

Pre-Election Budget Update

November 2006

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

November 2006

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FOREWORD

Under my instructions this *Pre-Election Budget Update* is published by the Department of Treasury and Finance in accordance with reporting requirements under the *Financial Management Act 1994* (FMA). This publication meets all requirements of Part 5, Division 6 of the FMA.

The purpose of this *Pre-Election Budget Update* is to update information on the general government sector since the publication of the May 2006 State Budget.

Chapter 1, *Economic Conditions and Outlook* provides an outline of the economic outlook for the world, Australian and Victorian economies. Chapter 2, *Budget Position and Outlook* provides an overview of the projected Budget position for the period 2006-07 to 2009-10. Chapter 3, *Statement of Risks* lists, and where possible quantifies, the risks which could materially alter these Budget projections. Chapter 4, *Estimated Financial Statements and Notes* provides the formal accounting statements, and underpinning notes and assumptions, required by the FMA and presented on the basis of the Australian equivalents to International Financial Reporting Standards (A-IFRS). Appendix A, *Specific Policy Decisions Affecting the Budget Position* outlines specific output and asset investment policy decisions since the May 2006 Budget.

The *Pre-Election Budget Update* is based on Government decisions I was aware of on or before the issue of election writs on 31 October 2006. Government decisions are those policy decisions that have been endorsed by Cabinet.



Grant Hehir
Secretary

Department of Treasury and Finance
November 2006

CHAPTER 1: ECONOMIC CONDITIONS AND OUTLOOK

- Forecast economic growth in Victoria in 2006-07 has been revised down to 2.75 per cent, predominantly reflecting the impact of drought conditions on agricultural output. Growth in the non-farm economy is expected to be consistent with Budget projections.
- The Victorian labour market has been strong in 2006, with a lower unemployment rate and a higher labour force participation rate. The forecast for employment growth in 2006-07 has been revised up to 2.25 per cent.
- Inflationary pressures have intensified since the Budget, with the 2006-07 forecast for CPI inflation revised up to 3.25 per cent.

ECONOMIC OVERVIEW

The world economy

Global economic conditions remained robust in the first half of 2006, with most economies recording growth in line with, or stronger than, expectations. This has seen a slight upgrading of world economic growth forecasts, with the International Monetary Fund (IMF) raising the expected growth in the world economy in its September *World Economic Outlook* to 5.1 per cent in 2006 (from 4.9 per cent) and 4.9 per cent in 2007 (from 4.7 per cent). Private sector forecasters surveyed by Consensus Economics have also revised up their outlook for the world economy over the past six months.

The US economy has been expanding for five years and inflation has edged up because of diminishing excess capacity and high energy prices. Growth has started to slow primarily in response to past interest rate increases and a weaker housing market.

China has been growing rapidly, and although measures have been put in place to limit the pace of expansion, the IMF is still expecting double-digit growth to continue in 2006 and 2007. China's expansion is supporting growth in the rest of the East Asian region, including Japan, where the recovery is looking increasingly entrenched, and should be sustained by solid domestic demand.

European economic growth has increased in 2006, supported by stronger growth in Germany, France and the United Kingdom, and some one-off events, such as the soccer World Cup. It can also be attributed to improved business confidence, stronger corporate balance sheets and rising employment. Growth is expected to slow in 2007, with some dampening effects on consumer spending from the increase in the value added tax in Germany and the effects of rising interest rates.

A major feature of the world economy has been the uplift in inflationary pressures. While largely driven by oil and other commodity price rises, there is also evidence of increases in underlying inflation as economies reach capacity constraints and inflationary expectations rise. This has seen most of the major central banks move towards tighter monetary policy.

Australian economy

Despite solid growth in domestic demand, Australian gross domestic product (GDP) growth eased in the first half of 2006, to be 1.9 per cent over the year to the June quarter 2006. There is evidence at the national level that strong demand (from strong employment and income gains), coupled with supply constraints, has meant that inventories have been run down and imports have absorbed much of this excess demand. Strong demand also appears to have flowed through to higher inflation.

As a result of this easing in GDP growth, the Consensus Economics forecast for Australia has been revised down to 2.8 per cent in 2006. With a potential rebuilding of inventories and strong domestic activity, it is expected that Australian growth will pick up to 3.3 per cent in 2007. However, these forecasts will need to be reviewed in light of the more recent downgrading of prospects in the agricultural sector. The Australian Bureau of Agricultural and Resource Economics (ABARE) estimates that the drought will reduce economic growth in Australia by around 0.7 percentage points from what would otherwise have been achieved.

In contrast to the GDP data, the national labour market has been performing strongly, with employment growing by 2.7 per cent over the year to September 2006. This has been associated with an historically low unemployment rate and a record high participation rate.

Consumer price inflation increased significantly to 3.9 per cent over the year to September. Although there were several temporary influences behind this result, it also appears that inflation is becoming more broadly based. Citing the impact of higher upstream price pressures and rising underlying inflation, the Reserve Bank of Australia (RBA) increased official interest rates in August 2006 by 25 basis points, following a similar rise in May. The RBA also lifted its forecast of underlying inflation, which is expected to remain at the upper end of the Bank's target range over the next two years.

Victorian economy

Victorian state final demand growth moderated in the first half of 2006. This reflected slower business investment growth, offset to some extent by stronger growth in consumer spending. However, broader measures of output show stronger growth in the first half of 2006, due to a recovery in exports and an easing in imports.

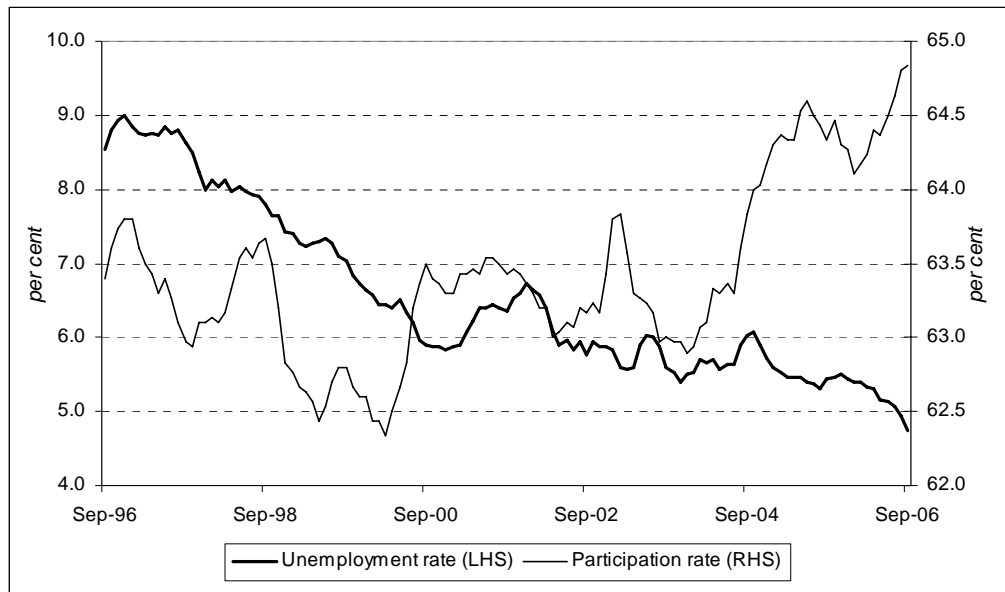
As foreshadowed in the 2006-07 Budget, consumer spending growth has experienced a modest recovery, with strong growth in employment and income offsetting the effects of higher interest rates and petrol prices. Although dwelling investment posted a rise in the June quarter, it remains lower over the year and recent interest rate rises are likely to contribute to further near-term softness. Business investment has been a key driver of growth in Victoria, growing by 6.5 per cent over the year to the June quarter. Despite a high exchange rate and a highly competitive environment, net merchandise exports have contributed to Victorian output growth in the past two quarters. Merchandise exports have risen, particularly for meat products, dairy, beverages and pharmaceutical goods, and merchandise import growth has slowed.

Despite the more moderate growth in Victorian state final demand in 2006, the labour market has performed strongly, posting positive gains in employment in each month so far of 2006. This is the longest sustained rise in monthly Victorian employment since consistent data commenced in 1978, and has been associated with a lower unemployment rate as well as higher labour force participation (Chart 1.1). The high participation rate appears to be reflecting a combination of higher skilled migration, delayed retirement and a buoyant labour market encouraging more people into the labour force. Rising labour force participation is also likely to have acted as a moderating influence on wage growth.

Recent population data have also been positive for Victoria, with continued strong gains from overseas migration. This has contributed to population growth in Victoria of 1.3 per cent over the past year, the highest yearly growth rate in almost five years.

Inflationary pressures have intensified since the Budget, with Melbourne recording inflation of 3.4 per cent over the year to September 2006. While recent movements have been driven in particular by petrol prices and the impact of Cyclone Larry on fruit prices, the rise in inflation has been broad-based. Underlying inflation has increased to around 3 per cent, consistent with an economy reaching capacity.

Chart 1.1: Victorian participation and unemployment rates (three-month moving average)



Source: Australian Bureau of Statistics

VICTORIAN ECONOMIC OUTLOOK

Revised projections for the Victorian economy are presented in Table 1.1. These projections assume constant exchange rates, and that oil prices follow the path implied by oil futures contracts.

Forecast growth of Victorian gross state product (GSP) in 2006–07 has been revised down to 2.75 per cent, predominantly reflecting the impact of drought conditions on agricultural output. Growth in the non-farm economy is expected to be consistent with Budget projections. The drivers of non-farm growth in 2006-07 are expected to be a modest improvement in consumption growth and smaller falls in dwelling investment and net exports, partly offset by slower business investment growth. In the out-years, GSP growth is expected to return to around trend rates of 3.25 per cent.

