2007-08

Budget Update

Presented by

John Lenders, MP

Treasurer of the State of Victoria

For the information of Honourable Members

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

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OVERVIEW

Each year the Victorian Government produces a Budget Update mid-cycle review of the annual State Budget, which is presented in Parliament each May. The Update provides revised estimated financial statements relative to the Budget published the previous May, which include the projected outcome for the end of the current financial year and revised estimates for the forward years.

The Budget Update provides a regular and important opportunity to monitor the performance of the State during the budget cycle. It provides new data on how projected outcomes are being affected by actual events and circumstances post-Budget, and to contextualise the relationship with the Government's key financial policies and objectives.

The Budget Update shows how a strong economy underpinned by sustainable policies is crucial to supporting the framework for the diverse range of policies and services provided by the Government. A strong budget position also ensures that the capacity of the Government to deliver services and infrastructure is not unduly affected by domestic and international economic shocks.

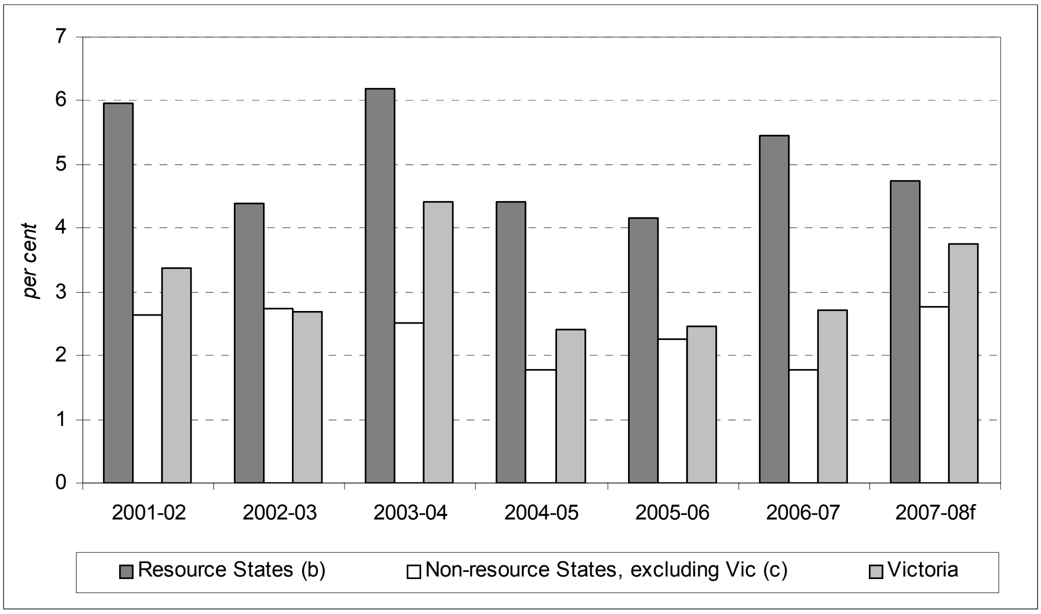
The Victorian Government is committed to sound financial management, to ensure that Victoria maintains a strong budget position. A strong economy is critical to the achievement of the Government's key financial objectives.

The *2007-08 Budget Update* confirms the State's economic and financial strength. It shows the State has a strong budget surplus and is managing its financial liabilities prudently. In line with Government policy, the State's strong financial position is being used to underwrite increased investment in productive infrastructure and key services.

There are, however, some short-to-medium term challenges for the State and its budget position. These include the economic effects of climate change, wage and inflation pressures, resource scarcity and financial market volatility.

Over the past eight years, Victoria's gross state product (GSP) has grown at the highest average annual rate of the non-resource States.

Chart 1: Victorian economic growth in context[(a)]



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

Notes:

(a) Gross state product, chain volume measure. Forecast based on latest State budget documents.

(b) Resource states include Queensland, Western Australia and Northern Territory.

(c) Non-resource states include Victoria, New South Wales, South Australia, Tasmania and Australian Capital Territory.

Recent solid growth has been achieved in the face of prolonged drought and a high Australian dollar. The Victorian economy is now expected to grow by 3.75 per cent in 2007-08, an upward revision of 0.5 per cent since Budget. Growth has also been revised up for 2008-09, to 3.5 per cent. The Budget Update also reflects stronger forecasts for population and employment growth.

As a result of stronger economic and population growth, the Budget Update revises State taxation revenue upward by $990 million in 2007-08 and an average of $1 227 million per year over the forward estimates period. Goods and Services Tax (GST) grants are estimated to increase by $124 million in 2007-08 and an average of $311 million per year from 2008-09 to 2010-11. While GST revenue is forecast to grow, Victoria continues to receive less GST revenue than its population share. Victoria receives back from the Commonwealth 88.3 cents for every $1 of GST, compared with our population share. On this basis, it is estimated that Victoria will be subsidising other States and Territories by more than $1.22 billion in 2007-08. This equates to $233 for every Victorian.

Both State taxation and GST revenue streams are being driven mainly by continued strong growth in employment, business investment and consumption, the latter as a result of strong growth in real after-tax incomes and household wealth.

The Budget Update confirms that the Government is on track to achieve its target of an operating surplus of at least $100 million for the 2007-08 financial year. It revises the 2007-08 operating surplus (net result from transactions for the general government sector) upward to an estimated $842 million, $517 million greater than at the *2007-08 Budget*. The average operating surplus is forecast to be $823 million each year of the forward estimates period.

The cash generated by these higher projected operating surpluses over the forward estimates will enable the Government to continue to make significant investments in infrastructure, with only modest increases in net debt.

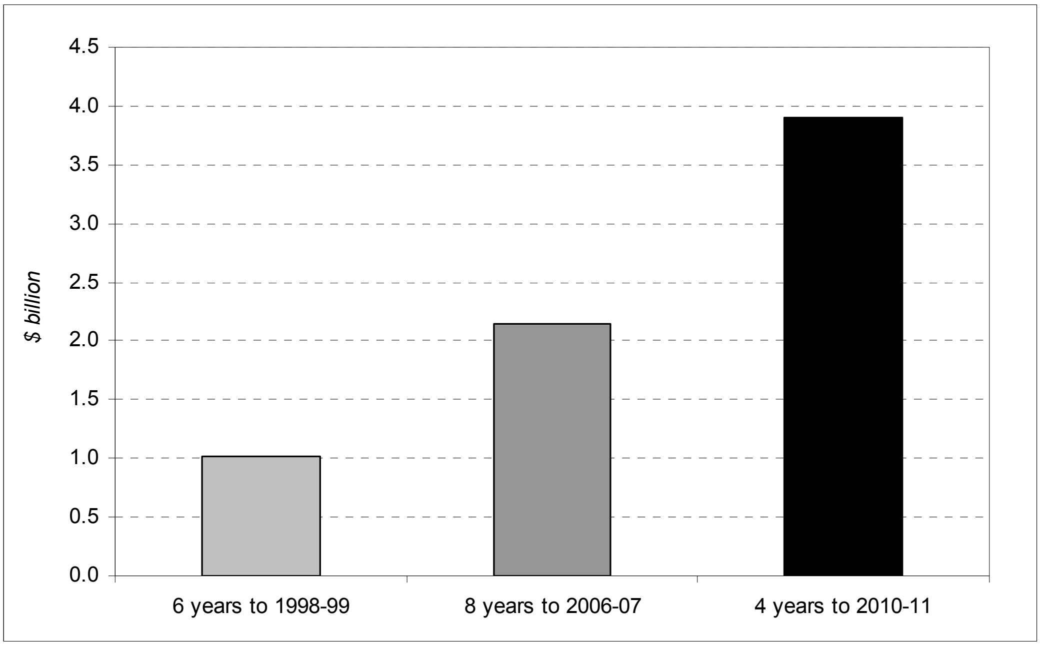
The provision of an effective infrastructure base is a key driver of economic growth. It facilitates an efficient transportation network, underpins the delivery of quality services, and is crucial to attracting business investment and promoting population growth.

Since 2000-01, the Government has invested more than $16 billion in the delivery of infrastructure, with average annual investment exceeding $2.3 billion.

The Budget Update shows estimated net infrastructure investment of $3.9 billion in 2007-08. Net infrastructure commitments over the forward estimates period, from 2008-09 to 2010-11, are currently expected to average $3.9 billion per annum.

Chart 2 illustrates the growth in infrastructure investment in Victoria from the six years to 1998-99, through the eight years to 2006-07, and on to the four years to 2010-11, with average annual investment rising from $1 billion to nearly $4 billion.

Chart 2: General government net infrastructure investment(a)



Source: Department of Treasury and Finance

Note:
(a) Average annual spend for each period.

The Government will continue to use its strong budget position to help deliver the services that matter to Victorians, particularly in such critical areas as health, education, training and community safety. These improvements will be achieved by implementing the Government's election commitments and its *2007-08 Budget* initiatives, and by committing new resources to address growth in service demand.

Since the *2007-08 Budget*, the Government has committed over $1 billion of additional funding to a range of capital projects, including:

- Stage 1 of the upgrade of the Goulburn and Murray irrigation systems in the Food Bowl Modernisation Project, ($600 million contribution); and
- the procurement of metropolitan and regional train rolling stock ($291 million total estimated investment).

Full details of recently announced projects are described in *Appendix A, Specific Policy Initiatives Affecting the Budget Position.*

The Government has begun to deliver additional services through output initiatives identified in *Labor's Financial Statement 2006*. Since the *2007-08 Budget*, the Government has also announced additional funding for a range of initiatives, including a significant budget response to the ongoing impact of the drought, as well as other recent natural disasters.

The Government's commitment to sound financial management is further demonstrated by its supervision of Victoria's net financial liabilities. The Government has maintained Victoria's triple-A credit rating by consistently achieving a strong fiscal position and keeping net financial liabilities, especially net debt, at prudent levels.

The Budget Update shows that general government net debt is currently projected to increase from 1.1 per cent of GSP at 30 June 2007, to 2.7 per cent of GSP by 30 June 2011, which is low by historical standards and below the net debt level of 3 per cent in 1999.

While the economic outlook has improved since Budget, projections are sensitive to a number of challenges that need to be managed over the forward estimates period. In particular, inflationary and wage pressures, financial market volatility and the more uncertain outlook for the global economy require close monitoring and may have material adverse effects on the State's financial position. Maintaining a strong budget surplus outlook over the forward estimates period will provide an important buffer to the State's budget in the event that these issues materialise.

A strong budget position over the forward estimates period is also critical to the implementation of the Government's reform agenda. Over the longer term, the Victorian economy faces a number of critical challenges, including an ageing population, slowing productivity growth, changing global fortunes and environmental issues, which pose challenges to Victoria's ongoing economic prosperity.

The forecast growth in net financial liabilities reflects the Government's strategic use of its strong budget position to fund the delivery of strategic projects and infrastructure that will generate long-term benefit for the State.

Overall, the Budget Update reveals the diverse strengths of the Victorian economy. The Government remains committed to its policy of sound financial management, which is the best means of continually improving the social and economic environment of Victoria.

CHAPTER 1: FINANCIAL POLICY OBJECTIVES AND STRATEGY

- The Government has provided a stable financial environment to promote economic growth for the State through the provision of services and strategic investments in key infrastructure and the consistent delivery of budget surpluses.
- The 2007-08 operating surplus (net result from transactions) has been revised upward since the *2007-08 Budget* to $842 million. The average operating surplus is forecast to be $823 million each year of the forward estimates period.
- The record investment in infrastructure is set to continue with $3.9 billion committed to general government sector net spending on infrastructure projects in 2007-08. The average net infrastructure investment over the forward estimates period is now projected to be a record $3.9 billion annually.
- The Government has been able to significantly boost Victoria's capital assets due to the State's strong financial position. This is set to continue as the surpluses projected over the forward estimates period will enable future infrastructure investments to be made whilst keeping debt at prudent levels.
- Victorians will benefit from improvements to the provision of services as the Government continues to implement a range of new and continuing initiatives, including those announced in the Drought Response and election commitments, such as Victorian Schools Plan, the provision of 500 additional sworn police officers and funding to support public and social housing.
- The Government has reduced the tax burden on Victorian businesses and households by implementing a range of tax reforms. Victoria's taxes as a share of gross state product (GSP) are still at around the Australian average and below that of New South Wales. Victoria has maintained its tax competitiveness despite not receiving its full per capita share of Goods and Services Tax (GST) revenue and other grants from the Commonwealth.
- Since the *2007-08 Budget*, projected net financial liabilities as at 30 June 2011 have been revised downward by $2.1 billion predominantly due to a decline in net debt and a reduction in the superannuation liability. Victoria has maintained its triple-A credit rating by keeping net financial liabilities at modest and sustainable levels over the forward estimates period.

FINANCIAL STRATEGY

This chapter sets out the Government's financial policy objectives and strategies as required by the *Financial Management Act 1994* (the Act). The financial policies and objectives are built on the following principles of sound financial management, which are set out in the Act:

- manage financial risks faced by the State prudently, having regard to economic circumstances;
- pursue spending and taxing policies 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 its 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 principles are embodied in the Government's long-term financial objectives and strategies. Their achievement will ensure a sound and stable financial base from which the State may invest to drive economic growth. Supporting these long-term objectives are a range of short-term objectives and strategies, such as achieving an operating surplus of at least $100 million and maintaining a triple-A credit rating.

The Government's short and long-term financial objectives and strategies are summarised below:

Table 1.1: 2007-08 Financial objectives and strategies

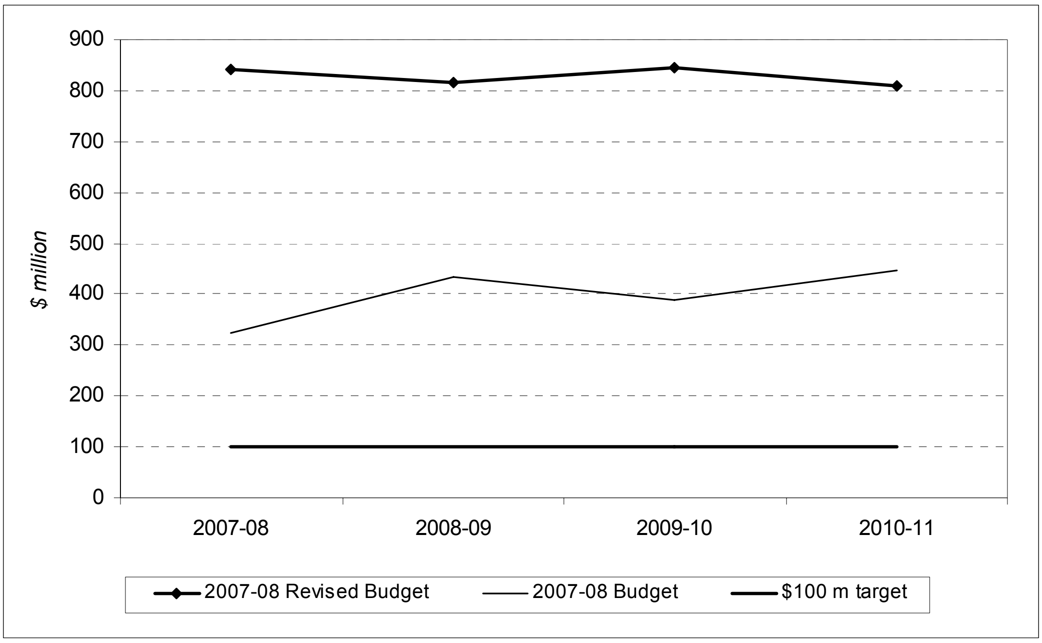
Objective	*Short-term target*	*Long-term target*
Operating surplus	At least $100 million in each year	Maintain a substantial budget operating surplus
Infrastructure	Implement strategic infrastructure projects	Deliver world-class infrastructure to maximise economic, social and environmental benefits
Service delivery	Implement the 2006 election commitments	Provide improved service delivery to all Victorians
Taxation	Implement reforms	Provide a fair and efficient tax system that is competitive with other States
Net financial liabilities	Maintain a triple-A credit rating	Maintain State government net financial liabilities at prudent levels

Objective one: Operating surplus

An operating surplus is a vital component in prudent financial management as it enables the Government to maintain tax competitiveness, increase capital investments and keep net financial liabilities at prudent levels to maintain a triple-A credit rating. This strong financial performance has been a key contributing factor in the State's continued economic stability and business growth.

The Government is currently forecasting the annual operating surplus in 2007-08 and each year in the forward estimates period will exceed the $100 million target. The estimated operating surplus, or net result from transactions, for 2007-08 has been revised upward since the *2007-08 Budget* to $842 million. The average annual operating surplus has similarly been revised and is currently projected to be $823 million over the forward estimates period. The change in the estimated surpluses since the *2007-08 Budget* over the forward estimates is shown in Chart 1.1.

Chart 1.1: General government sector net result from transactions



Source: Department of Treasury and Finance

The projected surplus will enable the Government to continue to implement its remaining election commitments and maintain a record level of infrastructure investment. The forward estimates include funding to ensure that the Government can respond to unforeseen events, such as natural disasters, implement long-term strategies to effectively address issues such as the drought, and to provide sufficient resources to meet increases in service demand.

The significant upward revision of the estimated operating surplus over each year in the forward estimates is largely due to forecast increases in GST revenue and State taxation revenue.

In particular, the release of the Commonwealth's *Mid-Year Economic and Fiscal Outlook* in October 2007 enabled the inclusion of a significant revision to GST revenue in the *2007-08 Budget Update* which is not normally incorporated into the financial estimates until the State Budget. In addition, the ongoing strength in real estate markets has resulted in significant upward revisions to conveyancing duty and land tax revenues.

Although larger surpluses than forecast in the Budget are currently projected, changes in the economic landscape have the potential to have an adverse impact on forecasts. To manage this risk, the Government will exercise prudent financial management to ensure that any market downturn can be absorbed without impacting on the Government's commitments to the State.

The estimates contained in the *2007-08 Budget Update* take into account all decisions of the Government up to 23 November 2007, including implementation of its election commitments since the *2007-08 Budget*.

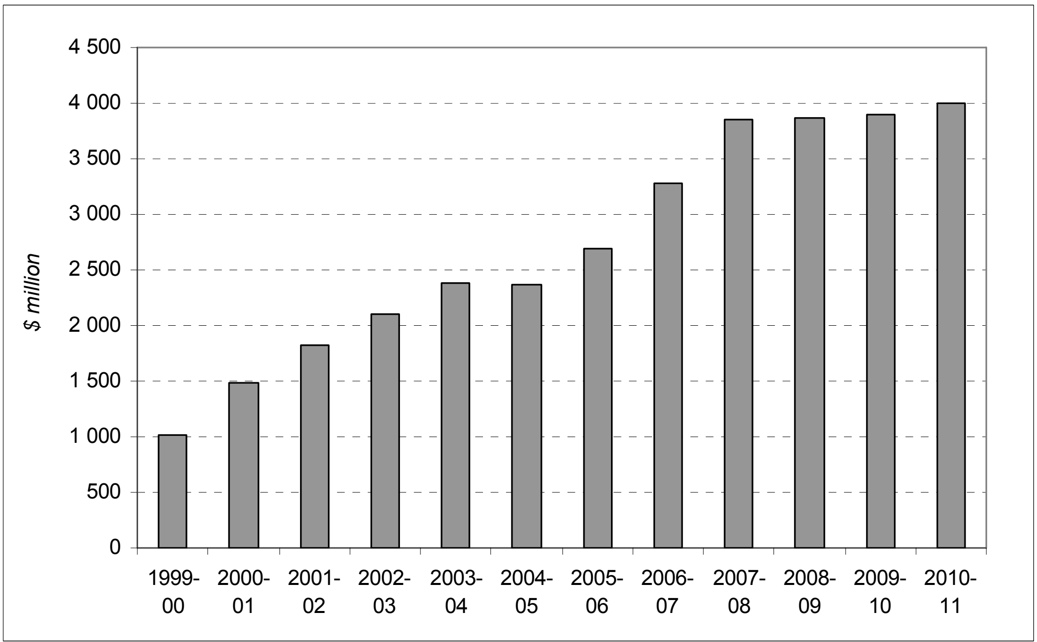
Chapter 3, *Budget Position and Outlook*, provides further detail on the key drivers of the change in the surplus.

Objective two: Infrastructure

The provision of an effective infrastructure base is a key driver of economic growth as it facilitates the transportation of freight, supports the delivery of quality services and provides facilities that ensure the future development of the State. Since 2000-01, the Government has invested over \$16 billion in the delivery of world-class infrastructure, representing an average annual investment of over \$2.3 billion.

This significant infrastructure investment is forecast to continue with a projected net investment of \$3.9 billion in 2007-08. Net capital commitments over the forward estimates period, from 2008-09 to 2010-11, are currently expected to average \$3.9 billion annually. Chart 1.2 shows the growth in the net infrastructure investment by the general government sector from 1999-00 to 2006-07, together with the projected net infrastructure investment to 2010-11.

Chart 1.2: General government sector net infrastructure investment [(a)]



Source: Department of Treasury and Finance

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

To date, the Government has been able to significantly boost Victoria's capital assets due to the State's strong financial position. This is set to continue as the surpluses projected over the forward estimates period will enable future infrastructure investments to be made whilst keeping debt at prudent levels.

Since the *2007-08 Budget* was published, the Government has committed over $1 billion of additional funding to a range of infrastructure projects. These projects will alleviate the pressures felt in regional communities from the drought as well as contribute to the provision of new and upgraded infrastructure for all Victorians. Significant projects recently announced include:

- Stage 1 of the upgrade of the Goulburn and Murray irrigation systems in the Food Bowl Modernisation Project ($600 million contribution);
- the procurement of metropolitan and regional train rolling stock (total estimated investment (TEI) $291 million);
- fast-tracking the construction of the Wimmera-Mallee pipeline ($99 million contribution) as well as establishing two new pipelines between Geelong and Melbourne ($20 million contribution) and between Hamilton and the Grampians ($10 million contribution);

- a new road traffic infringement management information technology system (TEI $28 million); and
- Stage 2 of the Alfred Centre (TEI $17 million).

New funding for the capital program over the forward estimates is provided from the unallocated capital provision, which is discussed further in Chapter 3, *Budget Position and Outlook*.

Objective three: Service delivery

The Government remains committed to continue improving the quality, access and equity of services provided to all Victorians. Service delivery improvements will be achieved by implementing the Government's election commitments, the *2007-08 Budget* initiatives and committing new resources to address growth in service demand.

The Government has already begun to deliver additional services through the commencement of all output initiatives identified in *Labor's Financial Statement 2006*. Since the *2007-08 Budget* was published, the Government has announced further funding for a range of new initiatives in response to the impact of the drought and floods. These initiatives include:

- Over $136 million for drought relief. Specific measures include the provision of water rebates for irrigators ($55 million), On-Farm Productivity Grants ($10 million) and a Catchment Management Authority Drought Employment Program ($10 million); and
- Over $70 million for the Gippsland Flood Recovery Package. This package includes funding to rebuild flood-damaged roads and bridges (over $30 million), clean-up works undertaken by the Department of Sustainability and Environment and local Catchment Management Authorities ($20 million), and new local government infrastructure projects to improve streetscapes and upgrade community halls ($3 million).

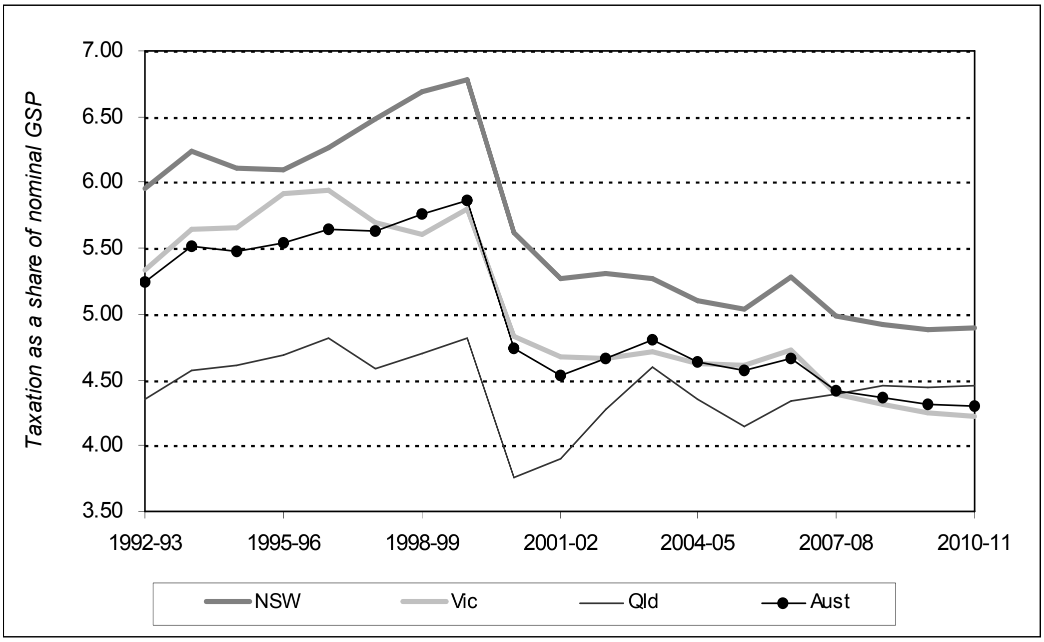
Objective four: Taxation

The Government is committed, where appropriate, to reduce business costs and red tape to improve the competitiveness of Victorian businesses and to attract new investment. All Victorians will realise the benefits of a stronger economic environment that drives job growth and a higher standard of living.

Since 1999, the Government has implemented a range of tax reforms, announced in various policy documents including *Better Business Taxes* (April 2001), *Building Tomorrow's Business Today* (April 2002), *Victoria: Leading the Way* (April 2004) and the *2007-08 Budget*. In addition, over four consecutive budgets, the Government has made significant cuts to the WorkCover insurance premiums, saving businesses over $687 million in 2007-08. All these reforms have been made possible as a direct result of the Government's prudent financial management strategies.

Victoria’s tax regime is competitive against the national average despite not receiving its full per capita share of GST revenue and other grants from the Commonwealth. Tax competitiveness is measured as taxation revenue as a share of nominal GSP. This measure aligns the level of state taxation to economic capacity. Chart 1.3 provides a comparison of Victoria’s taxation competitiveness with New South Wales, Queensland and the national average.

Chart 1.3: Taxation revenue as a percentage of GSP(a)



Sources: Australian Bureau of Statistics, Department of Treasury and Finance and various state financial statements (refer to note below)

Note:
(a) Historical taxation data to 2006-07. Thereafter taxation data are 2007-08 Budget estimates for all jurisdictions, being the latest forward estimates available on a consistent basis across jurisdictions.

In 2000-01, Victoria’s tax ratio fell sharply as Victoria abolished several taxes when the GST was introduced as part of the *Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations*. Since then, the ratio has been broadly maintained.

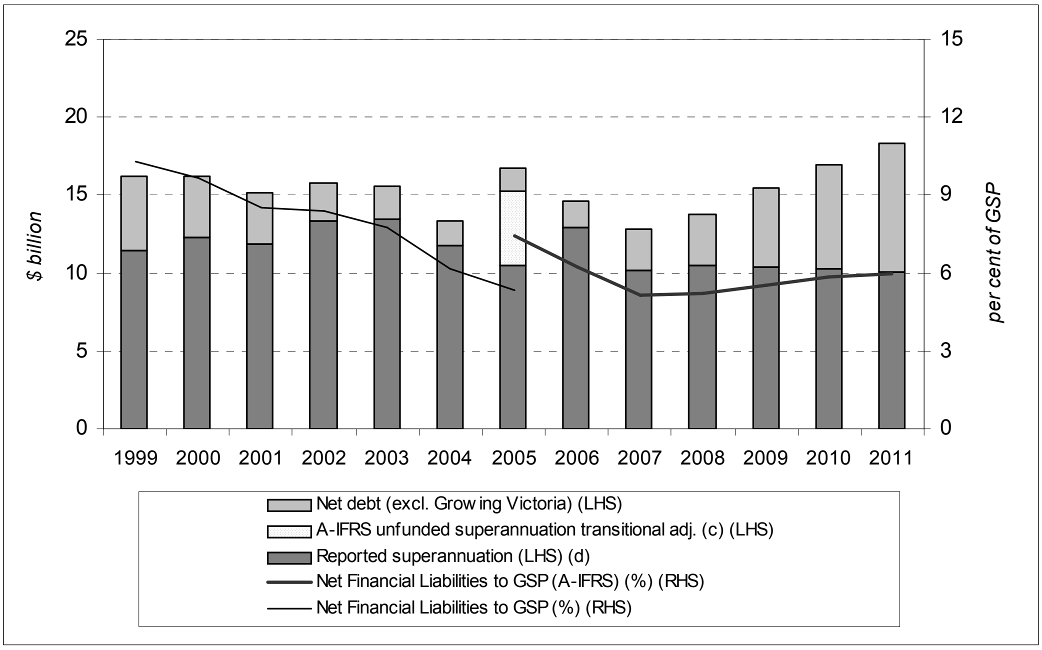
In 2007-08, Victoria’s tax ratio is budgeted to be 4.4 per cent. This is below that of New South Wales and around the Australian average. Victoria’s taxation as a share of nominal GSP is forecast to decline further to 4.2 per cent of nominal GSP by 2010-11. This comes despite Victoria not receiving its per capita share of GST revenue from the Commonwealth.

Objective five: Net financial liabilities

Victoria has maintained its triple-A credit rating by consistently achieving a strong fiscal position and keeping net financial liabilities, especially net debt, at prudent levels.

