

**2001-02**

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**Budget Update**



Presented by:

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

Treasurer of the State of Victoria

For the information of Honourable Members



## FOREWORD

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The *Financial Management (Financial Responsibility) Act 2000* was passed by Parliament in April 2000. It inserted the financial responsibility provisions now contained in Part 5 of the *Financial Management Act 1994*.

The *2001-02 Budget Update* has been prepared in accordance with these financial responsibility provisions. The Act requires that, amongst other things, the Government publish by 15 January each year a report which provides updated information to allow the assessment of the Government's financial performance against its financial policy objectives and strategies.

Consistent with these requirements, the *2001-02 Budget Update* includes revised estimated financial statements setting out the projected financial results for the Victorian budget sector.

Appendix E of this document outlines the requirements of the financial responsibility provisions of the *Financial Management Act 1994* and how they have been complied with in this Budget Update.



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## BUDGET UPDATE HIGHLIGHTS

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- A revised 2001-02 general government operating surplus of \$792 million, up from the \$509 million 2001-02 Budget estimate primarily as a result of stronger property market revenues.
- Operating surpluses expected to average around \$590 million in the following three years.
- A \$118 million Special Power Payment in 2001-02 will assist householders, small businesses, and farmers in outer suburban and regional and rural areas with electricity costs.
- Further output policy decisions taken since the 2001-02 Budget are worth \$178 million per annum on average from 2002-03 to 2004-05.
- Net financial liabilities estimated to decline from \$16.3 billion or 10.8 per cent of GSP at 30 June 1999 to \$14.8 billion or 6.9 per cent of GSP at 30 June 2005 (excluding the *Growing Victoria* infrastructure reserve).
- A projected increase in net assets from \$18.6 billion as at 30 June 2001 to \$19.4 billion by 30 June 2002.
- Continued government commitment to an operating surplus of at least \$100 million, net financial liabilities at prudent levels and Victoria's triple-A credit rating.
- Economic growth forecast to rise from 2.4 per cent in 2000-01 to 2.75 per cent in 2001-02 (unchanged from budget time) and to between 3.5 to 3.75 per cent in later years.
- Solid domestic demand in the near term expected to offset softer exports.



## CHAPTER 1: FINANCIAL POLICY OBJECTIVES AND STRATEGIES

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- The Government is committed to maintaining a substantial operating surplus of at least \$100 million in each year.
- The Government is 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 are being delivered to all Victorians, with 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 the implementation of the Government's *Better Business Taxes* package.
- The Government will maintain state government net financial liabilities at prudent levels and Victoria's triple-A credit rating.

### PRINCIPLES OF SOUND FINANCIAL MANAGEMENT

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

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

## **FINANCIAL STRATEGY, OBJECTIVES AND PRIORITIES**

The Government's financial strategy, objectives and priorities have not changed since the 2001-02 Budget. The broad strategic priority underlying the Government's financial strategy is to provide a sound and stable financial basis from which growth can be promoted across the whole State. A sound financial position is also essential to ensure that improved services can be provided to all Victorians.

The Government's financial responsibility legislation requires a statement of its short and long-term financial objectives in the 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 this, the Government has a number of short and long-term financial objectives, as shown in Table 1.1.

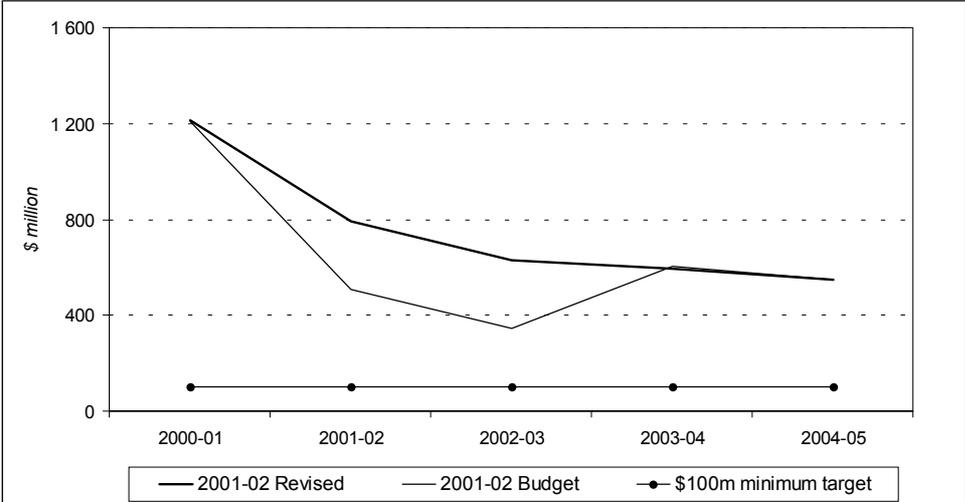
**Table 1.1: Financial objectives**

<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 <i>Growing Victoria</i> 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

### Operating surplus

The Government’s long-term objective is to maintain a substantial budget operating surplus. In the short term its objective is to maintain an operating surplus of at least \$100 million in each year. This is the Government’s key financial measure. The revised outlook for the budget surplus remains consistent with this objective, as can be seen in Chart 1.1. Following a general government surplus of \$1 216 million in 2000-01, the operating surplus is now forecast to be \$792 million in 2001-02 and to average around \$590 million in the following three years.

**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 4, Estimated Financial Statements and Notes.

Given the continued uncertainties in the world economy (see Chapter 3, *Economic Trends and Outlook* for further information), the Government is maintaining a buffer over its \$100 million surplus. This will ensure the achievement of the Government’s key financial target in the event of further moderate deterioration in the national and world economies.

The operating surplus objective is 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.

For a more detailed discussion of economic and other risks, and the sensitivity of the operating surplus to changes in economic conditions, see Chapter 5, *Statement of Risks*.

## **Infrastructure**

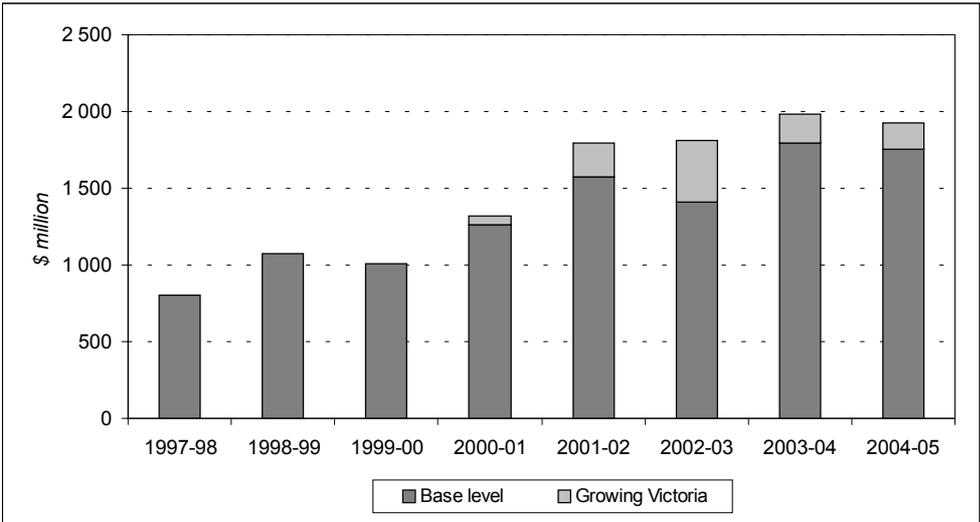
The Government recognises that building effective infrastructure is essential for delivering improved services and promoting growth across the whole State. Victoria's strong financial position, as indicated by its triple-A credit rating and the \$1 216 million 2000-01 operating surplus, continues to provide an opportunity to significantly upgrade and modernise infrastructure without incurring additional borrowings. In the 2001-02 Budget the Government allocated an additional \$175 million to the original \$1 billion *Growing Victoria* infrastructure reserve. The *Growing Victoria* reserve will significantly boost infrastructure development in the medium term from an already strong base (see Chart 1.2).

Since the 2001-02 Budget, the Government has approved further infrastructure investments, including:

- \$40 million for the development of a film and television studio complex at the Melbourne Docklands;
- Berwick Community Hospital to be designed and built under the *Partnerships Victoria* policy with funding to be determined following a tender process;
- Spencer Street Station transport interchange also to be delivered under the *Partnerships Victoria* framework at an expected cost of between \$200 to \$300 million; and
- Scoresby Integrated Transport Corridor - an agreement has been signed with the Commonwealth for development of a freeway.

Chart 1.2 shows past actual expenditure on fixed assets, together with projections provided for in the forward estimates. Some of the forward projections comprise future cash flows of projects already announced. The remainder represents the capacity for new projects.

**Chart 1.2: General government sector net purchases of fixed assets**



Source: Department of Treasury and Finance

**Service delivery**

The Government continues to build on last year’s service delivery initiatives by adopting medium to long-term strategies to improve quality, access and equity, particularly in health, education, community safety and transport.

The Government has allocated \$118 million in 2001-02 to the Special Power Payment 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.

Since the 2001-02 Budget further output policy decisions have been approved at a cost of \$178 million per annum on average over the period 2002-03 to 2004-05. The decisions largely reflect industrial agreements in key service delivery areas. These agreements will provide greater certainty and improved career structures. They 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.

## **Taxes**

The Government is committed 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: Lower, Fewer, Simpler*, announced on 26 April 2001 is based on the belief that all Victorian businesses should receive a fair deal from tax reform. It reduces the burden of payroll tax, cuts the number of state business taxes, and reduces paperwork and red tape.

So far the Government has delivered business tax cuts of \$100 million per year as of July 2001, increasing to \$200 million per year by July 2003. In addition, the package provides for further tax cuts rising to \$151 million per year in 2004-05. This makes a total of \$774 million in tax cuts over the next four years, rising from \$100 million in 2001-02 to \$351 million in 2004-05.

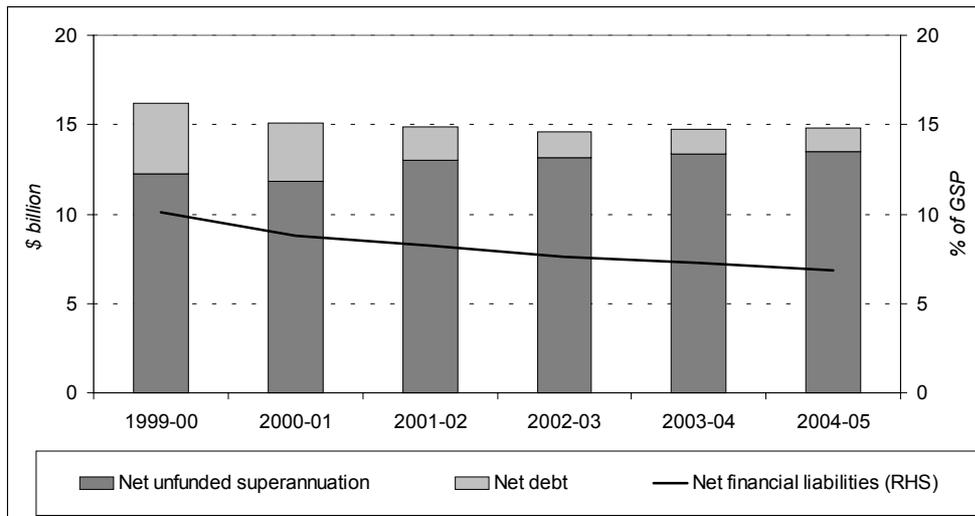
## **Net financial liabilities**

The Government is committed to maintaining the State's net financial liabilities at prudent levels. An independent performance measure of this is the credit rating assessments made by Moody's Investor Service (Moody's) and Standard and Poor's.

Victoria's long-term local currency rating of AAA was reaffirmed by Standard & Poor's on 27 March 2001 and by Moody's on 18 July 2001. 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 2001-02 revised budget outlook reinforces these positive factors. Substantial operating surpluses are projected for 2001-02 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. They are expected to decrease further from \$15.1 billion or 8.8 per cent of GSP in June 2001 to \$14.8 billion or 6.9 per cent of GSP by June 2005 (see Chart 1.3). In addition, net debt as a component of net financial liabilities, has decreased from \$5.0 billion (2.9 per cent of GSP) in 1999 and is forecast to fall to a low of \$1.3 billion (0.6 per cent of GSP) by 2005. Victoria's net financial liabilities position is expected to remain comparable with other triple-A jurisdictions.

**Chart 1.3: 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.



## CHAPTER 2: BUDGET POSITION AND OUTLOOK

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- The 2001-02 general government sector operating surplus is now expected to be \$792 million, up from the \$509 million estimate published in the 2001-02 Budget.
- The operating surplus is expected to average around \$590 million per annum over the remainder of forward estimates period to 2004-05.
- The revised budget outlook incorporates the impact of continued solid growth in the Victorian economy and all post 2001-02 Budget policy initiatives.
- The net asset position of the general government sector is projected to increase from \$18.6 billion as at 30 June 2001 to \$19.4 billion by 30 June 2002.

This chapter provides details of the revised budget position and outlook for the period 2001-02 to 2004-05. The discussion of the budget and forward estimates focuses on trends in the aggregate budget position, including the reconciliation of major variations in key budget aggregates since the 2001-02 Budget published in May 2001.

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 4, *Estimated Financial Statements and Notes*. The estimates take into account all policy initiatives of the Victorian Government, the impact of Commonwealth Government funding revisions and other factors expected to impact on the projected general government financial statements as at 20 December 2001. The forward estimates represent planning projections for future budgets based on an unchanged policy assumption.

## FORWARD ESTIMATES OUTLOOK 2001-02 TO 2004-05

Table 2.1 shows a summary general government sector statement of financial performance, highlighting the revised aggregate budget outlook for 2001-02 and the forward estimates period to 2004-05. A more detailed statement of financial performance for the outlook period is provided in Chapter 4, *Estimated Financial Statements and Notes*.

**Table 2.1: Summary statement of financial performance 2001-02 to 2004-05**

	2001-02 Budget	2001-02 Revised	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
Taxation	7 976.5	8 741.5	8 492.9	8 647.3	8 943.8
Investment income	938.2	960.0	1 060.4	947.6	970.9
Grants	11 311.7	11 495.3	11 644.1	11 815.0	12 106.3
Sales of goods and services	2 111.6	1 962.8	1 973.2	2 001.4	2 017.3
Other revenue <sup>(a)</sup>	1 127.4	1 297.1	1 387.9	1 356.1	1 382.7
<b>Total revenue</b>	<b>23 465.5</b>	<b>24 456.7</b>	<b>24 558.4</b>	<b>24 767.4</b>	<b>25 421.1</b>
Superannuation	1 506.9	2 000.7	1 668.0	1 704.0	1 740.9
Depreciation	871.3	878.1	917.5	959.7	1 034.3
Borrowing costs	477.6	483.9	479.5	475.3	469.6
Employee entitlements	8 411.5	8 358.7	8 758.3	9 020.8	9 276.5
Supplies and services	7 672.3	7 564.5	8 010.9	7 998.2	8 300.7
Other expenses <sup>(b)</sup>	4 017.5	4 378.8	4 096.1	4 017.4	4 047.9
<b>Total expenses</b>	<b>22 957.0</b>	<b>23 664.7</b>	<b>23 930.3</b>	<b>24 175.3</b>	<b>24 870.0</b>
<b>Net result - operating surplus</b>	<b>508.5</b>	<b>792.0</b>	<b>628.1</b>	<b>592.1</b>	<b>551.1</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.

As indicated in Table 2.1, the net result for the general government sector for 2001-02 is now expected to be an operating surplus of \$792 million, \$284 million higher than the original budget estimate of \$509 million published in the May 2001 budget papers. The improvement in the estimated 2001-02 operating position reflects a significant increase in projected operating revenue (\$991 million or 4.2 per cent). This is partly offset by an increase in operating expenses of \$708 million, or 3.1 per cent, relative to the published budget estimates. The largest component of this increase is superannuation expense, which increased \$494 million relative to the budget estimate. The main driver of this increase is a \$441 million revision resulting from new actuarial projections

including downwards revision to the funds earning assumption due to weaker equity markets and revised economic assumptions.

The operating surplus is forecast to decline from \$792 million in 2001-02 to \$592 million by 2003-04. The subsequent modest decline in the surplus in 2004-05 to \$551 million is mainly due to the additional \$151 million in tax cuts scheduled in that year under the Government's *Better Business Taxes* package, primarily reflecting the abolition of stamp duty on mortgages at a net cost to the budget of \$122 million.

The projected decline in the operating surplus in 2002-03 reflects the projected low growth in operating revenue, which in that year is expected to rise by only 0.4 per cent compared to projected growth in operating expenses of 1.1 per cent. The low growth in revenue forecast for 2002-03 is largely due to the moderation of property market activity, resulting in a return to more normal levels of conveyancing and mortgage stamp duties from the current peak in activity and to the wind-down of distributions from the gas industry. Lower gas industry distributions reflects the expiration of existing gas supply contracts and the expected introduction of competition in the retail gas market from September 2002.

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

Table 2.2 compares the revised outlook for budget operating surplus for the period 2001-02 to 2004-05 to the previously published budget estimates. 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.

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

Table 2.2 highlights the increase in projected operating revenue for the period 2001-02 to 2004-05 relative to the original budget estimates published in May 2001. Projected operating revenue for 2001-02 is \$991 million higher than the published budget estimates, with the improvement over the remainder of the outlook period averaging \$501 million per year.

The bulk 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, resulting in strong growth in conveyancing stamp duties.

