

# **Budget Statement**

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**2001-02**



Presented by

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

Treasurer of the State of Victoria

for the information of Honourable Members

**Budget Paper No.2**



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## CHAPTER 1: OVERVIEW

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- The 2001-02 Budget delivers today and builds for tomorrow through a program of financially responsible and socially progressive initiatives to deliver improved services and promote growth across the whole State.
- Demonstrating the Government's commitment to responsible financial management, the budget delivers a substantial budget operating surplus of \$509 million in 2001-02, and an average surplus of around \$500 million over the following three years.
- Net financial liabilities, excluding the Growing Victoria infrastructure reserve, are projected to fall from \$16.3 billion or 10.8 per cent of GSP at June 1999 to \$15.3 billion or 9.0 per cent of GSP at June 2001, and further to \$15.2 billion or 7.2 per cent of GSP by June 2005.
- Additional funding for new output initiatives of \$226 million is provided in 2001-02 rising to \$301 million in 2004-05.
- New infrastructure projects with a total estimated investment of \$2.13 billion have been approved since the 2000-01 Budget, resulting in net purchases of fixed assets rising from \$1 341 million in 2000-01 to \$1 950 million in 2004-05, an increase of 45 per cent.
- A total of \$774 million has been allocated to business tax cuts over the next four financial years, rising from \$100 million in 2001-02 to \$351 million in 2004-05.
- The 2001-02 Budget has been reviewed by the Auditor-General who has stated 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 an operating surplus of at least \$100 million in each year.

## **DELIVERING TODAY, BUILDING FOR TOMORROW**

The 2001-02 Budget delivers today and builds for tomorrow through a program of financially responsible and socially progressive initiatives to deliver improved services and promote growth across the whole State.

Over the past year, employment growth in Victoria has been the strongest in the nation, with 68 500 jobs created in the year to March 2001. This was well over half of all new jobs created in Australia during this period. Of the new jobs in Victoria, more than one in three were created in rural and regional Victoria.

At the same time quality and access to much needed services have been improved through significant investments in health, education and community safety. Victorian government decision making is also being conducted with greater transparency and accountability.

The 2001-02 Budget builds on these achievements and, within the context of slowing national and international economies, it specifically targets jobs growth by investing heavily in new infrastructure, reducing business taxes and encouraging creative and innovative economic activity. The budget also focuses on strengthening the Victorian community through a series of multi-year strategies and specific initiatives aimed at enhancing service delivery in the key areas of health, education and community safety.

In formulating the current budget, the Government has recognised that despite Victoria's relatively strong economic performance, it cannot be quarantined from the impact of uncertain national and international economic conditions.

The 2001-02 Budget delivers a strong and secure financial base that provides a buffer against reasonable economic risks. Maintaining a strong financial position is critical to the delivery of Victoria's long-term economic, social and environmental wellbeing.

## **RESPONSIBLE FINANCIAL MANAGEMENT**

The 2001-02 Budget again delivers on the Government's commitment to provide responsible financial management. Only by providing a strong financial base is it possible to create jobs growth across the whole of the State and deliver improved services. Demonstrating the Government's commitment to responsible financial management, the 2001-02 Budget delivers:

- a substantial budget operating surplus of \$509 million in 2001-02, and an average surplus of around \$500 million over the following three years;
- a reduction in general government net financial liabilities, excluding the Growing Victoria infrastructure reserve, from \$16.3 billion or 10.8 per cent

of GSP at June 1999 to \$15.3 billion or 9.0 per cent of GSP at June 2001, and further to \$15.2 billion or 7.2 per cent of GSP by June 2005; and

- over the same period net debt, excluding Growing Victoria, is expected to fall by half from \$4.9 billion in June 1999 to \$2.5 billion in June 2005.

Uncertainties associated with both national and international economic growth, the impact of the GST, and property and other asset markets make it prudent to plan for an operating surplus in excess of the Government's annual target level of a minimum \$100 million.

The Government's prudent financial management was acknowledged recently with the international ratings agency, Standard & Poors, affirming Victoria's long-term local currency rating of AAA.

## **GROWING THE WHOLE STATE**

### **Infrastructure**

Investment in infrastructure is fundamental to Victoria's economic, social and environmental wellbeing. It provides jobs directly, ensures better service delivery and improves the efficiency of the Victorian economy.

New infrastructure projects with a total estimated investment of \$2.13 billion have been approved since the 2000-01 Budget. These new infrastructure projects, together with previously announced projects, will contribute to net purchases of fixed assets rising from \$1 341 million in 2000-01 to \$1 950 million in 2004-05, an increase of 45 per cent.

This large investment in infrastructure is not debt-funded, but is entirely financed from budget surpluses and a planned allocation of the Growing Victoria infrastructure reserve. The Growing Victoria infrastructure reserve was established to target additional investment primarily under the Government's three key strategies of Linking Victoria, Skilling Victoria and Connecting Victoria. Asset initiatives funded under these strategies include:

- \$159 million for rail transport, including the re-opening of country rail lines, the Wodonga rail freight and urban redevelopment and rail standardisation;
- \$113 million for road transport infrastructure, including additional funding for the Eastern Freeway extension, regional arterial road links and Scoresby transport corridor planning;

- \$45 million to provide TAFE institutes across Victoria with high technology learning tools and facilities, increasing the capacity of TAFE institutes to deliver training in knowledge intensive areas such as science, technology and natural resource management;
- a \$19 million program to upgrade existing TAFE obsolete and deficient information and communications technology (ICT) infrastructure and cabling to achieve sufficient bandwidth and fault tolerance;
- \$38 million (of a \$90 million TEI program) to increase the capacity of schools to deliver leading edge education through the modernisation of science laboratories, libraries and other learning facilities in schools across Victoria; and
- \$30 million for an ICT strategy for health care to support more informed management and clinical decision making in public hospitals as well as enhancing the access of rural and regional communities to health technologies and services.

The Growing Victoria infrastructure reserve has provided a substantial boost to the Government's total infrastructure program. In this budget, the Government has allocated an additional \$175 million to its original \$1 billion Growing Victoria infrastructure reserve.

### **Competitive business taxes**

The Government's tax reform package, *Better Business Taxes: Lower, Fewer, Simpler*, announced on 26 April 2001 is based on broad community consultation and adherence to the belief that Victorian businesses throughout the State, whether large or small, should receive a fair deal from tax. The package reduces the burden of payroll tax, cuts the number of state business taxes and reduces paperwork and red tape.

True to the Government's commitment made last year, previously announced business tax cuts of \$100 million per year from 2001-02, rising to \$200 million per year from 2003-04, were incorporated into the tax package. In addition, further tax cuts of \$12 million in 2002-03 and 2003-04, and \$151 million in 2004-05 have been provided. A total of \$774 million has been allocated to tax cuts over the next four financial years, rising from \$100 million in 2001-02 to \$351 million in 2004-05.

Victoria will be the first State to remove stamp duties on mortgages, non-residential leases and unquoted marketable securities, and will have the second lowest headline payroll tax rate of all States.



## **Innovation**

Building a creative and innovative economy is essential to Victoria's long-term growth. The 2001-02 Budget sets out the next steps in the Government's ongoing priority to enhance Victoria's position as the innovation centre of the Australian economy. In particular, this budget recognises that boosting learning, skills development and training is vital to economic progress and social prosperity and is crucial to meeting industry's workforce needs, now and into the future. Our innovative economy relies on people. The 2001-02 Budget therefore commits the Government to encouraging innovation in Victoria through initiatives that promote learning and skills development. These initiatives include:

- enhancing Victoria's learning environment through a \$287 million investment in education and training infrastructure, with a particular focus on science;
- encouraging Victoria's research and knowledge creation through a \$72 million investment in research and education institutions, particularly in the areas of agriculture, viticulture, gene technology and space science;
- fostering talented individuals and research activity through the establishment of the \$10 million Victorian Endowment for Science, Knowledge and Innovation (VESKI) and funding of \$32 million over four years to promote film and television production activity; and
- government leadership in ICT uptake and adoption through an e-government strategy and modernisation of government service delivery.

## **Environmental sustainability**

The Government has an overarching role as custodian and manager of the State's natural resources and environment to ensure that economic growth and social development are environmentally sustainable.

Victoria has long been a leader in salinity management. The Government will contribute \$157 million over seven years to prevent, stabilise and reverse increasing salinity of waterways. This contribution is subject to the Commonwealth matching Victorian funding under the National Action Plan for Salinity and Water Quality.

With the establishment of a representative set of marine parks and sanctuaries, Victoria will have a large area of its marine fauna and flora environment protected. Funding of \$39 million over four years has been provided to implement the marine parks package, including industry adjustment measures.

The Victorian Government has also announced a \$375 million joint funding agreement with New South Wales and the Commonwealth to achieve total water flows in the Snowy River equivalent to 21 per cent of average annual natural flows within ten years, as part of a long-term objective of restoring 28 per cent of annual natural flows. Victoria has committed \$150 million under the agreement, of which \$15 million has been allocated in 2001-02 to the joint government entity and for various water savings projects. In addition, the Government has committed \$5 million in 2001-02 for environmental monitoring and riverine works.

## **DELIVERING IMPROVED SERVICES**

### **Community building**

The Victorian Government is committed to promoting sustainable economic and social development across the whole of Victoria, especially in those areas facing difficult issues such as high unemployment, lack of educational opportunity and social isolation.

Community building involves a whole-of-government approach to achieving better social, economic and environmental outcomes, particularly in areas characterised by inequality and disadvantage. The Community Support Fund was reviewed during 2000 to provide a stronger community building and strategic focus.

The Government will allocate up to \$7 million over three years in seed funding from the Community Support Fund to develop up to ten pilot projects in regional and rural areas of Victoria and metropolitan Melbourne which are experiencing particular social and economic disadvantage.

### **Health and community services**

The 2001-02 Budget builds on the significant improvements already made to Victoria's health system and puts in place a multi-year strategy aimed at improving the quality and effectiveness of Victoria's health system. The Government committed \$720 million over four years in new funding for health and community services in the 2000-01 Budget. Following that budget a further \$431 million over four years was provided, primarily to address the important issue of nurse recruitment and retention in public hospitals.

Growth in the demand for hospital services continues to be strong. To address this rising demand, the 2001-02 Budget includes a new hospital services demand management and response strategy. Under this strategy \$582 million

over four years has been provided for direct service response, lower cost diversion services aimed at reducing future demand, and to generate productivity improvements.

Demand growth funding for non-hospital services of \$32 million has also been provided in 2001-02. This includes funding for ambulance services, home and community care services, child protection and placement, early intervention for families and children, and public dental and primary health services.

In addition, major health infrastructure initiatives include:

- \$325 million for the Austin and Repatriation Medical Centre redevelopment and Mercy Hospital for Women relocation, including \$15 million for tertiary training and resources from non-government sources;
- \$120 million for high priority works required for upgrading deteriorating infrastructure in public hospitals;
- \$54 million to enhance the quality of Victoria's residential aged care facilities; and
- \$30 million for ICT infrastructure to link metropolitan health services, regional and rural hospitals and primary care partnerships throughout Victoria.

## **Education**

The 2001-02 Budget focuses on enhancing learning across Victoria to ensure that the delivery of education and training is responsive to the challenges of an innovative and creative society.

These initiatives build on the significant investment the Government has made in the education and training system across a range of areas. Since 1999 the Government has committed an additional \$353 million over five years for new teachers to reduce class sizes, and also an additional \$383 million for modernising school and TAFE facilities.

Following the 2000-01 Budget the Government committed an additional \$231 million over four years for the teacher classification and performance framework. The framework is a key driver of the Government's priorities for education and incorporates a range of initiatives to enhance literacy, numeracy and participation in education and training. It also addresses the key issues of teacher attraction and recruitment.

Focusing on the needs of students, the Government announced its goals and targets for education and training in October 2000 in response to two major reports – *Public Education: The Next Generation*, and the *Ministerial Review of*

*Post Compulsory Education and Training Pathways in Victoria.* The Government is working towards achieving specific goals and targets for 2005 and beyond and has set critical benchmark targets against which progress can be measured.

The Government has introduced a number of changes to Victoria's education and training authorities to move Victoria's public education bureaucracy to one partnership for schooling and post-compulsory education, and to ensure the needs and realities of students are the first priority.

In the 2001-02 Budget the Government continues Victoria's investment in better quality education and training by providing:

- \$225 million for the modernisation of schools and TAFE institutes to enhance facilities to better suit modern teaching methods;
- \$40 million for the construction, upgrade and replacement of schools;
- \$38 million for initiatives aimed at enhancing innovation in Victoria's education and training system; and
- \$82 million over three years to enhance the ICT environment in schools and TAFE institutes.

### **Community safety**

The Government is committed to improving the safety of Victorian communities and families by building supportive, connected and creative communities.

The foundation of the strategy is an increased emphasis on alternatives to imprisonment for non-violent offenders and broader rehabilitation options. Total funding of \$73 million over four years has been provided for prison diversion and offender rehabilitation initiatives.

In addition, in order to manage expected long-term growth in the adult prison system, the Government will expand overall permanent capacity by 716 beds at a total estimated cost of \$166 million. The purchase of additional permanent capacity will be through an expansion of the public prison sector.

## **RESTORING DEMOCRACY**

### **Access to justice**

The Government is committed to developing a just, responsible and accessible legal system. Following recent significant reforms to case management in the County Court, the Government has appointed two additional County Court judges to further improve timely access to justice. The capacity of Victorian Civil and Administrative Tribunal sessional members will also be increased.

The provision of enhanced legal aid services in the Melbourne Magistrates Court and rural and regional Victoria will be supported through additional funding of \$1 million per year.

A Judicial Education College will also be established to assist judicial officers to keep abreast of developments in the law, as well as non-legal issues relating to different groups of society, particularly people from different cultural backgrounds.

### **Modernising government**

The Government believes that democracy is strengthened when the community can be confident that decision making is open and accountable, and that the processes of government operate to ensure best value in the provision of government services. The Government is committed to improving the administration of government on behalf of the community it serves. To this end, the Government is investing heavily to enhance service delivery and improve the ICT interface between government and the community including:

- \$4 million for the redevelopment of the vic.gov.au site to maintain Victoria as a world-leader in e-government;
- \$30 million for an electronic version of the land titles register and to enable electronic land title searches and registration; and
- \$3 million to install high quality collaboration and video conferencing infrastructure, including internet facilities, at some 30 regional centres across Victoria.

The Government is also developing a new approach to budget planning and reporting which provides a clearer way of communicating the connection between budget outputs and outcomes for Victorians.

The new approach to budget planning and reporting will also reflect and be informed by the Government's commitment to linking and integrating economic, social and environmental outcomes. A more integrated approach to

the achievement of economic, social and environmental outcomes provides a more balanced and strategic approach to increasing the growth of high quality jobs and their availability for all Victorians.

### **Financial transparency and accountability**

The 2001-02 Budget continues to demonstrate the Government's commitment to accountability and transparency and ensures that its financial operations are subject to rigorous and enhanced scrutiny. The 2001-02 Budget is consistent with the Government's framework for responsible financial management established last year. The Government's framework sets new standards of financial reporting and transparency.

In the 2001-02 *Budget Paper No. 2*, the Government has decided to increase the scope of the budget sector to include all general government sector agencies. This will improve accountability and transparency by enhancing comparability of the Victorian budget statement with those of other States and Territories. It will also better align the financial information in the 2001-02 *Budget Paper No. 2* with the annual *Financial Report for the State of Victoria* and the Uniform Presentation of Government Finance Statistics.

### **Certification by Auditor-General**

The 2001-02 Budget has been reviewed by the Auditor-General who has stated 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 measure (see Chapter 10, *Estimated Financial Statements and Notes*).

## CHAPTER 2: FINANCIAL POLICY OBJECTIVES AND STRATEGY

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- 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, with expenditure on strategic infrastructure projects boosted by funding from the Growing Victoria infrastructure reserve.
- Improved service 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 apply to Victorian businesses and households through implementation of the Government's *Better Business Taxes* package.
- The Government will maintain state government net financial liabilities at prudent levels and Victoria's triple-A credit rating.

### PRINCIPLES OF SOUND FINANCIAL MANAGEMENT

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

- manage financial risks faced by the State prudently, having regard to economic circumstances;
- pursue spending and taxation policies that are consistent with a reasonable degree of stability and predictability in the level of the tax burden;
- maintain the integrity of the Victorian tax system;
- ensure that government policy decisions have regard to their financial effects on future generations; and

- provide full, accurate and timely disclosure of financial information relating to the activities of the Government and its agencies.

These financial management principles underpin the Government's financial policy objectives and strategies that have not changed since the 2000-01 Budget, apart from minor changes to the short-term infrastructure and tax objectives. The short-term infrastructure target has changed focus from the establishment of the Growing Victoria infrastructure reserve to the implementation of the Government's strategic infrastructure projects, including those funded from the Growing Victoria infrastructure reserve. The short-term taxation target has now changed slightly to focus on implementation of the Government's reforms announced on 26 April 2001 in *Better Business Taxes: Lower, Fewer, Simpler*.

## FINANCIAL STRATEGY, OBJECTIVES AND PRIORITIES

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

**Table 2.1: Financial objectives**

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

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



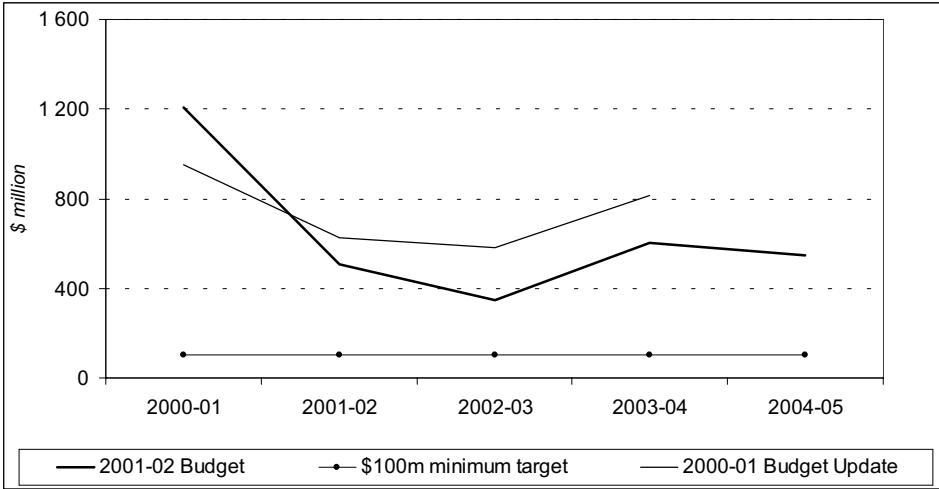
Consistent with this, the Government has a number of short and long-term financial objectives, as shown in Table 2.1.

**Operating surplus**

The Government’s long-term objective is to maintain a substantial budget operating surplus. In the short term its objective is to maintain an operating surplus of at least \$100 million in each year. This is the Government’s key financial measure.

The budget outlook remains consistent with this objective, as can be seen in Chart 2.1. The budget surplus is now forecast to be \$509 million in 2001-02 and to average around \$500 million in the following three years.

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



Source: Department of Treasury and Finance

Note:

(a) The general government sector operating surplus is equivalent to the ‘net result’ in the statement of financial performance in Chapter 10, Estimated Financial Statements and Notes.

The 2001-02 Budget has been framed in an environment of significant uncertainty. The introduction of the GST has disrupted national economic performance and uncertainties exist in the international economy. In addition, there is also the risk of adverse developments in property, share and other asset markets.

The 2000-01 Budget was based on an expected soft economic landing in 2000-01. As a precaution the Government adopted a buffer over its \$100 million surplus target to ensure the achievement of its key financial target in the event that economic growth was to slow more than anticipated.

This general approach is prudent and last year protected the minimum surplus target, while still providing scope for new initiatives and implementation of the Government's business tax cut commitment. With the international, Australian and Victorian economies all in the midst of a growth slowdown more marked than previously anticipated, and uncertainty about their ultimate magnitude and duration, this approach is adopted again in the 2001-02 Budget (see Chapter 4, *Economic Trends and Outlook* for further information).

The benefits of this approach are demonstrated in 2002-03 when the operating surplus is estimated to be \$346 million. In 2002-03 the budget is expected to comfortably absorb the lagged impact of the economic slowdown on asset market related state revenues, as well as the impact of policy decisions taken since the 2000-01 Budget, while still leaving a buffer of around \$250 million above the minimum operating surplus target of at least \$100 million. This provides protection for the operating surplus target against a further modest deterioration in the national and world economies.

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

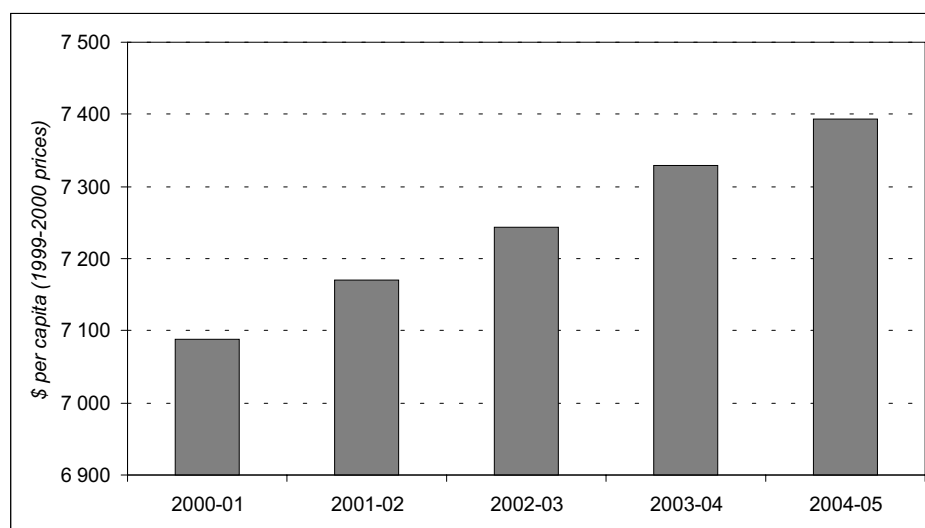
For a more detailed discussion of economic and other risks, and the sensitivity of the operating surplus to changes in economic conditions, see Chapter 9, *Statement of Risks*.

## **Infrastructure**

The Government recognises that building effective infrastructure is essential for delivering improved services and promoting growth across the whole State. In line with this objective, the 2000-01 Budget established a \$1 billion infrastructure reserve, Growing Victoria. The State's strong financial position, as indicated by its triple-A credit rating and the estimated \$1 207 million 2000-01 operating surplus, continues to provide an opportunity to significantly upgrade and modernise infrastructure without incurring additional borrowings.

The Government is allocating an additional \$175 million in this budget to the original \$1 billion Growing Victoria infrastructure reserve. Asset investment financed from the Growing Victoria reserve will significantly boost infrastructure development in the medium term from a strong base level. Over the period 2000-01 to 2004-05, growth in real capital stock will be 8 per cent compared to projected population growth of 4 per cent. Chart 2.2 shows the strong forecast growth in real capital stock per capita.

**Chart 2.2: Real capital stock per capita**



Source: Department of Treasury and Finance

The Government has approved new infrastructure projects with a total estimated investment of \$2.13 billion since the 2000-01 Budget. Key areas of investment include major transport infrastructure projects and investments to underpin a creative and innovative Victorian economy, including modernisation of education facilities, science research facilitation and ICT projects. Significant investment has also been made to social infrastructure, in particular, hospitals and prisons.

Major strategic asset investments include:

- \$159 million for rail transport including reopening of country rail lines, the Wodonga rail freight and urban redevelopment, and rail standardisation;
- \$113 million for road transport infrastructure including additional funding for the Eastern Freeway extension, regional arterial road links and Scoresby transport corridor planning;

- \$304 million for schools and TAFE institutes to construct and modernise facilities and \$82 million to enhance the ICT environment;
- \$514 million boost to rebuild the public health system under a multi-year plan targeting growth suburbs; and
- \$166 million to expand permanent prison capacity to manage long-term growth in the adult prison system.

The Government has also put in place its Partnerships Victoria policy that is expected to lead to additional infrastructure investment through flexible funding arrangements. The Government is committed to maximising the value of infrastructure spending through a responsible use of both the public and private sectors. Partnerships Victoria provides the policy framework for a whole-of-government approach to the provision of public infrastructure and related ancillary services through public-private partnerships. Further detail on Partnerships Victoria is in Chapter 8, *Balance Sheet Management and Outlook*.

### **Service delivery**

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

The 2001-02 Budget provides additional funding for new output initiatives of \$226 million in 2001-02 rising to \$301 million in 2004-05. This is net of around \$90 million of annual funding from existing forward estimates demand contingencies (put aside for increasing service delivery on account of population and demonstrated demand growth). It is also in addition to \$264 million of output initiatives announced since the 2000-01 Budget and reflected in the *2000-01 Budget Update*.

In 2001-02, resources are targeted towards a balance of rebuilding and modernising services. Major initiatives reflecting this commitment include:

- \$582 million over four years for a hospitals demand strategy;
- \$73 million over four years for prison diversion and offender rehabilitation initiatives, under the corrections strategy;
- \$43 million over four years to fund a package of regional rail passenger services, including the restoration of rail services to Mildura, Bairnsdale, Ararat and South Gippsland (Leongatha) and improvements to the Warrnambool and Shepparton services;

- \$14 million over four years for bus feeder services to various Melbourne suburbs, as well as \$189 million primarily to support a bus replacement program; and
- \$7 million over three years for ten community building pilot projects in disadvantaged areas of regional and rural Victoria and outer metropolitan Melbourne and a proposal to develop a statewide indigenous capacity building initiative over the next three years.

Further information on the rationale for these policy initiatives and their impact on the budget position is provided in Chapter 6, *Delivering Improved Services* and Appendix B, *Output, Asset Investment and Revenue Initiatives*.

## Taxation

The Government initiated a review of state business taxes in the 2000-01 Budget as part of its commitment to ensuring a competitive tax system in Victoria.

The Government's tax reform package, *Better Business Taxes: Lower, Fewer, Simpler*, announced on 26 April 2001, is based on broad community consultation and adherence to the belief that all Victorian businesses should receive a fair deal from tax. The package reduces the burden of payroll tax, cuts the number of state business taxes, and reduces paperwork and red tape.

Victoria is well ahead of other States in abolishing stamp duties. No other State has abolished stamp duties on non-residential leases, unquoted marketable securities and mortgages. In addition, Victoria's payroll tax rates of 5.45 per cent from July 2001 and 5.35 per cent from July 2003 are the second lowest headline rates of any State in Australia.

True to the Government's commitment made last year, previously announced business tax cuts of \$100 million per year from 2001-02, rising to \$200 million per year from 2003-04, are incorporated into the tax package. In addition, further tax cuts of \$12 million in 2002-03 and 2003-04 and \$151 million in 2004-05 have been provided. A total of \$774 million has been allocated to tax cuts over the next four financial years, rising from \$100 million in 2001-02 to \$351 million in 2004-05.

Table 2.2 shows that Victoria is now more competitive than the Australian average on two out of three measures of tax competitiveness, and is more competitive than New South Wales on all three measures.

For a more detailed discussion of the tax reform package and tax competitiveness see Appendix B, *Output, Asset Investment and Revenue Initiatives* and Chapter 7, *Revenue and Intergovernmental Financial Issues*.

**Table 2.2: Victoria's tax competitiveness** <sup>(a)</sup>

	Taxation revenue per capita (\$)	Taxation as a share of nominal GSP (%)	CGC tax competitiveness <sup>(b)</sup> (\$m)
Victoria	1 455	4.44	191
New South Wales	1 636	4.87	216
Australian average	1 463	4.64	0

Sources: Commonwealth Grants Commission Report on State Revenue Sharing Relativities 2001 Update; Department of Treasury and Finance

Notes:

(a) 1999-2000 data adjusted by DTF for Victorian tax cuts announced in this budget and previously announced tax cuts in other States, but assuming no further tax changes in other States in their 2001-02 budgets.

(b) Compared to the average of all Australian states and territories.

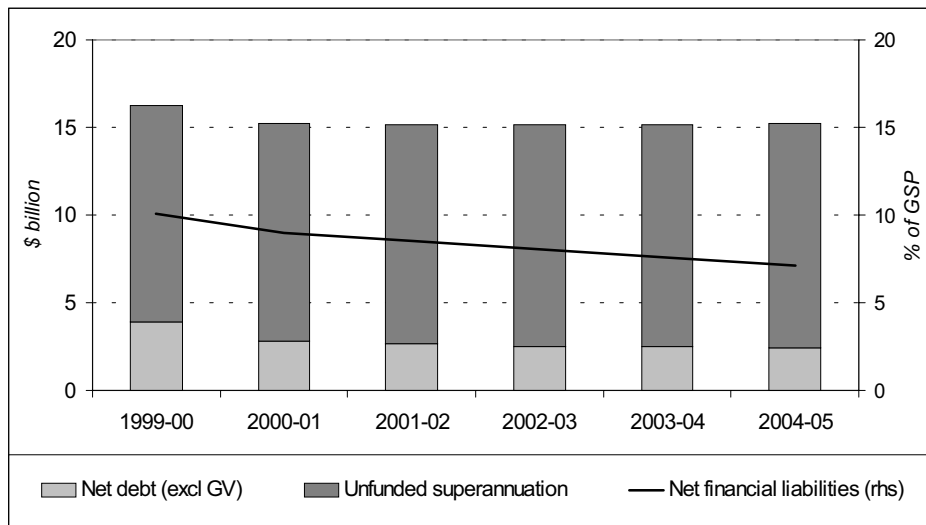
### Net financial liabilities

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

On 27 March 2001, Standard and Poor's reaffirmed Victoria's long-term local currency rating of AAA. In its decision, Standard and Poor's cited factors such as Victoria's strong balance sheet, low level of debt and very strong financial performance in recent years.

The 2001-02 Budget outlook reinforces these positive factors. Substantial operating surpluses are projected for 2001-02 and the remainder of the forward estimates period. General government net financial liabilities (excluding Growing Victoria) are expected to decrease from \$16.3 billion or 10.8 per cent of GSP at June 1999 to \$15.2 billion or 7.2 per cent of GSP by June 2005 (see Chart 2.3). Over the same period net debt is expected to halve from \$4.9 billion to \$2.5 billion. As a result Victoria's net financial liabilities position is expected to remain comparable with most other triple-A jurisdictions in Australia.

**Chart 2.3: General government net financial liabilities excluding Growing Victoria <sup>(a)</sup>**



Source: Department of Treasury and Finance

Note:

(a) General government net financial liabilities comprise net debt and net unfunded superannuation liabilities.





## CHAPTER 3: BUDGET POSITION AND OUTLOOK

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- The budget incorporates the impact of significant new policy measures, including additional funding for new output initiatives of \$226 million in 2001-02, rising to \$301 million by 2004-05. An additional \$78 million in initiatives in 2001-02 will be funded through reprioritisation of existing resources.
- The 2001-02 Budget provides funding for the commencement of new infrastructure investment projects with a total estimated investment of \$2 133 million, including \$783 million in new investment approved from the Growing Victoria infrastructure reserve.
- The budget also delivers on the Government's commitment towards ensuring a competitive tax system in Victoria through the introduction of a tax reform package that introduces lower, fewer and simpler taxes, including tax cuts of \$100 million in 2001-02 rising to \$351 million in 2004-05.
- Total operating expenses are expected to increase by 3.1 per cent in 2001-02, in part reflecting the impact of 2001-02 Budget funding initiatives, with expenditure growth expected to moderate to around 2 per cent per annum on average in the following three years.
- A budget operating surplus of \$509 million is forecast for 2001-02. The operating surplus is expected to decline to \$346 million in 2002-03 before rising again to average \$575 million per annum in the following two years.

This chapter provides details of the projected budget position and outlook for the period 2001-02 to 2004-05. The discussion of the budget and forward estimates focuses on trends in the aggregate budget position, including reconciliation of major variations in key budget aggregates since the 2000-01 Budget released in May 2000 and the *2000-01 Budget Update* published in January 2001.

The forward estimates outlined in this chapter are based on the economic projections outlined in Chapter 4, *Economic Trends and Outlook* 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, including the taxation reform measures announced by the Government in its *Better Business Taxes: Lower, Fewer, Simpler* package of 26 April 2001. Chapter 7, *Revenue and Intergovernmental Financial Issues* provides more detailed information on the impact of intergovernmental financial issues on the state budget.

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

## **2001-02 BUDGET INITIATIVES**

Responsible financial management has enabled the Government to continue to deliver improved services and promote growth across the whole State. In the 2001-02 Budget this will be achieved by new initiatives in priority service delivery areas, significant investments in social and economic infrastructure and a reduction in State business taxes.

### **Initiatives affecting operating expenses**

The 2001-02 Budget provides additional funding for new output initiatives of \$226 million in 2001-02 rising to \$301 million in 2004-05. This is net of \$90 million funding from existing forward estimates demand contingencies (put aside for increasing service delivery on account of population and demonstrated client demand growth). It is also in addition to \$264 million of output initiatives in 2001-02 already announced and reflected in the *2000-01 Budget Update*.

Table 3.1 shows the total value of net additional funding provided for output initiatives by Departments in 2001-02. This funding will provide a significant boost to service delivery, particularly in the key areas of education, health and community safety, as well as specific initiatives on the environment, community building and innovation.

In addition, further new initiatives totalling \$78 million in 2001-02 will be funded from reprioritisation of existing departmental resources.

Chapter 5, *Growing the Whole State* and Chapter 6, *Delivering Improved Services* provides more detailed information on the Government's service delivery priorities and strategy, while Appendix B, *Output, Asset Investment and Revenue Initiatives* provides a detailed list and description of all service delivery initiatives implemented in this budget.

**Table 3.1: New output initiatives by Department since the 2000-01 Budget**

Department <sup>(a) (b)</sup>	(\$ million)			
	2001-02 Budget	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
Education, Employment and Training	67.6	82.6	101.5	112.4
Human Services	263.8	298.6	315.7	315.8
Infrastructure	46.6	65.2	74.5	113.7
Justice	59.6	64.8	61.2	71.3
Natural Resources and Environment	40.0	53.6	53.6	53.6
Premier and Cabinet	22.0	20.0	12.1	11.3
State and Regional Development	57.8	40.7	36.5	35.8
Treasury and Finance	19.0	2.0	0.6	0.3
Parliament	3.6	1.8	1.9	1.9
Less: Funding from demand contingency	90.0	92.3	94.6	96.9
<b>Total output initiatives</b>	<b>489.9</b>	<b>537.1</b>	<b>563.1</b>	<b>619.2</b>
Of which: Initiatives announced in 2000-01 Budget Update	263.7	295.2	304.7	318.4

Source: Department of Treasury and Finance

Notes:

- (a) Includes additional funding provided for WorkCover premiums and cost of embedded tax savings for charities.
- (b) Excludes initiatives funded through internal reprioritisation or other existing fund sources.

### Initiatives affecting asset investment

The 2001-02 Budget provides funding for the commencement of new infrastructure investment projects with a total estimated investment of \$2 133 million, including investment in 2001-02 of \$502 million. This includes \$783 million in new investment approved from the Growing Victoria infrastructure reserve for a range of infrastructure projects related to the Government's three key strategies of Linking Victoria, Skilling Victoria and Connecting Victoria.

The scale of the 2001-02 infrastructure program and the scope and nature of projects approved demonstrate the Government's commitment to promoting economic and social development across the whole State in an environmentally sustainable manner.

Table 3.2 provides a summary of new infrastructure asset investment funding by Department. Chapter 5, *Growing the Whole State*, Appendix B, *Output, Asset Investment and Revenue Initiatives*, and Appendix G, *Growing Victoria Infrastructure Reserve* provide more detailed information on the Government's 2001-02 infrastructure investment initiatives.

**Table 3.2: New asset funding by Department**

<i>Department</i>	<i>(\$million)</i>	
	<i>2001-02</i>	<i>TEI <sup>(a)</sup></i>
Education, Employment and Training	157.5	334.0
Human Services	120.2	514.1
Infrastructure	78.4	779.5
Justice	67.6	335.7
Natural Resources and Environment	42.5	116.6
Premier and Cabinet	21.4	30.6
State and Regional Development	4.3	6.0
Treasury and Finance	8.5	14.5
Parliament	1.6	1.6
<b>Total</b>	<b>501.8</b>	<b>2 132.5</b>
Of which: Funding provided from Growing Victoria infrastructure reserve <sup>(b)(c)</sup>	139.2	782.9

*Source: Department of Treasury and Finance*

*Notes:*

- (a) Total estimated investment.*
- (b) Excludes \$52 million of funding (out of total program of \$90 million) approved but not yet allocated to specific projects for enhanced learning environments – schools.*
- (c) This is in addition to the \$190 million funding provided from the Growing Victoria reserve for school modernisation and rail infrastructure investment projects in the 2000-01 Budget.*

### **Initiatives affecting revenue**

The 2001-02 Budget delivers over and above the Government's commitment announced in the previous budget to reduce business taxes.

The Government's *Better Business Taxes* package reduces the burden of payroll tax, cuts the number of state business taxes and reduces paperwork and red tape. It consolidates Victoria's position as the place to do business, with all businesses benefiting from an environment of lower, fewer and simpler taxes.

The following are major policy initiatives affecting revenue in the 2001-02 Budget:

- implementation of the *Better Business Taxes* package, at a net cost to revenue of \$100 million in 2001-02 rising to \$351 million in 2004-05 (see Appendix B, *Output, Asset Investment and Revenue Initiatives* for further details);
- implementation of an integrated road safety package designed to reduce Victoria's annual road toll, including increased traffic penalties and an enhanced speed camera enforcement regime which are expected to increase revenue by \$30 million in 2001-02 rising to \$38 million in 2004-05. In addition, the road safety package includes the upgrade of Victoria's 'booze'

buses and introduction of speed measuring devices and new evidential breath testing devices that meet national standards; and

- the introduction of an additional \$1 200 per annum health benefit levy on all electronic gaming machines which is expected to raise \$36 million per annum. The increased revenue from this levy will go to the Hospital and Charities Fund to be allocated to the public hospital system.

## 2001-02 BUDGET ESTIMATES

Table 3.3 provides a summary of the statement of financial performance for the 2001-02 Budget compared to the revised estimated outcome for 2000-01. For a detailed discussion of the revised estimates of the 2000-01 budget sector outcome, including an explanation of the variation from the published 2000-01 Budget estimates, see Appendix A, *Revised 2000-01 Budget Outcome*.

**Table 3.3: Summary statement of financial performance 2001-02**

	(\$ million)			
	2000-01 Revised	2001-02 Budget	Change \$m	Change %
Taxation	8 530.4	7 976.5	- 553.9	-6.5
Investment income	1 383.1	938.2	- 444.9	-32.2
Grants	10 310.2	11 311.7	1 001.6	9.7
Sales of goods and services	2 048.3	2 111.6	63.3	3.1
Other revenue <sup>(a)</sup>	1 194.8	1 127.4	- 67.4	-5.6
<b>Total revenue</b>	<b>23 466.8</b>	<b>23 465.5</b>	<b>- 1.3</b>	<b>0.0</b>
Superannuation	1 422.2	1 506.9	84.7	6.0
Depreciation	817.7	871.3	53.6	6.6
Borrowing costs	602.5	477.6	- 124.9	-20.7
Employee entitlements	7 991.0	8 411.5	420.5	5.3
Supplies and services	7 372.5	7 672.3	299.8	4.1
Other expenses <sup>(b)</sup>	4 053.7	4 017.5	- 36.2	-0.9
<b>Total expenses</b>	<b>22 259.5</b>	<b>22 957.0</b>	<b>697.5</b>	<b>3.1</b>
<b>Operating surplus</b>	<b>1 207.3</b>	<b>508.5</b>	<b>- 698.8</b>	<b>-57.9</b>

Source: Department of Treasury and Finance

Notes:

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

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

As indicated in Table 3.3, the operating surplus is expected to decline from \$1 207 million in 2000-01 to \$509 million in 2001-02, a reduction of \$699 million.

The projected decline in the operating surplus in 2001-02 reflects a broadly unchanged level of operating revenue and projected growth in operating expenses of \$698 million. The increase in operating expenses in part reflects the significant new service delivery initiatives announced by the Government since the 2000-01 Budget. The level of operating revenue is expected to remain broadly unchanged, with a significant decline in taxation revenue and investment income offset by growth in Commonwealth grants under the terms of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (subsequently referred to as the Intergovernmental Agreement).

### **Operating expenses**

Total operating expenses are budgeted at \$22 957 million in 2001-02, representing an increase of \$698 million (3.1 per cent) on the 2000-01 revised estimate.

Additional funding associated with implementing new output initiatives accounts for a significant part of this increase, including:

- 2001-02 Budget output initiatives of \$226 million;
- output initiatives totalling \$264 million previously announced in the *2000-01 Budget Update*; and
- the full-year impact of output initiatives (including implementation of election commitments) announced in the 2000-01 Budget (\$59 million).

Other major factors contributing to the increase in operating expenses include:

- an increase in depreciation expense (\$54 million), reflecting the combined impact of revaluation of existing assets and the substantial boost to infrastructure provided since the 2000-01 Budget; and
- an increase in expenses reflecting the cost of services funded by increased specific purpose payments and revenue from sales of goods and services (\$114 million).

The increase in operating expenses as a result of these factors is partially offset by:

- a decline in finance costs (\$125 million), mainly reflecting the impact of GST on CPI indexed bonds in 2000-01 and a further one-off increase in

2000-01 expenses associated with revaluation of the State's motor vehicle lease finance liability;

- a decline in expenditure associated with the completion of the Winter Power Bonus scheme (\$117 million);
- the impact of a one-off expense in 2000-01 in relation to the write off of accrued revenue receivable from Transurban concession fees (\$63 million), reflecting the risk of an adverse tax ruling; and
- a decline in administrative costs payable in 2001-02 to the Australian Taxation Office under the terms of the Intergovernmental Agreement (\$119 million).

The balance of the increase in 2001-02 operating expenses (\$405 million or 1.8 per cent) is broadly in line with expected wage and price inflation and productivity growth.

## **Operating revenue**

Total operating revenue amounts to \$23 466 million in 2001-02, representing a \$1.3 million decline on the 2000-01 revised estimate.

The modest decrease in operating revenue reflects:

- a decline in taxation revenue. Total taxation revenue in 2001-02 is forecast to decline by \$554 million or 6.5 per cent compared to the revised 2000-01 outcome. This decline in taxation revenue is mainly attributable to:
  - the abolition of financial institutions duty and stamp duty on listed securities from 1 July 2001 as part of changes agreed to in the Intergovernmental Agreement (\$547 million);
  - lower property tax revenue, reflecting activity in the property market returning to long-term trend levels which results in a decline in land transfer and mortgage duty from the peak levels observed in 1999-2000 and 2000-01; and
  - business tax cuts totalling \$100 million in 2001-02, with a reduction in payroll tax, an increase in the land tax threshold and the abolition of stamp duty on non-residential leases;
- a decline in investment income of \$445 million. This is largely due to a one-off revenue boost in 2000-01 of \$60 million in relation to realised gains on retirement of Victorian Accelerated Infrastructure Program bonds and a

projected \$353 million decrease in public authority income (comprising dividends and tax equivalent payments). The latter mainly reflects:

- the wind-down of a profitable gas supply arrangement with Esso/BHPP in September 2001 (accounting for a decrease of \$241 million);
  - the anticipated return to long-term average climatic conditions and more subdued land development activity in 2001-02 affecting distributions from the metropolitan water sector (accounting for a decrease of \$48 million);
  - weaker investment returns, particularly from overseas equity markets, and an increase in the valuation of claims liabilities due to lower domestic bond rates in 2000-01, producing a \$39 million reduction in distributions from the Transport Accident Commission in 2001-02; and
  - the cessation of distributions from the SECV shell following a final dividend payment in 2000-01 for the West Melbourne Gasworks remediation works (accounting for a decrease of \$22 million); and
- a decline in other revenue (\$67 million). This mainly reflects lower revenue collections expected in 2001-02 due to the timing of the sale of land by the Office of Major Projects (\$16 million), a decline in revenue from assets received free of charge (\$15 million) and a reduction in vehicle lease revenue (\$20 million).

The decline in the operating revenue as a result of the above mentioned factors will be offset by moderate growth in revenue from sales of goods and services (\$63 million, although this in turn is offset by an equivalent increase in operating expenses, reflecting the cost of services provided) and a projected increase in Commonwealth grants of \$1 002 million. The growth in Commonwealth grants is mainly attributable to:

- the expected receipt of the third tranche of national competition policy payments (\$63 million);
- a projected increase in funding from the Commonwealth under the Intergovernmental Agreement (\$636 million) to compensate for financial assistance grants and taxation revenue forgone;
- additional funding mainly for highway construction in Albury/Wodonga and Geelong Road under the Roads of National Importance program (\$132 million);
- an increase of \$97 million in the Health Care Grant, taking account of population growth, ageing and technological development;



- additional Commonwealth funding effective from September 2000 relating to expansion of the Commonwealth - State Disability Agreement to assist people with disabilities and their carers (\$17 million); and
- a rise of \$15 million in Assistance to Government Schools payments due to higher than expected recurrent cost increases across Australian schools, translating to additional indexation payments.

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

Table 3.4 provides a snapshot of the aggregate budget outlook over the forward estimates period 2001-02 to 2004-05. (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.

As indicated in Table 3.4, the operating surplus is forecast to decline from \$509 million in 2001-02 to \$346 million in 2002-03, before rising again to average around \$575 million in 2003-04 and 2004-05.

The projected decline in the operating surplus in 2002-03 is largely due to continued low growth in operating revenue expected in that year. This reflects the further wind-down of distributions from the gas industry and continued moderation of property market activity, resulting in a further decline in conveyancing and mortgage stamp duties from the 1999-2000 peak.

As noted above, the operating surplus is expected to rebound in 2003-04. This is mainly due to the relatively moderate growth of 0.8 per cent in operating expenses projected for 2003-04, reflecting the completion in 2002-03 of a four-year program of election commitments in relation to various grant program initiatives.

The subsequent modest decline in the projected operating surplus to \$547 million for 2004-05 is mainly due to the additional \$151 million in tax cuts scheduled in that year under the Government's taxation reform package, primarily reflecting the abolition of stamp duty on mortgages at net cost to the budget of \$122 million.

**Table 3.4: Summary statement of financial performance 2001-02 to 2004-05**

	(\$ million)				
	2000-01 Revised	2001-02 Budget	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
Taxation	8 530.4	7 976.5	8 193.5	8 536.2	8 773.7
Investment income	1 383.1	938.2	918.9	836.1	857.3
Grants	10 310.2	11 311.7	11 506.3	11 716.3	12 009.0
Sales of goods and services	2 048.3	2 111.6	2 122.7	2 147.0	2 161.5
Other revenue <sup>(a)</sup>	1 194.8	1 127.4	1 183.0	1 136.2	1 146.8
<b>Total revenue</b>	<b>23 466.8</b>	<b>23 465.5</b>	<b>23 924.4</b>	<b>24 371.7</b>	<b>24 948.2</b>
% change		0.0%	2.0%	1.9%	2.4%
Superannuation	1 422.2	1 506.9	1 534.3	1 564.9	1 588.5
Depreciation	817.7	871.3	918.4	968.7	1 046.1
Borrowing costs	602.5	477.6	466.3	460.7	453.5
Employee entitlements	7 991.0	8 411.5	8 753.3	9 011.7	9 301.8
Supplies and services	7 372.5	7 672.3	7 914.0	7 853.6	8 070.7
Other expenses <sup>(b)</sup>	4 053.7	4 017.5	3 991.8	3 909.7	3 941.0
<b>Total expenses</b>	<b>22 259.5</b>	<b>22 957.0</b>	<b>23 578.1</b>	<b>23 769.3</b>	<b>24 401.6</b>
% change		3.1%	2.7%	0.8%	2.7%
<b>Operating surplus</b>	<b>1 207.3</b>	<b>508.5</b>	<b>346.3</b>	<b>602.4</b>	<b>546.7</b>

Source: Department of Treasury and Finance

Notes:

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

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

### Operating expenses

Total operating expenses are expected to increase by 2.1 per cent per annum on average between 2001-02 and 2004-05, which is broadly in line with expected inflation and productivity growth.

Finance costs are expected to decline by an average 1.7 per cent per annum over the forecast period. This reflects mainly the flow-through impact of lower interest rates on debt portfolio refinancing.

However, the decline in finance costs is more than offset by projected growth in depreciation expenses of around 6.3 per cent per annum on average over this period. The increase in depreciation expenses is due to the substantial investment in new infrastructure to be undertaken over this period.

Growth in total operating expenses is expected to moderate to 0.8 per cent in 2003-04, mainly reflecting the completion in 2002-03 of a four-year program of election commitments in relation to various grants programs.

## Operating revenue

Total revenue is expected to increase by 2.1 per cent per annum on average between 2001-02 and 2004-05. This reflects projected moderate growth in taxation revenue and Commonwealth grants, partly offset by a decline in investment income.

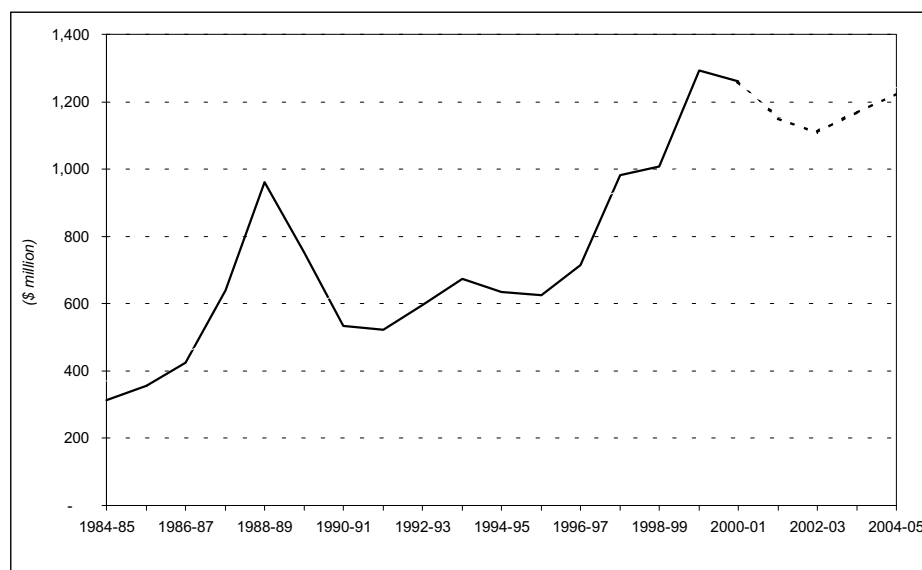
Victoria's own-source revenue is expected to grow by an average 2.1 per cent between 2001-02 and 2004-05, lower than growth in nominal GSP. This reflects underlying growth in payroll tax and most other taxes in line with forecast employment, wages and demand growth (see Chapter 4, *Economic Trends and Outlook*), offset by:

- business tax cuts totalling \$100 million in 2001-02, rising to \$351 million in 2004-05; and
- lower land transfer and mortgage duty collections as activity in the property market declines further towards long-term trend levels. Chart 3.1 shows the recent high levels of conveyancing duty in a broader context, and includes estimates for the period 2001-02 to 2004-05.

With respect to other major revenue categories:

- investment income is expected to decline from \$938 million in 2001-02 to \$857 million in 2004-05. This is mainly due to the cessation of distributions from the gas sector in 2002-03 and the completion in 2002-03 of the payment of a series of special dividends by the Transport Accident Commission to fund the Accident Blackspot program. Other elements of investment income, including interest revenue and miscellaneous investment income, are expected to remain broadly stable over the outlook period;
- revenue from Commonwealth general purpose grants is expected to grow by only 2 per cent per annum over the forward estimates period reflecting the adverse impact of unfavourable Commonwealth Grants Commission relativities; and
- revenue from sales of goods and services exhibits moderate growth over the forward estimates period. The impact of this growth in sales revenue on the budget bottom line is offset by a similar growth assumption for operating expenses related to the cost of goods and services sold.

**Chart 3.1: Conveyancing duty collections <sup>(a)</sup>**



Source: Department of Treasury and Finance

Note:

(a) Dashed line shows forecasts from 2001-02 to 2004-05.

## RECONCILIATION OF FORWARD ESTIMATES TO PREVIOUSLY PUBLISHED ESTIMATES

Table 3.5 compares the revised outlook for the operating surplus for the period 2001-02 to 2003-04 to previously published budget estimates.

The projected budget operating surplus has changed little from the original 2000-01 Budget estimates published in May 2000. The operating surplus is now expected to average around \$486 million per annum, on average, over this period compared to an original budget estimate of around \$489 million.

A better than expected outlook for taxation revenue since the 2000-01 Budget, mainly due to the continued strength of property markets, has been offset by:

- a significant deterioration in projected revenue from Commonwealth grants as a result of new relativities produced by the Commonwealth Grants Commission; and
- an increase in operating expenses, mainly reflecting implementation of 2001-02 output initiatives.

## Shift to general government sector reporting

The scope of the budget sector as presented in the financial statements for the 2001-02 Budget has been expanded to include all general government sector agencies. The estimated financial statements now include the projected financial results of a number of agencies which were previously classified to the non-budget sector, including:

- Parks Victoria;
- the Country Fire Authority and Metropolitan Fire and Emergency Services Board;
- catchment management authorities; and
- a range of occupational registration boards.

The shift to a general government sector basis brings the Victorian budget statements into closer alignment with those of the Commonwealth and most other states and territories. It also means that the budgeted financial statements will better align with the Annual *Financial Report for the State of Victoria* and the Uniform Presentation Framework.

As indicated in Table 3.5, the shift to general government sector reporting has the effect of increasing revenue and expenses (relative to the estimates published in the *2000-01 Budget Update*) by around \$330 million per annum over the period 2001-02 to 2003-04, with minimal net impact on the operating result.

**Table 3.5: Reconciliation of 2001-02 Budget estimates to 2000-2001 Budget**

	(\$ million)		
	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
<b>Budget sector operating surplus – 2000-01 Budget</b>	<b>401.0</b>	<b>461.5</b>	<b>603.4</b>
Plus: Revenue variations in Budget Update	634.6	632.6	676.2
Less: Expense variations in Budget Update	412.0	514.6	463.2
<b>Budget sector operating surplus – 2000-01 Budget Update</b>	<b>623.5</b>	<b>579.5</b>	<b>816.4</b>
<b>Plus: Impact of shift to general government sector reporting</b>			
Increase in revenue	348.2	321.1	328.7
Increase in expenses	335.2	323.7	328.3
<b>Net impact of shift to general government sector reporting</b>	<b>13.1</b>	<b>- 2.7</b>	<b>0.4</b>
<b>Plus: Revenue variations since Budget Update</b>			
<b>Economic/demographic effects</b>			
Taxation revenue	133.9	77.6	127.4
Public authority income	- 68.7	- 20.1	16.3
Sales of goods and services	40.0	39.2	46.0
<b>Total economic/demographic variations</b>	<b>105.2</b>	<b>96.8</b>	<b>189.8</b>
<b>Policy decisions</b>			
Taxation reform package	- 100.0	- 111.5	- 211.7
Other initiatives affecting revenue	65.7	74.6	73.9
Less: Tax cuts already factored in	100.0	100.0	200.0
<b>Total policy variations</b>	<b>65.7</b>	<b>63.1</b>	<b>62.2</b>
<b>Commonwealth funding revisions</b>			
General purpose grants	- 89.9	- 149.3	- 217.5
Specific purpose payments	76.2	69.2	46.0
<b>Total Commonwealth funding variations</b>	<b>- 13.7</b>	<b>- 80.1</b>	<b>- 171.5</b>
<b>Administrative variations</b>			
Interest revenue – budget financing impact	- 13.6	- 11.3	- 27.0
Fines	27.7	15.1	17.4
Other miscellaneous variations	- 0.0	- 10.4	- 18.6
<b>Total administrative variations</b>	<b>14.1</b>	<b>- 6.7</b>	<b>- 28.2</b>
<b>Total variation in operating revenue since Budget Update</b>	<b>171.3</b>	<b>73.2</b>	<b>52.3</b>

**Table 3.5 (cont): Reconciliation of 2001-02 Budget estimates to 2000-2001 Budget**

	(\$ million)		
	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
<b>Less: Variations in operating expenses since Budget Update</b>			
<b>Economic/demographic effects</b>			
Expenses funded by increased sales	40.0	39.2	46.0
<b>Total economic/demographic variations</b>	<b>40.0</b>	<b>39.2</b>	<b>46.0</b>
<b>Policy decisions</b>			
2001-02 Budget output initiatives	489.9	537.1	563.1
Less: Amount included in Budget Update	- 263.7	- 295.2	- 304.7
<b>Total policy variations</b>	<b>226.2</b>	<b>241.9</b>	<b>258.4</b>
<b>Commonwealth funding revisions</b>	<b>40.7</b>	<b>34.1</b>	<b>23.5</b>
<b>Administrative variations</b>			
Budget financing - borrowing costs	- 0.9	7.6	7.5
Superannuation - actuarial revisions	- 50.9	- 77.7	- 41.0
Other administrative variations	44.4	58.5	- 27.7
<b>Total administrative variations</b>	<b>- 7.5</b>	<b>- 11.6</b>	<b>- 61.2</b>
<b>Total variation in operating expenses since Budget Update</b>	<b>299.4</b>	<b>303.7</b>	<b>266.7</b>
<b>General government sector operating surplus – 2001-02 Budget</b>	<b>508.5</b>	<b>346.3</b>	<b>602.4</b>

Source: Department of Treasury and Finance

### Variations to total operating revenue

Table 3.5 highlights the increase in projected operating revenue for the period 2001-02 to 2003-04 relative to the original budget estimates published in May 2000. Excluding the impact of the shift to general government sector reporting, projected operating revenue for 2001-02 is \$806 million higher than the published budget estimates, with the improvement over the remainder of the outlook period averaging around \$720 million per year.

The bulk of this improvement in revenue (\$635 million in 2001-02) was factored into the revised 2000-01 Budget estimates published in the *2000-01 Budget Update* in January 2001. The factors underlying this improvement, which mainly reflected the impact of strong employment and property market conditions on taxation revenue and public authority distributions, were detailed in the Budget Update.

As indicated in Table 3.5, there has been a further moderate improvement in the revenue outlook since the publication of the *2000-01 Budget Update*. Total revenue for 2001-02 has been revised up by \$171 million, falling to \$73 million in 2002-03 and \$52 million in 2003-04. The increase in projected revenue since the Budget Update is mainly attributable to the continued strength of property markets and property prices which has resulted in increased projected revenues from stamp duties on conveyancing and land tax. Projected revenue from sales of goods and services has also been revised up by \$40 million in 2001-02 since the Budget Update. This revision has no impact on the overall budget position because it is matched by an increase in operating expenses, reflecting the cost of services provided.

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

- a decline in projected revenue from payroll tax and gambling taxes, reflecting the impact of lower than expected economic growth in 2001-02; and
- a decline in public authority distributions, mainly due to the effects of weaker share market conditions on expected distributions from the Transport Accident Commission.

The combined effect of economic conditions on taxes, public authority income and other revenue provides a net boost to projected revenues since the *2000-01 Budget Update* of \$105 million in 2001-02 and an average of around \$143 million per annum over the outlook period (see Table 3.5).

Policy decisions taken in the 2001-02 Budget have the effect of increasing revenue (relative to the *2000-01 Budget Update* estimates) by around \$64 million on average over the period 2001-02 to 2003-04. This reflects the combined impact of:

- implementation of the integrated road safety package, resulting in an increase in revenue from traffic penalties of around \$30 million rising to \$38 million by 2004-05; and
- the introduction of an additional \$1 200 per annum health benefit levy on all electronic gaming machines which is expected to raise \$36 million per annum to benefit the public hospital system.

This is partly offset over this period by higher than originally budgeted business tax cuts under the Government's *Better Business Taxes* taxation reform package. However, by 2004-05 the additional tax cuts more than fully offset the increased revenue flowing from the road safety package and health benefit levy.



Commonwealth funding revisions are expected to result in a decrease in total revenue, relative to the *2000-01 Budget Update* estimates, of \$14 million in 2001-02 rising to \$172 million per annum in 2003-04. The decrease in Commonwealth grants revenue is mainly attributable to the adverse impact of revised CGC relativities assessments on Victoria's share of the national GST revenue pool, resulting in a significant decline (\$90 million in 2001-02, rising to \$218 million in 2004-05) in projected general purpose grants.

The reduction in projected general purpose grants is partly offset by an increase in projected specific purpose payments from the Commonwealth. The increase, totalling \$76 million in 2001-02, declining to \$46 million in 2003-04, is mainly due to:

- an increase in health funding grants under the Australian Health Care Agreement;
- an increase in projected funding for disability support services; and
- commencement of Commonwealth funding under the Commonwealth-State National Action Plan for Salinity and Water Quality.

Administrative variations (comprising miscellaneous variations such as revisions to interest revenue, non-public account revenue and fines) contribute to an increase in total revenue in 2001-02, relative to the *2000-01 Budget Update* estimates, of \$14 million and a modest decline in revenue over the subsequent two years. A downward revision in interest revenue, reflecting the impact of both lower interest rates and a decline in projected budget sector cash surpluses, accounts for the majority of the revenue decline in the out-years.

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

Excluding the impact of the shift to general government sector reporting, projected operating expenses for 2001-02 are \$711 million higher than the budget estimates published in the May 2000 Budget, with the increase over the remainder of the outlook period averaging around \$750 million per year.

As indicated in Table 3.5, a large proportion of this increase (\$412 million in 2001-02) was factored into the revised estimates published in the *2000-01 Budget Update*. Implementation of new policy initiatives, Commonwealth funding revisions and revised actuarial assessments of superannuation expense accounted for the major part of the revision, which was explained in detail in the *2000-01 Budget Update*.

As indicated in Table 3.5, projected operating expenses for 2001-02 have increased by a further \$299 million since the *2000-01 Budget Update*, with the increase for the following two years averaging around \$285 million per annum.

New policy initiatives announced in this budget account for a large part of this increase. As noted earlier, the 2001-02 Budget provides additional funding for new output initiatives of \$226 million rising to \$258 million in 2003-04.

An increase in the cost of goods and services funded by increased sales revenue accounts for a further \$40 million of the overall increase in 2001-02 operating expenses since the *2000-01 Budget Update*.

Commonwealth funding revisions have increased operating expenses by \$41 million in 2001-02 and around \$30 million per annum average in the out-years. This reflects a projected net increase in funding in relation to a range of programs including disability services, the National Action Plan for Salinity and Water Quality and the Forest Industry Structural Adjustment Program.

Superannuation expenses have been revised down since the *2000-01 Budget Update* by around \$51 million in 2001-02 and around \$60 million on average over the following two years, mainly reflecting the final impact of the triennial actuarial review of the State's unfunded liability in respect of the State Superannuation Fund.

A range of other administrative variations have resulted in a net increase in expenses of \$43 million in 2001-02 and \$66 million in 2002-03. Factors contributing to this increase include:

- an increase in projected depreciation expense across a number of departments, mainly due to asset revaluations and substantial growth in projected infrastructure expenditure; and
- an increase in projected employee entitlements expenses, to account for the impact of expected future wage increases on the valuation of accrued employee entitlements liabilities.

## CHAPTER 4: ECONOMIC TRENDS AND OUTLOOK

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- Australian economic growth moderated in 2000-01. Weaker domestic demand growth due to the introduction of the GST, which particularly affected dwelling investment and consumer spending, was partially offset by stronger net exports.
- Victorian economic conditions also softened in 2000-01, although not to the same extent as nationally.
- The agricultural sector in Victoria has been experiencing its most favourable conditions for many years.
- Labour market conditions were much stronger in Victoria than in the rest of Australia over the past year. Some 68 500 new jobs were created in Victoria, which was well over half of all new jobs created in Australia during this period. Of the new jobs in Victoria, more than one in three were created in rural and regional Victoria.
- The world economic environment deteriorated noticeably during 2000-01, precipitated by a sharp slowdown in the United States. This is likely to affect growth in Australian and Victorian exports over the coming year.
- In line with national trends, Victorian economic growth is forecast to moderate to 2.5 per cent in 2000-01 and 2.75 per cent in 2001-02, before strengthening to 3.75 per cent in 2002-03.

