 2001-02 Budget movement.

(b) The change reflects the difference between 2001-02 revised and 2000-01 actuals.

## APPENDIX D: HISTORICAL AND FORWARD ESTIMATES TABLES

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Table D1 shows the trends in general government sector aggregate cash flows over the period 1986-87 to 2005-06. This table of historical data has been compiled as far as possible according to current accounting standards and consistent with the cash flow statement included in Chapter 7, *Estimated Financial Statements and Notes*.

The data from 1997-98 include the transactions of government schools and the arts institutions on a gross operating basis as well as the full trading operations of TAFE institutes and hospitals, nursing homes and ambulances. Although this expanded coverage does not materially influence the net operating result for the general government sector, it does significantly increase the inflows and outflows presented in the cash flow statement.

Where possible, significant year-on-year variations in operating receipts and payments and abnormal items (in the main related to major business asset sales, the repatriation of surplus cash to the general government sector from non-budget agencies, and three special payments to reduce the State's unfunded superannuation liability) have been footnoted.

The effects of changes in taxation rates over the years have not been listed apart from the introduction (1992-93) and abolition (from 1995-96) of the state deficit levy, and the introduction of the GST grants from the Commonwealth (from 2000-01).

Table D2 shows the general government operating result on a GAAP basis since accrual accounts were first introduced in 1996-97. Following changes to accounting standards operative from 2000-01, the statement of financial performance no longer recognises abnormal items as a separate item. Table D2 has been adjusted to conform to this new reporting standard. However, details of previously reported abnormal items associated with the operating results up to 1999-2000 are included in table D3.

Table D4 presents general government sector current outlays classified by function – that is by government purpose classification. As there is no functional classification of government expenditure on a GAAP basis, the classifications conform to the standards for presenting cash outlays by government purpose on a GFS basis up to 1998-99, when this series ceased with the introduction of accrual GFS. Readers should note that this cash outlay information has been sourced from the ABS historical data. Because of the absence of accrual information for these years, it is not possible to convert or compare these tables with the current series of accrual GFS information included in the next table below and in Appendix E, *Uniform Presentation of Government Finance Statistics*, table. E 10.

From 1999-00, the new GFS accruals series of expenses classified by purpose is included as Table D5. As noted above these accruals data are not comparable to the old cash series.

**Table D1: General government cash flow statement – historical series**

(\$ million)

	1986-87	1987-88	1988-89	1989-90	1990-91
	Actual	Actual	Actual	Actual	Actual
<b>Cash flows from operating activities</b>					
Taxation <sup>(a) (b)</sup>	3 914	4 474	5 061	5 365	5 710
Regulatory fees and fines	96	96	90	105	132
Grants <sup>(b) (c)</sup>	4 665	4 857	5 011	5 240	5 676
Sales of goods and services	646	724	811	907	963
Interest received	189	155	162	144	152
Dividends received	251	296	354	399	327
Other receipts	483	493	487	484	326
<b>Total receipts from operating activities</b>	<b>10 245</b>	<b>11 094</b>	<b>11 975</b>	<b>12 645</b>	<b>13 287</b>
Employee entitlements <sup>(d)</sup>	-4 457	-4 808	-5 110	-5 471	-5 855
Superannuation	- 367	- 416	- 519	- 586	- 685
Grants and transfer payments <sup>(d) (e)</sup>	-2 463	-2 533	-2 788	-2 834	-2 807
Supplies and services	-2 138	-2 327	-2 530	-2 869	-2 885
Interest paid	-1 079	-1 163	-1 254	-1 423	-1 602
<b>Total payments from operating activities</b>	<b>-10 505</b>	<b>-11 247</b>	<b>-12 200</b>	<b>-13 184</b>	<b>-13 834</b>
<b>Net cash flows from operating activities</b>	<b>- 260</b>	<b>- 152</b>	<b>- 225</b>	<b>- 538</b>	<b>- 547</b>
<b>Cash flows from investing activities</b>					
Sales of property plant and equipment	104	207	189	168	114
Purchases of property plant and equipment	- 953	-1 031	-1 042	-1 085	-1 129
Net privatisation proceeds and other abnormals <sup>(f)</sup>	35	35	35	35	1 292
Net customer loans repaid	..	..	..	..	..
Net purchases of investments	77	77	99	111	186
<b>Net cash flows from investing activities</b>	<b>- 737</b>	<b>- 712</b>	<b>- 720</b>	<b>- 771</b>	<b>464</b>
<b>Cash flows from financing activities</b>					
Net proceeds of borrowings	1 038	973	852	1 233	410
<b>Net cash flows from financing activities</b>	<b>1 038</b>	<b>973</b>	<b>852</b>	<b>1 233</b>	<b>410</b>
<b>Net increase in cash held</b>	<b>42</b>	<b>109</b>	<b>- 93</b>	<b>- 76</b>	<b>327</b>
Cash at beginning of reporting period	841	883	992	898	823
<b>Cash at end of reporting period</b>	<b>883</b>	<b>992</b>	<b>898</b>	<b>823</b>	<b>1 149</b>

Source: Department of Treasury and Finance

**Table D1 (cont): General government cash flow statement – historical series**

	(\$ million)				
	1991-92	1992-93	1993-94	1994-95	1995-96
	Actual	Actual	Actual	Actual	Actual
<b>Cash flows from operating activities</b>					
Taxation <sup>(a) (b)</sup>	6 049	6 582	7 445	7 787	8 368
Regulatory fees and fines	182	176	181	194	193
Grants <sup>(b) (c)</sup>	5 921	6 138	6 215	6 355	6 659
Sales of goods and services	1 038	1 006	1 004	1 034	1 136
Interest received	121	95	94	117	107
Dividends received	566	581	815	765	624
Other receipts	308	251	323	285	346
<b>Total receipts from operating activities</b>	<b>14 185</b>	<b>14 830</b>	<b>16 076</b>	<b>16 537</b>	<b>17 432</b>
Employee entitlements <sup>(d)</sup>	-6 337	-6 846	-6 435	-6 001	-6 187
Superannuation	- 782	- 853	- 492	-1 149	-1 046
Grants and transfer payments <sup>(d) (e)</sup>	-3 134	-3 501	-3 893	-3 324	-3 101
Supplies and services	-2 943	-3 024	-2 897	-3 273	-3 682
Interest paid	-1 787	-2 064	-2 195	-2 007	-1 923
<b>Total payments from operating activities</b>	<b>-14 983</b>	<b>-16 288</b>	<b>-15 912</b>	<b>-15 754</b>	<b>-15 939</b>
<b>Net cash flows from operating activities</b>	<b>- 798</b>	<b>-1 458</b>	<b>165</b>	<b>783</b>	<b>1 493</b>
<b>Cash flows from investing activities</b>					
Sales of property plant and equipment	103	132	189	189	156
Purchases of property plant and equipment	-1 066	-1 068	- 980	-1 288	-1 285
Net privatisation proceeds and other abnormals <sup>(f)</sup>	6	304	498	735	4 794
Net customer loans repaid	..	..	..	..	..
Net purchases of investments	143	- 261	- 501	402	- 464
<b>Net cash flows from investing activities</b>	<b>- 815</b>	<b>- 892</b>	<b>- 794</b>	<b>39</b>	<b>3 200</b>
<b>Cash flows from financing activities</b>					
Net proceeds of borrowings	1 506	2 315	841	- 902	-4 703
<b>Net cash flows from financing activities</b>	<b>1 506</b>	<b>2 315</b>	<b>841</b>	<b>- 902</b>	<b>-4 703</b>
<b>Net increase in cash held</b>	<b>- 107</b>	<b>- 36</b>	<b>211</b>	<b>- 80</b>	<b>- 9</b>
Cash at beginning of reporting period	1 149	1 043	1 007	1 219	1 138
<b>Cash at end of reporting period</b>	<b>1 043</b>	<b>1 007</b>	<b>1 219</b>	<b>1 138</b>	<b>1 129</b>

Source: Department of Treasury and Finance

**Table D1 (cont): General government cash flow statement – historical series**

(\$ million)

	1996-97 Actual	1997-98 Actual <sup>(1)</sup>	1998-99 Actual <sup>(2)</sup>	1999-00 Actual <sup>(3)</sup>	2000-01 Actual
<b>Cash flows from operating activities</b>					
Taxation <sup>(a) (b)</sup>	8 786	8 532	8 846	9 719	8 533
Regulatory fees and fines	186	230	272	306	302
Grants <sup>(b) (c)</sup>	6 928	7 440	7 480	7 735	10 370
Sales of goods and services	1 119	1 606	1 659	1 776	1 957
Interest received	129	140	202	195	301
Dividends received	967	786	932	888	798
Other receipts	275	982	1 430	1 238	1 053
<b>Total receipts from operating activities</b>	<b>18 389</b>	<b>19 717</b>	<b>20 821</b>	<b>21 857</b>	<b>23 314</b>
Employee entitlements <sup>(d)</sup>	-6 557	-6 621	-7 041	-7 378	-7 962
Superannuation	-1 213	-1 257	-2 083	-1 370	-1 898
Grants and transfer payments <sup>(d) (e)</sup>	-3 238	-3 514	-3 598	-3 363	-3 757
Supplies and services	-3 943	-5 503	-5 796	-6 373	-7 077
Interest paid	-1 403	-1 162	- 732	- 448	- 464
<b>Total payments from operating activities</b>	<b>-16 354</b>	<b>-18 057</b>	<b>-19 250</b>	<b>-18 931</b>	<b>-21 158</b>
<b>Net cash flows from operating activities</b>	<b>2 035</b>	<b>1 660</b>	<b>1 571</b>	<b>2 926</b>	<b>2 155</b>
<b>Cash flows from investing activities</b>					
Sales of property plant and equipment	163	363	211	187	150
Purchases of property plant and equipment	-1 288	-1 209	-1 327	-1 208	-1 629
Net privatisation proceeds and other abnormalities <sup>(f)</sup>	4 514	1 610	3 344	..	..
Net customer loans repaid	..	297	309	122	98
Net purchases of investments	- 141	- 422	390	-1 091	- 689
<b>Net cash flows from investing activities</b>	<b>3 248</b>	<b>639</b>	<b>2 927</b>	<b>-1 991</b>	<b>-2 071</b>
<b>Cash flows from financing activities</b>					
Net proceeds of borrowings	-5 406	-2 364	-4 718	- 766	- 72
<b>Net cash flows from financing activities</b>	<b>-5 406</b>	<b>-2 364</b>	<b>-4 718</b>	<b>- 766</b>	<b>- 72</b>
<b>Net increase in cash held</b>	<b>- 124</b>	<b>- 65</b>	<b>- 221</b>	<b>169</b>	<b>13</b>
Cash at beginning of reporting period	1 129	1 005	940	719	889
<b>Cash at end of reporting period</b>	<b>1 005</b>	<b>940</b>	<b>719</b>	<b>889</b>	<b>902</b>

Source: Department of Treasury and Finance

Notes:

- (1) From 1997-98 includes schools own purpose receipts and payments and equivalent receipts from public non-financial corporations and public financial corporations.
- (2) From 1998-99 other receipts includes a capital assets charge receipt from the public non-financial corporations sector.
- (3) Sales of goods and services and purchases supplies and services do not include the GST component following its introduction in 1999-00.