General government net debt is currently projected to increase from $2.7 billion at 30 June 2007 to $8.2 billion by 30 June 2011, which represents 2.7 per cent of GSP. This increase in net debt is the key driver of the movement in net financial liabilities, which are currently estimated to increase to 6.0 per cent of GSP by 30 June 2011. Chart 1.4 shows the relative movements in general government net debt and net financial liabilities.

Chart 1.4: General government net financial liabilities as at 30 June[(a)(b)]



Source: Department of Treasury and Finance

Notes:

(a) *General government net financial liabilities are calculated as the sum of net debt and the superannuation liability.*

(b) *Net debt is calculated as gross debt less liquid financial assets. In the years applicable, Growing Victoria investments are excluded as an offset to gross debt on the grounds that these investments were earmarked for infrastructure projects and were therefore not available to redeem gross debt.*

(c) *To demonstrate the underlying change in measurement, the transitional adjustment is shown for the superannuation liability in 2004-05.*

(d) *The superannuation liabilities between 1999 and 2004 are calculated under the previous Australian accounting standards, whereas between 2005 and 2011 the new standard AASB 119 has been applied.*

The modest and sustainable growth in net financial liabilities reflects the Government's strategic use of its strong budget position to fund the delivery of future infrastructure projects that will generate long-term benefits to the state.

Over the budget and forward estimates period, approximately 65 per cent of the general government infrastructure program will now be financed from the higher operating surpluses, compared with an estimated 60 per cent at Budget.

CHAPTER 2: ECONOMIC CONDITIONS AND OUTLOOK

- The economic outlook has improved since the Budget, providing a favourable environment for the State's finances.
- Victorian gross state product (GSP) is forecast to grow by 3.75 per cent in 2007-08, faster than expected at Budget time. This reflects a stronger outlook for consumption and business investment, while the previously anticipated recoveries in housing construction and farm output will be more gradual.
- The Victorian labour market is also stronger, with above-trend employment growth and a low unemployment rate. While wage growth is expected to remain relatively contained, wage developments warrant close vigilance, as the risks are on the upside.
- Similarly, the Australian economy is expected to grow strongly in 2007-08, with a partial recovery in the rural sector and broad-based strength in the non-farm economy.
- The international economy continues to grow at an above-trend pace, led by rapid economic expansion in developing countries, particularly emerging Asian countries. However, the outlook for 2008 is weaker and more uncertain than at Budget time, mainly due to the US economic slowdown.
- Inflationary pressures have intensified since the Budget, with pressure from rising food prices, rents and petrol prices, offset to some extent by the high exchange rate.
- The main risks to the Victorian economic projections are inflationary and wage pressures, interest rates, financial market volatility, and the more uncertain outlook for the global economy.

INTERNATIONAL ECONOMIC OUTLOOK

Since the Budget, the global economy has continued to grow strongly, led primarily by developing nations. Accordingly, the International Monetary Fund's October *World Economic Outlook* revised up world economic growth for 2007 to 5.2 per cent (from 4.9 per cent in April). However, compared with Budget time, the outlook for the world economy has become more uncertain, particularly in relation to the extent of the US economic slowdown. This is reflected in the downward revision of 2008 world growth forecasts to 4.75 per cent (from 4.9 per cent in April).

The outlook for the US economy has weakened since Budget, with 1.9 per cent growth expected in 2007 and 2008. The forecast for 2008 has been revised down almost 1 percentage point since April. Falling residential construction, weaker house prices and higher energy prices may dampen consumption and employment, resulting in subdued aggregate growth.

The slowdown in the United States has also affected growth prospects in Japan and the Euro area, with 2008 growth revised down since April by 0.2 percentage points in both cases. This is because recent growth in Japan and the Euro area has been heavily reliant on external demand. Nevertheless, growth should still be solid, supported by positive business conditions in Japan and lower unemployment in the Euro area.

However, global growth is becoming less reliant on developed countries, with 2008 growth forecasts revised up across much of developing Asia and other emerging markets. China is again expected to grow at double-digit rates in 2007 and 2008, while India is expected to grow by more than 8 per cent each year. Other developing Asian economies are also expected to grow strongly, particularly Indonesia, Malaysia and the Philippines.

A recent feature of the global economy has been financial market turbulence. Increasing defaults in US sub-prime mortgages, due to falling house prices and loose lending standards, have led to a general re-pricing of risk and increased volatility in financial markets. This represents one of the key risks to the global outlook.

AUSTRALIAN ECONOMIC OUTLOOK

Australian gross domestic product grew by 3.2 per cent in 2006-07. The outlook for national growth in 2007-08 has been revised up by the Commonwealth Treasury, from 3.75 per cent to 4.25 per cent. This upward revision reflects stronger forecasts for most sectors including household consumption, business investment and the public sector. Export growth has been revised down slightly and imports revised up. It also incorporates a partial recovery from the drought, which Commonwealth Treasury expects to add 0.5 percentage points to gross domestic product growth.

The outlook for the national labour market in 2007-08 is similarly stronger. Employment growth has been robust over the past year, and the unemployment rate is around historical lows. Despite the tight labour market, wage growth has been relatively stable. However, underlying consumer price inflation has picked up, and is at the top of the Reserve Bank of Australia's (RBA) target band. The RBA has raised the official interest rate twice since the Budget, to now be 6.75 per cent.

VICTORIAN ECONOMIC OUTLOOK

The economic projections used in the *2007-08 Budget Update* are set out in Table 2.1. Where different, the projections made in the *2007-08 Budget* are provided in parentheses. The projections assume unchanged macroeconomic policy settings, constant exchange rates, and that oil prices follow the path implied by oil futures contracts.

Table 2.1: Victorian economic projections[a]

(Projections in the 2007–08 Budget, where different, are in parentheses)

	2006-07 Actual	2007-08 Forecast	2008-09 Forecast	2009-10 Forecast	2010-11 Forecast
Real gross state product	2.7	3.75	3.50	3.00	3.00
		(3.25)	(3.25)		
Employment	2.7	2.50	1.75	1.50	1.50
		(1.25)	(1.25)	(1.25)	(1.25)
Unemployment rate [b]	4.8	4.50	4.50	4.50	4.50
		(5.00)	(5.00)	(5.00)	(5.00)
Wage price index [c]	3.6	3.50	3.50	3.50	3.50
Consumer price index	2.7	2.75	2.50	2.50	2.50
		(2.50)			
Population [d]	1.5	1.40	1.40	1.40	1.30
		(1.20)	(1.20)	(1.20)	(1.20)

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

Notes:

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

Victorian GSP grew by 2.7 per cent in 2006-07, consistent with the *2007-08 Budget* forecast of 2.75 per cent. The Victorian economy is expected to grow by 3.75 per cent in 2007-08, an upward revision since Budget. Growth has also been revised up in 2008-09. The upward revision to 2007-08 reflects a stronger outlook for consumption and business investment. Although Victorian service exports are likely to continue to perform strongly, merchandise export growth in 2007-08 has been revised down due to the impacts of the drought and high exchange rate. The recoveries in housing construction and farm output that were forecast at Budget time are now expected to be more gradual and occur mainly in 2008-09.

Victorian consumers have proven resilient in the face of higher petrol prices and rising interest rates, with household consumption growing faster than expected. Households are benefiting from strong employment and income growth, and substantial gains in wealth, all of which are keeping consumer sentiment relatively optimistic.

There is significant support for a strong recovery in housing construction, including pent-up demand for dwellings and sharp increases in house prices and rents. This has been accompanied by an encouraging rise in dwelling approvals. However, given housing affordability concerns and higher interest rates, the strength and timing of the recovery remains uncertain. While some growth is expected in 2007-08, the bulk of the recovery is expected to occur in 2008-09.

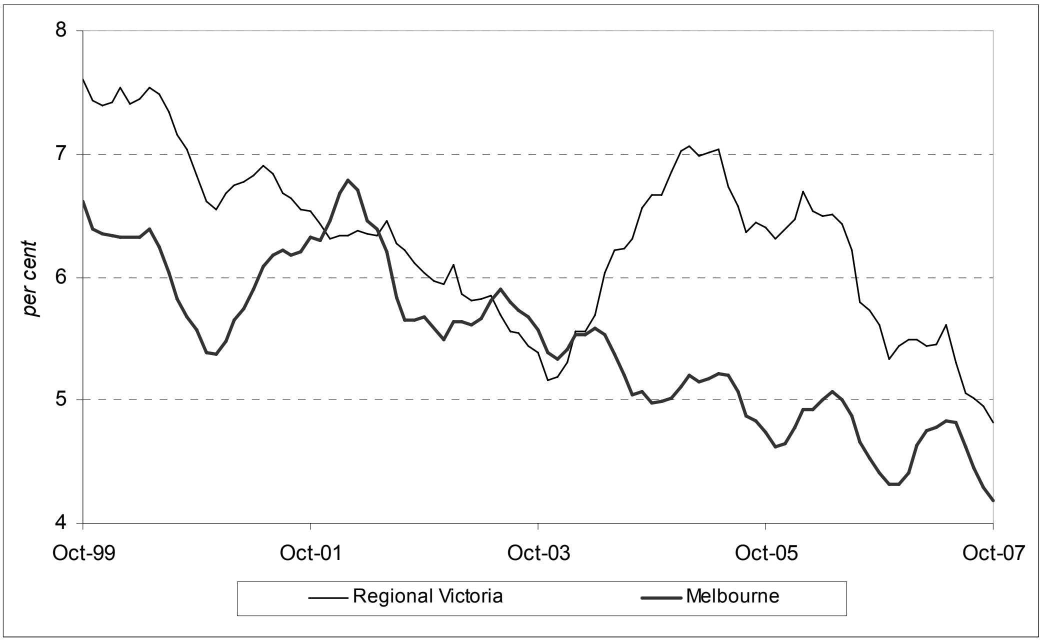
Most of the fundamental determinants of business investment are more favourable than at Budget time, with rapid business credit growth, positive business sentiment and upgraded capital spending intentions. The high levels of non-residential building approvals and record work yet to be done should support non-residential building in coming years.

The rural outlook has deteriorated since Budget. There was encouraging rainfall in the middle of the year, but the subsequent drier months have caused a downgrade to the outlook. Based on the latest Australian Bureau of Agricultural and Resource Economics crop report, Victorian crops are set for another below-average production year in 2007-08, though higher than 2006-07 levels. Dairy production appears set for further declines in 2007-08, with the second year of reduced water in irrigation districts and higher fodder prices taking their toll.

The high Australian dollar and only a limited recovery in the rural sector lead to a weaker outlook for merchandise exports in 2007-08. The outlook for Victorian service exports appears more positive given the strength of demand in key export markets like China and India. Import growth is expected to remain solid, in line with consumption and investment growth.

The Victorian labour market continues to perform strongly. This is evident in both Melbourne and regional Victoria, and there has been a narrowing of the unemployment rate differential between the two areas (Chart 2.1). Forecast Victorian employment growth has been revised up for 2007-08 and 2008-09, with the unemployment rate correspondingly lower. The participation rate is expected to remain around current high levels. The upward revisions reflect stronger data to date, higher GSP growth forecasts and positive forward indicators of labour demand. In the following years, employment growth is expected to settle at around 1.5 per cent per annum, the forecast growth of the working-age population. The forecasts for the working age population have been revised in line with the overall population projections (see below).

Chart 2.1: Regional Victoria and metropolitan Melbourne unemployment rate[(a)]



Source: Australian Bureau of Statistics

Notes:
(a) Original data, six-month moving average.

Despite the tight labour market, wage growth in Victoria has been contained and is below the national average. In Victoria, there is less pressure on wages from the mining and construction sectors than in the resource states. However, wage developments warrant close vigilance, as the risks are on the upside, reflecting the upgraded near-term outlook for the labour market and intensifying inflationary pressures.

Inflationary pressures have intensified since the Budget. There is evidence that price increases are becoming more prevalent. Global rises in food prices, higher petrol prices and rising residential rents are all driving inflation higher. To some extent, this is offset by the high Australian dollar which is keeping import prices lower. Consequently, the forecast for Melbourne consumer price inflation in 2007-08 has been revised up to 2.75 per cent. However, Melbourne is generally experiencing lower inflation than the national average, because inflationary pressures are most pronounced in the resource states.

There have been substantial upward revisions to the Victorian population projections since the Budget, reflecting largely measurement and definitional issues. The release of Census data led to upward revisions to the Victorian population. The Census also showed Victoria's population profile to be younger than previously estimated. In addition, the Australian Bureau of Statistics' new definition of usual residency increased the level of net overseas migration. Overall, the latest numbers show a strongly growing Victorian population, driven primarily by higher net overseas migration, but also by a rising birth rate and a small net loss to other states.

RISKS

The main risks to the Victorian economic projections are inflationary and wage pressures and subsequent interest rate responses from the RBA. Financial market volatility is also a source of uncertainty. There is a risk that the US slowdown may become deeper and more protracted, although this may be offset by stronger growth in emerging economies, particularly in the Asian region. Domestically, the momentum of underlying demand provides upside risks, while supply side constraints may limit growth potential. These risks are discussed in more detail in Chapter 5, *Statement of Risks.*

Looking further ahead, Victoria faces a number of additional challenges, including an ageing population, slowing productivity growth, changing global fortunes and environmental issues. These are discussed in more detail in Chapter 4, *Economic Reform Agenda.*

CHAPTER 3: BUDGET POSITION AND OUTLOOK

- The Victorian economic outlook has significantly improved since the Budget, providing a favourable environment for the State's finances. Victorian gross state product (GSP) in 2007-08 and 2008-09 is forecast to grow faster than expected at Budget time.
- The Victorian labour market is also stronger, with above-trend employment growth and a low unemployment rate. However, wage developments warrant close vigilance, as the risks are on the upside.
- The revised 2007-08 net result from transactions for the general government sector is $842 million, an increase of $517 million compared to the *2007-08 Budget* estimate of $324 million, reflecting the ongoing strength of the Victorian and national economies. The release of the Commonwealth's *Mid-Year Economic and Fiscal Outlook* in October 2007 resulted in a significant upward revision to Goods and Services Tax (GST) revenue which is normally not incorporated into the financial estimates until the State Budget.
- The net result from transactions is expected to average $823 million a year over the forward estimates period, from 2008-09 to 2010-11.
- Net infrastructure investment is projected to be $3.9 billion in 2007-08 and is forecast to average $3.9 billion over the forward estimates period.
- The Government has been able to significantly boost Victoria's infrastructure assets due to the State's strong financial position. This is set to continue as the surpluses projected over the forward estimates period will enable future infrastructure investments to be made whilst keeping debt at prudent levels.
- Since the *2007-08 Budget*, projected net financial liabilities as at 30 June 2011 have been revised downward by $2.1 billion due to decline in net debt and a reduction in the superannuation liability. Net financial liabilities are expected to increase to 6.0 per cent of GSP by 30 June 2011.
- Consistent with prudent financial management, net debt will remain at low levels and is projected to be 1.3 per cent of GSP by 30 June 2008 and will increase to 2.7 per cent of GSP by 30 June 2011.

This chapter provides an overview of the revised budget position for the period 2007-08 to 2010-11 for the general government sector.

The budget and forward estimates are based on the economic projections outlined in Chapter 2, *Economic Conditions and Outlook*, and reflect the accounting policies and assumptions documented in Chapter 6, *Estimated Financial Statements and Notes*. The estimates take into account the financial impacts of all policy decisions taken by the Victorian Government, as well as Commonwealth funding revisions and other information that affect the projected general government sector financial statements as at 23 November 2007 unless stated otherwise. Specific policy decisions that have been taken since the May 2007 Budget and which affect the Budget position are summarised in Appendix A, *Specific Policy Initiatives Affecting the Budget Position*.

The *2007-08 Budget* and forward estimates years, 2008-09 to 2010-11, represent planning projections based on unchanged policy and other assumptions throughout the forecast period. Outcomes will differ from these projections for many reasons, including any materialisation of risks, such as the impact of changed economic conditions, described in Chapter 2, *Economic Conditions and Outlook*, and unforeseen events such as bushfires, described in Chapter 5, *Statement of Risks*.

The estimates from 2007-08 (as detailed in Chapter 6, *Estimated Financial Statements and Notes*) used in this chapter are presented on the basis of the Australian Accounting Standards.

RECONCILIATION OF FORWARD ESTIMATES TO PREVIOUSLY PUBLISHED ESTIMATES

Table 3.1 compares the revised outlook for the net result from transactions for the period 2007-08 to 2010-11 to the estimates published in the *2007-08 Budget* in May 2007.

Table 3.1: Reconciliation of estimates to the *2007-08 Budget*

($ million)

	2007-08 Revised	*2008-09 Estimate*	*2009-10 Estimate*	*2010-11 Estimate*
Net result from transactions: *2007-08 Budget* (a)	**324.3**	**434.2**	**389.9**	**446.8**
Plus: Variations in income from transactions since *2007-08 Budget*				
Policy decision variations	..	..	..	..
Economic/demographic variations				
Taxation	989.6	1 133.4	1 206.2	1 342.1
Investment income (b)	(152.4)	7.8	(8.0)	132.8
Total economic/demographic variations	**837.2**	**1 141.2**	**1 198.2**	**1 474.9**
Commonwealth grant variations				
General purpose grants	124.1	256.5	315.9	361.3
Specific purpose payment grants	235.4	141.8	205.9	506.7
Total Commonwealth grant variations	**359.5**	**398.3**	**521.8**	**868.0**
Increase in own-source revenue	**237.5**	**210.5**	**230.9**	**267.1**
Administrative variations	**89.2**	**(157.4)**	**6.7**	**55.9**
Total variation in income from transactions since *2007-08 Budget*	**1 523.4**	**1 592.6**	**1 957.5**	**2 665.9**
Less: Variations in expenses from transactions since *2007-08 Budget*				
Policy decision variations (c)	**234.5**	**113.6**	**122.3**	**119.7**
Commonwealth variations	**158.9**	**153.3**	**193.5**	**465.1**
Variations due to changes in own-source revenue	**312.3**	**250.3**	**276.2**	**325.8**
Administrative variations				
Superannuation variations	19.3	(43.0)	(42.3)	(33.1)
Other administrative variations	281.1	738.3	951.7	1 426.6
Total administrative variations	**300.4**	**695.3**	**909.4**	**1 393.4**
Total variation in expenses from transactions since *2007-08 Budget*	**1 006.1**	**1 212.4**	**1 501.4**	**2 304.0**
Revised net result from transactions	**841.5**	**814.5**	**846.0**	**808.7**

Source: Department of Treasury and Finance

Notes:

(a) 2007-08 Budget net result from transactions as published in the May 2007 Budget.

(b) Investment income includes dividends, income tax and rate equivalent revenue and interest.

(c) The total expenditure for each year may differ to Appendix A, Specific Policy Initiatives Affecting the Budget Position, for certain decisions including the impact of departmental reprioritisations being included in Appendix A.

Variations to income from transactions

As explained in Chapter 2, *Economic Conditions and Outlook*, key economic variables such as GSP and employment growth forecasts have been revised upwards since the *2007-08 Budget* with a corresponding impact on the revised estimates for income from transactions.

Compared to the estimates published in the *2007-08 Budget*, total income from transactions is expected to be $1 523 million higher in 2007-08 and $2 072 million a year higher on average over the forward estimates period.

Continued strong economic growth reflected in variables such as employment and household income has resulted in taxation estimates being revised upwards by $990 million in 2007-08 and an average of $1 227 million per year over the forward estimates period, including:

- income from taxes on financial and capital transactions, largely comprising stamp duty on land transfers, has been revised upwards by $700 million in 2007-08 and $707 million a year on average for the remaining forward estimates years. This is largely due to upward revisions to expectations of prices and activity in the property market;
- income from taxes on immovable property has been revised upwards by $116 million in 2007-08 and $390 million a year on average over the forward estimates. This largely reflects an increase in land tax revenue in 2006-07 because of higher than expected revenue from the new trust surcharge and associated compliance activity which has been factored into the forward estimates. Based on recent strong growth in real estate prices, a revised forecast of the extent of the revaluation of site values as at 1 January 2008 has contributed to a further upward revision to land tax in 2008-09 and beyond; and
- payroll tax has been revised upwards by $143 million in 2007-08 and an average of $133 million a year in the following three years as a result of a stronger Victorian labour market, measured by employment growth, which has been revised upwards from 1.25 per cent to 2.50 per cent in 2007-08.

These increases have been partly offset by a reduction in insurance taxes by an average of $32 million per year from 2008-09 to 2010-11 primarily as a result of larger than expected falls in commercial premiums from competition in the commercial non-life insurance market.

Investment income comprising dividend, income tax and rate equivalent income and interest has been revised downwards by $152 million in 2007-08 and upwards by an average of $44 million over the forward estimates period reflecting a change in the Government’s approach to assessing dividends from the Transport Accident Commission to better reflect the entity’s underlying insurance operations. The revision also reflects lower dividends from the water sector as a result of lower water consumption. This change is partially offset by higher income tax equivalents from the Transport Accident Commission due a higher investment base as a result of better than expected market returns in the last quarter of 2006-07, and increased interest income, particularly for schools, TAFEs and within the justice sector.

Commonwealth grants have been revised upwards compared to the *2007-08 Budget* by $359 million in 2007-08 and by an average of $596 million from 2008-09 to 2010-11 including:

- an upwards revision for Goods and Services Tax (GST) grants of $124 million in 2007-08 and an average of $311 million per year from 2008-09 to 2010-11. These arise from an increase in Victoria's share of the population and an increase in the GST pool. The larger GST pool reflects the strength in household consumption driven by strong growth in real after-tax incomes and household wealth. Revisions to GST grants are normally not incorporated into the financial estimates until the State budget but are included in this Budget Update due to the release of the Commonwealth's *Mid-Year Economic and Fiscal Outlook* report prior to the *2007-08 Budget Update*; and
- an increase in funding for both government and non-government schools of $147 million in 2007-08 and $235 million per year on average over the forward estimates period with an associated increase in expenditure primarily for the onpassing of additional funding to non-government schools.

Own-source revenue for 2007-08 has been revised upwards by $237 million and by an average of $236 million from 2008-09 to 2010-11 since the *2007-08 Budget* primarily in the education sector as a result of increased third party revenue. This additional revenue is offset by an increase in expenditure incurred in the delivery of education services.

Variations to expenses from transactions

When compared to the *2007-08 Budget* estimates, total expenses from transactions are expected to be $1 006 million higher in 2007-08 and $1 673 million higher on average a year over the forward estimates period.

New output policy decisions taken since the *2007-08 Budget* account for additional expenses of $235 million in 2007-08 and $119 million a year on average over the forward estimates period. This includes additional funding for the *Program for Students with Disabilities* and further initiatives as part of the Government's response to the drought such as the *Water Rate Rebate* and *On-Farm Productivity Grants* initiatives.

Details of specific policy decisions since the *2007-08 Budget* are summarised in Appendix A, *Specific Policy Initiatives Affecting the Budget Position*.

Revisions to Commonwealth grant funding are projected to increase expenditure by $159 million in 2007-08 and $271 million a year on average over the forward estimates period. This relates primarily to the on-passing of additional funding to non-government schools as explained above.

Revisions to own-source revenue described above are projected to increase expenditure by $312 million in 2007-08 and by an average of $284 million per year from 2008-09 to 2010-11, primarily in the education sector.

Administrative variations are expected to increase expenses by $300 million in 2007-08 and by an average of $999 million over the forward estimates period. This primarily reflects an increase in the contingency provision not allocated to departments. The provision takes into account the anticipated strong population growth and provides for flexibility to address unforeseen events such as the continuation of the drought and bushfires. In addition, the budget estimates include a contingency from 2008-09 that acknowledges funding for a number of existing programs which will conclude in 2007-08 or the following years. A provision is made on the basis that Government may endorse a number of these programs to continue or be replaced to meet service delivery priorities.

FORWARD ESTIMATES OUTLOOK 2007-08 TO 2010-11

Table 3.2 sets out the projected aggregate outlook over the budget and forward estimates period for the general government sector. A more detailed operating statement is provided in Chapter 6, *Estimated Financial Statements and Notes*.

This section explains the forward estimates outlook from the revised 2007-08 forecast to 2010-11.

The difference between the forecast for 2007-08 at the time of the *2007-08 Budget* in May 2007 and the revised 2007-08 forecast is explained above under *Reconciliation of forward estimates to previously published estimates*.

As Table 3.2 shows, the net result from transactions is forecast to be $842 million in 2007-08. The net result from transactions is projected to be $814 million in 2008-09, $846 million in 2009-10 and $809 million in 2010-11.

The Victorian economic outlook has improved since the Budget, providing a favourable environment for the State's finances. Victorian GSP in 2007-08 and 2008-09 is forecast to grow faster than expected at Budget time, as described in Chapter 2, *Economic Conditions and Outlook*. The Victorian labour market is also stronger, with above-trend employment growth and a low unemployment rate. This stronger economic outlook supports the upward revisions to the revenue estimates.

In addition, the release of the Commonwealth's *Mid-Year Economic and Fiscal Outlook* in October 2007 enabled the inclusion of revised GST revenue in the *2007-08 Budget Update* which is normally not incorporated into the financial estimates until the State Budget.

These upward revisions to revenue underpin the forecast strong net results from transactions mentioned above and enable the future delivery of additional services, particularly in regional Victoria, and a boost to infrastructure investment such as the Wimmera-Mallee Pipeline and the Food Bowl Modernisation project as well as a significant boost to the unallocated capital provision for future infrastructure investment, while keeping borrowings at prudent levels to maintain Victoria's triple-A credit rating.

The revised net result from transactions over the forecast period is consistent with the Government's commitment to sound financial management. The level of surpluses is consistent with fiscal responsibility given the economic risks described in Chapter 5, *Statement of Risks*, such as inflationary and wage pressures, interest rates, financial market volatility and the more uncertain outlook for the global economy. Projected future surpluses also allow for flexibility in addressing unforeseen events such as drought, bushfires and other natural disasters. In addition, the strong surpluses are being used to support the Government's infrastructure investment program.

The net result is obtained when various revaluation gains and losses on assets and liabilities and provisions for doubtful receivables are added to the net result from transactions. These revaluations are closely related to market movements which can be highly volatile. As Table 3.2 shows, the net result for the general government sector is currently projected to be a surplus of $519 million in 2007-08 and an average surplus of $685 million from 2008-09 to 2010-11; as this is subject to a range of revaluations driven by market conditions, and is highly volatile, the Government does not target the net result.

As discussed below in *Other economic flows*, the revised 2007-08 net result is lower than the revised net result from transactions largely due to an actuarial loss relating to defined benefit superannuation. This actuarial loss is primarily related to a decrease in the discount rate used to value the superannuation liability which increases the liability. The lower net result also reflects an upward revision to the provision for doubtful receivables.

Table 3.2: Summary operating statement for the period 2007-08 to 2010-11[a]

($ million)	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Taxation	11 589.0	12 564.3	13 122.0	13 568.4	14 194.7
Dividends and income tax equivalent and rate equivalent revenue [b]	1 207.3	1 080.2	984.9	1 065.5	1 225.9
Grants	16 158.7	16 527.3	17 266.5	18 013.7	19 091.0
Sale of goods and services	2 643.8	2 763.5	2 806.6	2 835.0	2 894.3
Other income [c]	2 670.4	2 857.1	2 833.2	2 855.9	2 936.0
Total income from transactions	**34 269.2**	**35 792.5**	**37 013.2**	**38 338.5**	**40 341.9**
% change			3.4%	3.6%	5.2%
Employee benefits	12 726.2	12 758.1	13 135.3	13 562.3	13 968.2
Superannuation	1 622.9	1 660.3	1 643.8	1 689.0	1 740.0
Depreciation and amortisation	1 470.1	1 445.3	1 530.3	1 640.1	1 826.3
Finance costs	486.3	510.7	576.1	683.9	802.2
Grants and transfer payments	6 520.3	7 124.1	6 416.0	6 386.2	6 739.9
Supplies and services	11 118.6	11 387.8	12 833.0	13 466.8	14 392.4
Other expenses	0.4	64.7	64.2	64.2	64.2
Total expenses from transactions	**33 944.9**	**34 951.0**	**36 198.7**	**37 492.5**	**39 533.2**
% change			3.6%	3.6%	5.4%
Net result from transactions	**324.3**	**841.5**	**814.5**	**846.0**	**808.7**
Actuarial gains/(losses) on superannuation defined benefit plans	..	(232.0)	..	..	..
Other gains/(losses) from other economic flows [d]	(21.0)	(90.8)	(137.1)	(137.6)	(138.8)
Total other economic flows	**(21.0)**	**(322.8)**	**(137.1)**	**(137.6)**	**(138.8)**
Net result	**303.3**	**518.7**	**677.3**	**708.4**	**669.9**

Source: Department of Treasury and Finance

Notes:
(a) *This is an abbreviated operating statement. The full statement is shown in Chapter 6, Estimated Financial Statements and Notes.*
(b) *Comprises dividends, income tax and rate equivalent revenue and interest.*
(c) *Other income comprises regulatory fees and fines, fair value of assets received free from charge, inter sector capital asset charge and other miscellaneous income.*
(d) *This includes gains and losses on the disposal of physical assets and other income and expenses from other economic flows.*

Alternative measures of financial performance

Alternative measures of financial performance are set out in Table 3.3. These include Government Finance Statistics (GFS) measures used by the Australian Bureau of Statistics and the net result.