The 2001-02 budget estimate for property taxes has been increased by some \$721 million (32 per cent). A forecast reduction in property market activity in 2001-02 failed to occur. Indeed, Victorian real estate market activity has become stronger in terms of both prices and volumes. This continuing strength reflects several factors including continued strong population growth from interstate migration, and the relative resilience of the Victorian economy and labour market during the current national slowdown, the First Home Owners Grant, low interest rates, and instability in equity markets. As a result, stamp duty from both land transfers and mortgages has been revised upwards by \$750 million (59 per cent). It is expected that a moderation in property market activity will occur over the forecast period.

Moderate increases in other taxes, particularly insurance, account for an additional improvement in the tax revenue outlook over the period as a whole. Insurance taxation revenue for 2001-02 has been revised upwards by some \$26 million (3.7 per cent) to reflect higher than expected increases in insurance premiums during 2001-02. The upward revision has flow-on effects over the remainder of the forecast period.

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

- a downward revision to land tax revenue (\$42 million) resulting from an overstatement of preliminary land valuations provided by the Valuer-General relative to actual values as at 1 January 2000; and
- a decline in public authority distributions, primarily due to the effects of weaker share market conditions on expected distributions from the Transport Accident Commission.

In aggregate the impact of economic conditions on taxes and public authority income reveals a gross boost to projected revenues since budget of \$751 million in 2001-02 and an average around \$194 million per annum for the out-years (see Table 2.2).

The impact of Commonwealth funding revisions is expected to result in an increase in total revenue, relative to the published budget estimates, of \$184 million in 2001-02, and averaging \$111 million over the following three years.

This increase reflects:

- higher than forecast specific purpose payments from the Commonwealth, mainly in relation to fringe benefits tax transitional grants for public hospitals, higher than budgeted health funding grants under the Australian Health Care Agreement and higher grants to TAFE by the Australian National Training Authority (ANTA); and

- an increase in general purpose grants, reflecting the net impact of revisions to GST revenue (due to an upwards revision to CPI), state taxation revenue forgone, financial assistance grants forgone, revenue replacement payments forgone and GST administration costs payable to the Australian Taxation Office.

Other factors (comprising a wide range of miscellaneous revenue variations including interest received, third party revenues and fees and fines) contribute to an increase in revenue of \$57 million in 2001-02 and \$196 million per year on average over the remainder of the period (see Table 2.2). An increase in interest revenue, reflecting investment returns generated on higher than expected general government sector cash surpluses, notwithstanding the lower interest rate environment, accounts for \$30 million of the increase in 2001-02 and \$111 million per annum on average over the following three years. Other administrative variations totalling \$26 million in 2001-02 are broadly explained by an increase in revenue from sales of goods and services and other miscellaneous revenue sources, including higher than budgeted revenue from commercial activities in the education and health sector.

**Table 2.2: Reconciliation of revised forward estimates to 2001-02 Budget**

(\$ million)

	2001-02 Revised	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
<b>Operating surplus - 2001-02 Budget</b>	<b>508.5</b>	<b>346.3</b>	<b>602.4</b>	<b>546.7</b>
<b>Plus: Revenue variation since 2000-01 Budget</b>				
<b>Economic/demographic effects:</b>				
Taxation revenue	764.9	299.4	111.2	170.2
Public authority income	- 13.8	..	..	..
<b>Total economic/demographic variations</b>	<b>751.1</b>	<b>299.4</b>	<b>111.2</b>	<b>170.2</b>
<b>Impact of Commonwealth funding revisions</b>				
General purpose grants	100.6	60.9	61.9	60.5
Specific purpose payments	83.0	76.8	36.9	36.8
<b>Total Commonwealth funding variations</b>	<b>183.6</b>	<b>137.7</b>	<b>98.8</b>	<b>97.3</b>
<b>Administrative variations</b>				
Budget financing - interest revenue	30.3	107.8	111.3	113.9
Other	26.2	89.0	74.5	91.4
<b>Total administrative variations</b>	<b>56.5</b>	<b>196.9</b>	<b>185.8</b>	<b>205.3</b>
<b>Total revenue variation</b>	<b>991.2</b>	<b>634.0</b>	<b>395.7</b>	<b>472.9</b>
<b>Less: Operating expenses variation since 2001-02 Budget</b>				
<b>Policy decisions</b>	<b>254.3</b>	<b>160.8</b>	<b>172.7</b>	<b>199.9</b>
<b>Commonwealth funding revisions</b>	<b>26.5</b>	<b>29.9</b>	<b>33.1</b>	<b>33.1</b>
<b>Administrative variations</b>				
GST implementation - estimates revision	23.5	..	..	..
Budget financing - public debt interest costs	6.4	13.2	14.5	16.1
Superannuation - preliminary actuarial review	441.0	72.0	73.8	82.5
Other <sup>(a)</sup>	- 44.0	76.3	111.9	136.8
<b>Total administrative variations</b>	<b>426.8</b>	<b>161.5</b>	<b>200.1</b>	<b>235.4</b>
<b>Total operating expenses variation</b>	<b>707.7</b>	<b>352.3</b>	<b>406.0</b>	<b>468.5</b>
<b>Revised operating surplus</b>	<b>792.0</b>	<b>628.1</b>	<b>592.1</b>	<b>551.1</b>

Source: Department of Treasury and Finance

Note:

(a) Includes variations in operating expenses attributable to revised depreciation expense, approved appropriation transfers and departmental expenses funded by third party revenue sources (such as sales of goods and services), net of contingency funding. In 2001-02 policy decisions are partly offset by Treasurer's Advance funding and these are netted off within this category.

## Variations to total operating expenses

As shown in Table 2.2, general government sector operating expenses for 2001-02 are \$708 million higher than the 2001-02 Budget estimates published in May 2001. Operating expenses over the remainder of the forward estimates period are around \$409 million higher on average than the published 2001-02 Budget estimates. As indicated in Table 2.2, the increase in projected operating expenses is more than offset by an improvement in the revenue outlook over the forecast period.

Policy decisions announced since the 2001-02 Budget account for a substantial part of the increase in operating expenses. In 2001-02 policy decisions total \$254 million with the impact on the overall budget result partly offset by funding from within existing Treasurer's Advance contingency. These decisions will increase operating expenses by around \$178 million per annum on average over the remainder of the outlook period. The decisions largely reflect industrial agreements in key service delivery areas such as education, health and community safety. Other key initiatives include:

- the Special Power Payment in 2001-02;
- education initiatives to assist students at risk;
- redevelopment of Spencer Street Station;
- Latrobe Valley housing project; and
- mobile data network project.

Appendix A, *Specific Policy Initiatives Affecting The Budget Position* provides more detail on policy decisions since the 2001-02 Budget.

Superannuation expenses have been revised up since the 2001-02 Budget by \$441 million in 2001-02 and around \$76 million in the out-years, mainly reflecting new actuarial projections of the State's unfunded superannuation including revising downwards the fund earnings assumption in 2001-02 due to weaker equity markets and revision of the underpinning economic assumptions partly offset by the impact of the beneficiary choice program.

Post-budget revisions to Commonwealth specific purpose grants are expected to contribute to an increase in expenses of \$27 million in 2001-02. This mainly reflects higher than budgeted Commonwealth funding for TAFE programs and special education programs in human services.

A range of administrative and technical factors account for the remainder of the variation in projected operating expenses since the 2001-02 Budget. These include:

- higher than budgeted costs associated with implementation of changes to the national taxation system (\$24 million in 2001-02) reflecting increased costs associated with the First Home Owners Scheme;
- higher than budgeted borrowing costs (\$6 million in 2001-02 rising to \$16 million in 2004-05) mainly reflecting indexation increases on existing debt levels; and
- a range of miscellaneous variations including increased departmental expenses funded by miscellaneous revenue sources (such as revenue from sale of goods and services).

## SUMMARY STATEMENT OF FINANCIAL POSITION

Table 2.3 provides a summary of the general government sector statement of financial position. A more detailed revised statement of financial position is provided in Chapter 4, *Estimated Financial Statements and Notes*.

Projected net assets for the period from 2001-02 to 2004-05 have increased since the publication of the 2001-02 Budget, partly reflecting higher than budgeted revaluations of assets and an improved operating surplus in 2000-01.

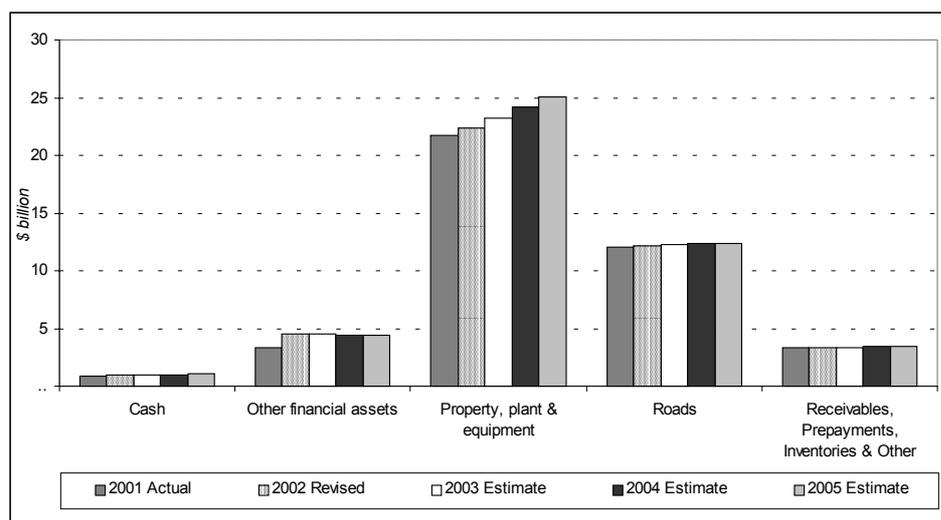
**Table 2.3: General government summary statement of financial position as at 30 June**

	(\$ million)				
	2001 Actual	2002 Revised	2003 Estimate	2004 Estimate	2005 Estimate
Current assets	3 274.6	3 334.3	3 458.6	3 593.5	3 689.0
Non-current assets	37 970.5	40 015.3	40 882.4	41 702.3	42 506.0
<b>Total assets</b>	<b>41 245.2</b>	<b>43 349.6</b>	<b>44 341.0</b>	<b>45 295.7</b>	<b>46 195.0</b>
Current liabilities	2 685.5	2 668.0	3 348.9	3 401.8	3 495.8
Non-current liabilities	19 943.3	21 268.6	20 946.6	21 251.8	21 501.6
<b>Total liabilities</b>	<b>22 628.8</b>	<b>23 936.7</b>	<b>24 295.5</b>	<b>24 653.6</b>	<b>24 997.4</b>
<b>Net assets</b>	<b>18 616.4</b>	<b>19 412.9</b>	<b>20 045.5</b>	<b>20 642.1</b>	<b>21 197.7</b>

Source: Department of Treasury and Finance

General government sector assets are projected to grow by 12.0 per cent from \$41.2 billion at 30 June 2001 to \$46.2 billion at 30 June 2005. This mainly reflects a projected increase in non-current physical assets driven by steady growth 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 (see Chart 2.1).

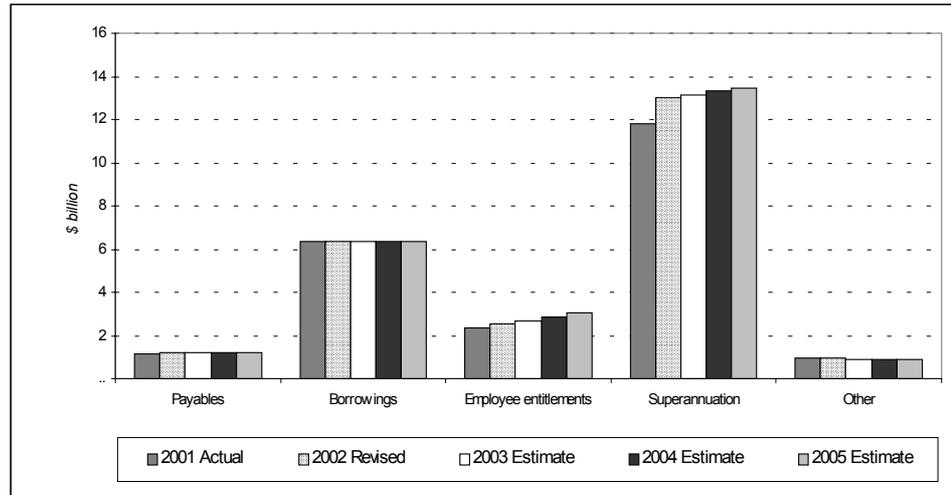
**Chart 2.1: Projected general government sector assets by category as at 30 June**



Source: Department of Treasury and Finance

As shown in Table 2.3, total general government sector liabilities are projected to remain fairly constant over the forward years, rising slightly from \$22.6 billion at 30 June 2001 to \$25.0 billion at 30 June 2005. This mainly reflects forecast growth in employee entitlements and the unfunded superannuation liability with general government sector borrowings forecast to remain steady (see Chart 2.2).

**Chart 2.2: Projected general government sector liabilities by category as at 30 June**



Source: Department of Treasury and Finance

The underlying growth in assets and liabilities contributes to a significant improvement in the net asset position over the outlook period. Net assets are expected to increase from \$18.6 billion as at 30 June 2001 to \$21.2 billion by 30 June 2005, with this improvement broadly reflecting the budget operating surpluses projected over the period.

### Net financial liabilities

The Government is committed to maintaining net financial liabilities at prudent levels. Table 2.4 shows projected general government net financial liabilities for the years from 2001 to 2005.

**Table 2.4: Projected general government net financial liabilities as at 30 June**

	2000	2001	2002	2003	2004	2005
	Actual	Actual	Revised	Estimate	Estimate	Estimate
<i>\$ billion</i>						
<b>Financial assets</b>						
Cash and deposits	0.9	0.9	0.9	1.0	1.0	1.0
Advances paid	0.4	0.3	0.2	0.2	0.1	0.0
Investments, loans and placements	1.4	2.2	3.6	4.1	4.1	4.2
<i>Growing Victoria</i>	1.0	1.1	0.9	0.5	0.3	0.1
<b>Total</b>	<b>3.7</b>	<b>4.6</b>	<b>5.7</b>	<b>5.7</b>	<b>5.5</b>	<b>5.5</b>
<b>Financial liabilities</b>						
Deposits held	0.2	0.3	0.3	0.3	0.3	0.3
Advances received	0.1	0.0	0.0	0.0	0.0	0.0
Borrowings	6.4	6.4	6.3	6.3	6.3	6.3
<b>Total</b>	<b>6.7</b>	<b>6.7</b>	<b>6.7</b>	<b>6.7</b>	<b>6.7</b>	<b>6.7</b>
Net debt	3.0	2.1	1.0	1.0	1.1	1.2
<b>Net debt (excl. Growing Victoria)</b>	<b>4.0</b>	<b>3.3</b>	<b>1.9</b>	<b>1.5</b>	<b>1.4</b>	<b>1.3</b>
Unfunded superannuation	12.3	11.8	13.0	13.2	13.3	13.5
Net financial liabilities	15.3	14.0	14.0	14.1	14.5	14.7
<b>Net financial liabilities (excl. Growing Victoria)</b>	<b>16.3</b>	<b>15.1</b>	<b>14.9</b>	<b>14.6</b>	<b>14.8</b>	<b>14.8</b>
<i>per cent</i>						
Net financial liabilities to GSP (excl. <i>Growing Victoria</i> )	10.1	8.8	8.2	7.6	7.3	6.9

Source: Department of Treasury and Finance

Note: 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.

At 30 June 1999 general government net financial liabilities (excluding *Growing Victoria*) were \$16.3 million or 10.8 per cent of GSP. As shown in Table 2.4 above, general government net financial liabilities (excluding *Growing Victoria*) are forecast to decline from \$16.3 billion or 10.1 per cent of GSP at 30 June 2000 to \$14.8 billion or 6.9 per cent of GSP at 30 June 2005.

## Unfunded superannuation liabilities

The most significant liability on the general government sector's balance sheet is unfunded superannuation. The unfunded liability of Victoria's superannuation

schemes represents the present value of future benefits that members have already accrued and the taxation liabilities of the fund which are not covered by fund assets.

As at 30 June 2001, the unfunded superannuation liability for the general government sector was \$11.8 billion. The unfunded superannuation liability is expected to grow on a nominal basis over the forward estimates period to approximately \$13.5 billion by 30 June 2005, an average annual growth rate of 3.5 per cent. The growth is mainly due to the increasing average age of the public sector workforce covered by defined benefit schemes. As a percentage of GSP, however, unfunded superannuation liability will continue to fall from 7 per cent at 30 June 2001 to 6.4 per cent by 30 June 2005.

The increase in unfunded superannuation liability compared to the May 2001 Budget due mainly to the revision in the 2001-02 assumption for investment returns on superannuation assets to zero from the original forecast based on the long-term investment return of 7 per cent. The 2001-02 forecasts also includes revisions to economic assumptions which increased the unfunded superannuation liability. Increases in the projected unfunded liability due to these factors were partially offset by savings associated with the Beneficiary Choice Program. The Government is committed to the management of its unfunded superannuation liabilities and has adopted a funding framework that aims to achieve 100 per cent funding of these liabilities by 2035.

## **SUMMARY CASH FLOW STATEMENT**

Table 2.5 provides a revised summary cash flow statement for the 2001-02 Budget and the forward estimates period to 2004-05. A more detailed cash flow statement is provided in Chapter 4, *Estimated Financial Statements and Notes*.

Net cash flows from operating activities for 2001-02 are now expected to total \$2 933 million, \$1 354 million higher than the original 2001-02 Budget estimate. The increase in cash flow from operating activities is attributable to:

- the \$284 million improvement in the operating surplus relative to the published budget estimate;
- variations in expenses reflected in the revised operating result but not requiring a cash outlay totalling \$468 million (mainly in relation to growth in unfunded superannuation liabilities); and
- a post-Budget decision to bring forward the 2001-02 payment to the State Superannuation Fund to 2000-01 (\$603 million).

