Pre-Election Budget Update

A report by the Secretary of the
Department of Treasury and Finance

November 2002

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FOREWORD

On 4 November 2002, the Premier announced that a general election would be held on 30 November 2002.

Under my instruction this Pre-Election Budget Update is published by the Department of Treasury and Finance in accordance with new reporting requirements under the *Financial Management Act 1994* (FMA) introduced through the *Financial Management (Financial Responsibility) Act 2000*. All requirements of Part 5, Division 6 of the FMA have been met in this publication.

The purpose of the Pre-Election Budget Update is to update information on the general government sector since the publication of the May 2002 Budget. Chapter 1, *Budget Position and Outlook* provides an overview of the projected Budget position for the period 2002-03 to 2005-06. Chapter 2, *Statement of Risks* lists, and where possible quantifies, the risks which could materially alter these Budget projections. Chapter 3, *Estimated Financial Statements and Notes* provides the formal accounting statements, and underpinning notes and assumptions, required by the FMA.

The Pre-Election Budget Update is based upon Government decisions I was aware of on or before the issue of election writs on 5 November 2002, and other information available up until 11 November 2002. In particular, the Pre-Election Budget Update takes full account of the September Quarter 2002 general government sector outcome to be released soon by the Government. Government decisions are those policy decisions that are made by Cabinet.

Ian Little
Secretary

Department of Treasury and Finance

November 2002

CHAPTER 1: BUDGET POSITION AND OUTLOOK

- The budgeted operating surplus for 2002-03 has been revised to $542 million – an increase of $20 million from the result estimated in the May 2002 Budget. This mainly reflects higher than projected taxation and other revenue, partly offset by an increase in superannuation expense.
- The operating surplus is projected to average $479 million per annum over 2003-04 to 2005-06, compared to $603 million at Budget time.
- Net debt (excluding the Growing Victoria infrastructure reserve) is projected to fall from $2.4 billion (equivalent to 1.3 per cent of GSP) at 30 June 2002 to $1.8 billion (0.8 per cent of GSP) at 30 June 2006.
- Net financial liabilities (excluding the Growing Victoria infrastructure reserve) are projected to rise from $15.8 billion at 30 June 2002 to $16.9 billion at 30 June 2006. As a proportion of GSP, net financial liabilities fall from 8.7 per cent to 7.5 per cent over this period.
- The Victorian economy performed well in 2001-02. While the projected composition of growth has altered since Budget time, the outlook for aggregate Gross State Product (GSP) growth of 3.5 per cent in 2002-03 remains unchanged.

This chapter provides an overview of the projected Budget position for the period 2002-03 to 2005-06.

The projections, or forward estimates, are based on the economic projections outlined below and reflect the accounting policies and assumptions documented in Chapter 3, *Estimated Financial Statements and Notes*. The estimates take into account the financial impacts of all policy decisions taken by the Government (that is, decisions made by Cabinet) prior to the issue of election writs. Specific policy decisions taken since the May 2002 Budget that have an effect on the Budget position are summarised in Appendix A, *Specific policy initiatives affecting the budget position*.

The forward estimates represent planning projections based on maintaining these policy and other assumptions unchanged through the forecast period. Outcomes will differ from these projections for many reasons, including the implementation of new policies by the incoming Government and any materialisation of the risks described in Chapter 2, *Statement of Risks*.

ECONOMIC OUTLOOK

According to the latest Consensus Economics survey of private sector analysts (October 2002), world economic growth is forecast at 1.6 per cent in 2002 and 2.6 per cent in 2003, slightly below the estimates at Budget time (1.6 per cent and 3.0 per cent, respectively). The downward revision to the 2003 growth forecast has been concentrated in the United States and Europe, with the forecast for East Asian growth in 2003 broadly unchanged. Reflecting growing concerns about near term growth prospects in the United States, the US Federal Reserve lowered interest rates by a further 50 basis points in early November 2002.

As projected at Budget time, the Australian economy has continued to perform strongly. The economy grew by 3.8 per cent in 2001-02, with domestic demand the key driver of growth. The Commonwealth's budget-time estimate for economic growth in 2002-03 was 3.75 per cent; current private sector forecasts average closer to 3.3 per cent. The drought and global economic weakness have contributed to this recent lowering of near-term growth expectations for Australia.

It is now estimated that in 2001-02 the Victorian economy grew more strongly than nationally and above the Budget estimate (3.75 per cent), reflecting continued strength in the domestic economy and an unexpectedly solid export performance. This will be confirmed on 13 November, after the close-off time for printing this publication, when the Australian Bureau of Statistics releases first estimates for Victorian GSP.

Although the drought is expected to have a larger impact on 2002-03 growth than anticipated at Budget time, its effect has so far been offset by more robust dwelling and business investment. Accordingly, the forecast for Victorian growth in 2002-03 is unchanged at 3.5 per cent. As such, it now appears that the Victorian economy will grow a little faster than the national average in 2002-03. This primarily reflects Victoria's lesser exposure to a subdued global recovery, and also to the drought.

The economic projections which underpin the *Pre-Election Budget Update* estimates are outlined in Table 1.1. The 2002-03 forecasts are unchanged from those published at Budget time, except for the Consumer Price Index (CPI), which is now expected to grow by 2.75 per cent. The increase in the expected CPI inflation rate reflects national factors, including higher petrol prices, the likelihood of higher food prices as a result of the drought, and some increase in underlying inflation pressures in the first half of 2002.

Table 1.1: Victorian economic projections[(a)]

	2002-03 Forecast
Gross state product	3.50
Employment	1.50
Consumer price index	2.75
Wage cost index [(b)]	3.50

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

Notes:

(a) Year-average per cent change on previous year. All forecasts are rounded to the nearest 0.25 percentage point.

(b) Total hourly rate excluding bonuses.

The main risks to the forecasts are detailed below.

- The economy's resilience to the subdued global backdrop of the past year provides some comfort in terms of its ability to withstand any further global weakness. Nevertheless, a renewed downturn in Victoria's major trading partners could produce a somewhat slower GSP growth rate in 2003. The possibility of war with Iraq is a related risk for the global economy.
- As a result of the worsening drought, the Australian Bureau of Agricultural and Resource Economics recently lowered its estimates of winter crop production (for Victoria and Australia). The economic growth forecasts in Table 1.1 reflect the impact of these lower estimates, but are vulnerable to any further deterioration in Victorian agricultural conditions.

FORWARD ESTIMATES OUTLOOK 2002-03 TO 2005-06

Table 1.2 provides a snapshot of the aggregate Budget outlook over the forward estimates period 2002-03 to 2005-06. A more detailed statement of financial performance for the outlook period is provided in Chapter 3, *Estimated Financial Statements and Notes*.

As shown in Table 1.2, an operating surplus of $542 million is projected for 2002-03. The operating surplus is projected to decline to $341 million in 2003-04, mainly reflecting a projected decline in revenue, before rising to $628 million by the end of the outlook period.

Table 1.2: Summary statement of financial performance 2002-03 to 2005-06

($ million)

	2002-03 Budget	*2002-03 Revised*	*2003-04 Estimate*	*2004-05 Estimate*	*2005-06 Estimate*
Taxation	8 802.7	9 149.4	9 106.7	9 339.2	9 530.5
Investment income	1 061.6	1 168.1	944.8	996.4	1 156.1
Grants	11 753.5	11 761.5	12 041.1	12 474.5	13 037.6
Sales of goods and services	2 049.9	2 086.6	2 084.0	2 115.3	2 148.8
Other revenue [(a)]	1 614.0	1 773.8	1 719.7	1 797.1	1 742.6
Total revenue	**25 281.7**	**25 939.3**	**25 896.4**	**26 722.5**	**27 615.7**
% change			-0.2	3.2	3.3
Superannuation	1 713.1	2 368.4	1 819.2	1 856.4	1 910.3
Depreciation	952.2	960.5	1 009.8	1 073.8	1 121.9
Borrowing costs	495.2	493.4	484.9	476.8	467.5
Employee entitlements	9 041.5	9 282.2	9 565.0	9 874.5	10 214.2
Supplies and services	8 299.9	7 924.3	8 450.2	8 708.9	8 984.9
Other expenses [(b)]	4 258.1	4 368.5	4 225.9	4 265.1	4 288.8
Total expenses	**24 760.0**	**25 397.2**	**25 555.1**	**26 255.5**	**26 987.7**
% change			0.6	2.7	2.8
Operating surplus	**521.8**	**542.1**	**341.2**	**467.0**	**628.0**

Source: Department of Treasury and Finance

Notes:

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

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

Operating revenue

Total revenue is projected to be $25 939 million in 2002-03, representing an increase of $658 million relative to the original budget estimate, in large part due to stronger than expected taxation revenue.

Total revenue is projected to decline by around 0.2 per cent in 2003-04, mainly reflecting a decline in taxation and investment revenue, before resuming growth of around 3.3 per cent on average over the balance of the outlook period.

Taxation revenue is expected to decline by 0.5 per cent in 2003-04 and grow by an average 2.3 per cent per annum over the remainder of the outlook period. The decline in revenue in 2003-04 and low average growth rate reflect the combined impact of a number of factors, including:

- an expected decline in property market activity, resulting in a cut in property market related stamp duties;

- implementation of tax cuts announced by the Government, including the reduction in the payroll tax rate from 5.35 per cent to 5.25 per cent in 2003-04 and abolition of stamp duty on mortgages from 2004-05; and
- the expected abolition of bank accounts debits tax from 2005-06, consistent with the *Intergovernmental Agreement on the Reform of Commonwealth State Financial Relations*.

Investment income is expected to decline by 19.1 per cent in 2003-04 and then rebuild over the following two years. Factors contributing to this pattern include:

- the impact of a one-off increased dividend in 2002-03 from the gas sector as a result of the delayed introduction of full retail contestability in gas markets;
- the completion in 2002-03 of the payment of a series of special dividends by the Transport Accident Commission to fund the Accident Blackspot Program; and
- increased dividends in 2002-03 from the metropolitan water sector, mainly reflecting additional dividends from certain water companies to reinforce the commercial focus of the businesses and ensure appropriate financial ratios are maintained.

Revenue from Commonwealth grants is projected to increase on average by 3.5 per cent per annum with growth boosted by an expected increase in Commonwealth Budget Balancing Assistance payments following the abolition of debits tax from 2005-06. Revenue from sales of goods and services is projected to exhibit moderate growth.

Operating expenses

Total expenses are projected to be $25 397 million in 2002-03, representing an increase of $637 million on the estimate published in the May 2002 Budget. This is mainly attributable to an increase in superannuation expense, reflecting the impact of weak equity market performance early in the financial year.

Total expenses are projected to increase by 0.6 per cent in 2003-04, mainly reflecting a decline in superannuation expense, before resuming average growth of 2.8 per cent per annum over the remaining outlook period.

Superannuation expense is expected to decline by 23.2 per cent in 2003-04. This reflects the significant one-off impact of poor equity market performance on superannuation expense in 2002-03. Growth in superannuation expense is projected to average 2.5 per cent per annum over the remainder of the forecast period, broadly in line with the May 2002 Budget projections.

Employee entitlements are expected to increase on average 3.2 per cent per annum over the forecast period, the result of underlying wage increases and implementation of output initiatives announced by Government up to and since the May 2002 Budget.

Borrowing costs are projected to decline by an average 1.8 per cent per annum over the forecast period. This mainly reflects the flow-through impact of lower interest rates as the debt portfolio gradually matures and is refinanced.

Depreciation expense is projected to increase on average 5.3 per cent per annum, more than offsetting the decline in borrowing costs. The increase in depreciation expense is due to the investment in new infrastructure to be undertaken over this period.

RECONCILIATION OF FORWARD ESTIMATES TO PREVIOUSLY PUBLISHED ESTIMATES

Table 1.3 compares the revised outlook for the operating surplus for the period 2002-03 to 2005-06 to the estimates published in the May 2002 Budget.

Table 1.3: Reconciliation of estimates to May 2002 Budget

($ million)

	2002-03 Revised	*2003-04 Estimate*	*2004-05 Estimate*	*2005-06 Estimate*
General government sector operating surplus – 2002-03 Budget	**521.8**	**580.0**	**517.3**	**711.9**
Plus: Revenue variations since 2002-03 Published Budget				
Economic/demographic effects				
Taxation revenue	337.7	160.7	212.3	223.7
Investment income	106.5	- 47.1	- 21.4	99.3
Other economic/demographic effects	35.0	..	..	..
Total economic/demographic variations	**479.2**	**113.6**	**190.9**	**323.1**
Policy decisions				
Taxation Initiatives	- 0.4	- 1.0	- 1.1	- 1.1
Other initiatives affecting revenue	9.4	21.3	31.3	33.5
Total policy variations	**9.0**	**20.3**	**30.2**	**32.4**
Commonwealth funding revisions				
General purpose grants	- 23.6	- 13.7	- 5.4	7.1
Specific purpose payments	31.6	- 17.5	17.4	- 40.4
Total Commonwealth funding variations	**8.0**	**- 31.1**	**12.0**	**- 33.3**
Total Administrative variations [(a)]	**161.5**	**104.9**	**111.0**	**121.0**
Total variation in operating revenue since 2002-03 Published Budget	**657.6**	**207.7**	**344.1**	**443.2**

Table 1.3 (cont): Reconciliation of estimates to May 2002 Budget

($ million)

	2002-03 Revised	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
Less: Operating expenses variations since 2002-03 Published Budget				
Economic/demographic effects				
Superannuation revisions	655.3	93.9	90.5	106.1
Total economic/demographic variations	**655.3**	**93.9**	**90.5**	**106.1**
Policy decisions				
Output policy decisions	100.4	143.7	141.5	120.6
Total policy variations	**100.4**	**143.7**	**141.5**	**120.6**
Commonwealth funding revisions	**24.6**	**- 1.2**	**7.3**	**4.3**
Administrative variations				
Wage growth contingency variations	..	95.8	102.0	130.6
Expenditure reclassification (b)	- 115.4	28.7	- 17.8	- 16.6
Other administrative variations (c)	- 27.5	85.6	70.9	182.0
Total administrative variations	**- 143.0**	**210.1**	**155.1**	**296.1**
Total variation in operating expenses since 2002-03 Published Budget	**637.3**	**446.5**	**394.4**	**527.1**
General government sector operating surplus – Pre-Election Budget Update	**542.1**	**341.2**	**467.0**	**628.0**

Source: Department of Treasury and Finance

Notes:

(a) Includes revenue impacts flowing from finalisation of Partnerships Victoria contracts and revised forecasts of commercial revenue of outer budget sector agencies.