Victoria's agricultural sector has been adversely affected by the intensifying drought conditions. According to the Bureau of Meteorology, rainfall deficiencies have been observed across much of Victoria during winter and spring. Water shortages are particularly severe in western and north-western parts of Victoria. In addition, the US National Oceanic and Atmospheric Administration has observed the re-occurrence of El Niño conditions. As a result, farm output is likely to be significantly lower than envisaged at Budget time. According to ABARE, Victorian winter crop production in

2006-07 is expected to be only about a quarter of that observed in 2005-06. Cattle slaughtering is likely to rise because of limited feed and water, and Dairy Australia forecasts that Victorian milk production will fall by 8.4 per cent in 2006-07. Also, frosts in late September are likely to result in noticeably lower fruit production.

Table 1.1: Victorian economic projections ^(a)

(Projections in the 2006–07 Budget, where different, are in parentheses.)

	2005-06 Actual	2006-07 Forecast	2007-08 Forecast	2008-09 Forecast	2009-10 Forecast
Real gross state product	2.50	2.75 (3.25)	3.25 (3.50)	3.25	3.25
Employment	1.7 (1.50)	2.25 (1.25)	1.25 (1.50)	1.25	1.25
Unemployment rate ^(b)	5.3 (5.50)	5.00 (5.50)	5.25	5.25	5.25
Wage price index ^(c)	3.8 (3.75)	3.75 (3.50)	3.50	3.50	3.50
Consumer price index	3.1 (3.00)	3.25 (2.50)	2.50	2.50	2.50
Population ^(d)	1.30 (1.10)	1.10 (1.00)	1.10 (1.00)	1.10 (1.00)	1.10 (1.00)

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

Notes:

- (a) Year-average per cent change on previous year unless otherwise indicated. Real gross state product and population figures for 2005-06 are estimates, not actuals. All economic projections are rounded to the nearest 0.25 percentage point, except population projections which are rounded to the nearest 0.1 percentage point.
- (b) Year-average level, per cent.
- (c) Total hourly rate excluding bonuses.
- (d) June quarter, per cent change on previous June quarter.

Outside the farm sector, growth is projected to be solid. Consumer spending is expected to show modest improvement in 2006-07, supported by the strong labour market and income tax cuts. However, consumers are likely to remain cautious in view of the potential for further interest rate rises, which are likely to squeeze discretionary spending power because of high levels of household debt.

Recent interest rate rises, by adversely affecting housing affordability, are likely to have delayed the recovery in dwelling investment. A recovery is nonetheless expected towards the end of 2006-07, driven by pent-up demand. Recent dwelling commencements have been running below underlying demand requirements, rental vacancy rates have fallen to very low levels and rents are rising strongly.

Although the growth in business investment is likely to moderate, it should remain an important driver of economic growth. There are substantial levels of non-residential construction, including engineering work, in the pipeline. The current environment is still conducive to continued growth of business investment, with a robust global economy, high capacity utilisation, and strong business profitability and balance sheets.

Net merchandise exports have been positive for output growth in the first half of 2006, and this momentum provides some support for continued improvement into 2006-07. Despite this, it is still expected that net exports will detract marginally from growth in 2006-07. The minerals commodity boom, by contributing to a high exchange rate and the reallocation of labour and capital to mineral-rich regions, may continue to place pressure on Victoria's non-mineral exports. Victoria's agricultural exports are also likely to be adversely affected by drought conditions.

The labour market outlook remains positive for 2006-07, with recent strong data leading to an upward revision to forecast employment growth to 2.25 per cent, and a downward revision to the unemployment rate. In the out-years, employment growth is expected to slow from recent above-trend rates to be more in line with growth of the working population, and the unemployment rate is expected to settle around 5.25 per cent. One noticeable feature of the labour market has been the large rise in the labour force participation rate, which should be supported over the forecast period by demographic and policy changes.

Population projections have also been raised, in line with recent developments that show stronger net overseas migration, less outflow via interstate migration and a rising birth rate.

Wage growth is projected to be moderate over the forecast period. This is despite the low unemployment rate and reports that firms are having difficulty finding suitable labour. Some of the moderating influences are coming from the rising participation rate, well-anchored inflation expectations as well as increased competition from labour in developing economies. Nonetheless, wage pressures remain a risk to the economic outlook.

Inflationary pressures have built up over the past six months, and the 2006-07 inflation forecast has been lifted to 3.25 per cent. This reflects the impact of recent stronger-than-expected inflation and signs of heightened input cost pressures. Although most of these effects are likely to have washed out by 2007-08, the broad-based nature of the rise in underlying inflation, the tight labour market and evidence of capacity constraints suggest that the risks to inflation lie on the upside.

ECONOMIC RISKS

The economic projections are sensitive to several upside and downside risks. The main downside risks stem from intensifying drought conditions and possible wage and inflationary pressures resulting in further interest rate rises. Also, any major disruption to world economic growth would impact on the national and Victorian economy. These are discussed in Chapter 3, *Statement of Risks*.

CHAPTER 2: BUDGET POSITION AND OUTLOOK

- The revised 2006-07 net result from transactions for the general government sector is \$418.6 million, an increase of \$101.8 million compared with the May 2006 Budget estimate of \$316.8 million. This increase mainly reflects higher than originally projected taxation income and Commonwealth specific purpose grants.
- The net result from transactions is expected to average \$404.8 million a year from 2007-08 to 2009-10.
 - Including the non-cash impact of actuarial adjustments and revaluations, the net result for the general government sector is projected to be a surplus of \$513.9 million in 2006-07, which is higher than the May 2006 Budget estimate of a \$275.6 million surplus, reflecting better-than-expected returns on superannuation assets.
- Net infrastructure investment is projected to be \$3 125.1 million in 2006-07. Over the forward estimate period, from 2007-08 to 2009-10, net infrastructure investment is expected to average \$3 390.4 million a year.
- Net debt is projected to increase from \$1 769.1 million as at 30 June 2006 (or 0.8 per cent of GSP) to \$7 588.7 million by 30 June 2010 (or 2.7 per cent of GSP).
- The broader measure of net financial liabilities is projected to increase from \$14 665.6 million as at 30 June 2006 (or 6.3 per cent of GSP) to \$21 061.0 million by 30 June 2010 (or 7.5 per cent of GSP).

This chapter provides an overview of the revised budget position for the period 2006-07 to 2009-10 for the general government sector.

The budget and forward estimates are based on the economic projections outlined in Chapter 1, *Economic Conditions and Outlook*, and reflect the accounting policies and assumptions documented in Chapter 4, *Estimated Financial Statements and Notes*. The estimates take into account the financial impacts of all policy decisions taken by the Victorian Government prior to the issue of election writs on 31 October 2006, as well as Commonwealth funding revisions and other information, that affect the projected general government sector financial statements. Specific policy decisions that have been taken since the May 2006 Budget, that affect the Budget position are summarised in Appendix A, *Specific Policy Decisions Affecting the Budget Position*.

The 2006-07 Budget and forward estimates years, 2007-08 to 2009-10, represent planning projections based on unchanged policy and other assumptions throughout the forecast period. Outcomes will differ from these projections for many reasons, including the implementation of new policies by an incoming Government and any materialisation of the risks described in Chapter 3, *Statement of Risks*.

The estimates from 2006-07 (as detailed in Chapter 4, *Estimated Financial Statements and Notes*) and used in this chapter are presented on the basis of the Australian equivalents to International Financial Reporting Standards (A-IFRS).

FORWARD ESTIMATES OUTLOOK 2006-07 TO 2009-10

Table 2.1 sets out the projected aggregate outlook over the budget and forward estimates period for the general government sector. A more detailed operating statement is provided in Chapter 4, *Estimated Financial Statements and Notes*.

As Table 2.1 shows, the net result from transactions is forecast to be \$418.6 million in 2006-07. The net result from transactions is projected to be \$423.0 million in 2007-08, \$429.4 million in 2008-09 and \$361.9 million by the end of the forward period.

The net result is obtained when various revaluation gains and losses on assets and liabilities and provisions for doubtful receivables are added to the net result from transactions. These revaluations are closely related to market movements and as such are highly volatile. As Table 2.1 shows, the net result for the general government sector is projected to be a surplus of \$513.9 million in 2006-07.

As discussed below in *Other economic flows*, the revised 2006-07 net result is higher than the revised net result from transactions largely due to better-than-expected returns on superannuation assets for the financial year to 27 October 2006. This favourable investment performance gave rise to an actuarial non-cash gain of \$483.5 million. However, this was partially offset by the non-cash impact on the unfunded superannuation liability of movements in the long-term Commonwealth bond rate. The Commonwealth bond rate that underpins the discount rate used to value superannuation liabilities has decreased since 30 June 2006, which increased the reported superannuation liability, and thereby reduced the actuarial gain by \$371.6 million. Changes in the reported value of the superannuation liability resulting from movements in the discount rate have no impact on the amount of cash required to fund this liability but are reported in accordance with the relevant accounting standard.