**Table D1 (cont): General government sector cash flow statement – historical series**

	(\$ million)				
	2001-02 Revised	2002-03 Budget	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
<b>Cash flows from operating activities</b>					
Taxation <sup>(a) (b)</sup>	8 744	8 788	8 911	9 085	9 259
Regulatory fees and fines	303	430	431	450	451
Grants <sup>(b) (c)</sup>	11 755	11 752	12 072	12 463	13 071
Sales of goods and services	2 022	2 052	2 078	2 111	2 143
Interest received	318	338	317	320	334
Dividends received	505	406	357	367	377
Other receipts	1 210	1 343	1 332	1 391	1 346
<b>Total receipts from operating activities</b>	<b>24 857</b>	<b>25 110</b>	<b>25 497</b>	<b>26 187</b>	<b>26 982</b>
Employee entitlements <sup>(d)</sup>	-8 367	-8 844	-9 172	-9 477	-9 787
Superannuation	-1 060	-1 758	-1 498	-1 293	-1 673
Grants and transfer payments <sup>(d)(e)</sup>	-4 346	-4 117	-3 999	-4 015	-4 075
Supplies and services	-7 842	-8 314	-8 378	-8 691	-8 837
Interest paid	- 540	- 479	- 479	- 477	- 476
<b>Total payments from operating activities</b>	<b>-22 155</b>	<b>-23 513</b>	<b>-23 526</b>	<b>-23 954</b>	<b>-24 848</b>
<b>Net cash flows from operating activities</b>	<b>2 702</b>	<b>1 596</b>	<b>1 971</b>	<b>2 233</b>	<b>2 134</b>
<b>Cash flows from investing activities</b>					
Sales of property plant and equipment	106	79	63	54	49
Purchases of property plant and equipment	-2 016	-1 927	-2 181	-2 129	-2 063
Net contribution to other sectors of government	- 18	- 218	- 173	- 225	- 153
Net customer loans repaid	46	2	68	49	45
Net purchases of investments	- 830	519	318	38	5
<b>Net cash flows from investing activities</b>	<b>-2 714</b>	<b>-1 546</b>	<b>-1 906</b>	<b>-2 213</b>	<b>-2 116</b>
<b>Cash flows from financing activities</b>					
Net proceeds of borrowings	- 13	- 19	- 18	- 6	- 3
<b>Net cash flows from financing activities</b>	<b>- 13</b>	<b>- 19</b>	<b>- 18</b>	<b>- 6</b>	<b>- 3</b>
<b>Net increase in cash held</b>	<b>- 24</b>	<b>32</b>	<b>47</b>	<b>14</b>	<b>15</b>
Cash at beginning of reporting period	902	878	909	956	970
<b>Cash at end of reporting period</b>	<b>878</b>	<b>909</b>	<b>956</b>	<b>970</b>	<b>985</b>

Source: Department of Treasury and Finance

## **Notes to Table D1: General government sector cash flow statement**

### ***Receipts from operating activities***

- (a) State deficit levy commenced in 1992-93 (\$173 million), and ceased in 1994-95 (\$180 million).
- (b) Includes effect of GST grants from 2000-01 onwards. However, the GST collected on sales of goods and services and the GST paid on purchases of supplies and services has not been included in this cash flow statement since this amount is recouped in full from the Australian Taxation Office.
- (c) Significant offshore petroleum compensation grants from the Commonwealth in 1990-91 (\$178 million) and 1991-92 (\$191 million, including \$60 million rent resource tax compensation).

The works (capital) grant from the Commonwealth ceased in 1993-94 (\$68 million per annum).

### **Payments from operating activities**

- (d) Separation payments up to 1989-90, mainly for early retirement and enhanced resignation packages to the Public Transport Corporation are included under 'grants'. Payments in later years were for voluntary redundancy and targeted separation packages across the general government sector and are included under 'employee entitlements'.
- (e) Operating subsidy payments to Tricontinental Corporation commenced in 1991-92 subsequent to the sale of the State Bank. Significant payments were in 1991-92 (\$150 million), 1992-93 (\$123 million), 1993-94 (\$53 million), and 1994-95 (\$39 million).

Major annual subsidy payments for electricity supplied to the Portland aluminium smelter under the flexible tariff agreement commenced in 1992-93 and ceased in 1997-98.

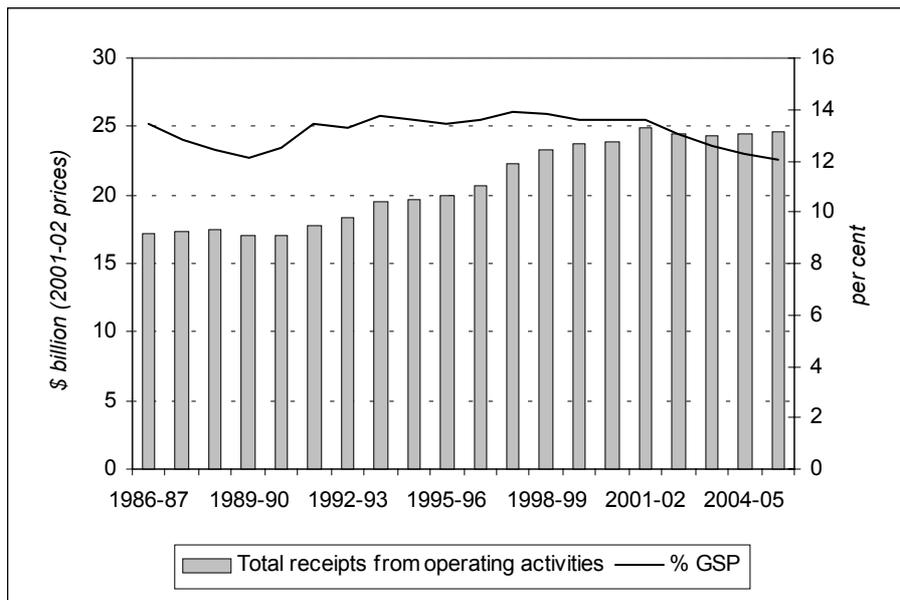
Cost of restructure of the Accelerated Infrastructure Program in 1994-95 (\$200 million).

### ***Investing activities***

- (f) Privatisation and other abnormal items to the general government sector include:
- 1986-87 to 1990-91: payments received from the former Melbourne and Metropolitan Board of Works regarding the transfer of ownership of the Thomson-Cardinia Dam of \$35 million per annum;
  - 1990-91: net proceeds from the sale of the State Bank (\$1 257 million);
  - 1992-93: sale of the State Insurance Office (\$140 million);
  - 1993-94: recall of capital from the Transport Accident Commission (\$1 200 million), wind-up of the Victorian Equity Trust (\$437 million), casino licence fee (\$200 million), offset by a special payment to the State Superannuation Fund (\$1 399 million);
  - 1994-95: sale of Totalisator Agency Board (\$609 million);
  - 1995-96: sale of electricity sector businesses (\$4 641 million), 1996-97 (\$4 262 million), and 1997-98 (\$2 101 million) offset by a special payment to the State Superannuation Fund (\$490 million); and
  - 1998-99: sale of the remainder of the electricity businesses (\$361 million), gas businesses (\$4 690 million), Victorian Plantations Corporation (\$550 million), Aluvic (\$401 million), V/line Freight (\$20 million), offset by a special payment to reduce the State's unfunded superannuation liabilities (\$2 574 million).

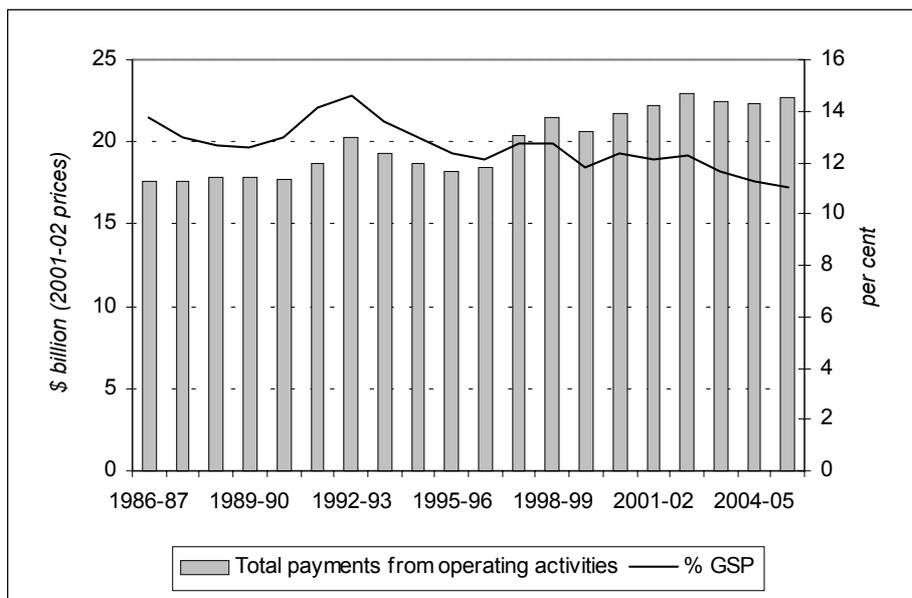
The above proceeds from the sale of government businesses are the amounts paid in cash (net) to the Consolidated Fund and are not necessarily the total proceeds of sale.

**Chart D1: Total receipts from operating activities (in real terms)**



Source: Department of Treasury and Finance

**Chart D2: Total payments from operating activities (in real terms)**



Source: Department of Treasury and Finance

**Table D2: General government sector statement of financial performance – historical series**

	(\$ million)				
	1996-97	1997-98	1998-99	1999-00	2000-01
	Actual	Actual	Actual	Actual	Actual
<b>Revenue from ordinary activities</b>					
Taxation	8 670.2	8 590.3	9 151.6	9 760.0	8 590.9
Fines and regulatory fees	241.7	261.2	330.1	359.3	380.6
Investment income	5 147.9	3 568.0	7 061.9	1 416.1	1 476.8
Grants	7 516.1	7 533.3	7 480.0	7 710.6	10 365.5
Sale of goods and services	813.8	1 246.3	1 428.3	1 788.6	1 992.1
Net surplus/(deficit) from disposal of physical assets	- 36.6	106.3	6.7	2.0	21.4
Fair value of assets received free of charge	69.8	42.7	65.5	19.8	69.4
Inter sector capital asset charge			493.0	493.0	477.0
Other revenue	477.6	2 139.4	1 263.6	510.3	422.6
<b>Total revenue</b>	<b>22 900.5</b>	<b>23 487.4</b>	<b>27 280.6</b>	<b>22 059.8</b>	<b>23 796.3</b>
<b>Expenses from ordinary activities</b>					
Employee entitlements	6 722.4	6 831.8	6 983.7	7 438.6	8 170.2
Superannuation	1 364.8	1 359.7	1 303.7	2 216.0	1 437.7
Depreciation	696.4	759.7	776.2	761.8	799.3
Amortisation	15.5	28.7	28.6	27.2	39.1
Borrowing costs	1 948.9	1 127.0	735.7	477.3	605.3
Grants	2 574.7	3 422.5	3 595.6	3 382.7	3 793.0
Supplies and services	4 162.8	4 846.3	5 447.6	6 221.8	7 486.1
Other expenses	182.7	1 819.5	466.6	366.9	249.4
<b>Total expenses</b>	<b>17 668.2</b>	<b>20 195.3</b>	<b>19 337.9</b>	<b>20 892.4</b>	<b>22 580.1</b>
<b>Result from ordinary activities</b>	<b>5 232.3</b>	<b>3 292.1</b>	<b>7 942.7</b>	<b>1 167.5</b>	<b>1 216.2</b>
Increase/(decrease) in asset revaluation reserve	..	1 174.1	1 543.7	1 534.6	815.8
Other adjustments other than contributions by owner <sup>(a)</sup>	..	..	496.0	301.6	46.6
<b>Total</b>	<b>..</b>	<b>1 174.1</b>	<b>2 039.7</b>	<b>1 836.2</b>	<b>862.4</b>
<b>Total changes in equity other than contributions to other sectors by the State in its capacity as owner</b>	<b>5 232.3</b>	<b>4 466.2</b>	<b>9 982.4</b>	<b>3 003.6</b>	<b>2 078.6</b>

Source: Department of Treasury and Finance

(a) Transitional adjustments consequent to the introduction of accruals – ceased from 1 July 2001.