### WORLD AND AUSTRALIAN ECONOMIC ENVIRONMENT

The international economic environment deteriorated noticeably in 2000-01, with all major regions experiencing weaker growth. The United States slowed abruptly in the second half of 2000 and early 2001. A decline in consumer confidence combined with falling equity prices restrained consumer spending, and the manufacturing sector appeared to fall into recession. The Japanese economy remained very fragile, with weak domestic demand accompanied by

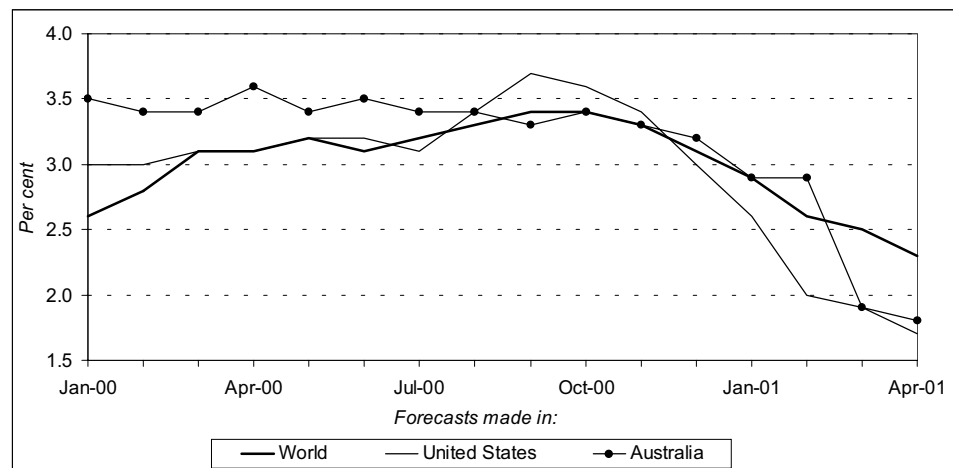
slower export growth. In much of non-Japan East Asia, domestic demand growth moderated and export growth fell sharply due to the slowdown in the United States and lower global demand for electronics. Growth in Europe also softened, although the slowdown has been less severe than in the United States.

Global interest rates have fallen in recent months to help stimulate demand and reduce the prospect of a sharper world downturn.

According to the April 2001 Consensus Economics survey, world economic growth is expected to weaken from 3.9 per cent in 2000 to 2.3 per cent in 2001, before strengthening to 3.1 per cent in 2002 (see Chart 4.1). These forecasts are similar to those published recently by the International Monetary Fund.

Much of the world growth downgrade stems from a considerably weaker outlook for the United States. This has led to a downward revision to growth prospects for our other major trading partners and Australia. Growth in the United States is forecast to slip from 5.0 per cent in 2000 to just 1.7 per cent in 2001, before recovering to 3.1 per cent in 2002. In Japan, the lengthy period of weakness is set to continue, with forecast growth of 0.9 per cent in 2001. Growth in non-Japan East Asia is also expected to moderate. However, the growth slowdown this year is expected to be less marked in Europe.

**Chart 4.1: World, US and Australian 2001 consensus growth forecasts<sup>(a)</sup>**



Source: Consensus Economics, London

Note:

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

In Australia, the Commonwealth Government's introduction of the GST on 1 July 2000 caused a disruptive cycle in spending patterns. Aggregate domestic spending was brought forward into the second half of 1999-2000 at the expense of early 2000-01. As a consequence, the national economy grew only marginally in the first half of 2000-01, having contracted by 0.6 per cent in the December quarter. This was the first quarterly decline since 1991 and reflected modest growth in consumer spending, a sharp decline in dwelling investment, and a fall in machinery and equipment investment and exports. The quarterly pattern of growth was also affected by the Olympics, which boosted activity in the September quarter.

Business and consumer confidence deteriorated across the nation over the past year. This reflected the combined impact of higher interest rates during 2000, concern about the world and domestic economic outlook, higher petrol prices and significant compliance burden problems associated with the GST. The introduction of the GST and transitional company tax payment arrangements also created liquidity constraints on some businesses.

Most commentators lowered their 2000-01 forecasts for the Australian economy in March when the December quarter contraction was reported. Average private sector forecasts reported in the Consensus Economics survey imply expected growth in the national economy of around 2 per cent in 2000-01 and around 3 per cent in 2001-02.

In the face of weaker world growth and falling domestic confidence, the Reserve Bank reduced the official cash rate by 125 basis points between February and April 2001 to help support domestic demand. The impact of the global slowdown on the Australian economy has also been cushioned by a sharp depreciation in the exchange rate, which fell by around 22 per cent against the US dollar between the beginning of 2000 and the end of April 2001, and by 13 per cent on a trade-weighted basis.

## **VICTORIAN ECONOMIC CONDITIONS**

Like the rest of Australia, Victorian economic growth moderated in 2000-01. This partly reflected a significant disruption to housing construction and some areas of consumer spending following the introduction of the GST. Nevertheless, the Victorian economy generally performed better than the rest of Australia over the past year (see Table 4.1).

State final demand (i.e. total private and public final consumption and investment spending) grew by 0.9 per cent in Victoria during 2000, compared with a 0.1 per cent decline in the rest of Australia. Consumer spending growth was softer in Victoria than nationally over the past year, although this followed

a number of years of growth well above the national rate. While housing activity fell sharply following the introduction of the GST, it held up much better in Victoria than in other parts of Australia. Victorian business investment stabilised at record levels in the first half of 2000-01. Victorian merchandise exports grew strongly in the first half of 2000-01, helping to offset weaker domestic sales.

Labour market conditions were also much better in Victoria than in the rest of Australia. Employment increased by 3.1 per cent in Victoria over the past year compared with only 0.7 per cent in the rest of Australia. Similarly, Victoria's seasonally adjusted unemployment rate of 6.2 per cent in March was below the national rate of 6.5 per cent. Victoria's population growth also exceeded the national average, supported by a continued influx of people from other States and Territories.

**Table 4.1: Comparison of Victorian and national economic indicators<sup>(a)</sup>**

	<i>Period</i>	<i>Annual growth</i>	
		<i>Victoria</i>	<i>Rest of Australia</i>
State final demand	December qtr 2000	0.9	-0.1
Household final consumption		1.6	2.7
Private dwelling investment		-12.5	-27.4
Private business investment		1.6	-14.7
International merchandise exports	December qtr 2000	0.5	5.3
Employment	March 2001	3.1	0.7
Population	June qtr 2000	1.2	1.1

*Source: Australian Bureau of Statistics*

*Note:*

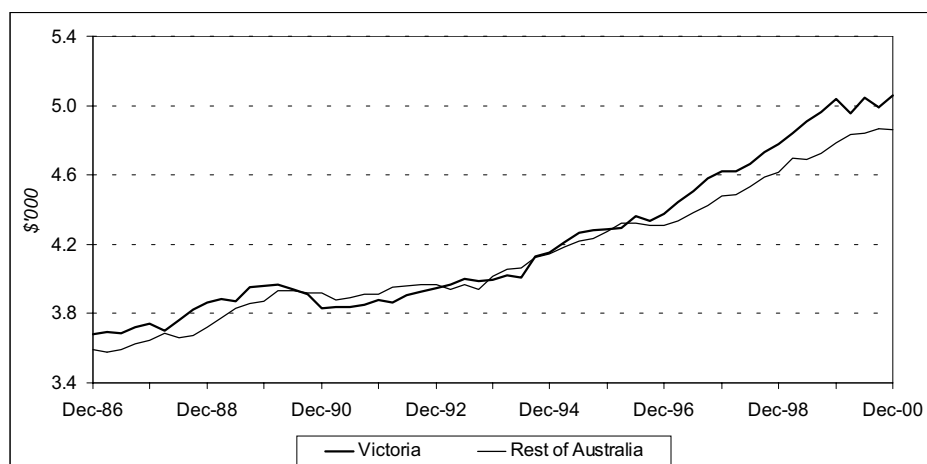
(a) *Per cent change on same period in previous year. State final demand (and its components) and exports are seasonally adjusted, chain volume measures (1998-99 prices). Employment is in seasonally adjusted terms.*

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

## **Consumer spending**

Consumer spending was heavily disrupted by the introduction of the GST, particularly in the areas of household goods, department store sales, clothing and motor vehicles. Victorian consumer spending grew strongly in the latter part of 1999-2000, then fell in early 2000-01 before recovering in more recent months. Overall, growth in consumer spending was softer in calendar 2000 than in the previous three years, during which it tended to be higher than in the rest of Australia (see Chart 4.2).

**Chart 4.2: Private consumption per person<sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

(a) Quarterly seasonally adjusted, chain volume measures (1998-99 prices).

Several factors contributed to the slowdown in consumption growth in 2000, both nationally and in Victoria. These included the impact of interest rate rises during 2000, higher petrol prices, softer employment growth in the second half of 2000 and a moderation of growth in household wealth. Household liquidity was also constrained by the need to make final payments on Telstra shares in late 2000. Consumer sentiment during 2000 was also well below the levels of 1999, and deteriorated further in early 2001.

Victorian retail sales per person, which represent around one-third of the total consumer spending shown in Chart 4.2, caught up with the national average in the past few years. Victorian retail sales have grown strongly in the past six months, after a weak performance during much of 2000. New vehicle sales surged in the first part of 2000-01 and, despite some recent volatility, have stayed at historically high levels in recent months.

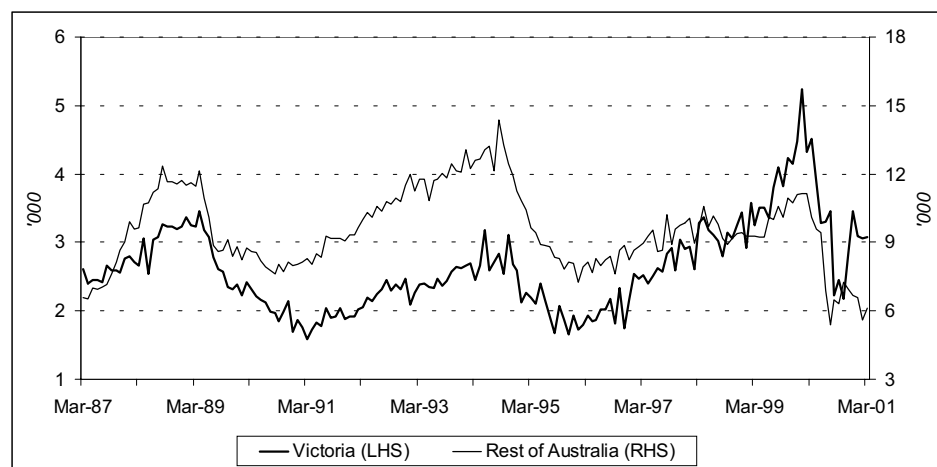
## Housing

Housing activity was disrupted by the introduction of the GST to an even greater extent than consumer spending. Victorian dwelling investment fell by 19 per cent in the first half of 2000-01, after increasing by 17 per cent in the second half of 1999-2000. More marked swings were evident in some other States.

Forward indicators such as building approvals and finance commitments have trended up since late 2000, suggesting that the housing sector is now recovering (see Chart 4.3). Nevertheless, dwelling investment is likely to be a substantial drag on economic growth in 2000-01 (although this follows the very strong contribution of the previous three years, when dwelling investment averaged unsustainably rapid growth rates of close to 20 per cent per year).

The Victorian housing sector held up better than in other parts of Australia over the past year. At its most recent trough in late 2000, private residential building approvals in Victoria were still 30-40 per cent higher than the 1995 and 1991 lows. In contrast, approvals in the rest of Australia were almost 30 per cent below the corresponding troughs. This reflects the combined effects of a more limited supply of housing in Victoria relative to other States (because of low construction in the early 1990s) and continuing population gains from interstate.

**Chart 4.3: Private residential building approvals<sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

(a) Monthly seasonally adjusted data.

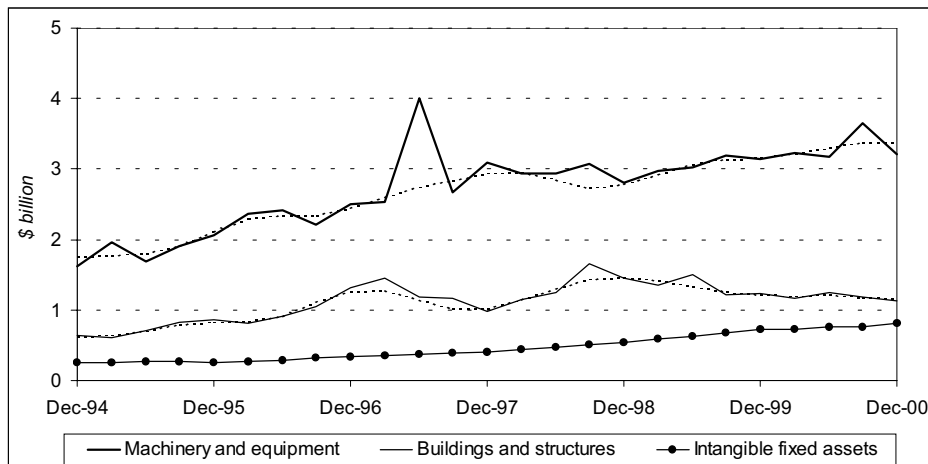
The strength of the Victorian housing market was also reflected in house price movements. According to the Real Estate Institute of Australia, the median house price in Melbourne rose by 10.2 per cent during 2000, a stronger increase than in any other capital city.



## Business investment

Business investment in Victoria levelled out in the first half of 2000-01, although remaining at record levels. Machinery and equipment investment grew strongly in the September quarter, but fell in the December quarter. Investment in buildings and structures also declined. However, investment in intangible fixed assets (mainly computer software) continued to grow rapidly (see Chart 4.4).

**Chart 4.4: Victorian private business investment <sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

(a) Quarterly seasonally adjusted, chain volume measures (1998-99 prices). The dotted lines indicate trend data, which abstract from major second-hand asset sales from the public to private sector (for example, the State Government's sale of electricity assets in 1997).

The outlook for private business investment in Victoria appears favourable, despite recent softness in business confidence across Australia. Corporate balance sheets are still in good shape, and interest rates have fallen sharply in recent months. The amount of work yet to be done on existing non-residential and engineering construction projects increased during 2000. There is a significant pipeline of work in telecommunications and electricity infrastructure, shops and hotels. Private non-residential building approvals (for new projects) were also at historically high levels in early 2001.

A number of major new private investment projects in Victoria have recently been announced, including:

- a \$1.8 billion redevelopment of Victoria Harbour over the next 15 years by Lend Lease, which will include residential, hotel, office, community infrastructure and retail developments;
- a \$600 million redevelopment of the Queen Victoria hospital site, which will consist of residential, office and retail developments;
- Holden's new \$700 million V6 engine plant at Fishermans Bend;
- a \$160 million automotive business park next to Ford in Campbellfield, which will accommodate several of Ford's component suppliers; and
- a new \$150 million gas-fired electricity plant in the Latrobe Valley, to help cope with peak demand periods.

The Government's public-private partnerships policy, Partnerships Victoria, is aimed at utilising private investment to enhance public infrastructure in the State (see Chapter 8, *Balance Sheet Management and Outlook* for more details).

### **Agricultural conditions**

The agricultural sector in Victoria has been experiencing its most favourable conditions for many years. It is rare for both the current situation and the outlook to be so favourable for the majority of agricultural commodities.

World dairy prices (apart from butter) improved substantially during 2000. Skim milk prices rose by 36 per cent, reflecting lower production and the elimination of public stocks in the European Union. ABARE projects that world demand for dairy products will continue to grow more strongly than supply over the next five years, due to rising consumer incomes and developing tastes, especially in the Middle East, parts of Asia and South America.

However, ABARE also warns that dairying is still one of the most highly supported agricultural industries overseas, and that positive outcomes from trade negotiations will be necessary to allow Australian producers to capture the highest possible benefits from future export opportunities. Deregulation of the dairy industry in Australia, while temporarily disturbing and challenging for some, will provide the best possible domestic conditions for efficient Victorian producers to compete successfully in export markets over the longer term.

Assuming normal seasonal conditions, present indications are that winter planting plans for wheat and barley in Victoria will result in another large crop in 2001. This follows the record 5.6 million tonnes of grain produced in 2000 (the previous record was in 1983-84). According to the Department of Natural Resources and Environment, rainfall during March over much of the Victorian grain belt allowed farmers to make an early start to paddock preparation for winter crops.

Victorian wool growers are receiving better returns due to the gradual selling of the wool stockpile combined with robust world demand and higher synthetic material prices. ABARE forecasts wool prices to continue rising over the medium term, after a 16 per cent rise in the past year. Consequently, lamb production is expected to decline after a sustained rise in the past four years, as sheep farmers switch back to wool production.

High quality grapes and ideal weather for harvesting could result in some of the best wines ever produced in Sunraysia, as the region accelerates its shift into the higher-priced end of the wine market. The record heat in January reduced the expected yields for some varieties but greatly improved the quality of the crop.

## **International trade**

Victorian firms enjoyed strong export growth over the past year, reflecting robust world growth and a very competitive exchange rate. This has helped to offset softer domestic sales, particularly since mid-2000.

In volume terms, Victorian exports grew by 15 per cent in the first half of 2000-01, after declining in the second half of 1999-2000. Over the same period, import volumes were flat, reflecting the moderation in domestic demand growth and the impact of the depreciation in the currency (which made imports more expensive). Overall, net exports contributed positively to economic growth in the first half of 2000-01.

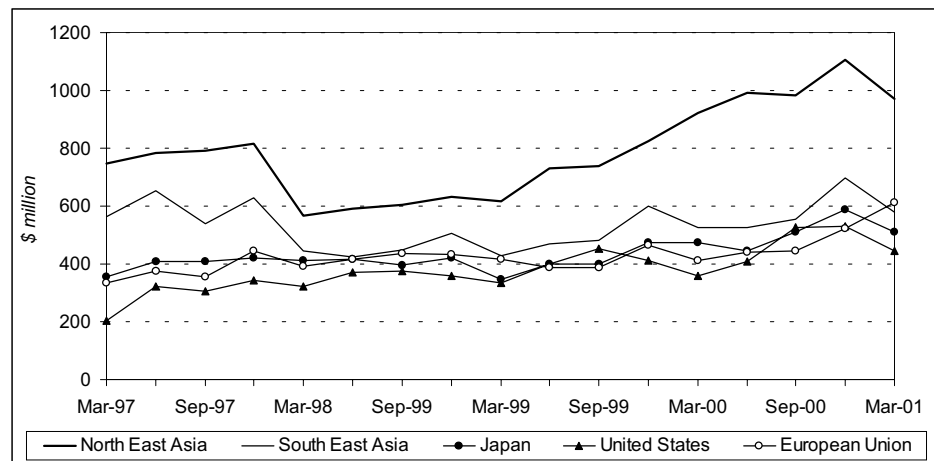
The sharp depreciation in the Australian dollar since early 2000 boosted the price of Victorian exports measured in local currency terms. As a result, the value of exports rose by 19 per cent in the first half of 2000-01.

Merchandise trade data provides a more detailed picture of Victoria's export performance. Growth in the value of exports over the past year was broadly based across Victoria's major trading partners, including East Asia, the European Union and United States (see Chart 4.5). Victorian exports to most regions fell in the March quarter, although this followed strong growth in the previous quarter and partly reflected seasonal factors.

Food exports, which account for almost 30 per cent of total Victorian non-gold exports, rose by one-sixth over the past year. This included strong growth in exports of dairy products to East Asia and meat products to Japan and the United States. Exports of other primary products such as wool also increased. In the wine industry, Australian exports are forecast to be greater than domestic sales for the first time in 2000-01. Wine exports are projected to continue increasing as a share of total sales in coming years.

Manufactured exports grew solidly over the past year. This included increased exports of cars to the Middle East, pharmaceutical products to the United States and aluminium to Japan.

**Chart 4.5: Victorian non-gold merchandise exports<sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

(a) Quarterly original data, current prices.

### Labour market

Victoria enjoyed strong labour market conditions over the past year. In March 2001, 2.31 million Victorians were employed, which was 68 500 persons (3.1 per cent) higher than a year earlier (see Chart 4.6a).

The Victorian labour market performed very well in the face of national weakness. Employment growth over the past year was much stronger in Victoria than in any other State or Territory. Victoria accounted for well over half of all new jobs created in Australia, which is well above the State's 25 per cent share of national output.

The relatively strong Victorian employment performance appears to reflect:

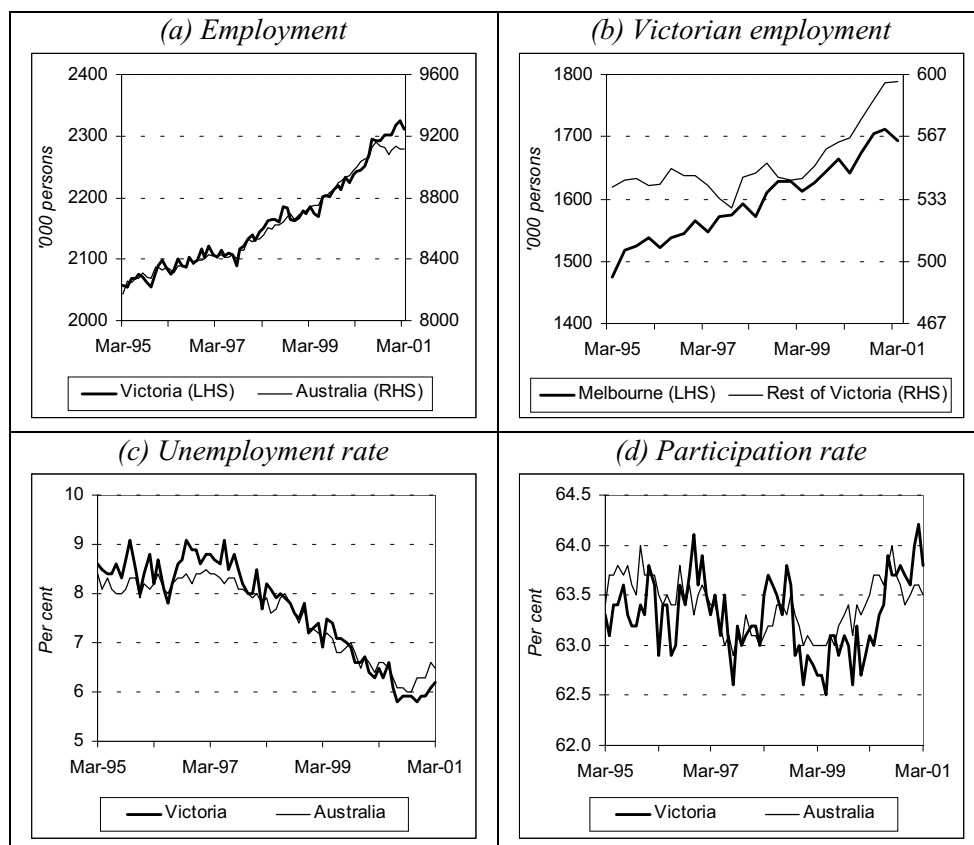
- renewed confidence in regional Victoria coupled with favourable agricultural conditions;
- the less severe downturn in the Victorian construction industry;
- strong growth in Victorian manufacturing employment (especially in machinery and equipment), despite some high profile company closures, and in health and community services; and
- stronger growth in the number of trainees and apprentices in Victoria than in the rest of Australia.

Employment growth was stronger in rural and regional Victoria than in Melbourne (see Chart 4.6b). Employment outside Melbourne grew by 5.2 per cent over the year to the March quarter 2001, compared with 3.2 per cent in Melbourne (in original terms; see regional economic performance section below for more details).

Victoria's seasonally adjusted unemployment rate fell by 0.3 percentage points over the year to March 2001 to 6.2 per cent, to be below the national rate of 6.5 per cent (see Chart 4.6c). This was despite a large rise in the number of people seeking work (see Chart 4.6d).

Most business surveys and other forward indicators suggest employment growth will moderate over the coming year. According to the ANZ Bank, job advertisements in Victoria fell by 28 per cent over the year to April 2001, compared with a 34 per cent decline nationally. The ABS job vacancy series also declined.

**Chart 4.6: Labour market indicators<sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

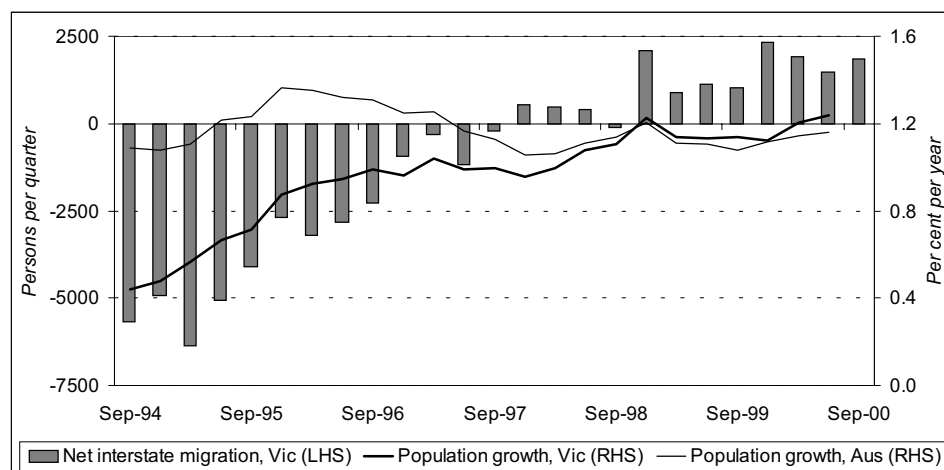
(a) Monthly seasonally adjusted data. Employment for Melbourne and the rest of Victoria is quarterly original data, used to smooth out volatility in the monthly data.

## Population

Victoria's population was 4.77 million persons at June 2000, representing 24.9 per cent of Australia's population. Victoria's population grew by 58 300 persons (1.2 per cent) during 1999-2000. For the second consecutive year (and the first period since consistent records began in 1971), Victoria's population growth exceeded the national rate (see Chart 4.7). Victoria's population growth rate is currently well above its long-term average of 1.0 per cent per year.

Most of Victoria's population growth in 1999-2000 came from natural increase (26 800) and net overseas migration (24 800). For the third consecutive year, Victoria experienced a net inflow of people from interstate (6 700), particularly from New South Wales, South Australia and Tasmania. A further increase in net interstate migration was recorded in the September quarter.

**Chart 4.7: Interstate migration and population growth<sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

(a) Quarterly data. September quarter total population is not yet available.

## Regional economic performance

Victoria's robust economic performance over the past year was evident across both metropolitan Melbourne and rural and regional Victoria.

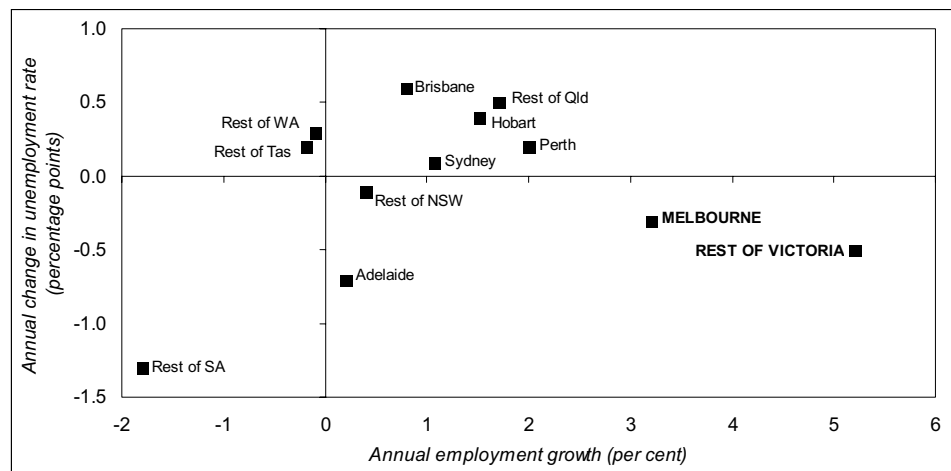
### Regional labour market conditions

Labour market conditions provide a timely and comprehensive picture of regional economic performance. Victoria's regional labour market performance compared very favourably with other States (see Chart 4.8). Employment growth of 3.2 per cent in Melbourne over the year to the March quarter 2001 exceeded all other State capitals. Employment growth of 5.2 per cent in rural and regional areas over the same period was also much stronger in Victoria than in any other State.

Melbourne's average unemployment rate fell by 0.3 percentage points to 6.6 per cent over the year to the March quarter 2001 (see footnote to Chart 4.8), which was the second largest decline of all State capitals (behind Adelaide, where the fall was due largely to a decline in the labour force participation rate). Melbourne's unemployment rate is the second lowest of all capitals, after Sydney.

The average unemployment rate in rural and regional Victoria fell by 0.5 percentage points to 7.6 per cent over the past year, despite a sharp rise in the number of people seeking work. Only South Australia recorded a larger fall in their average rural and regional unemployment rate, although this was due to declining labour force participation more than offsetting falling employment.

**Chart 4.8: Regional labour market performance by State<sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

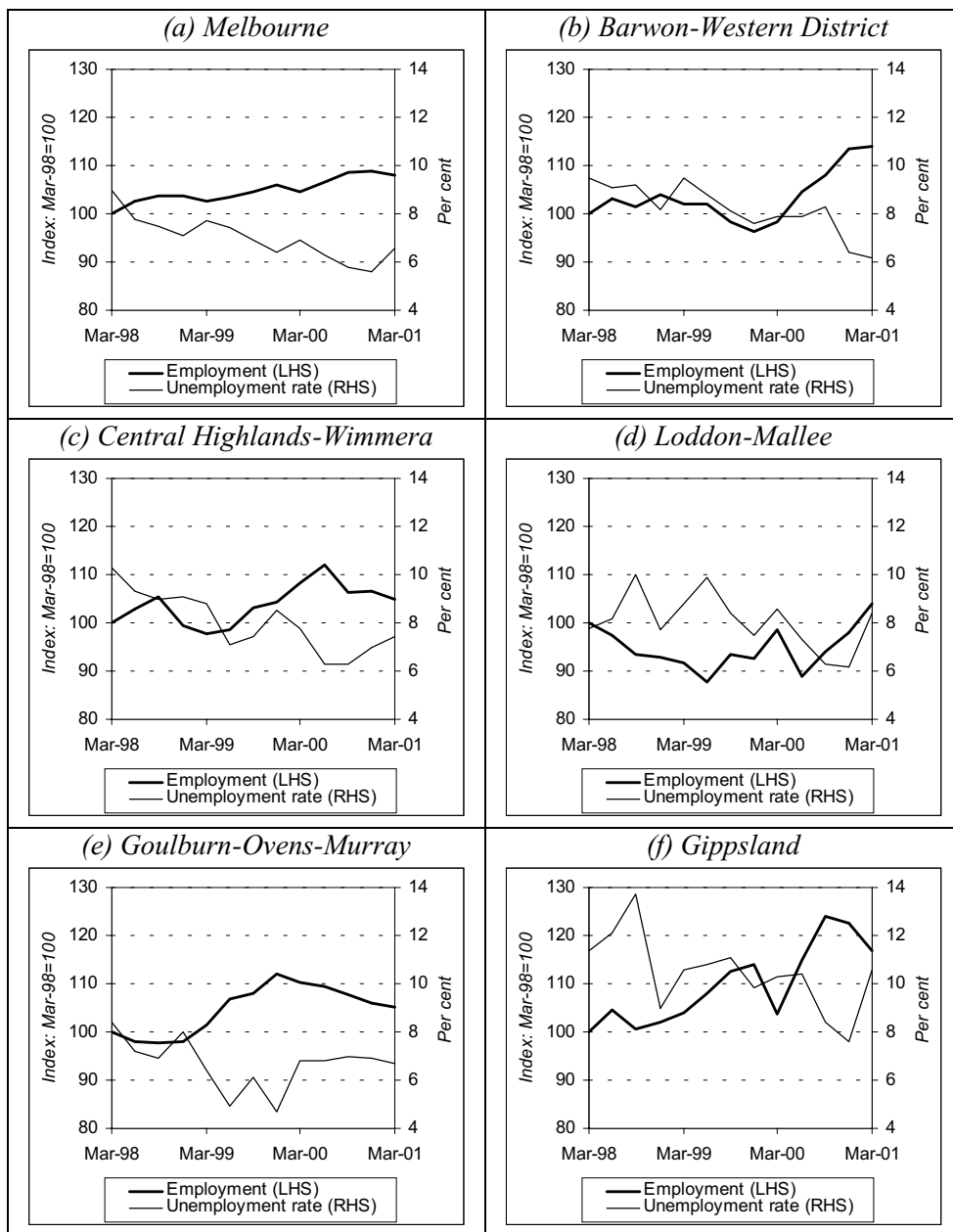
(a) Change in average employment and unemployment rate over the year to the March quarter 2001, original data. Regional labour force data incorporating recent changes to the ABS labour force survey (announced on 3 May 2001) are not yet available. However, aggregate Victorian and Australian data reported in the labour market section above incorporate the changes to the survey, which have lowered measured unemployment rates.



Although aggregate labour market conditions in rural and regional Victoria improved, significant differences remain between various areas in the State (see Chart 4.9).

- In the Barwon-Western District, employment rose by 16.1 per cent over the past year, including strong growth in Geelong and Warrnambool. Jobs growth in the region has been boosted by a boom in tourism and significant construction activity along the coast. The region's unemployment rate fell sharply over the past year to 6.2 per cent, to be below Melbourne's rate.
- In the Central Highlands-Wimmera region, employment fell by 3.2 per cent over the past year. The unemployment rate declined to 7.4 per cent.
- In the Loddon-Mallee region, employment grew by 5.8 per cent over the past year. This included increased employment in Bendigo and Mildura. The region's unemployment rate fell slightly to 8.4 per cent.
- In the Goulburn-Ovens-Murray region, employment fell by 4.5 per cent over the past year. The unemployment rate was broadly unchanged over the past year, at 6.7 per cent.
- In the Gippsland region, employment grew by 12.9 per cent over the past year, although weakening in the past six months. Employment increased in the Latrobe Valley and Bairnsdale over the past year. Gippsland's unemployment rate rose to 10.6 per cent, which is still the State's highest regional unemployment rate.

**Chart 4.9: Victorian regional labour market performance<sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

(a) Quarterly original data.

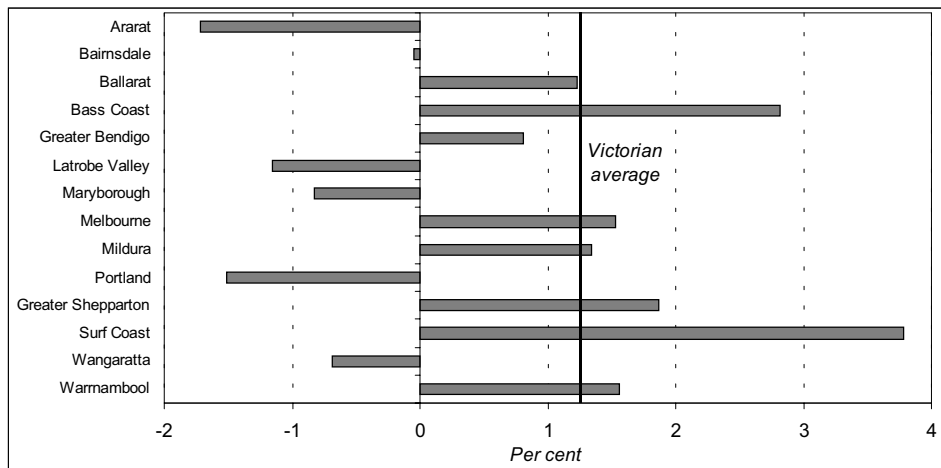
## Regional population growth

Victoria's population growth was concentrated in Melbourne, large regional centres and coastal areas in 1999-2000 (see Chart 4.10). This continued a long-term trend also evident in other parts of Australia.

Melbourne's population grew by 52 100 persons (1.5 per cent) in 1999-2000. The south-eastern city of Casey had the nation's third largest population increase of all local government areas in 1999-2000. Other large population rises were recorded in Melton and Hume. The shift towards inner city living continued. The population in the city of Melbourne has grown at an annual average rate of 6.6 per cent in the past five years, making it one of Australia's fastest growing areas.

Population in the rest of Victoria grew more modestly by 6 100 persons (0.5 per cent) in 1999-2000. Large regional centres such as Ballarat, Bendigo, Geelong, Mildura and Shepparton enjoyed solid population growth. Coastal areas such as the Bass Coast and Surf Coast are also becoming increasingly popular. In contrast, population losses continued in the Latrobe Valley and smaller towns such as Ararat, Maryborough, Portland and Wangaratta.

**Chart 4.10: Victorian regional population growth 1999-2000<sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

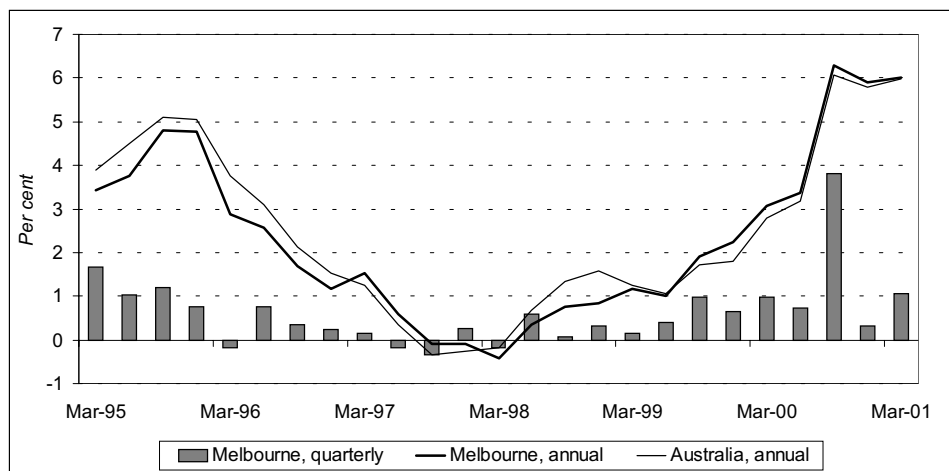
(a) Based on local government area boundaries.

## Prices and wages

The Melbourne consumer price index rose by 6.0 per cent over the year to the March quarter 2001, similar to the national average (see Chart 4.11). The new Commonwealth tax system is estimated to have added around 2.75 percentage points to inflation in the September quarter. Petrol prices added a further 0.5 percentage points to inflation over the past year. Abstracting from these impacts, annual inflation was around 2.75 per cent.

Core inflation has been subdued at a time when businesses have experienced a significant rise in production costs, including a sharp rise in import prices following the depreciation of the Australian dollar. Competitive pressures, combined with a moderation in domestic demand since mid-2000, appear to have made it more difficult for firms to pass on these higher costs to consumers.

**Chart 4.11: Consumer price inflation**



Source: Australian Bureau of Statistics

Ongoing moderate wages growth also contributed to a low rate of core inflation, with the wage cost index in Victoria increasing by 3.4 per cent over the year to the December quarter.

## VICTORIAN ECONOMIC OUTLOOK

### Economic projections

The economic projections used in the 2001-02 Budget are set out in Table 4.2. As usual, these have been prepared on a no policy change basis.

In line with national trends, Victorian economic growth is forecast to moderate to 2.5 per cent this year and 2.75 per cent in 2001-02. Victorian economic growth is forecast to strengthen to 3.75 per cent in 2002-03. The projections assume growth of 3.5 per cent in later years.

State final demand growth is expected to weaken more sharply than overall economic growth in 2000-01, with the difference reflecting a stronger net export performance. The weakness in state final demand in part reflects the impact of the GST on housing and consumer spending.

In 2001-02, state final demand growth is projected to strengthen, with consumer spending growth improving and dwelling investment stabilising. However, net international merchandise exports are expected to detract from economic growth next year. Moderating global activity is likely to reduce growth in Victorian exports, which have performed strongly in the past two years. Import growth is forecast to pick up in response to stronger domestic demand growth.

Although economic growth of 2.75 per cent in 2001-02 is forecast to be only moderately higher than in 2000-01 in year-average terms, growth should strengthen through the course of the year.

Employment growth is forecast to ease to 0.5 per cent in 2001-02 in year-average terms. However, as with economic growth, employment growth is expected to improve through the course of the year, to around 1.25 per cent over the year to the June quarter 2002. The labour force participation rate is expected to decline slightly to its average of the past three years. Victoria's average unemployment rate is projected to be 6.5 per cent in 2001-02, before edging down in later years.

Consumer price inflation is forecast to moderate to 2.0 per cent in 2001-02, as the initial price impact of the GST and past oil price rises wane, and savings from changes in the indirect tax system flow through to consumers. In particular, business costs should be lower than otherwise because of the removal of wholesale sales tax on capital equipment. Financial institutions duty and stamp duty on quoted marketable securities will also be abolished from 1 July 2001. Victorian business costs will be further reduced by the State Government's decision to lower payroll tax, raise the land tax threshold and

remove the stamp duty on non-residential leases (see Appendix B, *Output, Asset Investment and Revenue Initiatives* for details).

The economic projections assume annual wage growth will remain moderate at 3.5 per cent over the forecast period.

The population growth projections are based on the ABS Series R projections which assume, among other things, net interstate migration eventually eases to a gain of 2 000 persons per year. Of the range of population projections prepared by the ABS, Series R is the most consistent with recent trends in interstate migration to Victoria.

**Table 4.2: Victorian economic projections<sup>(a)</sup>**

	Actual Projections					
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Gross state product	4.6	2.50	2.75	3.75	3.50	3.50
Employment	2.5	3.25	0.50	1.50	1.50	1.50
Unemployment rate <sup>(b)</sup>	6.6	6.00	6.50	6.25	6.00	6.00
Participation rate <sup>(b)</sup>	63.0	63.75	63.25	63.25	63.25	63.25
Consumer price index	2.6	6.00	2.00	2.25	2.25	2.25
Wage cost index <sup>(c)</sup>	2.9	3.50	3.50	3.50	3.50	3.50
Population <sup>(d)</sup>	1.2	1.20	1.00	1.00	0.90	0.90

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

Notes:

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

## Risks to the economic projections

This section outlines the major risks to the economic projections. Risks to the Budget more generally are discussed in Chapter 9, *Statement of Risks*.

The main uncertainties to the Victorian economic outlook stem from international developments and other risks to the national economy from which Victoria would not be immune. There is also one risk specific to Victoria (i.e. population growth).

There is considerable uncertainty about the outlook for the world economy. A sharper and/or more protracted slowdown in the United States than anticipated is a major risk to the Victorian outlook. There are several potential catalysts for a more marked slowdown in the United States, including a slump in consumer

confidence and spending, and a severe asset price downturn. Historically, Australian economic growth and financial market conditions have been closely linked to developments in the United States. A sharp downturn in the United States would reduce global and interstate demand for Victorian exports. World equity markets have fallen heavily over the past year, affecting household wealth and consumer and business confidence. If sustained, this could have a noticeable impact on domestic spending patterns.

On the other hand, there are reasons to suggest that the downturn in world growth may be short lived. The strength of March quarter growth in the United States, although modest at 0.5 per cent, surprised many commentators. More broadly, the extent of global monetary policy easing in the first half of 2001 enhances the prospects for a recovery in world activity later this year and into 2002. Australian interest rates have also fallen in the past few months, which will help to stimulate domestic demand and mitigate the impact of weaker world growth on the national and Victorian economy.

Domestic firms have faced significantly higher production costs over the past year, due mainly to oil price and exchange rate movements. If these cost increases eventually flow through to consumer prices, this could result in interest rates being higher, and economic growth lower, than otherwise.

The Victorian population projections assume net interstate migration gains stabilise at 2 000 persons per year over the forecast period. This is slightly below the gains recorded in the past two years, but considerably above the average net loss of 11 000 persons per year recorded over the past two decades. A change in net interstate migration of 10 000 persons per year in either direction would, other things equal, change Victoria's annual population and GSP growth by around 0.25 percentage points.





## CHAPTER 5: GROWING THE WHOLE STATE

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- The Government is focusing on establishing a business environment that is conducive to investment and job creation. Key elements of this task include ensuring a competitive taxation system, delivering an efficient regulatory structure, encouraging environmentally sustainable industry practices and building a strong infrastructure base, all underpinned by sound state financial performance.
- New infrastructure projects of \$2.13 billion will commence in 2001-02. This includes \$780 million for transport, \$514 million for health and \$336 million for community safety. These infrastructure projects will contribute to net purchase of fixed assets rising from \$1 744 million in 2001-02 to \$1 950 million in 2004-05.
- The Government will build on Victoria's strengths as a creative and innovative economy. \$359 million will be invested in Victorian schools, TAFE institutes and research centres to enhance learning environments and research activity. In addition, the Government will provide:
  - \$11 million to directly fund ICT traineeships, scholarships and research;
  - a further \$10 million of seed funding to establish a joint government/industry endowment to provide scholarships and assist young researchers; and
  - \$32 million over four years to promote film and television production.
- The Government is investing \$193 million over four years in new initiatives to improve Victoria's environmental sustainability and biodiversity by tackling salinity, protecting Victoria's marine environment and restoring flows to the Snowy River.
- The Government's tax reform package, *Better Business Taxes: Lower, Fewer, Simpler*, reduces the burden of payroll tax, cuts the number of state business taxes and reduces red tape for all Victorian businesses. In total, \$774 million has been allocated to business tax cuts over the next four years, rising from \$100 million in 2001-02 to \$351 million in 2004-05.

## **BUILDING FOR TOMORROW**

The Government is committed to building a new Victoria for the 21st century where all Victorians will have the opportunity to contribute to, and share in, Victoria's growth and economic prosperity.

Over the past 18 months, the Government has put in place a coordinated set of strategies to achieve this goal and, in so doing, to sustain existing jobs and encourage jobs growth across the whole State.

Recognising the dynamic setting in which the Victorian economy is operating, the Government has focused on establishing a business environment that is conducive to investment and job creation. Key elements of this task include ensuring a competitive taxation system, delivering an efficient regulatory structure, encouraging environmentally sustainable industry practices and building a strong infrastructure base, all underpinned by sound state financial performance. The Government has also taken targeted action that recognises the strengths of both the public and private sectors. These actions are needed to encourage innovation and creativity in both traditional and emerging industries, as well as to improve the operations of government and service delivery.

The Victorian economy has responded strongly. Over the past year, Victoria has generally outperformed the rest of Australia. Employment growth was the strongest in the nation, with 68 500 jobs created in the year to March 2001. This was more than half of all new jobs created in Australia over this period. Of the new jobs in Victoria, more than one in three were created in rural and regional Victoria.

In framing the 2001-02 Budget, the Government recognises that employment is, and will continue to be, a cornerstone of improving quality of life for all Victorians. The Government also recognises that the Victorian economy is operating in an environment of significant national and international uncertainty. The introduction of the GST disrupted national economic performance, while the international economic environment, particularly in the United States, deteriorated noticeably in 2000-01.

Victoria cannot expect to be quarantined from the impact of these broader economic conditions, despite our relatively strong performance to date. The 2001-02 Budget has therefore been structured to target jobs growth, both for today and for the future. Recognising that the Victorian Government does not have direct control over all the influences (e.g. exchange rates and interest rates) on the State's economic development and employment growth, the budget sets in place a series of measures designed to complement existing strategies and build upon the work already being undertaken. These measures include:

- investing heavily in social and economic infrastructure, to be funded in part through the allocation of the Growing Victoria infrastructure reserve;
- building a creative and innovative economy, with a substantial investment in education, training and research institutions and the establishment of the Victorian Endowment for Science, Knowledge and Innovation (VESKI);
- improving environmental sustainability with a series of initiatives focussing primarily on the sustainable use of Victoria's water resources; and
- enhancing Victoria's business environment, including the implementation of the Government's tax package – *Better Business Taxes: Lower, Fewer, Simpler*.

## INVESTING IN INFRASTRUCTURE

Modern and efficient infrastructure is essential to job creation and economic activity. Building infrastructure provides new jobs directly. It also enables improvements in productivity that enhance overall economic performance, as well as enabling more environmentally sustainable industry practices to be embedded into the Victorian economy.

New infrastructure projects of \$2.13 billion have been approved since the 2000-01 Budget. These new infrastructure projects, together with previously announced projects, will contribute to net purchase of fixed assets rising from \$1 744 million in 2001-02 to \$1 950 million in 2004-05.

Total spending on infrastructure has been supplemented by the allocation of funds from the Growing Victoria infrastructure reserve. A \$1 billion Growing Victoria infrastructure reserve was established in the 2000-01 Budget to fund investments of considerable social, economic and environmental benefit to the State. The primary focus of the Growing Victoria infrastructure reserve is on:

- major transport infrastructure projects – Linking Victoria;
- significant modernisation programs in education and training – Skilling Victoria; and
- ICT facilities and capabilities – Connecting Victoria.

Significant infrastructure investments in these key areas, and in the core service delivery areas, are detailed below. The specific allocation of the Growing Victoria reserve is detailed in Appendix G, *Growing Victoria Infrastructure Reserve*. Due to a better than expected budget outcome for 2000-01, the Growing Victoria infrastructure reserve has been boosted by an additional \$175 million, of which \$150 million is yet to be allocated.

## **Transport – Linking Victoria**

The State's transport infrastructure provides 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, environment and communities is dependent on an integrated transport system operating at minimum cost and high standards of service quality and timeliness.

Consistent with the aim of an integrated system, the Government's Linking Victoria program is aimed at revitalising 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. Investing in rail transport infrastructure will also assist in improving air quality and reflects the Government's commitment to environmentally sustainable development.

The 2001-02 Budget incorporates a number of major Linking Victoria transport infrastructure initiatives. These initiatives aim to improve regional freight and passenger rail links, road links and the Melbourne metropolitan public transport enhancements.

### ***Regional freight links***

The Government is moving to convert to standard gauge those parts of the rail network that have critical links to ports and where investment will return high net benefits in terms of reduced freight costs, increased efficiency, reduced operating costs and greater interport competition. Funding of \$96 million over five years will be provided for the standardisation of regional freight lines. Funding contributions are also being sought from the Commonwealth Government and the private sector to enable the rail standardisation program to be completed. Standardisation will stimulate regional and trade exposed industry development by improving access to global, interstate and regional markets for Victorian producers and manufacturers, and provide an integrated and seamless freight and logistics system. It is expected that rail transport's share of freight will increase as a result of improved competitiveness with road.

Complementary to this standardisation is an improvement to the most critical land transport corridor in Australia, the corridor between Melbourne and Sydney. In 2001-02, \$30 million has been allocated for the realignment of the current railway through Wodonga's central business district to a route parallel to the Hume Highway, a new passenger terminal and a multi-modal logistics hub at West Wodonga. This will promote urban and economic development and

improve the livability of Wodonga. The removal of five level crossings will improve public safety.

The consolidation of freight activities to a single-purpose site is expected to streamline Wodonga's freight handling activities for local business, increase the level of traffic into and from Victoria's ports, and lower rail operating costs by reducing distance travelled and improving train speeds. The Government has also committed to funding track improvements for the South Gippsland (Leongatha) line for rail freight purposes.

### ***Regional rail passenger links***

The Government is allocating \$33 million to restore rail passenger services to four regional centres: Mildura, Ararat, Bairnsdale and South Gippsland (Leongatha). An extension of Victoria's country rail services will promote regional development and will deliver high-quality transport services to these four regional centres. The reintroduction of country rail services is a key part of the Government's aim to improve intercity and country connections and access to transport services for all Victorians.

The amount of \$550 million (which includes \$80 million provided last year) has been allocated from the Growing Victoria infrastructure reserve for fast rail links to service the regional corridors to Ballarat, Bendigo, Geelong and the Latrobe Valley. This initiative, which will improve connections between Melbourne and these key regional centres, will support growth in the regional economy.

### ***Metropolitan rail passenger links***

The Government has provided additional funding for a package of works to complement the Sydenham rail electrification project, including the upgrade of Sydenham Station, car parking and interchange works. The works will provide improved public transport including the construction of a new railway station near Taylors Road at Delahey, a developing area in Melbourne's north western suburbs.

In addition, the Government has already announced a commitment to extend the tram route 109 from Mont Albert to Box Hill. Additional funding has now been provided for property acquisitions relating to this extension, which will provide a better travel option for train and tram commuters, augmenting existing but heavily patronised services.

The combined funding for these initiatives totals \$20 million.

### **Regional roads and bridge links**

Consistent with the Government's commitment to extend the Eastern Freeway to Ringwood, and to run a program of community consultation in relation to tunnelling options, the Government has provided additional funding of \$71 million to construct the selected route, which meets community objectives to preserve sensitive bushlands and the environmentally sensitive Mullum Creek in Donvale. When completed, the extension will bring long-awaited benefits to eastern Melbourne, reducing traffic congestion and delivering lower transport costs.

The Government has committed to further investment in key regional arterial road links. The first of these projects, the Bass Highway, is a major rural arterial road that handles high volumes of tourist traffic. Both local and overseas visitors use the highway to travel to the Bass Coast region and Phillip Island, one of the State's most popular tourist destinations. The road section between Bay Road and The Gurdies will be duplicated to cater for these high volumes of tourist traffic and to support regional development in this part of Victoria. The initiative will also deliver improved road safety outcomes.

Other high-profile projects within this program include the interstate links across the Murray River that are vital for rural production and the social and economic wellbeing of the adjoining communities. Existing bridges providing these links at Corowa, Echuca, Robinvale and Cobram-Barooga have deficiencies in traffic and load capacity and are costly to maintain. Funding has been set aside for Victoria's share of the upgrade of these bridges commencing with \$0.7 million in 2001-02. Both the Commonwealth and the NSW Governments are also expected to contribute to these projects over the next three years.

### **Education and training – Skilling Victoria**

Education and training are critical to Victoria's economic development, both as a centre for innovation and in order to meet the challenges of new developments in industry. Flexibility and lifelong learning are central to ensure that the workforce has the appropriate mix of skills to respond and adapt to changes in technology and to broader industry changes.

The Government is committing \$223 million from the Growing Victoria infrastructure reserve, commencing from 2001-02, for enhancing education, training and research infrastructure facilities across Victoria. A range of schools, TAFE and research institutes will receive funding to enhance and improve their facilities, providing Victorians with world class learning environments. In addition, the Government is committing \$131 million from

2001-02 for the construction, modernisation and replacement of schools and TAFE institutes.

Infrastructure initiatives designed to enhance Victoria's schools, TAFEs and research institutions are detailed in the Driving Innovation section of this chapter.

## **Information and communication technology – Connecting Victoria**

Information and communications technologies are transforming the way business, government and the community operates. If Victoria is to meet the challenges and opportunities in the emerging innovative economy it is essential to develop ICT facilities and capabilities across the State.

The 2001-02 Budget will provide \$155 million, of which \$142 million is from the Growing Victoria infrastructure reserve, to fund initiatives that will enhance Victoria's ICT facilities and capabilities. These include ICT infrastructure initiatives such as the ICT Strategy for Health Care, the Broadband ICT Delivery for TAFE, Bridging the Digital Divide and the modernisation of schools facilities to incorporate ICT.

Infrastructure initiatives designed to enhance Victoria's ICT facilities and capabilities are detailed further in the Driving Innovation section of this chapter.

## **Social infrastructure**

The construction of social infrastructure is important to jobs growth across Victoria. It is also an essential element in delivering improved services to all Victorians, today and in the future.

The Government has allocated \$484 million for human services infrastructure with initiatives that involve upgrades to infrastructure in a range of public health care facilities and upgrade and replacement of essential hospital equipment. This includes funding of \$35 million over four years that will enable the continuation of an ongoing state residential aged care upgrade.

To improve community safety, total funding of \$34 million has been allocated to upgrade and replace existing police stations at Bellarine, Croydon, Diamond Creek, Endeavour Hills, Gisborne, Kilmore and Maryborough. A further \$30 million has been committed to upgrade numerous police stations and court facilities in rural and regional Victoria. In order to manage expected long-term growth in the adult prison system the Government will, from 2001-02, invest \$166 million to expand overall permanent capacity by a further 716 beds. In

addition, a further \$50 million over ten years will be provided to upgrade the safety of cells within existing prison accommodation.

The Government has also provided funding of \$8.5 million for planning and construction of facilities for the Commonwealth Games, including \$3.2 million for the Northcote Velodrome.

Chapter 6, *Delivering Improved Services* and Appendix B, *Output, Asset Investment and Revenue Initiatives* provide further details of significant government investment in social infrastructure, in particular, health, police and prisons.

## **DRIVING INNOVATION**

Over the past 18 months, the Government has put in place an integrated program of initiatives designed to sustain existing jobs and encourage jobs growth in the future by enhancing Victoria's position as the innovation centre of the Australian economy.

Underpinning the Government's approach is an understanding that Victoria's ability to develop globally competitive industries and sustainable high-value jobs depends on how Victoria creates, accesses and uses knowledge, and on how well we foster the development of a skilled, creative and innovative workforce. This is as true for traditional industries such as manufacturing, primary production and services, as it is for newer industries such as ICT and biotechnology which have emerged over the past two decades. Creativity, innovation, flexibility and skills have become the hallmarks of the globally oriented Victorian economy.

Victoria's changing economic landscape requires that all participants, be they public or private, recognise that innovative thinking and creative action is required to take advantage of the opportunities and meet the challenges presented by technological innovation and scientific advance.

For government, this includes a role in ensuring that the benefits of innovation and creativity are shared equitably by workers and businesses across all industries and throughout the whole State. There is also considerable scope for government action to strengthen Victoria's position as a creative and innovative economy, and to empower Victorians to take advantage of the job opportunities that such an economy provides. In particular, there are opportunities to bolster the linkages between research, innovation and commercialisation and to encourage the emergence of strong, mutually supportive clusters of globally successful businesses. Government also has a clear role in ensuring that current and future Victorian workers have access to world-class education, training and



infrastructure, and in supporting the development of environmentally sustainable industry practices.

The Government's approach to enhancing Victoria's position as the innovation centre of the Australian economy incorporates each of these elements. Key components are already in place, including:

- a \$272 million investment in education and training, which aims to provide all Victorians with access to education and lifelong learning opportunities;
- the \$20 million Technology Commercialisation Program, which is designed to increase the rate of commercialisation of Victoria's science and technology ideas;
- the Connecting Victoria strategy, which outlines an integrated approach to the development of the ICT industries and the sharing of the benefits of these technologies by all Victorians;
- the \$310 million for the Science, Technology and Innovation (STI) Initiative, which is a five-year program to catalyse the development of world-class infrastructure and capabilities in Victoria;
- the skills × knowledge = growth statement, which sets out an integrated ICT skills strategy for industry development in Victoria; and
- \$15 million to implement electronic purchasing across all departments.

The 2001-02 Budget builds on these initiatives, and sets out the next steps in the Government's ongoing priority to enhance Victoria's position as the innovation centre of the Australian economy. In particular, this budget recognises that boosting learning skills development and training is vital to economic progress and social prosperity and is critical to meeting industry's workforce needs, now and into the future. The 2001-02 Budget therefore commits \$359 million, of which \$305 million is from the Growing Victoria infrastructure reserve, to encourage innovation in Victoria through initiatives that promote learning and skills development. These initiatives include:

- enhancing Victoria's learning environment through a \$287 million investment in education and training infrastructure, with a particular focus on science and technology;
- encouraging Victoria's research and knowledge creation through a \$72 million investment in research and education institutions, particularly in the areas of agriculture, viticulture, gene technology and space science;
- fostering talented individuals and research activity by providing \$11 million to directly fund ICT traineeships, scholarships and research activity, an additional \$10 million of seed funding to establish a joint

government/industry endowment to facilitate science, knowledge and innovation, and funding of \$32 million over four years to promote film and television production; and

- government leadership in ICT uptake and adoption through its e-government strategy and modernisation of government services.

### **Enhancing Victoria's learning environment**

Education and training are integral to Victoria's economic and social development. A highly skilled, flexible and creative workforce is essential to enhance Victoria's position as a centre of innovation, both in traditional industries such as manufacturing and finance and in newer ones such as ICT and biotechnology.

To deliver world-class education and training requires a substantial investment in Victoria's schools and TAFE infrastructure. Since coming into office, the Government has invested \$272 million upgrading and modernising Victoria's learning institutions.

In the 2001-02 Budget, the Government is investing a further \$287 million in a series of initiatives designed to enhance Victoria's education and training facilities and equipment.

To increase the capacity of schools and TAFEs to deliver leading edge and relevant education and training across a range of areas, and to increase the accessibility of modern learning facilities to students across Victoria, the Government is committing:

- \$38 million (of a \$90 million TEI program set aside for education, training and research infrastructure) for the modernisation of science laboratories, libraries and other learning facilities in schools across Victoria;
- \$45 million for enhancements designed to provide TAFE institutes across Victoria with high technology learning tools and facilities;
- \$40 million over two years for the renovation and modernisation of school ICT facilities; and
- \$19 million over three years to enhance the uptake of e-learning opportunities in TAFEs. This will be used to upgrade all existing obsolete and deficient ICT infrastructure and cabling to achieve sufficient bandwidth and fault tolerance. This initiative will allow for the full and efficient implementation of TAFE online course delivery and related services including TAFE Virtual Campus, TAFE management information system online enrolments, intranet and wider access to the internet.

To further foster an e-learning environment in schools it is crucial that the capacity of teachers and other school staff to integrate learning technologies into classroom and administrative practices is enhanced. After the 2000-01 Budget, additional funding of \$54 million was committed by the Government from 2001-02 to 2004-05 to continue the replacement cycles for notebook computers for teachers and principals.

The notebook computers program is a major driver for the successful use of learning technologies in schools. It provides a notebook computer to teachers and principals upon their commitment to obtain 40 hours of information technology training related to professional development and classroom and administrative use. The program has improved teacher skills in the use of learning information technology and has increased the ability of teachers and principals to integrate learning technologies into classroom and administrative practices.

The Government recognises that for this substantial investment in Victoria's learning environment to be effective it has to ensure that the benefits of enhanced learning environments are enjoyed across the whole State, regardless of economic or geographic circumstances.

To ensure equity of access to ICT for all students, the Government is bridging the digital divide by committing \$23 million, from 2001-02, to provide:

- a capital boost to attain the 1:5 computer to student ratio in all schools;
- computers for distance education students; and
- improved internet access via additional networking and technological improvements.

The Government is also concerned about the opportunities that young people in rural and regional Victoria have in terms of access to education and training and their transition to work. In the 2001-02 Budget, the Government will allocate funding of \$16 million for initiatives to provide enhanced opportunities for education, training and skilling. This includes:

- \$10.5 million for the Gippsland education precinct;
- \$5 million for the Ballarat Vocational Education and Training Centre; and
- \$0.6 million for planning of an educational precinct for the Maryborough community.

## Encouraging research and knowledge creation

Victoria has a strong research base. Throughout the 1990s, the State has maintained its leadership as one of Australia's leading location for research and development. Victoria's gross expenditure on research and development, 1.7 per cent of GSP as at 1999, is one of the highest in the country and is comparable with Canada, Norway and Singapore. In particular, Victoria's business expenditure in research and development as a share of GSP, 0.95 per cent, is higher than the nation's effort.

The Government is building on this base with the Bio21 program. Bio21 champions the idea that partnerships, which bring together the private and public sectors, are crucial in building globally competitive enterprises in Victoria. The first partnership under the Bio21 umbrella is the \$400 million development in Melbourne creating the largest network of biomedical and related research in Australia. Bio21 will focus Victoria's efforts in the key platform technologies which underpin biotechnology such as informatics, proteomics and genomics.

In addition, the STI Initiative continues the Government's commitment to supporting Victoria's research and innovation base. In 2000-01, \$54 million of funding was allocated to support the development of private and public sector infrastructure and equipment with a total value of \$225 million over four years.

In the 2001-02 Budget, the Government is keen to promote Victoria's research, innovation and technical capacities in high-skilled growth areas such as biotechnology, molecular science, space science, viticulture, horticulture and aquaculture. The Government is providing:

- \$7.4 million to the Australian College of Wine to provide world-class training in viticulture. The college will be based on the existing infrastructure and programs of the Northern Institute of TAFE and will be located in three campuses at Eden Park, Yarra Glen and Ararat. While this initiative will address the emerging skill shortages in the industry, it will also increase education and training opportunities in areas of Victoria in which such opportunities are currently limited;
- \$4 million to upgrade and refurbish a joint-use facility to provide a Science and Technology Centre at Bacchus Marsh Secondary College in collaboration with the University of Ballarat TAFE;
- \$4.2 million over three years for a new world-class centre for biotechnology to be established at University High School, in collaboration with the Walter and Eliza Hall Institute of Medical Research, the University of Melbourne and the Department of Education, Employment and Training; and

- \$6.4 million over three years to establish a new Space Science Education Centre at Strathmore Secondary College in collaboration with La Trobe University and the Department of Education, Employment and Training. The centre will include laboratories, a computer centre (including a satellite link to La Trobe University), a space habitat, museum area and a planetarium and telescope facility.