Table 2.1 Summary operating statement for the period 2006-07 to 2009-10 ^{(a)(b)}

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Taxation	10 971.0	11 201.8	11 391.5	11 806.7	12 253.7
Dividends and income tax equivalent and rate equivalent revenue ^(c)	1 251.2	1 260.0	1 094.5	1 046.9	1 155.1
Grants	15 077.9	15 160.3	15 987.2	16 449.4	16 936.2
Sales of goods and services	2 552.4	2 532.2	2 570.3	2 635.2	2 640.3
Other income ^(d)	2 589.7	2 630.9	2 673.1	2 844.8	2 640.5
Total income from transactions	32 442.1	32 785.2	33 716.5	34 783.0	35 625.8
% change			2.8%	3.2%	2.4%
Employee benefits	12 019.5	12 085.2	12 366.3	12 719.8	12 978.8
Superannuation	1 710.4	1 673.9	1 684.8	1 719.5	1 751.8
Depreciation and amortisation	1 322.1	1 366.6	1 438.0	1 506.0	1 586.1
Finance costs	428.0	473.4	499.0	604.2	677.5
Grants and transfer payments	6 207.2	6 404.0	6 116.0	5 934.9	5 923.4
Supplies and services	10 437.7	10 363.2	11 188.9	11 868.7	12 345.7
Other expenses	0.5	0.5	0.5	0.5	0.5
Total expenses from transactions	32 125.3	32 366.7	33 293.5	34 353.7	35 263.8
% change			2.9%	3.2%	2.6%
Net result from transactions	316.8	418.6	423.0	429.4	361.9
Actuarial gains/(losses) on superannuation defined benefit plans	..	111.8	..	..	..
Other gains/(losses) from other economic flows ^(e)	(41.2)	(16.5)	(35.7)	(30.7)	(30.3)
Total other economic flows	(41.2)	95.3	(35.7)	(30.7)	(30.3)
Net result	275.6	513.9	387.4	398.7	331.6

Source: Department of Treasury and Finance

Notes:

- (a) Table may not add due to rounding.
- (b) This is an abbreviated operating statement. The full operating statement for the general government sector is reported in Chapter 4, Estimated financial statements and notes.
- (c) Includes dividends and income tax equivalent and rate equivalent revenue, and interest revenue.
- (d) Other income comprises regulatory fees and fines, fair value of assets received free of charge, inter-sector capital asset charge and other miscellaneous income (such as unclaimed monies refunds and donations to schools and hospitals).
- (e) This includes gains and losses on the disposal of physical assets and other income and expenses from other economic flows.

Alternative measures of financial performance

Alternative measures of financial performance are set out in Table 2.2. These include Government Finance Statistics (GFS) measures used by the Australian Bureau of Statistics and the net result.

Table 2.2 A-IFRS and GFS budget measures

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
A-IFRS Net result from transactions / GFS net operating balance	316.8	418.6	423.0	429.4	361.9
A-IFRS Net result	275.6	513.9	387.4	398.7	331.6
GFS net lending/(borrowing) ^(a)	(582.2)	(837.4)	(812.3)	(1 051.0)	(839.2)
GFS cash surplus/(deficit) - excluding the impact of finance leases ^(b)	157.1	101.2	(565.6)	(761.2)	(858.1)

Source: Department of Treasury and Finance

Notes:

- (a) *GFS net borrowing, or fiscal balance, includes net capital expenditure but excludes depreciation, thereby giving a measure of the State's call on financial markets. GFS net borrowing also equals net transactions in financial assets less net transactions in liabilities.*
- (b) *International Monetary Fund/GFS cash surplus/deficit equals the net cash flows from operating activities less investments in non-financial assets, and excludes acquisitions under finance leases.*

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

The *GFS net lending/borrowing* result is equal to the GFS net operating balance less net acquisitions of non-financial assets. GFS net borrowing represents, in broad terms, the extent to which the general government sector's net acquisition of physical assets has been funded by incurring liabilities to other sectors. As the net lending/borrowing takes into account total spending on fixed assets during the period, rather than just the current year's expense, it is lower than the GFS net operating balance and the net result from transactions. The GFS net borrowing measure is projected to be \$837.4 million in 2006-07. Over the forward period, it is projected that the general government sector will remain in a net borrowing position.

The *GFS cash surplus/deficit* result is equal to net cash flows from operating activities, less net cash investment in non-financial assets and excludes acquisitions under finance leases. Although both net borrowing and the cash surplus include the immediate impact of expenditure on fixed assets, the cash surplus removes non-cash revenues and expenses (including the imputed superannuation interest cost and employee benefits) and allows for cash contributions made to the unfunded superannuation liability. The projected general government sector GFS cash surplus is \$101.2 million in 2006-07.

Over the forward estimates period, both GFS net borrowing and GFS cash deficits reflect the profile of infrastructure spending over the period. In particular GFS net borrowing is projected to peak in 2008-09, reflecting the completion of *Partnerships Victoria* projects, which are further explained below.

Income from transactions

Total income from transactions in 2006-07 is projected to be \$32 785.2 million. When compared to the 2006-07 Budget estimate published in May 2006, total income from transactions has been revised upwards by \$343.1 million (or 1.1 per cent). The upward revision mainly reflects growth in taxation (\$230.8 million), and Commonwealth specific purpose grants (\$82.4 million).

From 2007-08, and over the remainder of the forward estimates period, total income from transactions is projected to grow on average by \$946.9 million (or 2.8 per cent).

Taxation income is projected to be \$11 201.8 million in 2006-07 and is expected to grow by an average of \$350.6 million (or 3.0 per cent) a year over the forward estimates period. The projected year-on-year growth in taxation income over the outlook period reflects the anticipated economic conditions for the State resulting in higher payroll tax income, combined with the current strength of the non-residential property market and high-end residential market influencing the level of land transfer duty.

Dividend and income tax equivalent and rate equivalent income in 2006-07 is anticipated to be substantially in line with the 2006-07 Budget estimate. This income is expected to decline by 17 per cent in 2007-08, largely reflecting lower distributions expected from the Transport Accident Commission and the Victorian WorkCover Authority and is consistent with the assumed average long-term market rate of return on their investments. Dividend and income tax and rate equivalent income is expected to decrease by a further 5.3 per cent in 2008-09 before increasing by 16.2 per cent in 2009-10. The increase in 2009-10 is consistent with projected higher dividends from the State Electricity Commission of Victoria.

When compared with the 2006-07 Budget estimate, income from Commonwealth grants has been revised upwards by \$82.4 million in 2006-07 due to additional specific purpose grants for a number of new and existing programs such as the Exceptional Circumstances Drought Relief Package, the Snowy River Environment Flows, the Macalister Irrigation Project, Wimmera Mallee Pipeline, Immunisation Program and Young People with Disabilities in Residential Aged Care. This additional Commonwealth funding has been partly offset by a downward revision to funding for the Australian Health Care Agreement and the Highly Specialised Drugs Program. Income from Commonwealth grants is projected to grow over the forward period by an average of \$592.0 million (or 3.8 per cent) a year mainly due to growth in GST revenue projected in the 2006-07 Budget estimates.

The estimates of GST revenue have not been revised since the 2006-07 Budget was published in May 2006, as the Commonwealth has not issued a formal revised estimate of the GST pool. However, there is a possibility that GST revenue over the forecast period may be higher than forecast in the 2006-07 Budget. For more detail, see Chapter 3, *Statement of Risks*.

Income from both the sale of goods and services and other income sources such as fines and regulatory fees and agency own-source revenue is projected to remain relatively stable over the forward period. Other income is projected to peak in 2008-09 reflecting the return of land to the State in relation to completion of EastLink.

Expenses from transactions

Total expenses from transactions are projected to be \$32 366.7 million in 2006-07, an increase of \$241.4 million (or 0.8 per cent) compared to the 2006-07 Budget estimates published in May 2006. This increase largely reflects a combination of revisions, including:

- an upward revision to expenditure on employee entitlements by \$65.7 million, reflecting expenditure associated with an increase in hospital own-source revenue and a reclassification of expenditure by VicRoads from operating supplies and services to employee entitlements;
- an upward revision of finance costs by \$45.4 million and depreciation and amortisation expenses by \$44.5 million. These reflect required changes in accounting policy treatment that were adopted in the *2005-06 Financial Report for the State of Victoria*, including:
 - a change in asset recognition for projects associated with the State-wide Integrated Public Safety Communication Strategy; and
 - the requirement to capitalise, in 2005-06, the Victorian County Court and private prisons by recognising a finance lease agreement and the amended existing finance lease treatment for private prisons;
- an upward revision of grants and transfer payments by \$196.8 million mainly reflecting the on-passing of additional Commonwealth specific purpose grants, as well as an increase in transfer payments to the public non-financial corporations and public financial corporations sectors in relation to a number of new State Government drought and water-related initiatives.

These increases are partially offset in 2006-07 by downward revisions to:

- supplies and services of \$74.5 million, primarily reflecting a reduction in the projected operating lease payments associated with the changes in accounting treatment for finance leases explained above; and

- superannuation expense of \$36.5 million largely reflecting the results of the triennial actuarial review of the Emergency Services Superannuation Scheme (explained further below).

Consistent with forecast growth in total income from transactions over the forward period, total expenses are projected to increase by an average of \$965.7 million (or 2.9 per cent) a year from 2007-08 to 2009-10.

Year-on-year growth in employee entitlements over the forward estimates period is expected to average \$297.9 million (or 2.4 per cent) a year. This growth reflects existing enterprise bargaining agreement wage increases and the implementation of policy decisions by Government, including decisions between the May 2006 Budget and the issuing of election writs on 31 October 2006.

Over the forward estimates period, superannuation expenses are projected to increase on average by \$25.9 million (or 1.5 per cent) a year reflecting the year-on-year projected growth in employee entitlements.

Grants and transfer payments are projected to decline, before stabilising over the remaining forward estimates period, reflecting currently budgeted completion of programs such as the First Home Bonus, which ends on 30 June 2007.