Expenditure on the purchase of property, plant and equipment is now expected to total \$1 905 million in 2001-02, \$63 million higher than the original budget estimate. This is mainly as a result of the following asset investment developments since the 2001-02 Budget:

- of the \$40 million being invested in the development of a film and television studio complex at the Melbourne Docklands, \$20 million will occur in 2001-02; and
- approximately \$5 million of land purchases from the Parks and Reserves Trust account.

**Table 2.5: General government summary cash flow statement**

	(\$ million)				
	2001-02 Budget	2001-02 Revised	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
<b>Net cash flow from operating activities</b>	<b>1 578.3</b>	<b>2 932.7</b>	<b>1 831.5</b>	<b>1 835.7</b>	<b>1 861.4</b>
Purchase of property, plant and equipment	-1 842.2	-1 904.8	-1 900.6	-2 044.7	-1 981.3
Sale of property, plant and equipment	98.2	105.8	86.8	57.2	55.4
Net proceeds from other investing activities	196.6	-1 110.6	29.2	208.5	90.5
<b>Net cash flow from investing activities</b>	<b>-1 547.4</b>	<b>-2 909.6</b>	<b>-1 784.6</b>	<b>-1 779.0</b>	<b>-1 835.3</b>
<b>Net cash flow from financing activities</b>	<b>- 1.7</b>	<b>- 6.0</b>	<b>- 6.0</b>	<b>- 6.0</b>	<b>- 5.3</b>
<b>Net cash inflow</b>	<b>29.2</b>	<b>17.1</b>	<b>40.8</b>	<b>50.7</b>	<b>20.8</b>
Cash at beginning of reporting period	901.8	901.8	918.9	959.7	1 010.4
<b>Cash at end of reporting period</b>	<b>931.0</b>	<b>918.9</b>	<b>959.7</b>	<b>1 010.4</b>	<b>1 031.2</b>

Source: Department of Treasury and Finance

Expenditure on purchase of property, plant and equipment is expected to grow steadily over the remainder of the forecast period. This reflects maintenance of growth in underlying infrastructure expenditure, together with the impact of the boost to asset investment expenditure provided by the *Growing Victoria* infrastructure reserve.

As noted above, the Government is committed to maintaining general government net financial liabilities at prudent levels. Consistent with this objective, the projections assume that the 2001-02 and future cash surpluses

from operating and investing activities are applied to increasing financial assets and thereby reducing net financial liabilities. The Government will make a final decision on the application of the cash surplus later in the year. Therefore, the revised forward estimate cash flow projections reflect:

- no further repayment or increase of borrowings in the budget sector debt portfolio, resulting in only modest projected net cash flows from financing activities as a whole (mainly representing changes in deposits repayable and finance leases);
- an expected \$1 111 million increase in investment in financial assets in 2001-02, funded mainly from the non-payment of the contribution to the State Superannuation Fund (as it was paid in 2000-01), and increased net cash flows from operating activities generally; and
- modest decreases in financial assets between 2002-03 and 2004-05, with the application of future underlying cash surpluses to increasing financial assets offset by the drawdown of *Growing Victoria* reserve assets to fund increased investment in infrastructure assets over that period.

## CHAPTER 3: ECONOMIC CONDITIONS AND OUTLOOK

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- The Victorian economy performed solidly in 2000-01 despite weaker global conditions, in line with budget forecasts. The worsening global economic outlook, including the events of 11 September, has been an important development since budget time, as has the strong rebound in domestic housing activity.
- A moderate improvement in Victoria's growth rate is forecast. In the near term, solid domestic demand growth can be expected to offset a softer export performance.
- Economic growth in Victoria is forecast to rise from 2.4 per cent in 2000-01 to 2.75 per cent in 2001-02 (unchanged from budget time) and to between 3.5 to 3.75 per cent in later years. Employment growth since budget time has been consistent with earlier expectations, with the full-year employment growth forecast for 2001-02 unchanged at 0.5 per cent.
- Risks to the medium-term outlook include a sharper and more prolonged international downturn, a housing market correction and unexpected changes to interstate migration patterns.

### ECONOMIC CONDITIONS SINCE THE BUDGET

#### World economy

Since the budget in May 2001 global economic conditions have deteriorated, with growth slowing in all major regions. Global growth forecasts had been wound back prior to the terrorist attacks in the United States and, not surprisingly, were trimmed further following the events of 11 September.

The Consensus Economics forecast for world growth in 2001 has declined from around 2.5 per cent at budget time to just over 1 per cent in December. For

2002, the global outlook has weakened from around 3 per cent to 1.25 per cent since the budget.

The slowdown in the United States has been the key reason for the progressive reduction in global growth forecasts this year. Even prior to the terrorist attacks it was evident the US economy was experiencing a sharper downturn than initially expected, the result of high petrol prices and interest rates in 2000, the 'tech wreck' and fall in equity prices, the impact of the strong US dollar on exports, and the decline in business (IT) equipment investment following years of exceptionally strong growth.

The impact of the last factor has been particularly evident in Asia, where growth rates have slowed sharply, with the United States a major destination for East Asian IT production.

The events of 11 September have further depressed consumer and business confidence in the United States and globally. US growth forecasts have been lowered further since the terrorist attacks, and there is strong evidence the US economy is currently in recession. Coupled with the continued economic difficulties in Japan and deteriorating conditions in Europe, the global economy is clearly in the midst of a synchronised downturn.

In response to this, there has been an aggressive policy response in most major economies, particularly in terms of monetary policy, and a large fiscal stimulus is in train in the United States. As a result of these measures, most analysts expect a rebound in US and global economic activity by around mid 2002.

## **Australia and Victoria**

The Victorian economy grew by 2.4 per cent in 2000-01, in line with the budget forecast and above the national outcome of 1.8 per cent. Victoria grew more rapidly than any other State except New South Wales. Nevertheless, the pace of domestic demand weakened during 2000, partly reflecting the mid-year impact of the GST on housing construction and consumer spending.

Victorian state final demand growth resumed strongly in 2001. Key influences have been:

- A strong recovery in consumer spending, which has risen by an average quarterly rate of 1.5 per cent in the first three quarters of 2001, with a corresponding increase of 2.0 per cent per quarter in retail trade volumes. Spending on household goods, hospitality and recreation goods has risen sharply (although clothing retailing remains weak).
- Dwelling investment has regained ground lost after the introduction of the GST, rising by 5.1 per cent through the first half of 2001 and a further

10 per cent in the September quarter. Private dwelling approvals in Victoria reached a low point of below 2 200 in October 2000 but recovered to over 3 000 by December and were close to 4 500 by October 2001.

Ongoing net interstate migration gains contributed to greater resilience in Victorian dwelling investment than nationally. Housing construction has also been supported by low interest rates and an expanded first home owners' scheme, although activity was temporarily restrained by the collapse of HIH Insurance (an important provider of builders' warranty insurance) earlier in the year.

Victorian growth in 2001 has also been bolstered by net international merchandise exports following a decline in import volumes and an increase in exports.

Victorian employment grew by 3.5 per cent in 2000-01, marginally above the budget forecast of 3.25 per cent, and well above the national result of 2.1 per cent. The year-average unemployment rate (6.0 per cent) and participation rate (63.8 per cent) were in line with budget forecasts.

The slowing in Victorian employment growth in the first half of 2001 appeared to represent a delayed response to the GST-induced slowing in domestic demand. The Victorian labour market slowdown occurred later than nationally and a little later than expected at budget time.

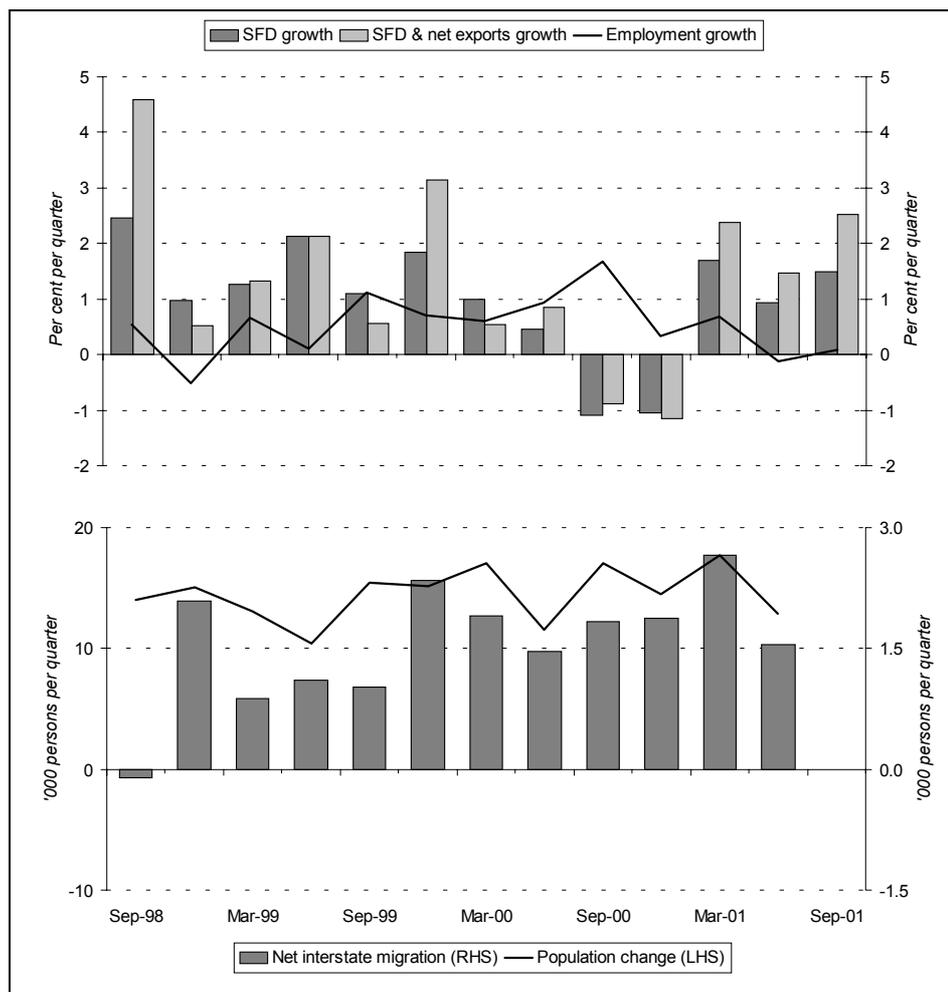
The Victorian unemployment rate drifted upward during this period while remaining below the national average. However, labour force participation remained close to historically high levels, suggesting that few additional workers had become discouraged about job search.

By May, there were signs that the resumption of economic growth was being felt in the labour market as ANZ Bank job ads began rising again. The job ads series has renewed its decline since around October. Business confidence has also weakened, along with near-term hiring intentions.

Melbourne consumer price inflation was 6.0 per cent in 2000-01, the same as the national increase and in line with the budget forecast. Excluding the GST, it is estimated the increase was around 3.25 per cent. The annual inflation rate fell back to 2.5 per cent in the year to September, with the GST impact dropping out of the annual calculation. A large fall in petrol prices in the quarter also contributed to this lower outcome.

In 2000-01 the Victorian wage cost index grew by 3.4 per cent, in line with the budget forecast. Wage pressures have picked up modestly, with an increase of 3.8 per cent over the year to September.

**Chart 3.1: Victorian economic growth indicators<sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

(a) Seasonally adjusted data.

## ECONOMIC OUTLOOK

### Economic projections

The latest Consensus Economics projections, released in December, show private sector analysts expect US growth to slow to around 1 per cent in both 2001 and 2002. Growth in Europe is generally expected to average around

1.5 per cent over the same period, while the Japanese economy is expected to contract in both years. The OECD's latest forecasts are similar to the private sector consensus. After a sharp slowdown in 2001, growth in non-Japan East Asia is, however, forecast to improve somewhat in 2002.

The national economic outlook for 2001-02 had been marked down at budget time following the release of weaker than expected growth numbers for the December quarter. The outlook subsequently improved as housing construction and consumer spending strengthened. However, prospects deteriorated again following the events of 11 September as well as the collapse of Ansett Airlines.

The Commonwealth in its *Mid-Year Economic and Fiscal Outlook* forecasts economic growth of around 3 per cent in 2001-02, compared with a previous forecast of 3.25 per cent in May. The inflation forecast for Australia has been raised to 2.75 per cent for 2001-02, from the budget estimate of 2 per cent.

Growth in Victorian gross state product is expected to improve marginally from the 2.4 per cent recorded in 2000-01 to around 2.75 per cent in 2001-02 (see Table 3.1). The growth forecast for 2001-02 is unchanged from the budget estimate, with stronger state final demand offsetting the weaker outlook for exporters.

Household consumption expenditure in Victoria is expected to display solid growth in 2001-02, above the previous year's outcome which was distorted in part by the introduction of the GST. Consumer spending will be supported by moderate employment and wages growth, low interest rates and the wealth effect from rising house prices.

Housing investment is expected to be a key contributor to growth in 2001-02, after falling in 2000-01 following the introduction of the GST. The recent strength in dwelling approvals points to strong growth in construction in coming quarters, with the sector supported by the numerous factors outlined earlier.

Building Control Commission data indicate that for the first time, the level of building approvals exceeded \$1 billion in each of the 3 months ended October 2001. This suggests a strong outlook for the construction sector for 2001-02.

Reflecting the weak global growth outlook, Victorian merchandise exports are expected to be soft in 2001-02. Although Victoria has a diversified export base in terms of products and markets, with only 10 per cent of exports destined for the United States, the State will be adversely affected by the synchronised nature of the current global downturn.

The long-term outlook for economic growth in Victoria remains unchanged from budget time with projected growth of around 3.5 per cent per annum. The outlook for 2002-03 is slightly higher at 3.75 per cent, reflecting the impact of current stimulatory policy settings on domestic demand and an anticipated rebound in global growth, the latter being an important influence on the 2002-03 forecast. Continued solid population growth over the forward estimates period, of around 1 per cent per annum, is one of the supporting factors. The population estimates are based on Australian Bureau of Statistics' projections which allow for some decline in net interstate migration gains, from current levels of 7 800 per annum to 2 000 persons by 2004.

Employment growth in Victoria is expected to moderate to around 0.5 per cent in year-average terms in 2001-02, following exceptionally strong growth of 3.5 per cent in the previous year. This is a little below the Commonwealth's estimate for national employment growth (0.75 per cent), reflecting the relatively delayed slowing in Victorian employment and the high base established in 2000-01. The participation rate is expected to ease to 63.5 per cent over 2001-02 and the unemployment rate is projected to average 6.5 per cent, up from the 11-year low of 6.0 per cent recorded in 2000-01.

In the longer term, annual employment growth in Victoria is assumed to be around 1.5 per cent, with a return to this level expected in 2002-03. Assuming that the participation rate stabilises at around 63.25 per cent, its average level of the late 1990s, the unemployment rate is projected to decline back to around 6 per cent.

Consumer price inflation in Victoria is expected to be around 2.75 per cent in 2001-02, compared with 6.0 per cent in the previous year (around 3.25 per cent excluding the GST). It is anticipated that wage claims will remain fairly moderate over the coming year, with the wage cost index forecast to rise by 3.5 per cent. Over the medium term, CPI inflation is expected to average 2.25 per cent per annum and wages growth to remain at around 3.5 per cent.

### **Risks to the economic outlook**

Major risks to the economic outlook, both positive and negative, include:

- The current global slowdown could be more protracted and more severe than is currently anticipated;
- The property market correction is more severe than anticipated;

- The aggressive policy stimulus in most major economies produces a stronger than expected rebound in global output;
- Interstate migration could stabilise at a level different to the net gain of 2 000 persons per annum assumed in the forecast.

These are discussed in more detail in Chapter 5, *Statement of Risks*.

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

*(Projections in 2001-02 Budget, where different, are in brackets)*

	Actual	Projections			
	2000-01	2001-02	2002-03	2003-04	2004-05
Gross state product	2.4	2.75	3.75	3.50	3.50
Employment	3.5 (3.25)	0.50	1.50	1.50	1.50
Unemployment rate <sup>(b)</sup>	6.0	6.50	6.25	6.00	6.00
Participation rate <sup>(b)</sup>	63.8	63.50 (63.25)	63.25	63.25	63.25
Consumer price index	6.0	2.75 (2.00)	2.25	2.25	2.25
Wage cost index <sup>(c)</sup>	3.4	3.50	3.50	3.50	3.50
Population <sup>(d)</sup>	1.3 (1.2)	1.00	1.00	0.90	0.90

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

*Notes:*

*(a) Per cent change on preceding year unless otherwise indicated.*

*(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.*



## **CHAPTER 4: 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 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 budget sector.

Since the 2001-02 Budget the scope of the budget sector as presented in the Estimated Financial Statements includes all general government sector agencies.

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.