(b) Made up of transfers and accounting reclassifications of expenditure between operating and capital expenditure.

(c) Includes variations in operating expenses attributable to output delivery timing changes and changes in activity funded from third party revenue sources net of Treasurer's contingency funding in 2002-03 for output decisions.

Operating revenue

Total revenue is $658 million higher than the published budget estimate for 2002-03 and $332 million per annum higher on average over the remainder of the outlook period.

Taxation is the main source of the increase in revenue, with taxation revenue now expected to exceed May 2002 Budget estimates by $338 million in 2002-03 and an average $199 million per annum over the remainder of the forecast period. The projected increase in taxation revenue is mainly attributable to stronger than expected property market sales and prices, resulting in higher revenue from conveyancing and mortgage stamp duties. Partly offsetting these increases were reductions in gambling tax estimates of $50 million in 2002-03 and $25 million in 2003-04, reflecting the impact of recently imposed smoking restrictions in gambling venues.

Investment income is now projected to be $107 million higher in 2002-03 than projected in the May 2002 Budget. This increase mainly reflects the earlier mentioned additional dividend receipts from the metropolitan water sector and from the gas sector. Partly offsetting these increases in investment revenue in 2002-03, and with flow-on effects in the three forward years, is a reduction in projected distributions from the Transport Accident Commission (averaging $64 million per annum between 2002-03 to 2004-05) largely as a result of reduced investment returns.

Other economic/demographic effects reflect the higher than projected revenue from the Land Titles Office due to stronger than expected property market sales and prices.

Policy decisions account for a $0.4 million reduction in 2002-03 taxation revenue since the May 2002 Budget and around $1 million per annum over the remainder of the forecast period. This reflects the impact of the Government's decision to introduce payroll tax concessions for maternity leave.

Other initiatives have resulted in an increase in revenue of $9.4 million in 2002-03 and an average of $29 million per annum over the remainder of the forward estimates period, mainly reflecting:

- revenue from property sales associated with the Flinders Street overpass project; and
- insurance company contributions to fire services costs flowing from the impact of Enterprise Bargaining Agreement outcomes.

Revisions to Commonwealth funding reflect the impact of revised population growth assumptions arising from the 2001 Census and the incorporation of final 2002-03 Commonwealth Budget specific purpose payment projections, including estimates for Roads of National Importance grants funding.

Administrative revenue variations total $162 million in 2002-03 and average $112 million per annum over the remainder of the forward estimates period. These variations are mainly due to revised forecasts of commercial and miscellaneous revenue from third party sources received in budget agencies, including hospitals and VicRoads.

Operating expenses

Operating expenses are expected to be $637 million higher than the published Budget estimate for 2002-03 and $456 million per annum higher on average over the remainder of the outlook period.

Revisions to projected superannuation expense ($655 million increase in 2002-03 and $97 million per annum on average over the remainder of the period) account for the bulk of the forecast rise in 2002-03 operating expenses since the May 2002 Budget. This reflects the impact of the deterioration in international equity market performance in late 2001-02 and early 2002-03. Equity market performance has a significant impact on the value of financial assets held by State superannuation funds and therefore on the State's unfunded superannuation liability and superannuation expense. The increase in superannuation expense in 2002-03 also reflects the effect of revised CPI projections on indexed superannuation benefits.

The impact of output policy decisions since the May 2002 Budget on operating expenses total $100 million in 2002-03 (with the impact on operating expenses in this year offset by forward estimates contingency funding) and an average of $135 million per annum between 2003-04 and 2005-06. Policy decisions impacting on the Budget include funding for the Melbourne Cricket Ground redevelopment, farm business support grants, the Government's Innovation Statement, Metropolitan Fire and Emergency Services Board and Country Fire Authority enterprise bargaining agreement and additional funding provided for the Disabilities and Impairment program in government schools. Specific policy decisions since Budget are summarised in Appendix A, *Specific policy initiatives affecting the budget position*.

The impact of Commonwealth funding revisions on operating expenses totals $25 million in 2002-03 and $3 million per annum on average over the remainder of the outlook period. This mainly reflects revised forecasts of Commonwealth specific purpose payments in relation to the National Health Development Fund and Roads of National Importance.

Wage growth contingency adjustments reflect the expected outcomes of a number of industrial agreements under negotiation, taking into account likely flow on effects of previous agreements.

Expenditure reclassifications have resulted in a decrease in operating expenses of $115 million in 2002-03, mainly reflecting reclassification of expenditure from operating to capital to better reflect accounting policies for roads expenditure.

Other administrative variations in operating expenses total -$28 million in 2002-03, rising to $182 million in 2005-06. This revision reflects the combined impact of a range of factors, including:

- increased hospital expenses funded by higher third party revenue sources ($70 million per annum);

- the impact of the finalisation of contracts for a number of major infrastructure projects, including conversion of expenditure associated with the Spencer Street Station project to reflect delivery under the *Partnerships Victoria* model; and
- correction of an administrative omission to the forward estimates in 2005-06 in relation to bus contracts ($72 million).

These factors are offset in 2002-03 by the utilisation of the Treasurer's Advance contingency provision to fund output policy initiatives announced since the 2002-03 Budget.

SUMMARY STATEMENT OF FINANCIAL POSITION

Table 1.4 provides a summary of the general government sector statement of financial position. A more detailed statement of financial position is provided in Chapter 3, *Estimated Financial Statements and Notes*.

Table 1.4: General government summary statement of financial position as at 30 June

($ million)

	2002 Actual	*2003 Revised*	*2004 Estimate*	*2005 Estimate*	*2006 Estimate*
Current assets	4 126.4	4 326.4	4 462.9	4 576.5	4 690.6
Non-current assets	42 376.9	43 983.7	45 036.4	46 822.3	49 050.0
Total assets	**46 503.3**	**48 310.1**	**49 499.3**	**51 398.7**	**53 740.5**
Current liabilities	3 817.9	4 451.2	4 207.8	4 021.0	4 449.9
Non-current liabilities	20 840.7	20 988.8	21 738.6	22 691.0	23 147.0
Total liabilities	**24 658.6**	**25 440.0**	**25 946.4**	**26 712.0**	**27 596.9**
Net assets	**21 844.7**	**22 870.1**	**23 552.8**	**24 686.7**	**26 143.7**

Source: Department of Treasury and Finance

General government sector assets are projected to grow by 15.6 per cent from $46.5 billion at 30 June 2002 to $53.7 billion at 30 June 2006. This mainly reflects a projected increase in non-current physical assets driven by infrastructure investment expenditure over the period.

At 30 June 2002 general government net financial liabilities (excluding the Growing Victoria infrastructure reserve) were $15.8 billion. Table 1.5 shows a $1.1 billion increase in dollar terms in general government net financial liabilities mainly due to growth in the unfunded superannuation liability. As a proportion of GSP, net financial liabilities are projected to decline from 8.7 per cent at 30 June 2002 to 7.5 per cent of GSP by 30 June 2006.

Net debt (excluding the Growing Victoria infrastructure reserve) is projected to fall to $1.7 billion by 30 June 2003 and then to remain close to this level over the next three years. As a proportion of GSP, net debt drops from 1.3 per cent at 30 June 2002 to 0.8 per cent by 30 June 2006. The increase in net debt projected in 2005-06 reflects the balance sheet impact flowing from the completion and handover to the State of the *Partnerships Victoria* Spencer Street Station project.

Table 1.5: General government net financial liabilities as at 30 June

($ million)

	2002 Actual	2003 Revised	2004 Estimate	2005 Estimate	2006 Estimate
Financial assets					
Cash and deposits	1 667	1 726	1 747	1 760	1 774
Advances paid	237	237	171	124	81
Investments, loans and placements	2 450	3 095	3 065	3 262	3 555
Growing Victoria	1 363	715	61	5	..
Total	**5 717**	**5 773**	**5 045**	**5 151**	**5 410**
Financial liabilities					
Deposits held	434	434	434	434	434
Advances received	2	2	1	1	1
Borrowings	6 350	6 346	6 341	6 345	6 782
Total	**6 786**	**6 782**	**6 776**	**6 779**	**7 217**
Net debt	1 069	1 009	1 731	1 629	1 806
Net debt (excl. Growing Victoria) (a)	**2 432**	**1 724**	**1 792**	**1 633**	**1 806**
Unfunded superannuation	**13 383**	**13 996**	**14 321**	**14 888**	**15 128**
Net financial liabilities	14 452	15 005	16 052	16 516	16 935
Net financial liabilities (excl. Growing Victoria) (a)	**15 815**	**15 720**	**16 113**	**16 521**	**16 935**
Net financial liabilities to GSP (excl. Growing Victoria) - % (a)	8.7	8.2	8.0	7.7	7.5
Net debt to GSP (excl. Growing Victoria)	1.3	0.9	0.9	0.8	0.8

Source: Department of Treasury and Finance

Note:

(a) The Growing Victoria infrastructure reserve investments are not offset against gross debt on the grounds that these investments are earmarked for infrastructure projects and are therefore not available to redeem gross debt.

OTHER BUDGET INDICATORS

The financial projections presented in Chapter 3, *Estimated Financial Statements and Notes* and summarised in Tables 1.2 and 1.4 are based on generally accepted accounting principles, in particular AAS31 "Financial Reporting by Governments". An alternative method of presentation is the Government Finance Statistics (GFS) system employed by the Australian Bureau of Statistics. All jurisdictions are required to present information on this basis in budget papers, consistent with the Uniform Presentation Format agreement. Key GFS measures are shown in Table 1.6.

Table 1.6: GFS budget measures (excluding the Growing Victoria infrastructure reserve)

($ million)

	2002-03 Budget	*2002-03 Revised*	*2003-04 Estimate*	*2004-05 Estimate*	*2005-06 Estimate*
Net operating balance (GFS)	488.6	1 167.0	409.2	530.1	708.2
GFS net lending [(a)]	162.7	884.0	- 31.7	- 370.6	- 61.9
GFS cash surplus [(a)]	304.5	962.8	357.8	292.4	264.2

Source: Department of Treasury and Finance

Note:

(a) *The table shows GFS net lending (+) / borrowing (-) and GFS cash surplus (+) / deficit (-) excluding drawdowns against the Growing Victoria infrastructure reserve. Growing Victoria infrastructure reserve investments (detailed in Table 1.5) are not offset against gross debt on the grounds that these investments are earmarked for infrastructure projects and are therefore not available to redeem gross debt.*

USE OF CASH RESOURCES

Table 1.7 provides a summary of the application of cash resources for asset investment and the increase/decrease in net debt. Significant surpluses from operating activities, together with drawdown from the Growing Victoria infrastructure reserve, will be predominately applied to fund infrastructure investment. Over the four year period net debt is projected to decrease on average by $156 million per annum. The increase in net debt in 2005-06 reflects the balance sheet impact flowing from the completion and handover to the State of the *Partnerships Victoria* Spencer Street Station project.

Table: 1.7 Application of cash resources

($ million)	2002-03 Budget	2002-03 Revised	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
Operating surplus	**521.8**	**542.1**	**341.2**	**467.0**	**628.0**
Plus: Non-cash expenses (net) [(a)]	1 059.8	1 663.2	1 465.4	1 790.5	1 537.5
Net cash flow from operating activities	**1 581.6**	**2 205.3**	**1 806.7**	**2 257.5**	**2 165.5**
Plus: Net drawdown of Growing Victoria infrastructure reserve	570.0	648.3	653.2	56.9	4.5
Total cash available for asset investment	**2 151.6**	**2 853.5**	**2 459.9**	**2 314.4**	**2 170.0**
Less:					
Net investment in fixed assets [(b)]	2 066.1	2 146.3	2 530.2	2 156.8	1 908.0
Other investment activities (net)	- 569.8	- 1.5	- 1.5	- 1.5	435.1
Decrease/-increase in net debt (excluding Growing Victoria)	**655.3**	**708.7**	**- 68.8**	**159.2**	**- 173.1**

Source: Department of Treasury and Finance

Notes:

(a) Includes depreciation and increases in the unfunded superannuation liability and liability for employee entitlements.

(b) Includes net contribution to other sectors of government.

CHAPTER 2: STATEMENT OF RISKS

This chapter lists, and where possible quantifies, risks which could have a material positive or negative impact on the Budget projections provided in this publication. Three classes of risks are examined – economic risks, fiscal risks, and contingent liabilities.

Many of these risks will not materialise and other upside and downside risks may emerge over time. However, the identification of risks allows for appropriate risk management, which is an important part of modern public sector financial management. It also allows interested analysts, including ratings agencies, to assess the sensitivity of Budget projections to both upside and downside surprises.

ECONOMIC RISKS

The main risks to the Victorian economic projections stem from overseas and national developments from which Victoria would not be immune. There is also the possibility that Victorian population growth may vary due to unexpected changes in net interstate migration patterns, which could have some impact on medium-term economic growth.

In the past few months, the global outlook has deteriorated somewhat and equity markets have been volatile. While most analysts still expect global growth to be higher in 2002-03, there is a risk that the decline in equity prices will negatively affect consumer spending and business investment decisions.

Under this scenario, forecast Victorian (and national) export growth could be weaker than expected, producing a somewhat slower GSP growth rate for 2002-03.

A further deterioration in the drought also has the potential to weaken Victorian GSP growth in 2002-03.

Victoria has been gaining population from interstate in recent years. The Budget projections assume some easing in the gains from interstate migration. If recent rates of interstate migration are sustained, population and economic growth could be higher than forecast.

Sensitivity analysis

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

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

To assess sensitivity to change, the level of the economic indicator, in each case, is permanently increased by one percentage point in the first year and is then reverted back to the forecast growth rate. It is assumed during the analysis of each indicator that all others follow their forecast growth rates.

Table 2.1 shows the full-year impact, beginning 2002-03, of this one percentage point increase in each indicator on the general government operating surplus over a four-year period. An equivalent one percentage point decrease in each indicator would have the opposite impact on the operating surplus to that shown in the table.