Table 3.3: AAS and GFS budget measures

($ million)	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
AAS Net result from transactions / GFS net operating balance	324.3	841.5	814.5	846.0	808.7
AAS Net result	303.3	518.7	677.3	708.4	669.9
GFS net lending/(borrowing) [(a)]	(929.4)	(488.9)	(846.1)	(756.3)	(766.8)
GFS cash surplus/(deficit) - excluding the impact of finance leases [(b)]	(641.9)	523.6	(564.9)	(1 001.4)	(862.2)

Source: Department of Treasury and Finance

Notes:

(a) GFS net borrowing, or fiscal balance, includes net capital expenditure but excludes depreciation, thereby giving a measure of the State's call on financial markets. GFS net borrowing also equals net transactions in financial assets less net transactions in liabilities.

(b) International Monetary Fund – GFS cash surplus/deficit equals the net cash flows from operating activities less investments in non-financial assets, and excludes acquisitions under finance leases.

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

The GFS net lending/borrowing result is equal to the GFS net operating balance less net acquisitions of non-financial assets. GFS net borrowing represents, in broad terms, the extent to which the general government sector's net acquisition of physical assets has been funded by incurring liabilities to other sectors. As the net lending/borrowing takes into account total spending on fixed assets during the period, rather than just the current year's expense, it is lower than the GFS net operating balance and the net result from transactions. The GFS net borrowing measure is projected to be $489 million in 2007-08 before averaging $790 million over the forward estimates period as a result of the Government's infrastructure investment program over the forward estimates period.

The International Monetary Fund – GFS cash surplus/deficit result is equal to net cash flows from operating activities, less net cash investment in non-financial assets and excludes acquisitions under finance leases. Although both net borrowing and the cash surplus include the immediate impact of expenditure on infrastructure, the cash surplus removes non-cash revenues and expenses (including the imputed superannuation interest cost and accruing employee benefits) but includes cash contributions made to the superannuation liability. The projected general government sector GFS cash surplus is $524 million in 2007-08 before averaging a $809 million deficit from 2008-09 to 2010-11 as a result of the Government's infrastructure investment program.

Income from transactions

Total income from transactions in 2007-08 is projected to be $35 793 million. From 2008-09, and over the forward estimates period, total income from transactions is projected to grow on average by $1 516 million (or 4.1 per cent) per annum.

Taxation income is projected to be $12 564 million in 2007-08 and is expected to grow by an average of $543 million (or 4.2 per cent) a year over the forward estimates period. The projected growth in taxation income over the outlook period reflects the anticipated stronger economic conditions for the State as discussed in Chapter 2, *Economic Conditions and Outlook*. Revisions to economic indicators since the *2007-08 Budget* such as GSP and employment growth as well as the early release of forecast GST grants by the Commonwealth have underpinned higher revenue projections for 2007-08 and the out-years. These increases in revenue provide the basis for the strong net results from transactions from 2007-08 to 2010-11 that will enable Victoria to withstand the potential materialisation of risks to the Victorian economy as discussed in Chapters 2 and 5 and boost investment in infrastructure.

Dividend and income tax equivalent and rate equivalent income in 2007-08 is anticipated to be $127 million lower than the *2007-08 Budget* estimate due to the factors outlined under *Reconciliation of forward estimates to previously published estimates*.

When compared with the *2007-08 Budget* estimate, grants income, primarily from the Commonwealth, has been revised upwards by $369 million in 2007-08 and by an average of $604 million over the forward estimates. This partly reflects an increase in GST revenue due to an increase in Victoria's share of the population and an increase in the GST pool as a result of strength in household consumption. Victoria has maintained its tax competitiveness despite not receiving its full per capita share of GST revenue and other grants from the Commonwealth. The increase also reflects additional specific purpose grants including funding for both government and non-government schools, the rephasing of funding for the Wimmera-Mallee Pipeline and funding received under the Australian Health Care Agreement, partially offset by the rephasing of Commonwealth funding for roads.

Income from both the sale of goods and services and other income sources such as fines and regulatory fees and agency own-source revenue has been revised upwards by $307 million in 2007-08. This primarily reflects increased third party revenue in the education sector as well as a rephasing of assets received free of charge, partially offset by lower than expected revenue from the sale of units at the Parkville Gardens.

Expenses from transactions

Total expenses from transactions are projected to be $34 951 million in 2007-08, an increase of $1 006 million (or 3.0 per cent) compared to the *2007-08 Budget* estimates. This increase reflects a combination of revisions, including:

- increased expenditure on employee expenses of $32 million in 2007-08 mainly associated with expenditure of own source revenue in the education sector offset by a reclassification of projected expenditure by the Department of Education and Early Childhood Development from employee expenses to operating supplies and services;
- an upward revision of grants and transfer payments of $604 million primarily related to the on-passing of additional Commonwealth revenue to non-government schools and drought initiatives such as the *Water Rate Rebate* initiative; and
- expenditure on supplies and services has been revised upwards by $269 million primarily associated with the reclassification of expenditure by the Department of Education and Early Childhood Development mentioned above as well as the impact of a change in the threshold for asset recognition from $1 000 to $5 000 which results in the Department expensing items below $5 000. The upward revision also reflects expenditure associated with increased own source revenue mentioned above.

Consistent with the forecast growth in total income from transactions over the forward period, total expenses from transactions are projected to increase by an average of $1 527 million (or 4.2 per cent) a year from 2008-09 to 2010-11.

Year-on-year growth in employee entitlements over the forward estimates period is expected to average $403 million (or 3.1 per cent) a year. This growth reflects existing enterprise bargaining agreement wage increases and the implementation of policy decisions by Government.

Over the forward estimates period, superannuation expenses are projected to increase on average by $27 million (or 1.6 per cent) a year reflecting the projected growth in employee entitlements.

Over the forward estimates period, supplies and services expenditure is projected to increase by an average of $1 002 million (or 8.2 per cent) a year. This growth mainly reflects the implementation of output decisions announced by Government including consumer price index indexation under the Departmental Funding Model, the contingency provision not allocated to departments and expenditure associated with Commonwealth funding as well as own source revenue.

Other economic flows

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

Other economic flows in 2007-08 are primarily driven by an increase in the superannuation liability caused by a reduction in the discount rate used to value the accrued superannuation liability and an upward revision to the provision for doubtful receivables.

SUMMARY STATEMENT OF FINANCIAL POSITION

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

Table 3.4: General Government sector summary balance sheet as at 30 June[(a)]

($ million)

	2007 Actual [(b)]	2008 Revised	2009 Estimate	2010 Estimate	2011 Estimate
Assets					
Capital stock [(c)]	59 840.3	63 820.3	68 044.0	76 251.1	81 257.6
Financial assets [(d)]	5 705.5	4 860.1	4 895.0	4 935.4	5 016.5
Other assets	3 528.6	2 607.3	2 466.3	2 529.6	2 453.5
Total assets	**69 074.4**	**71 287.7**	**75 405.4**	**83 716.1**	**88 727.6**
Liabilities					
Superannuation	10 137.7	10 451.9	10 407.6	10 256.4	10 111.9
Borrowings	7 194.3	7 004.1	8 744.4	10 456.2	11 998.1
Other liabilities	8 256.5	8 396.8	8 490.2	8 596.3	8 708.0
Total liabilities	**25 588.5**	**25 852.8**	**27 642.2**	**29 309.0**	**30 818.0**
Net assets	**43 485.8**	**45 434.9**	**47 763.1**	**54 407.1**	**57 909.5**

Source: Department of Treasury and Finance

Notes:
(a) This is an abbreviated balance sheet. The full balance sheet for the general government sector is reported in Chapter 6, Estimated Financial Statements and Notes.
(b) As published in the 2006-07 Financial Report for the State of Victoria.
(c) Capital stock includes land and buildings, plant and equipment, roads and earthworks, intangibles, cultural and other assets.
(d) Financial assets include cash assets, investments, loans and placements.

General government sector net assets are expected to grow by 33 per cent from $43 486 million as at 30 June 2007 to $57 910 million at 30 June 2011. This growth is reflected in the projected increase in the value of capital stock over the forward estimates period associated with the purchase of property, plant and equipment to support the general government sector's infrastructure investment, as well as the projected upwards revaluations of non-current physical assets. The significant infrastructure investment over the forecast period is underpinned by strong surpluses while keeping borrowings at prudent levels to maintain Victoria's triple-A credit rating. As described in Chapter 4, *Economic Reform Agenda*, infrastructure investment is essential to support ongoing economic growth and development.

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

CASH FLOWS

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

Table 3.5: Application of cash resources

($ million)

	2007-08 Budget	*2007-08 Revised*	*2008-09 Estimate*	*2009-10 Estimate*	*2010-11 Estimate*
Net result from transactions	**324.3**	**841.5**	**814.5**	**846.0**	**808.7**
Add back: Non-cash income and expenses (net) [(a)]	1 757.1	2 342.2	1 592.8	1 393.7	1 729.7
Net cash flows from operating activities	**2 081.4**	**3 183.7**	**2 407.3**	**2 239.7**	**2 538.4**
Less:					
Net investment in fixed assets					
Expenditure on approved projects	3 816.5	3 999.9	3 173.5	2 895.9	2 153.9
Unallocated provision for future investment [(b)]	..	..	767.0	1 020.8	1 596.9
Meeting Our Transport Challenges Reserve to be allocated in future [(c)]	7.5	12.6	43.1	142.0	356.0
Proceeds from asset sales	(202.3)	(161.4)	(110.3)	(156.0)	(113.7)
Total net investment in fixed assets [(d)]	**3 621.7**	**3 851.1**	**3 873.4**	**3 902.8**	**3 993.1**
Finance leases [(e)]	..	..	231.4	..	..
Other investment activities (net)	(2.8)	(1.3)	14.0	14.3	11.9
Decrease/(increase) in net debt	**(1 537.6)**	**(666.1)**	**(1 711.5)**	**(1 677.4)**	**(1 466.6)**

Source: Department of Treasury and Finance

Notes:

(a) Includes depreciation and non-cash movements in liabilities such as the superannuation liability and employee benefits.

(b) Amount available to be allocated to specific departments and projects in future budgets, including contributions to other sectors.

(c) Reflects the unallocated balance of the Meeting Our Transport Challenges Reserve which was announced in the May 2006 Budget.

(d) Includes purchases of property, plant and equipment plus contributions to other sectors less proceeds from asset sales.

(e) Reflects the recognition of new finance lease arrangements which are being delivered under the Partnerships Victoria model, with an equivalent increase in fixed assets following their expected completion and handover. Projects include the Royal Women's Hospital in 2008-09.

Table 3.5 shows an expected net result from transactions for 2007-08 of $842 million before averaging $823 million over the forward estimates period. Adjusting for a number of expense and income items that do not require or provide cash resources during the year (principally depreciation, but also including movements in the superannuation liability and employee benefit liabilities) yields a projected net cash inflow from operating activities for 2007-08 of $3.2 billion, and an average of $2.4 billion a year from 2008-09 to 2010-11.

The increased total net investment in infrastructure (which includes total purchases of property, plant and equipment, capital contributions to other sectors of government and net proceeds from sale of assets) is projected to be $3.9 billion in 2007-08 before averaging $3.9 billion over the forward estimates period. This level of investment reflects the Government's commitment to infrastructure investment underpinned by strong results from transactions while keeping borrowings at prudent levels to maintain Victoria's triple-A credit rating.

Total net investment in infrastructure includes expenditure on approved projects such as the Wimmera-Mallee Pipeline project, the Food Bowl Modernisation project and the Monash-West Gate Improvement project to support Victoria's ongoing growth and development.

Projected infrastructure spending from 2008-09 includes an unallocated capital provision that will be used to fund new projects in future budgets. This is in accordance with existing budget practice to ensure realistic forward projections of asset investment. The Government has further demonstrated its commitment to infrastructure investment by boosting the unallocated capital provision by a total of $1.8 billion over the forward estimates period since the *2007-08 Budget*.

The projections for the increase in net debt for 2007-08 have been revised downwards by $872 million to $666 million when compared to the *2007-08 Budget*. This revision primarily reflects a strong operating cashflow position.

NET DEBT AND NET FINANCIAL LIABILITIES

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

Table 3.6: General government sector net debt and net financial liabilities as at 30 June

($ million)	2007 Actual [(a)]	2008 Revised	2009 Estimate	2010 Estimate	2011 Estimate
Liquid financial assets					
Cash and deposits	3 017.7	2 057.6	2 054.4	2 057.7	2 055.5
Advances paid	61.3	60.5	59.4	58.3	57.6
Investments, loans and placements	2 058.3	2 163.0	2 196.1	2 228.3	2 306.4
Total liquid financial assets	**5 137.3**	**4 281.1**	**4 309.9**	**4 344.2**	**4 419.6**
Financial liabilities					
Deposits held	595.2	595.2	595.2	595.2	595.2
Advances received and borrowings	7 193.7	7 003.5	8 743.8	10 455.6	11 997.5
Total financial liabilities	**7 788.9**	**7 598.7**	**9 339.0**	**11 050.8**	**12 592.7**
Net debt [(b)]	**2 651.5**	**3 317.6**	**5 029.1**	**6 706.5**	**8 173.1**
Superannuation liability	10 137.7	10 451.9	10 407.6	10 256.4	10 111.9
Net financial liabilities [(c)]	**12 789.3**	**13 769.5**	**15 436.7**	**16 963.0**	**18 285.0**

(per cent)					
General government net debt to GSP	1.1	1.3	1.8	2.3	2.7
General government net financial liabilities to GSP	5.2	5.2	5.6	5.8	6.0

Source: Department of Treasury and Finance

Notes:
(a) As published in the 2006-07 Financial Report for the State of Victoria.
(b) Net debt is calculated as gross debt less liquid financial assets (total financial liabilities less total liquid financial assets).
(c) General government net financial liabilities are calculated as the sum of net debt and the superannuation liability.

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

As Table 3.6 shows, net debt is projected to be 2.7 per cent of GSP at 30 June 2011 which is low by historic standards and below the debt level in 1999 when the Government was elected. The Government is prudently making use of its strong financial capacity to fund key public infrastructure. As a result, general government net debt will increase from $2.7 billion (or 1.1 per cent of GSP) as at 30 June 2007 to $8.2 billion (or 2.7 per cent of GSP) as at 30 June 2011. This increase is driven by the size of the projected infrastructure investment program over the forward estimates period and is consistent with the borrowing profile outlined in the *2007-08 Budget*.

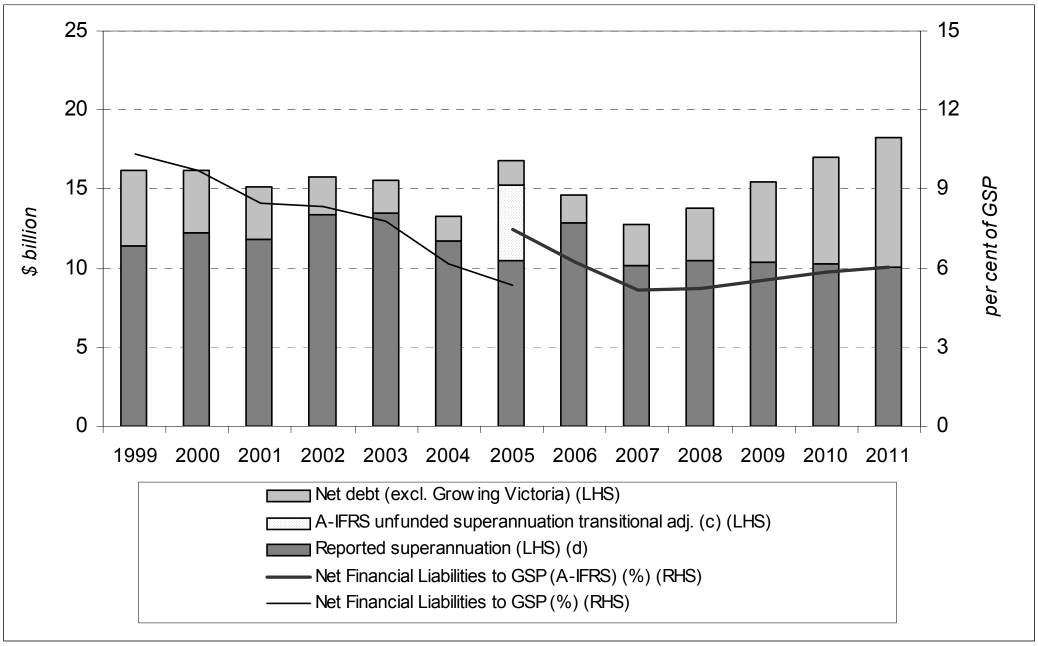
Net financial liabilities, which is calculated as the sum of net debt and the superannuation liability, is a broader measure of the general government sector's overall indebtedness and is an important indicator of the strength of a government's fiscal position.

Since the *2007-08 Budget*, projected net financial liabilities as at 30 June 2011 have been revised downward by $2.1 billion due to a decline in net debt and a reduction in the superannuation liability.

Chart 3.1 shows that, as a share of GSP, general government net financial liabilities are expected to increase from 5.2 per cent in 2007 to 6.0 per cent in 2011, significantly lower than expected at Budget time and below the level recorded in 1999.

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

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



Source: Department of Treasury and Finance

Notes:

(a) General government net financial liabilities are calculated as the sum of net debt and the superannuation liability.

(b) Net debt is calculated as gross debt less liquid financial assets. In the years applicable, Growing Victoria investments are excluded as an offset to gross debt on the grounds that these investments were earmarked for infrastructure projects and were therefore not available to redeem gross debt.

(c) To demonstrate the underlying change in measurement, the transitional adjustment is shown for the superannuation liability in 2004-05.

(d) The superannuation liabilities between 1999 and 2004 are calculated under the previous Australian accounting standards, whereas between 2005 and 2011 the new standard AASB 119 has been applied.

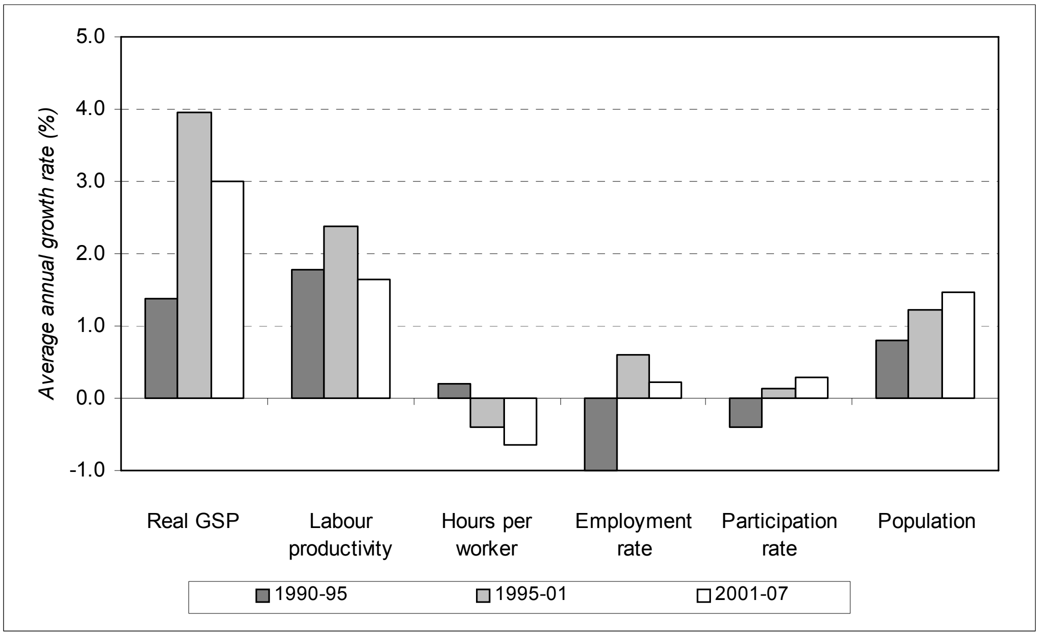
CHAPTER 4: ECONOMIC REFORM AGENDA

- The Victorian Government has provided a stable financial environment to promote economic growth in the State. The higher surpluses projected over the forward estimates period are being used by the Government to continue its investment in infrastructure, which will expand the economy's capacity to grow.
- Over the longer term, the Victorian economy faces a number of challenges. The Government's continuing economic reform program is designed to ensure that these challenges are met and to secure Victoria's future prosperity. Reform will need to:
  - increase workforce participation and productivity by increasing people's skill levels and capacity to work;
  - improve business competitiveness, by cutting business costs, reducing red tape and fostering innovation;
  - respond to climate change; and
  - continue to improve the quality of infrastructure to support ongoing economic growth, including by increasing the security of water supply through the further development of a statewide water grid.

THE MOMENTUM FOR ECONOMIC REFORM

Victoria has enjoyed strong economic growth over the last decade, supported by continuing population growth, productivity growth and, to a lesser extent, a rising participation rate, while average hours worked per worker have fallen due to the increasing propensity for part-time employment (see Chart 4.1). This strong performance owed much to a range of economic reforms during the 1980s and 1990s, such as financial market deregulation, trade liberalisation and National Competition Policy.

Chart 4.1: Decomposition of Victorian growth



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

Looking ahead, Victoria faces a number of challenges, including an ageing population, slowing productivity growth, changing global fortunes and environmental issues, which pose risks to Victoria's economic prosperity. These challenges highlight the importance of getting the most from Victoria's potential sources of growth – especially productivity growth and workforce participation – by continuing an active program of economic reform in the State.

The National Reform Agenda (NRA) was endorsed by the Council of Australian Governments (COAG) in February 2006. The NRA focuses on fostering human capital, reducing regulation, and increasing competition in order to lift productivity and workforce participation. This will raise living standards in Australia over the next decade and beyond.

Significant progress was made at the April 2007 meeting. However, much more needs to be done, especially in advancing initiatives in health, education and early childhood development if the initial promise of the NRA is to be achieved, and if challenges as large as climate change are to be addressed.

The Victorian Government is committed to progressing key reform options within its own areas of responsibility to achieve better outcomes for all Victorians. Priority reforms are designed to:

- increase workforce participation and productivity by increasing people's skill levels and capacity to work;

- improve business competitiveness by cutting business costs, reducing red tape and fostering innovation;
- respond to climate change; and
- continue to improve the quality of infrastructure to support ongoing economic growth, including by increasing the security of water supply through the further development of a statewide water grid.

This chapter outlines the challenges Victoria faces, progress to date in responding to these, and future directions.

INCREASING WORKFORCE PARTICIPATION AND PRODUCTIVITY

The size of the labour force and the rate of productivity growth are the key determinants of Victoria's long-run economic growth, and thus the prosperity of the State. Over coming decades, ongoing economic reform will need to deliver higher labour force participation and stronger productivity growth if Victoria's prosperity is to be sustained.

Maximising Victoria's human capital

The knowledge and skills of Victoria's workforce influence both labour force participation and productivity. Those with higher skills are more likely to participate in the workforce and to work to older ages. They are also more productive and innovative, and better able to adapt to changing circumstances. At the same time, barriers to greater workforce participation and stronger productivity growth can be minimised by the prevention and early detection of disease, which improves the health of the population.

Vocational education and training

An ageing population, increasing global economic integration, technological advances and changing work preferences are altering the pattern of demand for training. Full-time, entry level training for school leavers remains important, but there is also growing demand for training of adults, including to keep building the skills of those already in the workforce. The vocational education and training sector needs to be able to respond quickly and flexibly to these changes if it is to support Australia's productivity growth and workforce participation.

Victoria's decentralised public vocational education and training sector already gives training providers space to be responsive to changing demands. However, further reform is needed to make the system more outward looking and improve its ability to address skill shortages.

Some of this high priority reform needs to occur at a national level in cooperation with State, Territory and Commonwealth governments, because progress on reform is being constrained by intergovernmental arrangements.

However, there is also potential for change in Victoria without waiting for national agreement. Government clearly has a role, with business and individuals, to continue investing in skill building. Government is also aiming to create an environment that maximises private investment in training, by:

- careful design of its own investment;
- limiting the regulatory burden on the sector; and
- encouraging the development of a high quality and responsive provider sector.

Schools and early childhood

The State's vision for early childhood development is to help children succeed in life and learning by delivering a system of integrated, high quality and accessible early childhood services.

The Government's release in April 2007 of *Victoria's Plan to Improve Outcomes in Early Childhood* sets out a series of reforms to improve antenatal care, strengthen the health, development and learning of children up to five years old, enhance the provision of early childhood education and care services, and improve the early-years workforce.

In schools, recent reform designed to raise student achievements has been recognised internationally as 'cutting edge'. The Organisation for Economic Cooperation and Development has judged that Victoria's approach to school improvement has been exceptional since the publication of the *Blueprint for Government Schools* in 2003, and regards Victoria's school leadership development program as at the forefront of international practice.

In 2007, the Government maintained the momentum for reform in schools, with the release of *Victoria's Plan to Improve Literacy and Numeracy Outcomes*. The plan is directed toward making sure Victoria has quality teachers, fosters a culture of continuous improvement in schools, and targets resources to where they are needed most. Through a proposed joint state and Commonwealth investment of approximately $924 million, the plan aims to achieve significant improvements in the pace and depth of student learning.

At the national level:

- COAG, at its April 2007 meeting, agreed to national standards for teachers and school leaders, quality assurance and regulation of child care and kindergarten, and a nationally enacted school entry assessment system;
- the Council for the Australian Federation has recently proposed a new national framework for schooling and a 14 point plan to enhance curriculum, assessment and reporting in Australia, improve the quality of teaching and learning and promote the spread of best practice.

The priority being given to all stages of children's education in Victoria is underlined by consolidating responsibility for early childhood development and school education within Government, in the new Department of Education and Early Childhood Development.

A healthy workforce

Improving the health of the population has important benefits for the individuals concerned. It is also essential to maintaining Victoria's economic growth, and requires meeting head on the challenges presented by an ageing workforce, the need to maintain people's health for longer and the rise in chronic disease.

Preventable chronic diseases account for a large proportion of Victoria's health spending and have a high cost in terms of lower workforce participation and reduced productivity. The Premier has included tackling chronic diseases, such as cancer, type 2 diabetes and cardiovascular disease, as one of his seven priority areas.

Several initiatives are already under way. For example, a new *Early Intervention in Chronic Disease* program launched in regional Victoria is helping Victorians with chronic conditions like diabetes, cardiovascular, respiratory and mental health issues to manage their conditions at home and reduce their chances of ending up in hospital. A Chronic Disease Management Network pilot currently underway at Barwon Health will deliver improved healthcare for those living with type 2 diabetes. The subsequent proposed rollout is expected to reduce hospital admissions, and generate increased workforce participation.

At the national level, all governments, through COAG, have recognised the vital importance of good health, disease prevention and early intervention to Australia's future. At its April 2007 meeting, COAG agreed to a cost sharing package of $200 million, involving the Commonwealth and the States and Territories, to combat diabetes.

The foundations have been laid for tackling chronic and preventable diseases. Further work is needed. This requires a strong partnership approach towards health as a shared responsibility, with cooperation across service providers and levels of government to facilitate a sustained, comprehensive and holistic approach to health care.

IMPROVING BUSINESS COMPETITIVENESS

Continued reduction of business costs, including tax changes, reductions in red tape, improvements to infrastructure and an emphasis on innovation and research and development will improve the national and international competitiveness of all Victorian businesses and help foster economic growth.

Regulatory reform

In July 2006, the Government announced the *Reducing the Regulatory Burden* initiative, Victoria's policy for reducing the cost of regulation for businesses and not-for-profit organisations. The Government announced that it would:

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

In terms of administrative burden, this translates into a net reduction equivalent to savings of $154 million per annum by July 2009 and $256 million per annum by July 2011. All Departments now have three-year administrative burden reduction plans in place. Provisional estimates indicate that Victoria has to date achieved a net reduction in the administrative burden of $30 million per annum. Similar programs overseas showed reductions accelerating over time.

New South Wales and Victoria have harmonised payroll tax legislation, including common definitions and exemptions, reducing payroll tax paperwork for around 8 000 businesses with operations on both sides of the Murray River. Victoria and New South Wales are also working together to harmonise definitions, processes and administrative requirements relating to occupational health and safety and workers' compensation, to reduce unnecessary complications and burdens for businesses operating across both jurisdictions.

The Government has been at the forefront of multi-jurisdictional action to reduce the burden of regulation. Victoria has taken a leading role in discussions within COAG, the Council for the Australian Federation, numerous Ministerial Councils, and bilaterally with other states, aimed at increasing harmonisation in regulatory definitions and administration, and minimising the cost of regulation to businesses, not-for-profit organisations, and individuals.

COAG has made some progress on reform of the ten regulatory hotspots it identified. However, the Government recognises that much more remains to be done to accelerate nationwide implementation of regulatory reforms, and will work constructively with other States and Territories and the new Federal Government to achieve this, as well as continuing work on reform of Victorian regulations.

Regulatory reform continues to be a priority for Victoria. An active program of reviews around key areas such as food and environmental regulation will identify areas where reform consistent with policy intent can be made. The Victorian Government has committed to reduce the number of principal Acts of Parliament by 20 per cent by 2010. Finally, Victoria remains committed to working cooperatively with other jurisdictions to promote harmonisation of regulation where this leads to net benefits to the economy.

Infrastructure investment

An efficient and productive infrastructure network is essential to support ongoing economic growth and development. Anticipated population growth will place increasing demands on the road and rail network and energy infrastructure. Victoria's road freight and passenger movement tasks are expected to grow by 50 per cent and 25 per cent respectively by 2020. Public transport patronage is forecast to grow at an annual rate of between 3 and 4 per cent. Victoria could also require new baseload electricity investment from as early as 2010.