## Estimated statement of financial performance for the year ending 30 June

		(\$ million)				
	Notes	2001-02 Budget	2001-02 Revised	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
<b>Revenue from ordinary activities</b>						
Taxation	2	7 976.5	8 741.5	8 492.9	8 647.3	8 943.8
Fines and regulatory fees		374.2	344.3	382.2	370.2	383.9
Investment revenue	3	938.2	960.0	1 060.4	947.6	970.9
Grants	4	11 311.7	11 495.3	11 644.1	11 815.0	12 106.3
Sale of goods and services		2 111.6	1 962.8	1 973.2	2 001.4	2 017.3
Gains/(losses) on the disposal of physical assets		13.2	23.9	18.7	11.7	11.8
Fair value of assets received free of charge		..	0.7	0.7	0.7	0.7
Inter sector capital asset charge		489.0	489.0	501.0	514.0	514.0
Other revenue		251.0	439.2	485.3	459.5	472.4
<b>Total revenue</b>		<b>23 465.5</b>	<b>24 456.7</b>	<b>24 558.4</b>	<b>24 767.4</b>	<b>25 421.1</b>
<b>Expenses from ordinary activities</b>						
Employee entitlements		8 411.5	8 358.7	8 758.3	9 020.8	9 276.5
Superannuation		1 506.9	2 000.7	1 668.0	1 704.0	1 740.9
Depreciation	5	871.3	878.1	917.5	959.7	1 034.3
Amortisation	6	23.8	24.2	23.5	23.9	23.9
Borrowing costs	7	477.6	483.9	479.5	475.3	469.6
Grants and transfer payments	8	3 954.9	4 320.9	4 039.6	3 960.5	3 990.9
Supplies and services		7 672.3	7 564.5	8 010.9	7 998.2	8 300.7
Other expenses		38.8	33.8	32.9	33.0	33.1
<b>Total expenses</b>	9	<b>22 957.0</b>	<b>23 664.7</b>	<b>23 930.3</b>	<b>24 175.3</b>	<b>24 870.0</b>
<b>Net result</b>		<b>508.5</b>	<b>792.0</b>	<b>628.1</b>	<b>592.1</b>	<b>551.1</b>
<b>Total adjustments recognised directly in equity</b>		<b>..</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>
<b>Total changes in equity</b>		<b>508.5</b>	<b>796.5</b>	<b>632.6</b>	<b>596.6</b>	<b>555.6</b>

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

## Estimated statement of financial position as at 30 June

	(\$ million)				
	Notes	2002 Revised	2003 Estimate	2004 Estimate	2005 Estimate
<b>Current assets</b>					
Cash assets		925.5	966.3	1 017.0	1 037.8
Other financial assets		1 190.3	1 203.9	1 211.0	1 217.4
Receivables		1 015.8	1 085.1	1 161.7	1 229.7
Prepayments		37.0	37.4	37.6	37.7
Inventories		165.6	165.9	166.1	166.3
Other assets	12	0.1	0.1	0.1	0.1
<b>Total current assets</b>		<b>3 334.3</b>	<b>3 458.6</b>	<b>3 593.5</b>	<b>3 689.0</b>
<b>Non-current assets</b>					
Other financial assets		3 307.6	3 332.4	3 184.4	3 155.0
Receivables		211.4	157.6	105.4	54.6
Inventories		135.0	135.0	135.0	135.0
Property, plant and equipment	10	22 397.7	23 185.4	24 167.5	25 052.9
Roads and earthworks	11	12 193.2	12 286.3	12 318.9	12 316.8
Other assets	12	1 770.4	1 785.6	1 791.0	1 791.6
<b>Total non-current assets</b>		<b>40 015.3</b>	<b>40 882.4</b>	<b>41 702.3</b>	<b>42 506.0</b>
<b>Total assets</b>		<b>43 349.6</b>	<b>44 341.0</b>	<b>45 295.7</b>	<b>46 195.0</b>
<b>Current liabilities</b>					
Payables		1 171.1	1 180.6	1 190.2	1 199.1
Interest-bearing liabilities		85.6	83.4	76.3	117.1
Employee entitlements	13	773.0	789.7	817.2	838.6
Superannuation	14	89.5	747.2	771.0	794.7
Other liabilities		548.8	547.9	547.1	546.2
<b>Total current liabilities</b>		<b>2 668.0</b>	<b>3 348.9</b>	<b>3 401.8</b>	<b>3 495.8</b>
<b>Non-current liabilities</b>					
Payables		8.6	8.6	8.5	8.4
Interest-bearing liabilities		6 234.2	6 246.5	6 262.5	6 230.1
Employee entitlements	13	1 741.4	1 905.7	2 068.1	2 235.7
Superannuation	14	12 908.6	12 416.8	12 550.5	12 672.9
Other liabilities		375.8	369.0	362.2	354.5
<b>Total non-current liabilities</b>		<b>21 268.6</b>	<b>20 946.6</b>	<b>21 251.8</b>	<b>21 501.6</b>
<b>Total liabilities</b>		<b>23 936.7</b>	<b>24 295.5</b>	<b>24 653.6</b>	<b>24 997.4</b>
<b>Net assets</b>		<b>19 412.9</b>	<b>20 045.5</b>	<b>20 642.1</b>	<b>21 197.7</b>
<b>Equity</b>					
Retained surplus		12 858.0	13 650.0	14 278.1	14 870.2
Reserves		5 762.9	5 767.4	5 771.9	5 776.4
Net result for year		792.0	628.1	592.1	551.1
<b>Total equity</b>		<b>19 412.9</b>	<b>20 045.5</b>	<b>20 642.1</b>	<b>21 197.7</b>

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

## Estimated statement of cash flows for the year ending 30 June

(\$ million)

	Notes	2001-02 Budget	2001-02 Revised	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Taxation		7 963.1	8 728.0	8 478.3	8 631.9	8 927.0
Fines and regulatory fees		304.7	260.4	293.3	280.3	293.0
Grants		11 311.7	11 495.3	11 644.1	11 815.0	12 106.3
Sale of goods and services		2 110.3	1 961.5	1 972.4	2 000.6	2 016.4
Interest received		206.7	240.1	313.3	314.3	318.6
Dividends received		498.9	531.2	503.7	374.2	371.7
Capital asset charge received		489.0	489.0	501.0	514.0	514.0
Other receipts		484.0	634.7	710.1	692.9	735.9
<b>Total receipts</b>		<b>23 368.4</b>	<b>24 340.3</b>	<b>24 416.2</b>	<b>24 623.1</b>	<b>25 283.0</b>
<b>Payments</b>						
Employee entitlements		8 245.2	8 188.4	8 577.3	8 830.8	9 087.5
Superannuation		1 371.8	820.2	1 502.1	1 546.5	1 594.8
Grants and transfer payments		3 953.3	4 319.3	4 037.9	3 958.8	3 989.1
Supplies and services		7 661.5	7 553.2	8 005.0	7 991.9	8 295.2
Interest paid		558.1	526.4	462.4	459.3	454.9
Other payments		0.2	0.2	..	..	..
<b>Total payments</b>		<b>21 790.1</b>	<b>21 407.6</b>	<b>22 584.7</b>	<b>22 787.4</b>	<b>23 421.5</b>
<b>Net cash flows from operating activities</b>	15	<b>1 578.3</b>	<b>2 932.7</b>	<b>1 831.5</b>	<b>1 835.7</b>	<b>1 861.4</b>
<b>Cash flows from investing activities</b>						
Net customer loans repaid		70.6	70.6	67.6	67.6	67.6
Net purchases of investments		126.0	(1 181.2)	(38.4)	140.9	22.9
Sale of property, plant and equipment		98.2	105.8	86.8	57.2	55.4
Purchases of property, plant and equipment		(1 842.2)	(1 904.8)	(1 900.6)	(2 044.7)	(1 981.3)
<b>Net cash flows from investing activities</b>		<b>(1 547.4)</b>	<b>(2 909.6)</b>	<b>(1 784.6)</b>	<b>(1 779.0)</b>	<b>(1 835.3)</b>
<b>Cash flows from financing activities</b>						
Net repayments of borrowings		(1.7)	(6.0)	(6.0)	(6.0)	(5.3)
<b>Net cash flows from financing activities</b>		<b>(1.7)</b>	<b>(6.0)</b>	<b>(6.0)</b>	<b>(6.0)</b>	<b>(5.3)</b>
<b>Net increase in cash held</b>		<b>29.2</b>	<b>17.1</b>	<b>40.8</b>	<b>50.7</b>	<b>20.8</b>
Cash at beginning of reporting period		901.8	901.8	918.9	959.7	1 010.4
<b>Cash at end of reporting period</b>	15	<b>931.0</b>	<b>918.9</b>	<b>959.7</b>	<b>1 010.4</b>	<b>1 031.2</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.

### 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>**

	2001-02	2002-03	2003-04	2004-05
Gross state product	2.75	3.75	3.50	3.50
Employment	0.50	1.50	1.50	1.50
Consumer price index	2.75	2.25	2.25	2.25
Wage cost index <sup>(b)</sup>	3.50	3.50	3.50	3.50
Population <sup>(c)</sup>	1.0	1.0	0.9	0.9

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

Notes:

- (a) Percentage change on preceding year unless otherwise indicated.
- (b) Total hourly rate, excluding bonuses.
- (c) June quarter, percentage change on previous June quarter, based on Australian Bureau of Statistics Series R projections, adjusted for recent net interstate migration experience.

### 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.

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#### **Fiscal target**

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

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## **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 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* and are based on Australian GAAP.

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 Disclosure.

#### **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 an historical cost basis or at valuation. Those items measured at valuation include:

- non-current physical assets which are valued at current cost using a deprival value approach;
- 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.

Assets and liabilities do not disclose the impact of revaluations due to the inherent difficulties in identifying and forecasting these amounts.

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

The Estimated Financial Statements include all reporting entities in the general government (budget) sector. Entities in the public trading and public financial enterprise 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 the process of reporting the general government (budget) sector as a single economic entity, all material inter-agency transactions and balances are eliminated.

### **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 2001. For example, schools and 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, Roads Corporation, Victorian Casino and Gaming Authority).

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

##### **Accounting policy**

Revenue is recognised in the period in which 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**

Public authority revenue comprises dividends and tax equivalent payments (including income tax and local government rate equivalent taxes) paid by government business enterprises.

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

### **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.

Forecast tax equivalent payments are estimated by the government business enterprises with respect to a set of rules which mirror Commonwealth legislation.

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**

Revenues arising from the sale of goods and services are recognised when the goods or services are provided.

**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******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 and the movement in the unfunded superannuation liability during each period after allowing for the annual payment by the State.

### **Forecast assumption**

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 14).

## *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 using the straight-line method at a rate which allocates the asset's value, less any residual value, over its useful life.

The typical useful lives for the different asset classes used in the financial statements of budget sector entities and in developing forecasts are:

<b><i>Asset class</i></b>	<b><i>Useful life</i></b>
Dwellings	40 to 50 years
Other buildings	30 to 60 years
Other construction	10 to 32 years
Road pavement	60 years
Bridges	90 years
Plant and equipment	3 to 10 years
Heritage assets	100 years

Land, 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 and the impact of revaluations of assets on depreciation will not be brought to account.

### ***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 CPI; 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 of \$220 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 CPI 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 and include transactions such as grants, subsidies and other transfer payments made to local government, non-government schools, community groups, public trading enterprises and public financial institutions.

**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.

**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.

**G. Assets*****Investments*****Accounting policy**

The opening balance of investments represents the audited value as at 1 July 2001, and comprises marketable securities (less provision for diminution) and deposits which 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 2001-02 to 2004-05 are assumed to be held as financial assets to preserve budget decision-making flexibility. As a result, financial assets are expected to increase by the level of forecast cash surpluses over the forecast period.

## *Receivables*

### **Accounting policy**

The opening balance of receivables represents the audited value as at 1 July 2001, 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, 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 weighted average cost and cost on a 'first-in-first-out' basis.

### **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*

The opening balance of non-current physical assets is the actual audited balances as at 1 July 2001. Non-current physical assets do not disclose the impact of revaluations due to the inherent difficulties in identifying and forecasting these amounts.

New investments in assets are valued at the forecast purchase price or, where appropriate, recognised progressively over the estimated construction period.

## *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**

It is assumed that the value of land and buildings will not change during the forecast period, other than for acquisitions, disposals and the impact of depreciation.

## *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**

It is assumed that the value of plant and equipment will not change during the forecast period, other than for acquisitions, disposals and the impact of depreciation.

## *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**

It is assumed that the value of road pavements and bridges will not change during the forecast period, other than for acquisitions, disposals and the impact of depreciation.

## *Earthworks*

### **Accounting policy**

The opening balance of earthworks is recognised at replacement cost.

### **Forecast assumption**

It is assumed that the value of earthworks will not change during the forecast period, other than for acquisitions and disposals.

## *Land under roads*

### **Accounting policy**

Land under roads and road reserves has not been recognised consistent with Australian Accounting Standard AAS31 Financial Reporting by Governments.

## *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, adjusted to reflect 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**

It is assumed that the value of national parks, state forests and other Crown land will not change during the forecast period, other than for acquisitions and disposals.

## *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 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 current market buying price. 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.

#### **Forecast assumption**

It is assumed that the value of heritage assets and collections will not change during the forecast period, other than for acquisitions, disposals and the impact of depreciation.

### ***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 either on a straight-line basis over the term of the lease or, where it is likely that the entity will obtain ownership of the asset, the useful life of the asset to the entity. Lease payments are allocated between the principal component of the lease liability and the interest expense.

Operating lease payments are recognised systematically as an expense in the statement of financial performance over the term of the lease.

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.

#### **Forecast assumption**

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

### *Interest-bearing liabilities*

#### **Accounting policy**

Borrowings 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.

#### **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 some 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, 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 14).

## *Other liabilities*

### **Accounting policy**

All other liabilities are recognised at the estimated amounts payable.

## **I. 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.

## **J. 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)				
	2001-02	2001-02	2002-03	2003-04	2004-05
	<i>Budget</i>	<i>Revised</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
Payroll tax	2 607.2	2 602.4	2 766.1	2 838.2	2 988.6
Taxes on immovable property	659.7	617.8	605.4	660.0	645.6
Financial and capital transactions	1 618.0	2 380.3	1 823.1	1 683.8	1 672.1
Gambling	1 374.1	1 388.8	1 480.4	1 572.2	1 666.1
Insurance	695.8	721.3	747.8	788.5	830.7
Motor vehicles	989.9	999.2	1 037.2	1 070.2	1 104.9
Other licences and levies	31.7	31.7	32.8	34.4	35.8
<b>Total taxation</b>	<b>7 976.5</b>	<b>8 741.5</b>	<b>8 492.9</b>	<b>8 647.3</b>	<b>8 943.8</b>

## Note 3: Investment revenue

	(\$ million)				
	2001-02	2001-02	2002-03	2003-04	2004-05
	<i>Budget</i>	<i>Revised</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
Dividends	498.9	531.2	503.7	374.2	371.7
Tax and rate equivalent revenue	120.3	74.2	96.2	142.8	162.9
Interest	206.7	240.1	313.3	314.3	318.6
Investment gains	..	..	..	..	..
Royalties	42.0	42.0	42.2	42.5	43.0
Rents	23.9	16.6	16.7	16.9	17.4
Other	46.4	56.0	88.3	56.9	57.3
<b>Total investment revenue</b>	<b>938.2</b>	<b>960.0</b>	<b>1 060.4</b>	<b>947.6</b>	<b>970.9</b>

## Note 4: Grants

	(\$ million)				
	2001-02	2001-02	2002-03	2003-04	2004-05
	<i>Budget</i>	<i>Revised</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
<b>Current grants</b>					
General purpose grants	6 583.7	6 684.3	6 776.4	6 933.6	7 049.2
Specific purpose grants for onpassing	1 146.1	1 143.9	1 179.4	1 216.0	1 253.8
Other specific purpose grants	2 949.6	3 030.2	3 100.7	3 166.9	3 302.5
<b>Total current grants</b>	<b>10 679.4</b>	<b>10 858.4</b>	<b>11 056.5</b>	<b>11 316.5</b>	<b>11 605.4</b>
<b>Capital grants</b>					
Specific purpose grants for onpassing	110.7	113.3	116.9	120.6	124.4
Other specific purpose grants	521.6	523.7	470.6	378.0	376.5
<b>Total capital grants</b>	<b>632.3</b>	<b>637.0</b>	<b>587.5</b>	<b>498.6</b>	<b>500.9</b>
<b>Total grants</b>	<b>11 311.7</b>	<b>11 495.3</b>	<b>11 644.1</b>	<b>11 815.0</b>	<b>12 106.3</b>

## Note 5: Depreciation

	(\$ million)				
	2001-02	2001-02	2002-03	2003-04	2004-05
	Budget	Revised	Estimate	Estimate	Estimate
Plant, equipment and infrastructure	391.9	394.1	414.0	420.2	426.3
Buildings <sup>(a)</sup>	259.6	263.0	282.6	318.3	386.5
Roads	219.1	219.1	219.1	219.4	219.7
Other assets	0.6	1.8	1.8	1.8	1.8
<b>Total depreciation</b>	<b>871.3</b>	<b>878.1</b>	<b>917.5</b>	<b>959.7</b>	<b>1 034.3</b>

Note:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2002-03 to 2004-05.