Over the forward period, supplies and services expenditure is projected to increase by an average of \$660.8 million (or 6.0 per cent) a year. This year-on-year growth mainly reflects the implementation of output decisions announced by Government combined with additional expenditure associated with the projected increase in own-source revenues (income received through fees charged by agencies for services) particularly in the TAFE and hospital sectors.

Other economic flows

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

Other economic flows in 2006-07 are primarily driven by better-than-expected returns on superannuation assets for the financial year to 27 October 2006, giving rise to an actuarial gain of \$483.5 million. However, this was partially offset by the impact of movements since 30 June 2006 in the long-term Commonwealth bond rate that underpins the discount rate used to value superannuation liabilities. This increased the reported superannuation liability and reduced the investment related actuarial gain by \$371.6 million. Changes in the reported value of the superannuation liability resulting from movements in the discount rate have no impact on the amount of cash required to fund this liability but are reported in accordance with the relevant accounting standard.

RECONCILIATION OF FORWARD ESTIMATES TO PREVIOUSLY PUBLISHED ESTIMATES

Table 2.3 compares the revised outlook for the net result from transactions for the period 2006-07 to 2009-10 to the estimates published in the 2006-07 Budget in May 2006.

Table 2.3 Reconciliation of estimates to the 2006-07 Budget ^(a)

	(\$ million)			
	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Net result from transactions: 2006-07 Budget ^(b)	316.8	305.4	331.3	311.9
Plus: Variations in income from transactions since 2006-07 Budget				
Policy decision variations	0.2	15.5	77.9	77.3
Economic/demographic variations				
Taxation	230.8	224.2	159.5	69.3
Investment income ^(c)	8.8	(3.3)	(27.6)	75.2
Total economic/demographic variations	239.6	220.9	132.0	144.5
Commonwealth grant variations				
General purpose grants	..	..	..	..
Specific purpose payment grants	82.4	61.7	(6.7)	(67.0)
Total Commonwealth grant variations	82.4	61.7	(6.7)	(67.0)
Increase in own-source revenue	55.0	43.7	46.2	48.2
Administrative variations	(34.1)	(88.1)	(61.0)	(77.0)
Total variation in income from transactions since 2006-07 Budget	343.1	253.6	188.3	126.0
Less: Variations in expenses from transactions since 2006-07 Budget				
Policy decision variations ^(d)	121.5	79.8	106.8	105.4
Commonwealth variations	67.2	28.4	5.7	(7.1)
Variations due to changes in own-source revenue	63.7	52.5	51.2	49.8
Administrative variations				
Superannuation variations	(36.5)	(76.0)	(64.7)	(64.9)
Other administrative variations	25.4	51.3	(8.7)	(7.4)
Total administrative variations	(11.1)	(24.7)	(73.4)	(72.3)
Total variation in expenses from transactions since 2006-07 Budget	241.4	136.0	90.3	75.8
Revised net result from transactions	418.6	423.0	429.4	361.9

Source: Department of Treasury and Finance

Notes:

- (a) Table may not add due to rounding.
- (b) 2006-07 Budget Net result from transactions as published in the May 2006 Budget.
- (c) Investment income includes dividends, income tax and rate equivalent revenue and interest.
- (d) The total expenditure for each year may differ to Appendix A, Specific Policy Decisions Affecting the Budget Position, for certain decisions due to the impact of departmental reprioritisations being included in Appendix A.

Variations to income from transactions

Compared to the estimates published in the 2006-07 Budget, total income from transactions is expected to be \$343.1 million higher in 2006-07 and \$189.3 million a year higher on average over the remainder of the forward estimates period.

Policy decisions of Government resulting in changes to taxation income estimates include:

- continuation of the Environmental Contribution Levy. As part of the Government's 2004 *White Paper-Securing Our Water Future Together* statement, urban and rural water authorities were required to pay a proportion of their existing revenue base to fund water-related initiatives. Water authorities were initially required to contribute until June 2008, but this has now been extended to June 2012 to provide funding for new water initiatives; and
- changes to the Prescribed Industrial Waste Levy. In July 2006, the Government committed to apply differential levies to each class of prescribed industrial waste to reduce the generation of waste, effective from 1 July 2007. The revenue generated from the differential levies will be re-invested in waste reduction programs by the Environment Protection Authority in partnership with industry.

Favourable economic and demographic changes have caused taxation estimates to be revised upwards by \$230.8 million in 2006-07, and \$151.0 million a year on average to 2009-10, including:

- payroll tax has been revised upwards in 2006-07 by \$16.4 million and upwards over the remaining forward estimates period from 2007-08 by an average of \$25.8 million a year. This is largely due to stronger than expected employment growth;
- taxes on immovable property income have been revised upwards in both 2006-07 (\$34 million) and 2007-08 (\$10 million) mainly due to a one-off carry forward in land tax revenue from 2005-06 to 2006-07 following a delay in the issue of assessments for properties held by trusts; and
- income from financial and capital transactions, largely comprising duty on land transfers revenue, has been revised upwards by \$247.1 million in 2006-07, \$220.9 million in 2007-08, \$149.9 million in 2008-09 and \$59.8 million in 2009-10. The upward revision to land transfer duty over the forward estimates period largely reflects the current robust nature of the non-residential property market, which has experienced solid growth in both prices and activity. There is some evidence that the growing pool of superannuation funds is contributing to strong institutional activity.

In the residential market, high-value properties have proven resilient, with apparent growth in prices and turnover. Tempering this is the uncertain impact of recent interest rate rises, high levels of household debt and declining housing affordability on the first home buyers' market as well as the market for lower to middle range residential properties, although these factors do not appear to have significantly affected the market at this stage.

This is expected to lead to slower growth in property turnover over the forward estimates period, albeit from a higher level compared with 2006-07 Budget estimates.

These increases have been only partly offset by the effects of rising interest rates and petrol prices, including:

- a downward revision to gambling taxation income by \$38 million (or 2.4 per cent) in 2006-07, \$12 million in 2007-08, and \$7 million in 2008-09, with income in 2009-10 expected to remain in line with the 2006-07 Budget. The downward revision for 2006-07, 2007-08 and 2008-09, is the consequence of the lower-than-expected 2005-06 actual outcome for gambling taxation income, which reflected the effects of restrained gambling expenditure by households due to higher petrol prices and interest rate increases; and
- a downward revision to motor vehicle taxation income by \$31.7 million in 2006-07, with estimates reduced by an average of \$34.1 million a year over the forward estimates period. The weaker outlook over these years is due to the lower level of new and private sale transactions, which reflects the impact of higher petrol prices combined with lower than expected average duty per transaction as a result of motorists shifting purchases to smaller and cheaper motor vehicles.

Variations to taxation income also reflect the progressive recognition of concession fees. In accordance with the CityLink Concession Deed, CityLink Melbourne Limited is required to pay concession fees to the State in the form of semi-annual concession notes during the concession period. In 2006-07, the State assigned to the Transurban Group the concession notes it currently holds and all future concession notes it was to receive over the remaining concession period. In exchange, Transurban agreed to a payment stream to the State totalling \$614 million over a 4-year period. The consideration is to fund the upgrade of the Monash and Westgate freeways. Transurban will fund the CityLink works while the State will fund the non-CityLink works. Based on independent accounting advice, the upfront consideration received is to be progressively recognised as revenue over the remaining life of the concession term.

Investment income (which includes dividend and income tax and rate equivalent income and interest) in 2006-07 is anticipated to be substantially in line with the 2006-07 Budget estimate. This income is expected to be revised upwards by \$8.8 million in 2006-07 and downwards by \$3.3 million in 2007-08 and \$27.6 million in 2008-09 partly due to lower projected profits from the metropolitan water sector including the impact of water restrictions and the success of water-use campaigns. The upwards revision in 2009-10 is consistent with projected higher dividends from the State Electricity Commission of Victoria.

Compared to the 2006-07 Budget estimates, Commonwealth specific purpose payments have been revised upwards by \$82.4 million in 2006-07, upwards by \$61.7 million in 2007-08, downwards in 2008-09 by \$6.7 million and downwards in 2009-10 by \$67 million, reflecting variations including:

- an increase in Commonwealth funding in 2006-07 for the Exceptional Circumstances Drought Relief Package;
- additional funding in 2006-07 and over the forward estimates period for the Snowy River Environment Flows, Macalister Irrigation District and revised funding estimates for the Wimmera Mallee Pipeline – State and Commonwealth Components, as the majority of Stage One works will now be completed in 2006-07;
- revised funding estimates for capital expenditure on roads programs;
- an average \$20 million a year downward revision over the forward estimates period for Australian Health Care Agreement funding, based on recent changes to both Australian Bureau of Statistics population data estimates and the Commonwealth wage cost index used in the agreement; and
- reduced Commonwealth funding for the Highly Specialised Drugs Program to reflect new inclusions in the Pharmaceutical Benefits Scheme. This downward revision in Commonwealth health funding is partially offset by an upward revision over the forward estimates period in Commonwealth special purpose payments for the Immunisation and Young People with Disabilities in Residential Aged Care programs.

Own-source revenue (income received through fees charged by agencies for services) has been revised upwards by \$55 million in 2006-07 and is projected to increase over the forward estimates period by an average of \$46 million a year. The upward revision to the estimates primarily reflects:

- growth in hospital own-source revenue, consistent with higher than expected income received in 2005-06;

- growth in TAFE own-source revenue reflecting higher volumes of international students consistent with higher than expected income received in 2005-06; and
- an increase in other income in 2006-07, and over the forward estimates period, associated with funding from various sources, including the Murray Darling Basin Commission for the Goulburn System Strategic Measurement project and the New South Wales and South Australian Governments for the Living Murray Initiative.