The Government has signalled its commitment to the long-term future of the State's road and rail network by assigning $10.5 billion in the *Meeting Our Transport Challenges* statement to upgrade and improve public transport services and road and rail infrastructure over ten years. In addition, the Government has identified a number of significant infrastructure investments essential to ensuring continued economic growth including expansion of the Port of Melbourne, and consideration of options for a new East West transport link to alleviate congestion on the Monash-West Gate corridor.

Additional productivity gains will accrue to the State from the improved operation of national markets, and ongoing efforts to streamline and harmonise infrastructure regulation at the national level. COAG has agreed to a stream of competition reform under the NRA, which builds on and extends the National Competition Policy reforms of the 1990s.

A key national initiative – the Competition and Infrastructure Reform Agreement – provides for a simpler, consistent, light handed approach across the nation to the economic regulation of significant infrastructure such as ports and rail.

A number of reform initiatives designed to improve the function of the national energy market have also been endorsed by COAG. Victoria has historically been a strong leader and advocate for the energy market reform process which has delivered significant efficiency gains to the Victorian economy. Ongoing reform is necessary to ensure Victoria continues to enjoy the benefits of a fully competitive national energy market.

Innovation and research and development

Government's role in supporting innovation involves creation of a conducive regulatory environment, support for skill development, and encouragement of close collaboration and ties between government, industry and educational institutions.

In Victoria, the Government's Science, Technology and Innovation initiative has been building Victoria's capabilities in scientific research and development and supports the development of new technologies and their adoption by industry.

At the national level, the Victorian Government has called for all Australian governments to be engaged with the development of a National Innovation Agenda with the following goals:

- increasing business innovation;
- providing the infrastructure to enable innovation;
- developing skills for the innovation economy;
- creating a better regulatory environment for innovation; and
- forging better connections and collaborations.

The National Innovation Agenda will encourage the development of a program of collective actions by Australian governments to boost productivity and maximise the outcomes of innovation for the national economy.

RESPONDING TO CLIMATE CHANGE

Climate patterns around the world are changing, with scientists providing robust evidence that these changes are likely to be more severe and frequent in the future. Such climatic changes are likely to increase pressures on the supply of potable water, primary production, infrastructure assets, tourism, coastal settlements and energy supply.

In response, governments have pursued a range of policies and measures to drive changes in both production practices and end-use consumption including:

- commitment to the implementation of a national emissions trading scheme – supported by all States and Territories and at Commonwealth level;
- support for renewable energy and measures to improve energy efficiency in Victoria under the Victorian Renewable Energy Target and the Victorian Energy Efficiency Target; and
- support for research and development of low-emissions generation technologies, including through the Victorian *Energy Technology Innovation Strategy*.

The implementation of such policies and measures is not only a driver of change but also increases the state's capacity to offset any erosion in competitiveness by utilising and exporting the knowledge and skills gained from implementation.

In April 2007, the *National Climate Change Adaptation Framework* was endorsed as the basis for Government action on adaptation over the next five to seven years. This Framework includes possible actions to assist the most vulnerable sectors and regions to adapt to the impacts of climate change, and provides a national context for Victoria's significant progress in implementing adaptation actions through the *Victorian Greenhouse Strategy*.

Governments have a responsibility for responding to climate change impacts, including by protecting public assets, in providing disaster relief and response, mitigating new health risks and protecting against new biosecurity risks. However, as climate change is an issue that will affect the whole community, the responsibility for responding to it must be shared by all levels of government, business and the wider community.

Water supply

Below average rainfall over the past decade suggests our climate may already be changing, creating uncertainty about what future rainfall patterns will look like. In the past, Victoria's strategy for securing its water supplies was to build large storage facilities such as reservoirs and dams. However, with impending climate change bringing greater uncertainty about future rainfall patterns, Victoria will need diverse and flexible strategies to manage the state's water supply, and ensure the security of supply at least cost to society.

To this end, on 19 June 2007, the Government announced *Our Water Our Future, The Next Stage of the Government's Water Plan*, which provides a $4.9 billion plan to diversify and secure water supplies for the long-term.

A key element of the plan was the further expansion of the statewide water grid, to move available water supplies to where it is needed, when it is needed, thus making the best use of the available capacity within the system. In the longer term, expansion of the water grid will facilitate trade across regions and between uses. In particular, it could create much wider opportunities for large water users to engage in water trading. In designing systems, it remains important to maintain incentives for private businesses and individuals to plan ahead for changing climate conditions.

The statewide water grid will comprise the following pipelines, which are either under construction, partially completed or, having been approved, are in the process of planning and design:

- the Goldfields Superpipe connecting Ballarat and Bendigo to the Goulburn system. Water flowed through the Bendigo link of the Goldfields Superpipe for the first time on 23 August 2007;
- the Wimmera-Mallee Pipeline which will replace 17 500 km of open earthen channels with 8 800 km of pipe and provide reticulated water to an area of two million hectares, including 33 towns. Water commenced flowing through the first stage of the Wimmera-Mallee Pipeline on 12 October 2007 providing greater water security to eight towns and surrounding rural areas;
- the Hamilton-Grampians Pipeline which will connect Hamilton to the Grampians Wimmera-Mallee water system;
- the Sugarloaf Interconnector which will link the Goulburn River to the Melbourne system and transfer a share of the water savings obtained through the Food Bowl Modernisation Project to Melbourne;

- the Geelong-Melbourne pipeline which will connect Geelong to Melbourne's water system (allowing Geelong to share in the water provided by the Food Bowl Modernisation Project and desalination project); and
- the desalination plant transfer pipeline which will augment Melbourne's water supplies but also provide additional water more locally to the Western Port and South Gippsland regions.

The Government is also currently developing a business case for the construction of a channel to bypass the Barmah Choke and deliver more water into the Goulburn irrigation system.

Throughout the recent extended drought, water trading has been of significant assistance to irrigators by giving them the opportunity to more effectively adapt their business operations to the circumstances. Buyers and sellers can trade either permanent entitlements or temporary allocations depending upon their individual needs and preferences, allowing them to purchase water to assist crop and livestock enterprises to survive or to provide an alternative source of income for irrigators who choose to sell water.

Following unbundling of irrigator water rights on 1 July 2007, it is easier for landowners to sell their water entitlements as a separate entitlement to land ownership, consistent with commitments under the National Water Initiative.

Another key component of the Government's plan is the Food Bowl Modernisation Project which will modernise ageing irrigation infrastructure in the Goulburn-Murray Irrigation District and underpin the long-term security and viability of the region. Through rationalising and improving the efficiency of the current system, Stage 1 of the project will capture up to 225 gigalitres (GL) of water lost annually through seepage, leakage and evaporation in the Goulburn and Murray systems. These savings will be shared between Melbourne, irrigators and the environment.

The diversification of Melbourne's future water supply options, as a result of the new augmentation projects recently announced, opens up opportunities for significant further reform of the structure and operation of Melbourne's water supply and wastewater management systems.

Once these water supply augmentations are in place, in addition to its existing, rain-fed storages Melbourne will have:

- up to 150GL per annum of non-rain dependent supplies from desalination;
- access to 75GL per annum of alternative rain-fed supplies from the Goulburn system, generated from irrigation modernisation in the Food Bowl in Northern Victoria;
- an estimated 100GL per annum of Class A recycled water suitable for non-potable uses through the proposed upgrade of the Eastern Treatment Plant.

As a consequence of these major new investments, prices to customers will need to rise significantly, highlighting the importance of continuing to improve system efficiency in order to drive costs down and cushion impacts on customers.

With this in mind, the Government subsequently decided to review and recommend options for improving the structure of the metropolitan retail water sector to ensure that it continues to provide secure and reliable water services at least cost to the community. The Victorian Competition and Efficiency Commission is due to release its draft report before Christmas, with a final report to Government due early in 2008.

Following the release of the VCEC report the Government may wish to consider options for further and broader industry reforms.

The Government has also asked the Essential Services Commission to review the various tariff reform options proposed by the metropolitan water authorities, and to make recommendations on how these proposals should be considered in light of challenges facing the water sector in balancing water supply and demand.

The creation of alternative sources of bulk water supply, greater system interconnection, as well as the findings from these two public reviews, open up new opportunities to take the next steps towards a more modern, dynamic and efficient system and pricing regime that will serve Victorians well into the future.

Greenhouse gas emissions

In response to the challenge of managing greenhouse gas emissions, the Government has set a target of reducing Victoria's greenhouse gas emissions by 60 per cent by 2050, and has a range of policies in place that are transitioning the economy towards achieving this target. These include:

- support for a National Emissions Trading Scheme, which would provide flexibility for emitters to find the least cost method to reduce their emissions;
- support for the development and deployment of low emissions technology – for example, through the Energy Technology Innovation Strategy and Victorian Renewable Energy Target schemes; and
- demand-side policies focused on improving Victoria's energy efficiency – for example, through the Victorian Energy Efficiency Target scheme, and through rebates to assist households to purchase energy efficient products.

Strategies to mitigate the risk of further climate change will require deployment of the lowest economic cost greenhouse gas abatement policy tools available. Given the relative energy intensity of Victoria's economy, this will be critical to Victoria's future competitiveness.

CHAPTER 5: STATEMENT OF RISKS

- The Government has provided a stable financial environment to promote economic growth for the State through the provision of services and strategic investments in key infrastructure and the consistent delivery of budget surpluses.
- The economic outlook has improved since the Budget, providing a favourable environment for the State's finances.
- The budget projections are sensitive to a number of upside and downside risks (both economic and fiscal) and contingent assets and liabilities.
- The main risks to the Victorian economic projections are inflationary and wage pressures, interest rates, financial market volatility, and the more uncertain outlook for the global economy.
- Contingency provisions in the budget estimates provide general protection against fiscal risks, including increased demand for government services.
- A number of contingent assets and liabilities have been identified, particularly relating to the public transport rail agreements.

ECONOMIC RISKS

The main risks to the Victorian economic projections are inflationary and wage pressures and any subsequent interest rate responses from the Reserve Bank of Australia. Financial market volatility is also a source of uncertainty. There is a risk that the US slowdown may become deeper and more protracted, although this may be offset by stronger growth in emerging economies, particularly in the Asian region. Domestically, the momentum of underlying demand provides upside risks, while supply side constraints may limit growth potential.

Inflation and wage risks are on the upside. This carries with it the risk of higher interest rates, which could place pressure on the growth forecasts. National underlying inflation has picked up, moving to the top of the Reserve Bank of Australia's target band, and price rises are becoming more widespread. Since the Budget, oil prices have touched new record levels. This has direct effects on inflation, via petrol prices, as well as increasing input costs such as transportation. There are also upside risks to the wage forecast, particularly from the tight labour market conditions and public sector enterprise bargaining outcomes.

Exchange rate movements also create uncertainty for the economic projections. Since the Budget, the Australian currency has traded within a very wide range. Variations in the exchange rate can have direct impacts on growth via net exports, as well as inflation via tradable prices. Volatility has also increased in other financial markets, leading to a more risky environment for consumption and investment decisions.

The main uncertainty in the global outlook is the extent of the US economic slowdown. There is the risk that the combination of falling asset prices and tighter credit conditions results in a larger and more protracted slowdown than currently envisaged. However, the world economy is becoming less reliant on US growth, with a greater contribution from developing economies. The potential for stronger growth in China, India and other developing Asian countries provides upside risk to global growth.

There is considerable momentum in underlying domestic demand in Australia. This is the result of strong population and employment growth, gains in wealth from increases in asset prices, and positive consumer and business sentiment. If this is maintained, it could result in stronger growth than currently forecast. On the other hand, with the economy constrained by limited spare capacity, potential growth is sensitive to the supply side's ability to respond to this strong demand.

Sensitivity analysis

The sensitivity analysis estimates the impact on revenue, expenses, the net result and the net result from transactions associated with variations to forecasts or projections of selected economic and financial variables. The major variables that affect Victoria's net result from transactions are economic growth, employment, consumer prices, wages, enterprise bargaining agreements, domestic and overseas share prices, property prices and volumes and interest rates.

To assess sensitivity to change, the level of the economic variable in each case is assumed to be one per cent higher than expected in the budget year, before continuing to grow at the previously forecast rate. For interest rates, the assumption is that they are one percentage point higher than assumed in the budget year and remain one percentage point above the budget assumptions in subsequent years.

It is assumed during the analysis of each variable that all other variables follow their forecast growth. As such, the analysis captures the effect of changing only one variable at a time, and does not allow for the likelihood that other variables would also change. For example, an increase in consumer prices would be expected to affect interest rates, wage claims and other economic variables.

The sensitivity analysis in Table 5.1 presents the sensitivity of both the net result from transactions and the net result to selected economic and financial indicators.

Table 5.1: Impact on the general government fiscal results of selected economic indicators being one per cent higher than expected in 2007-08[(a)(b)]

($ million)

	2007-08 Estimate	*2008-09 Estimate*	*2009-10 Estimate*	*2010-11 Estimate*
GSP				
Income from transactions	153	169	175	184
Expenses from transactions	-3	-10	-17	-23
Net result from transactions	**156**	**179**	**192**	**207**
Other economic flows	..	..	..	..
Net result	**156**	**179**	**192**	**207**
Employment				
Income from transactions	42	44	46	49
Expenses from transactions	-1	-4	-6	-9
Net result from transactions	**43**	**47**	**52**	**57**
Other economic flows	..	..	..	..
Net result	**43**	**47**	**52**	**57**
Consumer prices [(c)]				
Income from transactions	245	261	269	282
Expenses from transactions	88	90	86	84
Net result from transactions	**157**	**171**	**182**	**198**
Other economic flows	-115	..	..	..
Net result	**43**	**171**	**182**	**198**
Average weekly earnings				
Income from transactions	42	16	46	49
Expenses from transactions	-1	-3	-5	-7
Net result from transactions	**43**	**19**	**51**	**56**
Other economic flows	..	..	..	..
Net result	**43**	**19**	**51**	**56**
Enterprise bargaining agreements [(d)]				
Income from transactions	..	..	..	..
Expenses from transactions	131	166	181	195
Net result from transactions	**-131**	**-166**	**-181**	**-195**
Other economic flows	-164	..	..	..
Net result	**-295**	**-166**	**-181**	**-195**
Domestic share prices				
Income from transactions	..	9	..	..
Expenses from transactions	..	-5	-5	-5
Net result from transactions	**..**	**14**	**5**	**5**
Other economic flows	63	..	..	..
Net result	**63**	**14**	**5**	**5**
Overseas share prices				
Income from transactions	..	7	..	..
Expenses from transactions	..	-4	-4	-4
Net result from transactions	**..**	**11**	**4**	**4**
Other economic flows	50	..	..	..
Net result	**50**	**11**	**4**	**4**

Table 5.1: Impact on the general government fiscal results of selected economic indicators being one per cent higher than expected in 2007-08[a][b] *(continued)*

($ million)

	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Property prices				
Income from transactions	50	65	68	69
Expenses from transactions	-1	-6	-10	-13
Net result from transactions	**51**	**71**	**78**	**83**
Other economic flows	14	..	..	..
Net result	**66**	**71**	**78**	**83**
Property volumes				
Income from transactions	36	37	36	37
Expenses from transactions	-1	-3	-5	-7
Net result from transactions	**37**	**40**	**41**	**44**
Other economic flows	..	..	..	..
Net result	**37**	**40**	**41**	**44**
Interest rates [e]				
Income from transactions	36	116	34	34
Expenses from transactions	-1	44	49	56
Net result from transactions	**37**	**71**	**-15**	**-22**
Other economic flows	2 937	..	..	..
Net result	**2 974**	**71**	**-15**	**-22**

Source: Department of Treasury and Finance

Notes:

(a) A positive number for income from transactions denotes an increase in revenue. A positive number for expenses from transactions denotes an increase in expenses (and hence a reduction in the net result from transactions and net result). A positive number for other economic flows represents an increase in revenue. A positive number for the net result from transactions and net result denotes an improvement. Numbers may not balance due to rounding.

(b) The sensitivity from a one per cent lower than expected outcome of an economic variable, would in most instances, simply be the opposite of the impact shown in the table. However, for some results, the impacts of changes are not symmetrical and therefore care should be exercised when using the table to estimate the impact of lower than expected economic variables.

(c) Reflecting the departmental funding model, it is assumed that an increase in consumer prices within the Budget year does not impact on employee entitlements.

(d) Represents a one per cent increase in all Government enterprise bargaining agreements.

(e) Assumes a one percentage point increase across the entire term structure, i.e. short and long rates, over the forward estimates period.

Sensitivity to economic growth

Higher than expected gross state product is assumed to be associated with higher household consumption, leading to higher Goods and Services Tax (GST) grant revenue and taxation revenue. This would increase both the net result from transactions and the net result.

Sensitivity to employment

Higher than expected employment is assumed to result in additional payroll tax revenue, and would increase both the net result from transactions and the net result.

Sensitivity to prices

The impact of higher consumer prices is assumed to lead to higher Commonwealth-sourced revenue (due to indexation), as well as higher GST and taxation revenue as the value of tax bases rises in nominal terms. However, the higher revenue is partly offset by the higher cost of supplies and services, and some increases in outlays on grants and transfers. Reflecting the operation of the departmental funding model, this increase in expenses is limited to the extent that departments can fund it from increased revenue from specific purpose grants and sales of goods and services. Overall, there is a positive impact on the net result from transactions.

The increase in consumer prices would also result in an immediate increase in the superannuation liability which would adversely affect the net result by way of an actuarial loss. In subsequent years, the now higher superannuation liability results in a slightly higher superannuation expense which reduces the net result from transactions.

Sensitivity to wages

A rise in the level of economy-wide wages would result in higher payroll tax revenue, although this is partially offset by a reduction in Transport Accident Commission dividends. This would contribute to an increase in the net result from transactions and net result. The Government's enterprise bargaining agreements are assumed to be unchanged over the projection period.

Sensitivity to enterprise bargaining agreements

Enterprise bargaining agreements have the potential to pose a substantial risk to Victoria's budget position. The government's Public Sector Wages Funding Policy seeks to maintain the real value of wage increases and seeks productivity offsets for higher wage outcomes to minimise the risk to the budget. An across the board rise in the Government's enterprise bargaining agreements in excess of the level set out in its wages policy would result in an increase in employee entitlements and a corresponding decline in the net result from transactions.

The increased employee entitlements would increase the value of the superannuation liability and result in a reduction in the net result for the budget year. The higher superannuation liability would flow through to an increase in the superannuation expense in the remaining out-years.

Sensitivity to domestic and overseas share prices

The State's public financial corporations (PFCs) and superannuation funds have holdings of domestic and international shares as part of their respective investment portfolios. Higher domestic and international share prices therefore raise the profits of the PFCs and reduce the valuation of the superannuation liability due to the increase in superannuation fund assets.

The net result from transactions responds positively to increases in share prices as PFC dividends rise with profits. The higher than expected level of superannuation fund assets also reduces the superannuation expense beyond the budget year, thereby improving the net result from transactions.

Sensitivity to property prices

Higher property prices have an immediate impact on the net result from transactions through increased collections of land transfer duty. At the same time, the valuation of the superannuation liability is reduced (due to the increased value of holdings of property in the investment portfolio of superannuation funds) which gives rise to an actuarial gain thereby increasing the net result. In later years, the higher property prices continue to be reflected in higher land transfer duty and land tax while the previous increase in superannuation assets reduces ongoing superannuation expenses, all of which increase the net result from transactions.

Sensitivity to property transaction volumes

Higher property transaction volumes would increase land transfer duty revenue leading to a rise in the net result from transactions and net result.

Sensitivity to interest rates

A one percentage point increase in interest rates is assumed to reflect an increase in the cash rate of one percentage point over the forward estimates period, resulting in a one percentage point increase across the entire term structure.

The increase in interest rates reduces the valuation of long-term liabilities of the PFCs and raises measured profits of these entities for distribution to the general government (GG) sector. The higher income would be fully distributed as dividends and income tax equivalents in the second year. This is partly offset by lower Public Non-Financial Corporation dividends due to higher borrowing costs, as well as an increase in the borrowing costs of the GG sector.

At the same time, the increase in interest rates reduces the valuation of the superannuation liability and gives rise to an actuarial gain. In terms of ongoing superannuation expenses, the impact of a higher discount rate on service costs is more than offset by an increase in the annual interest expense on the superannuation liability going forward, leading to an increase in annual superannuation expenses. Accordingly, both the net result from transactions and the net result fall by the end of the forward estimates.

FISCAL RISKS

Expenditure risks

With the introduction of the departmental funding model from 2004-05, departments need to plan for, and manage, all costs associated with delivering services. Under the model, variations to previous budget consumer price index forecast growth rates applied to output prices for the coming budget and forward estimates years are to be determined in the context of the next annual Budget. There are several general risks such as unforeseen changes in the size and structure of the Victorian population, which can affect the expenditure and revenue outlook. These risks can be classified into those affecting all government departments and those that are department specific.

The main risks to specific departmental expenditures relate to growth in demand for key services, government commitments contingent on external factors, and government responses to unforeseen events such as natural disasters, including bushfires.

The 2007-08 revised estimates and forward estimates include a contingency provision to allow for the likelihood that some of these department specific and government wide expenditure risks will be realised during the remainder of the budget year or over the course of the forward years. The contingency provision includes a general allowance for:

- growth in Victoria’s population, and consequent derived demand for government services;
- an allowance for depreciation expenditure that would be associated with new asset investments funded from the unallocated capital provision (subject to government approval); and
- other expenditure risks, which were unforeseen or not able to be quantified, or were not formalised at the time of construction of the budget estimates.

In addition, the budget estimates include a contingency from 2008-09 that acknowledges funding for a number of existing programs which will conclude in 2007-08 or the following years. A provision is made on the basis that Government may endorse a number of these programs to continue or be replaced to meet service delivery priorities.

The inclusion of an operating contingency provision in the budget estimates mitigates the potential impact of expenditure risks on the overall budget position. Realised expenditure risks will only impact on total expenditure and the annual budget position to the extent that they cannot be accommodated within the contingency provision built into the budget estimates. The aggregate level of the operating contingency provisions contained within the budget estimates is shown in Note 10 of the Estimated Financial Statements (see Chapter 6, *Estimated Financial Statements and Notes*).

The budget estimates also include an unallocated capital provision to provide capacity for future asset investment requirements. With a capital program the size of that funded by the Government, there are always likely to be variations in actual costs (compared to budget) for individual asset investment projects. However, the forward estimates assume that capital cost pressures are managed within the existing forward estimates. Management of capital cost pressures may occur in one of three ways:

- the reallocation of resourcing within departments' global capital budgets (reflecting the likelihood that cost overruns on some projects will be offset by cost underruns in other areas); and/or
- re-scoping a project to fit within funding parameters (subject to government approval); and/or
- funding from the unallocated capital funding set aside in the forward estimates (subject to government approval).

The aggregate level of the unallocated capital contingency provisions contained within the budget estimates, including purchases of property, plant and equipment and contributions to other sectors, is shown in Table 3.5, Application of Cash Resources, in Chapter 3, *Budget Position and Outlook*.

Significant events that could represent a call on the operating contingency or unallocated capital funding and/or impact on total budget expenditure forecasts are detailed below.

Insurance exposures

The availability and affordability of commercial insurance has improved during the past year, although difficulties remain for particular clients and risks, particularly professional indemnity insurance for some highly specialised professions. The State no longer provides cover for tourism ventures or heritage and tourist railways, which have reverted to commercial insurance arrangements.

Pressures on private sector medical indemnity premiums have also eased, but there is still a risk that increasing medical costs and lack of availability of private doctors in some regions may result in the State assuming larger numbers of high risk medical procedures. This risk, together with the impact of claims that arise from current levels of public medical services, means that there is a continuing need to closely monitor the State's medical indemnity liabilities and expenses.

As set out in the contingent liabilities section, as the insurer for the Victorian GG sector, the Victorian Managed Insurance Authority (VMIA) insures any additional risks assumed by the GG sector. It does so either explicitly through indemnities provided to non-government bodies, or implicitly through transfer of activities from private sector to GG sector service providers. However, the State continues to directly bear the risks of losses arising from events for which VMIA does not provide insurance, such as terrorist attacks.

Changes to Exceptional Circumstances Declared Areas and Eligibility Criteria

The Commonwealth Government recently extended Exceptional Circumstance declared areas in Victoria to include South and West Gippsland. The Commonwealth also announced changes to the Exceptional Circumstance eligibility criteria including an increase to the off-farm assets limit for access to interest rate subsidies. Funding will be required to meet Victoria's additional contribution to this scheme. Any further changes to eligibility criteria would impact on Victoria's position.

REVENUE RISKS

Commonwealth grants

Commonwealth grants are a major source of revenue for the Victorian Government, with an estimated grants income of approximately $17 billion in 2007-08. Commonwealth grants include general purpose grants (GST grants) and specific purpose payments (SPPs).

The level of SPPs is determined by the policies of the Commonwealth Government and is published on an annual basis in the Commonwealth budget papers. The level of GST grants is affected by the general level of activity in the Australian economy and the GST revenue sharing relativities as calculated by the Commonwealth Grants Commission.

The Commonwealth Grants Commission provides updates of its GST revenue sharing relativities in February each year. These are then subject to the approval of the Commonwealth Treasurer at the annual Ministerial Council for Commonwealth State Financial Relations.

The Commonwealth grants estimates in this *2007-08 Budget Update* (GST grants and SPPs) are based on data published in the Commonwealth's 2007 *Mid-Year Economic and Fiscal Outlook*, released on 15 October 2007. The GST estimates are based on the Commonwealth's latest forecasts for Australia-wide economic activity, as published in the *Mid-Year Economic and Fiscal Outlook*. Any changes to economic conditions over the forward estimates period will have a direct impact on the amount of GST revenue to be distributed among the states.

Lotteries licence

On 11 October 2007, the Government announced that Tattersall's and Intralot Australia would both be awarded non-exclusive licences to conduct public lotteries in Victoria for ten years from 1 July 2008 to 30 June 2018. Under this new approach to licensing lotteries, the Government is confident it will at least maintain the current level of lotteries taxation revenue and derive over $3 billion over the ten-year licence period in lotteries taxation revenue.

The budget estimates for lotteries taxation revenue have been based on historical lotteries sales growth. In the event that lotteries sales exceed historical trends under this new approach to licensing lotteries, additional taxation revenue will be derived. The performance of post-2008 lotteries licensees will therefore be closely monitored to ensure that any realised risks are appropriately addressed.

CONTINGENT ASSETS AND LIABILITIES

Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

These can be classified into either quantifiable, where the potential economic benefit is known, or non-quantifiable.

Quantifiable contingent assets

($ million)

	2006	*2007* [(a)]
Guarantees, indemnities and warranties	..	1.3
Potential extension/early termination of contractual arrangements [(b)]	100.0	119.3
Legal proceedings and disputes	1.0	17.0
Other [(c)]	107.7	112.7
Total contingent assets	**208.7**	**250.2**

Notes:

(a) There have been no material changes to quantifiable contingent liabilities since last reported in the 2006-07 Financial Report on the State of Victoria.

(b) Included under 'potential early termination of contractual arrangements' are any additional costs arising to the Director of Public Transport on early termination of the public transport partnership agreements. The operator must, to the extent of the performance bonds, indemnify the Director for any losses, damages or costs incurred by him as a result of early termination. If the operator does not do so, the Director has the right to draw on the operator's performance bonds for the amount of losses, damages or costs. The expected value of these bonds is $119 million.

(c) 'Other', includes the EastLink project of $93 million. The remaining amounts in 'Other' relate to smaller individual contingencies.

EastLink

On 14 October 2004, the State entered into a concession deed with ConnectEast to design, construct, finance and operate EastLink (formerly known as the Mitcham Frankston Project). Various performance bonds provided under the concession deed can be drawn by the State in circumstances where the concessionaire (ConnectEast) or one of its contractors fails to meet its obligations. These bonds include a construction bond ($88 million) and an operation phase bond ($5 million). In the event of certain default events, there is potential for the $5 million to increase to $20 million.

Non-quantifiable contingent assets

Public transport partnership agreements

On 19 February 2004, the Director of Public Transport, on behalf of the Crown, entered into contractual arrangements with Connex and Yarra Trams to operate rail transport services in the State. The major contingent asset arising from those arrangements is profit sharing in which the Director is entitled to receive payment from Connex and Yarra Trams should franchisee profits exceed defined thresholds.

Should the access charge regime for train rail access be reset, then the Director may receive income in respect of any increased rate as a result of the reset. The Department of Infrastructure has also initiated proceedings to recover clean-up costs associated with marine pollution incidents from various entities.

City Link compensable enhancement claims

The Melbourne City Link Concession Deed contains compensable enhancement provisions that enable the Victorian Government to claim 50 per cent of additional revenue derived by City Link Melbourne Limited as a result of certain events that particularly benefit City Link, including changes to the adjoining road network.

On 20 May 2005, the Victorian Government lodged a compensable enhancement claim relating to works to improve the traffic flow on the Westgate Freeway between Lorimer and Montague Streets.

Under the Monash-West Gate Freeways Improvement project, the Victorian Government’s share of revenue uplifts will be calculated and paid three years after the completion of the project.

EastLink

As indicated above, on 14 October 2004, the State entered into a concession deed with ConnectEast to design, construct, finance and operate EastLink. In addition to the quantifiable contingent assets listed above, there is a non-quantifiable contingent asset relating to the Hand Over Bond through which ConnectEast has an obligation, in certain limited circumstances, to provide the State with a bond to cover project rectification costs to the end of the concession period in 2043.