## Note 6: Amortisation

	(\$ million)				
	2001-02	2001-02	2002-03	2003-04	2004-05
	Budget	Revised	Estimate	Estimate	Estimate
Plant and equipment	11.3	11.2	11.2	11.2	11.2
Buildings	3.1	3.6	3.6	3.6	3.6
Infrastructure	..	..	..	..	..
Intangible assets	9.4	9.4	8.7	9.1	9.1
<b>Total amortisation</b>	<b>23.8</b>	<b>24.2</b>	<b>23.5</b>	<b>23.9</b>	<b>23.9</b>

## Note 7: Borrowing costs

	(\$ million)				
	2001-02	2001-02	2002-03	2003-04	2004-05
	Budget	Revised	Estimate	Estimate	Estimate
Interest on long-term borrowings	431.0	420.1	430.0	426.8	422.2
Interest on short-term borrowings	5.7	5.1	5.1	5.1	5.1
Finance charges on finance leases	11.7	11.7	6.4	6.4	6.4
Other borrowing costs	29.1	47.0	38.0	36.9	35.9
<b>Total borrowing costs</b>	<b>477.6</b>	<b>483.9</b>	<b>479.5</b>	<b>475.3</b>	<b>469.6</b>

## Note 8: Grants and transfer payments

	(\$ million)				
	2001-02	2001-02	2002-03	2003-04	2004-05
	Budget	Revised	Estimate	Estimate	Estimate
Commonwealth	4.6	4.6	4.6	4.6	4.7
Local government	497.4	480.7	479.2	417.7	428.7
Private sector	2 401.1	2 671.0	2 517.5	2 540.1	2 566.8
Grants within Victorian Government	1 050.3	1 158.7	1 036.8	996.7	989.2
Other	1.6	5.9	1.5	1.5	1.5
<b>Total grants paid</b>	<b>3 954.9</b>	<b>4 320.9</b>	<b>4 039.6</b>	<b>3 960.5</b>	<b>3 990.9</b>

## Note 9: Total expenses from ordinary activities by Department

	(\$ million)				
	2001-02	2001-02	2002-03	2003-04	2004-05
	Budget	Revised	Estimate	Estimate	Estimate
<b>Expenses from ordinary activities</b>					
Education Employment and Training	6 913.6	6 999.9	7 108.4	7 191.9	7 226.8
Human Services	8 289.2	8 517.1	8 646.0	8 702.6	8 763.7
Infrastructure	2 855.6	2 921.4	2 965.9	2 824.7	2 956.8
Justice	1 879.9	1 944.0	2 040.3	2 072.0	2 130.1
Natural Resources and Environment	1 030.8	1 245.2	1 024.0	981.1	965.1
Premier and Cabinet	494.9	504.4	505.9	491.5	500.4
State and Regional Development	418.0	485.4	371.2	282.2	212.3
Treasury and Finance	1 974.3	2 414.1	1 939.2	1 945.4	1 957.3
Parliament	98.5	98.1	95.4	95.5	95.6
Contingencies not allocated to departments <sup>(a)</sup>	298.8	( 146.2)	576.2	956.3	1 437.6
Regulatory bodies and other part budget funded agencies <sup>(b)</sup>	628.9	629.8	625.0	623.6	634.9
<b>Total</b>	<b>24 882.5</b>	<b>25 613.4</b>	<b>25 897.4</b>	<b>26 166.9</b>	<b>26 880.7</b>
Less eliminations <sup>(c)</sup>	(1 925.5)	(1 948.7)	(1 967.1)	(1 991.6)	(2 010.7)
<b>Total operating expenses</b>	<b>22 957.0</b>	<b>23 664.7</b>	<b>23 930.3</b>	<b>24 175.3</b>	<b>24 870.0</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)			
	2002	2003	2004	2005
	Revised	Estimate	Estimate	Estimate
<b>Land, national parks and other land only holdings</b>	<b>7 008.7</b>	<b>6 987.1</b>	<b>6 974.0</b>	<b>6 963.1</b>
Buildings(a)	10 504.5	11 463.9	12 624.3	13 769.3
Deduct: accumulated depreciation	( 813.3)	(1 106.8)	(1 435.6)	(1 830.7)
<b>Buildings (written down value)</b>	<b>9 691.2</b>	<b>10 357.1</b>	<b>11 188.7</b>	<b>11 938.6</b>
Infrastructure systems	5 161.1	5 427.8	5 744.2	6 062.4
Deduct: accumulated depreciation	(1 153.8)	(1 163.6)	(1 177.2)	(1 194.0)
<b>Infrastructure systems (written down value)</b>	<b>4 007.3</b>	<b>4 264.2</b>	<b>4 567.0</b>	<b>4 868.4</b>
Plant, equipment and vehicles	3 549.2	3 837.5	4 102.2	4 354.5
Deduct: accumulated depreciation	(2 074.0)	(2 464.7)	(2 857.4)	(3 253.6)
<b>Plant, equipment and vehicles (written down value)</b>	<b>1 475.1</b>	<b>1 372.8</b>	<b>1 244.8</b>	<b>1 100.9</b>
Leased plant, equipment and vehicles	256.9	256.9	256.9	256.9
Deduct: accumulated amortisation	( 41.5)	( 52.6)	( 63.8)	( 75.0)
<b>Leased plant, equipment and vehicles (written down value)</b>	<b>215.5</b>	<b>204.3</b>	<b>193.1</b>	<b>181.9</b>
<b>Total property, plant and equipment</b>	<b>22 397.7</b>	<b>23 185.4</b>	<b>24 167.5</b>	<b>25 052.9</b>

Note:

(a) Includes amounts not yet allocated to projects in 2002-03 to 2004-05.

## Note 11: Roads

	(\$ million)			
	2002	2003	2004	2005
	Revised	Estimate	Estimate	Estimate
Roads	15 616.8	15 929.0	16 181.0	16 398.6
Deduct: accumulated depreciation	(3 423.6)	(3 642.7)	(3 862.1)	(4 081.8)
<b>Total roads</b>	<b>12 193.2</b>	<b>12 286.3</b>	<b>12 318.9</b>	<b>12 316.8</b>

## Note 12: Other assets

	<i>(\$ million)</i>			
	2002	2003	2004	2005
	<i>Revised</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
<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	308.9	308.9	308.9	308.9
Other assets-including works of art, museum collections, rare book collections and intangibles	1 516.7	1 539.0	1 551.5	1 559.2
Deduct: Accumulated depreciation	( 55.2)	( 62.3)	( 69.4)	( 76.5)
<b>Total non-current</b>	<b>1 770.4</b>	<b>1 785.6</b>	<b>1 791.0</b>	<b>1 791.6</b>

## Note 13: Employee entitlements

	<i>(\$ million)</i>			
	2002	2003	2004	2005
	<i>Revised</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
<b>Current</b>				
Accrued salaries and wages	121.6	130.6	151.1	165.0
Annual leave	458.6	459.5	460.6	461.8
Long service leave	192.8	199.6	205.6	211.7
<b>Total current employee entitlements</b>	<b>773.0</b>	<b>789.7</b>	<b>817.2</b>	<b>838.6</b>
<b>Non-current</b>				
Long service leave	156.2	320.7	483.2	650.8
Other employee entitlements	1 585.1	1 585.0	1 584.9	1 584.9
<b>Total non-current employee entitlements</b>	<b>1 741.4</b>	<b>1 905.7</b>	<b>2 068.1</b>	<b>2 235.7</b>
<b>Total employee entitlements</b>	<b>2 514.4</b>	<b>2 695.4</b>	<b>2 885.4</b>	<b>3 074.3</b>

## Note 14: 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.

The actuaries of the State's public sector defined benefit schemes conduct a valuation of the benefits accrued by scheme members. Any shortfall between the value of these accrued benefits and the net market value of the scheme assets determines the value of any unfunded superannuation liability.

The State's share of the unfunded superannuation liability based on Department of Treasury and Finance estimates is as follows:

	(\$ million)			
	2002	2003	2004	2005
	<i>Revised</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
State Superannuation Fund	12 814.5	12 963.9	13 103.3	13 229.8
Other	183.6	200.1	218.2	237.8
<b>Total unfunded superannuation liability</b>	<b>12 998.1</b>	<b>13 164.0</b>	<b>13 321.5</b>	<b>13 467.6</b>
Current liability	89.5	747.2	771.0	794.7
Non-current liability	12 908.6	12 416.8	12 550.5	12 672.9
<b>Total liability</b>	<b>12 998.1</b>	<b>13 164.0</b>	<b>13 321.5</b>	<b>13 467.6</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, and 2.25 per cent for 2002-03.

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 15: Cash flow information

(\$ million)

	2001-02 Revised	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
<b>Reconciliation of cash</b>				
Cash	364.8	389.2	418.0	418.3
Deposits at call	560.8	577.1	599.0	619.6
Bank overdraft	( 6.6)	( 6.6)	( 6.6)	( 6.6)
<b>Cash held as at 30 June</b>	<b>918.9</b>	<b>959.7</b>	<b>1 010.4</b>	<b>1 031.2</b>
<b>Result from ordinary activities</b>	<b>792.0</b>	<b>628.1</b>	<b>592.1</b>	<b>551.1</b>
<b>Add/(less) non-cash items:</b>				
Depreciation	878.1	917.5	959.7	1 034.3
Amortisation	24.2	23.5	23.9	23.9
Revaluation of assets	0.1	..	..	..
Discount/premium on investments/borrowings	25.3	16.1	14.9	13.7
<b>Add/(less) Items included in investing/financing activities:</b>				
Net revenues from sale of plant & equipment	( 23.9)	( 18.7)	( 11.7)	( 11.8)
<b>Changes in assets and liabilities:</b>				
Increase/(decrease) in provision for doubtful debts	( 0.2)	0.0	0.0	0.0
Increase/(decrease) in payables	( 54.6)	9.4	9.5	8.8
Increase/(decrease) in employee benefits	170.3	181.0	190.0	188.9
Increase/(decrease) in superannuation	1 180.5	166.0	157.4	146.1
Increase/(decrease) in other liabilities	( 7.6)	( 7.7)	( 7.7)	( 8.6)
(Increase)/decrease in receivables	( 51.3)	( 83.1)	( 92.1)	( 84.8)
(Increase)/decrease in other current assets	( 0.1)	( 0.7)	( 0.4)	( 0.3)
<b>Net cash flows from operating activities</b>	<b>2 932.7</b>	<b>1 831.5</b>	<b>1 835.7</b>	<b>1 861.4</b>

## **Note 16: 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 D, Basis of Consolidation.

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### General government (budget) sector entities

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#### **Department of Education, Employment 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 (*formerly Council of 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 (*formerly Board of Studies*)  
Victorian Learning and Employment Skills Commission (*formerly State Training Board of Victoria*)  
Victorian Qualifications Authority  
William Angliss Institute of TAFE  
Wodonga Institute of TAFE

#### **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

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General government (budget) sector entities

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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, The	
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	
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	
Mildura Base Hospital	
Moyne Health Services	
Mt Alexander Hospital	
Nathalia District Hospital	
Northern Health	

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General government (budget) sector entities

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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, The 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, The	
Robinvale District Health Services	
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	
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	

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General government (budget) sector entities

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**Department of Infrastructure**

Architects Registration Board of Victoria	*
Building Control Commission	*
Heritage Council	
Marine Board of Victoria	
Melbourne City Link Authority	
Plumbing Industry Commission	*
Roads Corporation	
Spencer Street Station Authority	*

**Department of Justice**

Country Fire Authority	*
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	

**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	*

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General government (budget) sector entities

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**Department of Premier and Cabinet**

Cinemia Corporation \*

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 State and Regional Development**

Docklands Authority \*

Liquor Licensing Panel

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

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\* *General government agencies which were included in the budget sector for the first time in the 2001-02 Budget.*

## **DEPARTMENT OF TREASURY AND FINANCE STATEMENT IN RELATION TO THE ESTIMATED FINANCIAL STATEMENTS**

The Estimated Financial Statements for the Victorian 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 and 23J 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

December 2001

## CHAPTER 5: STATEMENT OF RISKS

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- The major risk to the Victorian economy in the near term is the possibility of a more prolonged and deeper global slowdown than is currently anticipated.
- The general government operating surplus is sensitive to changes in economic conditions. Economic factors that affect the operating position include economic activity (GSP and employment), inflation, wages growth, asset markets and interest rates.
- A number of contingent liabilities have been identified.

### ECONOMIC RISKS

There are a number of upside and downside risks to the economic outlook. The major risk to the Victorian and national economies in the near term is the possibility of a more prolonged and deeper global slowdown than is currently anticipated. The United States is experiencing a sharp economic downturn, exacerbated by the events of 11 September, with output declining and large scale job losses. Supported by aggressive policy stimulus (both monetary and fiscal), most analysts anticipate a US recovery by around mid 2002.

The risk is that US consumers and businesses fail to respond to the policy stimulus currently in the pipeline. This would prolong the downturn, and have clear implications for global growth prospects. Such a scenario would reduce global and interstate demand for Victorian exports. World equity markets could also weaken further under such a scenario, further affecting household wealth and consumer and business confidence.

Another risk is slower than expected growth in housing construction. Current activity has been underpinned by very low nominal interest rates, strong population growth and the first home owners scheme. Potential sources of risk for the housing market are higher than anticipated unemployment and interest rates, and a sharp reversal of interstate migration gains.

The Victorian population projections assume net interstate migration gains stabilise at 2 000 persons per year over the forecast period. This is below the gains recorded in the past year (of 7 800 persons), but considerably above the average net loss of 11 000 persons per year recorded over the past two decades. A change in net interstate migration of 10 000 persons per year in either direction would, other things equal, change Victoria's annual population and GSP growth by around ¼ percentage point.

Finally, a source of upside risk is a stronger and more rapid rebound in global and national growth. The US Federal Reserve has reduced official interest rates by 4.5 percentage points over calendar 2001, the European Central Bank by 2.0 percentage points and the Reserve Bank by 1.75 percentage points. In addition to monetary easing, there is a large fiscal stimulus in train in the United States as well as a significant reconstruction task. An upside risk is that consumers and businesses respond more positively to this stimulus than is currently anticipated.

## **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 updates the sensitivity estimates from the 2001-02 budget papers.

Table 5.1 shows the impact on the budget operating position of an increase in selected economic indicators. The increase is an additional one percentage point growth rate (above the forecast detailed in Chapter 3, *Economic Conditions and Outlook*) in the first year, then reverting back to forecast growth. Each indicator is examined separately. In estimating the impact of a change in an economic indicator, all the other indicators listed in Table 5.1 are assumed to follow the forecast growth rate. For this reason, examining the effect of a particular economic shock may require adding the effects from correlated indicators.

The only substantive changes to the sensitivity estimates detailed in the 2001-02 budget papers relate to the sensitivity to property prices (and volumes) and interest rates. The increased sensitivity to changes in property prices and volumes reflects the upward revision to the property tax revenue estimates (see Chapter 2, *Budget Position and Outlook*). The changed sensitivity to interest rates in the 1<sup>st</sup> year reflects changes to the composition of the State Superannuation Fund's assets.

The results suggest that:

- the budget's operating surplus is sensitive over the forward estimates period to changes, of a similar magnitude, in the levels of GSP and employment, inflation and wages;
- movements in equity prices also impact significantly on the budget operating result, but primarily in the year in which the movement occurs; and
- changes in interest rates and in property prices tend to have a smaller on-going effect on the operating position than changes of a similar size in the levels of economic activity, inflation or wages.

In interpreting the estimates in Table 5.1, it is worth noting that some of the economic indicators are more volatile than others. Property and share markets are considerably more volatile than the other indicators, as recent history has shown.

**Table 5.1: Impact on the general government operating surplus of a 1 percentage point increase in selected economic indicators in 2001-02<sup>(a)</sup>**

	(\$ million)			
	Year 1	Year 2	Year 3	Year 4
<b>GSP</b>				
Taxes, regulatory fees and fines	24	26	27	28
Other revenue	16	20	22	24
Superannuation expenses	..	..	..	..
Other expenses	..	..	1	2
<b>Operating surplus</b>	<b>41</b>	<b>45</b>	<b>48</b>	<b>50</b>
<b>Employment</b>				
Taxes, regulatory fees and fines	26	27	28	30
Other revenue	1	2	4	6
Superannuation expenses	..	..	..	..
Other expenses	..	..	..	..
<b>Operating surplus</b>	<b>26</b>	<b>30</b>	<b>32</b>	<b>35</b>
<b>Consumer prices</b>				
Taxes, regulatory fees and fines	25	26	27	29
Other revenue	120	127	134	141
Superannuation expenses	126	..	..	..
Other expenses	52	53	51	54
<b>Operating surplus</b>	<b>-33</b>	<b>101</b>	<b>110</b>	<b>116</b>
<b>Average weekly earnings<sup>(b)</sup></b>				
Taxes, regulatory fees and fines	25	27	27	29
Other revenue	-16	-21	-12	-16
Superannuation expenses	65	8	8	8
Other expenses	81	85	87	90
<b>Operating surplus</b>	<b>-136</b>	<b>-87</b>	<b>-80</b>	<b>-85</b>
<b>Share prices</b>				
Taxes, regulatory fees and fines	..	..	..	..
Other revenue	9	9	1	2
Superannuation expenses	-42	-3	-3	-3
Other expenses	..	..	..	..
<b>Operating surplus</b>	<b>51</b>	<b>12</b>	<b>4</b>	<b>4</b>
<b>Property prices (volumes)<sup>(c)</sup></b>				
Taxes, regulatory fees and fines	28 (20)	21 (15)	27 (14)	27 (14)
Other revenue	2 (1)	3 (2)	4 (3)	5 (3)
Superannuation expenses	-4 (..)	.. (..)	.. (..)	.. (..)
Other expenses	..	.. (..)	..	.. (..)
<b>Operating surplus</b>	<b>34 (21)</b>	<b>24 (17)</b>	<b>30 (16)</b>	<b>32 (17)</b>

**Table 5.1 (cont): Impact on the general government operating surplus of a 1 percentage point increase in selected economic indicators in 2001-02<sup>(a)</sup>**

	(\$ million)			
	Year 1	Year 2	Year 3	Year 4
<b>Interest rates</b> <sup>(d)</sup>				
Taxes, regulatory fees and fines	..	..	..	..
Other revenue	69	71	28	30
Superannuation expenses	51	..	..	..
Other expenses	3	8	13	22
<b>Operating surplus</b>	<b>15</b>	<b>63</b>	<b>15</b>	<b>8</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 volumes holding prices constant.
- (d) Assumes a 1 percentage point increase in domestic interest rates over the entire period.

## EXPENDITURE RISKS

A government-wide factor with 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.