In addition, the Government has identified the need to modernise the Department of Natural Resources and Environment's regional research and development institutes. This will provide state-of-the-art facilities to meet the demand for new technologies and new opportunities for regional communities. In particular, four institutes at Ellinbank, Horsham, Mildura and Tatura will be repositioned and enhanced to become key science, innovation and education centres for regional Victoria. These key centres will enhance both research and development capacity and attract education providers to deliver education and teaching courses. The Government has committed \$50 million over three years from the Growing Victoria infrastructure reserve for this initiative.

### **Fostering innovation and creativity**

Government investment in education, training and research infrastructure is important for the future development of an innovative, knowledge-based economy. To ensure long-term sustainable jobs growth, Victoria must also focus on the development of original ideas and encourage the creativity of its citizens.

### ***Victorian Endowment for Science, Knowledge and Innovation (VESKI)***

To encourage innovation and creativity in the Victorian economy, the Government is establishing VESKI, a joint government/industry endowment aimed at facilitating the development of science, knowledge and innovation in Victoria. The focus of VESKI will be on:

- stimulating the sharing of knowledge by bringing successful expatriates and leading researchers to Victoria;
- encouraging increased numbers of Victorian postgraduate and undergraduate participants into business-relevant, knowledge-intensive fields such as ICT, design, science and technology;
- facilitating the global transfer of ideas and know-how and building alliances between firms through encouraging exporting of Victoria's professional and knowledge-based services;

- fostering an entrepreneurial culture and promoting the creation and commercialisation of knowledge; and
- increasing knowledge intensity in the three key areas of information technology, biotechnology and design services to help drive future growth in emerging and established industries through the transformation of creative ideas into practical and commercial realities.

In the 2001-02 Budget the Government is providing \$10 million in seed funding to establish VESKI. The Government will seek matching contributions from the private sector, and use the interest earnings on the endowment to provide funding to ‘kick-start’ activities that contribute to the growth of knowledge-based activities in the Victorian economy and society. In particular, the Government will focus on providing scholarships, supplementing wages for young researchers and bringing experts back from overseas.

To further enhance innovation and creativity in Victoria the Government is committing a further \$7.2 million for output initiatives that focus on increasing the number of ICT graduates. This includes providing \$3.8 million over two years to meet increased demand for ICT skills. This will provide an additional 370 placements for ICT apprentices and trainees. The Government is also prioritising \$3.4 million over four years for the provision of ICT scholarships in Victorian Universities, specifically for selected Masters and PhD students. The Government will also provide up to \$3.5 million from the STI Initiative to encourage research activity in Victoria by supplementing Federation Fellowships received by Victorian-based researchers.

### ***Film and television industry***

The film and television industry is a vibrant and diverse industry which represents one of the exciting industry development areas for Victoria, and which is at the forefront of a creative and innovative economy. A successful and innovative film and television industry will result in increased jobs and investment for Victoria and the potential to attract creative talent.

The Victorian Film and Television Industry Task Force was established by the Government to conduct a comprehensive review of the Victorian film and television industry. The Task Force found that in recent years Victoria’s share of the national film and television industry production has declined and it made several recommendations on ways to address this decline. The Government has already responded to a number of the recommendations of the report including:

- splitting Cinemedia into two separate bodies, Film Victoria, which will be dedicated to re-invigorating Victoria’s film and television industry, attracting new investment and retaining and recruiting the best creative

talent to Victoria, and Screen Culture Victoria, which will focus its energies and resources towards the development and delivery of the Australian Centre for the Moving Image (ACMI) at Federation Square; and

- extending the Department of State and Regional Development's strategic industry program to the film and television production industry. This will give the industry priority access to government business attraction and business development programs and strengthen the relationship between overseas Victorian Government business offices and the Melbourne Film Office.

In this budget the Government is providing an additional \$12 million over two years to increase the current cash flow facility provided to assist producers from \$3 million to \$15 million. Further, Film Victoria will be provided with an additional \$3.9 million a year to increase the funding for production investment. In addition, \$1 million a year will be provided to expand the activities of the Melbourne Film Office.

## **Modernising government**

The Government is providing significant leadership in its ICT uptake and modernisation of public services.

In the 2001-02 Budget, the Government has invested significantly in critical areas to modernise its services. Through these initiatives, detailed below, the Government is building the capacity of the public sector to value and manage knowledge and improve the interface of the public sector with other sections of the community. These initiatives can be grouped into four categories:

- improving the ICT interface between government and the community;
- developing departmental knowledge management systems;
- increasing productivity in service delivery; and
- enhancing the interdepartmental working environment.

The provision of funding of \$4 million for the redevelopment of the vic.gov.au site will deliver an improved online entry point to Victoria for citizens, business and government, and maintain Victoria as a world-leader in e-government. The site provides access to a range of information and transactional services across all state government departments and the upgrade will make it more functional and accessible.

In addition, the Regional Telecommunications Infrastructure initiative will involve the installation of high quality collaboration and video conferencing infrastructure, including internet facilities, at some 30 regional centres across

Victoria (\$3.0 million over three years). By improving the broadband carriage services and the speed and reliability of internet services in the regions, this project will provide greater access to services aimed at increasing the knowledge and skills of the rural community.

Several departments are introducing measures to assist in the knowledge management of their departments. An investment of \$30 million (TEI) will produce an electronic version of the land titles register, and develop and implement an information technology platform to enable electronic land title searches and registration of dealings on land titles. Funding of \$12 million will also be provided to establish an information technology support centre and centralised library for the Department of Natural Resources and Environment, and a document management centre to provide secure long-term storage for paper titles.

Funding of \$30 million will be provided over three years for an ICT strategy for health care. The Department of Human Services' ICT Strategy for Health Care will build the ICT infrastructure necessary to support more informed management and clinical decision making in public hospitals, as well as enhancing the access of rural and regional communities to health technologies and services. The ICT strategy for health care will lead to productivity improvements through improved management, more efficient delivery of existing services and diversion from higher to lower-cost services.

In order to improve the comprehensive management of the contractual commitments under the public transport franchise arrangements, the Government is allocating \$15 million to introduce new information systems. These systems will support the management of the railway assets, maintenance of contract documentation and ensure monitoring of compliance with licence, audit requirements and incident reporting. This latter system will incorporate taxi and tow truck compliance as well as that for train, tram and bus. A new system for managing the bus contracts will also be developed to ensure efficient management of bus operator contracts.

Specific initiatives will be funded to enhance the interdepartmental working environment. Funding of \$1.5 million in 2001-02 will be provided to replace the Department of Treasury and Finance's existing forward estimates system with a web-enabled integrated budget management system that meets all central agency requirements. The system will enable the Department to provide government with more meaningful, accurate and timely financial and performance data to support strategic decision making. Funding of \$4 million in 2001-02 will be provided to redevelop core business systems supporting the development and management of Cabinet papers and the drafting and publication of legislation.



The Government is also developing a new approach to budget planning and reporting which provides a clearer way of communicating the connection between budget outputs and outcomes for Victorians.

The new approach to budget planning and reporting will also reflect and be informed by the Government's commitment to linking and integrating economic, social and environmental outcomes. A more integrated approach to the achievement of economic, social and environmental outcomes provides a more balanced and strategic approach to increasing the growth of high quality jobs and their availability for all Victorians.

To improve Budget planning, the Government is also providing \$1 million ongoing to introduce a five-year cyclical output review to enhance alignment of departmental outputs with government objectives and to ensure value for money. An additional \$0.4 million is provided in 2001-02 to investigate the feasibility of a shared services model across the budget sector.

## **IMPROVING ENVIRONMENTAL SUSTAINABILITY**

The Government has an overarching role as custodian and manager of the State's natural resources and environment to ensure that economic growth and social development are environmentally sustainable. To achieve this outcome, it is crucial for the Government to:

- identify and address emerging risks or threats to these natural assets;
- establish, monitor and enforce a comprehensive regulatory framework to ensure the State's environment and natural resources are protected and well managed; and
- identify and foster the development of new sustainable technologies and industries and assist unsustainable industries to adjust to changing conditions.

In the 2001-02 Budget, the Government outlines a range of long-term strategies aimed at ensuring that growth across the whole State occurs in an environmentally sustainable fashion. These include:

- addressing the impact of salinity on the environment and economic growth;
- promoting marine flora and fauna diversity through the marine parks and sanctuaries package; and
- a ten-year funding commitment to restore Snowy River flows.

## **Addressing salinity and water quality**

Salinity results in damage to agricultural land, downstream water users, aquatic ecosystems and biodiversity and to regional and urban infrastructure.

The direct cost of salinity in Victoria is estimated to be \$50 million per year, with over 250 000 hectares of land affected. It is projected that by 2050 there will be a ten-fold increase in the area affected by salt. Future management of salinity in Victoria will require a mix of strategic measures and cooperation between private landowners and government to implement works, changes in land use and new land management practices.

Actions that address salinity and water quality problems can assist in achieving sustainable and competitive resource industries through improving water use efficiency, adopting high quality land management practices, providing appropriate drainage infrastructure and matching irrigation practice to land capability.

Investment to achieve salinity outcomes in Victoria is currently directed by the Victorian Salinity Management Framework, under which communities in salt-affected areas work with Government to develop and implement regional salinity management plans. Each of these plans aims to identify and promote sustainable land uses and protect environmental values.

The Commonwealth and the States and Territories are signing an Intergovernmental Agreement for the National Action Plan for Salinity and Water Quality, which will further enhance Victorian Government efforts to address salinity and water quality. Under this agreement, the Commonwealth is to provide \$700 million over seven years to match state and territory funding to prevent, stabilise and reverse trends in salinity, particularly dryland salinity and improve water quality. Victoria's contribution is expected to be \$157 million over seven years. Victoria has allocated \$10 million in 2001-02 in anticipation of an early start to the Action Plan.

Implementation of the Action Plan will occur at the local level in catchments, with a focus on implementation of integrated catchment plans to achieve targeted outcomes. Victoria is in a good position to undertake the necessary planning and on-ground works through established processes undertaken by its regionally based catchment management authorities working in partnership with the Department of Natural Resources and Environment and other stakeholders.

The Government will also work in partnership with the private sector to intercept saline groundwater from entering Pyramid Creek. This initiative will substantially reduce salt loads to the Murray River system and assist rehabilitation of salt-affected land. Funding of \$1.2 million has been allocated in 2001-02 and \$0.5 million in 2002-03.

## **Marine national parks and sanctuaries**

The Government is continuing with its commitment to protect Victoria's natural environment, in particular, the rich diversity of marine flora and fauna to be found in Victorian waters. The Government has agreed to adopt the broad thrust of the final report of the Environment Conservation Council *Marine, Coastal and Estuarine Investigation*, which recommends the establishment of a system of marine national parks and sanctuaries.

Funding of \$10.3 million per year has been provided in 2001-02 and 2002-03, \$9.7 million in 2003-04 and \$8.6 million ongoing, commencing in 2004-05, to fully implement the marine national parks and marine sanctuaries package. This includes specific funding in the first two years for specialised marine equipment.

## **Restoring flows to the Snowy**

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.

Under the outcome to the Snowy Water Inquiry, the Victorian Government has announced an agreement with New South Wales and the Commonwealth to achieve total flows equivalent to 21 per cent average annual natural flows within ten years, as part of a long-term objective of restoring 28 per cent of annual natural flows.

As part of this process, a joint government enterprise is to be established by the Victorian, NSW and Commonwealth Governments with a charter to acquire water at least cost. The enterprise will acquire water primarily through investing in water savings projects.

The Government has allocated \$15 million in 2001-02 for Victoria's contribution to the joint government enterprise and related water savings projects. This represents part of Victoria's \$150 million commitment to the tripartite \$375 million agreement to restoring Snowy flows and improving flows in rivers in the Kosciuszko National Park and Murray River. In addition, the Government has committed \$5 million in 2001-02 and \$12 million over the next three years for environmental monitoring and riverine works and related activities.

## COMPETITIVE BUSINESS ENVIRONMENT

### Increasing the State's tax competitiveness

As part of the commitment towards ensuring a competitive tax system in Victoria, the Government stated in last year's budget that a review of state business taxes was necessary to meet the objectives of the four policy pillars. At the same time, the Government set one of the parameters for reform by announcing substantial business tax cuts of \$100 million from 1 July 2001, rising to \$200 million per annum from 1 July 2003.

In its tax reform package, *Better Business Taxes: Lower, Fewer, Simpler* released on 26 April 2001, the Government detailed its commitment to business tax reform. The tax package is based on broad community consultation and adherence to the belief that Victorian businesses throughout the State, whether large or small, should receive a fair deal from tax reform.

The package reduces the burden of payroll tax, cuts the number of state business taxes and reduces paperwork and red tape. True to the Government's commitment made last year, previously announced business tax cuts of \$100 million per year from 2001-02, rising to \$200 million per year from 2003-04, were incorporated into the tax package. In addition, further tax cuts of \$12 million in 2002-03 and in 2003-04 and \$151 million in 2004-05 have been provided. In total, \$774 million has been allocated to tax cuts over the next four financial years, rising from \$100 million in 2001-02 to \$351 million in 2004-05.

Under the Government's *Better Business Taxes: Lower, Fewer, Simpler* package:

- Victoria's payroll tax rate is reduced from 5.75 per cent to 5.45 per cent from 1 July 2001, further reducing to 5.35 per cent from 1 July 2003;
- the payroll tax threshold is raised from \$515 000 to \$555 000 from 1 July 2003;
- approximately 46 000 small businesses, investors and self-funded retirees will be freed from the land tax net in 2001-02 by raising the tax free land tax threshold from \$85 000 to \$125 000;
- three business taxes are abolished with the removal of stamp duty on non-residential leases from 26 April 2001, stamp duty on unquoted marketable securities from 1 July 2003 and stamp duty on mortgages from 1 July 2004; and
- payment collection and legislation is simplified.

In addition to tax and taxation administration reform, the package reinforces the Government's Showcasing Small Business strategy with measures to support and encourage Victorian small business growth and development. These focus on improving business access to government and improving business services.

The Government's package reshapes the state business tax regime so that it is more efficient, effective and equitable. The package will reduce business costs, raise business confidence and boost jobs growth across the whole State.

## **Improving Victoria's regulatory environment**

Since coming to office, the Government has continued implementation of the National Competition Policy and Related Reforms Agreements, but ensured that greater prominence is given to the public interest.

The Government has focused on utility regulation, electricity reform, competitive neutrality, agricultural deregulation and the declaration of the rail access regime.

### ***Utility regulation***

The Government will establish the Essential Services Commission (ESC) from 1 January 2002. The ESC will build on the strengths of the existing regulatory framework by subsuming the Office of the Regulator-General, but will include a number of substantive improvements aimed at providing certainty, stability and long-term predictability for all stakeholders. The ESC will be independent from government and embrace an approach to regulation that is light-handed and transparent. Details about the features, powers and role of the ESC will be announced as part of final consultations with stakeholders on the legislation in the first half of 2001, prior to its introduction in the Spring 2001 Parliamentary Sitting.

The Government is also committed to extending the jurisdiction of the ESC to the water industry from 1 January 2003. Extension of independent economic regulation to the monopoly water businesses will fulfil the Government's election commitment to better protect the interests of water customers across the State. The Government will be consulting closely with the water stakeholders on the detailed arrangements for bringing this sector within the jurisdiction of the ESC.

The Essential Utility Services Consumer Advocacy Centre will be established from 1 January 2002 to provide advocacy on behalf of consumers, especially low income, rural, aged and other disadvantaged groups. The Centre will provide a forum where consumers and disadvantaged groups can come together

to discuss and exchange information, and monitor grassroots utility consumer issues. It will also create a world-class centre of excellence in customer advocacy research and information dissemination.

The Government is establishing an Energy and Water Ombudsman Victoria (EWOV) in June 2001. It will have responsibility for handling customer complaints and make rulings relating to compensation in the electricity, gas and water industries. The EWOV will be an industry-based scheme underpinned by legislation and will ensure improved, independent complaints-handling arrangements are put in place for the water industry.

### ***Electricity reform***

Victoria supports the need to develop more contemporary principles to guide the future development of the National Electricity Market. Through the Energy Markets Group and other forums, Victoria has sought to develop a clearer set of institutional arrangements to govern the policy direction and operation of the National Electricity Market.

The Government has as an objective to ensure Victoria has a reliable and affordable energy supply. Key elements of the program are:

- to encourage new electricity generation capacity and the efficient augmentation of interconnects between Victoria and other States by ensuring that barriers to investment are minimised while still meeting the necessary regulatory approvals;
- to increase opportunities for demand side participation which leads to more efficient use of energy while also contributing to a more reliable supply;
- to ensure that planning for intra-regional electricity transmission services addresses the needs of the Victorian community, and especially the need for a high degree of reliability;
- to establish the Essential Services Commission; and
- to drive reform of National Electricity Market rules and processes to make the system more reliable.

Victoria is also continuing the program to introduce contestability for electricity consumers. During 2000, more than 50 per cent of contestable electricity customers transferred retailers in Victoria based on competitive packages of service and price. Victoria and New South Wales are leading the reform process to ensure that full retail contestability is introduced as soon as feasibly possible.

In January 2001, choice of retailer was introduced to electricity customers consuming between 40 and 160 MWh/yr. It is planned that smaller customers,

those using less than 40MWh/yr, will be able to choose their retailer from January 2002.

Furthermore, Victoria and other jurisdictions have entered into arrangements with the National Electricity Market Management Company for it to procure national systems for customer transfer and settlement processes and thereby ensure national consistency. In addition, Victoria and New South Wales have consulted on proposed metrology procedures to ensure that barriers to entry are minimised through a high degree of consistency in arrangements between jurisdictions.

### ***Competitive neutrality***

The Government has reviewed Victoria's competitive neutrality policy and introduced a revised policy on 23 October 2000.

The new policy has an increased emphasis on the public interest. It requires that all public sector business activities be assessed to determine their significance in the market, where business significance does not relate to size or expenditure relativities but rather to impact in the market. For businesses considered to be significant, if the benefits of introducing a competitive neutrality measure exceed the costs and the measure does not jeopardise other public policy objectives, then that measure should be in place.

The new policy emphasises that if there is a potential conflict between policy objectives, then a public interest test process should be undertaken, involving public consultation, to consider the options to best meet all policies. Ultimately this may involve a partial implementation of a competitive neutrality measure, identification of subsidies or even an exemption from introducing the measure. However, the onus is on public sector agencies to apply competitive neutrality policy and to adequately document their compliance including any decision not to implement a competitive neutrality measure for any reason. This process should also result in a clarification of community service obligations or public good expenditures/subsidies associated with business activities. The policy requires that these community service obligations be transparently accounted for and justified by the public sector agency.

The competitive neutrality policy also applies to local government, is consistent with the Government's Best Value Victoria policy and will assist local government in developing best value service standards for their significant business activities.

## ***Agricultural deregulation***

Agriculture has traditionally been characterised by a regulatory environment which restricts the price and supply of products, marketing and purchasing arrangements to varying degrees. These restrictions can inhibit efficiencies in production processes, restrict product and market development and impose costs on other users of produce. The Government has taken significant steps in the deregulation of the barley and dairy industries.

### ***Barley***

Following a period of extensive public consultation, the Government announced in December 2000 that it will allow the export monopoly arrangements to sunset as scheduled by the previous Government in 1999.

The Government could find no evidence that the private monopoly arrangement enjoyed by ABB Grain Export Ltd produced a net community benefit. It found there were significant benefits to the community from full deregulation of the industry in terms of grower choice, investment, innovation and marketing.

The Government's decision focused on providing choice to growers, so that they can take advantage of changes to the domestic and export markets. As a result, Victorian barley growers will be able to shop for the best deal when they sell barley grain harvested after 30 June 2001. They will no longer be required to sell their export grain to ABB Grain Export Ltd. Grain traders will be able to compete for Victorian growers' business. However, growers will still have the option of trading grain through ABB Grain Export Ltd.

The Government has carefully considered the advantages and disadvantages of single desk marketing for export barley. Any benefits to growers from the private monopoly, enjoyed by ABB Grain Export Ltd in terms of price premiums, are enjoyed by producers of feed barley. Furthermore, the majority of Victorian barley for export is malt barley, for which there is no evidence of an export price premium. As there is no compelling reason for restricting barley export to a private monopoly, growers should be allowed operational control of their businesses.

### ***Dairy***

On 1 July 2000 the Australian dairy industry was deregulated. Prior to deregulation, an extensive poll of Victorian dairy farmers informed the Government's decision. The poll showed high levels of support for deregulation with around 90 per cent in favour.



Deregulation, which saw the removal of state government controls over the farm gate supply and pricing of milk, introduced contestable trading for market milk in Australia. The effect of this change has been varied throughout the key dairy producing States. The Australian Bureau of Agricultural and Resource Economics (ABARE) recently reported that in Victoria the average farm gate price for market milk is expected to fall slightly (by 3.5 per cent) in 2000–01. This reflects a lower price for market milk and the loss of the Commonwealth Government’s domestic market support scheme premium on manufacturing milk.

This expected fall in the price received for market milk may not necessarily translate into a fall in farm income. ABARE concludes that higher milk production in Victoria in 2000–01 will more than offset the impact of slightly lower prices, leading to a 1 per cent increase in farm cash income. In addition, dairy farmers will receive payments from the Commonwealth Government’s industry adjustment scheme.

The Victorian Government has provided transitional assistance to the industry through a stamp duty exemption on the adjustment package, assistance with electricity supply connections and road transport measures.

The creation of a single, national milk market is also expected to facilitate consolidation of manufacturing plants across Australia. For example, there are significant links in terms of shareholding and proposed alliances developing with New Zealand entities.

There is strong evidence to indicate that consumers are benefiting from deregulation in the form of lower retail prices for fresh milk. Surveys undertaken by the Australian Competition and Consumer Commission suggest that the retail price of milk to the consumer has fallen by as much as 4.7 per cent.

Dairy deregulation has, therefore, resulted in benefits for Victoria to both producers and consumers and could be expected to facilitate further structural efficiencies in the processing sector, as well as production improvements.

### ***Rail access***

In order to address certain conflicts of interest for infrastructure lessees in providing access to third parties, the Government introduced Part 2A of the *Rail Corporations Act 1996*. Part 2A provides a regime whereby rail operators, other than the relevant lessees, may obtain access to certain leased rail infrastructure which has been declared by the Governor in Council on the recommendation of the Minister for Transport.

The Minister has announced that he will declare the Freight Network, together with the strategically located Dynon and South Dynon Terminals and the Bayside Network, for freight purposes from 1 July 2001. This means that the access regime will apply to Victorian intrastate track used for the carriage of freight. With the implementation of the third-party freight rail access regime for Victoria's intrastate network on 1 July 2001, Victoria's rail reform process will be complete and provide substantial efficiency gains that will translate to lower transports costs which will flow into downstream industries.

## CHAPTER 6: DELIVERING IMPROVED SERVICES

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- The 2001-02 Budget delivers improved services for today and builds for tomorrow with additional funding for new output initiatives of \$226 million in 2001-02 rising to \$301 million in 2004-05.
- This is in addition to \$264 million of initiatives in 2001-02 already announced since the 2000-01 Budget aimed at improving key service delivery areas of health, education and community safety.
- Key new initiatives of the 2001-02 Budget include:
  - \$7 million over three years towards community building projects;
  - a \$108 million ongoing commitment to increasing hospital capacity to cope with rising demand, in particular for emergency services and alternative care options;
  - a four-year \$150 million program to address the causes of growth in hospital admissions through a range of preventive initiatives;
  - \$25 million targeted towards enhancing a wide range of community support services available to people and their carers;
  - \$7 million ongoing in new initiatives to improve services provision for older Victorians;
  - since the 2000-01 Budget, education has received an additional \$371 million to 2004-05 for initiatives directed at improving participation and achievement in education outcomes;
  - \$386 million investment in education and training facilities across the whole of Victoria to provide modern and enhanced learning environments;
  - \$34 million to make Victorian communities safer through a visible police presence and to upgrade local and regional police stations;
  - \$166 million to increase the permanent capacity of the prison system; and
  - \$246 million over four years towards transport initiatives to provide more accessible and efficient transport services.

## **IMPROVED SERVICES FOR ALL VICTORIANS**

In 2000-01 the Government honoured its commitment to improve services and boost expenditure in key areas in health, education and community safety. Resources were targeted towards a balance of rebuilding and modernising services, improving outcomes, expanding support services, structuring effective education and training pathways and providing adequate resources to promote safer communities.

In the 2001-02 Budget the Government is committed to delivering today and building for tomorrow. The Government is building on last year's investments by adopting medium to long-term strategies to improve service quality, access and equity, particularly in health, education, community safety and transport.

These strategies will secure the foundations for a prosperous and inclusive community by:

- building communities which can access the services and opportunities appropriate to their needs;
- providing better health care through increased hospital capacity and improved ambulance services to meet growing demand;
- delivering better community services to families, young people, children, people with a disability and older people;
- meeting the Government's targets for participation and achievement in education and training;
- improving the safety of Victorian communities and families; and
- enhancing the efficiency, accessibility and safety of Victoria's transport network.

## **COMMUNITY BUILDING**

The Victorian Government is committed to promoting sustainable economic and social development across the whole of Victoria, especially in those areas facing difficult issues such as high unemployment, lack of educational opportunity and social isolation.

Community building is a strategy to tackle issues of locational disadvantage. Some communities have experienced a rapid decline in key industries which has brought about long-term unemployment, while others have experienced rapid population growth. The challenge for the all governments is to ensure that opportunities, services and infrastructure are provided in response to these changes.

The Government's approach is based on the view that communities that actively engage in community building are better able to harness the energy of their people, leverage resources from government, business and philanthropic sectors, overcome service fragmentation, and shape the mix and content of government services.

### **Government programs with a community building focus**

Community building is now an underpinning principle of many existing and new initiatives across departments. Programs with a community building focus include:

- the Community Support Fund (CSF) which was revamped last year to provide a stronger focus on community building and partnerships with local government, business, community organisations and philanthropic trusts;
- Local Learning and Employment Networks in the Department of Education, Employment and Training, which brings together all stakeholders to plan the delivery of and support for post-compulsory education, training and employment;
- the Safer Communities program in the Department of Justice that adopts a whole-of-government approach to crime prevention, addressing both current crime concerns and early intervention with potential young offenders;
- School Focussed Youth Services promoting linkages between schools and community health, welfare and youth services;
- renewal and redevelopment of social housing through the Department of Human Services, in partnership with other departments and the community;
- Community Capacity Building program jointly implemented by the Departments of State and Regional Development and Natural Resources and Environment to give communities the ability to direct change; and
- the Social Capability Strategy in the Department of Natural Resources and Environment which creates networks of people and groups involved in influencing decision making to improve communities' ability to generate and respond to change.

In 2001-02 the Government will build on these initiatives by developing a whole-of-government community building strategy that will provide new opportunities for partnerships with communities, local government, business and charitable organisations. This approach will guide both government activities in core service delivery areas of health, education, transport and

community safety as well as specific community building projects designed to target areas of geographic or socioeconomic disadvantage.

### **Community building pilot program**

To give additional shape and substance to the Government's commitment to community building, the CSF will provide up to \$7 million over three years to help develop up to ten pilot projects in regional and rural areas of Victoria and metropolitan Melbourne experiencing particular social and economic disadvantage. Specifically, up to \$250 000 per year for each pilot will be provided for a planning and feasibility study, with in-principle support for longer-term project implementation.

These pilot projects will actively seek to build on and integrate current programs, support 'joined-up' planning and service delivery and require a concerted effort across both non-government and government sectors. They will help to provide a broader and more intensive approach to empowering communities to determine appropriate local solutions to local problems. It is anticipated the community building strategy will:

- encourage local community leadership and help communities take control of their own futures;
- ensure resources are directed to where they are most needed;
- increase the opportunities for business to put back into the community in which they are located;
- drive change in departments towards new service planning and resource allocation models and increase the effectiveness of government services; and
- help inform and shape future directions for the CSF community building initiatives.

It is intended that these community building pilots will change the way in which government works with communities in the future. It will also help reshape the way in which government develops policies and delivers services at the local level. This will include much earlier identification of key risks and opportunities that communities and government want to respond to, such as reconnecting young people to education, training and employment. To drive these initiatives across government, a Minister with special responsibility for community building will be appointed to assist the Premier.

## **Wellbeing of indigenous Victorians**

It is also proposed to develop a statewide indigenous capacity building initiative to improve the social and emotional wellbeing and health of indigenous Victorians.

Victoria is in the process of developing a whole-of-government Aboriginal affairs policy and reconciliation response in consultation with indigenous communities. As part of this process, the Government will work with indigenous communities to develop strategies and programs that support their aspirations for land, culture and natural resources, build an Aboriginal future through economic, social and community development and improve the relationship between indigenous peoples, the Government and the wider community.

The Victorian Aboriginal Justice Agreement reinforces the Government's commitment to the implementation of the recommendations of the Royal Commission into Aboriginal Deaths in Custody.

Further to the \$2 million per year provided in the 2000-01 Budget, this budget provides funding of \$1 million per year to ensure full implementation of the Agreement. The range of initiatives underpinning the Agreement include development of a recruitment and career development strategy, establishment of the Regional Aboriginal Justice Advisory Committee Network and programs for offenders before and after they are released from prison. In addition, total asset investment expenditure of \$2 million in 2001-02 has been provided to establish a community facility to divert Aboriginal offenders from the prison system.

In 2001-02 the Government will provide \$2 million ongoing for the management of native title issues and their resolution. In addition, funding of \$0.4 million over two years is provided for Reconciliation Victoria to progress reconciliation at the local level between indigenous Victorians and the wider community.

## **A HEALTHY VICTORIA**

The Government is committed to:

- restoring confidence that services are available in the right place at the right time on the basis of need;
- supporting early intervention and preventive services that strengthen communities and support families; and
- increasing service quality and efficiency through modern professional practices and new technologies.

Demand for health, aged care and community services provided by the Department of Human Services continues to grow strongly and responding to this growing demand is an ongoing challenge for the Victorian Government.

The 2001-02 Budget builds upon the last 18 months and continues to enhance the system and target new strategies to keep Victorians healthy. The rebuilding of Victoria's human services system will be boosted by more than \$849 million in new initiatives over four years (in addition to the \$517 million provided since the 2000-01 Budget for the same period). A further \$514 million has been invested in health infrastructure.

Additional budget funding and improvements in efficiency alone will not provide an adequate government response to strong service demand growth. A sustainable improvement in performance also requires a focus on broadening the range of services used to respond to needs and taking action now to reduce future service demands and costs. These include diverting demand to more appropriate and effective services, for example at home rather than hospital care, preventive programs and investing sufficiently in better models of care that will reduce reliance on the hospital system.

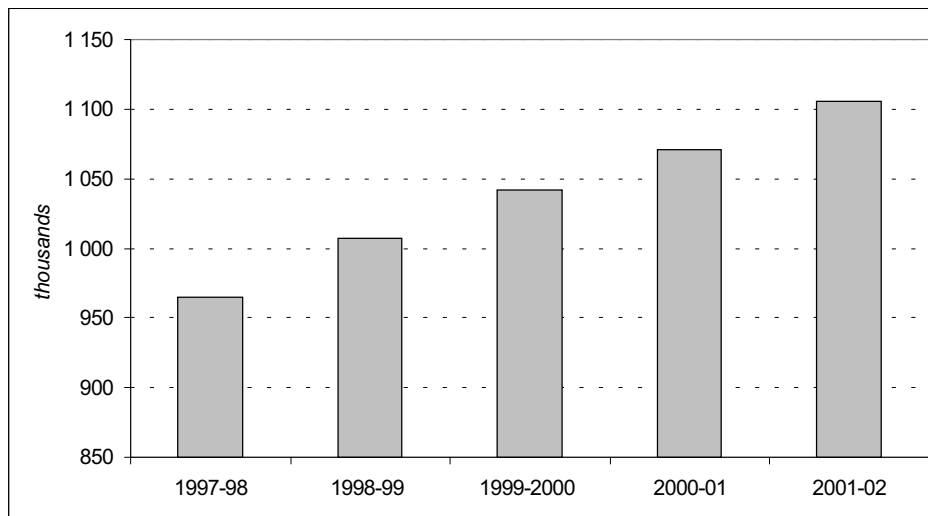
### **Managing hospital demand better**

Last budget the Government provided \$176 million to hospitals to unblock emergency departments and reopen beds. Chart 6.1 shows this has allowed significantly more patients to be treated in public hospitals. More recently the Government has made a major commitment to addressing the issue of nurse recruitment and retention in public hospitals through a new nurses package to upgrade skills and qualifications and to attract the high quality nurses back into the system.

In 2001-02 the Government is proposing a new response to ongoing growth in demand for high-cost hospital services through the implementation of the Hospital Demand Strategy. This strategy involves a multi-year commitment of additional resources, working with health professionals to make improvements and focusing on targeted strategies for dealing with individual hospital problems.



**Chart 6.1 Number of patients treated in Victorian hospitals**



*Source: Department of Human Services.*

The Hospital Demand Strategy has several components of action over the next four years totalling \$582 million:

- increasing capacity to respond to demand growth, in particular demand for emergency services, and to perform patient care processes in hospitals, including admission and discharge procedures, with additional funding of \$384 million over four years (\$96 million in 2001-02);
- substitution of more appropriate care options for people in acute beds such as sub-acute and home-based alternatives, with additional funding of \$48 million over four years (\$12 million in 2001-02);
- major investment in preventing hospital admission. Preventive programs which improve management of chronic conditions and reduce readmissions will receive additional funding of \$150 million over a four-year period, including \$17 million in 2001-02; and
- collaboration with senior hospital management, clinicians and nurses in responding to service pressures.

Funding for Hospital Demand Strategy will focus on the acute care/aged care interface and will be allocated to hospitals on the basis of improving patient management and the achievement of negotiated targets.

The Hospital Demand Strategy includes a \$36 million ongoing contribution through the health benefit levy on electronic gaming machines.

The Hospital Demand Strategy represents a substantial new investment to improve the quality and effectiveness of Victoria's public hospital system. As a result of the Hospital Demand Strategy there will be:

- 14 000 extra patients admitted to hospital from emergency departments;
- 11 800 extra patients treated from hospital waiting lists;
- 2 400 more mental health treatments; and
- 10 000 more blood donations collected.

A Human Services Productivity Investment Fund is also being established through a funding commitment of \$10 million in 2001-02. The Fund will provide one-off funding to service providers for projects to improve the efficiency of service delivery and increase the volume of services provided in the future. The Fund will complement the ICT for Health Care initiative that has funding of \$30 million over the next three years.

Other significant health funding initiatives include \$12 million in output funding for 2001-02 to meet unanticipated increases in costs of medical and pharmaceutical supplies and consumables.

### **Better health services**

Last year the Government made a commitment to improve and strengthen ambulance services for all Victorians. The 2001-02 Budget builds on this by providing funding for initiatives which aim to provide additional ambulance services and maintain or enhance ambulance facilities and vehicles including:

- \$4 million in 2001-02 and \$4.4 million ongoing to allow responses to additional calls, and \$4.5 million ongoing for upgrading of the air ambulance service; and
- \$4.4 million (TEI) for 24 new and replacement ambulance vehicles and \$2.2 million (TEI) for rural ambulance facilities developments at Romsey and South Barwon to improve local services.

Funding of \$3.5 million ongoing will provide more support and treatment for people with a mental illness, continuing care services and assist people to live independently and participate in the community.

Key primary health and dental services initiatives include \$2.1 million ongoing to provide over 30 000 extra units of public dental services and \$1.9 million ongoing for more physiotherapy, speech pathology and other allied health services.

The 2001-02 Budget also provides for a range of initiatives to address other key public health issues including:

- \$1.2 million ongoing funding to increase breast screening for Victorian women;
- \$0.6 million to meet the co-payment currently borne by people with insulin-dependent diabetes for needles and syringes, contingent on continued Commonwealth funding of the National Diabetes Services Scheme; and
- \$0.7 million to implement new regulations which improve maintenance standards for cooling systems to reduce the incidence of legionnaire's disease.

In line with the Government's focus on early intervention and prevention, several initiatives aim to reduce the incidence or impact of communicable or potentially serious health conditions. New funding comprises:

- communicable diseases prevention and control funding of \$0.7 million ongoing; and
- funding of \$2.9 million ongoing to implement and enforce the Government's tobacco reform initiative to reduce the community health impact of smoking by regulating tobacco advertising in retail outlets and limiting young people's access to cigarettes.

### **Building better health services infrastructure**

The Government is continuing to rebuild and upgrade the public health system through a multi-year plan targeting metropolitan and regional growth areas. The statewide building program for hospitals and aged care facilities is needed for current and future generations. It will enable hospitals to treat more patients in growth areas in the suburbs and improve the quality of care across Victoria.

The major hospital project for which funding has been approved for 2001-02 is the Austin and Repatriation Medical Centre and the associated Mercy Hospital for Women. This project involves expenditure of over \$325 million over six years, including funding of \$15 million for tertiary training and research from non-government sources.

Outer-metropolitan health facility developments to meet the needs of growing populations include:

- Frankston Hospital redevelopment (TEI of \$9 million);

- Outer East Service Expansion and Redevelopment Stage 1 (Maroondah Hospital and Angliss Health Service) (TEI of \$18.5 million);
- Wyndham Community Health Service (TEI of \$11 million); and
- Northern Hospital Development (Epping) Stage 2 (TEI of \$12 million).

Several rural and regional hospitals and health services facility developments are being undertaken to upgrade infrastructure or better integrate hospital, health and community services delivery. Specific initiatives include:

- Ararat Hospital Stage 1 (TEI of \$7.3 million);
- Stawell Hospital, Grampians Health Alliance Stage 1 (TEI of \$3.3 million); and
- Kyneton Hospital (TEI of \$1.7 million, in addition to the \$11 million approved in the 2000-01 Budget).

Funding to ensure facilities are maintained at an appropriate standard includes:

- asset investment funding of \$18 million for upgrades to a range of facilities and general fire risk management; and
- \$20 million for equipment upgrades, largely for acute care.

Better information flows between hospitals, general practitioners and other primary care providers will facilitate continuity of care, shifts from higher to lower-cost services, clinical decision making and management of chronically ill, frail-aged and disabled people in the community. The Government has committed \$30 million to ICT infrastructure to link metropolitan health services, regional and rural hospitals and primary care partnerships throughout Victoria. The initiative includes consolidation, rationalisation and standardisation of data centres for metropolitan health services.

The new infrastructure will also:

- enhance decision making and efficient use of resources by health care providers through electronic capture of clinical documentation (reducing duplication and ordering of new tests and procedures);
- reduce incidence and level of adverse events through improved access to key patient information (such as identification of allergies and medication alerts);
- improve care planning and reduce patient waiting times as resources are provided when needed; and
- allow more effective utilisation and management of resources (e.g. theatre scheduling).

## **Improved community services**

The Government is committed to delivering better community services to families, children, homeless people, people with a disability and older people. Last year resources were targeted at providing additional services in response to increasing demand, securing ongoing viability for non-government service providers and upgrading facilities to ensure compliance with required standards.

The 2001-02 Budget builds upon these strategies by focusing on increased funding for non-government service providers to ensure viability of ongoing delivery of child protection and placement services and to respond to demand growth for these services. Specific initiatives include:

- \$11 million ongoing to enhance child placement and residential care services and to respond to service demand pressures being experienced by community service organisations;
- new placement and support residential care facilities (TEI of \$12 million);
- funding of \$0.3 million in 2001-02 and \$0.5 million ongoing for juvenile justice group conferencing which brings together juvenile offenders and their victims to deter future offending; and
- funding of \$4 million to pre-schools, continuing the \$65 per child increase in per capita grants funded from the CSF in 2000-01.

Last year's budget provided additional funding to expand the Supported Accommodation Assistance Program in line with the Government's commitment to develop a Victorian Homelessness Strategy. The 2001-02 Budget provides an additional \$3.2 million to further expand support services and create additional crisis and transitional accommodation units.

In the 2000-01 Budget the Government also provided a significant boost to improve the services available to Victorians with a disability, their families and carers. The 2001-02 Budget provides funding of \$8.6 million ongoing for additional support and transitional accommodation options for people with disabilities to live within the community and to assist families and carers. The quality of disability services will be enhanced by expanding eligibility assessment and case management services.

## **Older Victorians**

The 2001-02 Budget builds on last year's injection of new funds to expand services that promote the wellbeing of older Victorians and support independent living. Last year's budget provided additional ongoing funds for the Home and Community Care Services program, adult day care respite, and community and

in-patient rehabilitation services. This year the budget will meet growth in demand and expand services that prevent ill-health and help avoid acute hospital stays. New, innovative models of service will be trialed to find better ways of caring for older patients.

Initiatives to improve service provision for older Victorians include:

- upgrade and redevelopment of residential aged care and rural health services (TEI of \$25 million). This builds on the 2000-01 infrastructure investment of \$47 million to improve facilities to meet Commonwealth requirements that came into effect in 2001;
- redevelopment at Barwon Health/Grace McKellar Centre of sub-acute and residential aged care services for complex needs (TEI of \$19 million) and the redevelopment of services at the Angliss Hospital and Kyneton Hospital to provide better facilities for older people;
- fire safety and upgrades for residential aged care and health facilities (TEI of \$10 million);
- Home and Community Care Services program expansion – \$6 million for additional services in 2001-02; and
- palliative care, in-patient services – \$0.5 million to improve funding and provide better services in 2001-02.

Older patients will also be major beneficiaries of the Hospital Demand Strategy through programs aimed at managing chronic conditions better and improving care through models designed to improve comfort for older patients and preventing injuries through falls.

## **BETTER EDUCATION AND TRAINING**

Giving young people the opportunity to succeed in education is central to every modern society. Better education and training for all Victorians is one of the Government's highest service delivery priorities.

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.

## Education goals and targets

The Government announced its goals and targets for education and training in October 2000 in response to two reports – *Public Education: The Next Generation* and the *Ministerial Review of Post-Compulsory Education and Training Pathways in Victoria*.

The Government is working towards achieving specific goals for 2005 and beyond including:

- improving the standards for literacy and numeracy in primary schooling. This goal encompasses both improving overall standards, as well as reducing the number of children who fail to achieve satisfactory standards during their primary education;
- increasing the percentage of young people who complete Year 12 or the equivalent. After significant achievements during the 1980s this percentage declined during the 1990s, although the employment consequences of not gaining an educational qualification have increased;
- increasing the overall level of educational attainment and literacy levels in Victoria. This goal requires more people to re-enter education and training throughout life. A key focus will be on improving the capacity of the adult and community education system, TAFE and higher education to respond to individual learning needs and contribute to the wellbeing of the community;
- increasing the level of participation and achievement in education and training in rural and regional Victoria and among groups where it is presently low. This goal will address the uneven patterns of participation and achievement across the State, and provide people with a fair opportunity; and
- making participation in post-school education and training the norm in society. This goal moves Victoria closer to becoming a learning society, better prepared for the challenges of a global economy.

The Government has set three critical benchmark targets for education and training to measure progress against these goals:

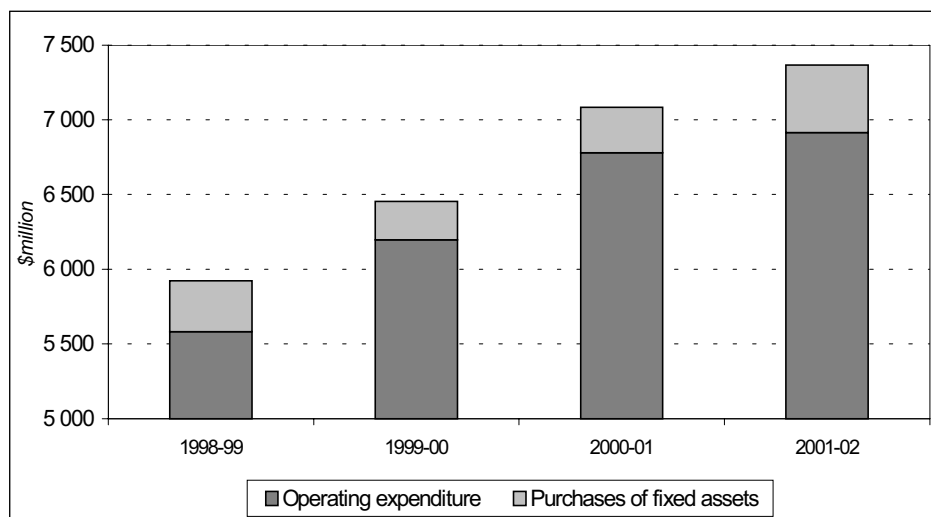
- by 2005, Victoria will be at or above national average benchmark levels for reading, writing and numeracy as they apply to primary students;
- by 2010, 90 per cent of young people in Victoria will complete Year 12 or its equivalent; and
- by 2005, the number of young people aged 15-19 in rural and regional Victoria engaged in education and training will increase by 6 per cent.

## Key strategies for education

Since being elected in 1999 the Government has committed an additional \$1 561 million over the period 1999-2000 to 2004-05 to education, for output initiatives and an additional \$658 million for asset investment initiatives, including \$365 million from the Growing Victoria infrastructure reserve.

Chart 6.2 shows the significant increase in funding for education and training since 1999-2000.

**Chart 6.2: DEET Expenditure, 1998-99 to 2001-02**



Source: Department of Treasury and Finance

In 2000-01 the Government invested an additional \$637 million over four years for output funding, targeted towards fulfilling the Government's commitments to:

- provide quality educational and training services in Victoria;
- reduce class sizes in Victorian primary schools; and
- provide education resources for all Victorians.

In particular these initiatives were directed at putting the needs of students first and increasing face-to-face teaching efforts in schools. Funding was provided to reduce the average class sizes across years Prep to Year 2 to an average of 21 students and has provided additional resources for Prep to Year 2 teachers, IT specialists for school networks, welfare coordinators, school nurses, pathways staff, special learning needs staff and shared specialist teachers. This will result in more than 2000 new teachers and school staff.



Since the 2000-01 Budget, education has received an additional \$371 million over the period 2000-01 to 2004-05 for initiatives to improve middle years of schooling, and to skill, attract and retain high quality teaching staff in the Victorian education system.

The Victorian training system is also now better placed to provide the quality education and training necessary to support the international competitiveness of Victorian industry and enhance economic and social opportunities. As at March 2001, there were a record 97 827 Victorian apprentices and trainees, 21 per cent higher than a year earlier.

An additional \$52 million has been provided for new policy initiatives in vocational education and training this year as part of the Government's commitment to provide an additional \$180 million over four years. The funding has supported additional program delivery, maintenance of public infrastructure, and replacement of obsolete plant and equipment and offset the higher costs incurred by TAFE institutes in rural and regional Victoria.

The 2000-01 Budget also established a range of initiatives to broaden and expand education provision in the post-compulsory years. Support for young people in their transition from school to work was enhanced through the allocation of \$11 million to provide strategic guidance and support. This was to assist young people to plan their pathways through education and training.

Up to 15 Local Learning and Employment Networks of key education and training providers, local industry and all levels of government were established to maximise employment and training outcomes for young people at the local level. In 2001-02 a further 20 such networks covering all Victorians will be established and the number of VCE students accessing vocational education and training in schools will increase from 13 000 in 2000 to 17 000 in 2001.

The Government has also introduced a number of changes to Victoria's education and training authorities designed to shift Victoria's public education bureaucracy to one partnership for schooling and post-compulsory education and to ensure the needs of students are the first priority.

These changes include the establishment of four new education and training bodies:

- the Victorian Qualification Authority;
- the Victorian Curriculum and Assessment Authority;
- the Victorian Learning and Employment Skills Commission; and
- the Victorian Schools Innovation Commission.

These changes represent a significant shift in direction. A key part of the Government's new approach in education concerns the appropriate organisational arrangements within the Department of Education, Employment and Training to deliver the Government's goals and targets.

### **Better education and training outcomes**

The 2001-02 Budget continues Victoria's investment to provide better quality education and training facilities for all Victorians, particularly children, to better prepare for life in the 21st century. In the 21st century participation in the global economy will become part of their way of life and innovation and creativity will be key skills for success.

#### ***Middle years of schooling***

The Government is committed to better prepare all students to develop successful pathways into and through secondary schooling and sustain a lifelong engagement in education and training.

The middle years of schooling initiative focuses on enhancing student engagement, improving literacy and numeracy outcomes, and increasing student attendance rates in Years 5 to 9. To ensure the funds were available from the commencement of the 2001 school year, the Government committed \$15 million for the 2001 school year following the 2000-01 Budget. The Government also committed an additional \$15 million per annum in 2001-02 to provide additional 225 teachers to schools experiencing difficulty in achieving quality outcomes for students in middle years.

The extension of the Achievement Improvement Monitor (AIM), a comprehensive assessment reporting and learning improvement program for Year 7 English and mathematics will ensure the Government meets its commitment to report against state standards. Funding of \$2.8 million in 2001-02 has been allocated to the extension of AIM.

#### ***The Victorian Schools Innovation Commission***

The Government is establishing the Victorian Schools Innovation Commission to support innovation and creativity in schools. This new advisory body will provide advice on a range of issues including innovative practices which have the capacity to enhance student learning outcomes in schools, the potential application of ICT to enhance student learning outcomes in schools, and

innovative developments in other sectors and jurisdictions. It will also provide an avenue to attract private funds, establish trusts and promote public-private partnerships.

### ***Recognising and valuing Victoria's teachers***

Approximately 37 000 full-time equivalent teaching staff are currently employed in the government sector and the teaching workforce is ageing. To improve standards in the classroom and attract the best teachers possible, the Government adopted the school teacher classification and performance framework as from 1 January 2001.

Given the changing demographics the new framework is designed to attract more young people into a career in teaching and ensure schools in rural and regional areas have access to high quality teachers. The framework is aimed at proactively addressing the potential future shortage of teachers in Victoria.

The framework is a key driver of the Government's targets and goals for education and training, and incorporates a range of initiatives to enhance literacy, numeracy and participation. Improving the quality of teachers is central to the achievement of the Government's targets and goals.

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

The Government is committed to providing world-class learning and training environments for Victoria's students that are engaging and stimulating. Sound educational and training environments, lead to good educational outcomes.

To deliver world-class education and training requires a substantial investment in Victoria's schools and TAFE infrastructure. Since October 1999, the Government has invested \$272 million upgrading and modernising Victoria's learning institutions.

In 2001-02 the Government is investing a further \$386 million for a range of initiatives and programs designed to enhance and improve Victoria's education and training facilities and equipment. This will be targeted towards providing world-class facilities and building engaging and stimulating learning environments for Victorians.

Of the \$386 million, \$131 million is committed from 2001-02 for the construction, upgrade and replacement of schools and TAFE institutes. Funding will be provided for the development of new primary and secondary schools, replacement of schools destroyed by fire, and redevelopments and upgrades for both primary and secondary schools in various locations. TAFE institutes will receive funding for modernisation and upgrade projects.

To increase the capacity of schools and TAFE institutes to deliver leading edge education and training across a range of areas and increase the accessibility of modern learning facilities to students across Victoria, the Government is committing:

- \$38 million (of a \$90 million (TEI) program set aside for education, training and research infrastructure) for the modernisation of science, technology, information technology and library facilities in schools across Victoria;
- \$45 million for enhancements designed to provide TAFE institutes across Victoria with high technology learning tools and facilities;
- \$40 million over two years for the renovation and modernisation of ICT facilities in schools; and
- \$19 million over three years to enhance the uptake of e-learning opportunities in TAFE institutes. This will be used to upgrade all existing obsolete and deficient ICT infrastructure and cabling to achieve sufficient bandwidth and fault tolerance. This initiative will allow for the full and efficient implementation of TAFE online course delivery and related services including TAFE Virtual Campus, TAFE Management Information System, online enrolments, intranet and wider access to the Internet.

To further foster an e-learning environment in schools it is also crucial that the capacity of teachers and other school staff to integrate learning technologies into classroom and administrative practices is enhanced. After the 2000-01 Budget, additional funding of \$54 million was committed by the Government between 2001-02 and 2004-05 to continue the replacement cycles for notebook computers for teachers and principals.

The notebook computers program is a major driver for the successful use of learning technologies in schools. It provides a notebook to teachers and principals upon their commitment to obtain 40 hours of information technology training related to professional development and classroom administrative use. The program has improved teacher skills in the use of information technology and has increased the ability of teachers and principals to integrate learning technologies into the classroom and administrative practices.

The Government recognises that for the substantial investment in Victoria's learning environment to be effective it has to ensure that the benefits of enhanced learning environments are enjoyed across the whole State, regardless of economic or geographic circumstances.

To ensure equity of access to ICT for all students the Government is bridging the digital divide by committing \$23 million, from 2001-02, to provide:

- a capital boost to attain the 1:5 computer to student ratio or better in all schools;
- computers for distance education students; and
- improved internet access via additional networking and technological improvements.

The Government is also concerned about the opportunities that young people in rural and regional Victoria have in terms of access to education and training. In the 2001-02 Budget, the Government will allocate funding of \$16 million for initiatives to provide enhanced opportunities for education, training and skilling. These include funding of:

- \$10.5 million for the Gippsland education precinct; and
- \$5 million for the Ballarat Vocational Education and Training Centre; and
- \$0.6 million for planning of an education precinct for the Maryborough community.

## **COMMUNITY SAFETY SERVICES**

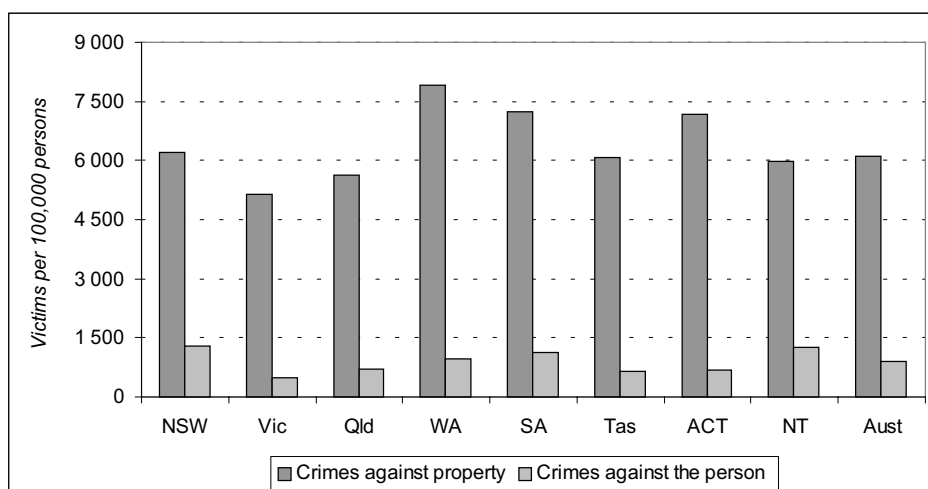
The Government is committed to improving the safety of Victorian communities and families and the extent to which people feel confident about their safety and building supportive, connected and creative communities.

### **A safer community**

This budget builds on the Government's existing commitments to increase the safety of the Victorian community. Through the efforts of government agencies and local communities, Victoria continues to remain a relatively low crime State.

The *Report on Government Services 2001* indicates that in 1999, for the second year in a row, Victoria had the lowest proportion of all States of victims of recorded crime against both property (5 135 victims per 100 000 persons) and against the person (497 victims per 100 000). This is significantly lower than the national averages of 6 095 victims and 908 victims respectively (see Chart 6.3).

**Chart 6.3: Victims of recorded crime 1999**



Source: Report on Government Services 2001 by the Steering Committee of the Review of Commonwealth-State Service Provision.

The Government’s continued crime prevention focus, combined with more resources for the corrections system, particularly focused on offender rehabilitation, is designed to ensure Victoria’s status as a low-crime State continues.

To enhance the focus on crime prevention, additional funding of \$3 million per year for two years has been committed to support the work of Crime Prevention Victoria. The objective of Crime Prevention Victoria is to work with Victoria Police, other state government agencies, local government and communities on integrated and tailored crime prevention programs.

### **Improved emergency services**

The rebuilding of the State's emergency services continues with the rollout of \$39 million in funds in 2001-2002.

The 2001-02 allocation for the Country Fire Authority reform package initiative is \$35 million, with the Government contribution being \$7.9 million. This follows an initial \$28 million of initiative funding by the Government in 2000-01.

The second-year allocation will allow for the continued implementation of CFA programs to ensure brigades are trained, equipped and supported to the professional standards required to deliver a high quality service to the community.

The Community Safety Emergency Support Program, set up by the Government to provide new life saving ancillary safety and rescue equipment to CFA brigades and VicSES units across the State, enters its second year in 2001-02. The three year scheme aims to complement existing infrastructure and encourage strong community participation in safety at the local level.

In 2000-01, more than \$1.5 million was approved in grants for local SES units and CFA brigades. The second stage of the grant program has begun with second round applications from CFA and VicSES brigades scheduled to be received for consideration in early August 2001.

The \$7.5 million program for the systematic replacement of VicSES general purposes rescue trucks and other equipment continues with \$1.9 million allocated for 2001-02.

The program will ensure that VicSES is fully capable of timely and reliable progress to road accidents, storms, floods and other emergencies.

### **A visible police presence**

The increased local visibility and presence of police will continue. Victoria Police remains on schedule to meet its commitment to provide an additional 800 operational police by June 2003.

Victoria Police has implemented a comprehensive recruitment marketing and advertising campaign aimed at attracting sufficient appropriately skilled applicants to meet the Government's target for increased police numbers. This campaign has particularly focused on increasing the representation of women and people from diverse ethnic backgrounds in Victoria Police.

It is expected that from June 1999 to the end of June 2001 over 1 600 full-time equivalent police will have been recruited to Victoria Police, bringing full-time equivalent police and recruit numbers to over 9 900. Allowing for the conversion of some police positions to part-time positions and some workforce loss through natural attrition, the planned future recruitment schedule is expected to ensure total police and recruit numbers of 10 300 by June 2003.

### **Improved community police services**

The Government is committed to supporting police services with state-of-the-art facilities. Total funding of \$34 million has been provided towards advancing the Government's program of locating new police stations in growing metropolitan and regional areas and replacing outdated police stations. This includes upgrades and replacements at Bellarine, Croydon, Diamond Creek, Endeavour

Hills, Gisborne, Kilmore and Maryborough. A further \$30 million has also been committed to upgrade numerous police stations and court facilities in rural and regional Victoria.

## **ACCESS TO JUSTICE**

To ensure ongoing community confidence in Victorian democratic institutions, the Government remains committed to developing a just, responsible and accessible legal system.

Following recent significant case management reforms, the appointment of two additional County Court judges will further improve the timeliness of disposal of criminal and civil cases heard in the County Court. An increase in Tribunal member capacity at the Victorian Civil and Administrative Tribunal will provide support in reducing the waiting times currently experienced in the Civil and Planning Lists of the Tribunal.

To enhance the educational support provided to judicial officers, funding of \$2.7 million over four years will be provided to establish a Judicial College of Victoria. The College will increase the ability of judicial officers to keep abreast of developments in the law, as well as non-legal issues relating to different groups of society, particularly people from different cultural backgrounds.

An increase in funding of \$4 million over four years will be provided for Victorian Legal Aid and Community Legal Centres to provide legal advice and representation to the most disadvantaged in our community.

## **Correction management and offender rehabilitation**

For those offenders who enter the courts and corrections systems, the Government is committed to a long-term strategy aimed at breaking the cycle of re-offending.

### ***Pressure on existing prisons***

Victoria's total prison population has significantly increased over recent years, with prisoner numbers reaching or exceeding prison accommodation capacity. Over the period June 1996 to June 2000, Victoria's total prison population increased from 2 440 to 3 153, an increase of 713 prisoners or almost 30 per cent. Notwithstanding this increase in prisoner numbers, Victoria still has the lowest incarceration rate of all Australian States.



Increased prisoner numbers place pressure on the Government to address corrections management and offender rehabilitation issues. Insufficient investment in prisons and diversion strategies increases the likelihood of recidivism, which would raise crime rates and increase the burden on Victoria's corrections system.

A number of current facilities are outdated, unsafe and overly expensive to operate and maintain. The most cost effective method of addressing this problem is to consolidate and expand the prison system so as to meet the dual needs of rehabilitation and community safety.

**Table 6.1: Australian prison population per 100 000 adults**

<i>State</i>	<i>June 1995</i>	<i>June 2000</i>	<i>% Change</i>
Victoria	72	86	19
New South Wales	139	151	9
Queensland	117	179	53
West Australia	167	221	32
South Australia	123	114	-7
Northern Territory	397	455	15
Tasmania	68	118	73
Australia	118	144	22

*Source: Australian Bureau of Statistics*

Based on the most recent modelling of prisoner numbers prepared for the Department of Justice, total prisoner numbers are expected to increase to around 4 100 by June 2005.

The projected increase in prisoner numbers is due to factors including the growing influence of drugs on offender behaviour, as well as a high proportion of offenders returning to the corrections system after their release.

A recent profile by the Department of Justice indicated 44 per cent of sentenced male prisoners and 60 per cent of sentenced females reported their offences were committed under the influence of drugs and/or to support a drug habit. At the same time, 43 per cent of offenders currently return to the corrections system within two years of their release.

Assuming a 90 per cent total prison system utilisation rate (consistent with national and international benchmarks), accommodating around 4 100 prisoners would require a prison system with accommodation capacity of approximately 4 550 beds. Victoria's prison system currently has a permanent funded design capacity of 3 232, around 1 300 beds short of expected prisoner demand in the next four years.

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

As a short-term response to demand pressures in the adult prison system, the 2000-01 Budget provided funding to expand permanent capacity by a further 357 beds. Support was also provided for interim additional temporary capacity to be progressively made available across the system until the completion of the permanent expansion. At this time, the Government indicated its intention to consider long-term correctional management strategies.

### ***Alternatives to imprisonment***

Following extensive consideration and consultation, this budget includes a significant commitment to the development of a long-term management strategy for custodial and correctional services and facilities. The foundation of the strategy is an increased emphasis on alternatives to imprisonment for non-violent offenders and broader rehabilitation options for serious offenders. At the same time, the strategy ensures that issues of community safety and ensuring compliance with court orders are addressed.

Implementation of this strategy provides a significant opportunity to reduce the growth in the prisoner population over the long term by addressing issues impacting on offender behaviour as well as factors leading to re-offending. Over the long term, through the introduction of comprehensive and appropriately structured prison diversion and offender rehabilitation programs, the growth in demand for adult prison beds is expected to be reduced by up to 600 beds.

Total funding of \$15 million in 2001-02, increasing to \$20 million in 2002-03 upon full program implementation, has been provided for prison diversion and offender rehabilitation initiatives.

A core element of the strategy is the restoration of effective statutory supervision of offenders serving community-based sentences and prisoners released on parole. Substantial enhancement will be made to the capacity of community correctional services to supervise and manage offenders identified as having a medium to high risk of re-offending. As well as improved court advice services, psychological assessment and counselling services, improved prison-based parole assessments and advice, and a broad range of offending behaviour programs and programs which will assist offenders into employment, education or training.

Other key elements of the strategy include:

- the introduction of a three-year pilot home detention program for offenders who are non-violent and did not commit a sex-related crime;
- implementation of a better structured prison-based rehabilitation programs, that address the underlying causes of offender behaviour;
- implementation of a range of new pre- and post-release programs, designed to provide transitional support for prisoners upon their release into the community; and
- the introduction of a comprehensive program evaluation strategy.

A court-based alternative sentencing program to better deal with offenders with a recognised drug dependency will also be introduced. This includes an expansion of the court diversion coordinators program, the expansion of the Court Referral for Evaluation and Drug Intervention and Treatment program and the establishment of a pilot program that provides an alternative sentencing option for magistrates and intensive support for high risk offenders with a drug dependency.

### ***Increased permanent capacity***

In addition, in order to manage expected long-term growth in the adult prison system, the Government will also expand overall permanent capacity by a further 716 beds and redevelop the existing prison system (total expenditure of \$166 million).

Four new facilities will be built including a 600-bed metropolitan Melbourne remand prison and a 300-bed metropolitan medium security prison. Two new minimum security prisons will be built in rural Victoria, including a 120-bed facility and a 100-bed facility. A 26-bed specialist unit will also be built within the existing Ararat Prison.

With the introduction of these facilities a number of existing, outdated rural prisons, which require extensive refurbishment and upgrade, will be progressively closed.