Contingent liabilities

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - the amount of the obligation cannot be measured with sufficient reliability.

As with contingent assets, contingent liabilities are also classified as either quantifiable or non-quantifiable.

Quantifiable contingent liabilities

($ million)

	2006	*2007* [(a)]
Guarantees, indemnities and warranties	404.0	364.7
Potential extension/early termination of contractual arrangements [(b)]	579.5	..
Legal proceedings and disputes	233.2	285.1
Other	43.9	355.8
Non-general government debt [(c)]	3 310.7	3 678.6
Total contingent liabilities	**4 571.3**	**4 684.3**

Notes:

(a) There have been no material changes to quantifiable contingent liabilities since last reported in the 2006-07 Financial Report on the State of Victoria.

(b) Under 'potential early termination of contractual arrangements' is a contractual agreement of $579.5 million relating to the cost of correctional services beyond the contract period. The State has the option to re-tender for the provision of correctional services every three years, after the initial five year period for each contract.

(c) Represents guarantees for loans made by the general government sector to agencies in the public non-financial corporations sector, primarily the water entities and other non-general government sector entities.

Non-quantifiable contingent liabilities

A number of potential obligations, which are non-quantifiable at this time, have been recognised by the Government arising from:

- indemnities provided in relation to transactions, including financial arrangements and consultancy services, as well as for directors and administrators;
- performance guarantees, warranties, letters of comfort, and the like;
- deeds in respect of certain obligations; and
- unclaimed moneys which may be subject to future claims by the general public against the State.

Asset sales

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

Royal Melbourne Showgrounds

A contingent liability exists for any claims which may be made against the Showgrounds Nominees Pty Ltd arising from joint venture dealings as outlined in the Development and Operations Agreement for the Royal Melbourne Showgrounds.

An undertaking has been given by the joint venture parties to meet the indexed service fees payable to the Concessionaire (Developer) as and when they fall due.

Under the State Support Deed – Core Land, the State undertakes to ensure the performance of the payment obligations in favour of the Concessionaire and the performance of the joint venture financial obligations in favour of the security trustee.

Under the State Commitment to the Royal Agricultural Society (RAS), the State has agreed to support certain obligations of the RAS which may arise out of the Joint Venture Agreement. In accordance with the terms in the State Commitment to the RAS, the State will pay (in the form of a loan), the amount requested by the RAS. If any outstanding loan amount remains unpaid at the date, which is 25 years after the commencement of the operation term under the Development and Operation Agreement, the RAS will be obliged to satisfy and discharge each such outstanding loan amount. This may take the form of the transfer to the State of the whole of the RAS' participating interest in the joint venture.

Public transport rail partnership agreements

The Director of Public Transport, on behalf of the Crown, entered into new partnership contractual arrangements with franchisees to operate rail transport services in the State, operative from 18 April 2004. The following summarises the major contingent liabilities arising from those arrangements.

Contingent liabilities arising during the agreement period

There are a number of contingent liabilities arising from the new Partnership Agreements between the Director of Public Transport and Connex and Yarra Trams, which were signed on 19 February 2004.

These possible liabilities refer to payments to be made by the Director of Public Transport to Connex and Yarra Trams should certain events occur:

Farebox risk sharing: The Director is obliged to make payments should farebox receipts fall below defined thresholds.

New ticketing revenue guarantee payment: Franchisees have an option to elect to permanently move to a revenue guarantee payment regime should implementation matters or new ticket fare structures associated with the introduction of the new ticketing system cause a real reduction in the farebox.

New ticketing system start up: The State is obliged to pay any additional labour costs associated with training and deployment of staff in relation to the establishment of the new ticketing system.

Regional Fast Rail: The Director is required to meet the incremental costs incurred by Connex associated with the introduction of Regional Fast Rail.

Connex and Mainco indemnity

The Director indemnifies VicTrack and the Southern Cross Station Authority from any claim brought by the franchisees under the Infrastructure Lease.

Contingent liabilities on early termination or expiry of franchise agreement

Franchise assets: To maintain continuity of services the Director at early termination or expiry of the franchise agreement will:

- for new rolling stock – either acquire the new rolling stock at predetermined values or have the lease payment obligations transferred to the Director or a successor franchise; and
- for franchise assets – either purchase the assets or have the assets transferred to the successor.

Unfunded superannuation: At the early termination or expiry of the contract, the Director will assume any unfunded superannuation amounts (apart from contributions the franchisee is required to pay over the contract term) to the extent that the State becomes the successor operator.

In August 2007, the Government announced that it will competitively tender the metropolitan train and tram franchises. To facilitate this process, the government has extended the existing contracts with Connex and Yarra Trams for a further 12 months until November 2009.

Contingent liabilities arising from potential changes to existing conditions

Change in Victorian law: Franchisees may make a claim against the Director for any net losses incurred as a result of a change in Victorian law which directly relates to the franchise business.

Latent Defects: The Director is responsible for leased infrastructure defects above a threshold amount.

Pre existing contamination: The Director is responsible for all costs associated with pre existing contamination clean up. The Director also indemnifies the franchisee from and against all losses, damages, actions suits, claims, demands, costs and expenses associated with pre existing contamination.

Native Title: The Director is liable for payments of any valid compensation claim to Native Title holders made under any Native Title law in respect of the land defined in the infrastructure leases entered into with franchisees.

National Express receivership

In December 2002, the Government appointed receivers and managers to the National Express train and tram franchises, in order to protect Government interests, ensure continuation of services up to the commencement of new franchise agreements, and deal with any subsequent termination issues.

The Treasurer, under the Receivership Deed of Indemnity, has agreed to indemnify the receivers for debts properly incurred by them in the course of receivership. The Treasurer has also agreed to remunerate the receivers in accordance with the rates set out in the deed.

Melbourne City Link

An outstanding claim exists from Transurban City Link Limited pursuant to the Melbourne City Link Concession Deed, relating to an alleged Material Adverse Effect in respect of the construction of Wurundjeri Way. Expert determination found in favour of the State; however, the claim has now been appealed to arbitration, which is yet to proceed. VicRoads is defending this claim and is unable to assess the likelihood of success at this time.

EastLink

On 14 October 2004, the State entered into a Concession Deed with ConnectEast to design, construct, finance and operate EastLink. The major non quantifiable contingent liability arising from the concession deed relates to the Key Risk Management Regime. The Regime relates to the occurrence of certain circumstances that may have a detrimental impact on the concessionaire's ability to achieve its forecast returns. It identifies the areas that enable the concessionaire to claim redress from the State. These may include acts of prevention, failure to support a principal road interface, changes in state law, Native Title and the environmental effects statement.

Native Title

A number of claims have been filed with the Federal Court under the *Native Title Act 1993* that affect Victoria. While many such claims are being processed through the legal system, the Government has committed itself to resolving claims through mediation, where possible. It is not feasible at this time to quantify any future liability.

Department of Education and Early Childhood Development contracts with the Commonwealth

Indemnities are provided by the Department of Education and Early Childhood Development to the Commonwealth in funding contracts entered with the Commonwealth throughout the year. Each indemnity is limited to $10 million for personal injuries and property damage, and $50 million for damages arising out of internet usage.

HIH Insurance

The State's quantifiable direct exposures arising from the collapse of the HIH Insurance Group are included in the liabilities shown in the financial statements of the agencies directly responsible for them (such as the Victorian WorkCover Authority and the VMIA), and are consolidated in the financial statements of the State.

The State's obligations in respect of its builders' warranty insurance rescue package are direct liabilities of the State itself. They do not form part of the liabilities of the VMIA which manages claims on behalf of the State, this responsibility having been transferred to VMIA from the Housing Guarantee Fund Limited, under the *House Contracts Guarantee (Amendment) Act 2005.*

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

Land remediation – environmental concerns

A number of Victorian government properties have been identified as potentially contaminated sites. The State does not admit any liability in respect of these sites. However, remedial expenditure may be incurred to restore the sites to an acceptable environmental standard in the event of future developments taking place and/or to meet statutory requirements.

Victorian Managed Insurance Authority – insurance cover

The VMIA was established in 1996 as a captive insurer for departments and participating bodies, predominantly in the GG sector. VMIA provides its client bodies with a range of insurance cover, including for property, public and products liability, professional indemnity and contract works. VMIA provides insurance to its clients up to specified limits. The risk of losses above these specified limits is borne by the State. VMIA generally reinsures in the private market for losses above its maximum self retention of $50 million arising out of any one event up to a maximum for each type of cover (e.g. $1 250 million for property and $750 million for public liability).

Victorian Managed Insurance Authority – public healthcare insurances

VMIA insures the public healthcare system for a range of insurances, including medical indemnity risks. The Government has indemnified VMIA for losses on its public sector medical indemnity portfolio that exceed 120 per cent of claims estimates to be incurred in any one policy year.

Victorian Managed Insurance Authority – asbestos related disease claims

VMIA insures co-defendants to claims arising as a result of exposure by third parties to asbestos. These third parties may have an entitlement to payment as a result of insurance policies taken out by their employer with insurers, one of which may be VMIA.

In the event a co-defendant or its insurer is unable to settle a claim by reason of insolvency, VMIA's share of a settlement will increase by a percentage of the insolvent party's obligation. A contingent liability exists to the extent that the insolvency of a co-defendant or its insurer may not be known by VMIA as of the relevant reporting date.

Gambling licences

In 1994, the State sold a wagering licence and a gaming licence to TABCORP Holdings Limited (TABCORP) for $597 million. The *Gambling Regulation Act 2003* requires the State to provide a refund to TABCORP in 2012 of an amount equal to the licence value of the former licences or the premium payment paid by the new licensee, whichever is the lesser. While this creates an obligation on the State to refund the licence value to TABCORP, it will be offset by the premium payment from the issue of any new licences. In 1992, a gaming operator's licence was issued to the Trustees of the Will and Estate of the late George Adams (the licensee). The *Gambling Regulation Act 2003* entitles the licensee to be paid, at the end of its current licence period in 2012, an amount equal to the value of its current licence or the premium payment paid by the new licensee, whichever is the lesser. This entitlement is contingent on the licensee not being granted a new licence.

The gambling licences are currently under review and a public submission and consultation process has been conducted for the review of the electronic gaming machine, Club Keno and wagering licences and funding arrangements for the racing industry post 2012. The Government has indicated an announcement will be made shortly on the post 2012 licence structures, funding arrangements and the timing and approach to the awarding of licences.

Builders' warranty

On 13 March 2002, Victoria and New South Wales jointly announced a series of reforms to builders' warranty insurance arrangements. This announcement included a commitment to provide a catastrophe fund capable of supporting claims above $10 million. To meet this commitment, the two States offered reinsurance arrangements to all builders' warranty insurers covering claims in respect of any one builder in excess of $10 million, with each state reinsuring claims relating to properties in that state. South Australia has since also become involved in these arrangements. Since builders' warranty insurance commenced, there have been no losses by an insurer to any one builder that exceed this amount.

Victoria entered into a reinsurance agreement giving effect to these arrangements in December 2002 (effective from 1 January 2003) with one insurer. Subsequently these arrangements have been extended to additional insurers. Each agreement requires the nominated insurer to pay reinsurance premiums to Victoria (and to any other State that is also a party to such an agreement) that are estimated to be sufficient for the State to at least break even on these arrangements. However, the State retains an unquantifiable contingent liability for additional claims.

Homesafe Equities Pty Ltd

The State has established a scheme to issue indemnities to homeowners whose homes are covered by builders' warranty bonds issued by Homesafe Equities Pty Ltd (Homesafe) between 1 July 2003 and 26 April 2004 to the extent of the indemnity provided to each homeowner by Homesafe under the Homesafe bondholder's builders warranty bond. This indemnity expires on 28 September 2008.

The State's obligation in respect of its builders' warranty insurance rescue package for Homesafe is a direct liability of the State itself. It does not form part of the liability of the VMIA, which manages claims on behalf of the State.

CHAPTER 6: ESTIMATED FINANCIAL STATEMENTS AND NOTES

The Estimated Financial Statements have been prepared in accordance with the provisions of the *Financial Management Act 1994*. This Act requires the Estimated Financial Statements to be consistent with the Financial Policy Objectives and Strategies Statement (see Chapter 1, *Financial Policy Objectives and Strategy*), and be prepared in a manner and form determined by the Minister. Consistent with the form of the Estimated Financial Statements presented in the *2007-08 Budget Papers*, these revised statements are based on Australian Accounting Standards.

The purpose of the Estimated Financial Statements is to provide updated information on the forecast financial results for the general government sector. Given the prospective nature of these statements, they reflect a number of professional judgements about the most likely operating and financial conditions for the Victorian general government sector. International developments and other risks to the national economy, from which Victoria would not be immune, may cause the general government actual result to differ from the projections.

The accompanying notes to the statements provide revised details of the material economic and other assumptions. In addition, only those specific forecast assumptions that have changed since the *2007-08 Budget* have been included. A number of these assumptions are subject to inherent uncertainties, which are outside the control of the Government. Compared with the balance sheet estimates published in the *2007-08 Budget*, the opening balances as at 1 July 2007 and subsequent forecast closing balances have been adjusted to reflect actual audited balances as at 30 June 2007. The original estimates were based on audited values at 30 June 2006 adjusted for estimated movements during 2006-07.

ESTIMATED FINANCIAL STATEMENTS FOR THE VICTORIAN GENERAL GOVERNMENT SECTOR

Table 6.1: Estimated operating statement for the period ended 30 June

($ million)

	Notes	*2007-08 Budget*	*2007-08 Revised*	*2008-09 Estimate*	*2009-10 Estimate*	*2010-11 Estimate*
Income from transactions						
Taxation	2	11 589.0	12 564.3	13 122.0	13 568.4	14 194.7
Fines and regulatory fees		842.8	847.1	890.5	904.1	910.0
Dividends and income tax equivalent and rate equivalent revenue	3	905.4	703.3	608.5	685.1	837.4
Interest		301.9	376.9	376.4	380.4	388.4
Grants	4	16 158.7	16 527.3	17 266.5	18 013.7	19 091.0
Sale of goods and services		2 643.8	2 763.5	2 806.6	2 835.0	2 894.3
Fair value of assets received free of charge or for nominal consideration		..	160.0	21.0	..	..
Other income	5	1 827.6	1 850.0	1 921.7	1 951.8	2 026.1
Total income from transactions		**34 269.2**	**35 792.5**	**37 013.2**	**38 338.5**	**40 341.9**
Expenses from transactions						
Employee benefits		12 726.2	12 758.1	13 135.3	13 562.3	13 968.2
Superannuation	6 (a)	1 622.9	1 660.3	1 643.8	1 689.0	1 740.0
Depreciation and amortisation	7	1 470.1	1 445.3	1 530.3	1 640.1	1 826.3
Finance costs	8	486.3	510.7	576.1	683.9	802.2
Grants and transfer payments	9	6 520.3	7 124.1	6 416.0	6 386.2	6 739.9
Supplies and services		11 118.6	11 387.8	12 833.0	13 466.8	14 392.4
Other expenses		0.4	64.7	64.2	64.2	64.2
Total expenses from transactions	**10**	**33 944.9**	**34 951.0**	**36 198.7**	**37 492.5**	**39 533.2**
Net result from transactions		**324.3**	**841.5**	**814.5**	**846.0**	**808.7**
Income/(expenses) from other economic flows						
Net gain/(loss) from disposal of physical assets		15.5	24.7	4.8	5.6	4.3
Actuarial gains/(losses) on superannuation defined benefit plans	6 (a)	..	(232.0)	..	..	..
Net gains/(losses) on financial assets at fair value		4.1	1.9	0.6	0.5	0.6
Other gains/(losses) from other economic flows	11	(40.6)	(117.4)	(142.5)	(143.7)	(143.7)
Total other economic flows		**(21.0)**	**(322.8)**	**(137.1)**	**(137.6)**	**(138.8)**
Net result		**303.3**	**518.7**	**677.3**	**708.4**	**669.9**

The accompanying notes form part of these Estimated Financial Statements.

Table 6.2: Estimated balance sheet as at 30 June

($ million)

	Notes	2007-08 Budget [(a)]	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Current assets						
Cash and cash equivalents	17(a)	3 010.3	2 057.6	2 054.4	2 057.7	2 055.5
Receivables		3 011.4	2 119.2	2 039.9	2 102.3	2 025.2
Prepayments		99.8	98.1	90.1	90.7	91.4
Inventories		126.8	123.9	125.8	127.1	128.3
Other financial assets		1 575.2	1 612.4	1 633.5	1 669.2	1 728.2
		7 823.5	**6 011.3**	**5 943.7**	**6 046.9**	**6 028.7**
Non-current assets classified as held for sale		51.9	51.9	52.0	52.0	52.0
Total current assets		**7 875.5**	**6 063.2**	**5 995.7**	**6 098.9**	**6 080.8**
Non-current assets						
Receivables		260.9	214.1	158.6	157.5	156.5
Investments accounted for using the equity method		634.5	639.5	644.5	649.5	654.5
Other financial assets		544.9	550.6	562.5	559.1	578.2
Property, plant and equipment	12, 13	63 258.7	63 382.0	67 597.0	75 819.4	80 829.2
Intangibles	14	222.5	223.9	224.2	205.7	199.3
Other assets	15	167.1	214.4	222.8	226.0	229.1
Total non-current assets		**65 088.6**	**65 224.5**	**69 409.7**	**77 617.2**	**82 646.8**
Total assets		**72 964.1**	**71 287.7**	**75 405.4**	**83 716.1**	**88 727.6**
Current liabilities						
Payables		2 665.4	2 655.7	2 674.8	2 704.7	2 736.3
Interest-bearing liabilities		1 084.8	276.1	276.0	264.7	253.5
Employee benefits	16	3 285.8	3 298.2	3 312.4	3 353.2	3 397.1
Superannuation	6(d)	417.0	417.0	535.0	609.7	625.0
Other provisions		214.0	213.6	213.2	212.9	212.5
Other liabilities		622.8	509.7	508.5	517.3	524.7
Total current liabilities		**8 289.8**	**7 370.3**	**7 520.0**	**7 662.6**	**7 749.1**
Non-current liabilities						
Payables		241.7	244.8	228.9	183.9	139.0
Interest-bearing liabilities		7 694.3	6 728.0	8 468.4	10 191.4	11 744.7
Employee benefits	16	465.2	465.9	587.3	683.3	781.4
Superannuation	6(d)	9 783.6	10 034.9	9 872.6	9 646.7	9 486.9
Other provisions		523.7	523.3	511.8	500.2	488.7
Other liabilities		490.6	485.6	453.2	440.9	428.3
Total non-current liabilities		**19 199.1**	**18 482.6**	**20 122.2**	**21 646.4**	**23 068.9**
Total liabilities		**27 488.9**	**25 852.8**	**27 642.2**	**29 309.0**	**30 818.0**
Net assets		**45 475.3**	**45 434.9**	**47 763.1**	**54 407.1**	**57 909.5**

The accompanying notes form part of these Estimated Financial Statements.

Note:

(a) 2007-08 Budget above and its accompanying notes are based on actual opening balances at 1 July 2007 plus 2007-08 Budgeted movement.

Table 6.3: Estimated statement of recognised income and expense for the financial year ending 30 June

($ million)	Notes	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Gain on revaluation of property plant and equipment [(a)]	13	2 584.7	2 584.7	2 941.2	6 833.7	3 424.1
Other		..	0.8	1.0	1.0	1.0
Net income recognised directly in equity		**2 584.7**	**2 585.5**	**2 942.2**	**6 834.7**	**3 425.1**
Net result for the period		**303.3**	**518.7**	**677.3**	**708.4**	**669.9**
Total recognised income and expense for the period		**2 888.0**	**3 104.2**	**3 619.5**	**7 543.1**	**4 094.9**

The accompanying notes form part of these Estimated Financial Statements.

Note:
(a) The increase in 2009-10 is due to the cyclic revaluations required under Financial Reporting Directions of the Minister for Finance.

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

($ million)

	Notes	*2007-08 Budget*	*2007-08 Revised*	*2008-09 Estimate*	*2009-10 Estimate*	*2010-11 Estimate*
Cash flows from operating activities						
Receipts						
Taxation		11 673.4	12 947.1	13 257.5	13 626.2	14 194.5
Fines and regulatory fees		719.9	724.2	772.6	786.2	792.1
Dividends and income tax equivalent and rate equivalent revenue		898.1	706.5	590.3	719.4	871.5
Interest received		301.7	351.7	363.9	376.7	388.5
Grants		16 159.0	16 552.8	17 279.4	18 017.7	19 091.3
Sales of goods and services [(a)]		2 590.7	2 761.4	2 796.4	2 824.0	2 932.9
Other receipts		1 944.0	2 287.4	1 814.5	1 703.2	1 922.6
Total receipts		**34 286.7**	**36 331.1**	**36 874.6**	**38 053.4**	**40 193.3**
Payments						
Employee benefits		(12 596.1)	(12 615.0)	(12 999.6)	(13 425.7)	(13 826.1)
Superannuation		(1 560.0)	(1 578.1)	(1 688.2)	(1 840.1)	(1 884.5)
Interest paid		(448.5)	(448.5)	(513.4)	(621.4)	(739.4)
Grants and transfer payments		(6 482.6)	(7 086.4)	(6 400.1)	(6 394.4)	(6 748.2)
Supplies and services [(a)]		(11 118.2)	(11 419.4)	(12 866.1)	(13 532.0)	(14 456.7)
Total payments		**(32 205.3)**	**(33 147.3)**	**(34 467.4)**	**(35 813.7)**	**(37 654.9)**
Net cash flows from operating activities	**17(b)**	**2 081.4**	**3 183.7**	**2 407.3**	**2 239.7**	**2 538.4**
Cash flows from investing activities						
Purchases of non-financial assets	18	(2 925.6)	(2 821.6)	(3 082.4)	(3 397.1)	(3 514.3)
Proceeds from sale of non-financial assets		202.3	161.4	110.3	156.0	113.7
Net disposal/(purchase) of investments		(62.7)	(112.9)	(37.5)	(36.7)	(82.5)
Net customer loans (granted)/repaid		0.8	0.8	1.1	1.1	0.7
Net contribution to other sectors of government		(898.4)	(1 190.9)	(901.3)	(661.6)	(592.5)
Net cash flows from investing activities		**(3 683.6)**	**(3 963.2)**	**(3 909.8)**	**(3 938.4)**	**(4 074.9)**
Cash flows from financing activities						
Net borrowings		1 594.9	(180.7)	1 499.3	1 701.9	1 534.4
Net cash flows from financing activities		**1 594.9**	**(180.7)**	**1 499.3**	**1 701.9**	**1 534.4**
Net increase/(decrease) in cash and cash equivalents		**(7.4)**	**(960.1)**	**(3.2)**	**3.2**	**(2.1)**

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

($ million)	Notes	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Cash and cash equivalents at beginning of reporting period		3 014.6	3 014.6	2 054.5	2 051.3	2 054.6
Cash and cash equivalents at end of reporting period	**17(a)**	**3 007.2**	**2 054.5**	**2 051.3**	**2 054.6**	**2 052.4**

The accompanying notes form part of these Estimated Financial Statements.

Memorandum item: The International Monetary Fund GFS cash surplus/(deficit) shown below can be calculated from the statement of cash flows above and is equal to the net cash flows from operating activities less the net purchase of non-financial assets (i.e. purchases less sale proceeds).

Cash surplus/(deficit)	**(641.9)**	**523.6**	**(564.9)**	**(1 001.4)**	**(862.2)**

Note:

(a) These items are inclusive of Goods and Services Tax.

NOTES TO 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[a]

(per cent change)

	2007-08 Forecast	2008-09 Forecast	2009-10 Forecast	2010-11 Forecast
Real gross state product	3.75	3.50	3.00	3.00
Employment	2.50	1.75	1.50	1.50
Wage price index [b]	3.50	3.50	3.50	3.50
Consumer price index	2.75	2.50	2.50	2.50
Population [c]	1.40	1.40	1.40	1.30

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

Notes:

(a) Year-average per cent change on previous year unless otherwise indicated. All economic projections are rounded to the nearest 0.25 percentage point, except population projections which are rounded to the nearest 0.1 percentage point.

(b) Total hourly rate excluding bonuses.

(c) June quarter, per cent change on previous June quarter.

Note 1: Statement of significant accounting policies and forecast assumptions

The following summary sets out the significant accounting policies and forecast assumptions that have been adopted in preparing and presenting the Estimated Financial Statements for the forecast period, which includes the budget year and the estimates for the three subsequent years.

The accounting policies and assumptions applied are consistent with those of the Estimated Financial Statements as published in the *2007-08 Budget Paper No. 4*, *Statement of Finances* which should be read in conjunction with this Update.

(A) Compliance

This Budget Update for the general government sector comprises Estimated Financial Statements for the *2007-08 Budget* year and subsequent forecast years as required by Section 23L of the *Financial Management Act 1994*. It has not been subject to audit review.

These Estimated Financial Statements have been prepared in accordance with the *Financial Management Act 1994*, and Australian Accounting Standards and Interpretations. Their preparation is based on New Zealand Financial Reporting Standard FRS 42 *Prospective Financial Information* because there are no specific Australian authoritative pronouncements which prescribe the preparation and presentation of prospective financial statements. The information presented in the Estimated Financial Statements takes into account government decisions and other circumstances that may have a material effect on the statements.

(B) Basis of accounting and measurement

The accrual basis of accounting has been employed in the preparation of the Estimated Financial Statements whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

(C) Reporting entity

The Victorian general government sector includes all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. The general government sector is not a separate entity but represents a sector within the State of Victoria whole of government reporting entity.

The primary function of entities within the general government sector is to provide public services (outputs), which are mainly non-market in nature, for the collective consumption of the community, and involve the transfer or redistribution of income and are financed mainly through taxes and other compulsory levies. These entities are not-for-profit entities and apply, where appropriate, those paragraphs of accounting standards applicable to not-for-profit entities.

(D) Basis of consolidation

The Estimated Financial Statements incorporate assets and liabilities of all reporting entities in the Victorian general government sector and their revenues, gains and expenses for the respective period.

Entities in the public non-financial corporations and public financial corporations sectors are not consolidated because the intent of the Estimated Financial Statements is to convey the estimated financial results, financial position and cash flows of the general government sector alone.

Details of the entities included in the general government sector are shown in Note 19 to the financial statements.

In the process of reporting the general government sector as a single economic entity, all material transactions and balances between entities within the sector are eliminated.

(E) Prospective Accounting Changes

GAAP GFS Convergence

In September 2006, the Australian Accounting Standards Board (AASB) issued a new accounting standard AASB 1049 *Financial Reporting of General Government Sectors by Governments*, which will apply to future financial reports of the Victorian general government sector. In October 2007, the AASB extended AASB 1049 to also apply to financial reports of the whole of government economic entity. The standard, which will be applicable for annual reporting periods beginning on or after 1 July 2008, converges Australian Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) reporting. It also includes additional disclosure requirements. The effect of any changes to recognition or measurement requirements as a result of this new standard is being evaluated.

Service Concessions

In February 2007, the AASB approved Australian Interpretation 12 *Service Concession Arrangements*, applicable only to private sector operators from the 2008-09 reporting period, and AASB 2007-2 that made consequential reference changes to affected standards. The AASB is still to consider how public sector grantors should account for service concession arrangements, and has appointed an advisory panel to make recommendations.

Due to the lack of applicable accounting guidance on the recognition and measurement by the State of assets arising from certain service concession arrangements, there has been no change in policy and those assets are currently not recognised.

The impact of any changes that may be required cannot be reliably estimated and is not accounted for in the Estimated Financial Statements.

Land Under Roads

Under AASB 1045 *Land Under Roads* as amended, an entity may elect until the end of the first reporting period ending on or after 31 December 2007 not to recognise land under roads as assets. In October 2007, the AASB tentatively decided on transitional requirements to allow the current optional treatment of land under roads to continue indefinitely for land under roads acquired prior to the transitional period lapsing; and to require subsequently acquired land under roads to be accounted for in accordance with AASB 116 *Property, Plant and Equipment*. The forecasts presume that the State will continue to not recognise and measure land under roads.

(F) Revised forecast assumptions

Estimates of forecasts are based on the latest data and economic assumptions at the time the forecasts are prepared. The revised forecasts for income and measurement of liabilities in this Update are based on latest known data and revised economic assumptions compared to those contained in the Budget.

At the time of the Budget, the Government was undertaking a licence awarding process to award future public lotteries licence(s). The Budget estimates were based on existing policy then and did not take into account any possible changes to future licensing structures. In October 2007, the Government announced that Tattersall's and Intralot Australia would both be awarded non-exclusive licences to conduct public lotteries in Victoria for ten years from July 2008. Based on the licence agreement, additional licence premiums have been recognised in the taxation estimates in this Update from 2008-09 of $3.1 million annually.

(G) Rounding

All amounts in the Estimated Financial Statements have been rounded to the nearest hundred thousand dollars unless otherwise stated. Figures in these Estimated Financial Statements may not add due to rounding.