Victoria will be hosting the 2006 Commonwealth Games. The Government has committed to undertaking a full budget review of the requirements for the Games. It is expected that the review will be completed following the 2002 Commonwealth Games in Manchester. The Government has provided \$6.2 million of funding for the Melbourne 2006 Commonwealth Games Pty Ltd for 2001-02 pending the outcome of the budget review. This is in addition to the \$5 million each year for the next five years provided in the 2000-01 Budget to cover licence fees paid to the Australian Commonwealth Games Association and the Commonwealth Games Federation for the Games.

A further \$1.4 million has been provided for the scoping and planning of the Games Village. The Village will need to provide accommodation for the 6 000 athletes and officials expected to be involved.

Funding of \$2 million has also been provided in 2001-02 for the planning and development phase of the expansion of the Melbourne Sports and Aquatic Centre, including a carpark, additional leisure water facilities and an outdoor competition pool.

Further requirements for these facilities will be considered as part of the Games budget review. The level of support provided by Commonwealth and local governments will also affect the net cost to the State Government.

## 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 commitments are set out in Table 5.2.

### Quantifiable contingent liabilities

**Table 5.2: General government sector quantifiable contingent liabilities at 30 June**

	(\$ million)	
	2000	2001
Guarantees and indemnities	254.1	218.8
Legal proceedings and disputes	111.9	204.6
Other <sup>(a)</sup>	791.7	722.3
Agency debt <sup>(b)</sup>	2 629.6	2 638.7
<b>Total contingent liabilities</b>	<b>3 787.3</b>	<b>3 784.4</b>

Notes:

- (a) A major contingent liability of \$705 million in 2000-01 (\$778 million for 1999-2000) relates to the cost of correctional services beyond an initial five-year contract period. The State has the option to re-tender for the provision of correctional services every three years, after the initial five-year period for each contract.
- (b) Debt raised by non-general government sector agencies.

### 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.

### ***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. Delivery of the first stage (pilot commissioning) of the automated ticketing and fare collection services occurred in 1997, with commissioning of the system granted with effect from December 1998.

The Treasurer 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 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 addition, in April 2000, OneLink Transit Systems Pty Ltd 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 on-going maintenance of the equipment. Negotiations to settle the 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**

In October 1995 the State entered into a contractual agreement with Transurban City Link Limited for the design, construction, financing and operation of the Melbourne City Link. The key arrangements are set out in the Concession Deed, which has effect from 20 October 1995.

On 1 December 1995, the Victorian Parliament passed the *Melbourne City Link Act 1995*. This Act provides the Government with the powers necessary to implement the Melbourne City Link project and also ratified and enacted as law the Concession Deed (and Exhibits).

The negotiation of the Concession Deed was conducted on a commercial basis and as such, assumed certain ‘ground rules’. In accordance with normal commercial practice, should these ground rules be varied, for example, by legislation, there are provisions outlining various means for Transurban, in certain circumstances, to claim redress for any financial disadvantages it suffers. The circumstances giving rise to any right of redress relate to matters over which the Government has discretionary powers, such as legislative and policy changes. The full set of these circumstances is set out in the Appendix to the Concession Deed.

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.

Funds necessary for these responsibilities have been made available to the MCLA for the period 1995 to 2001. 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.

In a project of the size of the Melbourne City Link, it is to be expected at any point of time that there will be a range of issues under discussion between the parties.

The State’s obligation for matters relating to construction were resolved with the two separate settlements negotiated in the 1999-2000 year (and reported in last year’s accounts). There is currently outstanding, however, a claim from

Transurban relating to an '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 is included in Table 5.2. The Authority is managing that 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.

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

Under various transport lease arrangements made by the PTC, the Treasurer 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 for tax claims is five years and for personal injury claims is six years.

### ***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 30 June 2001, three of 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. An initial delivery of 4 units of new rolling stock had been delivered as at 30 September 2001.

*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 30 June 2001 - \$12.6 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 \$133.2 million at 30 June 2001.

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.

### **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**

The Government established the Victorian Managed Insurance Authority (VMIA) in 1996 primarily as a captive insurer for departments and participating bodies. The VMIA has provided industrial special risks cover, public and products liability cover, and contract works cover to departments and participating bodies. VMIA has obtained re-insurance in the private sector market for excess of loss on industrial special risk cover between \$50 million and \$1.25 billion for all losses arising out of any one event, and excess of loss on contract works and public and products liability cover between \$50 million and \$750 million in respect of any one occurrence. The risk outside this cover, relating to external parties, 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. The proceeding

was instituted against Esso Australia Pty Ltd and Esso Australia Resources Pty Ltd (together 'Esso') on behalf of gas users and stood-down workers who are alleged to have suffered losses as a result of the incident.

Esso has in turn claimed for contribution against the State and a number of its instrumentalities. The State and its instrumentalities have denied any liability in respect of Esso's claim and are vigorously defending the claim.

The State and a number of its instrumentalities have in turn issued claims for contribution against the privatised gas retail, distribution and transmission business buyers, the State's insurers and BHP Petroleum (Bass Strait) Pty Ltd.

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

As a result of outsourcing, contractors now performing Government functions following acceptance of their tenders, 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 performing what was previously a government function. 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.

The Federal Court decision was subject to an application for leave to appeal to the High Court by the State of Victoria. The High Court decision referred the case to mediation outside of court. Pending the outcome relating to hospital employees, there may be widespread application for the State of Victoria. This will impact on the financial implications for the State under the *Workplace Relations Act 1996*, which are still unclear.

### ***HIH Insurance***

The State's quantifiable direct exposures arising from the collapse of the HIH Insurance Group have now been actuarially estimated and are included in the liabilities shown in the financial statements of the agencies directly responsible for them (such as VWA and VMIA). These liabilities are consolidated into the whole-of-government financial statements of the State.

The State's obligations in respect of builders' warranty insurance policies issued by HIH are liabilities of the State itself, and are also consolidated into the State's total liabilities. They do not form part of the liabilities of Housing Guarantee Fund Limited, which manages HIH builders' warranty claims for the State.

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

The Auditor-General has analysed the State's exposures in his Report on Public Sector Agencies (pages 27 to 40) that was tabled in Parliament on 27 November 2001.

### ***Tabcorp***

In 1994, the State sold Tabcorp a wagering and gambling licence which permitted it to conduct gambling activities previously undertaken by the TAB, for \$597 million. This value was based on the difference between the consideration paid (\$675 million) and the net assets of the TAB (\$78 million). Section 21 of the *Gaming and Betting Act 1994* specifies the requirement for the State to provide a refund to Tabcorp 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 in 2012, it will be offset by the premium payment from the issue of any new licences.

### ***Gaming operator's licence***

In 1992, a gaming operator's licence was issued to the Trustees of the Will and Estate of the late George Adams (the licensee) by the then Victorian Gaming Commission.

Under section 35A of the *Gaming Machine Control Act 1991*, the licensee is entitled to be paid at the end of its current licence period in 2012, an amount equal to the licence value (as defined in section 35A of the *Gaming Machine Control Act 1991*) of its current licence or the premium payment paid by the new licensee, whichever is the lesser, but this entitlement is contingent on the licensee not being granted a new licence.



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

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### GOVERNMENT-WIDE INITIATIVES

**Table A1: New initiatives – Government-wide**

	<i>(\$ million)</i>			
	2001-02	2002-03	2003-04	2004-05
Victorian Public Service EBA <sup>(a)</sup>	10.0	23.5	23.5	23.4
<b>Total</b>	<b>10.0</b>	<b>23.5</b>	<b>23.5</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 has reached a Heads of Agreement for a new two-year Enterprise Bargaining Agreement covering non-executive employees in the Victorian Public Service for a period of two years from 1 November 2001. At the time of publication, a formal ballot of all affected VPS staff is planned for early in 2002.

## EDUCATION, EMPLOYMENT AND TRAINING

**Table A2: New initiatives – Department of Education, Employment and Training**

	(\$ million)			
	2001-02	2002-03	2003-04	2004-05
Literacy intervention and improved participation	4.6	9.2	9.5	9.5
<b>Total DEET</b>	<b>4.6</b>	<b>9.2</b>	<b>9.5</b>	<b>9.5</b>

Source: Department of Treasury and Finance

### Literacy intervention and improved participation

This initiative provides funding 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 will target secondary students by assisting junior secondary students to achieve national literacy and numeracy benchmarks, and providing senior secondary students with alternative education options to support continuing participation in the education system.

## HUMAN SERVICES

**Table A3: New initiatives – Department of Human Services**

	(\$ million)			
	2001-02	2002-03	2003-04	2004-05
Berwick Community Hospital <sup>(a)</sup>	tbd	tbd	tbd	tbd
Human Services Industrial Agreements <sup>(b)</sup>	65.3	60.6	64.6	64.3
Latrobe Valley Public Housing Project	4.0	5.0	4.5	3.5
<b>Total DHS</b>	<b>69.3</b>	<b>65.6</b>	<b>69.1</b>	<b>67.8</b>

Source: Department of Treasury and Finance

Notes:

- (a) Partnerships Victoria project funding is provided for in the forward estimates. However, project cost information will not be published until after completion of the tender process due to commercial sensitivity.
- (b) Figures are net of wage contingency funding.

### Berwick Community Hospital

The Government has committed to building the Berwick Community Hospital. Existing plans are for a 224 bed hospital, including 128 inpatient beds, 31 day

procedure beds and 40 sub-acute beds, with 24 hour emergency department, medical and surgical care, and mental health services.

The project is to be delivered under the *Partnerships Victoria* framework. The Southern Metropolitan Health Service will operate the new hospital, which is expected to open by March 2004. Project cost information will be published following a tender process.

### Human Services industrial agreements

Funding has been provided to implement new Enterprise Agreements for Disability Services, Ambulance Services, 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.

### 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 development processes, involving the community and local government in renewal projects in the Moe/Morwell/Traralgon areas.

## INFRASTRUCTURE

**Table A4: New initiatives – Department of Infrastructure**

	(\$ million)			
	2001-02	2002-03	2003-04	2004-05
Spencer Street Station <sup>(a)</sup>	tbd	tbd	tbd	tbd
Scoresby Transport Corridor <sup>(b)</sup>	tbd	tbd	tbd	tbd
<b>Total DOI</b>	<b>tbd</b>	<b>tbd</b>	<b>tbd</b>	<b>tbd</b>

Source: Department of Treasury and Finance

Notes:

- (a) *Partnerships Victoria project funding is provided for in the forward estimates. However, project cost information will not be published until after completion of the tender process due to commercial sensitivity.*
- (b) *Project cost information will be published following tender processes and clarification of the Commonwealth's funding contribution.*

## 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 literally 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 Integrated Transport Corridor

In October 2001 an agreement was signed between the Commonwealth Government and the State for development of the \$1 billion Scoresby Freeway and related public transport improvements. The freeway has been designated a Road of National Importance (RoNI) and the Commonwealth has committed to contribute 50 per cent of Government payments towards the freeway construction.

This project will deliver both road and public transport improvements to create a seamless link stretching from Ringwood to Frankston and improved east-west connections for travel to the CBD and beyond. The agreement envisions freeway completion during 2008 and further suggests that Victoria will plan for and implement improvements to public transport services and infrastructure in the corridor.

## JUSTICE

**Table A5: New initiatives – Department of Justice**

	(\$ million)			
	2001-02	2002-03	2003-04	2004-05
Mobile Data Network Project	..	..	2.3	6.6
Police EBA <sup>(a)</sup>	38.0	58.5	64.3	79.3
<b>Total DOJ</b>	<b>38.0</b>	<b>58.5</b>	<b>66.6</b>	<b>85.9</b>

Source: Department of Treasury and Finance

Note:

(a) Figures are net of wage contingency funding.

## 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 on screen 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 October 2003.

## Police Enterprise Bargaining Agreement

The Government has entered into an Enterprise Bargaining Agreement for Victoria Police over a period of five years and four months from 1 August 2001. The Agreement achieves significant benefits for police including a revamped police career structure, key reforms sought by the Chief Commissioner, and certainty of wage outcomes during this period.

## NATURAL RESOURCES AND ENVIRONMENT

**Table A6: New initiatives – Department of Natural Resources and Environment**

	(\$ million)			
	2001-02	2002-03	2003-04	2004-05
Special Power Payment	118.0	..	..	..
Imported red fire ants eradication	4.3	..	..	..
<b>Total DNRE</b>	<b>122.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</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. The size of the rebates for different customer classes will be finalised once the 2002 prices have been finalised by each retailer, consistent with the Government's pricing guidelines.

## 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.

## STATE AND REGIONAL DEVELOPMENT

**Table A7: New initiatives – Department of State and Regional Development**

	<i>(\$ million)</i>			
	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>
Assistance to Victorian racing industry	..	4.0	4.0	4.0
Film and Television Studio	19.6	20.4	..	..
Tourism Recovery Package	10.0	..	..	..
<b>Total DSRD</b>	<b>29.6</b>	<b>24.4</b>	<b>4.0</b>	<b>4.0</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.

### 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.

## **Tourism Recovery Package**

Funding is allocated this year to provide assistance to the tourism industry in response to the Ansett and terrorism crises. The funding is to be directed to domestic and international marketing and promotion of Victoria to help minimise the impacts.



## **APPENDIX B: GENERAL GOVERNMENT SECTOR YEAR-TO-DATE ACTUALS**

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The Victorian general government sector net result for the four months ended October 2001 was a surplus of \$567 million, compared with a revised estimated surplus for the whole of 2001-02 of \$792 million.

Historically, the pattern of revenue and expenses has shown a higher operating result in the first part of the financial year followed by a flat result in the remaining quarters. This is mainly because revenue tends to be recorded relatively close to pro-rata throughout the year with some seasonal fluctuations balancing out, whereas expenses tend to be seasonal and biased toward the latter part of the financial year.

A more detailed discussion and analysis of the revised budget outlook for the 2001-02 financial year as a whole is provided in Chapter 2, *Budget Position and Outlook*. The revised outlook takes into account the result to the end of October and the revised expectations for the remainder of the financial year.

### **REVENUE**

Total revenue received in the four-month period to the end of October 2001 amounted to \$8 204 million, representing 33.5 per cent of the revised estimate for 2001-02 as a whole.

Taxation revenue for the four months to the end of October 2001 was \$2 859 million or 32.7 per cent of the 2001-02 revised estimate.

Regulatory fees and fines revenue for the four months to the end of October 2001 was \$84 million or 24.5 per cent of the 2001-02 revised estimate. The one-off factor impacting on revenue collections to date was a delay in fines processing during the period of the Victoria Police dispute in early 2001-02.

Investment income for the four months to the end of October 2001 was \$273 million or 28.5 per cent of the 2001-02 revised estimate. A one-off factor impacting on revenue collections to date has been a refund of an income tax equivalent overpayment from 2000-01 made to Transport Accident Commission in 2001-02.

Revenue from Commonwealth grants for the four months to the end of October 2001 amounted to \$4 064 million or 35.4 per cent of the 2001-02 revised estimate.

Revenue from sale of goods and services and other revenue for the first four months of 2001-02 were \$680 million or 34.7 per cent of the 2001-02 revised estimate.

## **EXPENSES**

Total expenses of the Victorian general government sector for the four-month period to the end of October 2001 amounted to \$7 637 million, representing 32.3 per cent of the revised estimate for 2001-02 as a whole.

Expenses for the period included a significant increase in superannuation expenses following a revision of the 2001-02 earnings assumption on superannuation assets from 7 per cent to zero as a result of the downturn in world equity markets. This assumption change was partially offset by savings associated with the Beneficiary Choice Program.

Departmental expense levels are affected by seasonal and other one-off factors, which are expected to boost the level of expenditure in the latter part of the financial year. Identifiable seasonal patterns of departmental expenses in the key portfolios are existing contractual obligations and on-passing of grant payments.

The one-off factor impacting on expenditure levels is the implementation of the Government's 2001-02 output initiatives which are expected to boost the level of expenditure during the latter part of the financial year.