Administrative variations have resulted in a downward revision of \$34.1 million in 2006-07, and on average a year-on-year reduction of \$75.4 million. This reflects the impact of variations including:

- a downward revision to estimates of the Development Contribution Levy which have been revised consistent with the timing and scope of infrastructure projects contained within the Initial State Development Contribution Plans;
- a downward revision to the estimates relating to the establishment of VicForests and appropriate treatment of forestry revenues which are now recognised in the VicForests public non-financial corporation entity; and
- offset by an increase in income arising from the liquidation and return of capital to the State from Tri-Continental Holdings Limited, which was the merchant banking arm of the former State Bank of Victoria. Liquidation is scheduled to be completed in 2006-07.

Variations to expenses from transactions

When compared to the 2006-07 Budget estimates, total expenses from transactions are expected to be \$241.4 million higher in 2006-07 and \$100.7 million higher on average a year over the remainder of the forward estimates period.

New output policy decisions taken since the 2006-07 Budget account for additional expenses of \$121.5 million in 2006-07 (with the impact on operating expenses in this year offset by forward estimates contingency funding) and \$97.3 million a year on average over the forward estimates period.

Details of specific policy decisions since the 2006-07 Budget are summarised in Appendix A, *Specific Policy Decisions Affecting the Budget Position*.

Changes to Commonwealth grant funding are projected to increase expenditure in 2006-07 by \$67.2 million, reflecting the on-passing of additional Commonwealth specific purpose grants, as well as an increase in transfer payments to the public non-financial corporations and public financial corporations sectors in relation to a number of new State Government drought and water-related initiatives.

Expenditure associated with the increase in own-source revenue described earlier is projected to be \$63.7 million higher in 2006-07 and an average of \$51.2 million a year higher over the remaining forward estimates period.

Administrative variations are expected to decrease expenses by \$11.1 million in 2006-07, and are projected to be an average \$56.8 million lower a year over the forward estimates period. The major variations include:

- a downward revision to superannuation expense by \$36.5 million (or 2.2 per cent) in 2006-07, with an average projected downward revision of \$68.5 million a year over the forward estimates period. These adjustments are due to the results of the triennial actuarial review of the Emergency Services Superannuation Scheme which was conducted as at 30 June 2006. As a result of this review, a number of assumptions used to calculate the superannuation expense were changed to reflect recent experience and the economic outlook. In particular, the annual expected investment return on assets was increased (by 0.5 percentage points), allowance was made for improvements in mortality and the rates at which members leave the scheme were revised;
- a reduction in the contingency provision in 2006-07 to fund new output decisions since the 2006-07 Budget;
- a net increase in operating expenses on average over the forward years of \$44 million, reflecting required changes in accounting policy treatment for finance lease arrangements that were adopted in the *2005-06 Financial Report for the State of Victoria*;
- an increase in operating expenses of \$35 million in 2006-07 and increase in the forward period due to accounting policy related reclassifications of expenditure from capital to operating to better reflect the nature of bus, rail and roads projects; and
- the bring forward of \$59.3 million of roads related expenditure to 2006-07 from 2008-09 and 2009-10, reflecting updated forecasts for road projects milestones, including the project's operating expenditure profile.

SUMMARY STATEMENT OF FINANCIAL POSITION

Table 2.4 provides a summary of the general government sector balance sheet. A more detailed balance sheet is provided in Chapter 4, *Estimated Financial Statements and Notes*.

Table 2.4 General Government sector summary balance sheet as at 30 June ^{(a)(b)}

	(\$ million)				
	2006	2007	2008	2009	2010
	Actual ^(c)	Revised	Estimate	Estimate	Estimate
Assets					
Capital stock ^(d)	56 350.6	60 419.8	64 720.0	69 684.3	74 767.5
Financial assets ^(e)	5 462.9	4 893.7	4 876.2	4 499.5	4 050.6
Other assets	2 565.9	2 606.5	2 763.8	2 949.6	3 041.1
Total assets	64 379.4	67 920.0	72 360.0	77 133.4	81 859.1
Liabilities					
Superannuation	12 896.5	13 276.7	13 420.9	13 502.8	13 472.3
Borrowings	6 180.4	6 826.7	8 369.7	9 708.7	10 543.5
Other liabilities	7 777.4	7 887.5	8 137.6	8 325.9	8 462.7
Total liabilities	26 854.3	27 991.0	29 928.3	31 537.5	32 478.6
Net assets	37 525.1	39 929.0	42 431.7	45 595.9	49 380.6

Source: Department of Treasury and Finance

Notes:

- (a) Table may not add due to rounding.
- (b) This is an abbreviated balance sheet. The full balance sheet for the general government sector is reported in Chapter 4, *Estimated Financial Statements and Notes*.
- (c) As published in the 2005-06 Financial Report for the State of Victoria.
- (d) Capital stock includes land and buildings, plant and equipment, roads and earthworks, intangibles, cultural and other assets.
- (e) Financial assets include cash assets, investments, loans and placements.

General government sector net assets are expected to grow by 31.6 per cent from \$37 525.1 million as at 30 June 2006 to \$49 380.6 million at 30 June 2010. This growth reflects the projected increase in the value of capital stock over the forward estimates period associated with the purchase of property, plant and equipment to support the general government sector's infrastructure investment, as well as the projected upwards revaluations of non-current physical assets.

This increase is partly offset by growth in the value of the unfunded superannuation liability over the forward estimates period. The projected unfunded superannuation liability has increased since the 2006-07 Budget, primarily due to the results of the triennial actuarial review of the Emergency Services Superannuation Scheme conducted as at 30 June 2006. As part of this review, a number of valuation assumptions were changed to reflect recent experience and the potential economic outlook. In particular, an allowance for improving mortality and fewer resignations increased the superannuation liability. However, the increase in the liability that resulted from the actuarial review was partially offset by an increase in the long term Commonwealth bond rate that underpins the discount rate used to value the superannuation liability. While having no impact on funding requirements, the discount rate used for the revised Budget estimates is higher than that used for the May 2006 Budget estimates, which reduced the reported superannuation liability.

Over the forward period borrowings (particularly the general government sector's non-current interest bearing liabilities) are projected to grow reflecting the growth in the general government sector's capital stock explained above. More commentary on the general government sector's projected net debt level is provided below.

CASH FLOWS

Table 2.5 provides a summary of cash generated through the operations of Victorian Government departments and other general government sector agencies, and how that cash is applied to infrastructure investment, and the impact on net debt.

Table 2.5 Application of cash resources ^(a)

	(\$ million)				
	2006-07 Budget ^(b)	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Net result from transactions	316.8	418.6	423.0	429.4	361.9
Add back: Non-cash income and expenses (net) ^(c)	2 060.6	1 897.9	1 684.2	1 382.8	1 566.7
Net cash flows from operating activities	2 377.4	2 316.5	2 107.2	1 812.2	1 928.7
Less:					
Net investment in fixed assets					
Expenditure on approved projects	3 294.1	3 278.6	3 356.7	2 572.9	1 766.9
Unallocated provision for future investment ^(d)	..	..	463.0	715.0	1 332.0
Meeting Our Transport Challenges Reserve to be allocated in future ^(e)	20.0	20.0	65.6	114.8	199.7
Proceeds from asset sales	(130.8)	(173.5)	(204.8)	(115.1)	(95.5)
Total net investment in fixed assets^(f)	3 183.3	3 125.1	3 680.5	3 287.5	3 203.1
Finance leases ^(g)	..	398.7	..	231.4	..
Other investment activities (net)	146.4	13.0	(0.8)	22.6	22.9
Decrease/(increase) in net debt	(952.3)	(1 220.4)	(1 572.5)	(1 729.3)	(1 297.3)

Source: Department of Treasury and Finance

Notes:

- (a) Table may not add due to rounding.
- (b) The balances shown do not reconcile directly to the cash flow statement as published in the 2006-07 Budget Papers in May 2006 due to the restatement of opening balances to reflect the actual balance as at 30 June 2006 and due to the accounting reclassification of inventory from supplies and services to purchases of non-financial assets consistent with the accounting treatment as published in the 2005-06 Financial Report for the State of Victoria.
- (c) Includes depreciation and non-cash movements in liabilities such as unfunded superannuation and employee benefits.
- (d) Amount available to be allocated to specific departments and projects in future budgets, including contributions to other sectors.
- (e) Reflects the unallocated balance of the Meeting Our Transport Challenges Reserve which was announced in the May 2006 Budget.
- (f) Includes purchases of property, plant and equipment plus contributions to other sectors less proceeds from asset sales.
- (g) Reflects the recognition of new finance lease arrangements which are being delivered under the Partnerships Victoria model, with an equivalent increase in fixed assets following their expected completion and handover. Projects include Southern Cross Station in 2006-07 and the Royal Women's Hospital in 2008-09.

Table 2.5 shows an expected net result from transactions for 2006-07 of \$418.6 million and averaging \$404.8 million over the remainder of the forward estimates period. Adjusting for a number of expense and income items that do not require or provide cash resources during the year (principally depreciation, but also including growth in unfunded superannuation liabilities and employee benefit liabilities) yields a projected net cash inflow from operating activities for 2006-07 of \$2 316.5 million, and an average of \$1 949.4 million a year for the remaining period.

