

## CHAPTER 1: OVERVIEW

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- The Bracks Labor Government's first budget delivers its output election commitments in full with \$426 million in new output initiatives to improve services to all Victorians, within a responsible financial framework.
- Consistent with the Government's commitment to responsible financial management, a substantial operating surplus of \$592 million is forecast for 2000-01.
- Continued substantial operating surpluses will result in budget sector net financial liabilities falling from 10.9 per cent of GSP as at 30 June 1999 to 7.7 per cent as at June 2004, and state government net debt declining from \$6.2 billion to \$4.7 billion.
- The Government will take advantage of the strong budget position in 1999-2000 to establish a \$1 billion infrastructure reserve, Growing Victoria, to boost infrastructure spending by an additional 20 per cent over the next four years.
- Business taxes will be reduced by a minimum of \$200 million by July 2003, including \$100 million from July 2001, subject to the maintenance of a substantial operating surplus of at least \$100 million. This will keep Victoria's taxes broadly in line with the national average and below New South Wales. Details of the business tax cuts will be determined following a review of Victoria's tax system, to be completed by the end of 2000.
- New infrastructure projects with a total estimated cost of \$987 million will commence in 2000-01 to provide new and better schools, hospitals, transport and other community facilities. Total spending on the net purchase of fixed assets in 2000-01 will be \$1 152 million.
- The 2000-01 Budget sets new standards in financial reporting and transparency. In particular, the Auditor-General has certified that nothing has come to his attention that would cause him to believe that the estimated financial statements are not consistent with the Government's key target of an operating surplus of at least \$100 million in each year.

## **ELECTION COMMITMENTS DELIVERED IN FULL**

The 2000-01 Budget completes the implementation in full of the Government's election commitments by providing Victorians with \$426 million in new output initiatives (net of savings initiatives and funding from within existing forward estimates) to improve services in key areas (see Chapter 8, *Election Commitments - Implementation Report Card*).

All output election commitments detailed in *Labor's Financial Statement – The First Term of a Bracks Labor Government*, with the exception of the final structure of the Essential Services Commission, have been approved and implemented. This includes those high priority commitments that were implemented in 1999-2000 immediately upon the Government coming to office.

Decisions have also been taken on new asset investments scheduled to commence in 2000-01. Asset investment projects detailed in *Labor's Financial Statement* which are yet to commence are expected to be considered as part of next year's budget.

Further detail on approved election commitments and other policy initiatives can be found in Appendix B, *Specific Policy Initiatives Affecting the Budget Position*.

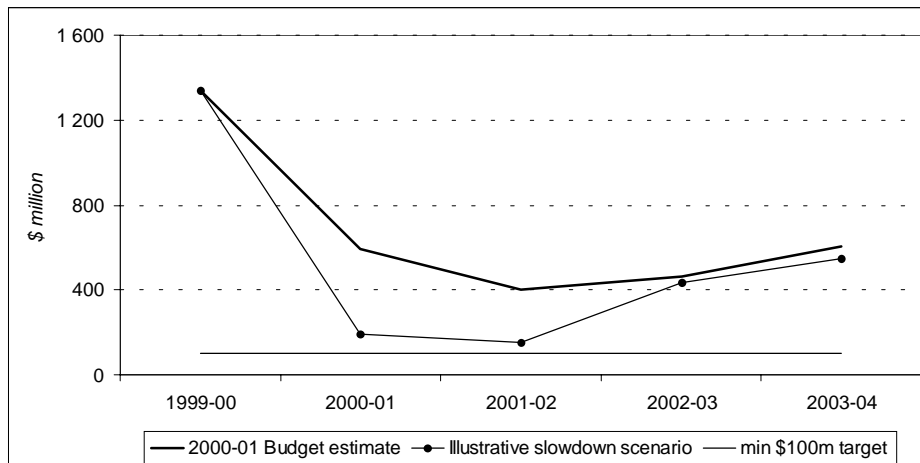
## **RESPONSIBLE FINANCIAL MANAGEMENT**

The Government's 2000-01 Budget initiatives – including delivery of Labor's election commitments, establishment of the \$1 billion Growing Victoria infrastructure reserve, a commitment to reducing business taxes by a minimum of \$200 million by July 2003 and improved government services – will all be delivered within a responsible financial framework.

### **Substantial budget sector operating surplus**

A budget sector operating surplus of \$592 million is forecast for 2000-01 and is projected to average over \$450 million over the remainder of the forward estimates period. Chart 1.1 demonstrates that a surplus of this magnitude is required to ensure that the Government's target of an annual operating surplus of at least \$100 million is resilient to moderate economic and other risks to the budget in future years, as well as to preserve budget flexibility (see Chapter 9, *Statement of Risks* for details of the economic slowdown scenario illustrated in Chart 1.1).

**Chart 1.1: Budget sector operating surplus**

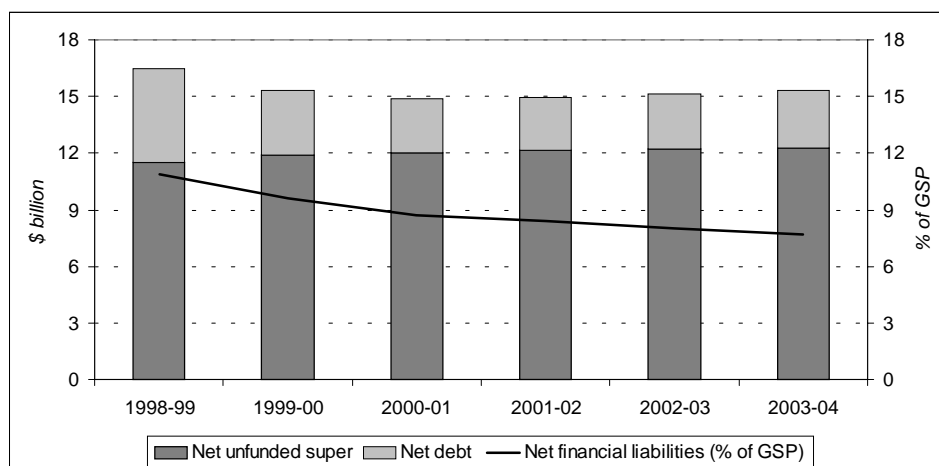


Source: Department of Treasury and Finance

### **Prudent net financial liabilities**

The Government is committed to maintaining state government net financial liabilities at prudent levels and to retaining its triple-A credit rating. The Government has taken advantage of the unexpectedly strong budget position in 1999-2000 to establish the Growing Victoria infrastructure reserve and to reduce both unfunded superannuation liabilities and state borrowings. Victoria's budget sector net financial liabilities are expected to fall from 10.9 per cent of GSP in June 1999 to 7.7 per cent by June 2004 (see Chart 1.2). In addition, state government net debt is budgeted to fall from \$6.2 billion in June 1999 to \$4.7 billion in June 2004, or by 24 per cent.

**Chart 1.2 Budget sector net financial liabilities and net debt <sup>(a)</sup>**



Source: Department of Treasury and Finance

Note:

(a) Net financial liabilities comprise general government sector net debt (see Uniform Presentation Framework tables in Appendix C) and budget sector net unfunded superannuation liabilities.

### Certification by Auditor-General

For the first time, Victoria's state budget has been examined by the Auditor-General who has among other things certified that nothing has come to his attention that would cause him to believe that the estimated financial statements are not consistent with the Government's key financial target of achieving an operating surplus of at least \$100 million in each year (see Chapter 10, *Estimated Financial Statements and Notes*).

### GROWING THE WHOLE STATE

The Government is pursuing strategies to promote growth across the whole State. This will be best ensured by developing an open and flexible economy, with a vibrant and prosperous private sector and a strong and innovative public sector.

Maintenance of a growth-orientated economic policy environment, including a fair and competitive taxation system and an efficient regulatory environment, underpinned by a sound state financial performance, is critical to Victoria's economic development. In addition, the Government has introduced a set of coordinated and complementary strategies to enable Victoria to reap the

opportunities from evolving economic, industrial and technological trends. These include:

- Linking Victoria – an integrated transport infrastructure program to revitalise the State’s road, rail and port transport;
- Skilling Victoria – a program to meet the State’s need for a skilled and flexible workforce; and
- Connecting Victoria – a program for developing Victoria’s information and communications technology capabilities and sharing the benefits of these technologies across the entire Victorian community.

In addition to the implementation of the Government’s election commitments, this budget includes two major initiatives to facilitate the implementation of these strategies: the establishment of the \$1 billion Growing Victoria infrastructure reserve, and proposed cuts to business taxes of at least \$200 million by July 2003, together with a major review of Victoria’s tax system.

## **Growing Victoria**

The Government has established a \$1 billion infrastructure reserve, Growing Victoria, to provide a major boost to Victoria’s infrastructure over the next four years. This reserve takes advantage of Victoria’s unexpectedly strong budget position in 1999-2000 associated with exceptionally favourable recent economic and asset market conditions.

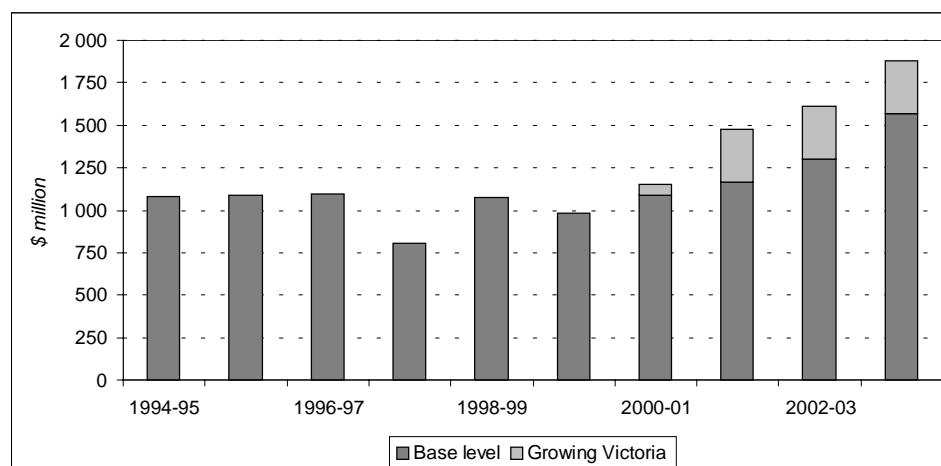
Capital expenditure of \$190 million has already been allocated from Growing Victoria for school modernisation and rail projects. Future investments will be of considerable social and economic benefit to the State and will primarily focus on:

- major transport infrastructure projects, especially rail – Linking Victoria;
- significant modernisation programs in education and training – Skilling Victoria; and
- information and communications technology facilities and capabilities – Connecting Victoria.

See Chapter 3, *Economic Outlook and Strategy* and Chapter 5, *Budget Sector Service Delivery* for further details.

The asset investments financed by this reserve alone will result in a boost of 20 per cent to the Government's already strong base level of infrastructure investment plans over the next four years (see Chart 1.3).

**Chart 1.3: Budget sector net purchase of fixed assets**



Source: Department of Treasury and Finance

## Taxation initiatives

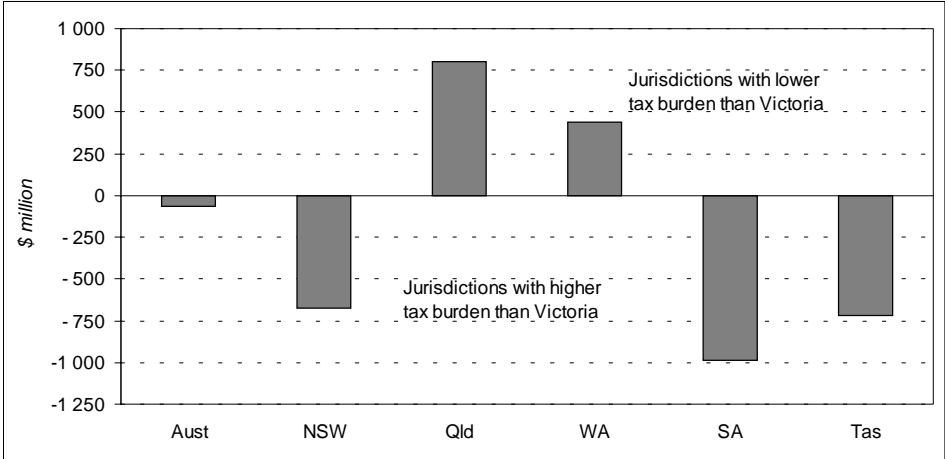
The competitiveness of Victoria's tax regime plays an important role in underpinning economic growth and investment. Victoria's tax burden is now in line with the average of other Australian States and below that in New South Wales, and the Government is committed to improving Victoria's tax competitiveness over time. In light of the imminent Commonwealth-driven tax changes, it is essential that the state taxation system be competitive, fair and designed to suit a modern and growing Victoria.

To ensure this, the Government will conduct a thorough review of its tax system, the first since 1983, and with a particular focus on business taxes. The review will report by the end of 2000 so that its recommendations on a fair and competitive state tax mix can be considered in the context of the 2001-02 Budget.

In addition, to ensure competitive tax levels for Victorian businesses, the Government has built into its budget estimates a reduction in business taxes of at least \$200 million by July 2003, including \$100 million by 1 July 2001, subject to the maintenance of a minimum \$100 million operating surplus. Specific details will be determined in the 2001-02 Budget in light of the tax review's findings.

The \$200 million reduction in business taxes and examination of the state tax mix will help maintain Victoria’s tax competitiveness at around the Australian average and below the tax burden in New South Wales (see Chart 1.4 and Chapter 6, *Revenue and Grants*).

**Chart 1.4: Victoria’s tax competitiveness - Commonwealth Grants Commission** <sup>(a)</sup>



Source: Commonwealth Grants Commission Report on General Revenue Grant Relativities 2000 Update; Department of Treasury and Finance

Note:

(a) Difference in tax effort using the CGC equalisation methodology, between Victoria and other States and the Australian average. A positive tax effort differential indicates that Victoria has a higher tax burden than the other jurisdiction, while a negative tax effort indicates that Victoria has a lower tax burden. Includes \$200 million business tax cuts announced in this budget and previously announced tax cuts in Victoria and other States, but assumes no further changes to taxes in other States in their 2000-01 budgets.

Moving the State to the new post-GST environment will be a major focus in 2000-01. There will be numerous changes to state revenues as a consequence of the adjustment of Australia’s tax system, including the abolition of various state taxes.

The Government does not support the GST but must fulfil the commitments of the previous Government to ensure access to GST revenues, thereby maintaining the integrity of its revenue base. Victoria will not see any net gains to revenue from these new Commonwealth-State financial arrangements until 2007-08.

## IMPROVED SERVICES TO THE VICTORIAN COMMUNITY

In addition to implementing the Government's election commitments, the 2000-01 Budget contains additional new net output initiatives of \$211 million in 2000-01 to meet the unavoidable needs for improved services to the Victorian community. Together with its election commitments, this represents a significant increase in the delivery of government services compared with recent years, particularly in the key areas of education, health and community safety.

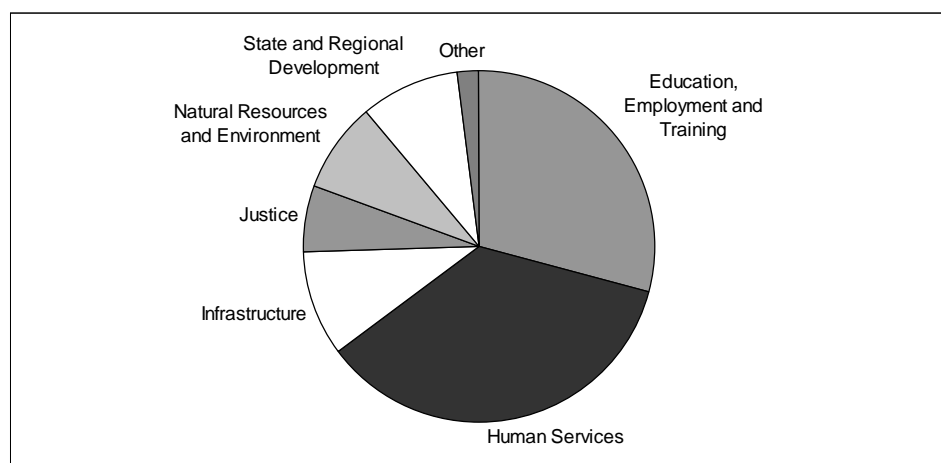
New service delivery initiatives in the 2000-01 Budget include:

- education and training: \$165 million to primary schools over the four years to 2003-04 to reduce class sizes, \$65 million over four school years to expand the range of vocational courses available to VCE students, \$22 million per annum to provide additional support to students with disabilities or impairments, \$35 million in 2000-01 to address ongoing maintenance and maintenance backlogs in schools and TAFE institutes, and a further \$10 million per annum for three years to address urgent or occupational health and safety maintenance issues in schools;
- human services: \$60 million in 2000-01 (and the redirection of existing resources within the Department of Human Services) to re-open 360 beds and extend operating times in underused operating theatres, \$90 million over three years to build 800 new public and community homes, and up to \$17 million in 2000-01 on the Drug and Alcohol Program;
- justice: \$64 million over the next four years for an extra 800 operational police, and up to \$20 million per annum to reinstate compensation to victims of crime for pain and suffering; and
- \$170 million for the Regional Infrastructure Development Fund which will fund projects in regional and rural Victoria, including infrastructure to facilitate industry and economic development, transport improvements, tourism-related projects and strategic information and communication technologies infrastructure.

Chart 1.5 illustrates the spending on new service delivery initiatives, over the period 2000-01 to 2003-04, by department.



**Chart 1.5: Allocation of new output initiatives by Department 2000-01 to 2003-04 <sup>(a)</sup>**



Source: Department of Treasury and Finance

Note:

(a) Excludes impact of payment of \$250 million to the Emergency Services Superannuation Scheme in 1999-2000 on operating expenses of the Department of Justice and the Department of Treasury and Finance. Funding from the demand contingency has not been netted off.

To support improved services to the Victorian community, major new infrastructure projects with a total estimated cost of \$987 million have been approved in the 2000-01 Budget. These include:

- \$240 million for remediation of accident black spots, including one-half in regional Victoria (of which \$119 million represents additional maintenance expense rather than asset investment);
- a contribution of \$80 million towards fast rail links between Melbourne and the regional cities of Ballarat, Bendigo, Geelong and Traralgon, and \$15 million towards the cost of flier trains (Belgrave, Lilydale, Pakenham, Cranbourne and Frankston lines);
- \$55 million for rail and tram line extensions;
- \$90 million on various regional and metropolitan arterial roads and Dingley Stage 1;
- \$121 million for the modernisation and upgrading of school and TAFE facilities;
- \$32 million to accommodate reduced class sizes;

- \$37 million for redevelopment of the Royal Women's Hospital;
- \$23 million for upgrades to Frankston and Kyneton hospitals; and
- \$37 million for the development, upgrading or replacement of a number of police stations and facilities.

The new infrastructure projects announced in this budget, together with previously announced projects, will result in spending on the net purchase of fixed assets of \$1 152 million in 2000-01, rising to \$1 881 million in 2003-04 (see Chart 1.3).

## **INCREASED FINANCIAL TRANSPARENCY AND ACCOUNTABILITY**

The 2000-01 Budget further demonstrates the Government's commitment to greater accountability and transparency and ensures that its financial operations are subject to enhanced scrutiny.

This has been boosted by the introduction of the Government's financial responsibility legislation. It contains world-first provisions. In particular, it gives the Auditor-General a key new role in the budget process.

### **Framework for responsible financial management**

The *Financial Management (Financial Responsibility) Act 2000* (the Act) passed by Parliament in April requires the Government to budget and report within a framework of sound financial management principles. It enshrines these principles in legislation and requires the Government to provide a statement of financial policy objectives and strategies in the annual budget.

The purpose of this statement is to make transparent the Government's financial strategies and establish a benchmark for evaluation of the Government's conduct of financial policy. This statement is contained in Chapter 2, *Financial Policy Objectives and Strategies*. It includes the Government's broad strategic priorities, long-term and short-term financial objectives, key financial measures and targets, the relationship between the Government's objectives and priorities and the legislated principles of sound financial management, and the reporting basis for subsequent financial reports.

The Act also requires the Government to state the economic and other assumptions and risk assessments on which the budget is based, as well as details of the sensitivity of the estimated financial statements to changes in these underlying assumptions (see Chapter 3, *Economic Outlook and Strategy* and Chapter 9, *Statement of Risks*).

For the first time in Victoria, the Government is also required to provide estimates of tax expenditures, i.e. the revenue that the Government has forgone through exemptions and concessions included in tax legislation. These requirements will enable more informed debate and discussion on Victorian financial policy options and priorities (see Chapter 6, *Revenue and Grants* and Appendix F, *Tax Expenditures*).

The legislation requires the publication in the budget of estimated financial statements to present financial results and estimates based on government policies and forecast assumptions. The statements are to consist of a statement of financial performance, a statement of financial position, and a statement of cash flows for the budget financial year and each of the three subsequent financial years, together with the accounting policies on which these statements are based and explanatory notes. These statements are to be based on the current financial policy objectives and strategies statement and generally accepted accounting principles (see Chapter 10, *Estimated Financial Statements and Notes*).

### **Independent scrutiny by Auditor-General**

Uniquely, the Government's financial responsibility legislation gives the Auditor-General additional powers to conduct a review of the financial fundamentals of the state budget. The Auditor-General's principal role is to review the reasonableness of the methodology used to determine the economic assumptions and estimated financial statements incorporated in the budget.

Under this legislation, the Auditor-General reviews the budget and reports to the Parliament on budget day on whether the estimated financial statements:

- are consistent with the stated accounting policies;
- are consistent with the targets for the Government's key financial measures;
- are properly prepared on the basis of the assumptions that underlie them; and
- that the methodologies used to determine those assumptions are reasonable.

These requirements will enable the community to have confidence that the budget has been independently scrutinised to ensure that it properly represents the forecast financial performance of the budget sector. The Auditor-General has certified that nothing has come to his attention that would cause him to believe that these requirements have not been met (see Chapter 10, *Estimated Financial Statements and Notes*).

The enhanced reporting, transparency and accountability contained in the 2000-01 Budget, and enshrined in the *Financial Management Act 1994*, reinforce the Government's commitment to achieving substantial operating surpluses during the next four years and make that commitment open to independent assessment by the Auditor-General (see Appendix G, *Requirements of the Financial Management (Financial Responsibility) Act 2000*).

### **Additional reporting**

The financial responsibility legislation also offers the community greater information on the progress of the Government's budget plans via increased regular reporting within the year. This includes quarterly budget sector financial reports, a budget update (that includes updated estimated financial statements), and a mid-year (financial) report in addition to the annual financial report.

In addition, when a general election is called, the Government will also be required to prepare a pre-election budget update that contains updated financial statements and any changes in the assumptions and sensitivities underpinning these.

## CHAPTER 2: FINANCIAL POLICY OBJECTIVES AND STRATEGIES

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- In accordance with the *Financial Management (Financial Responsibility) Act 2000* introduced by the Bracks Labor Government, this chapter sets out the Government's financial policy objectives and strategies.
- The Government is committed to maintaining a substantial operating surplus of at least \$100 million in each year.
- The Government will provide capital works to enhance social and economic infrastructure throughout Victoria, including through the establishment of the \$1 billion Growing Victoria infrastructure reserve.
- Improved services delivery will be provided to all Victorians, with the key priorities being education, health, and community safety.
- The Government is committed to ensuring competitive and fair taxes and charges by re-examining the state tax mix and improving Victoria's business tax system.
- The Government will maintain state government net financial liabilities at prudent levels and Victoria's triple-A credit rating.

### PRINCIPLES OF SOUND FINANCIAL MANAGEMENT

The *Financial Management (Financial Responsibility) Act 2000* passed by Parliament in April 2000 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 sound financial management principles underpin the Government's financial strategy in this budget.

## **BUDGET STRATEGY, OBJECTIVES AND PRIORITIES**

The broad strategic priority underlying the Government's budget strategy is to provide a sound and stable financial basis to promote growth across the whole State. A sound financial position is also essential to ensure that improved services can be provided to all Victorians.

Consistent with this, the Government has a number of short and long-term financial objectives, as shown in Table 2.1.

**Table 2.1: Financial objectives**

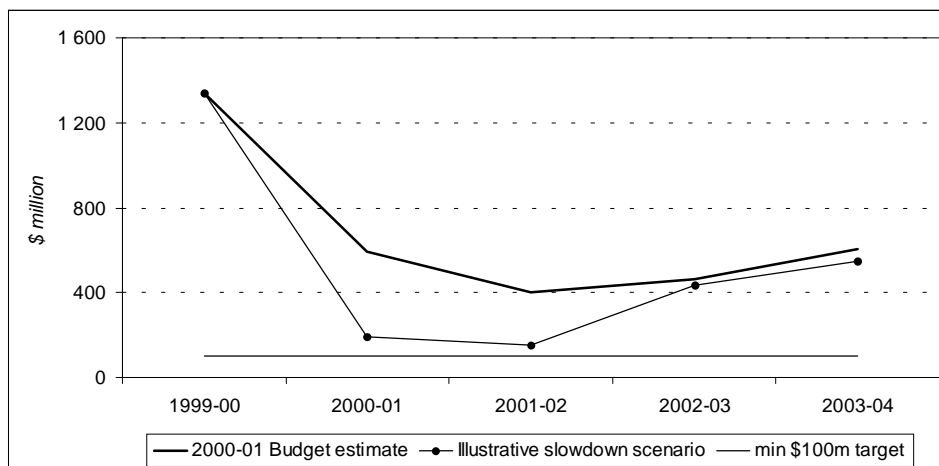
<i>Long-term</i>	<i>Short-term</i>
Maintain a substantial budget sector operating surplus	Operating surplus of at least \$100 million in each year
Provide capital works to enhance social and economic infrastructure throughout Victoria	Establish a \$1 billion infrastructure reserve
Provide improved service delivery to all Victorians	Expenditure priority on education, health, and community safety
Ensure competitive and fair taxes and charges to Victorian businesses and households	Re-examine and improve Victoria's business taxation system
Maintain state government net financial liabilities at prudent levels	Maintain a triple-A credit rating

The new financial responsibility legislation requires the Government to provide a statement of its short and long-term financial objectives in the annual budget. 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.

## Operating surplus

The Government's long-term objective is to maintain a substantial budget sector operating surplus. In the short term its objective is to maintain an operating surplus of at least \$100 million each year. The outlook for the budget sector operating surplus is consistent with this objective, as can be seen in Chart 2.1. The budget sector operating surplus is forecast to be \$592 million in 2000-01 and to average over \$450 million in the following three years. At its lowest point in 2001-02, the budget sector operating surplus is estimated to be \$401 million, still comfortably above the target of at least \$100 million.

**Chart 2.1: Budget sector operating surplus <sup>(a)</sup>**



Source: Department of Treasury and Finance

(a) The 'budget sector operating surplus' is equivalent to the 'result from ordinary activities' in the statement of financial performance in Chapter 10, Estimated Financial Statements and Notes.

Given the uncertainties associated with the budget projections, it is prudent to maintain a budget sector operating surplus in excess of the Government's minimum target level. There are a number of economic risks to the Victorian economic outlook, including the possibility of unanticipated developments in the international economy and uncertainties associated with the introduction of the GST. Lower than expected economic growth or adverse movements in property, share and other asset markets could substantially reduce the operating surplus.

This can also be seen in Chart 2.1 which shows the possible impact on the operating surplus of an illustrative economic slowdown scenario. The scenario assumes a decline in economic activity in 2000-01 and 2001-02 compared with

the forecasts in this budget, followed by a rebound in 2002-03 and 2003-04, particularly in asset markets (see Chapter 3, *Economic Outlook and Strategy* and Chapter 9, *Statement of Risks* for further details). Under this scenario, there is a reduction in the operating surplus of around \$400 million in 2000-01, although this includes a number of one-off impacts. The illustrative budget sector operating surplus falls to around \$190 million in 2000-01 and \$150 million in 2001-02.

The operating surplus objective is consistent with the financial management principle of pursuing expenditure and taxation policies that are consistent with a reasonable degree of stability and predictability in tax burden levels. With the committed maintenance of a substantial budget sector operating surplus, 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 budget sector operating surplus to changes in economic conditions, see Chapter 9, *Statement of Risks*.

## **Infrastructure**

The Government recognises that building effective infrastructure is essential for promoting growth across the whole State. In line with this objective, the 2000-01 Budget establishes a \$1 billion infrastructure reserve, Growing Victoria. Combined with the base program, new asset initiatives in 2000-01 have a total estimated cost of \$987 million (see Appendix B, *Specific Policy Initiatives Affecting the Budget Position*).

The State's strong financial position, as indicated by its triple-A credit rating and the large \$1 339 million 1999-2000 operating surplus, provides a one-off opportunity to significantly improve and modernise infrastructure without incurring additional borrowings. This will occur through the earmarking of \$1 billion of the 1999-2000 surplus for Growing Victoria, to be spent over four years commencing in 2000-01. Growing Victoria represents an increase of around 20 per cent in asset investment over the next four years from an already strong base.

Asset investments of \$64 million in 2000-01, \$83 million in 2001-02 and \$43 million in 2002-03, for school modernisation and rail projects, are being funded out of Growing Victoria. The remaining expenditure will be spread over 2001-02 to 2003-04 with detailed proposals to be developed and considered in the run-up to the 2001-02 Budget. Asset investments to receive funding out of



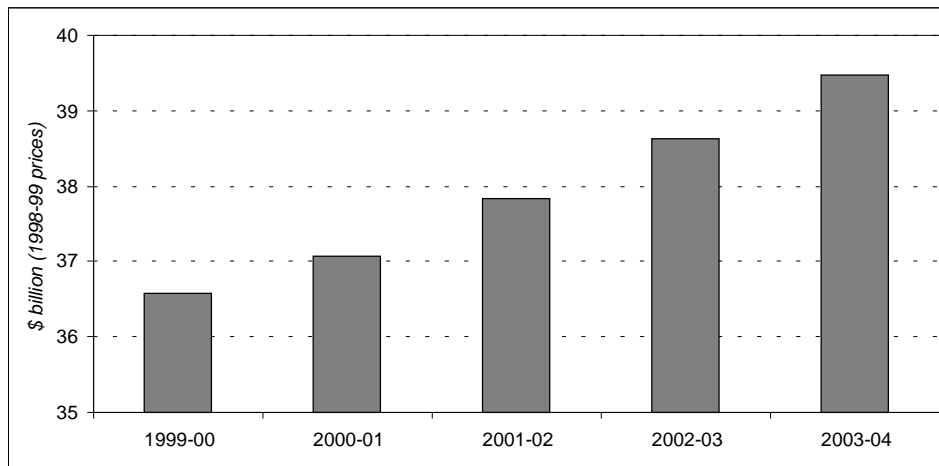
the Growing Victoria reserve will provide considerable economic and social benefits, and will include:

- major transport projects such as fast rail links to regional centres, and train and tram extensions – Linking Victoria;
- the modernisation and/or replacement of schools and TAFEs – Skilling Victoria; and
- improved information and communication technology facilities and capabilities – Connecting Victoria.

See Chapter 3, *Economic Outlook and Strategy* and Chapter 5, *Budget Sector Service Delivery* for further details.

When combined with pre-existing asset commitments, the infrastructure initiatives in this budget mean the budget sector capital stock will grow strongly in real terms. Over the four years to 2003-04, the estimated budget sector capital stock is expected to grow by 8 per cent in real terms (see Chart 2.2).

**Chart 2.2: Real budget sector capital stock <sup>(a)</sup>**



Source: Department of Treasury and Finance

Note:

(a) Includes budget sector property, plant and equipment, roads and other non-current assets, and Office of Housing assets (which is part of the non-budget general government sector).

The asset investment commitments made in this budget represent a significant boost to the State's physical assets. Making adequate provision for infrastructure now is important for future generations, in order to maximise the potential for future economic growth, and to enable improved service delivery.

## Service delivery

The Government has moved swiftly to implement its election commitment to deliver improved services.

A primary focus of these initiatives is in the key areas of health, education, and community safety, as well as the important priority of regional development (see Table 2.2).

**Table 2.2: New output initiatives by Department**

	(\$ million)			
	2000-01	2001-02	2002-03	2003-04
	Budget	Estimate	Estimate	Estimate
<b>Output election commitments <sup>(a)</sup></b>				
Education, Employment and Training	165.6	185.9	182.4	140.1
Human Services	156.8	195.5	209.3	158.2
Infrastructure	4.7	14.8	12.4	0.1
Justice <sup>(b)</sup>	- 3.2	20.3	33.0	33.9
Natural Resources and Environment	40.1	44.0	48.5	16.6
Premier and Cabinet	2.2	7.1	7.1	- 2.7
State and Regional Development	68.9	69.8	86.9	9.4
Treasury and Finance	- 10.7	- 10.7	- 11.1	- 11.1
Parliament	1.9	2.1	2.2	2.2
<b>Total output election commitments</b>	<b>426.3</b>	<b>528.6</b>	<b>570.6</b>	<b>346.8</b>
<b>Total other policy initiatives <sup>(c)</sup></b>	<b>211.1</b>	<b>141.9</b>	<b>147.9</b>	<b>80.3</b>
<b>Total output initiatives</b>	<b>637.3</b>	<b>670.5</b>	<b>718.5</b>	<b>427.1</b>

Source: Department of Treasury and Finance

Notes:

- (a) As identified in Labor's Financial Statement - The First Term of a Bracks Labor Government, August 1999. Figures are net of the impact of savings measures and funding from within existing forward estimates.
- (b) Includes departmental savings initiatives of \$11.6 million per annum which do not impact on program delivery.
- (c) Net of superannuation expense savings totalling \$86.0 million in 2000-01 rising to \$93.4 million in 2003-04 resulting from the of payment of \$250 million to the Emergency Services Superannuation Scheme in 1999-2000, and net of demand contingency funding of \$85 million per year.

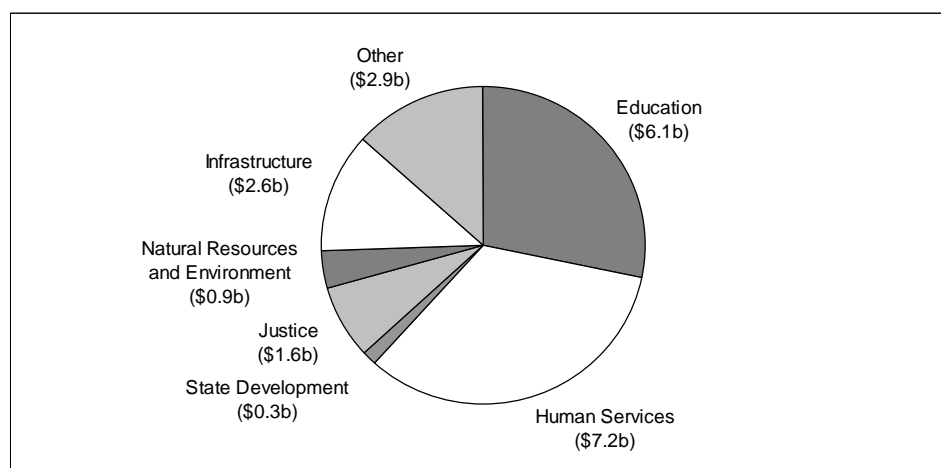
In addition to the Government's election commitments, further new service delivery initiatives with a net cost of \$211 million in 2000-01, declining to \$80 million by 2003-04, have been approved to meet the unavoidable need for improved services identified in key service delivery areas.

More detailed information on these initiatives is provided in Chapter 5, *Budget Sector Service Delivery* and Appendix B, *Specific Policy Initiatives Affecting the Budget Position*.

Total operating expenses are expected to increase by 7.4 per cent to \$21 589 million in 2000-01, with almost half of this increase attributable to the new output initiatives. The remainder of the increase is largely due to the impact of additional expenditure responsibilities transferred to the State under the terms of the *Intergovernmental Agreement on Reform of Commonwealth-State Financial Relations* (Intergovernmental Agreement), as well as expected wage and price inflation.

Chart 2.3 shows that, reinforced by the new output initiatives in the 2000-01 Budget, almost 70 per cent of total operating expenses are in the key areas of education, human services and justice.

**Chart 2.3: Operating expenses by Department 2000-01**



Source: Department of Treasury and Finance

## Taxes

The Government is committed to ensuring that taxes and charges on Victorian households and businesses are competitive and fair. Key factors that will affect Victoria's taxation system in the immediate future include implementation of the Commonwealth's GST package, a review of the State's taxation system and business tax cuts of a minimum of \$200 million by July 2003.

There are two key elements in assessing the competitiveness and fairness of a taxation system – the total level of taxation and the way the revenue is raised (i.e. the tax mix).

Victoria's tax system was last reviewed in 1983 and, given the changes to the economy over the past two decades, it is now in need of substantial overhaul. While a number of existing state taxes are inequitable and/or inefficient, Victoria cannot afford to simply abandon such taxes unless better sources become available.

To address these issues, the Government has decided to establish a review of the current system of state taxes and charges, with particular emphasis on business taxes. The review will be required to report by the end of 2000, allowing the Government to consider the recommendations as part of the 2001-02 Budget process.

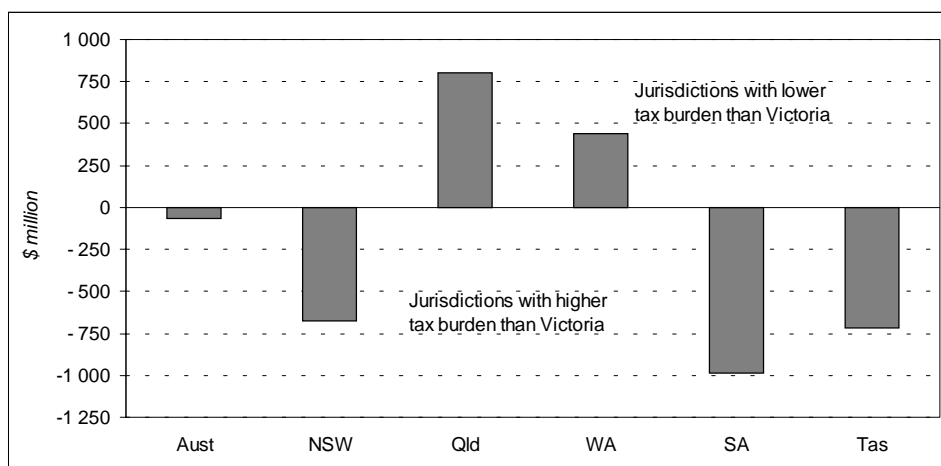
The Government is determined to make sure that business taxes in Victoria remain competitive to ensure a business environment conducive to investment and job creation. The Government will reduce business taxes by a minimum of \$200 million by July 2003, including \$100 million from 1 July 2001, subject to the maintenance of a substantial budget sector operating surplus of at least \$100 million. The specific details of the \$200 million cuts to business taxes will be considered as part of the tax review. These tax cuts will help to maintain the competitiveness of Victoria's tax regime (see Chart 2.4).

Using Commonwealth Grants Commission methodology, Victoria's taxation effort following its planned cuts to business taxes, is expected to be \$63 million below the national average and \$674 million below that of New South Wales.

Further details on Victoria's tax competitiveness with other States are discussed in Chapter 6, *Revenue and Grants*.

While the Government does not support a GST, it will honour Victoria's commitments under the Intergovernmental Agreement. Full implementation of the Intergovernmental Agreement is required to ensure the Commonwealth maintains its commitment to pass GST revenues on to the State, and hence to maintain the integrity of the State's revenues. One impact of the GST will be to reduce the proportion of revenue from state taxes, as a greater proportion of revenue comes from Commonwealth grants.

**Chart 2.4: Victoria's tax competitiveness - CGC measure <sup>(a)</sup>**



Sources: Commonwealth Grants Commission Report on General Revenue Grant Relativities 2000 Update; Department of Treasury and Finance

Note:

(a) Difference in tax effort using the CGC equalisation methodology, between Victoria and other States and the Australian average. A positive tax effort differential indicates that Victoria has a higher tax burden than the other jurisdiction, while a negative tax effort indicates that Victoria has a lower tax burden. Includes \$200 million business tax cuts announced in this budget and previously announced tax cuts in Victoria and other States, but assumes no changes to taxes in other States in their 2000-01 budgets.

## Net financial liabilities

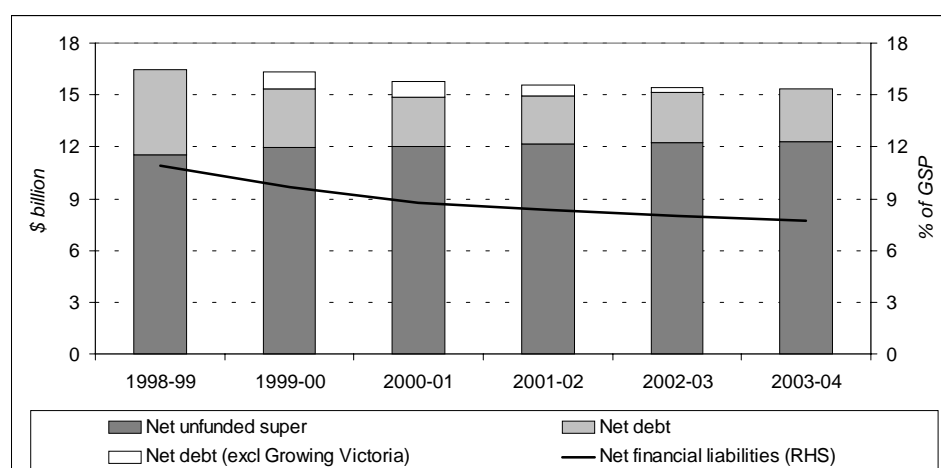
The Government is committed to maintaining the State's net financial liabilities at prudent levels. An independent performance measure of this is the credit rating assessments made by credit rating agencies.

On 20 December 1999, Victoria's long-term local currency rating of AAA was affirmed by Standard & Poor's. On 8 February 2000, Moody's Investors Service upgraded Victoria's long-term local currency rating to Aaa. Factors cited by the agencies in making these decisions included the low level of debt, the Government's commitment to maintaining an operating surplus in each year, and the view that these trends were sustainable.

The 2000-01 Budget reinforces these positive factors. Substantial budget sector operating surpluses are projected over the next four years. Budget sector net financial liabilities are expected to decrease from \$16.5 billion or 10.9 per cent of GSP in June 1999 to \$15.4 billion or 7.7 per cent of GSP by June 2004 (see Chart 2.5).

As Chart 2.5 shows, net financial liabilities are expected to rise slightly from 2001-02 onwards, following a bigger decline in 1999-2000. This is the result of a timing difference between when funds are allocated into the Growing Victoria reserve (in 1999-2000) and when expenditures are made out of Growing Victoria (2000-01 to 2003-04). Excluding Growing Victoria provides a clearer picture of the underlying trend for net financial liabilities, which is for a continuous decline over the forward estimates period.

**Chart 2.5: Budget sector net financial liabilities <sup>(a)</sup>**



Source: Department of Treasury and Finance

Note:

(a) Net financial liabilities comprise general government sector net debt (see Uniform Presentation Framework tables in Appendix C) and budget sector net unfunded superannuation liabilities.

The decrease in budget sector net financial liabilities in 1999-2000 reflects the payment of \$250 million to the Emergency Services Superannuation Scheme, offsetting an underlying increase in the unfunded superannuation liability and \$553 million to the repayment of borrowings. In addition, cash resources of \$1 billion in 1999-2000 will be applied to the establishment of the Growing Victoria infrastructure reserve. The forward estimates are based on the working assumption that future surplus cash resources are held as financial assets. This accounts for the decline in underlying net debt over time.

## KEY FINANCIAL MEASURES

The *Financial Management Act 1994* requires the Government to specify the key financial measures against which financial policy will be set and assessed. The *Audit Act 1994* (as amended) requires the Auditor-General to assess whether the estimated financial statements are consistent with the targets specified for each of these key financial measures (see Chapter 10, *Estimated Financial Statements and Notes*).

The key financial measure, and the target against which the estimated financial statements will be assessed, is shown in Table 2.3.

**Table 2.3: Key financial measure and target** <sup>(a)</sup>

<i>Key financial measure</i>	<i>Target</i>
Budget sector operating surplus	Operating surplus of at least \$100 million in each year

*Note:*

(a) The 'budget sector operating surplus' is equivalent to the 'result from ordinary activities' in the statement of financial performance in Chapter 10, *Estimated Financial Statements and Notes*.

This measure, and its target, represents the key element of the budget strategy and the budget financial objectives (see Table 2.1). The Auditor-General has certified that nothing has come to his attention that causes him to believe that the 2000-01 Budget estimated financial statements are not consistent with the Government's target to maintain an operating surplus of at least \$100 million in each year (see Chapter 10, *Estimated Financial Statements and Notes*).

## FUTURE REPORTING BASIS

Future estimated financial statements are expected to be prepared on a consistent basis, except for any changes in reporting required by new Australian Accounting Standards (see Chapter 10, *Estimated Financial Statements and Notes* for further details on the accounting standards adopted in this budget).





## CHAPTER 3: ECONOMIC OUTLOOK AND STRATEGY

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- The Victorian economy grew strongly in 1999 but growth is now likely to moderate as the investment cycle matures and consumer spending growth eases. Economic growth during 2000-01 is expected to be increasingly sourced from the external sector rather than domestic factors.
- Downside risks to the outlook include the impact of a sharp asset price correction or the emergence of real wage pressures in the United States which could affect global economic activity, and uncertainties associated with the implementation of the GST. Upside risks include a continuation of population gains from other States.
- The Government's economic strategy is directed towards promoting growth across the whole State. Responsible financial management, including making state finances resilient to economic risks, is a central feature of the Government's policy impact on the state economy. In addition, specific strategies are being developed to promote growth and employment in a way which addresses economic disparities between different parts of Victoria.
- The new Growing Victoria infrastructure reserve will provide a marked improvement in infrastructure throughout Victoria, thereby enhancing the State's long-term growth prospects.

### ECONOMIC CONDITIONS AND OUTLOOK

The world economy is performing relatively strongly at present and prospects are favourable. Australian economic growth is expected to moderate during 2000-01 in response to rising interest rates, the introduction of the GST and a diminishing impetus from recent rapid asset market gains. In Victoria, economic growth is also expected to moderate to more sustainable rates and to rely less on domestic sources such as consumer spending and investment and more on the external sector.

## **World economy**

Prospects for the world economy remain favourable, with all major regions expected to record positive growth in the next few years. The International Monetary Fund's (IMF) latest economic forecast, released in April 2000, is for world growth to strengthen from 3.3 per cent in 1999 to 4.2 per cent in 2000 and 3.9 per cent in 2001. The IMF also notes that the risks to world growth this year appear to be mainly on the upside, given the strong momentum in the United States and the possibility that the European recovery may be more robust than anticipated.

The strength of the US economy has continued to surprise most commentators. The IMF forecasts that US growth will lift slightly from 4.2 per cent in 1999 to 4.4 per cent in 2000, before moderating to 3.0 per cent in 2001. US monetary authorities have been attempting to slow the pace of economic activity and reduce the risk of high inflation, while avoiding a recession.

The IMF also expects growth in the European Union to rise from 2.3 per cent in 1999 to 3.2 per cent in 2000 and 3.0 per cent in 2001.

The Japanese economy re-entered recession in the second half of 1999, although this is expected to be only a temporary setback. Growth in Japan is projected to be weak at 0.9 per cent in 2000, and to pick up to a modest 1.8 per cent in 2001.

The non-Japan Asian economies, which account for over one-third of Victorian exports, are expected to maintain their growth momentum in the next few years, with annual growth in the region forecast to be around 6 per cent.

## **National economy**

The Australian economy grew by 4.6 per cent in 1998-99, despite the Asian crisis, and continues to grow at a solid pace (1.7 per cent and 1.0 per cent in seasonally adjusted terms in the September and December quarters respectively). In April 2000, the consensus of private sector economists was for national economic growth of around 4 per cent in 2000 and 3½ per cent in 2001.

Domestic growth is generally expected to ease slightly during 2000-01 as consumer demand responds to rising interest rates, the introduction of the GST and a diminishing impetus from recent asset market gains (for example, prices of shares and real estate). However, the Sydney Olympics and the mid-2000 income tax cuts should cushion the decline in growth.

Business investment (especially non-dwelling construction) is also likely to moderate from recent high levels, as should dwelling construction which has been brought forward in anticipation of GST-induced price rises. There was

some unintended accumulation of inventories (including cars) in 1999 and this could also detract from growth.

Net exports are likely to benefit from the acceleration in the global economy, partly cushioning weaker domestic sources of growth. Overall, the consensus of private sector forecasters is for the Australian economy to grow by about 3½ to 3¾ per cent in 2000-01.

## **Victorian economy**

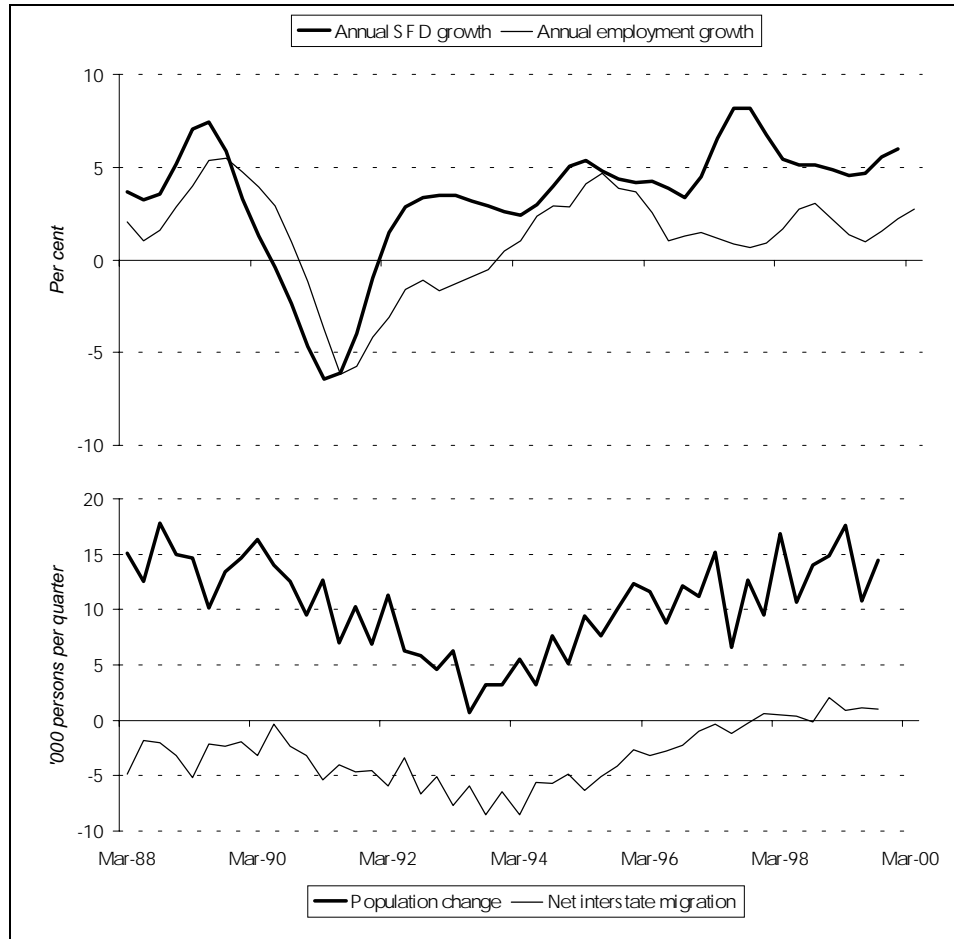
Gross state product (GSP) grew by a high 6.2 per cent in 1998-99, faster than any other State and well above the national outcome of 4.6 per cent. This performance was driven by strong consumer spending, housing construction, a favourable national economy and an improving international economic environment. Demand and employment growth were at historically high rates, and the reversal of population losses to other States continued (see Chart 3.1).

Partial indicators suggest that Victorian economic conditions remained robust throughout much of 1999, but may have returned to long-term trend levels in early 2000:

- real trend Victorian state final demand increased by 6.0 per cent during 1999;
- consumer spending growth was a particularly strong 5.7 per cent during 1999, although retail sales weakened in the March quarter 2000;
- dwelling construction remained at high levels in early 2000, with some activity brought forward by the prospect of GST-induced price increases;
- business investment in machinery and equipment has also been robust, but non-residential construction has declined;
- Victorian exports rebounded strongly in 1999, as world economic conditions improved. There was a large rise in exports to South Korea, China and South East Asia, and further strong sales to the United States and New Zealand;
- the trend unemployment rate was 6.7 per cent in March, the lowest since August 1990 and below the national rate;
- Melbourne CPI inflation was 2.2 per cent during 1999. Upward pressure on Melbourne CPI inflation has arisen from new house prices, tobacco products (due to the new per stick rate of duty), and holiday travel and accommodation. Petrol prices have also increased sharply because of a tripling in world crude oil prices from December 1998 to a nine-year high in March 2000, although they have subsequently eased; and

- in Victoria, the wage cost index (Department of Treasury and Finance's preferred measure of wages) grew by 2.9 per cent over the year to the December quarter, compared with 3.0 per cent nationally. New enterprise agreements are delivering annual pay rises of 3.4 per cent on average, compared with 4.2 per cent a year ago.

**Chart 3.1: Economic growth indicators**



Source: Australian Bureau of Statistics, Cat. Nos. 3101.0, 5242.0 and 6202.0

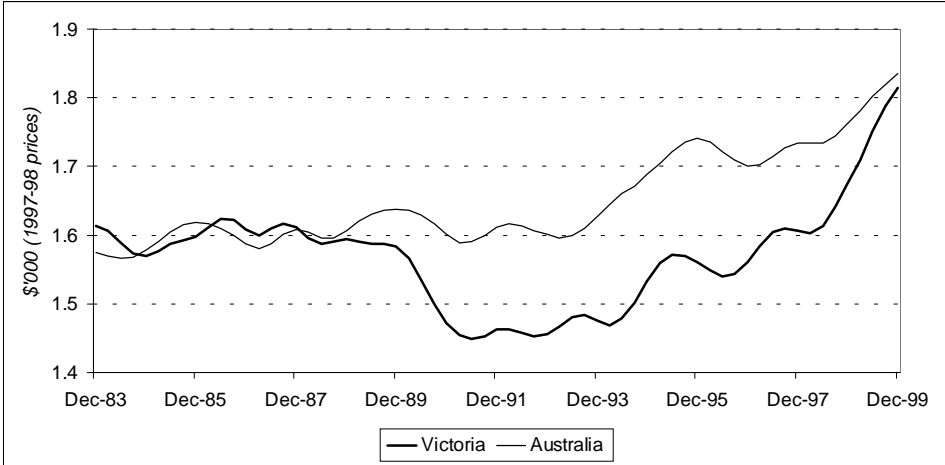
Softer employment growth, increases in official interest rates, and the diminishing impact of recent share floats on household wealth can be expected to contribute to some easing in growth in consumer spending and business investment. However, these influences will be partly offset by the Commonwealth tax cuts in mid-2000.

Overall, Victorian economic growth is expected to return to around its historical long-term sustainable rate of a little over 3 per cent per annum, based on prospective rates of productivity growth, interstate migration and labour force participation. This is a little lower than the corresponding national growth rate, reflecting the assumption, by the ABS, that population losses to interstate will resume in future (see economic projections below). Growth is also expected to be increasingly driven by external trade rather than domestic demand.

**Consumer spending**

Retail sales in Victoria have grown more strongly than in any other State over the past year, although sales have weakened since late 1999. Consumer confidence has been affected partly by recent interest rate rises, with the Westpac-Melbourne Institute Consumer Sentiment Index falling sharply both in Victoria and nationally in the March quarter to a relatively low level by post-recession standards. Victorian quarterly per capita retail spending has now largely caught up with national levels (see Chart 3.2) and growth is now likely to moderate to a more sustainable pace.

**Chart 3.2: Retail spending per capita<sup>(a)</sup> — Victoria and Australia**



Source: Australian Bureau of Statistics, Cat. Nos. 3101.0, 8501.0

Note:  
 (a) Quarterly trend data.

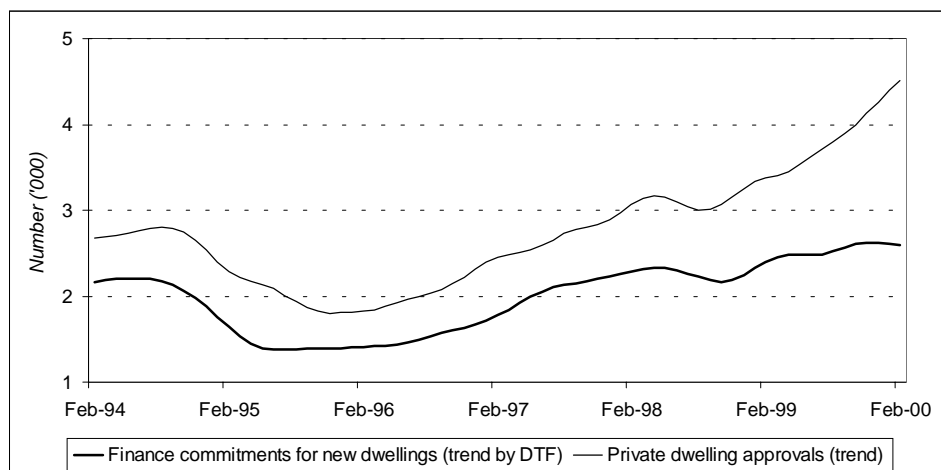
**Housing construction**

Victorian housing activity has been buoyant over the past three years, reflecting pent-up demand from the early 1990s, high affordability and stronger

population growth. Activity has been further boosted by an increase in construction ahead of the GST, when construction costs are anticipated to rise.

There is a record amount of work remaining on existing residential projects and commencements continued to trend up in the December quarter. While dwelling investment indicators are currently strong (see Chart 3.3), several factors point to a downturn in the second half of 2000. In particular, rising building costs associated with the GST are likely to be compounded by lower housing affordability (as mortgage interest rates rise), slowing population growth and emerging excess supply in some areas (such as inner city apartments).

**Chart 3.3: Housing construction indicators — Victoria**



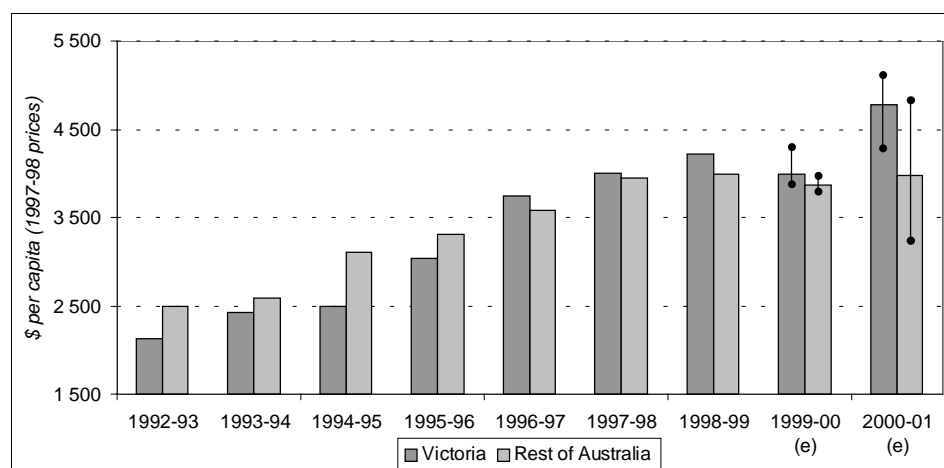
Source: Australian Bureau of Statistics, Cat. Nos. 5609.0, 8731.0

### **Business investment**

Private business investment has grown strongly in Victoria since the early 1990s (see Chart 3.4). Investment was boosted by a number of major projects such as Crown Casino, City Link and Colonial Stadium, together with hotel and shopping complexes, telecommunications, electricity, gas and other infrastructure projects.

Chart 3.4 has been extended using the results of the ABS capital expenditure survey conducted in January and February 2000. Using five-year average realisation ratios (between actual and expected expenditure), the survey results imply an expected decline of 4 per cent in Victorian capital expenditure in 1999-2000, followed by a 21 per cent increase in 2000-01. However, realisation ratios are quite volatile. The vertical lines on the chart show the range of estimates obtained using the lowest and highest realisation ratios recorded during the past five years and, for 2000-01, this range is quite wide.

**Chart 3.4: Private business fixed investment per capita<sup>(a)</sup>**



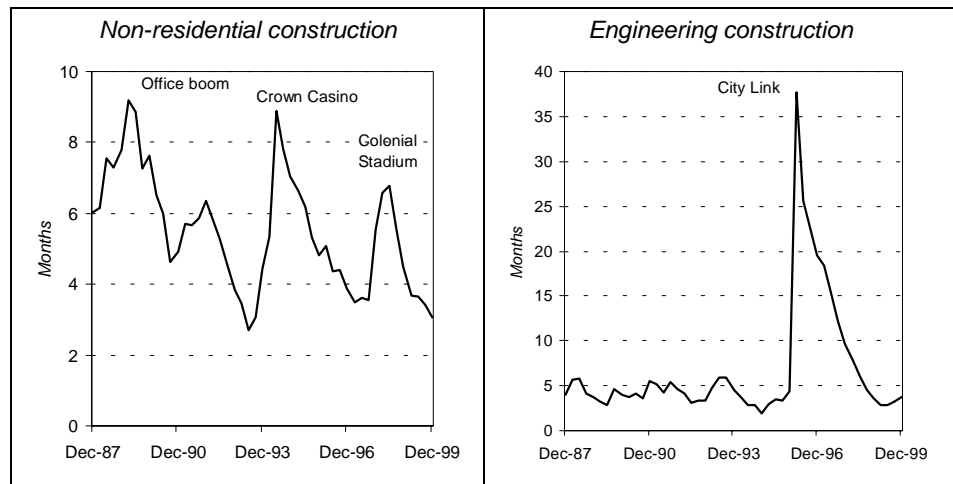
Sources: Australian Bureau of Statistics, Cat. Nos. 3101.0, 5242.0, 5646.0

*Notes:*

- (a) Trend private gross fixed capital formation for non-residential buildings, machinery and equipment, livestock and intangible assets divided by population at start of financial year. Chain volume measures. Excludes major asset sales between private and public sectors.
- (e) Estimate obtained by applying five-year average realisation ratios to expected capital expenditure for the six States. Vertical lines show range of estimates obtained using lowest and highest realisation ratios during past five years.

Forward indicators suggest that non-residential construction is likely to decline during the next few years, with the length of the construction pipeline falling with the completion of major projects (see Chart 3.5) and private non-residential building approvals declining.

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



Source: Australian Bureau of Statistics, Cat. No. 8752.0 and 8762.0

Note:

(a) Work yet to be done in months at current rate of construction activity.

### **International trade**

Victorian exports recovered through the course of 1999, in line with markedly improved world economic conditions. The value of non-gold merchandise exports rose by 6 per cent to \$15.0 billion in 1999, after the Asian slowdown reduced exports by 5 per cent in 1998.

There was strong growth in exports to South Korea, China and some parts of South East Asia in 1999. Exports to other large markets such as the United States and New Zealand also grew strongly. However, exports to Japan, Europe and the rest of the world fell marginally in 1999 (see Chart 3.6). New Zealand replaced Japan as Victoria's largest single export market in 1999.

Manufactured exports rebounded strongly in 1999. Among the simply transformed manufactures, increased aluminium exports to South Korea were partly offset by lower sales to Japan. Exports of iron and steel to the United States also grew strongly, as did exports of elaborately transformed manufactures (one-third of Victorian exports).

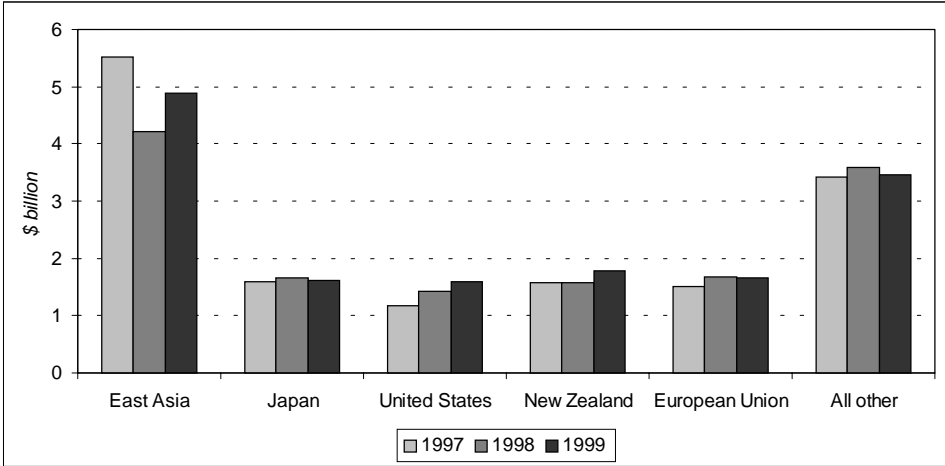
Food exports continued to perform well, with a pick-up in sales of meat and dairy products to South East Asia, South Korea and Japan. However, exports of some other primary products fell in 1999. Sluggish wool demand in Europe and the United States led to some diversion of wool exports to China. The non-gold mining sector was boosted by increased petroleum exports to China, the United States and New Zealand.



Strong domestic demand saw the value of Victorian international non-gold merchandise imports increase by 6 per cent to \$31.6 billion in 1999, although some imports to Victoria are ultimately destined for other States. Overall, the value of Victoria’s international merchandise trade deficit widened in 1999.

The improving external environment should lead to a larger contribution to growth from net exports in 2000-01 and later years.

**Chart 3.6: Victorian non-gold merchandise exports by destination**



Source: Australian Bureau of Statistics, unpublished data

**Agricultural conditions**

The improving international economic environment, including in Asia, has contributed to an optimistic outlook for commodity prices over the next year or two.

An important issue for the Victorian dairy industry, which is responsible for around 62 per cent of Australian milk production, is the pending end of the Commonwealth Domestic Market Support Scheme for manufactured dairy products on 30 June 2000. The full implications of the end of this scheme depend on the States dismantling their existing regulation of fresh milk and the Commonwealth providing assistance for industry adjustment (which is conditional on state deregulation). Under deregulation, the Victorian dairy industry will have an advantage over interstate competitors because of its relatively low cost structure.

Total Victorian winter crop production is estimated to have increased by 28 per cent to just under 4.4 million tonnes, the fourth largest crop on record. Despite a decline in the area planted to barley, a return to average yields resulted in a 16 per cent increase in total barley production in 1999-2000. A sharp increase in canola production and above average yields and oil content resulted in a record crop in Victoria.

There has been a rapid increase in the production of Victorian fine wools in response to market demand and this is expected to be maintained over the medium term.

Export demand is expected to remain strong for lamb and prospects for the pig and poultry meat industries are also improving with strong consumer demand. Rising demand for imported pig meat in Asian markets has been the greatest influence on the recovery of Australian saleyard pig prices.

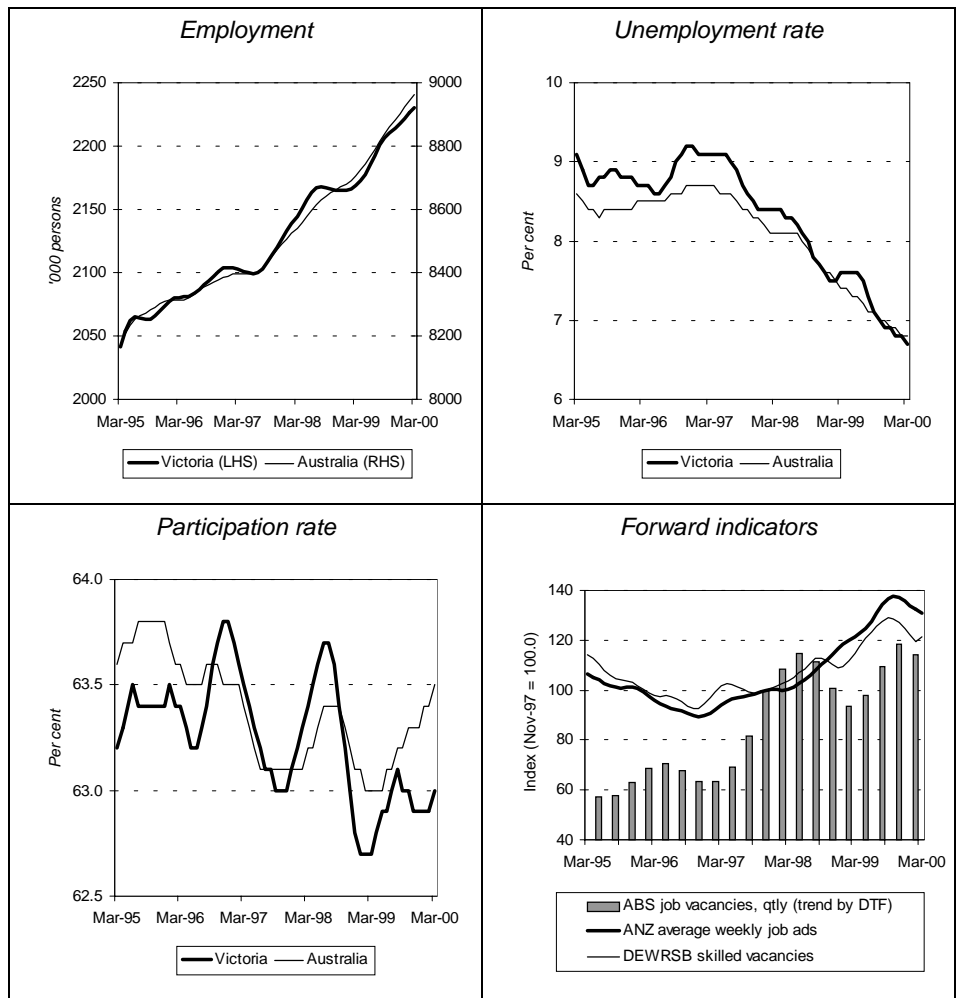
Wine production growth is expected to continue to exceed growth in demand over the medium term to 2004-05, and prices are generally expected to trend downwards. However, the Victorian industry has demonstrated considerable flexibility in the past and there is considerable potential for innovative marketing practices given the rapidly changing retail distribution system, with its growing focus on internet sales and wine clubs.

### ***Labour market***

Victoria's employment growth remained strong over the past year and the unemployment rate has continued to fall. However, labour market conditions, while still robust, appear to have moderated in the past few months, with employment growth easing and job advertisements declining (see Chart 3.7).

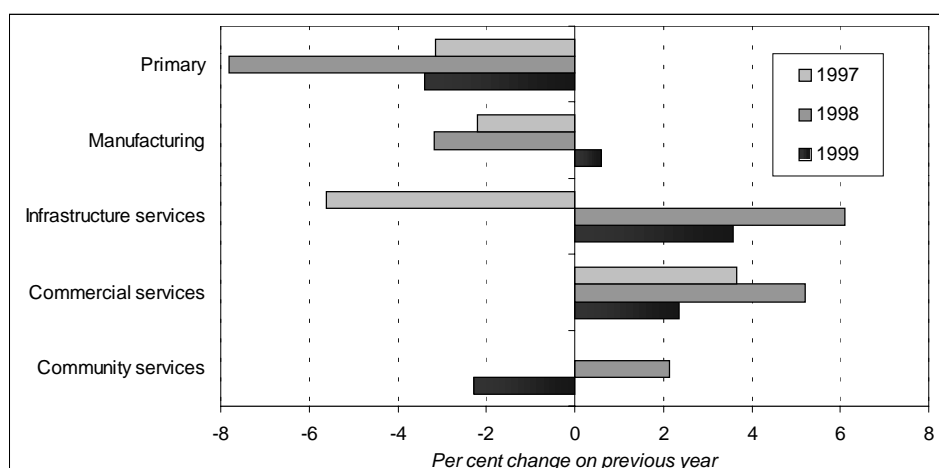
Employment growth over the past year was concentrated in commercial services (especially retail trade and property and business services) and infrastructure services (especially communication services), with manufacturing employment also slightly higher (see Chart 3.8). Employment in community services contracted with government administration and defence declining for the third successive year.

**Chart 3.7: Labour market indicators**



Sources: Australian Bureau of Statistics, Cat. Nos. 6202.0 and 6354.0; ANZ Bank Job Advertisement Series; Commonwealth Department of Employment, Workplace Relations and Small Business, Skilled Vacancy Survey

**Chart 3.8: Employment growth by broad industry sector — Victoria**



Source: Australian Bureau of Statistics, Cat. No. 6203.0

### **Population**

Victoria's population was 4.73 million persons as at September 1999, representing 25 per cent of Australia's population. Victoria's population grew by 57 600 persons (1.2 per cent) through the year ending September 1999. Population growth has increased nearly fourfold in the past five years, and is currently well above its long-term annual average of 1.0 per cent.

Most of Victoria's population growth during the past year came from net overseas migration (26 500) and natural increase (26 000). However, there has also been a substantial turnaround in interstate migration flows in the past five years. Victoria attracted a net 5 099 persons from other States in the year ending September 1999, compared with a net loss of almost 30 000 persons in 1993-94. Victoria has recorded positive net interstate migration in each of the past two years, after consistent losses over the previous 25 years (see Chart 3.1).

A recent survey by the ABS revealed that over one-half of the number of persons who arrived in Victoria from interstate in the past three years moved here for employment related reasons, and over 60 per cent of interstate movers considered employment prospects when deciding to move.

### **Disparities in regional economic performance in Victoria**

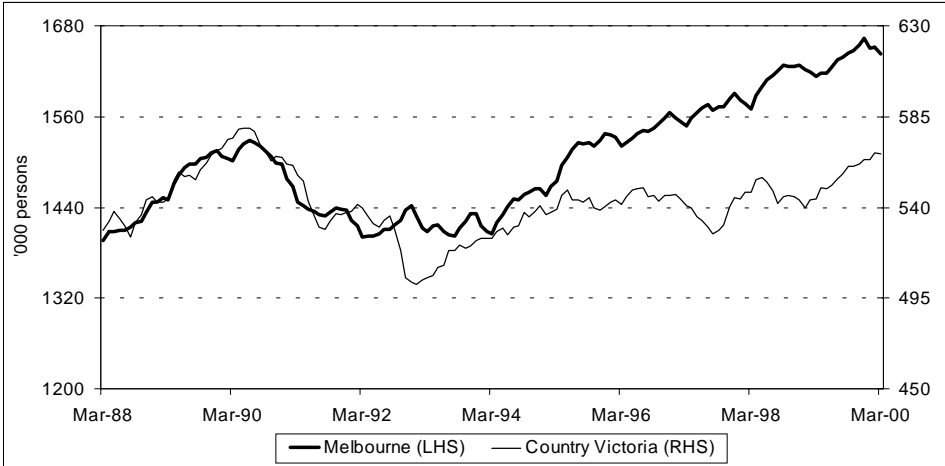
There have been significant variations in the economic performance of metropolitan Melbourne and regional Victoria in recent years. There are also

wide differences in economic performance within Melbourne and across non-metropolitan regions.

Analysis of census data by the Productivity Commission suggests that, between 1981 and 1996, average household incomes declined relative to the national average in all Victorian statistical divisions other than Melbourne and the Ovens-Murray division. Particularly large relative declines were recorded in Gippsland, the Mallee and the Wimmera. Similar patterns were apparent in other States.

Large variations in regional labour market experiences were evident during the 1990s. Chart 3.9 shows that, following strong growth in the early 1990s, employment in country Victoria stagnated for several years and has only resumed sustained growth over the past year. In contrast, Melbourne metropolitan employment grew more or less continuously throughout this period. Population also grew more rapidly in Melbourne than in the rest of Victoria during the 1990s, reversing an earlier trend.

**Chart 3.9: Employment — Melbourne and country Victoria<sup>(a)</sup>**



Source: Australian Bureau of Statistics, Cat. No. 6202.0

Note:

(a) Minor change in definitions in September 1992.

Unemployment rates rose in most regions in the early 1990s, but severe increases (well above the state average) occurred in Ballarat, Maryborough, Shepparton and Moreland, among other regions (see Chart 3.10). The subsequent statewide decline in unemployment rates has been uneven, particularly in the non-metropolitan areas.

Population growth rates have also varied widely in the late 1990s (see Chart 3.11). There has been strong population growth in coastal regions close to Melbourne reflecting the growth of tourism and their growing popularity as retirement destinations. While dryland farming areas in the west of the State have experienced population losses, regional centres have continued to grow. Other regions have benefited from the presence of a strongly growing local industry, such as food processing and wine production, or have been adversely affected by reductions in employment in local industries, such as electricity generation.

- After initially declining, the unemployment rate appears to have worsened again in the La Trobe Shire. The region is a major centre for brown coal and electricity production. Employment in the Victorian electricity and gas industry steadily declined between the mid-1980s and the mid-1990s, when it stabilised at less than one-half of its former level. In line with about one-third of non-metropolitan regions in Victoria, population declined in the region in the late 1990s.
- Unemployment rates in Ballarat, Bendigo and Maryborough have fallen since the early 1990s, but have remained relatively high. Population has grown but at rates below the Victorian average.
- Although Geelong's unemployment rate also remains relatively high, its population growth rate has been similar to the state average.
- Mildura, Wangaratta and Shepparton have unemployment rates close to the state average. However, the recent economic experiences of these cities are different. Mildura's population has grown in line with the state average and its unemployment rate has been declining. The region produces most of the State's citrus fruits and tourism is also important. Wangaratta's unemployment rate has been static for some years and appears to have fallen less than the state average. Its population growth rate has been relatively low. The region is a traditional textile and clothing centre which has diversified into wine and wood products in recent years. Shepparton has experienced only a modest decline in unemployment, although population has been growing at a moderate rate. It has benefited from the strength of the food processing industry.

Within metropolitan Melbourne, the relatively smaller geographical size of regions means that local unemployment and population growth rates may be less closely associated with local economic opportunities than in non-metropolitan Victoria. Nevertheless, there are wide variations in labour market conditions across Melbourne.