**Table D2 (cont): General government sector statement of financial performance – historical series**

	(\$ million)				
	2001-02 Revised	2002-03 Budget	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
<b>Revenue from ordinary activities</b>					
Taxation	8 758.0	8 802.7	8 926.7	9 101.7	9 281.6
Fines and regulatory fees	386.6	554.0	556.6	579.1	577.1
Investment income	1 049.4	1 061.6	991.9	1 017.7	1 056.8
Grants	11 755.3	11 753.5	12 072.2	12 462.5	13 070.9
Sale of goods and services	2 037.7	2 049.9	2 082.4	2 113.5	2 146.1
Net surplus/(deficit) from disposal of physical assets	24.0	19.6	12.9	13.0	13.2
Fair value of assets received free of charge	4.5	1.1	1.1	6.2	1.2
Inter sector capital asset charge	489.0	501.0	514.0	514.0	514.0
Other revenue	502.4	538.3	530.8	570.8	511.7
<b>Total revenue</b>	<b>25 006.8</b>	<b>25 281.7</b>	<b>25 688.6</b>	<b>26 378.4</b>	<b>27 172.5</b>
<b>Expenses from ordinary activities</b>					
Employee entitlements	8 531.7	9 041.5	9 386.0	9 687.6	10 001.3
Superannuation	2 048.8	1 713.1	1 725.3	1 765.9	1 804.3
Depreciation	895.4	952.2	1 002.7	1 067.0	1 115.1
Amortisation	59.1	70.6	65.4	65.3	65.4
Borrowing costs	496.2	495.2	494.6	492.1	488.4
Grants	4 347.4	4 118.9	4 001.1	4 017.2	4 077.2
Supplies and services	7 830.0	8 299.9	8 363.9	8 694.1	8 840.0
Other expenses	32.8	68.6	69.6	71.9	68.8
<b>Total expenses</b>	<b>24 241.5</b>	<b>24 760.0</b>	<b>25 108.6</b>	<b>25 861.1</b>	<b>26 460.6</b>
<b>Result from ordinary activities</b>	<b>765.3</b>	<b>521.8</b>	<b>580.0</b>	<b>517.3</b>	<b>711.9</b>
Increase/(decrease) in asset revaluation reserve	704.7	737.8	768.6	800.6	833.8
Other adjustments other than contributions by owner	..	..	..	..	..
<b>Total</b>	<b>704.7</b>	<b>737.8</b>	<b>768.6</b>	<b>800.6</b>	<b>833.8</b>
<b>Total changes in equity other than contributions to other sectors by the State in its capacity as owner</b>	<b>1 470.0</b>	<b>1 259.6</b>	<b>1 348.6</b>	<b>1 317.9</b>	<b>1 545.7</b>

Source: Department of Treasury and Finance

**Table D3: Abnormal Items – historical series**

	(\$ million)		
	1996-97 <i>Actual</i>	1997-98 <i>Actual</i>	1998-99 <i>Actual</i>
<b>Revenue from ordinary activities</b>			
Taxation			
- Business asset sales <sup>(a)</sup>	468.9	16.0	295.7
Investment income			
- Business asset sales <sup>(a)</sup>	3 820.3	1 880.2	5 722.9
- Gascor disaggregation - assumption of debt		391.7	
Other revenue			
- Business asset sales <sup>(a)</sup>	87.5	60.2	234.5
- Reversal of Flexible Tariff Management Unit Trust liability		1 275.2	
- Forgiveness of debt owed to Department of Treasury and Finance by SEMCL			106.7
<b>Expenses from ordinary activities</b>			
Supplies and services			
- Business asset sales <sup>(a)</sup>	- 55.7	- 49.5	- 100.8
Other expenses			
- Forgiveness of debt owed by Director of Housing to Department of Treasury and Finance		- 1 086.8	
- Loss on revaluation of water sector debt		- 334.4	
- Diminution of VAIP bonds	..	..	- 122.0
<b>Total abnormal items</b>	<b>4 321.0</b>	<b>2 152.6</b>	<b>6 136.9</b>
<i>Source: Department of Treasury and Finance</i>			
<i>Note:</i>			
<i>(a) Total business asset sales:</i>	<i>4 321.0</i>	<i>1 906.9</i>	<i>6 152.2</i>

**Table D4: General government current outlays by purpose 1986-87 to 1998-99 – historical series**

	(\$ million)				
	1986-87	1987-88	1988-89	1989-90	1990-91
	Actual	Actual	Actual	Actual	Actual
Government superannuation benefits	524	632	609	657	819
Other general public services	293	306	326	336	268
<b>General public services</b>	<b>817</b>	<b>938</b>	<b>935</b>	<b>993</b>	<b>1 087</b>
Police and fire protection services	478	518	560	625	670
Law courts and legal services	32	24	31	76	126
Prisons and corrective services	62	75	86	104	116
Other public order and safety	3	2	3	3	8
<b>Public order and safety</b>	<b>575</b>	<b>619</b>	<b>680</b>	<b>808</b>	<b>920</b>
Primary and secondary education	2 044	2 135	2 398	2 520	2 467
Tertiary education	922	1 031	1 044	1 097	1 261
Pre-school education and education not definable by level	136	170	187	204	185
Transportation of students	72	78	84	91	99
Education n.e.c.	78	92	34	37	17
<b>Education</b>	<b>3 252</b>	<b>3 506</b>	<b>3 747</b>	<b>3 949</b>	<b>4 029</b>
Acute care institutions	1 374	1 480	1 609	1 737	1 962
Mental health institutions	255	312	346	377	295
Nursing homes for the aged	69	103	119	130	41
Community health services	75	112	111	121	139
Public health services	52	82	128	155	145
Pharmaceuticals	- 1	- 2	..	..	..
Health research	2	3	5	6	7
Health administration n.e.c.	29	20	32	44	78
<b>Health</b>	<b>1 855</b>	<b>2 110</b>	<b>2 350</b>	<b>2 570</b>	<b>2 667</b>
Social security	93	97	105	111	105
Welfare services	298	302	370	416	554
Social security and welfare n.e.c.	1	..	..	..	1
<b>Social security and welfare</b>	<b>392</b>	<b>399</b>	<b>475</b>	<b>527</b>	<b>660</b>
Housing and community development	119	117	146	149	178
Water supply	13	15	16	11	7
Sanitation and protection of the environment	7	7	7	12	17
Other community amenities	..	..	..	..	1
<b>Housing and community amenities</b>	<b>139</b>	<b>139</b>	<b>169</b>	<b>172</b>	<b>203</b>
Recreation facilities and services	69	74	111	118	121
Cultural facilities and services	65	66	77	84	72
Broadcasting and film production	4	5	4	3	3
Recreation and culture n.e.c.	- 1	..	..	..	..
<b>Recreation and culture</b>	<b>137</b>	<b>145</b>	<b>192</b>	<b>205</b>	<b>196</b>

Source: Australian Bureau of Statistics

Note: Current outlays – cash GFS basis

**Table D4 (cont): General government current outlays by purpose 1986-87 to 1998-99 – historical series**

	(\$ million)				
	1986-87	1987-88	1988-89	1989-90	1990-91
	Actual	Actual	Actual	Actual	Actual
Fuel affairs and services	..	1	..	1	1
Electricity and other energy	27	15	2	2	1
Fuel and energy n.e.c.	6	6	5	17	16
<b>Fuel and energy</b>	<b>33</b>	<b>22</b>	<b>7</b>	<b>20</b>	<b>18</b>
Agriculture	90	92	109	120	107
Forestry	58	63	69	72	85
<b>Agriculture, forestry, fishing and hunting</b>	<b>148</b>	<b>155</b>	<b>178</b>	<b>192</b>	<b>192</b>
Mining and mineral resources other than fuels	6	5	6	9	5
Manufacturing	51	54	38	37	28
Construction	1	2	1	..	..
<b>Mining and mineral resources other than fuels; manufacturing; and construction</b>	<b>58</b>	<b>61</b>	<b>45</b>	<b>46</b>	<b>33</b>
Road transport	231	257	290	291	328
Water transport	..	1	2	2	3
Rail transport	374	307	316	..	..
Other transport	476	327	323	671	720
Communications	..	..	..	3	2
<b>Transport and communications</b>	<b>1 081</b>	<b>892</b>	<b>931</b>	<b>967</b>	<b>1 053</b>
Storage	..	1	..	..	..
Tourism and area promotion	23	26	26	30	35
Labour and employment affairs	102	97	70	72	95
Other economic affairs n.e.c.	- 2	- 15	- 23	- 27	- 22
<b>Other economic affairs</b>	<b>123</b>	<b>109</b>	<b>73</b>	<b>75</b>	<b>108</b>
Public debt transactions	804	1 124	1 219	1 410	1 523
General purpose inter-government transactions	148	166	173	177	182
Natural disaster relief	2	..	..	1	1
Other purposes n.e.c.	1	..	- 4	- 2	- 12
<b>Other purposes</b>	<b>955</b>	<b>1 290</b>	<b>1 388</b>	<b>1 586</b>	<b>1 694</b>
<b>Total current outlays</b>	<b>9 565</b>	<b>10 385</b>	<b>11 170</b>	<b>12 110</b>	<b>12 860</b>

Source: Australian Bureau of Statistics

Note: Current outlays – cash GFS basis

**Table D4 (cont): General government current outlays by purpose 1986-87 to 1998-99 – historical series**

	(\$ million)				
	1991-92	1992-93	1993-94	1994-95	1995-96
	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>
Government superannuation benefits	1 023	1 392	1 454	1 411	1 114
Other general public services	226	271	229	202	250
<b>General public services</b>	<b>1 249</b>	<b>1 663</b>	<b>1 683</b>	<b>1 613</b>	<b>1 364</b>
Police and fire protection services	706	760	778	799	854
Law courts and legal services	107	118	121	122	168
Prisons and corrective services	115	103	98	106	108
Other public order and safety	9	4	3	2	- 2
<b>Public order and safety</b>	<b>937</b>	<b>985</b>	<b>1 000</b>	<b>1 029</b>	<b>1 128</b>
Primary and secondary education	2 745	2 723	2 655	2 627	2 697
Tertiary education	1 269	853	460	468	576
Pre-school education and education not definable by level	187	183	186	207	223
Transportation of students	102	106	112	121	127
Education n.e.c.	24	21	20	14	- 6
<b>Education</b>	<b>4 327</b>	<b>3 886</b>	<b>3 433</b>	<b>3 437</b>	<b>3 617</b>
Acute care institutions	2 064	1 974	1 828	1 879	2 139
Mental health institutions	308	356	333	353	372
Nursing homes for the aged	33	52	109	91	115
Community health services	151	179	180	204	243
Public health services	135	118	119	133	140
Pharmaceuticals	..	..	..	..	9
Health research	8	6	5	5	6
Health administration n.e.c.	80	85	85	- 1	- 47
<b>Health</b>	<b>2 779</b>	<b>2 770</b>	<b>2 659</b>	<b>2 664</b>	<b>2 977</b>
Social security	134	148	186	222	216
Welfare services	604	677	656	734	735
Social security and welfare n.e.c.	1	1	1	1	..
<b>Social security and welfare</b>	<b>739</b>	<b>826</b>	<b>843</b>	<b>957</b>	<b>951</b>
Housing and community development	213	199	203	295	192
Water supply	11	19	16	20	5
Sanitation and protection of the environment	20	20	22	25	18
Other community amenities	1	..	..	..	- 1
<b>Housing and community amenities</b>	<b>245</b>	<b>238</b>	<b>241</b>	<b>340</b>	<b>214</b>
Recreation facilities and services	104	104	62	51	88
Cultural facilities and services	89	91	92	118	118
Broadcasting and film production	3	3	3	4	5
Recreation and culture n.e.c.	..	..	..	..	..
<b>Recreation and culture</b>	<b>196</b>	<b>198</b>	<b>157</b>	<b>173</b>	<b>211</b>