Total net investment in fixed assets (which includes total purchases of property, plant and equipment, capital contributions to other sectors of government and net proceeds from sale of assets) is projected to peak in 2007-08 before stabilising over the remainder of the forward estimates period. This profile reflects the scheduled completion of major capital projects, including:

- expected projected completion of several road programs such as the Geelong Bypass, Calder Highway and Deer-Park Bypass;
- the scheduled completion and transfer of projects being undertaken by the public non-financial corporation sector such as New Ticketing Solution.

Projected infrastructure spending from 2007-08 includes an unallocated capital provision that will be used to fund new projects in future budgets. This is in accordance with existing budget practice to ensure realistic forward projections of asset investment.

NET DEBT AND NET FINANCIAL LIABILITIES

The key measures of financial position are the GFS measures of net debt and net financial liabilities. The international credit rating agencies focus on both net debt and net financial liabilities of the general government sector as measures of overall indebtedness. Table 2.6 highlights these key measures for the general government sector.

Table 2.6 General government sector net debt and net financial liabilities as at 30 June ^{(a)(b)}

	(\$ million)				
	2006 Actual ^(c)	2007 Revised	2008 Estimate	2009 Estimate	2010 Estimate
Financial assets					
Cash and deposits	2 698.2	2 518.4	2 517.8	2 506.2	2 499.3
Advances paid	69.9	69.3	68.7	68.0	67.4
Investments, loans and placements	2 162.1	1 767.8	1 745.8	1 375.7	928.7
Total financial assets	4 930.2	4 355.5	4 332.3	3 950.0	3 495.4
Financial liabilities					
Deposits held	519.8	519.1	525.5	533.5	541.4
Advances received and borrowings	6 179.5	6 825.9	8 368.9	9 707.9	10 542.6
Total financial liabilities	6 699.4	7 345.0	8 894.3	10 241.3	11 084.0
Net debt ^(d)	1 769.1	2 989.5	4 562.0	6 291.3	7 588.7
Unfunded superannuation	12 896.5	13 276.7	13 420.9	13 502.8	13 472.3
Net financial liabilities	14 665.6	16 266.2	17 983.0	19 794.1	21 061.0
	(per cent)				
General government net debt to GSP	0.8	1.2	1.8	2.3	2.7
General government net financial liabilities to GSP	6.3	6.7	7.0	7.4	7.5

Source: Department of Treasury and Finance

Notes:

- (a) Table may not add due to rounding.
- (b) General government net financial liabilities are calculated as the sum of net debt and unfunded superannuation liabilities.
- (c) As published in the 2005-06 Financial Report for the State of Victoria.
- (d) Net debt is calculated as gross debt less liquid financial assets.

Net debt, which is a measure used to assess general government indebtedness, is determined by deducting liquid financial assets from gross debt. Net debt is a widely-recognised measure of the strength of a government's financial position. High levels of net debt impose a call on future revenue flows to service that debt.

As Table 2.6 shows, net debt is projected to increase from \$1 769.1 million (or 0.8 per cent of GSP) as at 30 June 2006 to \$7 588.7 million (or 2.7 per cent of GSP) at 30 June 2010. This is mainly due to the size of the projected infrastructure investment program over the forward period. Of the \$5 820 million increase in net debt from 30 June 2006, \$1 435 million will be funded by a reduction in financial assets accumulated from prior years' strong operating surpluses. The balance will be funded by additional borrowings.

Net financial liabilities, which is calculated as the sum of net debt and unfunded superannuation liabilities, is a broader measure of the general government sector's overall indebtedness and is important in gauging the strength of a government's fiscal position. This measure is commonly used by international credit ratings agencies as it targets the significant financial assets and liabilities held by most governments.

As Table 2.6 shows, net financial liabilities are projected to increase from \$14 665.6 million (or 6.3 per cent of GSP) as at 30 June 2006 to \$21 061.0 million (or 7.5 per cent of GSP) at 30 June 2010. The increase is driven by the increase in the unfunded superannuation liability and growth in net debt (as explained earlier).

CHAPTER 3: STATEMENT OF RISKS

- The budget projections are sensitive to a number of upside and downside risks (both economic and fiscal) and contingent assets and liabilities.
- Major risks to the Victorian economic projections include the intensifying drought conditions and possible wage and inflationary pressures resulting in further interest rate rises.
- Contingency provisions within the budget estimates provide general protection against fiscal risks, including increased demand for government services.
- A number of contingent assets and liabilities have been identified, particularly relating to the public transport rail agreements.

ECONOMIC RISKS

The main risks to the Victorian economic projections stem from the intensifying drought conditions and possible wage and inflationary pressures resulting in further interest rate rises. Any major disruption to world economic growth would also impact on the national and Victorian economy.

As discussed in Chapter 1, *Economic Conditions and Outlook*, drought conditions are likely to result in significantly lower output in the agricultural sector. To gauge the extent of the potential risk to the gross state product (GSP) forecasts, Department of Treasury and Finance modelling, using Australian Bureau of Agricultural and Resource Economics (ABARE) forecasts and experience from past droughts, estimates that widespread drought conditions, relative to normal seasonal conditions, could result in a reduction in Victorian GSP growth of between 0.5 and 1.0 percentage points. A substantial allowance for the impact of the drought has been incorporated into the GSP forecasts.

Inflation risks, on balance, appear to be on the upside. Although oil prices have eased more recently, the potential for another surge in oil prices is linked to uncertainty regarding oil supply and geopolitical concerns. There is also evidence of heightened input cost pressures, consistent with an economy operating near full capacity and with an historically tight labour market. Higher inflation carries with it the risk of higher interest rates, which could place pressure on the growth forecasts. As at early November, financial markets had almost fully priced in another rise in the official cash rate by the end of the year.

The main downside risk to the global outlook stems from a significant contraction in the US housing market. However, the world economy may continue to surprise on the upside, especially with growth becoming more broadly based. Other upside risks to the Victorian and national economic outlook include supportive fiscal policy, the strong labour market conditions and the positive effects from a potential depreciation of the Australian dollar.

Sensitivity analysis

The sensitivity analysis quantifies the impact on revenue, expenses and the net result from transactions associated with variations to forecasts or projections of selected economic and financial variables. The major variables that affect Victoria's net result from transactions are economic growth, employment, prices, wages, interest rates, share prices, property prices and property transaction levels.

To assess sensitivity to change, the level of the economic variable in each case is permanently increased by one percentage point for one year, and then allowed to grow at the previously forecast rate. It is assumed during the analysis of each variable that all other variables follow their forecast growth. As such, the analysis captures the effect on the net result from transactions of changing one variable only, and does not attempt to capture the linkages with other variables in the economy.

Table 3.1: Impact on the general government net result from transactions of a one percentage point increase in selected economic indicators in 2006-07 ^{(a)(b)}

	(\$ million)			
	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
GSP				
Taxes, regulatory fees and fines ^(c)	41	42	45	47
Other income ^(d)	105	120	133	143
Superannuation expenses	..	..	..	..
Other expenses	..	..	1	2
Net result from transactions	147	162	176	187
Superannuation - actuarial gains (losses)	..	..	..	..
Net result	147	162	176	187
Employment				
Taxes, regulatory fees and fines	34	35	36	38
Other income ^(d)	1	3	5	7
Superannuation expenses	..	..	..	..
Other expenses	..	..	..	..
Net result from transactions	35	38	41	45
Superannuation - actuarial gains (losses)	..	..	..	..
Net result	35	38	41	45
Consumer prices				
Taxes, regulatory fees and fines ^(c)	51	53	55	57
Other income ^(d)	173	187	192	195
Superannuation expenses	..	6	7	7
Other expenses	40	193	199	203
Net result from transactions	184	40	41	42

Table 3.1: Impact on the general government net result from transactions of a one percentage point increase in selected economic indicators in 2006-07^{(a)(b)}
(continued)

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
	Estimate	Estimate	Estimate	Estimate
Superannuation - actuarial gains (losses)	-106	..	..	..
Net result	78	40	41	42
Average weekly earnings^(e)				
Taxes, regulatory fees and fines	34	35	36	38
Other income ^(d)	-13	-12	3	5
Superannuation expenses	..	17	18	19
Other expenses	..	..	..	..
Net result from transactions	21	6	22	25
Superannuation - actuarial gains (losses)	-179	..	..	..
Net result	-158	6	22	25
Domestic share prices				
Taxes, regulatory fees and fines	..	..	..	..
Other income ^(d)	5	5	..	..
Superannuation expenses	..	-4	-4	-5
Other expenses	..	..	..	..
Net result from transactions	5	9	5	5
Superannuation - actuarial gains (losses)	59	..	..	..
Net result	63	9	5	5
Overseas share prices				
Taxes, regulatory fees and fines	..	..	..	..
Other income ^(d)	4	4	..	..
Superannuation expenses	..	-3	-3	-4
Other expenses	..	..	..	..
Net result from transactions	4	7	4	4
Superannuation - actuarial gains (losses)	47	..	..	..
Net result	51	7	4	4
Property prices				
Taxes, regulatory fees and fines	37	38	53	53
Other income ^(d)	2	4	6	9
Superannuation expenses	..	-1	-1	-1
Other expenses	..	..	..	..
Net result from transactions	40	43	59	63
Superannuation - actuarial gains (losses)	10	..	..	..
Net result	50	43	59	63
Property transaction volumes				
Taxes, regulatory fees and fines	27	27	27	28
Other income ^(d)	2	3	4	5
Superannuation expenses	..	..	..	..
Other expenses	..	..	..	..
Net result from transactions	29	30	31	33
Superannuation - actuarial gains (losses)	..	..	..	..
Net result	29	30	31	33