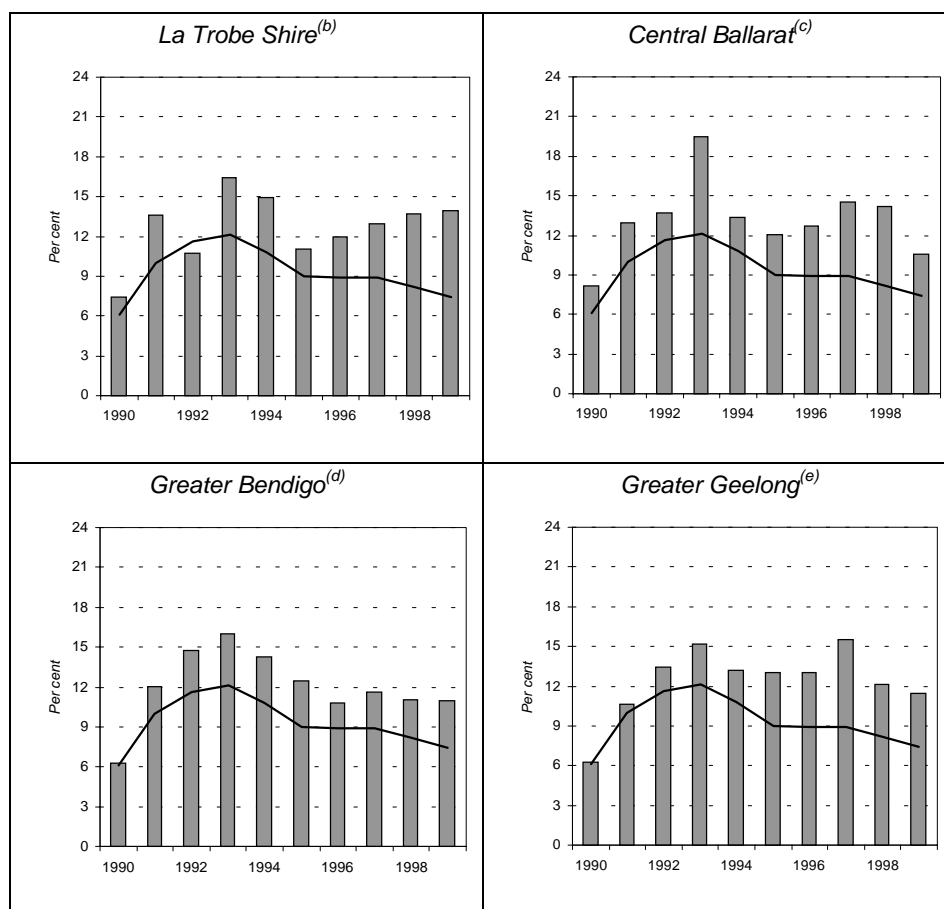
- Although unemployment rates have declined substantially in Moreland, they remain above the state average. Brunswick and Coburg have been centres of light manufacturing, including textiles, clothing and footwear, which have declined in importance in recent years.
- Very little decline in the unemployment rate has been evident in Melton, despite the statewide fall. However, Melton has been the fourth fastest growing region in Melbourne. It may have benefited from proximity to the industrial development associated with the Western Ring Road.
- In the inner east Melbourne suburbs of Malvern and Prahran, unemployment rates remained below the state average throughout the decade.
- The unemployment rate in the Mornington Peninsula, which includes recreational, residential and industrial land uses and is a significant retirement destination, appears to have been broadly in line with the state average. Its population growth has been the third fastest in the metropolitan area, reflecting the demand to reside in coastal areas relatively close to Melbourne.

By the end of the 1990s, significant variations in regional labour market conditions remained. In non-metropolitan Victoria in 1999, unemployment was still high in the La Trobe Valley towns of Moe and Morwell (17 per cent), the Bendigo suburb of Eaglehawk (15 per cent), and in Castlemaine and Maryborough (each 13 per cent) in central Victoria.

But there are also areas with relatively strong labour markets outside Melbourne.

- The northern Victorian towns of Rochester (unemployment rate of 4 per cent in 1999), Kyabram and Central Swan Hill (each 5 per cent) and Echuca (7 per cent) have relatively low unemployment rates. Tourism and food processing are important in these areas, and some have also become significant retirement destinations. The Department of Infrastructure has projected ongoing population growth in Echuca and Swan Hill.
- The Surf Coast economy (unemployment rate of 8 per cent) has also grown strongly through its connections with Geelong and as a tourist destination, and relatively strong population growth is projected there as well.

**Chart 3.10: Regional unemployment rates 1990-1999<sup>(a)</sup>**



Source: Commonwealth Department of Employment, Workplace Relations and Small Business, aggregated by Department of Treasury and Finance

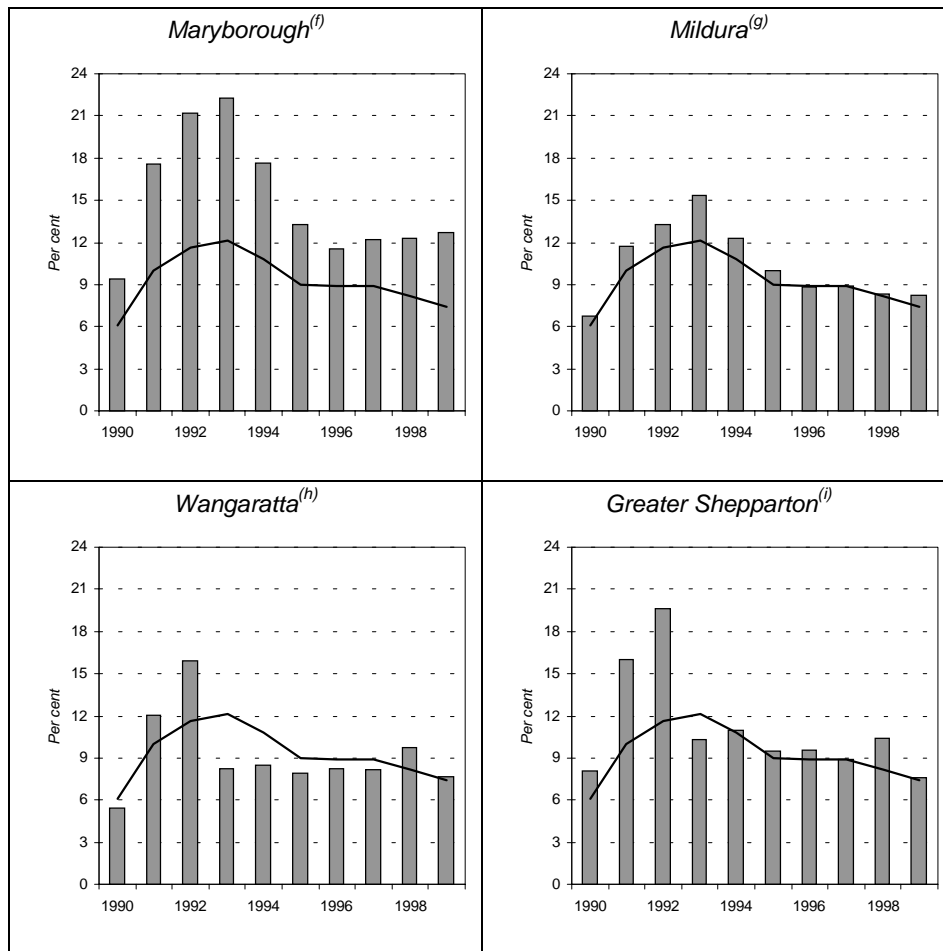
Notes:

— Victorian unemployment rate.

- (a) Unemployment rates estimated from similar aggregated statistical local areas (SLAs) before and after 1997. Average of quarterly rates (June quarter only for 1990 to 1994).
- (b) SLAs 3811, 3814, 3815, 3818 (formerly Cities of Moe, Morwell and Traralgon and Shire of Traralgon).
- (c) SLA 0571 (formerly City of Ballarat).
- (d) SLA 2621, 2622, 2623, 2624, 2625, 2626 (fmly City of Bendigo, Borough of Eaglehawk, Shires of Huntly Part A and Strathfieldsaye Part A, Rural City of Marong Part A).
- (e) SLA 2751, 2752, 2753, 2754, 2755, 2758 (formerly Cities of Geelong, Geelong West, Newtown, Rural City of Bellarine Part A, Shires of Corio and Bannockburn Part A).



**Chart 3.10 (cont.): Regional unemployment rates 1990-1999<sup>(a)</sup>**



Source: Commonwealth Department of Employment, Workplace Relations and Small Business, aggregated by Department of Treasury and Finance

— Victorian unemployment rate.

(a) Unemployment rates estimated from similar aggregated statistical local areas (SLAs) before and after 1997. Average of quarterly rates (June quarter only for 1990 to 1994).

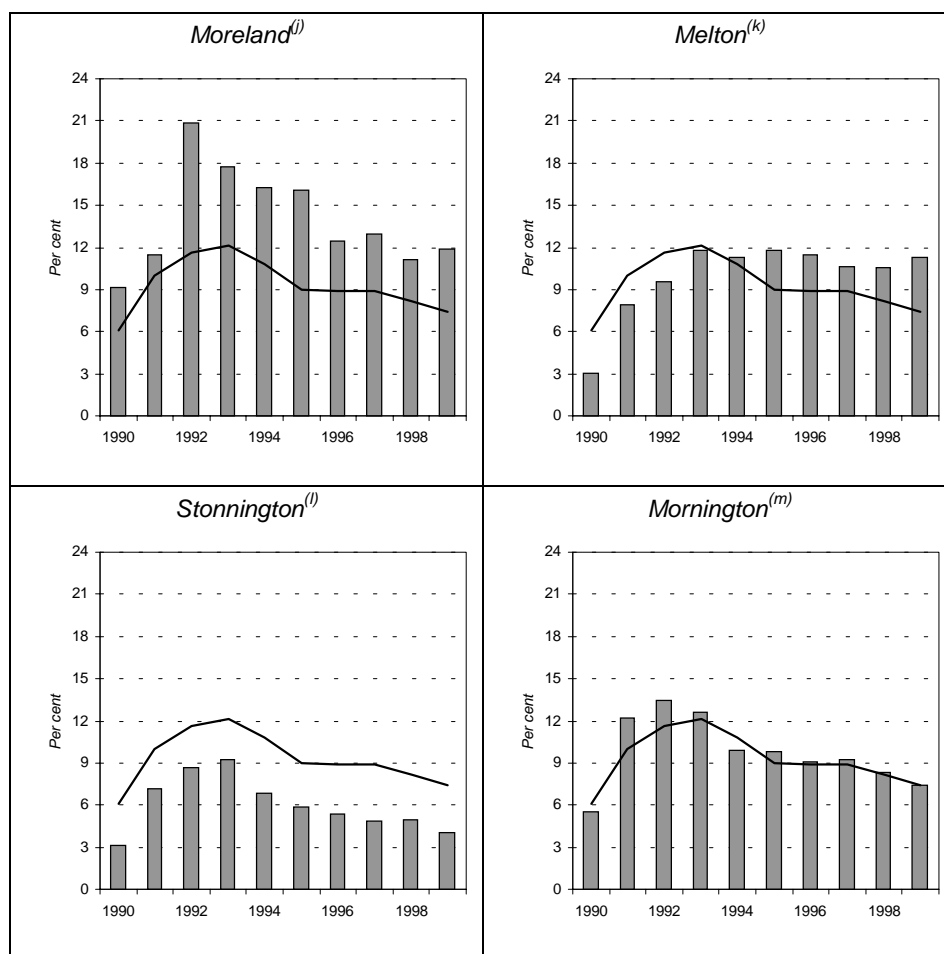
(f) SLA 1671 (formerly City of Maryborough).

(g) SLA 4781, 4782 (formerly City of Mildura, Shires of Mildura and Walpeup).

(h) SLA 6701 (formerly City of Wangaratta).

(i) SLA 2831, 2835 (formerly City of Shepparton, Shires of Rodney and Shepparton Part A).

**Chart 3.10 (cont.): Regional unemployment rates 1990-1999<sup>(a)</sup>**



Source: Commonwealth Department of Employment, Workplace Relations and Small Business, aggregated by Department of Treasury and Finance

— Victorian unemployment rate.

(a) Unemployment rates estimated from similar aggregated statistical local areas (SLAs) before and after 1997. Average of quarterly rates (June quarter only for 1990 to 1994).

(j) SLA 5251, 5252 (formerly Cities of Brunswick and Coburg).

(k) SLA 4654 (formerly Shire of Melton).

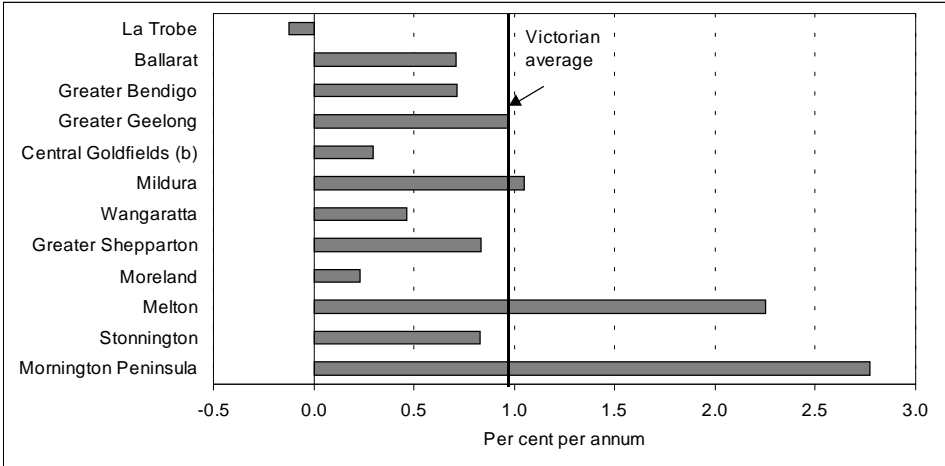
(l) SLA 6351, 6352 (formerly Cities of Malvern and Prahran).

(m) SLA 5341, 5344, 5345 (formerly Shires of Flinders, Hastings and Mornington).

Wide variations in economic performance are still evident across the metropolitan area as well.

- Higher unemployment persists in the industrial western and northern suburbs of Maribyrnong (16 per cent in 1999), Sunshine (14 per cent), Broadmeadows (14 per cent), Brunswick (13 per cent), Preston (12 per cent) and Northcote (11 per cent).
- In contrast, relatively low unemployment rates currently exist in South Nillumbik centred on Eltham and Research (2 per cent), South-West Nillumbik including Diamond Creek and Plenty (3 per cent), and adjacent East Manningham containing Templestowe and Doncaster East (3 per cent).
- Lower unemployment rates also occur in Berwick and Brighton (4 per cent), and Craigieburn, Knox, Ringwood, South Melbourne, Sunbury and Waverley (5 per cent).

**Chart 3.11: Population growth rates 1996-1999<sup>(a)</sup>**



Source: Department of Infrastructure, *Victoria in Future*

Notes:

(a) Per cent per annum.

(b) Includes Maryborough.

Similar variations in regional economic performance are evident in other States. For example, employment growth during the 1990s in Sydney outpaced employment growth in the remainder of New South Wales and in the major provincial centres of Newcastle and Wollongong.

## ECONOMIC PROJECTIONS AND RISKS

This section presents the economic projections on which the 2000-01 Budget is based. It also examines some of the risks to the projections.

### Economic projections

The economic projections used in the 2000-01 Budget are set out in Table 3.1. As usual, these have been prepared on a no policy change basis.

Victorian growth is projected to ease from 6.2 per cent in 1998-99 to 4 ¼ per cent in 1999-2000, 3½ per cent in 2000-01 and 3¼ per cent in later years. This assumes that restrained real wage growth will continue, monetary policy will remain broadly neutral and international growth continues at expected rates.

State final demand growth is also assumed to ease, although a little more sharply than GSP growth, with the difference reflected in an improving net export performance.

The labour force participation rate is projected to rise slightly to its average of the past three years and then remain broadly unchanged as rising female participation is offset by falling male participation and a gradual ageing of the labour force. With employment growth easing from an expected 2½ per cent this year to 1¾ per cent in 2000-01 and 1½ per cent thereafter, a progressive reduction in the Victorian unemployment rate to 5¾ per cent by mid-2004 is projected.

This is slightly higher than the Government's unemployment rate target of 5 per cent by the end of its first term in office. However, as noted above, the projections do not include the potential impact of policies which may be introduced in future years. Given continued strong national and world economic growth and favourable policy settings, the government's target appears to be within reach.

The introduction of the GST is expected to raise consumer prices by around 3 per cent in its first year of operation and, with underlying inflation (abstracting from the GST) at around 2¾ per cent, headline CPI inflation is expected to be 5¾ per cent in 2000-01.

In 2001-02, indirect tax credits should continue to flow through to businesses, financial institutions duty will be abolished and producers should make relatively greater use of lower priced inputs. Some of the initial increase in consumer prices associated with the GST will be reversed and consumer price inflation is projected to ease to 2 per cent, compared with 2½ per cent in the absence of the GST. This implies that, two years after the introduction of the

GST, consumer prices are expected to be 2½ per cent higher than they would otherwise have been.

Beyond 2001-02, businesses are expected to continue to achieve cost savings from the GST as they substitute away from more expensive inputs in their production processes. In particular, capital equipment prices are expected to be lower than otherwise because of the abolition of wholesale sales tax and should continue to influence production costs as equipment is replaced. Following the initial impact of the GST, the Reserve Bank is expected to continue targeting consumer price inflation within the 2 to 3 per cent range. Ongoing GST savings are assumed to yield inflation outcomes of 2¼ per cent, at the lower end of this range, compared with 2½ per cent in the absence of the GST. This means that by mid-2004 consumer prices are expected to be 2 per cent higher than otherwise because of the GST. This is not necessarily the long-run impact of the GST on the consumer price index. Downward pressure on inflation is likely to persist beyond the projection period.

The projections assume annual wage growth will remain moderate at no more than 3½ per cent over the projection period.

Population growth is based on the ABS Series L projections which assume net interstate migration eventually returns to a loss of 7 000 persons annually. Of the range of population projections prepared by the ABS, Series L has the lowest level of net interstate migration losses from Victoria. However, given that Victoria is currently attracting population from the rest of Australia, this may prove conservative over our projection period.

## **Risks to the outlook**

Risks to the budget projections, including economic risks, those arising from identifiable events and contingencies, and the sensitivity of the budget to changes in economic parameters, are discussed in Chapter 9, *Statement of Risks*. This section deals with risks to the economic projections in more detail.

There are several risks to the Victorian economic outlook. These primarily include general risks to the national economy from which Victoria would not be immune, and which stem from international developments and the implementation of the GST. There is also one risk specific to the Victorian outlook (i.e. its population growth rate). These are as follows:

- A more rapid slowing in US growth than generally expected would affect Australia both directly and indirectly through its effects on global activity. Historically, Australian economic activity is linked closely to the state of the US business cycle. A cyclical downturn in the United States may lead to lower global industrial production, threatening the recoveries in Europe and Asia. There are several potential catalysts for a marked slowing in the United States. These include a sharp asset market correction of the type which affected 'new technology' stocks in April 2000, the emergence of real wage pressures or renewed upward pressure on international oil prices.
- There are uncertainties associated with the implementation of the Commonwealth's GST, especially the risk of wage and price inflation. The Reserve Bank assumes there will be only a one-off impact on prices due to the GST (which the Bank will disregard when assessing the appropriate stance of monetary policy), and that wages will not be raised to compensate for the GST. However, if this is not the case there could be adverse effects on national economic activity and employment through higher labour costs and the likely consequent tightening of monetary policy.
- The budget projections assume an unchanged foreign exchange rate. Movements in the exchange rate are another potential risk to the Victorian economic projections. Exchange rate movements can be an important influence on the domestic inflation rate through their effect on import prices. These, in turn, affect the costs of local producers using imported inputs and the competitiveness of locally produced goods and services with respect to imports.
- It is possible that Victoria will continue to attract population from interstate, rather than revert to population losses as assumed in the official projections. In that event, the Victorian economy would grow more strongly than projected in Table 3.1, and there would be additional growth in employment, investment (especially in housing) and demand.

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

	Actual	Projections				
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Gross state product	6.2	4¼	3½	3¼	3¼	3¼
State final demand	4.9	4¼	3¼	3½	3½	3½
Employment	1.9	2½	1¾	1½	1½	1½
Unemployment rate <sup>(b)</sup>	7.7	6¾	6½	6¼	6	5¾
Participation rate <sup>(c)</sup>	63.0	63	63¼	63¼	63¼	63¼
Consumer price index	0.9	2½	5¾	2	2¼	2¼
Consumer price index abstracting from GST	0.9	2½	2¾	2½	2½	2½
Wage cost index <sup>(d)</sup>	3.0	3	3½	3½	3½	3½
Population <sup>(e)</sup>	1.2	1.0	0.9	0.8	0.8	0.7
Households <sup>(f)</sup>	0.7	1.4	1.4	1.3	1.3	1.3

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

Notes:

- (a) Per cent change on preceding year unless otherwise indicated.
- (b) Estimate for June quarter, per cent.
- (c) Year average, per cent.
- (d) Total hourly rate, excluding bonuses.
- (e) June quarter, per cent change on previous June quarter, based on ABS Series L projections, adjusted for recent net interstate migration experience.
- (f) June quarter, per cent change on previous June quarter, based on Department of Infrastructure projections.

## PROMOTING GROWTH ACROSS THE WHOLE STATE

To raise living standards and offer improved services, the Government is committed to promoting growth across the whole State and a set of strategies is being developed to ensure that the benefits of economic growth are available to all of the Victorian community.

Victoria is increasingly identified as an open, flexible and dynamic economy capable of responding to an evolving international economic environment. This, together with its well-educated population and sound infrastructure base is a strength of the Victorian economy.

However, external pressures on the economy are ever-present, emanating from the rapid pace of technological change, increased international competition and globalisation, and demographic changes. In addition, more immediate challenges to the Victorian economy can be anticipated as the Commonwealth

introduces major changes to taxation, including the GST, and as economic growth slows over the next year.

In particular, the generation and use of knowledge and information are playing an increasingly important role in economic growth. The information and communications technology sector is changing the way business and government operate and interact through innovations such as the internet and e-commerce. These innovations are increasing the efficiency of supply chain and inventory management systems, expanding export opportunities and heightening competition. At the same time, consumers are embracing information technology as a means of increasing their opportunities and choices, requiring greater responsiveness and flexibility on the part of business and government.

Within this dynamic setting the key role of government is to facilitate economic activity and employment growth across the whole State. An economic policy framework which supports growth must ensure a general business environment conducive to investment and job creation and be based on up-to-date information. This will require, for example, a competitive taxation system, an efficient regulatory environment and a strong infrastructure base, underpinned by a sound state financial performance.

The Government also believes it is necessary to take targeted actions which recognise the strengths of both the public and private sectors. These actions are needed to encourage both emerging and traditional industries, as well as to improve the operations of government and service delivery.

### **Creating a competitive business environment**

To provide a sound framework within which to promote growth across the whole State, the Government is implementing a range of initiatives to ensure a favourable environment for business and to establish the information base required for long-term strategic decision making. These include:

- a reduction in business taxes by a minimum of \$200 million by July 2003, including \$100 million from July 2001, to improve the competitiveness of Victorian businesses, as well as establishing a review of Victoria's state taxation system, with particular emphasis on business taxes, to ensure that the mix of taxes is efficient and equitable (see Chapter 6, *Revenue and Grants*);
- the Strategic Audit of Victorian Industry to be released during 2000 which will help identify the major opportunities and issues for industry growth across the State, and provide strategic direction, not only for government policy, but also for Victoria's industries;



- the formation of a Manufacturing Industry Consultative Council and the recent establishment of the Office of Manufacturing within the Department of State and Regional Development which will draw upon the work of the industry audit to advise the Government on industry policy directions; and
- the establishment of the Victorian Economic and Social Advisory Council, comprising representatives of business, unions, community groups and government, to advise on the economic and social development of the State.

These initiatives are designed to provide a broad policy environment conducive to investment and employment growth across the State.

### ***Investing in infrastructure***

A competitive business environment also requires a strong infrastructure base. Modern and efficient infrastructure is essential to Victoria's economic growth potential. To ensure adequate levels of infrastructure, the Government:

- has maintained the commitment to invest an equivalent of 1 per cent of GSP in infrastructure. New infrastructure projects with a total estimated cost of \$987 million will commence in 2000-01 to provide new and better schools, hospitals, transport and other community facilities. Total spending on the net purchases of fixed assets in 2000-01 will be \$1 152 million; and
- is developing a strategy to promote public-private partnerships to accelerate the development and provision of infrastructure (see Chapter 7, *Balance Sheet Management and Outlook*);

### ***Growing Victoria***

In addition to the general expenditure on infrastructure, the Government has established a \$1 billion infrastructure reserve, Growing Victoria, to provide a major boost to Victoria's infrastructure over the next four years. This reserve takes advantage of Victoria's unexpectedly strong budget position in 1999-2000 associated with exceptionally favourable recent economic and asset market conditions.

In 2000-01 and 2001-02, \$110 million has already been committed from the Growing Victoria reserve to improve some 100 primary and secondary schools. Significant funding has also been committed to address the obsolescence of training equipment and other facilities in TAFE institutes, as well as to extensions to rail and tramlines and the introduction of flier trains from metropolitan growth centres.

## **Targeting key drivers of growth**

Taking account of Victoria's strengths and the forces of change, the Government's commitment to promoting growth across the whole State will focus on three key areas. The Growing Victoria infrastructure reserve will help fund investment in transport, education and training, and information and communications technology. These three key areas provide the focus for targeted government action to promote growth across the whole State.

### ***Transport***

The State's transport and infrastructure provide direct support to business, government and communities by providing access to jobs, services, resources and markets through the movement of passengers and freight. The health of the Victorian economy and community life is dependent on an integrated transport system operating at minimum costs and high standards of service quality and timeliness.

### ***Linking Victoria***

The Government's Linking Victoria program, in partnership with the private sector, will generate over \$1.5 billion of investment in transport infrastructure over the next three years. It will revitalise the State's roads, rail and ports, improving transport from regions to the centre of Melbourne, linking Victoria to overseas markets, and generating investment opportunities and partnerships with the private sector.

The Government's Linking Victoria program includes commitments to an airport-to-city rail link, fast rail links in regional Victoria, the Geelong Freeway upgrade, standardisation of railway gauges, the Eastern Freeway extension, the duplication of the Calder Highway to Bendigo, the Blackspot road safety program, development of Melbourne Port, and a major redevelopment of Spencer Street Station.

### ***Education and training***

Victoria's highly skilled workforce has been central to the emerging developments in the State's knowledge, innovation, science and engineering sectors. If Victoria is to continue to meet the challenges and opportunities of the future economy, it will need a skilled workforce that has the confidence and ability to work with the new technology and adapt as industry changes.

A strong education and training sector is needed to underpin the development of a skilled and flexible workforce capable of adapting to economic change and other pressures and providing the employment pathways to emerging high growth opportunities.

### *Skilling Victoria*

The Skilling Victoria program recognises the importance of education and training to long-term growth prospects, the individual aspirations of the community and sustainable employment growth. To this end, the budget initiatives include schools modernisation and increased resources for tertiary and vocational education. A consultative body will be established to advise on lifelong learning strategies, well-organised pathways and the fostering of links between education and business.

The Government will examine the adequacy of training provision across different industry sectors and set training priorities for those industries and skills where it has greatest economic and social impact. Particular attention will be given to small and regional businesses.

To reap maximum benefits from the knowledge, innovation, science and engineering sectors, the Government is committed to maintaining Victoria's strong science and research base, improving the links between science and business, and promoting technology commercialisation and uptake. This is reflected in the Government's endorsement of the Science, Technology and Innovation Fund of \$310 million over five years.

### ***Information and communications technology***

Information and communications technologies are transforming the way business, government and the community operate. If Victoria is to meet the challenges and opportunities in the emerging knowledge economy it is essential to develop information and communications facilities and capabilities across the State. These networks provide access to information, services and markets so critical for a modern economy and community life. In particular, they ease barriers of distance imposed on rural and regional areas.

Information and communications technologies also have the capacity to innovate government operations through the use of online service delivery, by enabling procurement through e-commerce, and by facilitating improvements in financial management systems.

### *Connecting Victoria*

The Government intends to position Victoria as the information and communications technology and knowledge capital of Australia.

Connecting Victoria is the Victorian Government's strategy for growing the State's information and communications technology industry and for sharing the benefits of these technologies across the entire Victorian community.

Its aim is to integrate the information society into the main economic and social agenda of the State. Connecting Victoria also builds on a commitment by the Government to initiate programs that are better targetted at making sure the benefits of technology are used to help rejuvenate industry and employment in country Victoria.

The Government's Connecting Victoria strategy is designed to harness the potential of the knowledge-based information and communications technology industries. As part of this strategy, information technology literacy has been marked as a priority, skills shortages are being addressed, an industry plan is being developed, online export development and other government services are being provided, e-commerce promoted, and access to information and communications technology is being upgraded, especially in rural and regional areas.

## CHAPTER 4: BUDGET POSITION AND OUTLOOK

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- The 2000-01 Budget delivers the Government's output election commitments in full with a \$426 million boost in 2000-01 to improve services to the community within a responsible financial framework. In addition, further new service delivery initiatives totalling \$211 million in 2000-01 have been approved to meet unavoidable needs for improved services in the key areas of education, health, and community safety.
- Business taxation cuts totalling a minimum of \$200 million will be introduced by July 2003, including \$100 million from July 2001. This is subject to the maintenance of a substantial budget sector operating surplus, with specific details to be determined by a review of Victoria's taxation system which will report by the end of 2000.
- New infrastructure projects with a total cost of \$987 million will commence in 2000-01. These new projects will be partially funded by the new \$1 billion Growing Victoria infrastructure reserve. The creation of this reserve will provide a 20 per cent boost to Victorian budget sector asset investment expenditure over the forward estimates period, consistent with the Government's objective of providing capital works to enhance infrastructure across Victoria.
- A budget sector operating surplus of \$592 million is forecast for 2000-01. The operating surplus is expected to decline to \$401 million in 2001-02 before rising again to \$603 million by the end of the forward estimates period.
- The budget position and outlook is consistent with the Government's commitment to responsible financial management, including the Government's key target of a substantial operating surplus of at least \$100 million in each year.

This chapter provides details of the projected budget position and outlook for the period 2000-01 to 2003-04. 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 1999-2000

Budget published in May 1999 and the *1999-2000 Mid-Year Budget Review* published in January 2000.

The forward estimates outlined in this chapter are based on the economic projections outlined in Chapter 3, *Economic Outlook and Strategy* and reflect the detailed accounting policies and assumptions documented in Chapter 10, *Estimated Financial Statements and Notes*. The estimates take into account all announced policy commitments of the Victorian Government and the effect of the Commonwealth Government's changes to the national taxation system. The forward estimates represent planning projections for future budgets based on an unchanged policy assumption.

The Commonwealth Government's changes to the taxation system are expected to have a significant impact on the composition and level of Victorian budget revenue and expenses, including the replacement of financial assistance grants with GST revenue grants and the phasing out of certain state taxes. Additional expenses will be also be incurred in relation to costs of the First Home Owners' Scheme which was transferred to the States under the terms of the *Intergovernmental Agreement on Reform of Commonwealth-State Financial Relations* (Intergovernmental Agreement) and administration costs payable to the Australian Taxation Office.

However, over the forward estimates period, the impact of these changes is expected to be budget neutral, with additional expenses and taxation revenue forgone offset by corresponding increases in GST revenue and Commonwealth transitional grants. Chapter 6, *Revenue and Grants* provides more detailed information on the implications of the Commonwealth Government's changes to the taxation system.

## **2000-01 BUDGET INITIATIVES**

The 2000-01 Budget provides a significant boost in funding for output and asset investment initiatives, including the implementation in full of the Government's output election commitments, as documented in *Labor's Financial Statement*, together with other priority service delivery initiatives.

The 2000-01 Budget also provides for a reduction in business taxes of a minimum \$200 million by July 2003 including \$100 million from July 2001, subject to the maintenance of an operating surplus of at least \$100 million each year. Specific details on the tax cuts will be determined in the 2001-02 Budget following a thorough review of the State's taxation system.

## Initiatives affecting operating expenses

Table 4.1 provides a summary of 2000-01 Budget output initiatives by Department. The budget incorporates the implementation of output election commitments with a net budget impact of \$426 million in 2000-01 rising to \$571 million in 2002-03. The budget impact of these initiatives falls to \$347 million in 2003-04, mainly reflecting the completion of the final year of a four-year program in relation to various grant programs.

In addition to delivering in full the Government's output election commitments, with the exception of the final structure of the Essential Services Commission, the Budget also provides additional funding of \$211 million in 2000-01 and \$142 million in 2001-02 to address a range of other unavoidable and high priority service delivery needs. As indicated in Table 4.1, after taking into account these additional policy measures, the total net impact of output initiatives on 2000-01 operating expenses rises to \$637 million (of which \$48 million relates to initiatives already announced and incorporated in the *1999-2000 Mid-Year Budget Review*).

The total value of output initiatives shown in Table 4.1 is net of funding from existing forward estimates demand contingencies (which put aside funds for increased service delivery on account of population and demonstrated client demand growth) and also further funding made available through implementation of departmental savings measures outlined in the Government's election platform. The departmental savings initiatives factored into the budget estimates focus on reducing waste and mismanagement in the public sector, consistent with the Government's election commitments.

Table 4.1 also takes into account further savings in operating expenses that will be generated over the forward estimates period as a result of the Government's decision to apply \$250 million in 1999-2000 towards fully funding the Emergency Services Superannuation Scheme. This liability management initiative is expected to reduce budget sector superannuation expenses by \$86 million in 2000-01 rising to \$93 million in 2003-04.

Chapter 5, *Budget Sector Service Delivery* provides more detailed information on the Government's service delivery priorities and strategy while Appendix B, *Specific Policy Initiatives Affecting the Budget Position*, provides a detailed list and description of all service delivery initiatives implemented in this budget.

**Table 4.1: New output initiatives by Department**

Department	(\$ million)			
	2000-01 Budget	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
<b>Output election commitments <sup>(a)</sup></b>				
Education, Employment and Training	165.6	185.9	182.4	140.1
Human Services	156.8	195.5	209.3	158.2
Infrastructure	4.7	14.8	12.4	0.1
Justice <sup>(b)</sup>	- 3.2	20.3	33.0	33.9
Natural Resources and Environment	40.1	44.0	48.5	16.6
Premier and Cabinet	2.2	7.1	7.1	- 2.7
State and Regional Development	68.9	69.8	86.9	9.4
Treasury and Finance	- 10.7	- 10.7	- 11.1	- 11.1
Parliament	1.9	2.1	2.2	2.2
<b>Total output election commitments</b>	<b>426.3</b>	<b>528.6</b>	<b>570.6</b>	<b>346.8</b>
<b>Other policy initiatives</b>				
Education, Employment and Training	92.1	51.0	50.6	49.8
Human Services	94.7	101.7	101.1	101.1
Infrastructure	69.6	82.5	91.7	34.1
Justice <sup>(c)</sup>	- 41.7	- 36.4	- 30.5	- 32.1
Natural Resources and Environment	53.0	24.8	20.5	13.1
Premier and Cabinet	26.7	14.5	14.5	14.5
State and Regional Development	15.7	11.3	11.2	10.9
Treasury and Finance <sup>(c)</sup>	- 15.5	- 22.9	- 26.4	- 26.4
Parliament	1.4	0.3	0.3	0.3
Less: Funding from demand contingency	85.0	85.0	85.0	85.0
<b>Total other policy initiatives</b>	<b>211.1</b>	<b>141.9</b>	<b>147.9</b>	<b>80.3</b>
<b>Total output initiatives</b>	<b>637.3</b>	<b>670.5</b>	<b>718.5</b>	<b>427.1</b>
Of which: Initiatives announced in the 1999-2000 Mid-Year Review	48.1	72.8	74.5	na

Source: Department of Treasury and Finance

Notes:

- (a) As identified in Labor's Financial Statement - The First Term of a Bracks Labor Government, August 1999. Figures are net of the impact of savings measures and funding from within existing forward estimates.
- (b) Includes departmental savings initiatives of \$11.6 million per annum which do not impact on program delivery.
- (c) Net value of new output initiatives in the Departments of Justice and Treasury and Finance is affected by superannuation expense savings totalling \$86.0 million in 2000-01 rising to \$93.4 million in 2003-04. This adjustment arises from the application of \$250 million in 1999-2000 towards eliminating the unfunded liability in respect of the Emergency Services Superannuation Scheme. Net of this adjustment, the actual value of new output initiatives for the Department of Justice (including output election commitments) totals \$14.7 million in 2000-01, \$45.9 million in 2001-02, \$66.9 million in 2002-03 and \$68.8 million in 2003-04.



## Initiatives affecting asset investment

The 2000-01 Budget provides for the commencement in 2000-01 of new infrastructure projects with a total estimated cost of \$987 million. This includes first-year funding of \$392 million in 2000-01. The magnitude of funding and scope of the projects reflect the Government's commitment to promoting economic and social development across the whole of the State.

Table 4.2 provides a summary of the 2000-01 Budget infrastructure investment initiatives by Department. Chapter 5, *Budget Sector Service Delivery* provides further details on the Government's infrastructure investment initiatives.

**Table 4.2: New asset investment initiatives by Department**

Department	(\$ million)				TEC <sup>(a)</sup>
	2000-01	2001-02	2002-03	2003-04	
	Budget	Estimate	Estimate	Estimate	
Education, Employment and Training	128.1	105.1	12.5	12.0	212.2
Human Services	97.2	75.6	47.6	7.0	227.4
Infrastructure	89.9	138.2	133.0	0.0	363.7
Justice	27.7	43.3	15.5	1.9	88.4
Natural Resources and Environment	21.2	17.1	7.5	0.0	47.0
Premier and Cabinet	4.1	1.0	1.1	0.0	6.4
State and Regional Development	0.6	0.5	0.5	0.5	2.1
Treasury and Finance	19.4	3.0	12.1	0.4	34.8
Parliament	3.5	1.3	0.0	0.0	4.8
<b>Total</b>	<b>391.7</b>	<b>385.0</b>	<b>229.8</b>	<b>21.8</b>	<b>986.7</b>
Of which: Initiatives announced in the 1999-2000 Mid-Year Review	24.5	5.0	..	..	32.0

Source: Department of Treasury and Finance

*Notes:*

(a) Total estimated cost (TEC) for finite projects only does not add as a limited number of asset investment initiatives involve ongoing funding or funding outside the forward estimates period.

Consistent with its objective of providing capital works to enhance infrastructure throughout Victoria, the Government has created the \$1 billion Growing Victoria reserve to fund high priority capital projects over the next four years. Of this amount, \$190 million has already been allocated over the next three years to fund school modernisation and rail infrastructure projects announced in the 2000-01 Budget. The remainder of the Growing Victoria reserve will be allocated to specific projects in future budgets (for further details

on the Growing Victoria infrastructure reserve, see Chapter 3, *Economic Strategy And Outlook*).

### Initiatives affecting revenue

Table 4.3 provides a summary of major policy initiatives affecting taxation revenue in the 2000-01 Budget.

Consistent with its election platform, the Government is introducing a flat levy of \$333.33 on each of the 30 000 electronic gaming machines in Victoria. The proceeds from this levy, which will be used to fund drug and alcohol programs, are expected to total \$10 million per annum.

**Table 4.3: Major policy initiatives affecting taxation estimates**

	(\$ million)			
	2000-01 Budget	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
Electronic gaming machine levy	10.0	10.0	10.0	10.0
Responsible gaming policy - tax impact	- 7.9	- 15.7	- 24.4	- 25.2
Business tax cuts	..	- 100.0	- 100.0	- 200.0
Bookmakers - minimum telephone bets	..	- 0.9	- 2.4	- 3.7
<b>Total</b>	<b>2.1</b>	<b>- 106.6</b>	<b>- 116.8</b>	<b>- 218.9</b>

*Source: Department of Treasury and Finance*

As noted above, the 2000-01 Budget includes provision for significant business tax cuts to be implemented in future budgets. These business tax cuts, worth a minimum \$200 million by July 2003, including \$100 million from July 2001, have already been factored into the forward estimates. The precise allocation of these cuts, which are conditional on the maintenance of a substantial budget sector operating surplus of at least \$100 million in each year, will be the subject of a thorough review of state taxes scheduled to report by the end of 2000.

The Government has also agreed to a phased reduction in the minimum size of the telephone bet that punters are permitted to make with bookmakers commencing from July 2001. This measure is expected to result in a small reduction in racing taxes from 2001-02.

Chapter 6, *Revenue and Grants* provides further details on 2000-01 Budget taxation revenue initiatives.

## 2000-01 BUDGET ESTIMATES

Table 4.4 provides a summary of the budget sector statement of financial performance (previously called the operating statement) for the 2000-01 Budget compared to the revised estimated outcome for 1999-2000. For a detailed discussion of the 1999-2000 revised estimates, including an explanation of the variation from the published 1999-2000 Budget estimates, see Appendix A, *Revised 1999-2000 Budget Outcome*.

**Table 4.4: Summary statement of financial performance 2000-01**

	(\$ million)			
	1999-00 Revised	2000-01 Budget	Change	Change %
Taxation	9 390.5	7 845.3	-1 545.2	-16.5
Public authority income	1 136.3	947.7	- 188.6	-16.6
Grants	7 734.8	10 198.1	2 463.3	31.8
Sales of goods and services	1 922.6	1 939.8	17.2	0.9
Other revenue <sup>(a)</sup>	1 261.7	1 249.1	- 12.6	-1.0
<b>Total revenue</b>	<b>21 446.0</b>	<b>22 180.0</b>	<b>734.0</b>	<b>3.4</b>
Superannuation	1 433.3	1 380.3	- 53.0	-3.7
Depreciation	736.7	773.3	36.6	5.0
Borrowing costs	452.9	510.4	57.4	12.7
Employee entitlements	7 258.6	7 721.3	462.6	6.4
Supplies and services	6 324.1	7 020.6	696.5	11.0
Other expenses <sup>(b)</sup>	3 900.9	4 182.6	281.7	7.2
<b>Total expenses</b>	<b>20 106.6</b>	<b>21 588.5</b>	<b>1 481.9</b>	<b>7.4</b>
<b>Operating surplus</b>	<b>1 339.3</b>	<b>591.5</b>	<b>- 747.9</b>	<b>-55.8</b>

Source: Department of Treasury and Finance

Notes:

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

As indicated in Table 4.4, the operating surplus for 2000-01 is expected to total \$592 million, or \$748 million lower than the revised estimate for 1999-2000.

The decline in the operating surplus in part reflects moderate growth in operating revenue projected for 2000-01 together with stronger growth in operating expenses, reflecting the impact of significant new service delivery initiatives announced by the Government in this budget.

## Operating expenses

Total operating expenses amount to \$21 589 million in 2000-01, representing an increase of \$1 482 million (7.4 per cent) on the 1999-2000 revised estimate.

The main factors contributing to the increase in operating expenses are:

- the impact of implementing the Government's output election commitments and other new service delivery initiatives. As noted above, the net budget impact of these initiatives, which will significantly enhance service delivery capacity and outcomes, totals \$637 million in 2000-01; and
- the impact of additional expenditure responsibilities totalling \$438 million in 2000-01 transferred to the State under the terms of the Intergovernmental Agreement (including costs of administering the First Home Owners' Scheme and Australian Taxation Office administration costs).

The remaining increase in 2000-01 expenses (around \$350 million or 1.7 per cent) is broadly in line with expected inflation and productivity growth.

Comparisons with expenditure levels in 1999-2000 need exclude the additional \$438 million of expenditure responsibilities transferred from the Commonwealth as part of their new tax system. After allowing for this, the adjusted growth in expenses in 2000-01 is 5.2 per cent. With projected underlying inflation of 2¾ per cent, this implies a real increase in spending of 2½ per cent.

## Operating revenue

Total operating revenue is expected to increase by 3.4 per cent in 2000-01 to \$22 180 million. The moderate growth in operating revenue mainly reflects the impact of a decline in taxation revenue and public authority income offset by projected strong growth in Commonwealth grants.

Total taxation revenue is projected to total \$7 845 million in 2000-01, 16.5 per cent below the revised estimate for 1999-2000. The decline in taxation revenue reflects the impact of implementing the Commonwealth Government's changes to the taxation system from 1 July 2000 and, in particular, the cessation of safety net revenue and adjustment in gambling tax rates, consistent with the terms of the Intergovernmental Agreement. However, a wind down in revenue from electricity franchise fees, combined with projected lower rates of economic growth and an assumed moderation in real estate market activity from current record high levels, is also expected to constrain underlying growth in taxation revenue.

The decline in taxation revenue flowing from the Commonwealth Government's changes to the taxation system is more than offset by an increase in Commonwealth grants. Total general purpose grants are projected to rise by \$2 224 million, or 61.2 per cent, in 2000-01. The large increase in general purpose payments is mainly attributable to the commencement of GST revenue grants and the expected receipt of GST transitional payments under the terms of the Intergovernmental Agreement. Projected growth of 5.8 per cent in Commonwealth specific purpose payments and grants for onpassing also makes a significant contribution to the overall growth in operating revenue in 2000-01.

A projected decline in public authority income will also constrain total revenue growth in 2000-01. Public authority income is expected to fall to \$948 million in 2000-01, a decline of 16.6 per cent compared to the revised 1999-2000 estimate. This change mainly reflects the fact that in 1999-2000 the distributions from the Transport Accident Commission were substantially higher than expected due to favourable investment returns and claims management experience.

## **FORWARD ESTIMATES OUTLOOK 2000-01 TO 2003-04**

Table 4.5 shows a summary statement of financial performance for the period 2001-02 to 2003-04 and provides a snapshot of the aggregate budget outlook over the forward estimates period, using the 2000-01 Budget estimates as the base. (A more detailed statement of financial performance for the outlook period is provided in Chapter 10, *Estimated Financial Statements and Notes*.) The forward estimate projections take into account all announced policy initiatives.

The operating surplus is forecast to decline from \$592 million in 2000-01 to \$401 million in 2001-02, before rising over the following two years to reach \$603 million by 2003-04.

The projected decrease in the operating surplus in 2001-02 reflects the low growth rate in projected operating revenue. Total operating revenue is expected to increase by only 0.6 per cent in 2001-02, compared to projected growth in operating expenses of 1.5 per cent. The low growth in revenue forecast for 2001-02 is mainly attributable to a significant decline (\$291 million) in public authority income projected for that year. This is largely due to the wind down of gas industry distributions following the expiration of existing gas supply contracts and the introduction of full competition in the retail gas market from September 2001.

**Table 4.5: Summary statement of financial performance 2000-01 to 2003-04**

	(\$ million)			
	2000-01 Budget	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
Taxation	7 845.3	7 342.3	7 638.9	7 863.3
Public authority income	947.7	656.7	557.9	453.0
Grants	10 198.1	11 107.8	11 416.1	11 725.0
Sales of goods and services	1 939.8	1 975.5	1 996.5	2 013.2
Other revenue <sup>(a)</sup>	1 249.1	1 229.0	1 288.2	1 260.0
<b>Total revenue</b>	<b>22 180.0</b>	<b>22 311.3</b>	<b>22 897.5</b>	<b>23 314.5</b>
% change	3.4	0.6	2.6	1.8
Superannuation	1 380.3	1 464.6	1 494.4	1 545.4
Depreciation	773.3	824.6	870.9	918.8
Borrowing costs	510.4	490.2	477.8	479.1
Employee entitlements	7 721.3	8 044.7	8 336.3	8 626.3
Supplies and services	7 020.6	7 038.0	7 150.6	7 122.6
Other expenses <sup>(b)</sup>	4 182.6	4 048.4	4 106.1	4 018.7
<b>Total expenses</b>	<b>21 588.5</b>	<b>21 910.3</b>	<b>22 436.0</b>	<b>22 711.0</b>
% change	7.4	1.5	2.3	1.2
<b>Operating surplus</b>	<b>591.5</b>	<b>401.0</b>	<b>461.5</b>	<b>603.4</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.

The decline in taxation revenue (\$503 million or 6.4 per cent) forecast for 2001-02 is mainly attributable to the abolition, effective from 1 July 2001, of financial institutions duty and share duty on listed securities as part of the changes to the national taxation system. Taxation revenue forgone as a result of the abolition of these taxes (estimated at \$548 million in 2001-02) is expected to be offset by growth in combined GST revenue grants and transitional payments. However, growth in total revenue in 2001-02 is expected to be further constrained by:

- the first \$100 million instalment of the Government's minimum \$200 million business tax cuts, to take effect on 1 July 2001; and
- the cessation of electricity franchise fees following the introduction of full competition into retail electricity markets from 1 January 2001.

As noted above, the operating surplus is expected to rebound in 2002-03 and 2003-04, despite a further round of business tax cuts scheduled to take effect from 1 July 2003. This is mainly due to the relatively moderate growth in operating expenses projected for 2003-04 reflecting the completion in 2003-04 of a four-year program of election commitments in relation to various grant program initiatives.

## Operating expenses

Budget sector operating expenses are expected to increase by 1.7 per cent per annum on average between 2000-01 and 2003-04. The relatively low growth in operating expenses mainly reflects:

- a projected decline in GST administration costs payable to the Australian Taxation Office (from \$201 million in 2000-01 to \$91 million in 2003-04) under the terms of the Intergovernmental Agreement; and
- the partial phase down of 2000-01 Budget output initiatives. As noted previously, this reflects the completion in 2002-03 of a four-year program of election commitments in relation to various grant program initiatives.

Borrowing finance costs are expected to decline over the budget and forward estimates period by an average 2.1 per cent per annum. This is mainly due to a one-off increase in borrowing costs in 2000-01 and 2001-02 as a result of the impact of the GST on CPI-indexed government debt.

Abstracting from this temporary effect, borrowing costs are expected to remain fairly stable over the forward estimates period, in line with a projected stabilisation in the level of budget sector gross borrowings. This in turn reflects the adoption of a revised technical forward estimates planning assumption whereby future cash surpluses from operating and investing activities are assumed to be applied to reducing net debt through increasing the stock of financial assets rather than reducing gross borrowings. For further discussion on this financing assumption, see Chapter 7, *Balance Sheet Management and Outlook*.

After allowing for the factors noted above, underlying growth in operating expenses (excluding borrowing costs) over the forward estimates period is expected to average 2.4 per cent per annum which is broadly in line with expected inflation and productivity growth.

## Operating revenue

Total revenue is expected to increase by 1.7 per cent per annum on average between 2000-01 and 2003-04. This is mainly attributable to projected strong

growth in Commonwealth grants, which is expected to average 4.8 per cent per annum over the forward estimates period. This growth in Commonwealth grants reflects:

- steady growth in Commonwealth GST revenue grants which is partly offset by a decline in GST transitional payments;
- an increase in National Competition Policy payments as a result of the expected receipt of the third tranche of National Competition Policy grants effective from 2001-02; and
- more moderate growth in specific purpose payments (projected to average 2.8 per cent per annum).

Public authority income is projected to decline over the forward estimates period, mainly due to the expected staged cessation of gas industry distributions following the expiration of existing gas supply contracts and the introduction of full competition into the retail gas market from 1 September 2001.

Growth in taxation revenue is expected to average only 0.1 per cent per annum between 2000-01 and 2003-04. The moderate growth in taxation revenue over this period mainly reflects:

- the abolition of marketable securities and financial institutions duties;
- the expected return to more normal conditions in property and share markets;
- the impact of the \$200 million cumulative cut in business taxes scheduled to take effect by July 2003; and
- the cessation of electricity franchise fees.

Revenue from sales of goods and services exhibits moderate growth over the forward estimates period. The impact of this growth in sales revenue on the budget bottom line is offset by a similar growth assumption for operating expenses related to this revenue.

## **SUMMARY CASH FLOW STATEMENT**

Table 4.6 provides a summary cash flow statement for the 2000-01 Budget and forward estimates period to 2003-04. A more detailed cash flow statement is provided in Chapter 10, *Estimated Financial Statements and Notes*.

Net cash flow from operating activities is projected to total \$1 780 million in 2000-01, a decrease of \$782 million compared to the revised 1999-2000 estimate of \$2 562 million. Allowing for minor differences between recognition



of expenses and revenues and timing of related payments and receipts, this result is consistent with the projected decline in the 2000-01 operating surplus of \$748 million noted above. The trend in net cash flow operating activities over the remainder of the forward estimates period is also broadly consistent with the trend in the projected operating result.

**Table 4.6: Summary cash flow statement**

	(\$ million)				
	1999-00 Revised	2000-01 Budget	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
<b>Net cash flow from operating activities<sup>(a)</sup></b>	<b>2 561.7</b>	<b>1 780.2</b>	<b>1 525.7</b>	<b>1 558.9</b>	<b>1 746.4</b>
Purchase of property, plant and equipment	-1 117.1	-1 278.9	-1 567.9	-1 680.7	-1 921.1
Sale of property, plant and equipment	135.1	127.0	88.9	66.8	39.8
Net proceeds from other investing activities	-1 008.0	- 612.3	- 35.4	105.4	180.8
<b>Net cash flow from investing activities</b>	<b>-1 990.0</b>	<b>-1 764.3</b>	<b>-1 514.5</b>	<b>-1 508.5</b>	<b>-1 700.5</b>
<b>Net cash flow from financing activities</b>	<b>- 552.6</b>	<b>8.0</b>	<b>10.6</b>	<b>- 5.3</b>	<b>- 4.6</b>
<b>Net cash inflow</b>	<b>19.1</b>	<b>23.9</b>	<b>21.8</b>	<b>45.1</b>	<b>41.3</b>
Cash at beginning of reporting period	574.6	593.7	617.5	639.3	684.4
<b>Cash at end of reporting period</b>	<b>593.7</b>	<b>617.5</b>	<b>639.3</b>	<b>684.4</b>	<b>725.7</b>

Source: Department of Treasury and Finance

Notes:

(a) Includes contributions to superannuation funds, including \$250 million payment in 1999-2000 towards eliminating the unfunded liability in respect of the Emergency Services Superannuation Scheme.

### Purchase of property, plant and equipment

Expenditure on purchase of property, plant and equipment is expected to increase by \$162 million (or 14.5 per cent) in 2000-01, reflecting the impact of the significant new asset investment initiatives announced in the 2000-01 Budget. Growth in expenditure on purchase of fixed assets is expected to continue to increase at an average rate of around 14.5 per cent per annum over the remainder of the forward estimates period, contributing to significant real growth in the budget sector capital stock. This strong growth reflects the combined impact of maintenance of growth in underlying infrastructure expenditure in line with growth in nominal gross state product, together with an

additional boost to infrastructure expenditure over the next four years funded by the \$1 billion Growing Victoria infrastructure reserve.

Table 4.7 provides a breakdown of projected expenditure on the purchase of fixed assets by Department. Departments making a significant contribution to the overall growth in expenditure in 2000-01 include Human Services (with an increase of 26.6 per cent on the 1999-2000 revised estimate), Education, Employment and Training (14.3 per cent) and Justice (88.4 per cent). This largely reflects the focus of election commitments and other new asset investment initiatives on the key areas of education, health, and community safety. The significant increase in the Department of Infrastructure's asset investment expenditure between 1999-2000 and 2001-02 (\$34 million or 10.4 per cent) mainly reflects implementation of the Labor Government's election commitments in relation to increased blackspot accident program roads funding and rail infrastructure expenditure.

**Table 4.7: Purchase of fixed assets by Department**

<i>Department</i>	<i>(\$ million)</i>				
	<i>1999-00 Revised</i>	<i>2000-01 Budget</i>	<i>2001-02 Estimate</i>	<i>2002-03 Estimate</i>	<i>2003-04 Estimate</i>
Education, Employment and Training	266.9	305.1	232.6	134.7	135.7
Human Services	263.6	333.6	198.6	116.3	76.4
Infrastructure	327.9	335.8	361.9	339.8	212.0
Justice	52.0	97.9	74.5	37.8	21.6
Natural Resources and Environment	55.7	66.3	38.8	26.7	22.4
Premier and Cabinet	98.1	139.7	80.3	48.4	24.7
State and Regional Development	3.3	4.0	3.9	3.9	3.9
Treasury and Finance	45.6	89.6	10.2	18.7	5.5
Parliament	4.2	4.4	2.1	0.9	0.9
Not allocated to department <sup>(a)</sup>	..	- 97.5	565.1	953.5	1 418.2
<b>Total purchase of fixed assets</b>	<b>1 117.1</b>	<b>1 278.9</b>	<b>1 567.9</b>	<b>1 680.7</b>	<b>1 921.1</b>

*Source: Department of Treasury and Finance*

*Notes:*

- (a) *Amount available to be allocated to specific departments and projects in future budgets. Includes unallocated provision in respect of the Growing Victoria infrastructure reserve. Negative figure for 2000-01 represents forecast of 2000-01 departmental underspending on approved projects which will be carried over into 2001-02.*

## **Other investing and financing cashflows**

Net cash inflows from financing activities (mainly representing borrowing, deposits repayable and finance leases) are expected to total only \$8 million in 2000-01 and remain fairly stable over the remainder of the forward estimates

period. This mainly reflects a projected increase in deposits repayable into various statutory trust accounts, including the Victorian Government Solicitor's Trust Account, which is partly offset by projected repayments in respect of outstanding finance lease liabilities and Commonwealth Government advances.

As noted above, the forward estimates incorporate a revised technical financing assumption whereby future cash surpluses from operating and investing activities are assumed to be applied to increasing financial assets rather than reducing gross borrowing. Consistent with this assumption, the 2000-01 Budget and forward estimate cash flow projections assume:

- no further repayment or increase of borrowings in the budget sector debt portfolio;
- an increase in investment in financial assets in 2000-01, representing the application of the projected 2000-01 cash surplus; and
- a moderate decline in financial assets between 2001-02 and 2003-04, mainly reflecting the drawdown of Growing Victoria reserve financial assets to fund increased investment in infrastructure assets over that period.

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

Table 4.8 compares the revised outlook for budget operating surplus for the period 2000-01 to 2002-03 to previously published budget estimates. The improvement in the operating surplus since the 1999-2000 Budget reflects an increase in projected revenue flowing from stronger economic conditions. This is partly offset by an increase in operating expenses associated with the implementation of the Government's output election commitments and other service delivery initiatives.

As indicated in Table 4.8, the 1999-2000 Budget published in May 1999 projected an average operating surplus for the period 2000-01 to 2002-03 of around \$366 million. By January 2000, with the publication of the *1999-2000 Mid-Year Budget Review*, the projected operating surplus over the same period had increased by around \$378 million to an average \$743 million. The significant improvement in the budget outlook over this period mainly reflected the impact of stronger than expected revenue growth as a result of a buoyant economy and strong property and share markets, partly offset by an increase in operating expenses. Attachment 4A provides a detailed explanation of the factors underpinning the improvement in the Victorian budget outlook between the 1999-2000 Budget and the *1999-2000 Mid-Year Budget Review*.

**Table 4.8: Reconciliation of 2000-01 Budget estimates to 1999-2000 Budget**

	(\$ million)		
	2000-01 Revised	2001-02 Estimate	2002-03 Estimate
<b>Operating surplus - 1999-2000 Budget</b>	391.0	395.9	309.7
Plus:			
Revenue variations in Mid-Year Budget Review	1 064.3	979.2	1 064.5
Expense variations in Mid-Year Budget Review	- 756.0	- 671.5	- 546.0
<b>Operating surplus - Mid-Year Budget Review</b>	699.3	703.7	828.2
<b>Plus: Revenue variations since Mid-Year Budget Review</b>			
<b>Economic/demographic effects:</b>			
Taxation revenue	243.2	214.6	203.6
Public authority income	251.3	179.9	154.8
Sales of goods and services	149.3	157.2	157.7
<b>Total economic/demographic variations</b>	643.8	551.7	516.1
<b>Policy decisions</b>			
Policy initiatives affecting taxation	2.1	- 106.6	- 116.8
Other	14.5	11.8	12.8
<b>Total policy variations</b>	16.7	- 94.8	- 104.0
<b>Impact of Commonwealth funding revisions</b>			
General purpose grants	107.0	29.1	20.5
Specific purpose payments	291.7	358.2	322.8
Other Commonwealth receipts	- 28.4	- 14.8	- 15.2
<b>Total Commonwealth funding variations</b>	370.3	372.5	327.8
<b>Administrative variations</b>			
Budget financing - interest revenue	69.3	93.3	99.4
VicTrack capital assets charge	106.0	118.0	130.0
Other	- 54.0	- 43.2	- 6.0
<b>Total administrative variations</b>	121.3	168.1	223.4
<b>Total revenue variation</b>	<b>1 152.0</b>	<b>997.5</b>	<b>963.4</b>

**Table 4.8: Reconciliation of 2000-01 Budget estimates to 1999-2000 Budget (cont.)**

	(\$ million)		
	2000-01 Revised	2001-02 Estimate	2002-03 Estimate
<b>Less: variation in operating expenses since Mid-Year Budget Review</b>			
<b>Economic/demographic effects:</b>			
Expenses funded by increased sales	149.3	157.2	157.7
Other	4.7	7.0	10.0
<b>Total economic/demographic variations</b>	<b>154.0</b>	<b>164.2</b>	<b>167.7</b>
<b>Policy decisions</b>			
Output election commitments	426.3	528.6	570.6
Other policy initiatives	211.1	141.9	147.9
Less: Amount included in Mid-Year Budget Review	- 48.1	- 72.8	- 74.5
<b>Total policy variations</b>	<b>589.2</b>	<b>597.7</b>	<b>644.0</b>
<b>Impact of Commonwealth funding revisions</b>	<b>209.1</b>	<b>264.3</b>	<b>213.3</b>
<b>Administrative variations</b>			
VicTrack capital assets charge	106.0	118.0	130.0
GST implementation - estimates revision	- 12.1	- 68.6	- 85.3
Budget financing - public debt interest costs	122.9	155.6	195.4
Other	90.6	69.1	65.0
<b>Total administrative variations</b>	<b>307.5</b>	<b>274.0</b>	<b>305.1</b>
<b>Total variation in operating expense</b>	<b>1 259.9</b>	<b>1 300.2</b>	<b>1 330.0</b>
<b>Operating surplus - 2000-01 Budget</b>	<b>591.5</b>	<b>401.0</b>	<b>461.5</b>

Source: Department of Treasury and Finance

Table 4.8 provides a detailed reconciliation of the variation in the projected budget sector operating surplus since the *1999-2000 Mid-Year Budget Review*. As indicated in the table, the projected operating surplus for 2000-01 of \$592 million represents a decrease of \$108 million on the \$699 million reported in the *1999-2000 Mid-Year Budget Review*. On the basis of existing policy, the operating surplus is expected to average more than \$450 million over the remainder of the forward estimates period, compared with around \$740 million at the time of the *1999-2000 Mid-Year Budget Review*.

## Variations to total operating revenue

Table 4.8 identifies significant increases in total operating revenue for 2000-01 and the forward years since the *1999-2000 Mid-Year Budget Review*. Projected operating revenue for 2000-01 is \$1 152 million higher than at the *1999-2000 Mid-Year Budget Review* and, on average, is around \$980 million per year higher over the following two years.

The increase in revenue is due in part to changes in economic and demographic factors. Stronger than expected economic and asset markets increased taxation revenue by \$243 million in 2000-01, declining to \$204 million by 2002-03. Forecasts of increased profitability for government business enterprises and the impact of the Transport Accident Commission special dividend (to fund the Accident Blackspot program) have led to higher than budgeted public authority income. Projected revenue from sales of goods and services has also increased significantly, adding \$149 million to total operating revenue in 2000-01 and around \$157 million per annum over the next two years. However, the increase in revenue from sales of goods and services is offset by an equivalent increase in operating expenses.

Policy decisions of the Government have added \$17 million to revenue in 2000-01, relative to the previously published estimates but have contributed to a decline in projected revenue over the remainder of the outlook period. The variation in revenue as a result of Government policy is attributable to:

- policy initiatives affecting taxation revenue. These include the provision for business tax cuts of a minimum of \$200 million by July 2003, including \$100 million from July 2001, the impact of the Government's responsible gaming policy and the phased reduction of minimum telephone betting limits for bookmakers on taxation revenue and the introduction of a special levy on all electronic gaming machines to help fund drug programs; and
- a number of non-taxation policy decisions leading to an increase in revenue of \$15 million in 2000-01 and \$12 million in 2001-02. These include the extraction of a special dividend of \$6 million from SECV in 2000-01 to assist in funding remediation works at the West Melbourne gasworks site and a range of minor revenue initiatives (mainly relating to increases in user charges) to partially fund other new output initiatives announced in this Budget.

An increase in Commonwealth grants and other receipts (totalling \$370 million in 2000-01) has also contributed to the increase in revenue since the *1999-2000 Mid-Year Budget Review*. The revision in Commonwealth funding is largely due to increases in Commonwealth specific purpose payments, which are almost entirely offset by increased operating expenses. This includes upward revisions

in estimates of Commonwealth funding for non-government school programs, road program funding and increased estimates of grants receivable under the Australian Health Care Agreement. Forward estimates of general purpose grants have also been revised since the Mid-Year Review, reflecting:

- revised CPI and population assumptions and the impact of updated Commonwealth Grants Commission relativities, resulting in a revenue increase of \$64 million in 2000-01 and a revenue decrease averaging \$41 million over the forward years; and
- an increase to estimates for Commonwealth transitional grants for the First Home Owners' Scheme based on a higher state estimate of the cost to Victoria of implementing the scheme (offset by an equivalent increase in operating expenses).

A revised estimate of Commonwealth receipts in relation to repatriation health services has led to a slight decrease in revenue of \$28 million in 2000-01 and an average decrease of \$15 million per year over the forward estimates period.

A variation in interest earned of some \$69 million in 2000-01, rising to around \$99 million in 2002-03, has also increased revenue. This variation results from the revision to the technical forward estimates financing assumption noted above. The increase in projected interest earned on financial assets partly offsets a projected increase in borrowing costs over the same period.

A number of other administrative variations have led to further increases in revenue of \$52 million in 2000-01 rising to \$124 million in 2003-04, mainly reflecting:

- an increase in the VicTrack capital asset charge of \$106 million in 2001-02 rising to \$130 million by 2002-03 as a result of revised estimates of asset values. The increase in revenue from this source is directly offset by an equivalent increase in expenses; and
- an offsetting decrease in revenue of \$64 million in 2001-02 and \$42 million on average in the forward years as a result of a revision to estimated revenue from the Office of Housing.

## Variations to total operating expenses

Table 4.8 identifies significant increases in total operating expenses for 2000-01 and the forward years since the *1999-2000 Mid-Year Budget Review*. Projected operating expenses for 2000-01 are \$1 260 million higher than at the *1999-2000 Mid-Year Budget Review* and around \$1 315 million per year higher over the following two years.

The increase in expenses is due in part to changes in economic and demographic factors. An increase of \$154 million in expenses in 2000-01 rising to \$168 million in 2002-03 is primarily due to an increase in expenses funded by increased sales of goods and services, although this is offset by a corresponding increase in revenue.

Policy decisions of the Government in relation to implementing output election commitments and other priority issues has also increased operating expenses relative to the previously published estimates. As noted previously, the total net impact of service delivery initiatives on the 2000-01 Budget estimates is \$637 million, including \$426 million in funding for output election commitments. After taking into account initiatives previously announced and already factored into the *1999-2000 Mid-Year Budget Review*, the total variation in 2000-01 operating expenses since the Mid-Year Review attributable to new service delivery measures falls to \$589 million.

Increases in specific purpose payments and other Commonwealth receipts have contributed to an increase in expenses of \$209 million in 2000-01, rising to \$264 million in 2001-02. As noted above, these increases in expenses are offset by a corresponding increase in revenue.

An increase in interest costs of \$123 million in 2000-01, rising to \$195 million in 2003-04, also contributes to the overall increase in operating expenses since the *1999-2000 Mid-Year Budget Review*. This increase is mainly due to the revision to the forward estimates technical financing assumption whereby future cash budget surpluses are assumed to be applied to increasing financial assets rather than reducing gross borrowings. Previously the forward estimates assumed that cash surpluses were applied to reducing gross borrowings and, as a result, the revised assumption leads to higher projected borrowing costs. However, this increase in interest costs is partly offset by increased interest revenue earned on financial assets.

A number of other administrative variations have increased expenses by \$185 million in 2000-01 falling to \$110 million by 2002-03. An increase in the capital asset charge payable by VicTrack (\$106 million in 2000-01 rising to \$130 million by 2002-03), which is offset by an equivalent increase in operating revenue, accounts for a large proportion of this variation. Other significant variations contributing to the net increase include:

- a review of the contingency allowances in the forward estimates which has resulted in an increase in expenses of \$14 million in 2001-02 rising to \$26 million in 2002-03 to provide more accurate estimates of expected funding requirements in future years;



- a revision to estimates of the impact of implementation of national taxation system changes on budget sector operating expenses, including an increase in the forecast cost of implementation of the First Home Owners' Scheme and additional supplementation required for Office of Housing to compensate for increased costs following the introduction of the Goods and Services Tax. These increases are partly offset by the incorporation into the forward estimates of embedded tax savings required by the Commonwealth under the Intergovernmental Agreement;
- an increase in the depreciation expense of the Department of Education, Employment and Training (\$9 million in 2000-01 rising to \$15 million in 2001-02) following adoption of a revised accounting methodology;
- costs associated with management of the Longford class action and public transport performance-based payments; and
- a change in the timing of approved expenditure for a number of programs, leading to increased expenses over the outlook period. This includes the bringing forward of program expenditure in relation to purchase of notebook computers for teachers (increasing expenses by \$9 million over 2000-01 to 2001-02) and a reallocation of funding for the rural and regional strategy program (\$7 million over 2000-01 to 2002-03).

## **ATTACHMENT 4A: EDITED EXTRACT FROM 1999-2000 MID-YEAR BUDGET REVIEW**

This attachment contains an edited extract from the *1999-2000 Mid-Year Budget Review*. It provides a detailed reconciliation of changes in the Victorian budget aggregates between the published 1999-2000 Budget estimates and the *1999-2000 Mid-Year Budget Review*, and outlines the key factors underpinning the improvement in the Victorian budget outlook over that period.

### **Reconciliation of 1999-2000 published budget estimates to 1999-2000 Mid-Year Budget Review**

*Table 4A provides a reconciliation of the variation in the projected budget sector operating surplus from the 1999-2000 Budget published in May 1999 to the 1999-2000 Mid-Year Budget Review published in January 2000.*

*As indicated in the table, the Mid-Year Budget Review projected operating surplus (before abnormals) for 1999-2000 was \$721 million, an increase of \$592 million on the \$129 million reported in the 1999-2000 Budget. On the basis of existing policy at the time, the operating surplus was expected to average around \$740 million over the remainder of the forward estimates period, compared to \$365 million at the 1999-2000 Budget.*

*The improvement in the surplus reflected an increase in projected revenue flowing from stronger economic conditions, partly offset by an increase in operating expenses. The following explains the key variations in operating revenue and expenses from the published 1999-2000 Budget to the 1999-2000 Mid-Year Budget Review.*

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

*Table 4A highlights significant increases in total operating revenue for 1999-2000 and the forward estimates between the 1999-2000 Budget to Mid-Year Budget Review. Projected operating revenue for 1999-2000 was \$1 008 million higher than the published budget estimates, with the improvement in the out-years averaging \$1 036 million.*

**Table 4A: Reconciliation of 1999-2000 Mid-Year Budget Review to published estimates 1999-2000 to 2002-03**

	(\$ million)			
	1999-00 Revised	2000-01 Estimate	2001-02 Estimate	2002-03 Estimate
<b>Operating surplus - 1999-2000 Budget</b>	<b>128.7</b>	<b>391.0</b>	<b>395.9</b>	<b>309.7</b>
<b>Plus: revenue variations</b>				
Economic effects	620.0	356.8	388.9	482.7
Implementation of national tax changes <sup>(a)</sup>	..	350.1	239.8	231.2
Energy sector privatisation - revenue forgone	- 0.9	- 13.6	- 20.5	- 20.5
VicTrack capital asset charge reclassification	389.0	371.0	371.0	371.0
<b>Total revenue variations</b>	<b>1 008.1</b>	<b>1 064.3</b>	<b>979.2</b>	<b>1 064.5</b>
<b>Less: variations in operating expenses</b>				
Labor government policy				
<i>New spending decisions</i> <sup>(b)</sup>	37.2	152.5	177.8	180.7
<i>New saving initiatives</i>	- 45.6	- 104.4	- 105.0	- 106.2
Total Labor government policy	- 8.3	48.1	72.8	74.5
Previous Coalition government policy				
<i>Public transport franchising</i>	30.8	59.4	71.2	- 1.1
<i>Other policy</i>	4.4	19.9	3.5	2.5
Total previous Coalition government policy	35.2	79.3	74.7	1.4
Implementation of national tax changes <sup>(a)</sup>	..	453.2	340.9	344.0
Public debt interest – revised financing requirement impact	- 106.3	- 140.3	- 172.6	- 202.0
VicTrack capital asset charge reclassification	389.0	371.0	371.0	371.0
Other <sup>(c)</sup>	106.3	- 55.3	- 15.4	- 42.8
<b>Total expense variations</b>	<b>415.9</b>	<b>756.0</b>	<b>671.5</b>	<b>546.0</b>
<b>Revised operating surplus before abnormals – Mid-Year Budget Review</b>	<b>720.8</b>	<b>699.3</b>	<b>703.7</b>	<b>828.2</b>

Source: Department of Treasury and Finance

Notes:

- (a) The impact of national tax changes on the operating statement excludes the Commonwealth Government's estimates of embedded tax savings.
- (b) Includes the net budget impact (after allowing for funding from existing forward estimates contingency reserves) of government decisions in relation to both implementation of election commitments and other policy, as outlined in Appendix B, Specific Policy Initiatives Affecting Budget Position, of the 1999-2000 Mid-Year Budget Review.
- (c) Includes carryover from 1998-99 to 1999-2000 of expenses in relation to payments on behalf of the State and the impact, from 2000-01 onwards, of revised actuarial assessment of superannuation expenses.

*The increase in projected revenue was largely due to the impact of stronger than expected asset markets and improved economic conditions generally. This included the impact of buoyant property markets on conveyancing stamp duties, stronger than expected payroll, gambling and land taxes, and stronger than expected profits in the government business enterprise sector which lead to higher public authority distributions.*

*Stronger than expected economic and asset markets contributed to a projected increase in taxation revenue in 1999-2000. However from 2000-01, the increase in taxation revenue attributable to economic factors was disguised by state taxes forgone as a result of the implementation of the Commonwealth Government's changes to the national taxation system.*

*Buoyant asset and other markets also led to higher than budgeted public authority distributions, mainly in the 1999-2000 financial year. An increase of \$269 million for 1999-2000 was mainly attributable to higher than budgeted receipts from the Transport Accident Commission as a result of better than expected financial performance and from Gascor resulting from the sale of gas rights. A payment by the State Electricity Commission of Victoria (SECV) of \$55 million originally budgeted for 1998-99 but not received until 1999-2000 also contributed to an increase in public authority income in the current financial year.*

*Taking together the impact of stronger economic conditions on taxes, public authority income and other revenues revealed a gross boost to projected revenues since the 1999-2000 Budget of \$620 million in 1999-2000 and an average \$410 million per annum for the out-years (refer Table 4A).*

*A correction to the accounting treatment of the capital asset charge applying to VicTrack also led to an increase in reported revenue since the 1999-2000 Budget, of \$389 million in 1999-2000 and \$371 million in 2000-01 onwards. The inclusion of this charge better reflected transactions between budget sector agencies and public trading enterprises. This variation was a one-off adjustment that was offset by an equivalent rise in operating expenses for the same period and therefore had no impact on the overall operating result.*

*The implementation of the Commonwealth Government's changes to the national taxation system had a significant impact on total operating revenue from 2000-01. The net impact of national tax changes reflected the difference between state taxes and financial assistance grants forgone less GST revenue grants and transitional guarantee payments received from the Commonwealth. As can be seen in Table 4A, implementation of national tax changes was expected to result in an increase in total revenue, relative to published budget estimates, of \$350 million in 2000-01, \$240 million in 2001-02 and \$231 million in 2002-03.*

## **Variations to total operating expenses**

*At the 1999-2000 Mid-Year Budget Review, projected budget sector operating expenses for 1999-2000 were \$416 million higher than the 1999-2000 Budget estimates published in May 1999. Operating expenses over the remainder of the forward estimates period were around \$658 million higher on average than the published 1999-2000 Budget estimates.*

*The increase in operating expenses since the 1999-2000 Budget was mainly due to policy decisions announced since the Budget and a classification change which increased reported expenses.*

*Decisions announced by the Labor Government in relation to spending and savings initiatives had the effect of decreasing operating expenses by \$8 million in 1999-2000 and increasing annual operating expenses by \$48 million, \$73 million and \$75 million over the forward estimates years to 2002-03. It was expected that future decisions in relation to the implementation of the remaining Labor election commitments would further increase total operating expenses over the forward estimates period.*

*Post-budget decisions by the previous Coalition Government added \$35 million to operating expenses in 1999-2000, around \$75 million to \$80 million in the next two years, and only \$1 million in 2002-03. This largely reflected increased costs of franchising passenger public transport services in the first three years of the shift to franchise operation, followed by lower costs from 2002-03 onwards.*

*The franchising of passenger public transport services also resulted in a change in the composition of operating expenses. In particular, there was a reduction in current and capital grants to government business enterprises and an offsetting increase in supplies and consumables and amortisation expenses, reflecting the new arrangements whereby the Government purchases passenger public transport services from external private franchise operators rather than from public transport corporations.*

*The reclassification of the VicTrack's capital asset charge had the effect of increasing reported current grants by \$389 million in 1999-2000 and \$371 million in the out-years. As noted above, this reclassification was offset by an equivalent increase in reported operating revenue and therefore had no impact on the operating result over the period.*

*The implementation of national tax changes was expected to increase operating expenses, relative to the published budget estimates, by \$453 million in 2000-01. The increase in expenses attributable to national tax changes implementation fell to \$341 million in 2001-02 and \$344 million in 2002-03. A large part of the increased expenditure was due to the transfer to the State,*

*under the terms of the Intergovernmental Agreement, of responsibility for administering the first home owners' scheme at an average annual cost to the State of \$196 million between 2000-01 and 2002-03. The remainder of the increase in expenses related to administration costs payable by the State to the Australian Taxation Office (\$203 million in 2000-01 falling to \$86 million in 2002-03) in relation to implementation of and collection of the GST.*

*The estimated impact of the implementation of national tax changes on operating expenses did not take into account the impact of possible savings in departmental operating expenses arising from the cessation of embedded wholesale sales and other taxes due to be abolished under the terms of the Intergovernmental Agreement. These savings had been estimated by the Commonwealth as being \$100 million in 2000-01, \$107 million in 2001-02 and \$115 million in 2002-03. If the savings were brought to account the rise in operating expenses due to national tax changes would have very closely matched the corresponding rise in revenues over the 2000-01 to 2002-03 period.*

*The increase in operating expenses attributable to the above factors was partly offset by a reduction in projected interest and superannuation expenses relative to published budget estimates.*

*Revised interest expenses were \$106 million lower than the published budget estimates in 1999-2000, rising to \$202 million by 2002-03. In part, this reflected the impact of the application to debt retirement of proceeds from the post-Budget privatisation of Transmission Pipelines Australia. However, the improvement in the underlying budget position since May 1999 had also contributed to the reduction in projected interest expenses, reflecting the application of higher than expected operating surpluses to reduction of budget sector liabilities.*

*The decline in projected superannuation expenses reflected the flow-through effect of one-off payments made to the State Superannuation Fund in 1998-99 to reduce the State's unfunded superannuation liability.*

## CHAPTER 5: BUDGET SECTOR SERVICE DELIVERY

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- The first budget of the Bracks Labor Government delivers its output election commitments, with a \$426 million boost to improve services to all Victorians within a responsible financial framework. Consistent with the Government's commitment to responsible financial management, a substantial budget sector operating surplus of \$592 million is forecast for 2000-01.
- Spending on new infrastructure projects with a total estimated cost of \$987 million will commence in 2000-01, providing new and better schools, hospitals, transport and other community facilities.
- Key new initiatives of the 2000-01 Budget include:
  - \$165 million to primary schools over four years to reduce the average class sizes across years Prep to Year 2 to 21 students;
  - financial assistance totalling \$72 million from 1999-2000 to 2002-03 to private and public employers to employ a further 16 000 new apprentices and trainees over the next four years;
  - \$176 million in additional funding in 2000-01 for hospitals to meet increases in demand for emergency and general hospital services and a range of quality initiatives;
  - re-opening of 360 hospital beds and extension of operating theatre times;
  - an additional allocation of \$90 million over three years to expand the level of public and community housing by 800 units; and
  - \$64 million over four years to place an additional 800 operational police on the streets to increase local visibility and presence.