**Table B1: Statement of financial performance**

(\$ million)

	4 months to October	2001-02 Budget	2001-02 Revised Budget
<b>Revenue from ordinary activities</b>			
Taxation	2 858.6	7 976.5	8 741.5
Fines and regulatory fees	84.3	374.2	344.3
Investment revenue	273.3	938.2	960.0
Grants	4 064.0	11 311.7	11 495.3
Sale of goods and services	680.2	2 111.6	1 962.8
Gains/(losses) on the disposal of physical assets	3.4	13.2	23.9
Fair value of assets received free of charge	0.1	..	0.7
Inter sector capital asset charge	163.0	489.0	489.0
Other revenue	76.9	251.0	439.2
<b>Total revenue</b>	<b>8 203.8</b>	<b>23 465.5</b>	<b>24 456.7</b>
<b>Expenses from ordinary activities</b>			
Employee entitlements	2 811.6	8 411.5	8 358.7
Superannuation	919.6	1 506.9	2 000.7
Depreciation	275.3	871.3	878.1
Amortisation	13.1	23.8	24.2
Borrowing costs	154.1	477.6	483.9
Grants and transfer payments	1 274.8	3 954.9	4 320.9
Supplies and services	2 187.3	7 672.3	7 564.5
Other expenses	1.5	38.8	33.8
<b>Total expenses</b>	<b>7 637.1</b>	<b>22 957.0</b>	<b>23 664.7</b>
<b>Net result</b>	<b>566.7</b>	<b>508.5</b>	<b>792.0</b>
<b>Total adjustments recognised directly in equity</b>	<b>38.6</b>	<b>..</b>	<b>4.5</b>
<b>Total changes in equity</b>	<b>605.4</b>	<b>508.5</b>	<b>796.5</b>

Source: Department of Treasury and Finance

**Table B2: Statement of financial position**

(\$ million)

	Opening Balances 1 July 2001	Closing Balances 31 October 2001	2002 Revised Budget
<b>Current assets</b>			
Cash assets	908.4	1 779.1	925.5
Other financial assets	1 186.7	1 186.6	1 190.3
Receivables	976.9	879.5	1 015.8
Prepayments	37.1	389.1	37.0
Inventories	165.4	170.3	165.6
Other assets	0.1	..	0.1
<b>Total current assets</b>	<b>3 274.6</b>	<b>4 404.6</b>	<b>3 334.3</b>
<b>Non-current assets</b>			
Other financial assets	2 129.9	2 121.1	3 307.6
Receivables	269.2	271.2	211.4
Inventories	135.0	134.3	135.0
Property, plant and equipment	21 667.6	21 877.0	22 397.7
Roads and earthworks	12 028.0	12 056.6	12 193.2
Other assets	1 740.8	1 720.5	1 770.4
<b>Total non-current assets</b>	<b>37 970.5</b>	<b>38 180.9</b>	<b>40 015.3</b>
<b>Total assets</b>	<b>41 245.2</b>	<b>42 585.5</b>	<b>43 349.6</b>
<b>Current liabilities</b>			
Payables	1 156.8	886.8	1 171.1
Interest-bearing liabilities	157.2	123.5	85.6
Employee entitlements	758.2	874.8	773.0
Superannuation	63.6	61.1	89.5
Other liabilities	549.7	790.7	548.8
<b>Total current liabilities</b>	<b>2 685.5</b>	<b>2 736.9</b>	<b>2 668.0</b>
<b>Non-current liabilities</b>			
Payables	8.7	10.7	8.6
Interest-bearing liabilities	6 212.1	6 218.7	6 234.2
Employee entitlements	1 585.8	1 589.3	1 741.4
Superannuation	11 754.0	12 427.7	12 908.6
Other liabilities	382.6	380.4	375.8
<b>Total non-current liabilities</b>	<b>19 943.3</b>	<b>20 626.8</b>	<b>21 268.6</b>
<b>Total liabilities</b>	<b>22 628.8</b>	<b>23 363.7</b>	<b>23 936.7</b>
<b>Net assets</b>	<b>18 616.4</b>	<b>19 221.8</b>	<b>19 412.9</b>
<b>Equity</b>			
Retained surplus	12 858.0	12 858.0	12 858.0
Reserves	5 758.4	5 797.0	5 762.9
Net result for year		566.7	792.0
<b>Total equity</b>	<b>18 616.4</b>	<b>19 221.8</b>	<b>19 412.9</b>

Source: Department of Treasury and Finance

**Table B3: Statement of cash flows**

	(\$ million)		
	4 months to October	2001-02 Budget	2001-02 Revised Budget
<b>Cash flow from operating activities</b>			
<b>Receipts</b>			
Taxation	2 821.3	7 963.1	8 728.0
Fines and regulatory fees	75.8	304.7	260.4
Grants	4 235.0	11 311.7	11 495.3
Sale of goods and services	675.9	2 110.3	1 961.5
Interest received	83.7	206.7	240.1
Dividends received	172.8	498.9	531.2
Capital asset charge received	163.0	489.0	489.0
Other receipts	281.9	484.0	634.7
<b>Total receipts</b>	<b>8 509.3</b>	<b>23 368.4</b>	<b>24 340.3</b>
<b>Payments</b>			
Employee entitlements	2 691.5	8 245.2	8 188.4
Superannuation	248.4	1 371.8	820.2
Grants and transfer payments	127.0	3 953.3	4 319.3
Supplies and services	1 632.0	7 661.5	7 553.2
Interest paid	2 473.3	558.1	526.4
Other payments	2.8	0.2	0.2
<b>Total payments</b>	<b>7 175.0</b>	<b>21 790.1</b>	<b>21 407.6</b>
<b>Net cash flow from operating activities</b>	<b>1 334.2</b>	<b>1 578.3</b>	<b>2 932.7</b>
<b>Cash flow from investing activities</b>			
Net customer loans repaid	3.3	70.6	70.6
Net purchases of investments	11.5	126.0	(1 181.2)
Sale of property, plant and equipment	11.8	98.2	105.8
Purchases of property, plant and equipment	( 464.1)	(1 842.2)	(1 904.8)
<b>Net cash flow from investing activities</b>	<b>( 437.5)</b>	<b>(1 547.4)</b>	<b>(2 909.6)</b>
<b>Cash flow from financing activities</b>			
Net repayments of borrowings	( 25.7)	( 1.7)	( 6.0)
<b>Net cash flow from financing activities</b>	<b>( 25.7)</b>	<b>( 1.7)</b>	<b>( 6.0)</b>
<b>Net cash in-flow</b>	<b>871.0</b>	<b>29.2</b>	<b>17.1</b>
Cash and deposits held at the beginning	901.8	901.8	901.8
<b>Cash and deposits held at the end period</b>	<b>1 772.8</b>	<b>931.0</b>	<b>918.9</b>

*Source: Department of Treasury and Finance*



## **APPENDIX C: ACCRUAL UNIFORM PRESENTATION OF GOVERNMENT FINANCE STATISTICS**

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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 GFS is based on two international standards, the United Nations' System of National Accounts (revised 1993-SNA93) and the Manual on Government Finance Statistics, which is currently being reviewed by the International Monetary Fund (IMF). The statistics reported by the ABS show the consolidated transactions of the various institutional sectors of government, from an economic viewpoint.

### **THE ACCRUAL GFS PRESENTATION**

The GFS gives details of the revenue, expenses, payments, receipts, assets and liabilities of the public sector in Australia. 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. Consequently, differences will arise between the GFS and accounting frameworks, particularly within the operating statement (i.e. the statement of financial performance, in accounting terms).

#### **Operating statement**

The operating statement presents information on GFS revenue and GFS expenses. This statement is designed to capture the composition of expenses and revenues and the net cost of a government's activities within a fiscal 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, which is calculated as GFS revenue minus GFS expenses; and
- GFS net lending (or fiscal balance), which 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, including

- the net increase in cash held, which is the sum of net cash flows from all operating, investing and financing activities; and
- the cash surplus, which represents 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, there is a need to deduct also 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 re-distribution 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, formerly known as the public trading enterprises sector, 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. This process is known as consolidation.

### **Public financial corporations**

Public financial corporations are bodies primarily engaged in the provision of financial inter-mediation services or auxiliary financial services. They are able to incur financial liabilities in their own right (e.g. taking deposits, issuing securities or providing insurance services). Central borrowing authorities, including the Treasury Corporation of Victoria and the Transport Accident Commission, are part of the public financial corporations sector. Estimates are not published for the public financial corporations sector.

**Table C.1: General government sector operating statement**

	(\$ million)				
	2001-02	2001-02	2002-03	2003-04	2004-05
	Budget	Revised	Estimate	Estimate	Estimate
<b>GFS revenue</b>					
Taxation revenue	7 894	8 653	8 401	8 550	8 854
Current grants and subsidies	10 760	10 946	11 148	11 411	11 704
Capital grants	548	550	497	405	404
Sales of goods and services	2 473	2 301	2 348	2 332	2 347
Interest income	207	240	313	314	319
Other	1 565	1 743	1 833	1 743	1 781
<b>Total revenue</b>	<b>23 447</b>	<b>24 433</b>	<b>24 540</b>	<b>24 756</b>	<b>25 409</b>
<b>GFS expenses</b>					
Gross operating expenses	17 952	18 215	18 991	19 324	19 999
Nominal superannuation interest expense	876	827	910	922	933
Other interest expense	458	462	458	453	447
Other property expenses	..	..	..	..	..
Current transfers	3 282	3 308	3 137	3 110	3 134
Capital transfers	492	560	477	411	402
<b>Total expenses</b>	<b>23 060</b>	<b>23 373</b>	<b>23 973</b>	<b>24 220</b>	<b>24 915</b>
<b>GFS net operating balance</b>	<b>387</b>	<b>1 060</b>	<b>567</b>	<b>535</b>	<b>494</b>
Less: Net acquisition of non-financial assets					
Gross fixed capital formation	1 681	1 799	1 814	1 988	1 926
Less: Depreciation	871	878	918	960	1 034
Plus: Change in inventories	..	..	..	..	..
Plus: Other movements in non-financial assets	..	..	..	..	..
<b>Total net acquisition of non-financial assets</b>	<b>810</b>	<b>921</b>	<b>897</b>	<b>1 028</b>	<b>892</b>
<b>GFS net lending (+) / borrowing (-)<sup>(a)</sup></b>	<b>- 423</b>	<b>139</b>	<b>- 330</b>	<b>- 493</b>	<b>- 398</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:

GFS net lending (+)/borrowing (-) excluding Growing Victoria	365	75	- 302	- 228
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**Table C.2: Public non-financial corporations sector operating statement**

(\$ million)

	2001-02 Budget	2001-02 Revised	2002-03 Estimate
<b>GFS revenue</b>			
Sales of goods and services	3 407	3 506	3 548
Current grants and subsidies	606	647	649
Capital grants	319	323	324
Interest income	56	60	63
Other	225	263	262
<b>Total revenue</b>	<b>4 612</b>	<b>4 800</b>	<b>4 846</b>
<b>GFS expenses</b>			
Gross operating expenses	3 559	3 716	3 881
Property expenses	667	659	620
Current transfers	97	102	107
Capital transfers	36	100	104
<b>Total expenses</b>	<b>4 358</b>	<b>4 577</b>	<b>4 711</b>
<b>GFS net operating balance</b>	<b>254</b>	<b>223</b>	<b>135</b>
Less: Net acquisition of non-financial assets			
Gross fixed capital formation	934	882	680
Less: Depreciation	517	505	539
Plus: Change in inventories	12	12	..
Plus: Other movements in non-financial assets	..	..	..
<b>Total net acquisition of non-financial assets</b>	<b>428</b>	<b>389</b>	<b>141</b>
<b>GFS net lending (+) / borrowing (-)<sup>(a)</sup></b>	<b>- 174</b>	<b>- 166</b>	<b>- 6</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 C.3: Non-financial public sector operating statement**

(\$ million)

	2001-02 Budget	2001-02 Revised	2002-03 Estimate
<b>GFS revenue</b>			
Taxation revenue	7 844	8 600	8 345
Current grants and subsidies	10 760	10 975	11 178
Capital grants	549	550	498
Sales of goods and services	5 862	5 788	5 876
Interest income	262	301	376
Other	867	1 062	1 255
<b>Total revenue</b>	<b>26 143</b>	<b>27 276</b>	<b>27 528</b>
<b>GFS expenses</b>			
Gross operating expenses	20 993	21 413	22 342
Nominal superannuation interest expense	876	827	910
Other interest expense	628	638	635
Other property expenses	..	..	..
Current transfers	2 722	2 689	2 570
Capital transfers	208	339	256
<b>Total expenses</b>	<b>25 426</b>	<b>25 906</b>	<b>26 713</b>
<b>GFS net operating balance</b>	<b>717</b>	<b>1 370</b>	<b>815</b>
Less: Net acquisition of non-financial assets			
Gross fixed capital formation	2 615	2 681	2 494
Less: Depreciation	1 412	1 383	1 456
Plus: Change in inventories	12	12	..
Plus: Other movements in non-financial assets	..	..	..
<b>Total net acquisition of non-financial assets</b>	<b>1 214</b>	<b>1 310</b>	<b>1 038</b>
<b>GFS net lending (+) / borrowing (-)<sup>(a)</sup></b>	<b>- 498</b>	<b>60</b>	<b>- 223</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 C.4: General government sector balance sheet**

	(\$ million)				
	2001	2002	2003	2004	2005
	Opening	Revised	Estimate	Estimate	Estimate
<b>Assets</b>					
<b>Financial assets</b>					
Cash and deposits	917	934	975	1 026	1 046
Advances paid	319	248	181	113	46
Investments, loans and placements	3 324	4 505	4 544	4 403	4 380
Other non-equity assets	883	943	1 033	1 133	1 225
Equity	24 880	25 472	25 745	27 901	30 057
<b>Total financial assets</b>	<b>30 323</b>	<b>32 102</b>	<b>32 478</b>	<b>34 576</b>	<b>36 754</b>
<b>Non-financial assets</b>					
Land and fixed assets	34 773	35 688	36 576	37 598	38 488
Other non-financial assets	1 029	1 040	1 048	1 047	1 040
<b>Total non-financial assets</b>	<b>35 802</b>	<b>36 727</b>	<b>37 624</b>	<b>38 644</b>	<b>39 528</b>
<b>Total assets</b>	<b>66 125</b>	<b>68 830</b>	<b>70 102</b>	<b>73 220</b>	<b>76 283</b>
<b>Liabilities</b>					
Deposits held	337	337	337	337	337
Advances received	10	9	9	8	8
Borrowing	6 358	6 309	6 320	6 330	6 338
Superannuation liability	11 818	12 998	13 164	13 322	13 468
Other employee entitlements and provisions	2 605	2 774	2 955	3 144	3 332
Other non-equity liabilities	1 376	1 384	1 386	1 389	1 390
<b>Total liabilities</b>	<b>22 504</b>	<b>23 812</b>	<b>24 171</b>	<b>24 529</b>	<b>24 873</b>
<b>Net worth</b>	<b>43 621</b>	<b>45 018</b>	<b>45 931</b>	<b>48 691</b>	<b>51 410</b>
<b>Net financial worth <sup>(a)</sup></b>	<b>7 819</b>	<b>8 291</b>	<b>8 307</b>	<b>10 047</b>	<b>11 882</b>
<b>Net debt <sup>(b)</sup></b>	<b>2 145</b>	<b>968</b>	<b>966</b>	<b>1 133</b>	<b>1 211</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 borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.
- (c) 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:

Net debt (excluding Growing Victoria)	3 267	1 864	1 457	1 433	1 341
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**Table C.5: Public non-financial corporation sector balance sheet**

(\$ million)

	2001 Opening	2002 Revised	2003 Estimate
<b>Assets</b>			
<b>Financial assets</b>			
Cash and deposits	436	458	396
Advances paid	352	289	229
Investments, loans and placements	606	527	530
Other non-equity assets	1 962	1 817	1 824
Equity	..	..	..
<b>Total financial assets</b>	<b>3 356</b>	<b>3 091</b>	<b>2 978</b>
<b>Non-financial assets</b>			
Land and fixed assets	26 564	27 272	27 671
Other non-financial assets	118	110	110
<b>Total non-financial assets</b>	<b>26 682</b>	<b>27 382</b>	<b>27 781</b>
<b>Total assets</b>	<b>30 037</b>	<b>30 472</b>	<b>30 760</b>
<b>Liabilities</b>			
Deposits held	33	33	33
Advances received	236	152	86
Borrowing	2 539	2 546	2 477
Superannuation liability	64	64	64
Other employee entitlements and provisions	2 141	2 082	2 232
Other non-equity liabilities	645	623	623
<b>Total liabilities</b>	<b>5 658</b>	<b>5 501</b>	<b>5 515</b>
<b>Shares and other contributed capital</b>	<b>24 379</b>	<b>24 971</b>	<b>25 244</b>
<b>Net worth</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>Net financial worth <sup>(a)</sup></b>	<b>-26 682</b>	<b>-27 382</b>	<b>-27 781</b>
<b>Net debt <sup>(b)</sup></b>	<b>1 414</b>	<b>1 458</b>	<b>1 442</b>

Source: Department of Treasury and Finance

Notes:

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

**Table C.6: Non-financial public sector balance sheet**

	(\$ million)		
	2001	2002	2003
	Opening	Revised	Estimate
<b>Assets</b>			
<b>Financial assets</b>			
Cash and deposits	1 342	1 372	1 351
Advances paid	453	400	338
Investments, loans and placements	3 846	4 935	4 977
Other non-equity assets	2 760	1 908	1 996
Equity	671	671	671
<b>Total financial assets</b>	<b>9 072</b>	<b>9 287</b>	<b>9 334</b>
<b>Non-financial assets</b>			
Land and fixed assets	61 337	62 932	64 220
Other non-financial assets	1 096	1 102	1 111
<b>Total non-financial assets</b>	<b>62 433</b>	<b>64 034</b>	<b>65 330</b>
<b>Total assets</b>	<b>71 505</b>	<b>73 321</b>	<b>74 664</b>
<b>Liabilities</b>			
Deposits held	369	357	359
Advances received	38	36	35
Borrowing	8 713	8 673	8 614
Superannuation liability	11 882	13 062	13 229
Other employee entitlements and provisions	4 081	4 182	4 343
Other non-equity liabilities	2 017	2 040	2 042
<b>Total liabilities</b>	<b>27 100</b>	<b>28 351</b>	<b>28 622</b>
<b>Net worth</b>	<b>44 405</b>	<b>44 970</b>	<b>46 042</b>
<b>Net financial worth <sup>(a)</sup></b>	<b>-18 028</b>	<b>-19 064</b>	<b>-19 288</b>
<b>Net debt <sup>(b)</sup></b>	<b>3 479</b>	<b>2 358</b>	<b>2 342</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 borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.
- (c) 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:

Net debt (excluding Growing Victoria)	4 601	3 254	2 833
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**Table C.7: General government sector cash flow statement**

(\$ million)

	2001-02 Budget	2001-02 Revised	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
<b>Cash receipts from operating activities</b>					
Taxes received	7 880	8 640	8 386	8 534	8 837
Receipts from sales of goods and services	2 439	2 275	2 322	2 307	2 321
Grants/subsidies received	11 308	11 496	11 645	11 817	12 108
Other receipts	1 742	1 937	2 070	1 972	2 024
<b>Total receipts</b>	<b>23 369</b>	<b>24 347</b>	<b>24 423</b>	<b>24 630</b>	<b>25 291</b>
<b>Cash payments from operating activities</b>					
Payment for goods and services	-17 702	-17 044	-18 539	-18 838	-19 463
Grants and subsidies paid	-3 357	-3 715	-3 481	-3 390	-3 408
Interest paid	- 457	- 461	- 457	- 452	- 446
Other payments	- 194	- 152	- 132	- 129	- 127
<b>Total payments</b>	<b>-21 709</b>	<b>-21 372</b>	<b>-22 608</b>	<b>-22 810</b>	<b>-23 444</b>
<b>Net cash flows from operating activities</b>	<b>1 660</b>	<b>2 976</b>	<b>1 815</b>	<b>1 820</b>	<b>1 847</b>
<b>Net cash flows from investing in non-financial assets</b>					
Sales of non-financial assets	98	106	87	57	55
Purchases of non-financial assets	-1 780	-1 904	-1 900	-2 044	-1 981
<b>Total cash flows - non-financial assets</b>	<b>-1 681</b>	<b>-1 798</b>	<b>-1 813</b>	<b>-1 987</b>	<b>-1 925</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>67</b>	<b>67</b>	<b>74</b>	<b>64</b>	<b>64</b>
<b>Net cash flows from investments in financial assets for liquidity</b>	<b>- 20</b>	<b>-1 247</b>	<b>- 44</b>	<b>145</b>	<b>27</b>
<b>Net cash flows from financing activities</b>					
Advances received (net)	- 1	- 1	- 1	- 1	..
Borrowings (net)	4	20	11	10	8
Deposits received (net)	..	..	..	..	..
Other financing (net)	..	..	..	..	..
<b>Total net cash flows from financing activities</b>	<b>3</b>	<b>19</b>	<b>10</b>	<b>9</b>	<b>8</b>
<b>Net increase in cash held</b>	<b>29</b>	<b>17</b>	<b>41</b>	<b>51</b>	<b>21</b>
Net cash from operating activities and investments in non-financial assets	- 22	1 177	1	- 167	- 78
Acquisitions under finance leases	..	..	..	..	..
<b>Surplus (+) /deficit (-)<sup>(a)</sup></b>	<b>- 22</b>	<b>1 177</b>	<b>1</b>	<b>- 167</b>	<b>- 78</b>

Source: Department of Treasury and Finance

Note:

(a) Table below shows GFS surplus(+)/deficit (-) excluding the impact of Growing Victoria.