Table 2.1: Impact on the general government operating surplus of a one percentage point increase in selected economic indicators in 2002-03[(a)]

($ million)

	2002-03	*2003-04*	*2004-05*	*2005-06*
Gross State Product				
Taxes, regulatory fees and fines	25	27	28	28
Other revenue	18	22	24	26
Superannuation expense	..	..	..	..
Other expenses	..	1	2	1
Operating surplus	**44**	**48**	**50**	**52**
Employment				
Taxes, regulatory fees and fines	26	27	28	30
Other revenue	1	2	4	6
Superannuation expense	..	..	..	..
Other expenses	..	..	..	..
Operating surplus	**27**	**29**	**32**	**36**
Consumer prices				
Taxes, regulatory fees and fines	25	27	28	28
Other revenue	122	130	139	149
Superannuation expense	110	..	..	..
Other expenses	54	54	55	56
Operating surplus	**-16**	**103**	**113**	**121**

Table 2.1 (cont): Impact on the general government operating surplus of a one percentage point increase in selected economic indicators in 2002-03[(a)]

($ million)

	2002-03		*2003-04*		*2004-05*		*2005-06*	
Average weekly earnings [(b)]								
Taxes, regulatory fees and fines	26		26		28		29	
Other revenue	-16		-21		-13		-18	
Superannuation expense	111		9		9		9	
Other expenses	89		92		95		98	
Operating surplus	**-191**		**-96**		**-89**		**-96**	
Domestic share prices								
Taxes, regulatory fees and fines	..		..		..		..	
Other revenue	5		5		1		1	
Superannuation expense	-35		-2		-2		-2	
Other expenses	..		..		..		..	
Operating surplus	**40**		**8**		**3**		**3**	
Overseas share prices								
Taxes, regulatory fees and fines	..		..		..		..	
Other revenue	4		4		1		1	
Superannuation expense	-23		-2		-2		-2	
Other expenses	..		..		..		..	
Operating surplus	**27**		**5**		**2**		**2**	
Property prices (volumes) [(c)]								
Taxes, regulatory fees and fines	29	(21)	23	(17)	37	(16)	39	(17)
Other revenue	2	(1)	3	(2)	4	(3)	7	(4)
Superannuation expense	-10	(..)	-1	(..)	-1	(..)	-1	(..)
Other expenses	..	(..)	..	(..)	..	(..)	..	(..)
Operating surplus	**41**	**(22)**	**27**	**(19)**	**42**	**(19)**	**46**	**(21)**
Interest rates [(d)]								
Taxes, regulatory fees and fines	..		..		..		..	
Other revenue	89		93		44		46	
Superannuation expense	69		5		5		5	
Other expenses	3		7		12		17	
Operating surplus	**18**		**81**		**27**		**25**	

Source: Department of Treasury and Finance

Notes:

(a) A positive number for taxes, regulatory fees and fines, and other revenue denotes an increase in revenue. A positive number for superannuation expense and other expenses denotes an increase in expenses (and hence a reduction in the operating surplus). A positive number for the operating surplus denotes an improvement in the operating surplus. Discrepancies between totals and sums of components are due to rounding.

(b) Assumes wages of Victorian Government employees also increase by one per cent above what was expected.

(c) Numbers in brackets represent the impact of one per cent change in property volumes holding property prices constant.

(d) Assumes a one percentage point increase in interest rates over the entire period.

Sensitivity of wages

A one per cent rise in the level of wages is estimated to reduce the operating surplus by $191 million in 2002-03 (compared to an estimated $135 million reduction in the May 2002 Budget). This reflects a revised assessment of the sensitivity of the unfunded superannuation liability and related expenses to movements in the wage level.

The impact of wages on other components of the operating surplus is virtually unchanged since the May 2002 Budget.

Sensitivity to domestic and overseas share prices

A one per cent rise in domestic share prices is estimated to improve the operating surplus by $40 million in 2002-03, with the benefit falling to $3 million by the fourth year. The primary benefit reflects a reduction in superannuation expense of $35 million in 2002-03 falling to $2 million in the forward years.

A one per cent rise in overseas share prices is estimated to improve the operating surplus by $27 million in 2002-03, with the benefit falling to $2 million by the fourth year. This impact is also primarily due to a reduction in superannuation expense.

In the May 2002 Budget Paper No. 2, no distinction between domestic and overseas shares was made in applying the one per cent shock. To enable comparison to the previously published Budget sensitivities, combining the separate domestic and overseas sensitivities shown above indicates a one per cent rise in share prices (domestic and overseas) is estimated to improve the operating surplus by $67 million in 2002-03 (compared with an estimated $49 million at Budget time).

The increased sensitivity of the operating surplus to changes in share prices is mainly a result of the inclusion of around $2.9 billion in assets from the Emergency Services Superannuation Scheme (ESSS) in the analysis. Under Australian Accounting Standards, when the fund is in surplus, changes in the value of the assets (or liabilities) have no impact on superannuation expense. Due to the adverse performance of world equity markets, ESSS has moved from a net surplus to a deficit position and therefore changes in asset returns will have an associated impact on general government superannuation expense until the fund returns to a net surplus position.

Sensitivity to interest rates

A one per cent rise in interest rates is estimated to increase the operating surplus by $18 million in 2002-03 (compared with an estimated $45 million at Budget time). The change since Budget is primarily due to the sensitivity of superannuation expense rising by $27 million to $69 million, reflecting the inclusion of ESSS assets.

FISCAL RISKS

Expenditure risks

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

Examples of a government-wide factor that would have potential to increase general expenditures above those allowed for in the forward estimates are unplanned increases in award wage costs.

The main risks to specific departmental expenditures relate to growth in demand for key services, the modernisation of assets and Government responses to unforeseen events. Examples of these types of impacts could include pressures related to the maintenance of assets such as government schools and TAFE institutes and funding required in relation to natural disaster relief.

The 2002-03 Budget and forward estimates include a contingency provision to allow for the likelihood that some of these department-specific and government-wide expenditure risks will be realised during the Budget year or over the course of the outlook period. The contingency provision includes a general allowance for:

- the impact of planned award wage increases, consistent with Government policy, on departmental operating costs;
- growth in Victoria's population, and from it, derived demand for government services; and
- other expenditure risks which are unforseen or not able to be quantified at the time of construction of the Budget estimates.

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.

In addition to the operating contingency, the Budget estimates include an unallocated capital provision to provide capacity for future asset investment funding requirements. With a capital program the size of that funded by the Government there are always likely to be variations in actual costs for individual asset investment projects against budget. However, the forward estimates assume that capital cost pressures are managed within the existing forward estimates with no Budget impact. Management of capital cost pressures may occur in one of three ways:

- the first approach is through the reallocation of resourcing within Departments' global capital budgets (reflecting the likelihood that cost over-runs will be managed/offset by cost under-runs on other projects);
- the second approach is through re-scoping a project to fit within funding parameters (subject to Government approval); and
- the third approach is to use the unallocated capital funding set aside in the forward estimates (subject to Government approval).

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

Commonwealth Games

In April 1999 Melbourne was named host city for the 2006 Commonwealth Games. In accepting the Games, the State entered into the Endorsement and Host City contracts. Under these contracts the State is committed to underwrite the Games. At the time of the bid, total State funding was estimated at around $300 million in operating costs and $97 million in capital investment. This includes licence fees not explicitly costed in the Bid document, but payable under the Endorsement and Host City contracts.

The level of funding provided by the State Government is dependent on the scale of the event, the degree of support from the Commonwealth and local governments and the revenue generated from sponsorship, TV rights, ticket sales, etc. A minimum scale Commonwealth Games would require State Government support somewhere in the order of the Bid document estimate, indexed for inflation. On the other hand, an Olympic Games scale could require State

Government support somewhere in the order of $1 billion. While final costings for the Manchester Games have not been finalised, it has been estimated that the operational side of these Games cost around $500-$600 million, with additional expenditure on capital infrastructure.

Expenditure incurred to date, together with amounts currently included in the forward estimates to be incurred over the outlook period, totals around $190 million of operating expenses (predominately M2006 operating and licence fees and Athletes' Village operating expenses) and $86 million of capital investment (Melbourne Sporting and Aquatic Centre and Athletes' Village). The Government is undertaking a full budget review of the requirements for the Games in light of the Manchester 2002 Commonwealth Games experience, including consideration of likely funding contributions from the Commonwealth and local governments. This review is expected to be completed in early 2003 with the full Commonwealth Games budget then included in the forward estimates.

If the Government decides on a scale for the Melbourne Games in accordance with the Bid document (updated for inflation, and costs already committed but not included in that document) the forward estimates for operating expenses would need to be increased by around $275 million. A Manchester scale would require $300 - $500 million to be added to operating expenses, while a scale in the order of the Sydney Olympic Games would require an even greater contribution by the State. Most of these added costs will be incurred in 2004-05 and 2005-06, with the latter being the peak expenditure year. Given that Melbourne has well established infrastructure capable of handling major events, any further capital investment is expected to be modest and could be funded from the existing unallocated capital provision.

Public transport franchise arrangements

In February 2002, the Government and the rail franchisees reached an interim agreement that brought an increased level of certainty and stability to Victoria's rail businesses.

To address the ongoing issues, the Government established a task force to undertake a comprehensive review of the provision of passenger train and tram services in Victoria and to advise Government what changes, if any, should be made to the current arrangements. The objectives of the review are to minimise the long-term cost to the State of passenger train and tram services in Victoria by promoting patronage growth and improving the operational efficiency of the transport operators, to ensure that the full range of passenger rail train and tram services continue to operate safely and without disruption in Victoria, and to establish a clear, stable and lasting basis for the future provision of passenger train and tram services in Victoria. These negotiations are nearing completion and are expected to be finished around the end of the year.

Insurance Exposures

Over the last year, governments have been under sustained pressure to compensate for the absence of private sector insurance in areas as diverse as medical indemnity, professional indemnity cover for medical research and public liability for religious institutions, adventure tourism, historic railways and public transport operations. To date last resort insurance arrangements in Victoria have been entered into under strict conditions with known, limited potential exposure.

In response to certain instances of sharp rises in insurance premiums, the Government has also taken on risk that was previously held by the private sector. An example is the absorption of the medical indemnity exposures of bush nursing hospitals into the insurance programs of the Department of Human Services.

Events such as the collapse of medical indemnity provider United Medical Protection and revised accounting standards designed to enhance the recording of longtail insurance scheme liabilities are likely to impact on the State. Although it is too early to fully assess these impacts, pressures on private medical indemnity premiums may result in the State assuming larger numbers of high risk procedures and therefore increasing medical indemnity liabilities. In addition, the revaluation of the State's medical indemnity liabilities could increase the State's overall liabilities and medical indemnity expenses.

Revenue risks

Muir Electrical Co v Commissioner of State Revenue [2002] VSC 224

Payroll tax is the most significant tax levied by the Victorian Government, worth approximately \$2.7 billion in 2002-03. The *Pay-roll Tax Act 1971* (the Act) includes provisions to prevent the avoidance or minimisation of payroll tax liability by the splitting up of businesses. In calculating the total taxable wages subject to payroll tax, businesses may be "grouped" where they share common employees and/or the same person(s) have a controlling interest.

Although the Commissioner of State Revenue, to date, has placed little dependence upon these grouping provisions, Muir's Electrical Company (MEC) and 18 franchisees were "grouped" for the purposes of calculating the total level of taxable wages. In a challenge to this decision, the Supreme Court found that during the assessable period, retailers continued to control their own stores and, therefore, could not be grouped for the purpose of calculating a total taxable wage. The Court reserved for subsequent consideration the grouping of MEC (the franchisor) and six franchisees on the grounds that MEC had a controlling interest in these franchises. Further litigation is required to resolve this question and it is difficult to estimate the level of risk this case represents to current revenue.

Royal & Sun Alliance Australia Limited v Commissioner of State Revenue

Taxes are levied on a range of transactions, including transactions involving insurance products, under the *Duties Act 2000 (*previously the *Stamps Act 1958*). The *Duties Act 2000* imposes duty on the premium paid for general insurance policies at the rate of 10 per cent. Following the introduction of the GST on 1 July 2000, stamp duty has been payable on total insurance premiums inclusive of the GST. This is consistent with the pre-GST situation where the duty was payable on the total value of transactions, including Commonwealth indirect taxes.

In August 2002, following litigation brought by Royal & Sun Alliance Insurance Australia Limited (RSA) against the Commissioner of State Revenue, the Supreme Court held that the GST component of the amount payable by the insured was not part of the insurer's gross premiums and therefore was not dutiable. Any liability to make refunds would in the first instance be limited to the claim by RSA but depending on the wording of other company insurance contracts and premium renewal notices, there could be flow-on effects to other insurance companies. There are also potential flow-ons to land transfer duty payable by businesses, motor vehicle duty and lease duty depending on the way in which contracts are structured.

The Commissioner has been granted an expedited hearing of his appeal against the Supreme Court's decision. This is set down for hearing in the Court of Appeal in early February 2003. In order to cover off possible risks to revenue should the outcome of the case be unfavourable to the State, the Government announced on 3 September 2002 that it would immediately draft legislation to confirm and clarify existing arrangements to ensure that the entire premium remains subject to duty.

CONTINGENT LIABILITIES

Contingent liabilities represent possible liabilities that arise from past events, the existence of which 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. A contingent liability can also represent a liability that is not recognised in the balance sheet because it is not probable that a future sacrifice of economic benefits will be required or the amount of the liability cannot be measured reliably. Quantifiable contingent liabilities are summarised in Table 2.2.

Quantifiable contingent liabilities

Table 2.2: General government quantifiable contingent liabilities at 30 June

($ million)

	2001	*2002*
Guarantees and indemnities	218.8	167.3
Legal proceedings and disputes	166.5	289.8
Other	722.3	793.8
Non-general government debt	2 638.7	2 650.0
Total contingent liabilities	**3 746.3**	**3 900.9**

Source: Department of Treasury and Finance

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

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

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

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

Non-quantifiable contingent liabilities

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

- indemnities provided in relation to transactions, including financial arrangements and consultancy services, as well as for directors and administrators;

- performance guarantees, warranties, letters of comfort, and the like;
- deeds in respect of certain obligations of the Docklands Authority;
- unclaimed moneys, which may be subject to future claims by the general public against the State; and
- potential exposures associated with the sale of a number of assets and services where the purchaser was provided with various indemnities and warranties.

Commonwealth Games

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

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

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

Under the Endorsement Contract, the State is obliged to underwrite any shortfall between revenue and expenditure of M2006 for the organisation of the Games.