The priority for this budget is the implementation of election commitments as outlined in *Labor's Financial Statement – The First Term of a Bracks Labor Government*.

Implementation of the Government's election commitments forms a significant part of a four-year service delivery program, that has been built upon the four key pillars of:

- responsible financial management, including maintaining a substantial budget sector operating surplus;
- delivering improved services, particularly in key areas of education, health and community safety;
- promoting growth across the whole State; and
- restoring democracy through open and accountable government.

## **DELIVERING IMPROVED SERVICES FOR ALL VICTORIANS**

The Government is committed to building a prosperous and inclusive community across the whole of Victoria, through delivering improved services, particularly in education, health and community safety.

Ensuring better quality, access and equity in these key areas will secure the foundations for long-term sustainable development, growth and a better future for all Victorians.

To encourage an inclusive and prosperous Victoria, the Government believes it is necessary to target resources towards a balance of rebuilding and modernising services, improving outcomes, expanding support services, structuring effective pathways and providing adequate resources to promote safer communities.

Strategic investment of resources towards improving services for all Victorians will be implemented through a range of initiatives that will provide:

- better educational opportunities and outcomes;
- greater employment opportunities for all Victorians;
- better hospitals, quality health care and community services;
- effective and socially progressive ways of delivering services;
- stronger community linkages;
- integrated public safety community strategies for a safer Victoria; and
- responsible protection and management of Victoria's environment and natural heritage.



The Government's commitment to improved services and building an inclusive community is strengthened by a sound economic framework designed to promote growth across the whole State, as outlined in Chapter 3, *Economic Outlook and Strategy*.

Strategies to deliver improved services and boost key areas have been designed within the context of a responsible financial management plan that commits the Government to maintaining a substantial budget operating surplus of at least \$100 million in each year.

Details on the implementation of all election commitments and other new initiatives can be found in Chapter 8, *Election Commitments – Implementation Report Card* and Appendix B, *Specific Policy Initiatives Affecting the Budget Position*.

## **BETTER EDUCATION AND TRAINING FOR ALL VICTORIANS**

Education and training are among the most important investments for the future economic, social and political health of nations.

Better education and training for all Victorians is one of the Government's highest service delivery priorities. With more than 800 000 students enrolled in government and non-government schools, and approximately 13 per cent of the population aged 15-64 years participating in TAFE programs, education and training directly affects a significant number of Victorians.

The Government is committed to providing all Victorians with access to a quality education and lifelong learning opportunities. The Government's education strategies and initiatives seek to address all stages of lifelong learning.

The Government has demonstrated its commitment through major election commitment initiatives designed to reduce class sizes in years Prep to Year 2, ensure students are provided with additional support and services to meet welfare and learning needs, develop a broader range of pathways in the post compulsory years and provide better employment programs. Further to these initiatives the Government is committed to:

- modernising school and TAFE facilities to better support contemporary learning, with this being a significant focus of the new Growing Victoria infrastructure reserve;
- addressing the twin issues of the significant reduction in employer confidence in the quality of TAFE training and the ongoing financial viability of TAFE institutes;

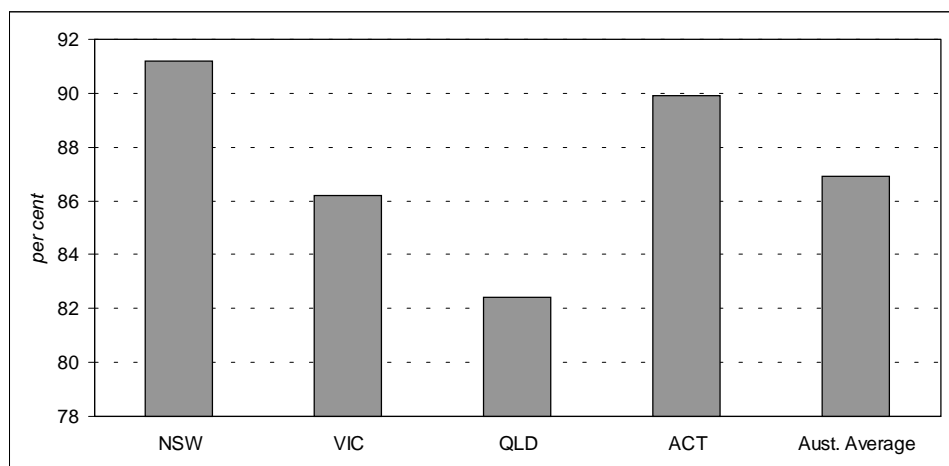
- providing sustainable IT and multimedia funding and management to schools and TAFE institutes to maintain Victoria's international reputation as a leader in the application of IT and multimedia to learning; and
- supporting students with disabilities and impairments with funding being boosted by an additional \$22 million each year to meet the growth in demand. Improvements to the support program will also provide for regular review of these students' needs.

## The early years

The pre-school and early school years provide the greatest opportunity to establish students with the core skills of literacy and numeracy. These skills are essential to students' educational progress, their future career prospects and their social development. Students who fail to make progress in the first few years face greater risk of low achievement, alienation from school life and early departure from formal education.

The Government is committed to improving literacy and numeracy outcomes in these crucial early years. Recent national literacy testing indicates that 86 per cent of Victorian students achieved the national benchmark for Year 3 literacy compared with 91 per cent of students in New South Wales (see Chart 5.1).

**Chart 5.1: Year 3 literacy benchmarks 1999**



*Source: Ministerial Council on Education, Employment, Training and Youth Affairs - 1999 National Report on Schooling in Australia (pre-released data).*

A key strategy to address this issue is the reduction of class sizes in years Prep to Year 2. In 1999, class sizes averaged 24.3 students in these years. The

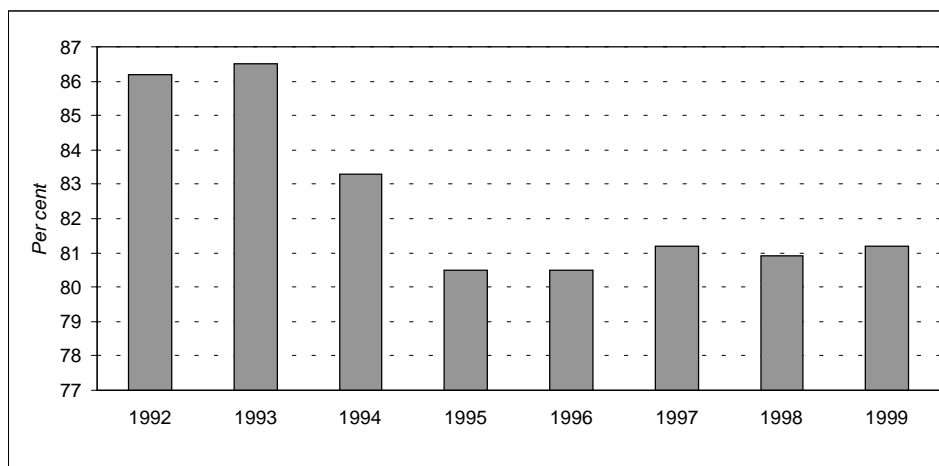
Government has committed \$165 million to primary schools over four years to reduce the average class sizes across years Prep to Year 2 to 21 students.

Better tools are being provided to regularly assess students' academic progress. The Achievement Improvement Monitor will complement statewide testing with more comprehensive student assessment by teachers. These tools assist in identifying those students with learning problems to ensure appropriate action can be taken earlier rather than later.

## The middle years

Recent trends in Victoria are showing a decrease in all schools' retention rates to Year 12, from 86 per cent in February 1992 to 81 per cent in February 1999.

**Chart 5.2: Apparent retention rates Years 7-12 - all Victorian schools**



*Source: Department of Education, Employment and Training - Summary Statistics Victorian Schools 1999.*

In part this reflects a failure to engage students as they make the transition from primary to junior secondary school and from junior to senior secondary. Smooth transitions are important to minimising the risk of student disengagement. Funding of \$43 million over four years has been provided to employ student welfare co-ordinators in each secondary college to help students negotiate these transitions.

In December 1999 the Minister for Education announced 200 schools will form primary and secondary school clusters to pilot a range of strategies and actions to address this issue. Completion of the Middle Years Research and Development project is expected in 2000 with \$3 million being provided for this

purpose. This project will provide further strategies and actions for all schools to reduce the risk of truancy and student disengagement.

## **Skilling Victoria**

### ***Post-compulsory education and training***

For young people, a key objective of the Government is to boost vocational education training opportunities. The OECD has recently confirmed the direct links between economic performance and overall levels of education and training in its 1999 report *Thematic Review of the Transition from Initial Education to Working Life*.

The *Kirby Review of Post Compulsory Education and Training Pathways in Victoria* commenced earlier this year. Its report (due June 2000) will provide a basis to greatly expand the range of pathways in the post compulsory years of education, including programs available to VCE students. An additional \$65 million is being provided over four years for this initiative.

A recent national survey showed employer satisfaction with TAFE training in Victoria has declined from 88 per cent in 1997 to 77 per cent in 1999. This reduction has seen Victoria slump from the top State to second lowest. This slump in perceptions of training quality is matched by increased financial pressures being put on TAFE institutes, forcing them to increase class sizes and not replace obsolete training equipment.

To address this issue the Government has committed an additional \$28 million in 2000-01 to ensure that high quality training services are provided throughout the State. This includes \$10 million to reimburse TAFE institutes for concessional fees for disadvantaged students, \$14 million of additional funding for TAFE institutes to meet operating cost pressures and \$3 million to assist in the restructuring of institute workforces.

Further opportunities are being provided for students and workers to undertake traineeships and apprenticeships including:

- additional ongoing funding of \$13 million for TAFE institutes to meet the strong anticipated growth in demand by employees and employers for this training;
- financial assistance totalling \$72 million from 1999-2000 to 2002-03 to private and public employers to employ a further 16 000 new apprentices and trainees over the next four years. Of these, some 10 000 opportunities are specifically targeted for disadvantaged and long-term unemployed;

- establishment of a Youth Employment Line (\$5.3 million over four years) to provide a single point of contact for young Victorians for information on careers, employment opportunities and training; and
- funding of \$17 million from 2000-01 to 2003-04 to provide a secure funding base for regional TAFE institutes.

### ***Modernising school and TAFE facilities***

Successful learning requires facilities that support modern teaching methods. Many of Victoria's school and TAFE facilities are in poor condition and not suited to modern learning. To date the focus of managing education assets has been the maintenance of these outdated facilities. The Government is committing \$110 million for new projects commencing in 2000-01 from the Growing Victoria reserve to commence a statewide modernisation program for school and TAFE facilities.

Technology is now a major part of life and work. However, the Education Budget to date has not locked-in funding to promote growth and sustain Victoria's leading edge in the use of technology in learning. Ongoing funding of \$7 million annually is being committed to sustain this edge and improve access to technology for all schools.

There is also growing concern about the likely prospect of a teacher shortage in Victoria in the medium term. A recent report by the Australian Council of Deans of Education suggests that by 2005 Victorian universities will only supply some 60 per cent of Victoria's needs. From 2001, 250 scholarships are to be awarded annually to attract high performing graduates to the teaching profession.

## **A HEALTHY VICTORIA**

A sign of good government is ensuring quality health care and welfare services for all its citizens.

The Department of Human Services (DHS) provides an extensive range of health, community and housing services to the Victorian public. In 1999-2000, the Department is expected to provide for 950 000 public hospital separations, 283 000 occasions of ambulance emergency service, 541 000 sub-acute bed days, almost 936 000 screenings to prevent illnesses and 71 650 social housing units.

For 2000-01, the key focus is a comprehensive public hospital strategy that:

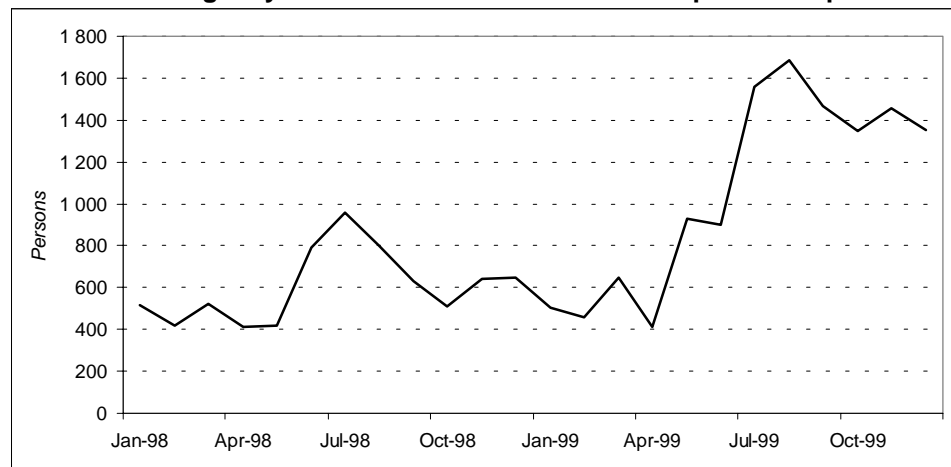
- opens 360 beds, relieving pressure on emergency departments;
- increases the price paid for public hospital services making them more financially viable;
- introduces quality initiatives such as recruitment and retention of nurses;
- expands non-inpatient services and modernises facilities; and
- modernises hospital facilities.

Other priorities are to increase resources for the delivery of health and other human services in community settings, strengthen services to rural and regional communities, implement the Government's innovative drug strategy, refocus services on high-risk groups in the community, including child protection and juvenile justice, respond to homelessness, and strengthen communities through a range of improvements to primary care services across the portfolio.

### Better hospitals and health care services

The number of emergency patients who had their admission to hospital blocked because of insufficient capacity has jumped from approximately 500 to an estimated 1 400 since early 1998 (see Chart 5.3). Waiting lists for elective surgery have been increasing, while the capacity of the hospital networks to respond has deteriorated due to increasing financial pressures.

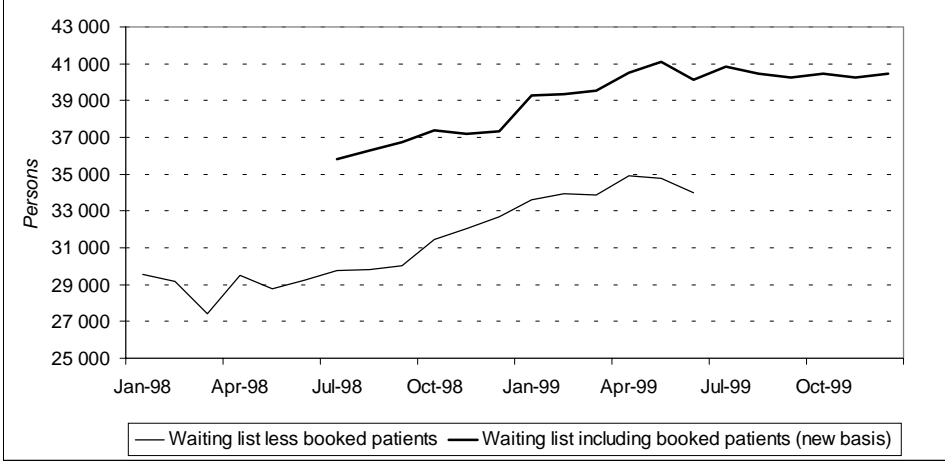
**Chart 5.3: Emergency admissions blocked – Victorian public hospitals**



Source: Department of Human Services

Since July 1998 when the current method for compiling hospital waiting lists was introduced (to include booked patients), the number of people on the elective surgery waiting list has increased by 5 000 to over 40 000 at the end of 1999 (Chart 5.4).

**Chart 5.4: Elective surgery waiting lists – Victorian public hospitals**



Source: Department of Human Services

The major challenge for the Government is to respond adequately to the community demand for a real improvement in hospital service levels and quality while at the same time addressing financial viability pressures being experienced by hospitals as a result of past funding reductions. This Budget provides a total of \$176 million in additional funding through the Integrated Elective and Emergency Strategy (\$60 million), funds to address growth and financial viability (\$94 million), and a range of specific quality initiatives (\$23 million). These funds deliver the following outcomes:

- \$34 million to open 360 beds and ease the pressure on hospital emergency departments during the winter period when influenza and related illness are likely to have their greatest impact on the community;
- \$44 million to treat an additional 20 000 patients, or 2.2 per cent above last year;
- \$53 million to boost the price paid for casemix funded services, sub-acute beds, and rural hospitals and so create a sound financial basis for hospitals;
- \$22 million for an extra 70 000 non-inpatient services (outpatients, sub-acute, renal dialysis), a growth of 3.6 per cent over last year; and

- \$23 million to address the falling quality of public hospitals, including \$6 million to attract and retain nurses such as through funding for refresher programs for nurses wishing to re-enter the workforce, \$7 million for cleaning and infection control and \$10 million for hospital-to-home support services.

Delivery of health and other human services in community settings will be boosted to enable people with an ongoing need for care across health, social support and housing to achieve their potential and have maximum care choices. This recognises the community's preference for home and community-based care and also improves value for money by reducing the need for more intensive services later. Examples include increased funding in 2000-01 for hospital-to-home programs (\$10 million), community-based health care (\$10 million), targeted rural health initiatives (\$6 million), and services to older Victorians (\$18 million).

Initiatives are funded to deliver more ambulances and officers on the road, with \$19 million provided for ambulance service expansion. For metropolitan areas, \$9 million is provided to the Metropolitan Ambulance Service to fund six new peak period ambulance units, convert existing units to Mobile Intensive Care Ambulance (MICA) capability, and contribute to the cost of a new Victoria Police air ambulance helicopter. An additional \$2.3 million is provided to purchase 8 new emergency vehicles.

For rural areas, funding is provided for additional ambulance services in road accident blackspot areas including Phillip Island and along the Great Ocean Road, a new helicopter service to improve services to northern Victoria, particularly along the Hume Highway, upgrade crewing levels across regional centres, an all year round station at Bright with career officer staffing, and to extend regional coverage of the MICA service. The Government has allocated \$3 million to replace 17 ageing vehicles at country ambulance stations.

The hospital network system established by the previous Government distanced accountability for services from the communities which individual hospitals serve. A new grouping of hospitals is being developed which will build closer community relationships and streamline health bureaucracy.

The Government has also initiated a major new capital works program to rebuild Victoria's health infrastructure.

Capital projects include redevelopment of the Royal Women's Hospital (total estimated cost \$37 million), upgrading the Frankston hospital (total estimated cost \$12 million), nursing home upgrades (total estimated cost \$47 million), and integrated community care centres in Sunbury and Preston (total estimated cost \$10 million). The Government is currently reviewing options for completion of



the redevelopment of the Austin and Repatriation Medical Centre, to ensure a configuration which will provide integrated health services appropriate for future provision of efficient and cost effective health services to the northern metropolitan community.

A particular focus is the restoration of health infrastructure in rural areas. This will be achieved via a rural hospital capital works program (total estimated cost \$32 million), including specific projects such as the new Kyneton hospital and a major upgrade of Colac Hospital. In addition, rural communities will be the major beneficiaries of the Government's \$48 million commitment to upgrade aged care facilities to comply with Commonwealth accreditation standards.

### **Improved community support services**

Significant additional funding has been provided to enhance a wide range of community support services available to people and their carers. This aims to address a backlog of unmet demand which has built up as a result of inadequate funding by the previous government, ageing carers and the need to upgrade accommodation facilities to meet appropriate standards.

The Government has committed a further \$28 million in 2000-01 to disability services including \$16 million to improve availability of support to carers, focus more on early intervention services, expand community based accommodation support options and enhance the provision of aids and equipment.

This additional State funding will also allow negotiation of an additional \$12 million offered on a matching basis by the Commonwealth Government under the Commonwealth State Disability Agreement for unmet demand for community based accommodation support, day programs and respite services.

In addition, new capital funds of \$22 million over three years have been provided for the construction and purchase of additional community residential units for people with a disability who are urgently in need of purpose-designed accommodation.

To expand the level of social housing linked to community services and facilities, the Government is working within the framework of the Commonwealth State Housing Agreement (CHSA) and in conjunction with local government, community groups and the private sector.

For the first time since the early 1990s, the Government has provided additional funding over and above the CSHA to expand the supply of social housing by \$90 million over three years (\$10 million in 2000-01). In addition, \$1.5 million will be provided as part of the \$4.5 million commitment to expand community housing for older ethnic citizens to live independently in their communities.

Utilising funding in addition to budget sector funding, a total social housing capital budget of \$388 million will be available in 2000-01 through the Office of Housing, including \$165 million to build or acquire 1 380 new public or community managed housing properties. Housing capital funding also includes \$162 million for physical improvements to the public housing stock and \$21 million to redevelop older public housing estates. The Government is implementing a homelessness strategy, including funding of \$15 million in 2000-01 to expand crisis and transitional housing and associated support services, in order to enable homeless persons to access appropriate long-term housing. Support services for homeless people will be boosted by an additional \$1.6 million in funding for the Supported Accommodation Assistance Program.

Several initiatives aim to support independent living of older people. Over \$7 million will be provided to expand home and community care services, \$3 million will be used to expand Adult Day Groups which provide social, physiotherapy and day activities to older people, \$4.5 million will fund additional home nursing to assist with the hospital-to-home transition and \$0.5 million will provide specific health promotion activities for older people.

Aged care facilities will also be upgraded. Over \$47 million has been committed to upgrading of government nursing homes over the next three years to ensure compliance with Commonwealth accreditation standards.

A significant component of the \$20 million funding for fire risk management will also be spent on aged care facilities.

Support services for families and young people will also be improved by a range of new initiatives including:

- total funding of \$7 million in 2000-01 to increase pre-school subsidies for low income families, improve community-based child care services and upgrade community-based child care premises;
- funding of \$3 million to enhance maternal and child care services; and
- funding of \$4 million to expand support services for vulnerable families, professional development opportunities for child protection workers and early intervention services for families with children under six years with disabilities or developmental delay.

### **Services for groups at risk**

The Government will provide significant additional funding in this budget to improve the quality of child protection and placement services (\$3 million plus additional growth funding of \$5 million), particularly residential care services

for adolescents with complex needs and provision of kinship care and permanent care.

In the juvenile justice system increased emphasis is being placed on diverting offenders (many of whom have committed drug-related offences) away from custodial programs and into other support and rehabilitation programs. The ultimate objective is to support the re-integration of offenders into the community and enhance their prospects of not re-offending. Funding of \$5 million in 2000-01 will be provided for diversion programs.

## **Drug strategy development**

To effectively address the problem of illicit drugs, the Government recognises that education, rehabilitation and stronger policing must be part of an integrated strategy.

Past policies to address illicit drug use have not been successful in stemming the problem and a new approach is needed. Drug use impacts on the quality of life of people across the community. In particular, much of the crime committed in Victoria's community is considered drug-related. A recent profile of prisoners by the Department of Justice revealed 66 per cent of women prisoners and 83 per cent of men had a drug problem.

The Government is implementing a broad range of initiatives in response to these problems by increasing the level and quality of resources available to provide services but also by altering the way community needs are addressed. Important new directions include the provision of services in community settings and much greater local involvement in developing the best approach to meet community needs.

An expert committee chaired by Dr David Penington has been established to provide advice on the implementation of the Government's drug policy.

The stage one report, dealing with the development of local drug strategies and trialing of injecting facilities in identified areas has recently been released, and is being used as a basis for more detailed government planning. The final report is due by the end of the year.

In addition to current funding this budget provides a further \$20 million in 2000-01 (including \$10 million from the Community Support Fund and \$3 million in capital) to support implementation of the Government's innovative drug policy. The Government is also implementing other preventative strategies including an expansion of school nursing (\$4 million) and additional welfare officers in schools.

## Increased participation in sport and recreation

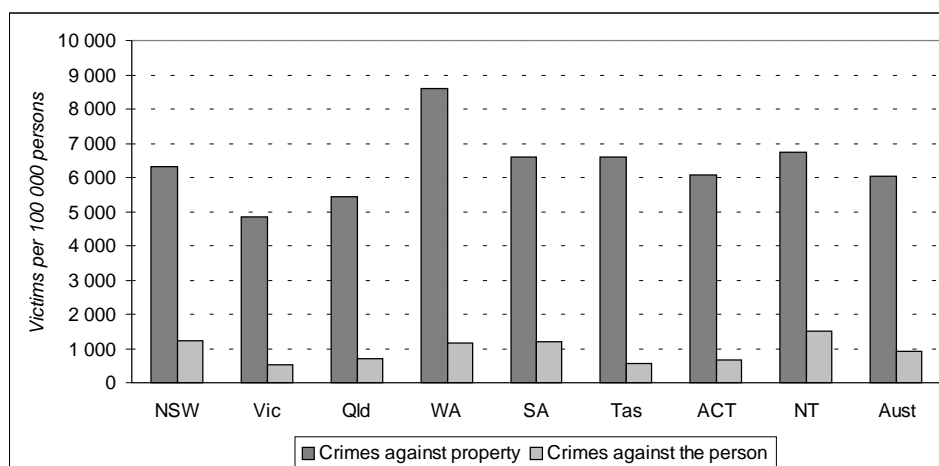
Community participation in sport and recreation is important in promoting healthier lifestyles and building stronger community linkages. The Government is committed to the staging of major sporting events including the Formula One and Motor Cycle Grand Prix, and developing international standard sporting venues including the Multi-Purpose Venue and Lawn Bowls Centre. In addition, funding has been provided for a range of initiatives aimed at improving participation in grass roots level community sport and improving regional sport facilities and administration.

## A SAFER COMMUNITY

It is fundamental to the Government's vision for the State that Victorians are safe and feel secure in their homes, streets and communities.

Victoria remains a relatively safe community. The *Report on Government Services 2000* indicates Victoria had the lowest proportion of all States of victims of recorded crime in 1998-99 against both property (4 843 victims per 100 000 persons) and against the person (511 victims per 100 000 persons). This compares to national levels of 6 040 victims and 922 victims respectively (see Chart 5.5).

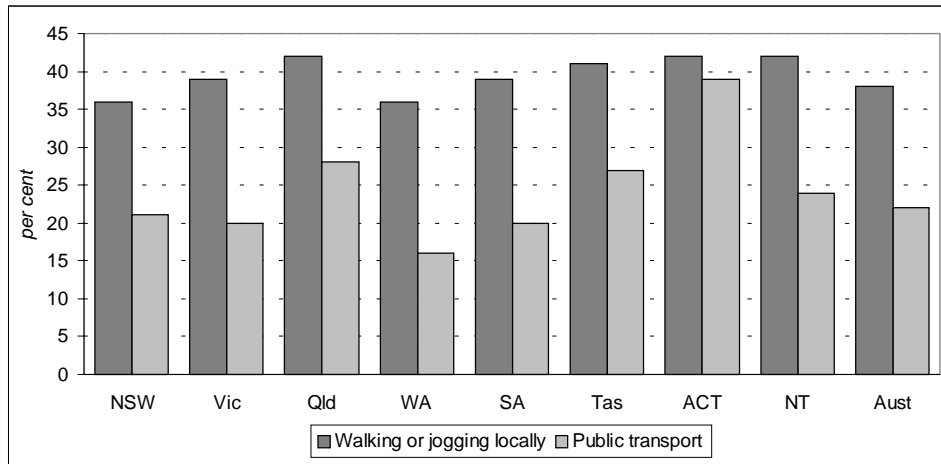
**Chart 5.5: Victims of recorded crime 1998**



Source: *Steering Committee of the Review of Commonwealth State Service Provision, Report on Government Services 2000, p.526*

At the same time, however, Victorians' perception of safety after dark, although consistent with the Australian average, is very low. The *Report on Government Services 2000* shows that only 20 per cent of Victorians indicated that they felt safe travelling on public transport at night, while 39 per cent felt safe walking or jogging locally (see Chart 5.6).

**Chart 5.6: Perception of safety in public places 1998-98<sup>(a)</sup>**



Source: Steering Committee of the Review of Commonwealth State Service Provision, *Report on Government Services 2000*, p. 541

Note:

(a) Proportion of persons age 18 years and over who felt 'safe' or 'very safe' after dark.

The increasing complexity of addressing some crimes, particularly those that are drug-related, is also placing additional demands on police resources. Drugs have an all-pervading impact on the behaviour of people who commit crimes and the type of offences they commit. This does not translate simply into drug offences, but influences other serious crimes such as robberies, assaults and homicides.

The Government's enhanced crime prevention focus, allied to more resources for police and a commitment by criminal justice agencies to work closely with local communities, is designed to continue to increase the safety of the Victorian community.

### Improved local police presence

Funding of \$64 million over the next four years has been approved to place an additional 800 operational police on the streets to increase local visibility and presence.

To support the activities of the police force with state-of-the-art equipment, an additional \$6.5 million funding over four years has been provided for the replacement and upgrade of police helicopters, including the addition of a Forward Look InfraRed Radar to enhance search and rescue capability.

A number of existing police stations in local communities that were planned to be closed under the previous Government will be retained. Public accessibility to police stations will also be improved through the strategic location of new stations in growth corridors.

An additional \$30 million total expenditure has been allocated over three years to upgrade and replace existing stations at Preston, Northcote, Seymour, Belgrave, Moe and Bacchus Marsh and a police station will be established in Kinglake. Funding of a further \$5 million over two years has been committed to upgrade numerous existing police stations in rural Victoria.

### **Focus on crime prevention**

To prevent criminal behaviour and crimes before they are actually committed, targeted education and community-based early interventions are needed at the individual, family and community level.

As outlined above, the Government is considering innovative policies to try to break the link between drugs and crime and to give better assistance to people to break the habit.

The involvement of the community is considered of particular importance to the success of crime prevention initiatives.

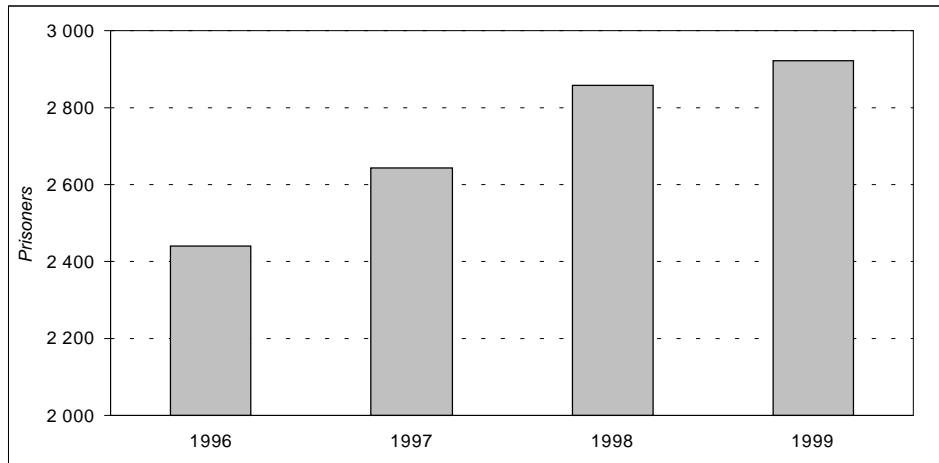
The Local Priority Policing program of Victoria Police, which includes the establishment of crime prevention units, has sought to forge stronger links with the community to increase involvement in crime prevention and community safety.

To further the focus on crime prevention, Crime Prevention Victoria will be established in the Department of Justice to work with other state government agencies, local government and communities on integrated and tailored crime prevention programs. Initial priorities of Crime Prevention Victoria will include research of crime trends, policy development and the implementation of practical programs to address community concerns regarding crime and public safety.

## Corrections management and offender rehabilitation

Over recent years there has been a significant increase in the total prisoner population within Victoria, to the extent that prisoner numbers have reached or exceeded prison accommodation capacity (see Chart 5.7).

**Chart 5.7: Total Victorian prisoner population<sup>(a)</sup>**



Source: Office of the Correctional Services Commissioner.

Note:

(a) Prisoner numbers include all sentenced and unsentenced prisoners in Victorian correctional facilities and excludes people held in police cells as at 30 June.

The challenge for Government is to not only meet current demand pressures, but also develop a long-term corrections management strategy that addresses underlying causes of the problem.

For non-violent convicted offenders, an increasing emphasis is being placed on seeking potential alternatives to imprisonment, while addressing issues of community safety and ensuring compliance with court orders.

Long-term management strategies for custodial and correctional facilities, focussing particularly on drug management issues, crime prevention, prison diversion and rehabilitation options, are currently being developed by the Government.

A review of the role, functions, responsibilities and structure of community correctional services will also be undertaken, to restore effective supervision of offenders and enhance the capacity of the service to supervise medium and high-risk offenders.

In the short term, to manage current demand pressures in the adult prison system, the Government will expand permanent capacity by a further 357 beds (\$34 million total asset investment expenditure). In the interim, until the completion of the permanent expansion, additional temporary capacity will be progressively made available across the system. The purchase of additional permanent prison capacity will be mostly through the public prison sector and increased capital investment in public correctional facilities.

Pre and post-release initiatives that help break the cycle of re-offending are also being implemented. Three community-based facilities are being developed. These facilities will provide linkages and supports to the wider community, ensuring that prisoners have opportunities to develop the skills required to prepare for their post-release responsibilities and transition to the community.

In the juvenile justice system increased emphasis is being placed on diverting offenders (many of whom have committed drug-related offences) away from custodial programs and into other support and rehabilitation programs. The ultimate objective is to support the re-integration of convicted offenders into the community and enhance their prospects of not re-offending. Funding of \$5 million in 2000-01, increasing to \$10 million in 2001-02 will be provided for diversion programs.

The Government's commitment to the recommendations of the Royal Commission into aboriginal deaths in custody will be reinforced by the Victorian Aboriginal Justice Agreement. Funding of \$1.6 million per year has been provided to implement a range of new initiatives as part of this strategy.

### **Increased resources for emergency services**

Tragedies such as the 1998 Linton fire and the 1997 Dandenong Ranges fires have demonstrated the need to ensure resources are available to provide rapid and effective assistance in emergencies, in particular bush fires.

To facilitate greater coordination of all Victoria's fire and emergency services the Office of the Emergency Services Commissioner is being established. At the same time, the long-term efficiency of communication services of emergency service organisations will be enhanced through the development of a statewide integrated public safety communications strategy.

At the organisational level, funding has been provided to the Country Fire Authority (CFA) and Victorian State Emergency Service (VicSES) volunteer units for training, equipment and protective clothing. Full year funding of \$1.0 million has been provided to the CFA (gross funding \$4.4 million per year when insurance industry contributions are considered) and \$0.5 million to the VicSES.



Asset investment funding of approximately \$2.0 million per year has also been approved for the VicSES to replace equipment including aged general purpose rescue vehicles. In addition, funding of \$2.6 million over the next four years (\$11.6 million when insurance industry contributions are considered) has been provided to the CFA for essential additional firefighting planes, helicopters and related equipment.

Following a review of fire management, additional funding has also been provided to the Department of Natural Resources and Environment to support fire preparedness on crown land. Funding of up to \$8 million per year has been provided to enable the continued use of technologies such as aircraft and remote sensing together with a well-trained and flexible professional fire fighting force to prevent and suppress fires on public land.

In recognition of the significant efforts of rural communities to maintain local CFA brigades and VicSES units, funding of \$1.5 million per year over three years has been provided to establish a Community Safety Emergency Support Fund. This Fund will provide matching grants to communities for new investment in community safety and rescue equipment.

Together, this additional funding will help to ensure that Victoria's volunteer emergency service brigades and units are adequately resourced and to ease the increased fund raising burden currently placed on volunteers.

## **Transport safety**

The Government is committed to maintaining Victoria's road fatality performance below the national average. The *Report on Government Services 2000* indicates that Victorian road fatalities and hospitalisations were 6.5 per cent below the national rate. Remediation of accident black spots will receive funding from special dividends from the Transport Accident Commission. Half of these funds will be spent on country roads.

Public transport safety and accessibility will be enhanced by railway station upgrades and extra staffing. The Government will provide an extra 100 railway staff, with priority given to outer suburban locations to meet the safety needs of commuters who are arriving at stations later into the evening. In particular, Narre Warren station will be upgraded to premium status with a range of improvements including waiting rooms, improved lighting and automatic ticketing. Hallam station will be upgraded to non-premium status with improved lighting and pay phones. Further, an additional 100 tram conductors will be provided across tram networks to assist customers and improve public safety.

## **GROWING THE WHOLE STATE**

The Government is committed to promoting growth across the whole State (see Chapter 3, *Economic Outlook and Strategy*).

Larger regional cities and towns have an important role to play in Victoria's economic development, including the processing and shipping of manufactured and raw materials and agricultural products. They are also important centres for providing accessible educational services, business services, health care and tourism opportunities for all Victorians.

Compared to other States, Victoria has a relatively high number of large regional cities and towns, some of which have become vulnerable to economic restructuring.

Since coming to office, the Government has acted to rebuild regional and rural communities.

The Department of State and Regional Development was restructured in November 1999 to strengthen its rural and regional focus. Through the new department, a \$170 million Regional Infrastructure Development Fund has been established to revive local economies by providing for infrastructure projects in regional and rural Victoria. Supported projects include infrastructure to facilitate industry and economic development, transport improvements, tourism-related projects and strategic information and communication technologies infrastructure.

In addition, a Living Regions, Living Suburbs Support Fund (\$35 million over the period 1999-2000 to 2003-04) has been approved to assist the local economic and social development of rural, regional and suburban communities. Examples of projects budgeted for to date include establishing pilot one-stop business information and service shops in rural and regional Victoria, and expanding regional tourism promotion.

To further promote and support regional development and investment attraction to Victoria, the Government has committed a total of \$18 million to extend the regional structure of the Department of State and Regional Development, provide grants to local government and regional development boards and expand the role of Business Victoria in promoting regional investment.

The Government also recognises tourism as a major industry across Victoria, with strong growth potential in rural and regional areas. To support the development of regional tourism opportunities the Government has committed \$22 million over the period 2000-01 to 2003-04 to enable Tourism Victoria to increase the marketing of the whole State as a desirable tourist destination.

## Linking Victoria

The Government's Linking Victoria strategy provides a blueprint for strategic transport infrastructure to connect Victoria's regional communities and metropolitan areas with opportunities for economic, social and employment growth. The strategy provides a medium-term investment program of integrated transport infrastructure to be delivered in partnership with the private sector. The Growing Victoria reserve will provide a significant contribution to these investments.

The Government's Linking Victoria program includes commitments to an airport-to-city rail link, fast rail links in regional Victoria, the Geelong Freeway upgrade, standardisation of railway gauges, the Eastern Freeway extension, the duplication of the Calder Highway to Bendigo, the Blackspot road safety program, development of Melbourne Port, and a major redevelopment of Spencer Street Station.

The 2000-01 Budget provides for contributions towards the construction costs of such projects including \$20 million for the Airport Transit link, \$80 million for regional fast rail links and \$70 million for metropolitan tram and train extensions and for faster suburban trains.

Work is underway to establish a planning reservation for the Airport Transit link and a tender process will identify a preferred tenderer. Over 15 million passengers passed through Melbourne Airport last year and that number is predicted to double in the next 15 to 20 years.

Complementary to this is the redevelopment of Spencer Street Station. A master plan is being prepared to redevelop the station as a state of the art intermodal transport centre for country and metropolitan rail services, trams, regional buses and the Airport Transit link. In addition, Spencer Street Station will be the local station for residents of Docklands and for users of Colonial Stadium.

A series of studies is being undertaken to determine the feasibility of reducing the travelling times on the rail lines between Melbourne and Ballarat, Bendigo, Geelong and Traralgon. Improving the travel times will provide for more efficient travel for people commuting to and from these centres to work, and make it more attractive for businesses to locate in these regional centres and maintain links with metropolitan Melbourne.

The Government has already announced a \$3.5 million commitment to extending Docklink Road to the North Dynon rail freight terminals. Feasibility and scoping studies will be undertaken for extending the rail link to Webb Dock, and for improving the rail network through the Dynon Railyards and access more generally to the Port for rail freight movements.

The Government is committed to driving new growth and prosperity not only in Victoria's urban centres, but also across country Victoria, in partnership with the community and the private sector. The road and rail development projects in both metropolitan Melbourne and regional and rural corridors will provide real choices between road and rail for commuters and business travel. They will deliver real benefits by increasing access of people and businesses in outer metropolitan and regional areas to employment and business opportunities, by reducing travel times and business costs.

The Geelong Road (Princes Freeway West) is to be redeveloped as a high standard freeway extending for 55 km from the Western Ring Road at Laverton North through to Corio, just north of Geelong. This \$237 million project is being jointly funded by the State and Commonwealth Government as a Road of National Importance project. When fully completed in mid-2002, all road users will benefit through increased safety, reduced travel times and more efficient transport links. The first of five contracts was awarded in January 2000 and construction works have commenced at Corio.

The \$175 million Hallam Bypass Project is funded by the Better Roads Victoria program. Current funding provides for completion of the road and opening to traffic by the end of 2004. The Hallam Bypass Project will provide a 7.5 km extension of the Monash Freeway at Doveton through to the Berwick Bypass at Narre Warren.

The Government is committed to the completion of the duplication of the Calder Highway to Bendigo by 2006. The Government is allocating \$7 million in 2000-01 to commence work on the next stage of the project, the Karlsruhe section which will be the last link of a continuous freeway between Melbourne and Kyneton. Victoria will contribute its \$25 million share of the cost of works to the Karlsruhe Section with a further \$25 million expected to be provided by the Commonwealth Government. The Calder Highway project will significantly improve safety and reduce travel times for freight operators, tourists and people commuting to and from Melbourne.

The Government has also made a commitment to extend the Eastern Freeway to Ringwood. A program of community consultation in relation to tunnelling options has now been completed. Four tunnel options for the freeway were placed on public display and a series of public meetings was held.

An assessment phase is now being undertaken to fully evaluate the tunnel options to ensure that the social, environmental, financial and planning impacts have been considered to enable a decision to be taken by Government on the most suitable option. Works are proceeding on sections of the Eastern Freeway extension not affected by the tunnel options.

## **Connecting Victoria**

The Government intends to position Victoria as the information and communications technology and knowledge capital of Australia.

Connecting Victoria is the Victorian Government's strategy for growing the State's information and communications technology industry and for sharing the benefits of these technologies across the entire Victorian community.

Its aim is to integrate the information society into the main economic and social agenda of the State. Connecting Victoria also builds on a commitment by the Government to initiate programs that are better targeted at making sure the benefits of technology are used to help rejuvenate industry and employment in country Victoria.

Connecting Victoria also has a strong focus on identifying opportunities to develop telecommunications infrastructure in order to give people improved access to services and education.

Current Connecting Victoria initiatives include:

- high tech towns and regional televillages, seeking to wire up communities with teleworking and telecommuting infrastructure, commencing with Portland and Ballarat;
- a regional call centre attraction program which will seek to capitalise on Victoria's excellent communications infrastructure and skilled, stable workforce to target new call centre jobs during the Government's first term;
- an electronic assistance centre which will provide online export development services to small and medium enterprises; and
- \$10 million for the provision of public access points to the internet in town halls and other civic venues across the State and the provision of additional government online services, including freedom of information requests and occupational health and safety information.

## **Restoring flows to the Snowy River**

The Government recognises the importance of restoring environmental flows to Victoria's rivers and the contribution this makes to the environment and prosperity of catchments. The Snowy River is a heritage river, which is being degraded by diversion of its waters for the Snowy Mountains HydroElectric Scheme, combined with poor catchment management, riverbank erosion and weed infestation.

As a major contribution to restoring adequate environmental flows to Victoria's rivers, the Government has made a commitment to negotiate with the NSW and Commonwealth Governments to seek agreement to return 28 per cent of the average natural flow to the Snowy River. Environmental flows are being addressed in negotiations so as to reach an agreement on the outcome of the Snowy Water Inquiry which is part of the corporatisation of the Snowy Mountains HydroElectric Authority.

The restoration of adequate environmental flows to the Snowy is a major project that will be spread over seven years. Victoria's contribution will depend on the outcome of negotiations with the Commonwealth and NSW Governments on the level of flows and each jurisdiction's share of the costs. As an initial contribution to the Government's commitment to restore adequate flows to the Snowy River, \$12 million has been provided to the Department of Natural Resources and Environment in 2000-01. This funding is to enable the trial of the Snowy River Rehabilitation Concept Plan (\$1.3 million) and work on water efficiency saving projects including the Woorinen pipeline (\$9 million) and the investigation and development of other projects (\$2 million).

The Government is actively exploring options for achieving water efficiency savings to offset environmental flows to the Snowy River. Capital projects are being identified to recover system water losses in Victorian managed rivers and irrigation distribution systems. The Government will commit further funds for the restoration of environmental flows to the Snowy River as other capital projects are fully scoped and costed. This may result in further funding being allocated in 2000-01.

### **Protecting Victoria's natural environment**

Across the State, the Government is committed to protecting Victoria's natural environment, to ecologically sustainable development and to a safer and more livable urban environment.

The quality of life of Victorians depends on properly managing the environment and protecting the State's precious natural heritage. It is essential to protect Victoria's rich diversity of species, habitats and ecosystems, which is a legacy held in trust for future generations.

A key objective of the Government is to implement comprehensive strategies to protect the environment and reduce pollution and to ensure that the public and decision-makers alike are fully informed about the state of the environment.

To this end the Government is establishing an independent Environment Assessment Council and Commissioner for Ecologically Sustainable Development, boosting funding to the Environment Protection Authority, and establishing the Sustainable Energy Authority of Victoria to develop a strategy for greenhouse gas reduction and renewable energy options.

Funding of \$13 million in 2000-01 has been provided to offset the abolition of the Catchment Management Authority levy. A further \$23 million over three years will assist water authorities to upgrade sewerage schemes, and \$30 million has been allocated over three years to implement the Government's commitment to the Murray Darling Basin Cap, support sustainable use of all water resource development and fund irrigation infrastructure improvements to produce water savings.

To ensure the future sustainability of the industry, the Government has committed to undertake a forest and forest products industry plan to examine options for value adding and job creation. Areas of particular focus include farm forestry, hardwood industry development, product marketing and support for industry adjustment for those working in the harvesting sector.

Following the signing of the final two Regional Forest Agreements, the Government has committed further funding of \$25 million over the next four years to support industry and future growth of enterprises in regional Victoria. A further \$1.8 million has been provided for other forest management initiatives.

Funding of \$2 million has also been provided in 2000-01 to address the recurring problem of algal blooms in the Gippsland Lakes. This funding will support implementation of the Macalister Irrigation District Nutrient Reduction Plan to reduce nutrient loads to the Lakes. The Plan was jointly developed by the Department of Natural Resources and Environment, Environment Protection Authority, Southern Rural Water and local farmers.

While it is imperative to promote responsible management and expansion of Victoria's natural ecosystems for the benefit of the environment, at the same time sustainable natural resource-based industries remain vital to Victoria's economic development.

The Government recognises the economic value of the agricultural sector and is committed to meeting the target of \$12 billion of food and fibre exports by the year 2010. Agricultural products earn 37 per cent of Victoria's non-gold export income and the agricultural sector employs 4 per cent of Victoria's workforce. The Government has committed \$7 million to 2002-03 as part of the Naturally Victorian strategy designed to enhance Victoria's reputation for being a producer of clean and green food. This funding is in addition to \$48 million

over the next four years provided from the Science, Technology and Innovation Fund for research to improve food and agriculture production.

## **Developing a vibrant and cohesive Victoria**

The Government is committed to providing all Victorians with full access to all forms of artistic expression and participation in their own communities.

The Arts portfolio has in previous budgets received funding for the refurbishment and development of large-scale facilities. The resulting infrastructure expenditure has largely been centred on Melbourne. The current budget seeks to address this regional imbalance.

In the short term, arts institutions have been provided with additional funding to enable the continuation of the provision of their existing high quality services to all Victorians. Over the longer term, steps are being taken to ensure that Victoria's cultural institutions are maintained and developed in an appropriate manner, beginning with the development of a comprehensive asset management strategy for each facility.

A range of new measures that will ensure the coordination and encouragement of the small to medium arts sector are being put in place. These include grants for performing arts programs in metropolitan and regional areas and the country cinema initiative to assist local communities to upgrade facilities. The Government is supporting the development of arts facilities on a regional basis in country Victoria through the Regional Arts Infrastructure Fund, and by providing localised administrative support. Funding has also been committed to expand smaller scale arts programs and grants through Arts Victoria and Cinemedia.

Victoria has a reputation as a most tolerant and multicultural state and the Government is seeking to enhance this reputation and to use Victoria's multiculturalism as an asset to benefit the whole community.

As at the last population census in August 1996, one in four of Victoria's population was born overseas, and another 21 per cent were born in Australia but had at least one parent born overseas.

Financial support is being provided for the development of web pages for ethnic organisations to be developed by young people from the respective communities and for grants for ethnic groups to fund building maintenance and minor upgrades. The Government has also committed to increase financial resources to the Victorian Multicultural Commission. In addition, the Victorian Office of Multicultural Affairs has been established to further promote and coordinate the



provision of government services to ethnic communities and to improve community access to those services.

The Government will work in partnership with women to ensure that it is fulfilling its commitment to governing for all Victorians. Funding is being provided in this budget for the expansion of grants and programs available through the Office of Women's Policy. Further, the Government has demonstrated the importance placed on women's issues by reinstating the Office of Women's Policy to the Department of Premier and Cabinet to better reflect the need to co-ordinate a whole-of-government approach to issues of concern to women.

## **RESTORING DEMOCRACY**

A key element of the Government's new service delivery framework is the promotion of open and accountable government, through the revitalisation of democratic institutions and increased community participation in decision making.

The Government has moved quickly to strengthen the power of independent watchdogs, diminished under the previous Government.

The independence and powers of the Director of Public Prosecutions and the Ombudsman have been constitutionally guaranteed. Legislation will also be implemented to protect from prosecution and victimisation individuals, or whistleblowers, who disclose information relating to waste, fraud or criminal activity in the public sector.

The commitment to establish the Auditor-General as an officer of the Parliament and to entrench the powers of the Auditor-General in the Victorian constitution has also been fulfilled. In November 1999 the independence of the Auditor-General was further enhanced through restoration of power to fully manage audits. In addition, the Auditor-General has been given additional responsibilities to support the accountability of the Executive to Parliament (see Chapter 2, *Financial Policy Objectives and Strategies* and Appendix G, *Requirements of the Financial Management (Financial Responsibility) Act 2000*).

An Essential Services Commission is to be established in 2000-01 with powers to protect the interests of consumers and ensure reliable supplies of utility services, including electricity, gas and water.

The Commission will regulate activities of all public and private utilities to ensure Victorians receive quality and cost-effective services. The exact form of the Commission is still to be determined by Government which will consult widely before establishing the Commission.

The Government has also moved to integrate industrial relations with the business functions of government, by establishing a new industrial relations division which will work closely with employers and foster co-operative industrial relations within Victoria. Consistent with the Government's election commitment, a review of the state industrial framework will be undertaken to develop options for securing appropriate industrial protection and mechanisms for Victoria.

At the community level, the Government is forging a new partnership with local government and is committed to empowering local government as the third tier of government. The key aspects are to encourage greater participation and ownership by the community, support the sector in providing effective governance and to promote continuous improvement in service delivery and in the management of social, physical and environmental infrastructure.

For individuals in the community, the Government has moved to protect the legal rights of all persons through building a just, responsive and accessible legal system.

Pain and suffering compensation to victims of crime has been reinstated with funding of up to \$20 million per year in the form of "special assistance" awards.

Public debate about progressive and innovative law reform will be enhanced by the establishment of an independent and community-based Law Reform Commission. Access to justice will be further improved through new court houses to be constructed in Mildura and Warrnambool, as well as a new public-private partnership to build a state-of-the-art County Court complex.

The Government is also progressively implementing a Consumer Justice Strategy focussed on improving consumer education and support, particularly to disadvantaged groups, strengthening dispute resolution and prompt prosecution of unethical trading.

The Government made a pre-election commitment to restore the rights of all Victorian workers to a fair and equitable system of workers compensation. One of the major elements of this commitment was the restoration of access to common law damages for seriously injured workers. The commitment to restore common law is framed within the context of maintaining competitive premium rates and a stable and fully funded WorkCover scheme.

The Minister for WorkCover invited representatives from various stakeholder groups to form a Working Party to contribute to the development and evaluation of options for the restoration of common law rights, to be considered by the Government. The Working Party delivered its report to the Government in late February 2000. The options recommended for the restoration of common law were subject to detailed actuarial review.

The Bill which gives effect to the Government's election commitment and other recommendations of the Working Party is currently before the Parliament. The Bill reflects the Government's intention to restore common law rights from 20 October 1999, the date the Government was sworn in, to make improvements to both statutory lump sum and weekly benefits, and to set the average premium rate at 2.18 per cent of wages. At this rate Victoria's average premium remains competitive with other States and in most cases lower.

Full details on all service delivery outputs to be delivered by each Department, including associated performance measures and output costs, can be found in Budget Paper No. 3, *2000-01 Budget Estimates*.



## CHAPTER 6: REVENUE AND GRANTS

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- Business taxes are to be cut a minimum of \$200 million by July 2003, including \$100 million from July 2001, subject to the maintenance of a substantial operating surplus. These cuts will keep Victoria's tax burden in line with the average of the Australian States and below that of New South Wales.
- A review of Victoria's tax system will examine the most appropriate tax mix for a modern Victoria and make recommendations on the proposed business tax cuts before the end of 2000.
- While the Government does not support the GST, it has introduced legislation to honour commitments entered into by the former Government under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. However, on present estimates Victoria is not set to benefit from the Commonwealth's new tax system and GST until 2007-08.
- Under existing Commonwealth-State financial arrangements, the Commonwealth Grants Commission has deemed that in 2000-01 Victoria will pay the highest fiscal subsidy of any State, \$847 million in aggregate or \$177 from each Victorian.
- The current buoyancy in state revenues is not expected to continue indefinitely, particularly in property markets where conveyancing revenues are around 30 per cent above the late 1980s bull market peak.

### OVERVIEW OF REVENUE PERFORMANCE AND OUTLOOK

In 2000-01, Victoria's revenue position will be influenced largely by commitments entered into by the previous Government and by a range of temporary factors. The revised *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* will not benefit the State until 2007-08 on current forecasts and will increase the level of fiscal dependence on the Commonwealth.

Within the constraints of pre-existing commitments, the Government has scope to fulfil election commitments, while at the same time preparing the ground for a more fundamental review of revenue sources and business tax cuts in time for the 2001-02 Budget. In particular, the Government has made provision in the forward estimates for business tax cuts totalling a minimum \$200 million by July 2003. The precise allocation of these cuts will be the subject of a review of state taxes to be completed by the end of 2000. The final implementation of these cuts is dependent on the maintenance of a budget sector operating surplus of at least \$100 million.

Victoria's taxation effort is now broadly in line with the Australian average level and below that of New South Wales. The Government is committed to maintaining a competitive and fair tax system. Taking account of the business tax cuts of at least \$200 million foreshadowed in this budget and using the Commonwealth Grants Commission's (CGC's) methodology, Victoria's tax burden is estimated to be \$63 million below the national average and \$674 million below New South Wales.

The Government's capacity to reduce taxes further is limited by the current Commonwealth approach to state finances, which redistributes revenue to States on the basis of perceived relative needs. In its most recent report on general revenue grants relativities, the CGC increased Victoria's subsidy to the other States by \$23 million. This brings the Victorian total subsidy to \$847 million in 2000-01, or about \$177 per person – the highest of any State.

Victoria's total revenues are expected to grow by 3.4 per cent in 2000-01 and then to average 1.7 per cent between 2000-01 and 2003-04, reflecting growth in the economy offset by a projected return to more normal conditions in property, share and other asset markets (see Table 6.1). Revenue growth is also dampened by the \$200 million business tax cuts and the cessation of \$350 million in distributions from the gas industry. A larger proportion of total revenue is sourced from the Commonwealth due to changes in Commonwealth-State relations associated with the introduction of the goods and services tax (GST).

**Table 6.1: Total state revenue 1999-2000 to 2003-04**

	(\$ million)				
	1999-2000 <i>Revised</i>	2000-01 <i>Budget</i>	2001-02 <i>Estimate</i>	2002-03 <i>Estimate</i>	2003-04 <i>Estimate</i>
Own-source revenue	13 711.2	11 981.9	11 203.5	11 481.5	11 589.5
Commonwealth grants	7 734.8	10 198.1	11 107.8	11 416.1	11 725.0
<b>Total revenue</b>	<b>21 446.0</b>	<b>22 180.0</b>	<b>22 311.3</b>	<b>22 897.5</b>	<b>23 314.5</b>

*Source: Department of Treasury and Finance*

## REVENUE INITIATIVES

### State tax review and cuts in business taxation

The communiqué of the Growing Victoria Together Summit held in March 2000 urged an examination of the impact of business taxes (e.g. payroll tax) on job and wealth creation, including an assessment of alternative and more equitable methods of raising revenue.

Following the Summit, the Government has committed to conducting a review of the tax system, the first since 1983. The review has become necessary as a result of Victoria's increasingly narrow and inefficient tax base, changes in the economy and the Commonwealth's tax system changes.

The review will focus particularly on ways in which Victoria can achieve a competitive tax environment for business. The review's findings will be considered in the context of the 2001-02 Budget.

As part of its commitment to ensuring a competitive tax system in Victoria, the Government has made provision in the forward estimates for tax cuts equivalent to a minimum \$200 million by July 2003, including \$100 million from July 2001. The review will recommend the most appropriate distribution of these tax cuts in the light of its overall recommendations about the future tax mix. Consistent with the need for financial responsibility, the tax cuts are conditional on the maintenance of a budget sector operating surplus of at least \$100 million.

### Abolition of outstanding liabilities for gift and probate duty

Probate and gift duty was abolished in Victoria from 1 January 1984. However, outstanding probate duty is still collected on deceased estates which pre-date abolition. As the administrative costs of assessment and collection are significant compared with the negligible amount of revenue involved (estimated at \$20 000 in 1999-2000), the Government has decided to waive all outstanding liabilities for probate and gift duty, and to repeal the *Probate Act* and the *Gift Duty Act*.

### Abolition of stamp duty on marketable securities and financial institutions duty

Stamp duty on transfers of marketable securities quoted on the Australian Stock Exchange or another recognised exchange will cease for transactions entered into as of 1 July 2001. Stamp duty at the current rate will continue to be levied on transfers of shares in unlisted companies.

Financial institutions duty will also cease to apply as of 1 July 2001.

Revenue lost, of \$184 million in 2001-02 from marketable securities stamp duty and \$342 million from financial institutions duty, will be offset by increased Commonwealth payments.

### **Bookmaking industry**

The Government intends to honour its pre-election commitment to support the retention of a competitive bookmaking industry, including on-course bookmakers. The Government has legislated to abolish the levy on fixed-odds bookmaker's statements which was equivalent to 2 per cent of turnover at metropolitan racecourses and 1.5 per cent at country racecourses. As a means of continuing to fund the racing industry the existing levy will be replaced by a turnover levy applied by the racing controlling bodies of up to 1 per cent. Bookmakers will also collect GST on their activities and this will be part of the overall GST revenue which will flow back to the States. As an additional measure to improve the viability of the bookmaking profession, a portion of collected levies will be devoted to operating bookmaking development funds. Both these measures will take effect from 3 July 2000.

Administrative responsibility for the collection of the levy and the operation of the development funds will rest with the three controlling bodies of the racing industry – the Victoria Racing Club, the Harness Racing Board and Greyhound Racing Control Board.

The Government has also decided to allow a phased reduction in the minimum telephone bet commencing from July 2001. This measure will result in a small reduction in racing taxes from 2001-02.

### **Gaming levy**

The Government's election platform included a promise to raise additional funds from the gambling industry in order to fund drug and alcohol programs.

Funding of \$10 million will be raised through a flat rate levy on the owners of each of the 30 000 electronic gaming machines in Victoria, i.e. Tabcorp, Tattersall's and Crown. The levy will be \$333.33 per annum per machine commencing in financial year 2000-01. Along with the other taxes on gambling, this levy reflects the Government's concern that the community be able to share in the gains which the operators enjoy through their ownership and their right to operate electronic gaming machines, and that the tax revenue is used for important community spending.



Equivalent spending of \$10 million has been approved for allocation to drug and alcohol programs.

## **VICTORIA'S RELATIVE TAX COMPETITIVENESS**

The competitiveness of Victoria's tax regime plays an important role in underpinning economic growth and investment.

There are three main statistics used to measure the competitiveness of Victoria's tax system:

- revenue relativities based upon CGC methodology;
- taxation revenue per capita; and
- taxation revenue as a percentage of GSP.

Victoria's taxation burden or effort is around the national average on all three measures, and below that of New South Wales, our closest economic competitor.

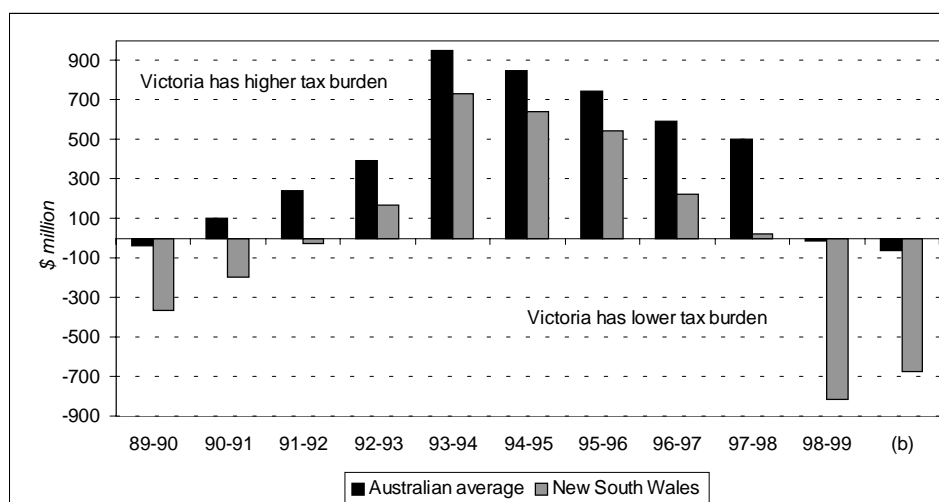
### **CGC measures of taxation effort**

The CGC's latest assessment of revenue relativities indicates that Victoria's taxation effort was \$12 million below the national average level in 1998-99, and well down from \$850 million above the national level in 1994-95. The turnaround has been more dramatic when Victoria is compared with New South Wales: from a taxation effort of some \$654 million higher than New South Wales in 1994-95, Victoria had a taxation effort of \$813 million below that of New South Wales in 1998-99.

However, caution should be exercised in relying on the latest CGC estimates. The CGC used preliminary 1998-99 data pending release of final 1998-99 taxation data by the ABS. Consequently, the CGC may revise its revenue relativity estimates once the final ABS numbers are incorporated.

Looking forward, the CGC revenue relativity estimates can be expected to change as a result of known policy decisions. In the 1999-2000 Budget, the previous Victorian Government announced a reduction in its payroll tax rate from 6 per cent to 5.75 per cent effective from 1 July 1999, and the present Government has committed in this budget to business tax cuts totalling a minimum of \$200 million by July 2003, including \$100 million from July 2001. The NSW 1999-2000 Budget announced progressive payroll tax cuts between 1999 and 2002 totalling \$400 million, together with further unspecified tax reductions of \$175 million from 2001-02.

**Chart 6.1: Victoria's relative taxation effort - Commonwealth Grants Commission<sup>(a)</sup>**



Sources: Commonwealth Grants Commission Report on General Revenue Grant Relativities 2000 Update; Department of Treasury and Finance

Notes:

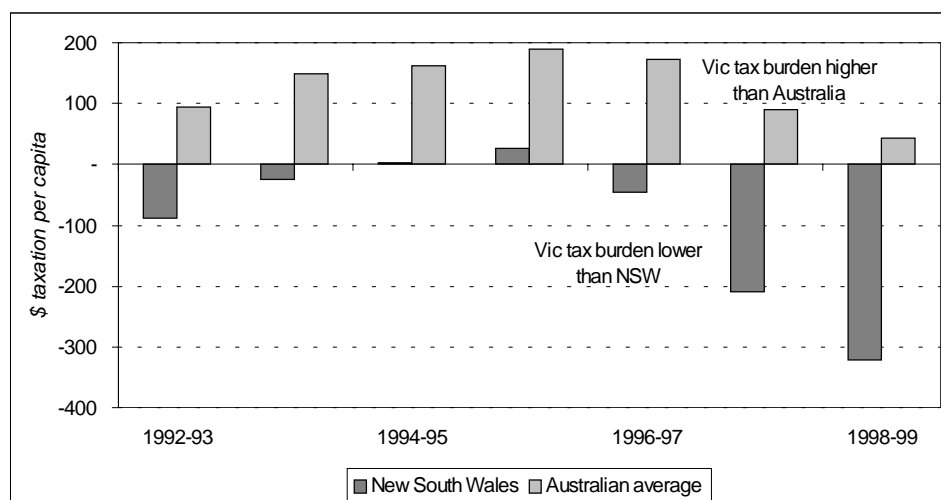
- (a) A positive tax effort indicates that Victoria has a higher tax burden than the other jurisdiction, while a negative tax effort indicates that Victoria has a lower tax burden.
- (b) 1998-99 data adjusted by DTF assuming \$200 million business tax cuts announced in this budget and previously announced tax cuts in Victoria and other States, but assuming no further changes to taxes in other States in 2000-01 budgets.

If these changes are implemented as foreshadowed and there are no further tax changes in any State in their respective 2000-01 Budgets, Victoria's taxation effort is estimated to be \$674 million below that of New South Wales and \$63 million below the national average, after accounting for the effects of the proposed \$200 million reduction in business taxes (see Chart 6.1).

### Taxation revenue per capita

State taxation revenue expressed on a per capita basis, as measured by the ABS, represents an alternative measure of relative tax burden. The difference between Victoria's taxation per capita and the corresponding measure for New South Wales and all Australian States is shown in Chart 6.2.

**Chart 6.2: Victoria's taxation differentials per capita <sup>(a)</sup>**



Sources: Australian Bureau of Statistics, Cat No. 5506.0; Department of Treasury and Finance

Note:

(a) The taxation differentials per capita reflect the differences between Victorian per capita taxation revenues (net of privatisation proceeds) and each of New South Wales and the Australian average.

In 1998-99, the latest year for which ABS data is available, Victoria's taxation revenue was \$321 per capita lower than that of New South Wales, representing a dramatic widening in this measure compared with the mid-1990s. Compared with the average for all States, Victoria's taxation revenue per capita in 1998-99 was \$44 higher.

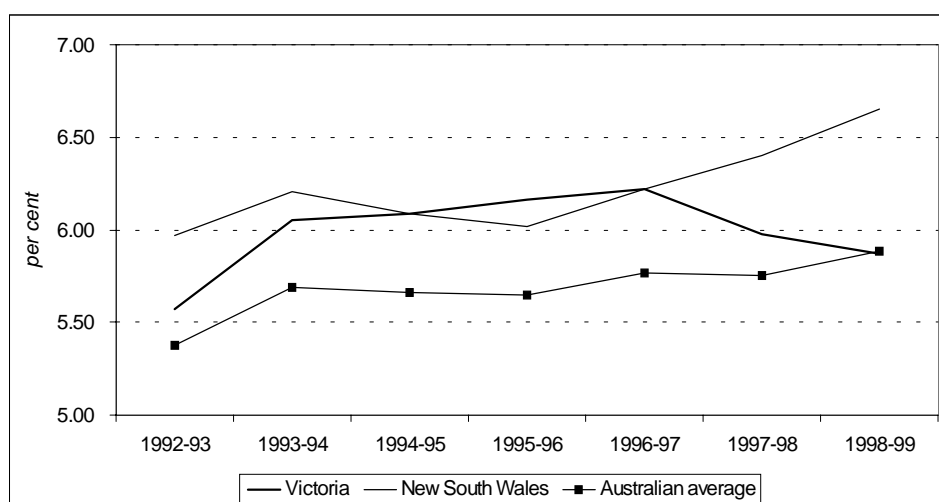
These trends are likely to have continued in 1999-2000.

### Taxation revenue relative to GSP

A third measure of the state taxation burden is taxation revenue expressed as a proportion of GSP. Victoria's taxation revenue expressed as a percentage of GSP has fallen from a peak of 6.2 per cent in 1996-97 to an estimated 5.9 per cent in 1999-2000.

On this measure, Victoria's tax burden has been lower than that of New South Wales throughout the 1990s and marginally below the national average in 1998-99, the last year for which ABS data is available (see Chart 6.3).

**Chart 6.3: Taxation as a percentage of GSP**



Sources: Australian Bureau of Statistics Cat Nos. 5506.0 and 5242.0; Department of Treasury and Finance.

## THE NEW ENVIRONMENT OF COMMONWEALTH-STATE FINANCIAL RELATIONS

Commonwealth general purpose grants to Victoria comprise GST revenue, transitional assistance payments, and National Competition Policy payments. In addition, the Commonwealth provides tied grants (also called specific purpose payments) to the States for both their own expenditure and for on-passing to other bodies such as local government and non-government schools.

**Table 6.2: Commonwealth grants 1999-2000 and 2000-01**

	(\$ million)		
	1999-00 Revised	2000-01 Estimate	Change %
General purpose grants	3 633.2	5 857.2	61.2
Specific purpose payments	2 964.8	3 120.5	5.3
<b>Own-purpose grants</b>	<b>6 598.0</b>	<b>8 977.7</b>	<b>36.1</b>
<b>On-passing grants</b>	<b>1 136.8</b>	<b>1 220.3</b>	<b>7.4</b>
<b>Total Commonwealth grants</b>	<b>7 734.8</b>	<b>10 198.1</b>	<b>31.8</b>

Source: Department of Treasury and Finance

Table 6.2 summarises the main components of Commonwealth grants received by Victoria in 1999-2000 and expected to be received in 2000-01. Grants for own-purpose are expected to increase by 36.1 per cent as a result of the first-time receipt of GST revenue and transitional assistance, but will merely

offset the abolition of state taxes and additional expenditures incurred under the Intergovernmental Agreement (see Table 6.5).

### **The initial Intergovernmental Agreement**

At the Premiers' Conference on 9 April 1999, the Commonwealth and the States signed an Intergovernmental Agreement detailing arrangements for the reform of Commonwealth-State financial relations. Under this Agreement, the States would receive the entire revenue generated by the GST as compensation for the abolition of nine indirect taxes, the elimination of financial assistance grants, reducing gambling taxes, and for assuming responsibility for the funding of local government and a new First Home Owners' Scheme. The Commonwealth also agreed to cease to return the safety net revenues to the States from taxation of petrol, tobacco and liquor.

Revenue generated by the GST was to be centrally pooled and distributed by the Commonwealth according to horizontal fiscal equalisation principles, the same basis by which financial assistance grants were previously distributed. The Commonwealth also gave a commitment not to cut specific purpose payments as part of the GST package of measures.

Furthermore, the Commonwealth undertook to provide the States with additional funding to offset any shortfall between the States' entitlement to GST revenue grants and the total amount of funding forgone as a result of the new arrangements. This undertaking was made to ensure that no State or Territory would be worse off. The total of all revenues forgone by each State or Territory is referred to as a guaranteed minimum amount and is used to calculate a State's need for GST transitional payments.

While the length of the transitional assistance period was not specified in the Agreement, it was estimated at the time that Victoria would require transitional assistance from the Commonwealth until 2003-04.

Transitional payments will continue until GST revenues are sufficient to cover all revenue forgone and increased expenses of each State.

A Ministerial Council comprising the Commonwealth and the States was established to oversee the operation of the Intergovernmental Agreement.

### **The second Intergovernmental Agreement**

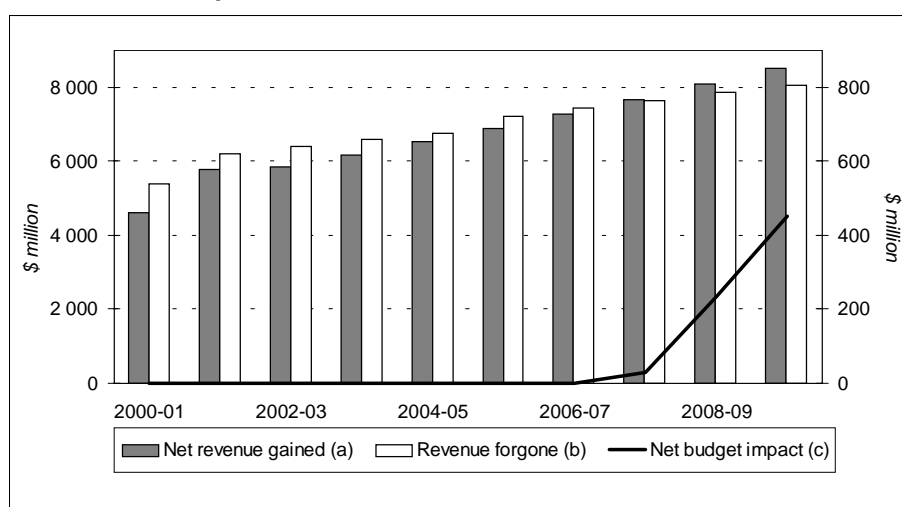
Further changes to the GST package were negotiated between the Commonwealth Government and Australian Democrats on 28 May 1999 and subsequently endorsed by the States. The most significant of these changes was an exemption for food from the GST. This reduced the pool of GST revenue

available for distribution to the States by an estimated \$3.2 billion in 2000-01, \$3.8 billion in 2001-02 and \$4.0 billion in 2002-03.

In order to make up partially for the shortfall in revenue, the timing of the abolition of financial institutions duty was deferred by six months to 1 July 2001, and the abolition of debits tax was delayed until 1 July 2005. In addition, the planned abolition of the remaining state taxes, with the exception of bed taxes and stamp duty on quoted marketable securities, was deferred pending a review by the Ministerial Council in 2005. The Commonwealth also decided to retain funding responsibility for local government.

The guarantee arrangements were maintained. However, the period over which transitional assistance would be required is now significantly longer. It is now expected that Victoria will not gain from the Agreement until 2007-08 (see Chart 6.4).

**Chart 6.4: Net impact of the GST for Victoria**



Source: Estimates agreed by Commonwealth and States at 17 March 2000 Ministerial Council

Notes:

- (a) GST revenue to Victoria less new expenditure responsibilities, including First Home Owners Scheme and GST administration costs.
- (b) Financial assistance grants and state taxes abolished under the Intergovernmental Agreement.
- (c) Net budget impact from Intergovernmental Agreement commitments. Includes transitional payments from the Commonwealth which are paid to ensure there is no negative budget impact on the States from the GST and associated tax system changes.

## **Changes in revenue arising from the second Intergovernmental Agreement**

While the Government does not support the GST, it is obliged to honour the commitments entered into by the previous Government under the Intergovernmental Agreement and has attached the Intergovernmental Agreement to the relevant state legislation in recognition of its intention to comply with these commitments.

### ***Abolition of state taxes***

Duty on transfers of marketable securities quoted on the market operated by the Australian Stock Exchange or another recognised exchange will cease in respect of transactions entered into from 1 July 2001. This does not apply to transfers of marketable securities in private or public companies and trusts where the securities are not quoted on a recognised stock exchange. However, the duty on these transactions is subject to review by the Ministerial Council for Commonwealth-State Financial Relations in 2005.

Financial institutions duty will cease to apply from 1 July 2001. This includes not only the duty paid on amounts credited to accounts with financial institutions but also the duty payable by approved short-term money market operators.