Source: Australian Bureau of Statistics

Note: Current outlays – cash GFS basis

**Table D4 (cont): General government current outlays by purpose 1986-87 to 1998-99 – historical series**

	(\$ million)				
	1991-92	1992-93	1993-94	1994-95	1995-96
	Actual	Actual	Actual	Actual	Actual
Fuel affairs and services	- 1	1	13	28	- 1
Electricity and other energy	1	52	3	28	212
Fuel and energy n.e.c.	12	5	2	- 2	- 6
<b>Fuel and energy</b>	<b>12</b>	<b>58</b>	<b>18</b>	<b>54</b>	<b>205</b>
Agriculture	112	83	87	103	153
Forestry	81	90	91	95	47
<b>Agriculture, forestry, fishing and hunting</b>	<b>193</b>	<b>173</b>	<b>178</b>	<b>198</b>	<b>200</b>
Mining and mineral resources other than fuels	5	7	6	8	10
Manufacturing	37	36	17	34	36
Construction	..	..	..	..	..
<b>Mining and mineral resources other than fuels; manufacturing; and construction</b>	<b>42</b>	<b>43</b>	<b>23</b>	<b>42</b>	<b>46</b>
Road transport	386	357	366	434	342
Water transport	- 2	- 2	- 2	5	5
Rail transport	..	..	..	..	9
Other transport	671	657	613	321	448
Communications	2	..	..	..	4
<b>Transport and communications</b>	<b>1 057</b>	<b>1 012</b>	<b>977</b>	<b>760</b>	<b>808</b>
Storage	..	..	..	..	..
Tourism and area promotion	38	41	46	58	29
Labour and employment affairs	95	82	57	69	62
Other economic affairs n.e.c.	171	139	37	86	9
<b>Other economic affairs</b>	<b>304</b>	<b>262</b>	<b>140</b>	<b>213</b>	<b>100</b>
Public debt transactions	1 717	2 027	2 185	1 972	1 910
General purpose inter-government transactions	186	191	191	191	202
Natural disaster relief	..	..	..	30	..
Other purposes n.e.c.	..	251	259	153	9
<b>Other purposes</b>	<b>1 903</b>	<b>2 469</b>	<b>2 635</b>	<b>2 346</b>	<b>2 121</b>
<b>Total current outlays</b>	<b>13 983</b>	<b>14 583</b>	<b>13 987</b>	<b>13 826</b>	<b>13 942</b>

Source: Australian Bureau of Statistics

Note: Current outlays – cash GFS basis

**Table D4 (cont): General government current outlays by purpose 1986-87 to 1998-99 – historical series**

(\$ million)

	1996-97 <i>Actual</i>	1997-98 <i>Actual</i>	1998-99 <i>Actual</i>
Government superannuation benefits	1 295	1 732	1 712
Other general public services	288	324	421
<b>General public services</b>	<b>1 583</b>	<b>2 056</b>	<b>2 133</b>
Police and fire protection services	998	941	979
Law courts and legal services	138	133	- 46
Prisons and corrective services	144	131	148
Other public order and safety	43	161	173
<b>Public order and safety</b>	<b>1 323</b>	<b>1 366</b>	<b>1 254</b>
Primary and secondary education	2 824	3 213	3 362
Tertiary education	617	540	502
Pre-school education and education not definable by level	248	24	126
Transportation of students	136	108	157
Education n.e.c.	20	118	- 61
<b>Education</b>	<b>3 845</b>	<b>4 003</b>	<b>4 086</b>
Acute care institutions	2 186	2 599	2 482
Mental health institutions	400	313	401
Nursing homes for the aged	122	..	153
Community health services	248	..	288
Public health services	187	781	203
Pharmaceuticals	11	..	14
Health research	7	16	22
Health administration n.e.c.	- 74	- 111	- 51
<b>Health</b>	<b>3 087</b>	<b>3 598</b>	<b>3 512</b>
Social security	236	244	261
Welfare services	762	966	902
Social security and welfare n.e.c.	..	..	..
<b>Social security and welfare</b>	<b>998</b>	<b>1 210</b>	<b>1 163</b>
Housing and community development	187	477	96
Water supply	11	1	10
Sanitation and protection of the environment	31	35	35
Other community amenities	- 1	1	- 1
<b>Housing and community amenities</b>	<b>228</b>	<b>514</b>	<b>140</b>
Recreation facilities and services	89	84	70
Cultural facilities and services	127	152	159
Broadcasting and film production	12	1	9
Recreation and culture n.e.c.	6	..	11
<b>Recreation and culture</b>	<b>234</b>	<b>237</b>	<b>249</b>

*Source: Australian Bureau of Statistics*

*Note: Current outlays – cash GFS basis*

**Table D4 (cont): General government current outlays by purpose 1986-87 to 1998-99 – historical series**

(\$ million)

	1996-97 <i>Actual</i>	1997-98 <i>Actual</i>	1998-99 <i>Actual</i>
Fuel affairs and services	- 1	- 3	- 3
Electricity and other energy	22	2	92
Fuel and energy n.e.c.	- 4	- 4	- 5
<b>Fuel and energy</b>	<b>17</b>	<b>- 5</b>	<b>84</b>
Agriculture	162	170	208
Forestry	76	108	89
<b>Agriculture, forestry, fishing and hunting</b>	<b>238</b>	<b>278</b>	<b>297</b>
Mining and mineral resources other than fuels	12	12	10
Manufacturing	28	44	41
Construction	..	..	..
<b>Mining and mineral resources other than fuels; manufacturing; and construction</b>	<b>40</b>	<b>56</b>	<b>51</b>
Road transport	348	427	246
Water transport	4	- 3	4
Rail transport	10	42	190
Other transport	378	384	377
Communications	11	10	7
<b>Transport and communications</b>	<b>751</b>	<b>860</b>	<b>824</b>
Storage	..	..	..
Tourism and area promotion	57	36	69
Labour and employment affairs	45	29	26
Other economic affairs n.e.c.	- 14	- 23	10
<b>Other economic affairs</b>	<b>88</b>	<b>42</b>	<b>105</b>
Public debt transactions	1 450	1 132	801
General purpose inter-government transactions	210	1	301
Natural disaster relief	..	..	..
Other purposes n.e.c.	176	180	- 7
<b>Other purposes</b>	<b>1 836</b>	<b>1 313</b>	<b>1 095</b>
<b>Total current outlays</b>	<b>14 268</b>	<b>15 528</b>	<b>14 993</b>

*Source: Australian Bureau of Statistics*

*Note: Current outlays – cash GFS basis*

**Table D5: General government expenses by purpose 1999-00 to 2005-06 – historical series**

	(\$ million)						
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Actual	Revised	Budget	Estimate	Estimate	Estimate
General Public Services	838	744	752	920	1 085	1 292	1 487
Public Order and Safety	1 956	2 004	2 139	2 352	2 391	2 487	2 523
Education	5 629	6 274	6 392	6 455	6 720	6 858	6 899
Health	5 027	5 666	5 939	6 182	6 387	6 572	6 715
Social Security & Welfare	1 594	1 737	1 845	1 917	1 960	1 980	2 012
Housing and community amenities	833	1 336	1 500	1 258	1 288	1 299	1 307
Recreation and culture	486	491	543	521	476	462	461
Fuel and energy	16	134	134	17	18	18	19
Agriculture, forestry, fishing and hunting	480	468	522	509	489	452	459
Mining and mineral resources other than fuels; manufacturing; and construction	27	12	19	17	16	15	17
Transport and communications	2 029	2 151	2 384	2 374	2 212	2 337	2 368
Other economic affairs	146	158	326	483	348	329	369
Other purposes <sup>(a)</sup>	1 260	1 337	1 314	1 765	1 737	1 777	1 839
<b>Total expenses</b>	<b>20 321</b>	<b>22 512</b>	<b>23 809</b>	<b>24 770</b>	<b>25 127</b>	<b>25 879</b>	<b>26 477</b>

Source: Department of Treasury and Finance

Note:

(a) Includes nominal superannuation interest expense

Expenses by purpose – accrual GFS basis



## **APPENDIX E: UNIFORM PRESENTATION OF GOVERNMENT FINANCE 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. This means that, unlike the accounting viewpoint, the GFS 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. This means that differences arise between the GFS and accounting frameworks, particularly within the operating statement.

#### **Operating statement**

The operating statement, also referred to as a Statement of financial position, 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. In contrast, 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 cash surplus comprises only net cash received from operating activities, and from sales and purchases of non-financial assets, minus distributions paid (in the case of public financial corporations and public non-financial corporations), minus finance leases and similar arrangements.

The GFS cash surplus measure is broadly comparable with the old cash-GFS surplus measure, allowing for comparisons between the two frameworks.

## **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 Corporation. Estimates are not published for the public financial corporations sector.

**Table E.1: General government sector operating statement**

	(\$ million)				
	2001-02 Revised	2002-03 Budget	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
<b>GFS revenue</b>					
Taxation revenue	8 666	8 701	8 818	8 993	9 170
Current grants and subsidies	11 198	11 190	11 566	11 883	12 498
Capital grants	558	565	511	586	573
Sales of goods and services	2 478	2 555	2 542	2 583	2 619
Interest income	318	338	317	320	334
Other	1 752	1 909	1 919	1 997	1 962
<b>Total revenue</b>	<b>24 970</b>	<b>25 259</b>	<b>25 673</b>	<b>26 362</b>	<b>27 156</b>
<b>GFS expenses</b>					
Gross operating expenses	18 689	19 603	20 164	20 900	21 427
Nominal superannuation interest expense	827	896	893	909	942
Other interest expense	474	472	472	469	466
Other property expenses	..	..	..	..	..
Current transfers	3 285	3 280	3 144	3 160	3 210
Capital transfers	534	518	453	441	432
<b>Total expenses</b>	<b>23 809</b>	<b>24 770</b>	<b>25 127</b>	<b>25 879</b>	<b>26 477</b>
<b>GFS net operating balance</b>	<b>1 161</b>	<b>489</b>	<b>545</b>	<b>483</b>	<b>680</b>
Less: Net acquisition of non-financial assets					
Gross fixed capital formation	1 914	1 848	2 119	2 080	2 014
Less: Depreciation	895	952	1 003	1 067	1 115
Plus: Change in inventories	- 2	0	0	0	0
Plus: Other movements in non-financial assets	..	..	..	..	..
<b>Total net acquisition of non-financial assets</b>	<b>1 017</b>	<b>896</b>	<b>1 116</b>	<b>1 013</b>	<b>899</b>
<b>GFS net lending (+) / borrowing (-)</b> <sup>(a)</sup>	<b>144</b>	<b>- 407</b>	<b>- 571</b>	<b>- 529</b>	<b>- 219</b>

*Source: Department of Treasury and Finance*

*Note:*

(a) *GFS net lending also equals net transactions in financial assets less net transactions in liabilities. If the boost to infrastructure investment funded by the Growing Victoria infrastructure reserve is excluded the GFS net lending / borrowing aggregates are:*