Note 2: Taxation

($ million)

	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Payroll tax	**3 601.8**	**3 745.1**	**3 887.0**	**4 106.6**	**4 343.7**
Taxes on immovable property					
Land tax	765.4	880.8	1 167.4	1 138.2	1 196.9
Congestion levy	38.7	38.7	40.6	41.5	42.5
Metropolitan improvement levy	100.6	101.5	106.3	110.2	114.3
Property owner contributions to fire brigades	41.1	40.8	42.2	43.7	45.2
Total taxes on immovable property	**945.8**	**1 061.8**	**1 356.6**	**1 333.7**	**1 398.9**
Financial and capital transactions					
Land transfer duty	2 854.3	3 554.3	3 500.0	3 558.0	3 657.0
Other property duties	9.8	9.8	10.2	10.9	11.7
Financial accommodation levy	20.6	20.6	24.5	28.9	32.8
Total financial and capital transactions	**2 884.7**	**3 584.7**	**3 534.7**	**3 597.8**	**3 701.5**
Levies on statutory corporations	**61.6**	**61.6**	**73.7**	**73.7**	**73.7**
Gambling taxes					
Public lotteries	322.3	317.3	334.4	342.5	348.5
Electronic gaming machines	941.4	982.9	1 021.5	1 069.9	1 121.0
Casino	130.8	123.5	133.4	140.9	150.6
Racing	129.4	124.2	131.4	138.6	146.1
Other	5.9	6.1	6.6	7.1	7.6
Total gambling taxes	**1 529.8**	**1 554.0**	**1 627.3**	**1 699.0**	**1 773.8**
Taxes on insurance	**1 135.5**	**1 142.2**	**1 150.1**	**1 193.4**	**1 261.9**
Motor vehicle taxes					
Vehicle registration fees	779.1	788.2	836.2	887.6	941.0
Duty on vehicle registrations and transfers	559.3	549.6	573.1	595.2	617.7
Total motor vehicle taxes	**1 338.4**	**1 337.8**	**1 409.4**	**1 482.8**	**1 558.7**
Other taxes	**91.4**	**77.1**	**83.4**	**81.4**	**82.4**
Total taxation	**11 589.0**	**12 564.3**	**13 122.0**	**13 568.4**	**14 194.7**

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

($ million)

	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Dividends	683.2	416.7	299.7	322.4	441.0
Income tax equivalent and rate equivalent revenue	222.2	286.7	308.8	362.7	396.4
Total dividends and income tax equivalent and rate equivalent revenue	**905.4**	**703.3**	**608.5**	**685.1**	**837.4**

Note 4: Grants

($ million)

	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Operating grants					
General purpose grants	9 124.8	9 248.9	10 072.7	10 587.5	11 129.4
Specific purpose grants for on-passing	1 808.6	1 864.9	1 961.2	2 067.6	2 180.7
Other specific purpose grants	4 430.1	4 526.0	4 597.1	4 762.4	4 974.1
Total operating grants	**15 363.5**	**15 639.8**	**16 630.9**	**17 417.5**	**18 284.2**
Capital grants					
Specific purpose grants for on-passing	141.4	145.4	147.9	151.9	371.9
Other specific purpose grants	653.8	742.1	487.7	444.3	434.9
Total capital grants	**795.2**	**887.5**	**635.6**	**596.2**	**806.8**
Total grants	**16 158.7**	**16 527.3**	**17 266.5**	**18 013.7**	**19 091.0**

Note 5: Other income

($ million)

	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Inter-sector capital asset charge	893.8	893.8	950.1	989.1	1 004.2
Royalties	41.4	41.4	42.0	42.5	42.5
Rents	15.4	15.4	15.5	15.6	15.6
Donations and gifts	151.4	153.5	160.2	166.0	170.0
Other non-property rental	0.2	0.2	0.2	0.2	0.2
Other miscellaneous income	725.5	745.8	753.9	738.5	793.6
Total other income	**1 827.6**	**1 850.0**	**1 921.7**	**1 951.8**	**2 026.1**

Note 6: Superannuation

The liability for employee superannuation benefits in the general government sector is the responsibility of the State's public sector superannuation funds. These funds are not consolidated in the Estimated Financial Statements as they are not controlled by the State. However, the major proportion of unfunded superannuation liabilities is the responsibility of the State and is recognised accordingly.

(a) Superannuation expense recognised in the operating statement

($ million)

	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Defined benefit plans					
Current service cost [a]	615.5	643.3	576.7	580.6	584.1
Interest cost [a]	1 739.1	1 790.7	1 822.9	1 852.1	1 876.6
Expected return on plan assets (net of expenses) [a]	(1 397.0)	(1 445.7)	(1 479.0)	(1 520.1)	(1 559.5)
Amortisation of past service cost [a] [c]	(14.5)	(14.5)	(14.5)	(10.2)	..
Actuarial (gains)/losses [b]	..	232.0	..	..	..
Total expense recognised in respect of defined benefit plans	**943.1**	**1 205.7**	**906.1**	**902.4**	**901.2**
Defined contribution plans					
Employer contributions to defined contribution plans [a]	635.2	642.0	690.9	737.4	787.2
Other (including pensions) [a]	44.6	44.6	46.8	49.1	51.6
Total expense recognised in respect of defined contribution plans	**679.8**	**686.6**	**737.7**	**786.6**	**838.8**
Total superannuation expense recognised in operating statement	**1 622.9**	**1 892.3**	**1 643.8**	**1 689.0**	**1 740.0**

Notes:

(a) Superannuation expense from transactions.

(b) Superannuation expense from other economic flows.

(c) Past service cost arises due to a change in benefits payable and must be amortised over the period until the benefits become vested. This is expected to occur by 2009-10.

(b) Reconciliation of the present value of the defined benefit obligation

($ million)

	2007-08 Budget [a]	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Opening balance of defined benefit obligation	29 525.0	29 525.0	30 208.7	30 734.3	31 173.1
Current service cost	615.5	643.3	576.7	580.6	584.1
Interest cost	1 739.1	1 790.7	1 822.9	1 852.1	1 876.6
Contributions by plan participants	216.2	220.5	211.7	203.1	194.0
Actuarial (gains)/losses	..	223.6	..	..	..
Benefits paid	(1 974.7)	(2 194.3)	(2 085.7)	(2 197.0)	(2 288.6)
Closing balance of defined benefit obligation	**30 121.0**	**30 208.7**	**30 734.3**	**31 173.1**	**31 539.2**

Note:

(a) 2007-08 Budget above is based on actual opening balances at 1 July 2007 plus 2007-08 Budgeted movement.

(c) Reconciliation of the fair value of superannuation plan assets

($ million)

	2007-08 Budget [(a)]	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Opening balance of plan assets	19 426.5	19 426.5	19 781.5	20 336.9	20 916.7
Expected return on plan assets	1 397.0	1 445.7	1 479.0	1 520.1	1 559.5
Actuarial gains/(losses)	..	(8.5)	..	..	..
Employer contributions	880.2	891.5	950.5	1 053.6	1 045.7
Contributions by plan participants	216.2	220.5	211.7	203.1	194.0
Benefits paid (including tax paid)	(1 974.7)	(2 194.3)	(2 085.7)	(2 197.0)	(2 288.6)
Closing balance of plan assets	**19 945.1**	**19 781.5**	**20 336.9**	**20 916.7**	**21 427.3**

Note:

(a) 2007-08 Budget above is based on actual opening balances at 1 July 2007 plus 2007-08 Budgeted movement.

(d) Reconciliation of the assets and liabilities recognised in the balance sheet

($ million)

	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
ESSS (including SSF)					
Defined benefit obligation	27 722.3	27 610.5	28 032.9	28 354.2	28 600.0
Tax liability [(a)]	726.2	921.8	990.7	1 076.3	1 180.1
Plan assets	(18 501.0)	(18 365.0)	(18 889.5)	(19 442.7)	(19 941.1)
Unrecognised past service cost [(b)]	24.7	24.7	10.2	..	..
Net liability/(asset)	**9 972.3**	**10 192.0**	**10 144.4**	**9 987.8**	**9 839.0**
Other funds [(c)]					
Defined benefit obligation	1 667.8	1 673.6	1 710.2	1 744.4	1 762.9
Tax liability [(a)]	4.7	2.8	0.5	(1.8)	(3.7)
Plan assets	(1 444.1)	(1 416.5)	(1 447.5)	(1 474.0)	(1 486.2)
Net liability/(asset)	**228.4**	**259.9**	**263.2**	**268.6**	**272.9**
Total unfunded superannuation					
Defined benefit obligation	29 390.1	29 284.1	29 743.1	30 098.6	30 362.9
Tax liability [(a)]	731.0	924.6	991.2	1 074.5	1 176.3
Plan assets	(19 945.1)	(19 781.5)	(20 336.9)	(20 916.7)	(21 427.3)
Unrecognised past service cost [(b)]	24.7	24.7	10.2	..	..
Unfunded superannuation liability	**10 200.6**	**10 451.9**	**10 407.6**	**10 256.4**	**10 111.9**
Represented by:					
Current liability	417.0	417.0	535.0	609.7	625.0
Non-current liability	9 783.6	10 034.9	9 872.6	9 646.7	9 486.9
	10 200.6	**10 451.9**	**10 407.6**	**10 256.4**	**10 111.9**

Notes:

(a) Tax liability represents the present value of future tax payments on investment income from assets supporting the accrued benefits and the present value of future tax payments on the expected employer contributions (if any) to fund these accrued benefits.

(b) Past service cost arises due to a change in benefits payable. This cost is recognised as an expense over the period until the benefits become vested. Unrecognised past service cost represents the amount of past service cost yet to be recognised in the operating statement.

(c) Other funds include constitutionally protected schemes, the Parliamentary Contributory Superannuation Fund and the State's share of liabilities of the Defined Benefit Scheme of the Health Super Fund.

Note 7: Depreciation and amortisation

($ million)

	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Depreciation					
Buildings [(a)]	402.6	412.4	450.8	507.2	572.3
Plant, equipment and infrastructure systems	609.2	552.3	587.6	614.8	624.7
Road networks	339.8	358.4	372.8	389.2	498.0
Other assets	35.0	36.4	36.5	36.9	37.2
Total depreciation	**1 386.7**	**1 359.5**	**1 447.6**	**1 548.1**	**1 732.2**
Amortisation					
Leased plant and equipment	8.5	13.0	8.4	8.5	8.5
Leasehold buildings	52.1	46.7	50.1	54.9	55.0
Intangible produced assets	22.9	26.2	24.2	28.6	30.6
Total amortisation	**83.4**	**85.9**	**82.7**	**92.0**	**94.1**
Total depreciation and amortisation [(b)]	**1 470.1**	**1 445.3**	**1 530.3**	**1 640.1**	**1 826.3**

Notes:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2008-09 to 2010-11.

(b) Amortisation of intangible non-produced assets is included under other economic flows.

Note 8: Finance costs

($ million)

	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Interest on long-term interest-bearing liabilities	325.8	327.2	393.1	500.8	617.8
Interest on short-term interest-bearing liabilities	36.3	35.9	36.9	36.9	36.9
Finance charges on finance leases	65.8	63.9	61.6	60.1	59.7
Discount interest on payables	30.8	54.6	55.1	54.6	55.0
Fees and other finance costs	27.5	29.1	29.4	31.5	32.8
Total finance costs	**486.3**	**510.7**	**576.1**	**683.9**	**802.2**

Note 9: Grants and transfer payments

($ million)

	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Commonwealth Government	67.2	67.2	69.2	71.2	70.7
Local Government	574.1	641.9	560.9	572.6	588.1
Private sector	3 765.3	3 900.0	3 852.9	3 817.9	4 132.6
Grants within the Victorian Government	2 109.4	2 510.0	1 927.8	1 920.3	1 944.3
Grants to other state governments	4.2	5.0	5.1	4.2	4.2
Total grants and transfer payments	**6 520.3**	**7 124.1**	**6 416.0**	**6 386.2**	**6 739.9**

Note 10: Total expenses from transactions by department

($ million)

	2007-08 Adjusted (a)	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Expenses from transactions					
Parliament	126.9	127.7	121.8	123.1	125.2
Education and Early Childhood Development	8 323.1	8 576.0	8 877.1	9 143.8	9 670.6
Human Services	12 781.5	12 842.5	13 117.2	13 492.3	13 814.7
Infrastructure	4 108.3	4 207.1	4 170.8	4 259.8	4 517.7
Innovation, Industry and Regional Development	2 226.8	2 154.5	2 031.5	2 124.3	2 103.8
Justice	3 191.1	3 341.0	3 343.5	3 403.3	3 522.9
Premier and Cabinet	544.0	526.5	568.4	533.0	537.6
Primary Industries	513.9	571.1	399.6	376.5	367.4
Sustainability and Environment	1 150.9	1 300.8	1 169.9	1 145.0	1 145.0
Treasury and Finance	1 809.3	1 841.5	1 866.6	1 899.8	2 003.0
Planning and Community Development	902.5	963.3	937.0	894.7	887.7
Contingencies not allocated to departments (b)	222.0	309.8	1 518.1	2 073.3	2 830.1
Regulatory bodies and other part budget funded agencies (c)	1 144.6	1 395.3	1 334.7	1 343.9	1 354.2
Total	**37 045.0**	**38 157.2**	**39 456.1**	**40 812.8**	**42 880.0**
Less eliminations (d)	(3 100.1)	(3 206.2)	(3 257.3)	(3 320.3)	(3 346.8)
Total expenses from transactions	**33 944.9**	**34 951.0**	**36 198.7**	**37 492.5**	**39 533.2**

Notes:
(a) *The 2007-08 adjusted estimates include the 2007-08 Budget adjusted for machinery of government changes for the period 1 July 2007 to 30 June 2008.*
(b) *This contingency includes a provision for programs lapsing, future demand growth, items not yet formalised at the time of the Budget, and an allowance for departmental underspending in 2007-08 which may be subject to carryover into 2008-09. Under the departmental funding model, since 1 July 2004, departments have been required to manage all costs within their departmental budgets.*
(c) *Other general government sector agencies, which receive less than 50 per cent of their revenue from appropriations and therefore are not allocated to departments.*
(d) *Mainly comprises payroll tax, capital asset charge and inter-departmental and inter-agency transfers.*

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

($ million)

	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Net gain from revaluation of biological assets	8.4	8.4	8.4	8.4	8.4
Net (increase)/decrease in provision for doubtful receivables	(49.1)	(125.8)	(151.0)	(152.2)	(152.2)
Other gains/(losses)	0.1	..	0.1	0.1	0.1
Total other gains/(losses) from other economic flows	**(40.6)**	**(117.4)**	**(142.5)**	**(143.7)**	**(143.7)**

Note 12: Property, plant and equipment

(a) Total property, plant and equipment

($ million)

	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Buildings (written down value)	16 620.4	16 743.1	18 215.8	20 369.0	23 081.7
Land and national parks	21 024.0	21 030.5	22 787.3	24 742.7	26 725.9
Infrastructure systems (written down value)	360.2	408.6	576.4	603.2	576.4
Plant, equipment and vehicles (written down value)	2 007.6	2 077.5	1 957.0	1 820.9	1 590.8
Roads (written down value)	15 077.8	14 942.0	15 697.3	18 530.4	18 911.6
Earthworks	4 573.0	4 573.0	4 651.3	5 931.8	6 010.1
Cultural assets (written down value)	3 595.6	3 607.3	3 711.9	3 821.5	3 932.7
Total property, plant and equipment	**63 258.7**	**63 382.0**	**67 597.0**	**75 819.4**	**80 829.2**

(b) Land and buildings

($ million)

	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Buildings [(a)]	18 616.1	18 706.6	20 641.5	23 316.7	26 613.9
Accumulated depreciation	(1 995.7)	(1 963.5)	(2 425.7)	(2 947.7)	(3 532.2)
Buildings (written down value)	**16 620.4**	**16 743.1**	**18 215.8**	**20 369.0**	**23 081.7**
Land	18 723.5	18 729.6	20 486.1	22 441.1	24 423.9
National parks and other 'land only' holdings	2 300.5	2 300.9	2 301.2	2 301.6	2 302.0
Land and national parks	**21 024.0**	**21 030.5**	**22 787.3**	**24 742.7**	**26 725.9**
Total land and buildings	**37 644.4**	**37 773.6**	**41 003.1**	**45 111.6**	**49 807.6**

Note:
(a) Includes amounts not yet allocated to projects in 2008-09 to 2010-11.

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

($ million)

	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Infrastructure systems	402.3	450.7	645.5	700.9	703.2
Accumulated depreciation	*(42.1)*	*(42.1)*	*(69.1)*	*(97.7)*	*(126.8)*
Infrastructure systems (written down value)	**360.2**	**408.6**	**576.4**	**603.2**	**576.4**
Plant, equipment and vehicles	4 857.8	4 840.6	5 196.5	5 561.1	5 838.9
Accumulated depreciation	*(3 016.5)*	*(2 924.9)*	*(3 398.1)*	*(3 895.5)*	*(4 400.2)*
Leased plant, equipment and vehicles	233.2	233.2	233.2	233.2	233.2
Accumulated depreciation	*(66.8)*	*(71.4)*	*(74.6)*	*(77.9)*	*(81.1)*
Plant, equipment and vehicles (written down value)	**2 007.6**	**2 077.5**	**1 957.0**	**1 820.9**	**1 590.8**
Total plant, equipment and infrastructure systems	**2 367.9**	**2 486.1**	**2 533.4**	**2 424.1**	**2 167.2**

(d) Road networks and earthworks

($ million)	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Roads [(a)]	17 416.5	17 299.3	18 000.4	22 546.7	22 854.6
Accumulated depreciation	*(6 563.9)*	*(6 579.5)*	*(6 867.6)*	*(8 916.3)*	*(9 294.7)*
Road infrastructure	6 310.0	6 310.0	6 737.0	7 696.2	8 267.5
Accumulated depreciation	*(2 084.8)*	*(2 087.8)*	*(2 172.5)*	*(2 796.3)*	*(2 915.9)*
Roads (written down value)	**15 077.8**	**14 942.0**	**15 697.3**	**18 530.4**	**18 911.6**
Earthworks	**4 573.0**	**4 573.0**	**4 651.3**	**5 931.8**	**6 010.1**
Total road networks and earthworks	**19 650.8**	**19 515.0**	**20 348.6**	**24 462.1**	**24 921.7**

Note:

(a) The increase in 2009-10 is due to the cyclic revaluations required under Financial Reporting Directions of the Minister for Finance.

(e) Cultural assets

($ million)	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Cultural assets	3 687.6	3 705.2	3 818.8	3 937.1	4 057.5
Accumulated depreciation	*(91.9)*	*(98.0)*	*(106.8)*	*(115.6)*	*(124.8)*
Total cultural assets (written down value)	**3 595.6**	**3 607.3**	**3 711.9**	**3 821.5**	**3 932.7**

Cultural assets comprise non-current physical assets intended to be preserved because of their unique historical, cultural or environmental attributes, such as the Royal Botanic Gardens, Government House, Parliament House, historic houses, monuments, museum exhibits, art collections and archival collections.

Note 13: Reconciliation of movements in property, plant and equipment

($ million)	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Carrying amount at the start of the year [(a)]	59 399.3	59 399.3	63 382.0	67 597.0	75 819.4
Additions [(b)]	2 909.6	2 951.0	3 309.6	3 381.5	3 484.6
Disposals at written down value	(187.4)	(170.5)	(140.6)	(144.7)	(104.2)
Revaluations [(c)]	2 584.7	2 584.7	2 941.2	6 833.7	3 424.1
Assets reclassified	(0.2)	36.6	(389.0)	(236.5)	1.0
Depreciation/amortisation expense	(1 447.2)	(1 419.2)	(1 506.1)	(1 611.5)	(1 795.6)
Carrying amount at the end of the year	**63 258.7**	**63 382.0**	**67 597.0**	**75 819.4**	**80 829.2**

Notes:

(a) Property, plant and equipment comprises land and buildings, infrastructure systems, plant, equipment, vehicles, road networks and cultural assets. Excludes movements in intangibles and other assets in Notes 14 and 15 below.

(b) Includes assets acquired under finance lease arrangements.

(c) The increase in 2009-10 is due to the cyclic revaluations required under Financial Reporting Directions of the Minister for Finance.

Note 14: Intangibles

($ million)	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Intangible produced assets	387.7	392.3	416.0	426.4	450.4
Intangible produced assets – amortisation	*(174.0)*	*(177.3)*	*(200.6)*	*(229.5)*	*(259.8)*
Intangible non-produced assets	20.7	20.7	20.7	20.7	20.7
Intangible non-produced assets – amortisation	*(11.9)*	*(11.9)*	*(11.9)*	*(11.9)*	*(11.9)*
Intangibles (written down value)	**222.5**	**223.9**	**224.2**	**205.7**	**199.3**

Note 15: Other assets

($ million)	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Investment properties	19.2	19.2	19.2	19.2	19.2
Biological assets [(a)]	89.0	89.0	97.4	105.8	114.2
Other assets	58.9	106.2	106.2	100.9	95.7
Total non-current other assets	**167.1**	**214.4**	**222.8**	**226.0**	**229.1**

Note:

(a) The majority of biological assets comprises commercial forests and any living animal, plant or agricultural produce, which is the harvested product of biological assets.

Note 16: Employee benefits

($ million)	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Current					
Accrued salaries and wages [(a)]	1 133.7	1 136.5	1 159.8	1 192.3	1 225.9
Long service leave	2 152.1	2 161.7	2 152.6	2 160.9	2 171.2
Total current employee benefits	**3 285.8**	**3 298.2**	**3 312.4**	**3 353.2**	**3 397.1**
Non-current					
Accrued salaries and wages [(a)]	0.3	0.2	0.5	0.7	1.0
Long service leave	465.0	465.7	586.9	682.5	780.4
Total non-current employee benefits	**465.2**	**465.9**	**587.3**	**683.3**	**781.4**
Total employee benefits	**3 751.0**	**3 764.0**	**3 899.7**	**4 036.4**	**4 178.5**

Note:

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

Note 17: Cash flow information

(a) Reconciliation of cash

($ million)	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Cash	923.9	990.9	998.9	1 004.0	1 014.2
Deposits at call	2 086.4	1 066.7	1 055.5	1 053.7	1 041.3
Cash and cash equivalents	**3 010.3**	**2 057.6**	**2 054.4**	**2 057.7**	**2 055.5**
Bank overdraft	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)
Balances as per cash flow statement	**3 007.2**	**2 054.5**	**2 051.3**	**2 054.6**	**2 052.4**

(b) Reconciliation of net cash flows from operating activities

($ million)	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Net result	303.3	518.7	677.3	708.4	669.9
Non-cash movements					
Depreciation and amortisation	1 470.1	1 445.3	1 530.3	1 640.1	1 826.3
Revaluation of investments	(4.1)	(1.9)	(0.6)	(0.5)	(0.6)
Assets (received)/given free of charge	..	(116.9)	14.5	..	..
Revaluation of assets	(8.4)	(8.3)	(8.4)	(8.4)	(8.4)
Discount/premium on other financial assets/interest bearing liabilities	6.8	7.4	7.4	7.6	7.5
Movements included in investing and financing activities					
Net revenue from sale of property, plant and equipment	(15.5)	(24.7)	(4.8)	(5.6)	(4.3)
Movements in assets and liabilities					
Increase/(decrease) in provision of doubtful receivables	49.0	125.4	150.4	152.1	152.0
Increase/(decrease) in payables	38.2	33.4	3.0	(15.0)	(13.5)
Increase/(decrease) in employee benefits	130.1	143.2	135.7	136.7	142.1
Increase/(decrease) in superannuation	62.9	314.2	(44.3)	(151.2)	(144.6)
Increase/(decrease) in other provisions	(20.1)	(20.6)	(11.9)	(11.9)	(11.9)
Increase/(decrease) in other liabilities	109.0	(9.2)	(33.5)	(3.5)	(5.1)
(Increase)/decrease in receivables	(86.6)	776.0	(14.8)	(212.8)	(74.6)
(Increase)/decrease in other assets	46.5	1.6	6.9	3.7	3.5
Net cash flows from operating activities	**2 081.4**	**3 183.7**	**2 407.3**	**2 239.7**	**2 538.4**

Note 18: Purchases of non-financial assets by department

($ million)

	2007-08 Adjusted [(a)]	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Parliament	24.0	15.8	2.7	2.7	2.7
Education and Early Childhood Development	633.1	679.3	435.1	188.7	170.2
Human Services	767.7	777.1	857.3	494.2	261.3
Infrastructure	983.0	909.0	859.6	694.2	635.5
Innovation, Industry and Regional Development	114.0	176.9	141.8	131.6	96.8
Justice	177.2	206.6	186.6	199.8	119.8
Premier and Cabinet	96.0	103.4	16.7	22.8	23.3
Primary Industries	19.5	20.4	57.0	95.9	36.7
Sustainability and Environment	102.5	129.2	91.8	31.6	7.1
Treasury and Finance [(b)]	66.3	67.7	48.0	66.9	144.1
Planning and Community Development	22.3	22.5	26.8	12.7	5.2
Regulatory bodies and other part budget funded agencies	102.2	115.4	138.1	133.3	120.3
Not allocated to departments [(c)]	(182.1)	(401.7)	220.8	1 322.9	1 891.5
Total purchases of non-financial assets	**2 925.6**	**2 821.6**	**3 082.4**	**3 397.1**	**3 514.3**

Notes:

(a) *The 2007-08 adjusted estimates include the 2007-08 Budget adjusted for machinery of government changes for the period 1 July 2007 to 30 June 2008.*

(b) *Includes amounts under the vehicle leasing facility not allocated to departments.*

(c) *Amount available to be allocated to specific departments and projects in future budgets. This includes an allowance for departmental underspending in 2007-08 which may be subject to carryover in 2008-09.*

Note 19: General government sector entities

The following is a list of general government sector entities which have been consolidated for the purposes of the Estimated Financial Statements. For further details on consolidation policy, refer to Note 1 (D) 'Basis of consolidation' in the statement of significant accounting policies and forecast assumptions.

General government sector entities
Department of Education and Early Childhood Development
Victorian Curriculum and Assessment Authority
Victorian Institute of Teaching
Victorian Qualifications Authority
Department of Human Services
Health Purchasing Victoria
Hospitals and Ambulance Services including:
Alexandra District Ambulance Service
Alexandra District Hospital
Alpine Health
Ambulance Services Victoria Metropolitan Region
Austin Health
Bairnsdale Regional Health Service
Ballarat Health Services
Barwon Health
Bass Coast Regional Health
Bayside Health
Beaufort and Skipton Health Service
Beechworth Health Service
Benalla and District Memorial Hospital
Bendigo Health Care Group
Boort District Hospital
Casterton Memorial Hospital
Central Gippsland Health Service
Cobram District Hospital
Cohuna District Hospital
Colac Area Health
Dental Health Services Victoria
Djerriwarrh Health Services
Dunmunkle Health Services
East Grampians Health Service
East Wimmera Health Service
Eastern Health
Echuca Regional Health
Edenhope and District Memorial Hospital
Gippsland Southern Health Service

General government sector entities
Goulburn Valley Health
Hepburn Health Service
Hesse Rural Health Service
Heywood Rural Health
Inglewood and District Health Service
Kerang and District Hospital
Kooweerup Regional Health Service
Kyabram and District Health Services
Kyneton District Health Service
Latrobe Regional Hospital
Lorne Community Hospital
Maldon Hospital
Mallee Track Health and Community Services
Manangatang and District Hospital
Mansfield District Hospital
Maryborough District Health Service
McIvor Health and Community Services
Melbourne Health
Moyne Health Services
Mt Alexander Hospital
Nathalia District Hospital
Northeast Health Wangaratta
Northern Health
Numurkah District Health Service
Omeo District Health
Orbost Regional Health
Otway Health and Community Services
Peninsula Health
Peter MacCallum Cancer Institute
Portland District Health
Robinvale District Health Services
Rochester and Elmore District Health Service
Rural Ambulance Victoria
Rural Northwest Health
Seymour District Memorial Hospital
South Gippsland Hospital
South West Healthcare
Southern Health
Stawell Regional Health
Swan Hill District Hospital
Tallangatta Health Service
Terang and Mortlake Health Service
The Kilmore and District Hospital

General government sector entities
The Queen Elizabeth Centre
The Royal Children's Hospital
The Royal Victorian Eye and Ear Hospital
The Royal Women's Hospital
Timboon and District Healthcare Service
Tweddle Child and Family Health Service
Upper Murray Health and Community Services
Victorian Institute of Forensic Mental Health
West Gippsland Healthcare Group
West Wimmera Health Service
Western District Health Service
Western Health
Wimmera Health Care Group
Wodonga Regional Health Service
Yarram and District Health Service
Yarrawonga District Health Service
Yea and District Memorial Hospital
Infertility Treatment Authority
Mental Health Review Board
Psychosurgery Review Board
Registration Boards including:
Chinese Medicine Registration Board of Victoria
Chiropractors Registration Board of Victoria
Dental Practice Board of Victoria
Medical Practitioners Board of Victoria
Nurses Board of Victoria
Optometrists Registration Board of Victoria
Osteopaths Registration Board of Victoria
Pharmacy Board of Victoria
Physiotherapists Registration Board of Victoria
Podiatrists Registration Board of Victoria
Psychologists Registration Board of Victoria
Victorian Health Promotion Foundation
Victorian Relief Committee
Department of Infrastructure
Roads Corporation
Southern and Eastern Integrated Transport Authority
Southern Cross Station Authority
Department of Innovation Industry and Regional Development
Film Victoria
Prince Henry's Institute of Medical Research
Regional Development Victoria

General government sector entities
TAFEs including:
Bendigo Regional Institute of TAFE
Box Hill Institute of TAFE
Central Gippsland Institute of TAFE
Chisholm Institute of TAFE
Driver Education Centre 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 TAFE Division
William Angliss Institute of TAFE
Wodonga Institute of TAFE
Tourism Victoria
Victorian Learning and Employment Skills Commission
Department of Justice
Country Fire Authority
Emergency Services Telecommunications Authority
Equal Opportunity and Human Rights Commission
Judicial College of Victoria
Legal Services Board
Legal Services Commissioner
Liquor Licensing Panel
Metropolitan Fire and Emergency Services Board
Office of Police Integrity
Office of Public Prosecutions
Office of the Public Advocate
Office of the Victorian Privacy Commissioner
Sentencing Advisory Council
Victoria Legal Aid
Victoria Police (Office of the Chief Commissioner of Police)
Victoria State Emergency Service Authority
Victorian Commission for Gambling Regulation
Victorian Electoral Commission

General government sector entities
Victorian Institute of Forensic Medicine
Victorian Law Reform Commission
Victorian Professional Standards Council
Department of Planning and Community Development
2007 World Swimming Championships Corporation
Adult Community and Further Education Board
Adult Multicultural Education Services
Architects Registration Board of Victoria
Building Commission
Centre for Adult Education
Growth Areas Authority
Heritage Council
Plumbing Industry Commission
Shrine of Remembrance Trustees
Victorian Institute of Sport Limited
Victorian Institute of Sport Trust
Victorian Veterans Council
Department of Premier and Cabinet
Australian Centre for the Moving Image
Library Board of Victoria
Melbourne Recital Centre Limited
Museums Board of Victoria
National Gallery of Victoria, Council of Trustees
Office of the Ombudsman
State Services Authority
Department of Primary Industries
Energy Safe Victoria
Veterinary Practitioners Registration Board of Victoria
Department of Sustainability and Environment
Catchment Management Authorities including:
Corangamite Catchment Management Authority
East Gippsland Catchment Management Authority
Glenelg Hopkins Catchment Management Authority
Goulburn Broken Catchment Management Authority
Mallee Catchment Management Authority
North Central Catchment Management Authority
North East Catchment Management Authority
Port Phillip and Westernport Catchment Management Authority
West Gippsland Catchment Management Authority
Wimmera Catchment Management Authority

General government sector entities
Environment Protection Authority
Office of the Commissioner for Environmental Sustainability
Parks Victoria
Royal Botanic Gardens Board
Surveyors Registration Board of Victoria
Sustainability Victoria
Trust for Nature (Victoria)
Department of Treasury and Finance
Domestic (HIH) Indemnity Fund and Housing Guarantee Claims
Essential Services Commission
Victorian Competition and Efficiency Commission
Parliament of Victoria
Victorian Auditor-General's Office

CHAPTER 7: ACCRUAL UNIFORM PRESENTATION OF GOVERNMENT FINANCE STATISTICS

THE ACCRUAL GFS PRESENTATION

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

GAAP/GFS harmonisation

In September 2006, the Australian Accounting Standards Board (AASB) issued a new standard for financial reporting of general government sectors by governments. This was followed by the development of a new standard for whole of government financial reporting, issued as a combined standard with the general government sector – AASB 1049 *Whole of Government and General Government Sector Financial Reporting* – in October 2007.