### ***Adjustments to gambling tax arrangements***

The Government is required by the Intergovernmental Agreement to adjust its gambling tax arrangements so as to offset the impact of the GST on gambling operators. With respect to electronic gaming machines, totalisators and some minor forms of gambling, which are taxed on operators' gross profit margins, the Government has decided to offset the impact of the GST by adopting an equivalent reduction of 9.09 percentage points in their tax rates. In respect of lotteries, which are taxed on a turnover basis, the Government has decided to reduce tax rates by an equivalent amount. The changes to gambling tax arrangements are revenue neutral and result in no net gain to the State or gaming operators.

In addition, there are alterations to the distribution of proceeds from electronic gaming machines to ensure revenue neutrality where statutory payments from gaming operators to venue operators are subject to GST. In the case of the Melbourne Casino, the Government has varied its agreement with the operator in order to provide a credit for GST against state taxes already paid with effect for all gambling activities taking place on or after 1 July 2000. Once again, these changes will result in no net gain to the State or gaming operators.

### ***Abolition of stamp duty on bookmakers' statements***

A reduction in tax was also required by the Intergovernmental Agreement in the case of bookmakers. However, the level of turnover tax was already low and the reduction of the tax to offset the exact amount of the GST would have left a rate of taxation that raised very little revenue compared with the administration burden associated with its collection. Therefore, taken together with the more difficult conditions that bookmakers have experienced in recent years, the Government decided to abolish the duty on bookmakers' statements from 3 July 2000 and introduce the alternative arrangements noted above.

### ***Payroll tax and contractors***

After 1 July 2000, GST will apply to labour services provided by contractors and employment agents but not to the labour services of ordinary employees. The State Government has decided to exclude the GST from wages liable to payroll tax when payable for work undertaken by an independent contractor or for services under an employment agency contract. The proposed payroll tax measure will ensure neutral treatment of contractors and direct employees when determining payroll tax costs.

### ***Tax-on-tax and circular taxation***

As a general rule, stamp duty will be applied to GST-inclusive prices. This is consistent with past policy whereby stamp duty has been levied on prices inclusive of wholesale sales tax. Eliminating GST from all state tax bases would result in an overall revenue loss to the State of about \$100 million. Conversely, after allowing for abolition of wholesale sales tax, the gain to the State from the application of stamp duty to GST-inclusive values (or tax-on-tax) is in the vicinity of \$0.5 million. Both estimates are based on the revenue that would have been collected had the GST and related changes not been introduced.

The only exception to the general rule is the case of circular taxation. This refers to the multiple and cascading incidence of tax-on-tax and arises where both stamp duty and GST are paid by the same person. This problem was identified in four state taxes:

- stamp duty on general insurance;
- stamp duty on rental agreements;
- stamp duty on cattle and pig sales; and
- stamp duty on sales by used car dealers.



In the first case, the Commonwealth amended its legislation so that GST now applies to insurance premiums exclusive of state stamp duty, thus avoiding the incidence of circular taxation in those transactions. However, the Commonwealth has not extended the same principle to stamp duty on rental agreements or cattle and pig sales.

For this reason, the State Government has decided that stamp duty on rental agreements and cattle and pig sales shall be levied on a GST-exclusive basis. The cost of this measure is estimated to be about \$4 million in 2000-01.

Finally, circular taxation for used car dealers has been eliminated by shifting the stamp duty liability on used motor vehicles from the dealer to the purchaser. This will have no impact on the price of used cars.

## **Changes to expenditure responsibilities**

### ***First Home Owners' Scheme***

The Intergovernmental Agreement requires all States and Territories to assist eligible first home buyers through the funding and administration of a new uniform First Home Owners' Scheme to offset the impact of the GST on home purchases. This is in addition to the Victorian Government's existing concession scheme which provides means-tested stamp duty relief for families purchasing their first home. The framework principles for the scheme, as set out in the Intergovernmental Agreement, are:

- eligible applicants must be Australian citizens or permanent residents, who are buying or building their first home in Australia;
- to qualify for assistance, neither the applicant nor the spouse (or de facto) of the applicant must have previously owned a home, either jointly, separately or with some other person;
- entering into a binding contract or commencement of building, in the case of owner-builders, must have occurred on or after 1 July 2000;
- an eligible home must be intended to be used as a principal place of residence;
- eligible applicants are entitled to a one-off payment (which may be offset against the stamp duty on the purchase of the home); and
- assistance will not be means-tested.

The Commonwealth Government estimates that approximately 27 500 applications for the grant will be approved in Victoria in 2000-01 and that the \$7 000 grant will more than offset the expected price increase of a home with a construction value (excluding land) of up to \$150 000. Based on these projections, the Commonwealth estimated that around \$193 million will be provided in grants to Victorian first home buyers in the first year of the scheme's operation.

The Department of Treasury and Finance believes that the Commonwealth has significantly underestimated the number of eligible applicants and that the true cost of the scheme in the first year of operation will be close to \$236 million, or \$43 million higher than the Commonwealth figure. Under the terms of the Commonwealth guarantee, payments will be reviewed in November 2000 and March 2001 in the light of actual experience with the scheme. In the meantime, the cost of any discrepancies in the funding of the scheme will need to be met from the State's budget.

### ***Embedded tax savings***

The benefits to purchasers of goods and services from the abolition of wholesale sales tax, financial institutions duty, marketable securities duty and the reductions in fuel excise are often referred to as embedded tax savings. In the business sector, these benefits are usually available for on-passing ultimately to the final consumer of goods and services and serve to partially mitigate the effects of the GST. However, in the case of purchases by the general government sector, these embedded tax savings are classified as a benefit accruing to state governments and under the Intergovernmental Agreement Act to reduce the transitional payments made by the Commonwealth. If the Government were to pass these savings on to purchasers of government goods and services during the transitional period the State would be financially disadvantaged.

Estimates of the aggregate of embedded tax savings to the States and local government were calculated by Commonwealth Treasury. These amounts were then distributed among States according to each State's estimated share of the gross expenditure on goods, services and assets. The resulting estimates of the benefits to each State will remain unchanged for the final calculation of the GST transitional payments and, for Victoria, range from \$100 million in 2000-01 up to \$123 million in 2003-04.

Under the Agreement, the State needs to recover an amount at least equal to these estimates of the embedded tax savings in order for the GST to have a neutral effect on the State's budget. Savings in excess of these estimates would

be available for passing through to final consumers of general government goods and services.

### ***Cellar door wine sales***

The Government will continue to offer subsidies equivalent to 15 per cent of the wholesale price for cellar door and mail order wine sales.

### ***Off-road diesel***

In accordance with the Intergovernmental Agreement, the Government will cease to provide subsidy payments for off-road diesel use. This is because the Commonwealth will be providing a complete rebate of its petroleum excise and customs duty, rendering any additional state support unnecessary.

### ***Payments to Commonwealth for GST administration***

The Intergovernmental Agreement provides for the States to compensate the Commonwealth for the cost of administering the GST. These expenses are included in the calculation of the GST transitional payments. The transitional payments will be adjusted for actual costs, and the Australian Taxation Office will enter into a performance agreement with the States by June 2002. In the case of Victoria, the estimated cost of GST administration is around \$200 million in 2000-01, and around \$90 million per annum in the following years. The higher figure in 2000-01 reflects initial set-up costs.

### ***Commonwealth Treasurer's determination of GST-exempt taxes, fees and charges***

Under the terms of the Intergovernmental Agreement, the Commonwealth, States and Territories have agreed to a list of taxes and compulsory charges that should be outside the scope of the GST.

This is in addition to the broad GST exemptions for food, health, education, water and sewerage. In agreeing to this list of taxes and charges, the parties had regard to the following principles:

- taxes in the nature of a compulsory impost for general revenue purposes should not be subject to GST;
- compulsory charges by the way of fines or penalties should not be subject to GST as these do not relate to any specific supply of goods or services;

- regulatory charges that do not relate to particular goods or services should be outside the scope of the GST; and
- the inclusion of any other charge in the Commonwealth Treasurer's determination requires the unanimous agreement of the Commonwealth, States and Territories.

The Commonwealth Treasurer's initial determination was released on 1 March 2000. Examples of taxes, fees and charges currently included in the Treasurer's determination and therefore GST-free include:

- state government taxes (e.g. payroll tax and stamp duties);
- occupational licensing and registration (e.g. plumbing licences and medical practitioner registration fees);
- business registration and licensing (e.g. liquor licences);
- licensing of sporting and recreational activities (e.g. racing club licences);
- other regulatory licensing and regulation (e.g. motor vehicle registration and driver's licences);
- land title searches;
- registration of births, deaths and marriages;
- FOI requests; and
- local government regulatory activities (e.g. cat and dog registration, municipal rates).

An amended version of the Treasurer's determination is expected before 30 June 2000 which will include a more comprehensive list of local government fees and charges and certain fees and charges levied by water authorities.

### **Ministerial Council for Commonwealth-State Financial Relations**

The inaugural meeting of the Ministerial Council on Commonwealth-State Financial Relations on 17 March 2000 agreed:

- that the estimates of GST revenue and health care grants for 2000-01 will be distributed on the basis of the CGC's GST relativities in the *Report on General Revenue Grant Relativities 2000 Update*; and
- on the estimates of the transitional payments to each State and the Commonwealth's Statement of Estimated Payments for 2000-01.

At the meeting, the Commonwealth reiterated its commitment under the Intergovernmental Agreement not to cut aggregate specific purpose payments to the States as part of the changes to the taxation and grants system.

### Commonwealth general purpose grants

Victoria's share of the GST revenue is determined by the CGC's assessment of the relative needs of all States and Territories, i.e. its horizontal fiscal equalisation process. It is clear that the CGC, through the horizontal fiscal equalisation process, will have an ongoing negative impact on Victoria's share of the GST revenue pool. Victoria's position as the largest subsidiser of recipient States on a per capita basis means Victoria is more vulnerable to any such CGC impact on grant shares.

In its 2000 Update of relativities, the CGC reduced Victoria's relativities marginally, implying a reduction in the 2000-01 general purpose grants by \$22.6 million. New South Wales and Western Australia will also receive a reduced grant share. Table 6.3 shows Victoria, New South Wales and Western Australia are the major losers in 2000-01.

**Table 6.3: Changes to implied grant shares 2000-01**

	(\$ million)							
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Change in implied grant share	-23	-23	19	-56	53	10	17	4

*Source: Commonwealth Grants Commission, Report on General Revenue Grant Relativities 2000 Update, Table 5-2, p.31.*

According to the CGC's 2000 Update, the main influence affecting the changes in Victoria's grant share in 2000-01 was an increase in the State's revenue capacity which reduced grants by \$13.8 million.

As a result of the 2000 Update, Victoria is the highest subsidising State in the Commonwealth. Table 6.4 compares the assessed grant shares for each State and Territory against an equal per capita distribution.

**Table 6.4: Fiscal subsidy for 2000-01<sup>(a)</sup>**

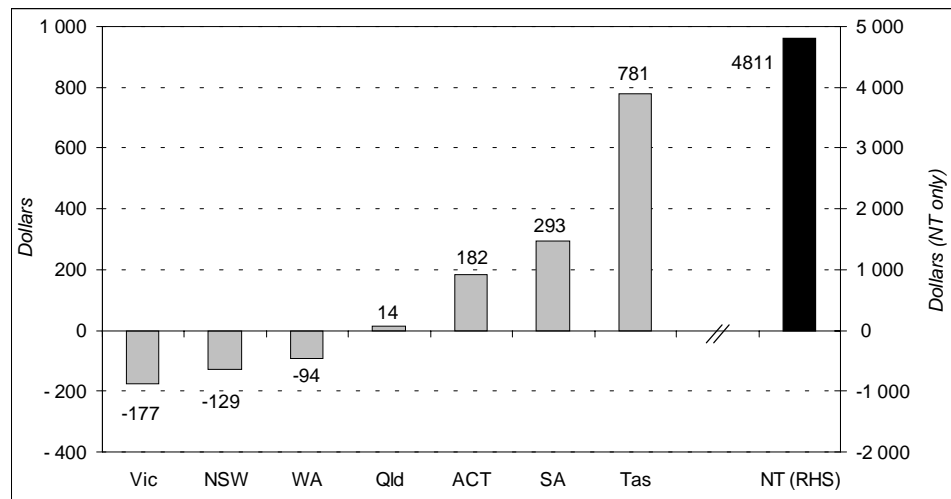
	Distribution using amended relativities <sup>(b)</sup> (\$ million)	Distribution on an equal per capita basis <sup>(c)</sup> (\$ million)	Difference (\$ million)	Difference (\$ per capita)
NSW	7 287	8 125	- 838	- 129
Vic	5 129	5 976	- 847	- 177
Qld	4 533	4 483	51	14
WA	2 197	2 376	- 179	- 94
SA	2 315	1 873	441	293
Tas	951	585	366	781
ACT	449	392	57	182
NT	1 195	246	949	4 811
<b>Total</b>	<b>24 056</b>	<b>24 056</b>	<b>0</b>	

Sources: Commonwealth Budget Paper No. 3, Federal Financial Relations, 1999-2000, update of Table 4, p.20 allowing for CGC 2000 Update relativities

Notes:

- (a) The total 1999-2000 notional pool of \$24 056 million consists of \$17 964 million in financial assistance grants forgone and \$6 092 million in health care grants.
- (b) Relativities as recommended by the CGC Report on General Revenue Grant Relativities 2000 Update, Table 2.
- (c) Based on special ABS population projections at 31 December 2000 prepared for the 17 March 2000 Ministerial Council meeting.

**Chart 6.5: Per capita subsidy under horizontal fiscal equalisation 2000-01**



Source: Update of Table 4, p.20, of Federal Financial Relations, Commonwealth Budget Paper No.3 1999-2000. Allowing for CGC 2000 Update relativities.

Table 6.4 and Chart 6.5 show that Victoria, New South Wales and Western Australia together will subsidise residents of Northern Territory, South Australia, Tasmania, Act and Queensland to a total of almost \$1.9 billion in 2000-01. Victoria's subsidy is \$847 million or \$177 per person, compared with \$788 million or \$167 per person in 1999-2000.

## Net impact on budget

The net impact on a cash basis of all the GST-related measures on the State's budget for the period 2000-01 to 2003-04 is summarised in Table 6.5.

**Table 6.5: Impact of the GST on the Victorian Budget**

	(\$ million)			
	2000-01	2001-02	2002-03	2003-04
	Budget	Estimate	Estimate	Estimate
<b>Change in revenue</b>				
GST revenue	5,061.1	6,109.8	6,205.9	6,520.8
Growth dividend <sup>(a)</sup>	27.2	36.7	49.9	64.0
Financial institutions duty <sup>(a)</sup>	-	- 342.2	- 386.7	- 398.3
Debits tax <sup>(b)</sup>	-	-	-	-
Marketable securities <sup>(a)</sup>	-	- 205.4	- 226.9	- 240.5
Gambling taxes	- 358.2	- 384.7	- 400.4	- 414.5
Safety net revenues	- 1,474.2	- 1,606.6	- 1,671.5	- 1,739.3
Off-road diesel rebate	45.4	52.4	55.2	58.2
WST equivalent payments from GBEs <sup>(a)</sup>	- 5.0	- 5.0	- 5.0	-
Financial assistance grants forgone	- 3,632.6	- 3,740.3	- 3,815.5	- 3,929.2
<b>Total change in revenue</b>	<b>- 336.3</b>	<b>- 85.3</b>	<b>- 195.0</b>	<b>- 78.8</b>
<b>Change in expenditure</b>				
First Home Owners' Scheme	236.8	242.0	246.9	252.2
Embedded tax savings <sup>(a)</sup>	- 100.4	- 107.4	- 115.0	- 122.9
Interest cost on changed Commonwealth payments <sup>(a)</sup>	7.5	3.4	4.2	-
Reimbursement of ATO administration costs	201.3	93.1	92.3	90.7
<b>Total change in expenditure</b>	<b>345.2</b>	<b>231.1</b>	<b>228.4</b>	<b>220.0</b>
<b>Net budget impact prior to Commonwealth transitional guarantee</b>	<b>- 681.5</b>	<b>- 316.4</b>	<b>- 423.4</b>	<b>- 298.8</b>
<b>Net Commonwealth guarantee payments</b>	<b>681.5</b>	<b>316.4</b>	<b>423.4</b>	<b>298.8</b>
<b>Net budget impact after Commonwealth transitional guarantee</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Estimates agreed by Commonwealth and States at 17 March 2000 Ministerial Council.

Notes:

(a) These estimates have been agreed and will not be subject to further negotiation.

(b) To be abolished by 1 July 2005, subject to review by the Ministerial Council for Commonwealth-State Financial Relations.

## **National Competition Policy payments**

The Commonwealth has provided annual payments since 1997-98 that are conditional on satisfactory progress with the implementation of National Competition Policy and related reforms. These include the review of legislative restrictions on competition and implementation of competitive neutrality policy, effective implementation of electricity reforms, free and fair trade in gas, effective observance of road transport reforms, and sustainable reform of the Australian water industry.

The payments are indexed annually and distributed among the States on an equal per capita basis. Victoria's share of the 2000-01 National Competition Policy payments is estimated at \$115 million.

## **Specific purpose payments**

Table 6.6 shows the total amount of specific purpose payments scheduled to be received from the Commonwealth by Victorian government agencies, excluding grants for on-passing. It shows that specific purpose payments to Victoria are expected to be 5.2 per cent or \$156 million higher in 2000-01 than in 1999-2000.

The key factors affecting estimated specific purpose payments in 2000-01 are:

- an increase in the Health Care Grant based on its link to population growth, ageing and technological development, and inclusion of the Commonwealth's current offer under the cost index provision of the Australian Health Care Agreement (AHCA);
- acceptance of an offer of additional Commonwealth funding on a matching basis under the Commonwealth State Disability Agreement;
- an increase in funding for Education, Employment and Training resulting from higher than expected recurrent cost increases across Australian schools, translating to additional indexation payments; and
- continuation of a 1 per cent efficiency dividend applied by the Commonwealth to most specific purpose payments.



**Table 6.6: Commonwealth specific purpose payments by Departments<sup>(a)</sup>**

	(\$ million)		
	1999-2000	2000-01	Change
	Revised	Budget	%
<b>Grants for Government Programs: Current</b>			
Education, Employment and Training	560.8	570.8	1.8
Human Services	1 915.1	2 046.1	6.8
Infrastructure	5.1	2.8	-45.1
Justice	40.0	40.8	1.8
Natural Resources and Environment	50.7	50.1	-1.2
Premier and Cabinet	6.0	15.5	158.3
State and Regional Development	1.7	1.0	-39.7
Treasury and Finance	6.6	5.7	-12.6
<b>Total current grants</b>	<b>2 586.1</b>	<b>2 732.9</b>	<b>5.7</b>
<b>Capital</b>			
Education, Employment and Training	98.4	96.9	-1.6
Human Services	180.6	182.9	1.3
Infrastructure	99.7	107.7	8.1
Natural Resources and Environment	..	..	..
<b>Total capital grants</b>	<b>378.6</b>	<b>387.6</b>	<b>2.4</b>
<b>Total grants</b>	<b>2 964.8</b>	<b>3 120.5</b>	<b>5.3</b>

Source: Department of Treasury and Finance

Note:

(a) Excludes grants for on-passing.

The major increase in specific purpose payments is due to health care grants. The increase in health care funding reflects specific non-cost factors, including indexation for population growth and ageing, and ongoing demand and utilisation growth.

Estimates for AHCA are currently the subject of negotiation between the Commonwealth and the States.

When AHCA was signed in 1998, the Commonwealth made a commitment to index funding for public hospitals each year by an amount sufficient to cover increased costs. When officials were unable to reach agreement on an index, an independent arbiter, chosen by the Commonwealth, was asked for impartial recommendations. The recommendation of the independent arbiter, Mr Ian Castles, of CPI plus 0.5 per cent was accepted by all States.

Instead of accepting that recommendation, the Commonwealth Minister for Health has continued to propose the use of an alternative index which produces a growth in payments significantly lower than actual cost increases. This decision was taken by the Commonwealth despite the fact that the arbiter has ruled against the Commonwealth's chosen index. If the Commonwealth were to adopt the recommendations of the independent arbiter, payments to Victoria alone under AHCA would be \$220 million higher than shown, over four years. The Premier has written to the Prime Minister seeking a meeting of Heads of Government to resolve this issue.

## OWN-SOURCE REVENUE

Own-source revenue is obtained from a range of state taxes, regulatory fees and fines, public authority income, sale of goods and services, and other revenue (see Table 6.7).

**Table 6.7: Own-source revenue 1999-2000 to 2003-04**

	(\$ million)				
	1999-00 <i>Revised</i>	2000-01 <i>Budget</i>	2001-02 <i>Estimate</i>	2002-03 <i>Estimate</i>	2003-04 <i>Estimate</i>
Taxation	9 390.5	7 845.3	7 342.3	7 638.9	7 863.3
Regulatory fees and fines	271.1	273.3	236.6	238.6	236.7
Sale of goods and services	1 922.6	1 939.8	1 975.5	1 996.5	2 013.2
Public authority income	1 136.3	947.7	656.7	557.9	453.0
Other revenue	990.6	975.8	992.4	1 049.5	1 023.2
<b>Total own-source revenue</b>	<b>13 711.2</b>	<b>11 981.9</b>	<b>11 203.5</b>	<b>11 481.5</b>	<b>11 589.5</b>

*Source: Department of Treasury and Finance*

## Taxation

Total taxation revenue to be derived from all state sources in 2000-01 and 2001-02 is likely to decline as state taxes are abolished under the Intergovernmental Agreement, economic growth slows and activity in the property, share and other asset markets returns to trend levels.

**Table 6.8: Taxation 1999-2000 to 2003-04**

	(\$ million)				
	1999-00 Revised	2000-01 Budget	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
Payroll tax	2 311.7	2 469.3	2 596.3	2 765.8	2 908.1
Taxes on property	2 744.9	2 627.2	2 091.3	2 131.3	2 217.8
Gambling taxes	1 524.8	1 235.1	1 281.1	1 320.1	1 361.1
Taxes on insurance	380.5	429.1	451.3	467.7	484.9
Motor vehicle taxes	904.3	931.6	972.7	1 001.6	1 034.9
Safety net revenues/franchise fees	1 485.6	112.3	7.0	7.0	7.0
Other taxes	38.6	40.8	42.6	45.4	49.5
Less: Proposed business tax reductions	0.0	0.0	- 100.0	- 100.0	- 200.0
<b>Total taxation</b>	<b>9 390.5</b>	<b>7 845.3</b>	<b>7 342.3</b>	<b>7 638.9</b>	<b>7 863.3</b>

Source: Department of Treasury and Finance

### **Payroll tax**

Payroll tax revenue for 2000-01 is forecast to increase by 6.8 per cent to \$2 469 million. This growth in the payroll tax base is consistent with forecast employment and wages growth and a rise in the superannuation guarantee contribution, from 7 per cent to 8 per cent of wages, from 1 July 2000. Payroll tax revenue growth beyond 2000-01 also reflects a further increase in the superannuation guarantee contribution, from 8 per cent to 9 per cent of wages, from 1 July 2002.

### **Taxes on property**

Taxes on property include land tax, the metropolitan improvement levy, stamp duties principally from land transfers, mortgages and marketable securities, and financial institutions transactions taxes.

In 2000-01, revenue is forecast to decrease by 4.3 per cent to \$2 627 million as lower conveyancing duty collections are expected to more than offset higher land tax collections.

As part of the Intergovernmental Agreement, financial institutions duty will be abolished from 1 July 2001.

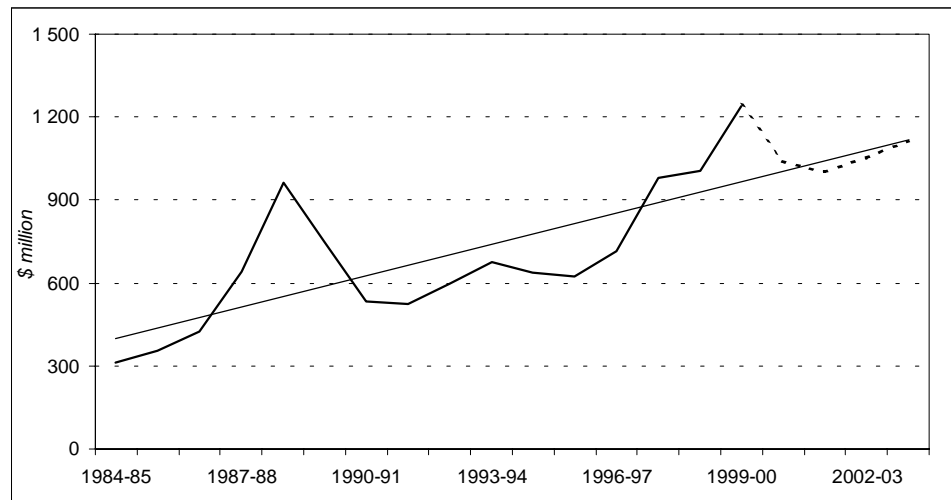
### **Land tax**

In the absence of future policy changes, land tax assessments are estimated to increase by \$64 million in 2000-01 to \$489 million. The increase reflects increased property values as a result of the strength of the property market over the past two years.

## Land transfers

Over the past two years, demand for housing has been especially strong because of Victoria's strong employment growth, positive interstate migration into Victoria (for the first time in 25 years), sustained confidence levels, historically low interest rates, and an effort by many households to make house purchases ahead of the GST. Increases in interest rates, a general easing in economic growth and the introduction of GST are expected to slow revenue from conveyancing in future years, towards long-term trends. Chart 6.6 shows the recent high levels of conveyancing duty in a broader context, and includes estimates for future years.

**Chart 6.6: Conveyancing duty collections<sup>(a)</sup>**



Source: Department of Treasury and Finance

Note:

(a) Dashed line shows forecasts 2000-01 to 2003-04.

Housing affordability is likely to decline in 2000-01, reflecting continuing increases in housing prices and interest rates. These factors, together with the possibility of further interest rate increases during the remainder of 2000, are likely to produce some moderation in activity in real estate markets. As a result, revenue is expected to decline by \$200 million in 2000-01 to \$1 040 million. This moderation is expected to continue in 2001-02, although revenue is then expected to recover during the final two years of the forward estimates period.

## *Share duty*

Share duty on listed securities is due to be abolished from 1 July 2001 as part of changes to the national tax system. The duty will then only be levied on trading in the shares of unlisted companies.

Share market turnover has grown strongly over the past few years, reflecting privatisations, demutualisations and increased private shareholding. Offsetting this positive trend is the fact that fund management activities and share trading are becoming increasingly concentrated in New South Wales. As a result, the proportion of duty collected in Victoria has fallen over time.

The revenue growth of recent years is not expected to continue as strongly in the near future, as the recent high level of privatisations and demutualisations diminishes, share price growth is constrained by the underlying profitability of businesses, and the trend towards concentration of share trading activity in New South Wales continues. Revenue is forecast to increase by 8.8 per cent to \$215 million in 2000-01.

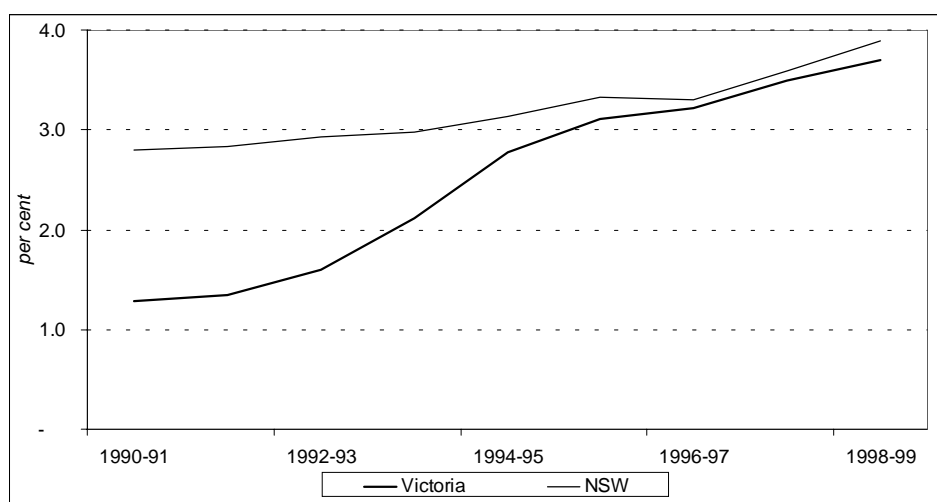
## **Gambling**

In 2000-01 gambling taxes will be adjusted for the introduction of the GST, as required by the Intergovernmental Agreement. Overall, gambling tax revenue in 2000-01 is expected to fall 19 per cent to \$1 235 million. In future years revenue growth is expected to be lower than in recent years as the market enters a mature phase, and gambling expenditure as a share of household disposable income approaches that in New South Wales.

The Government's Gambling Legislation (Responsible Gambling) Bill is also expected to affect revenue growth in the longer term. The Bill, which sets out a framework for a stronger regulatory environment, will be introduced into Parliament in the Autumn 2000 session.

A number of transitional factors account for the underestimation of gambling revenue in recent years. These include the difficulty of predicting the growth in revenue from electronic gaming machines, reflecting unanticipated strength in demand and the capacity of the gambling industry to respond to demand changes by moving machines to the most lucrative locations, expanding the number of 24-hour venues, and converting electronic gaming machines to accept notes. These factors are illustrated in Chart 6.7 by the speed with which Victorian gambling expenditures have approached the levels experienced in the mature NSW market.

**Chart 6.7: Gambling expenditure and household disposable income**



Source: Department of Treasury and Finance; Tasmanian Gambling Commission, Australian Gambling Statistics.

### **Insurance**

In 2000-01, revenue from insurance business is forecast to increase by 12.8 per cent to \$429 million.

General (i.e. non-life) insurance includes insurance on buildings, contents, public liability and vehicles. The insurance industry is currently emerging from a period of intense competitive pressures on premiums and a record level of natural disasters which have seen the demise of several reinsurers. These developments are likely to precede a period of reserve rebuilding, higher reinsurance premiums and less intense competition. Increases in general insurance premiums are a likely result of this process, leading to increased collections of stamp duty.

Stamp duty on compulsory third party insurance tends to grow in line with the stock of vehicles, plus an allowance for increases in the cost of insurance claims. Stamp duty on life insurance remains a small portion of the collections, as traditional life insurance policies are declining in popularity.

### **Motor vehicles**

In 2000-01, motor vehicle tax revenue is forecast to increase by 3.0 per cent to \$932 million.

The forecasts for stamp duty collections in 2000-01 and later years assume that, following the introduction of GST and the abolition of wholesale sales tax, there will be moderate increases in revenue, which is expected to grow at about half the rate of that in recent years. Forecasts for motor registration and drivers licences assume no increase in the level of fees.

### **Safety net revenues/franchise fees**

In August 1997, a decision by the High Court of Australia implied that state ad valorem franchise fees on petrol, alcohol and tobacco were unconstitutional. Following this decision, the Commonwealth Government imposed taxes which largely matched state taxes and returned the revenue to the States as safety net revenues.

The cessation of these arrangements from 1 July 2000 (as part of the changes to the national tax system) will result in a fall in revenue from these sources from \$1 486 million in 1999-2000 to \$112 million in 2000-01 (the small amount in 2000-01 reflecting the lag between revenue collection and its payment to the States). In 2001-02 and beyond, revenue from franchise fees is expected to be \$7 million annually, mainly reflecting miscellaneous fixed rate licence fees.

### **Regulatory fees and fines**

Revenue is not expected to change significantly in 2000-01 but will then decline by around \$40 million in the forward estimate years, largely reflecting the abolition of electricity licence fees (see Table 6.7).

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

Revenue from the sale of goods and services is expected to increase slightly from \$1 923 million in 1999-2000 to \$1 940 million in 2000-01 (see Table 6.7). The increase is mainly attributable to:

- a significant increase in revenue from museum entrance fees (\$12 million), reflecting the anticipated opening of the new museum at Carlton Gardens and associated expanded services and programs;
- a projected increase in State Library revenue from private sponsorship and services (\$8 million); and
- an increase in projected sales revenue of the Adult Migrant Education Service (\$12 million), reflecting the recent securing of a major new contract with the NSW Government.

The projected increase in revenue from these sources is partly offset by an anticipated decline in Commonwealth Department of Veterans' Affairs payments for repatriation health services, mainly as a result of services shifting from public to private hospitals.

The net increase in revenue has no impact on the overall budget position because it is offset by an equivalent increase in operating expenses reflecting the cost of services provided.

## Public authority income

**Table 6.9: Public authority income 1999-2000 to 2003-04**

	(\$ million)				
	1999-00 Revised	2000-01 Budget	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
Dividends	882.1	772.7	573.5	521.9	412.2
Income tax equivalent receipts	250.0	173.0	81.1	33.8	38.5
Wholesale sales tax and local government rate equivalent receipts	4.2	2.0	2.1	2.2	2.3
<b>Total public authority income</b>	<b>1 136.3</b>	<b>947.7</b>	<b>656.7</b>	<b>557.9</b>	<b>453.0</b>

*Source: Department of Treasury and Finance*

Public authority income is expected to decrease from \$1 136 million in 1999-2000 to \$948 million in 2000-01. This change mainly reflects the fact that in 1999-2000 the distributions from the Transport Accident Commission were substantially higher than expected due to favourable investment returns and claims management experience.

Over the forward estimates period, public authority income is forecast to decline from \$948 million in 2000-01 to \$453 million in 2003-04. This is mainly due to:

- a decrease in distributions from the gas sector from \$353 million in 2000-01 to nil in 2002-03 and beyond, as a result of a profitable gas supply contract with Esso/BHPP concluding in 2001-02 and the introduction of full competition in the retail gas market by September 2001;
- a decrease in dividends and income tax equivalent receipts from the Transport Accident Commission from \$226 million in 2000-01 to \$122 million in 2003-04 reflecting more conservative claims assumptions and the expected completion in 2002-03 of the series of proposed special payments which are being used to fund the Accident Blackspot program; and



- the expected cessation of dividends from the SECV shell after the payment of \$22 million in 2000-01 to fund the remediation of the West Melbourne Gas Works site.

Distributions from other government business enterprises in the period 2001-02 to 2003-04 are expected to be maintained at approximately \$330 million per annum.

## **Other revenues**

Other revenues comprise a wide range of miscellaneous revenue including rent on Crown leases, coal and forest royalties, interest received and surplus on disposal of physical assets. These revenues are forecast to decrease from \$991 million in 1999-2000 to \$976 million in 2000-01, and thereafter increase slowly to around \$1 023 million in 2003-04.

The decline in 2000-01 is mainly due to declines in the capital asset charge revenue receivable from VicTrack (\$16 million), revenue from the Office of Housing (\$12 million) in lieu of debt forgiven, and in Tricontinental recoveries (\$10 million). These reductions will be partly offset by increases in interest revenue.

The outlook for the remainder of the forward estimates period mainly reflects projected growth in interest revenue and the expected pattern of revenue from the Office of Housing and recoveries from Tricontinental.

## **FINANCIAL RESPONSIBILITY – TAX EXPENDITURES**

Part of the higher level of disclosure required under the *Financial Management (Financial Responsibility) Act 2000* is an overview of tax expenditures.

The Victorian state taxation system, in common with those of other jurisdictions and the Commonwealth, provides a variety of concessions to taxpayers as a means of providing assistance, encouragement or relief to particular taxpayers or particular activities. Preferential treatment may be provided via tax exemptions, deductions, rebates, credits, preferential rates or deferrals of tax.

Table 6.10 presents aggregate tax expenditure by the main categories of tax or duty, for the past two years as well as for the period covered by the financial statements.

Estimates for the period 2000-01 to 2003-04 are derived by applying the ratio of tax expenditures to receipts in 1998-99 (as shown in Table F1 of Appendix F, *Tax Expenditures*) to the forward estimates of revenue. A more detailed discussion and costing of the main tax expenditures can be found in Appendix F.

**Table 6.10: Aggregate tax expenditures (excluding thresholds) by type of tax 1998-99 to 2003-04**

<i>Description</i>	<i>(\$ million)</i>					
	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>
	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
Land tax	523	583	695	749	758	777
Payroll tax	452	450	519	545	581	611
Financial institutions duty	9	10	11	1	0	0
Gambling taxes	54	65	49	51	55	54
Business franchise fees	71	73	6	0	0	0
Vehicle taxation	108	111	112	117	120	124
Other stamp duties	126	109	131	116	121	128
<b>Total for items estimated</b>	<b>1 343</b>	<b>1 401</b>	<b>1 523</b>	<b>1 579</b>	<b>1 635</b>	<b>1 694</b>

*Source: Department of Treasury and Finance*

## CHAPTER 7: BALANCE SHEET MANAGEMENT AND OUTLOOK

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- The Government will take advantage of strong cash inflows in 1999-2000 to establish the \$1 billion Growing Victoria reserve. This reserve will be used to increase infrastructure spending by an additional 20 per cent over the next four years and will contribute towards an 8 per cent boost in real terms to Victoria's budget sector capital stock over this period.
- The Government is developing a policy on the use of public-private partnerships as a way of providing public infrastructure and related services. Funds allocated to the Growing Victoria reserve are expected to contribute to the establishment of a number of projects under this policy.
- The Government is committed to maintaining the triple-A credit rating awarded by Moody's Investors Service on 8 February 2000 and affirmed by Standard and Poor's on 20 December 1999. Both ratings agencies cited Victoria's exceptionally low debt levels, strong fiscal position and the Government's commitment to financial responsibility as the key reasons for awarding Victoria their highest credit rating.
- A key commitment of the Government is to maintain net financial liabilities at prudent levels. Continued budget surpluses will result in budget sector net financial liabilities falling from 10.9 per cent of GSP as at 30 June 1999 to 7.7 per cent at June 2004, and state government net debt declining from \$6.2 billion to \$4.7 billion.
- The Government has adopted a new funding framework with the aim of achieving 100 per cent funding of the Victorian Government's superannuation liabilities by 2035, 15 years ahead of previous estimates.
- As an additional step in that process, cash resources of \$250 million are to be allocated in 1999-2000 towards fully funding the Emergency Services Superannuation Scheme.

## **FINANCIAL MANAGEMENT PRINCIPLES AND BALANCE SHEET OBJECTIVES**

The *Financial Management Act 1994* includes a set of principles for sound financial management which are applicable to the management of the State's balance sheet (see Chapter 2, *Financial Policy Objectives and Strategies*). These are to:

- manage financial risks faced by the State prudently, having regard to economic circumstances;
- ensure that government policy decisions have regard to their financial effects on future generations; and
- provide full, accurate and timely disclosure of information relating to the activities of the Government and its agencies.

The financial risks to be managed include those arising from the level of general government sector debt, the management of assets and liabilities of the State, and commercial risks arising from public corporations.

Consistent with these principles of sound financial management the Government has a number of short and long-term financial objectives, including to:

- maintain a substantial budget sector operating surplus (of at least \$100 million in each year);
- provide capital works to enhance infrastructure throughout Victoria (with a short-term objective of establishing the \$1 billion Growing Victoria reserve); and
- maintain state government net financial liabilities at prudent levels (with an objective of maintaining the triple-A credit rating).

These principles and objectives are supported by the State's prudential framework for managing financial risks in the State's balance sheet. The three key institutions that implement this framework are Treasury Corporation of Victoria - the State's central borrowing authority, Victorian Funds Management Corporation providing funds management services, and Victorian Managed Insurance Authority, providing insurance and risk management services.

## **Importance of balance sheet information**

The Government is committed to full disclosure of the State's finances using Financial Statements prepared in accordance with generally accepted accounting principles. Transparency and accountability improve the allocation of resources and provide for responsible financial stewardship.

By bringing assets and liabilities to account in an accrual framework, the Government can predict and control the impact of annual budget decisions in ways not possible under the previous cash accounting environment. Information on the changing composition and value of assets and liabilities assists in the prudent management of risk. This information also highlights the financial effects of policy decisions on future generations.

In particular, accrual accounting discloses the full cost of owning, maintaining and operating buildings, equipment and other assets used to deliver services to the community. Identifying the full operating and capital cost of providing these services ensures resource decisions are made with a comprehensive understanding of the immediate and ongoing impact of these decisions on the State's finances.

## **Prudent financing of the State's capital stock**

The Government's balance sheet objectives provide the framework for strategic decisions on how to finance the maintenance and growth of the State's capital stock within the prudent financial benchmarks set by Government.

The Government will maintain ongoing investment in budget-related infrastructure at a minimum level of 1 per cent of GSP, as done by the previous Government. Preserving the level of capital stock used to deliver services is broadly achieved by ensuring that investment in refurbishing and replacing assets is equivalent to the expected depreciation of the asset stock during the year.

The Government also plans to pursue growth in the level of the capital stock in order to meet increased demand and to improve the quality of the services provided to the whole community. The Government's policy is to finance additional asset investment from the budget operating surpluses, once again avoiding the need to incur additional borrowings. Over the period of the forward estimates, the capital stock is forecast to grow by \$2.9 billion or 8 per cent in real terms (including the \$1 billion set aside in 1999-2000 for the Growing Victoria reserve), while state government net debt is forecast to fall from \$6.2 billion as at 30 June 1999 to \$4.7 billion as at June 2004.

## **GROWING VICTORIA**

Funding from the Growing Victoria reserve is expected to contribute to the establishment of a number of projects, which are a high priority in delivering the Government's commitment to enhance the infrastructure of the whole of Victoria.

This reserve will support asset investment expenditure totalling around \$64 million in 2000-01 and a projected \$312 million in each year of the forward estimates period to 2003-04. This initiative is expected to result in a 20 per cent increase in the level of budget sector asset investment over the next four years over and above base levels.

Eligible projects will include:

- major transport infrastructure projects – Linking Victoria;
- significant modernisation programs in the education (TAFE and schools) sector – Skilling Victoria; and
- information and communications technology facilities and capabilities – Connecting Victoria.

See Chapter 5, *Budget Sector Service Delivery* for details on this set of Government strategies.

## **Public-private partnerships**

The Government is promoting infrastructure spending through a responsible use of the resources of both the public and private sectors. Hence, a policy on the use of public-private partnerships to provide public infrastructure and related services is being developed.

Under the proposed policy, infrastructure projects will be assessed as to the potential for public-private partnership to achieve both an improved quality of service to the community and better value for money. Public-private partnerships delivered under this policy will focus on the service delivery outcomes for the community rather than simply the creation of infrastructure. These projects will utilise the innovation and management skills of both the public and private sectors.

This policy will give consideration to a wide range of partnership forms with the appropriate partnership form for a particular project tailored accordingly. Common to all partnership forms will be an emphasis on appropriate risk transfer to the private sector and an assessment of the economics of the project based on a whole-of-life cost of the infrastructure. The policy will also articulate

the Government's responsibilities for the provision of contracted services, and provide a more transparent and consultative process with affected parties.

## **CONTINUED LIABILITY REDUCTION**

Standard and Poor's affirmed the State's triple-A rating on 20 December 1999, while Moody's Investors Service upgraded Victoria to triple-A on 8 February 2000. Both rating agencies cited Victoria's exceptionally low debt levels, strong fiscal position and the Government's commitment to financial responsibility as the key reasons for awarding Victoria their highest credit rating. The Government is committed to maintaining the triple-A credit rating.

Cash resources of \$1.0 billion will be applied to the Growing Victoria reserve and \$553 million will be allocated to the repayment of borrowings in 1999-2000. In addition, \$250 million will be applied towards fully funding the unfunded liability of the Emergency Services Superannuation Scheme.

The smaller budget cash surpluses over the forward estimates period will continue to reduce net financial liabilities.

The budget and forward estimates assume future surplus cash resources are held as financial assets (reducing net debt). The Government is committed to maintaining net financial liabilities at prudent levels. The application of these financial assets to reducing state liabilities (debt repayment or net unfunded superannuation) will be based on the economic return to the State and market opportunities at the time.

As shown in Table 7.1 and Chart 7.1, budget sector net financial liabilities are expected to decrease from \$16.5 billion in June 1999 (10.9 per cent of GSP) to around \$15.4 billion by June 2004 (7.7 per cent of GSP).

**Table 7.1: Budget sector net financial liabilities <sup>(a)</sup>**

	(\$ billion)					
	1998-99 Actual	1999-00 Revised	2000-01 Budget	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
<b>Financial assets</b>						
Cash and deposits	0.7	0.7	0.7	0.8	0.8	0.8
Advances paid	0.5	0.4	0.4	0.3	0.2	0.1
Investments, loans and placements	1.3	1.4	2.1	2.5	2.8	3.0
Growing Victoria	-	1.0	0.9	0.6	0.3	-
<b>Total</b>	<b>2.5</b>	<b>3.5</b>	<b>4.1</b>	<b>4.2</b>	<b>4.1</b>	<b>3.9</b>
<b>Financial liabilities</b>						
Deposits held	0.2	0.3	0.3	0.3	0.3	0.3
Advances received	0.1	0.1	0.1	0.1	0.1	0.1
Borrowings	7.1	6.6	6.6	6.6	6.6	6.6
<b>Total</b>	<b>7.4</b>	<b>6.9</b>	<b>7.0</b>	<b>7.0</b>	<b>7.0</b>	<b>7.0</b>
<b>Net debt</b>	<b>4.9</b>	<b>3.4</b>	<b>2.8</b>	<b>2.8</b>	<b>2.9</b>	<b>3.1</b>
Net debt (excl. Growing Victoria)	4.9	4.4	3.8	3.4	3.2	3.1
Net unfunded superannuation <sup>(b)</sup>	11.5	11.9	12.0	12.1	12.2	12.3
<b>Net financial liabilities</b>	<b>16.5</b>	<b>15.3</b>	<b>14.9</b>	<b>15.0</b>	<b>15.1</b>	<b>15.4</b>
Net financial liabilities (excl. Growing Victoria)	16.5	16.3	15.8	15.6	15.4	15.4
Net financial liabilities to GSP (excl. Growing Victoria) <sup>(c)</sup>	10.9	10.3	9.3	8.7	8.2	7.7

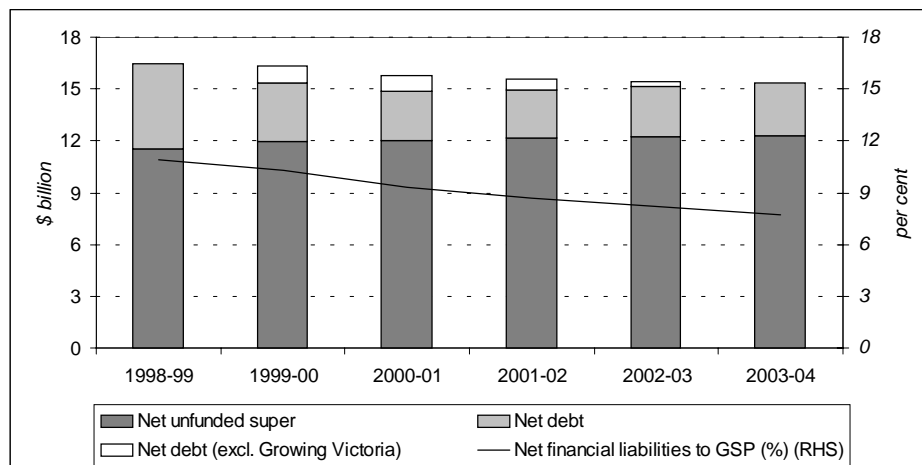
Source: Department of Treasury and Finance

Notes:

- (a) Net financial liabilities comprise general government sector net debt (see Uniform Presentation Framework tables in Appendix C) and budget sector net unfunded superannuation liabilities.
- (b) Net unfunded superannuation liabilities comprises of gross unfunded superannuation liabilities less excess superannuation assets held by the Emergency Services Superannuation Scheme.
- (c) Percent



**Chart 7.1: Budget sector net financial liabilities <sup>(a)</sup>**



Source: Department of Treasury and Finance

Note:

(a) Net financial liabilities comprise general government sector net debt (see Uniform Presentation Framework tables in Appendix C) and budget sector net unfunded superannuation liabilities.

Budget sector net financial liabilities are expected to plateau at around \$15.4 billion over the forward estimates period, after allowing for the Growing Victoria reserve.

## SUMMARY BUDGET SECTOR BALANCE SHEET

The statement of financial position shows an increase in budget sector net assets from \$11.6 billion as at June 1999 to \$12.9 billion as at June 2000, reflecting the large operating surplus for 1999-2000. The projected \$2.1 billion improvement in the net asset position from 2000-01 to 2003-04 reflects the continuing but smaller budget operating surpluses forecast over the forward estimates period.

**Table 7.2: Budget sector summary statement of financial position <sup>(a)</sup>**

(\$ billion)

	1998-99 Actual	1999-00 Revised	2000-01 Budget	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
Current assets	2.4	2.4	2.3	2.3	2.3	2.3
Non-current assets	31.0	32.4	33.5	34.3	35.1	35.9
<b>Total assets</b>	<b>33.5</b>	<b>34.8</b>	<b>35.8</b>	<b>36.6</b>	<b>37.4</b>	<b>38.3</b>
Current liabilities	2.8	2.8	2.9	2.9	3.1	3.1
Non-current liabilities	19.1	19.1	19.4	19.7	19.9	20.2
<b>Total liabilities</b>	<b>21.8</b>	<b>21.9</b>	<b>22.3</b>	<b>22.7</b>	<b>23.0</b>	<b>23.3</b>
<b>Net assets</b>	<b>11.6</b>	<b>12.9</b>	<b>13.5</b>	<b>13.9</b>	<b>14.4</b>	<b>15.0</b>

Source: Department of Treasury and Finance

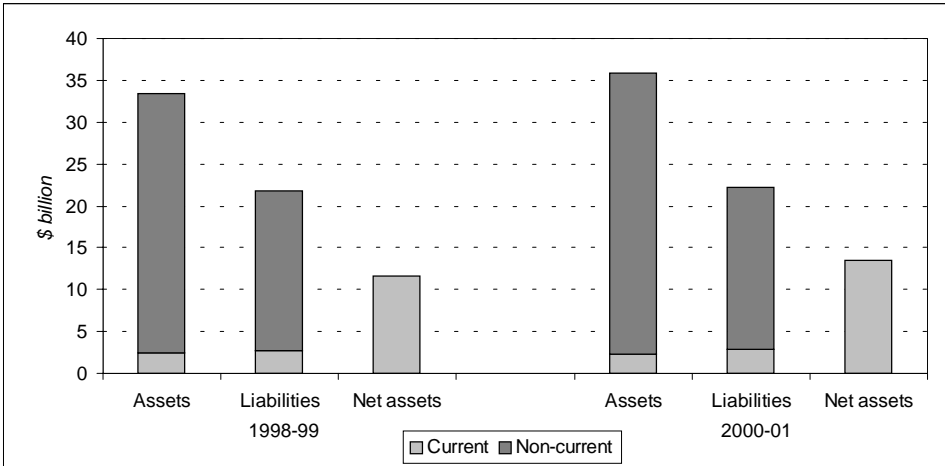
Note:

(a) See Chapter 10, Estimated Financial Statements and Notes for full statement of financial position.

Growth in total assets is expected to be 3.9 per cent during 1999-2000, reflecting the strength of the budget. Growth is forecast to average 2.5 per cent per annum between 1999-2000 and 2003-04. This anticipated increase in total assets reflects the Government's ongoing commitment to sustaining existing services and increasing investment, particularly in regional Victoria.

Chart 7.2 shows the composition of the budget sector balance sheet for 1998-99 and the budget year 2000-01. The large growth in non-current assets, as a result of increase in investments and physical assets, and the growth in net assets can be clearly seen over the two-year period shown in the chart.

**Chart 7.2 Composition of the budget sector balance sheet**

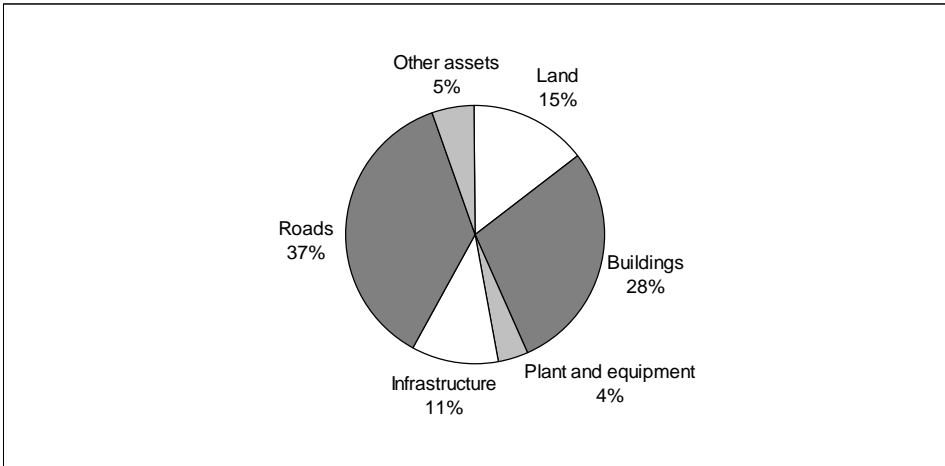


Source: Department of Treasury and Finance

**Budget sector assets**

Chart 7.3 shows the expected composition of non-current physical assets at 30 June 2001, with roads accounting for the largest proportion of these assets.

**Chart 7.3: Composition of non-current physical assets as at June 2001**

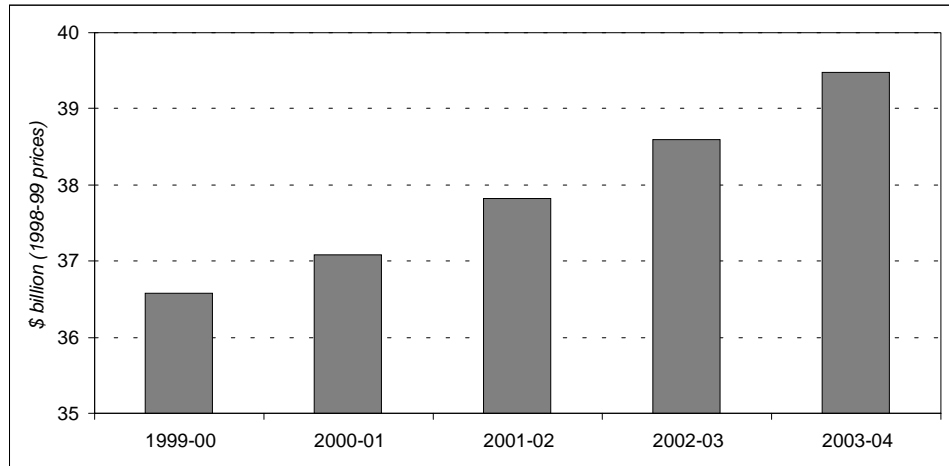


Source: Department of Treasury and Finance

## Capital stock

When combined with pre-existing asset commitments, the infrastructure initiatives in this budget mean that the budget sector capital stock will grow strongly in real terms. This can be seen in Chart 7.4. Over the four years to 2003-04, the estimated budget sector capital stock is expected to grow by 8 per cent in real terms.

**Chart 7.4: Real budget sector capital stock <sup>(a)</sup>**



Source: Department of Treasury and Finance

Note:

(a) Includes budget sector property, plant and equipment, roads and other non-current assets, and Office of Housing assets (part of the non-budget general government sector).

## Budget sector liabilities

The main components of the budget sector's liabilities are debt and unfunded superannuation associated with the defined benefit schemes of the State Superannuation Fund. The planning assumption in regard to surplus cash resources from operating and investment activities is that these funds will be held as financial assets, thereby reducing net debt (which is defined as gross debt less financial assets).

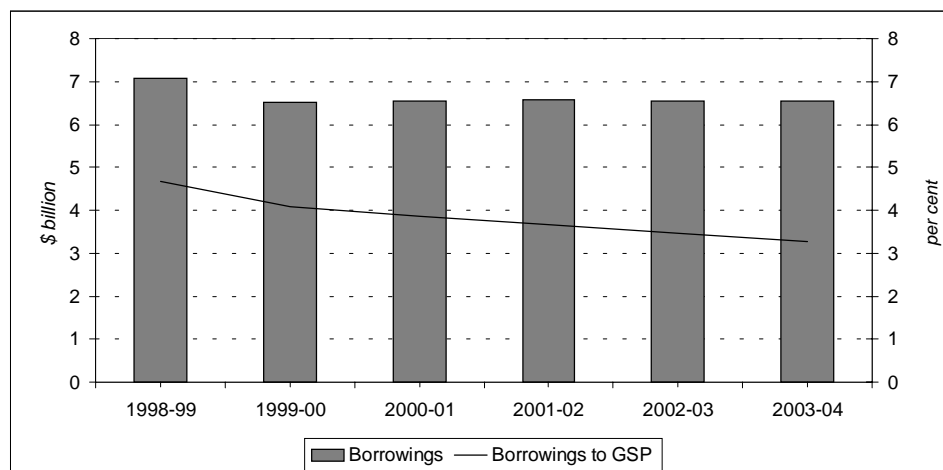
## Budget sector debt

Management of the budget sector debt portfolio continues to be based on the key objectives of achieving relative certainty of interest costs, while minimising net borrowing costs and refinancing risk, and conservatively managing the

financial and operational risks of the budget sector treasury operations. To achieve these policy objectives, budget sector debt management activities are focussed on increasing the flexibility and lengthening the maturity of the funding facilities provided to the budget sector by Treasury Corporation of Victoria.

Given the planning assumption that future budget surpluses are to be held as financial assets, gross budget sector borrowings are expected to plateau at around \$6.5 billion over the forward estimates period, falling to 3.3 per cent of GSP by 30 June 2004 (see Chart 7.5).

**Chart 7.5: Budget sector borrowings**



Source: Department of Treasury and Finance

**Table 7.3: Borrowing costs**

	1998-99 <i>Actual</i>	1999-00 <i>Revised</i>	2000-01 <i>Budget</i>	2001-02 <i>Estimate</i>	2002-03 <i>Estimate</i>	2003-04 <i>Estimate</i>
			<i>\$ million</i>			
Borrowing costs	733.2	452.9	510.4	490.2	477.8	479.1
			<i>per cent</i>			
Per cent of total revenue	3.6	2.1	2.3	2.2	2.1	2.1

Source: Department of Treasury and Finance.

The increase in budget sector borrowing costs from 1999-2000 to 2000-01 reflects the GST impact on the CPI-linked debt held in the budget sector debt portfolio. Over the forward estimates period budget sector interest and other finance costs are forecast to plateau at around \$480 million in 2002-03, and to absorb just 2.1 per cent of total revenue (see Table 7.3).

### ***Unfunded superannuation liabilities***

The most significant liability on the State's balance sheet is net unfunded superannuation. Net unfunded superannuation liabilities are now twice as large as state government net debt.

As part of the State's balance sheet management strategy, it is important that the growth in this liability continues to be controlled. In addition, rating agencies have increased their focus on net unfunded superannuation liabilities as public debt levels have been reduced.

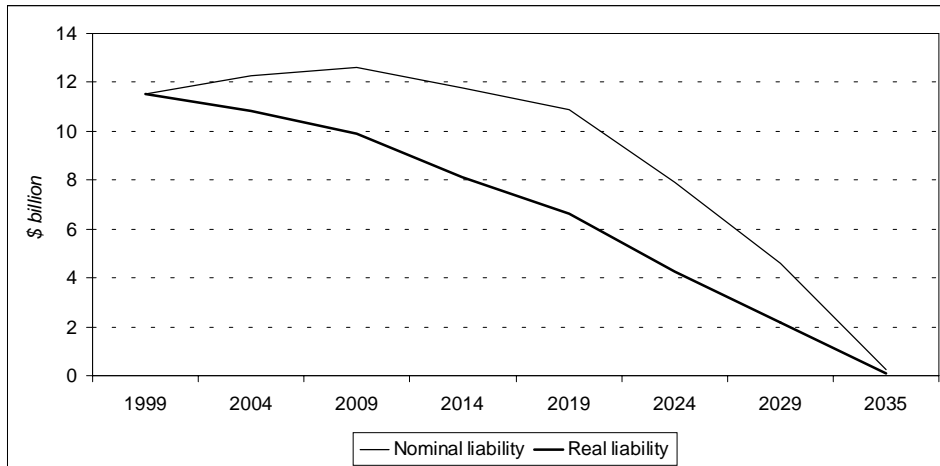
The net unfunded liability of Victoria's superannuation schemes represents the present value of future benefits that its members have accrued during past service which are not covered by fund assets.

In November 1995, budget sector departments and agencies assumed responsibility for meeting the accruing superannuation cost of current employees through payments from their annual budget. The unfunded costs of prior service, however, remain the responsibility of the State and consequently appear on the budget sector's balance sheet. The prior service costs are currently funded through an annual payment that is based on the level of benefit payments that are expected to be made each year.

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

The Government (in conjunction with the Actuary of the State Superannuation Fund) has reviewed the framework for determining the level of annual payments to be paid by the State to the State Superannuation Fund. The new framework has been set with the aim of achieving 100 per cent funding of the Victorian Government's liabilities by 2035, 15 years ahead of previous estimates. As an additional step in that process cash resources of \$250 million are to be allocated towards fully funding the Emergency Services Superannuation Scheme in 1999-2000.

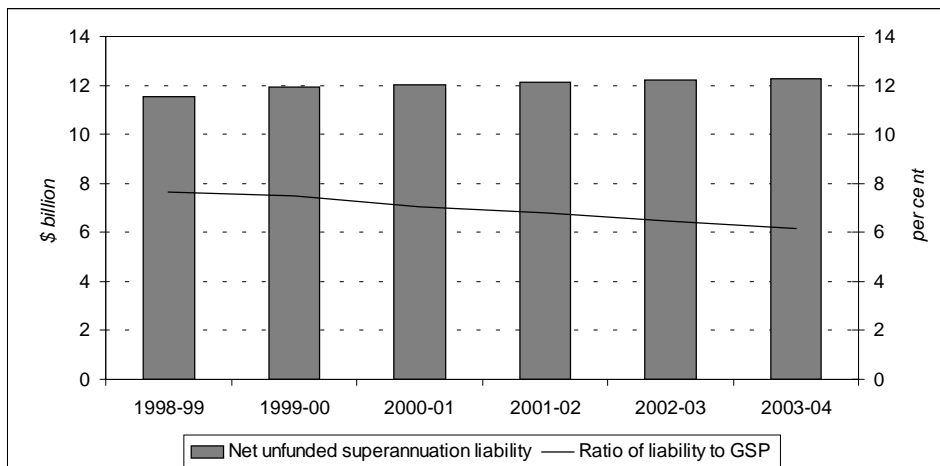
**Chart 7.6: Unfunded superannuation liabilities – long-term projections**



Source: Department of Treasury and Finance

Chart 7.6 shows that on an unchanged policy basis the level of net unfunded liabilities measured in real terms (June 1999 dollars) is expected to continue to fall from 1999-2000 as the impact of previous policy changes and decisions taken in this budget take effect. In nominal terms, the level of net unfunded superannuation liabilities is expected to peak at \$12.6 billion in 2009.

**Chart 7.7: Unfunded superannuation liabilities**



Source: Department of Treasury and Finance

As at 30 June 2000, the net unfunded superannuation liability is expected to be \$11.9 billion. The net unfunded superannuation liability is expected to grow on a nominal basis over the forward estimates period to approximately \$12.3 billion by 30 June 2004 (6.2 per cent of GSP), an average annual growth rate of 0.7 per cent. This is mainly due to the increasing average age of the public sector workforce covered by defined benefit schemes.

This growth will be less rapid than the expected growth in GSP as shown in Chart 7.7.

### State government (non-financial public sector) net debt

Given the budget assumption that all future surplus cash resources are applied to financial assets, state government net debt (excluding the Growing Victoria reserve) is forecast to fall from \$6.2 billion at 30 June 1999 to \$4.7 billion at 30 June 2004 reflecting an increase in budget sector financial assets. As a proportion of GSP it is expected to decline from 4.1 per cent as at 30 June 1999 to 2.4 per cent as at 30 June 2004 (see Table 7.4 and Chart 7.8).

**Table 7.4: State government net debt and net debt to GSP (excluding Growing Victoria reserve)<sup>(a)</sup>**

	1998-99 Actual	1999-00 Revised	2000-01 Budget	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
	<i>\$ billion</i>					
State government net debt <sup>(b)</sup>	6.2	6.0	5.4	5.1	4.9	4.7
General government net debt	4.9	4.4	3.8	3.4	3.2	3.1
	<i>per cent</i>					
State government net debt to GSP	4.1	3.7	3.2	2.9	2.6	2.4
General government net debt to GSP	3.3	2.8	2.2	1.9	1.7	1.5

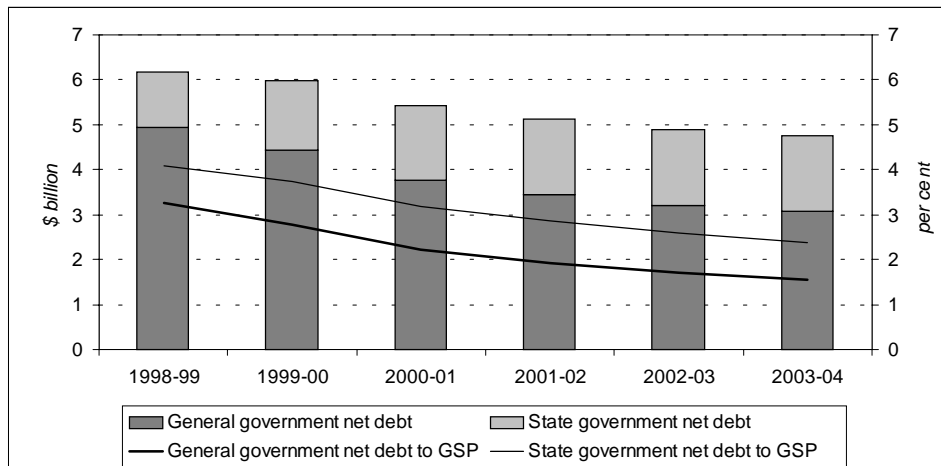
Source: Department of Treasury and Finance

Notes:

- (a) Refer Appendix C, Accrual Uniform Presentation of Government Finance Statistics for full details.
- (b) State government net debt equals general government net debt plus public non-financial corporations' net debt, less intersectoral advances. As public non-financial corporations' debt forecasts are not available for the forward estimates period, the data for this sector have been held constant from the year 2000-01.



**Chart 7.8: State government net debt (excluding Growing Victoria reserve)<sup>(a)</sup>**



Source: Department of Treasury and Finance

Note:

(a) State government net debt equals general government net debt plus public non-financial corporations' net debt, less intersectoral advances. As public non-financial corporations' debt forecasts are not available for the forward estimates period, the data for this sector have been held constant from the year 2000-01.

The decline of state government and general government net debt (excluding the impact of the Growing Victoria reserve) reflects the continued forecast budget surpluses and is consistent with the Government's objectives of maintaining both the current prudent levels of debt and the State's triple-A credit rating.

### Reconciliation – operating surplus to change in general government net debt

Table 7.5 provides a reconciliation of the projected budget sector operating surplus to the change in general government net debt over the forward estimates period (as shown in Appendix C, *Accrual Uniform Presentation Of Government Finance Statistics*).

As previously noted, the forward estimates assume little change in gross borrowings over the forward estimates period. The remainder of the cash surplus (or requirement) in relation to operating and infrastructure investment activities is assumed to be applied to (or sourced from) financial assets. In particular \$1 billion of the 1999-2000 cash surplus is invested in the Growing Victoria reserve, which is slowly expended over the next four years.

**Table 7.5: Reconciliation – operating surplus to change in general government net debt**

	(\$ million)				
	1999-00 Revised	2000-01 Budget	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
<b>Budget sector operating surplus</b>	<b>1 339</b>	<b>591</b>	<b>401</b>	<b>462</b>	<b>603</b>
Plus: Net non-cash expenses	1 222	1 189	1 125	1 097	1 143
<b>Net cash inflow from operating activities</b>	<b>2 562</b>	<b>1 780</b>	<b>1 526</b>	<b>1 559</b>	<b>1 746</b>
Less: Cash outflow from net purchase of fixed assets	982	1 152	1 479	1 614	1 881
<b>Total cash surplus available for financing activities <sup>(a)</sup></b>	<b>1 580</b>	<b>628</b>	<b>47</b>	<b>- 55</b>	<b>- 135</b>
Applied to:					
Repayment/(increase) in borrowings <sup>(b)</sup>	553	- 8	- 11	5	5
Plus: Increase/(decrease) in financial assets					
Cash	19	24	22	45	41
Customer loans repaid	- 95	- 64	- 78	- 61	- 66
Growing Victoria reserve	1 000	- 64	- 312	- 312	- 312
Other financial assets	103	738	426	267	197
<b>Increase/(decrease) in financial assets</b>	<b>1 027</b>	<b>635</b>	<b>57</b>	<b>- 61</b>	<b>- 140</b>
Plus:					
Indexation/amortisation costs on borrowings	- 10.3	- 37.1	- 22.5	- 8.0	- 7.6
Coverage/classification differences <sup>(c)</sup>	- 59	- 3	- 7	- 24	- 22
<b>Decrease/(increase) in net debt</b>	<b>1 510</b>	<b>586</b>	<b>17</b>	<b>- 87</b>	<b>- 165</b>
<b>Decrease/(increase) in net debt (excl. Growing Victoria reserve)</b>	<b>510</b>	<b>650</b>	<b>329</b>	<b>225</b>	<b>147</b>

Source: Department of Treasury and Finance

Notes

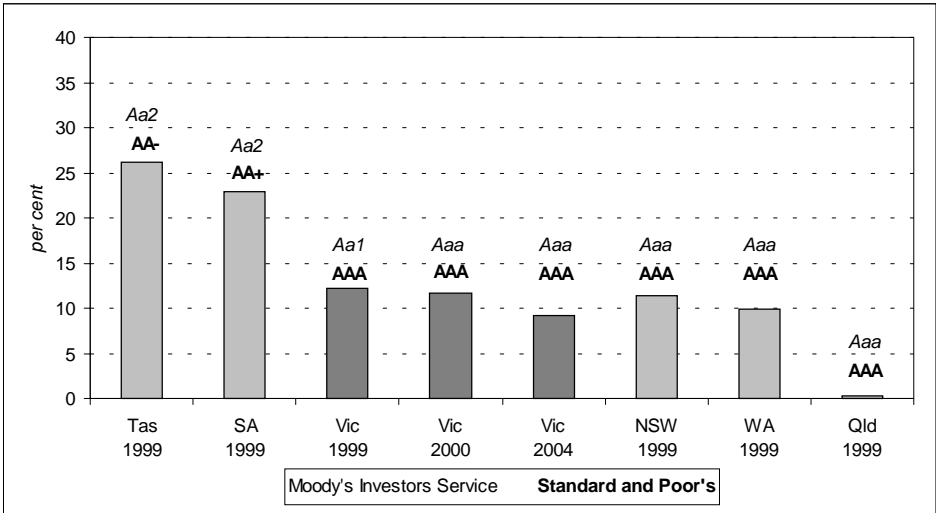
- (a) Includes contributions to superannuation funds, including \$250 million in 1999-2000 towards eliminating the unfunded liability in respect of the Emergency Services Superannuation Scheme.
- (b) Includes budget sector debt, finance leases and deposits repayable.
- (c) Attributable to sectoral coverage differences between Victorian budget and general government sectors (refer to Appendix C for information on coverage differences) and to differences between the AAS31 and Australian Bureau of Statistics GFS accrual classification standards.

After abstracting from the impact of the Growing Victoria reserve, general government net debt is expected to fall steadily in underlying terms over the entire forward estimates period.

**Net financial liabilities – interstate comparison**

As shown in Chart 7.9, the ratio of Victoria’s net financial liabilities to GSP (as reported by the ABS) is consistent with other triple-A rated States. In addition, Victoria’s net debt is amongst the lowest of Australian States.

**Chart 7.9: Comparison of general government net financial liabilities to GSP and current Australian state ratings, as at 30 June <sup>(a) (b)</sup>**



Sources: Australian Bureau of Statistics, Cat. No. 5501.0 (1999-2000); Department of Treasury and Finance

Note:

- (a) General government net financial liabilities equals general government net debt plus net unfunded superannuation liabilities and other employee entitlements.
- (b) Excludes Growing Victoria reserve.

## KEY BALANCE SHEET INDICATORS

The first two indicators in Table 7.6 reflect the State's ability to meet long-term service expectations through growth in the physical asset base. The remaining indicators look at the financial capacity of the State, particularly the State's ability to sustain borrowing levels consistent with the triple-A credit rating.

Each financial indicator:

- shows changes over time and enables trends to be identified;
- allows strengths and weaknesses to be more easily identified;
- focuses on performance, not the dollar amounts; and
- brings more meaning to comparisons with other States.

The indicators shown in Table 7.6 demonstrate consistency with the Government's financial objectives and policies of financial responsibility. The trends can be expected to continue in future years consistent with the ongoing commitment to prudent policy outcomes.

As shown in Table 7.6, continuing annual growth in non-current physical assets of 2.3 per cent is expected. This rate indicates the net change in the asset base after allowing for additions to, and disposals of, assets. The ratio of asset investment to non-current physical assets reflects additions to the asset base according to the Government's investment commitments.

The relative stability in total liabilities to total assets, total borrowings to total assets and total borrowings to GSP reflect the Government's commitment to maintain debt and unfunded superannuation liabilities at prudent levels.

The debt-servicing ratio reflects the Government's ability to meet the costs of borrowings. This ratio shows that, as a percentage of revenue, debt-servicing costs are not significant and can be easily sustained.

**Table 7.6 Analysis of movements in the budget sector balance sheet**

	<i>(per cent)</i>					
	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>
	<i>Actual</i>	<i>Revised</i>	<i>Budget</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
Growth in non-current physical assets <sup>(a)</sup>	6.4	0.7	1.5	2.3	2.4	3.0
Asset investment to non-current physical assets	4.3	3.7	4.2	5.0	5.2	5.8
Total liabilities to total assets	65.2	62.8	62.2	61.9	61.5	60.8
Total borrowings to total assets	21.1	18.7	18.3	17.9	17.5	17.1
Long-term borrowings to total assets	18.3	17.1	16.7	16.4	15.7	15.6
Total borrowings to GSP	4.7	4.1	3.8	3.7	3.5	3.3
Debt servicing ratio <sup>(b)</sup>	3.6	2.1	2.3	2.2	2.1	2.1
Superannuation expenses to total revenue	6.7	6.7	6.2	6.6	6.5	6.6
Current assets to current liabilities <sup>(c)</sup>	0.9	0.9	0.8	0.8	0.7	0.8

*Source: Department of Treasury and Finance*

*Notes:*

*(a) Non-current physical asset opening balances are used. The large increase in 1998-99 is due to the revaluation of land and buildings and the first-time recognition of assets.*

*(b) Borrowing costs to total revenue.*

*(c) Ratio measure.*



# CHAPTER 8: ELECTION COMMITMENTS – IMPLEMENTATION REPORT CARD

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- The key priority of the 2000-01 Budget is to implement the Government’s election commitments as outlined in *Labor’s Financial Statement*, with the focus being on growing the whole state and improving service delivery in the key areas of education, health and community safety.
- All output election commitments detailed in *Labor’s Financial Statement*, with the exception of the final structure of the Essential Services Commission, have been approved, including those priority commitments which were implemented in 1999-2000 immediately after the Government came to office.
- Decisions have been taken on new asset investment commitments scheduled to commence in 2000-01. In addition, the commencement of a number of other projects has been brought forward to 2000-01.

*Labor’s Financial Statement – The First Term of a Bracks Labor Government* provides an overview of the Government’s election policy initiatives and their budgetary impact. This chapter outlines progress to date in implementing the election commitments detailed in the Statement.

Implementation of all output election commitments, with the exception of the final structure of the Essential Services Commission, has been approved. Total expenditure (net of savings) of \$426 million in 2000-01 has been approved to implement output election commitments. Funding to implement election commitments is being provided from a variety of sources including departmental savings initiatives of just over \$90 million per year, dedicated sources of funding such as the Community Support Fund, existing resources of departments and new approved funding. The election commitment to establish a National Footy Tipping Competition as an additional funding source is being further considered.

Decisions have also been taken on new asset investments scheduled to commence in 2000-01 and total project expenditure of \$421.3 million has been approved over the next four years. Asset investment projects detailed in *Labor’s*

*Financial Statement* which are yet to commence are expected to be considered as part of next year's budget.

Further detail on approved election commitments and other policy initiatives can be found in Appendix B, *Specific Policy Initiatives Affecting the Budget Position*.

## **OUTPUT INITIATIVES**

Implementation of a number of priority output initiatives commenced in 1999-2000 immediately after the Government came to office. Implementation of all remaining election commitments from *Labor's Financial Statement* has been approved, with the exception of the Essential Services Commission (see Table 8.1). Options for implementing the Essential Services Commission are currently being developed by the Government, with a decision on the final structure expected in early 2000-01.

In the education, employment and training sector total expenditure of \$174 million in 2000-01 has been approved. Key objectives include reducing class sizes, assisting students with special learning needs, expanding school welfare services and support programs, broadening the quality and availability of vocationally relevant subjects, and strengthening the financial position of TAFE institutes.

Expenditure totalling \$200 million in 2000-01 has been approved for a range of new Department of Human Services initiatives. In the hospital sector, an integrated elective and emergency strategy has been approved to better meet emergency and elective surgery demand. As part of this strategy, 360 beds will be reopened (including 20 beds which are to be funded by re-allocation of Human Services existing funding), compared with an election commitment of 290 additional beds. A key focus is on meeting peak winter emergency department demand.

Other health initiatives being implemented include the enhanced delivery of health services in home and community settings, additional support for rural hospitals and health services, enhanced health care for older Victorians and additional support for mental health services.



Approved community safety and justice related election commitments include:

- expenditure of \$64 million over four years to support the deployment of 800 additional operational police;
- reinstatement of pain and suffering compensation to victims of crime with funding of up to \$20 million per year in the form of “special assistance” awards; and
- \$5 million per year to employ 100 extra train station attendants to improve passenger safety and convenience.