<b>GFS net lending (+) / borrowing (-) (excluding Growing Victoria)</b>	<b>- 30</b>	<b>163</b>	<b>- 145</b>	<b>- 359</b>	<b>- 89</b>
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**Table E.2: Public non-financial corporations sector operating statement**

(\$ million)

	2001-02 Revised	2002-03 Budget
<b>GFS revenue</b>		
Sales of goods and services	3 652	3 475
Current grants and subsidies	632	664
Capital grants	317	318
Interest income	72	54
Other	340	341
<b>Total revenue</b>	<b>5 013</b>	<b>4 851</b>
<b>GFS expenses</b>		
Gross operating expenses	3 841	3 819
Property expenses	753	567
Current transfers	142	92
Capital transfers	52	58
<b>Total expenses</b>	<b>4 788</b>	<b>4 536</b>
<b>GFS net operating balance</b>	<b>224</b>	<b>315</b>
Less: Net acquisition of non-financial assets		
Gross fixed capital formation	1 032	1 424
Less: Depreciation	531	561
Plus: Change in inventories	10	- 10
Plus: Other movements in non-financial assets	0	0
<b>Total net acquisition of non-financial assets</b>	<b>511</b>	<b>852</b>
<b>GFS net lending (+) / borrowing (-)<sup>(a)</sup></b>	<b>- 286</b>	<b>- 537</b>

Source: Department of Treasury and Finance

Note:

(a) GFS net lending also equals net transactions in financial assets less net transactions in liabilities

**Table E.3: Non-financial public sector operating statement**

	(\$ million)	
	2001-02 Revised	2002-03 Budget
<b>GFS revenue</b>		
Taxation revenue	8 616	8 644
Current grants and subsidies	11 155	11 194
Capital grants	560	566
Sales of goods and services	6 129	6 028
Interest income	390	392
Other	1 122	1 387
<b>Total revenue</b>	<b>27 971</b>	<b>28 211</b>
<b>GFS expenses</b>		
Gross operating expenses	22 029	22 892
Nominal superannuation interest expense	827	896
Other interest expense	636	643
Other property expenses	..	..
Current transfers	2 701	2 654
Capital transfers	270	259
<b>Total expenses</b>	<b>26 463</b>	<b>27 345</b>
<b>GFS net operating balance</b>	<b>1 508</b>	<b>866</b>
Less: Net acquisition of non-financial assets		
Gross fixed capital formation	2 946	3 272
Less: Depreciation	1 427	1 513
Plus: Change in inventories	9	- 10
Plus: Other movements in non-financial assets	..	..
<b>Total net acquisition of non-financial assets</b>	<b>1 528</b>	<b>1 748</b>
<b>GFS net lending (+) / borrowing (-)</b> <sup>(a)</sup>	<b>- 20</b>	<b>- 882</b>
<i>Source: Department of Treasury and Finance</i>		
<i>Note:</i>		
<i>(a) GFS net lending also equals net transactions in financial assets less net transactions in liabilities. If the boost to infrastructure investment funded by the Growing Victoria infrastructure reserve is excluded the GFS net lending / borrowing aggregates are:</i>		
<b>GFS net lending (+) / borrowing (-) (excluding Growing Victoria)</b>	<b>- 194</b>	<b>- 312</b>

**Table E.4: General government sector balance sheet**

	(\$ million)					
as at 30 June	2001	2002	2003	2004	2005	2006
	Opening	Revised	Budget	Estimate	Estimate	Estimate
<b>Assets</b>						
Financial assets						
Cash and deposits	908	881	913	960	974	988
Advances paid	314	269	267	199	151	106
Investments, loans and placements	3 312	4 152	3 633	3 315	3 277	3 272
Other non-equity assets	898	970	1 047	1 151	1 247	1 350
Equity	25 050	26 300	27 013	27 186	27 410	27 563
<b>Total financial assets</b>	<b>30 483</b>	<b>32 571</b>	<b>32 873</b>	<b>32 812</b>	<b>33 059</b>	<b>33 278</b>
Non-financial assets						
Land and fixed assets	34 745	36 366	37 821	39 526	41 163	42 714
Other non-financial assets	1 029	1 029	1 044	1 050	1 044	1 034
<b>Total non-financial assets</b>	<b>35 774</b>	<b>37 395</b>	<b>38 865</b>	<b>40 576</b>	<b>42 207</b>	<b>43 748</b>
<b>Total assets</b>	<b>66 257</b>	<b>69 967</b>	<b>71 737</b>	<b>73 388</b>	<b>75 266</b>	<b>77 026</b>
<b>Liabilities</b>						
Deposits held	337	336	336	336	336	336
Advances received	10	10	9	8	8	8
Borrowing	6 358	6 296	6 291	6 288	6 293	6 299
Superannuation liability	11 818	12 806	12 761	12 989	13 462	13 594
Other employee entitlements and provisions	2 635	2 800	2 974	3 168	3 374	3 585
Other non-equity liabilities	1 418	1 394	1 397	1 397	1 397	1 397
<b>Total liabilities</b>	<b>22 575</b>	<b>23 642</b>	<b>23 768</b>	<b>24 186</b>	<b>24 871</b>	<b>25 219</b>
<b>Net worth</b>	<b>43 681</b>	<b>46 324</b>	<b>47 970</b>	<b>49 202</b>	<b>50 395</b>	<b>51 807</b>
<b>Net financial worth <sup>(a)</sup></b>	<b>7 908</b>	<b>8 929</b>	<b>9 105</b>	<b>8 626</b>	<b>8 188</b>	<b>8 059</b>
<b>Net debt <sup>(b)</sup></b>	<b>2 170</b>	<b>1 341</b>	<b>1 824</b>	<b>2 158</b>	<b>2 236</b>	<b>2 278</b>

Source: Department of Treasury and Finance

Notes:

(a) Net financial worth equals total financial assets minus total liabilities

(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. If Growing Victoria investments are not included as an offset to debt, on the grounds that these investments are earmarked for infrastructure projects and are therefore not available to redeem debt, the net debt figures are:

<b>Net debt (excluding Growing Victoria)</b>	<b>3 292</b>	<b>2 637</b>	<b>2 550</b>	<b>2 458</b>	<b>2 366</b>	<b>2 278</b>
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**Table E.5: Public non-financial corporations sector balance sheet**

	(\$ million)		
as at 30 June	2001	2002	2003
	Opening	Revised	Budget
<b>Assets</b>			
Financial assets			
Cash and deposits	436	326	256
Advances paid	352	288	237
Investments, loans and placements	606	516	405
Other non-equity assets	1 962	1 822	1 597
Equity	..	..	..
<b>Total financial assets</b>	<b>3 356</b>	<b>2 952</b>	<b>2 495</b>
Non-financial assets			
Land and fixed assets	26 564	28 113	29 131
Other non-financial assets	118	110	118
<b>Total non-financial assets</b>	<b>26 682</b>	<b>28 223</b>	<b>29 249</b>
<b>Total assets</b>	<b>30 037</b>	<b>31 175</b>	<b>31 744</b>
<b>Liabilities</b>			
Deposits held	33	34	33
Advances received	236	190	186
Borrowing	2 539	2 493	2 592
Superannuation liability	64	64	64
Other employee entitlements and provisions	2 141	2 155	2 063
Other non-equity liabilities	645	609	464
<b>Total liabilities</b>	<b>5 658</b>	<b>5 546</b>	<b>5 402</b>
<b>Shares and other contributed capital</b>	<b>24 379</b>	<b>25 629</b>	<b>26 342</b>
<b>Net worth</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>Net financial worth <sup>(a)</sup></b>	<b>-26 682</b>	<b>-28 223</b>	<b>-29 249</b>
<b>Net debt <sup>(b)</sup></b>	<b>1 414</b>	<b>1 587</b>	<b>1 913</b>

Source: Department of Treasury and Finance

Notes:

(a) Net financial worth equals total financial assets minus total liabilities

(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 E.6: Non-financial public sector balance sheet**

	(\$ million)		
as at 30 June	2001	2002	2003
	Opening	Revised	Budget
<b>Assets</b>			
Financial assets			
Cash and deposits	1 333	1 196	1 158
Advances paid	449	385	334
Investments, loans and placements	3 834	4 583	3 953
Other non-equity assets	2 773	2 725	2 585
Equity	671	671	671
<b>Total financial assets</b>	<b>9 060</b>	<b>9 560</b>	<b>8 701</b>
Non-financial assets			
Land and fixed assets	61 309	64 479	66 952
Other non-financial assets	1 096	1 098	1 141
<b>Total non-financial assets</b>	<b>62 405</b>	<b>65 576</b>	<b>68 093</b>
<b>Total assets</b>	<b>71 466</b>	<b>75 136</b>	<b>76 794</b>
<b>Liabilities</b>			
Deposits held	369	370	369
Advances received	38	37	33
Borrowing	8 714	8 607	8 701
Superannuation liability	11 882	12 870	12 826
Other employee entitlements and provisions	4 111	4 164	4 181
Other non-equity liabilities	2 054	1 995	1 852
<b>Total liabilities</b>	<b>27 169</b>	<b>28 043</b>	<b>27 961</b>
<b>Net worth</b>	<b>44 297</b>	<b>47 093</b>	<b>48 833</b>
<b>Net financial worth <sup>(a)</sup></b>	<b>-18 109</b>	<b>-18 483</b>	<b>-19 261</b>
<b>Net debt <sup>(b)</sup></b>	<b>3 505</b>	<b>2 849</b>	<b>3 658</b>

Source: Department of Treasury and Finance

Notes:

(a) Net financial worth equals total financial assets minus total liabilities

(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. If Growing Victoria investments are not included as an offset to debt, on the grounds that these investments are earmarked for infrastructure projects and are therefore not available to redeem debt, the net debt figures are:

<b>Net debt (excluding Growing Victoria)</b>	<b>4 627</b>	<b>4 145</b>	<b>4 384</b>
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**Table E.7: General government sector cash flow statement**

	(\$ million)				
	2001-02 Revised	2002-03 Budget	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
<b>Cash receipts from operating activities</b>					
Taxes received	8 653	8 687	8 803	8 976	9 148
Receipts from sales of goods and services	2 434	2 496	2 476	2 517	2 556
Grants/subsidies received	11 756	11 754	12 077	12 469	13 071
Other receipts	2 017	2 180	2 148	2 233	2 216
<b>Total receipts</b>	<b>24 861</b>	<b>25 117</b>	<b>25 504</b>	<b>26 195</b>	<b>26 991</b>
<b>Cash payments from operating activities</b>					
Payment for goods and services	-17 825	-19 280	-19 498	-19 944	-20 796
Grants and subsidies paid	-3 623	-3 662	-3 461	-3 463	-3 507
Interest paid	- 473	- 471	- 471	- 468	- 464
Other payments	- 192	- 121	- 117	- 100	- 100
<b>Total payments</b>	<b>-22 113</b>	<b>-23 534</b>	<b>-23 547</b>	<b>-23 975</b>	<b>-24 868</b>
<b>Net cash flows from operating activities</b>	<b>2 749</b>	<b>1 583</b>	<b>1 957</b>	<b>2 220</b>	<b>2 123</b>
<b>Net cash flows from investing in non-financial assets</b>					
Sales of non-financial assets	106	79	63	54	49
Purchases of non-financial assets	-2 017	-1 927	-2 181	-2 128	-2 062
<b>Total cash flows - non-financial assets</b>	<b>-1 911</b>	<b>-1 848</b>	<b>-2 118</b>	<b>-2 074</b>	<b>-2 013</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>24</b>	<b>- 210</b>	<b>- 110</b>	<b>- 180</b>	<b>- 112</b>
<b>Net cash flows from investments in financial assets for liquidity</b>	<b>- 896</b>	<b>513</b>	<b>322</b>	<b>42</b>	<b>9</b>
<b>Net cash flows from financing activities</b>					
Advances received (net)	- 1	- 1	- 1	..	..
Borrowings (net)	8	- 3	- 2	7	7
Deposits received (net)	- 0	- 0	- 0	- 0	- 0
Other financing (net)	..	..	..	..	..
<b>Total net cash flows from financing activities</b>	<b>7</b>	<b>- 4</b>	<b>- 3</b>	<b>7</b>	<b>7</b>
<b>Net increase in cash held</b>	<b>- 27</b>	<b>33</b>	<b>49</b>	<b>14</b>	<b>15</b>
Net cash from operating activities & investments in non-financial assets	837	- 265	- 161	145	110
Acquisitions under finance leases	..	..	..	..	..
<b>Surplus (+) /deficit (-) <sup>(a)</sup></b>	<b>837</b>	<b>- 265</b>	<b>- 161</b>	<b>145</b>	<b>110</b>

Source: Department of Treasury and Finance

Note:

(a) Table below shows GFS surplus (+)/deficit(-) excluding impact of Growing Victoria.