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

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

Land remediation — environmental concerns

A number of properties have been identified as potentially contaminated sites. The State does not admit any liability in respect of these sites. However, expenditure for remediation may be incurred to restore the sites to an acceptable environmental standard in the event of future developments taking place.

Melbourne City Link

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

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

While virtually all land has been acquired, the final compensation payable is subject to resolution in some instances.

There is currently an outstanding claim from Transurban relating to an alleged 'Appendix Event' and leading to a Material Adverse Event claim from Transurban in relation to the construction of Wurundjeri Way and widening of the Westgate Freeway. This claim is currently being handled by the documented dispute resolution processes and the Department of Infrastructure is managing the claim for the State. In the first phase of this process, an independent expert has found in favour of the State. However, Transurban has invoked the appeal process through arbitration. At the date of this report, the outcome is still outstanding.

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

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

Public Transport Corporation (PTC) lease arrangements

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

Public transport rail franchise agreements

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

Contingent liabilities on early termination or expiry of franchise agreements

New rolling stock lease direct agreements

As part of the franchising arrangements, the franchisee of each passenger rail business has undertaken to provide new rolling stock. Each franchisee is expected to enter into a lease with a third party lessor with respect to this rolling stock. In addition, the Director is expected to enter into rolling stock direct agreements with the respective lessors to protect the State's interest in the rolling stock. In the event of expiry or on early termination of the franchises the Director can either exercise a right to acquire the new rolling stock at predetermined values or the lease payment obligations are transferred to the Director or a successor franchisee. At 30 June 2002, all five required rolling stock direct agreements have been entered into. The contingent liability of the Director to take over the lease payments only commences upon delivery of the units of new rolling stock. A total of 31 units of new rolling stock have been delivered as at 30 June 2002.

Other direct agreements

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

Payments on termination

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

- to pay for certain assets and liabilities on the basis set out in the agreements. If on termination there is a net liability, then franchisees will pay the Director; and
- for termination value payments in respect of designated rolling stock improvements and capital projects.

Contingent liability offsets on early termination of franchise agreements

With respect to any additional costs arising to the Director on the early termination of a franchise, the franchisee must indemnify the Director for any losses, damages or costs incurred by him as a result of the early termination. If the franchisee does not do so, the Director has the right to draw on the franchisee's performance bond for the amount of those losses, damages or costs. These bonds total $235 million as at 30 June 2002 as a result of new initiatives announced by the Victorian Government to the franchisees on 26 February 2002. The performance bonds will revert to their original value of $105 million after 30 June 2003.

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

Contingent liabilities arising from potential changes to existing conditions

Change in Victorian law

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

Latent defects

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

Pre-existing contamination

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

Native Title

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

Net gain and net loss provisions

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

Other

Like most commercial arrangements, discussions are being undertaken with the franchisees regarding a range of contractual issues.

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

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

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

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

Native Title

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

Victorian Managed Insurance Authority (VMIA)

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

Gas supply incident

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

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

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

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

Following mediation outside the Federal Court, a settlement was reached and the State of Victoria withdrew its appeal to the High Court. The estimated cost of the settlement is $9.6 million. The long-term financial implications of wider application for the State remain unclear.

HIH Insurance

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

The State's obligations in respect of its builders' warranty insurance rescue package are direct liabilities of the State itself. They do not form part of the liabilities of Housing Guarantee Fund Limited, which manages claims on behalf of the State.

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

Builders' warranty

The builders' warranty insurance market, like other insurance markets, has been affected by the 11 September 2001 terrorist attacks in the United States and adverse claims experience. In mid-April 2002, the State agreed to provide temporary (to 30 June 2002) re-insurance support to builders' warranty insurance provider Dexta Corporation following the withdrawal of some of its commercial re-insurance support. This support was subsequently extended to 30 September 2002. The Government has determined that no further extensions will be made.

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

Receipts and payments will be contingent on the volume of insurance underwritten and re-insured by 30 June 2002. Based on Dexta's previous levels of activity, the central estimate of the State's gross exposure (i.e. before premium receipts) is not more than $6 million. While the State expects, like the commercial re-insurers who are party to the agreement, to at least break even on these arrangements, the State retains an unquantifiable contingent liability that claims may exceed the central estimate.

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

Gambling/gaming licences

In 1994, the State sold TABCORP Holdings Limited (TABCORP) a wagering and gambling licence for $597 million. The *Gaming and Betting Act 1994* requires the State to provide in 2012 a refund to TABCORP of an amount equal to the licence value of the former licences or the premium payment paid by the new licensee, whichever is the lesser. While this creates an obligation on the State to refund the licence value to TABCORP, it will be offset by the premium payment from the issue of any new licences.

In 1992, a gaming operator's licence was issued to the Trustees of the Will and Estate of the late George Adams (the licensee). The *Gaming Machine Control Act 1991* entitles the licensee to be paid, at the end of its current licence period in 2012, an amount equal to the value of its current licence or the premium payment paid by the new licensee, whichever is the lesser. This entitlement is contingent on the licensee not being granted a new licence.

Seal Rocks

In an interim award published 2 August 2002, an independent arbitrator has found that the State of Victoria is in breach of its contractual obligations with respect to the agreements with Seal Rocks Victoria Australia (SRVA) and that SRVA can terminate the agreements. The arbitrator directed that the State is liable to pay SRVA's contributed capital and outlays adjusted for penalty interest. The arbitrator reserved his findings on costs pending further submissions from both parties.

On 2 November 2002, the arbitrator published his Final Award on the sum of damages awarded to SRVA. The arbitrator found the State is liable for $37,291,126 being the contributed capital and interest. The State is also liable for costs on an indemnity basis. Costs are expected to be determined following submissions to the Taxing Master of the Supreme Court. The arbitrator determined that payment of damages are to be made in three instalments - $5.5 million on 15 November 2002, $7 million on 29 November 2002 and $24.791 million on 13 December 2002.

The State and SRVA have appealed the arbitrator's finding in the Interim Award and an application for leave to appeal is fixed for hearing in the Supreme Court on 3 March 2003. Further, summons have been issued seeking a stay of payment of the Final Award and were due to be heard in the Supreme Court on 12 November 2002 and further adjourned for 14 November 2002.

CHAPTER 3: ESTIMATED FINANCIAL STATEMENTS AND NOTES

INTRODUCTION

This chapter provides the formal accounting statements that were summarised in Chapter 1, *Budget Position and Outlook*, and are required to be presented in the Pre-Election Budget Update by the amendments made in 2000 to the *Financial Management Act 1994*. This Act requires the Estimated Financial Statements to be based on generally accepted accounting principles (GAAP).

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

The accompanying notes to the Estimated Financial Statements provide details of material economic and other assumptions used and the specific forecast assumptions underlying material items in the financial statements. A number of these assumptions are subject to inherent uncertainties, which are outside the control of the Government.

ESTIMATED FINANCIAL STATEMENTS FOR THE VICTORIAN GENERAL GOVERNMENT SECTOR

Table 3.1: Estimated statement of financial performance for the year ending 30 June

($ million)

	Note	2002-03 Budget	2002-03 Revised	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
Revenue from ordinary activities						
Taxation	2	8 802.7	9 149.4	9 106.7	9 339.2	9 530.5
Fines and regulatory fees		554.0	554.0	550.5	576.3	586.0
Investment revenue	3	1 061.6	1 168.1	944.8	996.4	1 156.1
Grants revenue	4	11 753.5	11 761.5	12 041.1	12 474.5	13 037.6
Sale of goods and services		2 049.9	2 086.6	2 084.0	2 115.3	2 148.8
Gains/(losses) on the disposal of physical assets		19.6	19.6	9.0	9.2	9.3
Fair value of assets received free of charge		1.1	1.1	1.1	8.7	1.2
Inter sector capital asset charge		501.0	501.0	514.0	514.0	514.0
Other revenue		538.3	698.1	645.0	689.0	632.2
Total revenue		25 281.7	25 939.3	25 896.4	26 722.5	27 615.7
Expenses from ordinary activities						
Employee entitlements		9 041.5	9 282.2	9 565.0	9 874.5	10 214.2
Superannuation		1 713.1	2 368.4	1 819.2	1 856.4	1 910.3
Depreciation	5	952.2	960.5	1 009.8	1 073.8	1 121.9
Amortisation	6	70.6	70.6	67.7	65.3	65.4
Borrowing costs	7	495.2	493.4	484.9	476.8	467.5
Grants and transfer payments	8	4 118.9	4 229.3	4 088.6	4 127.9	4 154.5
Supplies and services		8 299.9	7 924.3	8 450.2	8 708.9	8 984.9
Other expenses		68.6	68.6	69.6	71.9	68.8
Total expenses	9	24 760.0	25 397.2	25 555.1	26 255.5	26 987.7
Net result		**521.8**	**542.1**	**341.2**	**467.0**	**628.0**
Movements in asset revaluation reserve		737.8	737.8	768.6	800.6	833.8
Total changes in equity other than contributions to other sectors by the State in its capacity as owner		**1 259.6**	**1 279.9**	**1 109.8**	**1 267.6**	**1 461.7**

The accompanying notes form part of these Estimated Financial Statements.

Table 3.2: Estimated statement of financial position as at 30 June

($ million)	Note	2003 Revised	2004 Estimate	2005 Estimate	2006 Estimate
Current assets					
Cash assets		1 725.6	1 747.2	1 760.4	1 774.4
Other financial assets		1 177.9	1 197.3	1 225.3	1 253.2
Receivables		1 221.7	1 317.1	1 389.3	1 461.4
Prepayments		41.4	41.5	41.5	41.5
Inventories		159.8	159.9	159.9	160.0
Other assets	12	0.0	0.0	0.0	0.0
Total current assets		**4 326.4**	**4 462.9**	**4 576.5**	**4 690.6**
Non-current assets					
Other financial assets		2 654.0	1 950.9	2 062.6	2 323.5
Receivables		347.3	296.8	266.6	245.7
Inventories		155.6	155.6	155.6	155.6
Property, plant and equipment	10	24 529.2	25 744.3	26 911.1	28 373.8
Roads and earthworks	11	13 232.2	13 805.9	14 337.6	14 859.3
Other assets	13	3 065.3	3 082.8	3 088.7	3 092.0
Total non-current assets		**43 983.7**	**45 036.4**	**46 822.3**	**49 050.0**
Total assets		**48 310.1**	**49 499.3**	**51 398.7**	**53 740.5**
Current liabilities					
Payables		1 366.6	1 366.5	1 363.2	1 367.9
Interest-bearing liabilities		125.1	128.7	142.1	158.1
Employee entitlements	14	873.5	920.1	950.9	981.5
Superannuation	15	1 518.9	1 242.7	1 016.4	1 395.2
Outstanding insurance claims		11.9	10.9	9.9	8.9
Other liabilities		555.4	539.0	538.6	538.3
Total current liabilities		**4 451.2**	**4 207.8**	**4 021.0**	**4 449.9**
Non-current liabilities					
Payables		8.8	8.7	8.6	8.6
Interest-bearing liabilities		6 230.8	6 221.2	6 211.5	6 632.9
Employee entitlements	14	1 872.5	2 041.1	2 221.1	2 405.5
Superannuation	15	12 477.5	13 078.3	13 871.3	13 733.2
Outstanding insurance claims		97.6	94.6	91.6	88.6
Other liabilities		301.5	294.7	286.9	278.1
Total non-current liabilities		**20 988.8**	**21 738.6**	**22 691.0**	**23 147.0**
Total liabilities		**25 440.0**	**25 946.4**	**26 712.0**	**27 596.9**
Net assets		**22 870.1**	**23 552.8**	**24 686.7**	**26 143.7**
Equity					
Retained earnings		13 380.3	13 495.3	13 702.8	14 165.0
Reserves		8 947.7	9 716.3	10 516.9	11 350.6
Net result for year		542.1	341.2	467.0	628.0
Total equity	16	**22 870.1**	**23 552.8**	**24 686.7**	**26 143.7**

The accompanying notes form part of these Estimated Financial Statements.

Table 3.3: Estimated statement of cash flows for the year ending 30 June

($ million)

	Note	2002-03 Budget	2002-03 Revised	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
Cash flows from operating activities						
Receipts						
Taxation		8 788.0	9 040.6	9 076.5	9 321.0	9 507.4
Fines and regulatory fees		429.6	429.6	424.4	447.3	460.3
Grants		11 752.0	11 759.9	12 041.1	12 474.5	13 037.6
Sale of goods and services		2 052.0	2 088.7	2 079.5	2 112.4	2 146.1
Interest received		338.1	324.1	337.0	325.0	341.0
Dividends received		406.5	547.3	274.4	326.6	444.9
Capital asset charge received		501.0	501.0	514.0	514.0	514.0
Other receipts		842.4	1 015.8	947.1	1 010.0	976.9
Total receipts		**25 109.6**	**25 707.1**	**25 694.0**	**26 530.9**	**27 428.3**
Payments						
Employee entitlements		8 844.4	9 082.4	9 349.8	9 663.7	9 999.1
Superannuation		1 757.9	1 754.8	1 494.7	1 289.6	1 669.6
Grants and transfer payments		4 117.2	4 228.2	4 086.9	4 126.1	4 152.7
Supplies and services		8 314.3	7 944.0	8 472.0	8 718.2	8 975.0
Interest paid		494.2	492.4	483.8	475.7	466.3
Other payments		0.0	0.0	0.0	0.0	0.0
Total payments		**23 528.0**	**23 501.8**	**23 887.3**	**24 273.4**	**25 262.8**
Net cash flows from operating activities	**15**	**1 581.6**	**2 205.3**	**1 806.7**	**2 257.5**	**2 165.5**
Cash flows from investing activities						
Net customer loans repaid		1.8	0.1	65.9	47.0	43.0
Net disposal/(purchase) of investments		518.6	2.3	683.6	(139.9)	(288.9)
Net contribution to other sectors of government		(218.0)	(254.5)	(427.1)	(133.7)	(4.8)
Proceeds from sale of property, plant and equipment		79.2	79.3	58.7	50.1	45.4
Purchases of property, plant and equipment		(1 927.3)	(1 971.0)	(2 161.8)	(2 073.2)	(1 948.7)
Net cash flows from investing activities		**(1 545.6)**	**(2 143.9)**	**(1 780.7)**	**(2 249.6)**	**(2 153.9)**
Cash flows from financing activities						
Net repayments of borrowings		(4.0)	(3.5)	(5.0)	5.9	3.5
Net cash flows from financing activities		**(4.0)**	**(3.5)**	**(5.0)**	**5.9**	**3.5**
Net increase in cash and deposits held		**31.9**	**57.9**	**21.0**	**13.9**	**15.1**
Cash at beginning of reporting period		1 663.2	1 663.2	1 721.1	1 742.1	1 756.0
Cash and deposits at end of reporting period		**1 695.1**	**1 721.1**	**1 742.1**	**1 756.0**	**1 771.0**

The accompanying notes form part of these Estimated Financial Statements.