To enhance the level and quality of services provided in regional Victoria, a \$170 million Regional Infrastructure Development Fund has been established. Funding has also been provided to extend the regional role of the Department of State and Regional Development and provide grants to local government and regional development boards. The Catchment Management Authority levy, which was applied to households in regional Victoria to finance catchment works, has been abolished at an ongoing cost of \$14 million.

Key election commitments being implemented to improve Victoria’s urban and natural environment include:

- \$45 million over four years for stormwater and sewerage upgrades;
- a total of \$30 million over three years for irrigation upgrades;
- ongoing funding of \$5 million per year to operate the Sustainable Energy Authority; and
- \$1 million per year additional funding for the Environment Protection Authority.

In the areas of industry development and the arts, election commitments have also been honoured to ensure the promotion of economic growth across the whole of Victoria.

Agreed funding initiatives are generally in line with *Labor’s Financial Statement*, although there are some variations due to implementation timing issues. The most significant exceptions include:

- increased expenditure for the opening of elective and emergency hospital beds. An additional 360 hospital beds will now be re-opened, compared to an election commitment of 290 beds (including 20 beds which are to be funded by re-allocation by Human Services of existing funding), and per bed funding has been increased following further detailed evaluation, of the original assumptions in relation to occupancy rates, length of stay and unit prices; and

- reduced expenditure for 800 additional operational police, having regard to the capacity for expenditure on operational police available in the budget forward estimates.

A number of initiatives included in *Labor's Financial Statement* as asset investment items have been reclassified as output initiatives because they are funded through the operating statements of departments. These are included in Table 8.1. Key examples include:

- funding to the Department of Human Services for increased social housing stock;
- the Regional Infrastructure Development Fund;
- funding to the Department of Natural Resources and Environment for irrigation, sewerage and stormwater upgrades; and
- funding for a boost to school maintenance programs, a community infrastructure jobs program and assistance to non-government schools for capital costs.

## SAVINGS INITIATIVES

Total savings initiatives targeted to yield over \$90 million a year from 2000-01 have now been finalised to assist in funding election commitments and other new initiatives (see Table 8.3). Savings have been drawn from government approved departmental proposals designed so that they do not impact on service delivery.

Government-wide savings initiatives include a reduction of 116 executive officer employees in 1999-2000, a 1 per cent efficiency dividend on supplies and consumables, and savings in public relations expenditure.

Consistent with Government election commitments, departmental specific savings proposals include the abolition of the Police Board, abolition of the Schools of the 3<sup>rd</sup> Millennium (self-governing schools) and a restructure of health care networks and the Department of Treasury and Finance.

In recognition of the requirement not to adversely impact on departmental service delivery, agreed savings targets are lower than those in *Labor's Financial Statement* and slightly below initial estimates which were approved by Government and published in the *1999-2000 Mid-Year Budget Review*.

The final agreed level of savings initiatives enables the Government to implement its election commitments and other new initiatives while not adversely affecting the level and quality of service delivery.

## ASSET INVESTMENT INITIATIVES

Asset investment initiatives included in *Labor's Financial Statement* cover upgrades of existing facilities and new construction projects that are targeted to maintain high quality and accessible services for local and rural communities.

Key initiatives include upgrades to primary and secondary schools, expansion and upgrade of hospital and health care facilities, replacement of a number of existing police stations and various metropolitan and rural road and rail infrastructure projects. The proposal to connect Sunbury to Melbourne Water's water supply was completed during 1999.

To enable implementation of election commitments, asset investment projects with a total expenditure of \$421 million, including \$106 million in 2000-01, have been approved (see Table 8.2). This includes a number of projects initially scheduled to commence from 2001-02 which have now been brought forward, reflecting the capacity of departments to commence the projects immediately.

In a number of instances, agreed expenditure is higher than *Labor's Financial Statement*. This reflects the outcome of detailed investment evaluations conducted by departments for each project.

Evaluations of some projects originally expected to commence in 2000-01 are still being conducted. The majority of these projects relate to the Departments of Education, Employment and Training and Human Services. The most financially significant project is the redevelopment of the Austin and Repatriation Medical Centre. The Government is currently reviewing options for this project to ensure a configuration which represents value for money in terms of construction costs and service delivery. Asset investment projects detailed in *Labor's Financial Statement* which are yet to commence are expected to be considered as part of next year's budget.

**Table 8.1: Output initiative decisions<sup>(a)</sup>**

Initiatives	Labor's Financial Statement Costings (\$ million)				Decision				
	99-00	00-01	01-02	02-03	99-00	00-01	01-02	02-03	03-04
<b>Department of Education Employment and Training</b>									
Reduce class sizes (Years P-2)	12.6	36.4	47.0	40.7	12.6	36.4	47.0	40.7	40.7
Special learning needs	8.8	17.5	17.5	17.5	8.8	17.5	17.5	17.5	17.5
Teacher scholarships	0.0	0.8	0.8	0.8	0.0	0.8	0.8	0.8	0.8
Non-government schools	5.0	15.0	17.5	20.0	5.0	15.0	17.5	20.0	20.0
Student welfare	6.1	12.2	12.2	12.2	6.1	12.2	12.2	12.2	12.2
Achievement Improvement Monitor	..	5.0	5.0	5.0	..	5.0	5.0	5.0	..
Broader VCE	5.0	20.0	20.0	20.0	1.0	14.0	20.0	20.0	20.0
TAFE (regional differential)	2.1	4.2	4.2	4.2	2.1	4.2	4.2	4.2	4.2
TAFE (operating)	5.0	10.0	10.0	10.0	5.0	10.0	10.0	10.0	10.0
Boost public sector apprenticeships by 2 035 positions	4.9	10.0	10.0	10.0	5.0	10.0	10.0	10.0	10.0
Partnership with private sector to recruit 4 732 apprentices & trainees	3.8	7.5	7.5	7.5	2.5	6.9	8.3	8.6	8.6
Additional subsidy of \$1 250 per trainee/ apprentice for young unemployed	1.6	3.1	3.1	3.1	1.6	3.1	3.1	3.1	3.1
Assistance to non-government schools for capital costs	..	5.0	5.0	5.0	..	5.0	5.0	5.0	..
Community Infrastructure Jobs program	..	20.0	20.0	20.0	..	20.0	20.0	20.0	..
Boost to school maintenance programs	..	10.0	10.0	10.0	..	10.0	10.0	10.0	..
School to Work transition - Youth Employment Line	0.8	1.5	1.5	1.5	0.8	1.5	1.5	1.5	1.5
School to Work transition - school exit plans for students	0.3	0.5	0.5	0.5	0.3	0.5	0.5	0.5	0.5
Local government and community partnerships	1.9	1.9	1.9	1.9	0.4	1.9	1.9	1.9	..
<b>Total DEET</b>	<b>57.8</b>	<b>180.5</b>	<b>193.7</b>	<b>189.9</b>	<b>51.0</b>	<b>174.0</b>	<b>194.5</b>	<b>190.9</b>	<b>149.0</b>
<b>Department of Human Services</b>									
Statewide waiting lists call centre	0.1	0.2	0.3	0.3	0.1	0.2	0.3	0.3	0.3
Winter emergency/longer term integrated elective and emergency strategy for hospitals	2.8	30.2	34.9	36.0	12.3	60.2	65.0	65.0	65.0

**Table 8.1: Output initiative decisions<sup>(a)</sup> - continued**

(\$ million)

Initiatives	Labor's Financial Statement Costings				Decision				
	99-00	00-01	01-02	02-03	99-00	00-01	01-02	02-03	03-04
Hospital infection control		7.2	7.9	9.0		7.2	7.9	9.0	9.0
Nurses education and recruitment	1.2	6.5	7.0	7.1	1.2	6.3	6.8	6.9	6.9
Hospital to Home	4.5	9.5	10.1	10.5	4.5	9.5	10.0	10.5	10.5
Community-based health care	3.9	10.3	11.1	12.0	3.9	10.3	11.1	12.0	12.0
Rural health funding	2.7	6.0	7.0	7.1	2.7	6.0	7.0	7.1	7.1
Services and programs for older Victorians <sup>(b)</sup>	4.9	12.3	13.2	15.6	3.6	8.6	9.2	10.6	10.6
Public dental services	2.8	5.7	6.4	7.7	2.1	5.3	6.4	7.7	7.7
Drugs and alcohol program <sup>(c)</sup>	6.0	17.0	18.0	20.0	6.0	17.0	18.0	20.0	20.0
Ambulance system	2.3	5.1	5.8	6.3	2.3	6.6	5.8	6.3	6.3
Mental health	2.0	5.0	5.3	5.5	2.0	5.0	5.3	5.5	5.5
Medical and public health research	0.5	1.0	1.5	1.5	0.5	1.0	1.5	1.5	1.5
Assistance for families and children	2.9	7.1	7.3	7.3	2.9	7.1	7.3	7.3	7.3
Preschool and community based child care services	2.3	6.0	6.0	6.0	2.3	6.0	6.0	6.0	6.0
School nurses	1.9	4.0	4.9	5.1	1.6	4.0	4.9	5.1	5.1
Neighbourhood houses	0.8	1.8	2.0	2.0	0.8	1.8	2.0	2.0	2.0
Helping people with disabilities	7.0	16.4	16.9	18.9	7.0	16.4	16.9	18.9	18.9
Community based childcare centres	..	1.3	1.3	1.3	..	1.3	1.3	1.3	..
Community health centres	..	1.5	2.0	2.0	..	1.5	2.0	2.0	..
Residential drug and alcohol treatment programs	..	1.0	1.0	1.0	..	1.5	1.5		..
Social housing stock	..	20.0	35.0	35.0	..	10.0	35.0	45.0	..
Community managed housing for older ethnic citizens	..	1.5	1.5	1.5	..	1.5	1.5	1.5	..
Integrated care centres	..	5.0	5.0		..	5.0	5.0		..
Low cost grants for sewerage schemes	0.5	1.0	1.3	1.3	0.5	1.0	1.3	1.3	..
<b>Total DHS</b>	<b>48.8</b>	<b>182.5</b>	<b>212.5</b>	<b>219.9</b>	<b>56.2</b>	<b>200.2</b>	<b>238.8</b>	<b>252.7</b>	<b>201.7</b>
<b>Department of Infrastructure</b>									
Motorbike riding package	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Customer friendly transport - tram conductors, station staff and student concession	..	12.4	12.4	12.4	..	12.4	12.4	12.4	12.4

**Table 8.1: Output initiative decisions<sup>(a)</sup> - continued**

Initiatives	Labor's Financial Statement Costings				Decision					
	99-00	00-01	01-02	02-03	99-00	00-01	01-02	02-03	03-04	
Airport to city transit link contribution	..	..	..	20.0	..	1.7	10.0	8.3	..	
Ballarat-Skipton Street roundabout at Drummond Street	..	0.5	..	..	..	0.5	..	..	..	
Ballarat-Buninyong Road, roundabout at Mt Clear	..	..	0.3	..	..	..	0.3	..	..	
Ballarat roadworks - Gillies St, Wendouree St to bypass	..	..	0.4	..	..	..	0.4	..	..	
Bicycle track network extensions	..	2.0	3.0	4.0	..	2.0	3.0	4.0	..	
Castlemaine Library - library works	..	..	..	1.0	..	0.2	0.8	..	..	
<b>Total DOI</b>	<b>0.1</b>	<b>15.0</b>	<b>16.2</b>	<b>37.5</b>	<b>0.1</b>	<b>16.9</b>	<b>27.0</b>	<b>24.8</b>	<b>12.5</b>	
<b>Department of Justice</b>										
Fire services core funding - CFA volunteers	0.5	1.0	1.0	1.0	0.5	1.0	1.0	1.0	1.0	
Emergency Services - core funding for VicSES volunteers and units	0.3	0.5	0.5	0.5	0.3	0.5	0.5	0.5	0.5	
800 additional operational police	..	21.8	32.3	43.6	..	2.8	14.3	23.1	24.0	
Victims of crime compensation	..	10.0	15.0	20.0	..	4.0	16.0	20.0	20.0	
FOI online <sup>(d)</sup>	..	0.1	0.1	..	..	0.2	0.0	0.0	0.0	
<b>Total DOJ</b>	<b>0.8</b>	<b>33.4</b>	<b>48.8</b>	<b>65.1</b>	<b>0.8</b>	<b>8.4</b>	<b>31.9</b>	<b>44.6</b>	<b>45.5</b>	
<b>Department of Natural Resources and Environment</b>										
Grants program for Koori community projects	0.3	0.5	0.5	0.5	0.3	0.5	0.5	0.5	0.5	
Boost for EPA funding	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	
Abolition of Catchment Management Authority levy	5.4	10.7	10.7	10.7	14.3	12.9	13.4	13.8	13.8	
Sustainable Energy Authority Victoria	2.5	5.0	5.0	5.0	1.7	5.8	5.0	5.0	5.0	
Naturally Victorian agriculture initiative	1.0	2.0	2.0	2.0	0.3	2.0	2.7	2.0	2.0	
Improving camping ground amenities	0.4	0.7	0.7	0.7	..	1.1	0.7	0.7	..	
Victorian Environmental Assessment Council	0.5	0.5	0.5	0.5	..	0.5	0.5	0.5	0.5	
Parks services	1.5	1.0	1.0	1.0	1.5	1.0	1.0	1.0	..	

**Table 8.1: Output initiative decisions<sup>(a)</sup> - continued**

Initiatives	(\$ million)									
	Labor's Financial Statement Costings				Decision					
	99-00	00-01	01-02	02-03	99-00	00-01	01-02	02-03	03-04	
Support for box and ironbark forest areas	0.1	0.3	..	..	0.1	0.3	..	..	..	
Establish a Port Phillip Marine Park	0.5	0.5	..	..	0.5	0.5	..	..	..	
Pilot program of logging practices in the Wombat Forest	0.3	0.3	0.2	..	..	0.1	0.5	0.2	..	
Resource forest management and enforce Code of Forest Practice	0.1	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	
Implement a Forest and Forest Products Industry Plan	0.3	0.3	..	..	0.3	0.3	..	..	..	
Develop strategy to implement response to introduced marine organisms	0.3	0.5	..	..	0.3	0.5	..	..	..	
Commissioner for Ecologically Sustainable Development	1.0	1.0	1.0	1.0	..	1.0	1.0	1.0	1.0	
Stormwater/sewerage upgrades	..	10.0	15.0	20.0	..	10.0	15.0	20.0	..	
Irrigation upgrades	..	10.0	10.0	10.0	..	10.0	10.0	10.0	..	
Connect Sunbury to Melbourne Water or water piped from Sydenham	..	5.0	5.0	..	Completed in 1999					
<b>Total DNRE</b>	<b>15.0</b>	<b>49.5</b>	<b>52.8</b>	<b>52.6</b>	<b>20.3</b>	<b>47.6</b>	<b>51.5</b>	<b>55.9</b>	<b>24.0</b>	
<b>Parliament</b>										
Auditor-General's Office	2.0	2.1	2.3	2.4	2.0	2.1	2.3	2.4	2.4	
<b>Total Parliament</b>	<b>2.0</b>	<b>2.1</b>	<b>2.3</b>	<b>2.4</b>	<b>2.0</b>	<b>2.1</b>	<b>2.3</b>	<b>2.4</b>	<b>2.4</b>	
<b>Department of Premier and Cabinet</b>										
Infrastructure Planning Council	0.2	0.5	0.5	0.5	0.2	0.5	0.5	0.5	0.5	
Funding to small scale arts programs and grants	0.6	1.0	1.0	1.0	0.6	1.0	1.0	1.0	..	
Regional Arts Fund	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	..	
Increase funding to Victorian Multicultural Commission	0.1	0.3	0.3	0.3	0.1	0.3	0.3	0.3	..	
Ethnic web pages funds <sup>(e)</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..	
Ethnic groups building maintenance	0.1	0.3	0.3	0.3	0.1	0.3	0.3	0.3	..	
Additional grants for women	0.2	0.4	0.4	0.4	0.2	0.4	0.4	0.4	..	
Budget Statement 2000-01					Election Commitments				167	

**Table 8.1: Output initiative decisions<sup>(a)</sup> - continued**

Initiatives	Labor's Financial Statement Costings				Decision				
	99-00	00-01	01-02	02-03	99-00	00-01	01-02	02-03	03-04
Country Victoria Cinemas Initiatives	..	0.1	0.2	0.2	..	0.1	0.2	0.2	..
Victorian College of the Arts	..	..	5.0	5.0	..	..	5.0	5.0	..
Regional Arts Infrastructure Fund	..	2.0	2.0	2.0	..	2.0	2.0	2.0	..
Youth Rock Rehearsal Space Program	..	0.5	0.5	0.5	..	0.5	0.5	0.5	..
<b>Total DPC</b>	<b>1.4</b>	<b>5.1</b>	<b>10.2</b>	<b>10.2</b>	<b>1.4</b>	<b>5.1</b>	<b>10.2</b>	<b>10.2</b>	<b>0.5</b>
<b>Department of State and Regional Development</b>									
Industrial relations reforms		7.0	8.0	8.0		5.0	5.0	5.0	5.0
Local Government Summit	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Office of Rural Communities	0.1	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2
Public internet access in town halls	0.8	1.5	1.5	1.5	..	2.3	1.5	1.5	1.5
Government net access centres	0.3	0.5	0.5	0.5	..	0.8	0.5	0.5	0.5
Electronic Export Assistance Centre	0.1	0.2	0.2	0.2	..	0.2	0.2	0.2	0.2
Extend Department of State and Regional Development regional structure	0.6	2.3	2.3	2.3	0.6	2.3	2.3	2.3	..
Grants to local government and regional development boards	1.9	2.7	2.7	2.7	1.9	2.7	2.7	2.7	..
Living Regions, Living Suburbs support fund	3.0	8.0	8.0	8.0	3.0	8.0	8.0	8.0	8.0
Increase peak sporting body funding	0.3	0.5	0.5	0.5	0.3	0.5	0.5	0.5	..
Expand regional sports assemblies	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	..
Expand older persons recreation networks <sup>(f)</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..
Lawn bowls package	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	..
Fishing package	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	..
Netball package	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	..
Information and multimedia centre <sup>(g)</sup>	..	0.5	0.3	..	..	0.5	0.3	..	..
Increase minor facilities grants scheme <sup>(h)</sup>	..	1.5	1.5	1.5	..	5.0	5.0	5.0	..
Eastern Oval upgrade - Ballarat	..	0.2	..	..	..	0.2	..	..	..



**Table 8.1: Output initiative decisions<sup>(a)</sup> - continued**

Initiatives	Labor's Financial Statement Costings				Decision				
	99-00	00-01	01-02	02-03	99-00	00-01	01-02	02-03	03-04
Eureka Pool learners pool contribution - Ballarat	..	0.1	..	..	..	0.1	..	..	..
Queen Elizabeth Oval upgrade - Bendigo	..	..	0.3	..	..	..	0.3	..	..
West Bendigo basketball stadium upgrade	..	..	0.5	1.5	..	..	0.5	1.5	..
Bendigo Aquatic Centre upgrade	..	..	0.2	..	..	..	0.2	..	..
Camp Reserve upgrade - Castlemaine	..	..	0.1	..	..	..	0.1	..	..
Dunolly sports upgrade	..	..	0.1	..	..	..	0.1	..	..
Leopold Community Recreation Centre	..	0.7	..	..	..	0.7	..	..	..
Seymour - heated pool	..	..	2.3	..	..	..	2.3	..	..
Regional Infrastructure Development Fund	..	50.0	50.0	70.0	..	50.0	50.0	70.0	..
International Lawn Bowls Centre	..	..	1.0	..	..	1.5	1.0	..	..
<b>Total DSRD</b>	<b>7.3</b>	<b>76.4</b>	<b>80.6</b>	<b>97.5</b>	<b>6.1</b>	<b>80.3</b>	<b>81.0</b>	<b>97.9</b>	<b>15.4</b>
<b>Department of Treasury and Finance</b>									
Essential Services Commission	0.5	1.0	1.0	1.0	To Be Determined				
OHS online service <sup>(g)</sup>	..	0.3	0.2	..	..	0.3	0.2	..	..
<b>Total DTF</b>	<b>0.5</b>	<b>1.3</b>	<b>1.2</b>	<b>1.0</b>	<b>..</b>	<b>0.3</b>	<b>0.2</b>	<b>..</b>	<b>..</b>
<b>Total output initiatives</b>	<b>133.3</b>	<b>545.8</b>	<b>618.3</b>	<b>676.0</b>	<b>137.8</b>	<b>534.9</b>	<b>637.4</b>	<b>679.4</b>	<b>451.0</b>

Source: Department of Treasury and Finance; Labor's Financial Statement - The First Term of a Bracks Labor Government

Notes:

- (a) Labor's Financial Statement included costings to 2002-03. Decisions have been taken on expenditure over the forward estimates period to 2003-04. Table may not add due to rounding.
- (b) Additional Commonwealth matching funding for Home and Community Care and funding for rehabilitation and geriatric assessment beds included as part of integrated elective and emergency strategy for hospitals.
- (c) \$10 million per year from 2000-01 to be provided from the Community Support Fund.
- (d) Includes approved expenditure of \$40 000 from 2001-02.
- (e) Includes costed and approved expenditure of \$10 000 in 1999-2000 and \$30 000 from 2000-01 to 2002-03.
- (f) Includes costed and approved expenditure of \$20 000 in 1999-2000 and \$30 000 from 2000-01 to 2002-03.
- (g) Initiative is to be funded from existing departmental resources.
- (h) Initiative is to be funded from the Community Support Fund.

**Table 8.2: Asset investment initiative decisions<sup>(a)</sup>**

<i>Initiatives</i>	(\$ million)							
	<i>Labor's Financial Statement Costing</i>				<i>Decision</i>			
	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>
<b>Department of Education Employment and Training</b>								
Reduce class sizes – capital funds for classrooms	8.0	8.0	8.0	..	24.5	5.0	..	..
Construction of a new primary school at Aspendale Gardens	..	..	3.0	..	2.0	1.5	..	..
Hampton Park Secondary College upgrade	..	3.0	..	..	1.1	..	..	..
Purchase of land adjacent to Maple Street Primary School - Bendigo	0.1	..	..	..	0.1	..	..	..
Classroom replacement Golden Square Primary School - Bendigo <sup>(b)</sup>	0.0	..	..	..	0.0	..	..	..
Yarra Glen Primary School - flashing lights and variable speed limit sign outside school	0.1	..	..	..	0.1	..	..	..
Yarra Glen Primary School - new parent pick up and drop off area	0.1	..	..	..	0.1	..	..	..
Mitcham Primary School upgrade	0.3	..	..	..	0.3	..	..	..
Watsonia North Primary School	0.5	..	..	..	0.5	..	..	..
Rosanna Primary School	..	0.3	..	..	0.4	..	..	..
Berwick South Secondary College	..	2.0	1.5	..	2.5	2.0	..	..
New Secondary College - Narre Warren South (Stage 1)	2.0	1.5	..	..	2.5	2.0	..	..
<b>Total DEET</b>	<b>10.9</b>	<b>14.8</b>	<b>12.5</b>	<b>..</b>	<b>34.0</b>	<b>10.5</b>	<b>..</b>	<b>..</b>
<b>Department of Human Services</b>								
Nursing home upgrades	12.5	15.0	20.0	..	8.0	19.5	20.0	..
Community residential units	5.0	5.0	5.0	..	5.0	5.0	5.0	..
Kyneton Hospital	6.0	5.0	..	..	1.2	7.0	2.8	..
Frankston Hospital - upgrade	6.0	6.0	..	..	7.0	5.0	..	..
Hospital equipment	7.5	7.5	..	..	20.0	..	..	..
Royal Women's Hospital - redevelopment	10.0	17.0	5.0	..	6.0	17.0	7.0	7.0
Rural health capital works	5.0	5.0	5.0	..	4.0	6.0	5.0	..
<b>Total DHS</b>	<b>52.0</b>	<b>60.5</b>	<b>35.0</b>	<b>..</b>	<b>51.2</b>	<b>59.5</b>	<b>39.8</b>	<b>7.0</b>

**Table 8.2: Asset investment initiative decisions<sup>(a)</sup> -continued**

(\$ million)

Initiatives	Labor's Financial Statement Costing				Decision			
	2000-01	2001-02	2002-03	2003-04	2000-01	2001-02	2002-03	2003-04
<b>Department of Infrastructure</b>								
Dingley Stage 1	10.0	10.0	10.0	..	2.0	10.0	18.0	..
Premium railway station for Narre Warren and Hallam Station upgrade	..	0.5	..	..	..	0.5	..	..
Train & tram route extensions	6.3	11.6	33.5	..	1.4	16.5	33.5	..
- East Burwood tram extension								
- Coolaroo-Somerton/Craigieburn rail								
- Cranbourne/East Cranbourne rail								
- Epping/South Morang rail								
Flier trains	..	6.5	8.5	..	0.3	6.2	8.5	..
- Pakenham/Cranbourne, Frankston								
- Belgrave/Lilydale, Ringwood								
Fast rail links to regional centres	..	35.0	45.0	..	7.0	30.0	43.0	..
- Geelong								
- Bendigo								
- Ballarat								
- Traralgon								
Kingston pedestrian bridge	0.3	..	..	..	0.3	..	..	..
Mitcham - Springfield Rd/Middleborough Rd-signals upgrade	0.3	..	..	..	0.4	..	..	..
Mitcham - Surrey Road/Whitehorse Road - new left turn sliplane	0.1	..	..	..	0.6	..	..	..
Mitcham - Springfield/Springvale Road - signal upgrade <sup>(c)</sup>	0.1	..	..	..	0.0	..	..	..
Mitcham - resurfacing Whitehorse Road	0.1	..	..	..	0.1	..	..	..
Mitcham - widening Heatherdale Rd	0.2	..	..	..	0.1	..	..	..
<b>Total DOI</b>	<b>17.2</b>	<b>63.6</b>	<b>97.0</b>	<b>..</b>	<b>12.2</b>	<b>63.2</b>	<b>103.0</b>	<b>..</b>
<b>Department of Justice</b>								
Belgrave police station construction	..	2.0	..	..	0.5	2.0	0.5	..
Moe police station construction	..	2.0	..	..	0.5	2.0	1.8	..
Preston police station construction	..	3.5	..	..	1.5	3.5	2.0	..

**Table 8.2: Asset investment initiative decisions<sup>(a)</sup> -continued**

<i>Initiatives</i>	(\$ million)							
	<i>Labor's Financial Statement Costing</i>				<i>Decision</i>			
	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>
Bacchus Marsh police station construction	..	..	1.7	..	0.5	2.0	1.0	..
Kinglake police station construction	..	0.4	..	..	0.3	0.2	..	..
Seymour police station construction	..	2.2	..	..	0.6	4.0	2.0	..
<b>Total DOJ</b>	<b>..</b>	<b>10.1</b>	<b>1.7</b>	<b>..</b>	<b>3.9</b>	<b>13.7</b>	<b>7.3</b>	<b>..</b>
<b>Department of Natural Resources and Environment</b>								
Renovations to the old Eaglehawk Courthouse	0.1	..	..	..	0.1	..	..	..
Solar conversion scheme	5.0	5.0	5.0	..	5.0	5.0	5.0	..
<b>Total DNRE</b>	<b>5.1</b>	<b>5.0</b>	<b>5.0</b>	<b>..</b>	<b>5.1</b>	<b>5.0</b>	<b>5.0</b>	<b>..</b>
<b>Department of Premier and Cabinet</b>								
<b>Total DPC</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>Department of State and Regional Development</b>								
<b>Total DSRD</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>Department of Treasury and Finance</b>								
Pines school site purchases <sup>(d)</sup>	0.4	..	..	..	..	1.0	..	..
<b>Total DTF</b>	<b>0.4</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>1.0</b>	<b>..</b>	<b>..</b>
<b>Total asset investment initiatives</b>	<b>85.6</b>	<b>154.0</b>	<b>151.2</b>	<b>..</b>	<b>106.3</b>	<b>152.9</b>	<b>155.1</b>	<b>7.0</b>

Source: Department of Treasury and Finance; Labor's Financial Statement - The First Term of a Bracks Labor Government

Notes:

- (a) Table may not add due to rounding.
- (b) Includes costed and approved expenditure of \$40 000 in 2000-01.
- (c) Includes approved expenditure of \$30 000 in 2001-02.
- (d) Initiative to be funded from departmental asset sale receipts.

**Table 8.3: Savings initiative decisions<sup>(a)</sup>**

(\$ million)

<i>Initiatives</i>	<i>Labor's Financial Statement Costing</i>				<i>Decision</i>				
	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>
<b>Government-wide</b>									
Reduction in executives	20.0	25.0	35.0	36.0	1.0	33.2	33.4	33.4	33.4
Efficiency dividend and Public Relations savings	46.0	62.3	65.1	66.9	44.1	30.8	30.7	31.0	31.4
<b>Total</b>	<b>66.0</b>	<b>87.3</b>	<b>100.1</b>	<b>102.9</b>	<b>45.1</b>	<b>64.1</b>	<b>64.1</b>	<b>64.4</b>	<b>64.9</b>
<b>Department-specific</b>									
Abolition Of Police Board	0.5	1.0	1.0	1.0		1.0	1.0	1.0	1.0
Abolition of Schools of the 3 <sup>rd</sup> Millennium	5.6	1.8			5.2				
Restructure of Health Care Networks	10.0	19.9	20.4	20.9		18.0	18.0	18.0	18.0
Restructure of Treasury and Finance		9.7	9.9	10.1		9.7	9.9	10.2	10.2
<b>Total</b>	<b>16.1</b>	<b>32.4</b>	<b>31.3</b>	<b>32.0</b>	<b>5.2</b>	<b>28.7</b>	<b>28.9</b>	<b>29.2</b>	<b>29.2</b>
<b>Total savings initiatives</b>	<b>82.1</b>	<b>119.7</b>	<b>131.4</b>	<b>134.9</b>	<b>50.3</b>	<b>92.8</b>	<b>93.1</b>	<b>93.6</b>	<b>94.1</b>

*Source: Department of Treasury and Finance; Labor's Financial Statement - The First Term of a Bracks Labor Government*

*Note:*

(a) *Labor's Financial Statement included costings to 2002-03. Decisions have been taken on expenditure over the forward estimates period to 2003-04. Table may not add due to rounding.*



## CHAPTER 9: STATEMENT OF RISKS

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- Key economic risks include unanticipated developments in the international economy, uncertainties associated with the introduction of the GST and changes in net interstate migration patterns.
- The budget operating position, over the entire forward estimates period, is likely to be highly sensitive to changes in either the levels of economic activity (GSP and employment) or wages. The majority of this effect is due to the impact on taxation receipts and department expenses. Volatility in GSP is often correlated with volatility in employment, potentially compounding the impact on the operating position.
- The operating position is likely to display even greater sensitivity to movements in share prices than to economic parameters, although mainly in the year in which the share price movement occurs. Asset prices and volumes traded (in equity, property and bond markets) affect the operating surplus through their impact on public authority income, taxation revenue and changes to unfunded superannuation liabilities.
- In contrast, the budget operating position appears relatively less sensitive to fluctuations in consumer prices and interest rates.
- A number of contingent liabilities have been identified.

### ECONOMIC RISKS

The economic risks are discussed more fully in Chapter 3, *Economic Strategy and Outlook*. Most of these are general risks to the national economy from which Victoria would not be immune, involving international developments and the implementation of the GST. However, the final risk (an upside risk) identified below is specific to the Victorian outlook.

- A more rapid slowing in US growth than generally expected would affect Australia both directly and indirectly through its effects on global activity. There are several potential catalysts for a marked slowing in the United States. These include a sharp asset market correction of the type which

affected 'new technology' stocks in April 2000, the emergence of real wage pressures or renewed upward pressure on international oil prices.

- There are uncertainties associated with the implementation of the Commonwealth's GST, especially the risk of wage and price inflation rather than a one-off impact on prices, as assumed by the Reserve Bank. In that event, there could be adverse effects on national economic activity and employment through higher labour costs and the likely consequent tightening of monetary policy.
- The budget projections assume an unchanged foreign exchange rate. Movements in the exchange rate are another potential risk to the Victorian economic projections. Exchange rate movements can be an important influence on the domestic inflation rate. These, in turn, affect the costs of local producers using imported inputs and the competitiveness of locally produced goods and services with respect to imports.
- It is possible that Victoria will continue to attract population from interstate, rather than revert to population losses as assumed in the official ABS projections. In that event, the Victorian economy could grow more strongly than projected.

## **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. The *Financial Management Act 1994* includes a requirement for publication of the sensitivity of the budget figures to changes in assumptions.

This section shows the sensitivity of the budget sector operating balance to changes in key economic variables. It analyses the variability of the economic parameters as an indication of the risk associated with forecasts or projections of each variable. It also examines the extent to which movements in the variables are independent of each other, as assumed in the sensitivity analysis. Finally, the results of some scenario analyses are also presented, which provide an indication of how variations in the parameters may interact and affect the operating position in practice.

### **Sensitivity analysis**

The sensitivity analysis begins with the impact on revenue, expenses and the budget sector operating surplus of independent and uniform changes to economic indicators such as activity, employment, prices, wages, asset prices and turnover, and interest rates. In each case, the level of the economic indicator



is permanently increased by one percentage point beginning in 2000–01. However, as the economic indicators differ in their degree of volatility, the next step in the analysis is to consider their historical variability.

### ***Independent uniform changes to economic indicators***

The major variables that affect Victoria's operating position are economic growth, employment, prices, wages, interest rates and variability within asset markets. The full-year effect of a one percentage point increase in each indicator on the budget over the four-year forward estimates period is shown in Table 9.1. In line with convention, the sensitivity analysis has been undertaken on an 'other things remaining constant' basis. However, as discussed later, some of the economic indicators detailed in Table 9.1 are not completely independent of each other and this needs to be considered when interpreting the table.

The results suggest that:

- the budget's operating position is particularly sensitive over the forward estimates period to changes, of a similar magnitude, in the levels of GSP, employment 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 consumer price levels, interest rates and in property prices tend to have a smaller effect on the operating position than changes of a similar size in the levels of activity or wages (however, it is shown below that property prices have been more variable than activity and wages).

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

An assumed 1 per cent increase in GSP and employment growth is estimated to jointly result in an increase in the operating surplus of \$62 million in 2000-01, growing to \$77 million by 2003-04. The majority of this improvement is due to a rise in taxation receipts resulting from the heightened level of economic activity and employment.

GST grants were excluded from the GSP and employment growth scenario as, during the period of transitional payments, an increase in the size of GST grants to the States and Territories arising from unexpected growth in the pool of GST receipts due to stronger state economic activity will be entirely offset by an equivalent reduction in the level of transitional payments (assuming total GST receipts remain below total forgone revenues of the States and Territories).

Ultimately, however, there will probably be a strong correlation between growth in economic activity and employment and growth in GST receipts.

**Table 9.1: Impact on the budget operating position of a 1 percentage point increase in selected economic indicators in the first year <sup>(a)</sup>**

	(\$ million)			
	2000-01	2001-02	2002-03	2003-04
<b>GSP and employment</b>				
Taxes, regulatory fees and fines <sup>(b)</sup>	49	48	50	53
Other revenue	12	11	12	11
Superannuation expenses	..	..	..	..
Other expenses	- 2	- 5	- 9	- 13
Budget balance	62	65	71	77
<b>Consumer prices</b>				
Taxes, regulatory fees and fines	12	9	9	10
Other revenue	108	115	117	120
Superannuation expenses	..	..	..	..
Other expenses	96	99	97	89
Budget balance	24	25	30	41
<b>Average weekly earnings</b>				
Taxes, regulatory fees and fines	37	39	41	43
Other revenue	- 22	- 1	..	..
Superannuation expenses	7	7	7	8
Other expenses	79	86	92	98
Budget balance	- 71	- 55	- 58	- 63
<b>Share prices (volumes)<sup>(c)</sup></b>				
Taxes, regulatory fees and fines	2 (2)	..	..	..
Other revenue	17 (..)	..	..	..
Superannuation expenses	- 39 (..)	- 3 (..)	- 3 (..)	- 3 (..)
Other expenses	- 1 (..)	- 1 (..)	- 1 (..)	- 1 (..)
Budget balance	58 (2)	4 (..)	4 (..)	4 (..)
<b>Property prices (volumes)<sup>(c)</sup></b>				
Taxes, regulatory fees and fines	16 (11)	15 (11)	23 (12)	24 (12)
Other revenue	..	..	..	..
Superannuation expenses	- 7 (..)	..	..	..
Other expenses	..	- 1	- 2 (-1)	- 4 (-2)
Budget balance	22 (11)	16 (12)	25 (13)	28 (14)

Source: Department of Treasury and Finance

**Table 9.1 (cont.): Impact on the budget operating position of a 1 percentage point increase in selected economic indicators in the first year<sup>(a)</sup>**

	(\$ million)			
	2000-01	2001-02	2002-03	2003-04
<b>Interest rates<sup>(d)</sup></b>				
Taxes, regulatory fees and fines	..	..	..	..
Other revenue	50	- 7	- 9	- 11
Superannuation expenses	72	..	..	..
Other expenses	4	9	16	22
Budget balance	- 25	- 16	- 25	- 33

Source: Department of Treasury and Finance

Notes:

- (a) A positive number for the budget balance denotes an improvement in the budget position (increase in budget operating surplus or decrease in budget operating deficit). Numbers may not balance due to rounding.
- (b) Changes in transitional grants less changes in taxes.
- (c) Numbers in brackets represent impact of 1 per cent change in volumes holding prices constant.
- (d) Assumes a 1 percentage point increase in interest rates over the entire period.

### Sensitivity to prices

A 1 per cent rise in the level of consumer prices is estimated to improve the operating position by \$24 million in 2000-01, increasing to \$41 million by 2003-04. Table 9.1 reveals that both revenue and expenses are sensitive to inflation, but the strong link between Commonwealth grants and inflation means that the net effect on the budget is positive. The price scenario incorporates GST receipts because there is little offsetting reduction in transitional payments as estimated forgone revenues are increased by higher inflation for approximately 90 per cent of total GST payments. However, financial institutions duty and marketable securities stamp duty are excluded from the estimates in Table 9.1 because the amounts forgone (following their abolition) have been determined by agreement between the Commonwealth and the States.

### Sensitivity to wages

A 1 per cent rise in the level of wages is expected to lead to a deterioration in the operating surplus of \$71 million in 2000-01, improving only marginally by 2003-04. The deterioration is the result of the substantial rise in departmental salary and superannuation expenses which are only partly offset by the increase in payroll tax receipts.

### *Sensitivity to share prices and volumes*

Asset prices and volumes traded (in equity, property and bond markets) affect the operating surplus through their impact on public authority income, taxation revenue and changes to unfunded superannuation liabilities.

In aggregate, it is estimated that a 1 per cent rise in both domestic and international equity prices would improve the 2000-01 operating position by \$58 million, with the benefit then falling to only \$4 million in subsequent years. The improvement in 2000-01 largely arises from gains in asset values for the Transport Accident Commission and Victorian public sector superannuation schemes.

Fluctuations in share trading volumes (assuming constant prices), however, have a negligible impact on the operating position.

### *Sensitivity to property prices and volumes*

Similarly, a 1 per cent increase in property prices is estimated to improve the surplus by \$22 million in 2000-01, falling to \$16 million the following year before increasing again over the ensuing two years.

The improvement in 2000-01 would be partly due to a one-off decrease in superannuation expenses resulting from a rise in the value of superannuation fund property asset holdings. In addition, the rise in property prices (assuming a constant number of property transfers) could be expected to increase conveyancing, land transfer and mortgage stamp duty receipts by \$16 million in 2000-01. Finally, land tax receipts would rise by \$7 million, in response to rising real estate prices, in two years time as there is an 18-month lag in valuation determinations for land tax assessments.

Revenues, however, are less sensitive to the volume of property transfers. A 1 per cent rise in the number of property transfers (holding prices constant) would increase stamp duty receipts by \$11 million in 2000-01. Typically, however, a change in the number of land transfers would not affect the level of land tax receipts (assuming no compositional change).

### *Sensitivity to interest rates*

A 1 per cent rise in interest rates affects the budget operating position principally through its impact on the value of the State's fixed interest assets. As is the case with equities, Victorian public sector superannuation schemes and public financial institutions maintain large holdings of bonds within their asset portfolios. Superannuation fund exposure to fixed interest assets could result in a \$72 million deterioration in the value of fund assets following a 1 per cent

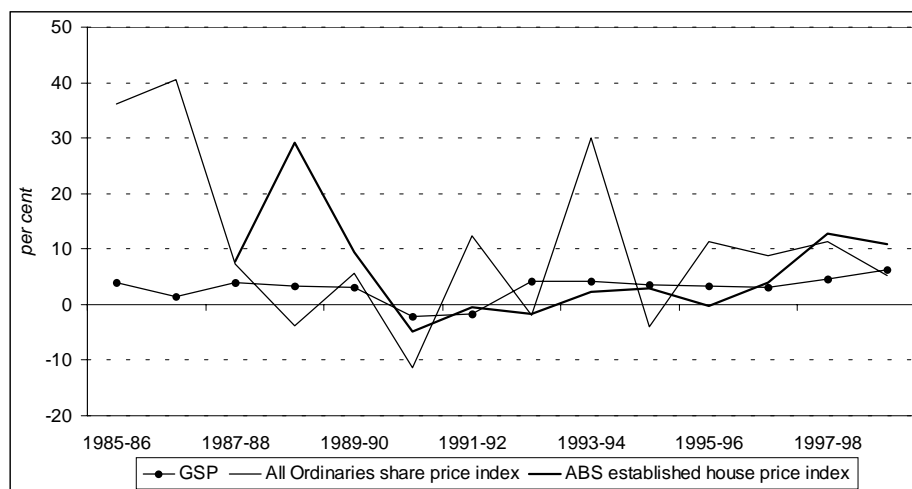
interest rate rise. This would be due to the resultant capital loss suffered on fixed interest securities, assuming that the change to interest rates is reflected across the entire yield curve. This loss would then directly flow through to the budget operating position as an increase in that year's superannuation expenses.

In the case of public financial institutions, the overall result of a rise in interest rates in 2000-01 is positive for the budget operating position due to a resultant large one-off reduction in the level of Transport Accident Commission claims liabilities emanating from higher discount factors. The reduction in claims liabilities increases the Transport Accident Commission's operating profit and, in turn, dividend payments to the budget (assuming an unchanged dividend payout ratio). However, over the remaining forward estimates period, the rate rise has a net negative impact on the operating position due to higher budget sector borrowing costs and reduced dividend payments from various public authorities exposed to increased debt servicing costs.

### Variability of economic indicators

While sensitivity analysis shows the impact on the major budget aggregates of individual changes in economic parameters, it is also useful to know the typical variability of these economic parameters.

**Chart 9.1: Comparison of volatility of economic parameters<sup>(a)</sup>**



Source: Department of Treasury and Finance

Note:

(a) Annual percentage growth on preceding year.

Since the mid-1980s, variations in GSP growth, employment growth, wage and consumer price inflation and interest rates have been broadly similar, and considerably less volatile than property and share markets (see Chart 9.1).

Combining these results with those from the sensitivity analysis suggests:

- Their inherent volatility means that share price fluctuations are likely to be a major source of variation in the budget operating position in the year in which they occur.
- Fluctuations in economic activity (GSP and employment) and wages are also likely to be a major source of variation in the budget operating position, over the entire forward estimates period, not just in the first year.
- Like share prices, property prices are also relatively volatile, but their impact on the budget operating position appears to be much smaller than for share prices.
- Consumer prices and interest rates are both less variable and have a smaller impact on the operating position than other parameters.

### **Scenario analysis**

Another means of determining the sensitivity of the operating surplus to economic developments is to estimate the potential impact of a change in the economic projections. The projections are presented and discussed in Chapter 3, *Economic Outlook and Strategy* (see Table 3.1).

Table 9.2 sets out an illustrative economic slowdown scenario. The scenario assumes a decline in economic activity compared with the forecasts in this budget. Note that Table 9.2 shows deviations for the levels of the relevant variables. For example, the level of GSP is assumed to be 1 per cent lower than the budget projection in 2000-01, and 2.25 per cent lower than the projection in 2001-02. Consequently, the growth rate of GSP in 2001-02 is 1.25 percentage points lower than its growth rate in the baseline projection. There is assumed to be some recovery in 2002-03 and 2003-04 particularly in asset markets.

The scenario is based on the results of the sensitivity analysis and an investigation of the historical interactions between the economic indicators.

- Historically, growth in GSP and employment tend to be strongly correlated. In the illustrative scenario, the relative decline in GSP is closely linked to a relative decline in employment, and the orders of magnitude of the variation are within the historically observed ranges for these variables.

- The scenario assumes that relatively weaker economic activity reduces demand pressures in the economy, leading to relatively lower consumer price levels.
- Historically, there is a significant correlation between wage growth and past CPI inflation (and between CPI inflation and past wage growth). This reflects the responsiveness of wage claims to past inflation and the role of wages as a cost of production. In the scenario, relatively lower prices lead to relatively slower wages growth after some delay.
- Disturbances in asset markets, such as house price inflation and growth in the volume of property transactions, appear to have been largely unassociated with changes in GSP and employment growth, inflation and interest rates. However, there is no doubt that these prices are currently relatively high. In the slowdown scenario, asset prices decline relative to the baseline as activity, demand and income falls. In accordance with the sensitivity analysis, these price movements are comparatively large.
- Historically, interest rates are correlated with past and current CPI and wage inflation. In the scenario, interest rates decline relative to the baseline in response to lower inflation and the reaction of the monetary authorities to relatively weaker activity.

**Table 9.2: Illustrative economic slowdown scenario**

	2000-01	2001-02	2002-03	2003-04
	<i>Per cent deviations from baseline</i>			
Gross state product	-1.00	-2.25	-2.00	-1.50
Employment	-1.00	-2.25	-2.00	-1.50
Consumer price index	-0.50	-1.00	-1.25	-1.00
Wage cost index	0.00	-0.50	-0.75	-0.50
Property prices	-2.00	-3.00	-3.00	-2.00
Share prices	-5.00	-6.00	-3.00	-1.00
Interest rates	-0.50	-1.00	-1.00	-1.00
	<i>\$ million</i>			
Change in operating surplus	-399	-247	-27	-55
Operating surplus after slowdown scenario	192	154	435	549

*Source: Department of Treasury and Finance*

Under this scenario, there would be a reduction in the operating surplus of around \$400 million in 2000-01 compared with 2000-01 Budget baseline, although this includes a number of one-off impacts. As a result, the illustrative

operating surplus falls to below \$200 million in 2000-01 and around \$150 million in 2001-02.

## IDENTIFIABLE EVENTS

Fiscal risks may be general, such as unforeseen changes in the size and structure of the Victorian population, or very specific, such as unplanned growth in the number of public patients requiring a particular hospital procedure. These risks can be further classified into factors which could affect all government departments and those which are department-specific.

### Revenue

General risks to taxation revenue were discussed above in connection with the sensitivity of the budget to changes in economic parameters. It appears that taxation revenue is particularly sensitive to fluctuations in employment and earnings (chiefly affecting payroll tax), consumer prices (affecting collections of various taxes) and property prices (which affect receipts from stamp duty on conveyancing).

Furthermore, the impact of the GST, the abolition of the wholesale sales tax and other national tax changes have increased the difficulty of forecasting property and motor car taxes in 2000-01 and later years. It is difficult to assess the extent to which the housing sector and the demand for motor vehicles will be affected after 1 July 2000.

The presence of 'high roller' gamblers at the casino can vary substantially and often unpredictably, introducing another source of upside and downside risk in the revenue forecasts. There have also been difficulties in predicting the growth in revenue from electronic gaming machines which are discussed in more detail in Chapter 6, *Revenue and Grants*.

In addition, the emerging maturity of the gambling market in Victoria and the introduction of the Government's responsible gaming policy increase uncertainties surrounding future gambling revenues.

There is also a specific short-term risk to the State's revenue. The State Revenue Office has a contingent liability of around \$93 million relating to the possible outcome of the current appeal against the Supreme Court's decision of 1998 in the case of *Drake Personnel v. Commissioner of State Revenue* in the area of payroll tax.

The Commonwealth is committed to grossing up its grants to charities after 1 July 2000 by the full 10 per cent of the GST. This will enable charities to



retain, at Commonwealth expense, all savings from taxes due to be abolished or reduced from 1 July 2000, particularly wholesale sales tax. Charities have approached state and territory governments to ensure that similar concessions are provided at the state level. Such concessions would have a material effect on the state budget, although the financial implications cannot be readily measured prior to the Commonwealth clarifying its treatment of charities. At the time of writing, no further information had been received from the Commonwealth.

The Commonwealth Government has reached an agreement with the Australian Democrats on the passage of the legislation giving effect to the capping of fringe benefits for public benevolent institutions. This involves increasing the level of the cap applying to charities and certain other non-profit organisations to \$30 000 of grossed up taxable value per employee, effective 1 April 2001. The cap to apply to public and not-for-profit hospitals will remain at \$17 000 of grossed up taxable value per employee, effective from 1 April 2000. However, in order to assist with the transition to the \$17 000 cap, the Commonwealth is to provide grants to public hospitals, through the States, of \$88 million in 2000-01, \$81 million in 2001-02 and \$72 million in 2002-03. Victoria's share of this pool assistance is not known at this time but represents an upside risk for state finances.

### **General expenditures**

The main general factors which could increase expenditures are unexpected increases in prices and increases in public sector wage rates over and above increases provided for in existing forward estimates contingency provisions.

### ***Department expenditures***

The main risks to departmental expenditures relate to the departments with the largest budgets: Human Services; Education, Employment and Training; and Justice.

Key services provided by the Department of Human Services such as acute care and emergency care in public hospitals are experiencing strong demand growth which could increase the level of service provision above that which is currently funded. The Department has programs for upgrading aged care facilities to meet appropriate fire risk and regulatory standards, but there is a risk that further unplanned expenditure may be required.

National tax changes will have a significant impact on concessions available for public hospitals and not-for-profit organisations that are funded to provide a wide range of services such as aged care, community services and disability services. There is a risk that this will require unplanned additional funding,

although the Commonwealth has recently indicated that it will be providing increased concessions from FBT for charities and additional grants to public hospitals which will partly offset the cost of their coming into the FBT system.

The Department of Education, Employment and Training has developed preliminary asset management strategies relating to the modernisation, maintenance and replacement of school and TAFE infrastructure, particularly buildings and IT equipment. Additional funding has been provided in 2000-01 to start addressing these issues, particularly in relation to improving the functionality of these facilities for modern teaching requirements. Additional capital investment is expected over the next four to five years as the asset management strategies are refined and operationalised. Ongoing additional funding of \$13 million has been provided from 2000-01 to meet anticipated growth in the demand for apprenticeship and trainee places. Growth in apprenticeships and traineeships has been extremely strong in recent years — if growth exceeds that anticipated then some additional funding may be required.

The Justice portfolio is experiencing a significant increase in the total prisoner population within Victoria, to the extent that prisoner numbers have reached or exceed prison accommodation capacity. In the short term, to manage demand pressures in the adult prison system, the Government will increase temporary bed capacity and expand by a further 357 the number of permanent beds. Long-term management strategies for custodial and correctional facilities, focusing particularly on drug management issues, crime prevention, prison diversion and rehabilitation options, are currently being considered by Government.

## **CONTINGENT LIABILITIES**

### **Quantifiable contingent liabilities**

Quantifiable commitments made by the Government are set out in Table 9.3. A conservative approach has been used so that amounts shown represent the maximum potential liability, without taking into account any offsetting asset or security values.

**Table 9.3: Budget sector quantifiable contingent liabilities as at 30 June 1999**

<i>(\$ million)</i>	
Guarantees and indemnities	283.5
Legal proceedings and disputes	198.3
Other	25.8
Department of Treasury and Finance <sup>(a)</sup>	2707.1
<b>Total contingent liabilities</b>	<b>3214.7</b>

*Source: Department of Treasury and Finance*

*Note:*

*(a) Relating to non-budget sector debt.*

### **Non-quantifiable contingent liabilities**

A number of non-quantifiable commitments 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
- outstanding unclaimed moneys which may be subject to future claims by the general public against the State.

### **Asset sales**

There are potential liabilities associated with sales by the previous Government of a number of assets and services where the purchaser was provided with various indemnities and warranties.

### **Snowy River**

As a major contribution to restoring adequate environmental flows to Victoria's rivers, the Government has made a commitment to negotiate with the NSW and Commonwealth Governments to seek agreement to return 28 per cent of the average natural flow to the Snowy River. Environmental flows are being addressed in negotiations so as to reach an agreement on the outcome of the

Snowy Water Inquiry which is part of the corporatisation of the Snowy Mountains HydroElectric Authority.

The restoration of adequate environmental flows to the Snowy is a major project that would be spread over seven years. Victoria's contribution will depend on the outcome of negotiations with the Commonwealth and NSW Governments on the level of flows and each jurisdiction's share of the costs. As an initial contribution to the Government's commitment to restore adequate flows to the Snowy River, \$12 million has been provided to the Department of Natural Resources and Environment in 2000-01. This funding is to enable the trial of the Snowy River Rehabilitation Concept Plan (\$1.3 million) and work on water efficiency saving projects including the Woorinen pipeline (\$9 million) and the investigation and development of other projects (\$2 million).

The Government is actively exploring options for achieving water efficiency savings to offset environmental flows to the Snowy River. Capital projects are being identified to recover system water losses in Victorian managed rivers and irrigation distribution systems. The Government will commit further funds for the restoration of environmental flows to the Snowy River as other capital projects are fully scoped and costed. This may result in further funding being allocated in 2000-01.

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

In April 1999, Melbourne was named host city for the Commonwealth Games in 2006. In accepting the 2006 Commonwealth Games the State entered into an agreement with the bid company and the Commonwealth Games Organising Committee. Under the agreement entered into by the State, the State is committed to underwrite the operating deficit of the Organising Committee. The amount the State will underwrite will be quantified once the Organising Committee has finalised its business plan and develops the first Games' budget.

A contractual obligation exists between the Australian Commonwealth Games Association and the State Government. Under the obligation it is necessary for the Government to pay the licence fee associated with the holding of the Commonwealth Games in Melbourne. The Department of Premier and Cabinet has made the first instalment required under the agreement, future payments are to be made by the Department of State and Regional Development.

### ***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

ending in 2007. Payments under the Automated Ticketing System 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 in the future be implemented under the Service Contract.) The Treasurer has guaranteed the payment obligations of the PTC under the Service Contract.

Service delivery commenced in 1997 and commissioning of the system was granted with effect from 7 December 1998. As a result of public transport restructuring, it is proposed that PTC's rights and obligations under the Service Contract will be transferred to a corporation named Revenue Clearing House Pty Ltd ("RCH") which has as its shareholders the franchisees of PTC's businesses and the Department of Infrastructure. These arrangements will then apply to the payment obligations of RCH under the Service Contract rather than PTC.

### ***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 development 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 *Melbourne City Link Act 1995* 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).

Under the arrangements, the State is responsible for acquiring and paying for the land necessary for the project to proceed and paying for certain state works and general project costs. Funds necessary for these responsibilities have been made available to the Melbourne City Link Authority (MCLA) for 1995-96 through to 1999-2000 year along with an allocation for the 2000-01 year. 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 largely be completed in 1999-2000. However, due to the delayed delivery of Southern Link, some associated state works may now be held over into 2000-01.

In the project documentation, risks were allocated to the particular parties best able to manage those risks. During the course of construction, numerous issues arose that may have seen some risk rest with the State. In an effort to contain

any risks to the State, two separate settlements were negotiated between the parties. The first, in August 1999 resolved all outstanding issues on Western Link between the State, Transurban, Transfield-Obayashi Joint Venture (TOJV) and Boulderstone Hornibrook. The second, negotiated in March 2000, resolved all outstanding issues between the State, Transurban and TOJV in relation to Southern Link.

There is currently a formal tortious action against the MCLA by a private occupier of land acquired for the purposes of the project. A deed of release in final settlement is being negotiated.

### ***Exhibition Street extension project***

On 30 June 1997, the Government ordered a variation to the City Link Project under clause 2.4 of the Concession Deed, providing for a connecting road from the Punt Road interchange of the project to a road to be built extending Exhibition Street across the Jolimont rail yards to Batman Avenue near the Swan Street intersection.

Transfield-Obayashi Joint Venture is delivering the 'Punt Road' end of the project (Section 1), and VicRoads coordinated delivery of the city end of the project (Section 2). Both projects together are known as the Exhibition Street Extension Project. The project is funded by Transurban and its subsidiary City Link Extension Pty Ltd. The city end was opened for the public, without tolls, at the end of October 1999.

Although largely completed, it will be fully functional only when the Burnley Tunnel section of the Southern Link is opened and the Swan Street/Batman Avenue intersection can be remodelled to accommodate the integration of the two sections. This is not expected to occur before the third quarter of 2000, and the city section will remain toll free until then.

Risks borne by the State in both City Link and the Exhibition Street Extension Project are detailed in the legislation and Concession Deed for the projects.

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

Under various transport lease arrangements made by the Public Transport Corporation, the State of Victoria 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. As at 30 June 1999, all of these lease arrangements have been terminated. The normal statute of limitations for tax claims is five years and for personal injury claims is six years.

### ***Public transport franchise arrangements***

In August 1999, the State Government franchised its five passenger rail businesses to a number of private sector operators. As part of the franchise arrangements, the private sector operators were obliged to lease certain new rolling stock. In order to assist the franchisees in leasing the new rolling stock, the State agreed to enter into Direct Agreements with the lessors of the new rolling stock. Under the Direct Agreements, the State will have the following principal contingent liabilities:

- If the lease terminates early or the Franchise Agreement expires or terminates early, the State is required to take over the lease. In doing so, the State will assume the existing and future obligations of the lessee.
- The State has the right to buy the new rolling stock from the lessor in certain circumstances. If the State exercises this right, the State will be required to pay the purchase price.

The State has other contingent liabilities under the franchising arrangements.

### ***Native Title***

A number of claims have been filed with the Native Title Tribunal under the *Native Title Act 1993* which affect Victoria. Those claims are still being processed. It is inappropriate at this stage to form any view as to the likely success of any such claim and impossible 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 (predominantly budget sector 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 reinsurance in the private market for excess of loss of industrial special risk cover between \$50 million and \$1 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 \$600 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 cross-respondents in a representative proceeding before the Federal Court

arising from the fire and explosion at Esso's gas processing plant at Longford. The proceeding was instituted against Esso Australia Pty Ltd and Esso Australia Resources Ltd (together 'Esso') on behalf of gas users and stood-down workers who are alleged to have suffered losses during the incident.

Esso has in turn cross claimed against the State and a number of its instrumentalities. The State and its instrumentalities have denied any liability in respect of Esso's cross claim and are vigorously defending the cross claim. The State and a number of its instrumentalities have also issued a further cross claim against BHP Petroleum (Bass Strait) Pty Ltd for contribution and indemnity.

There is a dispute with insurers as to the extent of insurance cover. A claim has been made for indemnity by a number of the State's instrumentalities.

A further proceeding has been commenced in the Supreme Court of Victoria against some of the State's instrumentalities, but no document has been served. A further proceeding in the County Court against some of the State's instrumentalities is in the process of being resolved.

### ***Singapore consultancy***

Proceedings were commenced in the Supreme Court by McConnell Dowell South East Asia Pty Ltd and McConnell Dowell Holdings Pty Ltd claiming damages from the SECV, Gas Transmission Corporation and Gascor in relation to consultancy services provided by Gas and Fuel Corporation of Victoria to the Public Utilities Board of Singapore (now PowerGas) in connection with a transmission pipeline project in Singapore. Whether or not this claim proceeds may depend on the outcome of a claim by McConnell against PowerGas in Singapore under a pipeline construction contract whereby McConnell was engaged by PowerGas to construct the pipeline. Gascor, Gas Transmission Corporation and the SECV deny liability with respect to these claims.

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

Following the outsourcing of government functions, contractors now performing those functions have sometimes engaged staff on lesser rates and conditions than those which previously applied under awards for public sector employees. Recent 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 which 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 is subject to an application for leave to appeal to the High Court by the State of Victoria. The financial implications on the State of the transmission of business applications under the *Workplace Relations Act* are unclear pending the appeal.



## CHAPTER 10: ESTIMATED FINANCIAL STATEMENTS AND NOTES

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### INTRODUCTION

The Estimated Financial Statements included in this chapter represent a major achievement by the Government in advancing financial transparency in Victoria. While in previous years financial statements were included in the Budget Papers, there was no requirement either that they be based on generally accepted accounting principles (GAAP) or that they be subject to scrutiny by the Victorian Auditor-General.

The Estimated Financial Statements have been prepared in accordance with the provisions in the *Financial Management Act 1994* (the Act). The Act requires that the Estimated Financial Statements be based on GAAP, that they be consistent with the current Financial Policy Objectives and Strategies Statement (see Chapter 2) and that they are reviewed by the Victorian Auditor-General.

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 it is important to note that they reflect a number of professional judgements about the most likely operating and financial conditions for the Victorian budget sector.

The accompanying notes to the Estimated Financial Statements provide details of material economic and other assumptions used and the specific forecast assumptions underlying material items in the financial statements. Similarly, the Estimated Financial Statements are based on a number of economic and other assumptions, which are subject to uncertainties and are outside the control of the Government.

The Auditor-General's review (performed under new powers in the *Audit Act 1994*) was conducted to ensure that the Estimated Financial Statements:

- have been prepared on a basis consistent with the accounting policies on which they are stated to be based;

- are consistent with the Government's key financial measure;
- have been prepared on the basis of the assumptions contained in the statement of material economic and other assumptions (see Chapter 3); and
- employ assumptions that are determined using methodology that is reasonable.

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

## Estimated statement of financial performance

For the year ending 30 June (\$ million)

	Notes	2000-01 Budget	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
<b>Revenue from ordinary activities</b>					
Taxation	2	7 845.3	7 342.3	7 638.9	7 863.3
Fines and regulatory fees		273.3	236.6	238.6	236.7
Public authority revenue	3	947.7	656.7	557.9	453.0
Grants	4	10 198.1	11 107.8	11 416.1	11 725.0
Sale of goods and services		1 939.8	1 975.5	1 996.5	2 013.2
Gains/(losses) on the disposal of physical assets		29.6	12.8	7.3	0.5
Capital asset charge revenue		477.0	489.0	501.0	514.0
Other revenue	5	469.2	490.5	541.2	508.7
<b>Total revenue</b>		<b>22 180.0</b>	<b>22 311.3</b>	<b>22 897.5</b>	<b>23 314.5</b>
<b>Expenses from ordinary activities</b>					
Employee entitlements		7 721.3	8 044.7	8 336.3	8 626.3
Superannuation		1 380.3	1 464.6	1 494.4	1 545.4
Depreciation	6	773.3	824.6	870.9	918.8
Amortisation	7	24.5	19.0	18.4	18.4
Borrowing costs	8	510.4	490.2	477.8	479.1
Grants and transfer payments	9	4 150.3	4 021.6	4 079.9	3 992.5
Supplies and services		7 020.6	7 038.0	7 150.6	7 122.6
Other expenses		7.8	7.8	7.8	7.8
<b>Total expenses</b>	10	<b>21 588.5</b>	<b>21 910.3</b>	<b>22 436.0</b>	<b>22 711.0</b>
<b>Result from ordinary activities before extraordinary items</b>		<b>591.5</b>	<b>401.0</b>	<b>461.5</b>	<b>603.4</b>
<i>Result from extraordinary items</i>		..	..	..	..
<b>Net result</b>		<b>591.5</b>	<b>401.0</b>	<b>461.5</b>	<b>603.4</b>

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

## Estimated statement of financial position

As at 30 June (\$ million)

	Notes	2001 Budget	2002 Estimate	2003 Estimate	2004 Estimate
<b>Current assets</b>					
Cash		626.1	647.9	693.0	734.3
Investments		838.9	836.4	834.2	832.0
Receivables		600.5	577.4	566.4	566.7
Prepayments		82.3	82.5	82.7	82.8
Inventories		129.6	129.6	130.5	131.2
Other	13	2.5	2.5	2.5	2.5
<b>Total current assets</b>		<b>2 279.9</b>	<b>2 276.3</b>	<b>2 309.2</b>	<b>2 349.4</b>
<b>Non-current assets</b>					
Investments		2 035.9	2 151.9	2 109.7	1 997.0
Receivables		462.2	449.2	459.1	472.3
Inventories		4.1	4.1	4.1	4.1
Property, plant and equipment	11	17 899.8	18 443.6	19 115.1	20 053.9
Roads	12	11 454.8	11 553.5	11 598.3	11 600.3
Other	13	1 673.7	1 733.2	1 778.2	1 813.8
<b>Total non-current assets</b>		<b>33 530.5</b>	<b>34 335.5</b>	<b>35 064.6</b>	<b>35 941.4</b>
<b>Total assets</b>		<b>35 810.4</b>	<b>36 611.7</b>	<b>37 373.8</b>	<b>38 290.9</b>
<b>Current liabilities</b>					
Payables		846.1	866.9	887.9	908.8
Interest-bearing liabilities		568.1	568.1	701.5	575.4
Employee entitlements	14	612.3	617.5	623.2	630.4
Superannuation	15	699.4	752.6	772.9	797.9
Other		141.2	140.2	139.3	138.3
<b>Total current liabilities</b>		<b>2 867.2</b>	<b>2 945.4</b>	<b>3 124.8</b>	<b>3 050.8</b>
<b>Non-current liabilities</b>					
Payables		87.4	119.9	155.3	194.9
Interest-bearing liabilities		5 981.5	5 998.9	5 852.6	5 966.1
Employee entitlements	14	1 685.0	1 846.5	2 008.1	2 169.8
Superannuation	15	11 398.2	11 515.8	11 593.1	11 672.9
Other		258.5	251.6	244.8	238.0
<b>Total non-current liabilities</b>		<b>19 410.6</b>	<b>19 732.7</b>	<b>19 853.9</b>	<b>20 241.5</b>
<b>Total liabilities</b>		<b>22 277.7</b>	<b>22 678.1</b>	<b>22 978.7</b>	<b>23 292.3</b>
<b>Equity</b>					
Retained surplus		10 252.5	10 843.9	11 245.0	11 706.5
Reserves		2 688.6	2 688.6	2 688.6	2 688.6
Net result for year		591.5	401.0	461.5	603.4
<b>Total equity</b>		<b>13 532.6</b>	<b>13 933.6</b>	<b>14 395.1</b>	<b>14 998.5</b>

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

## Estimated statement of cash flows

For the year ending 30 June (\$ million)

	Notes	2000-01 Budget	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Taxation		7 814.9	7 309.1	7 602.8	7 823.8
Regulatory fees and fines		273.3	236.6	238.6	236.7
Public authority revenue		1 082.6	682.3	569.4	451.7
Grants		10 168.2	11 075.3	11 380.6	11 685.4
Sale of goods and services		1 927.6	1 962.4	1 983.6	2 000.1
Interest received		119.7	145.1	152.1	155.0
Capital asset charge received		477.0	489.0	501.0	514.0
Other receipts		374.3	350.0	395.4	361.0
<b>Total receipts</b>		<b>22 237.5</b>	<b>22 249.8</b>	<b>22 823.5</b>	<b>23 227.8</b>
<b>Payments</b>					
Employee entitlements		7 553.4	7 878.0	8 168.9	8 457.5
Superannuation		1 281.3	1 347.6	1 426.4	1 472.4
Grants		4 118.7	3 987.4	4 042.8	3 951.3
Supplies and services		7 031.6	7 044.4	7 157.6	7 129.6
Interest paid		472.3	466.7	468.8	470.5
<b>Total payments</b>		<b>20 457.3</b>	<b>20 724.2</b>	<b>21 264.6</b>	<b>21 481.4</b>
<b>Net cash flows from operating activities</b>	<b>16</b>	<b>1 780.2</b>	<b>1 525.7</b>	<b>1 558.9</b>	<b>1 746.4</b>
<b>Cash flows from investing activities</b>					
Net customer loans repaid		63.5	78.1	60.9	65.9
Net proceeds of investments		( 674.5)	( 113.0)	44.9	115.4
Term and fixed deposits		( 0.6)	( 0.5)	( 0.4)	( 0.5)
Sale of property, plant and equipment		127.0	88.9	66.8	39.8
Purchases of property, plant and equipment		(1 278.9)	(1 567.9)	(1 680.7)	(1 921.1)
Other		( 0.8)	..	..	..
<b>Net cash flows from investing activities</b>		<b>(1 764.3)</b>	<b>(1 514.5)</b>	<b>(1 508.5)</b>	<b>(1 700.5)</b>
<b>Cash flows from financing activities</b>					
Net proceeds (repayments) of borrowings		8.0	10.6	( 5.3)	( 4.6)
<b>Net cash flows from financing activities</b>		<b>8.0</b>	<b>10.6</b>	<b>( 5.3)</b>	<b>( 4.6)</b>
<b>Net increase in cash held</b>		<b>23.9</b>	<b>21.8</b>	<b>45.1</b>	<b>41.3</b>
Cash at beginning of reporting period		593.7	617.5	639.3	684.4
<b>Cash at end of reporting period</b>		<b>617.5</b>	<b>639.3</b>	<b>684.4</b>	<b>725.7</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. See Chapter 3 for a detailed discussion of these assumptions.

#### Material economic and other assumptions<sup>(a)</sup>

	2000-01	2001-02	2002-03	2003-04
Gross state product	3	3	3	3
State final demand	3	3	3	3
Employment	1	1	1	1
Unemployment rate <sup>(b)</sup>	6	6	6	5
Participation rate <sup>(c)</sup>	63	63	63	63
Consumer price index	5	2	2	2
Consumer price index abstracting from GST	2	2	2	2
Wage cost index <sup>(d)</sup>	3	3	3	3
Population <sup>(e)</sup>	0.9	0.8	0.8	0.7

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

*Notes:*

- (a) Per cent change on preceding year unless otherwise indicated.*
- (b) Estimate for June quarter, per cent.*
- (c) Year average, per cent.*
- (d) Total hourly rate, excluding bonuses.*
- (e) June quarter, per cent change on previous June quarter, based on Australian Bureau of Statistics Series L 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 (see Chapter 2). The key financial measure of a substantial budget sector operating surplus (referred to as “result from ordinary activities” in the statement of financial performance) is expected to be achieved throughout the forecast period.

<b>Fiscal target</b>		<b>Target</b>
<b>Key financial measure</b>		
Maintain a substantial budget sector operating surplus.		At least \$100m
200	Estimated Financial Statements	Budget Statement 2000-01



## **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 are the first Estimated Financial Statements to be issued for the Victorian budget sector that have been prepared in accordance with sections 23H and 23J of the Act and are based on Australian GAAP.

In accordance with Australian GAAP, all applicable extant Australian Accounting Standards (AASs) have been applied in the preparation and presentation of the Estimated Financial Statements. However, as there is no specific AAS or other Australian authoritative pronouncement on the preparation and presentation of prospective financial statements, AAS 6 *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 (FRS 29) *Prospective Financial Information* have been applied in presenting the Estimated Financial Statements. The requirements of FRS 29 have been modified to achieve presentation consistent with AAS 1 *Statement of Financial Performance*, AAS 36 *Statement of Financial Position* and AAS 37 *Financial Report Presentation and Disclosure*.

### **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 will be received or paid.

To establish an opening balance for the budget year, actual (audited) opening balances as at 30 June 1999 and the revised estimated movements for 1999-2000 have been used. The actual (audited) opening balances as at 30 June 1999 are based on either an historical cost basis or at valuation. Those items measured at valuation include:

- most 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.

No revaluations of assets or liabilities have been included for the forecast period.

In the State's capacity as a taxpayer under the new GST arrangements which are to apply as from 1 July 2000, the Estimated Financial Statements do not include any estimate of the amount of GST receivable or payable from the Commonwealth at year-end for the forecast period as there is no historical data on the operation of the GST. However, allowance has been made for higher expenses in the case of public housing and financial services as these items are input taxed and therefore, GST payable by budget sector entities will not be recoverable.

### **C. *Budget sector reporting entity***

The budget sector reporting entity includes government departments, and other budget dependent entities. Details of the entities included in the budget sector are shown in Note 17.

### **D. *Basis of consolidation***

The Estimated Financial Statements include all entities in the budget sector that are controlled by the Crown. Entities in the non-budget sector that are controlled by the Crown are not consolidated as the intent of the Estimated Financial Statements is to convey the financial performance, position and cash flows of the budget sector alone.

In the process of reporting the budget sector as a single economic entity, all material transactions and balances between budget sector entities are eliminated.

### **E. *Forecast reporting periods***

The reporting period for the 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 revised for estimated movements since that date are used as the basis of the opening balance for 1 July 2000. For example, schools and TAFE institutions have a reporting period ending 31 December.

Consequently, the results of these entities for the year ended 31 December and the balances existing as at 31 December have been used in the preparation of these financial statements.

## **F. 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, marketable securities, mortgages, rental businesses and leases;
- financial institutions duty and debit tax;
- gambling taxes – including private lotteries, electronic gaming machines, casino and racing;
- insurance duty – compulsory third party, life and non-life;
- motor vehicle taxes – registration fees, stamp duty, driver licence fees; and
- electricity franchise 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 an established relationship between taxation variables and

economic variables (e.g. GSP, employment growth, wages growth, CPI); and

- consultation with private sector economists, industry associations, and relevant government authorities (e.g. State Revenue Office, VicRoads, Victorian Casino and Gaming Authority).

Revenue replacement payments (RRPs) will not be received by the State in respect of the period post 1 July 2000. While the Commonwealth may provide the State with RRP's post 1 July 2000, these payments will only relate to the 1999-2000 financial year.

The following taxation items will cease, effective from 1 July 2001:

- stamp duty on listed marketable securities; and
- financial institutions duty.

Under the *Intergovernmental Agreement on Commonwealth-State Financial Relations* the Commonwealth has agreed to ensure that the State budget will be no worse off following the removal of these taxation revenues. (See note on GST loan under the accounting policy relating to grants.)

### *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 (e.g. electricity sector licence fees) are 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.

### *Public authority revenue*

#### **Accounting policy**

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

### **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.

### *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.

#### *GST Loan*

The Commonwealth has set out in the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* that the budgetary position of no State or Territory will be worse off following the introduction of GST. To achieve this Victoria will be provided with financial assistance from the Commonwealth in the form of:

- either a grant or loan – designation of which is to be determined by the Commonwealth Treasurer. Where the amount is designated as a loan it will be interest-free and be repayable in full in 2001-02. In the event that an amount is designated as a loan, the Commonwealth has given an undertaking that it will provide financial assistance in 2001-02 to enable the State to repay the loan; and

- in subsequent transitional years, transitional assistance will be provided as a grant.

At this stage, it is expected that an amount of \$412.6 million will be received by the State in 2000-01 as a loan. This represents revenue to the State and has been recognised as such in the Financial Statements. No present obligation arises because the Commonwealth has given the State an undertaking that it will provide the State with funding to meet the repayment of the loan.

In 2001-02 when repayments are required to be made, the State expects to receive an amount from the Commonwealth that it will then remit back to the Commonwealth on the same day. Accordingly, there is no impact on financial performance or position for 2001-02 and the net effect on cash flows is zero.

#### **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.

As a result of the introduction of GST, Commonwealth general purpose financial assistance grants will cease and will be replaced by GST revenue grants.

#### *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.

## **G. 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 budget sector; and
- unfunded schemes: the expense reflects the forecast movement in the unfunded superannuation liability during each forecast period, after taking account of superannuation contributions payable by entities within the budget sector.

#### **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.

### *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 allocate 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 as follows:

<i>Asset class</i>	<i>Useful life</i>
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 during the forecast period.

#### **Forecast assumption**

Depreciation is forecast on the basis of known asset profiles, asset sales programs and approved new asset investment programs.

#### *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 budget sector debt. This is expected to mainly comprise of approximately \$5 billion in a fixed rate facility and \$1 billion of indexed linked securities from the Treasury Corporation of Victoria. The indexed securities are adjusted in line with movements in CPI and any movements in the principal outstanding is recognised as a finance cost. All maturities in the forecast period are assumed to be generally refinanced at forward interest rates.



## *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 and community groups.

### **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.

## **H. Assets**

### *Investments*

#### **Accounting policy**

The opening balance of investments represents the audited value as at 1 July 1999 revised for estimated movements for 1999-2000, and comprises marketable securities (less provision for diminution) and deposits which are valued at market value.

#### **Forecast assumption**

All surplus cash resources for the period 2000-01 to 2003-04 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 1999 revised for estimated movements for 1999-2000, 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 1999 revised for estimated movements for 1999-2000, and is valued at the lower of cost and net realisable value. The methods used to assign costs to inventories 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 at 1 July 2000 is based on actual audited opening balances as at 1 July 1999 revised for estimated movements for 1999-2000. Non-current physical assets are not revalued in the forecast period.

New investments in assets are valued at the forecast purchase price.

### *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 and disposals.

*Plant and equipment***Accounting policy**

The opening balance of plant and equipment is recognised at historical cost or 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 and disposals.

*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 and disposals.

*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 *Accounting and Financial Reporting Bulletin* No. 19, issued under Part 1 of the Directions of the Minister for Finance under the Act.

### *National parks, state forests and other Crown land*

#### **Accounting policy**

National parks and state forests are generally recognised at the estimated current market buying price of adjacent land, discounted to adjust for the restricted nature of current use. This valuation methodology does not take into account the intrinsic value of these assets to the community.

Other Crown land in rural areas has been recognised at values determined by applying an average valuation for broad area rural improved land (cropping and grazing) and unimproved land (bushland and water) for all parishes and townships in the State.

#### **Forecast assumption**

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 greater of current market buying price and net present value. All other core heritage assets and collections are valued at estimated written-down replacement cost. All natural non-core heritage assets and collections are valued at estimated realisable value or net present value, whichever is the higher.

**Forecast assumption**

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

*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.

***I. 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; and
- the residual amount outstanding for loans raised by the Commonwealth on behalf of the State in previous years.

Budget sector debt is recognised at estimated book value (i.e. historical cost adjusted for amortisation of discount and premium).

### **Forecast assumption**

For forecasting, budget sector debt is also 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 represents the audited value as at 1 July 1999 revised for estimated movements for 1999-2000, in respect of the contributory service of current and past government employees, is recognised at the latest actuarial assessment of the members' entitlements, net of scheme assets. The valuation is determined by discounting to present value the gross benefit payments at a current, market-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.