<b>Surplus (+) /deficit (-) exl Growing Victoria</b>	<b>663</b>	<b>305</b>	<b>265</b>	<b>315</b>	<b>240</b>
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**Table E.8: Public non-financial corporations sector cash flow statement**

(\$ million)

	2001-02 Revised	2002-03 Budget
<b>Cash receipts from operating activities</b>		
Receipts from sales of goods and services	3 676	3 629
Grants/subsidies received	950	984
Other receipts	384	318
<b>Total receipts</b>	<b>5 010</b>	<b>4 931</b>
<b>Cash payments from operating activities</b>		
Payment for goods and services	-2 866	-2 834
Grants and subsidies paid	- 107	- 73
Interest paid	- 169	- 167
Other payments	- 672	- 773
<b>Total payments</b>	<b>-3 814</b>	<b>-3 847</b>
<b>Net cash flows from operating activities</b>	<b>1 196</b>	<b>1 085</b>
<b>Net cash flows from investing in non-financial assets</b>		
Sales of non-financial assets	88	85
Purchases of non-financial assets	-1 014	-1 387
<b>Total cash flows from investing in non-financial assets</b>	<b>- 926</b>	<b>-1 303</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>39</b>	<b>286</b>
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>90</b>	<b>111</b>
<b>Net cash flows from financing activities</b>		
Advances received (net)	12	- 3
Borrowings (net)	- 46	99
Deposits received (net)	1	- 1
Distributions paid	- 487	- 342
Other Financing (net)	11	- 2
<b>Total net cash flows from financing activities</b>	<b>- 509</b>	<b>- 249</b>
<b>Net increase in cash held</b>	<b>- 110</b>	<b>- 70</b>
Net cash from operating activities, dividends paid, and investments in non-financial assets	- 217	- 561
Acquisition of assets under finance leases and similar arrangements	..	..
<b>Surplus (+) /deficit (-)</b>	<b>- 217</b>	<b>- 561</b>

Source: Department of Treasury and Finance

**Table E.9: Non-financial public sector cash flow statement**

	(\$ million)	
	2001-02 Revised	2002-03 Budget
<b>Cash receipts from operating activities</b>		
Taxes received	8 602	8 629
Receipts from sales of goods and services	6 109	6 124
Grants/subsidies received	11 717	11 760
Other receipts	1 412	1 627
<b>Total receipts</b>	<b>27 840</b>	<b>28 140</b>
<b>Cash payments from operating activities</b>		
Payment for goods and services	-20 689	-22 113
Grants and subsidies paid	-2 741	-2 757
Interest paid	- 641	- 639
Other payments	- 312	- 307
<b>Total payments</b>	<b>-24 383</b>	<b>-25 816</b>
<b>Net cash flows from operating activities</b>	<b>3 458</b>	<b>2 325</b>
<b>Net cash flows from investing in non-financial assets</b>		
Sales of non-financial assets	194	164
Purchases of non-financial assets	-3 031	-3 315
<b>Total cash flows from investing in non-financial assets</b>	<b>-2 837</b>	<b>-3 151</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>75</b>	<b>74</b>
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>- 806</b>	<b>624</b>
<b>Net cash flows from financing activities</b>		
Advances received (net)	- 1	- 2
Borrowings (net)	- 38	96
Deposits received (net)	1	- 1
Other financing (net)	11	- 2
<b>Total net cash flows from financing activities</b>	<b>- 27</b>	<b>91</b>
<b>Net increase in cash held</b>	<b>- 137</b>	<b>- 37</b>
Net cash from operating activities and investments in non-financial assets	621	- 826
Acquisition of assets under finance leases and similar arrangements	..	..
<b>Surplus (+) /deficit (-)<sup>(a)</sup></b>	<b>621</b>	<b>- 826</b>
<i>Source: Department of Treasury and Finance</i>		
<i>Note:</i>		
<i>(a) Table below shows GFS surplus (+)/deficit(-) excluding impact of Growing Victoria.</i>		
<b>Surplus (+) /deficit (-) excl Growing Victoria</b>	<b>795</b>	<b>-1 396</b>

**Table E.10: General government sector expenses by function**

	(\$ million)	
	2001-02 <i>Revised</i>	2002-03 <i>Budget</i>
General public services	752	920
Public order and safety	2 139	2 352
Education	6 392	6 455
Health	5 939	6 182
Social security and welfare	1 845	1 917
Housing and community amenities	1 500	1 258
Recreation and culture	543	521
Fuel and energy	134	17
Agriculture, forestry, fishing, and hunting	522	509
Mining, manufacturing, and construction	19	17
Transport and communications	2 384	2 374
Other economic affairs	326	483
Other purposes	1 314	1 765
<b>Total GFS expenses</b>	<b>23 809</b>	<b>24 770</b>

**Table E.11: General government sector taxation**

	(\$ million)	
	2001-02 <i>Revised</i>	2002-03 <i>Budget</i>
<b>Taxes on employers' payroll and labour force</b>	<b>2 609</b>	<b>2 710</b>
<b>Taxes on property</b>		
Land taxes	519	611
Stamp duties on financial and capital transactions	2 104	1 805
Financial institutions' transaction taxes	287	249
Other	95	98
<b>Total</b>	<b>3 005</b>	<b>2 764</b>
<b>Taxes on the provision of goods and services</b>		
Excises and levies	..	..
Taxes on gambling	1 373	1 455
Taxes on insurance	725	790
<b>Total</b>	<b>2 099</b>	<b>2 245</b>
<b>Taxes on the use of goods and performance of activities</b>		
Motor vehicle taxes	922	949
Franchise taxes	7	7
Other	25	26
<b>Total</b>	<b>954</b>	<b>982</b>
<b>Total GFS taxation revenue</b>	<b>8 666</b>	<b>8 701</b>

**Table E.12: Reconciliation between general government AAS31 net result and GFS measures**

	(\$ million)				
	2001-02 Revised	2002-03 Budget	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
<b>General government net result</b>	<b>765</b>	<b>522</b>	<b>580</b>	<b>517</b>	<b>712</b>
less operating revaluations & gains on sale of physical assets	- 24	- 20	- 13	- 13	- 13
add back expense for doubtful debts	7	8	8	8	9
Amortisation not included as GFS expenses	59	71	65	65	65
Change to provision for employees superannuation (difference between nominal interest and expense)	366	- 89	- 92	- 91	- 90
Unrealised gains on sales of investments	- 13	- 3	- 3	- 3	- 3
<b>General government net operating balance (GFS)</b>	<b>1 161</b>	<b>489</b>	<b>545</b>	<b>483</b>	<b>680</b>
Less: Gross fixed capital formation	-1 914	-1 848	-2 119	-2 080	-2 014
Add: Depreciation	895	952	1 003	1 067	1 115
Change in inventories	2	- 0	- 0	- 0	- 0
<b>GFS net lending(+)/borrowing(-)(a)</b>	<b>144</b>	<b>- 407</b>	<b>- 571</b>	<b>- 529</b>	<b>- 219</b>
Plus					
Superannuation expense (non-cash)	623	44	320	565	222
Other non-cash expenses	71	98	90	110	108
<b>GFS cash surplus(+)/deficit(-)(a)</b>	<b>837</b>	<b>- 265</b>	<b>- 161</b>	<b>145</b>	<b>110</b>
Growing Victoria net cash flow	174	- 570	- 426	- 170	- 130
<b>GFS cash surplus (+) /deficit (-) (excluding Growing Victoria)</b>	<b>663</b>	<b>305</b>	<b>265</b>	<b>315</b>	<b>240</b>
Net contributions to other sectors of government and other	- 8	- 218	- 173	- 225	- 153
<b>Movement in General Government Net Debt (excluding Growing Victoria)</b>	<b>655</b>	<b>87</b>	<b>92</b>	<b>91</b>	<b>88</b>

Source: Department of Treasury and Finance

Note:

(a) The table below shows GFS net lending (+) / borrowing (-) and GFS cash surplus (+) / deficit (-) excluding the impact of Growing Victoria.

<b>GFS net lending (+) / borrowing (-) (excluding Growing Victoria)</b>	<b>- 30</b>	<b>163</b>	<b>- 145</b>	<b>- 359</b>	<b>- 89</b>
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## Victoria's 2002-03 Nominated Loan Council Allocation

Table E.13 compares Victoria's 2002-03 Loan Council Allocation (LCA), as approved by Loan Council in March 2002, with the revised LCA based on the 2002-03 Budget estimates.

Victoria's revised LCA for 2002-03 has increased since Loan Council due largely to increased capital expenditure initiated in this Budget.

**Table E.13: Loan Council Allocation 2002-03**

(\$ million)		
	2002-03 Nomination	2002-03 Revised
General government sector cash (+) deficit / (-) surplus	- 1	265
Public non-financial corporation sector cash (+) deficit / (-) surplus	- 87	561
Non-financial public sector cash (+) deficit / (-) surplus <sup>(a)(b)</sup>	- 87	826
Less: Net cash flows from investments		
in financial assets for policy purposes <sup>(c)</sup>	69	74
Plus: Memorandum items <sup>(d)</sup>	181	- 19
<b>Loan Council Allocation</b>	<b>25</b>	<b>733</b>
Tolerance limit (2% of non-financial public sector cash receipts from operating activities) <sup>(e)</sup>	545	545

Source: Department of Treasury and Finance

*Notes:*

- (a) 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.
- (b) The non-financial public sector surplus relating to the 2002-03 nomination includes net cash flows from investments in financial assets for policy purposes.
- (c) This item is the negative of net advances paid under a cash accounting framework.
- (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' (2001-02 Budget Update) applies to jurisdictions' LCA nomination and revised LCA at budget time. The tolerance limit applying to Victoria's 2002-03 LCA nomination and revised is \$545 million (2% of \$27,240 million).

Listed below are details of Victoria's infrastructure projects with private sector involvement for which it is expected that contracts will be signed in the 2002-2003 financial year.

In line with the current Loan Council guidelines for the treatment of such projects, the termination liabilities as measured by the Government's contingent exposure, are to be included as a footnote to the LCA.

As the following projects are still in development stages, full details about the extent and nature of actual payments, forward commitments and contingent liabilities associated with the projects cannot be provided at this stage, but will be included in the 2002-03 LCA outcome.