The nineteenth century Bendigo Prison and the minimum security prison farm at Won Wron will be closed. The future role of Beechworth and Langi Kal Kal prisons within the context of the redevelopment of the prison system is currently being considered.

Construction of the new facilities will ensure the adult prison system provides:

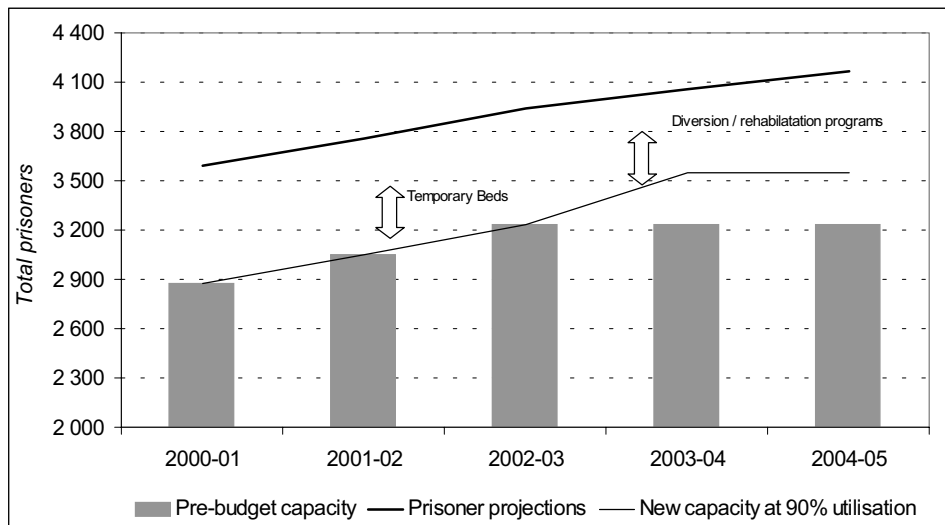
- prison infrastructure at an appropriate standard for current and future requirements;
- an improved focus on prisoner beds in the Melbourne metropolitan area, to better facilitate ongoing family and support linkages, the provision of specialist treatment and special needs programs and a reduction in long distance prisoner movements;
- a better balance of beds of varying security levels consistent with the projected prisoner profile;
- continuous separation of remand and sentenced prisoners;
- a reduction in the number of prisoners held in police cells; and
- a reduction in the adult prison system utilisation level to an average of around 90 per cent, consistent with national and international prison system management benchmarks and more conducive to the successful implementation of offender rehabilitation programs.

Improvements will also be made to the safety of cells within existing prison accommodation, with a focus upon improved fire safety and minimisation of hanging points (\$50 million over the next ten years).

Redevelopment work, including cell refurbishment and upgrades, will be undertaken on existing prisons.

In the face of continuing growth in prisoner numbers the Government is committed to a strategy that provides a balance between reducing the number of offenders entering the system and ensuring that appropriate accommodation is available to meet projected long-term prisoner demand growth (see Chart 6.4).

**Chart 6.4: Expected impact of long-term strategy and new accommodation capacity on corrections system outlook**



Source: Office of the Correctional Services Commissioner

## TRANSPORT SERVICES

The Government is committed to providing an integrated transport system with improved linkages between modes to meet people’s changing access and mobility needs. The more efficient utilisation of an integrated transport system will facilitate the movement of goods and people by public transport and reduce car usage, thereby fostering the environmentally sustainable growth of Victoria’s economic base.

Better linkages will also reinforce the interactive nature of regional centres and metropolitan Melbourne. By encouraging increased migration to regional centres and access for regional businesses to the available specialist skills in Melbourne, improved transport services can attract business investment and economic growth to regional areas.

With these aims, the Government has allocated funding for the following transport services initiatives.

## **Regional rail passenger services**

The Government has reviewed the potential to reintroduce rail passenger services on several regional rail lines which were discontinued by the previous Government. In the 2001-02 Budget, the Government has approved funding for the restoration of passenger rail links to Mildura, Bairnsdale, Ararat and South Gippsland (Leongatha) and improvements to Warrnambool and Shepparton services. The reintroduction of these services to these areas is a key part of the Government's aim to improve access to transport services and enhance intercity and country connections. The regional benefits will include regional employment and business development opportunities and the promotion of tourism, particularly the backpacker sector to regional areas.

## **Bus services**

The Government will allocate \$14 million over four years for new bus feeder services to address population growth in the following outer Melbourne suburbs – Laverton/Altona Meadows, Rowville/Glen Waverley/Ringwood, Werribee, Berwick, Craigieburn/Roxburgh Park/Coolaroo/Broadmeadows, Hampton Park and St Albans/Delahey/Sydenham.

The Laverton/Altona Meadows upgrade will extend services when the new bus interchange is completed at Laverton Station. Werribee-based improvements are designed to cover new estates and increase service connections with the rail service. The St Albans based changes will reorganise and add new route services to cover the new estates and improve service connections to rail including the new Taylors Road and Sydenham Stations. The initiative will alleviate the inadequate public transport services in these emerging outer fringe suburbs and in some cases provide commuters with improved access to local railway stations. This initiative supports the Government's policy of providing accessible public transport for all Victorians.

In addition, the Government will provide \$189 million over four years mainly to support a bus replacement program, currently operating under the existing contractual arrangements with private bus operators. Government makes a contribution towards the replacement program to ensure some 220 new air-conditioned buses, or around 6.5 per cent of the bus fleet, are introduced in 2001-02. The funding provided will also meet cost pressures experienced by bus operators which are mainly fuel related costs. The replacement program mitigates safety risks, reduces environmental impact and enables compliance with disability discrimination legislation through the introduction of low-floor buses in urban areas. The new vehicles greatly improve operational efficiency and reliability of the fleet.

## **ROAD SAFETY**

The Government is committed to reducing annual death and injury on Victorian roads by 20 per cent over the next five years. Road crashes cost the Victorian community an estimated \$1.8 billion a year as 24 000 people per year are injured or killed on Victorian roads.

A 20 per cent reduction in the road toll could potentially save the Victorian community some \$360 million per annum by reducing demand for costly emergency, hospital, treatment and rehabilitation services. In addition, the Transport Accident Commission may be able to reduce premiums in future periods due to lower claims.

The Departments of Infrastructure and Justice, together with the Transport Accident Commission, VicRoads and Victoria Police, will initiate an extensive road safety campaign. The strategy will contribute to the Government's road toll reduction target through such measures as educational programs, motorcycle safety initiatives and new speed camera and drink driving enforcement regimes.

To complement the introduction of the road safety campaign, a number of road safety measures will be introduced. These include the upgrade of Victoria's 'booze' buses, the introduction of speed measuring devices and new evidential breath-testing devices that meet national standards.

At the same time, the package of safety measures will include an expanded speed camera enforcement regime and increased speeding penalties, broadly in line with CPI movements since the time of the last penalty increases. The increased penalties are designed to discourage speeding and to contribute towards the implementation of the above mentioned road safety measures.





## CHAPTER 7: REVENUE AND INTERGOVERNMENTAL FINANCIAL ISSUES

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- As a result of the Government's *Better Business Taxes: Lower, Fewer, Simpler* tax package, Victoria is now more competitive than the Australian average on two out of three measures of tax competitiveness, and is more competitive than New South Wales on all three measures.
- The Government's capacity to ensure a competitive tax system in Victoria is handicapped by the Commonwealth's current approach to state finances, under which the Commonwealth Grants Commission (CGC) has deemed that in 2001-02 Victoria will pay the highest per capita fiscal subsidy of any State, \$968 million in aggregate or \$200 for each Victorian.
- Victoria's revenue position in 2001-02 will be influenced significantly by the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations. While this agreement provides that no State's budget will be worse off as a result of the Commonwealth's changed tax system, Victoria is not set to benefit from the GST in revenue terms until at least 2007-08.

### STATE TAXATION

#### Victoria's relative tax competitiveness

The competitiveness of Victoria's tax regime plays an important role in underpinning economic growth and investment. The level of competitiveness has an impact on business investment, employment and production decisions. It may also affect a decision to invest in Victoria as opposed to other States, or in Australia as opposed to other countries.

The Government is committed to establishing a modern, simple system that produces a competitive tax environment – a taxation system that attracts new investment and jobs growth.

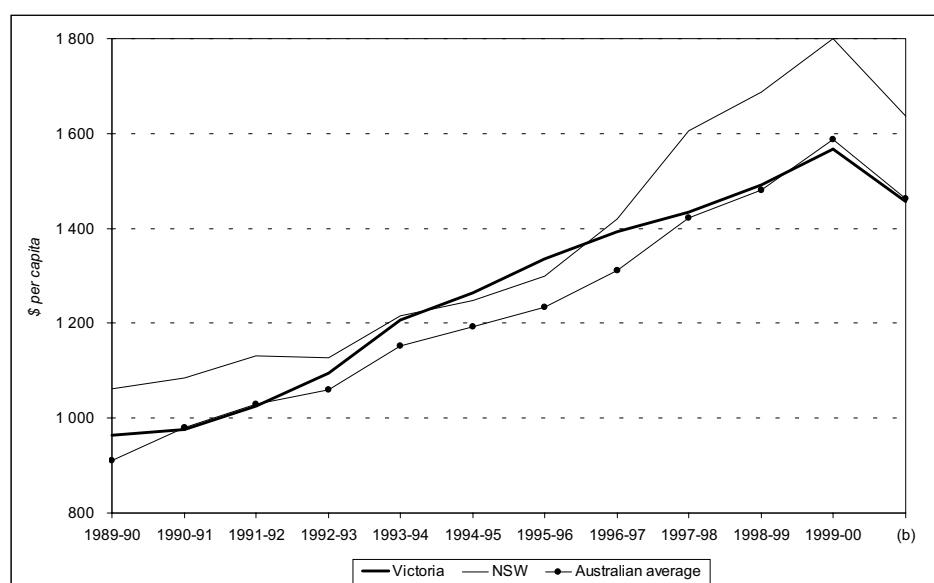
There are three main indicators of the relative competitiveness of Victoria's tax system:

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

### **Taxation revenue per capita**

State taxation revenue expressed on a per capita basis, as measured by the ABS, represents a measure of relative tax burden. Taxation revenue per capita for Victoria, New South Wales and the Australian average is shown in Chart 7.1.

**Chart 7.1: Victoria's taxation revenue per capita<sup>(a)</sup>**



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

Notes:

- (a) Historical taxation data for all States has been recast to reflect only those taxes that remain after 1 July 2001.
- (b) 1999-2000 data adjusted for Victorian tax cuts announced in this budget and previously announced tax cuts in other States, but assuming no further tax changes in other States in their 2001-02 budgets.

In 1999-2000, the latest year for which actual taxation data are available, Victoria's taxation revenue was \$233 per capita lower than that of New South Wales, representing a dramatic improvement in this measure compared with the mid-1990s. Compared with the average for all States, Victoria's taxation revenue per capita in 1999-2000 was \$20 per capita lower.

If all known policy changes are implemented as foreshadowed and there are no further tax changes in any State in their respective 2001-02 budgets, Victoria's taxation per capita is estimated to be \$181 lower than in New South Wales and \$8 lower than the national average.

### ***Taxation revenue relative to GSP***

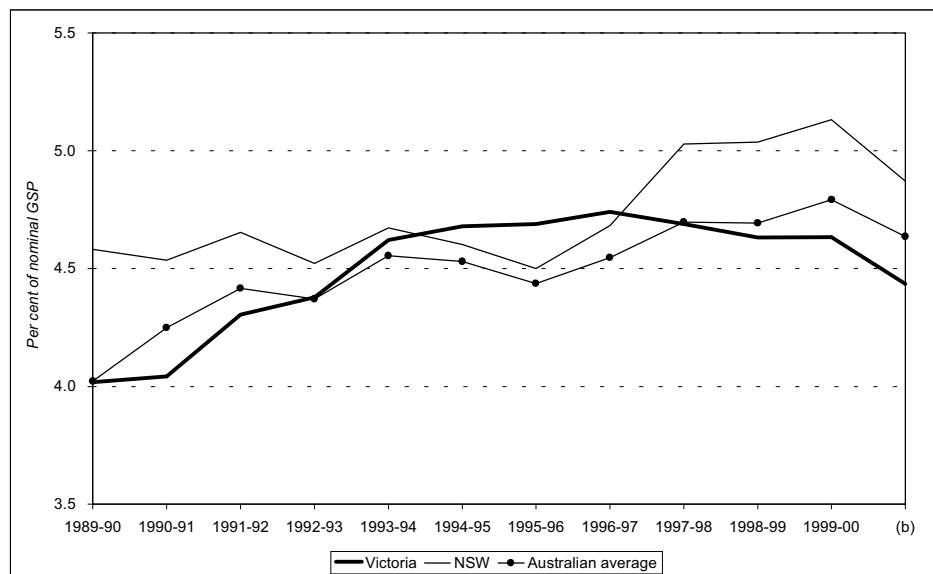
A second measure of the State's taxation burden is taxation revenue expressed as a proportion of GSP. Victoria's taxation revenue expressed as a percentage of nominal GSP has generally declined since 1996-97 and was an estimated 4.6 per cent in 1999-2000 (see Chart 7.2).

On this measure, Victoria's tax burden has been lower than that of New South Wales in recent years, with the difference widening from 0.2 percentage points above in 1995-96 to 0.5 percentage points of GSP below in 1999-2000.

Victoria's tax burden during the period 1997-98 to 1999-2000 also fell marginally to be lower than the Australian average, where the difference was 0.2 percentage points of GSP.

If all known policy changes are implemented as foreshadowed and there are no further tax changes in any State in their respective 2001-02 budgets, Victoria's taxation as a share of nominal GSP is estimated to be 0.4 percentage points of GSP lower than in New South Wales and 0.2 percentage points lower than the national average.

**Chart 7.2: Taxation as a percentage of nominal GSP<sup>(a)</sup>**



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

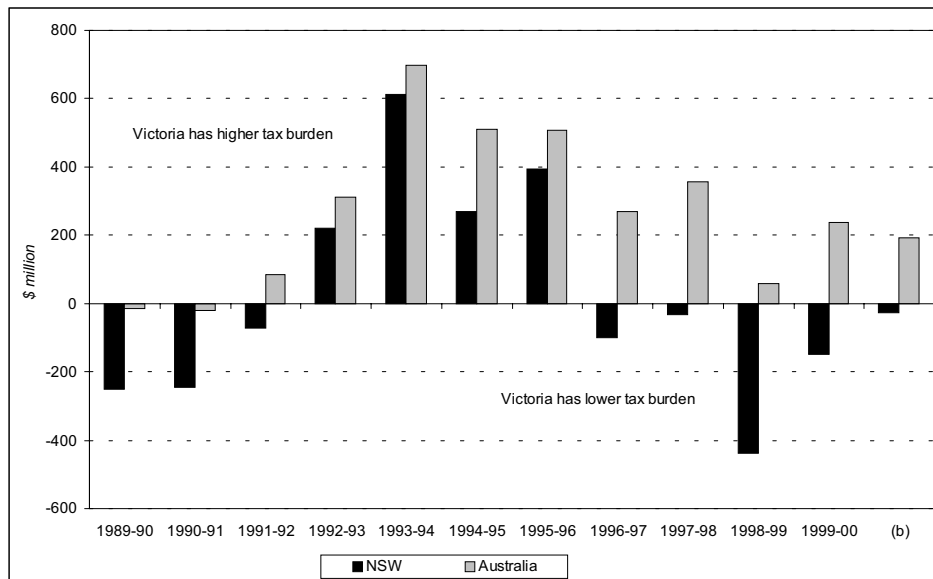
Notes:

- (a) Historical taxation data for all States has been recast to reflect only those taxes that remain after 1 July 2001.
- (b) 1999-2000 data adjusted for Victorian tax cuts announced in this budget and previously announced tax cuts in other States, but assuming no further tax changes in other States in their 2001-02 budgets.

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

The CGC's latest assessment of revenue relativities (*Report on State Revenue Sharing Relativities 2001 Update*) indicates that Victoria's taxation burden was \$238 million above the national average level in 1999-2000 but \$149 million below that of New South Wales (see Chart 7.3).

**Chart 7.3: Victoria's relative tax burden – Commonwealth Grants Commission <sup>(a)</sup>**



Sources: Commonwealth Grants Commission Report on State Revenue Sharing Relativities 2001 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) 1999-2000 data adjusted by DTF for Victorian tax cuts announced in this budget and previously announced tax cuts in other States, but assuming no further changes to taxes in other States in their 2001-02 budgets. Historical taxation data for all States has been recast to reflect only those taxes that remain after 1 July 2001.

Looking forward, the CGC revenue relativity estimates can be expected to change as a result of known policy decisions. The Government has recently announced tax cuts rising from \$100 million in 2001-02 to \$351 million in 2004-05. In addition, the Government has introduced the health benefit levy which will generate an additional \$36 million each year.

If previously announced changes to other state budgets are implemented as foreshadowed and there are no further tax changes in their respective 2001-02 budgets, Victoria's tax burden is estimated to be \$191 million above the national average but \$25 million below that of New South Wales (see Chart 7.3).

The tax competitiveness of Victoria and all other States relative to the Australian average is shown in Table 7.1.

**Table 7.1: State tax burdens relative to the Australian average – Commonwealth Grants Commission <sup>(a)</sup>**

	(\$ million)							
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Variation from national average	216	191	-632	-670	1550	719	834	566

Sources: Commonwealth Grants Commission Report on State Revenue Sharing Relativities 2001 Update; Department of Treasury and Finance

Note:

(a) A positive tax effort indicates that the jurisdiction has a higher tax burden than the Australian average, while a negative tax effort indicates that the jurisdiction has a lower tax burden. Historical taxation data for all States has been re-cast to reflect only those taxes that remain after 1 July 2001.

## Business tax competitiveness

The Government on 26 April 2001 announced its plan to deliver a more competitive business environment with lower, fewer and simpler taxes. The plan supports the development of new businesses and the growth of existing ones by reducing the financial and administrative burden of taxation for all Victorian businesses.

Victoria's business tax burden or effort on several business taxes compares favourably with those in other States, including our closest economic competitor New South Wales.

Victoria's payroll tax rates of 5.45 per cent from July 2001 and 5.35 per cent from July 2003 will mean only Queensland's payroll tax rates will be consistently below Victorian rates. It is significantly less than New South Wales (6.20 per cent from 1 July 2001 and 6.00 per cent from 1 July 2002).

Victoria's land tax system will also continue to be a relatively low-taxing regime when compared in aggregate terms to those of other States and Territories. Victoria's land tax collections are lower than the Australian average on either a per capita basis or as a proportion of GSP.

Abolition of three business stamp duties – on non-residential leases, unquoted marketable securities and mortgages – will encourage firms who want to transact business in Victoria. These stamp duties have been effectively taxing business activity in the State and their abolition will remove impediments to businesses doing business in Victoria.

Victoria is also the only jurisdiction which does not impose land transfer stamp duty on intangible assets (e.g., goodwill).

## **IMPACT OF NATIONAL TAX CHANGES ON VICTORIA**

The Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (Intergovernmental Agreement), which was signed by all jurisdictions in mid-1999, has resulted in a substantial change in Commonwealth-State financial relations since 1 July 2000.

The States have been receiving GST revenue since the introduction of the tax on that date. However, the payments of financial assistance grants and revenue replacement payments to the States ceased from 1 July 2000, and the States have also adjusted their gambling taxes to take into account the impact of the GST. In addition, under the Intergovernmental Agreement the States are required to compensate the Commonwealth for the costs of the ATO's administration of the GST, and to pay for the First Home Owners' Scheme. Furthermore, from 1 July 2001, the States will abolish the financial institutions duty and stamp duty on quoted marketable securities.

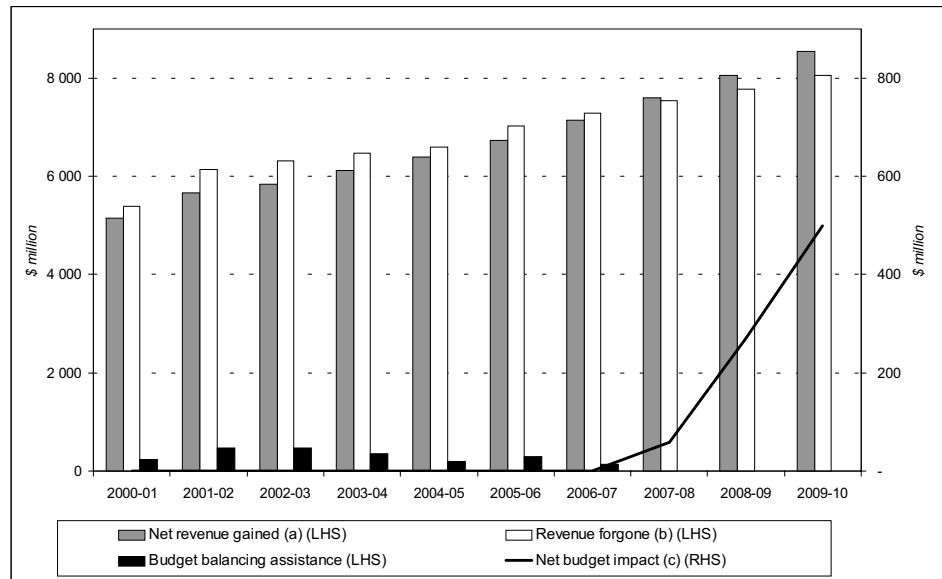
All of these changes mean that the States will rely on so-called transitional support (budget balancing assistance) from the Commonwealth for a number of years – in the case of Victoria and New South Wales until 2007-08.

### **Net impact on budget**

The Intergovernmental Agreement provides that no State's budget will be worse off as a result of the national tax changes. Each State is entitled to additional Commonwealth funding (budget balancing assistance) to offset any shortfall between its GST revenue grants and the guaranteed minimum amount, which is an estimate of the resources that the State forgoes under the national tax changes, together with the net impact of changed expenditure responsibilities.

Victoria expects to receive transitional payments of \$236 million in 2000-01 and \$473 million in 2001-02. It is expected that transitional assistance will continue to be received by Victoria until at least 2006-07 and Victoria will not gain from the Intergovernmental Agreement until at least 2007-08 (see Chart 7.4).

**Chart 7.4: Net impact of the GST**



Source: Estimates agreed to by Ministerial Council in second annual meeting on 30 March 2001

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 that there is no negative budget impact on the States from the GST and associated tax system changes.

The net impact of all the GST-related measures on the State's budget for the period 2000-01 to 2004-05 is summarised in Table 7.2.



**Table 7.2: Impact of the GST on the Victorian budget**

	(\$million)				
	2000-01	2001-02	2002-03	2003-04	2004-05
	Revised	Budget	Estimate	Estimate	Estimate
<b>Change in revenue</b>					
GST revenue	5 533.8	5 933.1	6 060.4	6 337.3	6 595.2
Growth dividend <sup>(a)</sup>	27.2	36.7	49.9	64.0	79.3
Financial institutions duty <sup>(a)</sup>	-	- 342.2	- 386.7	- 398.3	- 410.2
Debits tax	-	-	-	-	-
Marketable securities <sup>(a)</sup>	-	- 205.0	- 226.5	- 239.9	- 254.2
Gambling taxes	- 366.8	- 389.8	- 416.2	- 442.9	- 471.2
Safety net revenues	-1 432.5	-1 580.6	-1 643.1	-1 707.9	-1 775.8
Off-road diesel rebate	50.3	57.6	60.7	63.9	67.3
WST equivalent payments from GBEs <sup>(a)</sup>	- 5.0	- 5.0	- 5.0	-	-
Financial assistance grants forgone	-3 657.0	-3 716.3	-3 744.5	-3 810.9	-3 825.6
<b>Total change in revenue</b>	<b>150.0</b>	<b>- 211.5</b>	<b>- 251.0</b>	<b>- 134.7</b>	<b>4.8</b>
<b>Change in expenditure</b>					
First Home Owners' Scheme	232.0	236.6	241.4	246.2	251.1
Embedded tax savings <sup>(a)</sup>	- 100.4	- 107.4	- 115.0	- 122.9	- 131.5
Interest cost on changed Commonwealth payments <sup>(a)</sup>	7.5	3.4	4.2	-	-
Reimbursement of ATO administration costs	247.3	128.8	93.1	91.8	90.3
<b>Total change in expenditure</b>	<b>386.4</b>	<b>261.4</b>	<b>223.7</b>	<b>215.1</b>	<b>209.9</b>
<b>Net budget impact prior to Commonwealth transitional guarantee</b>	<b>- 236.4</b>	<b>- 472.9</b>	<b>- 474.7</b>	<b>- 349.8</b>	<b>- 205.1</b>
<b>Net Commonwealth guarantee payments</b>	<b>236.4</b>	<b>472.9</b>	<b>474.7</b>	<b>349.8</b>	<b>205.1</b>

Source: Intergovernmental Agreement on Reform of Commonwealth-State Financial Relations

Note:

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

## Payments to Commonwealth for GST administration

Under the Intergovernmental Agreement, the States are obliged to compensate the Commonwealth for the costs of the Australian Taxation Office (ATO) for GST administration. In the transitional years of the national tax changes, the Commonwealth's budget balancing assistance is compensating the States for these costs.

On 15 November 2000, the Commonwealth Treasurer sought the agreement of State and Territory Treasurers to large increases in the projected annual costs of the ATO's GST administration in 2000-01 and 2001-02. These increases were around 40 per cent in each year, and reflected the increased workload faced by the ATO as a result of business registrations for the GST numbering 2.1 million, compared with an expected 1.5 million. The ATO remains confident that its administration costs in later years will remain at levels that have been projected for some time (in the case of Victoria, around \$90 million per annum, which would compare with an estimated \$129 million in 2001-02; see Table 7.2).

The States agreed to the increased costs. However, the Victorian and NSW Governments sought and received assurances about improved provision of GST revenue information by the Commonwealth. During 2000-01, Victoria participated on a working party involving the States, the ATO and the Commonwealth Treasury which developed an interim performance agreement against which the ATO's GST administration will be monitored during 2001-02. The working group will also develop the final performance agreement, to be endorsed by the Ministerial Council for Commonwealth-State Financial Relations in March 2002, and against which the ATO's GST administration will be monitored from July 2002 onwards.

## **GRANTS**

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

The Ministerial Council held its second annual meeting on 30 March 2001. The major issues that were covered at this meeting were:

- the estimates of guaranteed minimum amounts, the GST and budget balancing assistance payments to the States in 2000-01 and 2001-02;
- the concerns of Victoria, New South Wales and Western Australia with the February 2001 recommendations of the CGC for the distribution of GST revenues and budget balancing assistance;
- the new Commonwealth scheme providing grants of an additional \$7 000 to first home buyers of new homes between 9 March 2001 and 31 December 2001 (this scheme is administered by the States and Territories); and
- an interim performance agreement which has been developed with respect to the ATO administration of the GST, the cost of which is met by the States and Territories.

At the Ministerial Council meeting, the Commonwealth Government stated that it would adopt the latest CGC recommendations (subject to confirmation of the accuracy of the data used by the CGC). This decision will reduce the guaranteed minimum amounts of Victoria, New South Wales and Western Australia below previous estimates and increase the cross-subsidies from those States to other jurisdictions even further.

## **An unfair and growing burden**

### ***Impact on state finances***

The CGC's assessment of the relative needs and revenue-raising capacities of each State and Territory has a major impact on state finances as the Commonwealth Government typically accepts the CGC's recommendations on relativities, which are issued annually in February.

Horizontal fiscal equalisation remains a major issue for Victoria. The GST revenue that is distributed to the States in the form of GST grants is centrally pooled and distributed on the basis of horizontal fiscal equalisation principles that applied prior to 1 July 2000 to the distribution of financial assistance grants.

In its 2001 Update of relativities, the CGC reduced Victoria's relativities for forgone financial assistance grants substantially. This will lead to a substantial reduction in Victoria's guaranteed minimum amount under the Intergovernmental Agreement. New South Wales and Western Australia are similarly affected. Table 7.3 shows the movements in implied grant shares for each jurisdiction as a result of the CGC's revised relativities.

**Table 7.3: Changes to implied grant shares 2001-02**

	<i>(\$ million)</i>							
	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>
Change in implied grants share	-157	-121	42	-9	96	52	21	74

*Source: Department of Treasury and Finance*

The distribution of the Commonwealth general purpose grants to the States and Territories is not based on their relative population shares, rather it is determined by the recommendations of the Commonwealth Grants Commission. Table 7.4 compares an equal per capita distribution with the distribution based on the CGC's recommendations. It shows an effective subsidy from Victoria, New South Wales and Western Australia to the other States and Territories of about \$2.2 billion in 2001-02, up from \$1.9 billion in 2000-01. Victoria's

subsidy in 2001-02 will be \$968 million. In per capita terms, Victoria has the highest subsidy at \$200 per capita, up 13 per cent from the previous year.

**Table 7.4: Fiscal subsidy for 2001-02 on an equal per capita basis <sup>(a)</sup>**

	CGC distribution <sup>(b)</sup> (\$ million)	Equal per capita distribution <sup>(c)</sup> (\$ million)	Subsidy (\$ million)	Subsidy (\$ per capita)
NSW	7 554.0	8 548.9	- 994.9	- 151
Vic	5 323.6	6 291.3	- 967.7	- 200
Qld	4 830.0	4 736.6	93.4	26
WA	2 317.3	2 504.9	- 187.6	- 97
SA	2 493.2	1 956.5	536.7	356
Tas	1 025.8	607.5	418.3	893
ACT	488.6	410.5	78.1	247
NT	1 283.5	259.9	1 023.6	5 110
<b>Total</b>	<b>25 316.2</b>	<b>25 316.2</b>	<b>0.0</b>	<b>0</b>

Source: Commonwealth Grants Commission, Report on State Revenue Sharing Relativities 2001 Update; Department of Treasury and Finance

Notes:

- (a) The total 2001-02 notional pool of \$25 316.2 million consists of \$18 750.3 million in financial assistance grants forgone and \$6 565.9 million in health care grants.
- (b) Relativities as recommended by the CGC Report on State Revenue Sharing Relativities 2001 Update.
- (c) Based on ABS population projections.

The equal per capita subsidy (shown in Table 7.4) is a conservative estimate because it ignores the fact that a disproportionate share of the revenue that funds these grants comes from Victoria and New South Wales. Table 7.5 compares the CGC derived distribution of GST revenue to the distribution of GST revenue that would result if all of the GST paid by residents in a particular jurisdiction was returned to that jurisdiction. For every dollar of GST revenue raised from Victorians, it is estimated that only 83 cents is returned as revenue to Victoria. This is as a result of the CGC relativities and the fact that Victorians spend more per head on goods and services than the average Australian. It is estimated that the total amount of GST revenue that is not returned to Victorians in 2001-02 will be \$1 258 million. On this basis, the effective total subsidy paid by Victoria and New South Wales to the other States and Territories is about \$2.7 billion.

**Table 7.5: Fiscal subsidy for 2001-02 on a GST incidence basis**

	<i>CGC distribution</i> (\$ million)	<i>GST incidence</i> <i>distribution</i> (\$ million)	<i>Subsidy</i> (\$ million)	<i>Cents returned</i> <i>per GST dollar</i> (cents)
NSW	8 486.9	9 917.9	-1 431.0	86
Vic	5 933.1	7 191.2	-1 258.1	83
Qld	5 301.7	4 957.5	344.2	107
WA	2 695.5	2 592.2	103.3	104
SA	2 591.2	1 988.7	602.5	130
Tas	1 107.5	603.3	504.2	184
ACT	554.6	515.0	39.6	108
NT	1 358.7	263.4	1 095.3	516
<b>Total</b>	<b>28 029.2</b>	<b>28 029.2</b>	<b>0.0</b>	<b>100</b>

*Source: Department of Treasury and Finance*

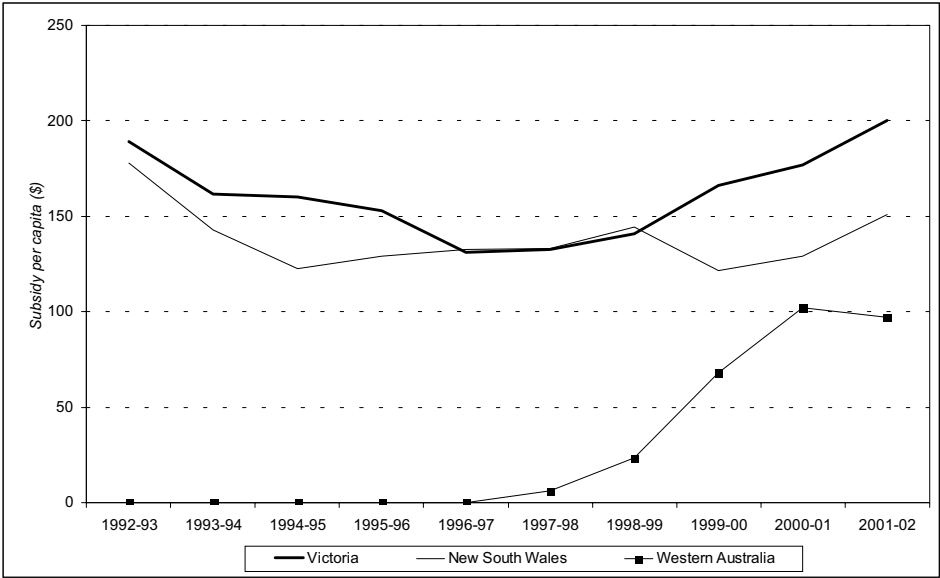
Even using the lower equal per capita benchmark Victoria, New South Wales and Western Australia have been cross-subsidising the other jurisdictions for many years (see Chart 7.5), and the magnitude of support is increasing each year. They are prepared to continue to support Tasmania, South Australia and the Northern Territory, whose economies are not as naturally diverse or rich as those of other parts of Australia. However, Victoria, New South Wales and Western Australia believe that both Queensland and the ACT, rather than being subsidy recipients, should be contributing to the subsidies being paid to the genuinely needy jurisdictions.

Queensland is widely regarded as having one of the strongest financial positions of any State, with a negative debt position and among the lowest state-based taxes in the country. Yet Queensland will be subsidised by Victoria, New South Wales and Western Australia by \$93 million in 2001-02.

The ACT has the second lowest level of net debt of any jurisdiction, and the highest level of per capita disposable income. The average annual disposable household income in the ACT is \$29 000. Victoria is the next highest with \$22 000. That is, disposable income levels in the ACT are some 32 per cent higher than Victoria and some 40 per cent higher than the national average. The effective subsidy paid to the ACT in 2001-02 will be \$78 million.

By any reasonable assessment, it is difficult to justify a continuation of the subsidies provided to Queensland and the ACT. Indeed if the system were fair Queensland and the ACT would be helping Victoria and the other donor States to support Tasmania, the Northern Territory and South Australia.

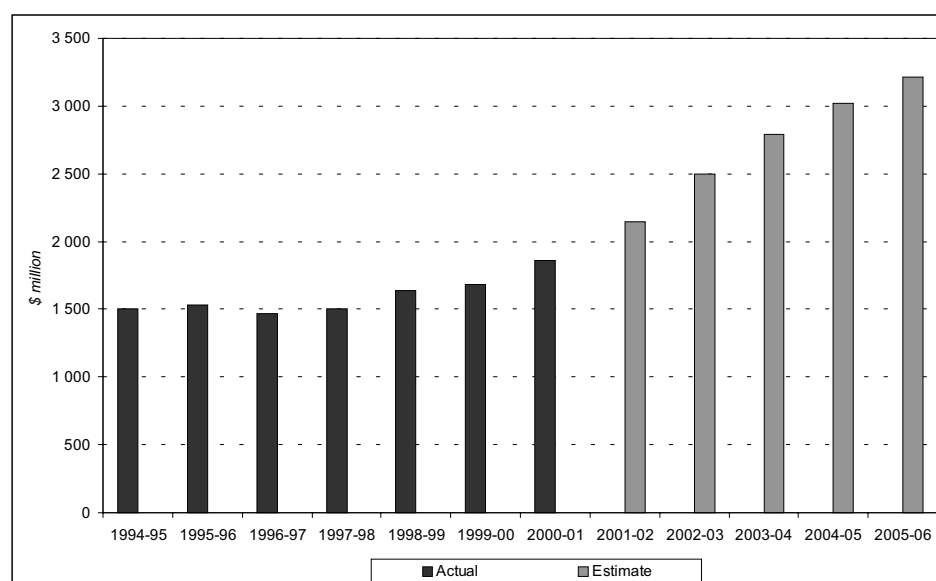
**Chart 7.5: Per capita cross-subsidisation by Victoria, New South Wales and Western Australia**



Source: Department of Treasury and Finance

Estimates by the Department of Treasury and Finance show that, if the latest relativities are maintained, then the amount of Commonwealth grants redistributed from Victoria, New South Wales and Western Australia to the other States and Territories will grow from \$2.2 billion in 2001-02 to \$3.2 billion in 2005-06 (see Chart 7.6).

**Chart 7.6: Total amount redistributed from donor states to recipient States through the CGC**



Source: Department of Treasury and Finance

### **Questionable CGC methodology**

Victoria, New South Wales and Western Australia remain major donors to the other States and Territories under this so-called horizontal fiscal equalisation process. The subsidies from Victoria, New South Wales and Western Australia are large and growing. The continued cross-subsidisation of the relatively well-off and mature economies of Queensland and the ACT is particularly unwarranted. A substantial overhaul of the CGC process is long overdue.

The CGC's assessments not only lead to unjustifiable distributions from some States to others, but also have been shown to be based on insupportable assumptions. For example, the CGC uses disabilities which apply to recurrent spending in its assessment of capital stock requirements. This practice costs Victoria some \$90 million per annum. In the 2001 Update, the CGC in assessing the effects of population dispersion within different States made completely arbitrary adjustments for expenditures on telephone calls, general freight, road travel, air travel and locality allowances.

Furthermore, the CGC's methodology is often flawed. For example, in assessing the costs to state governments of providing superannuation, the CGC in its 2001 Update Report used an approach which mixes cash and accrual concepts and which assumes a standard ten-year period for the rundown of

superannuation liabilities in each State, even though the period is quite different in each jurisdiction and in most cases is much longer than ten years (in Victoria's case to 2035; see Chapter 8, *Balance Sheet Management and Outlook*). Independent advice commissioned by the Department of Treasury and Finance describes this approach as fundamentally flawed. This erroneous and insupportable treatment of superannuation will cost Victoria some \$40 million in 2001-02, and it is vital that the CGC corrects its mistakes in later assessments and updates.

Another example of the CGC's flawed methodology is in assessing the costs to state governments of providing school education. The CGC undertakes a separate assessment of the costs of government and non-government schools. This is inconsistent with the CGC's treatment of other social and community services that have both a government and a non-government component, such as hospitals and nursing homes. The separate treatment of government and non-government schools will result in a \$285 million adverse impact on Victoria's grant share for 2001-02.

Following the historic joint meeting of the Victorian and NSW Governments in Albury-Wodonga on 26 March 2001, the two States announced that they are commissioning a major review to investigate the current system of Commonwealth grants distribution and to propose alternatives (subsequently, Western Australia has decided to join New South Wales and Victoria in this review). The review will be chaired by a high profile Australian with experience in intergovernmental relations.

### **Specific purpose payments**

Specific purpose payments are Commonwealth grants for a specific activity and which have conditions attached. Table 7.6 shows that specific purpose payments are an important source of state revenue. Victoria is estimated to receive \$3 471 million in specific purpose payments (excluding on-passing grants) in 2001-02. This represents 14.8 per cent of total state revenue in 2001-02.

The level of specific purpose payments and the terms on which the State receives these funds (e.g. matching requirements) have a significant impact on total budget funding and the State's budgetary flexibility. Another major issue for Victoria is our low share of total specific purpose payments.



**Table 7.6: Total state revenue 2000-01 and 2001-02**

	(\$ million)	
	2000-01 Revised	2001-02 Budget
<b>Own-source revenue</b>	<b>13 156.6</b>	<b>12 153.7</b>
<b>Grants</b>		
General purpose grants	5 884.9	6 583.7
Specific purpose grants	3 198.2	3 471.2
On-passing grants	1 227.1	1 256.8
<b>Total grants</b>	<b>10 310.2</b>	<b>11 311.7</b>
<b>Total revenue</b>	<b>23 466.8</b>	<b>23 465.5</b>

Source: Department of Treasury and Finance

### **Distribution**

The criteria for distributing specific purpose payment funds among the States vary for each agreement, depending on the nature of the program and the particular arrangements agreed. A per capita (or population based) method of distribution provides a general benchmark to assess whether Victoria is receiving a reasonable overall share of specific purpose payment funding.

Victoria has received a relatively low share of total specific purpose payments to the States (22.3 per cent compared to a population share of 24.9 per cent in 2000-01). In dollar terms, this will cost Victoria in excess of \$300 million in 2000-01.

Road funding is a key area where this divergence has been marked. The Commonwealth funds the national highway system and contributes to the capital cost of declared Roads of National Importance. Victoria's estimated share of national road funding in 2000-01 is only 12 per cent, despite the fact that Victoria:

- accounts for 26 per cent of national road travel and 27 per cent of articulated road travel;
- has 23 per cent of Australia's bitumen road length;
- has roads which are 19 per cent more intensively used than the rest of Australia; and
- generates 31 per cent of the nation's road freight movements (by place of origin).

The non-declaration of Roads of National Importance in Victoria by the Commonwealth has had a significant negative impact on funding. Melbourne is

the transportation hub of southeastern Australia. Reducing transport costs between regions in Victoria and through the transport hub of Melbourne is a key factor in making Australia's export industries more competitive.

Victoria has also been disadvantaged by the Commonwealth's changes to funding arrangements for legal aid. The Commonwealth offered Victoria a flat \$28 million for each of the next three years. This will result in a fall in Victoria's share of these Commonwealth funds from 27 per cent to 22 per cent. Examples of other specific purpose payments where Victoria receives significantly below its population share include disability services and the supported accommodation assistance program.

The Commonwealth also imposes financial risks on the States through indexation arrangements in specific purpose payments where Commonwealth funding does not keep pace with demand and cost increases in delivering a specified service (e.g. for public hospital patients). A recent example of unsatisfactory indexation is the cost index for the Australian Health Care Agreements. It is estimated that the Commonwealth's proposed index will result in Victoria being underfunded by \$220 million over four years (compared to the independent arbiter's recommendation rejected by the Commonwealth).

### ***Need for enhanced Commonwealth-State agreements***

In order to achieve improved services for Victorians and programs which are responsive to community needs, these arrangements need to be as efficient and effective as possible. The Commonwealth-State relationship in respect of specific purpose payments can be enhanced in a number of ways including, most importantly, a greater focus on outcomes rather than inputs and fairer funding arrangements.

In negotiating specific purpose payment agreements, Victoria's policy objectives are to:

- identify the most efficient and effective means of achieving program objectives in areas that require a cooperative approach with the Commonwealth;
- avoid distortion of state priorities in the provision of services for Victorians;
- provide the State with a reliable source of revenue so that predicability, stability and forward planning may be improved, while maintaining the flexibility of the Government to manage its budget;

- eliminate unnecessary and costly duplication of functions; and
- minimise the administrative costs associated with monitoring and reporting mechanisms.

In February 2001, the Victorian Government approved a set of best practice principles for such agreements, which were endorsed by a Heads of Treasury meeting in February 2000. These principles are being endorsed by all States and Territories. They are intended to serve as a guide for negotiators and administrators of these agreements on the desirable features of specific purpose payments that meet the objectives of both the Commonwealth and the States. Implementation of these principles will provide a sound platform on which agreements can be negotiated to achieve improved outcomes.

The best practice principles recognise that, where appropriate, States should be accountable for results, and that these should be defined in terms of the achievement of broad outcomes or delivering outputs, rather than their expenditure or inputs. An increased focus on strategic outcomes creates an opportunity for the Commonwealth and the States to negotiate specific purpose payment arrangements that no longer include outdated input restrictions.



## CHAPTER 8: BALANCE SHEET MANAGEMENT AND OUTLOOK

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- Moody's and Standard and Poor's have both cited Victoria's low debt levels, strong fiscal position and the Government's commitment to financial responsibility as the key reasons for Victoria's triple-A credit rating.
- The growth in general government assets is expected to average 2.4 per cent per annum between June 2001 and June 2005. In particular, the real capital stock deployed in the budget sector will grow at around twice the rate of population growth over this period. This underlines the Government's ongoing commitment to the delivery of improved social services, particularly in regional Victoria.
- The Government's Partnerships Victoria policy provides the framework for a whole-of-government approach to the provision of public infrastructure and related ancillary services through public-private partnerships.
- Projects being considered under Partnerships Victoria include the;
  - Spencer Street station redevelopment,
  - the Scoresby transport corridor,
  - the Westgate Terminal project, and
  - Wodonga and Echuca/Rochester Wastewater treatment projects.
- General government net financial liabilities (excluding Growing Victoria) are expected to decrease from \$16.3 billion or 10.8 per cent of GSP in June 1999 to \$15.2 billion or 7.2 per cent of GSP by June 2005. Over the same period net debt is estimated to halve from \$4.9 billion to \$2.5 billion.
- At \$12.4 billion, unfunded superannuation represents the State's largest liability. The State has adopted a funding framework with the aim of achieving 100 per cent funding of the liability by 2035.

## 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 State's balance sheet. These are to:

- manage the 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 borrowings, the management of the assets and liabilities of the State, and the commercial risks associated with government contracts and the operations of government business entities.

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 operating surplus (of at least \$100 million each year);
- provide capital works to enhance infrastructure throughout Victoria; 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 Risk Management Framework for managing financial risks in the State's balance sheet. The first element of this framework is the overarching legislation within the *Financial Management Act 1994* and the *Borrowing and Investment Powers Act 1987*.

The second element of the framework comprises the three key institutions that are responsible for managing financial risks in the State's balance sheet. These are the Treasury Corporation of Victoria (TCV) as the State's central borrowing authority, the Victorian Funds Management Corporation (VFMC) providing funds management services to the Victorian public sector, and the Victorian Managed Insurance Authority (VMIA) providing insurance and risk management services for the Victorian public sector.

## **ASSET MANAGEMENT STRATEGY**

The *Sustaining Our Assets* policy statement launched by the Minister for Finance in December 2000 is aimed at maintaining a portfolio of assets to enable services to be delivered effectively to the community and to provide a foundation for economic growth across the whole State. This policy seeks to build on current asset management practices.

The policy specifically places emphasis on four main features:

- Service delivery needs. Service delivery needs are regarded as the basis of all asset management decisions and address the social, economic and environmental needs of all Victorians.
- Life cycle approach to asset management. This approach evaluates operating and maintenance requirements and the implications of eventual replacement or retirement of assets during acquisition decision making. The planning process also includes evaluation of alternatives, other than owning assets, for the delivery of services to Victorians.
- Integrated approach to asset management and service delivery, across all assets and all government departments and agencies. This means looking beyond stewardship of individual assets and examining the total asset base. It also means achieving balance across government portfolios to optimise investment outcomes.
- Increased emphasis on accountability for asset investment. This in turn requires greater transparency and quality in reporting arrangements.

These asset management features are critical to the creation and maintenance of a portfolio of assets that is responsive to Victoria's changing needs. These features also ensure that service delivery requirements of present and future Victorians are met while preserving and safeguarding resources for future generations.

### **Public-private partnership principles**

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

Partnerships Victoria provides a framework for integrating private sector investment in public infrastructure. The policy focuses on whole-of-life costing of infrastructure and related ancillary services and a full consideration of the benefits of risk transfer to private parties.

All Partnership Victoria projects are subject to a full benefit-cost and bids are assessed against public sector benchmarks to ensure value for money. Projects are also assessed against public interest criteria relating to effectiveness, accountability and transparency, equity, public access, consumer rights, security, privacy and rights of representation and appeal at the planning stages by affected individuals and communities.

Underpinning the Partnerships Victoria policy is the following detailed guidance material:

- Practitioners' Guide: addresses the 'what', 'why' and 'how' questions in relation to Partnerships Victoria projects and sets out the approach to key commercial issues (e.g. payment structures and bid evaluation) and public process issues (public interest test, probity, and reporting and disclosure);
- Risk Allocation and Contractual Issues Guide: outlines the background methodology for risk transfer, describes major types of project risks and contractual issues and sets out the preferred government approach for each. Where appropriate, example contractual clauses are provided; and
- Public Sector Comparator technical note: outlines the role of the public sector comparator and provides guidance on its construction, including the valuation of project risks. The public sector comparator estimates the full whole-of-life risk-adjusted cost if a project were to be financed, owned and implemented by government.

Exposure drafts of the three documents were released for public comment in March 2001. It is proposed that final versions be released in June 2001.

The Partnerships Victoria approach will be used where it can provide a value for money outcome and protect the public interest. Determination of the most appropriate form of partnership for a particular Partnerships Victoria project will be driven by consideration of output specifications, the public interest, the capabilities of both government and the private sector, the optimal risk allocation and commercial viability.

The policy applies to all public infrastructure projects when the present value of payments to be made by the Government (and/or consumers of a service) exceed \$10 million during the period of the partnership.



## ***Partnerships Victoria projects***

A number of projects are being considered for delivery under the Partnerships Victoria approach, including:

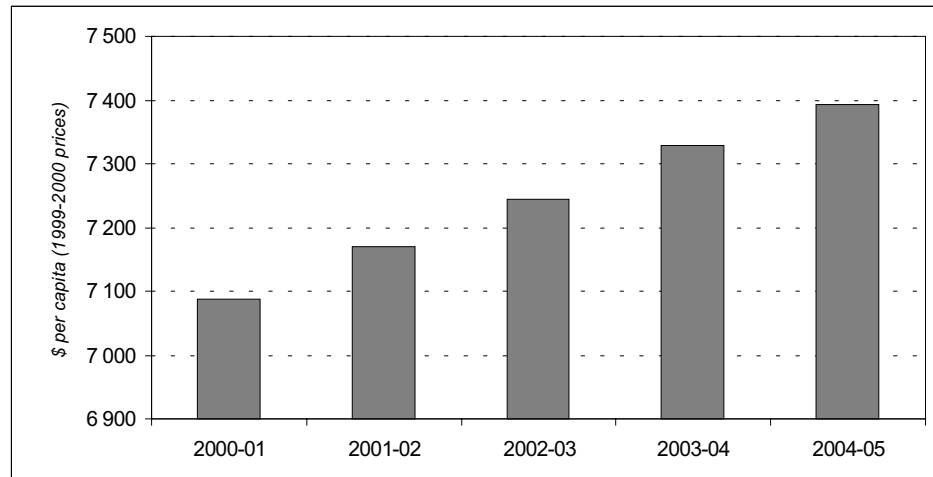
- the Regional Fast Rail projects, designed to establish fast rail links from Melbourne to service the regional corridors to Bendigo, Ballarat, the Latrobe Valley and Geelong;
- the Spencer Street Station Redevelopment project, which will redevelop Spencer Street Station as a city/country transport hub and an important link from the city into the Docklands development area;
- the Melbourne Airport Transit Link, which will develop a fast airport link between Tullamarine Airport and the City of Melbourne;
- the Scoresby transport corridor project, an integrated transport solution designed to provide improved transport services for both north-south and east-west travel in this urban corridor. It has a freeway and a public transport component. Funding has been sought from the Commonwealth under the Roads of National Importance program;
- the Wondonga Wastewater and the Echuca/Rochester Wastewater treatment projects, aimed at improving regional wastewater treatment infrastructure to meet environmental standards and provide for increased capacity. City West Water is also proposing to redevelop the existing Altona Treatment Plant in order to meet new EPA Licence Conditions for discharge into Port Phillip Bay;
- the Mobile Data Network project, which will provide a mobile data network service for emergency service organisations. Emergency service vehicles will have access to an end-to-end mobile data service thereby improving their communications and responsiveness; and
- the Westgate Terminal project, a proposal from the Melbourne Port Corporation to facilitate the introduction of a third independent, international container terminal operator in the Port of Melbourne.

## **Capital stock**

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

Growth in real capital stock at around 8 per cent is expected to be double the rate of growth in the population over the forward estimates period (see Chart 8.1, which shows an increase in real capital stock per capita from \$7 089 in 2000-01 to \$7 394 in 2004-05).

**Chart 8.1: Real capital stock per capita**



Source: Department of Treasury and Finance

The Government's policy is to finance additional asset investment from the budget operating surpluses, or from the Growing Victoria infrastructure reserve, avoiding the need to incur additional borrowings.

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

## **LIABILITY MANAGEMENT STRATEGY**

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

Moody's Investors Service and Standard and Poor's rating agencies have both cited Victoria's exceptionally low debt levels, strong fiscal position and the Government's commitment to financial responsibility as the key reasons for Victoria's triple-A credit rating.

The Government is committed to maintaining net financial liabilities at prudent levels. The budget and forward estimates assume future cash resources are held as financial assets, thereby reducing net debt. The application of these financial assets to reducing liabilities by debt repayment or reducing net unfunded superannuation will be based on the economic return to the State and market opportunities at the time.

## **Borrowings**

Management of the general government debt portfolio continues to be based on the key objectives of achieving relative certainty of interest costs, while minimising borrowing costs and refinancing risk, and managing the financial and operational risks of the general government sector treasury operations in a conservative manner. The debt portfolio is primarily comprised of a fixed rate borrowing facility from TCV, with an evenly spread maturity profile. This ensures that a relatively small proportion of the debt portfolio is subject to repricing and hence uncertainty in any one period. Debt management activities are focused on increasing the flexibility and extending the maturity of the funding facility provided by TCV.

## **Unfunded superannuation**

The most significant liability on the State's balance sheet is unfunded superannuation. At 30 June 2001, the State's unfunded superannuation liability is projected to be \$12.4 billion compared with borrowings of \$6.4 billion.

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, the rating agencies have increased their focus on unfunded superannuation liabilities as debt levels have been reduced.

Following the decision in last year's budget to fully fund the Emergency Services Superannuation Scheme, the State's unfunded liabilities are now concentrated within the State Superannuation Fund.

The now closed defined benefit schemes of the State Superannuation Fund are administered by the Government Superannuation Office. The Government Superannuation Office, in conjunction with VFMC, contributes to the management of the unfunded liability associated with the defined benefit schemes by attempting to ensure that the returns on fund assets are maximised (within acceptable risk limits) and that the liability of the State is minimised.

In this budget, the Government has fulfilled its commitment under the funding framework established in 2000 for determining the level of annual payments made by the State to the State Superannuation Fund. This framework has been established with the aim of achieving 100 per cent funding of the Victorian Government's liabilities by 2035.

### ***Beneficiary Choice Program***

In November 2000, the Victorian Parliament passed legislation providing for the implementation of a Beneficiary Choice Program for members and beneficiaries of the State Superannuation Fund. This voluntary program provides members and beneficiaries with more choice regarding the manner in which their superannuation entitlements are paid and places the State's pensioners on a par with their interstate and Commonwealth colleagues.

The program represents a major breakthrough in public sector superannuation arrangements for deferred beneficiaries. For the first time, former Victorian public sector employees, who are yet to reach retirement age, will be able to move their entitlement from a defined benefit scheme to a complying superannuation fund of their choice.

The program is expected to reduce the State's unfunded superannuation liability and provide some flexibility in terms of the Government's future outlays on superannuation. The realisation of these impacts is contingent upon the take-up level being achieved.

## **SUMMARY BALANCE SHEET**

### **Net assets**

The statement of financial position shows an increase in general government net assets from \$16.6 billion as at June 2000 to \$17.8 billion as at June 2001 as a result of the forecast operating surplus of \$1.2 billion in 2000-01. The projected \$3.2 billion growth in net assets from June 2001 to June 2005 primarily reflects the projected operating surpluses over the forward estimates period.

**Table 8.1: General government sector summary statement of financial position as at 30 June**

	(\$ billion)					
	2000 Actual	2001 Revised	2002 Budget	2003 Estimate	2004 Estimate	2005 Estimate
Current assets	3.0	3.1	3.2	3.3	3.4	3.5
Non-current assets	36.1	37.6	38.2	38.7	39.5	40.2
<b>Total assets</b>	<b>39.1</b>	<b>40.7</b>	<b>41.4</b>	<b>42.0</b>	<b>42.9</b>	<b>43.7</b>
Current liabilities	2.5	3.5	3.5	3.5	3.6	3.7
Non-current liabilities	19.9	19.3	19.6	19.8	20.0	20.2
<b>Total liabilities</b>	<b>22.5</b>	<b>22.8</b>	<b>23.1</b>	<b>23.3</b>	<b>23.6</b>	<b>23.9</b>
<b>Net assets</b>	<b>16.6</b>	<b>17.8</b>	<b>18.4</b>	<b>18.7</b>	<b>19.3</b>	<b>19.8</b>

*Source: Department of Treasury and Finance*

As can be seen from Table 8.1, most assets and liabilities have duration of longer than 12 months and are therefore classified as non-current. Over the forward estimates period, the growth in total assets is expected to average 1.8 per cent per annum between June 2001 and June 2005. This anticipated increase in total assets reflects increased investment and the Government's ongoing commitment to delivering improved services, particularly in regional Victoria. Total general government liabilities are projected to increase slightly from \$22.8 billion at June 2001 to \$23.9 billion at June 2005, averaging growth of 1.1 per cent per annum over the forward estimates period.

Table 8.2 provides a different perspective on the general government balance sheet, highlighting the difference between physical and financial assets and liabilities.

**Table 8.2: General government sector detailed statement of financial position as at 30 June**

	(\$ billion)					
	2000	2001	2002	2003	2004	2005
	Actual	Revised	Budget	Estimate	Estimate	Estimate
<b>Physical and other assets</b>						
Property, equipment and infrastructure	32.5	32.9	33.8	34.6	35.6	36.4
Receivables, prepayments, inventories and other	3.2	3.1	3.1	3.1	3.1	3.1
Growing Victoria <sup>(a)</sup>	1.0	1.1	0.9	0.5	0.3	0.1
<b>Total assets</b>	<b>36.7</b>	<b>37.2</b>	<b>37.8</b>	<b>38.2</b>	<b>39.0</b>	<b>39.7</b>
<b>Net financial liabilities</b>						
Net debt <sup>(b)</sup>	3.9	2.9	2.7	2.6	2.5	2.5
Superannuation	12.3	12.4	12.5	12.6	12.7	12.8
<b>Total net financial liabilities</b>	<b>16.2</b>	<b>15.3</b>	<b>15.2</b>	<b>15.2</b>	<b>15.2</b>	<b>15.2</b>
<b>Other liabilities</b>						
Employee entitlements	2.1	2.3	2.5	2.7	2.8	3.0
Payables and other	1.8	1.8	1.7	1.7	1.6	1.6
<b>Total other liabilities</b>	<b>3.9</b>	<b>4.1</b>	<b>4.2</b>	<b>4.4</b>	<b>4.5</b>	<b>4.7</b>
<b>Net assets</b>	<b>16.6</b>	<b>17.8</b>	<b>18.4</b>	<b>18.7</b>	<b>19.3</b>	<b>19.8</b>

Source: Department of Treasury and Finance

Notes:

(a) Growing Victoria reserve is earmarked for physical asset investment and therefore treated as non-financial.

(b) Gross debt less liquid financial assets (excludes Growing Victoria).

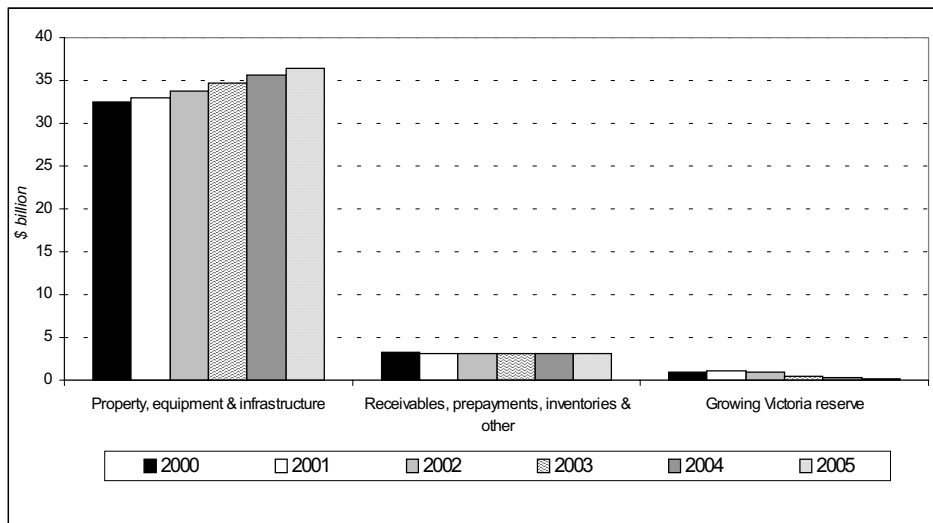
### Composition of assets

Chart 8.2 shows the composition of, and projected change in the level of, general government sector non-financial assets over the forward estimates period.

Physical infrastructure, including land and buildings, plant and equipment and roads, accounts for the majority of general government non-financial assets. The value of infrastructure assets are expected to grow strongly over the outlook period, from \$32.5 billion as at 30 June 2000 to \$36.4 billion by 30 June 2005.

This reflects the Government's commitment to a major program of infrastructure investment expenditure over this period, with net purchase of fixed assets expected to increase from \$1.3 billion in 2000-01 to an average of around \$1.9 billion per annum between 2001-02 and 2004-05.

**Chart 8.2: General government non-financial assets as at 30 June**



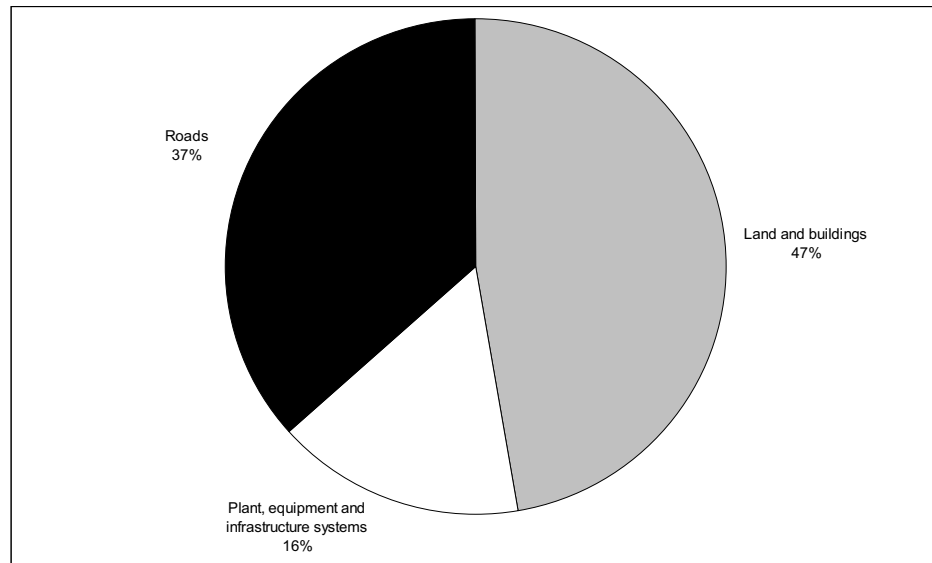
Source: Department of Treasury and Finance

Note: Growing Victoria reserve is earmarked for physical asset investment and therefore treated as non-financial.

This substantial infrastructure investment program will be funded in part by the Growing Victoria infrastructure reserve. As indicated in Chart 8.2, the reserve will increase in the year to June 2001, reflecting allocation by the Government of an additional \$175 million in the 2001-02 Budget to boost the original \$1 billion allocation. The reserve will gradually decline over the forward estimates period, reflecting the drawdown to fund infrastructure investment expenditure over the period, particularly in the areas of transport, education and ICT.

As illustrated in Chart 8.3, land and buildings accounted for the largest proportion of Victorian general government infrastructure assets (47 per cent as at 30 June 2001), followed by roads (37 per cent) and other plant, equipment and infrastructure systems (16 per cent).