NOTES TO THE ESTIMATED FINANCIAL STATEMENTS

Due to the possibility that circumstances or events outlined in the Estimated Financial Statements may not occur as expected, actual results may differ from those forecast and the difference may be material. Accordingly, no guarantee is given that the financial results will be achieved. However, the best professional judgement has been applied in preparing the Estimated Financial Statements.

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Assumptions

The Estimated Financial Statements have been prepared using the material economic and other assumptions listed below.

Material economic and other assumptions[(a)]

	2002-03	2003-04	2004-05	2005-06
Gross state product	3.50	3.50	3.50	3.50
Employment	1.50	1.50	1.50	1.50
Consumer price index	2.75	2.25	2.25	2.25
Wage cost index [(b)]	3.50	3.50	3.50	3.50
Population [(c)]	1.00	1.00	0.90	0.90

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

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

Note 1: Statement of significant accounting policies and forecast assumptions

In order to assist in understanding the financial information presented, the following summary presents the significant accounting policies and forecast assumptions which have been adopted in preparing and presenting the Estimated Financial Statements for the forecast period (which includes the budget year and the estimates for the three subsequent years).

A. Compliance framework

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

In accordance with Australian GAAP, all applicable pronouncements issued by Australian Accounting Standards Board (AASB) and abstracts of the Urgent Issues Group have been applied in the preparation and presentation of the Estimated Financial Statements. However, as there is no specific AAS or other Australian authoritative pronouncements on the preparation and presentation of prospective financial statements, AAS6 Accounting Policies permits the application of pronouncements of other national accounting standard setting bodies. Because Australian and New Zealand accounting standards are closely harmonised, the major requirements of New Zealand Financial Reporting Standard (FRS29) Prospective Financial Information have been applied in presenting the Estimated Financial Statements. The requirements of FRS29 have been modified to achieve presentation consistency with AASB1018 Statement of Financial Performance, AAS36 Statement of Financial Position and AAS37 Financial Report Presentation and Disclosures.

Future reporting basis

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

Future Estimated Financial Statements are expected to be prepared on a consistent basis, except for any changes in reporting required by new or revised Australian Accounting Standards. The effect of the intended adoption in Australia of International Accounting Standards from 1 January 2005 is as yet uncertain, and no adjustment has been made for any consequent effect.

B. Basis of accounting and measurement

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

The actual (audited) opening balances as at 30 June 2002 are based on either a cost or a fair value basis. Those items measured at valuation include:

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

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

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

C. Basis of consolidation

The Estimated Financial Statements include all reporting entities in the Victorian general government sector, which is a sector of the State of Victoria reporting entity. Entities in the public non-financial corporations and public financial corporations sectors are not consolidated because the intent of the Estimated Financial Statements is to convey the financial performance, position and cash flows of the general government sector alone. Refer to Note 16 for further information.

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

D. Forecast reporting periods

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

E. Revenues

Taxation

Accounting policy

General government sector taxation and fee revenue is recognised upon the earlier of either the receipt by the State of a taxpayer's self-assessment or the time the taxpayer's obligation to pay arises, pursuant to the issue of an assessment.

The types of revenue included in the estimates are as follows:

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

Forecast assumption

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

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

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

Regulatory fees and fines

Accounting policy

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

Forecast assumption

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

Investment revenue

Accounting policy

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

Forecast assumption

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

In determining the forecast dividend payments the following two general benchmarks are used:

- 50 per cent of net profit after tax; or
- dividends and income tax equivalent paid or payable of 65 per cent of pre-tax profit.

Other commercial factors which are considered and will affect the dividend forecasts include the views of the board of directors, the liquidity, operating cash flow and forecast cash requirements of each government business enterprise (including planned capital works), gearing and interest cover of the business, retained earnings and any other specific commercial factors relating to individual businesses.

Dividend and income tax equivalent forecasts can be significantly influenced by a number of factors including the volatility of the financial markets and climatic conditions impacting on the water authorities. The National Tax Equivalent Regime (NTER), administered by the ATO, will over time replace the existing Victorian Income Tax Equivalent Regime. Fifteen government business enterprises commenced under the NTER on 1 July 2001. A further twenty government businesses commenced on 1 July 2002. Revenue raised under the NTER will remain with the State.

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

Grants

Accounting policy

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

Forecast assumption

The forecast receipt of financial assistance from the Commonwealth is determined on the latest available advice from the Commonwealth at the time of preparation of the Estimated Financial Statements, taking into account the payment schedules and escalation factors relevant to each type of grant. The payment schedules for some financial assistance from the Commonwealth are on a monthly, quarterly or annual basis, while others are on an irregular basis such as on a project-progress basis.

Sale of goods and services

Accounting policy

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

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

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

Forecast assumption

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

F. Expenses

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

Employee entitlements

Accounting policy

These expenses include all costs related to employment (other than superannuation which is accounted for separately) including wages and salaries, fringe benefits tax, leave entitlements and redundancy payments.

Forecast assumption

Employee entitlements are forecast on the basis of staffing profiles and current salaries and conditions. For the forecast period employee entitlements are adjusted for approved wage agreements with allowance made for further changes in the future.

Superannuation

Accounting policy

Superannuation expense is determined on the following basis:

- funded schemes: the expense reflects the superannuation contribution payable by entities within the general government sector; and
- unfunded schemes: the expense includes the superannuation contributions payable by public sector employers, the net movement in the unfunded superannuation liability during each period and the annual payments by the State.

Forecast assumption

The net movement in the unfunded superannuation liability becomes more sensitive to investment earnings as fund assets increase. The budget assumes a standard fund earning rate across the budget and forward estimates consistent with long-term actuarial assumptions. However in any year, the actual fund earnings can vary significantly from assumed earnings producing a large variance in the actual result compared to budget.

For the forecast period, superannuation expense for unfunded schemes have been estimated by the Department of Treasury and Finance and are consistent with projections provided by various actuaries of each superannuation fund (Refer to Note 14).

Depreciation

Accounting policy

All infrastructure, buildings, plant and equipment and other non-current physical assets (excluding leased items) that have a limited useful life are depreciated. Depreciation is generally calculated on a straight-line basis at a rate, that allocates the asset's value, less any residual value, over its estimated useful life.

The following are typical estimated useful lives for the different asset classes used by the general government sector entities and in developing forecasts:

Asset class	*Useful life*
Dwellings	40 to 50 years
Other buildings	30 to 60 years
Other infrastructure	10 to 32 years
Road pavement	60 years
Bridges	90 years
Plant, equipment and vehicles	3 to 10 years
Heritage assets	100 years

Land and earthworks associated with the declared road network and core cultural assets, which are considered to have an indefinite life, are not depreciated. Depreciation is not recognised in respect of these assets as their service potential will not, in any material sense, be consumed over an extended period.

Forecast assumption

Depreciation is forecast on the basis of known asset profiles, asset sales programs and approved new asset investment programs. The expense is based on the assumption that there will be no change in depreciation rates over the forecast period. The estimated impact of future revaluation of assets on depreciation is also included.

Borrowing costs

Accounting policy

Borrowing costs, other than those capitalised in relation to qualifying assets, are recognised as expenses in the period in which they are forecast to be incurred. Borrowing costs include:

- interest on outstanding borrowings;
- amortisation of discounts or premiums relating to borrowings;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
- indexation of principal outstanding for capital indexed securities and indexed annuities in line with movements in the Consumer Price Index;
- capital gains/losses incurred on debt retirement or debt portfolio restructuring, and
- finance lease charges.

Forecast assumption

Estimates for borrowing costs are based on the forecast level of outstanding general government sector debt. This is expected to mainly comprise approximately $5 billion in a fixed rate facility, $1 billion of indexed-linked securities from the Treasury Corporation of Victoria and a motor vehicle finance lease facility with forecast liability $280 million. All maturities in the forecast period are assumed to be refinanced at forward interest rates. The indexed securities are adjusted in line with movements in the Consumer Price Index and any movements in the principal outstanding is recognised as a finance cost.

Grants and transfer payments

Accounting policy

Payments to third parties are recognised as an expense during the financial year in which they are paid or payable. They include transactions such as grants, subsidies and other transfer payments made to local government, non-government schools, community groups, public non-financial corporations and public financial corporations.

Forecast assumption

Grants and transfer payments are forecast on the basis of known activity and adjusted by the appropriate economic parameters. Where payments are tied to third party revenue, such as Commonwealth grants for on-passing, forecasts are in line with estimated receipts.

Supplies and services (including maintenance)

Accounting policy

These generally represent the day-to-day running costs incurred in the normal operation of general government sector entities. These items are recognised as an expense in the financial year in which they are forecast to be incurred.

Forecast assumption

Supplies and services are forecast on the basis of known activity changes including the application of government policy such as savings strategies, changes in the method of service delivery and the application of the appropriate economic parameters.

An allowance is made for emerging demand that may arise over the forecast period.

G. Assets

Other financial assets

Accounting policy

The opening balance of other financial assets represents the audited value as at 30 June 2002, revised for estimated movements for 2002-03. It comprises marketable securities (less provision for diminution) and deposits that are valued at net market value, except for long-term investments. Long-term investments, such as international bonds, are investments that are expected to be held for greater than 12 months. Long-term investments are recognised using the cost method of valuation, being the cost at the date of acquisition. Any discount or premium is amortised over the life of the investments and gains or losses arising from the investments prior to maturity are recognised in the statement of financial performance.

Forecast assumption

All surplus cash resources for the period 2002-03 to 2005-06 are assumed to be held as financial assets to preserve budget decision-making flexibility.

Receivables

Receivables include debtors in relation to goods and services, taxes and fines, accrued investment income and the GST input tax credits recoverable. Receivables are recognised at the nominal amounts due, less any provision for bad and doubtful debts.

Accounting policy

The opening balance of receivables represents the audited value as at 30 June 2002, revised for estimated movements for 2002-03 and is recognised at the nominal amounts due, less any provision for bad and doubtful debts forecast to be collected.

Forecast assumption

Receivables are forecast on the basis of revenue activity levels.

Inventories

Accounting policy

The opening balance of inventories represents the audited value as at 30 June 2002, revised for estimated movements for 2002-03 and is valued at the lower of cost and net realisable value. The methods used to assign costs to inventories, other than land held for resale, are based on purchase cost on a weighted average cost and cost on a 'first-in first-out' basis.

Land held for resale is valued at the lower of cost and net realisable value.

Forecast assumption

Inventories forecast to be purchased are valued at the forecast cost.

Non-current physical assets

Capitalisation

In general, all non-current physical assets with a value over $1 000 are capitalised.

Valuation

Designated plant, equipment and vehicles (both owned and leased) are required to be measured on a cost basis. Cost is either of the following:

(a) where the assets had not been revalued in the preceding reporting period, cost is the cost of acquisition less any accumulated depreciation and accumulated recoverable amount write-downs or impairment losses, or

(b) where the assets had been revalued in the preceding reporting period, cost is deemed to be the carrying amount of the asset less any subsequent accumulated depreciation and any subsequent recoverable amount write-downs or impairment losses.

Assets which fall within the definition of plant, equipment and vehicles class include items such as furniture and fittings, office equipment, general library collections, information technology systems and computer equipment, machinery, motor vehicles, musical equipment, and sporting equipment.

Non-current physical assets other than designated plant, equipment and vehicles are required to be measured on a fair value basis. Fair value is determined on the following basis:

(a) where there is a quoted market price in an active and liquid market for an asset, the market price would represent the fair value of the asset, or

(b) where there is no quoted market price for an asset, but there is available market evidence of fair value with respect to similar assets, the market evidence would represent the estimated fair value, or

(c) where the market buying and selling prices differ materially or where no market exists for the asset, the fair value is determined in reference to the asset's market buying price, the best indicator of this is usually the replacement cost of the asset's remaining future economic benefits.

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

The opening balance of non-current physical assets is the actual audited balances as at 30 June 2002 revised for estimated movements in 2002-03. The forward estimates now include the estimated impact of revaluations of non-current physical assets. These estimates have been derived based on examination and extrapolation of historical trends in asset revaluations by major asset class. These estimates have been included in the forward estimates at a total general government level.

Partnership Victoria projects

Budget funded infrastructure projects approved in-principle by the Government for possible delivery under the *Partnerships Victoria* model are initially reflected in the financial statements as non-current physical assets (with associated financing and depreciation costs).

A final decision on whether to proceed with a *Partnerships Victoria* delivery approach will be made following evaluation of bids arising from the tender process for the project and will be based on a value for money assessment. If, at the conclusion of the tender process, a decision is made to proceed with a *Partnerships Victoria* delivery approach, the financial statements will be adjusted as required, to convert the budgeted asset investment, depreciation and financing flows to an appropriate stream of service payments to the private sector.

Land and buildings

Accounting policy

The opening balance of land and buildings is recognised at fair value.

Forecast assumption

The value of land and buildings will change during the forecast period to account for acquisitions, disposals, and the impact of depreciation and revaluation.

Plant and equipment

Accounting policy

The opening balance of certain classes of plant and equipment are recognised at cost, as detailed under 'Valuation' above. Where the asset was previously revalued, the carrying value at 30 June 2002 has been deemed to be the cost.

Forecast assumption

The value of plant and equipment will change during the forecast period to account for acquisitions, disposals and the impact of depreciation.

Infrastructure assets

Infrastructure assets include such items as road pavements, bridges, earthworks, and construction in-progress. Individual components of infrastructure assets are valued as follows.

Road pavements and bridges

Accounting policy

The opening balance of road pavements and bridges are recognised at fair value as determined by reference to written down replacement cost.

Forecast assumption

The value of road pavements and bridges will change during the forecast period to account for acquisitions, disposals, and the impact of depreciation and revaluation.

Earthworks

Accounting policy

The opening balance of earthworks is recognised at fair value as determined by reference to replacement cost.