### ***Enviro Altona (City West Water)***

City West Water is proposing to redevelop the existing Altona Treatment Plant. The project scope also involves the establishment of effluent reuse systems. The project will meet new licence conditions for discharge into Port Phillip Bay and cater for significant salt loads due to infiltration in the reticulation system.

The project transfers to a private party responsibility for design, construction and operational risks.

### ***Westgate Terminal***

In response to government objectives, the Melbourne Ports Corporation (MPC) has identified a 62 hectare site for the development of a third international container terminal.

The project transfers to a private party responsibility for construction, financial and operational (including demand) risks. MPC has retained a number of 'facilitation' risks such as provision of site.

### ***Berwick Community Hospital***

The Berwick Community Hospital project is being delivered under the *Partnerships Victoria* policy. The delivery of health and other core services will be managed by a public body, Southern Metropolitan Health Services. A private party will provide design, construction, building maintenance, carparking and security services.

### ***Box Hill Hospital***

Box Hill Hospital is seeking to engage the private sector to build a new multi-storey car park on the hospital site and operate the new and existing car parking facilities. This Partnerships Victoria project aims to address car parking shortages around the hospital. It is proposed that the private provider design, build, finance and operate the car park with the asset transferring back to the hospital after a period of 21 years. It is anticipated that the private provider will take on responsibility for design, construction, financing, commissioning and operating risks.

### ***Statewide Personnel Alerting System***

The Statewide Personnel Alerting System (SPAS) project is a multi-agency initiative to equip career and volunteer emergency services personnel throughout Victoria with alerting devices. SPAS will enable the Country Fire Authority, the Victorian Statewide Emergency Services and Rural Ambulance Victoria to contact their career and volunteer staff to alert them to emergency situations. The SPAS project will establish a network of sites that could be re-used for other projects arising from the Statewide Integrated Public Safety Communications Strategy.

The project is being delivered under the Partnerships Victoria policy framework. It is anticipated that the private provider will take on significant risks in relation to construction and commissioning of the network and ongoing maintenance of an alerting service.



## APPENDIX F: TAX EXPENDITURES

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Part of the higher level of disclosure required under the *Financial Management (Financial Responsibility) Act 2000* is an overview of tax expenditures.

The Victorian tax system, in common with those of other state jurisdictions and the Commonwealth, contains a variety of concessions or exemptions as a means of providing assistance, encouragement or relief to particular taxpayers or particular activities. This assistance can take the form of tax exemptions, deductions, rebates, credits, concessionary rates or deferrals of payment of tax.

Table F.1 shows aggregate tax expenditure estimates by the main categories of tax for the period 2001-02 to 2005-06. The big rise in tax expenditures from \$1496 million in 2001-02 to \$1871 million by 2003-04 mainly reflects the impact of fast rising property prices on land tax and property related stamp duty exemptions. To a lesser extent it also reflects initiatives in this budget to increase the concessions to certain first home buyers.

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

<i>Description</i>	<i>(\$ million)</i>				
	<i>2001-02 Estimate</i>	<i>2002-03 Estimate</i>	<i>2003-04 Estimate</i>	<i>2004-05 Estimate</i>	<i>2005-06 Estimate</i>
Land tax	782	931	1 076	1 053	1 029
Payroll tax	419	430	444	466	492
Gambling taxes	83	88	93	98	103
Vehicle taxation	108	109	112	116	119
Other stamp duties	104	146	146	146	146
<b>Total estimated tax expenditures</b>	<b>1 496</b>	<b>1 704</b>	<b>1 871</b>	<b>1 879</b>	<b>1 890</b>

*Source: Department of Treasury and Finance*

Table F.2 lists individual tax expenditures that can be costed and exceeded zero during the period 2000-01 to 2002-03 (excluding tax-free thresholds). The aggregates do not represent the total value of assistance provided via tax expenditures, as many tax expenditures cannot be estimated.

A land tax exemption applicable to land vested or held in trust for an association of ex-servicemen (or their dependents) and which is used for the purposes of the association is reported for the first time. Previous estimates for this exemption did not exceed zero and therefore were not reported.

Estimates of some tax expenditures in 2001-02 vary from previous years reflecting the effect of tax reform initiatives, including the abolition of financial institutions duty, the availability of up-to-date information and more accurate land valuation data.

This budget allocates \$13 million in 2002-03 to reform, streamline and expand existing concessions on conveyancing duty to enable more Victorian families and people on low incomes to purchase their own homes. The maximum concession available will rise to \$4 660. This will double the numbers of concession card holders and families with dependent children expected to receive a concession in 2002-03. As the exemptions for families buying their first home and concession card holders have been combined they are now shown on a consolidated basis.

**Table F.2: Tax expenditures that can be costed and exceed zero (excluding thresholds)**

<i>Description</i>	<i>(\$ million)</i>		
	<i>2000-01 Estimate</i>	<i>2001-02 Estimate</i>	<i>2002-03 Estimate</i>
<b>Land tax</b>			
Land tax exemption for property of the Crown in right of the State of Victoria	179	205	229
Principal place of residence exemption from land tax	170	198	272
Land tax exemption for land held in trust for public or municipal purposes or vested in any municipality	89	157	178
Land tax exemption for land used by a charitable institution exclusively for charitable purposes	59	72	81
Land tax exemption for Commonwealth land <sup>(a)</sup>	61	59	65
Land tax exemption for land used for primary production	50	48	57
Land tax exemption for land which is vested in a public statutory authority	7	12	13
Exemption from land tax for the City Link corporation in respect of land used for the City Link network <sup>(b)</sup>	6	6	6
Assessment of land tax on a single holding basis for land owned by a municipality and not used for other purposes	3	9	10
Land tax concessional rate for non-profit organisations carried on exclusively for social, sporting, cultural, literary purposes; or horse, pony or harness racing	7	7	8
Assessment of land tax on a single holding basis for land owned by a charity and not used for other purposes	6	6	7
Land tax exemption for retirement villages	1	2	2
Land tax exemption for a non-profit organisation providing or promoting outdoor cultural or sporting recreation (excluding horse, pony or harness racing)	3	1	1
Land tax exemption for friendly societies	1	0	1
Land tax exemption for association of ex-servicemen	0	0	1
<b>Total</b>	<b>642</b>	<b>782</b>	<b>931</b>
<b>Payroll tax</b>			
Payroll tax exemption for public hospitals	114	114	116
Payroll tax exemption for wages paid by a public benevolent institution or charity	107	108	110
Payroll tax exemption for wages paid by a non-profit, non-public, school	51	51	52
Payroll tax exemption for wages paid to an approved apprentice or trainee	43	49	53
Payroll tax exemption for Commonwealth Government departments and agencies, other than transport and communication enterprises	38	39	40
Payroll tax exemption for wages paid by non-profit hospitals	24	24	24

**Table F.2: Tax expenditures that can be costed and exceed zero (excluding thresholds) - continued**

<i>Description</i>	<i>(\$ million)</i>		
	<i>2000-01 Estimate</i>	<i>2001-02 Estimate</i>	<i>2002-03 Estimate</i>
Payroll tax exemption for municipal councils (except wages associated with a council's trading activities)	21	21	22
Exemption from payroll tax for provision of fringe benefits excluded from <i>Fringe Benefits Tax Assessment Act 1986</i> (Commonwealth)	8	9	8
Payroll tax exemption for religious institutions	3	3	3
Payroll tax exemption for leave entitlements paid by the Construction Industry Long Service Leave Board (now CONINVEST)	1	1	1
Payroll tax concession resulting from the non-grossing up of fringe benefits	43	0	0
Exemption from payroll tax for severance or redundancy payments made as compensation for loss of employment	22	0	0
Exemption from payroll tax for accrued sick leave, annual leave and long service leave paid on retirement or termination and accrued before 1 January 1996	9	0	0
<b>Total</b>	<b>484</b>	<b>419</b>	<b>430</b>
<b>Gambling</b>			
Lower rate of tax applied to the net cash balance of electronic gaming machines located in clubs	78	83	88
<b>Total</b>	<b>78</b>	<b>83</b>	<b>88</b>
<b>Other stamp duties</b>			
Stamp duty exemptions for corporate reconstruction	113	98	125
Conveyance duty concession for concession card holders and for family first home buyers	5	6	19
Mortgage duty exemption for eligible first home buyers and concession card holders	0	0	2
Mortgage duty exemption for dairy structural adjustment program	1	0	0
<b>Total</b>	<b>119</b>	<b>104</b>	<b>146</b>
<b>Vehicle taxation</b>			
Exemption from motor vehicle (non-commercial) registration fee for eligible beneficiaries	103	104	105
Exemption from registration fee for a vehicle of 4.5 tonnes or less that is used solely for primary production	3	3	3
Registration fee concession for commercial passenger vehicle licensed for the carriage of school children	1	1	1
Registration fee exemption for non-commercial vehicle owned by an incapacitated war service pensioner	1	0	0
<b>Total</b>	<b>108</b>	<b>108</b>	<b>109</b>

**Table F.2: Tax expenditures that can be costed and exceed zero (excluding thresholds) - *continued***

(\$ million)			
Description	2000-01 Estimate	2001-02 Estimate	2002-03 Estimate
<b>Financial institutions duty</b>			
FID exemption for the credit of an account kept for the payment of a pension, benefit, allowance, family assistance or bonus paid to older person	8	0	0
Financial institutions duty exemption for the credit of an account kept by a local government	2	0	0
Financial institutions duty exemption for the credit of an account kept for the payment of a veteran's pension	1	0	0
<b>Total</b>	<b>11</b>	<b>0</b>	<b>0</b>
<b>Total estimated tax expenditures</b>	<b>1 442</b>	<b>1 496</b>	<b>1 704</b>

Source: Department of Treasury and Finance

Notes:

(a) See Commonwealth Constitution, section 114.

(b) This figure has been revised and is based on the deprival value of the City Link reported in Melbourne City Link Authority's Annual Report.

Table F.3 shows the value of the tax-free thresholds provided by Victoria's tax system. In 2002-03, the tax-free threshold for land tax will be increased to \$150 000 and the payroll tax threshold will be increased to \$550 000.

**Table F.3: Tax expenditure value of tax-free thresholds that can be costed**

(\$ million)			
Description	2000-01 Estimate	2001-02 Estimate	2002-03 Estimate
Exemption from land tax – aggregated site value below \$125 000 (\$150 000 for 2002-03) <sup>(a)</sup>	5	17	20
Payroll tax exemption for employers' payroll below \$515 000 (\$550 000 for 2002-03)	1 441	1 372	1 395
<b>Total for items estimated</b>	<b>1 446</b>	<b>1 389</b>	<b>1 415</b>

Source: Department of Treasury and Finance

Note:

(a) The tax-free threshold for 2000-01 was \$85 000.

Including tax-free thresholds in tax expenditures, the total value of tax assistance provided by the Government is estimated at \$3.1 billion in 2002-03.

The ratio of tax expenditures to taxation revenue for 2001-02 is estimated at 17 per cent (see Table F.4).

**Table F.4: Estimated aggregate tax expenditures (excluding thresholds) and tax receipts in 2001-02**

(\$ million)

<i>Description</i>	<i>Tax expenditures</i>	<i>Tax receipts</i>	<i>Ratio</i>
Land tax	782	519	1.51
Payroll tax	419	2 609	0.16
Financial institutions duty	-	36	0.00
Debits tax	-	251	0.00
Gambling taxes	83	1 373	0.06
Vehicle taxation	108	1 013	0.11
Other stamp duties	104	2 191	0.05
Other/miscellaneous	-	766	0.00
<b>Total for items estimated</b>	<b>1 496</b>	<b>8 758</b>	<b>0.17</b>

*Source: Department of Treasury and Finance*

Table F.5 provides a grouping of tax expenditures to particular persons or entities based on the legal incidence of state taxes.