**Chart 8.3: Property, equipment and infrastructure as at 30 June 2001**



*Source: Department of Treasury and Finance*

### **Movements in liabilities**

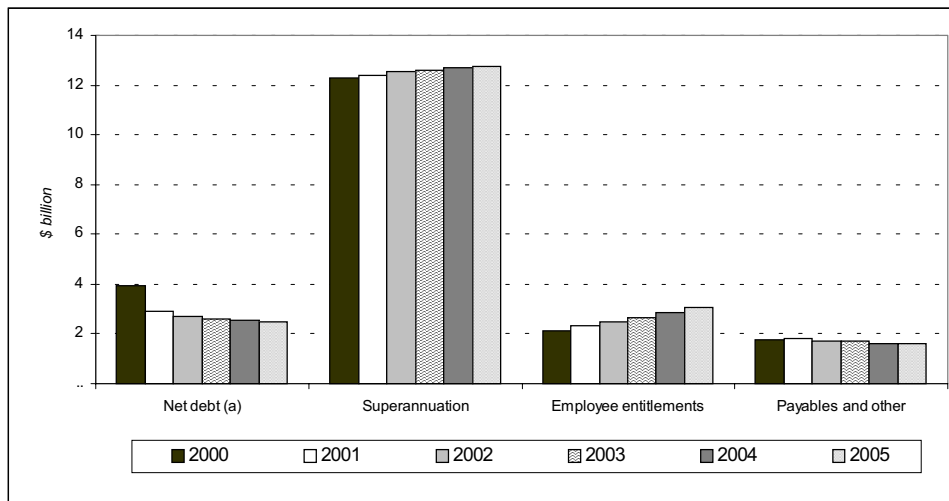
Chart 8.4 shows projected increases in the unfunded superannuation liability and employee entitlements, in contrast with net debt (excluding Growing Victoria), which is projected to decrease over the forward estimates period from \$3.9 billion as at June 2000 to \$2.5 billion by June 2005.

Net financial liabilities (net debt and unfunded superannuation liability) are projected to decrease overall over the forward estimates period from \$16.2 billion as at June 2000 to \$15.2 billion by June 2005.

Detailed explanations on the trends in each of the categories shown in Chart 8.4 are provided in the following pages.



**Chart 8.4: General government sector liabilities by category as at 30 June**



Source: Department of Treasury and Finance

Note:

(a) Gross debt less liquid financial assets (excludes Growing Victoria).

### **Net financial liabilities**

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

**Table 8.3: General government net financial liabilities as at 30 June<sup>(a)</sup>**

	2000	2001	2002	2003	2004	2005
	<i>Actual</i>	<i>Revised</i>	<i>Budget</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
	(\$ billion)					
<b>Financial assets</b>						
Cash and deposits	0.9	1.0	1.0	1.1	1.1	1.2
Advances paid	0.4	0.3	0.3	0.2	0.1	0.1
Investments, loans and placements	1.4	2.5	2.7	2.8	2.9	3.0
Growing Victoria	1.0	1.1	0.9	0.5	0.3	0.1
<b>Total</b>	<b>3.8</b>	<b>5.0</b>	<b>4.9</b>	<b>4.6</b>	<b>4.4</b>	<b>4.3</b>
<b>Financial liabilities</b>						
Deposits held	0.2	0.2	0.2	0.2	0.2	0.2
Advances received	0.1	0.1	0.1	0.1	0.1	0.1
Borrowings	6.4	6.4	6.3	6.3	6.3	6.3
<b>Total</b>	<b>6.7</b>	<b>6.8</b>	<b>6.7</b>	<b>6.7</b>	<b>6.7</b>	<b>6.7</b>
Net debt	2.9	1.8	1.8	2.1	2.2	2.4
<b>Net debt (excl. Growing Victoria)</b>	<b>3.9</b>	<b>2.9</b>	<b>2.7</b>	<b>2.6</b>	<b>2.5</b>	<b>2.5</b>
<b>Unfunded superannuation</b>	<b>12.3</b>	<b>12.4</b>	<b>12.5</b>	<b>12.6</b>	<b>12.7</b>	<b>12.8</b>
Net financial liabilities	15.2	14.2	14.3	14.7	14.9	15.1
<b>Net financial liabilities (excl. Growing Victoria)</b>	<b>16.2</b>	<b>15.3</b>	<b>15.2</b>	<b>15.2</b>	<b>15.2</b>	<b>15.2</b>
	<i>per cent</i>					
Net financial liabilities to GSP (excl. Growing Victoria)	10.1	9.0	8.6	8.0	7.6	7.2

Source: Department of Treasury and Finance

Notes:

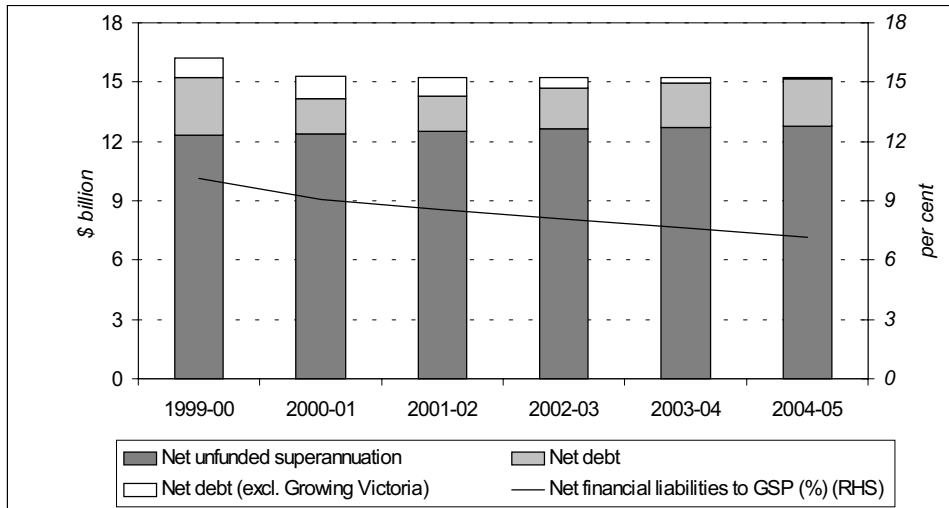
(a) This table is based on Table D4, general government sector balance sheet, in Appendix D.

(b) Totals may not add due to rounding

Table 8.3 shows projected general government net financial liabilities for the period from June 2000 to June 2005.

General government net financial liabilities (excluding Growing Victoria financial assets set aside for future infrastructure spending) are projected to decline from \$16.2 billion as at June 2000 or 10.1 per cent of GSP to \$15.2 billion as at June 2005 or 7.2 per cent of GSP (see Chart 8.5).

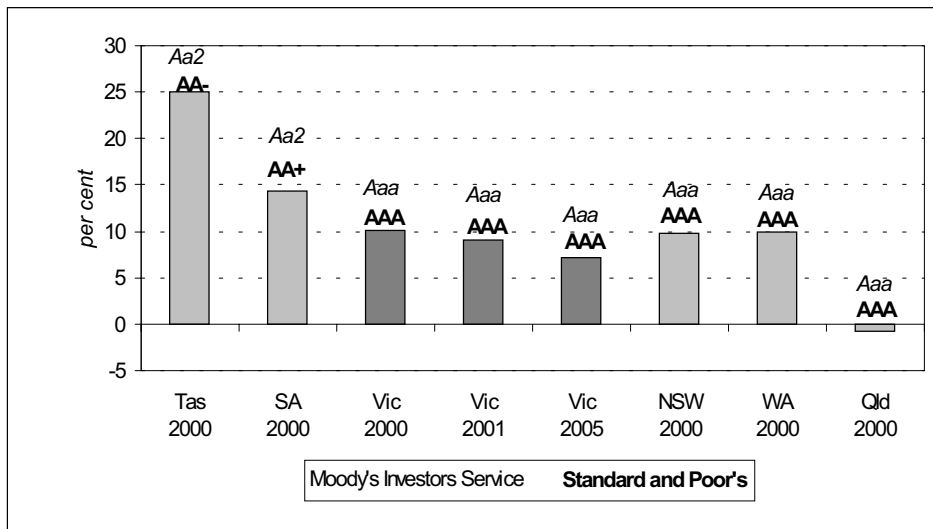
**Chart 8.5: General government net financial liabilities**



Source: Department of Treasury and Finance

Chart 8.6 shows that the ratio of Victoria’s net financial liabilities to GSP (as reported by the ABS) is consistent with other triple-A rated States.

**Chart 8.6: Comparison of general government net financial liabilities to GSP and current Australian state ratings, as at 30 June**



Source: Department of Treasury and Finance

## Net debt

The standard measure used to assess state government indebtedness is state government (non-financial public sector) net debt, as defined in the Uniform Presentation Framework and reported in Appendix D, *Accrual Uniform Presentation of Government Finance Statistics*. Under this framework, net debt is determined by deducting liquid financial assets from gross borrowings.

The budget forecasts include an assumption that all future cash surpluses are held as financial assets. Given this, state government net debt (excluding Growing Victoria financial assets) is projected to fall from \$5.2 billion as at June 2000 to \$3.5 billion as at June 2005.

State government net debt to GSP is also expected to decline from 3.2 per cent as at June 2000 to 1.7 per cent as at June 2005 (see Table 8.4 and Chart 8.7).

**Table 8.4: State and general government net debt (excluding Growing Victoria) as at 30 June**

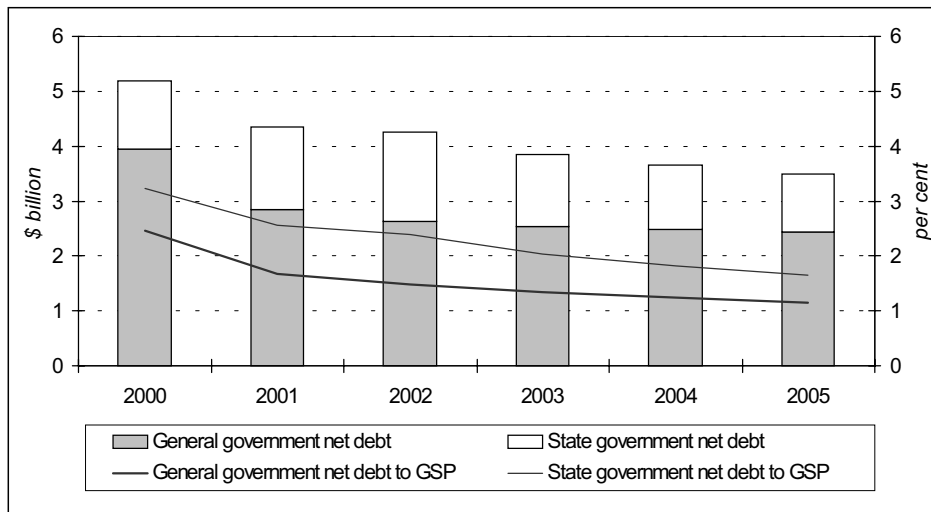
	2000 Actual	2001 Revised	2002 Budget	2003 Estimate	2004 Estimate	2005 Estimate
	<i>\$ billion</i>					
State government net debt <sup>(a)</sup>	5.2	4.4	4.3	3.9	3.7	3.5
General government net debt	3.9	2.9	2.7	2.6	2.5	2.5
	<i>per cent</i>					
State government net debt to GSP	3.2	2.6	2.4	2.1	1.8	1.7
General government net debt to GSP	2.5	1.7	1.5	1.4	1.3	1.2

Source: Department of Treasury and Finance

Note:

(a) State government net debt is the sum of general government net debt plus public non-financial corporations net debt, less inter-sector transactions. As public non-financial corporations data (except for Growing Victoria) is not available for the years 2002-03 to 2004-05, the data for this sector has been assumed to be constant from the year 2001-02.

**Chart 8.7: State government net debt (excluding Growing Victoria) as at 30 June**



Source: Department of Treasury and Finance

### **Unfunded superannuation liabilities**

As at June 2001, the State's unfunded superannuation liability is expected to be \$12.4 billion (7.3 per cent of GSP).

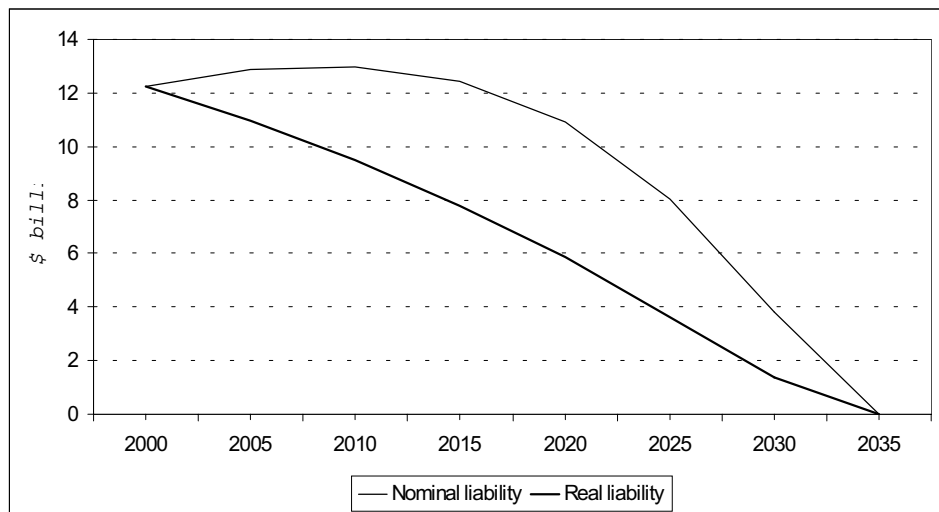
The unfunded liability of Victoria's superannuation schemes represents the present value of future benefits that members have accrued during past service which are not covered by fund assets. Unfunded liabilities have arisen in Victoria's defined benefit superannuation schemes because, prior to 1 November 1995, the State's share of superannuation costs was not contributed as benefits accrued but only when a benefit was actually paid.

From 1 November 1995, general government sector departments and agencies assumed responsibility for meeting the accruing superannuation cost through payments from their annual budget. The costs of prior service, however, remain the responsibility of the State and appear on the statement of financial position for general government. The prior service costs are currently funded via an annual payment determined on the basis of actuarial advice that is consistent with the Government's aim of 100 per cent funding of the State's unfunded superannuation liabilities by 2035.

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

Actuarial projections indicate that the unfunded superannuation liability is expected to grow on a nominal basis over the forward estimates period to approximately \$12.8 billion by June 2005 (6.0 per cent of GSP). This represents an average annual growth rate of 1.0 per cent, significantly less than the expected growth in GSP. The growth is mainly due to the increasing average age of the public sector workforce covered by defined benefit schemes.

**Chart 8.8: General government sector unfunded superannuation liabilities – long-term projections**



Source: Department of Treasury and Finance

Chart 8.8 shows that the level of net unfunded liabilities measured in real terms (June 2000 dollars) is expected to continue to fall as the impact of previous policy changes takes effect. In nominal terms, the level of unfunded superannuation liabilities is expected to peak at \$12.8 billion in 2007.

## USE OF CASH RESOURCES

Table 8.5 provides a summary of cash generated through the operations of Victorian Government departments and other general government sector agencies and how that cash is applied to infrastructure investment and financing activities. The table also provides a reconciliation of the projected budget operating result to the projected change in general government net debt over the forward estimates period.

The estimated statement of cash flows presented in Chapter 10, *Estimated Financial Statements and Notes* provides a detailed breakdown of the projected source and application of cash resources generated in the course of general government sector activities.

Table 8.5 shows that the expected budget operating surplus for 2001-02 is \$509 million. However, the operating result is affected by a number of expense and revenue items which do not require or provide cash resources during the year. These include depreciation, amortisation and growth in unfunded superannuation liabilities. Subtracting these non-cash items yields projected net cash inflow from operating activities for 2001-02 of \$1 578 million, compared to a revised estimate of \$2 450 million for 2000-01.

Expenditure on the purchase of infrastructure and other fixed assets is projected to increase to \$1 744 million in 2001-02, compared to a revised estimate of \$1 341 million for 2000-01. The \$1 578 million cash surplus from operating activities will be the main source of funding for the 2001-02 infrastructure program, with the balance sourced from a \$226 million drawdown of the Growing Victoria reserve financial assets, which were explicitly put aside in 1999-2000 and 2000-01 to provide a boost to future infrastructure spending. (For further details on the Growing Victoria infrastructure program see Chapter 5, *Growing the Whole State* and Appendix G, *Growing Victoria Infrastructure Reserve*.)

**Table 8.5: Application of cash resources**

	(\$ million)				
	2000-01	2001-02	2002-03	2003-04	2004-05
	Revised	Budget	Estimate	Estimate	Estimate
<b>Budget operating surplus</b>	<b>1 207</b>	<b>509</b>	<b>346</b>	<b>602</b>	<b>547</b>
Plus: Non-cash expenses (net)					
Depreciation & amortisation	841	895	941	992	1 070
Other non cash expenses (net) <sup>(a)</sup>	402	175	208	210	195
<b>Net cash flow from operating activities</b>	<b>2 450</b>	<b>1 578</b>	<b>1 495</b>	<b>1 805</b>	<b>1 811</b>
Applied to:					
Net purchase of fixed assets	1 341	1 744	1 786	1 945	1 950
Increase/(decrease) in Growing Victoria reserve <sup>(b)</sup>	118	- 226	- 405	- 191	- 170
Increase/(decrease) in other financial assets	994	58	113	48	30
Decrease (increase) in gross borrowings	- 3	2	2	2	1
<b>Financing and investing activities</b>	<b>1 110</b>	<b>- 166</b>	<b>- 291</b>	<b>- 141</b>	<b>- 139</b>
Plus: GFS classification differences <sup>(c)</sup>	67	144	- 4	- 1	0
Decrease/(increase) in net debt (including Growing Victoria)	1 176	- 22	- 295	- 142	- 138
Growing Victoria infrastructure spending	- 118	226	405	191	170
<b>Decrease in net debt (excluding Growing Victoria)</b>	<b>1 058</b>	<b>204</b>	<b>111</b>	<b>49</b>	<b>32</b>

Source: Department of Treasury and Finance

Notes:

- (a) Includes increase in unfunded superannuation liability and increase in liability for employee entitlements.
- (b) Includes drawdown of Growing Victoria reserve financial assets to finance related infrastructure expenditure.
- (c) Due to minor differences in classification of certain transactions between cash flow statement based on generally accepted accounting principles and net debt measure based on Government Finance Statistics (GFS) standards.

The balance of the 2001-02 cash surplus from operating activities will be mainly applied to increasing cash and other financial assets (\$58 million), particularly financial investments through VFMC.



As indicated in Table 8.5, as a consequence of these activities, and after taking into account classification differences, general government sector net debt (excluding Growing Victoria) is expected to decline by \$204 million in 2001-02.

The cash surplus from operating activities is expected to decline to \$1 495 million in 2002-03 (consistent with the projected decline in the operating surplus) before rising to \$1 811 million by 2004-05. Expenditure on the purchase of infrastructure and other fixed assets is expected to remain strong over the forward estimates period. This reflects maintenance of underlying infrastructure expenditure in line with growth in nominal GSP, together with the additional boost to infrastructure spending provided by the Growing Victoria infrastructure reserve.

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

## **FINANCIAL INDICATORS**

The indicators of financial condition for the general government sector are presented below. The indicators draw upon the data presented in the projected financial statements and other economic data to provide a set of measures of the financial condition of the general government sector.

Table 8.6 shows the projected improvement in the gearing ratios (or indebtedness) of the general government sector over the forward estimates period, as a result of the application of budget surpluses to financial assets and reduction of the State's unfunded superannuation liabilities. The debt servicing ratios provide an indication of the general government's capacity to meet future interest payments. These ratios are indicators of the State's financial health and, along with other factors, are used by the rating agencies to assess credit ratings.

**Table 8.6: Indicators of financial condition – general government**

	1999-00 <i>Actual</i>	2000-01 <i>Revised</i>	2001-02 <i>Budget</i>	2002-03 <i>Estimate</i>	2003-04 <i>Estimate</i>	2004-05 <i>Estimate</i>
<i>Gearing ratios – per cent</i>						
Total liabilities to total assets	57.5	56.1	55.7	55.5	55.0	54.6
Total borrowings to total assets	16.3	15.8	15.3	15.1	14.8	14.5
Current assets to current liabilities <sup>(a)</sup>	1.2	0.9	0.9	0.9	1.0	0.9
Long-term borrowings to total assets	16.0	14.1	13.9	13.7	13.4	13.1
Total borrowings to GSP	4.0	3.8	3.6	3.4	3.2	3.0
Unfunded superannuation to GSP	7.7	7.3	7.1	6.7	6.3	6.0
<i>Debt servicing indicators – per cent</i>						
Debt servicing ratio <sup>(b)</sup>	2.2	2.6	2.0	1.9	1.9	1.8
Superannuation expenses to total revenue	10.0	6.1	6.4	6.4	6.4	6.4
Superannuation expenses and borrowing costs to total revenue	12.2	8.6	8.5	8.4	8.3	8.2
<i>Asset investment – per cent</i>						
Growth in non-current physical assets	4.2	1.4	2.5	2.5	2.7	2.5
Asset investment to non-current physical assets	3.6	4.5	5.5	5.4	5.6	5.5

*Source: Department of Treasury and Finance*

*Notes:*

*(a) Ratio measure.*

*(b) Borrowing costs to total revenue.*

The continued decline in total liabilities to total assets, total borrowings to total assets and total borrowings to GSP reflects the Government's commitment to maintaining net financial liabilities at prudent levels.

The slight increase in the interest cover ratio from 2.2 to 2.6 times in 2000-01 mainly reflects a \$90.8 million one-off cost of recognising losses associated with the State's motor vehicle leases.

The debt servicing ratios also include the measure of superannuation expenses to total revenue. While the unfunded superannuation liability represents the State's largest liability, the expenditure on superannuation only represents 6.1 to 6.4 per cent of total revenue over the forward estimates period.

As shown in Table 8.7, continuing annual growth in non-current physical assets of around 2.5 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 assets reflects additions to the asset base according to the Government's investment commitments.



## CHAPTER 9: STATEMENT OF RISKS

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- Key economic risks include uncertainties associated with both national and international economic growth, inflationary consequences of oil prices and exchange rate movements, and changes in net interstate migration patterns.
- The budget operating position is likely to be sensitive, over the entire forward estimates period, to changes in the levels of economic activity (GSP and employment), inflation and wages. The majority of this effect is due to the impact on taxation and grants receipts, and on departmental expenses.
- The operating position is likely to display even greater sensitivity to movements in asset markets. 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.
- A number of contingent liabilities have been identified.

### ECONOMIC RISKS

The main risks to the Victorian economic outlook stem from international developments and other risks to the national economy from which Victoria would not be immune. There is also one risk specific to Victoria, namely population growth.

There is considerable uncertainty about the outlook for the world economy. A sharper and/or more protracted than anticipated slowdown in the United States is a major risk to the Victorian outlook. There are several potential catalysts for a more marked slowdown in the United States, including a slump in consumer confidence and spending, and a severe asset market downturn. Historically, Australian economic growth and financial market conditions have been closely linked to developments in the United States. A sharp downturn in the United

States would reduce global and interstate demand for Victorian exports. World equity markets have fallen heavily over the past year, affecting household wealth and consumer and business confidence. If sustained, this could have a noticeable impact on domestic spending patterns.

On the other hand, there are reasons to suggest that the downturn in world growth may be short-lived. The strength of March quarter growth in the United States, although modest at 0.5 per cent, surprised many commentators. More broadly, the extent of global monetary policy easing in the first half of 2001 enhances the prospects for a recovery in world activity later this year and into 2002. Australian interest rates have also fallen in the past few months, which will help to stimulate domestic demand and mitigate the impact of weaker world growth on the national and Victorian economy.

Domestic firms have faced significantly higher production costs over the past year, due mainly to oil price and exchange rate movements. If these cost increases eventually flow through to consumer prices, this could result in interest rates being higher and economic growth being lower than would otherwise occur.

The Victorian population projections assume net interstate migration gains stabilise at 2 000 persons per year over the forecast period. This is slightly below the gains recorded in the past two years, but considerably above the average net loss of 11 000 persons per year recorded over the past two decades. A change in net interstate migration of 10 000 persons per year in either direction would, other things equal, change Victoria's annual population and GSP growth by around 0.25 percentage points.

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

The importance of these economic risks can be gauged by the sensitivity of the budget to changes in economic conditions. This section provides estimates of the sensitivity of the budget operating surplus to changes in key economic variables.

### **Sensitivity analysis**

The sensitivity analysis estimates the impact on revenue, expenses and the budget operating surplus of independent and uniform changes to a range of economic indicators. To assess sensitivity to change, in each case, the level of the economic indicator is permanently increased by 1 percentage point.

The major variables that affect Victoria's operating surplus are economic growth, employment, prices, wages, interest rates and variability within asset markets. The full-year effect of a 1 percentage point increase in each indicator on the budget over a four-year 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, 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.

**Table 9.1: Impact on the general government operating surplus of a 1 percentage point increase in selected economic indicators in 2001-02<sup>(a)</sup>**

	(\$ million)			
	2001-02	2002-03	2003-04	2004-05
<b>GSP</b>				
Taxes, regulatory fees and fines	24	25	26	28
Other revenue	18	22	23	25
Superannuation expenses	..	..	..	..
Other expenses	..	..	1	2
<b>Operating surplus</b>	<b>42</b>	<b>46</b>	<b>49</b>	<b>51</b>
<b>Employment</b>				
Taxes, regulatory fees and fines	26	27	28	30
Other revenue	1	3	4	7
Superannuation expenses	..	..	..	..
Other expenses	..	..	..	..
<b>Operating surplus</b>	<b>27</b>	<b>30</b>	<b>33</b>	<b>36</b>
<b>Consumer prices</b>				
Taxes, regulatory fees and fines	24	25	27	28
Other revenue	121	129	136	144
Superannuation expenses	126	..	..	..
Other expenses	53	53	52	54
<b>Operating surplus</b>	<b>-34</b>	<b>101</b>	<b>111</b>	<b>118</b>
<b>Average weekly earnings<sup>(b)</sup></b>				
Taxes, regulatory fees and fines	25	27	27	29
Other revenue	-17	-22	-13	-18
Superannuation expenses	62	7	8	8
Other expenses	81	85	87	90
<b>Operating surplus</b>	<b>-135</b>	<b>-87</b>	<b>-80</b>	<b>-86</b>
<b>Share prices</b>				
Taxes, regulatory fees and fines	..	..	..	..
Other revenue	9	9	2	2
Superannuation expenses	-42	-3	-3	-3
Other expenses	..	..	..	..
<b>Operating surplus</b>	<b>51</b>	<b>12</b>	<b>4</b>	<b>5</b>

Source: Department of Treasury and Finance

**Table 9.1 (cont): Impact on the general government operating surplus of a 1 percentage point increase in selected economic indicators in 2001-02<sup>(a)</sup>**

	(\$ million)			
	2001-02	2002-03	2003-04	2004-05
<b>Property prices (volumes)<sup>(c)</sup></b>				
Taxes, regulatory fees and fines	17 (13)	17 (12)	26 (13)	25 (12)
Other revenue	2 (..)	3 (1)	3 (2)	5 (3)
Superannuation expenses	-6 (..)	.. (..)	.. (..)	.. (..)
Other expenses	..	..	..	.. (..)
<b>Operating surplus</b>	<b>24 (13)</b>	<b>19 (13)</b>	<b>29 (15)</b>	<b>30 (15)</b>
<b>Interest rates<sup>(d)</sup></b>				
Taxes, regulatory fees and fines	..	..	..	..
Other revenue	69	71	28	32
Superannuation expenses	61	..	..	..
Other expenses	3	8	13	22
<b>Operating surplus</b>	<b>5</b>	<b>63</b>	<b>16</b>	<b>10</b>

Source: Department of Treasury and Finance

Notes:

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

The results suggest that:

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



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

An assumed 1 per cent increase in GSP is estimated to lead to an increase in the operating surplus of \$42 million in 2001-02, growing to \$51 million by 2004-05. The majority of this increase is due to a rise in a broad range of taxation receipts resulting from the heightened level of economic activity. There is little impact on the combined level of GST grants and transitional assistance during this period. Although increased economic activity would be expected to increase GST revenue, any resulting increase in GST grants to Victoria would be largely offset by a reduction in transitional assistance, as estimated forgone revenues (and hence the guaranteed minimum amount under the Intergovernmental Agreement) are largely unaffected by changes in GSP (or GDP at a national level).

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

Employment growth directly affects the operating surplus through its impact on payroll tax revenue.

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

A 1 per cent rise in the level of consumer prices is estimated to reduce the operating surplus by \$34 million in 2001-02. This reflects a large one-off increase in the unfunded superannuation liability flowing from the impact that a higher CPI has on the present value of deferred pensions and benefits in the State Superannuation Fund.

Following this immediate impact, however, the CPI rise will have a positive influence on the budget position. This is because a number of revenue sources (including some taxes, grants and sales of goods and services) are sensitive to inflation, while expenditure in the budget year is relatively insensitive. This is because budget appropriations are not changed as a result of (post-budget) parameter changes.

Combined GST grants and transitional assistance will be raised by an increase in prices, as a number of components of estimated forgone revenue (principally financial assistance grants and safety net revenues) are raised by higher inflation.

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

As with an increase in prices, a 1 per cent rise in the level of wages has a substantial one-off impact on the net unfunded superannuation liability. Moreover, wage increases have an ongoing negative impact on the operating surplus as a rise in departmental salary and superannuation expenses is only partly offset by an increase in payroll tax receipts.

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

In aggregate, it is estimated that a 1 per cent rise in both domestic and international equity prices would improve the 2001-02 operating position by \$51 million, with the benefit then falling to only \$5 million in the fourth year. The initial improvement largely arises from gains in the value of assets held by the Transport Accident Commission (which subsequently affects dividend payments) and the State Superannuation Fund.

With the cessation of share duty on quoted marketable securities from 1 July 2001, variations in the volume of share transactions will no longer materially impact on the operating surplus.

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

A 1 per cent increase in property prices is estimated to improve the surplus by \$24 million in 2001-02, falling to \$19 million the following year but increasing again over the ensuing two years.

The improvement in 2001-02 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) would increase conveyancing, land transfer and mortgage stamp duty receipts by \$17 million in 2001-02. In response to rising real estate prices, land tax receipts would rise by \$9 million in the following two years as there is an 18-month lag in valuation determinations for land tax assessments.

Revenues are less sensitive to the volume of property transfers. A 1 per cent rise in the number of property transfers (holding prices constant) would increase receipts from property taxes by \$13 million in 2001-02. 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 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. The mark-to-market value of fixed interest assets held by the State Superannuation Fund would decline in the event of an interest rate rise. This capital loss would flow through to the budget operating position as an increase in that year's superannuation expenses.

In the case of public financial institutions, a rise in interest rates in 2001-02 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 in 2001-02 and 2002-03 (assuming an unchanged dividend payout ratio).

Over the remaining forward estimates period, the rate rise has a net positive impact on the operating position. This is due to higher general government sector borrowing costs and reduced dividend payments from various public authorities exposed to increased debt servicing costs being offset by increased interest revenue from the budget sector's financial assets.

### ***Changes from the 2000-01 Budget sensitivity analysis***

The sensitivity estimates presented in Table 9.1 include some significant changes from the equivalent table published in the *2000-01 Budget Paper No.2*. This is the result of further detailed analysis of the sensitivities since the 2000-01 Budget.

There have been a number of key changes in the methodology underlying the sensitivity calculations. The estimated operating result sensitivity to changes in consumer prices and average weekly earnings now incorporates an estimate of the impact on the unfunded superannuation liability of changes in these parameters. A more realistic assumption has also been included on the timing with which changes in the operating results of public authorities flow through to dividends to the general government sector. Previously, dividends were assumed to change in the same year, whereas now the impact is spread over two years. The sensitivity estimate for consumer prices now reflects the fact that budget appropriations are not changed as a result of (post-budget) economic parameter changes (whereas last year's estimate did not differentiate between budget year and non-budget year parameter changes). Changes in the cash

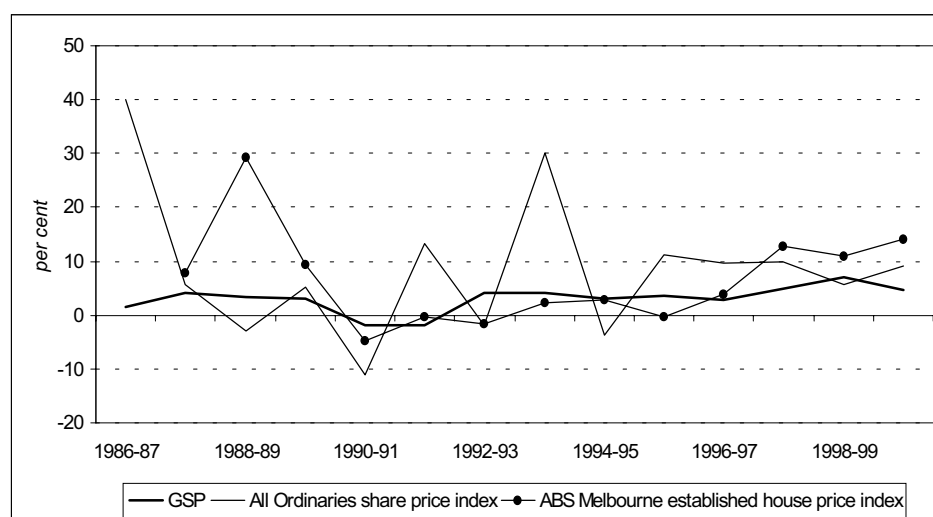
surplus are now assumed to have a follow-on impact on interest revenue rather than on borrowing costs. This change has no impact on the operating result sensitivity but does affect, in an equal and offsetting way, ‘other expenses’ and ‘other revenue’.

The estimates have also been affected by factors such as the move from a budget sector to a general government sector basis, changes in the composition of the statement of financial position (including those brought about by the *Better Business Taxes: Lower, Fewer, Simpler* package) and other minor methodological changes.

### **Variability of economic indicators**

In interpreting the estimates in Table 9.1, it is worth noting that some of the economic indicators listed have been more volatile historically than others. In particular, although variations in GSP growth, employment growth, wage and consumer price inflation, and interest rates have been broadly similar since the mid-1980s, property and share markets have been considerably more volatile (see Chart 9.1).

**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.

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

- share prices, due to their inherent volatility, are likely to be a major source of variation in the budget operating position in the year in which they occur;
- property prices, like share prices, are also relatively volatile. Although their initial impact on the budget operating position is smaller than that of share prices, property prices have a more substantial on-going impact;
- 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; and
- interest rates are less variable and have a smaller on-going impact on the operating position than other parameters.

## **EXPENDITURE RISKS**

A general factor which could increase expenditures above those allowed for in the forward estimates is unplanned increases in award wage costs. The main risks to specific departmental expenditures relate to growth in demand for key services and the modernisation of assets.

The Department of Education, Employment and Training faces a number of emerging pressures associated with the upgrade and modernisation of government schools to meet building compliance requirements. The Department also continues to experience strong demand growth in apprenticeships and traineeships. Management strategies are being developed to address these issues.

Demand for key services provided by the Department of Human Services, particularly acute care and emergency care in public hospitals, may increase the required level of service provision above that currently funded. The Department has programs for upgrading service delivery facilities (including hospitals, aged care and other health care facilities) to meet appropriate fire risk and regulatory standards, but there is a risk that further unplanned expenditure may be required.

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

The total prison population in Victoria has increased significantly over recent years to the extent that prisoner numbers have reached or now exceed prison accommodation capacity. To manage projected long-term demand, the government is commencing an integrated strategy focused on prison diversion and rehabilitation initiatives, drug management and crime prevention as well as an expansion of the permanent capacity of the prison. If diversion and rehabilitation program initiatives do not adequately address demand, further capacity expansion may be required.

In January 2001 the Commonwealth Government released its innovation statement *Backing Australia's Ability*. This statement provides opportunities for the States to benefit from a range of new and expanded science, technology and innovation programs. Generally these programs require matching funding to be provided by state governments, private industry or other public sector organisations (e.g. universities). Program details and the precise nature and level of matching or joint contributions are not known at this time. More information is to be provided by the Commonwealth Government on a program-by-program basis throughout the year.

Although it is not clear at this stage what level of State funding will be required to match the Commonwealth's commitments, some funding will be necessary in order to leverage the Commonwealth funds. However, at this stage it is considered premature to commit state funding in the absence of detailed proposals from the Commonwealth.

Victoria will be hosting the Commonwealth Games in 2006 and the Government has committed to undertaking a full budget review of the requirements for the Games. It is expected to consider the results of this review along with likely infrastructure works required for the Games by the end of 2001. In this budget the Government has provided \$6.2 million of funding for the Commonwealth Games Organising Committee for 2001-02 pending the review outcome. This is in addition to the \$5 million each year for the next five years provided in the 2000-01 Budget to cover licence fees for the Games to be paid to the Commonwealth Games Federation.

Funding of \$2 million has also been provided for the planning and development phase of the expansion of the Melbourne Sports and Aquatic Centre to bring it into line with standards required for the 2006 Commonwealth Games and for the scoping and planning of the Games Village. The Village will need to provide accommodation for 6 000 athletes and officials expected to be involved. Further requirements for these facilities will be considered as part of the Games budget review.

The level of support provided by Commonwealth and local governments will also affect the cost to the State Government. A final budget will not be available until late 2002 after the finalisation of the event list following the staging of the 2002 Commonwealth Games in Manchester.

## CONTINGENT LIABILITIES

### Quantifiable contingent liabilities

Quantifiable contingent liabilities made by the Government are set out in Table 9.2. 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 9.2: General government quantifiable contingent liabilities at 30 June**

<i>(\$ million)</i>		
	1999	2000
Guarantees and indemnities	283.5	254.1
Legal proceedings and disputes	198.3	111.9
Other	25.8	13.7
Agency debt <sup>(a)</sup>	2 672.7	2 497.6
<b>Total contingent liabilities</b>	<b>3 180.3</b>	<b>2 877.3</b>

*Source: Department of Treasury and Finance*

*Note:*

*(a) Debt raised by non-general government sector agencies.*

### Contingent liabilities – non-quantifiable

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

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

### ***Asset sales***

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

### ***Automated ticketing***

In May 1994, the Public Transport Corporation (PTC) entered into contracts with the OneLink Consortium to provide automated ticketing and fare collection services to the PTC for its metropolitan public transport services over a period of ten years ending in 2007. Payments under the Automated Ticketing Service Contract will be in the order of \$300 million over the term of the contract, on a performance basis. This amount does not include any additional payments relating to variations to the system which have been, or may, be implemented under this contract. Delivery of the first stage (pilot commissioning) of the automated ticketing and fare collection services occurred in 1997, with commissioning of the system granted with effect from December 1998.

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

In addition, in April 2000, OneLink Transit Systems Pty Ltd lodged a claim under the Consolidated Service Contract claiming that the scope of the automatic ticketing project was increased during the period between the signing of the contract in May 1994 and September 1995.

The PTC is currently reviewing the claims and is not in a position to assess the likelihood of success of the claims or the quantum of amounts payable (if any).



### ***Land remediation – environmental concerns***

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

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

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

On 1 December 1995, the Victorian Parliament passed the *Melbourne City Link Act 1995*. This Act provided the Government with the powers necessary to implement the Melbourne City Link project, while ratifying and enacting as law the Concession Deed (and Exhibits).

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

In February 2001, a claim was lodged by Transurban under the Concession Deed Material Adverse Effect regime, claiming that State road constructions in Docklands (Wurundjeri Way) and on the Westgate Freeway constitute one of the circumstances set out in the Appendix. The basis for this claim is currently being negotiated within the framework set down in the Concession Deed.

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

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

## **Public transport franchise arrangements**

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

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

*New Rolling Stock Lease Direct Agreements:* As part of the franchising arrangements, the franchisee of each passenger rail business has undertaken to provide new rolling stock. Each franchisee will enter into a lease with a third party lessor with respect to this rolling stock and the Director will enter into rolling stock direct agreements with the respective lessors to protect the State's interest in the new rolling stock. Three of the five required rolling stock lease direct agreements have been executed. In the event of expiry or on early termination of the franchise arrangements, the Director can either exercise a right to acquire the new rolling stock at predetermined values or the lease payment obligations can be transferred to the Director or a successor franchisee. The contingent liability of the Director to take over the lease payments only commences upon delivery of the units of new rolling stock. No units of new rolling stock have been delivered under this arrangement.

*Other direct agreements:* The Director is also party to a number of other direct agreements with the providers of key services to franchisees in respect of carrying out their operations. In the event of a 'step-in event' occurring or on early termination of a franchise arrangement, the providers of the key services will continue to carry out certain operations for the Director until such time as the Director ceases to operate the business. Under the terms of these agreements, the Director assumes certain rights and obligations as if it were party to the original contract between the provider of key services and the franchisee.

*Payments on termination:* On termination of the franchise agreements, by expiry or otherwise, the Director will be liable:

- to pay for certain assets and liabilities, as determined by the agreements. (If on termination there is a net liability, the franchisees will be liable to the Director.); and
- for termination value payments in respect of designated rolling stock improvements and capital projects. The contingent liability is estimated to be \$15 million.

### *Contingent liability offsets on termination*

With respect to any additional costs arising to the Director on the early termination of a franchise, the franchisee must indemnify the Director for any losses, damages or costs incurred by him as a result of the early termination. If the franchisee does not do so, the Director has the right to draw on the franchisee's performance bond for the amount of those losses, damages or costs. These bonds amounted to \$131 million and the Director also has a fixed and floating charge over franchisee assets as security for amounts payable by franchisees.

### *Contingent liabilities arising from changes to existing conditions*

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

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

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

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

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

### ***Contingent liabilities relating to the Department of Infrastructure, as the Bus Industry Representative***

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

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

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

### ***Native Title***

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

### ***Victorian Managed Insurance Authority***

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 re-insurance in the private sector market for excess of loss on industrial special risk cover between \$50 million and \$1.25 billion for all losses arising out of any one event, and excess of loss on contract works and public and products liability cover between \$50 million and \$750 million in respect of any one occurrence. The risk outside this cover, relating to external parties, is borne by the State.

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

The State, and a number of its instrumentalities, have been named as 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 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.

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

As a result of the outsourcing of governmental functions, contractors now performing those functions following acceptance of their tenders have engaged staff on lesser rates and conditions than those which previously applied under awards for public sector employees. Subsequent 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 1996* are unclear pending the appeal.

## **HIH**

The State has a limited, as yet unquantified, exposure arising from the collapse of the HIH group of insurance companies. The principle exposure arises from pre-1985 workers' compensation liabilities formerly managed by HIH. The VMIA has in place a program to replace HIH policies held by state agencies with new insurance arrangements. As part of this program the VMIA will make an assessment of any potential losses due to claims made or capable of being made against policies held with HIH insurance. The extent of this exposure and the capacity of the provisional liquidator to meet all or part of any amounts owing is not yet known or capable of assessment. Initial estimates are that the exposure is not significant.

## CHAPTER 10: ESTIMATED FINANCIAL STATEMENTS AND NOTES

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### INTRODUCTION

The Estimated Financial Statements in this chapter have been prepared in accordance with the provisions in the *Financial Management Act 1994*. This Act requires that the Estimated Financial Statements be based on generally accepted accounting principles (GAAP), that they be consistent with the current Financial Policy Objectives and Strategies Statement, and that they be 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 they reflect a number of professional judgements about the most likely operating and financial conditions for the Victorian budget sector.

The scope of the budget sector as presented in the Estimated Financial Statements has been expanded to include all general government sector agencies. This move has brought the Victorian budget statement into alignment with those of the Commonwealth and other States and Territories. All other Australian jurisdictions, except SA and NT, focus on the total general government sector in their budget papers.

The expanded budget sector will also better align the information in the Estimated Financial Statements with the annual *Financial Report for the State of Victoria* and will achieve a measure of harmonisation with the Uniform Presentation Framework (see Appendix D, *Accrual Uniform Presentation of Government Finance Statistics*).

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

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

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

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



**Table 10.1: Estimated statement of financial performance for the year ending 30 June**

(\$ million)					
	<b>Notes</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
		<i>Budget</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
<b>Revenue from ordinary activities</b>					
Taxation	<b>2</b>	7 976.5	8 193.5	8 536.2	8 773.7
Fines and regulatory fees		374.2	386.2	368.3	374.5
Investment revenue	<b>3</b>	938.2	918.9	836.1	857.3
Grants	<b>4</b>	11 311.7	11 506.3	11 716.3	12 009.0
Sale of goods and services		2 111.6	2 122.7	2 147.0	2 161.5
Gains/(losses) on the disposal of physical assets		13.2	7.1	0.1	0.2
Inter sector capital asset charge		489.0	501.0	514.0	514.0
Other revenue		251.0	288.7	253.9	258.1
<b>Total revenue</b>		<b>23 465.5</b>	<b>23 924.4</b>	<b>24 371.7</b>	<b>24 948.2</b>
<b>Expenses from ordinary activities</b>					
Employee entitlements		8 411.5	8 753.3	9 011.7	9 301.8
Superannuation		1 506.9	1 534.3	1 564.9	1 588.5
Depreciation	<b>5</b>	871.3	918.4	968.7	1 046.1
Amortisation	<b>6</b>	23.8	23.1	23.5	23.5
Borrowing costs	<b>7</b>	477.6	466.3	460.7	453.5
Grants and transfer payments	<b>8</b>	3 954.9	3 930.8	3 848.2	3 879.4
Supplies and services		7 672.3	7 914.0	7 853.6	8 070.7
Other expenses		38.8	37.9	38.0	38.1
<b>Total expenses</b>	<b>9</b>	<b>22 957.0</b>	<b>23 578.1</b>	<b>23 769.3</b>	<b>24 401.6</b>
<b>Net Result</b>		<b>508.5</b>	<b>346.3</b>	<b>602.4</b>	<b>546.7</b>
<b>Total adjustments recognised directly in equity</b>		..	..	..	..
<b>Total changes in equity</b>		<b>508.5</b>	<b>346.3</b>	<b>602.4</b>	<b>546.7</b>

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

**Table 10.2: Estimated statement of financial position as at 30 June**

	(\$ million)				
	Notes	2002 Budget	2003 Estimate	2004 Estimate	2005 Estimate
<b>Current assets</b>					
Cash		1 033.6	1 084.8	1 134.8	1 153.5
Investments		1 064.1	1 077.6	1 084.8	1 091.2
Receivables		793.8	841.1	894.9	939.2
Prepayments		45.1	45.5	45.7	45.8
Inventories		235.0	235.3	235.5	235.7
Other	12	2.9	2.9	2.9	2.9
<b>Total current assets</b>		<b>3 174.5</b>	<b>3 287.3</b>	<b>3 398.6</b>	<b>3 468.3</b>
<b>Non-current assets</b>					
Investments		2 413.0	2 123.2	1 991.3	1 893.9
Receivables		233.1	179.3	127.1	76.3
Inventories		98.0	98.0	98.0	98.0
Property, plant and equipment	10	21 593.3	22 337.3	23 253.0	24 135.1
Roads	11	12 180.2	12 273.4	12 305.9	12 303.9
Other	12	1 725.1	1 735.8	1 736.8	1 732.8
<b>Total non-current assets</b>		<b>38 242.8</b>	<b>38 746.9</b>	<b>39 512.0</b>	<b>40 240.0</b>
<b>Total assets</b>		<b>41 417.3</b>	<b>42 034.2</b>	<b>42 910.7</b>	<b>43 708.3</b>
<b>Current liabilities</b>					
Payables		1 019.8	1 029.3	1 038.9	1 047.8
Interest-bearing liabilities		588.2	586.0	579.0	619.8
Employee entitlements	13	735.7	742.7	761.5	774.2
Superannuation	14	731.2	756.3	779.8	817.3
Other		404.9	404.0	403.1	402.3
<b>Total current liabilities</b>		<b>3 479.8</b>	<b>3 518.4</b>	<b>3 562.3</b>	<b>3 661.3</b>
<b>Non-current liabilities</b>					
Payables		6.5	6.5	6.5	6.5
Interest-bearing liabilities		5 757.5	5 761.4	5 768.2	5 726.0
Employee entitlements	13	1 740.4	1 910.1	2 084.7	2 265.4
Superannuation	14	11 799.3	11 864.5	11 920.0	11 941.3
Other		279.8	273.0	266.2	258.5
<b>Total non-current liabilities</b>		<b>19 583.5</b>	<b>19 815.6</b>	<b>20 045.7</b>	<b>20 197.7</b>
<b>Total liabilities</b>		<b>23 063.3</b>	<b>23 333.9</b>	<b>23 608.0</b>	<b>23 859.0</b>
<b>Equity</b>					
Retained surplus		12 528.5	13 037.0	13 383.3	13 985.7
Reserves		5 317.0	5 317.0	5 317.0	5 317.0
Net result for year		508.5	346.3	602.4	546.7
<b>Total equity</b>		<b>18 354.0</b>	<b>18 700.3</b>	<b>19 302.7</b>	<b>19 849.3</b>

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

**Table 10.3: Estimated statement of cash flows for the year ending 30 June**

(\$ million)

	<b>Notes</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
		<i>Budget</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Taxation		7 963.1	8 178.9	8 520.7	8 756.8
Fines and regulatory fees		304.7	316.6	298.7	305.0
Grants		11 311.7	11 506.3	11 716.3	12 009.0
Sale of goods and services		2 110.3	2 121.9	2 146.1	2 160.6
Interest received		206.7	206.2	205.6	207.9
Dividends received		498.9	503.7	374.2	371.7
Capital asset charge received		489.0	501.0	514.0	514.0
Other receipts		484.0	476.7	482.0	516.1
<b>Total receipts</b>		<b>23 368.4</b>	<b>23 811.4</b>	<b>24 257.5</b>	<b>24 841.2</b>
<b>Payments</b>					
Employee entitlements		8 245.2	8 576.6	8 818.3	9 108.5
Superannuation		1 371.8	1 444.0	1 485.9	1 529.6
Grants and transfer payments		3 953.3	3 929.1	3 846.5	3 877.6
Supplies and services		7 661.5	7 908.8	7 848.0	8 065.8
Interest paid		558.1	457.4	454.0	448.6
Other payments		0.2	..	..	..
<b>Total payments</b>		<b>21 790.1</b>	<b>22 315.9</b>	<b>22 452.6</b>	<b>23 030.2</b>
<b>Net cash flows from operating activities</b>	<b>15</b>	<b>1 578.3</b>	<b>1 495.5</b>	<b>1 805.0</b>	<b>1 811.0</b>
<b>Cash flows from investing activities</b>					
Net customer loans repaid		70.6	67.6	67.6	67.6
Net purchases of investments		126.0	276.3	124.7	91.0
Sale of property, plant and equipment		98.2	75.2	45.6	43.8
Purchases of property, plant and equipment		(1 842.2)	(1 861.7)	(1 991.1)	(1 993.7)
<b>Net cash flows from investing activities</b>		<b>(1 547.4)</b>	<b>(1 442.5)</b>	<b>(1 753.2)</b>	<b>(1 791.3)</b>
<b>Cash flows from financing activities</b>					
Net proceeds (repayments) of borrowings		( 1.7)	( 1.7)	( 1.7)	( 1.0)
<b>Net cash flows from financing activities</b>		<b>( 1.7)</b>	<b>( 1.7)</b>	<b>( 1.7)</b>	<b>( 1.0)</b>
<b>Net increase in cash held</b>		<b>29.2</b>	<b>51.2</b>	<b>50.0</b>	<b>18.7</b>
Cash at beginning of reporting period		998.4	1 027.6	1 078.8	1 128.8
<b>Cash at end of reporting period</b>		<b>1 027.6</b>	<b>1 078.8</b>	<b>1 128.8</b>	<b>1 147.5</b>

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

## Notes to the Estimated Financial Statements

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

### Assumptions

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

#### Material economic and other assumptions<sup>(a)</sup>

	2001-02	2002-03	2003-04	2004-05
Gross state product	2.75	3.75	3.50	3.50
Employment	0.50	1.50	1.50	1.50
Consumer price index	2.00	2.25	2.25	2.25
Wage cost index <sup>(b)</sup>	3.50	3.50	3.50	3.50
Population <sup>(c)</sup>	1.00	1.00	0.90	0.90

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

*Notes:*

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

*(b) Total hourly rate, excluding bonuses.*

*(c) June quarter, percentage change on previous June quarter, based on Australian Bureau of Statistics Series R projections, adjusted for recent net interstate migration experience.*

#### Economic risks

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

The main uncertainties to the Victorian economic outlook stem from:

- international developments, including the general slowdown of world growth, and particularly a sharper downturn in the United States which would reduce demand for Victorian exports;

- a deterioration of United States' asset markets, if sustained, would affect household wealth and consumer and business confidence and have a noticeable impact on domestic spending patterns;
- the potential flow on of higher oil prices and the declining exchange rate into higher production costs and eventually to consumer prices could result in higher interest rates than otherwise; and
- the impact on gross state product from adverse movements in population growth.

These potential adverse impacts may be mitigated by:

- global monetary policy easing, which enhances the prospects for a recovery in world activity later this year and into 2002;
- the reduction of domestic interest rates, which may help to stimulate domestic demand and offset the impact of weaker world growth on the Victorian economy; and
- the stimulatory effects of personal income tax cuts (resulting from national tax reform) may add to general activity and state growth.

### **Key financial measure**

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

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### **Fiscal target**

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

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### **Sensitivity analysis**

The estimates of revenue, expenses and the budget sector's operating surplus have been subject to sensitivity analysis by the Department of Treasury and Finance to independent and uniform changes, by 1 per cent in each case, to the following economic variables.

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

**Impact of a 1 percentage increase in the economic variable on the budget operating surplus**

<i>Economic Variable</i>	<i>(\$ million)</i>			
	<i>2001-02 Budget</i>	<i>2002-03 Estimate</i>	<i>2003-04 Estimate</i>	<i>2004-05 Estimate</i>
Gross state product	42	46	49	51
Employment	27	30	33	36
Consumer prices	(34)	101	111	118
Average weekly earnings	(135)	(87)	(80)	(86)

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

In order to assist in understanding the financial information presented, the following summary presents the significant accounting policies and forecast assumptions which have been adopted in preparing the Estimated Financial Statements for the forecast period (which includes the budget year and the estimates for the three subsequent years).

**A. Compliance framework**

These Estimated Financial Statements have been prepared in accordance with sections 23H–23K of the *Financial Management Act 1994* and are based on Australian GAAP.

In accordance with Australian GAAP, all applicable 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, AAS6 Accounting Policies permits the application of pronouncements of other national accounting standard setting bodies. Because Australian and New Zealand accounting standards are closely harmonised, the major requirements of New Zealand Financial Reporting Standard (FRS29) Prospective Financial Information have been applied in presenting the Estimated Financial Statements. The requirements of FRS29 have been modified to achieve presentation consistency with AAS1 Statement of Financial Performance, AAS36 Statement of Financial Position and AAS37 Financial Report Presentation and Disclosure.

### *Future reporting basis*

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

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

### **B. Basis of accounting and measurement**

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

To establish an opening balance for the budget year, actual (audited) opening balances as at 30 June 2000 and the revised estimated movements for 2000-01 have been used. The actual (audited) opening balances as at 30 June 2000 are based on either an historical cost basis or at valuation. Those items measured at valuation include:

- non-current physical assets which are valued at current cost using a deprival value approach;
- investments and productive trees in commercial native forests which are recognised at their net market value; and
- certain liabilities (e.g. unfunded superannuation) which are calculated with regard to actuarial assessment.

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

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

For the first time, the scope of the budget sector estimated financial statements has been expanded to incorporate a number of agencies and regulatory bodies which were formerly referred to as general government non-budget agencies. There are five major entities now incorporated into the consolidated budget statements - the Country Fire Authority, Metropolitan Fire and Emergency Services Board, Victorian Legal Aid, Docklands Authority and Parks Victoria as well as a number of other minor regulatory bodies and agencies, mainly under the Department of Human Services.

The general government (budget sector) reporting entity includes all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. The services provided by these entities are financed mainly through taxes, other compulsory levies and user charges. Details of the entities included in the budget sector are shown in Note 16.

The effects on the financial statements stemming from the increased coverage of the budget sector are shown in Tables 10.4 and 10.5.

**Table 10.4: Effect on statement of financial performance**

	<i>(\$ million)</i>			
	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>
	<i>Budget</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
Total revenue	349.1	323.2	333.1	342.9
Total expenses	336.0	325.9	332.7	343.2
Total changes in equity	13.1	(2.7)	0.4	(0.3)

**Table 10.5: Effect on statement of financial position as at 30 June**

	<i>(\$ million)</i>			
	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>Budget</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
Total assets	2 474.5	2 475.1	2 479.6	2 483.3
Total liabilities	503.9	507.1	511.3	515.3
Net assets	1 970.6	1 967.9	1 968.3	1 968.0

#### **D. Basis of consolidation**

The Estimated Financial Statements include all reporting entities in the general government (budget) sector. Entities in the public trading and public financial enterprise sectors are not consolidated as the intent of the Estimated Financial Statements is to convey the financial performance, position and cash flows of the general government (budget sector) alone.

In the process of reporting the general government (budget sector) as a single economic entity, all material inter-agency transactions and balances are eliminated.



## **E. Forecast reporting periods**

The reporting period for the general government (budget sector) is the year ending 30 June. However, for those entities with a reporting period other than the year ending 30 June, the latest audited financial statements revised for estimated movements since that date are used as the basis of the opening balance for 1 July 2001. For example, schools and TAFE institutes have reporting periods ending 31 December.

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

#### **Forecast assumption**

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

- assessment of demand and supply conditions in the markets from which the taxes are sourced (e.g. in the case of payroll tax, assessment of employment and wages outlooks; in the case of motor vehicle fees, assessment of the outlook for demand for cars reflecting long-term underlying demand factors and cyclical demand factors);
- analysis of historical information and relationships using econometric and other statistical methods;

- application of the Department of Treasury and Finance's economic forecasts where there is a relationship between taxation variables and economic variables; and
- consultation with private sector economists, industry associations, and relevant government authorities (e.g. State Revenue Office, Roads Corporation, Victorian Casino and Gaming Authority).

### *Regulatory fees and fines*

#### **Accounting policy**

Revenue is recognised in the period in which the fine or regulatory fee is issued.

#### **Forecast assumption**

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

### *Investment revenue*

#### **Accounting policy**

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

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

#### **Forecast assumption**

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

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

- 50 per cent of net profit after tax; or

- dividends and income tax equivalent paid or payable of 65 per cent of pre-tax profit.

Other commercial factors which are considered and will affect the dividend forecasts include the views of the board of directors, the liquidity, operating cash flow and forecast cash requirements of each government business enterprise (including planned capital works), gearing and interest cover of the business, retained earnings and any other specific commercial factors relating to individual businesses.

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

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

## *Grants*

### **Accounting policy**

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

### **Forecast assumption**

The forecast receipt of financial assistance from the Commonwealth is determined on the latest available advice from the Commonwealth at the time of preparation of the Estimated Financial Statements, taking into account the payment schedules and escalation factors relevant to each type of grant. The payment schedules for some financial assistance from the Commonwealth are on a monthly, quarterly or annual basis, while others are on an irregular basis such as on a project-progress basis.

## *Sale of goods and services*

### **Accounting policy**

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

### **Forecast assumption**

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

## **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 general government (budget) sector; and
- unfunded schemes: the expense includes the superannuation contributions payable by public sector employers and the movement in the unfunded superannuation liability during each period after allowing for the annual payment by the State.

#### **Forecast assumption**

For the forecast period, superannuation expenses for unfunded schemes have been estimated by the Department of Treasury and Finance and are consistent with projections provided by various actuaries of each superannuation fund (Refer to Note 14).

## *Depreciation*

### **Accounting policy**

All infrastructure, buildings, plant and equipment and other non-current physical assets that have a limited useful life are depreciated. Depreciation is generally calculated using the straight-line method at a rate which allocates the asset's value, less any residual value, over its useful life.

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

<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 over an extended period.

### **Forecast assumption**

Depreciation is forecast on the basis of known asset profiles, asset sales programs and approved new asset investment programs. The expense is based on the assumption that there will be no change in depreciation rates over the forecast period and the impact of revaluations of assets on depreciation will not be brought to account.

## *Borrowing costs*

### **Accounting policy**

Borrowing costs, other than those capitalised in relation to qualifying assets, are recognised as expenses in the period in which they are forecast to be incurred. Borrowing costs include:

- interest on outstanding borrowings;
- amortisation of discounts or premiums relating to borrowings;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings;

- indexation of principal outstanding for capital indexed securities and indexed annuities in line with movements in CPI; and
- finance lease charges.

**Forecast assumption**

Estimates for borrowing costs are based on the forecast level of outstanding general government (budget) sector debt. This is expected to mainly comprise approximately \$5 billion in a fixed rate facility, \$1 billion of indexed-linked securities from the Treasury Corporation of Victoria and a motor vehicle finance lease of \$220 million. All maturities in the forecast period are assumed to be refinanced at forward interest rates. The indexed securities are adjusted in line with movements in CPI and any movements in the principal outstanding is recognised as a finance cost.

*Grants and transfer payments***Accounting policy**

Payments to third parties are recognised as an expense during the financial year in which they are paid and include transactions such as grants, subsidies and other transfer payments made to local government, non-government schools, community groups, public trading enterprises and public financial institutions.

**Forecast assumption**

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

*Supplies and services (including maintenance)***Accounting policy**

These generally represent the day-to-day running costs incurred in the normal operation of budget sector entities.

**Forecast assumption**

Supplies and services are forecast on the basis of known activity changes including the application of government policy such as savings strategies, changes in the method of service delivery and the application of the appropriate economic parameters.

## **H. Assets**

### *Investments*

#### **Accounting policy**

The opening balance of investments represents the audited value as at 1 July 2000 revised for estimated movements for 2000-01, and comprises marketable securities (less provision for diminution) and deposits which are valued at market value, except for long-term investments. Long-term investments, such as international bonds, are investments that are expected to be held for greater than 12 months. Long-term investments are recognised using the cost method of valuation, being the cost at the date of acquisition. Any discount or premium is amortised over the life of the investments and gains or losses arising from the investments prior to maturity are recognised in the statement of financial performance.

#### **Forecast assumption**

All surplus cash resources for the period 2001-02 to 2004-05 are assumed to be held as financial assets to preserve budget decision-making flexibility. As a result, financial assets are expected to increase by the level of forecast cash surpluses over the forecast period.

### *Receivables*

#### **Accounting policy**

The opening balance of receivables represents the audited value as at 1 July 2000 revised for estimated movements for 2000-01, 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 2000 revised for estimated movements for 2000-01, and is valued at the lower of cost and net realisable value. The methods used to assign costs to inventories, other than land held for resale, are weighted average cost and cost on a 'first-in-first-out' basis.

**Forecast assumption**

Inventories forecast to be purchased are valued at the forecast cost.

***Non-current physical assets******Capitalisation***

In general, all non-current physical assets with a value over \$1 000 are capitalised.

***Valuation***

The opening balance of non-current physical assets at 1 July 2001 is based on actual audited opening balances as at 1 July 2000 revised for estimated movements for 2000-01. Non-current physical assets do not disclose the impact of revaluations due to the inherent difficulties in identifying and forecasting these amounts.

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

***Land and buildings*****Accounting policy**

The opening balance of land and buildings is recognised at historical cost or at the latest available valuation.

**Forecast assumption**

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

***Plant and equipment*****Accounting policy**

The opening balance of certain classes of plant and equipment are recognised at historical cost, others are recognised at the latest available valuation.

**Forecast assumption**

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



### *Infrastructure assets*

Infrastructure assets include such items as road pavements, bridges, earthworks, and construction-in-progress. Individual components of infrastructure assets are valued as follows.

#### *Road pavements and bridges*

##### **Accounting policy**

The opening balance of road pavements and bridges are recognised at written-down replacement cost.

##### **Forecast assumption**

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

#### *Earthworks*

##### **Accounting policy**

The opening balance of earthworks is recognised at replacement cost.

##### **Forecast assumption**

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

#### *Land under roads*

##### **Accounting policy**

Land under roads and road reserves has not been recognised consistent with Australian Accounting Standards.

#### *National parks, state forests and other Crown land*

##### **Accounting policy**

National parks and state forests are generally recognised at the estimated current market buying price of adjacent land, adjusted to reflect the restricted nature of current use. This valuation methodology does not take into account the intrinsic value of these assets to the community.

Other Crown land in rural areas has been recognised at values determined by applying an average valuation for broad area rural improved land (cropping and grazing) and unimproved land (bushland and water) for all parishes and townships in the State.

**Forecast assumption**

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

*Heritage assets and collections*

**Accounting policy**

Heritage assets and collections are defined as those non-current physical assets that the State intends to preserve because of their unique historical, cultural or environmental attributes. These assets include items such as the State Library, Government House, Parliament House, historic houses, monuments, certain museum exhibits, art collections, archival collections and other items of cultural significance.

The opening balances of heritage assets and collections are generally recognised at their estimated current value. In particular, core heritage assets and collections that generate substantial revenues are valued at the current market buying price. All other core heritage assets and collections are valued at estimated written-down replacement cost. All natural non-core heritage assets and collections are valued at estimated realisable value.