Both are applicable from 1 July 2008 and early adoption of the standard is permitted. The objective as set out by the Financial Reporting Council in December 2002 is 'to achieve an Australian accounting standard for a single set of government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements'.

This new standard for reporting the general government sector implements the first stage of the strategy to create a single standard for general government sector entities and the general government sector itself, and for all other government entities. The second stage involving the implementation relating to departments and other general government agencies is currently under consideration by the AASB.

For the first time, an accounting standard now requires that, in addition to complying with all other relevant accounting standards, the report for the general government sector must also include key fiscal aggregates determined in a manner consistent with the ABS GFS Manual. Any differences between ‘pure’ GFS and the amounts presented under Generally Accepted Accounting Principles (GAAP) must also be reconciled.

Given the complexities of implementing the new standard, Victoria has decided that it will not early adopt the new combined standard. However, major components of the standard such as the recognition of ‘transactions’ and ‘other economic flows’ in the operating statement on a GFS basis, have already been incorporated into the estimated financial statements in Chapter 1 of the *2007-08 Budget Paper No. 4* and in the financial statements for the general government sector included in this publication. In addition, the Australian Loan Council has agreed to revise the Accrual Uniform Presentation Framework consistent with the GAAP/GFS harmonisation principles included in AASB 1049. This revised framework combined with the budget estimates presentation consistent with the requirements of AASB 1049 is expected to be implemented in the 2008-09 Budget.

Operating statement

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

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

Balance sheet

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

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

Cash flow statement

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

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

INSTITUTIONAL SECTORS

General government sector

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

Public non-financial corporations sector

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

Non-financial public sector

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

Public financial corporations

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

Table 7.1: General government sector operating statement

($ million)	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
GFS revenue					
Taxation revenue	11 589	12 564	13 122	13 568	14 195
Current grants and subsidies	15 364	15 665	16 631	17 417	18 284
Capital grants	795	862	636	596	807
Sales of goods and services	3 981	4 098	4 183	4 256	4 336
Interest income	302	377	376	380	388
Other	2 238	2 226	2 066	2 120	2 332
Total revenue	**34 269**	**35 793**	**37 013**	**38 338**	**40 342**
GFS expenses					
Employee expenses	14 229	14 253	14 622	15 111	15 588
Depreciation	1 470	1 445	1 530	1 640	1 826
Other operating expenses	10 918	11 251	12 697	13 363	14 285
Superannuation interest expense	342	345	344	332	317
Other interest expenses	466	489	554	660	777
Other property expenses	..	..	..	..	..
Current transfers	6 223	6 801	6 153	6 262	6 436
Capital transfers	297	366	298	124	304
Total expenses	**33 945**	**34 951**	**36 199**	**37 493**	**39 533**
GFS net operating balance	**324**	**842**	**814**	**846**	**809**
Less: Net acquisition of non-financial assets					
Purchases of non-financial assets	2 926	2 822	3 082	3 397	3 514
Sales of non-financial assets	- 202	- 161	- 110	- 156	- 114
Less: Depreciation	1 470	1 445	1 530	1 640	1 826
Plus: Change in inventories	1	- 1	2	1	1
Plus: Other movements in non-financial assets	..	117	217	..	..
Total net acquisition of non-financial assets	**1 254**	**1 330**	**1 661**	**1 602**	**1 576**
GFS net lending (+) / borrowing (-)	**- 929**	**- 489**	**- 846**	**- 756**	**- 767**

Source: Department of Treasury and Finance

Table 7.2: Public non-financial corporations sector operating statement

($ million)

	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
GFS revenue					
Sales of goods and services	3 542	3 412	3 879	4 229	4 589
Current grants and subsidies	1 851	2 147	1 812	1 774	1 767
Capital grants	222	223	226	234	233
Interest income	81	107	102	99	97
Other	408	403	508	482	481
Total revenue	**6 104**	**6 292**	**6 527**	**6 817**	**7 166**
GFS expenses					
Employee expenses	670	695	706	742	760
Depreciation	905	902	963	1 041	1 046
Other operating expenses	3 679	3 607	3 700	3 827	3 940
Other interest expenses	391	403	496	665	824
Other property expenses	507	350	283	296	399
Current transfers	88	93	166	169	171
Capital transfers	123	395	88	85	80
Total expenses	**6 363**	**6 445**	**6 402**	**6 825**	**7 221**
GFS net operating balance	**- 259**	**- 153**	**125**	**- 8**	**- 55**
Less: Net acquisition of non-financial assets					
Purchases of non-financial assets	2 473	3 156	4 686	4 670	3 341
Sales of non-financial assets	- 78	- 94	- 123	- 142	- 106
Less: Depreciation	905	902	963	1 041	1 046
Plus: Change in inventories	8	4	1	2	..
Plus: Other movements in non-financial assets	133	151	249	151	143
Total net acquisition of non-financial assets	**1 631**	**2 315**	**3 849**	**3 639**	**2 332**
GFS net lending (+) / borrowing (-)	**-1 890**	**-2 468**	**-3 724**	**-3 647**	**-2 387**

Source: Department of Treasury and Finance

Table 7.3: Non-financial public sector operating statement

($ million)	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
GFS revenue					
Taxation revenue	11 439	12 424	12 962	13 400	14 019
Current grants and subsidies	15 364	15 659	16 625	17 412	18 278
Capital grants	798	866	640	603	807
Sales of goods and services	6 585	6 569	7 036	7 442	7 865
Interest income	357	459	454	456	462
Other	2 147	2 338	2 312	2 323	2 409
Total revenue	**36 690**	**38 315**	**40 029**	**41 635**	**43 840**
GFS expenses					
Employee expenses	14 899	14 948	15 328	15 853	16 347
Depreciation	2 375	2 348	2 493	2 681	2 872
Other operating expenses	13 496	13 934	15 207	16 051	17 006
Superannuation interest expense	342	345	344	332	317
Other interest expenses	832	866	1 025	1 301	1 576
Other property expenses	..	..	..	..	..
Current transfers	4 206	4 366	4 255	4 360	4 511
Capital transfers	387	747	382	218	394
Total expenses	**36 536**	**37 554**	**39 033**	**40 797**	**43 024**
GFS net operating balance	**154**	**760**	**995**	**838**	**816**
Less: Net acquisition of non-financial assets					
Purchases of non-financial assets	5 399	5 978	7 768	8 067	6 855
Sales of non-financial assets	- 281	- 255	- 233	- 298	- 220
Less: Depreciation	2 375	2 348	2 493	2 681	2 872
Plus: Change in inventories	8	3	2	3	1
Plus: Other movements in non-financial assets	133	268	466	151	143
Total net acquisition of non-financial assets	**2 885**	**3 646**	**5 510**	**5 241**	**3 907**
GFS net lending (+) / borrowing (-)	**-2 731**	**-2 885**	**-4 514**	**-4 403**	**-3 091**

Source: Department of Treasury and Finance

Table 7.4: General government sector balance sheet

($ million)

as at 30 June	2007 Opening	2008 Budget (a)	2008 Revised	2009 Estimate	2010 Estimate	2011 Estimate
Assets						
Financial assets						
Cash and deposits	3 018	3 010	2 058	2 054	2 058	2 056
Advances paid	61	60	60	59	58	58
Investments, loans and placements	2 058	2 120	2 163	2 196	2 228	2 306
Other non-equity assets	3 515	3 585	2 723	2 739	2 954	3 029
Equity	41 476	42 123	42 414	44 296	45 196	45 738
Total financial assets	**50 128**	**50 900**	**49 418**	**51 345**	**52 494**	**53 186**
Non-financial assets						
Land and fixed assets	57 302	61 156	61 276	65 493	73 716	78 727
Other non-financial assets	2 815	2 771	2 818	2 819	2 805	2 803
Total non-financial assets	**60 117**	**63 927**	**64 094**	**68 312**	**76 521**	**81 529**
Total assets	**110 245**	**114 827**	**113 512**	**119 657**	**129 015**	**134 715**
Liabilities						
Deposits held	595	602	595	595	595	595
Advances received	4	3	3	2	2	1
Borrowing	7 190	8 776	7 001	8 742	10 454	11 997
Superannuation liability	10 138	10 201	10 452	10 408	10 256	10 112
Other employee entitlements and provisions	4 382	4 492	4 504	4 628	4 752	4 883
Other non-equity liabilities	3 280	3 417	3 298	3 268	3 249	3 231
Total liabilities	**25 589**	**27 489**	**25 853**	**27 642**	**29 309**	**30 818**
Net worth	**84 657**	**87 338**	**87 659**	**92 015**	**99 706**	**103 897**
Net financial worth (b)	**24 540**	**23 411**	**23 565**	**23 703**	**23 185**	**22 368**
Net debt (c)	**2 652**	**4 189**	**3 318**	**5 029**	**6 707**	**8 173**

Source: Department of Treasury and Finance

Notes:

(a) 2007-08 Budget above and its accompanying notes are based on actual opening balances at 1 July 2007 plus 2007-08 Budgeted movement.

(b) Net financial worth equals total financial assets minus total liabilities.

(c) Net debt equals the sum of deposits held, advances received and borrowings, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table 7.5: Public non-financial corporations sector balance sheet

($ million)

as at 30 June	*2007 Opening*	*2008 Budget [(a)]*	*2008 Revised*	*2009 Estimate*	*2010 Estimate*	*2011 Estimate*
Assets						
Financial assets						
Cash and deposits	594	382	663	779	894	902
Advances paid	113	95	95	71	63	59
Investments, loans and placements	2 311	2 150	1 691	1 351	1 091	935
Other non-equity assets	749	801	748	824	906	920
Equity	407	407	375	375	375	375
Total financial assets	**4 173**	**3 834**	**3 571**	**3 400**	**3 329**	**3 190**
Non-financial assets						
Land and fixed assets	40 850	42 394	43 152	47 951	51 886	54 116
Other non-financial assets	318	395	372	456	492	492
Total non-financial assets	**41 169**	**42 789**	**43 524**	**48 407**	**52 378**	**54 608**
Total assets	**45 342**	**46 622**	**47 095**	**51 807**	**55 707**	**57 798**
Liabilities						
Deposits held	114	114	109	104	96	96
Advances received	1	1	1	1	1	1
Borrowing	4 849	5 365	6 022	8 837	11 886	13 616
Superannuation liability	16	16	14	14	13	13
Other employee entitlements and provisions	3 636	3 737	3 337	3 189	3 051	2 997
Other non-equity liabilities	911	931	869	1 041	1 145	1 023
Total liabilities	**9 526**	**10 164**	**10 352**	**13 187**	**16 191**	**17 745**
Shares and other contributed capital	**35 816**	**36 458**	**36 744**	**38 621**	**39 515**	**40 053**
Net worth	**..**	**..**	**..**	**..**	**..**	**..**
Net financial worth [(b)]	**-41 169**	**-42 789**	**-43 524**	**-48 407**	**-52 378**	**-54 608**
Net debt [(c)]	**1 946**	**2 854**	**3 683**	**6 741**	**9 935**	**11 817**

Source: Department of Treasury and Finance

Notes:

(a) 2007-08 Budget above and its accompanying notes are based on actual opening balances at 1 July 2007 plus 2007-08 Budgeted movement.

(b) Net financial worth equals total financial assets minus total liabilities, and shares and other contributed capital.

(c) Net debt equals the sum of deposits held, advances received and borrowings, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table 7.6: Non-financial public sector balance sheet

($ million)						
as at 30 June	*2007 Opening*	*2008 Budget (a)*	*2008 Revised*	*2009 Estimate*	*2010 Estimate*	*2011 Estimate*
Assets						
Financial assets						
Cash and deposits	3 615	3 395	2 720	2 834	2 952	2 957
Advances paid	174	155	155	131	121	116
Investments, loans and placements	4 369	4 270	3 854	3 547	3 319	3 241
Other non-equity assets	4 200	4 263	3 359	3 386	3 713	3 829
Equity	6 067	6 072	6 045	6 050	6 055	6 060
Total financial assets	**18 425**	**18 155**	**16 134**	**15 947**	**16 160**	**16 204**
Non-financial assets						
Land and fixed assets	98 150	103 548	104 427	113 443	125 600	132 841
Other non-financial assets	3 046	3 070	3 082	3 131	3 119	3 098
Total non-financial assets	**101 197**	**106 618**	**107 508**	**116 573**	**128 720**	**135 939**
Total assets	**119 621**	**124 773**	**123 642**	**132 521**	**144 879**	**152 143**
Liabilities						
Deposits held	709	716	704	700	691	691
Advances received	4	4	4	3	2	2
Borrowing	12 037	14 138	13 022	17 579	22 340	25 613
Superannuation liability	10 153	10 217	10 466	10 421	10 270	10 125
Other employee entitlements and provisions	6 252	6 359	5 986	5 830	5 808	5 828
Other non-equity liabilities	3 951	4 052	3 871	3 988	4 077	3 939
Total liabilities	**33 107**	**35 485**	**34 053**	**38 520**	**43 188**	**46 197**
Net worth	**86 514**	**89 288**	**89 589**	**94 000**	**101 691**	**105 945**
Net financial worth (b)	**-14 682**	**-17 330**	**-17 920**	**-22 573**	**-27 028**	**-29 994**
Net debt (c)	**4 593**	**7 037**	**7 001**	**11 770**	**16 641**	**19 991**

Source: Department of Treasury and Finance

Notes:

(a) 2007-08 Budget above and its accompanying notes are based on actual opening balances at 1 July 2007 plus 2007-08 Budgeted movement.

(b) Net financial worth equals total financial assets minus total liabilities.

(c) Net debt equals the sum of deposits held, advances received and borrowings, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table 7.7: General government sector cash flow statement

($ million)	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Cash receipts from operating activities					
Taxes received	11 673	12 947	13 258	13 626	14 194
Receipts from sales of goods and services	4 031	4 085	4 133	4 236	4 364
Grants/subsidies received	16 159	16 553	17 279	18 018	19 091
Other receipts	2 423	2 746	2 204	2 174	2 544
Total receipts	**34 287**	**36 331**	**36 875**	**38 053**	**40 193**
Cash payments from operating activities					
Payment for goods and services	-25 299	-25 593	-27 550	-28 788	-30 150
Grants and subsidies paid	-5 774	-6 367	-5 671	-5 647	-5 904
Interest paid	- 428	- 427	- 491	- 598	- 714
Other payments	- 704	- 760	- 755	- 781	- 887
Total payments	**-32 205**	**-33 147**	**-34 467**	**-35 814**	**-37 655**
Net cash flows from operating activities	**2 081**	**3 184**	**2 407**	**2 240**	**2 538**
Net cash flows from investing in non-financial assets					
Sales of non-financial assets	202	161	110	156	114
Purchases of non-financial assets	-2 926	-2 822	-3 082	-3 397	-3 514
Total cash flows from investing in non-financial assets	**-2 723**	**-2 660**	**-2 972**	**-3 241**	**-3 401**
Net cash flows from investments in financial assets for policy purposes	**- 898**	**-1 190**	**- 900**	**- 661**	**- 592**
Net cash flows from investments in financial assets for liquidity	**- 63**	**- 113**	**- 38**	**- 37**	**- 83**
Net cash flows from financing activities					
Advances received (net)	- 1	- 1	- 1	- 1	- 1
Borrowings (net)	1 596	- 180	1 500	1 703	1 535
Other financing (net)	..	..	..	..	..
Net cash flows from financing activities	**1 595**	**- 181**	**1 499**	**1 702**	**1 534**
Net increase in cash held	**- 7**	**- 960**	**- 3**	**3**	**- 2**
Surplus (+) /deficit (-) excluding acquisitions under finance leases [(a)]	**- 642**	**524**	**- 565**	**-1 001**	**- 862**
Less: Acquisitions under finance leases	..	..	231	..	..
Surplus (+) /deficit (-) including finance leases	**- 642**	**524**	**- 796**	**-1 001**	**- 862**

Source: Department of Treasury and Finance

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

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

($ million)	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Cash receipts from operating activities					
Receipts from sales of goods and services	3 513	3 384	3 822	4 184	4 572
Grants/subsidies received	2 068	2 363	2 034	2 001	1 997
Other receipts	321	358	328	381	419
Total receipts	**5 902**	**6 106**	**6 184**	**6 567**	**6 989**
Cash payments from operating activities					
Payment for goods and services	-3 287	-3 434	-3 333	-3 453	-3 521
Grants and subsidies paid	- 240	- 444	- 134	- 131	- 126
Interest paid	- 367	- 372	- 453	- 615	- 787
Other payments	-1 027	-1 094	-1 183	-1 261	-1 322
Total payments	**-4 921**	**-5 344**	**-5 103**	**-5 459**	**-5 755**
Net cash flows from operating activities	**981**	**762**	**1 081**	**1 107**	**1 234**
Net cash flows from investing in non-financial assets					
Sales of non-financial assets	78	94	123	142	106
Purchases of non-financial assets	-2 473	-3 156	-4 686	-4 670	-3 341
Total cash flows from investing in non-financial assets	**-2 395**	**-3 062**	**-4 562**	**-4 528**	**-3 235**
Net cash flows from investments in financial assets for policy purposes	**938**	**1 210**	**926**	**671**	**592**
Net cash flows from investments in financial assets for liquidity	**50**	**119**	**53**	**52**	**49**
Net cash flows from financing activities					
Advances received (net)	..	..	..	..	..
Borrowings (net)	629	1 322	2 870	3 078	1 721
Distributions paid	- 416	- 282	- 251	- 265	- 353
Total net cash flows from financing activities	**213**	**1 040**	**2 619**	**2 812**	**1 367**
Net increase in cash held	**- 213**	**68**	**116**	**115**	**7**
Surplus (+) /deficit (-) excluding acquisitions under finance leases [(a)]	**-1 830**	**-2 582**	**-3 732**	**-3 686**	**-2 355**
Less: Acquisition of assets under finance leases and similar arrangements	..	..	..	..	..
Surplus (+) /deficit (-) including finance leases	**-1 830**	**-2 582**	**-3 732**	**-3 686**	**-2 355**

Source: Department of Treasury and Finance

Note:

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

Table 7.9: Non-financial public sector cash flow statement

($ million)

	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Cash receipts from operating activities					
Taxes received	11 523	12 806	13 097	13 458	14 019
Receipts from sales of goods and services	6 607	6 529	6 929	7 377	7 877
Grants/subsidies received	16 162	16 550	17 282	18 006	19 001
Other receipts	2 274	2 829	2 305	2 229	2 590
Total receipts	**36 566**	**38 714**	**39 613**	**41 070**	**43 486**
Cash payments from operating activities					
Payment for goods and services	-28 511	-29 067	-30 717	-32 157	-33 579
Grants and subsidies paid	-3 963	-4 359	-3 872	-3 825	-4 054
Interest paid	- 794	- 798	- 944	-1 212	-1 500
Other payments	- 654	- 830	- 831	- 817	- 936
Total payments	**-33 922**	**-35 055**	**-36 364**	**-38 011**	**-40 069**
Net cash flows from operating activities	**2 643**	**3 659**	**3 249**	**3 058**	**3 417**
Net cash flows from investing in non-financial assets					
Sales of non-financial assets	281	255	233	298	220
Purchases of non-financial assets	-5 399	-5 978	-7 768	-8 067	-6 855
Total cash flows from investing in non-financial assets	**-5 118**	**-5 723**	**-7 535**	**-7 769**	**-6 635**
Net cash flows from investments in financial assets for policy purposes	**44**	**20**	**26**	**11**	**..**
Net cash flows from investments in financial assets for liquidity	**- 13**	**6**	**15**	**15**	**- 33**
Net cash flows from financing activities					
Advances received (net)	- 1	- 1	- 1	- 1	- 1
Borrowings (net)	2 224	1 144	4 370	4 780	3 256
Other financing (net)	..	..	- 12	23	1
Total net cash flows from financing activities	**2 223**	**1 143**	**4 357**	**4 803**	**3 257**
Net increase in cash held	**- 220**	**- 895**	**113**	**118**	**5**
Surplus (+) /deficit (-) excluding acquisitions under finance leases [(a)]	**-2 475**	**-2 064**	**-4 297**	**-4 687**	**-3 217**
Less: Acquisition of assets under finance leases and similar arrangements	..	..	231	..	..
Surplus (+) /deficit (-) including finance leases	**-2 475**	**-2 064**	**-4 528**	**-4 687**	**-3 217**

Source: Department of Treasury and Finance

Note:

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

Table 7.10: General government GAAP net result from transactions reconciled to GFS measures

($ million)

	2007-08 Budget	2007-08 Revised	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
General government net result from transactions	**324**	**842**	**814**	**846**	**809**
equals: General government net operating balance (GFS)					
Less: Gross fixed capital formation	2 723	2 777	3 189	3 241	3 401
Plus: Depreciation	1 470	1 445	1 530	1 640	1 826
Less: Change in inventories	1	- 1	2	1	1
GFS net lending(+)/borrowing(-)	**- 929**	**- 489**	**- 846**	**- 756**	**- 767**
Plus:					
Superannuation expense (difference between operating statement, including interest, and cash flow statement)	63	82	- 44	- 151	- 145
Other non-cash items	225	930	94	- 94	49
GFS cash surplus(+)/deficit(-)	**- 642**	**524**	**- 796**	**-1 001**	**- 862**
Less: Net contributions to other sectors of government	898	1 190	900	661	592
Other non-cash items	- 2	..	15	15	13
Increase in general government net debt	**-1 538**	**- 666**	**-1 712**	**-1 677**	**-1 467**

Source: Department of Treasury and Finance

Victoria's 2007–08 Loan Council Allocation

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

Table 7.11 compares Victoria's 2007-08 LCA as approved by the Loan Council in March 2007 with the revised LCA based on *2007-08 Budget Update* estimates.

Table 7.11: Loan Council Allocation 2007-08

($ million)

	2007-08 Nomination	*2007-08 Revised*
General government sector cash (+) deficit / (-) surplus	613	- 524
Public non-financial corporation sector cash (+) deficit / (-) surplus	1 553	2 582
Non-financial public sector cash (+) deficit / (-) surplus [(a)]	2 179	2 064
Less: Net cash flows from investments in financial assets for policy purposes [(b)]	2	20
Plus: Memorandum items [(c)]	163	161
Loan Council Allocation	**2 339**	**2 205**
Tolerance limit (2 per cent of non-financial public sector cash receipts from operating activities) [(d)]	719	719

Source: Department of Treasury and Finance

Notes:

(a) The sum of the surplus/deficit of the general government and public non-financial corporation sector does not directly equal the non-financial public sector surplus due to intersectoral transfers, which are netted out in the calculation of the non-financial public sector figure. Surplus (+)/deficit(-) includes finance lease acquisitions.

(b) The non-financial public sector surplus/deficit relating to 2007-08 includes net cash flows from investments in financial assets for policy purposes.

(c) 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).

(d) A tolerance limit equal to 2 per cent of 'total non-financial public sector cash receipts from operating activities' (2006-07 Budget Update) applies to jurisdictions' LCA nomination and revised LCA at budget time, and between the budget time LCA and LCA outcome. The tolerance limit applying to Victoria in 2007-08 is $719 million (2 per cent of $35 952 million – sourced from 2006-07 Budget Update).

As part of the Loan Council arrangements, the Loan Council has agreed that if at any time a jurisdiction finds that it is likely to exceed its tolerance limit, in either direction, it is required to provide an explanation to the Loan Council and, in line with the emphasis of the increased transparency, to make the explanation public. The 2007-08 revised LCA (deficit of $2 205 million) remained within the tolerance limit. The change of $134 million in the LCA between 2007-08 nomination and 2007-08 revised is mainly due to a revision in the public non-financial corporations sector cash position from $1 553 million deficit to a $2 582 million deficit primarily due to higher than estimated net cash flows on purchases of non-financial assets. The general government cash position has also changed from a $613 million deficit to a $524 million surplus due to higher than expected cash receipts from operating activities.

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

Listed below are details of Melbourne Wholesale Markets Redevelopment and Royal Children's Hospital Redevelopment, which are expected to be contracted in the 2007-08 financial year.

Melbourne Wholesale Markets Redevelopment

The Melbourne Market Relocation Project aims to plan and provide for the future growth of the Melbourne Wholesale Market (the Market) in a way that supports the longer term development of the horticultural industry across Victoria. The Government allocated approximately $300 million to the project in the *2005-06 Budget*.

The State has continued to engage with the market community around appropriate delivery models for the relocation of the Market to Epping. These discussions have led to the State authorising the Department of Primary Industries to engage with the market community on the basis of a State-owned market with greater user participation in governance and management and a possible sale by 2015 (if project timelines and objectives are met).

If a memorandum of understanding around the State Model cannot be agreed with the market community by mid December, the State has advised it will withdraw its offer and deliver the Epping Market in accordance with existing policy (i.e. offering individual leases in a State-owned and operated market). The State will move to close the Footscray Road Market by 2012.

Royal Children's Hospital Redevelopment

In November 2005, the Government announced that the new Royal Children's Hospital will be built in Parkville next door to its current site. The new building will be built immediately west of the current hospital with parkland on three sides, creating a unique and natural setting for Victoria's sick children.

The Government committed $850 million to fund the capital cost of the original project scope that included the design and construction of the new hospital, demolition of the old hospital, project management costs, and a significant allowance to reinstate parkland into Royal Park. The redevelopment now includes expanded research facilities for the Murdoch Children's Research Institute and the University of Melbourne, and some commercial opportunities, all of which are at no additional cost to the taxpayer but result in a total construction cost of approximately $1 billion.

Contractual and Financial Close occurred in November 2007. No payment will be made until operational commencement of the facility, which is anticipated to occur by the end of 2011. Following operational commencement, service payments will be made quarterly from the operational commencement date.

APPENDIX A: SPECIFIC POLICY INITIATIVES AFFECTING THE BUDGET POSITION

Appendix A outlines specific government policy initiatives that affect output, asset investment and revenue positions, including Treasurer's Advances, made since the *2007-08 Budget*. The following tables provide details of output and asset initiatives for:

- Government-wide programs; and
- government departments.

Appendix A includes a cross reference between output initiatives and their relevant departmental output(s), which aims to clearly indicate the impact of policy decisions on relevant portfolios and reinforce the Government's commitment to greater transparency and accountability in the budget papers.

GOVERNMENT-WIDE INITIATIVES

Output initiatives

The following table provides details of the total cost of Government-wide output initiatives. The figures included are the total cost of initiatives. Funding from reprioritisation and existing fund sources has not been deducted from the total cost of the initiative.