**Table F.5: Aggregate tax expenditures (excluding thresholds) classified by persons or entities affected**

(\$ million)

<i>Description</i>	<i>2000-01 Estimate</i>	<i>2001-02 Estimate</i>	<i>2002-03 Estimate</i>
Business	200	113	139
Construction industry	1	1	1
Charitable organisations	172	186	198
Employees	43	49	53
Educational institutions	52	52	53
Gamblers	78	83	88
Commonwealth/State government departments and agencies	285	315	347
Local government	115	187	210
Hospitals	138	138	140
Concession card holders	117	110	120
Property owners	172	200	281
Primary producers	54	51	60
Religious institutions	3	3	3
Sporting, recreation and cultural organisations	10	8	9
Other	1	0	1
<b>Total for items estimated</b>	<b>1 442</b>	<b>1 496</b>	<b>1 704</b>

*Source: Department of Treasury and Finance*

## **APPENDIX G: COMMONWEALTH-STATE FINANCIAL RELATIONS**

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### **IMPACT OF NATIONAL TAX CHANGES**

The introduction of the goods and services tax (GST) in July 2000 brought about substantial changes in Commonwealth-State financial relations.

In June 1999, the Commonwealth, States and Territories signed the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA). Under the IGA the States receive all GST revenue collected by the Commonwealth. However, in return, the Commonwealth ceased to pay the States and Territories financial assistance grants and revenue replacement payments from 1 July 2000. The IGA also required the States and Territories to adjust gambling taxes to take account of the GST, and abolish financial institutions duty and stamp duty on quoted marketable securities from 1 July 2001. The IGA also requires the States and Territories to fund the First Home Owners' Grant scheme and pay for the Australian Taxation Office (ATO) costs associated with administering the GST.

### **Net impact on budget**

As the amount of GST revenue the States and Territories receive is currently less than the guaranteed minimum amount, which comprises revenue forgone and additional expenditure responsibilities, the Commonwealth makes payments to the States and Territories in the form of budget balancing assistance.

The net impact of all the GST-related measures on the State's budget for the period 2001-02 to 2005-06 is summarised in Table G.1.

**Table G.1: Impact of the GST on the Victorian budget**

	(\$ million)				
	2001-02	2002-03	2003-04	2004-05	2005-06
	Revised	Budget	Estimate	Estimate	Estimate
<b>Change in revenue</b>					
GST revenue	5 689.0	6 154.2	6 472.0	6 735.6	7 117.5
Growth dividend <sup>(a)</sup>	36.7	49.9	64.0	79.3	96.2
Financial institutions duty <sup>(a)</sup>	-342.2	-386.7	-398.3	-410.2	-422.6
Debits tax <sup>(b)</sup>					-257.8
Marketable securities <sup>(a)</sup>	-204.9	-234.4	-251.4	-267.1	-284.5
Gambling taxes	-413.1	-438.2	-464.8	-491.0	-518.8
Safety net revenues <sup>(c)</sup>	-1 583.7	-1 632.5	-1 688.0	-1 745.2	-1 795.3
Off-road diesel rebate	57.4	56.5	57.3	58.1	58.9
WST equivalent payments from GBEs <sup>(a)</sup>	-5.0	-5.0			
Financial assistance grants forgone	-3 762.7	-3 819.8	-3 919.9	-3 967.5	-4 077.8
<b>Total change in revenue</b>	<b>-528.6</b>	<b>- 256.0</b>	<b>-129.0</b>	<b>-8.0</b>	<b>-84.2</b>
<b>Change in expenditure</b>					
First Home Owners' Scheme	360.0	181.9	256.7	262.7	268.0
Embedded tax savings <sup>(a)</sup>	-107.4	-115.0	-122.9	-131.5	-140.5
Interest cost on changed Commonwealth payments <sup>(a)</sup>	3.4	4.2			
Reimbursement of ATO administration costs	128.9	139.3	142.3	145.1	148.0
<b>Total change in expenditure</b>	<b>384.9</b>	<b>210.4</b>	<b>276.1</b>	<b>276.3</b>	<b>275.5</b>
Adjustments <sup>(d)</sup>	17.1				
<b>Net budget impact prior to Commonwealth transitional guarantee</b>	<b>-930.7</b>	<b>-466.4</b>	<b>-405.1</b>	<b>-284.3</b>	<b>-359.8</b>
<b>Net Commonwealth guarantee payments</b>	<b>930.7</b>	<b>436.3</b>	<b>360.9</b>	<b>225.3</b>	<b>289.5</b>

Source: Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations; Department of Treasury and Finance

Notes:

- (a) These estimates have been agreed and will not be subject to further negotiation.
- (b) Under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations, debits tax will cease to apply by 1 July 2005, subject to review by the Ministerial Council on Commonwealth-State Financial Relations.
- (c) The estimated payments based on the Intergovernmental Agreement were reduced by the following amounts by the Commonwealth at the March 2002 Treasurer's Conference under the pretence that the Commonwealth was collecting less petrol excise following its decision to cease indexation of petroleum excise.

	2002-03	2003-04	2004-05	2005-06
	Budget	Estimate	Estimate	Estimate
Commonwealth reduction	30.1	44.2	59.0	70.3

(d) 2000-01 budget balancing assistance adjustment.

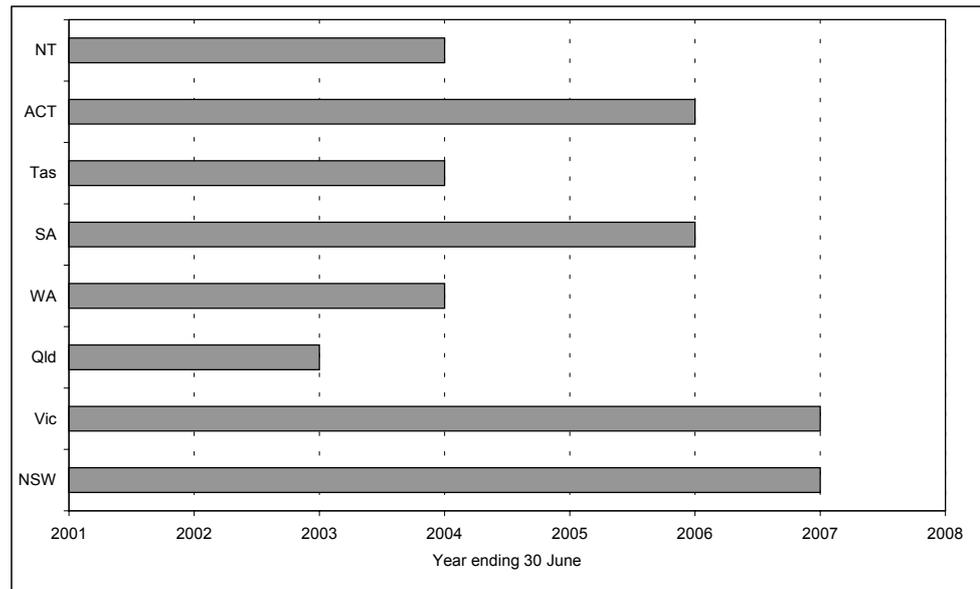
Victoria expects to receive budget balancing assistance of \$436 million in 2002-03, compared with around \$931 million in 2001-02. This assistance will continue for each State and Territory until GST grants exceed the guaranteed minimum amount. Victoria is likely to receive budget balancing assistance until 2006-07 and will not gain from the IGA until at least 2007-08 (see Chart G.1).

The difference between the 2001-02 budget and revised estimates for budget balancing assistance is due to an increase in Victoria's population share; lower Commonwealth collection of GST; higher foregone gambling revenue and a large rise in the number of first home owners grants.

The budget balancing assistance estimates for 2002-03 have been revised downwards due to increased collection of GST revenue from additional ATO compliance effort, the Commonwealth expectation that Victoria's number of first home owner grant recipients would halve between 2001-02 and 2002-03 and a reduction in Commonwealth payments below that provided for in the IGA.

Specifically, Victoria will receive \$30 million less than the estimate of budget balancing assistance provided for in the IGA due to the Commonwealth unilaterally withdrawing \$134 million of funding in 2002-03 from the States and Territories under the pretence that it was collecting less petrol excise following its decision to cease the indexation of petroleum excise. The agreed methodology for calculating the guaranteed minimum amount has broken the nexus between the amount of petroleum excise collected and the payments to the States and Territories, hence the Commonwealth's decision is clear breach of the IGA.

**Chart G.1: Dependence on budget balancing assistance <sup>(a)</sup>**



*Source: Net Impact of the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations table prepared by the States and Territories*

*Note:*

*(a) Based on parameters acknowledged at the March 2002 Heads of Treasuries, other than the petroleum indexation adjustment, which is based on the Commonwealth decision provided at the Treasurer's Conference.*

## **APPENDIX H: REQUIREMENTS OF THE *FINANCIAL MANAGEMENT (FINANCIAL RESPONSIBILITY) ACT 2000***

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This appendix describes the provisions of the amendments to the *Financial Management Act 1994* and the *Audit Act 1994*, as contained in the *Financial Management (Financial Responsibility) Act 2000*, passed by Parliament in April 2000.

The provisions of the *Financial Management (Financial Responsibility) Act 2000* have been complied with in these budget papers. Table H1 details the statements required to be included in the budget under the provisions of the Act, together with the respective chapters of the *2002-03 Budget Statement* where these statements can be found.

**Table H1: Statements required by the *Financial Management (Financial Responsibility) Act 2000* and their location in *Budget Statement 2002-03***

<i>Relevant section of the amended Acts and corresponding requirement</i>	<i>Location</i>
Sections 23 E-G of the <i>Financial Management Act 1994</i>	
Statement of financial policy objectives and strategies for the year	Chapter 1, <i>Financial Policy Objectives and Strategies</i> & Chapter 7, <i>Estimated Financial Statements and Notes</i>
Sections 23 H-J of the <i>Financial Management Act 1994</i>	
Estimated financial statements for the year comprising:	Chapter 7, <i>Estimated Financial Statements and Notes</i>
- an estimated statement of financial performance over the year;	
- an estimated statement of financial position at the end of the year;	

**Table H1: Statements required by the *Financial Management (Financial Responsibility) Act 2000* and their location in *Budget Statement 2002-03* (cont.)**

<i>Relevant section of the amended Acts and corresponding requirement</i>	<i>Location</i>
<ul style="list-style-type: none"> <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. (Section 23 K of the <i>Financial Management Act 1994</i>)</li> </ul>	
Statement accompanying the budget which:	
<ul style="list-style-type: none"> <li>- outlines the material economic assumptions used in preparation of the estimated financial statements;</li> <li>- discusses the sensitivity of the estimated financial statements to changes in these assumptions;</li> <li>- provides an overview of estimated tax expenditures in the budget;</li> <li>- provides a statement of the risks that may have a material effect on the estimated financial statements.</li> </ul>	<p>Chapter 3, <i>Economic Conditions and Outlook</i> &amp; Chapter 7, <i>Estimated Financial Statements and Notes</i></p> <p>Chapter 6, <i>Statement of Risks</i></p> <p>Appendix F, <i>Tax Expenditures</i></p> <p>Chapter 6, <i>Statement of Risks</i></p>
Section 16B of the <i>Audit Act 1994</i>	
The Auditor-General review and report on the estimated financial statements to ensure they are consistent with accounting convention and that the methodologies and assumptions used are reasonable.	Chapter 7, <i>Estimated Financial Statements and Notes</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.	not available or not applicable
Cat. No.	catalogue number
1 billion	1 000 million
1 basis point	0.01 per cent



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