**Forecast assumption**

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

*Leases*

**Accounting policy**

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

Finance leases are recognised as assets and liabilities at the present value of the minimum lease payments. The lease asset is amortised either on a straight-line basis over the term of the lease or, where it is likely that the entity will obtain ownership of the asset, the useful life of the asset to the entity. Lease payments are allocated between the principal component of the lease liability and the interest expense.

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

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

#### **Forecast assumption**

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

### ***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;
- the residual amount outstanding for loans raised in previous years by the Commonwealth government on behalf of the State; and
- the motor vehicle finance lease.

##### **Forecast assumption**

For forecasting, budget sector debt is valued at its historical cost including unamortised premiums/discounts.

## *Employee entitlements*

### **Accounting policy**

An estimate of the provision is made in the Estimated Financial Statements for entitlements not taken at the end of each forecast reporting date in respect of wages and salaries, annual leave and long service leave. The amounts are accrued consistent with the level of wages included in the statement of financial performance except for long service leave, which is estimated at the present value of the estimated future cash outflows arising from forecast employees' service at the end of each period.

### **Forecast assumption**

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

## *Superannuation*

### **Accounting policy**

The opening balance of the State's superannuation obligations is based on the latest actuarial assessment as at June 2000 of the members' entitlements, net of scheme assets, and represents the audited value as at 1 July 2000 revised for estimated movements for 2000-01, in respect of the contributory service of current and past government employees. The valuation is determined by discounting to present value the gross benefit payments at a current, actuarially determined, risk-adjusted discount rate appropriate to the plan.

### **Forecast assumption**

For the forecast period the superannuation liability has been estimated by the Department of Treasury and Finance and is consistent with projections provided by the various fund actuaries (Refer to Note 14).

## *Other liabilities*

### **Accounting policy**

All other liabilities are recognised at the estimated amounts payable.

## **J. Statement of cash flows**

### **Accounting policy**

For the purposes of the statement of cash flows, cash comprises cash on hand, cash at bank, bank overdrafts and deposits at call, and highly liquid investments with short periods to maturity, which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

## **K. Rounding**

### **Accounting policy**

All amounts in the Estimated Financial Statements have been rounded to the nearest hundred thousand dollars unless otherwise stated.

Figures in the financial statements may not add due to rounding.

## Note 2: Taxation

	(\$ million)			
	2001-02	2002-03	2003-04	2004-05
	Budget	Estimate	Estimate	Estimate
Payroll tax	2 607.2	2 771.6	2 843.8	2 995.5
Taxes on immovable property	659.7	647.4	706.6	692.2
Financial and capital transactions	1 618.0	1 538.6	1 596.1	1 535.5
Gambling	1 374.1	1 460.8	1 548.2	1 640.6
Insurance	695.8	713.5	744.5	775.9
Motor vehicles	989.9	1 028.7	1 062.5	1 098.1
Other licences and levies	31.7	32.8	34.4	35.8
<b>Total taxation</b>	<b>7 976.5</b>	<b>8 193.5</b>	<b>8 536.2</b>	<b>8 773.7</b>

## Note 3: Investment revenue

	(\$ million)			
	2001-02	2002-03	2003-04	2004-05
	Budget	Estimate	Estimate	Estimate
Dividends	498.9	503.7	374.2	371.7
Tax and rate equivalent revenue	120.3	96.2	142.8	162.9
Interest	206.7	206.2	205.6	207.9
Investment gains	..	..	..	..
Royalties	42.0	42.2	42.5	43.0
Rents	23.9	24.2	24.6	25.3
Other	46.4	46.4	46.4	46.5
<b>Total investment revenue</b>	<b>938.2</b>	<b>918.9</b>	<b>836.1</b>	<b>857.3</b>

## Note 4: Grants

	(\$ million)			
	2001-02	2002-03	2003-04	2004-05
	Budget	Estimate	Estimate	Estimate
<b>Current grants</b>				
General purpose grants	6 583.7	6 715.5	6 871.7	6 988.7
Specific purpose grants for onpassing	1 146.1	1 182.5	1 220.0	1 257.9
Other specific purpose grants	2 949.6	3 024.4	3 130.5	3 266.2
<b>Total current grants</b>	<b>10 679.4</b>	<b>10 922.3</b>	<b>11 222.2</b>	<b>11 512.8</b>
<b>Capital grants</b>				
Specific purpose grants for onpassing	110.7	113.3	116.0	119.7
Other specific purpose grants	521.6	470.6	378.0	376.5
<b>Total capital grants</b>	<b>632.3</b>	<b>584.0</b>	<b>494.0</b>	<b>496.2</b>
<b>Total grants</b>	<b>11 311.7</b>	<b>11 506.3</b>	<b>11 716.3</b>	<b>12 009.0</b>

## Note 5: Depreciation

	(\$ million)			
	2001-02	2002-03	2003-04	2004-05
	Budget	Estimate	Estimate	Estimate
Plant, equipment and infrastructure	391.9	418.5	430.8	439.2
Buildings <sup>(a)</sup>	259.6	280.1	317.9	386.6
Roads	219.1	219.1	219.4	219.7
Other assets	0.6	0.6	0.6	0.6
<b>Total depreciation</b>	<b>871.3</b>	<b>918.4</b>	<b>968.7</b>	<b>1 046.1</b>

Note:

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

## Note 6: Amortisation

	(\$ million)			
	2001-02	2002-03	2003-04	2004-05
	Budget	Estimate	Estimate	Estimate
Plant and equipment	11.3	11.3	11.3	11.3
Buildings	3.1	3.1	3.1	3.1
Intangible assets	9.4	8.7	9.1	9.1
<b>Total amortisation</b>	<b>23.8</b>	<b>23.1</b>	<b>23.5</b>	<b>23.5</b>

## Note 7: Borrowing costs

	(\$ million)			
	2001-02	2002-03	2003-04	2004-05
	Budget	Estimate	Estimate	Estimate
Interest on short-term borrowings	431.0	426.5	422.8	417.4
Interest on long-term borrowings	5.7	5.7	5.7	5.7
Finance charges on finance leases	11.7	6.4	6.4	6.4
Other borrowing costs	29.1	27.7	25.8	24.0
<b>Total borrowing costs</b>	<b>477.6</b>	<b>466.3</b>	<b>460.7</b>	<b>453.5</b>

## Note 8: Grants and transfer payments

	(\$ million)			
	2001-02	2002-03	2003-04	2004-05
	Budget	Estimate	Estimate	Estimate
Commonwealth	4.6	4.6	4.6	4.7
Local government	497.4	483.9	416.8	427.7
Private sector	2 401.1	2 410.5	2 430.6	2 454.0
Grants within Victorian Government	1 050.3	1 030.3	994.7	991.6
Other	1.6	1.5	1.5	1.5
<b>Total grants paid</b>	<b>3 954.9</b>	<b>3 930.8</b>	<b>3 848.2</b>	<b>3 879.4</b>

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

	(\$ million)			
	2001-02	2002-03	2003-04	2004-05
	Budget	Estimate	Estimate	Estimate
<b>Expenses from ordinary activities</b>				
Education Employment and Training	6 913.6	7 033.8	7 085.2	7 095.4
Human Services	8 289.2	8 408.6	8 447.4	8 503.9
Infrastructure	2 855.6	2 954.5	2 809.8	2 938.4
Justice	1 879.9	1 919.4	1 923.3	1 942.3
Natural Resources and Environment	1 030.8	1 001.1	957.6	941.6
Premier and Cabinet	494.9	501.1	486.9	495.9
State and Regional Development	418.0	350.8	261.6	194.9
Treasury and Finance	1 974.3	1 870.3	1 879.9	1 881.7
Parliament	98.5	94.7	94.8	95.0
Contingencies not allocated to departments <sup>(a)</sup>	298.8	791.1	1 203.5	1 704.7
Regulatory bodies and other part budget funded agencies <sup>(b)</sup>	628.9	629.8	627.8	639.1
<b>Total</b>	<b>24 882.5</b>	<b>25 555.2</b>	<b>25 777.8</b>	<b>26 433.0</b>
Less eliminations <sup>(c)</sup>	(1 925.5)	(1 977.1)	(2 008.5)	(2 031.4)
<b>Total operating expenses</b>	<b>22 957.0</b>	<b>23 578.1</b>	<b>23 769.3</b>	<b>24 401.6</b>

*Notes:*

- (a) Departmental expenses will be supplemented for certain costs that are provided for in contingencies.
- (b) Other general government sector agencies which receive less than 50 per cent of their revenue from appropriations.
- (c) Comprised of payroll tax, capital assets charge and inter-departmental transfers



## Note 10: Property, plant and equipment

	(\$ million)			
	2002	2003	2004	2005
	Budget	Estimate	Estimate	Estimate
<b>Land, national parks and other land only holdings</b>	<b>6 459.6</b>	<b>6 438.1</b>	<b>6 425.0</b>	<b>6 414.2</b>
Buildings(a)	10 695.3	11 647.7	12 879.2	14 132.1
Deduct: accumulated depreciation	(1 046.1)	(1 324.8)	(1 640.9)	(2 023.8)
<b>Buildings (written down value)</b>	<b>9 649.2</b>	<b>10 322.8</b>	<b>11 238.3</b>	<b>12 108.2</b>
Infrastructure systems	5 069.9	5 290.7	5 468.7	5 678.1
Deduct: accumulated depreciation	(1 120.1)	(1 129.9)	(1 143.5)	(1 160.3)
<b>Infrastructure systems (written down value)</b>	<b>3 949.8</b>	<b>4 160.8</b>	<b>4 325.2</b>	<b>4 517.8</b>
Plant, equipment and vehicles	3 770.8	4 058.8	4 322.7	4 573.3
Deduct: accumulated depreciation	(2 424.8)	(2 820.7)	(3 224.6)	(3 633.6)
<b>Plant, equipment and vehicles (written down value)</b>	<b>1 346.0</b>	<b>1 238.1</b>	<b>1 098.1</b>	<b>939.7</b>
Leased plant, equipment and vehicles	235.4	235.4	235.4	235.4
Deduct: accumulated amortisation	(46.7)	(57.9)	(69.1)	(80.3)
<b>Leased plant, equipment and vehicles (written down value)</b>	<b>188.7</b>	<b>177.5</b>	<b>166.3</b>	<b>155.1</b>
<b>Total property, plant and equipment</b>	<b>21 593.3</b>	<b>22 337.3</b>	<b>23 253.0</b>	<b>24 135.1</b>

Note:

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

## Note 11: Roads

	(\$ million)			
	2002	2003	2004	2005
	Budget	Estimate	Estimate	Estimate
Roads	15 649.5	15 961.7	16 213.7	16 431.3
Deduct: accumulated depreciation	(3 469.3)	(3 688.4)	(3 907.8)	(4 127.5)
<b>Total roads</b>	<b>12 180.2</b>	<b>12 273.4</b>	<b>12 305.9</b>	<b>12 303.9</b>

## Note 12: Other assets

	(\$ million)			
	2002	2003	2004	2005
	<i>Budget</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
<b>Current</b>				
Other assets	2.9	2.9	2.9	2.9
<b>Total current</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>
<b>Non-current</b>				
Natural resource reserves at valuation	311.6	311.6	311.6	311.6
Other assets-including works of art, museum collections, rare book collections and intangibles	1 455.9	1 473.7	1 481.7	1 484.9
Deduct: Accumulated depreciation	( 42.4)	( 49.5)	( 56.6)	( 63.7)
<b>Total non-current</b>	<b>1 725.1</b>	<b>1 735.8</b>	<b>1 736.8</b>	<b>1 732.8</b>

## Note 13: Employee entitlements

	(\$ million)			
	2002	2003	2004	2005
	<i>Budget</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
Accrued salaries and wages	142.3	151.3	171.8	185.7
Annual leave	409.0	409.9	411.0	412.2
Long service leave	184.4	181.6	178.8	176.2
<b>Total current employee entitlements</b>	<b>735.7</b>	<b>742.7</b>	<b>761.5</b>	<b>774.2</b>
Long service leave	1 733.0	1 902.9	2 077.6	2 258.2
Other employee entitlements	7.4	7.2	7.2	7.2
<b>Total non-current employee entitlements</b>	<b>1 740.4</b>	<b>1 910.1</b>	<b>2 084.7</b>	<b>2 265.4</b>
<b>Total employee entitlements</b>	<b>2 476.1</b>	<b>2 652.8</b>	<b>2 846.3</b>	<b>3 039.5</b>

## Note 14: Superannuation

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

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

In November 2000, the Victorian Parliament passed legislation which allows the State to provide current pensioners and deferred beneficiaries of the State Superannuation Fund with the opportunity to commute their benefits to lump sums. Current active members will be able to elect to commute all resignation and retirement benefits to lump sums when they become entitled to such benefits in the future. These changes are collectively known as the Beneficiary Choice Program. The program is expected to reduce the State's unfunded superannuation liability and provide some flexibility in terms of the Government's future outlays on superannuation. The expected impact of the program has been included in estimating the unfunded superannuation liability and the ongoing superannuation expense. The full realisation of these impacts is contingent upon the take-up level achieved.

The expected funding status of the State's share of defined benefit schemes for the period, based on Department of Treasury and Finance estimates, is as follows:

	<i>(\$ million)</i>			
	<i>2002 Budget</i>	<i>2003 Estimate</i>	<i>2004 Estimate</i>	<i>2005 Estimate</i>
State Superannuation Fund	12 355.7	12 430.2	12 492.1	12 532.3
Other	174.8	190.6	207.7	226.4
<b>Total unfunded superannuation liability</b>	<b>12 530.5</b>	<b>12 620.8</b>	<b>12 699.8</b>	<b>12 758.7</b>
Current liability	731.2	756.3	779.8	817.3
Non-current liability	11 799.3	11 864.5	11 920.0	11 941.3
<b>Total liability</b>	<b>12 530.5</b>	<b>12 620.8</b>	<b>12 699.8</b>	<b>12 758.7</b>

The weighted average discount rate used by the Actuary is 7 per cent per annum, the weighted average term to settlement is approximately 17 years, and the weighted average rate of salary increases assumed is 4 per cent per annum (excluding promotions). A long-term rate of 3 per cent per annum is also assumed for inflation. These rates also applied for the previous year.

The long-term rates assumed by the Actuary may differ from the economic assumptions which are listed at the start of the Notes to the Estimated Financial Statements.

## Note 15: Cash flow information

	(\$ million)			
	2001-02	2002-03	2003-04	2004-05
	<i>Budget</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
<b>Reconciliation of cash</b>				
Cash	438.6	473.5	501.7	499.8
Deposits at call	595.0	611.3	633.2	653.8
Bank overdraft	( 6.0)	( 6.0)	( 6.0)	( 6.0)
<b>Cash held as at 30 June</b>	<b>1 027.6</b>	<b>1 078.8</b>	<b>1 128.9</b>	<b>1 147.6</b>
<b>Result from ordinary activities</b>	<b>508.5</b>	<b>346.3</b>	<b>602.4</b>	<b>546.7</b>
<b>Add/(less) non-cash items:</b>				
Depreciation	871.3	918.4	968.7	1 046.1
Amortisation	23.8	23.1	23.5	23.5
Revaluation of investments	..	..	..	..
Assets received/given free of charge	..	..	..	..
Discount/premium on investments/borrowings	9.3	7.8	5.8	3.9
(Un)realised gains/losses on borrowings	..	..	..	..
<b>Add/(less) Items included in investing/financing activities:</b>				
Net revenues from sale of plant & equipment	( 13.2)	( 7.1)	( 0.1)	( 0.2)
Net revenues from sale of investments	..	..	..	..
Realised (gains)/losses on borrowings	..	..	..	..
<b>Changes in assets and liabilities:</b>				
Increase/(decrease) in provision for doubtful debts	( 0.2)	0.0	0.0	0.0
Increase/(decrease) in payables	( 76.3)	9.5	9.6	8.9
Increase/(decrease) in employee benefits	166.4	176.7	193.4	193.3
Increase/(decrease) in superannuation	135.1	90.3	79.0	58.9
Increase/(decrease) in other liabilities	( 7.6)	( 7.7)	( 7.7)	( 8.6)
(Increase)/decrease in receivables	( 38.4)	( 61.2)	( 69.2)	( 61.1)
(Increase)/decrease in other current assets	( 0.3)	( 0.7)	( 0.4)	( 0.3)
<b>Net cash flows from operating activities</b>	<b>1 578.3</b>	<b>1 495.5</b>	<b>1 805.0</b>	<b>1 811.0</b>

## Note 16: General government (budget) sector entities

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

### **General government sector entities**

#### **Department of Education, Employment and Training**

Adult, Community and Further Education Board  
Adult Multicultural Education Services  
Bendigo Regional Institute of TAFE  
Box Hill Institute of TAFE  
Central Gippsland Institute of TAFE  
Centre for Adult Education (*formerly Council of Adult Education*)  
Chisholm Institute of TAFE  
Driver Education Centre of Australia Ltd  
East Gippsland Institute of TAFE  
Gordon Institute of TAFE  
Goulburn Ovens Institute of TAFE  
Holmesglen Institute of TAFE  
Institute of Land and Food Resources (TAFE Division)  
International Fibre Centre Limited  
Kangan Batman Institute of TAFE  
Northern Melbourne Institute of TAFE  
Royal Melbourne Institute of Technology (TAFE Division)  
South West Institute of TAFE  
Sunraysia Institute of TAFE  
Swinburne University of Technology (TAFE Division)  
University of Ballarat (TAFE Division)  
Victoria University of Technology (TAFE Division)  
Victorian Curriculum and Assessment Authority (*formerly Board of Studies*)  
Victorian Learning and Employment Skills Commission (*formerly State Training Board of Victoria*)  
Victorian Qualifications Authority  
William Angliss Institute of TAFE  
Wodonga Institute of TAFE

#### **Department of Human Services**

Alexandra and District Ambulance Service  
Alexandra District Hospital  
Alpine Health  
Ambulance Service Victoria Metropolitan Region  
Austin and Repatriation Medical Centre  
Bairnsdale Regional Health Service  
Ballarat Health Services  
Barwon Health  
Bayside Health  
Beaufort and Skipton Health Service  
Beechworth Hospital  
Benalla and District Memorial Hospital

**General government sector entities (cont.)**

Bendigo Health Care Group	
Boort District Hospital	
Casterton Memorial Hospital	
Central Gippsland Health Service	
Chinese Medicine Registration Board of Victoria	*
Chiropractors Registration Board of Victoria	*
Cobram District Hospital	
Cohuna District Hospital	
Colac Community Health Services	
Coleraine District Health Services	
Dental Health Services Victoria	
Dental Practice Board of Victoria	*
Djerriwarrh Health Services	
Dunmunkle Health Services	
East Grampians Health Service	
East Wimmera Health Service	
Eastern Health	
Echuca Regional Health	
Edenhope and District Memorial Hospital	
Far East Gippsland Health and Support Service	
Gippsland Southern Health Service	
Goulburn Valley Health	
Hepburn Health Service	
Hesse Rural Health Service	
Heywood and District Memorial Hospital	
Infertility Treatment Authority	
Inglewood and District Health Service	
Kerang and District Hospital	
Kilmore and District Hospital, The	
Kooweerup Regional Health Service	
Kyabram and District Memorial Community Hospital	
Kyneton District Health Service	
Latrobe Regional Hospital	
Lorne Community Hospital	
Maldon Hospital	
Mallee Track Health and Community Services	
Manangatang and District Hospital	
Mansfield District Hospital	
Maryborough District Health Service	
Mclvor Health and Community Services	
Medical Practitioners Board of Victoria	*
Melbourne Health	
Mental Health Review Board	
Mildura Base Hospital	
Moyne Health Services	
Mt Alexander Hospital	
Nathalia District Hospital	
Northern Health	

**General government sector entities (cont.)**

Numurkah District Health Service	
Nurses Board of Victoria	*
Omeo District Hospital	
Optometrists Registration Board of Victoria	*
Osteopaths Registration Board of Victoria	*
Otway Health and Community Services, The Peninsula Health	
Peter MacCallum Cancer Institute	
Pharmacy Board of Victoria	*
Physiotherapists Registration Board of Victoria	*
Podiatrists Registration Board of Victoria	*
Portland and District Hospital	
Prince Henry's Institute of Medical Research	
Psychologists Registration Board of Victoria	*
Psychosurgery Review Board	
Queen Elizabeth Centre, The	
Robinvale District Health Services	
Rochester and Elmore District Health Service	
Royal Victorian Eye and Ear Hospital	
Rural Ambulance Victoria	
Rural Northwest Health	
Seymour District Memorial Hospital	
South Gippsland Hospital	
South West Healthcare	
Southern Health	
Stawell District Hospital	
Swan Hill District Hospital	
Tallangatta Health Service	
Terang and Mortlake Health Service	
Timboon and District Health Care Service	
Tweddle Child and Family Health Service	
Upper Murray Health and Community Services	
Victorian Health Promotion Foundation	
Victorian Institute of Forensic Mental Health	
Wangaratta District Base Hospital	
West Gippsland Health Care Group	
West Wimmera Health Service	
Western District Health Service	
Western Health	
Wimmera Health Care Group	
Wodonga Regional Health Service	
Women's and Children's Health	
Wonthaggi and District Hospital	
Yarram and District Health Service	
Yarrawonga District Health Service	
Yea and District Memorial Hospital	

### **General government sector entities (cont.)**

#### **Department of Infrastructure**

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

#### **Department of Justice**

Country Fire Authority	*
Equal Opportunity Commission	
Legal Practice Board	*
Metropolitan Fire and Emergency Services Board	*
Office of Public Prosecutions	
Office of the Legal Ombudsman	*
Office of the Public Advocate	
Victoria Legal Aid	*
Victoria Police (Office of the Chief Commissioner of Police)	
Victorian Electoral Commission	
Victorian Institute of Forensic Medicine	

#### **Department of Natural Resources and Environment**

Corangamite Catchment Management Authority	*
East Gippsland Catchment Management Authority	*
EcoRecycle Victoria	*
Environment Protection Authority	
Glenelg-Hopkins Catchment Management Authority	*
Goulburn-Broken Catchment Management Authority	*
Mallee Catchment Management Authority	*
Melbourne Parks and Waterways (shell)	*
North Central Catchment Management Authority	*
North East Catchment Management Authority	*
Office of Gas Safety	*
Office of the Chief Electrical Inspector	*
Parks Victoria	*
Royal Botanic Gardens Board	*
Shrine of Remembrance Trustees	*
Surveyors Board	
Trust for Nature (Victoria)	*
Veterinary Practitioners Registration Board of Victoria	*



**General government sector entities (cont.)**

**Department of Premier and Cabinet**

Cinemia Corporation \*

Library Board of Victoria

Museums Board of Victoria

National Gallery of Victoria, Council of Trustees

Office of Public Employment

Office of the Ombudsman

Victorian Relief Committee

**Department of State and Regional Development**

Docklands Authority \*

Liquor Licensing Panel

Melbourne 2006 Commonwealth Games Pty Ltd \*

Tourism Victoria

Victorian Institute of Sport Ltd \*

Victorian Institute of Sport Trust

**Department of Treasury and Finance**

Gambling Research Panel

Office of the Regulator-General

Victorian Casino and Gaming Authority

**Parliament of Victoria**

**Victorian Auditor-General's Office**

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

## 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 – 23K of the *Financial Management Act 1994* and take into account government decisions and other circumstances that have a material effect.



IAN W LITTLE

Secretary

Department of Treasury and Finance

May 2001



AUDITOR GENERAL  
VICTORIA

AUDITOR-GENERAL'S REPORT

To the Members of the Parliament of Victoria

Scope of Review

I have reviewed the accompanying estimated financial statements of the Victorian Budget Sector, as defined in note 16 to the statements, for the financial year ended 30 June 2002 and the three forward financial years ended 30 June 2003, 2004 and 2005. 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  
9/ 5/ 2001

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*Auditing in the Public Interest*



## **APPENDIX A: REVISED 2000-01 BUDGET OUTCOME**

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This appendix provides revised estimates of the reported budget outcome for the 2000-01 financial year. The revised 2000-01 Budget estimates take into account government policy decisions and economic developments impacting on both revenue and expenses since the presentation of the 2000-01 Budget to Parliament.

The estimates in this appendix are presented in budget sector format to allow comparison with the estimates presented in the 2000-01 Budget papers. The 2000-01 outcome estimates in this appendix therefore differ from those provided in Chapter 3, *Budget Position and Outlook*, which are presented in general government sector format. The general government sector includes a number of additional bodies not included in the budget sector (the most significant being Parks Victoria, the Country Fire Authority and the Metropolitan and Emergency Services Board). The inclusion of these bodies increases reported 2000-01 revenue by \$316 million and expenses by \$308 million, with a net impact on the operating surplus of \$8 million.

### **REVISED 2000-01 STATEMENT OF FINANCIAL PERFORMANCE**

The revised 2000-01 statement of financial performance is presented in Table A1. The revised budget sector operating result for 2000-01 is a surplus of \$1 200 million, which is \$608 million higher than published at budget time in May 2000. The improvement in the budget outlook over this period is mainly attributable to stronger than expected revenue growth, partly offset by an increase in operating expenses.

#### **Operating revenue**

Total estimated operating revenue for 2000-01 has been revised upward by \$971 million, or 4.4 per cent, from the budget estimate of \$22 180 million. The improvement in the revenue outlook is in significant part attributable to the continued strength of property markets (and therefore conveyancing stamp

duties) and employment (and therefore payroll tax), despite the overall slowing in consumer and business spending. There has also been higher than budgeted revenue from regulatory fees and fines, and from a range of other miscellaneous revenue items.

**Table A1: 2000-01 Statement of financial performance – budget sector**

(\$ million)				
	2000-01 Budget	2000-01 Revised	Change	Change %
<b>Revenue</b>				
Taxation	7 845.3	8 324.3	479.0	6.1
Fines and regulatory fees	273.3	369.2	95.9	35.1
Public authority income	947.7	971.6	23.9	2.5
Grants	10 198.1	10 271.7	73.6	0.7
Sale of goods and services	1 939.8	1 998.1	58.2	3.0
Gains on the disposal of physical assets	29.6	29.3	- 0.2	-0.8
Fair value of assets received free of charge	..	15.8	15.8	..
Capital asset charge revenue	477.0	477.0	..	..
Other revenue	469.2	693.9	224.7	47.9
<b>Total revenue</b>	<b>22 180.0</b>	<b>23 150.9</b>	<b>970.9</b>	<b>4.4</b>
<b>Expenses</b>				
Employee entitlements	7 721.3	7 777.3	56.1	0.7
Superannuation	1 380.3	1 404.4	24.1	1.7
Depreciation	773.3	787.7	14.4	1.9
Amortisation	24.5	23.1	- 1.5	-6.0
Borrowing costs	510.4	600.7	90.4	17.7
Grants and transfer payments	4 150.3	4 174.2	24.0	0.6
Supplies and services	7 020.6	7 086.1	65.5	0.9
Other expenses	7.8	97.8	90.0	1152.0
<b>Total expenses</b>	<b>21 588.5</b>	<b>21 951.4</b>	<b>362.9</b>	<b>1.7</b>
<b>Operating surplus</b>	<b>591.5</b>	<b>1 199.5</b>	<b>608.0</b>	<b>102.8</b>

Source: Department of Treasury and Finance

### **Taxation**

In 2000-01, state taxation revenue is expected to total \$8 324 million, \$479 million, or 6.1 per cent, higher than the 2000-01 Budget estimate (see Table A2). The anticipated additional revenue for 2000-01 mainly reflects higher collections of payroll and conveyancing taxes.

**Table A2: Taxation**

	(\$ million)			
	2000-01 Budget	2000-01 Revised	Change	Change %
Payroll tax	2 469.3	2 555.1	85.9	3.5
Taxes on property	560.2	587.6	27.4	4.9
Financial and capital transactions	2 067.0	2 390.5	323.5	15.7
Gambling taxes	1 235.1	1 256.6	21.5	1.7
Taxes on insurance	429.1	439.8	10.7	2.5
Motor vehicle taxes	931.6	948.3	16.7	1.8
Other licences and levies	153.0	146.4	- 6.6	-4.3
<b>Total taxation</b>	<b>7 845.3</b>	<b>8 324.3</b>	<b>479.0</b>	<b>6.1</b>

Source: Department of Treasury and Finance

### *Taxes on financial and capital transactions*

Taxes on financial and capital transactions principally consist of stamp duties from land transfers, mortgages and marketable securities, as well as financial institutions transactions taxes. Total tax collections from financial and capital transactions in 2000-01 are estimated to be \$2 391 million, \$324 million higher than the budget estimate. This outcome is mainly due to:

- higher than expected collections of conveyancing duty reflecting unexpected strength in real estate markets. Revenue from conveyancing duties in 2000-01 is estimated to be \$1 260 million, some \$220 million higher than the budget forecast and only \$34 million lower than the record set in 1999-2000;
- increased revenue from stamp duty on marketable securities of \$62 million, reflecting buoyant sharemarket activity combined with the proceeds from several large off-market transactions;
- an increase in mortgage duty of \$22 million, which is in line with the growth in land transfer duties and strong demand for property; and
- an increase in financial institutions duty of \$18 million, due to increased financial market activity.

### *Taxes on property*

Taxes on property include land tax and the metropolitan improvement levy. Total property tax collections in 2000-01 are estimated to be \$588 million, \$27 million higher than the budget estimate. This outcome is due to the higher than expected collections of land tax resulting from higher than expected increases in land values.

### *Payroll tax*

Payroll tax revenue in 2000-01 is estimated to be \$2 555 million, which is \$86 million higher than the 2000-01 budget estimate. The stronger than anticipated growth in taxable payrolls reflects strong employment growth and additional revenue flowing from the 1999-2000 annual adjustment process.

Over the past year employment growth in Victoria was much stronger than in any other State or Territory. Victoria accounted for over half of all new jobs created in Australia during this period, which is well above the State's 25 per cent share of national output.

### *Gambling*

Gambling tax collections in 2000-01 are estimated at \$1 257 million, largely unchanged from the 2000-01 Budget estimate, with most tax collections expected to be close to their 2000-01 Budget estimates. Gambling expenditure weakened in late 2000, particularly on electronic gaming machines. This reflected a general weakening in discretionary spending by households, as well as the Government's campaign on problem gambling.

### *Insurance*

Taxes on insurance are expected to be \$11 million higher than the 2000-01 budget estimate, reflecting both increased insurance coverage and increased premiums.

### *Motor vehicles*

Taxes on motor vehicles are expected to be \$17 million higher than the 2000-01 budget estimate, mainly as a result of a steady increase in the number of registered vehicles due to population growth.

### *Other licences and levies*

In line with the Intergovernmental Agreement, revenue replacement receipts in respect of liquor, tobacco and petroleum were abolished from 1 July 2000. The 2000-01 published budget estimates assumed a carryover of revenue from 1999-2000 which was \$11 million less than the revised carryover. This reflects revised estimates provided by the Commonwealth Government. The increase has been offset by an \$18 million dollar decrease due to a write off of revenue expected from Transurban, reflecting uncertainty due to forthcoming tax rulings.



## **Fines and regulatory fees**

Revenues from fines are expected to be \$96 million higher than budget, largely due to the change from cash accounting to accrual accounting.

## **Public authority income**

Public authority income is expected to be \$24 million higher than budget. Table A3 highlights an increase in dividends, which is largely attributable to higher than budgeted dividends from the metropolitan water sector. This is due to drier than anticipated climatic conditions and a higher level of land development activity than expected in the 2000-01 Budget.

The higher dividends from the metropolitan water sector are partly offset by lower than expected Transport Accident Commission dividends, due to weaker investment returns, particularly from overseas equity markets, and an increase in the valuation of claims liabilities arising from lower domestic bond rates.

The increase in public authority income is also due to an increase in tax equivalent revenue from Government Business Enterprises associated with the finalisation of the 1999-2000 income tax obligations.

**Table A3: 2000-01 Public authority income**

	(\$ million)			
	2000-01 Budget	2000-01 Revised	Change	Change %
Dividends	772.7	784.6	11.9	1.5
Tax equivalent revenue	175.0	187.0	12.0	6.8
<b>Total public authority income</b>	<b>947.7</b>	<b>971.6</b>	<b>23.9</b>	<b>2.5</b>

Source: Department of Treasury and Finance

## **Grants**

As highlighted in Table A4, total grants received are now expected to be \$74 million higher than budget. This is largely due to an increase in specific purpose payments from the Commonwealth of \$46 million, reflecting higher than budgeted Commonwealth funding for health care under the Australian Health Care Agreement, a significant increase in funding for Federation Square for the redevelopment of the Australian Centre for Moving Image, as well as funding for the First Home Owners' Scheme. These increases are partially offset by a reclassification of Legal Aid to non-budget sector, as well as a reduction in funding for the National Gallery of Victoria due to delays in the project. There has also been an increase in general purpose grants of \$28 million due to the net impact of revisions to GST revenue and GST administration costs payable to the Australian Taxation Office.

**Table A4: 2000-01 Grants**

	(\$ million)			
	2000-01 Budget	2000-01 Revised	Change	Change %
General purpose grants	5 857.2	5 884.9	27.7	0.5
Specific purpose grants	4 340.9	4 386.8	46.0	1.1
<b>Total grants</b>	<b>10 198.1</b>	<b>10 271.7</b>	<b>73.6</b>	<b>0.7</b>

Source: Department of Treasury and Finance

### **Sales of goods and services**

The 2000-01 revised estimate for sales of goods and services is \$1 998 million, which is \$58 million higher than the budgeted estimate of \$1 940 million. The main reasons for this variation are increased service levels provided to veterans (funded by the Commonwealth Government), sales by Community Health Centres being reported for the first time and the general expansion of commercial business activities. There has also been an increase due to a reclassification from 'Other revenue' of income from external works carried out by VicRoads. The increase from these sources is partly offset by a downwards revision of sales expected by TAFE institutes as well as a decrease in revenue due to delays in the National Gallery of Victoria and the Museum of Victoria opening.

### **Other revenue**

The 2000-01 revised estimate for other revenue is \$694 million, which is \$225 million higher than the budget estimate of \$469 million. This is partly due to a realised gain on retirement of Victorian Accelerated Infrastructure Program (VAIP) bonds, and an increase in interest revenue which in turn reflects investment returns generated on higher than expected budget sector cash surpluses. Additional revenue from private donations, as well as third party revenue for client funds held in trust by the Victorian Government Solicitor's office, also contributes to the increase in other revenue.

### **Operating expenses**

As shown in Table A1, budget sector operating expenses for 2000-01 are now forecast to be \$21 951 million, or around 1.7 per cent (\$363 million) above the budget estimate of \$21 588 million.

Policy decisions announced since the 2000-01 Budget account for a substantial part of the increase in operating expenses. These increases have largely been in key priority areas of education, health and community safety, and will increase operating expenses by \$157 million in 2000-01, including funding provided:

- to implement the school teacher classification and performance framework, incorporating a range of initiatives to enhance literacy, numeracy and participation in education and training and address issues of teacher attraction and retention (\$19 million);
- to recruit additional nurses and substantially improve their working conditions in accordance with the outcomes of the Industrial Relations Commission consent arbitration decision (\$36 million);
- for resourcing of major rail infrastructure projects to support the initial commercial and legal phase of the project activities of the Rail Projects Group established to oversee the planning of three major infrastructure projects: regional fast rail links, Spencer Street Station redevelopment and the airport transit link (\$16 million);
- for the Country Fire Authority reform package to support changes in the Country Fire Authority following recent tragedies such as the Linton fire (\$23 million); and
- to departments (\$21 million) and non-government organisations (\$7 million) to meet increased WorkCover premiums resulting from new common law and statutory benefits.

After allowing for funding available from the Treasurer's Advance contingency, the net budget impact of these policy initiatives falls to around \$27 million.

A range of administrative and technical factors account for the remainder of the variation in projected operating expenses since the 2000-01 Budget. These include:

- increased finance costs of \$90 million, which reflect the impact on accrued motor vehicle lease expenses of the downturn in the used car market;
- increased departmental expenses of around \$90 million funded by higher than budgeted discretionary own-source revenue (including revenue from sales of goods and services and interest on trust fund balances);
- higher than budgeted costs of \$63 million due to a write off of revenue expected from Transurban, reflecting uncertainty due to forthcoming tax changes;

- higher than budgeted costs of \$41 million associated with the implementation of changes to the national taxation system. This mainly reflects increased administration costs payable to the Australian Taxation Office under the terms of the Intergovernmental Agreement with the Commonwealth Government;
- an increase in projected superannuation expenses of \$24 million in 2000-01. This reflects a number of largely offsetting factors including the completion of the triennial actuarial review of the State's unfunded superannuation liability, the estimated impact of the beneficiary choice program, the downturn in world equity markets and award wage changes;
- higher than budgeted expenses of \$30 million as a result an increase provision for doubtful debts in relation to outstanding fines revenue; and
- increased funding of \$15 million for the First Home Owners' Scheme, reflecting the Commonwealth's decision to double the grant for new home buyers.

The increases in operating expenses were partly offset by a decrease in expenditure of \$28 million for Legal Aid, which reflects the reclassification in Commonwealth funding.

## **REVISED 2000-01 CASH FLOW STATEMENT**

Table A5 provides a summary of the revised cash flow for 2000-01. 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 \$2 402 million compared with the published estimate of \$1 780 million. The \$622 million variation reflects a \$717 million increase in operating receipts and a \$95 million increase in payments in relation to operating activities. After allowing for accrual items, the variation in net cash flow from operating activities is broadly in line with the change in the operating surplus.

Net proceeds from investing activities are expected to be \$533 million higher than budget. This is mainly due to applying the higher projected 2000-01 cash surpluses from operating activities to increase financial assets. This is consistent with the assumption underlying the revised forward estimates that cash surpluses will be applied to reducing state government net debt by increasing financial assets. Of the increase in financial assets, a further \$175 million has been allocated to the Growing Victoria infrastructure reserve, which will be required to fund infrastructure projects in 2001-02 and beyond.

Expenditure on the purchase of property, plant and equipment is now expected to total \$1 395 million in 2000-01, \$116 million higher than the original budget estimate. This increase reflects the impact of a range of variations including:

- past budget initiatives totalling \$35 million, including funding for implementation of the recreational motor boat licensing system, purchase of the Metropolitan Women's Correctional Centre, purchase of a site for the new Hawthorn/Kew Police Station, and additional funding for the completion of the Federation Square project, the Geelong Road and the Albury/Wodonga Highway; and
- higher than budgeted investment in various areas, including plant, equipment and computers for schools (\$60 million) from funds over which departments and agencies have discretionary use, and an adjustment for the capitalisation of Public Transport Leasehold assets of \$48 million.

This increase is partly offset by a range of factors, including project timing delays and approved appropriation transfers, which are expected to reduce 2000-01 expenditure on fixed assets.

**Table A5: 2000-01 Cash flow statement – budget sector**

(\$ million)

	2000-01 Budget	2000-01 Revised	Change	Change %
Taxation	7 814.9	8 312.2	497.3	6.4
Regulatory fees and fines	273.3	299.6	26.4	9.6
Public authority income	1 082.6	1 064.9	- 17.7	-1.6
Grants	10 168.2	10 257.7	89.5	0.9
Sale of goods and services	1 927.6	1 997.9	70.2	3.6
Interest received	119.7	197.8	78.1	65.3
Capital asset charge received	477.0	477.0	..	0.0
Other receipts	374.3	347.3	- 26.9	-7.2
<b>Total receipts from operating activities</b>	<b>22 237.5</b>	<b>22 954.5</b>	<b>717.0</b>	<b>3.2</b>
<b>Payments</b>				
Employee entitlements	7 553.4	7 605.5	52.0	0.7
Superannuation	1 281.3	1 287.1	5.8	0.5
Grants	4 118.7	4 158.6	39.9	1.0
Supplies and services	7 031.6	7 050.7	19.1	0.3
Interest paid	472.3	450.3	- 22.0	-4.6
Other payments	0.0	..	- 0.0	-100.0
<b>Total payments from operating activities</b>	<b>20 457.3</b>	<b>20 552.2</b>	<b>94.8</b>	<b>0.5</b>
<b>Net cash flows from operating activities</b>	<b>1 780.2</b>	<b>2 402.3</b>	<b>622.1</b>	<b>34.9</b>
<b>Cash flows from investing activities</b>				
Net customer loans repaid	63.5	68.5	5.0	7.9
Net proceeds of investments	- 674.5	-1 092.6	- 418.1	62.0
Term and fixed deposits	- 0.6	- 0.2	0.5	-75.8
Sale of property, plant and equipment	127.0	122.1	- 5.0	-3.9
Purchases of property, plant and equipment	-1 278.9	-1 395.3	- 116.4	9.1
Other	- 0.8	..	0.8	-100.0
<b>Net cash flows from investing activities</b>	<b>-1 764.3</b>	<b>-2 297.5</b>	<b>- 533.2</b>	<b>30.2</b>
<b>Cash flows from financing activities</b>				
Net proceeds (repayments) of borrowings	8.0	- 7.7	- 15.7	-196.7
<b>Net cash flows from financing activities</b>	<b>8.0</b>	<b>- 7.7</b>	<b>- 15.7</b>	<b>-196.7</b>
<b>Net increase in cash held</b>	<b>23.9</b>	<b>97.1</b>	<b>73.2</b>	<b>306.9</b>
Cash at beginning of reporting period	593.7	782.7	189.1	31.8
<b>Cash at end of reporting period</b>	<b>617.5</b>	<b>879.8</b>	<b>262.3</b>	<b>42.5</b>

Source: Department of Treasury and Finance

## REVISED 2000-01 STATEMENT OF FINANCIAL POSITION

The revised 2000-01 statement of financial position is presented in Table A6. Projected net assets for 30 June 2001 have increased from \$13 533 million since the publication of the 2000-01 Budget to the current estimate of \$15 888 million. Around three-quarters of this increase is due to the better than expected outcome for 1999-2000. The budget sector net assets were \$14 648 million at 30 June 2000 compared with \$12 942 million projected at the time of the 1999-2000 budget.

The net asset (total equity) of the Victorian budget sector is estimated to increase by \$1 240 million (8.5 per cent) over the course of 2000-01. This is the net result of an increase in total assets of \$1 608 million partly offset by an increase in total liabilities of \$368 million.

The increase in net assets largely results from the operating surplus for 2000-01 of \$1 200 million, together with \$41 million of minor accounting adjustments.

The increase in total assets for the period is mainly due to increased investment in financial assets, such as term deposits with other Victorian Government entities. There has also been an increase in property, plant and equipment and roads, which is associated with the Government's commitment to provide capital works to enhance social and economic infrastructure throughout Victoria. The increase in assets from these sources is partly offset by a decrease in receivables, which is largely due to the write-off of revenue expected from Transurban, reflecting uncertainty due to forthcoming tax changes

The increase in liabilities mainly owes to an increase in the unfunded superannuation liability following the completion of the triennial actuarial review of the State's superannuation schemes, as well as lower than expected investment performance by superannuation funds. There has also been an increase in employee entitlements largely resulting from growth in wages and accrued entitlements.

**Table A6: Budget sector statement of financial position as at 30 June**

	(\$ million)				
	2000 Actual	2001 Budget	2001 Revised	Change	Change %
<b>Current assets</b>					
Cash	792.5	626.1	889.2	96.7	12.2
Investments	913.2	838.9	925.2	12.0	1.3
Receivables	729.1	600.5	740.1	11.0	1.5
Prepayments	39.4	82.3	40.1	0.7	1.7
Inventories	165.2	129.6	166.2	1.0	0.6
Other	2.9	2.5	2.9	..	..
<b>Total current assets</b>	<b>2 642.3</b>	<b>2 279.9</b>	<b>2 763.7</b>	<b>121.4</b>	<b>4.6</b>
<b>Non-current assets</b>					
Investments	1 321.5	2 035.9	2 470.2	1 148.7	86.9
Receivables	398.2	462.2	277.9	- 120.3	-30.2
Inventories	3.4	4.1	3.4	..	..
Property, plant and equipment	18 707.3	17 899.8	19 072.8	365.5	2.0
Roads	11 936.2	11 454.8	12 004.6	68.4	0.6
Other	1 617.4	1 673.7	1 642.1	24.7	1.5
<b>Total non-current assets</b>	<b>33 984.0</b>	<b>33 530.5</b>	<b>35 471.0</b>	<b>1 486.9</b>	<b>4.4</b>
<b>Total assets</b>	<b>36 626.3</b>	<b>35 810.4</b>	<b>38 234.7</b>	<b>1 608.3</b>	<b>4.4</b>
<b>Current liabilities</b>					
Payables	932.7	846.1	938.0	5.3	0.6
Interest-bearing liabilities	83.8	568.1	636.8	553.1	660.2
Employee entitlements	699.2	612.3	702.3	3.1	0.4
Superannuation	321.0	699.4	675.3	354.3	110.4
Other	189.4	141.2	233.6	44.2	23.3
<b>Total current liabilities</b>	<b>2 226.1</b>	<b>2 867.2</b>	<b>3 186.2</b>	<b>960.0</b>	<b>43.1</b>
<b>Non-current liabilities</b>					
Payables	10.9	87.4	5.9	- 5.0	-45.7
Interest-bearing liabilities	6 158.7	5 981.5	5 647.4	- 511.3	-8.3
Employee entitlements	1 358.1	1 685.0	1 526.5	168.4	12.4
Superannuation	11 957.0	11 398.2	11 720.0	- 237.0	-2.0
Other	267.1	258.5	260.3	- 6.8	-2.5
<b>Total non-current liabilities</b>	<b>19 751.8</b>	<b>19 410.6</b>	<b>19 160.1</b>	<b>- 591.7</b>	<b>-3.0</b>
<b>Total liabilities</b>	<b>21 978.0</b>	<b>22 277.7</b>	<b>22 346.3</b>	<b>368.3</b>	<b>1.7</b>
Equity	14 648.4	13 532.6	15 888.4	1 240.0	8.5
Contributed capital	10 406.6	10 252.5	10 406.6	..	..
Reserves	4 241.8	2 688.6	4 282.3	40.5	1.0
Net result for year	..	591.5	1 199.5	1 199.5	..
<b>Total equity</b>	<b>14 648.4</b>	<b>13 532.6</b>	<b>15 888.4</b>	<b>1 240.0</b>	<b>8.5</b>

Source: Department of Treasury and Finance



## APPENDIX B: OUTPUT, ASSET INVESTMENT AND REVENUE INITIATIVES

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Appendix B outlines output, asset investment and revenue initiatives since the 2000-01 Budget.

### OUTPUT AND ASSET INVESTMENT INITIATIVES

#### Government-wide initiatives

The following table provides details of the total cost of government-wide output initiatives. Funding from existing sources has not been deducted.

**Table B1: Output initiatives – Government-wide**

	(\$ million)				
	2000-01	2001-02	2002-03	2003-04	2004-05
Cost of embedded tax savings for charities	5.8	10.6	11.6	11.5	11.5
WorkCover	27.4	27.4	27.4	27.4	27.4
Community building	..	2.3	2.9	1.7	..
<b>Total output initiatives</b>	<b>33.2</b>	<b>40.3</b>	<b>41.9</b>	<b>40.6</b>	<b>38.9</b>

Source: Department of Treasury and Finance

#### Cost of embedded tax savings for charities

Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, the Commonwealth Government reduced grants to Victoria to reflect the embedded tax savings expected to be available to the State from goods and services purchased from suppliers and contractors, following the abolition of a number of taxes. This included embedded cost savings from state grants to Victorian charities.

Subsequent to the 2000-01 Budget, the Government decided not to make any adjustment to such grants and instead absorb the cost of the Commonwealth Government's embedded tax savings estimates in respect of charitable organisations.

Using the ATO's definition of charities, agencies identified the amount of savings in grants to charities that had previously been extracted, and relevant Departments have now had these amounts returned to their budgets.

### **WorkCover**

The Government is committed to a WorkCover scheme that is fully funded, has competitive premiums and restores the common law rights of seriously injured workers. Recent changes to the WorkCover scheme have included improved weekly benefits for both employees and employers, improvements to pain and suffering benefits, restrictions on legal costs, and a review of rehabilitation and return to work programs.

The Government has provided funding to departments (\$20.5 million) and non-government organisations which receive funding from the Victorian Government (\$6.9 million) to meet increased WorkCover premiums resulting from new common law and statutory benefits. This is in line with existing policy to only supplement departmental budgets for the impact of government policy changes that directly affect the WorkCover premium. This provides an incentive to employers to improve their claims experience by introducing safer work practices.

The Government will develop a coordinated strategy across the budget sector for agencies to improve their WorkCover related practices. Accountability for management and implementation of WorkCover improvement initiatives as a result of the development of this strategy will remain with departments. Dual benefits of the development and implementation of this strategy will be an improvement in Occupational Health and Safety practices across the budget sector and a consequent reduction in funding required for WorkCover premiums in future years with savings available for increased service delivery options.

### **Community building**

Funding is provided for a whole-of-government community building strategy to tackle issues of locational disadvantage in partnership with communities, local government, business and philanthropic trusts. Up to \$7 million over three years will be allocated from the Community Support Fund for 10 pilot projects.

### **Departmental initiatives**

The following tables provide details of output and asset investment initiatives for each department. Except where specified, figures indicate the total cost of initiatives. Funding from existing sources has not been deducted.

The budget incorporates the impact of significant new policy measures, including additional funding of \$226 million in 2001-02 rising to \$301 million by 2004-05. An additional \$78 million in initiatives in 2001-02 will be funded through reprioritisation of existing resources.

The budget also provides funding for new asset investment initiatives with a total estimated investment of \$2 133 million. This includes \$783 million in funding for new investment projects related to the Government's three key strategies of Linking Victoria, Skilling Victoria and Connecting Victoria to be funded from the Growing Victoria infrastructure reserve.

## **Education, Employment and Training**

### *Output initiatives*

**Table B2: Output initiatives – Department of Education, Employment and Training**

	(\$ million)				
	2000-01	2001-02	2002-03	2003-04	2004-05
Continuous replacement cycles for teacher and principal notebook computers	..	4.4	8.8	18.2	22.4
School teacher classification and performance framework <sup>(a)</sup>	18.6	43.2	53.9	63.4	70.1
Middle years of schooling	7.8	14.9	14.9	14.9	14.9
FReeZA – drug and alcohol free entertainment	..	1.0	..	..	..
Achievement Improvement Monitor	..	2.8	..	..	..
Go for IT - boost placements for traineeships and apprenticeships	..	1.9	1.9	..	..
University scholarships for ICT	..	0.7	1.1	1.1	0.5
<b>Total output initiatives</b>	<b>26.4</b>	<b>68.9</b>	<b>80.6</b>	<b>97.6</b>	<b>107.9</b>

Source: Department of Treasury and Finance

Note:

(a) Figures provided are net of wage contingency.

### **Continuous replacement cycles for teacher and principal notebook computers**

This program is designed to be a major driver for the successful use of learning technologies in schools. Additional funding allows for the continuation (after October 2001) of this program which provides notebook computers to teachers and principals to support their professional development in the use of technology.

### **School teacher classification and performance framework**

The school teacher classification and performance framework flows from an industrial agreement which recognises and rewards excellence in teaching. It is a key driver of the Government's goals and targets for education and incorporates a range of initiatives to enhance literacy, numeracy and participation. The framework is aimed at proactively addressing the potential future shortage of teachers in Victoria.

### **Middle years of schooling**

This initiative focuses on enhancing student engagement, improving literacy and numeracy outcomes, reducing truancy rates and improving attendance rates in Years 5 to 9. The additional funding will be used to increase face to face teaching efforts by schools. Funding will be targeted to schools experiencing difficulty in achieving quality outcomes for students in the middle years.

### **FReeZA – drug and alcohol free entertainment**

The FReeZA program provides young people with drug and alcohol-free entertainment within a harm minimisation framework. FReeZA events are also a vehicle for providers to deliver adolescent health promotion. Funding is provided from the Community Support Fund to extend and enhance the FReeZA program for 2001-02.

### **Achievement Improvement Monitor**

The Achievement Improvement Monitor (AIM) is a comprehensive assessment, reporting and learning improvement program for Victorian students in Prep to Year 10. AIM is directed at meeting the Government's commitment to report to the community against national literacy and numeracy benchmarks and against state standards. This initiative extends AIM to provide statewide sample testing for Year 7 English and mathematics.

### **Go for IT – boost placements for traineeships and apprenticeships**

The private sector skills development program will be expanded to provide an additional 370 three-year private sector apprenticeship and traineeship placements each year in the ICT industry.

### **University scholarships for ICT**

This initiative supports research and development in ICT industries. Scholarships will be provided to selected Masters and PhD students.

## Asset investment initiatives

**Table B3: Asset investment initiatives – Department of Education, Employment and Training**

	(\$ million)					TEI
	2000-01	2001-02	2002-03	2003-04	2004-05	
Construction of Lara Secondary College – <i>Labor's Financial Statement</i>	..	1.4	3.2	..	..	4.5
Construction of Berwick South Secondary College – <i>Labor's Financial Statement</i>	..	1.8	2.7	..	..	4.5
Construction of Narre Warren South Secondary College – <i>Labor's Financial Statement</i>	..	1.8	2.7	..	..	4.5
Hampton Park Secondary College redevelopment – <i>Labor's Financial Statement</i>	..	0.4	0.8	..	..	1.2
Specimen Hill Primary School upgrade – <i>Labor's Financial Statement</i>	..	0.1	..	..	..	0.1
Construction of Hillsmeade Primary School	..	1.6	2.4	..	..	4.0
Construction of Mornington East Primary School	..	1.6	2.4	..	..	4.0
Construction of Roxburgh Park Secondary College	..	3.5	1.5	..	..	4.9
Construction of Copperfield Secondary College	..	0.7	2.8	..	..	3.5
Construction of replacement Lucknow Primary School	..	1.0	1.5	..	..	2.5
Construction of replacement Princess Elizabeth Junior School for Deaf Children	..	1.8	0.8	..	..	2.5
Construction of replacement facilities – schools	..	1.8	1.4	..	..	3.2
Modernisation of facilities – Maryborough education precinct	..	0.6	..	..	..	0.6
Planning projects – schools	..	2.0	..	..	..	2.0
Modernisation of facilities – schools	..	13.6	13.6	..	..	27.2
Modernisation of facilities – schools <sup>(a)</sup>	..	27.8	18.6	..	..	46.4
Modernisation and upgrade of facilities – TAFE <sup>(a)</sup>	..	6.3	8.6	1.1	..	16.0
Bridging the digital divide	..	17.0	3.0	3.0	..	23.0
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**Table B3: Asset investment initiatives (cont) – Department of Education, Employment and Training**

	(\$ million)					
	2000-01	2001-02	2002-03	2003-04	2004-05	TEI
Enhanced learning environments – schools <sup>(b)</sup>	..	21.9	16.0	..	..	37.8
Modernisation of school facilities to incorporate ICT	..	20.0	20.0	..	..	40.0
Enhanced learning environments –TAFE	..	9.2	23.3	12.5	..	45.0
Gene Technology Access Centre	..	2.2	1.4	0.6	..	4.2
Space Science Education Centre	..	2.4	2.8	1.2	..	6.4
Australian College of Wine	..	4.0	3.4	..	..	7.4
Bacchus Marsh Science and Technology Centre	..	1.8	2.2	..	..	4.0
Education precinct in Gippsland	..	2.5	7.0	1.0	..	10.5
Ballarat Vocational Education and Training Centre	..	2.0	3.0	..	..	5.0
Broadband ICT delivery infrastructure for TAFE	..	6.8	8.1	4.1	..	19.0
<b>Total asset investment initiatives</b>	..	<b>157.5</b>	<b>153.0</b>	<b>23.5</b>	..	<b>334.0</b>

Source: Department of Treasury and Finance

Notes:

(a) Initiative linked to a Growing Victoria infrastructure reserve initiative.

(b) Funding of \$38 million allocated to specific projects in the 2001-02 Budget towards a total approved program of \$90 million.

### **Construction and upgrade of schools – Labor's Financial Statement**

Consistent with *Labor's Financial Statement*, funding is provided for the development of new schools and the upgrade of existing schools. New schools to be constructed include Lara Secondary College, Berwick South Secondary College and Narre Warren South Secondary College. School redevelopments and upgrades will occur at Hampton Park Secondary College and Specimen Hill Primary School.

### **Construction of new schools**

Funding is provided for the construction of two new primary schools, Hillsmeade (Berwick) and Mornington East, and two new secondary schools, Roxburgh Park and Copperfield (Kings Park). Funding will also be provided for two new replacement schools, Lucknow primary school (near Bairnsdale) and the Princess Elizabeth Junior School for Deaf Children.

### **Construction of replacement facilities – schools**

Funding is provided to reinstate three school facilities destroyed by fire, Healesville Primary School, Corio Community College and Brighton Secondary College.

### **Modernisation of facilities – Maryborough education precinct**

Funding is provided from the Growing Victoria infrastructure reserve for the planning of an educational precinct for the Maryborough community. The proposed precinct includes the co-location of four existing schools and a TAFE institute.

### **Planning projects – schools**

Funding is provided for costs associated with developing project and architectural plans for specific building projects. This will enable schools to undertake adequate planning and design for specific building projects such as extensions or upgrades.

### **Modernisation of facilities – schools**

Funding is provided to modernise 34 schools across Victoria. In addition to making the school facilities better suited to modern teaching methods, the modernisation projects will significantly reduce the maintenance backlogs at each school.

Funding is also provided to address modernisation issues at 53 schools across Victoria that will also receive part funding from the Growing Victoria infrastructure reserve. As well as making the school facilities better suited to modern teaching methods, the modernisation projects will significantly reduce the maintenance backlogs at each school.

### **Modernisation and upgrade of facilities – TAFE**

Funding is provided for TAFE modernisation and upgrade projects across Victoria.

**Bridging the digital divide**

This initiative will provide a capital boost to attain a computer-to-student ratio of 1:5 or better in all schools, provide computers for distance education students and improve internet access via additional networking and providing extra proxy servers. This will ensure equity of access to ICT for all students, regardless of socio-economic or geographic circumstances. Funding is provided from the Growing Victoria infrastructure reserve.

**Enhanced learning environments – schools**

Funding is provided from the Growing Victoria infrastructure reserve for the modernisation of science laboratories, libraries and other learning facilities in schools across Victoria. This program is intended to produce flexible learning environments that can respond to the changing needs of individuals and communities and assist in the skilling of students as creative and innovative workers. Funding of \$38 million has been allocated to specific projects in the 2001-02 Budget towards a total approved program of \$90 million.

**Modernisation of school facilities to incorporate ICT**

This initiative will modernise ICT facilities in secondary schools to facilitate teacher and student access and foster an e-learning environment. This will include the modernisation of ICT facilities to create accessible computer work spaces for use across the curriculum. The initiative will also provide much needed infrastructure to assist in improving the technical literacy of young people entering the workforce or proceeding to further study or training. Funding is provided from the Growing Victoria infrastructure reserve.

**Enhanced learning environments – TAFE**

Funding is provided for a program of enhancements designed to provide TAFE institutes across Victoria with high technology learning facilities to provide the latest training in a range of fields and sectors, including science, ICT and technology related areas, as well as library facilities. Funding is provided from the Growing Victoria infrastructure reserve.

**Gene Technology Access Centre**

A new world-class centre for biotechnology education at University High School will be established in collaboration with the Walter and Eliza Hall Institute of Medical Research, the University of Melbourne and the Department of Education, Employment and Training. The Centre will be available to schools and teachers for lectures, workshops, and professional development activities in biotechnology, DNA and genetics. Funding is provided from the Growing Victoria infrastructure reserve.



### **Space Science Education Centre**

A new world-class centre for space science education at Strathmore Secondary College will be established, in collaboration with La Trobe University and the Department of Education, Employment and Training. The Centre will consist of laboratories, a computer centre (including a satellite link to La Trobe University), a space habitat, auditorium, multi-purpose room, museum/display area and a planetarium and telescope facility. Funding is provided from the Growing Victoria infrastructure reserve.

### **Australian College of Wine**

The new Australian College of Wine will be located at three campuses at Eden Park, Yarra Glen and Ararat. The College will provide world-class wine and hospitality training to Australian and international students including training in viticulture and oenology, which are key growth areas of the Victorian economy. Funding is provided from the Growing Victoria infrastructure reserve.

### **Bacchus Marsh Science and Technology Centre**

This initiative will upgrade and refurbish a joint use facility (Moorabool Shire/Department of Education, Employment and Training) to provide a Science and Technology Centre at Bacchus Marsh Secondary College in collaboration with University of Ballarat TAFE. The new Centre will provide facilities for the study of horticulture, middle years' science, hospitality, viticulture science and aquaculture. Funding is provided from the Growing Victoria infrastructure reserve.

### **Education precinct in Gippsland**

Funding is allocated from the Growing Victoria infrastructure reserve to assist implementation of the Government's election policy commitment to provide access to education, training and skilling opportunities for post-compulsory age students who are currently in education and training or are unemployed. The education precinct will also provide a level of infrastructure support to leading edge skill development in local enterprises.

### **Ballarat Vocational Education and Training Centre**

Funding is provided from the Growing Victoria infrastructure reserve to assist in implementing the Government's election policy commitment to provide access to education, training and skilling opportunities for post-compulsory age students who are in education and training or are unemployed. The Centre will improve access to training and counselling support for people at risk and contribute to the development of lifelong learning within the community.

## Broadband ICT delivery infrastructure for TAFE

Obsolete and deficient ICT infrastructure and cabling in TAFE will be upgraded to achieve sufficient bandwidth and fault tolerance. This will allow for full and efficient implementation of TAFE online course delivery and related services including TAFE virtual campus, TAFE management information systems, online enrolments, intranet and wider access to the internet. The initiative will provide a significant improvement in the flexibility, standard, relevance and convenience of its courses for young people, employees, and the wider community whether they are located in metropolitan, regional or the more isolated rural areas. Funding is provided from the Growing Victoria infrastructure reserve.

## Human Services

### Output initiatives

**Table B4: Output initiatives – Department of Human Services**

	(\$ million)				
	2000-01	2001-02	2002-03	2003-04	2004-05
Hospital demand strategy:					
• Response to demand for public hospital services	..	96.0	96.0	96.0	96.0
• Public hospital diversion services	..	12.0	12.0	12.0	12.0
• Public hospital prevention services	..	17.0	33.0	50.0	50.0
Nurses' recruitment and retention <sup>(a)</sup>	35.9	96.2	124.0	124.2	124.2
Review of public health medical staff remuneration <sup>(a)</sup>	8.5	8.5	8.5	8.5	8.5
Increased costs of medical and pharmaceutical supplies and consumables	..	12.0	..	..	..
Metropolitan Ambulance Service and Rural Ambulance Victoria caseload growth and new services	..	4.0	4.4	4.4	4.4
Upgrade of air ambulance helicopter services	..	4.5	4.5	4.5	4.5
Tobacco reform	2.2	2.9	2.9	2.9	2.9
Expansion of mental health services	..	3.5	3.5	3.5	3.5
National depression initiative	2.6	3.5	3.5	3.5	3.5
Public dental services	..	2.1	2.1	2.1	2.1
Primary health services	..	1.9	1.9	1.9	1.9

**Table B4: Output initiatives (cont) – Department of Human Services**

	(\$ million)				
	2000-01	2001-02	2002-03	2003-04	2004-05
Communicable diseases prevention and control	..	0.7	0.7	0.7	0.7
Early detection and prevention of breast cancer	..	1.2	1.2	1.2	1.2
Support for people with diabetes	..	1.2	1.2	1.2	1.2
Legionella strategy	..	0.7	0.7	0.7	0.7
DisAbility accommodation support services	..	6.0	6.0	6.0	6.0
DisAbility services quality improvement	..	2.6	2.6	2.6	2.6
Community care services	..	10.8	10.8	10.8	10.8
Support to preschools	..	4.0	4.0	4.0	4.0
Juvenile justice group conferencing	..	0.3	0.5	0.5	0.5
International Year of Volunteers	0.2	0.8	..	..	..
Palliative care	..	0.5	0.5	0.5	0.5
Home and Community Care services	..	6.0	6.0	6.0	6.0
Assistance for homeless people	..	3.2	3.2	3.2	3.2
Human services productivity investment fund	..	10.0	..	..	..
Motor vehicle lease costs	..	3.0	5.0	5.0	5.0
<b>Total output initiatives</b>	<b>49.4</b>	<b>315.0</b>	<b>338.7</b>	<b>355.9</b>	<b>355.9</b>

Source: Department of Treasury and Finance

Note:

(a) Figures provided are net of wage contingency.