*Other liabilities***Accounting policy**

All other liabilities are recognised at the estimated amounts payable.

**J. Statement of cash flows****Accounting policy**

For the purposes of the statement of cash flows, cash comprises cash on hand, cash at bank, bank overdrafts and deposits at call, and highly liquid investments with short periods to maturity, which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

**K. Rounding****Accounting policy**

All amounts in the Estimated Financial Statements have been rounded to the nearest hundred thousand dollars unless otherwise stated.

## Note 2: Taxation

	2000-01	2001-02	2002-03	2003-04
	<i>Budget</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
Payroll tax	2 469.3	2 596.3	2 765.8	2 908.1
Taxes on immovable property	560.2	599.9	608.5	623.6
Financial and capital transactions	2 067.0	1 491.4	1 522.8	1 594.2
Gambling	1 235.1	1 281.1	1 320.1	1 361.1
Insurance	429.1	451.3	467.7	484.9
Motor vehicles	931.6	972.7	1 001.6	1 034.9
Business franchise fees, licences and levies	153.0	49.6	52.4	56.5
Proposed business tax cuts	..	( 100.0)	( 100.0)	( 200.0)
<b>Total taxation</b>	<b>7 845.3</b>	<b>7 342.3</b>	<b>7 638.9</b>	<b>7 863.3</b>

## Note 3: Public authority revenue

	2000-01	2001-02	2002-03	2003-04
	<i>Budget</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
Dividends	772.7	573.5	521.9	412.2
Tax equivalent revenue	175.0	83.2	36.0	40.8
<b>Total public authority revenue</b>	<b>947.7</b>	<b>656.7</b>	<b>557.9</b>	<b>453.0</b>

## Note 4: Grants

	2000-01	2001-02	2002-03	2003-04
	<i>Budget</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
<b>Current grants</b>				
General purpose grants	5 857.2	6 602.7	6 809.4	7 004.1
Specific purpose grants for onpassing	1 112.2	1 143.6	1 175.8	1 209.1
Other specific purpose grants	2 815.4	2 922.6	3 002.0	3 133.6
<b>Total current grants</b>	<b>9 784.8</b>	<b>10 668.9</b>	<b>10 987.2</b>	<b>11 346.8</b>
<b>Capital grants</b>				
Specific purpose grants for onpassing	108.2	110.7	113.4	116.1
Other specific purpose grants	305.2	328.2	315.5	262.1
<b>Total capital grants</b>	<b>413.3</b>	<b>438.9</b>	<b>428.8</b>	<b>378.2</b>
<b>Total grants</b>	<b>10 198.1</b>	<b>11 107.8</b>	<b>11 416.1</b>	<b>11 725.0</b>



## Note 5: Other revenue

	2000-01	2001-02	2002-03	2003-04
	Budget	Estimate	Estimate	Estimate
Interest	119.7	145.1	152.1	155.0
Royalties	48.2	48.6	49.1	49.4
Rents	26.2	26.1	26.4	27.3
Other	275.1	270.8	313.6	276.9
<b>Total other revenue</b>	<b>469.2</b>	<b>490.5</b>	<b>541.2</b>	<b>508.7</b>

## Note 6: Depreciation

	2000-01	2001-02	2002-03	2003-04
	Budget	Estimate	Estimate	Estimate
Plant, equipment and infrastructure	317.8	332.7	341.3	342.1
Buildings <sup>(a)</sup>	252.4	288.1	325.6	369.0
Roads	198.3	198.3	198.3	198.3
Other assets	4.8	5.5	5.7	9.5
<b>Total depreciation</b>	<b>773.3</b>	<b>824.6</b>	<b>870.9</b>	<b>918.8</b>

Note:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2001-02 to 2003-04.

## Note 7: Amortisation

	2000-01	2001-02	2002-03	2003-04
	Budget	Estimate	Estimate	Estimate
Plant and equipment	14.4	16.5	15.9	15.9
Buildings	10.2	2.5	2.5	2.5
<b>Total amortisation</b>	<b>24.5</b>	<b>19.0</b>	<b>18.4</b>	<b>18.4</b>

## Note 8: Borrowing costs

	2000-01	2001-02	2002-03	2003-04
	Budget	Estimate	Estimate	Estimate
Interest on short-term borrowings	5.2	5.2	5.2	5.2
Interest on long-term borrowings	445.7	449.7	451.8	453.6
Finance charges on finance leases	15.8	6.4	6.4	6.4
Other borrowing costs	43.7	28.8	14.3	13.9
<b>Total borrowing costs</b>	<b>510.4</b>	<b>490.2</b>	<b>477.8</b>	<b>479.1</b>

## Note 9: Grants and transfer payments

	2000-01	2001-02	2002-03	2003-04
	Budget	Estimate	Estimate	Estimate
Commonwealth	0.1	0.1	0.1	0.1
Local government	412.6	421.3	430.6	400.5
Private sector	2 263.3	2 224.4	2 258.4	2 277.8
Other	1 474.3	1 375.8	1 390.8	1 314.2
<b>Total grants paid</b>	<b>4 150.3</b>	<b>4 021.6</b>	<b>4 079.9</b>	<b>3 992.5</b>

## Note 10: Total expenses from ordinary activities by Department

	2000-01	2001-02	2002-03	2003-04
	Budget	Estimate	Estimate	Estimate
<b>Expenses from ordinary activities</b>				
Education Employment and Training	6 107.3	6 075.6	6 090.6	6 070.0
Human Services	7 187.1	7 269.3	7 333.1	7 342.8
Infrastructure	2 614.3	2 686.1	2 656.0	2 533.8
Justice	1 596.8	1 615.5	1 638.5	1 639.8
Natural Resources and Environment	855.5	811.0	774.9	734.8
Premier and Cabinet	380.8	373.7	374.3	378.5
State and Regional Development	324.0	307.9	318.8	234.6
Treasury and Finance	2 176.5	1 834.4	1 816.2	1 848.7
Parliament	95.7	90.8	92.1	92.3
Contingencies not allocated to departments <sup>(a)</sup>	250.5	846.1	1 341.5	1 835.8
<b>Total expenses</b>	<b>21 588.5</b>	<b>21 910.3</b>	<b>22 436.0</b>	<b>22 711.0</b>

Note:

(a) Departmental expenses will be supplemented for certain costs that are provided for in contingencies.

## Note 11: Property, plant and equipment

	2001	2002	2003	2004
	Budget	Estimate	Estimate	Estimate
<b>Land, national parks and other "land only" holdings</b>	<b>4 565.5</b>	<b>4 521.4</b>	<b>4 485.4</b>	<b>4 469.9</b>
Buildings <sup>(a)</sup>	9 836.2	10 823.9	11 951.8	13 464.2
<i>Deduct: accumulated depreciation</i>	<i>( 994.6)</i>	<i>(1 285.0)</i>	<i>(1 612.9)</i>	<i>(1 984.2)</i>
<b>Buildings (written down value)</b>	<b>8 841.6</b>	<b>9 539.0</b>	<b>10 338.9</b>	<b>11 479.9</b>
Infrastructure systems	4 326.7	4 399.1	4 498.7	4 511.3
<i>Deduct: accumulated depreciation</i>	<i>( 957.8)</i>	<i>( 963.4)</i>	<i>( 969.1)</i>	<i>( 978.6)</i>
<b>Infrastructure systems (written down value)</b>	<b>3 368.9</b>	<b>3 435.7</b>	<b>3 529.6</b>	<b>3 532.7</b>
Plant, equipment and vehicles	3 014.5	3 187.4	3 358.4	3 526.5
<i>Deduct: accumulated depreciation</i>	<i>(2 090.7)</i>	<i>(2 423.7)</i>	<i>(2 765.2)</i>	<i>(3 107.5)</i>
<b>Plant, equipment and vehicles (written down value)</b>	<b>923.8</b>	<b>763.8</b>	<b>593.1</b>	<b>418.9</b>
Leased plant, equipment and vehicles	268.0	268.0	268.0	268.0
<i>Deduct: accumulated amortisation</i>	<i>( 68.0)</i>	<i>( 84.3)</i>	<i>( 100.0)</i>	<i>( 115.6)</i>
<b>Leased plant, equipment and vehicles (written down value)</b>	<b>200.0</b>	<b>183.7</b>	<b>168.1</b>	<b>152.4</b>
<b>Total property, plant and equipment</b>	<b>17 899.8</b>	<b>18 443.6</b>	<b>19 115.1</b>	<b>20 053.9</b>

Note:

(a) Includes amounts not yet allocated to projects in 2001-02 to 2003-04.

## Note 12: Roads

	2001	2002	2003	2004
	Budget	Estimate	Estimate	Estimate
Roads	14 549.6	14 846.6	15 089.7	15 290.0
<i>Deduct: accumulated depreciation</i>	<i>(3 094.8)</i>	<i>(3 293.1)</i>	<i>(3 491.4)</i>	<i>(3 689.7)</i>
<b>Total roads</b>	<b>11 454.8</b>	<b>11 553.5</b>	<b>11 598.3</b>	<b>11 600.3</b>

### Note 13: Other assets

	2001 Budget	2002 Estimate	2003 Estimate	2004 Estimate
<b>Current</b>				
Other assets	2.5	2.5	2.5	2.5
<b>Total current</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>
<b>Non-current</b>				
Natural resource reserves	297.1	297.1	297.1	297.1
Other assets-including works of art, museum collections, rare book collections and intangibles	1 404.5	1 464.2	1 509.3	1 545.0
<i>Deduct: Accumulated depreciation</i>	<i>(27.9)</i>	<i>(28.1)</i>	<i>(28.2)</i>	<i>(28.4)</i>
<b>Total non-current</b>	<b>1 673.7</b>	<b>1 733.2</b>	<b>1 778.2</b>	<b>1 813.8</b>

### Note 14: Employee entitlements

	2001 Budget	2002 Estimate	2003 Estimate	2004 Estimate
Accrued salaries and wages	80.8	86.0	91.6	98.6
Annual leave	364.7	365.2	365.8	366.4
Long service leave	166.9	166.3	165.8	165.3
<b>Total current employee entitlements</b>	<b>612.3</b>	<b>617.5</b>	<b>623.2</b>	<b>630.4</b>
Long service leave	1 679.3	1 840.7	2 002.3	2 163.9
Other employee entitlements	5.8	5.8	5.9	5.9
<b>Total non-current employee entitlements</b>	<b>1 685.0</b>	<b>1 846.5</b>	<b>2 008.1</b>	<b>2 169.8</b>
<b>Total employee entitlements</b>	<b>2 297.4</b>	<b>2 464.0</b>	<b>2 631.3</b>	<b>2 800.2</b>

## Note 15: Superannuation

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

### *Unfunded superannuation liability*

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 funding status of the State's share of defined benefit schemes for the period, based on Department of Treasury and Finance estimates, is forecast as follows:

	2001 <i>Budget</i>	2002 <i>Estimate</i>	2003 <i>Estimate</i>	2004 <i>Estimate</i>
State Superannuation Fund	11 964.6	12 130.1	12 221.6	12 321.4
Other	133.0	138.3	144.3	149.3
<b>Total unfunded superannuation liability</b>	<b>12 097.6</b>	<b>12 268.4</b>	<b>12 365.9</b>	<b>12 470.7</b>
Current liability	699.4	752.6	772.9	797.9
Non-current liability	11 398.2	11 515.8	11 593.1	11 672.9
<b>Total liability</b>	<b>12 097.6</b>	<b>12 268.4</b>	<b>12 365.9</b>	<b>12 470.7</b>

## Note 16: Cash flow information

	2000-01 <i>Budget</i>	2001-02 <i>Estimate</i>	2002-03 <i>Estimate</i>	2003-04 <i>Estimate</i>
<b>Reconciliation of cash</b>				
Cash	254.8	270.3	299.5	320.0
Deposits at call	371.3	377.5	393.5	414.3
Bank overdraft	( 8.6)	( 8.6)	( 8.6)	( 8.6)
<b>Cash held as at 30 June</b>	<b>617.5</b>	<b>639.3</b>	<b>684.4</b>	<b>725.7</b>
<b>Net result</b>	<b>591.5</b>	<b>401.0</b>	<b>461.5</b>	<b>603.4</b>
<b>Non-cash movements</b>				
Depreciation	773.3	824.6	870.9	918.8
Amortisation	24.5	19.0	18.4	18.4
(Un)Realised gains / losses on borrowings	37.1	22.5	8.0	7.6
Net revenues from sale of plant & equipment	( 29.6)	( 12.8)	( 7.3)	( 0.5)
Increase / (Decrease) in payables	31.0	37.7	40.9	44.8
Increase / (Decrease) in employee benefits	167.8	166.6	167.3	168.8
Increase / (Decrease) in superannuation	99.0	117.0	68.0	73.0
Increase / (Decrease) in other liabilities	( 7.8)	( 7.8)	( 7.8)	( 7.8)
(Increase) / Decrease in receivables	93.9	( 41.9)	( 59.9)	( 79.3)
(Increase) / Decrease in other current assets	( 0.7)	( 0.2)	( 1.0)	( 0.9)
<b>Net cash from operating activities</b>	<b>1 780.2</b>	<b>1 525.7</b>	<b>1 558.9</b>	<b>1 746.4</b>

## **Note 17: Budget sector entities**

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

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*Budget sector entities*

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### **Department of Education, Employment and Training**

Adult, Community and Further Education Board  
Bendigo Regional Institute of TAFE  
Board of Studies  
Box Hill Institute of TAFE  
Central Gippsland Institute of TAFE  
Chisholm Institute of TAFE  
Council of Adult Education  
Driver Education Centre of Australia Ltd  
East Gippsland Institute of TAFE  
Gordon Institute of TAFE  
Goulburn Ovens Institute of TAFE  
Holmesglen Institute of TAFE  
International Fibre Centre Limited  
Kangan Batman Institute of TAFE  
Northern Melbourne Institute of TAFE  
Royal Melbourne Institute of Technology TAFE  
South West Institute of TAFE  
State Training Board of Victoria  
Sunraysia Institute of TAFE  
Swinburne University of Technology TAFE  
Victorian University of Technology TAFE  
William Angliss Institute of TAFE  
Wodonga Institute of TAFE

### **Department of Human Services**

Alexandra and District Ambulance Service  
Alexandra District Hospital  
Alpine Health  
Ambulance Officers Training Centre  
Ambulance Service Victoria Metropolitan Region  
Austin and Repatriation Medical Centre  
Bairnsdale Regional Health Service  
Ballarat Health Services  
Barwon Health  
Beaufort and Skipton Health Service  
Beechworth Hospital  
Benalla and District Memorial Hospital  
Bendigo Health Care Group  
Boort District Hospital  
Casterton Memorial Hospital

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*Budget sector entities*

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Central Gippsland Health Service (formerly Central Wellington Health Service and the Maffra District Hospital)  
Cobram District Hospital  
Cohuna District Hospital  
Colac Community Health Services  
Coleraine and District Hospital  
Dental Health Services Victoria  
Djerriwarrh Health Services  
Dunmunkle Health Services  
East Grampians Health Service  
East Wimmera Health Service (amalgamation of East Wimmera Health Service and Wycheproof and District Health Service)  
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  
Inner and Eastern Health Care Network  
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  
McIvor Health and Community Services  
Mental Health Review Board  
Mildura Base Hospital  
Moyne Health Services (formerly Port Fairy Hospital)  
Mt Alexander Hospital  
Nathalia District Hospital  
North Western Health Care Network  
Numurkah District Health Service  
Omeo District Hospital  
Otway Health and Community Services, The  
Peninsula Health Care Network  
Portland and District Hospital  
Prince Henry's Institute of Medical Research  
Psychosurgery Review Board



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*Budget sector entities*

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Queen Elizabeth Centre, The  
Robinvale District Health Services  
Rochester and Elmore District Health Service  
Rural Ambulance Victoria  
Rural Northwest Health  
Seymour District Memorial Hospital  
South Gippsland Hospital  
South West Healthcare (formerly Corangamite Regional Hospital Services and  
Warrnambool and District Base Hospital)  
Southern Health Care Network  
Stawell District Hospital  
Swan Hill District Hospital  
Tallangatta Health Services (formerly Tallangatta Hospital)  
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  
Wimmera Health Care Group  
Wodonga Regional Health Service  
Women's and Children's Health Care Network  
Wonthaggi and District Hospital  
Yarram and District Health Service  
Yarrawonga District Health Service (formerly Yarrawonga District Hospital)  
Yea and District Memorial Hospital

**Department of Infrastructure**

Heritage Council  
Marine Board of Victoria  
Melbourne City Link Authority  
Roads Corporation

**Department of Justice**

Victoria Police (Office of the Chief Commissioner of Police)  
Victorian Electoral Commission  
Victorian Institute of Forensic Medicine

**Department of Natural Resources and Environment**

Environment Protection Authority  
Surveyors Board

**Department of Premier and Cabinet**

Library Board of Victoria (includes State Library of Victoria Foundation)  
Museums Board of Victoria

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*Budget sector entities*

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National Gallery of Victoria, Council of Trustees  
Office of Public Employment  
Office of the Ombudsman  
Victorian Relief Committee

**Department of State and Regional Development**

Liquor Licensing Panel (formerly Liquor Licensing Commission)  
Tourism Victoria

**Department of Treasury and Finance**

Office of the Regulator-General  
Victorian Casino and Gaming Authority

**Parliament of Victoria**

Victorian Auditor-General's Office

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## 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  
May 2000

# REPORT OF THE AUDITOR-GENERAL ANNUAL BUDGET 2000-01



## AUDITOR-GENERAL'S REPORT

To the Members of the Parliament of Victoria

### Scope of Review

I have reviewed the accompanying estimated financial statements of the Victorian Budget Sector, as defined in note 17 to the statements, for the financial year ended 30 June 2001 and the three forward financial years ended 30 June 2002, 2003 and 2004. The statements comprise an estimated statement of financial performance, an estimated statement of financial position, an estimated statement of cash flows and accompanying notes. The remaining parts of the Budget Papers have not been subject to my review.

The Treasurer of Victoria is responsible for the preparation and presentation of the estimated financial statements and the information they contain. The estimated financial statements have been prepared for inclusion in the State Budget which is presented to the Parliament. Any assumption of responsibility for any reliance on this report or on the estimated financial statements of the Victorian Budget Sector to which this report relates is disclaimed to any person other than the Members of the Parliament of Victoria.

My review of the estimated financial statements has been conducted under section 16B of the *Audit Act* 1994 which requires me to state whether anything has come to my attention that would cause me to not believe that the statements have been prepared on a basis consistent with the accounting policies on which they are stated to be based, are consistent with the target established for the key financial measure specified in the accompanying notes to the statements and have been properly prepared on the basis of the economic assumptions stated in the accompanying notes to the statements, and the methodologies used to determine those assumptions were reasonable.

The review has been conducted in accordance with Australian Auditing Standards applicable to review engagements, and has been limited primarily to inquiries of relevant personnel and assessments of the reasonableness of the key methodologies and processes followed to determine the assumptions and data upon which the estimated financial statements are based, and appropriate analytical procedures. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that which would be given in an audit. Accordingly, an audit has not been performed and an audit opinion is not expressed.

Prospective financial information relates to events and actions that have not yet occurred and may not occur. While evidence may be available to support the assumptions and underlying data upon which prospective financial information is based, such evidence is generally future oriented and therefore less certain in nature. As a result, I am not in a position to obtain the level of assurance necessary to express a positive opinion on those assumptions and the accompanying forecast information included in the estimated financial statements. Accordingly, an opinion is not expressed on whether the forecasts will be achieved.

### Review Statement

Based on my review, which is not an audit, nothing has come to my attention that causes me to not believe that:

- the estimated financial statements have been prepared on a basis consistent with the accounting policies on which they are stated to be based;
- the estimated financial statements are consistent with the target established for the key financial measure specified in the accompanying notes to the statements;
- the estimated financial statements have been properly prepared on the basis of the economic assumptions stated in the accompanying notes to the statements; and
- the methodologies used to determine those assumptions were reasonable.

Actual results achieved by the Victorian Budget Sector are likely to be different from those forecast in the estimated financial statements since anticipated results frequently do not occur as expected and the variation may be material. Accordingly, I express no opinion as to whether the forecasts will be achieved.

J W CAMERON  
AUDITOR-GENERAL

MELBOURNE  
26 / 4 / 2000

Level 14, 222 Exhibition Street, Melbourne, Victoria 3000  
Tel (03) 9651 6012 Fax (03) 9651 6050

Email: [vicaud1@vicnet.net.au](mailto:vicaud1@vicnet.net.au)  
Internet: <http://www.audit.vic.gov.au>

## **APPENDIX A: REVISED 1999-2000 BUDGET OUTCOME**

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The revised 1999-2000 Budget estimates take into account government policy decisions and economic developments impacting on both revenue and expenses since the presentation of the 1999-2000 Budget to Parliament.

The revised budget sector financial estimates presented in this appendix are prepared on an accrual basis consistent with generally accepted accounting principles, and are consistent with estimates presented in the *1999-2000 Budget Paper No. 2*.

### **REVISED 1999-2000 STATEMENT OF FINANCIAL PERFORMANCE**

The revised 1999-2000 budget sector statement of financial performance is presented at Table A1. The revised projected operating result for 1999-2000 is a surplus of \$1 339 million, which is \$1 211 million higher than the estimate published in the 1999-2000 Budget.

#### **Operating revenue**

Total estimated operating revenue for 1999-2000 has been revised upward by \$1 957 million, or 10 per cent, from the budget estimate of \$19 489 million. The increase in projected operating revenue is attributable, in part, to the impact of buoyant economic conditions and stronger than expected performance in property, share and other asset markets on taxation, public authority income and other revenue.

A correction to the accounting treatment of the Capital Assets Charge applying to VicTrack has also contributed \$493 million to the increase in reported revenue since the 1999-2000 Budget. The inclusion of this charge better reflects transactions between budget sector agencies and public trading enterprises. This variation is a one-off adjustment that is offset by an equivalent rise in operating expenses and therefore has no impact on the overall operating result.

**Table A1: 1999-2000 statement of financial performance**

(\$ million)

	1999-00 Budget	1999-00 Revised	Change	Change %
<b>Revenue</b>				
Taxation	8 691.0	9 390.5	699.5	8.0
Fines and regulatory fees	246.6	271.1	24.5	9.9
Public authority income	646.5	1 136.3	489.9	75.8
Grants	7 606.6	7 734.8	128.2	1.7
Sale of goods and services	1 812.9	1 922.6	109.8	6.1
Gains on the disposal of physical assets	32.0	32.0	0.0	0.2
Fair value of assets received free of charge	0.1	0.3	0.2	125.4
Capital asset charge revenue	..	493.0	493.0	-
Other revenue	453.6	465.3	11.7	2.6
<b>Total revenue</b>	<b>19 489.2</b>	<b>21 446.0</b>	<b>1 956.7</b>	<b>10.0</b>
<b>Expenses</b>				
Employee entitlements	7 418.9	7 258.6	- 160.3	-2.2
Superannuation	1 437.4	1 433.3	- 4.1	-0.3
Depreciation	720.0	736.7	16.7	2.3
Amortisation	32.9	28.1	- 4.9	-14.9
Borrowing costs	532.1	452.9	- 79.2	-14.9
Grants and transfer payments	3 309.3	3 866.1	556.7	16.8
Supplies and services	5 910.2	6 324.1	413.9	7.0
Other expenses	..	6.8	6.8	-
<b>Total expenses</b>	<b>19 360.9</b>	<b>20 106.6</b>	<b>745.7</b>	<b>3.9</b>
<b>Operating surplus</b>	<b>128.4</b>	<b>1 339.3</b>	<b>1 211.0</b>	<b>943.5</b>

Source: Department of Treasury and Finance

**Taxation**

In 1999-2000, state taxation revenue is expected to total \$9 391 million, \$700 million (or 8.0 per cent) above the 1999-2000 Budget estimate (see Table A2). The anticipated additional revenue for 1999-2000 mainly reflects higher collections of payroll, property and gambling taxes, which have been significantly higher than trend growth.

The underestimation of taxation revenue is attributable in large part to much stronger than anticipated economic growth and the exceptional strength of the housing market during 1999-2000. At budget time last year, real GSP was expected to expand in 1999-2000 by 2.75 per cent after estimated growth of 3.75 per cent in the previous year. It is now expected that the final growth outcome for 1999-2000 will be over 4 per cent, which follows on from growth in excess of 6 per cent in 1998-99.

**Table A2: Taxation**

	(\$ million)			
	1999-00 Budget	1999-00 Revised	Change	Change %
Payroll tax	2 231.5	2 311.7	80.2	3.6
Taxes on property	2 323.7	2 744.9	421.2	18.1
Gambling taxes	1 428.2	1 524.8	96.7	6.8
Taxes on insurance	365.6	380.5	14.9	4.1
Motor vehicle taxes	883.9	904.3	20.4	2.3
Safety net revenues/franchise fees	1 447.1	1 485.6	38.5	2.7
Other taxes	11.0	38.6	27.6	250.9
<b>Total taxation</b>	<b>8 691.0</b>	<b>9 390.5</b>	<b>699.5</b>	<b>8.0</b>

Source: Department of Treasury and Finance

### *Taxes on property*

Taxes on property include land tax, the metropolitan improvement levy, stamp duties principally from land transfers, mortgages and marketable securities, and financial institutions transactions taxes. Total property tax collections in 1999-2000 are estimated to be \$2 745 million, \$421 million higher than the budget estimate. This outcome is due mainly to higher than expected collections of conveyancing duty and land tax reflecting sustained growth in the housing market and unexpectedly strong growth in real estate prices and turnover.

### **Conveyancing duties**

Revenue from conveyancing duties in 1999-2000 is estimated to be \$1 240 million, some \$329 million higher than the budget forecast. This increase is attributable to the remarkable strength and growth in the housing market during 1999-2000, a tight rental market, increased consumer confidence, historically low interest rates and a net interstate migration into Victoria from other States. These factors have been reinforced by some homebuyers entering the market ahead of the GST. Current collections are around 30 per cent above the late 1980s bull market peak. Chart 6.6 (see Chapter 6, *Revenue and Grants*) clearly shows the upward trend and recent high levels of conveyancing duty in this broader context, and includes estimates for future years.

### **Land tax**

Reflecting higher land values than were previously forecast, land tax assessments which have been issued for the 2000 tax year are expected to amount to \$425 million or \$38 million higher than the 1999-2000 Budget estimate.

### **Mortgage duty**

In line with the growth in land transfer duties and strong demand for property, mortgage duty is forecast to be \$117 million, some \$26 million higher than the 1999-2000 Budget estimate.

### **Share duty**

In 1999-2000, share duty collections are expected to amount to \$198 million, compared to a budget estimate of \$175 million. Growth in collections of share duty revenue has reflected high share prices and strong growth in turnover. After averaging about 2 800 points in 1998-1999, the All Ordinaries Index has on occasions exceeded 3 200 points in 1999-2000.

Share market turnover has also been growing strongly during recent years, reflecting privatisations, demutualisations and increased private shareholding. Offsetting this positive trend is the fact that fund management activities and share trading are becoming increasingly concentrated in New South Wales. As a result, the proportion of duty collected in Victoria has fallen over time.

### *Payroll tax*

Payroll tax revenue in 1999-2000 is estimated to be \$2 312 million, underpinned by stronger than forecast growth in taxable payrolls reflecting continued employment growth. This is \$80 million higher than the 1999-2000 Budget estimate.

### *Gambling*

Gambling tax collections in 1999-2000 are estimated at \$1 525 million, exceeding the 1999-2000 Budget estimate by \$97 million. Gambling tax collections in excess of budget estimates resulted from a continued increase in utilisation of electronic gaming machines, relocation of machines to more profitable locations and the continued introduction of bill accepting machines.

See Chapter 6, *Revenue and Grants* for an analysis of the underestimation of gambling revenues in recent years.

### *Insurance*

Taxes on insurance are expected to be \$15 million higher than the 1999-2000 budget estimate, reflecting increased insurance coverage and increased premiums.



### *Motor vehicles*

Taxes on motor vehicles are expected to be \$20 million higher than budget, mainly as a result of a steady increase in the number of registered vehicles, increased economic growth and historically low interest rates.

### *Franchise fees*

Safety net revenues, which since August 1997 have replaced state business franchise fees on liquor, tobacco and petroleum, are expected to exceed 1999-2000 budget estimates by \$29 million. This reflects revised estimates provided by the Commonwealth Government, which also provides forecasts for these items.

### *Other taxes*

The variation in other tax revenue reflects the receipt of Transurban concession fees and landfill distribution levies for the 1999-2000 financial year, leading to an increase in other taxes of \$28 million.

### **Public authority income**

As shown in Table A3, public authority income in 1999-2000 is estimated to be \$490 million higher than budget. This variance is largely due to the following factors:

- increased dividends and income tax equivalent receipts of \$339 million expected from the Transport Accident Commission. This is due to stronger than anticipated investment returns from the domestic and international equity markets and also lower than projected claims liabilities, principally due to favourable economic impacts and claims management experience;
- increased dividends of \$82 million expected from metropolitan water businesses. This was due to higher than anticipated land development activity ahead of GST implementation, an unexpected extended period of dry climatic conditions and lower than anticipated demand response following pricing reforms; and
- the determination of a \$55 million dividend from the State Electricity Commission of Victoria (SECV) which was originally budgeted for 1998-99.

**Table A3: Public authority income 1999-2000**

	(\$ million)			
	1999-00 Budget	1999-00 Revised	Change	Change %
Dividends	496.5	882.1	385.6	77.7
Tax equivalent income	150.0	254.3	104.3	69.5
<b>Total public authority income</b>	<b>646.5</b>	<b>1 136.3</b>	<b>489.9</b>	<b>75.8</b>

Source: Department of Treasury and Finance

### **Grants**

Total grants received are now expected to be \$128 million higher than budget. This mainly reflects higher than budgeted specific purpose payments, particularly in relation to Commonwealth funding for government and non-government schools programs (\$160 million higher than budget), and increased funding under the Australian Health Care Agreement. This is partly offset by a decrease in Commonwealth financial assistance grants and National Competition Policy funding.

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

The 1999-2000 revised estimate for sale of goods and services is \$1 923 million, which is \$110 million higher than the budget estimate of \$1 813 million. The main reasons for this variance include:

- higher than budgeted revenue in relation to education sector activities (\$45 million) largely reflecting higher than anticipated growth in projected TAFE revenues and Adult Migrant Education Services (AMES) securing a new major contract with the NSW Government; and
- recognition of public transport passenger bus service clearing house receipts totalling \$51 million, which were previously offset against the cost of service provision.

Higher than budgeted Land Titles Office and contract logging revenue also contributed to the variance in sale of goods and services against the 1999-2000 Budget. These increases were partly offset by a decline in Commonwealth revenue in relation to provision of repatriation health services.

The variation in sales of goods and services has no impact on the aggregate budget position because it is offset by an equivalent increase in operating expenses over the same period.

## ***Other revenue***

As shown in Table A1, a correction to the accounting treatment of the capital asset charge applying to VicTrack has also led to an increase in reported revenue of \$493 million in 1999-2000. This variation is a one-off adjustment that is offset by an equivalent rise in operating expenses for the same period and therefore has no impact on the overall operating result.

The revised revenue estimates for gains/losses from the disposal of physical assets of \$32 million and other revenue of \$465 million are not expected to differ significantly from the 1999-2000 Budget figures (see Table A1).

## ***Operating expenses***

Total revised operating expenses for 1999-2000 are now forecast to be \$20 107 million, or around 4 per cent (\$746 million) above the budget estimate of \$19 361 million (see Table A1). This increase reflects the net impact of a range of variations affecting both the composition and the level of operating expenses. The composition changes reflect the impact of:

- franchising of passenger public transport services which has led to a reduction in current and capital grants to government business enterprises and an offsetting increase in reported supplies and consumables expenses; and
- departmental revisions to budget estimates to more accurately reflect allocation of global budgets, resulting in shifts of budget estimates particularly from employee entitlements to grants and purchase of supplies and services.

The major variances contributing to a net increase in total operating expenses above 1999-2000 published budget estimates are:

- the change in the accounting treatment of the capital asset charge applied to public transport corporations, contributing to an increase in reported current and capital grants of \$493 million in 1999-2000. As noted above, this reclassification is offset by an equivalent increase in reported operating revenue and therefore has no impact on the operating result over the period;
- post-budget decisions by the previous Government, which added \$35 million to operating expenses in 1999-2000. This largely reflects increased costs of franchising public transport services which will be offset by lower costs in future years;

- increased expenses flowing from higher than budgeted receipts from Commonwealth specific purpose payments (\$100 million) and sales of goods and services (\$110 million); and
- higher than budgeted carryover from 1998-1999 to 1999-2000 of expenses in relation to payments on behalf of the State (\$108 million).

These increases in operating expenses were partly offset by:

- a lower than estimated cost of borrowing (revised downward by \$79 million). This partly reflects the impact of the application of proceeds from the post-budget privatisation of Transmission Pipelines Australia to debt retirement.

## **REVISED 1999-2000 CASH FLOW STATEMENT**

Table A4 provides a summary of the revised cash flow for 1999-2000. The cash flow statement included in this paper is consistent with the Australian Accounting Standard 31.

Net cash flow from operating activities is now expected to be \$2 562 million compared with the published estimate of \$1 226 million. The \$1 336 million variation reflects a \$1 741 million increase in operating receipts and a \$406 million increase in payments in relation to operating activities. In comparison, the revised 1999-2000 operating surplus is expected to increase by \$1 211 million.

The difference between the increase in the revised 1999-2000 net cash flows from operating activities of \$1 336 million and the corresponding smaller increase in the net operating surplus of \$1 211 million, is mainly attributable to:

- lower than budgeted cash superannuation payments in 1999-2000. This is due to the bringing forward to 1998-99 of payments made to the State Superannuation Fund (\$481 million) originally budgeted for 1999-2000. This is partly offset by the payment in 1999-2000 of \$250 million towards fully funding the unfunded liability of the Emergency Services Superannuation Scheme; and
- timing of quarterly income tax instalments related to 1999-2000 (whereby only two of four instalments relating to income tax equivalent revenue will be received in 1999-2000) and the deferral of some income tax equivalent receipts from 1999-2000 to 2000-01.

All other operating activity items are broadly in line with the changes to the operating statement since the 1999-2000 Budget (see Table A4).

Net proceeds from investing activities are expected to be \$1 149 million higher than budget. This is mainly due to the application of projected 1999-2000 cash surpluses to increasing financial assets, including \$1 billion to be applied to the Growing Victoria reserve. This is consistent with the revised forward estimates planning assumption, as discussed in Chapter 7, *Balance Sheet Management and Outlook*, that future cash surpluses are applied to reducing state government net debt by increasing financial assets. Previously the forward estimates assumed that cash surpluses were applied to reducing gross borrowing.

**Table A4: 1999-2000 cash flow statement**

(\$ million)

	1999-00 Budget	1999-00 Revised	Change	Change %
Taxation	8 690.4	9 362.5	672.1	7.7
Regulatory fees and fines	246.6	271.1	24.5	9.9
Public authority income	725.8	1 092.9	367.1	50.6
Grants	7 606.6	7 707.4	100.7	1.3
Sale of goods and services	1 810.8	1 920.0	109.2	6.0
Interest received	54.0	71.3	17.3	32.0
Capital asset charge received	..	493.0	493.0	-
Other receipts	430.2	387.4	- 42.8	-10.0
<b>Total receipts from operating activities</b>	<b>19 564.4</b>	<b>21 305.5</b>	<b>1 741.1</b>	<b>8.9</b>
<b>Payments</b>				
Employee entitlements	7 285.6	7 129.7	- 155.9	-2.1
Superannuation	1 262.4	1 039.8	- 222.6	-17.6
Grants	3 307.7	3 837.0	529.3	16.0
Supplies and services	5 950.5	6 288.7	338.2	5.7
Interest paid	532.1	448.6	- 83.5	-15.7
Other payments	..	0.0	0.0	-
<b>Total payments from operating activities</b>	<b>18 338.3</b>	<b>18 743.8</b>	<b>405.6</b>	<b>2.2</b>
<b>Net cash flows from operating activities</b>	<b>1 226.2</b>	<b>2 561.7</b>	<b>1 335.5</b>	<b>108.9</b>
<b>Cash flows from investing activities</b>				
Net customer loans repaid	100.2	95.4	- 4.7	-4.7
Net proceeds of investments	50.3	-1 103.7	-1 154.0	-2293.3
Term and fixed deposits	0.0	0.0	- 0.0	-2.8
Sale of property, plant and equipment	132.2	135.1	2.9	2.2
Purchases of property, plant and equipment	-1 123.7	-1 117.1	6.5	-0.6
Other	0.3	0.3	..	0.0
<b>Net cash flows from investing activities</b>	<b>- 840.6</b>	<b>-1 990.0</b>	<b>-1 149.3</b>	<b>136.7</b>
<b>Cash flows from financing activities</b>				
Net proceeds (repayments) of borrowings	- 384.3	- 552.6	- 168.4	43.8
<b>Net cash flows from financing activities</b>	<b>- 384.3</b>	<b>- 552.6</b>	<b>- 168.4</b>	<b>43.8</b>
<b>Net increase in cash held</b>	<b>1.3</b>	<b>19.1</b>	<b>17.9</b>	<b>1411.7</b>
Cash at beginning of reporting period	574.6	574.6	..	0.0
<b>Cash at end of reporting period</b>	<b>575.8</b>	<b>593.7</b>	<b>17.9</b>	<b>3.1</b>

Source: Department of Treasury and Finance



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

This appendix outlines new output and asset investment initiatives of the Bracks Labor Government which affect the 2000-01 Budget.

Also included for information are departmental initiatives commencing in 1999-2000 but approved after the 1999-2000 Budget. This comprises initiatives approved and funded by the new Government soon after the September 1999 election.

### SUMMARY OF OUTPUT POLICY INITIATIVES AFFECTING THE BUDGET POSITION

**Table B1: Summary of output initiatives affecting the budget position<sup>(a)</sup>**

	(\$ million)			
	2000-01	2001-02	2002-03	2003-04
<i>Labor's Financial Statement</i> initiatives <sup>(b)</sup>	534.1	636.9	679.4	451.0
Funding from existing sources and savings initiatives <sup>(c)</sup>	107.8	108.1	108.6	104.1
<b>Net spending on <i>Labor's Financial Statement</i> initiatives</b>	<b>426.3</b>	<b>528.6</b>	<b>570.6</b>	<b>346.8</b>
Other initiatives	354.7	283.1	291.2	223.8
Funding from existing sources <sup>(d)</sup>	143.4	141.2	143.1	143.5
<b>Net impact on budget position</b>	<b>637.3</b>	<b>670.5</b>	<b>718.5</b>	<b>427.1</b>

Source: Department of Treasury and Finance

Notes:

- (a) Excludes funding for commercial-in-confidence initiatives (*Superbike World Championships and management of the Longford class action*). Funding for these items has been included in aggregate budget estimates. Table may not add due to rounding.
- (b) Excludes funding for *Information and Multimedia Centre and OHS online service*. Implementation of these initiatives will be funded from existing resources.
- (c) Includes Government approved savings initiatives and funding from the *Community Support Fund*.
- (d) Includes funding from demand growth contingency, the *Community Support Fund*, *Commonwealth Australian Health Care Agreement demand growth funding* and funding from existing departmental resources.

**Table B2: Summary of departmental output initiatives affecting budget position<sup>(a)</sup>**

	(\$ million)			
	2000-01	2001-02	2002-03	2003-04
<b>Output initiatives</b>				
Education, Employment and Training	266.1	245.4	241.5	198.9
Human Services	346.4	393.7	408.8	359.6
Infrastructure	86.5	109.5	116.5	46.4
Justice <sup>(d)</sup>	-31.8	-1.4	17.2	15.0
Natural Resources and Environment	100.7	76.2	76.4	37.1
State and Regional Development <sup>(b)</sup>	101.2	92.4	109.2	26.5
Treasury and Finance <sup>(b)</sup>	-15.5	-22.9	-26.4	-26.4
Premier and Cabinet	31.9	24.7	24.7	15.0
Parliament	3.5	2.6	2.7	2.7
<b>Total output initiatives</b>	<b>888.8</b>	<b>920.0</b>	<b>970.6</b>	<b>674.8</b>
<b>Savings initiatives</b>				
Government-wide savings	64.1	64.1	64.4	64.9
Department-specific savings	28.7	28.9	29.2	29.2
<b>Total savings initiatives</b>	<b>92.8</b>	<b>93.1</b>	<b>93.6</b>	<b>94.1</b>
<b>Funding from existing sources<sup>(c)</sup></b>	<b>158.7</b>	<b>156.4</b>	<b>168.5</b>	<b>153.6</b>
<b>Net impact on budget position</b>	<b>637.3</b>	<b>670.5</b>	<b>718.5</b>	<b>427.1</b>

Source: Department of Treasury and Finance

Notes:

- (a) Excludes funding for commercial-in-confidence initiatives (Superbike World Championships and management of the Longford class action). Funding for these items has been included in aggregate budget estimates. Table may not add due to rounding.
- (b) Excludes funding for Information and Multimedia Centre (DSRD) and OHS online service (DTF). Implementation of these initiatives will be funded from existing resources.
- (c) Includes funding from demand growth contingency, the Community Support Fund, Commonwealth Australian Health Care Agreement demand growth funding and funding from existing departmental resources.
- (d) Value of new output initiatives in the Departments of Justice and Treasury and Finance is affected by superannuation expense savings totalling \$86.0 million in 2000-01 rising to \$93.4 million in 2003-04. This adjustment arises from the application of \$250 million in 1999-2000 towards eliminating the unfunded liability in respect of the Emergency Services Superannuation Scheme. Net of this adjustment, the gross value of new output initiatives for the Department of Justice (including output election commitments) totals \$27.87 million in 2000-01, \$60.6 million in 2001-02, \$81.6 million in 2002-03 and \$82.0 million in 2003-04.



**Table B3: Summary of departmental asset investment initiatives<sup>(a)</sup>**

	(\$ million)				
	1999-00	2000-01	2001-02	2002-03	2003-04
Education, Employment and Training	2.5	128.1	105.1	12.5	12.0
Human Services	..	97.2	75.6	47.6	7.0
Infrastructure	2.6	89.9	138.2	133.0	..
Justice <sup>(b)</sup>	0.9	29.3	47.2	18.8	1.9
Natural Resources and Environment	1.2	21.2	17.1	7.5	..
State and Regional Development	..	0.6	0.5	0.5	0.5
Treasury and Finance	..	19.4	3.0	12.1	0.4
Premier and Cabinet	0.2	4.1	1.0	1.1	..
Parliament	..	3.5	1.3	..	..
<b>Total asset investment initiatives</b>	<b>7.4</b>	<b>393.5</b>	<b>389.0</b>	<b>233.1</b>	<b>21.8</b>

Source: Department of Treasury and Finance

Notes:

(a) Includes TEC and non TEC projects. Table may not add due to rounding.

(b) Includes Mildura Court House project approved as part of review of 1999-2000 asset investment program.

## SAVINGS INITIATIVES

**Table B4: Savings initiatives**

	(\$ million)				
	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Government-wide</b>					
Reduction in executives	1.0	33.2	33.4	33.4	33.4
Efficiency dividend and Public Relations savings	44.1	30.8	30.7	31.0	31.4
<b>Total</b>	<b>45.1</b>	<b>64.1</b>	<b>64.1</b>	<b>64.4</b>	<b>64.9</b>
<b>Department-specific</b>					
Abolition Of Police Board	..	1.0	1.0	1.0	1.0
Abolition of Schools of the 3 <sup>rd</sup> Millennium	5.2	..	..	..	..
Restructure of Health Care Networks	..	18.0	18.0	18.0	18.0
Restructure of Treasury and Finance	..	9.7	9.9	10.2	10.2
<b>Total</b>	<b>5.2</b>	<b>28.7</b>	<b>28.9</b>	<b>29.2</b>	<b>29.2</b>
<b>Total savings initiatives</b>	<b>50.3</b>	<b>92.8</b>	<b>93.1</b>	<b>93.6</b>	<b>94.1</b>

*Source: Department of Treasury and Finance*

*Note:*

(a) Table may not add due to rounding.

### Reduction in executive roles in the Victorian Public Service

The Government proposed to reduce the ratio of executives to other public servants across the Victorian Public Service back to its 1992 level (a reduction of 237 positions) to achieve annual recurrent savings of approximately \$36 million phased in over four years. The Government has adopted a flexible approach to achieving the desired savings. A reduction of 116 in the number of executive positions was implemented in 1999-2000 and savings of around \$33 million are to be fully achieved from 2000-01 through high quality savings strategies. The savings have been used to partially offset the cost of implementing election commitments.

## **Efficiency dividend and public relations savings**

Departments have been given targets for savings of 1 per cent (0.75 per cent in 1999-2000) of budget sector supplies and consumables expenses and a reduction in public relations staff and expenditures. Savings have been drawn from approved departmental proposals designed not to impact on service delivery. The savings partially offset the cost of implementing election commitments.

## **Department-specific proposals**

Consistent with Labor's election commitments, department-specific savings proposals include abolition of the Police Board, abolition of the Schools of the 3<sup>rd</sup> Millennium (self-governing schools) and the restructure of health care networks and the Department of Treasury and Finance.

Savings are being achieved through the cessation of activities that are not a priority of the Government. The restructure of health networks is being implemented through the development of a new grouping of hospitals which will generate closer community relationships and efficiency gains. An election commitment was to restructure the Department of Treasury and Finance to achieve \$10 million in ongoing savings from 2002-03 and a reduction of 130 staff over three years. Savings are to be achieved through the introduction of enhanced technology and ceasing activities that are not a priority of the Government. The savings partially offset the cost of implementing election commitments.

## **DEPARTMENTAL NEW INITIATIVES**

The following tables detail approved new output and asset investment initiatives for each department. The figures included are the total cost of all initiatives. Funding from savings initiatives and existing fund sources have not been deducted from the total cost of initiatives.

## Education, Employment and Training

**Table B5: New initiatives – Department of Education, Employment and Training**

	(\$ million)				
	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Output initiatives</b>					
Reduce class sizes (Years P-2) – recruitment of teachers*	12.6	36.4	47.0	40.7	40.7
Special Learning Needs – boost in resources*	8.8	17.5	17.5	17.5	17.5
Teacher scholarships*	0.0	0.8	0.8	0.8	0.8
Support for non-government schools*	5.0	15.0	17.5	20.0	20.0
Student welfare in secondary schools*	6.1	12.2	12.2	12.2	12.2
Achievement Improvement Monitor*	..	5.0	5.0	5.0	..
Broader VCE*	1.0	14.0	20.0	20.0	20.0
TAFE – regional differential funding*	2.1	4.2	4.2	4.2	4.2
TAFE – increased recurrent funding*	5.0	10.0	10.0	10.0	10.0
Boost public sector apprenticeships by 2 035 positions*	5.0	10.0	10.0	10.0	10.0
Partnership with private sector to recruit 4 732 apprentices & trainees*	2.5	6.9	8.3	8.6	8.6
Additional subsidy of \$1 250 per trainee / apprentice for young unemployed*	1.6	3.1	3.1	3.1	3.1
Assistance to non-government schools for capital costs*	..	5.0	5.0	5.0	..
Community Infrastructure Jobs Program*	..	20.0	20.0	20.0	..
Boost to school maintenance programs*	..	10.0	10.0	10.0	..
School to work transition – Youth Employment Line*	0.8	1.5	1.5	1.5	1.5
School to work transition – school exit plans for students *	0.3	0.5	0.5	0.5	0.5
Local government and community partnerships*	0.4	1.9	1.9	1.9	..
Microsoft software licensing	..	4.5	5.1	5.8	6.5
Establish Office for Youth	..	0.8	0.8	0.8	0.8
National online curriculum project - Victorian Government contribution	..	1.7	2.0	2.0	2.0
Additional funds for maintenance (schools)	..	10.0	..	..	..

**Table B5: New initiatives – Department of Education, Employment and Training - continued**

	(\$ million)				
Maintenance backlog reduction	..	25.0	..	..	..
Strategic industry audits of state training services organisations	..	0.6	0.6	0.6	0.6
FReeZA (drug and alcohol free entertainment)	..	2.0	..	..	..
Improved financial administration in schools	..	1.6	2.6	1.5	..
Apprenticeships and traineeships – demand growth	9.5	12.6	12.6	12.6	12.6
Middle years of schooling – research and development	..	3.0	..	..	..
Disabilities and impairments – demand growth	..	17.0	17.0	17.0	17.0
TAFE resourcing – community service obligations	..	10.3	10.3	10.3	10.3
TAFE resourcing – funding of voluntary departure packages	..	3.0	..	..	..
<b>Total output initiatives</b>	<b>60.7</b>	<b>266.1</b>	<b>245.4</b>	<b>241.5</b>	<b>198.9</b>
<b>Asset investment initiatives</b>					
Reduce class sizes – capital funds for classrooms	2.5	24.5	5.0	..	..
Construction of a new primary school at Aspendale Gardens	..	2.0	1.5	..	..
Hampton Park Secondary College upgrade	..	1.1	..	..	..
Golden Square Primary School (Bendigo) – classroom replacement <sup>(a)</sup>	..	0.0	..	..	..
Purchase of land adjacent to Maple Street Primary School - Bendigo	..	0.1	..	..	..
Yarra Glen Primary School – flashing lights and variable speed limit sign outside school	..	0.1	..	..	..
Mitcham Primary upgrade	..	0.3	..	..	..
Yarra Glen Primary School – new parent pick up and drop off area	..	0.1	..	..	..
Watsonia North Primary School	..	0.5	..	..	..
Rosanna Primary School	..	0.4	..	..	..
New secondary college – Berwick South	..	2.5	2.0	..	..
New secondary college - Narre Warren South (Stage 1)	..	2.5	2.0	..	..
Construction of new schools	..	8.2	9.7	..	..
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**Table B5: New initiatives – Department of Education, Employment and Training - continued**

(\$ million)

Construction of replacement facilities for schools	..	5.6	5.7	..	..	
Construction of new facilities for TAFE institutes	..	0.3	0.7	..	..	
Construction of replacement facilities for TAFE institutes	..	0.3	1.3	..	..	
Modernisation/upgrade of facilities for schools – Growing Victoria	..	57.0	53.0	..	..	
Modernisation/upgrade of facilities for TAFE institutes	..	2.3	8.9	..	..	
IT and multimedia for schools (ongoing component)	..	7.0	7.0	7.0	7.0	
IT multimedia for schools (total estimated cost component)	..	3.6	0.5	0.5	..	
IT and multimedia for TAFE institutes	..	4.9	2.9	..	..	
Replacement of plant and equipment for TAFE institutes (ongoing component)	..	5.0	5.0	5.0	5.0	
<b>Total asset investment initiatives</b>		<b>2.5</b>	<b>128.1</b>	<b>105.1</b>	<b>12.5</b>	<b>12.0</b>

Source: Department of Treasury and Finance

Notes:

(\*) Labor's Financial Statement output initiatives.

(a) Estimated expenditure for this project is \$40,000 in 2000-01.

(b) Table may not add due to rounding.

### **Output initiatives**

#### *Reduce class sizes (Years P-2) – recruitment of teachers*

Class sizes for Prep to Year 2 (P-2) are being reduced to an average of 21 students to improve student learning outcomes in the areas of literacy and numeracy. The funding provides for the recruitment of extra teachers.

#### *Special Learning Needs – boost in resources*

The Special Learning Needs initiative provides funds for the employment of additional teachers and professional staff to boost current programs, including funding for Disabilities and Impairment programs and Shared Specialist Teachers in rural schools.

### *Teacher scholarships*

Additional funding for the development of a recruitment system to attract high quality university graduates to undertake teaching training. Each year 250 scholarships will be offered. The scholarships will include the payment of the Higher Education Contribution Scheme and provide a guaranteed five-year contract within the government school system.

### *Support for non-government schools*

The funding is to improve learning outcomes in disadvantaged non-government schools through targeted additional recurrent resources. Accompanying this additional funding will be improved accountability arrangements for non-government schools generally.

### *Student welfare in secondary schools*

Additional funding will be provided to secondary schools to employ student welfare coordinators to support students at risk, address behavioural and learning problems and support school responses to problems such as truancy, drug use and suicide risk.

### *Achievement Improvement Monitor*

The Achievement Improvement Monitor (AIM) provides for state-wide testing in primary schools complemented by teacher assessment. This improved assessment system will enable resources to be targeted to groups of students and schools identified as having an educational disadvantage via the Learning Improvement Program.

### *Broader approach to the VCE*

Additional funding will be provided to expand the pathways in the post-compulsory years of education, including programs available to VCE students. The *Kirby Review of Post-Compulsory Education and Training Pathways*, due to report to Government in June 2000, will recommend programs and funding arrangements to achieve this.

### *TAFE – regional differential funding*

The provision of additional funding for regional TAFE institutes gives a more secure funding base to account for the additional on-costs faced by these institutes compared with metropolitan institutes. A per capita funding

differential model is being used to ensure these TAFE institutes are equitably funded.

#### *TAFE – increased recurrent funding*

Increased funding will better position TAFE institutes to meet the training needs of Victorians. Further review is being undertaken to determine the adequacy of funding to ensure a long-term solution to the resourcing of TAFE institutes.

#### *Boost public sector apprenticeships by 2 035 positions*

Funding has been provided to place 600 young people into public sector new apprenticeship positions each year to 2002-03. It is expected that there will be apprentices and trainees undertaking training in a range of skills in a broad cross section of public sector activity.

#### *Partnerships with private sector to recruit 4 732 apprentices and trainees*

Funding provided will develop partnerships between government and the private sector to place 4 732 people into apprenticeships and traineeships. This funding will meet the cost of training provided by TAFE institutes and also provide a wage subsidy to employers.

#### *Additional subsidy of \$1 250 per trainee/apprentice for disadvantaged young people*

Funding has been provided to offer an additional state subsidy to employers of \$1 250 per trainee/apprentice employed from targeted disadvantaged groups and areas of Victoria. It is intended that 2 500 disadvantaged or long term unemployed young people will commence training under this initiative each year.

#### *Assistance to non-government schools for capital costs*

Funding provides for capital grants to disadvantaged non-government schools to improve their educational facilities. This represents the second tranche of funding to assist non-government schools.

#### *Community Infrastructure Jobs Program*

This initiative will fund a range of community infrastructure projects designed to provide 2 600 jobs a year. The projects will be targeted at areas of high youth



unemployment and will provide a mix of training and employment to participants.

### *Boost to school maintenance programs*

This funding is provided to reduce the maintenance backlog in government schools, particularly in the areas of occupational health and safety.

### *School to work transition - Youth Employment Line*

Funding will be provided to develop the Youth Employment Line (YEL). The YEL will Act as a consolidated referral service for a range of web based and telephone advisory services on youth employment.

### *School to work transition – school exit plans for students*

Funding will be provided to pilot specialist brokers in schools to develop a school exit plan with early school leavers. Brokers will be required to develop job search skills and resumes and link young people into available apprenticeships, traineeships and other forms of employment.

### *Local government and community partnerships*

Additional funding will be provided to local government and community organisations willing to offer employment opportunities to long-term unemployed people. This funding will be used to provide a wage subsidy for the employment of long-term unemployed, particularly those of mature age.

### *Microsoft software licensing*

DEET's contract with Microsoft provides a wide range of software to schools. This funding enables continuation of the DEET licensing agreement with Microsoft.

### *Establish the Office for Youth*

Funding has been provided for the establishment of the Office for Youth which will consolidate program, policy and research advice on matters related to Youth Affairs to the Minister for Youth Affairs and to Government.

### *National Online Curriculum project – Victorian Government contribution*

The National Online Curriculum project seeks to expand the digital curriculum resources available in schools and to help establish the market framework for the emerging digital content industry. Funding has been provided for Victoria's contribution to the project.

### *Additional funds required for sustainable maintenance levels (schools)*

Additional funding will be provided for ongoing building maintenance in 2000-01 for schools. The level of appropriate maintenance will be reviewed during 2000-01 as part of the operationalisation of DEET's asset management strategy.

### *Maintenance backlog reduction*

Funding will be provided to reduce the building maintenance backlog in 2000-01 in schools and TAFE institutes. The level of appropriate maintenance will be reviewed during 2000-01 as part of the operationalisation of DEET's asset management strategy.

### *Strategic industry audits of state training services organisations*

Funding will be provided to implement a more rigorous audit regime to ensure the delivery of quality training outcomes for clients of the vocational education and training sector in Victoria.

### *FReeZA (drug and alcohol free entertainment)*

The FReeZA program provides young people with drug and alcohol free events within a harm minimisation framework. FReeZA events are also an important vehicle for providers to deliver adolescent health promotion. Funding has been provided to extend and enhance the FReeZA program for 2000-01. The effectiveness of the program will be evaluated in 2001.

### *Improved financial administration in schools*

Funding will be provided to strengthen the financial administration and management skills at schools in response to increasingly complex school taxation responsibilities (for example the GST and FBT changes) and the needs of school councils.

### *Apprenticeships and traineeships – demand growth*

The growth in commencements in apprenticeships and traineeships of 14 400 has significantly exceeded the estimate of 10 000 for which additional funding was provided in the 1999-2000 Budget. This further demand growth funding provides additional places to support this growth.

### *Middle years of schooling – research and development*

An extended pilot program of this initiative was rolled out in December 1999 involving more than 50 schools. This funding is being provided to complete research associated with the pilot program and related curriculum, school organisation and teaching issues. The research and development will incorporate an evaluation of the extended pilot program.

### *Disabilities and impairments – demand growth*

Additional funding will be provided to cater for the increase in the number of students receiving support under the existing Disabilities and Impairments Program.

### *TAFE resourcing – community service obligations*

TAFE institutes will be reimbursed for providing training at concessional rates to disadvantaged people. The average revenue forgone as a result of compulsory Community Service Obligations is approximately 25 per cent of total TAFE revenue, however this figure can exceed 40 per cent in some disadvantaged areas.

### *TAFE resourcing – funding of voluntary departure packages*

Funding will be provided for voluntary departure packages for TAFE institutes. The packages will be used to assist in the restructure of institute workforces to reflect changing training demands and priorities.

## **Asset investment initiatives**

### *Reduce class sizes – capital funds for classrooms*

In order to reduce average class sizes for years P-2 to 21 students over 4 years an additional 444 classrooms are being constructed. Funding will be provided to purchase 126 new relocatable classrooms and construct 318 permanent classrooms.

### *Construction of new schools - Labor's Financial Statement*

Consistent with *Labor's Financial Statement*, funding will be provided for the construction of new secondary colleges at Berwick South and Narre Warren South and a new primary school at Aspendale Gardens.

### *Construction of new schools – other*

Funding will also be provided for the construction of new primary schools at Roxburgh Park, Point Cook, and Narre Warren South, a new secondary college at Sydenham and a new specialist school at Cranbourne East.

### *Modernisation/upgrade of facilities for schools – Labor's Financial Statement*

As announced in the Government's election policies, funding will be provided to upgrade facilities at the following schools: Hampton Park Secondary College, Maple Street Primary School, Golden Square Primary School, Yarra Glen Primary School, Mitcham Primary School, Watsonia North Primary School and Rosanna Primary School.

### *Modernisation/upgrade of facilities for schools – from Growing Victoria reserve*

Funding will be provided to address modernisation issues at some 100 schools across Victoria. In addition to making the school facilities better suited to modern teaching methods, the modernisation projects significantly reduce the maintenance backlogs at each school. All projects have been the subject of master planning which includes assessment of the long term underlying enrolment for each school.

### *Construction of replacement facilities for schools*

Funding will be provided to replace three schools destroyed by fire in Blackburn, Doncaster and Bentleigh. Funding is also provided for replacement schools in Berwick and Kangaroo Flat to overcome land shortages in their current locations.

### *Construction of new facilities for TAFE institutes*

Funding will be provided to construct additional lecture facilities in the Forestech Centre at the Kalimna West campus of the East Gippsland Institute of TAFE.

### *Construction of replacement facilities for TAFE institutes*

Funding will be provided to replace and upgrade facilities at the Chisolm TAFE Institute campus in Frankston. The new facilities will improve space utilisation and reduce operating and maintenance backlog costs.

### *Modernisation/upgrade of facilities for TAFE institutes*

Funding will be provided to modernise facilities at the following TAFE institutes: Central Gippsland (Yallourn), Bendigo Regional Institute of Technology, Sunraysia (Mildura Campus), East Gippsland (Bairnsdale), Victorian University of Technology and RMIT (Brunswick). The funding will be used to make facilities better suited to modern training methods and demand.

### *IT and multimedia for schools (ongoing component)*

Funding will be provided for a range of hardware, communications and software initiatives to maintain Victoria's leading edge in the use of IT in learning at schools. This ongoing funding will be used to continually refresh IT equipment in schools.

### *IT and multimedia for schools (total estimated cost component)*

Funding will be provided for a range of hardware, communications and software initiatives to maintain Victoria's leading edge in the use of IT in learning at schools. The total estimated cost component represents the expected full cost of these discrete projects. As such, this funding is not ongoing.

### *IT and multimedia for TAFE institutes*

Funding will be provided to address a range of hardware, communications and software initiatives in the TAFE sector, such as upgrading and standardising telecommunications systems and improving electronic communications. For example, this funding will be used to establish a technology infrastructure that supports an on-line information/help/guidance facility for prospective students, enterprises and training brokers.

### *Replacement of plant and equipment for TAFE institutes (ongoing component)*

Ongoing annual funding will be provided to improve the quality of training at TAFE institutes by replacing obsolete plant and equipment.

## Human Services

**Table B6: New initiatives – Department of Human Services<sup>(a)</sup>**

	(\$ million)				
	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Output initiatives</b>					
Human services demand growth <sup>(b)</sup>	..	120.5	122.2	124.0	125.9
Rural health funding*	2.7	6.0	7.0	7.1	7.1
Winter emergency/longer term integrated elective and emergency strategy*	12.3	60.2	65.0	65.0	65.0
Hospital infection control*		7.2	7.9	9.0	9.0
Hospital-to-home program*	4.5	9.5	10.0	10.5	10.5
Nurses education and recruitment*	1.2	6.3	6.8	6.9	6.9
Statewide waiting list call centre*	0.1	0.2	0.3	0.3	0.3
Nucleic acid blood testing <sup>(c)</sup>	1.9	2.0	2.0	2.0	2.0
Ambulance system*	2.3	6.6	5.8	6.3	6.3
Metropolitan ambulance service emergency operations plan and new air ambulance	..	8.8	8.8	8.8	8.8
Community based health care*	3.9	10.3	11.1	12.0	12.0
School nurses*	1.6	4.0	4.9	5.1	5.1
Sunbury and Preston integrated care centres*	..	5.0	5.0		..
Services and programs for older Victorians*	3.6	8.6	9.2	10.6	10.6
Public dental services*	2.1	5.3	6.4	7.7	7.7
Community health centres*		1.5	2.0	2.0	

**Table B6: New initiatives – Department of Human Services - continued**

(\$ million)

Mental health*	2.0	5.0	5.3	5.5	5.5
Medical and public health research*	0.5	1.0	1.5	1.5	1.5
Residential drug and alcohol program*	..	1.5	1.5	..	..
Drugs and alcohol program*(d)	6.0	17.0	18.0	20.0	20.0
Helping people with disabilities*	7.0	16.4	16.9	18.9	18.9
Additional matching funding for unmet needs under the Commonwealth-State Disability Agreement	..	5.4	5.4	5.4	5.4
Pre-school and community-based child care services*	2.3	6.0	6.0	6.0	6.0
Community-based child care centres*	..	1.3	1.3	1.3	..
Improving the quality of child protection and placement services	..	3.0	3.0	3.0	3.0
Assistance for families and children*	2.9	7.1	7.3	7.3	7.3
Low cost grants for sewerage schemes*	0.5	1.0	1.3	1.3	..
Juvenile justice diversion strategy	..	4.8	10.2	9.6	9.6
Neighbourhood houses*	0.8	1.8	2.0	2.0	2.0
Community managed housing for older ethnic citizens*	..	1.5	1.5	1.5	..
Social housing stock*	..	10.0	35.0	45.0	..
Supported Accommodation Assistance Program	..	1.6	3.2	3.2	3.2
<b>Total output initiatives</b>	<b>56.2</b>	<b>346.4</b>	<b>393.7</b>	<b>408.8</b>	<b>359.6</b>
<b>Asset investment initiatives</b>					
Fire risk management	..	20.0	..	..	..
Frankston Hospital upgrade	..	7.0	5.0	..	..
Kyneton Hospital upgrade	..	1.2	7.0	2.8	..
Hospital infection control	..	2.0	1.0	..	..
Hospital equipment	..	20.0	..	..	..
Royal Women's Hospital redevelopment	..	6.0	17.0	7.0	7.0
Sunshine Hospital	..	4.0	4.0	..	..
Rural health capital works	..	4.0	6.0	5.0	..
Ballarat health services	..	0.5	1.7	3.8	..
Radiotherapy SMU trial	..	1.0	5.0	4.0	..
Neonatal care services	..	0.2	1.8	..	..
Metropolitan ambulance service emergency operations plan	..	2.3	..	..	..

**Table B6: New initiatives – Department of Human Services - continued**  
(\$ million)

Replacement of ambulance fleet	..	2.9	1.5	..	..
Juvenile justice	..	1.1	1.1	..	..
Placement and support	..	5.0	..	..	..
Nursing home upgrades	..	8.0	19.5	20.0	..
Community residential units for people with disabilities	..	5.0	5.0	5.0	..
Priority housing for disability clients	..	7.0	..	..	..
<b>Total asset investment initiatives</b>	<b>0.0</b>	<b>97.2</b>	<b>75.6</b>	<b>47.6</b>	<b>7.0</b>

Source: Department of Treasury and Finance

Notes:

- (\*) Labor's Financial Statement output initiatives.
- (a) Table may not add due to rounding.
- (b) Includes Commonwealth Australian Health Care Agreement demand growth funding.
- (c) Funded from a realignment of Commonwealth/State matching funds
- (d) Includes \$10 million per year from 2000-01 to be funded from the Community Support Fund.

## Output initiatives

### Human Services demand growth

Funding is for annual growth in demand for human services. Key services comprise hospital inpatient and outpatient services, renal dialysis services, ambulance services, aged and primary health services, mental health services, public health services, disability services and community care services.

### Rural health funding

Funding is to improve the health services available to the rural community. Initiatives include funding for rural hospitals, increased resources for regional ambulance services, funding for bush nursing hospitals and support education and screening programs.

### Winter emergency/longer term integrated elective and emergency strategy for hospitals

Funding is to supply 27 000 emergency bed days in hospitals between April and June 2000 to meet the emergency demand pressures expected to be placed on hospitals during Winter 2000, such as influenza outbreaks. This initiative provides a mix of acute, emergency and sub and post-acute services and flows into a long-term integrated elective and emergency strategy commencing in July 2000.



Budget funding is to reopen 360 hospital beds (including 20 beds which are to be funded by reallocating existing DHS funds). The initiative will improve emergency services by reducing waiting times for admissions, and provide more timely appropriate and integrated care and provide more timely elective surgery.

### *Hospital infection control*

Funding is for additional infection control practitioners and the establishment of baseline infection rates and outcome performance measures and targets to make our hospitals cleaner and introduce better infection control.

### *Hospital-to-Home program*

Additional funding for the Hospital-to-Home program aims to keep people out of hospital by providing more appropriate care in the community. Funding has been provided for initiatives including discharge planning, district nursing, home-based care and allied health services. Additional funding has also been provided to enable hospitals to provide a single point of authoritative advice by telephone to recently discharged patients.

### *Nurses education and recruitment*

Funding is for a range of educational initiatives that will address current problems in recruiting and retaining specialist nurses in Victoria, including re-entry programs, rewarding nurses with specialist qualifications and subsidising nurses to undertake postgraduate study.

### *Statewide waiting list call centre*

Funding is to establish a statewide call centre to provide information on waiting lists and advise doctors and patients of waiting times at different public hospitals.

### *Nucleic acid blood testing*

Funding is for nucleic acid blood testing (NAT) of fresh blood products for HIV and Hepatitis C. NAT testing of fresh blood products is a more stringent test for HIV and Hepatitis C and has been introduced across Australia by the Australian Red Cross Blood Service.

### *Ambulance system*

Funding will strengthen the Ambulance Service available to all Victorians. Specifically, additional ambulance services will be provided in black spot areas

such as Phillip Island and along the Great Ocean Road. A helicopter service will be introduced along the Hume Highway, ambulance crews will be upgraded in 5 regional areas and Mobile Intensive Care Ambulance (MICA) services will be improved by extending coverage in Wangaratta, Shepparton, Morwell, Mildura, Bendigo, Geelong and Ballarat and by increasing the number of units overall.

### *Metropolitan Ambulance Service emergency operations plan and new air ambulance*

Funding is to complete The Metropolitan Ambulance Service Emergency Operations Plan. The Operations Plan commits additional resources (vehicles, ambulance officers) to achieve improved emergency services in the metropolitan area.

The replacement of the Air Ambulance Helicopter will improve operational efficiency and effectiveness, enhance safety for patient transport and potentially have the capacity to provide a greater level of time critical response.

### *Community-based health care*

Additional funding is to strengthen community-based health care by enhancing integration and coordination of health care services, improving information to consumers and providing an increased focus on health promotion. Initiatives include expansion of information, counselling and assessment services; promotion activities which prevent chronic illness; staff development and training and the development of regional community health plans.

### *School nurses*

One hundred additional school based nurses will be employed to provide better school based nursing and school based health professional services to improve the health of young people.

### *Sunbury and Preston Integrated Care Centres*

Funds will be provided for the development of Integrated Care Centres at Preston and Sunbury. Service planning is currently being undertaken with services most likely to include acute, sub acute, dental and primary health services and may incorporate colocation with other health service providers in the region.

### *Services and programs for older Victorians*

Funding is to improve the services and programs available to Victoria's older generation. Services provided through adult day care centres and Community Rehabilitation Centres will be extended to provide a greater range of services to older people and their carers. Funding will also be used to enhance Home and Community Care Services and Health Promotion Programs.

### *Public dental services*

Initiatives will enhance access to public dental care including, cutting the cost of full dentures for 12 500 pensioners and low-income earners from \$180 to \$100 extending school dental services to all low-income young people in Years 9 to 12, and by reducing the waiting lists for public dental services and expanding the after hours services in Community Health Centres.

### *Community health centres*

Funding will support a number of initiatives to improve the quality of community health services. Initiatives include the re-establishment of the dental health service at Sunshine/St Albans, restoration and health promotion services at the Daylesford Community Health Centre, completion of the Sunbury Integrated Care Centre and the refurbishment of Essendon hospital.

### *Mental health*

Funding is for several initiatives to improve the services and facilities available to Victorians suffering from mental illness. Initiatives include expanding early intervention services, additional mental health workers, expanding intensive support services for homeless people and increasing training for community health workers.

### *Medical and public health research*

Funds are used to support medical and public health research projects in key priority areas, such as rural health development, communicable and non-communicable disease prevention, and health services research.

### *Residential drug and alcohol program*

Funding will enable the construction of a 30-bed residential drug rehabilitation facility.

### *Drugs and alcohol program*

Funds will support a broad range of programs which aim to tackle the death and disease caused particularly by heroin. An expert committee chaired by Professor David Penington has been established to provide advice on implementing the Government's policy. Funding of an additional \$17 million in 2000-01 will be provided to support implementation of the Government's policy.

### *Helping people with disabilities*

Funding will support a number of initiatives to improve the services available to Victorians with a disability. Initiatives include increased support for families caring for children and teenagers with high support needs, expanding the Strengthening Parent Support Program in each region, home support programs, community-based accommodation and support services, redevelopment of 50 residential units at Kew, funding aids and equipment and additional support for carers through increased funding for respite care.

### *Urgent disability waiting list funding*

Funds will be used to meet the matching requirement under the Commonwealth State Disability Agreement. Funding will assist in meeting 'unmet demand' for accommodation, respite and day program disability services.

### *Pre-school and community-based child care services*

Funding will be provided to increase pre-school subsidies for low income families, improve community-based child care facilities and upgrade community-based child care premises.

### *Community-based child care centres*

Funding will be provided to upgrade community-based children's services premises.

### *Improving the quality of child protection and placement services*

Funding is to improve the quality of the child protection and placement system, in particular the quality of out-of-home/residential care services and kinship care and permanent care.

### *Assistance for families and children*

Funding will enhance maternal and child care service for mothers and families with young children with particular needs and early intervention services for families with children under 6 years with disabilities and developmental delay. The Strengthened Parent Support Program in each Region, support services for vulnerable families and professional development of child protection workers will also be expanded.

### *Low cost grants for sewerage schemes*

To ensure that individuals are not unfairly burdened with the cost of paying for water quality and sewerage upgrades, funding will be provided to support people in genuine hardship to pay for costly water and sewerage schemes connections.

### *Juvenile justice diversion strategy*

Funding is for a range of diversion, rehabilitation, transition and post-release programs to reduce the number of young males and females in Senior Youth Training Centre custodial facilities by providing options to custodial sentences and strengthening post-release options.

### *Neighbourhood houses*

Additional funding will be provided to neighbourhood houses for coordination of services and to enhance the services available by providing additional staff to allow the houses to be open for longer hours.

### *Community managed housing for older ethnic citizens*

Funds will expand the supply of ethnic specific community managed housing for independent living of older citizens.

### *Social housing stock*

Funding will expand the level of public and community housing by 800 units over three years to provide additional housing for disadvantaged Victorians. Funding will also be provided to upgrade and redevelop existing housing stock.

### *Supported Accommodation Assistance Program*

Funds will complement additional Commonwealth Government funding for support services for people who are homeless, including emergency and medium-term accommodation.

### ***Asset investment initiatives***

#### *Fire risk management*

Funding will be used to conduct fire safety audits, risk assessments, and associated upgrade work to continue to provide an appropriated level of safety from the risk of fire for the Department's clients, staff and visitors.

#### *Frankston Hospital upgrade*

Funding will expand the bed capacity at Frankston Hospital.

#### *Kyneton Hospital*

Funds will be used to construct a new facility on a 'greenfield' site to replace the Kyneton District Health Service. The facility will integrate Acute Hospital and Aged High Care residential services.

#### *Hospital infection control*

Funds will be allocated to metropolitan and rural public hospitals for the purchase and/or upgrade of medical and other equipment and infrastructure maintenance to ensure compliance with key Australian Standards.

#### *Hospital equipment*

Funds will be allocated to metropolitan, provincial and rural public hospitals to allow replacement or upgrades of equipment and infrastructure.

#### *Royal Women's Hospital redevelopment*

Funds will allow the development of stage 2 of the Royal Women's Hospital Redevelopment. The new facilities include operating theatres, a neonatal facility and ward redevelopment.

### *Sunshine Hospital*

Funding will enable the completion of the redevelopment of acute facilities to better meet the health service needs of the local community.

### *Rural health capital works*

Funds will enable the rebuilding of health services in regional and rural Victoria at Colac and Swan Hill.

### *Ballarat Health Services redevelopment*

Funding will be used to upgrade and develop facilities for the third stage of redevelopment of acute health facilities at Ballarat Base Hospital.

### *Radiotherapy single machine unit (SMU) trial*

Funds will be used to establish a trial program of a single linear accelerator radiotherapy facility on the Acute Campus of the Bendigo Health Care Group.

### *Neonatal care services*

Funds will redevelop and upgrade existing facilities delivering neonatal services across 5 metropolitan and 1 country site to meet increasing demand for Level 2 and Level 3 neonatal nursery services.

### *Metropolitan ambulance service emergency operations plan*

Funds will be used to purchase 16 new 24-hour emergency vehicles to improve the quality of ambulance services.

### *Replacement of ambulance fleet*

Funds will be used to upgrade an ageing ambulance fleet through an accelerated replacement program. In 2000-01, seventeen vehicles will be purchased and in 2001-02, eight vehicles will be purchased.

### *Juvenile justice*

Funds will be used to extend the intensive community support and community houses program currently being trialed at Parkville Youth Residential Centre. It is intended to provide accommodation in four community houses for young people in custody.

### *Placement and support*

Funds will be provided for upgrading existing residential care facilities and purchase of new facilities for children and adolescents at risk of abuse and neglect.

### *Nursing homes upgrade*

Funds will redevelop aged care residential facilities (predominantly in rural areas) to ensure compliance with quality standards.

### *Community residential units for people with disabilities*

Funds will develop purpose built and purchased 4 and 5-bed facilities. The units will provide housing and staff support to assist people with disabilities to carry out activities and interactions involved in daily living

### *Priority housing for disability clients*

Funds will be used to provide community based accommodation support for people with disabilities who are in urgent need of accommodation and support.

## **Infrastructure**

**Table B7: New initiatives – Department of Infrastructure<sup>(a)</sup>**

	<i>(\$ million)</i>				
	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>
<b>Output initiatives</b>					
Customer Friendly Transport – tram conductors, railway staff & student concessions*	..	12.4	12.4	12.4	12.4
Regional fast train development – feasibility & planning studies	0.5	1.0	0.8	0.6	..
Public transport safety –Swanston St railway bridge widening	..	2.0	..	..	..
Port of Melbourne rail access	..	1.5	1.1	1.0	..
Airport to City Transit Link contribution*	..	1.7	10.0	8.3	..
Residual passenger transport franchising costs	3.9	36.3	31.3	31.3	30.3
Feasibility studies on public transport rail services to Shepparton & Warrnambool	..	2.0	..	..	..
Metropolitan strategy	..	1.0	0.5	..	..
Spencer St Station Authority & scoping study	..	3.0	..	..	..