Forecast assumption

The value of earthworks will change during the forecast period to account for acquisitions and disposals and the impact of revaluation.

Land under roads

Accounting policy

Land under roads and road reserves has not been recognised.

Other non-current physical assets

National parks, state forests and other Crown land

Accounting policy

National parks and state forests are generally recognised at fair value as determined by reference to the estimated current market-buying price of adjacent land, discounted to adjust for the restricted nature of current use. This valuation methodology does not take into account the intrinsic value of these assets to the community.

Other Crown land in rural areas has been recognised at values determined by applying an average valuation for broad area rural improved land (cropping and grazing) and unimproved land (bushland and water) for all parishes and townships in the State.

Forecast assumption

The value of national parks, state forests and other Crown land will change during the forecast period to account for acquisitions and disposals and the impact of revaluation.

Natural resources

The majority of natural resource assets comprise of commercial native forests.

Accounting policy

The opening value of native forests is measured at their net market value. The net market value is determined as the difference between the net present value of cash flows expected to be generated by the native forests (discounted at a risk adjusted interest rate) less the net market value of the land on which the native forests are growing.

The net market value of the land has been determined in accordance with an independent valuation.

Forecast assumption

The value of natural resources will change during the forecast period to account for acquisitions and disposals and the impact of revaluations.

Cultural assets and collections

Accounting policy

Cultural assets and collections, including heritage assets, are defined as those non-current physical assets that the State intends to preserve because of their unique historical, cultural or environmental attributes. These assets include items such as the Royal Botanical Gardens Herbarium, State Library, Government House, Parliament House, historic houses, monuments, certain museum exhibits, art collections, archival collections and other items of cultural significance.

Cultural assets and collections are generally recognised at their estimated current value. In particular, core heritage assets and collections that generate substantial revenues are valued at the greater of current market buying price and net present value. All other core heritage assets and collections are valued at estimated written-down replacement cost. All natural non-core heritage assets and collections are valued at estimated realisable value or net present value, whichever is the higher.

Forecast assumption

The value of heritage assets and collections will change during the forecast period to account for acquisitions, disposals, and the impact of depreciation and revaluation.

Leases

Accounting policy

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of the leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are recognised as assets and liabilities at the present value of the minimum lease payments. The lease asset is amortised over the shorter of the estimated useful life of the asset or the term of the lease. Minimum lease payments are allocated between the principal component of the lease liability and the interest expense calculated using the interest rate implicit in the lease and charged directly to the statement of financial performance.

Operating lease payments are recognised as an expense on a straight-line basis in the statement of financial performance.

Any lease incentive liability in relation to a non-cancellable operating lease is reduced on an imputed interest basis over the lease term at the rate implicit in the lease.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

The cost of leasehold improvements is capitalised as an asset and amortised over the remaining term of the lease or the estimated useful life of the improvements, whichever is the shorter.

Forecast assumption

Unless otherwise stated existing leases are assumed to be replaced by leases with similar terms and conditions.

H. Liabilities

Payables

Accounting policy

This item consists predominantly of creditors and other sundry liabilities.

They are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed as at 30 June to the economic entity.

Forecast assumption

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

Interest-bearing liabilities

Accounting policy

The interest bearing liabilities of the State represent funds raised from the following sources:

- public borrowings mainly through the Treasury Corporation of Victoria;
- the residual amount outstanding for loans raised in previous years by the Commonwealth government on behalf of the State; and
- the motor vehicle finance lease.

The opening balance of interest bearing liabilities represents the audited value as at 30 June 2002, revised for actual movements for 2002-03.

Forecast assumption

For forecasting, budget sector debt is valued at its historical cost including unamortised premiums/discounts.

Employee entitlements

Accounting policy

An estimate of the provision is made in the Estimated Financial Statements for entitlements not taken at the end of each forecast reporting date in respect of wages and salaries, annual leave and long service leave. The provisions are measured at their nominal amounts except for long service leave, which is estimated at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to each reporting date.

Forecast assumption

Employee entitlements are forecast on the basis of staffing profiles and current salaries and conditions. For the forecast period, employee entitlements are adjusted for approved wage agreements with allowance made for future movements.

Superannuation

Accounting policy

The opening balance of the State's superannuation obligations is based on the latest actuarial assessment of the members' entitlements, net of scheme assets, and represents the audited value as at 30 June 2002 revised for estimated movements in 2002-03, in respect of the contributory service of current and past government employees. The valuation is determined by discounting to present value the gross benefit payments at a current, actuarially determined, risk-adjusted discount rate appropriate to the plan.

Forecast assumption

For the forecast period the superannuation liability has been estimated by the Department of Treasury and Finance and is consistent with projections provided by the various fund actuaries (refer to Note 15).

Other liabilities

Accounting policy

All other liabilities are recognised at the estimated amounts payable.

I. Accounting for the Goods and Services Tax (GST)

Accounting policy

Revenues, expenses and assets are recognised net of GST except where the amount of GST incurred is not recoverable, in which case it is recognised as part of the cost of acquisition of an asset or part of an item of expense. GST receivable from and payable to the Australian Taxation Office is included in the statement of financial position.

J. Estimated Statement of cash flows

Accounting policy

For the purposes of the statement of cash flows, cash comprises cash on hand, cash at bank, bank overdrafts and deposits at call, and highly liquid investments with short periods to maturity, which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

K. Rounding

Accounting policy

All amounts in the Estimated Financial Statements have been rounded to the nearest hundred thousand dollars unless otherwise stated.

Figures in the financial statements may not add due to rounding.

Note 2: Taxation

($ million)

	2002-03 Budget	2002-03 Revised	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
Payroll tax	2 710.1	2 659.0	2 744.7	2 884.2	3 043.9
Taxes on immovable property	709.8	712.7	812.5	824.8	833.8
Financial and capital transactions	2 054.3	2 449.3	2 013.9	1 914.5	1 764.0
Gambling	1 455.0	1 401.2	1 506.9	1 615.4	1 703.5
Insurance	789.8	816.1	882.3	920.6	963.8
Motor vehicles	1 050.8	1 078.8	1 112.7	1 144.5	1 181.3
Other licences and levies	32.8	32.2	33.7	35.1	40.2
Total taxation	**8 802.7**	**9 149.4**	**9 106.7**	**9 339.2**	**9 530.5**

Note 3: Investment revenue

($ million)

	2002-03 Budget	2002-03 Revised	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
Dividends	406.5	547.3	274.4	326.6	444.9
Tax and rate equivalent revenue	106.4	118.4	157.0	170.9	194.9
Interest	338.1	324.2	337.0	325.0	341.0
Royalties	41.4	41.4	43.3	38.8	39.8
Rents	16.6	16.6	16.7	16.9	16.8
Other	152.7	120.3	116.4	118.2	118.5
Total investment revenue	**1 061.6**	**1 168.1**	**944.8**	**996.4**	**1 156.1**

Note 4: Grants revenue

($ million)

	2002-03 Budget	2002-03 Revised	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
Current grants					
General purpose grants	6 772.4	6 748.8	7 005.9	7 146.1	7 610.3
Specific purpose grants for onpassing	1 179.4	1 179.4	1 216.0	1 253.8	1 262.3
Other specific purpose grants	3 146.1	3 168.9	3 232.7	3 375.0	3 532.5
Total current grants	**11 097.9**	**11 097.1**	**11 454.6**	**11 774.8**	**12 405.1**
Capital grants					
Specific purpose grants for onpassing	26.8	26.8	27.3	27.8	27.8
Other specific purpose grants	628.8	637.6	559.2	671.8	604.6
Total capital grants	**655.6**	**664.3**	**586.5**	**699.6**	**632.5**
Total grants	**11 753.5**	**11 761.5**	**12 041.1**	**12 474.5**	**13 037.6**

Note 5: Depreciation

($ million)

	2002-03 Budget	2002-03 Revised	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
Plant, equipment and infrastructure	451.2	447.2	466.2	485.9	486.1
Buildings [(a)]	274.8	275.8	303.8	345.5	390.5
Roads	223.9	235.3	237.9	240.5	243.3
Other assets	2.3	2.3	1.9	1.9	2.0
Total depreciation	**952.2**	**960.5**	**1 009.8**	**1 073.8**	**1 121.9**

Note:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2002-03 to 2005-06.

Note 6: Amortisation

($ million)

	2002-03 Budget	2002-03 Revised	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
Plant and equipment	56.6	56.6	53.6	53.5	53.6
Buildings	5.5	5.5	5.5	5.5	5.5
Intangible assets	8.6	8.6	8.7	6.3	6.3
Total amortisation	**70.6**	**70.6**	**67.7**	**65.3**	**65.4**

Note 7: Borrowing costs

($ million)

	2002-03 Budget	2002-03 Revised	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
Interest on long-term interest bearing liabilities	432.0	431.1	425.9	418.8	411.4
Interest on short-term interest bearing liabilities	13.0	13.0	13.6	14.5	15.7
Finance charges on finance leases	12.5	12.5	11.8	10.8	9.4
Other borrowing costs	37.7	36.7	33.6	32.8	31.0
Total borrowing costs	**495.2**	**493.4**	**484.9**	**476.8**	**467.5**

Note 8: Grants and transfer payments

($ million)

	2002-03 Budget	2002-03 Revised	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
Commonwealth	5.0	5.0	5.1	5.3	5.5
Local government	547.9	548.2	428.9	432.5	437.7
Private sector	2 550.0	2 633.1	2 706.8	2 750.9	2 779.3
Grants within Victorian Government [(a)]	1 015.9	1 043.0	947.9	939.2	932.0
Total grants and transfer payments	**4 118.9**	**4 229.3**	**4 088.6**	**4 127.9**	**4 154.5**

Note:

(a) 'Other', previously disclosed as a separate item, has now been incorporated into 'Grants within Victorian Government'.

Note 9: Total expenses from ordinary activities by Department

($ million)

	2002-03 Budget	2002-03 Revised	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
Expenses from ordinary activities					
Education and Training	7 140.0	7 235.1	7 332.7	7 353.8	7 327.2
Human Services	8 905.5	8 997.8	9 035.7	9 120.2	9 161.3
Infrastructure	3 030.9	2 968.4	2 910.4	2 966.4	2 996.3
Justice	2 192.9	2 216.2	2 193.3	2 284.6	2 342.0
Natural Resources and Environment	1 142.4	1 174.9	1 057.8	1 011.5	1 002.9
Premier and Cabinet	508.8	518.0	500.8	539.5	546.9
Innovation, Industry and Regional Development	431.9	483.7	298.7	244.1	246.1
Tourism, Sport and the Commonwealth Games	105.1	135.7	140.5	138.2	97.2
Treasury and Finance	2 018.4	2 677.6	2 161.5	2 173.1	2 224.1
Parliament	102.6	102.0	100.0	98.2	98.6
Contingencies not allocated to departments [(a)]	427.0	177.0	1 055.9	1 560.0	2 152.4
Regulatory bodies and other part budget funded agencies [(b)]	835.1	914.4	902.5	934.8	979.8
Total	**26 840.7**	**27 600.8**	**27 689.8**	**28 424.5**	**29 174.7**
Less eliminations [(c)]	(2 080.7)	(2 203.5)	(2 134.6)	(2 169.0)	(2 187.1)
Total expenses from ordinary activities	**24 760.0**	**25 397.2**	**25 555.1**	**26 255.5**	**26 987.7**

Notes:

(a) Departmental expenses will be supplemented for certain costs that are provided for in contingencies.

(b) Other general government sector agencies which receive less than 50 per cent of their revenue from appropriations.

(c) Comprised of payroll tax, capital assets charge and inter-departmental transfers.

Note 10: Property, plant and equipment

($ million)

	2003 Revised	2004 Estimate	2005 Estimate	2006 Estimate
Land, national parks and other land only holdings	**7 961.2**	**8 252.6**	**8 563.7**	**8 881.1**
Buildings [(a)]	11 600.9	12 832.0	14 132.7	15 326.4
Less: Accumulated depreciation	*(813.4)*	*(1 121.6)*	*(1 476.4)*	*(1 875.5)*
Buildings (written down value)	**10 787.5**	**11 710.4**	**12 656.3**	**13 450.9**
Infrastructure systems	5 204.4	5 310.9	5 384.3	5 881.9
Less: Accumulated depreciation	*(1 270.7)*	*(1 285.7)*	*(1 306.5)*	*(1 327.3)*
Infrastructure systems (written down value)	**3 933.7**	**4 025.3**	**4 077.8**	**4 554.6**
Plant, equipment and vehicles	3 897.2	4 263.8	4 584.3	4 919.0
Less: Accumulated depreciation	*(2 250.4)*	*(2 681.2)*	*(3 117.8)*	*(3 552.1)*
Plant, equipment and vehicles (written down value)	**1 646.8**	**1 582.6**	**1 466.4**	**1 366.9**
Leased plant, equipment and vehicles	306.7	333.7	360.7	387.6
Less: Accumulated amortisation	*(106.6)*	*(160.2)*	*(213.8)*	*(267.4)*
Leased plant, equipment and vehicles (written down value)	**200.1**	**173.4**	**146.9**	**120.2**
Total property, plant and equipment	**24 529.2**	**25 744.3**	**26 911.1**	**28 373.8**

Note:

(a) Includes amounts not yet allocated to projects in 2003-04 to 2005-06.