Table 3.1: Impact on the general government net result from transactions of a one percentage point increase in selected economic indicators in 2006-07 ^{(a)(b)}
(continued)

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
	Estimate	Estimate	Estimate	Estimate
Interest rates ^(f)				
Taxes, regulatory fees and fines	..	..	..	..
Other income ^(d)	77	80	41	43
Superannuation expenses	-8	2	8	16
Other expenses	1	5	9	13
Net result from transactions	84	73	25	13
Superannuation - actuarial gains (losses)	3 234	..	..	..
Net result	3 318	73	25	13

Source: Department of Treasury and Finance

Notes:

- (a) A positive number for taxes, regulatory fees and fines, and other income denotes an increase in revenue. A positive number for superannuation expenses and other expenses denotes an increase in expenses (and hence a reduction in the net result from transactions and net result). A positive number for the net result from transactions and net result denotes an improvement. Numbers may not balance due to rounding.
- (b) An equivalent one percentage point decrease in each indicator would have an opposite impact to that shown.
- (c) The increase in the estimated impact of gross state product and consumer prices on the net result and net result from transactions, relative to that published in the 2006-07 Budget, reflects a revision to the assumed sensitivity of other taxation revenue.
- (d) Other income includes general and specific purpose grants, including grants for on passing, as well as changes in dividends and income tax equivalent payments from public authorities. Dividends and income tax equivalent payments are based on an estimated dividend payout ratio. However, dividends paid by government business enterprises are determined by the Treasurer having regard to relevant commercial considerations, including reported profit/loss, operating cash flow, gearing and interest cover, capital requirements and the views of the Board and the portfolio Minister. Therefore, the actual impact on this revenue source is dependent on the current circumstances of the relevant public authority.
- (e) Following the implementation of the departmental funding model, employee entitlements, included as part of other expenses, are now sensitive to changes in prices, whereas in previous years these impacts would have been identified under average weekly earnings.
- (f) Assumes a one percentage point increase across the entire term structure, i.e. short and long rates, over the entire forward estimates period.

The sensitivity analysis in Table 3.1 presents the sensitivity of both the net result from transactions and the net result to selected economic and financial indicators.

Sensitivity to economic growth

An increase in GSP would increase household consumption, leading to higher GST grant revenue and taxation revenue which would increase both the net result from transactions and the net result.

Sensitivity to employment

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

Sensitivity to prices

Increased consumer prices would lead to higher Commonwealth-sourced revenue (due to indexation), as well as higher GST and taxation revenue as the value of tax bases rises in nominal terms. However, the higher revenue is partly offset by the higher cost of supplies and services, and some increases in outlays on grants and transfers. In accordance with the departmental funding model, while higher prices would have no impact in the budget year, they could flow through into increased output funding for departmental expenses in the forward years. Overall, there is a positive impact on the net result from transactions.

The increase in consumer prices would also result in an immediate actuarial-based increase in superannuation liabilities negatively impacting the net result. In subsequent years, the now higher superannuation liabilities result in a slightly higher superannuation expense which reduces the net result from transactions.

Sensitivity to wages

A rise in the level of economy wide wages would result in higher payroll tax revenue although this is partially offset by a reduction in TAC dividends.

The increased wages would increase the value of superannuation fund lump-sum liabilities and result in a reduction in the net result for the budget year. The higher superannuation fund liabilities would flow through into an increase in the superannuation expense in the remaining out years. The overall impact would be to increase the net result from transactions and net result from 2007-08 onwards.

Sensitivity to domestic and overseas share prices

The State's public financial corporations (PFCs) and superannuation funds have holdings of domestic and international shares as part of their respective investment portfolios. Increased domestic and international share prices thus raise the profits of the PFCs and reduce the valuation of the unfunded superannuation liability.

The net result from transactions responds positively to increases in share prices as PFC dividends rise with profits, with later year positive impacts reflecting the reduced valuation of unfunded superannuation liabilities on future superannuation expenses.

Sensitivity to property prices

Increased property prices have an immediate impact on the net result from transactions through increased collections of conveyancing duty. At the same time, the valuation of the unfunded superannuation liability is reduced (due to the increased value of holdings of property in the investment portfolio of superannuation funds) which also increases the net result. In later years the increase in property prices continues to be reflected in higher conveyancing duty and land tax while the previous reduction in the unfunded superannuation liability reduces ongoing superannuation expenses.

Sensitivity to property transaction volumes

An increase in property transaction volumes would increase conveyancing duty revenue leading to a rise in the net result from transactions and net result.

Sensitivity to interest rates

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

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

At the same time, the increase in interest rates reduces the valuation of superannuation fund liabilities. In terms of ongoing superannuation expenses, the impact of a reduction in the unfunded liability is slightly more than offset by an increase in the annual interest expense on the unfunded liability going forward – leading to an increase in annual superannuation expenses. The resulting rise in both the net result from transactions and the net result is minimal by the end of the forward estimates.

FISCAL RISKS

Expenditure Risks

With the introduction of the departmental funding model from 2004-05, departments need to plan for, and manage, all costs associated with delivering services. Under the model, variations to previous budget CPI forecast growth rates applied to output prices for the coming budget and forward estimates years are to be determined in the

context of the next annual Budget. There are several general risks such as unforeseen changes in the size and structure of the Victorian population, which can affect the expenditure and revenue outlook. These risks can be classified into those affecting all government departments and those that are department specific.

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

The 2006-07 revised estimates and forward estimates include a contingency provision to allow for the likelihood that some of these department-specific and government-wide expenditure risks will be realised during the remainder of the budget year or over the course of the forward years. The contingency provision includes a general allowance for:

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

In addition, the budget estimates include a contingency from 2007-08 that acknowledges funding for a number of existing decisions which will conclude in 2006-07 or the following years. A provision is made on the basis that Government may endorse a number of these decisions to continue or be replaced to meet service delivery priorities.

The inclusion of an operating contingency provision in the budget estimates mitigates the potential impact of expenditure risks on the overall budget position. Realised expenditure risks will only impact on total expenditure and the annual budget position to the extent that they cannot be accommodated within the contingency provision built into the budget estimates. The aggregate level of the operating contingency provisions contained within the budget estimates is shown in Note 10 of the Estimated Financial Statements (see Chapter 4, *Estimated Financial Statements and Notes*).

The budget estimates also include an unallocated capital provision to provide capacity for future asset investment requirements. With a capital program the size of that funded by the Government, there are always likely to be variations in actual costs (compared to budget) for individual asset investment projects. However, the

forward estimates assume that capital cost pressures are managed within the existing forward estimates. Management of capital cost pressures may occur in one of three ways:

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

The aggregate level of the unallocated capital contingency provisions contained within the budget estimates, including purchases of property, plant and equipment and contributions to other sectors, is shown in Table 2.5, Application of Cash Resources, in Chapter 2, *Budget Position and Outlook*.

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

Insurance exposures

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

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

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

Air Ambulance and Victoria Police air wing co-location

The Government has commenced negotiations with Essendon Fields Pty Ltd to lease a section of land at Essendon Airport to continue to locate both the Victoria Police and Air Ambulance Victoria air wings within the airport. Once the lease has been finalised, the Government will need to construct facilities for the accommodation of the air wings. As the current accommodation leases expire during 2007 and 2008, the facilities will need to be constructed at separate times. Funding has been provided in 2006-07 for the Victoria Police and ambulance rotary wing, with further funding for the Air Ambulance Victoria fixed wing to be considered in 2007-08.

Port Phillip Prison

In line with the existing contract, the government is currently undertaking a review of the Prison Services Agreement for Port Phillip Prison. This review is expected to be finalised in 2007. The forward estimates reflect existing contractual arrangements.

Traffic Camera and Infringement Processing Contract

The current Traffic Camera and Infringement Processing Contract is due to expire in late 2007. The forward estimates reflect existing contractual arrangements.

Transfer of Social Housing Units in the Commonwealth Games Village to Housing Associations

Subject to a successful tender process, the Government expects to transfer the social housing units at the Commonwealth Games Village to the successful Housing Association(s) progressively as the units become available for occupation.

United States study centre

The Prime Minister announced in May 2006 that the Commonwealth Government would provide \$25 million towards the establishment of a United States Study Centre. The Victorian Government is committing \$10 million in partnership with the University of Melbourne and other participants toward a bid to host the United States Study Centre. If the bid is successful then the Victorian Government will realise expenditure of \$10 million.

COAG National Reform Agenda

Over the next six months the Commonwealth and State and Territory Governments will be considering specific reform proposals to increase productivity and participation. The details of these proposals are still being developed. The funding required for these proposals will not be known until the proposals are fully developed and funding arrangements with the Commonwealth are agreed.

Changes to Exceptional Circumstances Declared Areas and Eligibility Criteria

The Commonwealth Government recently announced changes to the Exceptional Circumstances eligibility criteria, including an extension of income and business support and interest rate subsidies, and funding will be required to meet Victoria's contribution to this scheme. Any further changes to eligibility criteria or an increase in the number of Exceptional Circumstance declared areas in Victoria would impact on Victoria's position. No allowances have been made in the forward estimates for any further possible changes to Commonwealth Government Exceptional Circumstances declared areas.

Country Rail Network – Primary Infrastructure Lease

In October 2006, the Government entered into a non-binding agreement with Toll Holdings to re-acquire Pacific National's below-rail interests in Victoria (and southern NSW connected to the Victorian broad gauge network), as well as all associated assets (including train control and safety systems), and the transfer of all employees.