### Hospital Demand Strategy

As part of a new, multi-year approach to managing growth in demand for hospital services, funding is provided to respond to demand for hospital emergency services and other key hospital services including acute and mental health inpatient services, renal dialysis and intensive care. This a key component in the implementation of the hospital demand strategy, which also incorporates close collaboration with clinicians and hospital management in responding to demand pressures, and reform of patient care processes, in particular for elderly patients.

Funding for public hospital diversion services is also provided as a key component of the hospital demand strategy. Initiatives include programs to provide patients with more appropriate sub-acute and home based care services.

The Government is also placing a high priority on managing medium-term demand pressures on hospitals through a focus on initiatives which will help to prevent hospital admissions, particularly for people with chronic illnesses. Funding for public hospital prevention services is provided for four years, in recognition that these initiatives typically take time to impact on the pattern of demand growth, and that development and application of new approaches to prevention is best undertaken where there is funding certainty.

Funding is also provided to increase blood donor rates and open radiotherapy services in Ballarat and Bendigo.

#### **Nurses' recruitment and retention**

The Government is committed to improving the public health system and to addressing the serious issue of nurse recruitment and retention in public hospitals. Funding has been provided to implement the outcomes of the Consent Arbitration in relation to nurses' pay and conditions. The package incorporates a range of initiatives designed to address workload, career structure, leave and professional development. Elements of the package are specifically targeted to providing incentives to nurses to maintain and upgrade skills and qualifications and to attract the highest quality nurses back into the system.

#### **Review of public health medical staff remuneration**

Funding was provided after the 2000-01 Budget to address recommendations of the Ministerial Review of Victorian Public Health Medical Staff. The review was established to ensure that interstate relativities for medical staff in public hospitals were fair following the introduction of the Commonwealth Government's new tax system.

#### **Increased costs of medical and pharmaceutical supplies and consumables**

Supplementation is provided to address significant cost increases for medical and pharmaceutical supplies and consumables.

#### **Metropolitan Ambulance Service and Rural Ambulance Victoria caseload growth and new services**

Funding will improve the ambulance service available to all Victorians by providing additional emergency and non-emergency ambulance transport. Services in the non-metropolitan area will be increased through new ambulance services at Bright, Romsey and Barwon South.

#### **Upgrade of air ambulance helicopter services**

Air ambulance capability will be enhanced with the implementation of a new air ambulance helicopter service in Bendigo, and the upgrade of existing Victorian helicopter services to improve safety standards.

**Tobacco reform**

The Government's tobacco control reform agenda will be implemented through the introduction of smoke free dining, new laws to regulate tobacco displays in retail outlets and more rigorous enforcement of laws concerning cigarette sales to minors. These initiatives aim to reduce the prevalence of smoking, particularly among young people, and reduce Victorians' exposure to environmental tobacco smoke.

**Expansion of mental health services**

Community and home based mental health treatment, support and continuing care services will be expanded in metropolitan, regional and rural areas to assist people to live independently and participate in the community. Funds will be allocated to employ mental health support workers to provide services to people who are homeless or at risk of homelessness, improve access to services for the Koori community, and to employ workers in mobile support and treatment teams, continuing care units and psychiatric disability support services. In addition, funds from the hospital demand strategy will be available to expand inpatient mental health services.

**National depression initiative**

Funding was provided after the 2000-01 Budget to support Victoria's participation in the five year National Depression Initiative as a senior partner with the Commonwealth Government. The National Depression Initiative addresses depression and anxiety disorders which are prevalent and which are significant causes of disability within the community. This initiative will improve community awareness, undertake research into the causes, consequences and treatment of depressive disorders, improve the services providing early detection, prevention and treatment of depression, and increase training and development for professionals.

**Public dental services**

Funding is provided to improve access to general dental services for concession card holders in more than 50 community dental clinics across Victoria, and ensure that the preventive school dental programs are available to school children.

**Primary health services**

Funding is provided to expand allied health services for people with complex and chronic conditions, further support patients leaving hospital as part of their discharge, implement the secondary school nursing program and implement the Government's commitment to introduce community based elections for community health centre boards. Funding is also provided for consumer and carer best practice project and to increase participation by the Koori community.

**Communicable diseases prevention and control**

Funding will enhance disease prevention and control through services to improve immunisation levels in hard to reach and at risk groups.

**Early detection and prevention of breast cancer**

Funding will increase the number of free mammograms provided to Victorian women to enhance early detection and prevention of breast cancer.

**Support for people with diabetes**

Funding is provided to increase public awareness of risk factors associated with the onset of diabetes and increase the number of people participating in preventive programs. Funding is also provided to meet the co-payment currently borne by people with insulin-dependent diabetes for needles and syringes, contingent on continued Commonwealth Government funding of the National Diabetic Services Scheme.

**Legionella strategy**

Funding is provided to implement new regulations which improve maintenance standards for cooling towers to reduce the incidence of Legionnaires' disease.

**DisAbility accommodation support services**

Funding will provide additional supported and transitional accommodation options for people with disabilities to allow people to live within the community, and to assist families and carers.

**DisAbility services quality improvement**

The quality of disability services will be enhanced by expanding eligibility assessment and case management services, providing a higher level of service review and performance monitoring, and introducing a competency based training system for direct care staff.

**Community care services**

Funding is provided to enhance the child protection after hours service in rural areas, provide additional kinship and permanent care placements for children in out-of-home care, and to respond to major client and service viability pressures being experienced by community service organisations providing residential care services to young people at risk of abuse and neglect.

Funding is also provided to reduce waiting times for early intervention services for children with a disability or developmental delay to support vulnerable families by enhancing family functioning and emotional well being, to help reduce or avoid the difficulties that can lead to child abuse or neglect, and to

enable the continuation of Victoria's parenting services which provide support to parents and professionals who work in child and family welfare.

### **Support to preschools**

Ongoing funding to preschools is provided to maintain the \$65 per child increase in per capita grants paid in 2000-01 to improve the affordability of preschool programs for all Victorian families.

### **Juvenile justice group conferencing**

Group conferencing brings together juvenile offenders and their victims. The existing juvenile justice group pilot program in the Melbourne metropolitan region will be enhanced, with an extension of the program into Shepparton and Moe.

### **International Year of Volunteers**

Funding was provided after the 2000-01 Budget for Victoria's contribution to the International Year of Volunteers in 2001. This initiative aims to encourage greater community participation in volunteer activities and to enhance the skills and opportunities of volunteers, consistent with the Government's policy commitment to strengthen communities.

### **Palliative care**

Funding is provided to encourage use of palliative care services as a more appropriate form of acute care for long-term patients.

### **Home and community care services**

Home and community care services will be expanded to better meet the needs of frail aged people, people with disabilities, and carers. Funding will support individuals to live independently and actively participate in the community, thereby enhancing quality of life, reducing unnecessary or premature admissions to residential care, and ensuring timely discharge from hospital.

### **Assistance for homeless people**

Funding is provided to expand services for homeless people and increase crisis accommodation and transitional housing in response to the number of homeless people seeking accommodation. The expansion of mental health services will also provide support services to people with mental illness in crisis accommodation and supported rooming houses.

### Human services productivity investment fund

A human services productivity investment fund has been established to provide financial assistance to develop and implement productivity improvement projects. It will encourage innovation and continuous improvement in the human services sector by providing a source of investment in productivity improvement. The aim is to improve efficiency so that more services can be provided with available funds.

### Motor vehicle lease costs

Supplementation is provided for increased motor vehicle lease costs reflecting changes in new and used vehicle prices after the introduction of the Commonwealth Government's new tax system.

### Asset investment initiatives

**Table B5: Asset investment initiatives – Department of Human Services**

	(\$ million)					
	2000-01	2001-02	2002-03	2003-04	2004-05	TEI
Austin and Repatriation Medical Centre redevelopment and Mercy Hospital for Women relocation	9.4	44.5	90.7	103.2	50.8	310.7
ICT strategy for health care	..	9.5	14.0	6.5	..	30.0
Frankston Hospital redevelopment	..	7.0	2.0	..	..	9.0
Infrastructure upgrade program	..	18.0	10.0	..	..	28.0
Equipment upgrade program	..	20.0	..	..	..	20.0
Kyneton Hospital redevelopment - continuation	..	0.2	1.5	..	..	1.7
Grace McKellar Centre redevelopment	..	3.0	3.0	13.0	..	19.0
Outer east service expansion and redevelopment	..	3.0	3.5	12.0	..	18.5
Wyndham community health service	..	2.0	3.0	6.0	..	11.0
Upgrade of residential care facilities for placement and support program	..	5.0	5.0	2.0	..	12.0
Residential aged care and rural health redevelopment and upgrade	..	2.5	5.0	12.5	5.0	25.0
Additional and replacement ambulance vehicles	..	2.2	2.2	..	..	4.4
Ararat Hospital redevelopment	..	0.7	2.0	4.6	..	7.3



**Table B5: Asset investment initiatives (cont) – Department of Human Services**

	(\$ million)					
	2000-01	2001-02	2002-03	2003-04	2004-05	
Rural ambulance facilities development	..	0.4	1.9	..	..	2.2
Northern Hospital redevelopment	..	2.0	8.0	2.0	..	12.0
Stawell District Hospital redevelopment	..	0.3	1.5	1.5	..	3.3
<b>Total asset investment initiatives</b>	<b>9.4</b>	<b>120.2</b>	<b>153.3</b>	<b>163.3</b>	<b>55.8</b>	<b>514.1</b>

*Source: Department of Treasury and Finance*

**Austin and Repatriation Medical Centre redevelopment and Mercy Hospital for Women relocation**

Funding has been allocated for the redevelopment of the Austin and Repatriation Medical Centre, including the move of the Mercy Hospital for Women to the Austin Hospital site. Full funding will flow over the six year period from 2000-01, including \$12 million in 2005-06.

**ICT strategy for health care**

Funding is allocated from the Growing Victoria infrastructure reserve to implement an ICT strategy for health care.

**Frankston Hospital redevelopment**

Funding will allow for the construction of new integrated facilities for maternity services and redeveloped paediatric accommodation to complete the Frankston Hospital ward redevelopment.

**Infrastructure upgrade program**

Funding will enable the urgent upgrade of infrastructure in a range of public health care facilities, including upgrade of hospital cooling towers and the continued implementation of the fire risk management strategy.

**Equipment upgrade program**

Funding is provided to upgrade and replace essential hospital equipment, biomedical equipment in ambulance services, equipment used in public health laboratories and research facilities, and equipment for statewide community dental services.

**Kyneton Hospital redevelopment – continuation**

This additional funding will enable the full redevelopment of Kyneton Hospital which involves the construction of a new facility to provide acute hospital facilities including inpatient beds, diagnostic, treatment and administration services, and an aged high care facility for 20 residents.

**Grace McKellar Centre redevelopment**

Funding will provide for new purpose built facilities to enhance and expand sub-acute services in Geelong, including geriatric evaluation and management beds and rehabilitation beds, and commence the redevelopment of aged care facilities.

**Outer east service expansion and redevelopment**

Funding will allow for the expansion and redevelopment of Maroondah Hospital and the Angliss Health Service. The Maroondah Hospital expansion and redevelopment involves the upgrading of the emergency department. The Angliss Health Services expansion and redevelopment involves a new geriatric evaluation and management ward which will allow the expansion of the rehabilitation service, and upgrading the hospital's services infrastructure to support the new works.

**Wyndham community health service**

Funding will allow the incorporation of a range of existing health and community services in a purpose built facility on a centrally located site in the City of Wyndham.

**Upgrade of residential care facilities for placement and support program**

Funding will allow the continuation of the program to refurbish and replace existing residential facilities for the placement and support program which provides residential services for children removed from their families or primary care givers.

**Residential aged care and rural health redevelopment and upgrade**

Funding will enable continuation of an ongoing redevelopment and upgrade of rural health and residential aged care facilities statewide to ensure they meet both State and Commonwealth requirements for certification and accreditation.

**Ambulance vehicles**

Funding is provided for an additional 12 ambulance vehicles to increase fleet numbers and for 12 replacement vehicles to meet the existing replacement standards.

### **Ararat Hospital redevelopment**

Funding is provided for a major refurbishment of existing facilities and construction of new acute facilities at Ararat Hospital which is a component of a strategic partnership between the East Grampians Health Services (Ararat Hospital) and Stawell District Hospital.

### **Rural ambulance facilities development**

Funding is provided for the design and construction of two new ambulance stations for Rural Ambulance Victoria at Romsey and Barwon South. These will address the increasing caseloads in the Romsey and Barwon South areas and reduce current response times.

### **Northern Hospital redevelopment**

Funding is provided for the redevelopment of acute, surgical and day procedure facilities at the Northern Hospital to help the hospital meet projected demand for services in the outer northern suburbs of Melbourne.

### **Stawell District Hospital redevelopment**

Funding is provided for the redevelopment and expansion of facilities at the Stawell District Hospital. This initiative is a component of a strategic partnership between the East Grampians Health Services (Ararat Hospital) and Stawell District Hospital to provide health care services in the Grampians region.

## **Infrastructure**

### *Output initiatives*

**Table B6: Output initiatives – Department of Infrastructure**

	<i>(\$ million)</i>				
	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>
Recreational boat operator licensing	1.5	3.7	9.4	5.3	6.7
Resourcing of major rail infrastructure projects	16.2	20.2	3.6	..	..
Bus contracts	..	23.5	39.1	54.5	72.0
Metropolitan bus services	..	0.9	3.9	4.4	4.9
Camp Street project	..	0.8	..	..	..
Regional rail passenger services	..	5.2	3.3	11.9	22.6
Fast rail links to regional centres	..	5.0	10.0	10.0	15.0
Public transport safety, local government support, transport planning and marine safety initiatives	..	4.4	4.4	4.4	4.4
<b>Total output initiatives</b>	<b>17.7</b>	<b>63.6</b>	<b>73.7</b>	<b>90.5</b>	<b>125.6</b>

*Source: Department of Treasury and Finance*

### **Recreational boat operator licensing**

Funding has been provided to implement the licensing of recreational boat operators and towards initiatives that contribute to improving recreational boating safety. Licensing is being phased in, with those recreational boat operator groups presenting higher risks to boating safety (personal watercraft and young operators) being targeted initially.

### **Resourcing of major rail infrastructure projects**

Funding is provided to support the initial commercial and legal phase of the project activities of the Rail Projects Group, a specialist unit within the Department of Infrastructure. The group has been established to oversee the planning of three major infrastructure projects: regional fast rail links, Spencer Street Station redevelopment and the Airport Transit Link.

### **Bus contracts**

Additional funding is provided for the replacement of older buses with new buses that are air-conditioned and meet Commonwealth Government accessibility requirements. Approximately 220 buses are to be replaced in 2001-02. In addition, cost pressures experienced by operators (primarily fuel related costs) have been addressed in accordance with the Government's contractual commitments.

### **Metropolitan bus services**

Funding is provided for new bus services to outer metropolitan suburbs in response to population growth in these areas. The proposed routes for the additional bus services are located in high population growth areas and include Laverton/Altona Meadows, Rowville/Glen Waverley/Ringwood, Werribee, Berwick, Craigieburn/Roxburgh Park/Coolaroo/Broadmeadows, Hampton Park and St Albans/Delahey/Sydenham.

### **Camp Street project**

Additional funding is provided for the re-development of an arts and cultural precinct in central Ballarat. The Victorian Government is a part contributor, along with the University of Ballarat, the City of Ballarat and the Commonwealth Government.

### **Regional rail passenger services**

Funding is provided for a package of regional train services including the restoration of passenger rail links to the regional centres of Mildura, Bairnsdale, Ararat and South Gippsland (Leongatha) and improvements to Warrnambool and Shepparton services.

### 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. Funding is provided to meet short-term operating costs associated with the establishment of fast rail links from Melbourne to service the regional corridors to Bendigo, Ballarat, the Latrobe Valley and Geelong.

### Public transport safety, local government support, transport planning and marine safety initiatives

Funding is provided for public transport safety initiatives, support for local government implementation of best value principles and asset management strategies. Additional effort towards strategic transport planning, marine safety and precinct oriented development facilitation will be undertaken. These are high priorities for the Government and are linked to current Department of Infrastructure objectives.

### Asset investment initiatives

**Table B7: Asset investment initiatives – Department of Infrastructure**

	<i>(\$million)</i>					
	2000-01	2001-02	2002-03	2003-04	2004-05	TEI
Eastern Freeway extension	..	35.0	36.0	..	..	71.0
Wodonga rail freight and urban redevelopment	..	3.0	18.0	9.0	..	30.0
Project planning for a multi-year strategy	..	2.5	..	..	..	2.5
Scoresby transport corridor	..	2.0	..	..	..	2.0
Sydenham and Box Hill public transport upgrades	..	7.5	12.0	..	..	19.5
Public transport information system upgrades	..	2.7	7.2	5.0	..	14.9
Rail standardisation	..	10.0	20.0	20.0	26.0	96.0
Regional arterial road and bridge links	..	5.7	20.8	13.6	..	40.1
Station Pier refurbishment	..	0.8	..	..	..	0.8
Fast rail links to regional centres	..	..	62.0	110.0	170.0	470.0
Re-opening of country rail lines	..	9.2	15.2	8.3	..	32.7
<b>Total asset investment initiatives</b>	..	<b>78.4</b>	<b>191.2</b>	<b>165.9</b>	<b>196.0</b>	<b>779.5</b>

*Source: Department of Treasury and Finance*

**Eastern Freeway extension**

Additional funding of \$71 million is provided over the next two years for the extension of the Eastern Freeway from Springvale Road to Ringwood. The approved tunnel option was subjected to a rigorous community consultation process and meets community environmental objectives.

**Wodonga rail freight and urban redevelopment**

The current rail line will be moved from Wodonga's central business district to a route parallel to the Hume Highway, a new passenger terminal established and a multi-modal transport logistics hub created at West Wodonga. This is expected to increase the competitiveness of rail as a method of freight transport, promote urban and economic development in the region and improve public safety by the removal of five level crossings.

**Project planning for a multi-year strategy**

Seed funding is provided in 2001-02 to assist in progressing preliminary planning and design works on a number of high priority projects identified in the Department of Infrastructure's multi-year infrastructure investment strategy.

**Scoresby transport corridor**

Funding is provided to undertake preliminary planning and design works associated with the proposed Scoresby transport corridor development.

**Sydenham and Box Hill public transport extensions**

The Government is committed to improving metropolitan public transport services and is providing additional funding for a package of works to complement the Sydenham rail electrification project including the upgrade of Sydenham station, car parking and interchange works. Funding is also provided for property purchases to facilitate the extension of tram route 109 from Mont Albert to Box Hill.

**Public transport information systems upgrade**

Funding is provided for new information systems and hardware to enable comprehensive management of contractual commitments under the public transport franchise arrangements. This includes asset management, maintenance of around 600 contracts associated with the franchisees, monitoring of compliance with licence and audit requirements, and payments to up to 1 600 school bus operators.

**Rail standardisation**

Regional rail to port links will be converted from broad to standard gauge along four corridors: the North Western corridor (Mildura, Robinvale, and Kulwin), the North Eastern corridor (Wodonga and Oaklands), the Northern corridor (Moulamein and Deniliquin), and the Western corridor (South Australian border and Portland). The project requires Commonwealth Government and private sector support which will result in approximately 70 per cent of the rail network being standard gauge.

**Regional arterial road and bridge links**

Funding is provided for priority improvements to the regional road network including the duplication of the Bass Highway from Bay Road to The Gurdies and the upgrade of four bridges across the Murray River at Corowa, Echuca, Robinvale and Cobram-Barooga. The Bass Highway works will alleviate delays for the high volumes of tourist traffic to Phillip Island and other tourist attractions in the region, and improve safety on this section of the highway.

**Station Pier refurbishment**

Funding is provided to upgrade the sewer and water systems for the domestic terminal of the pier. This work will complete the main water and sewer upgrades for the pier and will better service the ships berthing at the pier.

**Fast rail links to regional centres**

Funding is allocated for the establishment of fast rail links from Melbourne to service the regional corridors to Bendigo, Ballarat, the Latrobe Valley and Geelong. This initiative will improve transport connections between Melbourne and these regional centres and promote growth in the regional economy.

**Re-opening of country rail lines**

Funding is provided for rail infrastructure works to restore passenger rail links to the four regional centres of Mildura, Bairnsdale, Ararat and South Gippsland (Leongatha). In addition freight services will recommence on the South Gippsland (Leongatha) line.

## Justice

### Output initiatives

**Table B8: Output initiatives – Department of Justice**

	(\$ million)				
	2000-01	2001-02	2002-03	2003-04	2004-05
Correctional strategy:					
• Redevelopment of community correctional services	..	8.4	11.3	11.3	11.3
• Bail support	..	..	..	0.4	0.4
• Home detention pilot	..	1.6	1.6	1.6	..
• Rehabilitation framework	..	1.4	2.1	1.8	1.8
• Pre and post-release support	..	1.9	2.8	2.8	2.8
• Diversion/rehabilitation evaluation strategy	..	0.8	0.8	0.8	0.8
• Victorian Aboriginal Justice Agreement	..	1.1	1.1	1.1	1.1
• Diversion strategy – courts	..	1.3	3.2	3.8	..
• Prison accommodation	..	7.5	6.5	5.5	21.9
• Drug initiatives in prison	..	1.0	1.0	1.0	1.0
• Crime Prevention Victoria	..	3.0	3.0	..	..
Prison transport requirements	..	2.9	1.2	1.2	1.2
Country Fire Authority reform package	27.5	7.9	4.4	3.7	3.7
Fixed site traffic cameras (City Link tunnels)	..	1.0	0.9	0.9	0.9
Information technology infrastructure improvement	..	..	1.4	1.4	1.4
Judicial education	..	0.7	0.7	0.7	0.7
Increasing timeliness of disposals in Victorian Civil and Administrative Tribunal	..	0.9	0.9	0.9	0.9
Police protective equipment	..	..	1.0	1.1	1.0
Integrated road safety campaign – traffic camera contract costs	..	8.9	10.1	9.7	9.7
Motor vehicle lease costs	..	8.8	11.0	11.0	11.0
Reducing backlogs in the County Court	..	0.8	0.8	0.8	..
Access to Legal Aid and Community Legal Centres	..	1.0	1.0	1.0	1.0
Native Title Unit	..	1.9	1.9	1.9	1.9
WorkCover strategies – Victoria Police	..	2.0	1.2	-1.0	-1.0
<b>Total output initiatives</b>	<b>27.5</b>	<b>64.7</b>	<b>69.9</b>	<b>63.3</b>	<b>73.5</b>

Source: Department of Treasury and Finance



## **Correctional Strategy**

In the face of continuing growth in prisoner numbers, the Government is committed to a strategy that provides a balance between programs that seek to reduce the number of offenders entering the courts and correction systems, and ensuring that appropriate accommodation is available to meet projected long-term prisoner demand growth. Details on the initiatives of the strategy are outlined below:

- *Redevelopment of community correctional services*

Funding is provided to strengthen community correctional services as a sentencing option. Improved resourcing of community correctional services will provide a broader range of sanctions and enable prison to be the last resort for convicted low-risk offenders. Furthermore, the capacity of the service to supervise offenders identified as having a medium to high risk of re-offending will be enhanced. It is estimated that by 2005, strengthened community correctional services will be able to supervise at least 1 000 additional low risk offenders.

- *Bail support*

This program is designed to provide opportunities for selected, low-risk offenders to be placed on bail rather than in custody by diverting them to appropriate community accommodation and support services.

- *Home detention pilot*

Funding is allocated to a three-year pilot program which places up to 80 offenders who are non-violent and did not commit a sex-related crime into supervised home detention.

- *Rehabilitation framework*

Funding is provided for enhanced prison based offending programs, targeted at high needs prisoners who have a high risk of re-offending. These programs will provide more than 750 program places in moderate to intensive offending behaviour programs. The programs will address priority gaps in cognitive skills, violent offender, gambling and sex offender programs.

- *Pre and post-release support*

Funding is provided for a community integration program for use across the prison system to ensure that prior to discharge, all prisoners receive adequate information concerning their preparation for release, such as housing options and community support organisations.

- *Diversion/rehabilitation evaluation strategy*

Funding is provided for a diversion/rehabilitation evaluation strategy and research program to remedy the lack of reliable performance data and impact information for corrections currently available in Victoria. The strategy will allow for more effective diversion/rehabilitation programs to be developed.

- *Victorian Aboriginal Justice Agreement*

Additional funding is provided to fully implement the Victorian Aboriginal Justice Agreement between the Victorian Government and the Koori community in Victoria. The agreement seeks to address issues of indigenous over-representation within the criminal justice system, improve Koori access to justice related services and promote greater awareness in the Koori community of civil, legal and political rights.

- *Diversion strategy – courts*

The Court Based Diversion Program will be expanded to 13 metropolitan and regional courts and will complement the expansion of the Court Referral for Evaluation and Drug Intervention Treatment (CREDIT) program and the new pilot program of intensive support for high risk offenders. The CREDIT program and the Intensive Support Program are targeted at drug dependent offenders and will provide support and treatment services to assist in breaking the offending cycle. The diversion program will be targeted at low-level, first-time offenders and is designed to make appropriate reparation to victims, rehabilitate the offender and reduce the offending cycle.

- *Prison accommodation*

Funding is provided to manage long-term demand on prison accommodation by an expansion of permanent capacity. The funding will also alleviate short-term pressure through additional temporary places, while the construction of new permanent capacity is completed.

- *Drug initiatives in prison*

This initiative includes new drug interventions that aim to reduce drug related harm to prisoners and prison staff, and assist offenders to maintain drug free lifestyles in prison and upon release. New harm reduction programs will be implemented to complement existing drug detection, deterrence and treatment strategies. Peer education and development of

prison drug action plans and expansion of drug free incentive programs will be introduced and supported by a custodial education and training campaign. A research and evaluation program will be established to monitor program effectiveness.

- *Crime Prevention Victoria*

Funding is provided from the Community Support Fund to support the activities of Crime Prevention Victoria, including working with police, local councils, and the community to tailor local specific crime prevention programs and strategies.

#### **Prison transport requirements**

Funding is provided to meet increased volumes of prisoner movements across Victoria.

#### **Country Fire Authority reform package**

This initiative represents the Government's contribution to the Country Fire Authority reform package, which is designed to support changes in the Country Fire Authority following recent tragedies such as the Linton fire. It includes ongoing funding for additional operational and support staff, enhanced training programs, additional safety equipment and protective clothing, as well as capital purchases including additional fire fighting appliances, specialised fire fighting vehicles and new and upgraded fire stations.

#### **Fixed site traffic cameras (City Link tunnels)**

Speed related traffic accidents in tunnels represent a significant road safety issue and impact upon the Government's commitment to reduce the road toll. Funding is allocated for fixed site cameras to be installed and operated in City Link tunnels.

#### **Information technology infrastructure improvement**

Funding is provided to meet the operating costs associated with supporting the roll-out of the Criminal Justice Enhancement project. This project will enable courts to track, manage and supervise case processing.

#### **Judicial education**

As part of the Government's election commitment to improve access to justice, a Judicial College of Victoria will be established to enhance the educational support provided to judicial officers. The College will also increase the ability of judicial officers to keep abreast of developments in the law, as well as non-legal issues relating to different groups in society, particularly people from

different cultural backgrounds. The establishment of the College will contribute to the Government's commitment to reducing case backlogs by providing a forum to establish improved case management practices.

**Increasing timeliness of disposals in Victorian Civil and Administrative Tribunal**

To improve the timely resolution of matters before the Victorian Civil and Administrative Tribunal, funding is provided to increase the number of Victorian Civil and Administrative Tribunal sessional member hours, in particular, in the Civil and Planning jurisdictions.

**Police protective equipment**

The commitment in *Labor's Financial Statement* to provide protective equipment for Victoria Police will be implemented. Funding is provided for the storage, maintenance and replacement of the protective equipment.

**Integrated road safety campaign – traffic camera contract costs**

The introduction of a new speed camera enforcement regime is one element of the Government's integrated road safety package. The road safety package aims to reduce Victoria's annual road toll and decrease speed levels. The speed camera enforcement regime includes a staged increase in hours of traffic camera operations and more covert camera operations.

**Motor vehicle lease costs**

Supplementation is provided for increased motor vehicle lease costs reflecting changes in new and used vehicle prices after the introduction of the Commonwealth Government's new tax system.

**Reducing backlogs in the County Court**

Two additional County Court Judges and support personnel will be appointed to improve the timeliness of disposal of civil and criminal cases heard in the County Court. Ongoing costs will be offset by the expected retirement of two judges over the next two to three years.

**Access to Legal Aid and Community Legal Centres**

Additional funding is provided to increase legal services, particularly in rural and regional Victoria and the criminal jurisdiction of the Magistrates Court. Funding will be targeted at legal aid duty lawyer services, establishing a pro bono scheme and ensuring that Community Legal Centres have a more appropriate level of resources.

### Native Title Unit

Funding is provided to support the Government's ongoing commitment to the resolution of Native Title.

### WorkCover strategies – Victoria Police

Additional funding is provided to Victoria Police to introduce WorkCover improvement initiatives which build on the existing WorkCover program by supporting the devolution of premium accountability to line management, increasing the capacity of OH&S and risk management, addressing stress related claims costs, improving injury management and rehabilitation, and initiating an intensive case management program.

### Asset investment initiatives

**Table B9: Asset investment initiatives – Department of Justice**

	(\$ million)					
	2000-01	2001-02	2002-03	2003-04	2004-05	TEI
Bellarine Peninsula police station	0.6	1.7	2.7	..	..	5.0
Croydon police station	0.3	1.0	3.9	..	..	5.1
Diamond Creek police station	0.5	1.0	3.5	1.1	..	6.0
Endeavour Hills police station	0.4	0.1	2.0	1.5	..	4.0
Gisborne police station	0.3	1.8	2.9	..	..	5.0
Kilmore police station	0.4	1.2	3.0	..	..	4.5
Maryborough police station	0.5	1.2	2.8	..	..	4.5
Police protective equipment	..	7.8	..	..	..	7.8
Police station and court facilities replacement program	..	3.6	5.0	11.5	9.9	30.0
Prison capacity expansion	..	10.1	69.2	86.2	0.2	165.7
Relocatable prison cell blocks	5.0	23.0	..	..	..	28.0
Cell safety project (10 years)	..	5.0	5.0	5.0	5.0	50.0
Information technology infrastructure improvement	..	..	3.0	3.1	..	6.1
Diversionary program for adult Aboriginal offenders	..	1.8	..	..	..	1.8
Integrated road safety campaign	..	8.4	3.9	..	..	12.2
<b>Total asset investment initiatives</b>	<b>7.8</b>	<b>67.6</b>	<b>106.8</b>	<b>108.4</b>	<b>15.1</b>	<b>335.7</b>

Source: Department of Treasury and Finance

### **New and replacement police stations**

Funding is provided for seven new or replacement police stations in Bellarine, Croydon, Diamond Creek, Endeavour Hills, Gisborne, Kilmore, and Maryborough, as specified in *Labor's Financial Statement*. These projects are critical to improving the local management and delivery of Victoria Police services and achieving a safer community.

### **Police protective equipment**

Funding is provided for police protective equipment, as specified in *Labor's Financial Statement*. The protective equipment includes ballistic vests, vehicle safety screens, synthetic utility belts and metal detectors. A range of personal issue equipment will also be available to police members aimed at ensuring their comfort and safety.

### **Police station and court facilities replacement program**

Funding is provided to upgrade or replace police stations and court facilities in rural Victoria, including Apsley, Boolarra, Branxholme, Chiltern, Clunes, Eildon, Kaniva, Lang Lang, Romsey, Skipton, Tongala, Underbool, Violet Town, Yackandandah and Yea. Most of the existing facilities to be upgraded fail to meet operational requirements.

### **Prison capacity expansion**

Funding is provided for an expansion of permanent bed capacity. Four new facilities will be constructed including a 600-bed metropolitan Melbourne remand prison and a 300-bed metropolitan medium security prison. Two new minimum security prisons will be built in rural Victoria, including a 120-bed facility and a 100-bed facility. A 26-bed specialist unit will also be built within the existing Ararat Prison.

### **Relocatable prison cell blocks**

This funding will alleviate short term capacity pressures in the adult prison system, through the use of relocatable prison cell blocks as new facilities are constructed.

### **Cell safety project**

Funding of \$5 million per year for ten years is provided to upgrade the safety of cells within existing prison accommodation. Of particular focus is improved fire safety and addressing potential hanging points.

### **Information technology infrastructure improvement**

Funding is provided to roll out the Criminal Justice Enhancement project to enable courts to track, manage and supervise case processing and pro-actively move cases between regional jurisdictions based on caseloads.

### **Diversionsary program for adult Aboriginal offenders**

As part of the Victorian Aboriginal Justice Agreement between the Victorian Government and the Koori community of Victoria, funding is provided for an Aboriginal prison diversionsary facility.

### **Integrated road safety campaign**

To complement the introduction of the integrated road safety campaign, a number of road safety measures will be implemented. These include the replacement of 'booze buses', the introduction of speed measuring devices, and new evidential breath testing devices that meet national standards.

## **Natural Resources and Environment**

### *Output initiatives*

**Table B10: Output initiatives – Department of Natural Resources and Environment**

	(\$ million)				
	2000-01	2001-02	2002-03	2003-04	2004-05
Restoration of environmental flows to the Snowy River	40.0	20.0	19.0	19.0	19.0
National action plan for salinity and water quality	..	10.0	22.5	22.5	22.5
Marine national parks and sanctuaries	..	9.4	9.8	9.7	8.6
Farm Bis	..	0.5	..	..	..
Victorian regional aquaculture development program	..	0.5	1.0	1.0	1.0
Minerals and petroleum industry development	..	0.5	1.0	1.0	1.0
Catchment and water resource management	..	2.8	1.0	1.0	1.0
Energy market reform	..	2.0	2.0	2.0	2.0
Motor vehicle lease costs	..	2.0	5.5	5.5	5.5
<b>Total output initiatives</b>	<b>40.0</b>	<b>47.7</b>	<b>61.8</b>	<b>61.7</b>	<b>60.6</b>

*Source: Department of Treasury and Finance*

### **Restoration of environmental flows to the Snowy River**

The Commonwealth, NSW and Victorian Governments have signed an intergovernmental agreement to restore water flows equivalent to 21 per cent of Snowy River average annual natural flows over ten years as part of a long-term objective of restoring 28 per cent of average annual natural flows. An amount of \$15 million each year for ten years is allocated to meet Victoria's obligation to

contribute \$150 million to the joint government enterprise that will be established under the agreement, and to undertake water savings projects that contribute to the \$150 million commitment. A further \$40 million is allocated over the next 10 years to fund other Snowy River related initiatives including riverine works and detailed monitoring.

#### **National Action Plan for Salinity and Water Quality**

Funding is allocated to 2007-08 for the expected Victorian matching contribution towards the Commonwealth Government's National Action Plan for Salinity and Water Quality to address salinity, particularly dryland salinity, and deteriorating water quality. Funding is provided for six Victorian catchment management authority regions to review and implement salinity and water quality plans within an integrated natural resource framework: Goulburn Broken, North Central, Mallee, Wimmera, Glenelg-Hopkins and Corangamite.

#### **Marine national parks and sanctuaries**

Funding is provided to fully implement the Marine National Parks and Sanctuaries package. This includes the establishment and ongoing management of marine protected areas, performance assessment and monitoring of marine protected areas, enhanced enforcement, relocation of fishing effort, aquaculture industry development and fisheries industry adjustment. This funding will build on existing resources and considerable experience in the fields of conservation, protection of marine biodiversity and fisheries management.

#### **Farm Bis**

The Farm Bis program assists farmers to improve their business practices. Additional funding is allocated to maintain expenditure on this program in 2001-02 at historical levels.

#### **Victorian regional aquaculture development program**

Funding is provided to support aquaculture industry investment. The program will deliver advice to industry, marine and freshwater hatchery research, and policy and licensing arrangements.

#### **Minerals and petroleum industry development**

Funding is provided for environmental and safety advice and various geological and technical information to the minerals and petroleum industry.

#### **Catchment and water resource management**

Funding is provided to develop the regulatory framework that will be used by the Essential Services Commission to regulate the metropolitan and non-metropolitan water industry on an ongoing basis.



A Gippsland Lakes rescue package will be implemented to continue work leading to reduced nutrient loads to the lakes.

The Victorian Pest Management Strategy is being implemented to control pest plants and animals. Funding is provided to increase enforcement and compliance in relation to weeds, and increase the focus on building management at a community level to enhance the Good Neighbours program.

### Energy market reform

Funding is provided to improve the security framework of Victoria's gas and electricity supply, respond to the requirements of full retail contestability and manage Victoria's contribution to reform of National Electricity Market arrangements.

### Motor vehicle lease costs

Supplementation is provided for increased motor vehicle lease costs reflecting changes in new and used vehicle prices after the introduction of the Commonwealth Government's new tax system.

### Asset investment initiatives

**Table B11: Asset investment initiatives – Department of Natural Resources and Environment**

	<i>(\$million)</i>					
	2000-01	2001-02	2002-03	2003-04	2004-05	TEI
Marine national parks and sanctuaries	..	0.9	0.5	..	..	1.4
Land titles automation project	..	18.2	1.0	3.0	..	29.7
Risk mitigation in coastal areas	..	2.0	2.0	2.0	2.0	8.0
Minerals and petroleum development	..	1.0	1.0	1.0	1.0	4.0
Pyramid Creek salt scheme	..	1.2	0.5	..	..	1.7
Parks asset base	..	2.0	2.0	2.0	1.0	7.0
Information technology and document management centre	..	4.8	4.5	2.5	..	11.8
Science innovation and education precincts across regional Victoria	..	10.0	20.0	20.0	..	50.0
Regional telecommunications infrastructure	..	2.4	0.3	0.3	..	3.0
<b>Total asset investment initiatives</b>	..	<b>42.5</b>	<b>31.8</b>	<b>30.8</b>	<b>4.0</b>	<b>116.6</b>

*Source: Department of Treasury and Finance*

### **Marine national parks and sanctuaries**

Funding is provided to purchase new sea vessels and specialised marine equipment (including vessel monitoring equipment) to support the establishment and ongoing management of marine national parks and sanctuaries and associated fisheries compliance and enforcement activities.

### **Land titles automation project**

Funding is provided to complete the project to produce an electronic version of the land titles register and develop/implement an information technology platform to enable electronic land title searches and registration of dealings on land titles. The TEI of \$29.7 million includes \$7.5 million funded through reprioritisation of existing resources.

### **Risk mitigation in coastal areas**

A program of works will be undertaken including improved foreshore safety, beach renourishment, protection of key and critical local port assets, and Gippsland coastal elevation monitoring.

### **Minerals and petroleum development**

Funding will enable the collection and updating of geophysical/geological data to promote minerals and petroleum exploration and development.

### **Pyramid Creek salt scheme**

Work will be undertaken to intercept saline groundwater before entering Pyramid Creek to assist in the rehabilitation of salt affected land and reduce salt loads to the Murray River system. Salt will be harvested from this saline groundwater for consumption.

### **Parks asset base**

Funding is provided to renew/upgrade visitor facilities in national parks, and for boat access works in Port Phillip Bay.

### **Information technology and document management centre**

Funding is provided to establish an information technology support centre and centralised library for the Department of Natural Resources and Environment, and a document management centre to provide secure long-term storage for paper titles.

### **Science innovation and education precincts across regional Victoria**

The Department of Natural Resources and Environment's regional research and development institutes will undergo significant strategic modernisation through funding from the Growing Victoria infrastructure reserve. State of the art facilities will be provided to meet the demand of new technologies and new opportunities for regional communities. Enhancement encompasses new and upgraded laboratories, greenhouses, and conference and education facilities. New scientific equipment will be acquired and computerised information storage/dissemination capacity will be significantly expanded to meet the demands of strategic research.

In particular, four institutes at Ellinbank, Horsham, Mildura and Tatura will be modernised and enhanced to become key centres of science, innovation and education for regional Victoria. Institutes at Bendigo, Hamilton, Kyabram and Rutherglen will also receive funding to modernise their facilities. The key centres will enhance both research and development capacity and attract education providers (particularly higher education) to deliver education and teaching courses. Attraction of private industry to co-locate and collaborate with departmental experts will be promoted through partnerships.

### **Regional telecommunications infrastructure**

Funding from the Growing Victoria infrastructure reserve will be provided to install high quality collaboration and video conferencing infrastructure facilities at some 30 regional centres across Victoria.

## ***State and Regional Development***

### *Output initiatives*

**Table B12: Output initiatives – Department of State and Regional Development**

	<i>(\$ million)</i>				
	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>
Major events funding cap	8.7	22.3	22.9	23.2	24.6
Industrial relations	..	1.0	1.0	1.0	1.0
Melbourne and Olympic Park Trust masterplan	..	3.3	..	..	..
Commonwealth Games Organising Committee	..	6.2	..	..	..
Commonwealth Games infrastructure planning	..	2.0	..	..	..
Industry development	..	15.0	15.0	10.0	10.0

**Table B12: Output initiatives (cont) – Department of State and Regional Development**

	(\$ million)				
	2000-01	2001-02	2002-03	2003-04	2004-05
Commissioner for Italy	..	0.3	0.3	0.3	..
Hazardous waste treatment and storage	..	1.8	1.5	2.0	0.1
Royal Melbourne Showgrounds	..	2.0	..	..	..
Synchrotron	..	2.0	..	..	..
Tourism and marketing	..	5.0	..	..	..
Training velodrome	..	3.2	..	..	..
Safer and improved aquatic recreation	..	2.2	..	..	..
Compensation for the racing industry following the introduction of the health benefit levy	..	4.0	..	..	..
<b>Total output initiatives</b>	<b>8.7</b>	<b>70.3</b>	<b>40.7</b>	<b>36.5</b>	<b>35.7</b>

Source: Department of Treasury and Finance

### Major events funding cap

A funding limit of up to \$35 million per year has been set for Government financial support for major sporting and tourism events. The actual level of expenditure within this limit will be determined annually by the Government. This arrangement provides flexibility for the Government to support events of significant social and/or economic benefit to Victoria, without creating an adverse impact on the current or future budget. The estimates outlined above represent additional funding, within this cap, since the 2000-01 Budget.

### Industrial relations

Additional funding has been allocated to meet Government commitments to implement industrial relations information, education and advice mechanisms, and promotion of positive workplace practices.

### Melbourne and Olympic Park Trust masterplan

Funding approval is given for the Melbourne and Olympic Parks Trust to continue the next phase of the implementation of its masterplan for redevelopment in time for the International Amateur Athletics Federation Grand Prix in September 2001.

### Commonwealth Games Organising Committee

Funding is provided to meet the costs associated with preparation for the Commonwealth Games to be held in Melbourne in 2006, including the operational costs for the Commonwealth Games Organising Committee in 2001-02.

### **Commonwealth Games infrastructure planning**

Funding is provided for infrastructure planning for the Melbourne 2006 Commonwealth Games. Specifically, this funding is provided for the planning and development phase of the expansion of the Melbourne Sports and Aquatic Centre to meet the standards required for the Commonwealth Games. Funding will also be provided for the scoping and preparation of the Games Village which will accommodate the 6 000 athletes and officials involved in the Commonwealth Games.

### **Industry development**

Funding is provided to enhance programs which build the industry base in Victoria and improve the capacity of established companies to compete internationally.

### **Commissioner for Italy**

Funding is provided for the Victorian Commissioner for Italy for an initial term of three years. The position will strengthen Victoria's business and cultural links with Italy and enhance awareness of trade, investment and educational linkages between Victoria, Italy and Europe as a whole.

### **Hazardous waste treatment and storage**

Funding is provided for the identification of potential sites and operators for new facilities for the treatment and storage of unavoidable hazardous waste produced by Victorian industry. This will contribute to the elimination of hazardous waste landfill in favour of treatment processes for the increased reuse, recycling and recovery of hazardous waste products.

### **Royal Melbourne Showgrounds**

Funding is provided to undertake essential works and further master planning on the Royal Melbourne Showgrounds facilities.

### **Synchrotron**

Funding will be provided to support an application to the Commonwealth Government to construct a national synchrotron facility in Victoria. A synchrotron is a major scientific imaging facility, which would enable industry to develop new products and intellectual property in the global biotechnology market, materials science, minerals and ICT research. It will strengthen Victoria's position as a centre for biotechnology research and development and build upon our lead in materials science.

### **Tourism and marketing**

Funding is provided for a range of enhanced domestic marketing and international tourism initiatives to strengthen Victoria's economic base.

### **Training velodrome**

Funding is provided to convert the Northcote velodrome into an indoor velodrome for cycling training and other sports. This venue will complement the existing facility at the multipurpose venue at Melbourne Park and provide necessary facilities for the Commonwealth Games.

### **Safer and improved aquatic recreation**

Funding is provided from the Community Support Fund for the continuation of the Government's safer and improved aquatic recreation policy. This policy includes initiatives to address the high incidence of toddler drownings.

### **Compensation for the racing industry following the introduction of the health benefit levy**

Transitional funding will be provided to compensate the Victorian racing industry from the impact of an additional government levy on gaming machines.

## *Asset investment initiatives*

**Table B13: Asset investment initiatives – Department of State and Regional Development**

	<i>(\$million)</i>					
	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>TEI</i>
Bonegilla Migrant Settlement Centre upgrade	..	0.3	1.2	0.6	..	2.0
e-government - redevelopment of vic.gov.au portal	..	4.0	..	..	..	4.0
<b>Total asset investment initiatives</b>	..	<b>4.3</b>	<b>1.2</b>	<b>0.6</b>	..	<b>6.0</b>

*Source: Department of Treasury and Finance*

### **Bonegilla Migrant Settlement Centre upgrade**

Funding is provided for the rebuilding and recreation of the Bonegilla Migrant Settlement Camp as a museum, an educational and interpretive centre and a regional tourism venue.

### **e-government – redevelopment of vic.gov.au portal**

Funding is provided from the Growing Victoria infrastructure reserve for the redevelopment of the [vic.gov.au](http://vic.gov.au) site to deliver an improved online entry point to Victoria for citizens, business and government, and maintain Victoria as a world leader in e-government.

## Treasury and Finance

### Output initiatives

**Table B14: Output initiatives – Department of Treasury and Finance**

	(\$ million)				
	2000-01	2001-02	2002-03	2003-04	2004-05
Essential Services Commission (including full retail contestability)	..	11.0	..	..	..
Evaluating for value	..	1.0	1.0	1.0	1.0
Introduction of credit card payments to the State Revenue Office	..	0.5	0.5	0.5	0.5
Shared services model	..	0.4	..	..	..
Possible relocation of the State Revenue Office	..	6.2	0.5	-0.9	-1.3
<b>Total output initiatives</b>	<b>..</b>	<b>19.0</b>	<b>2.0</b>	<b>0.6</b>	<b>0.2</b>

Source: Department of Treasury and Finance

#### **Essential Services Commission (including full retail contestability)**

The establishment of the Essential Services Commission from 1 January 2002 is a key Government commitment. The initiative will involve transforming the Office of the Regulator-General into an independent regulatory authority to regulate utilities, protect the interests of consumers and ensure high quality, equitable and reliable utility supplies.

Funding is provided to establish the Essential Services Commission and to enable the Office of the Regulator-General to carry out its statutory requirements. Any further increases in funding for the Essential Services Commission will be subject to a comprehensive budget and management review of the regulatory body.

#### **Evaluating for value**

The Government has approved the introduction of a five-year cyclical output review program to enhance alignment of departmental outputs with Government objectives and to ensure value for money. The Department of Treasury and Finance will lead these reviews.

#### **Introduction of credit card payments to the State Revenue Office**

The Government has approved the introduction of credit card payments to the State Revenue Office. Additional funding is required to supplement the cost of bank merchant fees for credit card payments of tax liabilities up to \$1 000.

### Shared services model

Funding is provided to investigate the feasibility of a shared services model across the budget sector. The feasibility study will focus on functions related to financial management systems and human resource management systems.

### Possible relocation of the State Revenue Office

A feasibility study to establish the State Revenue Office outside Melbourne will be completed in May 2001. Funding is provided to enable the relocation to a regional location should this prove feasible.

### Asset investment initiatives

**Table B15: Asset investment initiatives – Department of Treasury and Finance**

	<i>(\$million)</i>					
	2000-01	2001-02	2002-03	2003-04	2004-05	TEI
Budget management system	..	1.5	..	..	..	1.5
Refurbishment of offices at 3 Treasury Place	..	3.0	6.0	..	..	9.0
Refurbishment of Old Treasury Building	..	1.0	..	..	..	1.0
Possible relocation of the State Revenue Office	..	3.0	..	..	..	3.0
<b>Total asset investment initiatives</b>	..	<b>8.5</b>	<b>6.0</b>	..	..	<b>14.5</b>

Source: Department of Treasury and Finance

### Budget management system

Funding is provided to replace the department's existing forward estimates system with a web-enabled integrated budget management system that meets all central agency requirements. The system will enable the department to provide Government with more meaningful, accurate and timely financial and performance data to support strategic decision making.

### Refurbishment of offices at 3 Treasury Place

Funding is provided for the refurbishment of 3 Treasury Place for both internal and external renovations (including the roof) in order to provide office accommodation that is functional and efficient and complies with Australian Standards and the Building Code of Australia.

### Refurbishment of Old Treasury Building

Funding is provided for the refurbishment of the slate roof, facade stone work and plaster ceiling on the upper floor of the Old Treasury Building.



### **Possible relocation of the State Revenue Office**

A feasibility study to establish the State Revenue Office outside Melbourne will be completed in May 2001. Funding is provided to enable the relocation to a regional location should this prove feasible.

## ***Premier and Cabinet***

### *Output initiatives*

**Table B16: Output initiatives – Department of Premier and Cabinet**

	<i>(\$ million)</i>				
	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>
Industry development and investment in film, television and new media production	..	10.9	10.9	4.9	4.9
Australian Centre for the Moving Image at Federation Square	..	3.5	3.3	3.2	3.2
Regional Community Building – touring and local history programs	..	1.0	..	..	..
Outcomes of the Nugent Inquiry	..	2.5	2.0	1.6	1.0
Ministerial and Parliamentary support	..	3.8	3.8	3.8	3.8
State Reconciliation Council	..	0.2	0.2	..	..
Constitutional Commission	..	1.6	0.4	..	..
<b>Total output initiatives</b>	<b>..</b>	<b>23.5</b>	<b>20.5</b>	<b>13.4</b>	<b>12.8</b>

*Source: Department of Treasury and Finance*

### **Industry development and investment in film, television and new media production**

In response to the report of the Victorian Film and Television Industry Task Force, funding is provided to increase production investment in Victoria.

### **Opening of the Australian Centre for the Moving Image at Federation Square**

Funding is provided to enable the Australian Centre for the Moving Image to open and operate at Federation Square.

### **Regional community building – touring and local history programs**

Funding is provided from the Community Support Fund for touring a diverse range of cultural programs and arts exhibitions to outer regional communities, and for small grants to Victorian communities for projects that reflect, document and celebrate significant aspects of cultural heritage and community identity.

### Outcomes of the Nugent Inquiry

The Government has committed to a Commonwealth-State funding model, designed to assist the long-term artistic and financial viability of the Victorian major performing arts sector.

### Ministerial and Parliamentary support

Additional funding has been provided to support Ministers to more effectively carry out their duties, and to assist Government in the development of economically, socially and environmentally responsible policies.

### State Reconciliation Council

Funding is provided for Reconciliation Victoria, a successor body to the State Reconciliation Committee. Reconciliation Victoria will work to progress reconciliation at the local level between indigenous Victorians and the wider community.

### Constitutional Commission

Funding is provided to establish the Constitutional Commission to make recommendations about reform of the *Constitution Act 1975*, the *Constitution Act (Amendment) Act 1958* and associated legislation to enhance the governance of Victoria. The Commission will consider whether governance in Victoria would be improved by a fixed four-year term of Parliament, a reduction in the number of Members of Parliament, and the role of the Legislative Council as a house of review.

### Asset investment initiatives

**Table B17: Asset investment initiatives – Department of Premier and Cabinet**

	(\$ million)					
	2000-01	2001-02	2002-03	2003-04	2004-05	TEI
Legislative compliance program for state owned assets	..	2.3	5.9	2.2	..	10.4
Library and community networks	..	0.4	0.4	0.4	0.4	1.6
Australian Centre for the Moving Image – technology infrastructure	..	13.8	..	..	..	13.8
Royal Exhibition Building improvements	..	0.8	..	..	..	0.8
Redevelopment of core business systems	..	4.0	..	..	..	4.0
<b>Total asset investment initiatives</b>	<b>..</b>	<b>21.4</b>	<b>6.3</b>	<b>2.6</b>	<b>0.4</b>	<b>30.6</b>

Source: Department of Treasury and Finance

### **Legislative compliance program for state owned assets**

Asset funding is being provided to maintain assets in the Arts portfolio consistent with relevant government standards.

### **Library and community networks**

The initiative will utilise the statewide library and community networks to present content to a wide and diverse range of audiences such as the education sector.

### **Australian Centre for the Moving Image – technology infrastructure**

Funding is provided for asset purchases associated with the opening and operation of the Australian Centre for the Moving Image at Federation Square.

### **Royal Exhibition Building improvements**

Funding is provided to redesign the admissions area, the southeast stairway, temporary exhibition space and the mezzanine windows to control light and sound.

### **Redevelopment of core business systems**

Funding is provided to redevelop core business systems supporting the development and management of Cabinet papers and the drafting and publication of legislation.

## ***Parliament***

### *Output initiatives*

**Table B18: Output initiatives – Parliament**

	<i>(\$ million)</i>				
	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>
Parliament information technology strategy	..	0.5	0.1	0.1	0.1
Electorate office budgets and allowances	..	0.4	0.4	0.4	0.4
Additional accommodation for the Parliament of Victoria	..	1.7	..	..	..
Ongoing tenancy costs	..	0.6	0.6	0.6	0.7
Motor vehicle lease costs	..	0.4	0.7	0.7	0.7
<b>Total output initiatives</b>	<b>..</b>	<b>3.5</b>	<b>1.8</b>	<b>1.8</b>	<b>1.9</b>

*Source: Department of Treasury and Finance*

### **Parliament information technology strategy**

Funding is provided to upgrade Parliament's information technology network to improve reliability and flexibility, as identified in Parliament's information technology strategy.

### **Electorate office budgets and allowances**

This initiative links electorate office budgets and residential allowances to the base salary of Victorian Members of Parliament, and links electorate and travelling allowances to entitlements for Commonwealth Members of Parliament.

### **Additional accommodation for the Parliament of Victoria**

The Parliament of Victoria has secured tenancy of 157 Spring Street to provide better facilities for Parliamentary officers. Funding is being provided to undertake building works and fit out of the premises as well as relocation from existing premises.

### **Ongoing tenancy costs**

Additional funding is being provided to meet ongoing costs for 157 Spring Street including rent, maintenance, cleaning and security.

### **Motor vehicle lease costs**

Supplementation is provided for increased costs, reflecting changes in new and used vehicle prices after the introduction of the Commonwealth Government's new tax system.

## *Asset investment initiatives*

**Table B19: Asset investment initiatives – Parliament**

	<i>(\$million)</i>					
	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>TEI</i>
Improved Legislative Council office space	..	0.3	..	..	..	0.3
Legislative Assembly chamber renovations	..	0.8	..	..	..	0.8
Parliament information technology strategy	..	0.6	..	..	..	0.6
<b>Total asset investment initiatives</b>	..	<b>1.6</b>	..	..	..	<b>1.6</b>

*Source: Department of Treasury and Finance*

### Improved Legislative Council office space

Funding is being provided for an extension on the first floor at the rear of the Legislative Council Chamber to address a shortage in meeting spaces and to improve working conditions.

### Legislative Assembly chamber renovations

Funding is provided to upgrade the Legislative Assembly Chamber facilities, provide modern facilities, improve Members' working conditions in accordance with occupational health and safety legislation and improve access to the public.

### Parliament information technology strategy

Additional funding is being provided for asset purchases associated with the upgrade of Parliament's information technology network as identified in Parliament's information technology strategy.

## REVENUE INITIATIVES

The following table provides details of 2001-02 Budget revenue initiatives, including initiatives which were recently announced in the Government's business tax reform package *Better Business Taxes: Lower, Fewer, Simpler*, released on 26 April 2001, and initiatives announced since the 2000-01 Budget.

**Table B20: Revenue initiatives**

	(\$ million)				
	2000-01	2001-02	2002-03	2003-04	2004-05
<b>Tax reform package</b>					
Payroll tax					
Payroll tax - rate reduction	..	-127.3	-147.9	-204.0	-219.8
Payroll tax - increase in threshold	..	..	..	-35.0	-38.0
Payroll tax - removal of concession for fringe benefits	..	46.8	55.0	59.0	63.0
Payroll tax - removal of concession for eligible termination payments	..	18.3	21.0	22.0	23.0
Payroll tax - removal of concession for specified leave entitlements	..	8.3	9.0	8.0	8.0
Land tax					
Land tax - increase in threshold	..	-5.0	-5.0	-5.0	-5.0
Stamp duties					
Stamp duty - abolition of non-residential leases duty	-0.9	-41.1	-43.6	-46.2	-49.0
Stamp duty - abolition of unquoted marketable securities duty	..	..	..	-10.5	-11.3
Stamp duty - abolition of mortgage duty	..	..	..	..	-122.0
<b>Total cost of tax reform initiatives</b>	<b>-0.9</b>	<b>-100.0</b>	<b>-111.5</b>	<b>-211.7</b>	<b>-351.1</b>

**Table B20: Revenue initiatives - continued**

	(\$ million)				
	2000-01	2001-02	2002-03	2003-04	2004-05
<b>Other revenue initiatives</b>					
Integrated road safety campaign	..	29.7	38.6	37.9	37.9
Health benefit levy	..	36.0	36.0	36.0	36.0
Relief from mortgage duty for dairy farmers	-2.0	..	..	..	..
<b>Total revenue initiatives</b>	<b>-2.9</b>	<b>-34.3</b>	<b>-36.9</b>	<b>-137.8</b>	<b>-277.2</b>

Source: Department of Treasury and Finance, *Better Business Taxes: Lower, Fewer, Simpler*

#### **Payroll tax – rate reduction**

The marginal rate will be reduced from its current rate of 5.75 per cent to 5.45 per cent from 1 July 2001. It will be further reduced to 5.35 per cent from 1 July 2003. The Government expects around 18 000 payroll tax paying employers will benefit from this initiative, providing an immediate jobs boost to Victoria.

#### **Payroll tax – increase in threshold**

The current tax-free threshold for payroll tax will be raised from \$515 000 to \$550 000 from 1 July 2003. This will lower the payroll tax burden for all businesses, and relieve a significant number of small businesses from any payroll tax liability.

#### **Payroll tax – removal of concession for fringe benefits**

Under the current system payroll tax is not applied to the full grossed-up value of fringe benefits provided. This favours employers who provide executive packages where benefits such as cars, loans, housing and expense payments are high relative to wages. The beneficiaries are a small number of employers, especially larger ones, at the expense of other taxpayers.

Payroll tax will be applied to the grossed-up value of fringe benefits provided. This would achieve equity by ensuring a consistent payroll tax treatment of benefits and salaries. This would also align Victoria's tax treatment with the Commonwealth's and ensure that Victoria maintains a regime that is consistent with changing business conditions.

Under the current treatment, the payroll tax rate on fringe benefits is effectively 2.7 per cent, whereas for ordinary wages it is the full payroll tax rate of 5.75 per cent (or 5.45 per cent from 1 July 2001). This change equalises the payroll tax rate on fringe benefits in the same way as the Commonwealth has equalised it for income tax.

A small number of larger businesses may pay more payroll tax than at present because they pay a high proportion of remuneration to employees as fringe benefits. Despite these changes, the majority of businesses, over 92 per cent, will benefit in the short-term, rising to 98 per cent by 2003-04. Public hospitals, charities and non-profit schools will continue to remain exempt from payroll tax.

To ensure sporting clubs are not unfairly disadvantaged because of the way remuneration packages are structured in the sports industry, sporting clubs with more than 50 per cent of their payroll applied to competitors will continue to receive the concession.

All revenue realised from the abolition of this concession will be returned to business through a lower payroll tax rate.

#### **Payroll tax – removal of concession for eligible termination payments**

This measure simplifies what has been an administratively complex area of state taxation law. It is designed to provide greater consistency and simplicity to the tax treatment of termination payments.

It follows a number of changes made in relation to the tax treatment of termination payments by the Commonwealth Government and brings Victoria into line with Commonwealth income tax law.

As a result of this measure certain payments made to former employees as a consequence of termination of employment will be treated for payroll tax purposes consistently with other wage payments.

Under existing arrangements, the main beneficiaries of this concession are companies which are downsizing their workforce, rather than growing their businesses. Very large payments made to former senior executives constitute an increasing and significant share of the cost of this concession.

Employees will not be disadvantaged by this measure. Where companies are being wound-up the Corporations Law requires that employee entitlements for wages, superannuation contributions and retrenchment payments must be paid in priority to all other unsecured debts and claims including payroll tax liability.

#### **Payroll tax – removal of concession for specified leave entitlements**

This measure requires payroll tax to be calculated based on all accrued leave payments. Under the current system, the payment of leave entitlements accrued prior to 1 January 1996 is exempt from payroll tax. This measure removes the current anomalous treatment while also improving simplicity. Furthermore, the proposal will align Victoria's tax treatment with that of the Commonwealth.

The removal of this concession will impact marginally on employers with a long-term outstanding leave liability. Employee entitlements will not be affected by the removal of this concession. All revenue realised from the abolition of this concession will be returned to business through a lower payroll tax rate.

**Land tax – increase in threshold**

The tax-free threshold for land tax will be increased from 1 July 2001 from its current level of \$85 000 to \$125 000 for the unimproved value of land. This increase in threshold will impact on assessments issued in the 2002 calendar year. Other rates of land tax and their thresholds will not change. The current exemptions for owners' principal place of residence and land used for primary production will remain. The Government expects approximately 46 000 current land tax payers will not be liable for land tax in 2001-02 as a result of this initiative.

**Stamp duty – abolition of non-residential leases duty**

Stamp duty on non-residential leases has been abolished, effective from 26 April 2001. Stamp duty was previously imposed on all leases and assignments of leases for real estate property, other than property used solely for residential purposes.

All categories of business will benefit. In particular, businesses that are new or expanding, and therefore likely to enter into new leases, will face smaller up-front costs.

**Stamp duty – abolition of unquoted marketable securities duty**

Stamp duty on unquoted marketable securities will be abolished from 1 July 2003. Land rich provisions will continue to apply to transfers of unquoted marketable securities where high-value land is involved.

Preservation of this tax would be anomalous as stamp duty on quoted marketable securities will be abolished from 1 July 2001. Timing of the abolition of duty on unquoted marketable securities is dependent on budget capacity.

**Stamp duty – abolition of mortgage duty**

Stamp duty on mortgages will be abolished from 1 July 2004. Duty is payable on the issue of all business and private mortgages, which are secured against real property. New and expanding businesses, which are most likely to take out mortgages, will benefit from this initiative.



**Integrated road safety campaign**

The Government is implementing an integrated road safety campaign which aims to reduce Victoria's annual road toll and decrease speed levels. An expanded speed camera enforcement regime and an increase in speeding penalties (broadly in line with the Consumer Price Index) are expected to contribute towards improved road safety.

**Health benefit levy**

The levy on gaming machines that is applied to gaming operators and the casino will increase from \$333 to \$1 533 per machine from 1 July 2001. The increase of \$1 200 per machine will raise an additional \$36 million per year which will be allocated to the Victorian public hospital system.

**Relief from mortgage duty for dairy farmers**

The Commonwealth Government announced that it would provide structural adjustment assistance to Australian dairy farmers in 32 equal payments paid every quarter over eight years, starting in October 2000. Financial institutions offered dairy farmers upfront loans in lieu of those payments, and this option was attractive to many farmers. Such loans attract mortgage duty, and in September 2000 the Victorian Government announced that it would give ex gratia relief, on a one-off basis, to farmers taking out such upfront loans. The estimated cost of this mortgage duty relief is \$2 million in 2000-01.



## **APPENDIX C: GENERAL GOVERNMENT HISTORICAL AND FORWARD ESTIMATES TABLES**

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Table C1 shows the trends in general government sector aggregate cash flows over the period 1984-85 to 2004-05.