Table A.1: Output initiatives – Government-wide

($ million)

	2007-08	*2008-09*	*2009-10*	*2010-11*
Major Events	3.0	8.6	9.5	..
Level Crossing Safety Package				
Level Crossing Infrastructure	4.2	1.0	1.0	2.2
Pilot Compliance Cameras	0.6	0.6	..	..
Total output initiatives	**7.8**	**10.2**	**10.5**	**2.2**

Source: Department of Treasury and Finance

Major Events

Funding is provided to expand Government's support of major sporting and cultural events in Victoria.

Level Crossing Safety Package

Level Crossing Infrastructure

Funding has been provided to install automated advance warning signage at 53 crossings in regional Victoria, install 'rumble strips' at 200 targeted locations and accelerate works to eliminate 'line of sight' problems for motorists at a number of high-risk sites around the state.

This initiative contributes to the Department of Infrastructure's Public Transport Safety and Regulation and Road Safety and Regulation outputs.

Pilot Compliance Cameras

Funding is provided to pilot compliance cameras at two level crossings – one metropolitan, one regional – in Victoria.

This initiative contributes to the Department of Justice's Infringement and Orders Management output.

Asset initiatives

Table A2: Asset initiatives – Government-wide

	($ million)				
	2007-08	*2008-09*	*2009-10*	*2010-11*	*TEI*
Level Crossing Safety Package					
Level Crossing Infrastrucuture	13.8	6.4	2.7	..	22.9
Pilot Compliance Cameras	0.6	..	..	..	0.6
Total asset initiatives	**14.4**	**6.4**	**2.7**	**..**	**23.5**

Source: Department of Treasury and Finance

Level Crossing Safety Package

Level Crossing Infrastructure

See output initiative.

Pilot Compliance Cameras

See output initiative.

DEPARTMENTAL INITIATIVES

Education and Early Childhood Development

Output initiatives

Table A.3: Output initiatives – Education and Early Childhood Development

($ million)

	2007-08	*2008-09*	*2009-10*	*2010-11*
Program for Students with Disabilities	..	70.6	87.1	88.6
Total output initiatives	**..**	**70.6**	**87.1**	**88.6**

Source: Department of Treasury and Finance

Program for Students with Disabilities

Additional funding is provided to the Program for Students with Disabilities to manage increased demand for services provided to government school students with special education needs.

This initiative contributes to the Department's Services to Students output.

Asset initiatives

Table A.4: Asset initiatives – Education and Early Childhood Development

($ million)

	2007-08	*2008-09*	*2009-10*	*2010-11*	*TEI*
Modernisation	1.4	2.1	..	..	3.5
Total asset initiatives	**1.4**	**2.1**	..	..	**3.5**

Source: Department of Treasury and Finance

Modernisation

Additional funding is provided under the modernisation program to build a centre for Year 11 and 12 students at Fitzroy High School. The centre will feature art rooms, science laboratories, student lounges and specialised areas for private study, as well as learning studios designed to accommodate a variety of teaching and learning styles. This funding is in addition to $204.6 million provided in the *2007-08 Budget* for modernisation purposes across the school sector.

Human Services

Output initiatives

Table A.5: Output initiatives – Human Services

($ million)	2007-08	2008-09	2009-10	2010-11
International Diabetes Institute Relocation	5.0	..	..	..
Public Hospital Services for Victoria's Growing Population	15.5	..	..	..
Drought Response				
Mental Health Early Intervention Teams	0.6	..	..	..
Supporting Communities to Tackle Rural Poverty	1.4	..	..	..
Sustaining Community Wellbeing Extension	2.0	..	..	..
Gippsland Flood Recovery Package				
Community Recovery	0.7	..	..	..
Total output initiatives	**25.2**	**..**	**..**	**..**

Source: Department of Treasury and Finance

International Diabetes Institute Relocation

This initiative will contribute to the relocation of the International Diabetes Institute from the Caulfield General Medical Centre site to the research precinct on the Alfred Hospital site.

This initiative contributes to the Department's Health Advancement output.

Public Hospital Services for Victoria's Growing Population

Additional funding is provided for maternity and emergency services to meet expected increases in demand from the rising population.

This initiative contributes to the Department's Admitted Services output.

Drought Response

Mental Health Early Intervention Teams

Funding is provided for more direct specialist mental health services to increase the capacity of Primary Mental Health Early Intervention Teams in rural Victoria to provide drought support.

This initiative contributes to the Department's Clinical Care output.

Supporting Communities to Tackle Rural Poverty

The initiative will enhance emergency relief to families and individuals through development of sustainable relief networks and provision of direct emergency relief.

This initiative contributes to the Department's Community Health Care, and Social and Community Services outputs.

Sustaining Community Wellbeing Extension

Additional funding is provided to extend counselling services to communities experiencing worsening drought as well as workforce, community skills and network development.

This initiative contributes to the Department's Community Health Care output.

Gippsland Flood Recovery Package

Community Recovery

This initiative will provide grants to assist the community with the clean up; funding for the pump-out of flood-affected septic tanks; personnel to assist recovery in communities affected by floods; and funding for the East Gippsland Shire to undertake spraying against the spread of mosquito-borne viruses.

This initiative contributes to the Department's Community Health Care and Social and Community Services outputs.

Asset initiatives

Table A.6: Asset initiatives – Human Services

($ million)	2007-08	2008-09	2009-10	2010-11	TEI
Alfred Centre Stage 2	12.0	5.0	..	..	17.0
Parkville Comprehensive Cancer Centre – Planning Funding	2.0	3.0	..	..	5.0
Total asset initiatives	**14.0**	**8.0**	**..**	**..**	**22.0**

Source: Department of Treasury and Finance

Alfred Centre Stage 2

Funding is provided to Bayside Health for Stage 2 of the Alfred Centre. This initiative will create additional clinical space for Bayside to expand the Alfred's elective surgery centre to include a broader ambulatory care focus.

Parkville Comprehensive Cancer Centre – Planning Funding

This initiative will provide funding for the planning of a new Comprehensive Cancer Centre in Parkville.

Infrastructure

Output initiatives

Table A.7: Output initiatives – Infrastructure

($ million)

	2007-08	*2008-09*	*2009-10*	*2010-11*
Metropolitan Train Rolling Stock Procurement	1.2	2.0	4.4	8.3
Regional Train Rolling Stock Procurement	..	..	1.0	1.9
Transport Improvement Initiative – North Melbourne Bus Service	0.7	2.0	2.0	2.1
Gippsland Flood Recovery Package				
Restoration of Transport Links	13.3	..	..	..
Total output initiatives	**15.2**	**4.0**	**7.4**	**12.3**

Source: Department of Treasury and Finance

Metropolitan Train Rolling Stock Procurement

Funding is provided for the purchase of an additional eight metropolitan trains, stabling and associated operating costs to address the growing demand on the metropolitan rail network. This is a *Meeting Our Transport Challenges* initiative.

This initiative contributes to the Department's Integrated Metro Public Transport Services output.

Regional Train Rolling Stock Procurement

Funding is provided for the purchase of an additional eight carriages, stabling and associated operating costs for the V/Locity regional rail fleet to address the growing demand on the regional passenger network. This is a *Meeting Our Transport Challenges* initiative.

This initiative contributes to the Department's Rural and Regional Public Transport Services output.

Transport Improvement Initiative – North Melbourne Bus Service

Funding is provided for a high frequency shuttle bus service from North Melbourne Station to the University of Melbourne and the hospital precinct to reduce both city loop congestion and the journey times of university and hospital bound passengers.

This initiative contributes to the Department's Integrated Metropolitan Public Transport Services output.

Gippsland Flood Recovery Package

Restoration of Transport Links

Funding is provided for roads and bridges and to restore transport links to communities and businesses affected by severe flooding in the Mitchell, Tambo, Snowy, Cann, Thomson, Macalister, Avon and Genoa river systems.

This initiative contributes to the Department's Road System Management output.

Asset initiatives

Table A.8: Asset initiatives – Infrastructure

($ million)	2007-08	2008-09	2009-10	2010-11	TEI
Electronic Variable Speed Limits	9.6	4.0	..	..	13.6
Metropolitan Train Rolling stock Procurement [(a)]	25.2	128.4	61.4	..	255.8
Regional Train Rolling stock Procurement	15.3	12.4	7.4	..	35.1
Gippsland Flood Recovery Package					
Restoration of Transportation Links	6.7	..	..	..	6.7
Total asset initiatives	**56.8**	**144.8**	**68.8**	**..**	**311.2**

Source: Department of Treasury and Finance

Note:
(a) TEI includes $40.8m funding beyond 2010-11.

Electronic Variable Speed Limits

Funding has been provided for the installation of additional electronic speed signs around school speed zones across Victoria.

Metropolitan Train Rolling Stock Procurement

See output initiative.

Regional Train Rolling Stock Procurement

See output initiative.

Gippsland Flood Recovery Package

Restoration of Transportation Links

See output initiative.

Innovation, Industry and Regional Development

Output initiatives

Table A.9: Output initiatives – Innovation, Industry and Regional Development

($ million)

	2007-08	2008-09	2009-10	2010-11
Promoting Victoria's Spring Racing Carnival	0.1	..	..	..
Victorian Government International Networks	4.0	3.5	3.5	3.5
Drought Response				
Business Transitioning Program	1.0	..	..	..
Planning for Change	0.6	0.8	0.7	
Regional Infrastructure Development Fund – Small Towns Development Fund	5.0	..	..	..
Rural Skill Connect Initiative	3.3	..	..	..
Tourism Initiative	0.3	..	..	..
Gippsland Flood Recovery Package				
Re-establishing Infrastructure	4.4	..	..	..
Total output initiatives	**18.7**	**4.3**	**4.2**	**3.5**

Source: Department of Treasury and Finance

Promoting Victoria's Spring Racing Carnival

Funding is provided to promote Victoria's Spring Racing Carnival in the United Kingdom and Ireland through a range of marketing and public relations initiatives including targeted media programs, the development of tactical campaigns with travel trade partners and online initiatives.

This initiative contributes to the Department's Tourism output.

Victorian Government International Networks

Funding is provided to implement the recommendations of the April 2007 Buckingham Review of the Victorian Government's International Networks including the establishment of an International Co-ordination Office, creation of a new international office in South East Asia and enhanced service provision in core posts.

This initiative contributes to the Department's Investment Facilitation and Attraction output.

Drought Response

Business Transitioning Program

Funding is provided to deliver financial and business management advice and support for businesses in drought affected areas.

This initiative contributes to the Department's Regional Economic Development and Investment output.

Planning for Change

Funding is provided to help councils to plan strategically for the longer term consequences of sustained drought.

This initiative contributes to the Department's Regional Development outputs.

Regional Infrastructure Development Fund – Small Towns Development Fund

Funding is provided to invest in infrastructure and to boost jobs in regional areas affected by drought.

This initiative contributes to the Department's Regional Infrastructure Development output.

Rural Skill Connect Initiative

Funding is provided to help sustain employment in rural communities by enabling farm employees to transfer their skills to the rural industry sector.

This initiative contributes to the Department's Skills output.

Tourism Initiative

Funding is provided for tourism marketing support for the Murray region and for other drought affected regions.

This initiative contributes to the Department's Tourism output.

Gippsland Flood Recovery Package

Re-establishing Infrastructure

Funding is provided to assist the recovery of flood affected communities through the re-establishment of infrastructure and also includes tourism promotion, business recovery and community support.

This initiative contributes to the Department's Regional Infrastructure Development, Regional Promotion and Development and Tourism outputs.

Justice

Output initiatives

Table A.10: Output initiatives – Justice

($ million)	*2007-08*	*2008-09*	*2009-10*	*2010-11*
Prison Beds	12.1	..	..	..
Gippsland Flood Recovery Package				
Emergency Management Response	1.0	..	..	..
Financial Counselling	0.1	..	..	..
Total output initiatives	**13.2**	**..**	**..**	**..**

Source: Department of Treasury and Finance

Prison Beds

Funding is provided for an additional 387 temporary prisoner beds to increase prison capacity as a result of higher than anticipated prison bed demand, and to ensure prisoners are not held inappropriately in prison cells.

This initiative contributes to the Department's Prisoner Supervision and Support output.

Gippsland Flood Recovery Package

Emergency Management Response

Funding is provided for the operating costs of providing an emergency management response to areas of Gippsland following floods in July 2007.

This initiative contributes to the Department's Emergency Management Capability output.

Financial Counselling

Funding is provided for additional financial counselling assistance to people affected by the floods.

This initiative contributes to the Department's Promoting and Protecting Consumer Interests output.

Asset initiatives

Table A.11: Asset initiatives – Justice

($ million)	*2007-08*	*2008-09*	*2009-10*	*2010-11*	*TEI*
Infringement Management and Enforcement Services [a]	2.5	2.5	19.9	..	27.9
Total asset initiatives	**2.5**	**2.5**	**19.9**	**..**	**27.9**

Source: Department of Treasury and Finance

Note:
(a) TEI includes $3.0m in 2012-13.

Infringement Management and Enforcement Services

Funding is provided to establish a new infringement management information technology system.

Planning and Community Development

Output initiatives

Table A.12: Output initiatives – Planning and Community Development

($ million)

	2007-08	2008-09	2009-10	2010-11
Days in the Diocese	4.0	..	..	..
Drought Response				
Building Resilient Communities (Drought Coordinators)	0.8	1.5	..	..
Drought Relief for Community Sport and Recreation Program 2008	9.3	..	..	..
Emergency Volunteer Support Framework Funding	0.6	1.0	..	..
Regionally Significant Synthetic Surfaces Program	1.0	2.6	..	..
Total output initiatives	**15.7**	**5.1**	**..**	**..**

Source: Department of Treasury and Finance

Days in the Diocese

Funding has been provided for Victoria's contribution to support World Youth Day events in 2008 and to help the Catholic Archdiocese of Melbourne manage the influx of international visitors to Victoria. Funds will be used to support a number of events including a commissioning mass expected to attract more than 50 000 people and regional diocese activities.

This initiative contributes to the Department's Sport and Recreation Sector Development output.

Drought Response

Building Resilient Communities (Drought Coordinators)

Funding is provided for drought coordinators to assist local councils to support their communities.

This initiative contributes to the Department's Local Government Sector Development output.

Drought Relief for Community Sport and Recreation Program 2008

Funding is provided for sports clubs and councils to maintain their facilities and sporting competitions by investing in water saving initiatives such as drought resistant grass and water harvesting projects.

This initiative contributes to the Department's Sport and Recreation Sector Development output.

Emergency Volunteer Support Framework Funding

Funding is provided for Emergency Volunteer Support grants to bolster the capacity of emergency relief organisations.

This initiative contributes to the Department's Community Strengthening output.

Regionally Significant Synthetic Surfaces Program

Funding is provided for sports clubs and councils to improve drought-proofing of regional sporting grounds by investing in synthetic surfaces in strategically placed locations.

This initiative contributes to the Department's Sport and Recreation Sector Development output.

Asset initiatives

Table A.13: Asset initiatives – Planning and Community Development

($ million)

	2007-08	*2008-09*	*2009-10*	*2010-11*	*TEI*
Rectangular Sports Stadium – increase in seating capacity	..	..	11.5	..	11.5
Total asset initiatives	**..**	**..**	**11.5**	**..**	**11.5**

Source: Department of Treasury and Finance

Rectangular Sports Stadium – increase in seating capacity

Funding is provided to expand the seating capacity of the rectangular sports stadium, which will now accommodate over 31 000 people (up from 20 000).

Primary Industries

Output initiatives

Table A.14: Output initiatives – Primary Industries

($ million)

	2007-08	*2008-09*	*2009-10*	*2010-11*
Australian Energy Market Commission	0.8	0.9	..	..
Equine Influenza Response	8.2	..	..	..
Drought Response				
Additional Extension for Decision Support	0.8	..	..	..
Agriculture Recovery Response	1.2	..	..	..
Community Drought Communication	1.5	..	..	..
Drought Apprenticeship Retention Bonus	4.3	..	..	..
Extension of Exceptional Circumstances Drought Assistance	5.7	..	..	..
Farming Family Shire Rate Assistance	5.5	..	..	..
On-Farm Productivity Grants	10.0	..	..	..
Rural Futures Forum	0.8	..	..	..
Sustainable Farm Families	1.4	1.6	..	..
Water Tank Rebates	2.8	..	..	..
Gippsland Flood Recovery Package				
Coordination of Volunteers Assisting with Fencing	0.1	..	..	..
Emergency Fodder Supply and Transport	0.8	..	..	..
Restoration Advice and Planning	0.6	..	..	..
Total output initiatives	**44.5**	**2.5**	**..**	**..**

Source: Department of Treasury and Finance

Australian Energy Market Commission

Funding has been provided to meet Victoria's obligations to the Australian Energy Market Commission under the cost sharing arrangements agreed by the Ministerial Council on Energy.

This initiative contributes to the Department's Primary Industries Policy output.

Equine Influenza Response

Funding has been provided for a range of measures, including border controls and testing, to protect Victoria and the Spring Racing Carnival from equine influenza.

This initiative contributes to the Department's Regulation and Compliance output.

Drought Response

Additional Extension for Decision Support

Funding has been allocated to extend the program providing one-on-one technical advice and information to farmers affected by drought.

This initiative contributes to the Department's Sustainable Practice Change output.

Agriculture Recovery Response

Funding has been provided for initiatives to assist farm businesses, rural (non-farm) businesses and industries to adjust to and recover from drought. Activities included 'taking stock' audits, development of coping and recovery plans, and individual and group support for managing change.

This initiative contributes to the Department's Sustainable Practice Change output.

Community Drought Communication

Funding has been provided to inform farmers, individuals and communities about available drought assistance and to facilitate access to programs and services. The initiative will also promote the ways in which affected communities are successfully dealing with drought related problems.

This initiative contributes to the Department's Sustainable Practice Change output.

Drought Apprenticeship Retention Bonus

Funding is provided for grants of $1 500 per apprentice to businesses in Exceptional Circumstances declared areas that directly provide services to the farming industry. This program supports rural towns and communities by helping businesses retain rural apprentices. Additional funding has been provided to continue the bonus.

This initiative contributes to the Department's Sustainable Practice Change output.

Extension of Exceptional Circumstances Drought Assistance

Funding has been provided to meet Victoria's contribution to the extended Exceptional Circumstances agreement with the Australian Government.

This initiative contributes to the Department's Sustainable Practice Change output.

Farming Family Shire Rate Assistance

Funding has been provided to support farm families who are receiving Exceptional Circumstances welfare payments through the payment of 50 per cent of rates in drought affected shires.

This initiative contributes to the Department's Sustainable Practice Change output.

On-Farm Productivity Grants

Funding has been provided for grants of up to $3 000 to assist farmers in regions most affected by drought for on-farm infrastructure improvements that improve productivity. Improvements to irrigation infrastructure are not eligible for funding.

This initiative contributes to the Department's Sustainable Practice Change output.

Rural Futures Forum

Funding is provided for a series of forums to be delivered to rural communities undergoing structural change as a result of drought and other forces. It will enable communities to assess their future, make sound decisions and, where appropriate, consider options for adjustment into other industries and sectors of the rural workforce.

This initiative contributes to the Department's Sustainable Practice Change output.

Sustainable Farm Families

Funding is provided to support the physical and mental health and wellbeing of drought affected farmers and their families. The program is being delivered in conjunction with the Western District Health Service.

This initiative contributes to the Department's Sustainable Practice Change output.

Water Tank Rebates

Funding has been provided for rebates for a proportion of the cost of a water tank and installation for those farms who have not received a channel run for eligible Grampians Wimmera-Mallee Water stock and domestic water customers.

This initiative contributes to the Department's Sustainable Practice Change output.

Gippsland Flood Recovery Package

Coordination of Volunteers Assisting with Fencing

Funding has been provided to engage a Victorian Farmers Federation coordinator to oversee volunteers assisting with fencing repairs undertaken as part of the flood recovery.

This initiative contributes to the Department's Regulation and Compliance output.

Emergency Fodder Supply and Transport

Funding has been provided to supply emergency fodder to those farmers in the Gippsland region whose properties and livestock have been impacted by widespread flooding.

This initiative contributes to the Department's Regulation and Compliance output.

Restoration Advice and Planning

Funding has been provided to engage external consultants to advise dairy farmers and horticulturalists on best practice approaches to business recovery and increasing resilience to floods.

This initiative contributes to the Department's Regulation and Compliance output.

Sustainability and Environment

Output initiatives

Table A.15: Output initiatives – Sustainability and Environment

($ million)

	2007-08	*2008-09*	*2009-10*	*2010-11*
Electric Ant Eradication Program	0.4	..	..	..
Unbundling Water Rights	7.2	5.4	3.6	1.8
Drought Response				
Catchment Management Authority Drought Employment Program	10.0	..	..	..
Emergency Water Supply Points	0.7	..	..	..
Pumping the Waranga Basin	2.6	..	..	..
Water Rate Rebate	55.0	..	..	..
Gippsland Flood Recovery Package				
Clean-up Works at Parks and Rivers	10.0	..	..	..
Total output initiatives	**85.9**	**5.4**	**3.6**	**1.8**

Source: Department of Treasury and Finance

Electric Ant Eradication Program

This funding represents Victoria's contribution to the national Electric Ant Eradication Program, which is designed to prevent the spread of what is regarded as one of the worst 100 invasive species by the Invasive Species Specialist Group of the World Conservation Union.

This initiative contributes to the Department's Natural Resources output.

Unbundling Water Rights

As part of extensive water reforms, unbundling water rights from land will provide irrigators with a greater flexibility to trade water. Funding for this initiative will help to mitigate the impact that this will have on regional communities already affected by drought and low water allocations.

This initiative contributes to the Department's Sustainable Water Management and Supply output.

Drought Response

Catchment Management Authority Drought Employment Program

This initiative will employ people directly impacted by drought to undertake work to protect environmental assets on public and private land.

This initiative contributes to the Department's Sustainable Water Management and Supply output.

Emergency Water Supply Points

This initiative will assist in providing a comprehensive network of emergency water supply points across the state, which enables households to cart water for stock and domestic needs during severe droughts.

This initiative contributes to the Department's Sustainable Water Management and Supply output.

Pumping the Waranga Basin

This initiative provides funding to Goulburn-Murray Water to pump 87 gigalitres of 'dead water' from the Waranga Basin to meet current allocation commitments.

This initiative contributes to the Department's Sustainable Water Management and Supply output.

Water Rate Rebate

Funding has been provided by the Government towards the first $1 000 of water bills for all irrigators and stock and domestic farmers who are receiving less than 40 per cent of their water entitlements as of 1 December 2007. In addition, those irrigators whose water bill is more than $1 000 will receive an additional 50 per cent rebate on the balance of bills above $1 000.

Further funding has been provided to expand the rebate scheme.

This initiative contributes to the Department's Sustainable Water Management and Supply output.

Gippsland Flood Recovery Package

Clean-up Works at Parks and Rivers

This initiative will assist flood-affected Gippsland communities recover by providing funding to undertake clean-up works, such as repairing roads and tracks, removing debris and replacing and repainting fencing.

This initiative contributes to the Department's Land and Fire Management output.

Asset initiatives

Table A.16: Asset initiatives – Sustainability and Environment

	($ million)				
	2007-08	*2008-09*	*2009-10*	*2010-11*	*TEI*
Food Bowl Modernisation Project	tbd	tbd	tbd	tbd	600.0
Geelong-Melbourne Pipeline	..	3.0	..	17.0	20.0
Hamilton-Grampians Pipeline	1.0	9.0	..	..	10.0
Wimmera-Mallee Pipeline – additional funding	41.0	58.0	..	..	99.0
Total asset initiatives	**42.0**	**70.0**	**..**	**17.0**	**729.0**

Source: Department of Treasury and Finance

Food Bowl Modernisation Project

The Government has committed up to $600 million in new state funding towards the first stage of this $1 billion initiative which is designed to save up to 225 billion litres of water in the Goulburn and Murray irrigation systems currently lost through leaks, evaporation and other inefficiencies.

Geelong-Melbourne Pipeline

This initiative will give Geelong, the Bellarine Peninsula and Surf Coast access to Melbourne's increased supplies from the desalination plant and irrigation upgrades and is designed to boost Geelong's water supplies by around 50 per cent by 2011.

Hamilton-Grampians Pipeline

This initiative will connect Hamilton to the Grampians Wimmera-Mallee Water system via a new pipeline and will allow Hamilton to share in the savings generated by the Wimmera-Mallee Pipeline project.

Wimmera-Mallee Pipeline – additional funding

This additional funding will enable the Wimmera-Mallee Pipeline project to be fast-tracked to be completed in 2009-10, well ahead of the original completion date of 2016. This initiative will deliver 100 000 megalitres of water savings each year when the project is fully operational.

Treasury and Finance

Output initiatives

Table A.17: Output initiatives – Treasury and Finance

($ million)

	2007-08	*2008-09*	*2009-10*	*2010-11*
Gippsland Flood Recovery Package				
Concessional Financial Assistance	1.0	..	..	..
Total output initiatives	**1.0**	**..**	**..**	**..**

Source: Department of Treasury and Finance

Gippsland Flood Recovery Package

Concessional Financial Assistance

This initiative provides concessional financial assistance through Rural Finance loans to small businesses, householders and primary producers whose assets have been damaged by flood.

This initiative contributes to a range of the Department's outputs.

REVENUE INITIATIVES

Table A.18: Revenue initiatives

($ million)	*2007-08*	*2008-09*	*2009-10*	*2010-11*
Motorcycle Safety Levy	3.7	5.1	5.4	5.8
Total revenue initiatives	**3.7**	**5.1**	**5.4**	**5.8**

Source: Department of Treasury and Finance

Motorcycle Safety Levy

This initiative continues the Motorcycle Safety Levy beyond 30 September 2007. The funds raised from the levy are dedicated to motorcycle safety initiatives.

APPENDIX B: TAX EXPENDITURES AND CONCESSIONS

TAX EXPENDITURES

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

Table B.1 shows aggregate tax expenditure estimates by the main categories of tax for the period 2006-07 to 2010-11. The *2007-08 Budget Update* estimate for total tax expenditures for 2007-08 is $2 274 million, $109 million lower than the *2007-08 Budget* estimate of $2 383 million. The variations from the estimates published in the *2007-08 Budget* are mainly associated with land tax and payroll tax expenditures. The land tax expenditure estimates for 2006-07 and 2007-08 have been lowered reflecting improved State Revenue Office estimation methodologies and data collection. However, higher expected land revaluations in 2008-09 and 2010-11 have increased the land tax expenditure estimates from 2008-09 onwards. Payroll tax expenditure estimates have increased due to higher than expected employment growth.

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

($ million)

	2006-07 Estimate	*2007-08 Estimate*	*2008-09 Estimate*	*2009-10 Estimate*	*2010-11 Estimate*
Land tax	1 444	1 198	1 584	1 545	1 624
Payroll tax	706	746	766	793	824
Gambling tax	73	75	79	83	87
Motor vehicle taxes	65	68	71	74	76
Other stamp duties	134	143	186	223	223
Congestion levy	42	44	44	46	47
Total estimated tax expenditures	**2 465**	**2 274**	**2 729**	**2 763**	**2 882**

Source: Department of Treasury and Finance

CONCESSIONS

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

Table B.2 classifies the major concessions provided by the Victorian Government by the various categories. The current estimated total value of concessions for 2007-08 is \$1 187 million, \$1 million higher than the \$1 186 million estimated in the *2007-08 Budget*.

Table B.2 Concessions by category[(a)]

(\$ million)

	2005-06 Estimate	*2006-07 Estimate*	*2007-08 Estimate*
Energy, municipal rates, water and sewerage	237	258	262
Education	150	179	196
Health	393	427	457
Hardship assistance	21	22	24
Transport	227	236	248
Total for items estimated	**1 029**	**1 121**	**1 187**

Source: Department of Treasury and Finance

Note:
(a) These figures include the cost of administration.

APPENDIX C: REQUIREMENTS OF THE *FINANCIAL MANAGEMENT ACT 1994*

The *Financial Management Act 1994* (the Act) requires the Minister to prepare a budget update for tabling in Parliament each financial year. The provisions of the Act have been complied with in the *2007-08 Budget Update*.

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

Table C.1: Statements required by the *Financial Management Act 1994* and their location in the *2007-08 Budget Update*

Relevant section of the Act and corresponding requirement	*Location*
Sections 23 E-G	
Statement of financial policy objectives and strategies for the year.	Chapter 1, *Financial Policy Objectives and Strategy*
Sections 23 H-N	
Estimated financial statements for the year comprising: – an estimated statement of financial performance over the year; – an estimated statement of financial position at the end of the year; – an estimated statement of cash flows for the year; and – a statement of the accounting policies on which these statements are based and explanatory notes.	Chapter 6, *Estimated Financial Statements and Notes*
Accompanying statement to estimated financial statements which: – outlines the material economic assumptions used in preparation of the estimated financial statements;	Chapter 2*, Economic Conditions and Outlook* and Chapter 6, *Estimated Financial Statements and Notes*

Table C.1: Statements required by the *Financial Management Act 1994* and their location in the *2007-08 Budget Update* (continued)

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

STYLE CONVENTIONS

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

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

LHS	left-hand-side
RHS	right-hand-side
s.a.	seasonally adjusted
n.a. or na	not available or not applicable
Cat. No.	catalogue number
1 billion	1 000 million
1 basis point	0.01 per cent
nm	new measure
..	zero, or rounded to zero
tbd	to be determined
ongoing	continuing output, program, project etc
(xxx.x)	negative numbers
budget estimate	budget estimates presented in November 2007