	1999-00	2000-01	2001-02	2002-03	2003-04
Bus safety and additional country services	0.3	3.5	3.5	3.5	3.5
Ballarat-Skipton St roundabout at Drummond St*	..	0.5	..	..	..
Ballarat-Buninyong Rd, roundabout at Mt Clear*	..	..	0.3	..	..
Ballarat roadworks – Gillies St, Wendouree St to Bypass*	..	..	0.4	..	..
Bicycle track network extensions*	..	2.0	3.0	4.0	..
Motorbike Riding Package*	0.1	0.1	0.1	0.1	0.1
Additional funding for beach cleaning	..	0.3	0.3	0.3	0.3
Castlemaine Library – library works*	..	0.2	0.8	..	..
Accident blackspot program	..	19.0	45.0	55.0	..
<b>Total output initiatives</b>	<b>4.8</b>	<b>86.5</b>	<b>109.5</b>	<b>116.5</b>	<b>46.4</b>
<b>Asset investment initiatives</b>					
Premium railway station for Narre Warren and Hallam station upgrade	..	..	0.5	..	..
Tram & train extensions and faster suburban trains	..	1.7	22.7	42.0	..
Fast rail links to regional centres	..	7.0	30.0	43.0	..
Station Pier infrastructure	0.6	3.7	..	..	..
Accident Blackspot program	2.0	19.0	45.0	55.0	..
Regional & metropolitan arterial road links	..	32.0	40.0	18.0	..
Kingston pedestrian bridge	..	0.3	..	..	..
Mitcham - Springfield Rd/ Middleborough - signals upgrade	..	0.4	..	..	..
Mitcham - Surrey Rd/Whitehorse Rd - new left turn slip lane	..	0.6	..	..	..
Mitcham - Springfield / Springvale Rd - signal upgrade <sup>(b)</sup>	..	0.0	..	..	..
Mitcham – resurfacing Whitehorse Rd	..	0.1	..	..	..
Mitcham – widening Heatherdale Rd	..	0.1	..	..	..
Timing of Geelong Road project (advance)	..	25.0	..	-25.0	..
<b>Total asset investment initiatives</b>	<b>2.6</b>	<b>89.9</b>	<b>138.2</b>	<b>133.0</b>	<b>0.0</b>

Source: Department of Treasury and Finance

Notes:

(\*) Labor's Financial Statement output initiatives.

(a) Table may not add due to rounding.

(b) Approved funding for this project is \$30 000 in 2000-01.

## ***Output initiatives***

### ***Customer friendly transport – tram conductors, station staff and student concessions***

Provision has been made to facilitate an additional 100 tram conductors and the metropolitan rail network will get an additional 100 station/customer service staff. In addition the price of the tertiary student concession card will be reduced. A funding contribution will be negotiated with the private operators.

### ***Regional fast train development – feasibility and planning studies***

Feasibility and planning studies associated with the Government's regional fast train, airport rail link and standardisation of rail-freight-line commitments. The funding extends over the three year period as it represents administrative expenses associated with the studies.

### ***Public transport safety – Swanston Street railway bridge widening***

Funding is for the widening of the Swanston Street railway bridge between Flinders Street Railway Station and Federation Square.

### ***Port of Melbourne rail access***

Funding is for the provision of scoping, feasibility studies and design of improved railway access between Melbourne Port and Footscray Road, and rail access to Swanston Dock West, Victoria Dock and Webb Dock.

### ***Airport to City transit link contribution***

Funding is for the planning and facilitation of the provision of a rapid transit link to Melbourne Airport from the City, in conjunction with private developers. Funding flows as compared to *Labor's Financial Statement* have been brought forward to facilitate the feasibility and planning process.

### ***Residual passenger transport franchising costs***

Funding is for passenger services which have not been franchised, such as V/Line marketed bus services, enforcement functions and includes the State's share of Victrip, Revenue Clearing House and interstate transport service costs.

### *Feasibility studies on public transport rail services to Shepparton and Warrnambool*

Funding is for feasibility studies on the renewal of public transport rail service contracts to Shepparton and Warrnambool after June 2001. The services are currently managed by private operators.

### *Metropolitan strategy*

Funding is for the development of the Metropolitan Strategy initiative announced by the Minister of Planning in December 1999. The initiative will provide strategic information and direction to guide metropolitan planning decisions. The process will involve extensive consultation including councils and other bodies, followed by a draft strategy by the end of 2000 and a full metropolitan strategy in 2001.

### *Spencer Street Station Authority and scoping study*

The funding is required to resource the operations of the Spencer Street Station Authority and to implement plans to redevelop Spencer Street Station.

### *Bus safety registration and country services*

Funding reflects bus safety accreditation costs and registration fees, consistent with national standards levied on bus operators and reimbursed under the contract payments.

In addition, funding is required to reflect additional country bus services introduced by country bus operator which will allow finalisation of their contracts.

### *Ballarat traffic improvements*

A program of traffic improvements for Ballarat is to be completed over two years from 2000-01. This comprises roundabouts at Skipton and Drummond St intersection and Ballarat-Buninyong Road at Mount Clear and Gillies Street roadworks.

### *Bicycle track network extensions*

A program of bicycle works is being developed which will add approximately 130 kilometres to the principal bicycle network and networks in regional cities and towns. These improvements will be delivered with bicycle users and local councils.

### ***Motorbike Riding Package***

This package reinforces the Government's commitment to working with motorcycle riders and their organisations to improve rider safety and increase opportunities for recreational riding. The package includes rider education and safety, increase awareness of riders to their rights to compensation and access to rehabilitation programs following a road accident, and supporting the development of off-road facilities to allow riders to develop and maintain their riding skills as well as decreasing illegal riding.

### ***Additional funding for beach cleaning***

The additional funding is to assist local governments address the issue of syringes littering the beaches.

### ***Castlemaine Library works***

The funding provided will refurbish the library and theatre facilities by providing increased operating spaces, better access and greatly enhanced facilities.

### ***Accident Blackspot program***

The Government has made a commitment to increase road safety in Victoria by treating the State's worst accident blackspots. The funding for the program will be provided from a safety dividend from the Transport Accident Commission. At least 50 per cent of the program will be spent on upgrading country roads.

### ***Asset investment initiatives***

#### ***Premium railway station for Narre Warren and station upgrade Hallam***

Narre Warren Station is to be upgraded to 'Premium Status', with a range of improvements including waiting rooms, public toilets, improved lighting, staffing of station from first to last train, automatic ticketing, passenger real time information, push button intercoms, and pay phones.

Hallam Station is to be upgraded to 'Non-Premium Status' with improved lighting, passenger real time information, push button intercoms and pay phones.

### *Tram and train extensions and faster suburban trains*

Funding is to facilitate the expansion of Melbourne's train and tram networks and to reduce transit times for train travellers. A funding contribution will be negotiated with the private operators. This initiative will allow for capital works associated with network extensions in Melbourne's growth corridors including Craigieburn, South Morang, East Cranbourne and Knox.

### *Fast rail links to regional centres*

The Government is committed to supporting growth in the regional economy by improving access to the economic base, markets and transport gateways centred on Melbourne. The Government is contributing \$80 million to reduce travel times between Melbourne and the key regional centres of Ballarat, Bendigo, Geelong and Traralgon.

### *Station Pier infrastructure*

This funding will provide for the upgrading of the entrance roadway to the pier and for the upgrading of essential services to the pier including remedial sewerage works, and electrical and water pressure services.

### *Accident Blackspot program*

The Government has made a commitment to increase road safety in Victoria by treating the State's worst accident blackspots. The funding for the program will be provided from a safety dividend from the Transport Accident Commission. At least 50 per cent of the program will be spent on upgrading country roads.

### *Regional and metropolitan arterial road links*

The Government has provided funds for a package of upgrades and improvements to Rural and Metropolitan arterial road links. Key projects include the next stage of the Calder duplication to Bendigo (Carlsruhe), Narre Warren Road North duplication and the Pascoe Vale Road duplication.

### *Kingston pedestrian bridge*

The Government will fund the construction of a footbridge at Wells Road over the Patterson River in the City of Kingston, allowing for a connection of existing cycle and walking paths and providing improved access for recreational activities.

### *Mitcham traffic improvements*

A program of improvements to Mitcham's arterial roads, consistent with the Government's Community Infrastructure Pledge for Mitcham, is to be completed in 2000-01 to improve traffic flow in Melbourne's eastern suburbs. The program includes signals upgrades, road resurfacing and widening and new sliplanes at the Surrey Road/Whitehorse Road intersection.

### *Timing of Geelong Road project (advance)*

The Commonwealth Government has declared Geelong Road a Road of National Importance and will therefore provide matching funding with the State Government for the major upgrade now under way. To enable the State Government to meet its promise to complete this project as quickly as possible, advance funding of \$25 million (in lieu of Commonwealth funding) will be provided from the State Budget in 2000-01. This advance is to be paid back when Commonwealth funding becomes available from 2001-02.

## Justice

**Table B8: New initiatives – Department of Justice<sup>(a)</sup>**

(\$ million)

	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Output initiatives</b>					
Fire services core funding*	0.5	1.0	1.0	1.0	1.0
Victorian State Emergency Service (VicSES) core funding*	0.3	0.5	0.5	0.5	0.5
Victorian County Court project <sup>(b)</sup>	..	..	11.1	11.2	11.5
Prison capacity expansion	3.5	5.3	11.5	19.1	19.7
800 additional operational police*	..	2.8	14.3	23.1	24.0
Victims of Crime compensation*	..	4.0	16.0	20.0	20.0
Freedom of Information on-line* <sup>(c)</sup>	..	0.2	0.0	0.0	0.0
Emergency Service Readiness - Integrated Firefighting Aircraft Resources	..	0.8	0.6	0.6	0.6
Victoria Police Rotary Air Wing – replacement helicopters	..	1.8	1.5	1.6	1.6
Community Safety Emergency Support Fund <sup>(d)</sup>	..	1.5	1.5	1.5	..
State-wide Integrated Public Safety Communications Strategy – further strategic development	..	0.5	..	..	..
Law Reform Commission establishment	..	1.6	0.8	0.8	0.8
Victorian Aboriginal Justice Agreement	..	1.6	1.6	1.6	1.6
Vehicles – increased lease costs	..	3.6	..	..	..
Olympic related (Victoria Police) activities – funding for police management of exceptional major events	..	2.5	..	..	..
Reimbursement to TransUrban for toll defaulters	..	0.1	0.1	0.1	0.1
Asset investment operating costs	..	..	0.1	0.5	0.6
Emergency Services Superannuation Scheme - reduction in unfunded liability associated with Victoria Police	..	-59.6	-62.0	-64.4	-67.0
<b>Total output initiatives</b>	<b>4.3</b>	<b>-31.8</b>	<b>-1.4</b>	<b>17.2</b>	<b>15.0</b>
<b>Asset investment initiatives</b>					
Preston police station construction	..	1.5	3.5	2.0	..
Seymour police station construction	..	0.6	4.0	2.0	..
Kinglake police station construction	..	0.3	0.2	..	..
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**Table B8: New initiatives – Department of Justice<sup>(a)</sup> - continued**  
(\$ million)

	1999-00	2000-01	2001-02	2002-03	2003-04
Bacchus Marsh police station construction	..	0.5	2.0	1.0	..
Moe police station construction	..	0.5	2.0	1.8	..
Belgrave police station construction	..	0.5	2.0	0.5	..
Northcote police station construction	..	1.0	2.2	2.0	..
Rural police station upgrades	..	3.0	2.0	..	..
Mildura Court house construction <sup>(e)</sup>	..	1.6	4.0	3.3	..
Warrnambool Court house construction	0.9	1.0	4.0	2.9	..
Courts security upgrade	..	1.0	1.1	..	..
Prison expansion program	..	15.0	17.4	1.4	..
Water Police facility	..	1.0	1.0	..	..
Airlie Training College <sup>(f)</sup>	..	..	..	..	..
VicSES annual provisions	..	1.8	1.9	1.9	1.9
<b>Total asset investment initiatives</b>	<b>0.9</b>	<b>29.3</b>	<b>47.2</b>	<b>18.8</b>	<b>1.9</b>

Source: Department of Treasury and Finance

Notes:

- (\*) Labor's Financial Statement output initiatives.
- (a) Table may not add due to rounding.
- (b) Funding for project includes Departmental fees receipts.
- (c) Actual amounts are \$0.04 million from 2001-02.
- (d) Funding is to be provided from the Community Support Fund.
- (e) Project approved as part of review of 1999-2000 asset program.
- (f) Airlie Training College is to be funded from the proceeds of asset sales retained by the Department. As such there is no additional expenditure.

## Output initiatives

### Fire services core funding

Additional core funding has been provided for the Country Fire Authority volunteers, primarily for the purchase of protective clothing and equipment.

### Victorian State Emergency Services (VicSES) core funding

Additional core funding provided for the Victorian State Emergency Services volunteers and units, primarily for the purchase of protective clothing, equipment and the provision of training.



### *Victorian County Court project*

The Victorian County Court Project will deliver a modern court complex consisting of 46 courtrooms. It is anticipated that the complex will commence operations in February 2002. The project will enable shorter case preparation time and trial times; up to a 10 per cent improvement in case throughput; and improved safety and security for the public, witnesses, jurors, victims, judges and staff. Regional access will be boosted via internet, video conferencing and better circuit management.

### *Prison capacity expansion*

Additional funding has been provided to alleviate the short-term demand on prison accommodation by an expansion of permanent bed capacity by 357 beds. The funding will also relieve pressure through additional temporary places while the longer-term future of Victoria's prison system is finalised.

### *800 additional operational police*

Operational police numbers will be increased by 800 by the end of 2002-03 as a major component of the Government's approach to increasing community safety by increasing police resources.

### *Victims of Crime compensation*

Funding has been provided to reinstate pain and suffering compensation to victims of crime in the form of "special assistance" awards.

### *Freedom of Information (FOI) on-line*

The Government's existing website will be enhanced to enable citizens to electronically lodge FOI requests. This is part of a wider priority for improved public access to government information. There are approximately 350 agencies subject to FOI in Victoria where requests are currently submitted in hard copy.

### *Emergency Service Readiness – Integrated Firefighting Aircraft Resources*

To maximise the effective use of specialised firefighting aircraft, the Country Fire Authority and the Department of Natural Resources and Environment co-operate, through resources sharing and mutual support, under a joint strategy known as Integrated Firefighting Aircraft Resources. The arrangements specify a range of standard operational management systems and support arrangements for all aircraft used in fire suppression. This increased funding will ensure that

the CFA can contribute to the IFAR agreement to put aircraft into action including the high volume water bombing aircraft.

### *Victoria Police Air Wing – replacement helicopters*

Victoria Police helicopters will be replaced under the leasing agreements to increase the hours of availability, improve the quality of service and enhance community safety. The replacement includes the upgrade of safety and search equipment including an additional Forward Look InfraRed Radar to enhance search and rescue capabilities.

### *Community Safety Emergency Support Fund*

The Community Safety Emergency Support Fund will provide funding assistance towards the acquisition of ancillary safety and rescue equipment by local Country Fire Authority (CFA) and Victorian State Emergency Services (VicSES) brigades and units. This equipment will complement the existing infrastructure of CFA brigades and VicSES units, while encouraging and enhancing a stronger community participation in safety at the local level.

### *Statewide Integrated Emergency Service Organisation Communications Strategy – further strategy development*

Planning is being progressed for the implementation of integrated, multi-agency emergency services public safety communications in rural Victoria. The funding will enable initial scoping studies of emergency services organisation communication systems, and development of business case strategies for inclusion of those systems into the Statewide Integrated Emergency Service Organisation Communications Strategy.

### *Law Reform Commission establishment*

An independent and community based Law Reform Commission will be established to promote progressive and innovative changes to Victorian laws and justice system.

### *Victorian Aboriginal Justice Agreement*

The Victorian Aboriginal Justice Agreement will reinforce the Government's commitment to implementation of the recommendations of the Royal Commission into aboriginal deaths in custody. A range of initiatives will be implemented as part of the strategy.

### *Vehicles – increased lease costs*

In recognition of the size and significance to the police vehicle fleet, additional funding is being provided to help cover an increase in lease costs.

### *Olympic related (Victoria Police) activities funding for police management of exceptional major events.*

Victoria Police will provide security for Olympic and other major events to be staged in Victoria, including the World Economic Forum and the Mining 2000 International Conference.

### *Reimbursement to TransUrban for toll defaulters*

Payments to TransUrban for reimbursement of tolls not paid and administration costs associated with defaulters on City Link. Under the Melbourne CityLink Act 1995, TransUrban cannot pursue recovery of lost tolls themselves.

### *Asset investment operating costs*

Funding for maintenance costs associated with new asset investment projects.

### *Emergency Services Superannuation Scheme - reduction in unfunded liability associated with Victoria Police*

Government funds of \$250 million will be applied in 1999-2000 to extinguish the unfunded liability associated with the Victoria Police component of the Emergency Services Superannuation Scheme. As a result Victoria Police employer superannuation contributions will reduce, with expected savings per year of approximately \$60 million (further savings are also being generated in the Department of Treasury and Finance). These savings have been applied according to the Government's budgetary priorities (see Department of Treasury and Finance).

## ***Asset investment initiatives***

### *New and replacement police stations*

Funding is provided for six new or replacement police stations specified in *Labor's Financial Statement* namely Kinglake, Preston, Seymour, Bacchus Marsh, Moe and Belgrave and as well as a police station replacement at Northcote. These projects are critical to improving the local management and delivery of Victoria Police services and achieving a safer community.

### *Rural police station upgrades*

Existing 8 and 16-hour police stations in rural Victoria will be upgraded or modernised including: Beeac, Beech Forest/Lavers Hill, Beulah, Birchip, Broadford, Churchill, Dederang, Forrest, Lancefield, Landsborough, Learmonth, Lexton, Meeniyah, Newstead, Red Cliffs and Tatura. Most of the existing facilities to be upgraded fail to meet functional area requirements for police operations.

### *Mildura and Warrnambool Court House construction*

New court houses will be constructed in Mildura and Warrnambool to replace undersized and inadequate court facilities.

### *Courts security upgrade*

Court security will be upgraded in various court houses covering the Magistrates', Supreme and County jurisdictions and the Victorian Civil and Administrative Tribunal. The major objective is to enhance security for staff, prisoners, visitors and other users of the judicial system.

### *Prison expansion program*

Additional funding has been provided for the expansion of permanent bed capacity by 357 beds and additional temporary places will be made available while the permanent bed capacity is constructed.

### *Water Police facility*

Funding will be provided for the colocation of the Water Police and Search and Rescue Squad on a site with suitable water infrastructure. This will meet the need to establish a suitable identity via a more appropriate location and facility, which will enhance the Water Police's capacity to function as a dynamic, integrated and highly efficient provider of 24-hour emergency search and rescue, water policing and training services.

### *Airlie Training College*

Victoria Police's training support facility in South Yarra will be extended, involving the provision of accommodation facilities and the upgrade of training facilities, through the sale and development of unused land at Airlie Police College in partnership with the private sector. As such, there is no cost to government for this project.

### *VicSES annual provisions*

Funding will be provided for the replacement of aged general purpose rescue vehicles and equipment. This is in order for VicSES to have the appropriate equipment and vehicles to respond to road accidents, storms, floods and other emergencies in a reliable and timely manner and that the equipment will be maintained and replaced in a systematic and cost effective manner.

## Natural Resources and Environment

**Table B9: New initiatives – Department of Natural Resources and Environment<sup>(a)</sup>**

	(\$ million)				
	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Output initiatives</b>					
Boost for EPA funding*	1.0	1.0	1.0	1.0	1.0
Abolition of the Catchment Management Authority Levy*	14.3	12.9	13.4	13.8	13.8
Sustainable Energy Authority of Victoria*	1.7	5.8	5.0	5.0	5.0
Naturally Victorian agriculture initiative*	0.3	2.0	2.7	2.0	2.0
Improving camping ground amenities*	..	1.1	0.7	0.7	..
Victorian Environmental Assessment Council*	..	0.5	0.5	0.5	0.5
Forest management	6.1	12.8	8.5	5.4	0.2
Support for new town sewerage schemes*	..	5.0	7.5	10.0	..
Improving Victoria's bays*	0.8	1.0	..	..	..
Parks*	1.6	1.3	1.0	1.0	0.0
Commissioner for Ecologically Sustainable Development*	..	1.0	1.0	1.0	1.0
Alpine resorts risk mitigation	3.3	3.9	1.4	..	..
Land management costs	0.5	0.5	0.5	0.5	0.5
Stormwater upgrades*	..	5.0	7.5	10.0	..
Irrigation upgrade*	..	10.0	10.0	10.0	..
Administrative arrangements	(6.4)	12.1	5.7	5.5	3.1
Delatite land rehabilitation	..	2.5	1.5	1.5	1.5
Fire preparedness	..	7.6	7.8	8.0	8.0
Gippsland Lakes algal blooms	..	1.9	..	..	..
Grants for Koori community projects*	0.3	0.5	0.5	0.5	0.5
Restoration of environmental flows to the Snowy River	..	12.3	..	..	..
<b>Total output initiatives</b>	<b>23.5</b>	<b>100.7</b>	<b>76.2</b>	<b>76.4</b>	<b>37.1</b>
<b>Asset investment initiatives</b>					
Renovations to the old Eaglehawk Courthouse	..	0.1	..	..	..
Solar Conversion Scheme	..	5.0	5.0	5.0	..

**Table B9: New initiatives – Department of Natural Resources and Environment<sup>(a)</sup> - continued**

	(\$ million)				
	1999-00	2000-01	2001-02	2002-03	2003-04
Icon parks – visitor centre at 12 Apostles	..	1.5	..	..	..
Upgrade Land Information Infrastructure systems	..	2.1	1.9	..	..
Upgrade Fire Infrastructure	..	2.0	2.0	2.0	..
Consolidation of Land Victoria Operations	1.2	2.9	0.2	..	..
Improving research facilities	..	7.7	8.0	0.5	..
<b>Total asset investment initiatives</b>	<b>1.2</b>	<b>21.2</b>	<b>17.1</b>	<b>7.5</b>	<b>0.0</b>

Source: Department of Treasury and Finance

Notes:

(\*) Labor's Financial Statement output initiatives.

(a) Table may not add due to rounding.

## Output initiatives

### Boost for EPA funding

The additional funding is provided to enable the Environment Protection Authority to adopt enhanced monitoring and tougher enforcement of illegal dumping and waste discharges to reduce waste and pollution and improve environmental standards.

A skilled audit team will be established to investigate illegal dumping practices, with specialised legal support for prosecution. Additional resources comprise additional motor vehicles, protective clothing, field and office equipment PC systems for matching on ground intelligence with the existing waste tracking system, aerial surveys, analytical and specialist support services and formal enforcement training and accreditation.

### Abolition of the Catchment Management Authority Levy

Funding has been provided to offset the abolition of the Catchment Management Authority levy, which was levied on households in regional Victoria to finance catchment works. This funding ensures that the level of works to be undertaken in future years can be supplied at no additional cost to rural Victorians.

### *Sustainable Energy Authority of Victoria*

A Sustainable Energy Authority of Victoria (SEAV) has been established by reforming Energy Efficiency Victoria. The SEAV will pursue a comprehensive strategy for the development of renewable energy options and improved energy efficiency to reduce greenhouse gas emissions and lower energy costs for Victorian energy consumers.

### *Naturally Victorian Agriculture Initiative*

This program provides \$8.7 million over the next four years to assist Victorian farmers in winning new export markets for food products. These funds will be applied to marketing and research activities. Naturally Victorian will build on Victoria's reputation as a clean and green producer of agricultural goods and contributes to the Government's food and fibre export target of \$12 billion by the year 2010.

### *Improving camping ground amenities*

This initiative provides further resources to improve, in partnership with Local Government, amenities and facilities at public caravan parks and camping grounds. This recognises the need for the development and improvement of amenities for low-cost tourism.

### *Victorian Environmental Assessment Council*

This initiative will establish an independent Victorian Environmental Assessment Council to publicly report on major environmental issues. It will be empowered to examine public land issues, waterways, coastal and marine conservation, the protection of bio-diversity, the sustainable use of resources and other environmental management issues. The Council will be representative of all stakeholders including State and local government, conservationists, farmers, industry, unions and the wider community.

### *Forest management*

The Government recognises the ecological importance of our native forests and the need for the preservation of a wide range of forest types within protected parks and reserves. To ensure sustainable management of our forests and achieve a responsible balance of competing uses, the Government has committed to a number of initiatives including:



- establishing a pilot program of logging practices in the Wombat Forest to trial the use of environmental standards such as those set by the Forest Stewardship Council;
- providing resources to enable the Department of Natural Resources and Environment forest management and local government to strictly monitor and enforce the code and meet requirements of the *Flora and Fauna Guarantee Act (1988)*;
- implementing a Forest and Forest Products Industry Plan to encourage a sustainable timber industry and promote job security in the harvesting sector; and
- initiatives identified in Forestry Victoria's Business Plan that will generate future income benefits.

Following the signing of the final two Regional Forest Agreements, Government has committed further Budget funding of \$25.1 million over the next four years to support industry and future growth of enterprises in regional Victoria. This financial support will assist the timber industry and associated communities and towns to continue to grow and prosper. A further \$1.8 million has been provided for other forest management initiatives.

### *Support for new town sewerage schemes*

To ensure that individuals are not unfairly burdened with the cost of paying for water quality and sewerage upgrades, the Government will provide assistance for water authorities to upgrade sewerage schemes.

### *Improving Victoria's bays*

In order to effectively protect our coastal and marine environment, funding has been provided to establish Port Phillip Bay as a Marine National Park. Funding has also been provided to assist in the development of an action strategy to implement the recommendations of the Environment and Natural Resources Committee of Parliament on introduced marine organisms to protect our marine waters.

### *Parks*

Funding has been provided to re-organise the existing Parks Victoria into the Melbourne Parks and Bay Service and National Parks Service. This will enable the Department of Natural Resources and Environment to ensure better conservation and usage practices within the national parks network and to protect the recreational, environmental and historic qualities of metropolitan

parks. It will also contribute to the Government's commitment to obtain a more effective and transparent management of Victoria's natural resources. Additional funds have also been provided for the development of a system to protect northern Victoria's Box and Ironbark woodlands.

### *Commissioner for Ecologically Sustainable Development*

This initiative establishes a statutory office of the Commissioner for Ecologically Sustainable Development to provide an ombudsman-type role for considering public complaints; prepare and table a State of the Environment report; audit compliance with environmental legislation; and audit government departments environmental performance.

The Commissioner will increase accountability of government to the principles of ecologically sustainable development, install recourse for people with environmental concerns, improve the auditing of the condition of Victoria's environment and reduce the environmental impact of government activities.

### *Alpine Resorts Risk Mitigation Program*

This initiative provides funding to undertake works to ensure the continuing safety and to establish a monitoring program of Victoria's alpine resorts.

### *Land management costs*

Funding is provided to cover additional land management costs incurred as a result of the transfer of land in the Kiewa Valley, Port Phillip, Corio Bay and Portland to the Department of Natural Resources and Environment.

### *Stormwater upgrades*

This initiative provides funding for stormwater and litter control programs over three years to reduce pollution from stormwater systems via the installation of pollutant traps, wetlands and meanders on our major drainage systems.

### *Irrigation upgrades*

The project will assist Victoria's irrigation community to implement Victoria's commitment to the Murray Darling Basin Cap, support sustainable use of all water resource development and fund irrigation infrastructure improvements to produce water savings.

### *Administrative arrangements*

Funding has been provided to address a number of administrative issues, including the management of the Seafood Industry Levy collected on behalf of the industry, funding for case management of native title claims, funding to address the processing backlog that has resulted from a substantial increase in land title lodging levels and a revision to the timing of payments associated with the East Gippsland flood remediation works.

### *Delatite land rehabilitation*

In 1998 it was decided that the Delatite softwood plantation would not be required and would therefore be phased out and divested back to the State as unreserved Crown Land. Five hundred hectares were divested in 1999 and the balance of 1 500 hectares will be progressively divested over a ten year period following harvesting under licence by Hancock Victorian Plantations Pty Ltd. Funding has been provided to adequately regenerate this land to native forest.

### *Fire preparedness*

A review of funding for fire management undertaken during 1999-2000 has resulted in the provision of additional funding to support training, maintenance and additional aircraft. This additional funding will enable the continued innovative use of technologies such as aircraft and remote sensing together with a well-trained and flexible professional fire fighting force in preventing and suppressing wildfires on public land.

### *Gippsland Lakes algal blooms*

Algal blooms in the Gippsland Lakes impact adversely on commercial and recreational fishing and tourism. It is important to reduce the flow of nutrients into the Lakes to reduce the risk of blooms. This initiative will provide funding for improving irrigation techniques, improved tailwater re-use systems, implementation of best practice for fertilisers and assistance to farmers for whole farm planning including drought planning.

### *Grants for Koori community projects*

Funding will support a number of initiatives currently funded by the capital grants program, such as the development of both community and social infrastructure. Grants will also be used to fund educational programs.

### *Restoration of environmental flows to the Snowy River*

As part of the joint project with the Department of Treasury and Finance, \$12.3 million has been provided to Natural Resources and Environment in 2000-01. This funding is to enable the trial of the Snowy River Rehabilitation Concept Plan (\$1.3 million) and work on water efficiency savings projects including the Woorinen pipeline (\$9 million) and the investigation and development of other projects (\$2 million). The restoration of adequate environmental flows to the Snowy River is a major project that will be spread over seven years (see Department of Treasury and Finance).

### **Asset investment initiatives**

#### *Renovations to the old Eaglehawk Courthouse*

This initiative will provide funding for repairs and maintenance of the former Eaglehawk Courthouse. The building is currently occupied by Eaglehawk Historical Society but the poor condition of the building will shortly compromise its use as a museum and research facility.

#### *Solar Conversion Scheme*

Repayable grants will be provided to assist in the purchase of residential solar water heaters. The aim of the program is to encourage the installation of solar water heater systems and increase the market penetration of solar water heaters to replace conventional water heaters using power generated by fossil fuels. The initiative is part of the Government's strategy to reduce greenhouse gas emissions.

#### *Icon parks – visitor centre at 12 Apostles*

The initiative provides funding for completion of the Twelve Apostles Visitor Information Centre, including works such as improved waste water treatment, revegetation works, improved access for disabled people and outside lighting. This will contribute to the development of environmentally sustainable tourism and recreational infrastructure in National Parks.

#### *Upgrade land information infrastructure systems*

The initiative provides funding to enhance Victoria's land information infrastructure, including the consolidation of geospatial information resources and improving the accessibility and integration of fundamental information across the State.

### *Upgrade fire infrastructure*

The Department of Natural Resources and Environment is responsible for the management of fire on over 7 million hectares of public land in Victoria. A high proportion of the land is rugged and remote, with limited access, creating particular challenges in fire management. The Department maintains an extensive inventory of specialised infrastructure and strategic equipment. To ensure that this equipment remains effective, funding has been provided over the next three years for a program to renew and replace key elements of fire infrastructure.

### *Consolidation of Land Victoria operations*

Land Victoria's various functions are currently situated at seven different locations and are to be consolidated into one CBD/East Melbourne location. The consolidation will eliminate a number of serious occupational health and safety issues that exist with the current accommodation. This project is being undertaken jointly by the Victorian Government Property Group of the Department of Treasury and Finance and Natural Resources and Environment. The funding provided will meet Natural Resources and Environment's share of the project costs under Stage 2 of the City Precinct Strategic Plan including planning and IT works associated with the relocations. The remaining costs of the project are to be funded through Treasury and Finance (see Department of Treasury and Finance).

### *Improving research facilities*

Research is a vital component to the achievement of the Government's food and fibre export target of \$12 billion by the year 2010 by providing more efficient production systems and improved land management systems. Efficient research facilities also aids in attracting further investment from private industry and promotes Victoria's image as a clean and green primary producer. Funding has been provided to support the Department's research facilities in Horsham and Sunraysia, the joint University of Melbourne and NRE Forest Research Centre in Creswick, the Marine and Freshwater Research Institute in Queenscliff and the relocation of the EPA laboratories to Mont Park.

## State and Regional Development

**Table B10: New initiatives – Department of State and Regional Development<sup>(a)</sup>**

	(\$ million)				
	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Output initiatives</b>					
Local Government Summit*	0.1	0.1	0.1	0.1	0.1
Office of Rural Communities*	0.1	0.2	0.2	0.2	0.2
Extend Department of State and Regional Development regional structure*	0.6	2.3	2.3	2.3	..
Grants to local government and Regional Development Boards*	1.9	2.7	2.7	2.7	..
Public internet access in town halls*	..	2.3	1.5	1.5	1.5
Government net access centres*	..	0.8	0.5	0.5	0.5
Electronic Export Assistance Centre*	..	0.2	0.2	0.2	0.2
Strategic Audit of Victorian Industry	..	0.8	..	..	..
World Economic Forum and Business Club Australia	..	0.6	..	..	..
Business Events – ongoing funding	..	0.9	0.6	0.4	0.2
Living Regions, Living Suburbs Support Fund*	3.0	8.0	8.0	8.0	8.0
Increase peak sporting body funding*	0.3	0.5	0.5	0.5	..
Expand regional sports assemblies*	0.1	0.1	0.1	0.1	..
Expand older persons recreation networks <sup>*(b)</sup>	0.0	0.0	0.0	0.0	..
International Lawn Bowls centre*	..	1.5	1.0	..	..
Increase Minor Facilities Grants Scheme <sup>*(c)</sup>	..	5.0	5.0	5.0	..
Lawn Bowls Package*	0.1	0.1	0.1	0.1	..
Fishing Package*	0.1	0.1	0.1	0.1	..
Netball Package*	0.1	0.1	0.1	0.1	..
Eastern Oval upgrade – Ballarat*	..	0.2	..	..	..
Eureka Pool learners pool contribution – Ballarat*	..	0.1	..	..	..
Queen Elizabeth Oval upgrade – Bendigo*	..	..	0.3	..	..
West Bendigo basketball stadium*	..	..	0.5	1.5	..
Bendigo Aquatic Centre upgrade*	..	..	0.2	..	..
Camp Reserve upgrade – Castlemaine*	..	..	0.1	..	..
Dunolly sports facility upgrade*	..	..	0.1	..	..

**Table B10: New initiatives – Department of State and Regional Development<sup>(a)</sup> - continued**

	(\$ million)				
	1999-00	2000-01	2001-02	2002-03	2003-04
Leopold Community Recreation centre*	..	0.7	..	..	..
Heated pool – Seymour*	..	..	2.3	..	..
Regional Infrastructure Development Fund*	..	50.0	50.0	70.0	..
Superbike World Championships <sup>(d)</sup>	..	..	..	..	..
Melbourne 2006 Commonwealth Games	..	8.6	5.0	5.0	5.0
Royal Park	..	1.4	..	..	..
VGEMS contingent liability	..	2.7	..	..	..
Domestic Tourism Marketing and Meetings Incentives Conventions and Exhibitions (MICE)	..	5.5	5.5	5.5	5.5
Kensington Banks Residential Development Project	..	0.3	..	..	..
Beacon Cove Residential Development Project	..	0.2	0.2	0.2	0.2
Implementation of an Enhanced Industrial Relations Strategy*	..	5.0	5.0	5.0	5.0
Sport and Recreation Victoria (SRV) Camps program	..	0.1	0.1	0.1	0.1
<b>Total output initiatives</b>	<b>6.1</b>	<b>101.2</b>	<b>92.4</b>	<b>109.2</b>	<b>26.5</b>
<b>Asset investment initiatives</b>					
Sport and Recreation Victoria (SRV) Camps capital works program		0.6	0.5	0.5	0.5
<b>Total asset investment initiatives</b>	<b>0.0</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>

Source: Department of Treasury and Finance

Notes:

- (\*) Labor's Financial Statement output initiatives.
- (a) Table may not add due to rounding. \$5.3 million of output expenditure in 2000-01 is funded from reallocation of existing Departmental resources.
- (b) Actual funding is \$30 000 per year to 2002-03.
- (c) Funding is to be provided from the Community Support Fund.
- (d) This initiative is commercial-in-confidence and funding cannot be disclosed. Approved funding has been included in aggregate budget estimates

## ***Output initiatives***

### ***Strengthening the voice of rural and regional Victoria***

The initiatives funded include establishing an annual summit of Mayors and Shire Presidents (Local Government Summit), upgrading the Office of Rural Communities, extending the Department's regional structure and providing grants to local government and Regional Development Boards.

### ***Public internet access***

Funding will be provided for public internet access in town halls and government net access centres, where Victorians can access government information and conduct transactions.

### ***Helping Victorian business***

Electronic Export Assistance Centres will be established to help Victorian businesses in trade readiness, promotion and financing. A Strategic Audit of Victorian Industry is being undertaken to identify areas of potential industry growth and develop industry plans to facilitate this growth. Funding will be provided for promoting Victoria as a location for investment at the World Economic Forum meeting in Melbourne and through Business Club Australia to capitalise on international opportunities presented by the staging of the Olympic Games in Sydney in 2000. Continued funding will also be provided for business events.

### ***Living Regions Living Suburbs Support Fund***

A fund has been established to support projects promoting local economic and social development in rural, regional and suburban communities.

### ***Increased participation in sport and recreation***

Additional funding has been provided to Sport and Recreation Victoria (SRV) to increase peak sporting body funding, expand regional sport assemblies and older persons recreation networks.

The Government is funding a significant contribution towards the development of an international standard lawn bowls centre prior to the 2006 Commonwealth Games.



The Minor Facilities Grant scheme will also increase and additional funding will be provided to specialist activities and programs such as lawn bowls, fishing and netball.

Capital works at camps operated by SRV will be funded to ensure compliance with building and occupational health and safety standards and Australian Sports Commission funding will be maintained.

### *Sport and recreation in rural and regional Victoria*

Funding has been provided to restore and enhance the following facilities:

- Eastern Oval– Ballarat;
- Eureka Pool learners pool construction – Ballarat;
- Queen Elizabeth Oval – Bendigo;
- West Bendigo basketball stadium;
- Bendigo Aquatic Centre upgrade;
- Camp Reserve upgrade - Castlemaine;
- Dunolly sports facility upgrade;
- Leopold Community Recreation centre; and
- Heated pool – Seymour.

### *Regional Infrastructure Development Fund*

This initiative will fund projects of a capital nature, irrespective of size, which meet the specified eligibility criteria and which add to the socio-economic asset base of a region, municipality or local area.

Examples include:

- infrastructure to facilitate industry and economic development;
- transport improvements including roads, rail, ports or airports of strategic regional significance;
- tourism-related projects for new or improved facilities and to link tourism infrastructure; and
- strategic education and information and communication technologies infrastructure.

### *Management of major sporting events*

Funding will be provided for:

- promotion of the World Superbike Championships at Phillip Island;
- costs associated with staging and promotion of the Melbourne 2006 Commonwealth Games; and
- Royal Park - funding has been allocated to make good the site pending the outcome of the Government's decision on the use of the land.

### *VGEMS contingent liability*

The contract for the Victorian Government Electronic Messaging System (VGEMS) ends in July 2000. Funding is provided for the planned contract termination payment.

### *Tourism*

Additional funding has been provided to Tourism Victoria for domestic tourism marketing. Funding will also be provided to increase the competitiveness of Victoria as a meetings, incentives, conventions and exhibition destination.

### *Kensington Banks Residential Development Project*

Funding will be provided to continue the Government's ongoing administration of the project to its completion.

### *Beacon Cove Residential Development Project*

The initiative provides additional funding conditional upon the Government deciding, following public consultation, to extend the Beacon Cove project at Port Melbourne into a second stage.

### *Implementation of Enhanced Industrial Relations Strategy*

Funding will be provided for creation of a new Industrial Relations Division within the Department of State and Regional Development, the establishment of an Industrial Relations Strategic Advice Unit and a Taskforce to investigate the existing industrial relations framework.

## Asset investment initiatives

### *Sport and Recreation Victoria (SRV) Camps capital works program*

Funding has been provided to Sport and Recreation Victoria's five camps, located at Falls Creek, Anglesea, Mt Evelyn, Mt Eliza and Bacchus Marsh, to support a facilities maintenance/upgrade program which will ensure compliance with community standards.

## Treasury and Finance

**Table B11: New initiatives – Department of Treasury and Finance<sup>(a)</sup>**

	(\$ million)				
	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Output initiatives</b>					
West Melbourne Gasworks remediation works	..	6.0	..	..	..
Restoration of environmental flows to the Snowy River	2.0	..	..	..	..
Additional stamp duty refunds for concession card holders and first home buyers	..	1.0	..	..	..
Management of the Longford Class Action <sup>(b)</sup>	..	..	..	..	..
Rural Finance Corporation – additional funding to support joint Commonwealth-State programs	..	3.9	3.5	..	..
Emergency Services Superannuation Scheme – reduction in unfunded liability associated with Victoria Police	..	-26.4	-26.4	-26.4	-26.4
<b>Total output initiatives</b>	<b>2.0</b>	<b>-15.5</b>	<b>-22.9</b>	<b>-26.4</b>	<b>-26.4</b>
<b>Asset investment initiatives</b>					
Purchase of land valuations from local councils	..	6.1	0.4	12.1	0.4
Extension of SRO data matching and data quality activities	..	1.6	2.0	..	..
Refurbishment of Westgate Authority building to enable relocation of SES Headquarters	..	2.0	0.6	..	..
Refurbishment of Transport House following rationalisation of transport functions	..	2.0	..	..	..
Refurbishment and installation of air conditioning at Warragul State Offices	..	0.5	..	..	..
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**Table B11: New initiatives – Department of Treasury and Finance <sup>(a)</sup> -  
continued**

	(\$ million)				
	1999-00	2000-01	2001-02	2002-03	2003-04
Refurbishment and fit out of 3 Treasury Place, East Melbourne	..	0.5	..	..	..
Relocation of Police Prosecutors into Government-owned accommodation	..	0.9	..	..	..
Consolidation of Land Victoria operations	..	5.9	..	..	..
Purchase of the Pines School site <sup>(c)</sup>	..	0.0	..	..	..
<b>Total asset investment initiatives</b>	<b>0.0</b>	<b>19.4</b>	<b>3.0</b>	<b>12.1</b>	<b>0.4</b>

Source: Department of Treasury and Finance

Notes:

(\*) Labor's Financial Statement output initiatives.

(a) Table may not add due to rounding.

(b) This initiative is commercial in confidence and funding cannot be disclosed. Approved funding has been included in aggregate budget estimates

(c) This purchase is to be funded from the receipts from the sale of surplus properties within the DTF portfolio. As such there is no additional expenditure.

## Output initiatives

### West Melbourne Gasworks remediation works

Additional funding was provided to cover the cost of the remediation and clean up of land at Docklands previously occupied by the West Melbourne Gas Works to enable the development of the Victoria Harbour Precinct. This funding is to be offset by the receipt of revenue from the SECV Shell, which holds funds for remediation liabilities for sites previously owned by the SECV and Gas and Fuel Corporation.

### Restoration of environmental flows to the Snowy River

As part of the joint project with the Department of Natural Resources and Environment, funding of \$2 million has been provided in 1999-2000. This supplementation together with an additional \$2 million generated from internal reprioritisation is to cover the cost of external assistance in the negotiations with other States and the Commonwealth over the restoration of adequate environmental flows to the Snowy River and the corporatisation of the Snowy Mountains HydroElectric Authority (see Department of Natural Resources and Environment).

### *Additional stamp duty refunds for concession cardholders and first home buyers*

The provision of government concessions for concession cardholders and first home buyers is legislated in the Stamps Act 1958. The additional expenses are incurred due to a forecast of increased activity within the property market.

### *Management of the Longford class action*

Following the gas supply interruption in September and October 1998, the State and numerous related entities were joined in a major class action. The issues which need to be addressed are complex and numerous. Accordingly, trial preparations require extensive efforts and resourcing and when the matter comes to trial, the trial is likely to run for several months. Additionally, the Federal Court has ordered that the State and related entities undertake exhaustive and expensive document discovery. Funds have been provided to cover the anticipated costs of defending the State and related entities.

### *Rural Finance Corporation - additional funding to support joint Commonwealth-State programs*

The Exceptional Circumstances Scheme is jointly run by the Commonwealth and as the Commonwealth has extended the East Gippsland Exceptional Circumstances Program, the Rural Finance Corporation (RFC) requires additional funds to meet the State's commitment. Under the Regional Rural Adjustment Scheme, also a joint program with the Commonwealth, the RFC will be completing the Loddon Murray 2000 and Kickstart Sunraysia 2000 programs earlier than forecast.

### *Emergency Services Superannuation Scheme - reduction in unfunded liability associated with Victoria Police*

Government funding of \$250 million will be applied in 1999-2000 to extinguish the unfunded liability associated with the Victoria Police component of the Emergency Services Superannuation Scheme. The resulting reduction in the unfunded liability is expected to generating annual savings in the Department of Treasury and Finance of approximately \$26.4 million (further savings are also being generated in the Department of Justice). These savings have been applied according to the Government's budgetary priorities (see Department of Justice).

## ***Asset investment initiatives***

### ***Purchase of land valuations from local councils***

The State Government's Valuation Best Practice program and related amendments to the Valuation of Land Act 1960 now require the State Revenue Office (SRO) to purchase from all councils a general valuation of land every two years starting no later than 30 June 2000. Previously, these valuations were purchased from metropolitan councils every four years and country councils every six years. Additional funding has been provided to enable the purchase of these general valuations every two years.

### ***Extension of SRO data matching and data quality activities***

The SRO has been provided with additional funding to improve data matching for land tax collections. It is anticipated that the improved data matching will lead to increased revenue collected by the SRO. Strategic advantages arise from this initiative including greater taxpayer equity by minimising the number of tax payers able to avoid the tax and the ability to increase the level of automation in data checking which will provide a more robust land tax database.

### ***Refurbishment of the Westgate Authority building to enable relocation of State Emergency Services Headquarters***

The State Emergency Services (SES) Headquarters is currently located in private leased accommodation at 151 Sturt Street, South Melbourne, which is considered to be unsuitable and in poor condition. As the lease on this premises is due to expire in December 2001, the SES Headquarters is to be relocated to the former Westgate Authority building in Port Melbourne which is a well located but currently under utilised government-owned property.

### ***Refurbishment of Transport House following rationalisation of transport functions***

Transport House is currently leased from the Government Superannuation Office until June 2004 and comprises approximately 31 000m<sup>2</sup> of space. However, following the privatisation of the public transport functions and the consequent down-sizing of the Public Transport Corporation there has been a need to review the accommodation usage in Transport House and to consolidate housing of remaining staff onto whole floors. Funding has been provided to accomplish this and to enable some refurbishment and fit out to be carried out.

### *Refurbishment and installation of air conditioning at the Warragul State Offices*

This represents a continuation of the Country Public Office Upgrade Program which was established to maintain and upgrade government-owned office accommodation in country locations to modern standards. The project will provide improved and air conditioned facilities for Government users and their clients at the Warragul State Offices. However, the work to upgrade the air conditioning and other features to bring the building up to current standards is conditional on the major tenant signing a six-year lease.

### *Refurbishment and fitout of 3 Treasury Place, East Melbourne*

The former Agriculture Department Building at 3 Treasury Place was the second last heritage building to be built on the Treasury Reserve. It was constructed in 1872 and is recorded on the Historic Building Register. Funding has been provided to enable an appropriate refurbishment and fitout plan to be developed in conjunction with a suitable tenant.

### *Relocation of Police Prosecutors into government-owned accommodation*

The Police Prosecutors are currently located in private leased accommodation at 456 Lonsdale Street Melbourne. As the lease on this accommodation is due to expire in April 2001, the Police Prosecutors are to be relocated to government-owned accommodation at 436 Lonsdale Street. This property will become partially vacant when sections of Land Victoria are consolidated to premises preferably located in the eastern end of the central business district.

### *Consolidation of Land Victoria operations*

Land Victoria's various functions are currently situated at seven different locations and are to be consolidated into one CBD/East Melbourne location. The consolidation will eliminate a number of serious occupational health and safety issues that exist with the current accommodation. This project is being undertaken jointly by the Victorian Government Property Group of DTF and Department of Natural Resources and Environment (DNRE). The funding provided will meet DTF's share of the project costs under Stage 2 of the City Precinct Strategic Plan and cover the refurbishment and fitout works associated with the relocations. The remaining costs of the project are to be funded through DNRE (see Department of Natural Resources and Environment).

### *Purchase of the Pines school site*

The Government made an election commitment to purchase the former Monterey High School site near Frankston at the Valuer-General's valuation to be reserved for a public park and recreational purposes. The purchase of the site is to be funded from the proceeds raised in the sale of surplus properties within the portfolio.

## **Department of Premier and Cabinet**

**Table B12: New initiatives – Premier and Cabinet<sup>(a)</sup>**

	(\$ million)				
	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Output initiatives</b>					
Infrastructure Planning Council*	0.2	0.5	0.5	0.5	0.5
Funding to small scale arts programs and grants*	0.6	1.0	1.0	1.0	..
Regional Arts Fund*	0.1	0.1	0.1	0.1	..
Victorian Multicultural Commission*	0.1	0.3	0.3	0.3	..
Ethnic web pages funding* <sup>(b)</sup>	0.0	0.0	0.0	0.0	..
Ethnic groups building maintenance*	0.1	0.3	0.3	0.3	..
Expanded programs for women*	0.2	0.4	0.4	0.4	..
Federation Square Management Company	..	7.5	..	..	..
Country Victoria cinemas initiatives*	..	0.1	0.2	0.2	..
Victorian College of the Arts*	..	..	5.0	5.0	..
Regional Arts Infrastructure Fund*	..	2.0	2.0	2.0	..
Youth Rock Rehearsal Space Programs*	..	0.5	0.5	0.5	..
Andersen Match Play Championships	..	0.8	..	..	..
Whistleblowers Protection Bill 2000	..	0.4	0.3	0.3	0.3
Ministerial and Parliamentary requirements	..	1.0	0.7	0.7	0.7
Additional depreciation for new assets	..	8.3	5.7	5.7	5.7
Protection of the heritage assets of Government House	..	0.5	0.5	0.5	0.5
Arts funding	..	6.0	6.0	6.0	6.0
Multicultural Affairs	..	1.4	0.4	0.4	0.4
Policy development capacity	..	0.9	0.9	0.9	0.9
<b>Total output initiatives</b>	<b>1.4</b>	<b>31.9</b>	<b>24.7</b>	<b>24.7</b>	<b>15.0</b>



**Table B12: New initiatives – Premier and Cabinet<sup>(a)</sup> - continued**

	(\$ million)				
	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Asset investment initiatives</b>					
New Riverside Park	..	1.7	..	..	..
Car park ventilation	..	0.6	1.0	1.1	..
Malthouse redevelopment	..	1.0	..	..	..
Royal Exhibition Building redevelopment	0.2	0.9	..	..	..
<b>Total asset investment initiatives</b>	<b>0.2</b>	<b>4.1</b>	<b>1.0</b>	<b>1.1</b>	<b>0.0</b>

Source: Department of Treasury and Finance

Notes:

(\*) Labor's Financial Statement output initiatives.

(a) Table may not add due to rounding.

(b) Actual amounts are \$0.01 million in 1999-2000, and \$0.03 million in each of the years 2000-01 to 2002-03.

## Output initiatives

### Infrastructure Planning Council

An Infrastructure Planning Council comprising representatives from business, including small business, unions, regional Victoria and State and local government is being established to coordinate and prioritise investment decisions across Victoria according to need.

### Funding to small scale arts programs and grants

Provides an increase in funding for smaller scale arts programs and grants through Arts Victoria.

### Regional Arts Fund

Funding will be provided to establish a Regional Victoria Location Assistance Fund for local producers to assist film-makers cover the additional costs of shooting outside Melbourne and encourage "footloose" productions to locate in Victoria.

### Victorian Multicultural Commission

The funding is to provide increased grant resources to the Victorian Multicultural Commission.

### *Ethnic web pages funding*

This funding is to enable resources for the development of web pages for ethnic organisations. The web pages are to be developed by young people from the respective communities.

### *Ethnic groups building maintenance*

Funding provided is to establish a minor facility grants program for ethnic groups. A maximum of \$20 000 per grant will be available to fund building maintenance and minor upgrades.

### *Expanded programs for women*

Additional funding is being provided to expand programs available through the Office of Women's Policy.

### *Federation Square Management Company*

Funding for working capital and to cover the initial operating costs of the Federation Square Management Company.

### *Country Victoria cinemas initiatives*

Funding to be provided to local Councils over three years on a matching dollar-for-dollar basis through the Regional Cinemas Fund to assist local communities to upgrade facilities.

### *Victorian College of the Arts (VCA)*

Funding to the VCA to enable the college to carry out repairs and to upgrade its buildings and facilities. The VCA will develop a building master plan that together with a funding agreement will be submitted for the Treasurer's approval by April 2001.

### *Regional Arts Infrastructure Fund*

The Government's election commitment was to establish a Regional Arts Infrastructure Fund to tackle the backlog of arts infrastructure projects in regional Victoria. This fund will provide additional capital funds to improve regional museum buildings, concert halls, theatre and other cultural facilities.

### *Youth Rock Rehearsal Space Programs*

The Youth Rock Rehearsal Space Program will help subsidise the facilities needed for bands to practice and perform, including the capacity to make video clips and produce design merchandise and provide free access to the Internet.

### *Andersen Match Play Championships*

The State Government has a contract with the PGA Tour (America) to financially support the Andersen Match Play Championships to be held in January 2001. This funding is to cover the final payment required under the contract.

### *Whistleblowers Protection Bill 2000*

The Government made a commitment in its Justice Policy to introduce whistleblower legislation to protect those Victorians who wish to expose corruption and mismanagement in the public sector. This funding will provide additional capacity to investigate disclosures of government mismanagement and corruption and to develop procedures whereby such disclosures are investigated.

### *Ministerial and Parliamentary requirements*

The Government has agreed to provide additional support to the Independent MPs in accordance with the Independents' Charter. The funding is for costs associated with the employment of three advisers and three additional electorate office staff for the Independent MPs and for additional requirements within ministerial offices.

### *Additional depreciation for new assets*

Additional allowance for depreciation needs to be made as two new assets, the Melbourne Museum and the Public Records Office of Victoria Archive, will be recognised for the first time in the financial statements of the department in 2000-01.

### *Protection of the heritage assets of Government House*

The implementation of a long-term asset management strategy for maintaining Government House.

### *Arts funding*

Additional operating funding has been provided to the following Arts institutions: Cinemedia, Melbourne Museum at Carlton Gardens, National Gallery of Victoria on St. Kilda Road, State Library of Victoria and the Gallery at Federation Square. The funding is for additional maintenance costs associated with expanded facilities, additional client service costs resulting from increased ability to handle significantly more visitors, upgraded information technology systems and additional staffing for administration and security.

### *Multicultural Affairs*

Funding has been provided for the establishment of the Victorian Office of Multicultural Affairs to coordinate a whole-of-government approach to multicultural affairs and to implement racial harmony campaigns. The funds are also provided to expand Victorian Multicultural Commission grants and consultative processes and to increase triennial funding for the Ethnic Community Councils of Victoria.

### *Policy development capacity*

A review of the Department has introduced structural and resourcing changes aimed at improving its capacity to undertake long-term policy development and research. The additional funds have been provided to implement these changes and to enhance the department's capacity to service Cabinet Committees and undertake stakeholder consultations.

### ***Asset investment initiatives***

#### *New Riverside Park*

The new Riverside Park is 8.3 hectares of the land freed up by the rationalisation of the Jolimont rail yards. Under an agreement with the City of Melbourne the Government is required to redevelop the land into the Riverside Park that will link Federation Square with the existing Melbourne Park.

#### *Car park ventilation*

Funding to update ventilation systems, originally installed in 1966, at the Victorian Arts Centre Car Park on St Kilda Road.

### *Malthouse redevelopment*

The total estimated cost for the Malthouse redevelopment has been increased due to delays in the City Link tunnel works and the inclusion of a contemporary dance space in the redevelopment.

### *Royal Exhibition Building redevelopment*

Funding has been provided to enable vital works for amenities and facilities to be undertaken for this significant historical building.

## **Parliament**

**Table B13: New initiatives – Parliament<sup>(a)</sup>**

	<i>(\$ million)</i>				
	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Output initiatives</b>					
Auditor-General's Office*	2.0	2.1	2.3	2.4	2.4
Facility Management Plan – maintenance works	..	0.1	..	..	..
Training for Member and Electorate Officers	..	0.3	0.3	0.3	0.3
Relocations and maintenance of Electorate Offices	..	1.0	..	..	..
<b>Total output initiatives</b>	<b>2.0</b>	<b>3.5</b>	<b>2.6</b>	<b>2.7</b>	<b>2.7</b>
<b>Asset investment initiatives</b>					
Air-conditioning – Parliament House	..	1.9	..	..	..
PABX system upgrade	..	0.2	..	..	..
Facility Management Plan - major capital works	..	1.4	1.3	..	..
<b>Total asset investment initiatives</b>	<b>0.0</b>	<b>3.5</b>	<b>1.3</b>	<b>0.0</b>	<b>0.0</b>

*Source: Department of Treasury and Finance*

*Notes:*

*(\*) Labor's Financial Statement output initiatives.*

*(a) Table may not add due to rounding.*

## ***Output initiatives***

### ***Auditor-General's Office***

The Government is committed to restoring the powers of the Auditor-General and to repealing the Audit Amendment Act 1994. The additional funding is to assist with the expenses associated with the absorption of Audit Victoria into the Victorian Auditor-General's Office and the restoration of the powers of the Auditor-General.

### ***Facility Management Plan - maintenance works***

Parliament has commissioned a Facility Management Plan incorporating maintenance works for Parliament House. Funding has been provided in 2000-01 and Parliament will be completing a maintenance plan that covers the next 3-5 years for consideration in September 2000.

### ***Training for Member and Electorate Officers***

Over the past two years, Parliament has invested in a large information technology structure entitled "PARLYNET" for the Members. To gain maximum possible advantage out of the information technology system, necessary training is to be provided.

### ***Relocations and maintenance of Electorate Offices***

Some electorate offices are not suitable for the requirements of Members due to reasons such as the condition of office, location within the electorate, size of office, ability to service disabled constituents and costs of premises. Funding has been provided to Parliament to enable urgent work to rectify some of these deficiencies in 2000-2001. Works will be prioritised by Parliament on the basis of building and other statutory requirements and to ensure that accommodation meets the needs of the clients who visit Parliamentary electorate offices.

During 2000-2001, Parliament will be developing a comprehensive work plan for electorate offices demonstrating the need for additional funding and determining work requirements in priority order.

## ***Asset investment initiatives***

### ***Air-conditioning - Parliament House***

In order to improve the working conditions for staff and Members at Parliament House during the summer months, air conditioning is to be installed.

### ***PABX system upgrade***

Funds have been provided to enable the upgrade and replacement of the PABX at Parliament House. The current system employed is technologically dated and requires replacement.

### ***Facility Management Plan – major capital works***

Parliament has commissioned a Facility Management Plan incorporating major capital works for Parliament House. Funding has been provided as these projects relate to essential projects that if not undertaken now will lead to greater deterioration of the building including, for example, fire protection and electrical wiring which may cause major occupational health and safety risks in the future.





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

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Since the first agreement for uniform reporting, adopted at the May 1991 Premiers' Conference, the format of the Uniform Presentation Framework has been based on the reporting standards of the ABS's Government Finance Statistics (GFS) framework. This has ensured a high degree of consistency in the preparation and presentation of financial data.

In December 1999 all jurisdictions agreed to adopt a new accrual reporting framework. The revised framework was the result of a review prompted by governments' shift from cash to accrual reporting and by the adoption of an accrual-based framework for GFS reporting. Whereas the previous uniform presentation framework was based on cash budgeting and reporting, the new framework establishes the common accrual-based information to be published by Commonwealth, state and territory governments.

The adoption of accrual reporting by Australian governments is the most important development in public sector financial management and reporting in recent years. Compared with cash measures accrual measures provide a more comprehensive view of the total activity of government and the long-term effects of current policy, thereby enhancing governments' fiscal transparency and accountability. However, cash measures have some advantages such as in tracking expenditures in a fiscal year. A measure of the cash surplus will continue to be available in the cash flow statement under accrual government financial statistics.

The GFS system employed by the 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. In accordance with SNA93 and the current draft of the revised IMF Manual, the ABS has updated its GFS framework from a cash reporting basis to an accrual reporting

basis. The first ABS publication of GFS under the new framework, *1999-2000 Government Financial Estimates, Australia* (ABS Cat. No. 5501.0), was released in April 2000.

## **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. This means that differences arise between the GFS and accounting frameworks, particularly within the operating statement.

### **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 (statement of financial performance), the GFS operating statement reports two major fiscal measures – the GFS net operating balance and GFS net lending. The GFS net operating balance is calculated as GFS revenue minus GFS expenses. In contrast, GFS net lending, or fiscal balance, includes net capital expenditure but excludes depreciation, thereby giving a measure of a jurisdiction's call on financial markets.

### **Balance sheet**

The balance sheet records a government's stocks of financial and non-financial assets and liabilities. This statement, also referred to as a statement of assets and liabilities or a statement of financial position, discloses the resources over which a government maintains control. The balance sheet is a financial snapshot taken at the end of each financial year. By providing information on the type of assets and liabilities held by a government, the statement gives an indication of the government's financial liquidity.

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. Cash flows fall into three categories:

- operating activities which relate to the collection of taxes, the distribution of grants, and the provision of goods and services;
- investing activities which relate to the acquisition and disposal of financial and non-financial assets; and
- financing activities which relate to changing the size and composition of a government's financial structure.

The GFS cash flow statement reports two major fiscal measures – the net increase in cash held and the cash surplus. Net increase in cash held is the sum of net cash flows from all operating, investing and financing activities. The cash surplus comprises only net cash received from operating activities, and from sales and purchases of non-financial assets, minus distributions paid (in the case of public financial corporations and public non-financial corporations), minus finance leases and similar arrangements.

The GFS cash surplus measure is broadly comparable with the old cash-GFS surplus measure, allowing for comparisons between the two frameworks.

In order to provide a link with the discontinuing cash-based uniform reporting format series, an additional table (Table C7a) has been included which recasts the old cash flow statement for the general government sector into the new format as presented in Table C7 below. There is no historical accrual information available for the operating statement and balance sheet.

## **INSTITUTIONAL SECTORS**

### **General government sector**

The general government sector comprises all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. General government services include those which are mainly non-market in nature, those which are largely

for collective consumption by the community, and those which involve the transfer or redistribution of income. These services are financed mainly through taxes, other compulsory levies and user charges.

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

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

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

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

### **Public financial corporations and the total public sector**

Public financial corporations are bodies primarily engaged in the provision of financial intermediation services or auxiliary financial services. They are able to incur financial liabilities on their own account (e.g. taking deposits, issuing securities or providing insurance services). Central borrowing authorities, including the Treasury Corporation of Victoria and the Transport Accident Corporation, are part of the public financial corporations sector.

The total public sector incorporates the transactions of all sectors of government: general government, the public non-financial corporations sector and the public financial corporations sector (eliminating intersectoral transfers). Total public sector reporting is also known as whole-of-government reporting.

Tables for the public financial corporations and the total public sector are only provided for the outcomes statement presented in October each year.

**Table C1: General government sector operating statement**

	(\$ million)				
	1999-00	2000-01	2001-02	2002-03	2003-04
	Revised	Budget	Estimate	Estimate	Estimate
<b>GFS revenue</b>					
Taxation revenue	9 535	7 996	7 585	7 887	8 212
Current grants and subsidies	7 353	9 806	10 686	11 001	11 359
Capital grants	408	421	446	435	385
Sales of goods and services	2 355	2 364	2 266	2 291	2 216
Interest income	74	123	148	155	158
Other	1 948	1 731	1 455	1 398	1 270
<b>Total revenue</b>	<b>21 673</b>	<b>22 441</b>	<b>22 586</b>	<b>23 167</b>	<b>23 600</b>
<b>GFS expenses</b>					
Gross operating expenses	15 745	17 067	17 517	17 987	18 364
Nominal superannuation interest expense	452	544	569	574	577
Other interest expense	428	469	464	466	468
Other property expenses	..	0	0	0	0
Current transfers	3 118	3 290	3 187	3 261	3 241
Capital transfers	602	508	476	453	380
<b>Total expenses</b>	<b>20 345</b>	<b>21 879</b>	<b>22 213</b>	<b>22 741</b>	<b>23 030</b>
<b>GFS net operating balance</b>	<b>1 328</b>	<b>562</b>	<b>373</b>	<b>426</b>	<b>570</b>
Less: Net acquisition of non-financial assets					
Gross fixed capital formation	1 057	1 180	1 501	1 644	1 913
Less: Depreciation	792	826	875	922	971
Plus: Change in inventories	1	1	0	2	2
Plus: Other movements in non-financial assets	0	0	0	0	0
<b>Total net acquisition of non-financial assets</b>	<b>266</b>	<b>355</b>	<b>627</b>	<b>725</b>	<b>943</b>
<b>GFS Net lending (+) / Borrowing (-) <sup>(a)</sup></b>	<b>1 062</b>	<b>208</b>	<b>-254</b>	<b>-299</b>	<b>-373</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 C2: Public non-financial corporation sector operating statement**

	(\$ million)	
	1999-00	2000-01
	<i>Revised</i>	<i>Budget</i>
<b>GFS revenue</b>		
Sales of goods and services	3 237	3 104
Current grants and subsidies	801	636
Capital grants	308	310
Interest income	76	60
Other	266	207
<b>Total revenue</b>	<b>4 687</b>	<b>4 316</b>
<b>GFS expenses</b>		
Gross operating expenses	3 420	3 036
Property expenses	899	991
Current transfers	75	86
Capital transfers	25	23
<b>Total expenses</b>	<b>4 419</b>	<b>4 135</b>
<b>GFS net operating balance</b>	<b>268</b>	<b>181</b>
Less: Net acquisition of non-financial assets		
Gross fixed capital formation	962	798
Less: Depreciation	464	469
Plus: Change in inventories	-21	-10
Plus: Other movements in non-financial assets	0	0
<b>Total net acquisition of non-financial assets</b>	<b>478</b>	<b>318</b>
<b>GFS Net lending (+) / Borrowing (-)<sup>(a)</sup></b>	<b>-209</b>	<b>-138</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 C3: Non-financial public sector operating statement**

	(\$ million)	
	1999-00	2000-01
	Revised	Budget
<b>GFS revenue</b>		
Taxation revenue	9 517	7 980
Current grants and subsidies	7 402	9 856
Capital grants	411	426
Sales of goods and services	5 592	5 468
Interest income	150	182
Other	1 023	761
<b>Total revenue</b>	<b>24 096</b>	<b>24 674</b>
<b>GFS expenses</b>		
Gross operating expenses	18 661	19 626
Nominal superannuation interest expense	452	544
Other interest expense	595	639
Other property expenses	0	0
Current transfers	2 423	2 776
Capital transfers	312	216
<b>Total expenses</b>	<b>22 444</b>	<b>23 800</b>
<b>GFS net operating balance</b>	<b>1 652</b>	<b>874</b>
Less: Net acquisition of non-financial assets		
Gross fixed capital formation	2 019	1 977
Less: Depreciation	1 256	1 295
Plus: Change in inventories	-19	-10
Plus: Other movements in non-financial assets	0	0
<b>Total net acquisition of non-financial assets</b>	<b>744</b>	<b>673</b>
<b>GFS Net lending (+) / Borrowing (-)<sup>(a)</sup></b>	<b>908</b>	<b>201</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 C4: General government sector balance sheet**

	(\$ million)				
	2000	2001	2002	2003	2004
	Revised	Budget	Estimate	Estimate	Estimate
<b>Assets</b>					
<b>Financial assets</b>					
Cash and deposits	719	738	759	804	845
Advances paid	425	361	272	184	90
Investments, loans and placements	2 359	3 037	3 155	3 114	3 004
Other non-equity assets	747	653	696	757	838
Equity	23 005	23 800	23 800	23 800	23 800
<b>Total financial assets</b>	<b>27 254</b>	<b>28 589</b>	<b>28 683</b>	<b>28 659</b>	<b>28 577</b>
<b>Non-financial assets</b>					
Land and fixed assets	31 916	32 308	32 957	33 691	34 636
Other non-financial assets	898	971	1 025	1 054	1 086
<b>Total non-financial assets</b>	<b>32 814</b>	<b>33 279</b>	<b>33 982</b>	<b>34 745</b>	<b>35 722</b>
<b>Total assets</b>	<b>60 068</b>	<b>61 869</b>	<b>62 665</b>	<b>63 404</b>	<b>64 299</b>
<b>Liabilities</b>					
Deposits held	277	292	308	324	339
Advances received	91	91	90	89	88
Borrowing	6 558	6 590	6 608	6 596	6 584
Superannuation liability	11 826	11 998	12 169	12 266	12 371
Other employee entitlements and provisions	2 310	2 479	2 648	2 817	2 988
Other non-equity liabilities	1 144	1 169	1 201	1 232	1 271
<b>Total liabilities</b>	<b>22 205</b>	<b>22 619</b>	<b>23 023</b>	<b>23 324</b>	<b>23 642</b>
<b>Net worth</b>	<b>37 863</b>	<b>39 249</b>	<b>39 641</b>	<b>40 080</b>	<b>40 657</b>
<b>Net financial worth <sup>(a)</sup></b>	<b>5 049</b>	<b>5 970</b>	<b>5 659</b>	<b>5 334</b>	<b>4 935</b>
<b>Net debt <sup>(b)</sup></b>	<b>3 423</b>	<b>2 837</b>	<b>2 820</b>	<b>2 907</b>	<b>3 073</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.



**Table C5: Public non-financial corporation sector balance sheet**

	(\$ million)	
	1999-00	2000-01
	Revised	Budget
<b>Assets</b>		
<b>Financial assets</b>		
Cash and deposits	332	380
Advances paid	428	353
Investments, loans and placements	662	533
Other non-equity assets	1 625	1 554
Equity	..	..
<b>Total financial assets</b>	<b>3 047</b>	<b>2 819</b>
<b>Non-financial assets</b>		
Land and fixed assets	24 476	25 304
Other non-financial assets	122	107
<b>Total non-financial assets</b>	<b>24 599</b>	<b>25 411</b>
<b>Total assets</b>	<b>27 645</b>	<b>28 229</b>
<b>Liabilities</b>		
Deposits held	34	34
Advances received	364	264
Borrowings	2 593	2 642
Superannuation liability	80	77
Other employee entitlements and provisions	2 666	2 551
Other non-equity liabilities	621	578
<b>Total liabilities</b>	<b>6 357</b>	<b>6 145</b>
<b>Net worth</b>	<b>21 289</b>	<b>22 084</b>
<b>Net financial worth <sup>(a)</sup></b>	<b>-3 310</b>	<b>-3 327</b>
<b>Net debt <sup>(b)</sup></b>	<b>1 569</b>	<b>1 675</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.

**Table C6: Non-financial public sector balance sheet**

	(\$ million)	
	2000 Revised	2001 Budget
<b>Assets</b>		
<b>Financial assets</b>		
Cash and deposits	1 051	1 118
Advances paid	516	441
Investments, loans and placements	3 047	3 596
Other non-equity assets	2 264	2 160
Equity	1 220	1 220
<b>Total financial assets</b>	<b>8 098</b>	<b>8 535</b>
<b>Non-financial assets</b>		
Land and fixed assets	56 481	57 701
Other non-financial assets	940	992
<b>Total non-financial assets</b>	<b>57 422</b>	<b>58 693</b>
<b>Total assets</b>	<b>65 520</b>	<b>67 229</b>
<b>Liabilities</b>		
Deposits held	310	326
Advances received	47	10
Borrowing	9 229	9 310
Superannuation liability	11 905	12 075
Other employee entitlements and provisions	4 153	4 155
Other non-equity liabilities	1 765	1 747
<b>Total liabilities</b>	<b>27 409</b>	<b>27 623</b>
<b>Net worth</b>	<b>38 111</b>	<b>39 605</b>
<b>Net financial worth <sup>(a)</sup></b>	<b>-19 311</b>	<b>-19 088</b>
<b>Net debt <sup>(b)</sup></b>	<b>4 972</b>	<b>4 491</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.

**Table C7: General government sector cash flow statement**

(\$ million)

	1999-00 Revised	2000-01 Budget	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
<b>Cash receipts from operating activities</b>					
Taxes received	9 507	7 965	7 552	7 851	8 172
Receipts from sales of goods and services	2 351	2 359	2 260	2 287	2 212
Grants/subsidies received	7 754	10 227	11 132	11 437	11 744
Other receipts	1 948	1 979	1 596	1 528	1 388
<b>Total receipts</b>	<b>21 560</b>	<b>22 531</b>	<b>22 539</b>	<b>23 103</b>	<b>23 515</b>
<b>Cash payments from operating activities</b>					
Payment for goods and services	-15 042	-16 686	-17 109	-17 613	-17 943
Grants and subsidies paid	-3 249	-3 326	-3 290	-3 324	-3 216
Interest paid	-434	-468	-463	-465	-467
Other payments	-245	-276	-156	-147	-147
<b>Total payments</b>	<b>-18 970</b>	<b>-20 756</b>	<b>-21 018</b>	<b>-21 549</b>	<b>-21 774</b>
<b>Net cash flows from operating activities</b>	<b>2 590</b>	<b>1 775</b>	<b>1 521</b>	<b>1 554</b>	<b>1 742</b>
<b>Net cash flows from investing in non-financial assets</b>					
Sales of non-financial assets	144	137	99	75	48
Purchases of non-financial assets	-1 202	-1 318	-1 600	-1 721	-1 962
<b>Total cash flows from non-financial assets</b>	<b>-1 058</b>	<b>-1 180</b>	<b>-1 501</b>	<b>-1 647</b>	<b>-1 914</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>74</b>	<b>62</b>	<b>75</b>	<b>67</b>	<b>62</b>
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>-1 132</b>	<b>- 677</b>	<b>- 115</b>	<b>35</b>	<b>114</b>
<b>Net flows from financing activities</b>					
Advances received (net)	37	-1	10	27	27
Borrowings (net)	-554	32	18	-12	-12
Deposits received (net)	32	16	16	16	16
Other financing (net)	0	-8	-3	5	7
<b>Total net cash flows from financing activities</b>	<b>- 484</b>	<b>39</b>	<b>41</b>	<b>35</b>	<b>38</b>
<b>Net increase in cash held</b>	<b>- 9</b>	<b>19</b>	<b>20</b>	<b>45</b>	<b>41</b>
Net cash from operating activities and investments in non-financial assets	1 533	586	17	-87	-165
Acquisition of assets under finance leases and similar arrangements	-7	-7	-4	-4	-4
<b>Surplus (+) /deficit (-)</b>	<b>1 526</b>	<b>580</b>	<b>13</b>	<b>- 92</b>	<b>- 170</b>

Source: Department of Treasury and Finance

**Table C7a: General government sector cash flow statement – Historical**

(\$ million)

	1994-95	1995-96	1996-97	1997-98	1998-99
	Actual	Actual	Actual	Actual	Actual
<b>Cash receipts from operating activities</b>					
Taxes received	7 227	8 068	8 645	8 259	9 213
Receipts from sales of goods and services	1 072	1 365	1 299	2 382	2 049
Grants/subsidies received	6 432	6 656	6 897	7 046	7 522
Other receipts	1 143	1 774	2 338	1 996	3 716
<b>Total receipts</b>	<b>15 874</b>	<b>17 863</b>	<b>19 178</b>	<b>19 682</b>	<b>22 500</b>
<b>Cash payments from operating activities</b>					
Payment for goods and services	-10 465	-10 757	-11 426	-12 813	-17 331
Grants and subsidies paid	-2 884	-2 909	-2 852	-3 471	-2 872
Interest paid	-1 972	-1 910	-1 450	-1 132	-694
Other payments	-109	-129	-200	-91	-329
<b>Total payments</b>	<b>-15 430</b>	<b>-15 705</b>	<b>-15 927</b>	<b>-17 506</b>	<b>-21 226</b>
<b>Net cash flows from operating activities</b>	<b>444</b>	<b>2 158</b>	<b>3 251</b>	<b>2 176</b>	<b>1 274</b>
<b>Net cash flows from investing in non-financial assets</b>					
Sales of non-financial assets	226	193	167	622	210
Purchases of non-financial assets	-1 295	-1 185	-1 189	-1 361	-1 497
<b>Total cash flows from non-financial assets</b>	<b>-1 069</b>	<b>- 992</b>	<b>-1 023</b>	<b>- 739</b>	<b>-1 286</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>361</b>	<b>3 677</b>	<b>2 767</b>	<b>1 808</b>	<b>4 343</b>
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>-15</b>	<b>-12</b>	<b>-10</b>	<b>69</b>	<b>387</b>
<b>Net cash flows from financing activities</b>					
Advances received (net)	-468	-2 098	-108	-26	-1 168
Borrowings (net)	-434	-2 605	-5 238	-2 462	-3 634
Deposits received (net)	n.p.	n.p.	n.p.	n.p.	-32
Other financing (net)	n.p.	n.p.	n.p.	n.p.	-77
<b>Total net cash flows from financing activities</b>	<b>200</b>	<b>-4 328</b>	<b>-5 112</b>	<b>-2 234</b>	<b>-4 908</b>
<b>Net increase in cash held</b>	<b>-79</b>	<b>504</b>	<b>-126</b>	<b>880</b>	<b>-190</b>
Net cash from operating activities and investments in non-financial assets	-625	1 166	2 228	1 437	-12
Acquisition of assets under finance leases and similar arrangements	..	..	..	..	99
<b>Surplus (+) /deficit (-)</b>	<b>-625</b>	<b>1 166</b>	<b>2 228</b>	<b>1 437</b>	<b>87</b>

Source: 1999-2000 Government Financial Estimates Australia ABS Cat. 5501.0

**Table C8: Public non-financial corporation sector cash flow statement**

(\$ million)

	1999-00	2000-01
	Revised	Budget
<b>Cash receipts from operating activities</b>		
Receipts from sales of goods and services	3 283	3 103
Grants/subsidies received	1 101	945
Other receipts	329	260
<b>Total receipts</b>	<b>4 713</b>	<b>4 309</b>
<b>Cash payments from operating activities</b>		
Payment for goods and services	-2 493	-2 114
Grants and subsidies paid	-33	-37
Interest paid	-173	-170
Other payments	-749	-694
<b>Total payments</b>	<b>-3 448</b>	<b>-3 015</b>
<b>Net cash flows from operating activities</b>	<b>1 265</b>	<b>1 293</b>
<b>Net cash flows from investing in non-financial assets</b>		
Sales of non-financial assets	100	80
Purchases of non-financial assets	-956	-800
<b>Total cash flows from investing in non-financial assets</b>	<b>- 856</b>	<b>- 720</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>41</b>	<b>23</b>
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>339</b>	<b>129</b>
<b>Net cash flows from financing activities</b>		
Advances received (net)	-98	-36
Borrowings (net)	-75	49
Deposits received (net)	-0	0
Distributions paid	-680	-751
Other Financing (net)	-47	60
<b>Total net cash flows from financing activities</b>	<b>-900</b>	<b>-678</b>
<b>Net increase in cash held</b>	<b>-112</b>	<b>48</b>
Net cash from operating activities and investments in non-financial assets	-271	-178
Acquisition of assets under finance leases and similar arrangements	-1	-1
<b>Surplus (+) /deficit (-) <sup>(a)</sup></b>	<b>-272</b>	<b>-179</b>

Source: Department of Treasury and Finance

Note:

(a) Conceptually, the surplus/deficit aggregate contained in the cash flow statement is the same as the deficit measure obtained under the old cash presentation. However, in practice, the process of deriving these aggregates differs so that the measures are not directly comparable. Time-series data created by splicing these measures together should be used with caution.