Surplus (+) /deficit (-) excl Growing Victoria	1 403	406	24	92
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**Table C.8: Public non-financial corporations sector cash flow statement**

(\$ million)

	2001-02 Budget	2001-02 Revised	2002-03 Estimate
<b>Cash receipts from operating activities</b>			
Receipts from sales of goods and services	3 474	3 574	3 528
Grants/subsidies received	925	969	973
Other receipts	295	337	280
<b>Total receipts</b>	<b>4 694</b>	<b>4 881</b>	<b>4 781</b>
<b>Cash payments from operating activities</b>			
Payment for goods and services	-2 599	-2 739	-2 808
Grants and subsidies paid	- 66	- 131	- 140
Interest paid	- 170	- 177	- 180
Other payments	- 665	- 647	- 615
<b>Total payments</b>	<b>-3 499</b>	<b>-3 694</b>	<b>-3 743</b>
<b>Net cash flows from operating activities</b>	<b>1 196</b>	<b>1 187</b>	<b>1 038</b>
<b>Net cash flows from investing in non-financial assets</b>			
Sales of non-financial assets	84	146	153
Purchases of non-financial assets	- 963	- 974	- 788
<b>Total cash flows from investing in non-financial assets</b>	<b>- 879</b>	<b>- 828</b>	<b>- 635</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>11</b>	<b>11</b>	<b>- 5</b>
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>104</b>	<b>80</b>	<b>- 3</b>
<b>Net cash flows from financing activities</b>			
Advances received (net)	- 1	- 1	..
Borrowings (net)	5	7	- 70
Deposits received (net)	1	1	..
Distributions paid	- 449	- 439	- 316
Other Financing (net)	- 11	21	- 90
<b>Total net cash flows from financing activities</b>	<b>- 456</b>	<b>- 411</b>	<b>- 475</b>
<b>Net increase in cash held</b>	<b>- 24</b>	<b>38</b>	<b>- 80</b>
Net cash from operating activities, dividends paid, and investments in non-financial assets	- 133	- 80	87
Acquisition of assets under finance leases and similar arrangements		..	..
<b>Surplus (+) /deficit (-)</b>	<b>- 133</b>	<b>- 80</b>	<b>87</b>

Source: Department of Treasury and Finance

**Table C.9: Non-financial public sector cash flow statement**

	(\$ million)		
	2001-02 Budget	2001-02 Revised	2002-03 Estimate
<b>Cash receipts from operating activities</b>			
Taxes received	7 830	8 586	8 330
Receipts from sales of goods and services	5 895	5 831	5 831
Grants/subsidies received	11 308	11 525	11 675
Other receipts	1 086	1 298	1 519
<b>Total receipts</b>	<b>26 120</b>	<b>27 240</b>	<b>27 355</b>
<b>Cash payments from operating activities</b>			
Payment for goods and services	-20 283	-19 765	-21 346
Grants and subsidies paid	-2 497	-2 858	-2 678
Interest paid	- 626	- 636	- 634
Other payments	- 307	- 246	- 162
<b>Total payments</b>	<b>-23 713</b>	<b>-23 504</b>	<b>-24 820</b>
<b>Net cash flows from operating activities</b>	<b>2 407</b>	<b>3 736</b>	<b>2 535</b>
<b>Net cash flows from investing in non-financial assets</b>			
Sales of non-financial assets	182	252	240
Purchases of non-financial assets	-2 743	-2 878	-2 688
<b>Total cash flows from investing in non-financial assets</b>	<b>-2 561</b>	<b>-2 626</b>	<b>-2 449</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>91</b>	<b>77</b>	<b>69</b>
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>84</b>	<b>-1 167</b>	<b>- 48</b>
<b>Net cash flows from financing activities</b>			
Advances received (net)	- 2	- 2	- 1
Borrowings (net)	9	27	- 59
Deposits received (net)	- 12	- 12	2
Other financing (net)	- 11	21	- 90
<b>Total net cash flows from financing activities</b>	<b>- 16</b>	<b>34</b>	<b>- 147</b>
<b>Net increase in cash held</b>	<b>5</b>	<b>54</b>	<b>- 39</b>
Net cash from operating activities and investments in non-financial assets	- 154	1 110	87
Acquisition of assets under finance leases and similar arrangements	..	..	..
<b>Surplus (+) /deficit (-)<sup>(a)</sup></b>	<b>- 154</b>	<b>1 110</b>	<b>87</b>

Source: Department of Treasury and Finance

Note:

(a) The table below shows GFS surplus(+)/deficit (-) excluding the impact of Growing Victoria.

Surplus (+) /deficit (-) excl Growing Victoria	72	1 336	492
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## RECONCILIATION BETWEEN GENERAL GOVERNMENT AAS31 NET RESULT AND GFS MEASURES

**Table C.10: General government AAS 31 net result reconciled to GFS measures**

	(\$ million)				
	2001-02 Budget	2001-02 Revised	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
<b>General government net result</b>	<b>509</b>	<b>792</b>	<b>628</b>	<b>592</b>	<b>551</b>
less operating revaluations & gains on sale of physical assets	- 13	- 24	- 19	- 12	- 12
add back expense for doubtful debts	8	8	8	8	8
Amortisation not included as GFS expenses	24	24	24	24	24
Change to provision for employees superannuation (difference between nominal interest and expense)	- 132	268	- 65	- 76	- 77
Unrealised gains on sales of investments	- 8	- 8	- 9	..	..
<b>General government net operating balance (GFS)</b>	<b>387</b>	<b>1 060</b>	<b>567</b>	<b>535</b>	<b>494</b>
Less: Gross fixed capital formation	-1 681	-1 799	-1 814	-1 988	-1 926
Add: Depreciation	871	878	918	960	1 034
<b>GFS net lending(+)/borrowing(-)<sup>(a)</sup></b>	<b>- 423</b>	<b>138</b>	<b>- 329</b>	<b>- 493</b>	<b>- 397</b>
Plus					
Superannuation expense (non-cash)	267	913	231	234	223
Other non-cash expenses	134	126	100	92	96
<b>GFS cash surplus(+)/deficit(-)<sup>(a)</sup></b>	<b>- 22</b>	<b>1 177</b>	<b>1</b>	<b>- 167</b>	<b>- 78</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.

GFS net lending/ borrowing excluding Growing Victoria	365	75	-302	-228
GFS cash surplus/deficit excluding Growing Victoria	1 403	406	24	92

## VICTORIA'S 2001-02 LOAN COUNCIL ALLOCATION

As required under the Uniform Presentation Framework, Table C.10 compares Victoria's revised 2001-02 Loan Council Allocation (LCA) as published in the 2001-02 budget papers with the Budget Update for 2001-02.

**Table C.11: Loan Council Allocation 2001-02**

	(\$ million)	
	2001-02 Nomination	2001-02 Revised
General government sector cash (+) deficit / (-) surplus	- 167	-1 177
Public non-financial corporation sector cash (+) deficit / (-) surplus	- 12	80
Non-financial public sector cash (+) deficit / (-) surplus <sup>(a)(b)</sup>	- 201	-1 110
Less: Net cash flows from investments in financial assets for policy purposes <sup>(c)</sup>	- 73	- 77
Plus: Memorandum items <sup>(d)</sup>	252	252
<b>Loan Council Allocation</b>	<b>- 22</b>	<b>- 935</b>
<i>Tolerance limit (2% of non-financial public sector revenue)</i>	484	484

*Source: Department of Treasury and Finance*

Notes:

- (a) *The sum of the deficits of the general government and public non-financial corporation sector does not directly equal the non-financial public sector deficit 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 revised 2001-02 includes net cash flows from investments in financial assets for policy purposes (formerly known as net advances paid).*
- (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 – for example, the over/under funding of employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities.*

Outlined below are details of Victoria's infrastructure projects with private sector involvement where contracts may be expected to be signed in the 2001-02 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.

It should be noted that the following projects are still in development stage. Full details relating to the extent and nature of actual contract payments, forward commitments and contingent liabilities associated with the projects cannot be provided at this stage, but will be included in the 2001-02 LCA outcome.

## **Infrastructure**

### ***Regional Fibre Optic Initiative (VicTrack)***

The project is a value capture exercise additional to the Regional Fast Rail (RFR) project. The project will provide a new signalling upgrade for the RFR and VicTrack rail telecommunications. This project links in with the Government's 'Connecting Victoria' policy to improve regional bandwidth services.

The project structure will enable the successful bidder to commercialise spare capacity on the fibre optic cable. The project transfers to the private sector responsibility for managing site, planning, design, construction, commissioning, operations and maintenance risk.

### ***Redevelopment of Spencer Street Station***

This project involves complete re-development of the Spencer Street Station transport interchange. The project includes train, bus, tram and taxi components, necessary rail infrastructure and a retail component. The project will link into the new Collins Street bridge extension and into the Docklands Development.

The project transfers to a private party responsibility for managing site, planning, design, construction, commissioning, operations and maintenance risks as well as demand risk to a certain extent for a 25/30-year operational period before transferring back to Government.

### ***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.

An Expression of Interest has been released to the marketplace. 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.

## **Economic Infrastructure**

### ***Film and TV Studios***

The Government is prepared to contribute \$40 million toward the development of an internationally competitive Film and TV studio complex to be located at Melbourne's Docklands district and the delivery of a related industry cluster development.

The project provides a 20-year lease over the core studio development site and potentially a 99-year lease over any additional industry cluster development site. At expiry of leases site improvements pass to government ownership although the Government may extend the lease on the core studio site or sell the site to the successful developer. The project transfers to a private party responsibility for managing site, planning, design, construction, commissioning, operational, maintenance and demand risks.

## **Health**

### ***Austin and Repatriation Hospital redevelopment***

The Austin and Repatriation Hospital redevelopment and Mercy Hospital for Women relocation will involve funding of \$325 million, including \$15 million for tertiary training and resources from non-government sources. Contracts are likely to be signed in the latter half of 2001. Construction will be completed in 2006. Some private finance in car parking and energy co-generation is being investigated as a Partnerships Victoria project. The timing and nature of private sector involvement has not been determined.

### ***Berwick Community Hospital***

Planning to develop the Berwick Community Hospital had taken place under the former Infrastructure Investment Policy for Victoria process. However, the project has been re-scoped under the current 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, car parking and security services. Expressions of interest were issued in November 2001.

### ***Hospital Car Parks***

Two metropolitan hospitals are currently developing proposals for additional new multi-storey car parks on site. The projects aim to address parking shortages experienced around the hospitals.

The projects transfer to private parties responsibility for design, construction, financing, ownership, commissioning and operating risks.

## **Justice**

### ***Mobile Data Network***

The project involves building communications network infrastructure that will carry the data transmissions of participating emergency service organisations. The project will form a building block for future communications projects arising from the Statewide Integrated Public Safety Communications Strategy and facilitate a multi-agency emergency response.

The project is being delivered under the Partnerships Victoria policy framework. It is anticipated that the private provider will bear significant risks in relation to the commissioning of the network and ongoing maintenance of the service.

## **Water and sewerage**

### ***Wodonga Wastewater Treatment (North East Region Water Authority)***

The project brings forward the delivery of an upgraded treatment plant that consistently achieves tertiary standards and will satisfy immediate and future demand for the surrounding area.

The project transfers to a private party responsibility for design, construction, and operating risks for a 10-year period with two additional 5 year options at the Authority's request.

### ***Echuca/Rochester Wastewater Treatment (Coliban Region Water Authority)***

The project brings forward the delivery of upgraded wastewater treatment facilities ensuring sufficient capacity at the necessary Environmental Protection Authority (EPA) standard is available to meet anticipated requirements for the next 25 years.

The project transfers to a private party responsibility for design, construction, financing, ownership and operating risks. Ownership of the facility transfers to the water authority after 25 years.

### ***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, financing, ownership and operating risks. Ownership of the facility transfers to the water authority after 15 years.

## APPENDIX D: 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 D.1 shows updated aggregate tax expenditure estimates by the main categories of tax for the period 2000-01 to 2004-05. The variations from the forecast estimates published in 2001-02 Budget Paper No.2 are linked to movements in revenue estimates for the forecast period, as well as revisions to tax expenditure estimates for 2000-01 in view of up-to-date information. The largest variations are for tax expenditures relating to payroll tax, which were revised downwards, offset by an upward revision of land tax expenditures. Actual data collated on gambling tax revenue caused the upward revision of the gambling tax expenditure estimates.

**Table D.1: Aggregate tax expenditures (excluding thresholds) by type of tax 2000-01 to 2004-05**

<i>Description</i>	<i>(\$ million)</i>				
	<i>2000-01 Estimate</i>	<i>2001-02 Estimate</i>	<i>2002-03 Estimate</i>	<i>2003-04 Estimate</i>	<i>2004-05 Estimate</i>
Land tax	646	691	671	740	720
Payroll tax	484	423	450	470	495
Financial institutions duty	11	-	-	-	-
Gambling taxes	78	84	90	95	101
Vehicle taxation	108	109	113	117	121
Other stamp duties	120	131	129	136	140
<b>Total estimated tax expenditures</b>	<b>1 447</b>	<b>1 438</b>	<b>1 453</b>	<b>1 558</b>	<b>1 577</b>

*Source: Department of Treasury and Finance*



## APPENDIX E: REQUIREMENTS OF FINANCIAL MANAGEMENT ACT 1994

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The *Financial Management (Financial Responsibility) Act 2000* was passed by Parliament in April 2000. It inserted the financial responsibility provisions now contained in Part 5 of the *Financial Management Act 1994*.

This appendix outlines financial responsibility provisions in Part 5 of the *Financial Management Act 1994* and how they have been complied with in the Budget Update. Table E1 details the statements required to be included in the Budget Update under the provisions of the Act, together with the respective chapters of the Budget Update where these statements can be found.

**Table E1: Statements required by Part 5 of the *Financial Management Act 1994* and their location in the Budget Update**

<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>
(Sections 23 L-N of the <i>Financial Management Act 1994</i> )  Estimated financial statements for the year comprising: <ul style="list-style-type: none"><li>– an estimated statement of financial performance over the year;</li><li>– an estimated statement of financial position at the end of the year;</li><li>– an estimated statement of cash flows for the year; and</li><li>– a statement of the accounting policies on which these statements are based and explanatory notes.</li></ul>	Chapter 4, <i>Estimated Financial Statements and Notes</i>

**Table E1: Statements required by the *Financial Management Act 1994* and their location in Budget Update (cont.)**

<i>Relevant section of the amended Acts and corresponding requirement</i>	<i>Location</i>
Budget sector financial statements to 31 October 2001  (Section 23 K of the <i>Financial Management Act 1994</i> )	Appendix B, <i>Budget Sector Financial Statements to end October 2001</i>
Accompanying statement to estimated financial statements which:	Chapter 3, <i>Economic Conditions and Outlook</i> and Chapter 4, <i>Estimated Financial Statements and Notes</i>
– outlines the material economic assumptions used in preparation of the estimated financial statements;	
– discusses the sensitivity of the estimated financial statements to changes in these assumptions;	Chapter 5, <i>Statement of Risks</i>
– provides an overview of estimated tax expenditures in the budget;	Appendix D, <i>Tax Expenditures</i>
– provides a statement of the risks that may have a material effect on the estimated financial statements.	Chapter 5, <i>Statement of Risks</i>