Note 11: Roads and earthworks

($ million)

	2003 Revised	2004 Estimate	2005 Estimate	2006 Estimate
Roads and earthworks	17 028.3	17 839.9	18 612.1	19 377.1
Less: Accumulated depreciation	*(3 796.1)*	*(4 034.0)*	*(4 274.5)*	*(4 517.8)*
Total roads and earthworks	**13 232.2**	**13 805.9**	**14 337.6**	**14 859.3**

Note 12: Reconciliation of movements in fixed assets[(a)]

($ million)

	2003 Revised	2004 Estimate	2005 Estimate	2006 Estimate
Carrying amount at start of the year	36 169.8	37 761.4	39 550.2	41 248.7
Additions	1 971.0	2 161.8	2 073.2	1 948.7
Disposals at written down value	(89.3)	(68.0)	(37.7)	398.9
Revaluation increments	731.5	762.3	794.2	827.4
Assets transferred	(1.3)	(0.4)	(0.5)	(11.5)
Depreciation/amortisation expense	(1 020.3)	(1 066.9)	(1 130.9)	(1 179.0)
Carrying amount at end of the year	**37 761.4**	**39 550.2**	**41 248.7**	**43 233.1**

Note:

(a) *Fixed assets comprise land and buildings, infrastructure systems, plant, equipment, vehicles, roads and earthworks. Excludes movements in other non-current assets in Note 13 below.*

Note 13: Other assets

($ million)

	2003 Revised	2004 Estimate	2005 Estimate	2006 Estimate
Current				
Other assets	0.0	0.0	0.0	0.0
Total current	**0.0**	**0.0**	**0.0**	**0.0**
Non-current				
Natural resource reserves at valuation	283.4	286.5	289.6	292.7
Other assets-including works of art, museum collections, rare book collections and intangibles	2 867.7	2 894.3	2 906.9	2 917.0
Less: Accumulated depreciation/amortisation	*(85.8)*	*(98.0)*	*(107.8)*	*(117.8)*
Total non-current	**3 065.3**	**3 082.8**	**3 088.7**	**3 092.0**

Note 14: Employee entitlements

($ million)

	2003 Revised	2004 Estimate	2005 Estimate	2006 Estimate
Current				
Accrued salaries and wages	662.4	685.1	701.3	717.3
Long service leave	211.0	235.0	249.6	264.2
Total current employee entitlements	**873.5**	**920.1**	**950.9**	**981.5**
Non-current				
Long service leave	1 864.5	2 033.1	2 213.1	2 397.5
Other employee entitlements	8.1	8.0	8.0	8.0
Total non-current employee entitlements	**1 872.5**	**2 041.1**	**2 221.1**	**2 405.5**
Total employee entitlements	**2 746.0**	**2 961.2**	**3 171.9**	**3 387.0**

Note 15: Superannuation

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

Changes have been made to some of the assumptions used in the calculation of the liability since the release of the 2002-03 Budget based on actuarial advice and investment returns achieved for the period 1 July 2002 through to 30 September 2002. These changes include a downwards revision in assumed earnings for the State Superannuation Fund in 2002-03 to 1 per cent compared to original forecast of 7 per cent and a revision upwards in 2002-03 CPI from 2.25 per cent to 2.75 per cent.

For years beyond 2002-03, the weighted average discount rate used by the Actuary remains at 7 per cent per annum and the weighted average rate of salary increases assumed is 4 per cent per annum (excluding promotions). A long-term rate of 3 per cent per annum is assumed for inflation growth.

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

($ million)

	2003 Revised	*2004 Estimate*	*2005 Estimate*	*2006 Estimate*
State Superannuation Fund	13 796.3	14 102.8	14 649.9	14 869.2
Other	200.1	218.2	237.8	259.2
Total unfunded superannuation liability	**13 996.4**	**14 321.0**	**14 887.7**	**15 128.4**
Current liability	1 518.9	1 242.7	1 016.4	1 395.2
Non-current liability	12 477.5	13 078.3	13 871.3	13 733.2
Total liability	**13 996.4**	**14 321.0**	**14 887.7**	**15 128.4**

Note 16: Reconciliation of changes in equity

($ million)

	2003 Revised	*2004 Estimate*	*2005 Estimate*	*2006 Estimate*
Total equity at beginning of year	21 844.7	22 870.1	23 552.8	24 686.7
Movements in revaluation reserves	737.8	768.6	800.6	833.8
Contributions by the State to other sectors in its capacity as owner	(254.5)	(427.1)	(133.7)	(4.8)
Net result for year	**542.1**	**341.2**	**467.0**	**628.0**
Total movements in equity	**1 025.4**	**682.8**	**1 133.9**	**1 456.9**
Total equity at end of year	**22 870.1**	**23 552.8**	**24 686.7**	**26 143.7**

Note 17: Cash flow information

($ million)	2002-03 Budget	2002-03 Revised	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
Reconciliation of cash					
Cash	264.5	290.5	290.1	282.5	275.8
Deposits at call	1 434.7	1 434.7	1 456.1	1 477.5	1 499.3
Bank overdraft	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)
Cash held as at 30 June	**1 695.1**	**1 721.1**	**1 742.1**	**1 756.0**	**1 771.0**
Reconciliation of the net result to net cash flows from operating activities					
Net result	**521.8**	**542.1**	**341.2**	**467.0**	**628.0**
Non-cash movements					
Depreciation	952.2	960.5	1 009.8	1 073.8	1 121.9
Amortisation	70.6	70.6	67.7	65.3	65.4
Revaluation of investments	0.1	0.1	0.1	0.1	0.1
Assets received/given free of charge	..	..	..	(7.5)	11.0
Revaluation of assets	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)
Write down of liabilities	(1.5)	(1.5)	(1.6)	(1.6)	(1.7)
Movements included in investing and financing activities					
Net revenues from sale of property, plant & equipment	(19.6)	(19.6)	(9.0)	(9.2)	(9.3)
Movements in assets and liabilities					
Increase/(decrease) in provision for doubtful debts	(0.2)	(0.2)	0.1	0.0	0.0
Increase/(decrease) in payables	10.6	4.7	(0.1)	(3.4)	4.6
Increase/(decrease) in employee entitlements	197.3	200.0	215.3	210.6	215.1
Increase/(decrease) in superannuation	(44.8)	613.6	324.6	566.7	240.7
Increase/(decrease) in insurance claims liability	(7.4)	(7.4)	(4.0)	(4.0)	(4.0)
Increase/(decrease) in other liabilities	(24.8)	(24.8)	(23.3)	(8.1)	(9.0)
(Increase)/decrease in receivables	(69.4)	(129.5)	(110.9)	(89.1)	(94.3)
(Increase)/decrease in other current assets	(0.2)	(0.2)	(0.0)	(0.1)	0.0
Net cash flows from operating activities	**1 581.6**	**2 205.3**	**1 806.7**	**2 257.5**	**2 165.5**

Note 18: General government sector entities

The following is a list of entities, which have been consolidated for the purposes of the Estimated Financial Statements. For further details on consolidation policy see Note 1 C, Basis of Consolidation.

Public non-financial and public financial corporations do not form part of the general government (budget) sector and are therefore not included in this list of controlled entities. For a complete listing of all government entities, please refer to the Annual Financial Report.

General government (budget) sector entities
Department of Education and Training
Adult, Community and Further Education Board
Adult Multicultural Education Services
Bendigo Regional Institute of TAFE
Box Hill Institute of TAFE
Central Gippsland Institute of TAFE
Centre for Adult Education
Chisholm Institute of TAFE
Driver Education Centre of Australia Ltd
East Gippsland Institute of TAFE
Gordon Institute of TAFE
Goulburn Ovens Institute of TAFE
Holmesglen Institute of TAFE
Institute of Land and Food Resources (TAFE Division)
International Fibre Centre Limited
Kangan Batman Institute of TAFE
Northern Melbourne Institute of TAFE
Royal Melbourne Institute of Technology (TAFE Division)
South West Institute of TAFE
Sunraysia Institute of TAFE
Swinburne University of Technology (TAFE Division)
University of Ballarat (TAFE Division)
Victoria University of Technology (TAFE Division)
Victorian Curriculum and Assessment Authority
Victorian Learning and Employment Skills Commission
Victorian Qualifications Authority
William Angliss Institute of TAFE
Wodonga Institute of TAFE
Department of Human Services
Alexandra and District Ambulance Service
Alexandra District Hospital
Alpine Health
Ambulance Service Victoria Metropolitan Region
Austin and Repatriation Medical Centre
Bairnsdale Regional Health Service

General government (budget) sector entities (continued)

Ballarat Health Services
Barwon Health
Bayside Health
Beaufort and Skipton Health Service
Beechworth Hospital
Benalla and District Memorial Hospital
Bendigo Health Care Group
Boort District Hospital
Casterton Memorial Hospital
Central Gippsland Health Service
Chinese Medicine Registration Board of Victoria
Chiropractors Registration Board of Victoria
Cobram District Hospital
Cohuna District Hospital
Colac Community Health Services
Coleraine District Health Services
Dental Health Services Victoria
Dental Practice Board of Victoria
Djerriwarrh Health Services
Dunmunkle Health Services
East Grampians Health Service
East Wimmera Health Service
Eastern Health
Echuca Regional Health
Edenhope and District Memorial Hospital
Gippsland Southern Health Service
Goulburn Valley Health
Hepburn Health Service
Hesse Rural Health Service
Heywood and District Memorial Hospital
Infertility Treatment Authority
Inglewood and District Health Service
Kerang and District Hospital
Kilmore and District Hospital
Kooweerup Regional Health Service
Kyabram and District Health Service
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
Medical Practitioners Board of Victoria
Melbourne Health
Mental Health Review Board
Moyne Health Services
Mt Alexander Hospital
Nathalia District Hospital

General government (budget) sector entities (continued)

Northern Health
Numurkah District Health Service
Nurses Board of Victoria
Omeo District Hospital
Optometrists Registration Board of Victoria
Orbost Regional Health
Osteopaths Registration Board of Victoria
Otway Health and Community Services
Peninsula Health
Peter MacCallum Cancer Institute
Pharmacy Board of Victoria
Physiotherapists Registration Board of Victoria
Podiatrists Registration Board of Victoria
Portland and District Hospital
Prince Henry's Institute of Medical Research
Psychologists Registration Board of Victoria
Psychosurgery Review Board
Queen Elizabeth Centre
Robinvale District Health Service
Rochester and Elmore District Health Service
Royal Victorian Eye and Ear Hospital
Rural Ambulance Victoria
Rural Northwest Health
Seymour District Memorial Hospital
South Gippsland Hospital
South West Healthcare
Southern Health
Stawell Regional Health
Swan Hill District Hospital
Tallangatta Health Service
Terang and Mortlake Health Service
Timboon and District Health Care Service
Tweddle Child and Family Health Service
Upper Murray Health and Community Services
Victorian Health Promotion Foundation
Victorian Institute of Forensic Mental Health
Wangaratta District Base Hospital
West Gippsland Health Care Group
West Wimmera Health Service
Western District Health Service
Western Health
Wimmera Health Care Group
Wodonga Regional Health Service
Women's and Children's Health
Wonthaggi and District Hospital
Yarram and District Health Service
Yarrawonga District Health Service
Yea and District Memorial Hospital

General government (budget) sector entities (continued)
Department of Infrastructure
Architects Registration Board of Victoria
Building Commission
Docklands Authority
Heritage Council
Marine Board of Victoria
Plumbing Industry Commission
Roads Corporation
Spencer Street Station Authority
Department of Justice
Country Fire Authority
Domestic Building (HIH) Indemnity Fund
Equal Opportunity Commission
Legal Practice Board
Metropolitan Fire and Emergency Services Board
Office of Public Prosecutions
Office of the Legal Ombudsman
Office of the Public Advocate
Victoria Legal Aid
Victoria Police (Office of the Chief Commissioner of Police)
Victorian Electoral Commission
Victorian Institute of Forensic Medicine
Victorian Law Reform Commission
Department of Natural Resources and Environment
Corangamite Catchment Management Authority
East Gippsland Catchment Management Authority
EcoRecycle Victoria
Environment Protection Authority
Glenelg-Hopkins Catchment Management Authority
Goulburn-Broken Catchment Management Authority
Mallee Catchment Management Authority
Melbourne Parks and Waterways (shell)
North Central Catchment Management Authority
North East Catchment Management Authority
Office of Gas Safety
Office of the Chief Electrical Inspector
Parks Victoria
Royal Botanic Gardens Board
Shrine of Remembrance Trustees
Surveyors Board
Trust for Nature (Victoria)
Veterinary Practitioners Registration Board of Victoria
Department of Premier and Cabinet
Australian Centre for Moving Image
Film Victoria
Library Board of Victoria
Museums Board of Victoria
National Gallery of Victoria, Council of Trustees

General government (budget) sector entities (continued)
Office of Public Employment
Office of the Ombudsman
Victorian Relief Committee
Department of Innovation, Industry and Regional Development
Liquor Licensing Panel
Department of Tourism, Sport and the Commonwealth Games
Melbourne 2006 Commonwealth Games Pty Ltd
Tourism Victoria
Victorian Institute of Sport Ltd
Victorian Institute of Sport Trust
Department of Treasury and Finance
Gambling Research Panel
Office of the Regulator-General
Victorian Casino and Gaming Authority
Parliament of Victoria
Victorian Auditor-General's Office

APPENDIX A: SPECIFIC POLICY INITIATIVES AFFECTING THE BUDGET POSITION

Appendix A outlines output, asset investment and revenue initiatives since the May 2002 Budget.

OUTPUT AND ASSET INITIATIVES

Government-wide Initiatives

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

Table A1: Output initiatives – Government–wide

($ million)

	2002-03	*2003-04*	*2004-05*	*2005-06*
Wotjobaluk Native Title In-Principle Agreement	-	0.6	0.9	0.5
Counter-terrorism	3.4	6.2	6.2	6.2
Total output initiatives	**3.4**	**6.8**	**7.1**	**6.7**

Source: Department of Treasury and Finance

Wotjobaluk Native Title In-Principle Agreement

Funding has been provided to meet obligations under an in-principle agreement that has been reached with the Wotjobaluk people to settle their native title claim in the Wimmera region. The in-principle agreement is consistent with the Government's Native Title Policy and Guidelines. The Wotjobaluk native title claim is the first claim to be agreed in-principle in Victoria. The in-principle agreement recognises the cultural connection and ancestry affiliation of the Wotjobaluk people to a core area in Victoria.

Counter-terrorism

Funding has been provided to establish a new Counter-Terrorism Coordination Unit within Victoria Police and to bolster existing Special Operations Group resources. The funding will provide additional personnel to enhance the Government's planning and response capabilities.

Table A2: Asset initiatives – Government–wide

($ million)	*2002-03*	*2003-04*	*2004-05*	*2005-06*	*TEI*
Counter-terrorism	4.9	4.9	-	-	9.8
Total asset initiatives	**4.9**	**4.9**	**0.0**	**0.0**	**9.8**

Source: Department of Treasury and Finance

Counter-terrorism

Funding has been provided to purchase equipment for Victoria Police and to establish a new State Crisis Centre. The new State Crisis Centre will be equipped with encrypted communication networks linking key Federal and emergency service agencies to ensure fast, accurate and reliable communications.

Departmental initiatives

The following tables provide details of output and asset investment initiatives since the May 2002 Budget, for each applicable department. Except where specified, figures indicate the total cost of initiatives. Funding from reprioritisation and existing fund sources has not been deducted from the total cost of the initiative.