For some items in the historical cash-based series, mainly operating payments and investing cash flows prior to 1997-98, the data were not able to be recast with sufficient accuracy to provide full comparison with later years. For this reason the cash flow series presented below is at a slightly more aggregated level than presented elsewhere in this document. Of greater significance, however, is that the data from 1997-98 now include the transactions of government schools and the arts institutions on a gross operating basis as well as the full trading operations of TAFE institutes and hospitals, nursing homes and ambulances. Although this expanded coverage does not materially influence the net operating result for the general government sector, it does significantly increase the inflows and outflows presented in the cash flow statement.

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 general government sector from non-budget agencies, and three special payments to reduce the State's unfunded superannuation liability) have been footnoted.

The effects of changes in taxation rates over the years have not been listed apart from the introduction (1992-93) and abolition (from 1995-96) of the state deficit levy and the introduction of the GST (from 2000-01).

Table C2 shows the general government operating result since accrual accounts were first introduced in 1996-97.

**Table C1: General government cash flow statement – historical series**

(\$ million)

	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
	Actual	Actual	Actual	Actual	Actual	Actual
<b>Cash flows from operating activities</b>						
Taxation <sup>(a) (b)</sup>	3 049	3 367	3 748	4 306	4 883	5 158
Regulatory fees and fines	83	75	96	96	90	105
Public authority income	244	237	251	296	354	399
Grants <sup>(b) (c)</sup>	4 051	4 298	4 665	4 857	5 011	5 240
Sales of goods and services	568	616	646	724	811	907
Other receipts	774	829	839	816	827	835
<b>Total receipts from operating activities</b>	<b>8 769</b>	<b>9 422</b>	<b>10 245</b>	<b>11 094</b>	<b>11 975</b>	<b>12 645</b>
Employee entitlements <sup>(d)</sup>	-3 835	-4 152	-4 457	-4 808	-5 110	-5 471
Superannuation	- 264	- 308	- 367	- 416	- 519	- 586
Interest and finance costs	- 855	- 978	-1 079	-1 163	-1 254	-1 423
Other payments	-3 925	-4 289	-4 601	-4 860	-5 318	-5 703
<b>Total payments from operating activities</b>	<b>-8 879</b>	<b>-9 727</b>	<b>-10 505</b>	<b>-11 247</b>	<b>-12 200</b>	<b>-13 184</b>
<b>Net cash flows from operating activities</b>	<b>- 110</b>	<b>- 306</b>	<b>- 260</b>	<b>- 152</b>	<b>- 225</b>	<b>- 538</b>
<b>Cash flows from investing activities</b>						
Sales of property plant and equipment	17	51	104	207	189	168
Purchases of property plant and equipment	- 684	- 873	- 953	-1 031	-1 042	-1 085
Net privatisation proceeds and other abnormals <sup>(f)</sup>	..	..	35	35	35	35
Other investing activities	107	89	77	77	99	111
<b>Net cash flows from investing activities</b>	<b>- 560</b>	<b>- 733</b>	<b>- 737</b>	<b>- 712</b>	<b>- 720</b>	<b>- 771</b>
Net proceeds of borrowings	753	966	1 038	973	852	1 233
<b>Net cash flows from financing activities</b>	<b>753</b>	<b>966</b>	<b>1 038</b>	<b>973</b>	<b>852</b>	<b>1 233</b>
<b>Net increase in cash held</b>	<b>82</b>	<b>- 73</b>	<b>41</b>	<b>109</b>	<b>- 93</b>	<b>- 76</b>
Cash at beginning of reporting period	1 333	1 416	1 343	1 385	1 493	1 400
<b>Cash at end of reporting period</b>	<b>1 416</b>	<b>1 343</b>	<b>1 385</b>	<b>1 493</b>	<b>1 400</b>	<b>1 325</b>

Source: Department of Treasury and Finance

**Table C1 (cont): General government cash flow statement – historical series**

(\$ million)

	1990-91	1991-92	1992-93	1993-94	1994-95
	Actual	Actual	Actual	Actual	Actual
<b>Cash flows from operating activities</b>					
Taxation <sup>(a) (b)</sup>	5 486	5 798	6 333	7 215	7 555
Regulatory fees and fines	132	182	176	181	194
Public authority income	327	566	581	815	765
Grants <sup>(b) (c)</sup>	5 676	5 921	6 138	6 215	6 355
Sales of goods and services	963	1 038	1 006	1 004	1 034
Other receipts	703	680	596	646	634
<b>Total receipts from operating activities</b>	<b>13 287</b>	<b>14 185</b>	<b>14 830</b>	<b>16 076</b>	<b>16 537</b>
Employee entitlements <sup>(d)</sup>	-5 855	-6 337	-6 846	-6 435	-6 001
Superannuation	- 685	- 782	- 853	- 890	-1 149
Interest and finance costs	-1 602	-1 787	-2 064	-2 195	-2 007
Other payments <sup>(e)</sup>	-5 692	-6 077	-6 525	-6 392	-6 598
<b>Total payments from operating activities</b>	<b>-13 834</b>	<b>-14 983</b>	<b>-16 288</b>	<b>-15 912</b>	<b>-15 754</b>
<b>Net cash flows from operating activities</b>	<b>- 547</b>	<b>- 798</b>	<b>-1 458</b>	<b>165</b>	<b>783</b>
<b>Cash flows from investing activities</b>					
Sales of property plant and equipment	114	103	132	189	189
Purchases of property plant and equipment	-1 129	-1 066	-1 068	- 980	-1 288
Net privatisation proceeds and other abnormalities <sup>(f)</sup>	1 292	6	304	498	735
Other investing activities	186	143	- 261	- 501	402
<b>Net cash flows from investing activities</b>	<b>464</b>	<b>- 815</b>	<b>- 892</b>	<b>- 794</b>	<b>39</b>
<b>Cash flows from financing activities</b>					
Net proceeds of borrowings	410	1 506	2 315	841	- 902
Other	..	..	..	..	..
<b>Net cash flows from financing activities</b>	<b>410</b>	<b>1 506</b>	<b>2 315</b>	<b>841</b>	<b>- 902</b>
<b>Net increase in cash held</b>	<b>327</b>	<b>- 107</b>	<b>- 36</b>	<b>211</b>	<b>- 80</b>
Cash at beginning of reporting period	1 325	1 651	1 545	1 509	1 720
<b>Cash at end of reporting period</b>	<b>1 651</b>	<b>1 545</b>	<b>1 509</b>	<b>1 720</b>	<b>1 640</b>

Source: Department of Treasury and Finance

**Table C1 (cont): General government cash flow statement – historical series**

(\$ million)

	1995-96	1996-97	1997-98	1998-99	1999-00
	Actual	Actual	Actual	Actual	Actual
<b>Cash flows from operating activities</b>					
Taxation <sup>(a) (b)</sup>	8 124	8 519	8 531	8 846	9 719
Regulatory fees and fines	193	186	230	272	306
Public authority income	624	967	930	932	1 097
Grants <sup>(b) (c)</sup>	6 659	6 928	7 440	7 480	7 735
Sales of goods and services	1 136	1 119	1 218	1 405	1 736
Other receipts	762	671	1 664	1 886	1 264
<b>Total receipts from operating activities</b>	<b>17 497</b>	<b>18 389</b>	<b>20 014</b>	<b>20 821</b>	<b>21 858</b>
Employee entitlements <sup>(d)</sup>	-6 276	-6 564	-6 694	-7 041	-7 378
Superannuation	-1 046	-1 213	-1 257	-2 083	-1 370
Interest and finance costs	-1 923	-1 403	-1 162	- 731	- 446
Other payments <sup>(e)</sup>	-6 695	-7 175	-9 002	-9 395	-9 738
<b>Total payments from operating activities</b>	<b>-15 939</b>	<b>-16 354</b>	<b>-18 115</b>	<b>-19 250</b>	<b>-18 932</b>
<b>Net cash flows from operating activities</b>	<b>1 558</b>	<b>2 035</b>	<b>1 899</b>	<b>1 571</b>	<b>2 926</b>
<b>Cash flows from investing activities</b>					
Sales of property plant and equipment	156	163	362	211	187
Purchases of property plant and equipment	-1 285	-1 288	-1 208	-1 327	-1 268
Net privatisation proceeds and other abnormals <sup>(f)</sup>	4 794	4 514	1 611	3 344	..
Other investing activities	- 464	- 141	- 415	699	- 909
<b>Net cash flows from investing activities</b>	<b>3 200</b>	<b>3 248</b>	<b>350</b>	<b>2 927</b>	<b>-1 991</b>
<b>Cash flows from financing activities</b>					
Net proceeds of borrowings	-4 703	-5 406	-2 364	-4 718	- 766
Other	..	..	..	..	..
<b>Net cash flows from financing activities</b>	<b>-4 703</b>	<b>-5 406</b>	<b>-2 364</b>	<b>-4 718</b>	<b>- 766</b>
<b>Net increase in cash held</b>	<b>56</b>	<b>- 124</b>	<b>- 115</b>	<b>- 221</b>	<b>169</b>
Cash at beginning of reporting period	1 640	1 696	1 572	1 457	1 236
<b>Cash at end of reporting period</b>	<b>1 696</b>	<b>1 572</b>	<b>1 457</b>	<b>1 236</b>	<b>1 406</b>

Source: Department of Treasury and Finance

**Table C1 (cont): General government sector cash flow statement – historical series**

	(\$ million)				
	2000-01	2001-02	2002-03	2003-04	2004-05
	Revised	Budget	Estimate	Estimate	Estimate
<b>Cash flows from operating activities</b>					
Taxation <sup>(b)</sup>	8 518	7 963	8 179	8 521	8 757
Regulatory fees and fines	300	305	317	299	305
Public authority income	10 306	11 312	11 506	11 716	12 009
Grants <sup>(b)</sup>	2 044	2 110	2 122	2 146	2 161
Sales of goods and services	205	207	206	206	208
Other receipts	1 905	1 472	1 481	1 370	1 402
<b>Total receipts from operating activities</b>	<b>23 278</b>	<b>23 368</b>	<b>23 811</b>	<b>24 258</b>	<b>24 841</b>
Employee entitlements <sup>(d)</sup>	-7 816	-8 245	-8 577	-8 818	-9 108
Superannuation	-1 305	-1 372	-1 444	-1 486	-1 530
Interest and finance costs	- 452	- 558	- 457	- 454	- 449
Other payments	-11 255	-11 615	-11 838	-11 694	-11 943
<b>Total payments from operating activities</b>	<b>-20 828</b>	<b>-21 790</b>	<b>-22 316</b>	<b>-22 453</b>	<b>-23 030</b>
<b>Net cash flows from operating activities</b>	<b>2 450</b>	<b>1 578</b>	<b>1 495</b>	<b>1 805</b>	<b>1 811</b>
<b>Cash flows from investing activities</b>					
Sales of property plant and equipment	131	98	75	46	44
Purchases of property plant and equipment	-1 472	-1 842	-1 862	-1 991	-1 994
Net privatisation proceeds and other abnormalities	..	..	..	..	..
Other investing activities	-1 020	197	344	192	159
<b>Net cash flows from investing activities</b>	<b>-2 360</b>	<b>-1 547</b>	<b>-1 443</b>	<b>-1 753</b>	<b>-1 791</b>
<b>Cash flows from financing activities</b>					
Net proceeds of borrowings	3	- 2	- 2	- 2	- 1
Other	..	..	..	..	..
<b>Net cash flows from financing activities</b>	<b>3</b>	<b>- 2</b>	<b>- 2</b>	<b>- 2</b>	<b>- 1</b>
<b>Net increase in cash held</b>	<b>92</b>	<b>29</b>	<b>51</b>	<b>50</b>	<b>19</b>
Cash at beginning of reporting period	906	998	1 028	1 079	1 129
<b>Cash at end of reporting period</b>	<b>998</b>	<b>1 028</b>	<b>1 079</b>	<b>1 129</b>	<b>1 148</b>

Source: Department of Treasury and Finance

## **Notes to Table C1: Budget sector cash flow statement**

### ***Receipts from operating activities***

- (a) State deficit levy commenced in 1992-93 (\$173 million), and ceased in 1994-95 (\$180 million).
- (b) Includes effect of GST from 2000-01 onwards.
- (c) Significant offshore petroleum compensation grants from the Commonwealth in 1990-91 (\$178 million) and 1991-92 (\$191 million, including \$60 million rent resource tax compensation).

The works (capital) grant from the Commonwealth ceased in 1993-94 (\$68 million per annum).

### ***Payments from operating activities***

- (d) Separation payments up to 1989-90 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 general government sector and are included under 'employee entitlements'.
- (e) Operating subsidy payments to Tricontinental Corporation commenced in 1991-92 subsequent to the sale of the State Bank. Significant payments were in 1991-92 (\$150 million), 1992-93 (\$123 million), 1993-94 (\$53 million), and 1994-95 (\$39 million).

Major annual subsidy payments for electricity supplied to the Portland aluminium smelter under the flexible tariff agreement commenced in 1992-93 and ceased in 1997-98.

Cost of restructure of the Accelerated Infrastructure Program in 1994-95 (\$200 million).



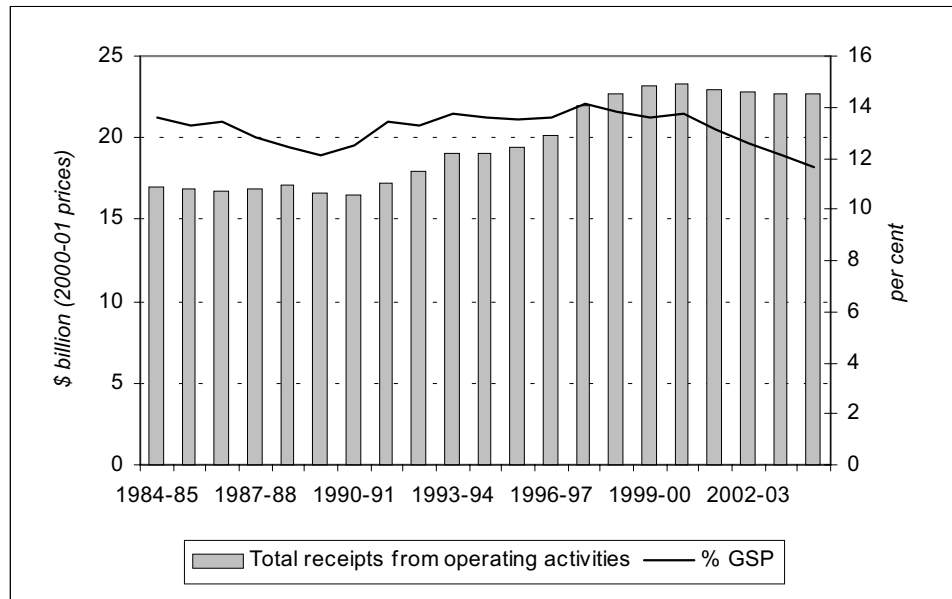
### ***Investing activities***

(f) Privatisation and other abnormal items to the general government sector include:

- 1986-87 to 1990-91: payments received from the former Melbourne and Metropolitan Board of Works regarding the transfer of ownership of the Thomson-Cardinia Dam of \$35 million per annum;
- 1990-91: net proceeds from the sale of the State Bank (\$1 257 million);
- 1992-93: sale of the State Insurance Office (\$140 million);
- 1993-94: recall of capital from the Transport Accident Commission (\$1 200 million), wind-up of the Victorian Equity Trust (\$437 million), casino licence fee (\$200 million), offset by a special payment to the State Superannuation Fund (\$1 399 million);
- 1994-95: sale of Totalisator Agency Board (\$609 million);
- 1995-96: sale of electricity sector businesses (\$4 641 million), 1996-97 (\$4 262 million), and 1997-98 (\$2 101 million) offset by a special payment to the State Superannuation Fund (\$490 million); and
- 1998-99: sale of the remainder of the electricity businesses (\$361 million), gas businesses (\$4 690 million), Victorian Plantations Corporation (\$550 million), Aluvic (\$401 million), V/line Freight (\$20 million), offset by a special payment to reduce the State's unfunded superannuation liabilities (\$2 574 million).

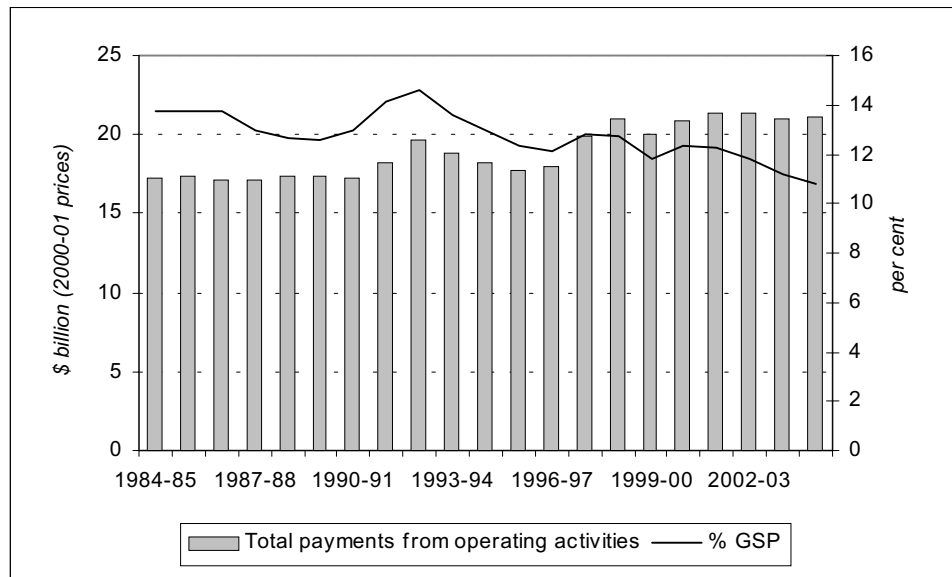
The above proceeds from the sale of government businesses are the amounts paid in cash (net) to the Consolidated Fund and are not necessarily the total proceeds of sale.

**Chart C1: Total receipts from operating activities (in real terms)**



Source: Department of Treasury and Finance

**Chart C2: Total payments from operating activities (in real terms)**



Source: Department of Treasury and Finance

**Table C2: General government sector statement of financial performance  
– historical series**

	(\$ million)			
	1996-97	1997-98	1998-99	1999-00
	Actual	Actual	Actual	Actual
<b>Revenue from ordinary activities</b>				
Taxation	8 419.6	8 590.3	9 151.6	9 760.0
Fines and regulatory fees	241.7	261.2	330.1	359.3
Investment income	5 148.0	3 568.0	7 061.9	1 416.1
Grants	7 516.1	7 533.3	7 480.0	7 710.6
Sale of goods and services	885.3	1 246.3	1 428.3	1 788.6
Net surplus/(deficit) from disposal of physical assets	- 36.6	106.3	6.7	2.0
Fair value of assets received free of charge	69.8	42.7	65.5	19.8
Inter sector capital asset charge				
Other revenue	592.2	2 139.4	1 756.6	1 003.3
<b>Total revenue</b>	<b>22 836.1</b>	<b>23 487.4</b>	<b>27 280.6</b>	<b>22 059.8</b>
<b>Expenses from ordinary activities</b>				
Employee entitlements	7 122.4	6 831.8	6 983.7	7 438.6
Superannuation	1 364.9	1 359.7	1 303.7	2 216.0
Depreciation	696.3	759.7	776.2	761.8
Amortisation	15.5	28.7	28.6	27.2
Borrowing costs	1 948.7	1 127.0	735.7	477.3
Grants	2 131.1	3 422.5	3 595.6	3 382.7
Supplies and services	1 991.8	4 846.3	5 447.6	6 221.8
Other expenses	2 333.0	1 819.5	466.6	366.9
<b>Total expenses</b>	<b>17 603.8</b>	<b>20 195.3</b>	<b>19 337.9</b>	<b>20 892.4</b>
<b>Result from ordinary activities</b>	<b>5 232.3</b>	<b>3 292.1</b>	<b>7 942.7</b>	<b>1 167.5</b>
Increase in asset revaluation reserve	..	1 174.1	1 543.7	1 534.6
Transitional adjustments	..	..	496.0	301.6
<b>Total adjustments recognised directly in equity</b>	<b>..</b>	<b>1 174.1</b>	<b>2 039.7</b>	<b>1 836.2</b>
<b>Total changes in equity</b>	<b>5 232.3</b>	<b>4 466.2</b>	<b>9 982.4</b>	<b>3 003.6</b>

Source: Department of Treasury and Finance

**Table C2 (cont): General government sector statement of financial performance – historical series**

	(\$ million)				
	2000-01	2001-02	2002-03	2003-04	2004-05
	Revised	Estimate	Estimate	Estimate	Estimate
<b>Revenue from ordinary activities</b>					
Taxation	8 530.4	7 976.5	8 193.5	8 536.2	8 773.7
Fines and regulatory fees	369.2	374.2	386.2	368.3	374.5
Investment income	1 383.1	938.2	918.9	836.1	857.3
Grants	10 310.2	11 311.7	11 506.3	11 716.3	12 009.0
Sale of goods and services	2 048.3	2 111.6	2 122.7	2 147.0	2 161.5
Net surplus from disposal of physical assets	29.8	13.2	7.1	0.1	0.2
Fair value of assets received free of charge	15.8	..	..	..	..
Inter sector capital asset charge	477.0	489.0	501.0	514.0	514.0
Other revenue	302.9	251.0	288.7	253.9	258.1
<b>Total revenue</b>	<b>23 466.8</b>	<b>23 465.5</b>	<b>23 924.4</b>	<b>24 371.7</b>	<b>24 948.2</b>
<b>Expenses from ordinary activities</b>					
Employee entitlements	7 991.0	8 411.5	8 753.3	9 011.7	9 301.8
Superannuation	1 422.2	1 506.9	1 534.3	1 564.9	1 588.5
Depreciation	817.7	871.3	918.4	968.7	1 046.1
Amortisation	23.6	23.8	23.1	23.5	23.5
Borrowing costs	602.5	477.6	466.3	460.7	453.5
Grants	3 928.0	3 918.6	3 930.8	3 848.2	3 879.4
Supplies and services	7 372.5	7 708.6	7 914.0	7 853.6	8 070.7
Other expenses	102.0	38.8	37.9	38.0	38.1
<b>Total expenses</b>	<b>22 259.5</b>	<b>22 957.0</b>	<b>23 578.1</b>	<b>23 769.3</b>	<b>24 401.6</b>
<b>Result from ordinary activities</b>	<b>1 207.3</b>	<b>508.5</b>	<b>346.3</b>	<b>602.4</b>	<b>546.7</b>
Decrease in asset revaluation reserve	-43.5	..	..	..	..
Transitional adjustments	0.3	..	..	..	..
<b>Total adjustments recognised directly in equity</b>	<b>-43.3</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>Total changes in equity</b>	<b>1 164.0</b>	<b>508.5</b>	<b>346.3</b>	<b>602.4</b>	<b>546.7</b>

Source: Department of Treasury and Finance

**Table C3: Abnormal Items – historical series**

	(\$ million)		
	1996-97	1997-98	1998-99
	Actual	Actual	Actual
<b>Revenue from ordinary activities</b>			
Taxation			
- Business asset sales <sup>(a)</sup>	468.9	16.0	295.7
Investment income			
- Business asset sales <sup>(a)</sup>	3 820.3	1 880.2	5 722.9
- Gascor disaggregation - assumption of debt		391.7	
Other revenue			
- Business asset sales <sup>(a)</sup>	87.5	60.2	234.5
- Reversal of Flexible Tariff Management Unit Trust liability		1 275.2	
- Forgiveness of debt owed to Department of Treasury and Finance by SEMCL			106.7
<b>Expenses from ordinary activities</b>			
Supplies and services			
- Business asset sales <sup>(a)</sup>	- 55.7	- 49.5	- 100.8
Other expenses			
- Forgiveness of debt owed by Director of Housing to Department of Treasury and Finance		- 1 086.8	
- Loss on revaluation of water sector debt		- 334.4	
- Diminution of VAIP bonds	..	..	- 122.0
<b>Total abnormal items</b>	<b>4 321.0</b>	<b>2 152.6</b>	<b>6 136.9</b>
<i>Source: Department of Treasury and Finance</i>			
<i>Note:</i>			
<i>(a) Total business asset sales:</i>	<i>4 321.0</i>	<i>1 906.9</i>	<i>6 152.2</i>



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

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### **THE ACCRUAL GFS PRESENTATION**

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

#### **Operating statement**

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

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

## **Balance sheet**

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

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

## **Cash flow statement**

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

The GFS cash flow statement reports two major fiscal measures – the net increase in cash held and the cash surplus. Net increase in cash held is the sum of net cash flows from all operating, investing and financing activities. The cash surplus comprises only net cash received from operating activities, and from sales and purchases of non-financial assets, minus distributions paid (in the case of public financial corporations and public non-financial corporations), minus finance leases and similar arrangements.

The GFS cash surplus measure is broadly comparable with the old cash-GFS surplus measure, allowing for comparisons between the two frameworks.

## **INSTITUTIONAL SECTORS**

### **General government sector**

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

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

The public non-financial corporations sector was formerly known as the public trading enterprises sector. It comprises bodies mainly engaged in the production of goods and services (of a non-financial nature) for sale in the market place at



prices that aim to recover most of the costs involved (e.g. water and port authorities). In general, public non-financial corporations are legally distinguishable from the governments which own them.

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

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

### **Public financial corporations**

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

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

	(\$ million)				
	2000-01	2001-02	2002-03	2003-04	2004-05
	Revised	Budget	Estimate	Estimate	Estimate
<b>GFS revenue</b>					
Taxation revenue	8 463	7 894	8 106	8 442	8 686
Current grants and subsidies	9 853	10 760	11 003	11 305	11 599
Capital grants	455	548	498	406	405
Sales of goods and services	2 452	2 473	2 489	2 503	2 518
Interest income	205	207	206	206	208
Other	1 936	1 565	1 609	1 504	1 526
<b>Total revenue</b>	<b>23 364</b>	<b>23 447</b>	<b>23 912</b>	<b>24 366</b>	<b>24 942</b>
<b>GFS expenses</b>					
Gross operating expenses	17 266	17 952	18 602	18 856	19 465
Nominal superannuation interest expense	859	876	889	900	909
Other interest expense	489	458	446	441	433
Other property expenses	..	..	..	..	..
Current transfers	3 237	3 282	3 285	3 281	3 319
Capital transfers	517	492	466	402	394
<b>Total expenses</b>	<b>22 368</b>	<b>23 060</b>	<b>23 688</b>	<b>23 880</b>	<b>24 520</b>
<b>GFS net operating balance</b>	<b>996</b>	<b>387</b>	<b>224</b>	<b>485</b>	<b>422</b>
Less: Net acquisition of non-financial assets					
Gross fixed capital formation	1 207	1 681	1 782	1 941	1 946
Less: Depreciation	818	871	918	969	1 046
Plus: Change in inventories	1	..	..	..	..
Plus: Other movements in non-financial assets	..	..	..	..	..
<b>Total net acquisition of non-financial assets</b>	<b>390</b>	<b>810</b>	<b>864</b>	<b>973</b>	<b>900</b>
<b>GFS net lending (+) / borrowing (-)<sup>(a)</sup></b>	<b>606</b>	<b>- 423</b>	<b>- 640</b>	<b>- 487</b>	<b>- 477</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 D.2: Public non-financial corporations sector operating statement**

(\$ million)

	2000-01 Revised	2001-02 Budget
<b>GFS revenue</b>		
Sales of goods and services	3 454	3 407
Current grants and subsidies	673	606
Capital grants	309	319
Interest income	76	56
Other	233	225
<b>Total revenue</b>	<b>4 744</b>	<b>4 612</b>
<b>GFS expenses</b>		
Gross operating expenses	3 366	3 559
Property expenses	941	667
Current transfers	95	97
Capital transfers	9	36
<b>Total expenses</b>	<b>4 411</b>	<b>4 358</b>
<b>GFS net operating balance</b>	<b>333</b>	<b>254</b>
Less: Net acquisition of non-financial assets		
Gross fixed capital formation	877	934
Less: Depreciation	504	517
Plus: Change in inventories	23	12
Plus: Other movements in non-financial assets	..	..
<b>Total net acquisition of non-financial assets</b>	<b>396</b>	<b>428</b>
<b>GFS net lending (+) / borrowing (-)</b> <sup>(a)</sup>	<b>- 62</b>	<b>- 174</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 D.3: Non-financial public sector operating statement**

(\$ million)

	<i>2000-01 Revised</i>	<i>2001-02 Budget</i>
<b>GFS revenue</b>		
Taxation revenue	8 414	7 844
Current grants and subsidies	9 854	10 760
Capital grants	460	549
Sales of goods and services	5 888	5 862
Interest income	281	262
Other	960	867
<b>Total revenue</b>	<b>25 856</b>	<b>26 143</b>
<b>GFS expenses</b>		
Gross operating expenses	20 137	20 993
Nominal superannuation interest expense	859	876
Other interest expense	655	628
Other property expenses	..	..
Current transfers	2 610	2 722
Capital transfers	222	208
<b>Total expenses</b>	<b>24 483</b>	<b>25 426</b>
<b>GFS net operating balance</b>	<b>1 373</b>	<b>717</b>
Less: Net acquisition of non-financial assets		
Gross fixed capital formation	2 084	2 615
Less: Depreciation	1 346	1 412
Plus: Change in inventories	24	12
Plus: Other movements in non-financial assets	..	..
<b>Total net acquisition of non-financial assets</b>	<b>762</b>	<b>1 214</b>
<b>GFS net lending (+) / borrowing (-)<sup>(a)</sup></b>	<b>611</b>	<b>- 498</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 D.4: General government sector balance sheet**

	(\$ million)				
	2001	2002	2003	2004	2005
	Revised	Budget	Estimate	Estimate	Estimate
<b>Assets</b>					
Financial assets					
Cash and deposits	1 004	1 034	1 085	1 135	1 154
Advances paid	343	272	204	137	69
Investments, loans and placements	3 647	3 579	3 303	3 178	3 087
Other non-equity assets	621	668	736	813	882
Equity	24 492	25 048	25 048	25 048	25 048
<b>Total financial assets</b>	<b>30 107</b>	<b>30 600</b>	<b>30 376</b>	<b>30 311</b>	<b>30 240</b>
Non-financial assets					
Land and fixed assets	33 995	34 786	35 639	36 592	37 475
Other non-financial assets	981	990	985	982	975
<b>Total non-financial assets</b>	<b>34 976</b>	<b>35 776</b>	<b>36 624</b>	<b>37 574</b>	<b>38 450</b>
<b>Total assets</b>	<b>65 083</b>	<b>66 376</b>	<b>67 000</b>	<b>67 884</b>	<b>68 690</b>
<b>Liabilities</b>					
Deposits held	234	234	234	234	234
Advances received	105	104	103	103	103
Borrowing	6 422	6 336	6 338	6 339	6 337
Superannuation liability	12 395	12 530	12 621	12 700	12 759
Other employee entitlements and provisions	2 442	2 608	2 784	2 976	3 169
Other non-equity liabilities	1 141	1 148	1 151	1 154	1 155
<b>Total liabilities</b>	<b>22 739</b>	<b>22 960</b>	<b>23 231</b>	<b>23 505</b>	<b>23 756</b>
<b>Net worth</b>	<b>42 343</b>	<b>43 416</b>	<b>43 770</b>	<b>44 380</b>	<b>44 934</b>
<b>Net financial worth <sup>(a)</sup></b>	<b>7 367</b>	<b>7 640</b>	<b>7 146</b>	<b>6 806</b>	<b>6 484</b>
<b>Net debt <sup>(b) (c)</sup></b>	<b>1 767</b>	<b>1 788</b>	<b>2 083</b>	<b>2 225</b>	<b>2 363</b>

Source: Department of Treasury and Finance

Notes:

- (a) Net financial worth equals total financial assets minus total liabilities.
- (b) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.
- (c) If Growing Victoria investments are not included as an offset to debt, on the grounds that these investments are earmarked for infrastructure projects and are therefore not available to redeem debt, the net debt figures are:

Net debt (excluding Growing Victoria)	2 885	2 681	2 570	2 521	2 490
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**Table D.5: Public non-financial corporations sector balance sheet**

(\$ million)

	2001 Revised	2002 Budget
<b>Assets</b>		
Financial assets		
Cash and deposits	315	291
Advances paid	351	288
Investments, loans and placements	666	562
Other non-equity assets	1 765	1 621
Equity	..	..
<b>Total financial assets</b>	<b>3 097</b>	<b>2 762</b>
Non-financial assets		
Land and fixed assets	25 935	26 629
Other non-financial assets	85	76
<b>Total non-financial assets</b>	<b>26 019</b>	<b>26 705</b>
<b>Total assets</b>	<b>29 117</b>	<b>29 467</b>
<b>Liabilities</b>		
Deposits held	42	43
Advances received	264	180
Borrowing	2 842	2 847
Superannuation liability	89	89
Other employee entitlements and provisions	2 067	1 963
Other non-equity liabilities	599	575
<b>Total liabilities</b>	<b>5 902</b>	<b>5 696</b>
<b>Shares and other contributed capital</b>	<b>23 215</b>	<b>23 771</b>
<b>Net worth</b>	<b>..</b>	<b>..</b>
<b>Net financial worth <sup>(a)</sup></b>	<b>-26 019</b>	<b>-26 705</b>
<b>Net debt <sup>(b)</sup></b>	<b>1 816</b>	<b>1 928</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 D.6: Non-financial public sector balance sheet**

	(\$ million)	
	2001 Revised	2002 Budget
<b>Assets</b>		
Financial assets		
Cash and deposits	1 319	1 324
Advances paid	445	382
Investments, loans and placements	4 178	4 006
Other non-equity assets	2 199	2 129
Equity	1 277	1 277
<b>Total financial assets</b>	<b>9 418</b>	<b>9 118</b>
Non-financial assets		
Land and fixed assets	59 841	61 326
Other non-financial assets	1 017	1 021
<b>Total non-financial assets</b>	<b>60 858</b>	<b>62 347</b>
<b>Total assets</b>	<b>70 275</b>	<b>71 466</b>
<b>Liabilities</b>		
Deposits held	269	257
Advances received	128	126
Borrowing	8 822	8 740
Superannuation liability	12 484	12 619
Other employee entitlements and provisions	3 716	3 756
Other non-equity liabilities	1 737	1 721
<b>Total liabilities</b>	<b>27 156</b>	<b>27 219</b>
<b>Net worth</b>	<b>43 120</b>	<b>44 246</b>
<b>Net financial worth</b> <sup>(a)</sup>	<b>-17 738</b>	<b>-18 101</b>
<b>Net debt</b> <sup>(b) (c)</sup>	<b>3 276</b>	<b>3 410</b>

Source: Department of Treasury and Finance

Notes:

- (a) Net financial worth equals total financial assets minus total liabilities.
- (b) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.
- (c) If Growing Victoria investments are not included as an offset to debt, on the grounds that these investments are earmarked for infrastructure projects and are therefore not available to redeem debt, the net debt figures are:

Net debt (excluding Growing Victoria)	4 394	4 302
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**Table D.7: General government sector cash flow statement**

(\$ million)

	2000-01 Revised	2001-02 Budget	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
<b>Cash receipts from operating activities</b>					
Taxes received	8 450	7 880	8 091	8 427	8 669
Receipts from sales of goods and services	2 447	2 439	2 455	2 469	2 484
Grants/subsidies received	10 305	11 308	11 501	11 711	12 004
Other receipts	2 192	1 742	1 764	1 651	1 685
<b>Total receipts</b>	<b>23 394</b>	<b>23 369</b>	<b>23 812</b>	<b>24 258</b>	<b>24 843</b>
<b>Cash payments from operating activities</b>					
Payment for goods and services	-16 979	-17 702	-18 361	-18 578	-19 143
Grants and subsidies paid	-3 248	-3 357	-3 337	-3 238	-3 253
Interest paid	- 488	- 457	- 445	- 440	- 432
Other payments	- 288	- 194	- 181	- 203	- 208
<b>Total payments</b>	<b>-21 003</b>	<b>-21 709</b>	<b>-22 324</b>	<b>-22 459</b>	<b>-23 035</b>
<b>Net cash flows from operating activities</b>	<b>2 390</b>	<b>1 660</b>	<b>1 488</b>	<b>1 799</b>	<b>1 807</b>
<b>Net cash flows from investing in non-financial assets</b>					
Sales of non-financial assets	131	98	75	46	44
Purchases of non-financial assets	-1 322	-1 780	-1 857	-1 987	-1 989
<b>Total cash flows - non-financial assets</b>	<b>-1 191</b>	<b>-1 681</b>	<b>-1 782</b>	<b>-1 941</b>	<b>-1 946</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>59</b>	<b>67</b>	<b>74</b>	<b>64</b>	<b>64</b>
<b>Net cash flows from investments in financial assets for liquidity</b>	<b>-1 124</b>	<b>- 20</b>	<b>270</b>	<b>129</b>	<b>95</b>
<b>Net cash flows from financing activities</b>					
Advances received (net)	- 1	- 1	- 1	- 1	..
Borrowings (net)	- 42	4	3	..	- 1
Deposits received (net)	..	..	..	..	..
Other financing (net)	..	..	..	..	..
<b>Total net cash flows from financing activities</b>	<b>- 42</b>	<b>3</b>	<b>2</b>	<b>- 0</b>	<b>- 1</b>
<b>Net increase in cash held</b>	<b>92</b>	<b>29</b>	<b>51</b>	<b>50</b>	<b>19</b>
Net cash from operating activities & investments in non-financial assets	1 199	- 22	- 295	- 142	- 138
Acquisitions under finance leases	..	..	..	..	..
<b>Surplus (+) /deficit (-)<sup>(a)</sup></b>	<b>1 199</b>	<b>- 22</b>	<b>- 295</b>	<b>- 142</b>	<b>- 138</b>

Source: Department of Treasury and Finance

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

Surplus/deficit excluding Growing Victoria	1 081	204	111	49	32
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**Table D.8: Public non-financial corporations sector cash flow statement**

(\$ million)

	2000-01 Revised	2001-02 Budget
<b>Cash receipts from operating activities</b>		
Receipts from sales of goods and services	3 490	3 474
Grants/subsidies received	981	925
Other receipts	353	295
<b>Total receipts</b>	<b>4 823</b>	<b>4 694</b>
<b>Cash payments from operating activities</b>		
Payment for goods and services	-2 523	-2 599
Grants and subsidies paid	- 42	- 66
Interest paid	- 170	- 170
Other payments	- 731	- 665
<b>Total payments</b>	<b>-3 466</b>	<b>-3 499</b>
<b>Net cash flows from operating activities</b>	<b>1 357</b>	<b>1 196</b>
<b>Net cash flows from investing in non-financial assets</b>		
Sales of non-financial assets	92	84
Purchases of non-financial assets	- 935	- 963
<b>Total cash flows from investing in non-financial assets</b>	<b>- 843</b>	<b>- 879</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>31</b>	<b>11</b>
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>129</b>	<b>104</b>
<b>Net cash flows from financing activities</b>		
Advances received (net)	- 25	- 1
Borrowings (net)	- 14	5
Deposits received (net)	..	1
Distributions paid	- 800	- 449
Other Financing (net)	11	- 11
<b>Total net cash flows from financing activities</b>	<b>- 829</b>	<b>- 456</b>
<b>Net increase in cash held</b>	<b>- 155</b>	<b>- 24</b>
Net cash from operating activities, dividends paid, and investments in non-financial assets	- 286	- 133
Acquisition of assets under finance leases and similar arrangements	..	..
<b>Surplus (+) /deficit (-)</b> <sup>(a)</sup>	<b>- 286</b>	<b>- 133</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 D.9: Non-financial public sector cash flow statement**

	(\$ million)	
	2000-01 Revised	2001-02 Budget
<b>Cash receipts from operating activities</b>		
Taxes received	8 402	7 830
Receipts from sales of goods and services	5 918	5 895
Grants/subsidies received	10 308	11 308
Other receipts	1 267	1 086
<b>Total receipts</b>	<b>25 896</b>	<b>26 120</b>
<b>Cash payments from operating activities</b>		
Payment for goods and services	-19 484	-20 283
Grants and subsidies paid	-2 313	-2 497
Interest paid	- 657	- 626
Other payments	- 494	- 307
<b>Total payments</b>	<b>-22 948</b>	<b>-23 713</b>
<b>Net cash flows from operating activities</b>	<b>2 947</b>	<b>2 407</b>
<b>Net cash flows from investing in non-financial assets</b>		
Sales of non-financial assets	223	182
Purchases of non-financial assets	-2 257	-2 743
<b>Total cash flows from investing in non-financial assets</b>	<b>-2 035</b>	<b>-2 561</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>90</b>	<b>91</b>
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>- 995</b>	<b>84</b>
<b>Net cash flows from financing activities</b>		
Advances received (net)	- 25	- 2
Borrowings (net)	- 56	9
Deposits received (net)	...	- 12
Other financing (net)	11	- 11
<b>Total net cash flows from financing activities</b>	<b>- 70</b>	<b>- 16</b>
<b>Net increase in cash held</b>	<b>- 62</b>	<b>5</b>
Net cash from operating activities and investments in non-financial assets	913	- 154
Acquisition of assets under finance leases and similar arrangements	..	..
<b>Surplus (+) /deficit (-)<sup>(a)</sup></b>	<b>913</b>	<b>- 154</b>
<i>Source: Department of Treasury and Finance</i>		
<i>Note:</i>		
<i>(a) The table below shows GFS surplus(+)/deficit (-) excluding the impact of Growing Victoria</i>		
<i>Surplus/deficit excluding Growing Victoria</i>	795	72

**Table D.10: General government sector expenses by function**

	(\$ million)	
	2000-01 Revised	2001-02 Budget
General public services	1 064	806
Public order and safety	1 916	2 053
Education	6 238	6 308
Health	5 505	5 872
Social security and welfare	1 672	1 760
Housing and community amenities	1 140	1 249
Recreation and culture	477	505
Fuel and energy	123	1
Agriculture, forestry, fishing, and hunting	522	505
Mining, manufacturing, and construction	43	31
Transport and communications	2 256	2 269
Other economic affairs	205	333
Other purposes	1 208	1 370
<b>Total GFS expenses</b>	<b>22 368</b>	<b>23 060</b>

Source: Department of Treasury and Finance

**Table D.11: General government sector taxation <sup>(a)</sup>**

	(\$ million)	
	2000-01 Revised	2001-02 Budget
<b>Taxes on employers' payroll and labour force</b>	<b>2 544</b>	<b>2 607</b>
<b>Taxes on property</b>		
Land taxes	516	567
Stamp duties on financial and capital transactions	1 757	1 335
Financial institutions' transaction taxes	634	283
Other	90	93
<b>Total</b>	<b>2 997</b>	<b>2 278</b>
<b>Taxes on the provision of goods and services</b>		
Excises and levies	..	..
Taxes on gambling	1 257	1 374
Taxes on insurance	638	696
<b>Total</b>	<b>1 895</b>	<b>2 070</b>
<b>Taxes on the use of goods and performance of activities</b>		
Motor vehicle taxes	881	907
Franchise taxes	123	7
Other	24	25
<b>Total</b>	<b>1 027</b>	<b>939</b>
<b>Total GFS taxation revenue</b>	<b>8 463</b>	<b>7 894</b>

Source: Department of Treasury and Finance

Note:

(a) Accruals basis.



## APPENDIX E: VICTORIA'S 2001-02 NOMINATED LOAN COUNCIL ALLOCATION

Table E1 compares Victoria's 2001-02 Loan Council Allocation (LCA), as approved by Loan Council in March 2001, with the revised LCA based on the 2001-02 Budget estimates.

**Table E1: Loan Council Allocation 2001-02**

	(\$ million)	
	2001-02 Nomination	2001-02 Revised
General government sector cash (+) deficit / (-) surplus	- 167	22
Public non-financial corporation sector cash (+) deficit / (-) surplus	- 12	133
Non-financial public sector cash (+) deficit / (-) surplus <sup>(a)(b)</sup>	- 201	154
Less: Net cash flows from investments in financial assets for policy purposes <sup>(c)</sup>	- 73	- 91
Plus: Memorandum items <sup>(d)</sup>	252	252
<b>Loan Council Allocation</b>	<b>- 22</b>	<b>315</b>
<i>Tolerance limit (2% of non-financial public sector revenue)</i>	<i>484</i>	<i>484</i>

Source: Department of Treasury and Finance

Notes:

- (a) The sum of the surpluses of the general government and public non-financial corporation sector does not directly equal the non-financial public sector surplus due to intersectoral transfers, which are netted out in the calculation of the non-financial public sector figure.
- (b) The non-financial public sector surplus relating to the 2001-02 nomination includes net cash flows from investments in financial assets for policy purposes.
- (c) This item is the negative of net advances paid under a cash accounting framework.
- (d) Memorandum items are used to adjust the ABS deficit to include in LCAs certain transactions, such as operating leases, that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the ABS deficit certain transactions that Loan Council has agreed should not be included in LCAs (e.g. the over/under funding of employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities)

Outlined below are details of Victoria's infrastructure projects with private sector involvement where contracts may be expected to be signed in the 2001-02 financial year. In line with the current Loan Council guidelines for the treatment of such projects, the termination liabilities as measured by the Government's contingent exposure are to be included as a footnote to the LCA.

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

## **Infrastructure**

### ***Regional Fast Rail***

Regional Fast Rail includes four separate projects to establish fast rail links from Melbourne to service the regional corridors to Bendigo, Ballarat, the Latrobe Valley and Geelong. The Government will be seeking private sector input including infrastructure and possibly service delivery. The Government has provided funding of \$550 million for these projects. The funding mechanism and commercial delivery structure are yet to be decided. Until the nature of the structure is determined, it is not possible to comment on the termination liabilities.

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

Spencer Street redevelopment will be a city/country transport hub and an important link from the city into the Docklands development area. The cost and scope are yet to be determined. It is expected this redevelopment will be delivered as a public-private partnership, drawing in part on ancillary property revenues. The nature of the partnership has not yet been determined.

### ***Airport Transit Link***

A dedicated fast Airport Transit Link project is also under consideration as a public private partnership. The scope, route and mode of transport (e.g. rail, bus) are yet to be determined. Heavy rail options are currently subject to a six-month planning process and thorough technical analysis. These two route options to Melbourne airport are the Broadmeadows corridor and the Albion corridor.

## **Health**

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

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

## **Justice**

### ***Mobile data network***

Mobile data network (MDN) services to some metropolitan emergency service organisations are being sought from the private sector. The contract will be for the delivery of services and equipment in the provision of an end-to-end mobile data network (including ongoing maintenance and support facilities) for emergency support vehicles. The term of the contract is for up to five years, plus options to extend, and it is expected that it will be signed during 2001-02.

## **Water and sewerage**

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

The project seeks to upgrade the West Wodonga Wastewater treatment plant to consistently achieve standards to satisfy immediate and future demand and meet the specified effluent quality requirements and EPA licence conditions. The private sector will design, build and operate the plant.

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

The project seeks to upgrade current operations at Echuca and Rochester to ensure sufficient capacity at the necessary standard is available for the next 25 years. The private sector will build, own, operate and transfer the plant.

***Altona Wastewater Treatment Plant (City West Water)***

City West Water is proposing to redevelop the existing Altona Treatment Plant in order to meet new EPA licence conditions for discharge into Port Phillip Bay and to cater for significant salt loads due to infiltration in the reticulation system.



## APPENDIX F: 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 tax system, in common with those of other state jurisdictions and the Commonwealth, contains a variety of concessions or exemptions as a means of providing assistance, encouragement or relief to particular taxpayers or particular activities. Preferential treatment can be from tax exemptions, deductions, rebates, credits, preferential rates or deferrals of tax.

Table F.1 shows aggregate tax expenditures by the main categories of tax for the period 2000-01 to 2004-05. The estimates have been adjusted to account for tax initiatives announced by the Government in its *Better Business Taxes: Lower, Fewer, Simpler* reform package.

These include the abolition of duty on non-residential leasing from 26 April 2001, duty on unquoted marketable securities from 1 July 2003 and duty on mortgages from 1 July 2004. The rate of payroll tax will reduce to 5.45 per cent from 1 July 2001 and to 5.35 per cent from 1 July 2003, coupled with the removal of three payroll tax concessions from 1 July 2001 relating to fringe benefits, eligible termination payments and specified leave entitlements.

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

<i>Description</i>	(\$ million)				
	<i>2000-01 Estimate</i>	<i>2001-02 Estimate</i>	<i>2002-03 Estimate</i>	<i>2003-04 Estimate</i>	<i>2004-05 Estimate</i>
Land tax	662	705	686	757	738
Payroll tax	473	406	432	453	477
Financial institutions duty	11	-	-	-	-
Gambling taxes	66	72	77	81	86
Vehicle taxation	110	111	115	119	123
Other stamp duties	131	133	129	136	140
<b>Total estimated tax expenditures</b>	<b>1 453</b>	<b>1 427</b>	<b>1 439</b>	<b>1 546</b>	<b>1 564</b>

*Source: Department of Treasury and Finance*

Table F.2 lists individual tax expenditures that can be costed and exceeded zero during the period 1999-2000 to 2001-02 (excluding tax-free thresholds). The aggregates do not represent the total value of assistance provided via tax expenditures, as many tax expenditures cannot be estimated.

A new tax expenditure has been added for 2000-01 relating to the Government's decision to provide one-off mortgage duty relief to dairy farmers under the dairy structural adjustment program. This relief was given by ex gratia payments. There were no other new tax concessions or exemptions in 2000-01 that materially impacted on the value of tax expenditures in the categories listed.

Estimates of some tax expenditures in 2001-02 vary considerably from previous years resulting from the effect of recent tax reform initiatives and the abolition of financial institutions duty.

**Table F.2: Tax expenditures that can be costed and exceed zero (excluding thresholds)**

<i>Description</i>	<i>(\$ million)</i>		
	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>
<b>Land tax</b>			
Land tax exemption for property of the Crown in right of the State of Victoria	153	181	195
Principal place of residence exemption from land tax	119	175	187
Land tax exemption for land held in trust for public or municipal purposes or vested in any municipality	75	93	96
Land tax exemption for Commonwealth land <sup>(a)</sup>	50	63	64
Land tax exemption for land used by a charitable institution exclusively for charitable purposes	52	62	65
Land tax exemption for land used for primary production	39	50	56
Exemption from land tax for the CityLink corporation in respect of land used for the CityLink road	9	10	11
Land tax exemption for land which is vested in a public statutory authority	6	8	8
Land tax concessional rate for non-profit organisations carried on exclusively for social, sporting, cultural, literary purposes, or horse, pony or harness racing	4	7	8
Assessment of land tax on a single holding basis for land owned by a charity and not used for other purposes	4	6	6
Land tax exemption for a non-profit organisation providing or promoting outdoor cultural or sporting recreation (excluding horse, pony or harness racing)	2	3	4
Assessment of land tax on a single holding basis for land owned by a municipality and not used for other purposes	4	3	4
Land tax exemption for friendly societies	1	1	1
<b>Total</b>	<b>518</b>	<b>662</b>	<b>705</b>

**Table F.2 (cont): Tax expenditures that can be costed and exceed zero**

<i>Description</i>	<i>(\$ million)</i>		
	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>
<b>Payroll tax</b>			
Payroll tax exemption for public hospitals	112	114	114
Payroll tax exemption for wages paid by a public benevolent institution or charity	96	101	102
Payroll tax exemption for wages paid by a non-profit, non-public, school	46	48	49
Payroll tax exemption for wages paid to an approved apprentice or trainee	36	42	47
Payroll tax exemption for Commonwealth Government departments and agencies, other than transport and communication enterprises	37	38	39
Payroll tax exemption for wages paid by non-profit hospitals	22	23	22
Payroll tax exemption for municipal councils (except wages associated with a council's trading activities)	19	20	20
Exemption from payroll tax for provision of fringe benefits excluded from <i>Fringe Benefits Tax Assessment Act 1986</i> (Commonwealth)	9	8	8
Payroll tax exemption for religious institutions	3	4	4
Payroll tax exemption for leave entitlements paid by the Construction Industry Long Service Leave Board	1	1	1
Payroll tax concession resulting from the non-grossing up of fringe benefits <sup>(b)</sup>	32	43	0
Exemption from payroll tax for severance or redundancy payments made as compensation for loss of employment	21	22	0
Exemption from payroll tax for accrued sick leave, annual leave and long service leave paid on retirement or termination and accrued before 1 January 1996	10	9	0
<b>Total</b>	<b>444</b>	<b>473</b>	<b>406</b>
<b>Gambling</b>			
Lower rate of tax applied to the net cash balance of electronic gaming machines located in clubs	59	66	72
<b>Total</b>	<b>59</b>	<b>66</b>	<b>72</b>
<b>Other stamp duties</b>			
Stamp duty exemptions for corporate reconstruction	260	121	122
Conveyance duty exemption/concession for pensioners acquiring a home not exceeding \$130 000	9	4	6
Conveyance duty exemption/concession for first home buyers with dependent children and household income below \$40 000, with purchase price below \$165 000	5	3	4

**Table F.2 (cont): Tax expenditures that can be costed and exceed zero**

<i>Description</i>	<i>(\$ million)</i>		
	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>
Mortgage duty exemption for eligible first home buyers and pensioners	1	1	1
Mortgage duty exemption for dairy structural adjustment program	0	2	0
<b>Total</b>	<b>275</b>	<b>131</b>	<b>133</b>
<b>Vehicle taxation</b>			
Exemption from motor vehicle (non-commercial) registration fee for eligible beneficiaries	102	105	106
Exemption from registration fee for a vehicle of 4.5 tonnes or less that is used solely for primary production	3	3	3
Registration fee concession for commercial passenger vehicle licensed for the carriage of school children	1	1	1
Registration fee exemption for non-commercial vehicle owned by an incapacitated war service pensioner	1	1	1
<b>Total</b>	<b>107</b>	<b>110</b>	<b>111</b>
<b>Business franchise fees</b>			
Rebate for purchases of low alcohol beer (up to 3.5% alcohol) and low alcohol wine (up to 6.5% alcohol) <sup>(c)</sup>	17	0	0
Cellar door and mail order wine rebate for vignerons <sup>(c)</sup>	4	0	0
Rebate for diesel fuel purchased for off-road use <sup>(c)</sup>	60	0	0
<b>Total</b>	<b>81</b>	<b>0</b>	<b>0</b>
<b>Financial institutions duty<sup>(d)</sup></b>			
FID exemption for the credit of an account kept for the payment of a pension, benefit, allowance, family assistance or bonus paid to older person	7	8	0
Financial institutions duty exemption for the credit of an account kept by a local government	2	2	0
Financial institutions duty exemption for the credit of an account kept for the payment of a veteran's pension	1	1	0
<b>Total</b>	<b>10</b>	<b>11</b>	<b>0</b>
<b>Total estimated tax expenditures</b>	<b>1 494</b>	<b>1 453</b>	<b>1 427</b>

Source: Department of Treasury and Finance

Notes:

- (a) See Commonwealth Constitution, section 114.
- (b) The increase in 2000-01 is due to the gross-up of fringe benefits to reflect the effect of the Goods and Services Tax.
- (c) Previously an exemption under the business franchise fee regime. From 1 July 2000 the diesel fuel rebate for off-road use is provided by the Commonwealth Government under recent changes to Commonwealth-State financial relations. From 1 July 2000, equivalent subsidies have been given to low alcohol beer, and cellar door and mail order sales of wine.
- (d) To be abolished with effect from 1 July 2001.

Table F.3 shows the value of the tax-free thresholds provided by Victoria's tax system. Including tax-free thresholds in tax expenditures, the total value of tax assistance provided by the Government is estimated at \$2.8 billion in 2001-02.

**Table F.3: Tax expenditure value of tax-free thresholds that can be costed**

(\$ million)			
<i>Description</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>
Exemption from land tax - aggregated site value below \$85 000 (\$125 000 for 2001-02)	10	5	10
Payroll tax exemption for employers' payroll below \$515 000	1 382	1 443	1 329

*Source: Department of Treasury and Finance*

The ratio of tax expenditures to taxation revenue for 2000-01 is estimated at 17 per cent (see Table F.4).

**Table F.4: Estimated aggregate tax expenditures (excluding thresholds) and tax receipts in 2000-01**

(\$ million)			
<i>Description</i>	<i>Tax expenditures</i>	<i>Tax receipts</i>	<i>Ratio</i>
Land tax	662	516	1.28
Payroll tax	473	2 545	0.19
Financial institutions duty	11	383	0.03
Debits tax	..	251	0.00
Gambling taxes	66	1 257	0.05
Business franchise fees	..	91	0.00
Vehicle taxation	110	948	0.12
Other stamp duties	131	1 839	0.07
Other/miscellaneous	..	719	0.00
<b>Total</b>	<b>1 453</b>	<b>8 548</b>	<b>0.17</b>

*Source: Department of Treasury and Finance*

Table F.5 provides a grouping of tax expenditures to particular persons or entities based on the legal incidence of state taxes. Some of the most significant variations in these categories between 1999-2000 and 2001-02 relate to business and property owners. For example, it is estimated that tax expenditures relating to duty exemptions on corporate reconstructions will fall significantly from 1999-2000 onwards, reflecting the removal of one-off large transactions, and an appreciation in property values will increase the value of the principal place of residence exemption from land tax.

**Table F.5: Aggregate tax expenditures (excluding thresholds) classified by persons or entities affected 1999-2000 to 2001-02**

(\$ million)

<i>Description</i>	<i>1999-00 Estimate</i>	<i>2000-01 Estimate</i>	<i>2001-02 Estimate</i>
Consumers of alcohol	21	0	0
Business	341	213	141
Construction industry	1	1	1
Charitable organisations	152	169	173
Employees	36	42	47
Educational institutions	47	49	50
Gamblers	59	66	72
Government departments and agencies	346	408	426
Hospitals	134	137	136
Pensioners	120	119	113
Property owners	125	179	192
Primary producers	102	55	59
Religious institutions	3	4	4
Sporting, recreation and cultural organisations	6	10	12
Other	1	1	1
<b>Total estimated tax expenditures</b>	<b>1 494</b>	<b>1 453</b>	<b>1 427</b>

*Source: Department of Treasury and Finance*

## APPENDIX G: GROWING VICTORIA INFRASTRUCTURE RESERVE

**Table G1: Growing Victoria infrastructure reserve – funding by project**

Project	(\$ million)					TEI
	2001-02	2002-03	2003-04	2004-05	from GV <sup>(a)</sup>	
<b>Linking Victoria</b>						
Fast Rail Links to Regional Centres (DOI)	32.0	110.0	110.0	170.0		550.0
<b>Total allocated to Linking Victoria</b>	<b>32.0</b>	<b>110.0</b>	<b>110.0</b>	<b>170.0</b>		<b>550.0</b>
<b>Skilling Victoria</b>						
Modernisation/upgrade of facilities - schools (DEET) <sup>(b)</sup>	53.0	..	..	..		110.0
Innovating Victoria: Enhanced learning environments – schools (DEET) <sup>(c)</sup>	21.9	36.8	31.3	..		90.0
Innovating Victoria: Enhanced learning environments – TAFE (DEET)	9.2	23.3	12.5	..		45.0
Education precinct in Gippsland (DEET)	2.5	7.0	1.0	..		10.5
Ballarat Vocational Education and Training Centre (DEET)	2.0	3.0	..	..		5.0
Modernisation of facilities - Maryborough education precinct (DEET)	0.6	..	..	..		0.6
Australian College of Wine (DEET)	4.0	3.4	..	..		7.4
Bacchus Marsh Science and Technology Centre (DEET)	1.8	2.2	..	..		4.0
Gene Technology Access Centre (DEET)	2.2	1.4	0.6	..		4.2
Space Science Education Centre (DEET)	2.4	2.8	1.2	..		6.4
Science innovation and education precincts across regional Victoria (DNRE)	10.0	20.0	20.0	..		50.0
<b>Total allocated to Skilling Victoria</b>	<b>109.6</b>	<b>99.9</b>	<b>66.6</b>	<b>..</b>		<b>333.1</b>
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**Table G1 (cont): Growing Victoria infrastructure reserve – funding by project**

(\$ million)					
Project	2001-02	2002-03	2003-04	2004-05	TEI from GV <sup>(a)</sup>
<b>Connecting Victoria</b>					
E-Government - redevelopment of vic.gov.au portal (DSRD)	4.0	..	..	..	4.0
Modernisation of school facilities to incorporate ICT (DEET)	20.0	20.0	..	..	40.0
Broadband ICT delivery infrastructure for TAFE (DEET)	6.8	8.1	4.1	..	19.0
Regional telecommunications infrastructure (DNRE)	2.4	0.3	0.3	..	3.0
Bridging the Digital Divide (DEET)	17.0	3.0	3.0	..	23.0
Information and communication technology strategy for Health Care (DHS)	9.5	14.0	6.5	..	30.0
Land titles automation project (DNRE)	18.2	..	..	..	18.2
Information technology document management centre (DNRE)	4.8	..	..	..	4.8
<b>Total allocated to Connecting Victoria</b>	<b>82.7</b>	<b>45.4</b>	<b>13.9</b>	<b>..</b>	<b>142.0</b>
<b>Total Growing Victoria allocation to date</b>	<b>224.2</b>	<b>255.3</b>	<b>190.5</b>	<b>170.0</b>	<b>1025.1</b>
<b>Unallocated</b>					<b>149.9</b>
<b>Total Growing Victoria Infrastructure reserve</b>					<b>1175.0</b>
Including funding allocated in 2000-01 Budget:					
Modernisation/upgrade of facilities - schools (DEET) <sup>(b)</sup>	53.0	..	..	..	110.0
Fast Rail Links to Regional Centres (DOI)	32.0	48.0	..	..	80.0

Source: Department of Treasury and Finance

Notes:

(a) Total estimated investment.

(b) Total estimated investment includes \$57 million expenditure approved for 2000-01.

(c) Of total approved program of \$90 million, funding of \$38 million allocated to specific projects in 2001-02 Budget.



## APPENDIX H: REQUIREMENTS OF THE FINANCIAL MANAGEMENT (FINANCIAL RESPONSIBILITY) ACT 2000

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This appendix describes the provisions of the amendments to the *Financial Management Act 1994* and the *Audit Act 1994*, as contained in the *Financial Management (Financial Responsibility) Act 2000*, passed by Parliament in April 2000.

The provisions of the *Financial Management (Financial Responsibility) Act 2000* have been fully complied with in these budget papers. Table H1 details the statements required to be included in the budget under the provisions of the Act, together with the respective chapters of *2001-02 Budget Paper No. 2* where these statements can be found.

**Table H1: Statements required by the *Financial Management (Financial Responsibility) Act 2000* and their location in *2001-02 Budget Paper No. 2***

<i>Relevant section of the amended Acts and corresponding requirement</i>	<i>Location</i>
(Sections 23 E-G of the <i>Financial Management Act 1994</i> )	
Statement of financial policy objectives and strategies for the year.	Chapter 2, <i>Financial Policy Objectives and Strategies</i> & Chapter 10, <i>Estimated Financial Statements and Notes</i>
(Sections 23 H-J of the <i>Financial Management Act 1994</i> )	
Estimated financial statements for the year comprising:	Chapter 10, <i>Estimated Financial Statements and Notes</i>
- an estimated statement of financial performance over the year;	
- an estimated statement of financial position at the end of the year;	

**Table H1: Statements required by the *Financial Management (Financial Responsibility) Act 2000* and their location in Budget Paper No. 2 (cont.)**

<i>Relevant section of the amended Acts and corresponding requirement</i>	<i>Location</i>
<ul style="list-style-type: none"> <li>- an estimated statement of cash flows for the year; and</li> <li>- a statement of the accounting policies on which these statements are based and explanatory notes. (Section 23 K of the Financial Management Act 1994)</li> </ul>	
Statement accompanying the budget which:	Chapter 4, <i>Economic Trends and Outlook</i> & Chapter 10, <i>Estimated Financial Statements and Notes</i>
<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 9, <i>Statement of Risks</i></p> <p>Appendix F, <i>Tax Expenditures</i></p> <p>Chapter 9, <i>Statement of Risks</i></p>
(Section 16B of the <i>Audit Act 1994</i> )	
The Auditor-General review and report on the estimated financial statements to ensure they are consistent with accounting convention and that the methodologies and assumptions used are reasonable.	Chapter 10, <i>Estimated Financial Statements and Notes</i>

## STYLE CONVENTIONS

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

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

LHS	left-hand-side
RHS	right-hand-side
s.a.	seasonally adjusted
n.a.	not available or not applicable
Cat. No.	catalogue number
1 billion	1 000 million
1 basis point	0.01 per cent



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