**Table C9: Non-financial public sector cash flow statement**

	(\$ million)	
	1999-00 Revised	2000-01 Budget
<b>Cash receipts from operating activities</b>		
Taxes received	9 507	7 965
Receipts from sales of goods and services	5 634	5 462
Grants/subsidies received	7 800	10 282
Other receipts	1 094	1 001
<b>Total receipts</b>	<b>24 035</b>	<b>24 711</b>
<b>Cash payments from operating activities</b>		
Payment for goods and services	-17 534	-18 800
Grants and subsidies paid	-2 226	-2 472
Interest paid	-607	-638
Other payments	-462	-468
<b>Total payments</b>	<b>-20 830</b>	<b>-22 378</b>
<b>Net cash flows from operating activities</b>	<b>3 205</b>	<b>2 333</b>
<b>Net cash flows from investing in non-financial assets</b>		
Sales of non-financial assets	244	217
Purchases of non-financial assets	-2 158	-2 117
<b>Total cash flows from investing in non-financial assets</b>	<b>-1 914</b>	<b>-1 900</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>115</b>	<b>85</b>
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>-793</b>	<b>-547</b>
<b>Net cash flows from financing activities</b>		
Advances received (net)	-72	-37
Borrowings (net)	-629	81
Deposits received (net)	32	16
Other financing (net)	-46	52
<b>Total net cash flows from financing activities</b>	<b>-715</b>	<b>113</b>
<b>Net increase in cash held</b>	<b>-102</b>	<b>83</b>
Net cash from operating activities and investments in non-financial assets	1 244	485
Acquisition of assets under finance leases and similar arrangements	-8	-8
<b>Surplus (+) /deficit (-)<sup>(a)</sup></b>	<b>1 236</b>	<b>476</b>

Source: Department of Treasury and Finance

Note:

(a) Conceptually, the surplus/deficit aggregate contained in the cash flow statement is the same as the deficit measure obtained under the old cash presentation. However, in practice, the process of deriving these aggregates differs so that the measures are not directly comparable. Time-series data created by splicing these measures together should be used with caution.

**Table C10: General government sector expenses by function**

	(\$ million)	
	1999-00	2000-01
	Revised	Budget
General public services	2 222	2 353
Public order and safety	1 648	1 753
Education	5 596	6 049
Health	4 719	5 092
Social security and welfare	1 491	1 642
Housing and community amenities	425	694
Recreation and culture	477	476
Fuel and energy	118	118
Agriculture, forestry, fishing, and hunting	501	545
Mining, manufacturing, and construction	45	41
Transport and communications	2 173	2 138
Other economic affairs	195	245
Other purposes	735	734
<b>Total GFS expenses</b>	<b>20 345</b>	<b>21 879</b>

*Source: Department of Treasury and Finance*

**Table C11: General government sector taxation <sup>(a)</sup>**

	(\$ million)	
	1999-00 Revised	2000-01 Budget
<b>Taxes on employers' payroll and labour force</b>	<b>2 302</b>	<b>2 459</b>
<b>Taxes on property</b>		
Land taxes	425	489
Stamp duties on financial and capital transactions	1 641	1 449
Financial institutions' transaction taxes	611	618
Other	87	91
<b>Total</b>	<b>2 764</b>	<b>2 648</b>
<b>Taxes on the provision of goods and services</b>		
Excises and levies	..	..
Taxes on gambling	1 525	1 235
Taxes on insurance	569	640
<b>Total</b>	<b>2 093</b>	<b>1 875</b>
<b>Taxes on the use of goods and performance of activities</b>		
Motor vehicle taxes	851	861
Franchise taxes	1 486	112
Other	39	41
<b>Total</b>	<b>2 376</b>	<b>1 014</b>
<b>Total GFS taxation revenue</b>	<b>9 535</b>	<b>7 996</b>

Source: Department of Treasury and Finance

Note:

(a) Accruals basis.



## APPENDIX D: VICTORIA'S NOMINATED 2000-01 LOAN COUNCIL ALLOCATION

Table D1 compares Victoria's 2000-01 Loan Council Allocation (LCA) approved by Loan Council in March 2000 with the revised LCA based on the 2000-01 Budget estimates.

**Table D1: Loan Council Allocation**

(\$ million)		
	2000-01 Nomination	2000-01 Revised
General government sector cash (+) deficit / (-) surplus	-353	- 580
Public non-financial corporation sector cash (+) deficit / (-) surplus	200	179
Non-financial public sector cash (+) deficit / (-) surplus <sup>(a)(b)</sup>	-153	- 476
Less: Net cash flows from investments		
in financial assets for policy purposes <sup>(c)</sup>	n/a	- 85
Plus: Memorandum items <sup>(d)</sup>	319	319
<b>Loan Council Allocation</b>	<b>166</b>	<b>- 242</b>
<i>Tolerance limit (2% of non-financial public sector revenue )</i>	<i>372</i>	<i>372</i>

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 2000-01 nomination 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.

The focus of Loan Council reporting under the new accrual reporting framework will remain on cash measures. That is, a government's cash position will determine the extent to which it must call on financial markets in a given year to meet its budget obligations. However, the change to accrual reporting has necessitated some variation in the way in which a government's LCA is determined. A government's LCA figure is now based on the uniform presentation framework cash flow statements.

Table D1 reflects this change as Victoria's 2000-01 revised LCA figure is based on the cash surplus/deficit reported in the cash flow statements in Appendix C. The 2000-01 LCA nomination was derived using the cash-based uniform presentation framework tables published in the *1999-2000 Mid-Year Budget Review*.

Victoria's 1999-2000 LCA outcome will be published in a separate outcomes report after the end of the 1999-2000 financial year in line with the new accrual reporting framework.

Listed below are details of Victoria's infrastructure projects with private sector involvement where contracts are expected to be signed in the 2000-01 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 in the LCA narrative.

In addition to the listed projects, the Government is also considering a number of transport infrastructure projects, some of which will involve the private sector. Details in relation to these projects will be reported as appropriate.

It should be noted that the listed projects have not been finalised at this stage. Therefore the value of the projects and the extent of actual contract payments have not been concluded. As such, the project information detailed below, including anticipated contract execution dates, may change over the coming period. Details in relation to the extent and nature of payments, forward commitments and contingent liabilities associated with the projects will be included in the 2000-01 LCA outcome.

## **HEALTH**

The Berwick Community Hospital project, which is expected to be executed in 2000-01, is proposed to entail a service contract between a private provider and the Department of Human Services for delivery of specified hospital services free of charge to public patients. Conditions of the contract remain negotiable, but it is anticipated that it will involve a 15-year contract. It is not proposed that

liability for the cost of the facility will fall to the Government should the contract be terminated.

## **JUSTICE**

The County Court project, expected to be signed in 2000-01, is proposed to cover private sector delivery of a new court building and specified court services for the defined contract term. Judicial and related services, custody management, information technology development and court reporting will remain with the public sector. It is anticipated that the contract will have a term of twenty years. It is not proposed that the liability for the cost of the facility will fall to the Government should the contract be terminated.

Mobile data (MD) services to metropolitan emergency services organisations are being sought from the private sector. It is proposed that the private sector build-own-operate the MD service under a contract expected to be executed in 2000-01 for a term of up to eight years. It is not proposed that the liability for the cost of the facility will fall to the Government should the contract be terminated.

The combined capital cost of the health and justice projects is expected to be of the order of \$200 million.



## APPENDIX E: BUDGET SECTOR HISTORICAL AND FORWARD ESTIMATES TABLES

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Table E1 shows the trends in budget sector aggregate cash flows over the period 1984-85 to 2003-04.

Although the annual cash flows are shown as a continuous table, it should be noted that 1997-98 represents a break in the information provided for certain items relating to cash flows from operating activities and investing activities.

The historical data in the forward estimates system of the Department of Treasury and Finance up to 1997-98 have been classified and presented in a format comparable with budget sector cash flow statements published in the *1998-99 Financial Report for the State of Victoria* and elsewhere in this paper. These two publications provide budget sector outcome information for 1998-99 and budget and forward estimates consistent with Australian Accounting Standard AAS31 *Financial Reporting by Governments*.

For some items in the historical cash-based series, mainly operating payments and investing cash flows, the data were not able to be recast with sufficient accuracy to provide full comparison with these later data. For this reason the cash flow series presented below is at a slightly more aggregated level. Of greater significance, however, is that 1997-98 was the first year in which audited data were collected on a full accrual basis for the whole of the budget sector. These expanded data now include the transactions of government schools and the arts institutions on a gross operating basis and also include the full trading operations of TAFE colleges and hospitals, nursing homes and ambulances. Although this expanded coverage does not materially influence the net operating result for the budget sector, it does significantly increase the inflows and outflows presented in the cash flow statement.

Footnotes detailing significant year-on-year variations in operating receipts and payments and abnormal items (in the main related to major business asset sale transactions, the repatriation of surplus cash to the budget sector from non-budget agencies, and three special payments to reduce the State's unfunded superannuation liability) have been included to assist in analysing the trends in the main aggregates.

Other than noting the introduction (1992-93) and abolition (from 1995-96) of the state deficit levy, no attempt has been made to itemise separately the effects of changes in taxation rates over the years. Where amounts have been quoted in the footnotes to the tables, these are meant to be taken as indicative of the major impact on the aggregates. In some instances less significant transactions may have occurred subsequently.

Table E2 shows the budget sector aggregate operating result since accrual accounts were first introduced in 1996-97.

**Table E1: Budget sector cash flow statement - historical series**

	(\$ million)					
	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
	Actual	Actual	Actual	Actual	Actual	Actual
Taxation <sup>(a) (b)</sup>	2 945	3 252	3 617	4 163	4 731	4 991
Regulatory fees and fines	83	75	96	96	90	105
Public authority income	244	237	251	296	354	399
Grants <sup>(b) (c)</sup>	4 050	4 297	4 664	4 856	5 008	5 237
Sales of goods and services	554	601	633	709	786	886
Other receipts	751	819	825	808	820	823
<b>Total receipts from operating activities</b>	<b>8 626</b>	<b>9 281</b>	<b>10 087</b>	<b>10 928</b>	<b>11 789</b>	<b>12 440</b>
Employee entitlements <sup>(d)</sup>	-3 762	-4 066	-4 365	-4 711	-5 009	-5 371
Superannuation	- 256	- 298	- 351	- 375	- 492	- 561
Interest and finance costs	- 841	- 960	-1 064	-1 148	-1 238	-1 406
Other payments <sup>(e)</sup>	-3 902	-4 275	-4 592	-4 843	-5 299	-5 669
<b>Total payments from operating activities</b>	<b>-8 762</b>	<b>-9 599</b>	<b>-10 372</b>	<b>-11 076</b>	<b>-12 038</b>	<b>-13 007</b>
<b>Net cash flows from operating activities</b>	<b>- 135</b>	<b>- 319</b>	<b>- 285</b>	<b>- 149</b>	<b>- 249</b>	<b>- 567</b>
Sales of property plant and equipment	15	50	100	193	185	163
Purchases of property plant and equipment	- 660	- 853	- 915	- 990	-1 015	-1 051
Net privatisation proceeds and other abnormals <sup>(f)</sup>	..	..	35	35	35	35
Other investing activities	108	86	76	61	100	116
<b>Net cash flows from investing activities</b>	<b>- 537</b>	<b>- 717</b>	<b>- 704</b>	<b>- 701</b>	<b>- 696</b>	<b>- 737</b>
Net proceeds of borrowings	751	961	1 031	962	847	1 231
Other	..	..	..	..	..	..
<b>Net cash flows from financing activities</b>	<b>751</b>	<b>961</b>	<b>1 031</b>	<b>962</b>	<b>847</b>	<b>1 231</b>
<b>Net increase in cash held</b>	<b>79</b>	<b>- 75</b>	<b>43</b>	<b>113</b>	<b>- 98</b>	<b>- 72</b>
Cash at beginning of reporting period	703	782	707	750	862	764
<b>Cash at end of reporting period</b>	<b>782</b>	<b>707</b>	<b>750</b>	<b>862</b>	<b>764</b>	<b>691</b>

Source: Department of Treasury and Finance

**Table E1 (cont.): Budget sector cash flow statement - historical series**

	(\$ million)					
	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
	Actual	Actual	Actual	Actual	Actual	Actual
Taxation <sup>(a) (b)</sup>	5 301	5 596	6 126	7 003	7 340	7 905
Regulatory fees and fines	132	182	176	181	194	193
Public authority income	327	566	581	815	765	624
Grants <sup>(b) (c)</sup>	5 673	5 918	6 134	6 211	6 351	6 655
Sales of goods and services	941	1 007	981	977	1 006	1 113
Other receipts	695	673	586	643	608	739
<b>Total receipts from operating activities</b>	<b>13 069</b>	<b>13 941</b>	<b>14 586</b>	<b>15 830</b>	<b>16 264</b>	<b>17 229</b>
Employee entitlements <sup>(d)</sup>	-5 752	-6 226	-6 734	-6 328	-5 890	-6 164
Superannuation	- 657	- 752	- 819	- 851	-1 116	-1 007
Interest and finance costs	-1 584	-1 769	-2 046	-2 176	-2 000	-1 919
Other payments <sup>(e)</sup>	-5 651	-6 027	-6 471	-6 348	-6 519	-6 624
<b>Total payments from operating activities</b>	<b>-13 644</b>	<b>-14 774</b>	<b>-16 070</b>	<b>-15 703</b>	<b>-15 525</b>	<b>-15 713</b>
<b>Net cash flows from operating activities</b>	<b>- 574</b>	<b>- 833</b>	<b>-1 485</b>	<b>127</b>	<b>739</b>	<b>1 515</b>
Sales of property plant and equipment	106	93	119	180	168	147
Purchases of property plant and equipment	-1 088	-1 026	-1 021	- 938	-1 247	-1 237
Net privatisation proceeds & other abnormals <sup>(f)</sup>	1 292	6	304	498	735	4 794
Other investing activities	180	136	- 275	- 505	400	- 463
<b>Net cash flows from investing activities</b>	<b>489</b>	<b>- 792</b>	<b>- 873</b>	<b>- 766</b>	<b>57</b>	<b>3 241</b>
Net proceeds of borrowings	412	1 503	2 324	853	- 883	-4 704
Other	..	..	..	..	..	..
<b>Net cash flows from financing activities</b>	<b>412</b>	<b>1 503</b>	<b>2 324</b>	<b>853</b>	<b>- 883</b>	<b>-4 704</b>
<b>Net increase in cash held</b>	<b>327</b>	<b>- 122</b>	<b>- 34</b>	<b>214</b>	<b>- 87</b>	<b>52</b>
Cash at beginning of reporting period	691	1 019	897	863	1 077	990
<b>Cash at end of reporting period</b>	<b>1 019</b>	<b>897</b>	<b>863</b>	<b>1 077</b>	<b>990</b>	<b>1 042</b>

Source: Department of Treasury and Finance



**Table E1 (cont.): Budget sector cash flow statement - historical series**

(\$ million)

1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Revised</i>	<i>Budget</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
8 292	8 287	8 667	9 362	7 815	7 309	7 603	7 824
186	230	265	271	273	237	239	237
967	930	932	1 093	1 083	682	569	452
6 923	7 331	7 441	7 707	10 168	11 075	11 381	11 685
1 089	1 235	1 332	1 920	1 928	1 962	1 984	2 000
647	1 616	1 784	952	971	984	1 048	1 030
<b>18 104</b>	<b>19 630</b>	<b>20 421</b>	<b>21 306</b>	<b>22 238</b>	<b>22 250</b>	<b>22 823</b>	<b>23 228</b>
-6 445	-6 530	-6 837	-7 130	-7 553	-7 878	-8 169	-8 458
-1 177	-1 218	-2 058	-1 040	-1 281	-1 348	-1 426	-1 472
-1 400	-1 160	- 729	- 449	- 472	- 467	- 469	- 471
-7 089	-8 872	-9 281	-10 126	-11 150	-11 032	-11 200	-11 081
<b>-16 112</b>	<b>-17 780</b>	<b>-18 906</b>	<b>-18 744</b>	<b>-20 457</b>	<b>-20 724</b>	<b>-21 265</b>	<b>-21 481</b>
<b>1 992</b>	<b>1 850</b>	<b>1 515</b>	<b>2 562</b>	<b>1 780</b>	<b>1 526</b>	<b>1 559</b>	<b>1 746</b>
149	353	203	135	127	89	67	40
-1 244	-1 160	-1 278	-1 117	-1 279	-1 568	-1 681	-1 921
4 514	1 611	3 344	..	..	..	..	..
- 144	- 392	693	-1 008	- 612	- 35	105	181
<b>3 275</b>	<b>411</b>	<b>2 962</b>	<b>-1 990</b>	<b>-1 764</b>	<b>-1 514</b>	<b>-1 508</b>	<b>-1 701</b>
-5 401	-2 366	-4 705	- 553	8	11	- 5	- 5
<b>-5 401</b>	<b>-2 366</b>	<b>-4 705</b>	<b>- 553</b>	<b>8</b>	<b>11</b>	<b>- 5</b>	<b>- 5</b>
<b>- 134</b>	<b>- 105</b>	<b>- 228</b>	<b>19</b>	<b>24</b>	<b>22</b>	<b>45</b>	<b>41</b>
1 042	908	803	575	594	618	639	684
<b>908</b>	<b>803</b>	<b>575</b>	<b>594</b>	<b>618</b>	<b>639</b>	<b>684</b>	<b>726</b>

Source: Department of Treasury and Finance

## Notes to Table E1 – Budget sector cash flow statement

### ***Receipts from operating activities***

- (a) State deficit levy commenced in 1992-93 (\$173.2 million), and ceased in 1994-95 (\$179.7 million).
- (b) Includes estimated GST effects from 2000-01.
- (c) Significant offshore petroleum compensation grants from the Commonwealth in 1990-91 (\$178.4 million) and 1991-92 (\$191.1 million, including \$60 million rent resource tax compensation).

The works (capital) grant from the Commonwealth ceased in 1993-94 (\$68.3 million per annum) and the Commonwealth capital grants for roads were reduced from \$372 million in 1992-93 to \$199 million in 1993-94 (replaced by a current grant for roads).

### ***Payments from operating activities***

- (d) Separation payments up to 1989-90 were mainly for early retirement and enhanced resignation packages paid as grants to the Public Transport Corporation and are included under 'other payments'. Payments in later years were for voluntary redundancy and targeted separation packages across the whole of the budget sector and selected non-budget agencies and are included under 'employee entitlements'.
- (e) Operating subsidy payments to Tricontinental Corporation commenced in 1991-92 subsequent to the sale of the State Bank. Significant payments were in 1991-92 (\$150.4 million), 1992-93 (\$122.9 million), 1993-94 (\$52.5 million), and 1994-95 (\$38.5 million).

Major annual subsidy payments for electricity supplied to the Portland aluminium smelter under the flexible tariff agreement commenced in 1992-93 and ceased in 1997-98.

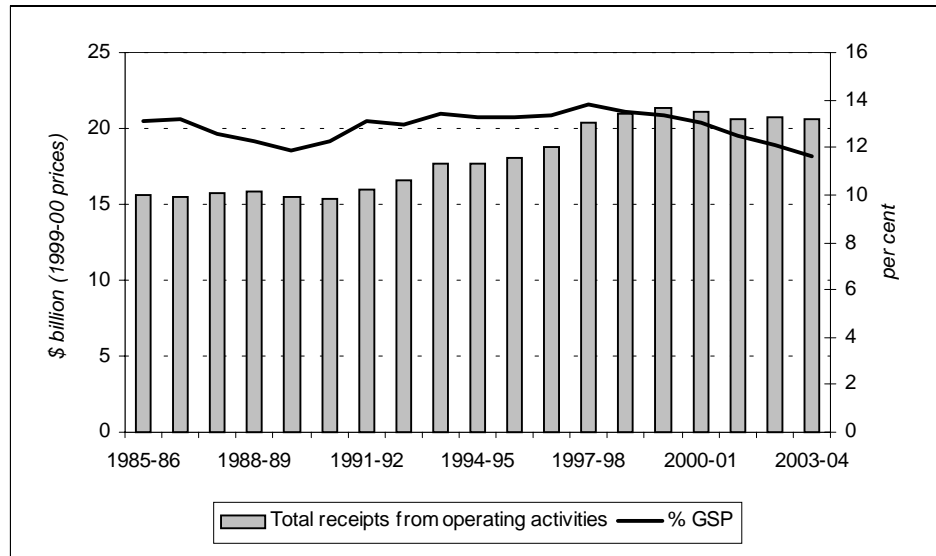
Cost of restructure of the Accelerated Infrastructure Program in 1994-95 (\$199.9 million).

## ***Investing activities***

(f) Privatisation and other abnormal items to the budget sector include:

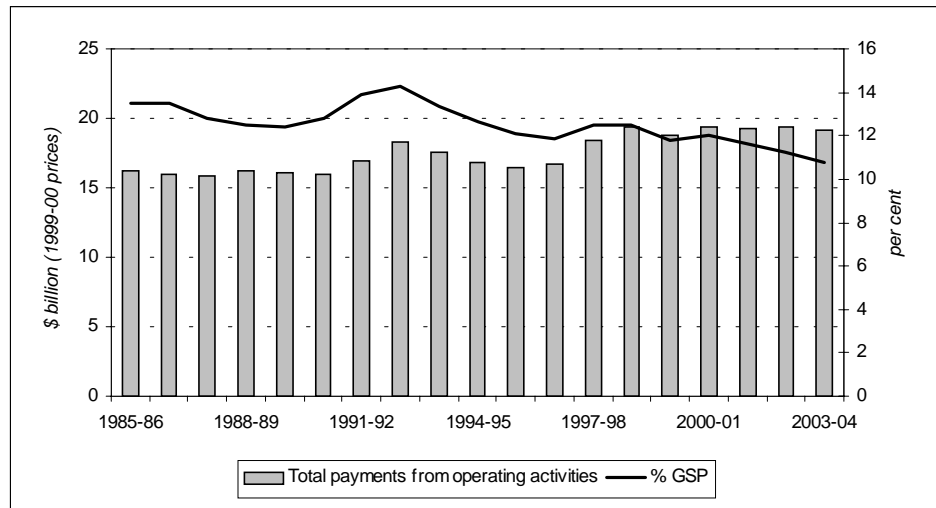
- 1986-87 to 1990-91: payments received from the former Melbourne and Metropolitan Board of Works regarding the transfer of ownership of the Thomson-Cardinia Dam of \$35.0 million per annum;
- 1990-91: net proceeds from the sale of the State Bank (\$1 257.3 million);
- 1992-93: sale of the State Insurance Office (\$140 million);
- 1993-94: recall of capital from the Transport Accident Commission (\$1 200 million), wind-up of the Victorian Equity Trust (\$437.3 million), Casino licence fee (\$200 million), offset by a special payment to the State Superannuation Fund (\$1 399 million);
- 1994-95: sale of Totalisator Agency Board (\$608.9 million);
- 1995-96: sale of electricity sector businesses (\$4 641 million), 1996-97 (\$4 262 million), and 1997-98 (\$2 101 million) offset by a special payment to the State Superannuation Fund (\$490 million);
- 1998-99: sale of the remainder of the electricity businesses (\$361 million), gas businesses (\$4 690 million), Victorian Plantations Corporation (\$550 million), Aluvic (\$401 million), V/line Freight (\$20 million), offset by a special payment to reduce the State's unfunded superannuation liabilities (\$2 574 million).
- Note that the above proceeds from the sale of government businesses are the amounts paid in cash (net) to the Consolidated Fund and are not necessarily the total proceeds of sale.

**Chart E1: Total receipts from operating activities (in real terms)**



Source: Department of Treasury and Finance

**Chart E2: Total payments from operating activities (in real terms)**



Source: Department of Treasury and Finance

**Table E2: Budget sector statement of financial performance – historical series**

	(\$ million)			
	1996-97	1997-98	1998-99	1999-00
	Actual	Actual	Actual	Revised
<b>Revenue</b>				
Taxation	8 201.4	8 333.8	8 676.9	9 390.5
Fines and regulatory fees	241.7	295.8	322.7	271.1
Public authority income	969.2	947.9	996.2	1 136.3
Current grants	7 167.0	7 011.3	7 016.7	7 330.8
Capital grants	314.4	342.0	424.6	404.0
Sale of goods and services	1 225.1	1 222.4	1 357.0	1 922.6
Net surplus/(deficit) from disposal of physical assets	( 41.3)	105.5	6.2	32.0
Fair value of assets received free of charge	69.8	41.7	65.1	0.3
Other revenue	581.0	1 213.9	1 705.7	958.3
<b>Total revenue</b>	<b>18 728.4</b>	<b>19 514.4</b>	<b>20 571.0</b>	<b>21 446.0</b>
<b>Expenses</b>				
Employee entitlements	6 576.2	6 656.7	6 777.1	7 258.6
Superannuation	1 382.4	1 338.5	1 379.0	1 433.3
Depreciation	675.5	734.8	745.9	736.7
Amortisation	15.5	28.3	28.0	28.1
Borrowing costs	1 946.6	1 124.6	733.2	452.9
Current grants	2 332.7	2 498.9	3 140.5	3 232.9
Capital grants	700.0	971.8	604.4	633.1
Supplies and services	4 150.9	4 976.8	5 310.0	6 324.1
Other expenses	113.4	71.6	148.4	6.8
<b>Total expenses</b>	<b>17 893.1</b>	<b>18 402.0</b>	<b>18 866.5</b>	<b>20 106.6</b>
<b>Operating surplus before abnormal items</b>	<b>835.2</b>	<b>1 112.4</b>	<b>1 704.5</b>	<b>1 339.3</b>
Abnormal items	4 330.1	2 152.6	6 136.9	..
<b>Operating surplus after abnormals</b>	<b>5 165.3</b>	<b>3 265.0</b>	<b>7 841.4</b>	<b>1 339.3</b>

*Source: Department of Treasury and Finance*

**Table E2 (cont.): Budget sector statement of financial performance – historical series**

	(\$ million)			
	2000-01	2001-02	2002-03	2003-04
	<i>Budget</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
<b>Revenue from ordinary activities</b>				
Taxation	7 845.3	7 342.3	7 638.9	7 863.3
Fines and regulatory fees	273.3	236.6	238.6	236.7
Public authority income	947.7	656.7	557.9	453.0
Current grants	9 784.8	10 668.9	10 987.2	11 346.8
Capital grants	413.3	438.9	428.8	378.2
Sale of goods and services	1 939.8	1 975.5	1 996.5	2 013.2
Net surplus/(deficit) from disposal of physical assets	29.6	12.8	7.3	0.5
Fair value of assets received free of charge	..	..	..	..
Other revenue	946.2	979.5	1 042.2	1 022.7
<b>Total revenue</b>	<b>22 180.0</b>	<b>22 311.3</b>	<b>22 897.5</b>	<b>23 314.5</b>
<b>Expenses from ordinary activities</b>				
Employee entitlements	7 721.3	8 044.7	8 336.3	8 626.3
Superannuation	1 380.3	1 464.6	1 494.4	1 545.4
Depreciation	773.3	824.6	870.9	918.8
Amortisation	24.5	19.0	18.4	18.4
Borrowing costs	510.4	490.2	477.8	479.1
Current grants	3 642.0	3 546.0	3 626.5	3 612.4
Capital grants	508.3	475.6	453.4	380.1
Supplies and services	7 020.6	7 038.0	7 150.6	7 122.6
Other expenses	7.8	7.8	7.8	7.8
<b>Total expenses</b>	<b>21 588.5</b>	<b>21 910.3</b>	<b>22 436.0</b>	<b>22 711.0</b>
<b>Result from ordinary activities before extraordinary items</b>	<b>591.5</b>	<b>401.0</b>	<b>461.5</b>	<b>603.4</b>
Result from extraordinary Items	..	..	..	..
<b>Net result</b>	<b>591.5</b>	<b>401.0</b>	<b>461.5</b>	<b>603.4</b>

*Source: Department of Treasury and Finance*

**Table E3: Abnormal Items – historical series**

	(\$ million)		
	1996-97	1997-98	1998-99
	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>
Business asset sales	4 330.1	1 906.9	6 152.2
Reversal of Flexible Tariff Management Unit Trust liability		1 275.2	
Gascor disaggregation - assumption of debt		391.7	
Loss on revaluation of water debt		-334.4	
Diminution of VAIP bonds			-122.0
Forgiveness of debt owed by Director of Housing to Department of Treasury and Finance		-1 086.8	
Forgiveness of debt by SEMCL to Department of Treasury and Finance			106.7
<b>Total abnormal items</b>	<b>4 330.1</b>	<b>2 152.6</b>	<b>6 136.9</b>

*Source: Department of Treasury and Finance*





## APPENDIX F: TAX EXPENDITURES

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This appendix represents the first attempt by the Victorian Government to publish information on the extent and value of tax expenditures provided under state legislation. While it is not the purpose of a tax expenditures statement to assess the merits of particular tax concessions or tax expenditures in general, publication of comprehensive information on tax expenditures will:

- contribute to a more complete picture of the State's fiscal position;
- make it possible to scrutinise this form of assistance to the same extent as direct payments; and
- provide increased information on the resources devoted to particular functions and entities within the Victorian economy.

In particular, a comprehensive list of tax expenditures will assist the Government, the Parliament and the public to assess:

- the need for particular tax expenditures;
- their cost in terms of revenue forgone;
- their effectiveness in meeting their intended objectives; and
- the appropriateness of tax expenditures as an alternative to direct payments.

Tax expenditures represent deviations from the usual application of a particular tax. The identification of a tax expenditure therefore requires a judgement concerning the status of a particular tax concession, i.e. whether it represents a tax expenditure or is an integral feature of the tax base. Once a tax expenditure has been identified, the appropriate method for measuring its value must be determined.

In many cases, relevant information ceases to be collected after a tax concession is provided. The absence of data is particularly evident for financial institutions duty, debits tax and stamp duties. This lack of data highlights a critical aspect of tax expenditures. Once a concession is granted, its budgetary implications may rapidly become obscure, particularly where the tax expenditure is delivered via a tax exemption (rather than a rebate).

Tax expenditures can be measured by one of three methods:

- the *revenue forgone* method, which applies the current rate of tax to the current volume of exempt assets, activities, transactions or taxpayers;
- the *revenue gain* method, which estimates the increase in revenue that could be expected if a particular concession were abolished and taxpayers were allowed to modify their economic behaviour in response to new market prices; or
- the *payment equivalent* method, which calculates the direct outlay equivalent that would be required to achieve the same after-tax benefits of a tax concession if it were replaced by a direct expenditure.

The revenue forgone method is the simplest to apply and is the one adopted in this appendix. It is also the method preferred by the Commonwealth and by most other countries. The revenue gain method is more difficult to apply as it requires information on behavioural responses to changes in the tax system. The payment equivalent method is also difficult to apply as sufficient information is rarely available.

The revenue forgone method applies the existing tax regime to each tax concession in isolation. The tax system and the behaviour of market participants and governments are assumed to remain unchanged. This marginal approach to estimating each tax expenditure implies that aggregation of tax expenditures is not strictly accurate. Nevertheless, the importance of providing an indication of the functional distribution and relative magnitudes of tax expenditures overrides this concern.

Table F4 lists tax expenditures that can be costed and which exceeded zero during the period 1995-96 to 1999-2000.

Various tax-free thresholds are provided in the State's tax regimes. The appropriate treatment of these legislated thresholds is open to debate. It may be argued that a threshold is a structural feature of a tax regime and therefore does not warrant special consideration. Conversely, it may be argued that these thresholds are tax expenditures because they represent concessions provided to certain taxpayers. In the interest of greater disclosure, but in recognition that there is some dispute regarding the appropriate treatment of these thresholds, they are listed separately from other tax expenditures. Table F1 lists the possible tax expenditure value of tax-free thresholds that can be estimated.

**Table F1: Tax expenditure value of tax-free thresholds that can be costed**

<i>Description</i>	<i>(\$ million)</i>				
	<i>1995-96</i>	<i>1996-97</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-00</i>
Exemption from land tax for land owners with aggregated site value below \$85,000	152	152	8	10	9
Payroll tax exemption for employers' payroll below \$515,000	1 348	1 418	1 314	1 410	1 404

*Source: Department of Treasury and Finance*

The aggregates appearing in the following tables do not represent the total value of assistance provided via tax expenditures, as many tax expenditures cannot be estimated. In addition, as noted above, the aggregated tax expenditure tables presented below exclude the tax relief offered by the tax-free thresholds (listed in Table F1) due to their uncertain status as tax expenditures.

The apparently large increase in total tax expenditures in 1997-98 results from reliable estimates of tax expenditures becoming available for the first time in the area of land tax. Excluding land tax expenditures in the latter three years, the total value of other tax expenditures has been stable since 1995-96 (with the exception of 1996-97).

There are other notable features:

- Land tax expenditures are estimated to have grown by 27 per cent between 1997-98 and 1999-2000. This reflects the interaction between the appreciation of property values in Victoria and the marginal tax rate scale.
- Between 1992-93 and 1996-97, tax expenditures through payroll tax increased by 32 per cent. The marked decline in 1997-98 can be attributed largely to the rate reduction in that year. Subsequent reductions in the rate of payroll tax have meant that aggregate payroll tax expenditures have remained very stable despite rising employment and wages.
- The marked decline in business franchise fee tax expenditures in 1997-98 is the result of a large reduction in diesel franchise fees provided in the 1997-98 Budget. It does not relate to the subsequent High Court ruling and safety net arrangements.
- The erratic nature of stamp duty tax expenditures can be attributed to the exemption provided for corporate reconstructions.
- Including tax-free thresholds in the category of tax expenditures almost doubles the total value of assistance provided through tax concessions to \$2 764 million in 1998-99.

From Table F2 it can be seen that the ratio of total tax expenditures to total tax receipts in 1998-99 was 15.5 per cent, the same as in 1997-98. However, it is estimated to have increased to 16.1 per cent in 1999-2000.

**Table F2: Aggregate tax expenditures (excluding thresholds) and tax receipts in 1998-99**

(\$ million)			
<i>Description</i>	<i>Tax Expenditures</i>	<i>Tax Receipts</i>	<i>Ratio</i>
Land tax	523	369	1.42
Payroll tax	452	2 197	0.21
Financial institutions duty	9	338	0.03
Debits tax	-	254	0.00
Gambling taxes	54	1 408	0.04
Business franchise fees	71	1 298	0.05
Vehicle taxation	108	897	0.12
Other stamp duties	126	1 710	0.07
Other/miscellaneous	-	206	0.00
<b>Total for items estimated</b>	<b>1 343</b>	<b>8 677</b>	<b>0.15</b>

*Source: Department of Treasury and Finance*

Table F3 lists the allocation of tax expenditures by particular persons or entities based on the legal incidence of state taxes. The large increase in 1997-98 in the value of tax expenditures associated with some categories largely reflects the availability of values for tax expenditures provided through land tax. There are other notable features in Table F3:

- The large decline in tax expenditures provided to businesses in 1997-98 is due mainly to the cessation of the payroll tax exemption for employer contributions to superannuation.
- The dominant education-related tax expenditure is an exemption from payroll tax for wages paid by private, non-profit educational institutions.
- Tax expenditure on employees is attributable to the payroll tax exemption for apprentices and trainees. Unlike other payroll tax exemptions, the tax relief provided by this exemption has continued to increase despite reductions in the rate of payroll tax.
- The tax expenditure provided for gamblers has increased steadily and corresponds to the lower rate of tax levied on the player loss on machines located in clubs. The growth in this tax expenditure parallels the general growth in turnover of electronic gaming machines.
- The tax expenditure on hospitals arises from the payroll tax exemptions for non-profit and public hospitals. Public hospitals typically account for 84 per cent of this tax expenditure. This tax expenditure increased until 1996-97,

but has declined slightly in recent years following reductions in the payroll tax rate.

- The tax expenditures benefiting pensioners primarily include the exemption from motor vehicle registration fees.
- The universally available principal place of residence exemption from land tax, introduced in 1997-98, accounts for approximately 95 per cent of the tax expenditures benefiting property owners. The value of the principal place of residence exemption is estimated to have increased by 54 per cent between 1997-98 and 1999-2000. This reflects the substantial appreciation of residential property values in recent years.

**Table F3: Aggregate tax expenditures (excluding thresholds) classified by persons or entities affected 1995-96 to 1999-2000**

<i>Description</i>	<i>(\$ million)</i>				
	<i>1995-96</i>	<i>1996-97</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-00</i>
	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
Consumers of alcohol	17	19	19	21	23
Business	235	319	242	218	199
Construction industry	1	1	1	1	1
Charitable organisations	88	89	142	144	151
Employees	22	26	30	31	34
Educational institutions	42	43	45	44	44
Gamblers	37	42	46	54	65
Government departments and agencies	56	58	343	373	403
Hospitals	138	139	133	135	132
Non-residents	7	7	0	0	0
Pensioners	100	106	111	115	118
Property owners	2	5	80	100	122
Primary producers	72	72	76	92	94
Religious institutions	3	4	4	4	4
Sporting, recreation and cultural organisations	-	-	8	9	9
Other	2	1	2	2	2
<b>Total for items estimated</b>	<b>822</b>	<b>931</b>	<b>1 282</b>	<b>1 343</b>	<b>1 401</b>

*Source: Department of Treasury and Finance Table F4: Tax expenditures that can be costed and exceed zero*

**Table F4: Tax expenditures that can be costed and exceed zero**

(\$ million)

<i>Description</i>	<i>1995-96</i>	<i>1996-97</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-00</i>
Land tax exemption for property of the Crown in right of the State of Victoria	na	na	126	137	148
Land tax exemption for land held in trust for public or municipal purposes or vested in any municipality	na	na	115	130	143
Stamp duty exemptions for corporate reconstruction	16	76	137	116	100
Payroll tax exemption for public hospitals	116	116	112	113	110
Exemption from motor vehicle (non-commercial) registration fee for eligible beneficiaries	93	96	100	102	105
Principal place of residence exemption from land tax	0	0	76	95	117
Payroll tax exemption for wages paid by a public benevolent institution or charity	88	89	91	91	91
Lower rate of tax applied to the net cash balance of electronic gaming machines located in clubs	37	42	46	54	65
Land tax exemption for land used by a charitable institution exclusively for charitable purposes	na	na	48	50	56
Rebate for diesel fuel purchased for off-road use <sup>(a)</sup>	69	69	46	50	50
Payroll tax exemption for wages paid by a non-profit, non-public, school	41	42	44	43	43
Land tax exemption for Commonwealth land <sup>(b)</sup>	na	na	39	42	46
Exemption from payroll tax for severance or redundancy payments made as compensation for loss of employment	39	46	43	41	39
Land tax exemption for land used for primary production	na	na	27	39	41
Payroll tax exemption for Commonwealth Government departments and agencies, other than transport and communication enterprises	36	38	35	35	37

**Table F4 (cont): Tax expenditures that can be costed and exceed zero**

(\$ million)

<i>Description</i>	<i>1995-96</i>	<i>1996-97</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-00</i>
Payroll tax concession resulting from the non-grossing up of fringe benefits	34	35	32	32	31
Payroll tax exemption for wages paid to an approved apprentice or trainee	22	26	30	31	34
Payroll tax exemption for wages paid by non-profit hospitals	22	23	21	22	22
Payroll tax exemption for municipal councils (except wages associated with a council's trading activities)	18	18	18	18	18
Rebate for purchases of low alcohol beer (up to 3.8% alcohol) and low alcohol wine (up to 6.5% alcohol) <sup>(a)</sup>	14	16	15	16	18
Exemption from payroll tax for accrued sick leave, annual leave and <i>long service leave paid on retirement</i> or termination and accrued before 1 January 1996	14	15	13	12	11
Exemption from payroll tax for provision of fringe benefits excluded from Fringe Benefits Tax Assessment Act 1986 (Commonwealth)	7	8	9	9	9
Exemption from land tax for the City Link corporation in respect of land used for the Link road	0	0	8	8	9
Land tax concessional rate for non-profit organisations carried on exclusively for social, sporting, cultural, literary purposes; or horse, pony or harness racing	na	na	5	6	6
Land tax exemption for land which is vested in a public statutory authority	na	na	5	6	6
FID exemption for the credit of an account kept for the payment of a pension, benefit or allowance	5	6	6	6	7
Cellar door and mail order wine rebate for vignerons <sup>(a)</sup>	3	3	4	5	5
Conveyance duty exemption/concession for pensioners acquiring a home not exceeding \$130,000	< 1	2	3	5	4

**Table F4 (cont.): Tax expenditures that can be costed and exceed zero**

(\$ million)

<i>Description</i>	<i>1995-96</i>	<i>1996-97</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-00</i>
Payroll tax exemption for religious institutions	3	4	4	4	4
Land tax exemption for a non-profit organisation providing or promoting outdoor cultural or sporting recreation (excluding horse, pony or harness racing)	na	na	3	3	3
Assessment of land tax on single holding basis for charity-owned land used only for charity purposes	na	na	3	3	4
Assessment of land tax on a single holding basis for land owned by a municipality and not used for other purposes	na	na	3	3	3
Exemption from registration fee for a vehicle of 4.5 tonnes or less that is used solely for primary production	3	3	3	3	3
Conveyance duty exemption/concession for first home buyers with dependent children and household income below \$40,000, with purchase price below \$165,000	1	4	3	3	3
Mortgage duty exemption for eligible first home buyers and pensioners	1	1	1	2	2
Financial institutions duty exemption for the credit of an account kept by a local government	2	2	2	2	2
Financial institutions duty exemption for the credit of accounts kept for the payment of a veteran's pension	1	1	1	1	1
Land tax exemption for friendly societies	na	na	1	1	1
Registration fee concession for commercial passenger vehicle licensed for carriage of school children	1	1	1	1	1
Registration fee exemption for non-commercial vehicle owned by an incapacitated war service pensioner	1	1	1	1	1
Payroll tax exemption for leave entitlements paid by the Construction Industry Long Service Leave Board	1	1	1	1	1



**Table F4 (cont.): Tax expenditures that can be costed and exceed zero**

(\$ million)

<i>Description</i>	<i>1995-96</i>	<i>1996-97</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-00</i>
Land tax exemption for land used by eligible pensioners as a principal place of residence <sup>(c)</sup>	< 1	< 1	0	0	0
Exemption from franchise fees for liquor purchased under diplomatic privileges and liquor exported for sale, disposal and consumption outside Australia <sup>(d)</sup>	7	7	0	0	0
Registration fee concession for vehicle licensed as a metropolitan, urban or country special service omnibus, or touring omnibus <sup>(e)</sup>	1	0	0	0	0
Payroll tax exemption for employer superannuation contributions paid before 1 July 1997 <sup>(f)</sup>	125	139	0	0	0
<b>Total</b>	<b>822</b>	<b>931</b>	<b>1 282</b>	<b>1 343</b>	<b>1 401</b>

*Source: Department of Treasury and Finance*

*Notes:*

- (a) Previously an exemption under the business franchise fee regime.*
- (b) See Commonwealth Constitution, section 114.*
- (c) Replaced by the general principal place of residence exemption from 1998.*
- (d) Repealed from 6 August 1997 following the High Court ruling against the States' franchise fee regimes.*
- (e) Exemption removed 1 January 1996 with the introduction of national heavy vehicle charges.*
- (f) Employer contributions to superannuation became subject to payroll tax from 1 July 1997.*



## APPENDIX G: REQUIREMENTS OF THE FINANCIAL MANAGEMENT (FINANCIAL RESPONSIBILITY) ACT 2000

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This appendix describes the provisions of the amendments to the *Financial Management Act 1994* and the *Audit Act 1994*, as contained in the *Financial Management (Financial Responsibility) Act 2000*, passed by Parliament in April 2000.

The provisions of the *Financial Management (Financial Responsibility) Act 2000* have been fully complied with in these budget papers. Table G1 details the statements required to be included in the budget under the provisions of the Act, together with the respective chapters of *Budget Paper No. 2* where these statements can be found.

**Table G1: Statements required by the *Financial Management (Financial Responsibility) Act 2000* and their location in Budget Paper No. 2**

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<i>Relevant section of the amended Acts and corresponding requirement</i>	<i>Location</i>
(Section 23 E-G of the <i>Financial Management Act 1994</i> )	
Statement of financial policy objectives and strategies for the year.	Chapter 2, <i>Financial Policy Objectives and Strategies</i>

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**Table G1: Statements required by the *Financial Management (Financial Responsibility) Act 2000* and their location in Budget Paper No. 2 (cont.)**

<i>Relevant section of the amended Acts and corresponding requirement</i>	<i>Location</i>
<i>(Sections 23 H-J of the Financial Management Act 1994)</i>	
Estimated financial statements for the year comprising:	Chapter 10, <i>Estimated Financial Statements and Notes</i>
<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>	
<i>(Section 23 K of the Financial Management Act 1994)</i>	
Statement accompanying the budget which:	
<ul style="list-style-type: none"> <li>- outlines the material economic assumptions used in preparation of the estimated financial statements;</li> <li>- discusses the sensitivity of the estimated financial statements to changes in these assumptions;</li> <li>- provides an overview of estimated tax expenditures in the budget;</li> <li>- provides a statement of the risks that may have a material effect on the estimated financial statements.</li> </ul>	<p>Chapter 2, <i>Financial Policy Objectives and Strategies</i> &amp; Chapter 10, <i>Estimated Financial Statements and Notes</i></p> <p>Chapter 9, <i>Statement of Risks</i></p> <p>Chapter 6, <i>Revenue and Grants</i> &amp; Appendix F, <i>Tax Expenditures</i></p> <p>Chapter 9, <i>Statement of Risks</i></p>
<i>(Section 16B of the Audit Act 1994)</i>	
The Auditor-General review and report on the estimated financial statements to ensure they are consistent with accounting convention and that the methodologies and assumptions used are reasonable.	Chapter 10, <i>Estimated Financial Statements and Notes</i>

## GLOSSARY

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AAS 29	Australian Accounting Standard AAS 29 “Financial Reporting by Government Departments” sets out the report requirements for the preparation and presentation of financial statements by government departments.
AAS 31	Australian Accounting Standard AAS 31 “Financial Reporting by Government” sets out the reporting requirements for financial reporting by Commonwealth, State and Territory Governments.
Accrual accounting	Recognition of revenue, expenses, assets and liabilities when a transaction occurs, irrespective of the timing of the related cash flow. For example, revenue for sale of goods is recorded at the invoice date rather than the date on which payment is received.
Accrual output-based management	The Government, as purchaser, decides which outputs it will purchase from departments at specified levels of quantity, quality and price. As owner, the Government decides the investment required in departments in order to enable them to maintain their capacity to meet output delivery targets.
Accrued expenses	Accrued expenses are expenses that have been incurred or consumed but not recorded because payment has not been made.
Accumulated depreciation	The aggregate, at a given point in time, of the depreciation expenses made in respect of a particular depreciable asset or class of depreciable assets since acquisition.

Additions to the net asset base	An appropriation which provides authority to increase the net capital base of a department's statement of financial position.
Advance to the Treasurer	An appropriation to the Treasurer to fund approved wage awards or determinations handed down after the Budget or to meet urgent expenditure claims that were unforeseen at the time of the budget.
Amortisation	Refers to the process of allocating the cost of an asset over its useful life. The term "amortisation" is often used interchangeably with the term "depreciation". However, depreciation is generally used in relation to non-current assets that have physical substance while amortisation is generally used in relation to intangible non-current assets.
Amount appropriated	The limit of appropriation authority contained in the Appropriation Bill for each purpose, or the amount authorised under standing provisions of Acts (other than the annual Appropriation Act).
Annual appropriation	The appropriations contained in the Appropriation Act and Appropriation (Parliament) Act.
Annual Financial Statement (AFS)	Consists of a statement of financial performance (also operating statement), statement of financial position and statement of cash flows of the State of Victoria for a given financial year. The AFS is prepared by the Minister for Finance and forwarded to the Auditor-General for presentation to Parliament. The Auditor-General is required to audit the statements and may make a report to Parliament explaining the statements in full.
Appropriation	An authority given by the Parliament to make payments or to incur expenses for the purposes stated up to the limit of the amount stated in the particular act.

Assets	<p>Service potential or future economic benefits controlled by an entity (e.g. a department) as a result of past transactions or other past events.</p> <p>Assets may be physical (e.g. plant, equipment or buildings) or non-physical (e.g. financial investments). Assets may also be current (having a store of service potential which is consumed in one year or less) or non-current (having a store of service potential that is consumed over a period of more than one year).</p>
Australian Health Care Agreement	The Australian Health Care Agreement is a bilateral agreement between the Commonwealth and Victorian Governments for the funding of public hospital services. The current five-year agreement commenced in July 1998.
Balance Sheet	See <i>Statement of Financial Position</i> .
Budget sector	Entities in the general government sector which source fifty per cent or more of funding through appropriations and which are directly accountable through ministers to Parliament. Includes all transactions passing through the Public Account, whether recorded in the Consolidated Fund, or the Trust Fund. The activities of budget sector agencies are subject to detailed financial scrutiny and accountability through the annual budget process.
Budget sector debt portfolio	The portfolio of debt borrowed by the Treasury Corporation of Victoria on behalf of the State to fund the Budget.
Capital assets charge	A means of representing the cost of capital used in the provision of outputs. The charge is to improve resource utilisation in the management of assets and encourage improved decisions on surplus or under-performing assets. It is a charge that applies to the non-current physical assets within the general government sector.

Capital injection	Contribution to the net worth of an entity made by its owner. A capital injection takes the form of a net increase in assets or a reduction in external liabilities, usually (but not necessarily) through the provision of cash to the entity. A capital injection gives the entity additional resources which it may use to further its ongoing activities.
Capitalisation	Recognising the value of an item as an asset rather than as an expense.
Cash-based budgeting	A budgeting system based on the funding and reporting of cash. It is primarily focused on inputs and does not account for accruing liabilities.
Cash flows	Cash movements resulting from transactions with external parties.
Cash held	Notes and coins held, and deposits held at call with a bank or financial institution.
Class of non-current assets	A category of non-current assets having a similar nature or function in the operations of an entity. The category, for the purpose of disclosure in the statement of financial performance, is shown as a single item without supplementary dissection.
Commitment	A commitment such as operating lease and capital commitments arising from non-cancellable contractual or statutory obligations and which embody obligations to sacrifice economic benefits.
Commonwealth grants	Includes general revenue from the Commonwealth Government for the purpose of aiding in the financing of the current operations of the recipient; in addition to monies received for specific purposes (when the Commonwealth wishes to have some involvement in the direction of the expenditure).  Grants are also received for onpassing to third parties (e.g. to non-government schools), where the State has no discretion as to their allocation.



Commonwealth Grants Commission	An independent authority established by the Commonwealth Government in 1933 to make recommendations to the Commonwealth concerning the distribution of grants between the States and Territories. In recent years, its principal role has been to make recommendations for the distribution of financial assistance grants among the States.
Community service obligation	The non-commercial programs and activities of government business enterprises designed to meet community and social objectives determined by government.
Consolidated Fund	The Government's primary account, established by the <i>Financial Management Act 1994</i> , that receives all Consolidated Revenue under the <i>Constitution Act 1975</i> and from which payments appropriated by Parliament for government purposes are made. The Consolidated Fund, together with the Trust Fund, forms the Public Account.
Consolidated Fund Revenues	Defined as Crown revenues available to be appropriated by the Parliament and required to be paid into the Consolidated Fund.
Contingent liabilities	Contingent liabilities by definition are not actual liabilities. They represent circumstances under which there is the possibility, due to some future event, that an actual liability could arise. Examples include a guarantee given by the Government to secure borrowings made by a third party or an indemnity against loss or damage to travelling exhibits.
Control	The capacity of an entity to dominate decision making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in pursuing the objectives of the controlling entity.
Control of an asset	The capacity of the entity to benefit from the asset in the pursuit of the entity's objectives and to deny or regulate the access of others to that benefit.

Controlled entity	An entity which is controlled by a parent entity.
Corporatisation	A process that aims to introduce commercial and market incentives to government business enterprises by establishing clear and non-conflicting commercial objectives similar to those that exist for private sector businesses. Key elements of corporatisation include an independent board of directors, explicit performance targets, dividend payments, explicit funding by the government of community service obligations (if any), tax-equivalent and dividend payments, and in many cases, compliance with the provisions of the Corporations Law.
Cost of acquisition	The 'purchase consideration' plus any costs incidental to the acquisition.
Current assets	Cash or other assets of an entity that would in the ordinary course of its operating cycle be consumed or converted into cash within 12 months after the end of the last reporting period of the entity.
Current liabilities	Liabilities of an entity that would in the normal course of an entity's operating cycle be due and payable within 12 months after the end of the reporting period.
Debt	A legal obligation to make payments of principal and interest, and in most cases, according to a predetermined schedule. See also <i>Liabilities</i> .
Debt-servicing payments	Costs associated with borrowings, such as interest payments and sinking fund contributions. Debt-servicing payments also include the interest component of rental payments under finance leases.
Debt-servicing ratio	The ratio of an entity's debt-servicing payments to a particular measure of its revenue. Commonly used debt-servicing ratios for state governments are the ratios of interest payments to total revenue. The debt-servicing ratio is indicative of the entity's capacity to meet its debt-servicing obligations.

Depreciation	The allocation of the cost of an asset over the years of its useful life.
Depreciation expenses	An expense recognised systematically for the purpose of allocating the depreciable amount of a depreciable asset over its useful life.
Domestic final demand	The total expenditure within a given period on goods and services (excluding goods and services used up during the period in the process of production), less increase in stocks, bought by residents of a country. See also <i>State final demand</i> .
Employee entitlements	Benefit entitlements which employees accumulate as a result of the rendering of their services to an employer up to the reporting date. They include wages and salaries, annual leave, sick leave, long service leave, superannuation benefits, and other post-employment benefits.
Entity	An accounting identity designed to define the legal bounds of the operation of a business unit.
Equity	The residual interest in the assets of an entity after deduction of its liabilities.
Expenses	Consumption or losses of future economic benefits in the form of reductions in assets or increases in liabilities resulting in a decrease in net worth during the reporting period.
Expenses from ordinary activities	Expenses incurred in the provision of outputs during the specified period of time. As well as items such as employee payments, these may include stock used in the provision of outputs, the depreciation of assets, the servicing of debt, and grants made. (Also referred to as operating expenses)
Fair value	The amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Fees	Fees from regulatory services are levies not primarily designed to raise general revenue but which are associated with the granting of permit or privilege or for the regulation of activity. This distinguishes them from charges for services rendered to clients from by budget sector agencies.
Finance leases	Leasing arrangements in which substantially all risks and benefits incidental to the ownership of the leased property effectively pass from the lessor (the provider of the finance) to the lessee (the user of the property). Finance leases are essentially borrowings.
Financial asset	Any asset that is cash; a contractual right to receive cash or another financial asset from another entity; a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable; or an equity instrument of another entity.
Financial assistance grants	Grants made by the Commonwealth to State and Territory governments for expenditure by the latter according to their own priorities. Financial assistance grants are sometimes referred to as general revenue or general purpose grants. See also <i>Commonwealth Grants Commission</i> .
Financial institution	Financial institution means: <ul style="list-style-type: none"> <li>(a) an entity whose principal activity is to take deposits or borrow, or both take deposits and borrow, with the objective of lending or investing in financial assets other than equity instruments, but excluding: <ul style="list-style-type: none"> <li>(i) entities which take deposits or borrow principally from other entities in the economic entity;</li> <li>(ii) general insurers, life insurers and superannuation plans; or</li> </ul> </li> <li>(b) an entity subject to banking legislation.</li> </ul>

Financial instrument	Any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial liability	Means any liability that is a contractual obligation: (a) to deliver cash or another financial asset to another entity; or (b) to exchange financial instruments with another entity under conditions that are potentially unfavourable.
Financial reporting	Refers to the process of preparing financial statements based on accounting standards and other authoritative pronouncements to meet the information needs common to users and discharge accountability obligations.
Financial statements	Consists of three financial statements: statement of financial performance, statement of financial position and statement of cash flows.
Fines and regulatory fees	Refers to penalties and charges received and receivable under legislation and regulations. Revenue is recognised at the time when the fine is determined by the courts.
Fixed assets	Durable goods intended to be employed in the production process for longer than a year. Excluded are current assets, non-reproducible tangible assets such as timber plantations and intangible assets such as trademarks.
General government sector	The part of government that provides goods and services for consumption by governments and the general public. As a general rule, fees and charges for goods and services should be set on a full cost recovery basis, unless there are explicit policy reasons or reasons relating to the public good for not doing so. The sector includes all budget sector agencies and a number of non-budget sector agencies such as the Country Fire Authority, Metropolitan Fire and Emergency Services Board and a number of minor regulatory bodies.

General purpose payments	See <i>Financial assistance grants</i> .
Goods and services tax (GST) grant	GST revenue collected by the Commonwealth will be distributed to the States and Territories on the basis of horizontal fiscal equalisation principles. From 1 July 2000, GST grants will replace financial assistance grants.
Goods and services tax transitional payments	As part of the Commonwealth's agreement with the States and Territories that their budgetary position will be no worse under national tax reform, the Commonwealth will provide GST transitional payments to the States and Territories. This will be paid in the form of grants and an interest free loan. The loan is recognised as Commonwealth grants received in the operating statement.
Government business enterprise	A publicly owned entity providing goods or services on commercial terms with the objective of recovering its costs of production and, in most cases, of providing some financial return to its owner.
Government Finance Statistics	The economic framework implemented by the Australian Bureau of Statistics (ABS) for the presentation of public sector financial statements. As from 1999-2000, these are on an accruals basis, similar in presentation to the accounting statements although the underlying concepts are different.
Grants and transfer payments	Refers to grants or transfer payments (i.e. transfers of cash that are unrequited) for the purpose of aiding in the financing of the current operations of the recipient; in addition to monies paid for the purpose of meeting part of the cost of capital expenditure of the recipient.
Grants for on-passing	Grants made by the Commonwealth Government to State governments to be passed on to third parties, such as non-government schools, tertiary institutions and local governments.

Gross domestic product	The total market value of goods and services produced in a country after deducting the cost of goods and services used up in the production process, but before deducting the consumption of fixed capital. See also <i>Gross state product</i> .
Gross state product	Gross domestic product for a state or territory.
Health service agreements	Contracts developed on a purchaser/provider basis introduced into the Victorian public sector health system in 1985. They set out the operating and planning/development arrangements between a provider of health services (such as a hospital) and the Department of Human Services as purchaser or funder of the service. They aim to achieve an output and performance approach to the management and delivery of health services.
Heritage assets and collections	Those non-current physical assets that the State intends to preserve because of their unique historical, cultural or environmental attributes. These assets include items such as the Royal Botanical Gardens, Government House, Parliament House, historic houses, monuments, certain museum exhibits, art collections, archival collections and other items of cultural significance.
Historical cost	The amount representing the original cost of the asset.

Horizontal fiscal equalisation	The principle that each State and Territory should be able to provide an average or 'standard' level of public services without being required to impose above-average taxes and charges. This principle is adopted in the distribution of financial assistance grants in accordance with the recommendations of the Commonwealth Grants Commission. The States and Territories that, according to the Commonwealth Grants Commission, must either incur higher per capita expenditures in order to provide public services at the average level of all States and Territories, or are less able to raise revenues by levying taxes and charges at the average level of all States and Territories, receive higher per capita financial assistance grants from the Commonwealth.
Infrastructure systems (assets)	Infrastructure that provides essential services used in the production of final services or products. They are generally a complex interconnected network of individual assets. They always operate as a system and create an entity of high value and long useful life. They exist to enhance the productive capacity of the economy. They include roads (road pavement, bridges, earthworks), transport, sewerage and water storage and supply systems.
Intangibles	Are assets that embody future economic benefits but do not have physical substance (e.g patents, trademarks and goodwill).
Inventories	An entity's stock of goods, other property and services: <ul style="list-style-type: none"> <li>(a) held for sale or consumption in the ordinary course of service delivery;</li> <li>(b) in the process of production for such sale or consumption; or</li> <li>(c) to be used up in the production of goods, other property or services for sale or consumption including consumable stores and supplies, but not including depreciable assets.</li> </ul>



Investing activities	Relates to the acquisition and/or disposal of non-current assets, including property, plant and equipment and other productive assets, and investments, such as securities, not falling within the definition of cash.
Investments	Represents assets held by an entity for the accumulation of wealth by way of revenue (e.g. interest, dividends) for capital appreciation or for other benefits to the investing entity. Examples include shares, foreign and domestic (fixed and/or floating interest) deposits, loans, placements, partnership interests, managed portfolios, debt securities.
Level of service provision ratio	The ratio of actual expenditure to standardised expenditure as assessed by the Commonwealth Grants Commission. Level of service provision ratios may be calculated for individual categories of services expenditure, or for total expenditure. The level of service provision ratio measures the extent to which a State or Territory government is, in the Commonwealth Grants Commission's assessment, spending more (or less) than is required to provide that category of service (or all services) at the Australian average level.
Liabilities	<p>Liabilities comprise future payments that an entity is currently obliged to make to other entities as a result of past transactions or other past events. Liabilities are thus a broader concept than debt. They also include obligations which do not have a predetermined repayment schedule, and those which do not require payments of interest — such as unfunded liabilities of superannuation funds, liabilities in respect of other employee entitlements (long-service and annual leave), trade creditors, and provisions for deferred maintenance.</p> <p>Alternatively, they may comprise the future sacrifices of service potential or future economic benefits that the entity is currently obliged to make to other entities as a result of past transactions or other past events.</p>

Loan Council	A body comprising the Commonwealth Treasurer (as Chair) and representatives of each of the State and Territory governments. It was established under the 1927 Financial Agreement to coordinate the borrowings of the Commonwealth and the States.
Materiality	The concept of establishing the importance of information in accordance with Australian Accounting Standard AAS 5. In general an item of information is material if its omission, non-disclosure or mis-statement from the financial statements would adversely affect a users decisions about the allocation of scarce resources.
Net assets	The residual interest in the assets of an entity after deduction of its liabilities (the net worth of an entity).
Net debt	Gross debt minus liquid financial assets (cash, bank deposits, marketable securities and sinking fund investments).
Net fair value	<p>Net fair value is a term used in relation to an asset or a liability:</p> <p>(a) in relation to an asset, it refers to the fair value after deducting costs expected to be incurred; or</p> <p>(b) in relation to a liability, the term refers to the fair value plus costs expected to be incurred were the liability to be settled.</p>

Net financial worth	<p>Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets minus liabilities.</p> <p>Net financial worth is a broader measure than net debt, in that it incorporates provisions made (such as superannuation, but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities.</p> <p>Since non-financial assets are excluded from net financial worth, this is a narrower measure than net worth. However, it avoids the concerns inherent with the net worth measure relating to the valuation of non-financial assets and their potential availability to offset liabilities.</p>
Net worth	<p>Net worth provides a relatively comprehensive picture of a government's overall financial position. It is calculated as total assets less total liabilities less shares and other contributed capital. It incorporates a government's non-financial assets such as land, other fixed assets etc, which may be sold and used to repay debt, as well as its financial assets and liabilities including debtors, creditors and superannuation liabilities.</p> <p>Net worth also shows asset acquisitions over time, giving an indication of the extent to which borrowings are used to finance asset purchases, rather than only current expenditure.</p>
Non-budget sector	Public sector entities, mainly business enterprises, that are not classified as "budget sector" (e.g. the water and ports authorities).
Non-current assets	All assets other than current assets. They are usually held for use rather than exchange, and provide an economic benefit for periods greater than one year.

Non-current liabilities	All liabilities other than current liabilities. They are usually obligations that do not require payment within one year of the reporting date.
Non-public account	Non-public account transactions are claimed as those of budget sector entities that do not transact their business or financial transactions through the State bank account (the Public Account).
Operating cycle	The average time between the acquisition of materials entered into a process and their realisation in cash or an instrument that is readily convertible into cash.
Operating leases	Leasing arrangements in which substantially all risks and benefits incidental to the ownership of the leased property effectively remain with the lessor (the owner of the property) rather than passing to the lessee (which would make it a finance lease).
Operating surplus/deficit	See <i>Result from ordinary activities</i> .
Ordinary activities	Activities that are undertaken by an entity as part of its business or to meet its objectives. This also relates to activities that an entity engages in the furtherance of, incidental to, or arising from activities undertaken to meet its objectives.
Outcomes	The government's intended impacts on the community as a result of the funding of services. Outcomes establish both the rationale and foundation for the budget. As purchasers of outputs, departments may contribute to government outcomes.
Output	A product or service supplied to external consumers, e.g. strategic policy advice, education services, and outpatient services.  A product or service produced for departments or their agencies is not an output; a product or service delivered to ministers as clients is an output.

Output-based management	The process of planning for and providing products or services on behalf of government, in return for the allocation of budgeted resources. Under output management, the Government sets its strategic priorities or intended outcomes, and then commissions departments to deliver outputs that the department determines will best achieve these outcomes.
Output costing	The process of determining on a full accrual basis all direct and indirect costs of producing an output in a period.
Output group	The grouping of outputs which contribute to common outcomes for budget submission and reporting purposes. For example, the output group Acute Health Services comprises five outputs, three of which are, admitted, outpatient, and emergency services.
Output group statement	A report providing information on the total cost of an output group and sources of funds.
Output statement	A report that provides information on the links between government outcomes and departmental outputs, and information on performance measures and targets describing agreed service levels.
Own-source revenue	Revenues other than Commonwealth grants, i.e. taxes, fees, and fines, and property income and other revenue.
Payables	This refers to amounts owed to external parties as a result of normal trading practices, through the delivery of goods or the provision of services i.e. all amounts (both current and non-current) which are invoiced and which are unpaid at balance date.  Payables also include accrued expenses (including interest), advances repayable and lease liabilities.
Payments	Cash costs associated with the provision of services.

Payments on behalf of the State	An appropriation which provides authority to a department to on-pass payments of the State over which the department has no direct control with respect to the quantity of outputs delivered.
Performance measures	Measures of quantity, quality and timeliness used to describe how many, how well, when or how frequently the outputs that the Government intends to fund will be delivered.
Performance targets	Intended output delivery levels expressed in terms of each of the performance measures. Targets are used as a benchmark to assess performance in delivering budgeted outputs.
Prepayments	Refers to payments in advance of receipt of goods or services (i.e. where payment is made in the current reporting period but receipt of goods or services is not until the next reporting period), or expenditure made in one accounting period covering a term extending into the next accounting period. Examples would include amounts paid for items such as rent, motor vehicle registrations and insurance paid in advance.
Property income	Property income includes income transferred from public trading enterprises and public financial enterprises in the form of dividends and tax-equivalent payments; interest on investments and advances outstanding; land rent and royalties received for use of mining, forestry and petroleum resources; and dividends from private sector enterprises.

Provisions	<p>The meaning of the term ‘provisions’ alters slightly with its context.</p> <p>(a) In relation to a statement of financial performance, it means an amount charged as an expense to recognise:</p> <ul style="list-style-type: none"> <li>(i) a liability that accrued; or</li> <li>(ii) a reduction in the carrying amount of an asset by way of depreciation or amortisation of the asset or diminution in value of the asset.</li> </ul> <p>(b) In relation to a statement of financial position, it refers to amounts in paragraph (a) above that have accumulated from previous financial years and the current financial year in relation to assets or liabilities included in that statement.</p>
Public authority dividend	<p>A payment made by government business enterprises to the Victorian Government under the provisions of the <i>State Owned Enterprises Act 1992</i> or other industry specific legislation. Conceptually, public authority dividends are intended to represent a return to the Government on its investment in those enterprises. The Treasurer determines the amount and timing of the payments after consultation with the relevant Minister and board of each enterprise.</p>
Public financial corporations/institutions	<p>Government owned or controlled bodies primarily engaged in financial transactions in the market involving both the incurring of liabilities and the acquisition of financial assets. Included are central borrowing authorities, finance corporations, insurance offices and work-cover schemes.</p>
Public non-financial corporations	<p>Government-owned entities that provide goods and services for sale in the market with the aim of recovering all or at least a significant proportion of their operating costs. Public non-financial corporations fall within the non-budget sector in the Victorian Treasury's classification of public sector entities.</p>

Public sector	Comprises general government sector entities, public non-financial corporations and public financial corporations that have government ownership or control.
Purchase consideration	The fair value of assets given or liabilities undertaken in exchange for assets (net where applicable).
Purchaser/provider split	A structural separation of the funding and service delivery roles. Under this approach, funds are provided to selected agencies for the delivery of particular services on the basis of a contract, sometimes as the result of a tender process. The funding body is the purchaser of services for the community and the agencies contracted to provide the services to the community are the providers.
Real terms	A monetary value expressed in constant prices, or adjusted to allow for inflation.
Receipts	Cash amounts received by the State for any purpose.
Receivables	Includes amounts owed to an entity, as a result of goods sold or services rendered, as well as taxes, fines and regulatory fees receivable, accrued investment income and loans advanced.
Recognition	The process of reporting on, or recording, or incorporating an asset, liability, revenue or expense into the body of the financial statement of the entity.
Recognition of assets	An asset should be recognised in the statement of financial position when and only when: <ul style="list-style-type: none"> <li>(a) it is probable that the future economic benefits embodied in the asset will eventuate; and</li> <li>(b) the asset possesses a cost or other value that can be measured reliably.</li> </ul>



Recognition of liabilities	<p>A liability should be recognised in the statement of financial position when and only when:</p> <p>(a) it is probable that the future sacrifice of economic benefits will be required; and</p> <p>(b) the amount of the liability can be measured reliably.</p>
Recoverable amount	In relation to an asset, the net amount that is expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.
Refunds	Negative revenues by way of cash or credit against future revenues.
Reporting entity	<p>An entity (including an economic entity) which has users dependent on general purpose financial reports for information which will help them make decisions about the allocation of scarce resources.</p> <p>Note: Government departments are reporting entities.</p>
Reserves	Represent amounts allocated from an entity's net results (e.g. general reserve) which may/may not be for specific purpose or gains from revaluation of assets (e.g. asset revaluation reserve).
Result from ordinary activities	The amount by which revenue from ordinary activities exceeds/(falls short of) expenses from ordinary activities for the reporting period. (Also referred to as operating surplus/deficit)
Retained surplus/accumulated deficiency	Funds (not necessarily cash) accumulated as a result of generating surpluses on operations.
Revaluation	The Act of recognising a reassessment of values of non-current assets at a particular date.
Revenue	Inflows or other enhancements, or savings in outflows, of service potential or future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners, that result in an increase in equity during the reporting period.

Revenue credited to appropriations	<p>Appropriated limit which recognises either revenue or capital from:</p> <ul style="list-style-type: none"> <li>(a) agreed user charges for the provision of outputs by a department directly to third parties in return for payment;</li> <li>(b) specific purpose payments from the Commonwealth;</li> <li>(c) payments from municipal councils; and</li> <li>(d) proceeds from sale of assets.</li> </ul> <p>Amounts are deemed to be appropriated upon receipt to the Consolidated Fund pursuant to Section 29 of the <i>Financial Management Act 1994</i>. Receipts credited appropriations are also referred to as annotated appropriations.</p>
Revenue from ordinary activities	<p>Revenue obtained from normal operating activities. This may include income from user charges, the sale of products and services, taxation, dividends and income from investments, and grants from other levels of government. (Also referred to as operating revenue)</p>
Revenue-raising effort ratio	<p>The ratio of actual revenue to standardised revenue as measured by the Commonwealth Grants Commission. Revenue-raising effort ratios may be calculated for individual revenue sources or for total own-source revenues. The revenue-raising effort ratio measures the extent to which a state or territory government is raising more (or less) revenue from a particular source (or in total) than it would by levying the tax (or taxes) at the Australian average rate on a standard revenue base.</p>

Revenue replacement payment	A Commonwealth 'safety net' arrangement to protect State finances after the 1997 High Court decision which cast doubt upon the constitutional validity of State business franchise fees on tobacco, petroleum and alcohol. The Commonwealth collects revenue replacements on behalf of the States. The payment of revenue replacement payments will cease on 1 July 2000 in accordance with the revised <i>Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations</i> .
Sale of goods and services	This represents revenue earned from the sale of goods or provision of services to external parties in the current period, whether received or receivable (e.g. supply of water, gas distribution, and public transport services).
Special appropriation	A standing authority, that remains in force until amended or repealed by Parliament, for specific once-off or ongoing payments which need to be made independently of the Government's annual budget priorities. Compare with <i>Annual appropriation</i> .
Specific purpose payments	Grants made by the Commonwealth to State and Territory governments subject to terms and conditions laid down by the Commonwealth, generally with a view to ensuring that Commonwealth policy objectives (or national objectives agreed between the Commonwealth and the States) are met. In practice, the terms and conditions may simply require that the grants be spent in accordance with broad agreements covering principles and program delivery mechanisms. However, they may be more detailed, and include requirements for Commonwealth approval of individual projects or the commitment of matching funds by the State.

Standardised expenditure	The per capita expenditure which a State or Territory government would incur on a particular category of service provision (or across all categories) if it provided the Australian average level of service and operated at the Australian average level of efficiency. This measure is commonly used by the Commonwealth Grants Commission.
Standardised revenue	The per capita revenue which a state government would collect from its own taxes and charges if it made the Australian average effort to raise revenue, i.e. if it imposed taxes and charges on a standard tax base at the average rate of all States and Territories. This measure is commonly used by the Commonwealth Grants Commission.
State final demand	Domestic final demand for a State or Territory.
State government (non-financial public sector)	Includes general government and public non-financial corporations but excludes public financial corporations. State government (non-financial public sector) is a definition used in the Government Finance Statistics.
Statement of cash flows	A statement that provides information on the cash inflows and outflows as they relate to operating, investing and financing activities of an entity. The net cash flow is added to the opening balance to report the cash on hand at the end of the reporting period.
Statement of financial position	A statement that provides information on the assets and liabilities of an entity. The statement also reflects the net worth of an entity for the reporting period. (Also known as a balance sheet).
Statement of financial performance	A statement providing information for the reporting period on the revenue and expenses and the surplus or deficit of an entity consistent with Australian Accounting Standards AAS 1. (Also referred to as operating statement)

State-owned enterprises	Widely used as an alternative term for Government Business Enterprises. Strictly speaking, however, a government business enterprise in Victoria is a State owned enterprise only if it has been declared by the Treasurer as such under the provisions of the <i>State Owned Enterprises Act 1992</i> .
State sector	Includes general government, public non-financial corporations and public financial corporations.
State-source revenues	See <i>Own-source revenue</i> .
Subsidiary	Means an entity that is controlled by a parent entity.
Subsidies	Payments made by governments to public non-financial or financial corporations or private sector organisations to enable them to provide goods or services at reduced cost.
Supplies and consumables	<p>This encompasses the day-to-day running costs incurred in the normal operations of government entities, but specifically excluding costs specified under separate headings included in the Statement of Financial Performance, viz. Employee entitlements, superannuation, depreciation, amortisation, interest and other finance costs, grants and transfer payments and ‘other expenses’ (as defined above).</p> <p>This expense category includes any cost of sales expense. Cost of sales includes the costs of purchase (purchase price, duties, taxes, inwards transportation costs, etc.), costs of conversion (direct labour and other production costs including maintenance of assets) and other costs incurred in the normal course of operations in bringing inventory to the point of sale.</p>
Taxation	Includes a number of compulsory levies imposed by the State that are mainly designed to raise revenue, and are prescribed under State tax legislation.

Tax-equivalent payments	Payments which a government business enterprise is required to make in order to ensure that it has the same taxation obligations as private sector firms. For example, although government business enterprises are ordinarily exempt from Commonwealth income taxes, they are required by their owner governments to make payments calculated on the same basis as income tax.
Tax expenditures	Tax expenditures are those provisions of the revenue law that provide preferential treatment to certain classes of taxpayer or to particular types of activity. These provisions may take the form of tax exemptions, deductions, deferrals, rebates or special rate relief. By reducing or delaying the receipt of taxation revenue, tax expenditures represent a call on the budget similar to direct expenditure.
Unfunded liabilities	Liabilities which are accruing for which no explicit provision has been made. In the Victorian public sector, the most significant examples are those of the defined benefits public sector superannuation schemes.
Unfunded superannuation liabilities	The present value of future benefits, determined by actuarial assessment, that a superannuation scheme's members have accrued during past service which are not covered by fund assets. Unfunded superannuation liabilities arise when superannuation costs are not contributed as the members' benefits accrue.
Vesting	The transfer of certain rights in relation to an asset or assets to a department. In most cases the transfer of the rights does not amount to a transfer of legal ownership. It does generally amount to a transfer of economic benefits embodied in the asset or assets.
Write off	In relation to amounts receivable, recognition that an amount so receivable is uncollectable.

Written-down replacement cost      The cost at current market prices of replacing the service potential of the asset minus the accumulated amount of depreciation for the asset.

## STYLE CONVENTIONS

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

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

LHS	left-hand-side
RHS	right-hand-side
s.a.	seasonally adjusted
n.a.	not available or not applicable
Cat. No.	catalogue number
1 billion	1 000 million
1 basis point	0.01 per cent