Education and Training

Output initiatives

Table A3: Output initiatives – Department of Education and Training

($ million)	*2002-03*	*2003-04*	*2004-05*	*2005-06*
Disabilities and Impairments Program	26.0	5.5	-5.0	-5.0
Total output initiatives	**26.0**	**5.5**	**-5.0**	**-5.0**

Source: Department of Treasury and Finance

Disabilities and Impairments Program

Additional funding is provided to meet increased demand growth for support services provided to government school students with special educational needs under the Disabilities and Impairments Program. Offsetting cost reductions of $5.0 million per annum (starting 1 January 2003) are to be achieved through the implementation of program efficiencies.

Human Services

Asset initiatives

Table A4: Asset initiatives – Department of Human Services

($ million)

	2002-03	*2003-04*	*2004-05*	*2005-06*	*TEI*
Departmental Accommodation	-	-	51.8	-	51.8
Total asset initiatives	**0.0**	**0.0**	**51.8**	**0.0**	**51.8**

Source: Department of Treasury and Finance

Departmental Accommodation

The Department of Human Services plans to consolidate its city accommodation from four city locations to a new single building to be constructed at 50 Lonsdale Street Melbourne. Additional funding of $51.8 million is provided for the fit-out costs required for planned occupation of the new premises in late 2005.

Infrastructure

Output initiatives

Table A5: Output initiatives – Department of Infrastructure

($ million)

	2002-03	*2003-04*	*2004-05*	*2005-06*
Metropolitan Strategy	0.9	3.6	1.1	-
Flinders Street West Precinct Urban Development Project	-	12.1	-1.0	-7.2
New Bus Service between Sunshine and Laverton train stations	0.0	0.0	0.0	2.1
Total output initiatives	**0.9**	**15.7**	**0.1**	**-5.1**

Source: Department of Treasury and Finance

Metropolitan Strategy

Grants will be provided to local government to assist them with the implementation of the Metropolitan Strategy, which outlines sustainable growth plans for Melbourne to 2030. Additional funding will also be provided to the Victorian Civil and Administrative Tribunal to address anticipated workload increases (refer to Table A8).

Flinders Street West Precinct Urban Development Project

The project, to be delivered in co-operation with the Melbourne City Council, involves the removal of the Flinders Street overpass, construction of a new intersection, tram works and relocation of the Council's tow-away facility.

New Bus Service between Sunshine and Laverton train stations

A new bus service will be provided between Sunshine and Laverton train stations via the Western Highway and Palmers Road. It includes the provision of new bus stops and the upgrading of part of Palmers Road. The new service will also connect to the proposed remand centre in Ravenhall and existing prisons located at Deer Park and Truganina.

Innovation, Industry and Regional Development

Output initiatives

Table A6: Output initiatives – Department of Innovation, Industry and Regional Development

($ million)

	2002-03	*2003-04*	*2004-05*	*2005-06*
Biotechnology Centre of Excellence	10.0	-	-	-
Innovation Statement	-	30.0	40.0	50.0
Retail Industry Commissioner	0.7	-	-	-
Total output initiatives	**10.7**	**30.0**	**40.0**	**50.0**

Source: Department of Treasury and Finance

Biotechnology Centre of Excellence

New funding of $10 million is provided towards the establishment of a biotechnology centre of excellence at Monash University. Of the $10 million being provided by the Government, $5 million is being met from existing funding for the Science, Technology and Innovation grants program.

Innovation Statement

The Government has committed $310 million over five years, which will be targeted to innovation projects across a number of departments. As part of this package around $50 million has been allocated for capital investment expenditure (refer to Table A7).

Retail Industry Commissioner

Funding has been provided to support the Government's establishment of a Retail Industry Commissioner. The Commissioner will provide a dedicated area within Government to promote a competitive and fair business environment in the retail industry.

Asset initiatives

Table A7: Asset initiatives – Department of Innovation, Industry and Regional Development

($ million)

	2002-03	*2003-04*	*2004-05*	*2005-06*	*TEI*
Innovation Statement	-	25.0	25.0	-	50.0
Total asset initiatives	**0.0**	**25.0**	**25.0**	**0.0**	**50.0**

Source: Department of Treasury and Finance

Justice

Output initiatives

Table A8: Output initiatives – Department of Justice

($ million)

	2002-03	*2003-04*	*2004-05*	*2005-06*
Consumer Affairs Victoria online transactions	0.7	-	-	-
Metropolitan Strategy	0.5	0.5	-	-
Victorian Civil and Administrative Tribunal remuneration structure	1.0	1.0	1.0	1.0
Consumer Utilities Advocacy Centre	-	0.5	0.5	0.5
Establishment of a Terrorism and Multi-Jurisdictional Crime Unit	1.2	0.5	-	-
Metropolitan Fire and Emergency Services Board and Country Fire Authority Enterprise Bargaining Agreement:				
Net impact to Government, comprising: [(a)]	-	3.4	4.1	4.1
Increased EBA costs	*9.4*	*23.7*	*30.4*	*30.4*
Increased revenue from insurance contributions	*(9.4)*	*(20.3)*	*(26.3)*	*(26.3)*
Total output initiatives	**3.4**	**5.9**	**5.6**	**5.6**

Source: Department of Treasury and Finance

Note:

(a) Net impact excluding wage growth contingency funding already built into the forward estimates.

Consumer Affairs Victoria online transactions

Funding is provided to enable transactions in relation to the *Estate Agents Act 1980* to be conducted via the Internet.

Metropolitan Strategy

Additional funding is provided to the Victorian Civil and Administrative Tribunal to address anticipated workload increases as a result of the implementation of the Metropolitan Strategy pending a full assessment of the workload increases in 2003-04 and beyond. The Department of Infrastructure has also been funded to implement part of this strategy (refer to Table A5).

Victorian Civil and Administrative Tribunal (VCAT) remuneration structure

Following a review of the VCAT remuneration structure, additional funding is provided for new remuneration arrangements for non-judicial members of VCAT.

Consumer Utilities Advocacy Centre

The Consumer Utilities Advocacy Centre will deliver effective consumer input to regulatory processes for gas, electricity and water utilities; provide a centre of excellence in consumer advocacy research and information and dissemination; and respond to consumer groups' concerns that they do not have the resources to promote informed and effective representation.

Establishment of a Terrorism and Multi-Jurisdictional Crime Unit (TMJCU)

Victoria is to have primary responsibility for developing model legislation and coordinating reforms across the states and territories in relation to terrorism offences and transnational crime. The TMJCU will be responsible for the concurrent drafting of up to eight model bills in relation to transnational crime, which will involve consultation and agreement with other jurisdictions.

Metropolitan Fire and Emergency Services Board (MFESB) and Country Fire Authority (CFA) Enterprise Bargaining Agreement

An in-principle wage agreement has been entered into regarding MFESB and CFA operational staff. The agreement extends to 1 August 2005 and provides wage certainty over that period. The agreement also adjusts the career structure for MFESB firefighters. This agreement has resulted in increased expenses for the general government sector, which have been partly offset by increased revenue from insurance company contributions. The projected net impact on the general government sector is $3.4 million in 2003-04 and $4.1 million per annum in the following two years.

Natural Resources and Environment

Output initiatives

Table A9: Output initiatives – Department of Natural Resources and Environment

($ million)	*2002-03*	*2003-04*	*2004-05*	*2005-06*
Drought assistance				
Rural financial counselling and community support groups	1.9	-	-	-
Farm Business support grants	27.7	-	-	-
Farm Aid	0.5	-	-	-
Imported red fire ants eradication	5.4	-	-	-
Total output initiatives	**35.5**	**0.0**	**0.0**	**0.0**

Source: Department of Treasury and Finance

Drought assistance

Rural financial counselling and community support groups
Farm Business support grants
Farm Aid

These initiatives provide assistance for farmers experiencing drought, through cash grants, rural financial counselling, community support activities, and new and maintained community water bores. The cash grants are available to farmers in affected areas and are to a maximum of $20,000 per farm. The grants are dependent on certain criteria such as additional expenses and loss incurred due to the dry conditions. Farmers will only receive the full cash grant if they can demonstrate that they have undertaken appropriate drought management practices.

Imported red fire ants eradication

The Government has committed funds under a national campaign to eradicate fire ants. The eradication program involves baiting of ants and extensive monitoring and surveillance. Funding provided in 2002-03 represents Victoria’s matching contribution to the national red fire ant eradication program. This follows on from funding provided in 2001-02, as a program evaluation reported a high level of efficiency.

Asset initiatives

Table A10: Asset initiatives – Department of Natural Resources and Environment

($ million)	2002-03	2003-04	2004-05	2005-06	TEI
Long term zoo strategy	-	11.0	11.0	10.0	32.0
Total asset initiatives	**0.0**	**11.0**	**11.0**	**10.0**	**32.0**

Source: Department of Treasury and Finance

Long term zoo strategy

This initiative will provide $32 million over 3 years to fund a range of projects that will assist in transforming the State's three zoos into 21st Century organisations. This will focus on a changed relationship between animals and visitors through interactive experiences, free of bars and walls. The transformed zoos will become centres of wildlife experience, conservation, education and research.

Tourism, Sport and the Commonwealth Games

Output initiatives

Table A11: Output initiatives – Department of Tourism, Sport and the Commonwealth Games

($ million)	2002-03	2003-04	2004-05	2005-06
Melbourne Cricket Ground redevelopment	-	38.5	38.5	-
Australian Grand Prix safety improvements	5.9	-	-	-
Commonwealth Games Athletes' Village	8.0	20.0	24.0	35.0
Office of Commonwealth Games Coordination	1.8	-	-	-
Total output initiatives	**15.7**	**58.5**	**62.5**	**35.0**

Source: Department of Treasury and Finance

Melbourne Cricket Ground redevelopment

The State Government is contributing funding towards the redevelopment of the Northern Stand of the Melbourne Cricket Ground.

Australian Grand Prix safety improvements

Funding has been provided to the Department of Tourism, Sport and the Commonwealth Games to increase the height of the fencing at the Australian Grand Prix, in order to improve safety for spectators and officials.

Commonwealth Games Athletes' Village

The Government has committed $109 million in new funding for the development of an Athletes' Village at Parkville for the 2006 Commonwealth Games, of which $87 million impacts on the current forward estimates period.

Office of Commonwealth Games Coordination

Additional funding in 2002-03 is provided for the Office of Commonwealth Games Coordination to continue managing the Government's role during the preparations for the Melbourne 2006 Commonwealth Games.

Asset initiatives

Table A12: Asset initiatives – Department of Tourism, Sport and the Commonwealth Games

($ million)

	2002-03	*2003-04*	*2004-05*	*2005-06*	*TEI*
Commonwealth Games Athletes' Village	-	9.0	9.0	-	18.0
Total asset initiatives	**-**	**9.0**	**9.0**	**-**	**18.0**

Source: Department of Treasury and Finance

Commonwealth Games Athletes' Village

The Government has committed to providing 200 social housing households as part of the Commonwealth Games Athletes' Village. Capital funding of $35 million will be provided, of which $18 million impacts on the current forward estimates period.

Treasury and Finance

Output initiatives

Table A13: Output initiatives – Department of Treasury and Finance

($ million)

	2002-03	*2003-04*	*2004-05*	*2005-06*
Refund of payment made by International Game Technology	0.4	-	-	-
Total output initiatives	**0.4**	**-**	**-**	**-**

Source: Department of Treasury and Finance

Refund of payment made by International Game Technology

In June 2002 the Ombudsman released a Report on matters arising from the Office of Gambling Regulation investigation of International Game Technology (IGT). The report examined the circumstances surrounding a payment made by IGT to the Office of Gambling Regulation in August 2001. In response to concerns raised in the report additional funds were provided so that the payment could be refunded.

REVENUE INITIATIVES

Table A14: Revenue initiatives

($ million)

	2002-03	*2003-04*	*2004-05*	*2005-06*
Payroll Tax Exemption for Paid Maternity Leave	-0.4	-1.0	-1.1	-1.1
Land Tax Payment Extension	-	-	-	-
Total revenue initiatives	**-0.4**	**-1.0**	**-1.1**	**-1.1**

Source: Department of Treasury and Finance

Payroll Tax Exemption for Paid Maternity Leave

The Government has made a commitment to provide payroll tax exemptions to employers that make voluntary maternity leave payments, of up to 14 weeks, to their employees. This exemption will come into effect on 1 January 2003.

Land Tax Payment Extension

The period of time to pay land tax is being increased from eight to 26 weeks. Currently land tax can only be paid in a lump sum within eight weeks of the date of issue of the assessment or, for amounts greater than $200, in three instalments over a 12 week period.

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

This appendix describes the provisions of the amendments to the *Financial Management Act 1994*, as amended by the *Financial Management (Financial Responsibility) Act 2000*, passed by Parliament in April 2000.

The provisions of the *Financial Management (Financial Responsibility) Act 2000* have been complied with in the Pre-Election Budget Update. Table B1 details the statements required to be included in this document under the provisions of the Act.

Table B1: Statements required by the *Financial Management Act 1994* and their location in Pre-Election Budget Update

Relevant section of the Act and corresponding requirement	*Location*
Section 27B(1) Contents of pre-election budget update	
– updated estimated financial statements	Chapter 3, *Estimated Financial Statements and Notes*
– outlines the material economic assumptions used in preparation of the estimated financial statements	Chapter 1, *Budget Position and Outlook* and Chapter 3, *Estimated Financial Statements and Notes*
– discusses the sensitivity of the estimated financial statements to changes in these assumptions	Chapter 2, *Statement of Risks*
– provides a statement of the risks that may have a material effect on the estimated financial statements, including contingent liabilities	Chapter 2, *Statement of Risks* and Chapter 3, *Estimated Financial Statements and Notes*

Table B1: Statements required by the *Financial Management Act 1994* and their location in Pre-Election Budget Update (*continued*)

Relevant section of the Act and corresponding requirement	*Location*
Section 27B(2) Contents of pre-election budget update	
– taking into account all Government decisions (to the fullest extent possible) that have a material effect on the estimated financial statements	Appendix A, *Specific Policy Initiatives Affecting the Budget Position*
Section 27B(3) Contents of pre-election budget update	
– based on current financial policy objectives and strategies and generally accepted accounting principles	Chapter 1, *Budget Position and Outlook* and Chapter 3, *Estimated Financial Statements and Notes*