Toll Holdings Ltd has agreed to the terms on which it will sell the remainder of the Pacific National's 45 year lease over Victoria's intrastate rail network, first entered into in 1999. The non-binding agreement, which is at the discretion of the new Government to execute, provides for a purchase price of \$133.8 million (with adjustments to be made following completion of due diligence), including the settlement of minor outstanding claims.

In the event of future State control, the Government would be responsible for the maintenance and operation of the country rail network, the cost of which will be partly offset by track access revenues from third party rail operators. The State will also need to meet the costs associated with transition of the business to State control.

Revenue Risks

Commonwealth grants

Commonwealth grants are a major source of revenue for the Victorian Government, with an estimated grants income of approximately \$15 billion in 2006-07. Commonwealth grants include general purpose grants (GST grants) and specific purpose payments (SPPs).

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

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

The Commonwealth grants estimates in this *Pre-Election Budget Update* (GST grants and SPPs) are based on data published in the Commonwealth's 2006-07 Budget, released on 9 May 2006, plus variations since Budget time based on Commonwealth Government advice. The GST estimates are based on the Commonwealth's latest forecasts for Australia-wide economic activity, as published in the 2006-07 Commonwealth Budget. Any changes to economic conditions over the forward estimates period will have a direct impact on the amount of GST revenue to be distributed among the States.

There is a potential upside risk to the GST forecasts reflecting a possible upward shift in the GST base as a result of the higher GST pool outcome for 2005-06 published by the Commonwealth, and expected higher inflation in 2006-07. These factors could result in an increase in GST revenue over the *Pre-Election Budget Update* estimate of around \$90 million in 2006-07 and an average of around \$100 million for each of the forward years.

Lotteries licence

The Government is currently undertaking a licensing process for the next public lotteries licence(s) to apply in Victoria. An announcement in relation to the next public lotteries licence or licences is expected to be made in early 2007. While the budget estimates have been based on historical lotteries sales growth, no assumptions have been made concerning possible changes to future licensing structures.

CONTINGENT ASSETS AND LIABILITIES

Contingent Assets

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

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

Quantifiable contingent assets

Table 3.2: Quantifiable contingent assets as at 30 June

	(\$ million)	
	2005	2006 ^(a)
Guarantees, indemnities	1.4	..
Potential early termination of contractual arrangements ^(b)	100.0	100.0
Legal proceedings and disputes	1.4	1.0
Other ^(c)	134.2	107.7
Total contingent assets	237.0	208.7

Source: Department of Treasury and Finance

Notes:

- (a) There have been no material changes to quantifiable contingent assets since last reported in the 2005-06 Financial Report for the State of Victoria.
- (b) Included under 'potential early termination of contractual arrangements' are any additional costs arising to the Director of Public Transport on early termination of the public transport partnership agreements. The operator must, to the extent of the performance bonds, indemnify the Director for any losses, damages or costs incurred by him as a result of early termination. If the operator does not do so, the Director has the right to draw on the operator's performance bonds for the amount of losses, damages or costs. The nominal value of these bonds is \$100 million.
- (c) 'Other' includes the EastLink project of \$92 million. The remaining amounts in 'Other' relate to smaller individual contingencies.

EastLink

On 14 October 2004, the State entered into a concession deed with ConnectEast to design, construct, finance and operate EastLink. Various performance bonds provided under the concession deed can be drawn by the State in circumstances where the concessionaire (ConnectEast) or one of its contractors fails to meet its obligations. These bonds include a construction bond (\$87 million) and an operation phase bond (\$5 million). In the event of certain default events, there is potential for the \$5 million to increase to \$20 million.

Non-quantifiable contingent assets

Public transport partnership agreements

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

CityLink compensable enhancement claims

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

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

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

EastLink

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

Contingent liabilities

A contingent liability is:

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

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

Quantifiable contingent liabilities

Table 3.3: Quantifiable contingent liabilities as at 30 June

	(\$ million)	
	2005	2006 ^(a)
Guarantees, indemnities	400.6	404.0
Potential early termination of contractual arrangements ^(b)	633.7	579.5
Legal proceedings and disputes	281.7	233.2
Other	28.6	43.9
Non-general government debt ^(c)	3 115.2	3 310.7
Total contingent liabilities	4 459.8	4 571.3

Source: Department of Treasury and Finance

Notes:

- (a) There have been no material changes to quantifiable contingent liabilities since last reported in the 2005-06 Financial Report for the State of Victoria.
- (b) Under 'potential early termination of contractual arrangements' is a contractual agreement of \$579.5 million (\$633.7 million for 2005) relating to the cost of correctional services beyond the current contract period. The State has the option to re-tender for the provision of correctional services every three years, after the initial five year period for each contract.
- (c) Represents guarantees for loans made by the general government sector to agencies in the public non-financial corporations sector, primarily the water entities and other non-general government sector entities.

Non-quantifiable contingent liabilities

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

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

Asset sales

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

Royal Melbourne Showgrounds

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

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

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

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

The State has also entered into an agreement (State Support Deed – Non-Core Land) with Showgrounds Retail Developments Pty Ltd whereby the State agrees to support certain payment obligations of the Royal Agricultural Society of Victoria Limited that may arise under the agreement.

Public transport rail partnership agreements

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

Contingent liabilities arising during the agreement period

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

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

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

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

The revenue guarantee payment will be based on the prior period's farebox including an estimate for patronage growth and inflation. Under the above arrangement, the Director is liable for the difference between actual farebox received and the guaranteed revenue amount.

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

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

Connex and Mainco indemnity

The Department has indemnified Connex and Mainco (including agents and contractors) against any loss caused by Regional Rail Link while undertaking Regional Fast Rail within the Connex network.

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

Contingent liabilities on early termination or expiry of franchise agreement

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

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

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

Contingent liabilities arising from potential changes to existing conditions

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

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

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

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

National Express receivership

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

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

Country Train Safety System

Country Train Safety System is the project under which the Train Protection and Warning System is being installed. The Director of Public Transport undertakes to reimburse Pacific National (Victoria) Limited (previously Freight Victoria Limited) for reasonable costs and expenses related to the installation, testing and rectification and repair of the Train Protection Warning System and will indemnify Pacific National (Victoria) Limited for any loss, or cost, or liability it suffers arising from the Director's installation.

Melbourne CityLink

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

EastLink

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

Native Title

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

HIH Insurance

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

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

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

Land remediation – environmental concerns

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

Victorian Managed Insurance Authority – property and public liability

The VMIA was established in 1996 as a captive insurer for departments and participating bodies, predominantly in the 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 reinsures 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. \$1 500 million for property and \$750 million for public liability). The risk of losses above these reinsured levels and below \$50 million is borne by the State.

Victorian Managed Insurance Authority – public healthcare insurances

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

Gambling licences

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

The gambling licences are currently under review and a public submission and consultation process is being conducted for the review of the electronic gaming machine, Club Keno and wagering licences and funding arrangements for the racing industry post 2012. In July 2004 the Government indicated an announcement on the post 2012 licence structures, funding arrangements and the timing and approach to the awarding of licences will be made in 2007.

Builders' warranty

The builders' warranty insurance market, like other insurance markets, was affected by the events of 11 September 2001 and adverse claims experience. In mid April 2002, the State agreed to provide temporary reinsurance support to builders' warranty insurance provider Dexta Corporation, following the withdrawal of some of its commercial reinsurance support. The State received reinsurance premiums for this participation and is required to contribute to payment of reinsured claims, as well as paying management fees. The precise timing and value of claims-related payments is uncertain, as claims may be made by home owners for up to six and a half years after the arrangement ceased.

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, along with the commercial re-insurers who are party to the agreement, to at least break even on these arrangements, the State retains a non-quantifiable contingent liability that claims may exceed the central estimate.

On 13 March 2002, Victoria and New South Wales jointly announced a series of reforms to builders' warranty insurance arrangements, which included a commitment to provide a catastrophe fund capable of supporting claims above \$10 million. To meet this commitment, the two States (and from 31 December 2004, South Australia) offered reinsurance arrangements to all builders' warranty insurers covering claims in respect of any one builder exceeding \$10 million. The arrangements require the insurer to pay reinsurance premiums to the three States that are estimated to be sufficient for the States to at least break even. However, while no such claims have been recorded, the State retains a non-quantifiable contingent liability.

CHAPTER 4: ESTIMATED FINANCIAL STATEMENTS AND NOTES

INTRODUCTION

This chapter provides the formal accounting statements that were summarised in Chapter 2, *Budget Position and Outlook*, and are required to be presented in a *Pre-Election Budget Update* by the *Financial Management Act 1994*.

The prospective nature of these statements reflect a number of professional judgements about the most likely operating and financial conditions for the Victorian general government sector. Variations in these assumed conditions, such as international developments and other risks to the national economy, from which Victoria would not be immune, may cause the general government actual result to differ from the projections.

The statements have been prepared in accordance with applicable pronouncements and interpretations of the Australian Accounting Standards Board (AASB), including the Australian equivalents to International Financial Reporting Standards (A-IFRS). However, because there is no specific Australian accounting standard or other authoritative pronouncement that prescribes the preparation and presentation of prospective financial statements, the Estimated Financial Statements have been prepared consistent with New Zealand Financial Reporting Standard *Prospective Financial Information* (FRS 42), and presented with a format that complies with AASB 101 *Presentation of Financial Statements*.

The accompanying notes to the estimated financial statements provide details of the 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 4.1: Estimated operating statement for the period ended 30 June

(\$ million)						
Notes	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate	
Income from transactions						
Taxation	2	10 971.0	11 201.8	11 391.5	11 806.7	12 253.7
Fines and regulatory fees		832.4	824.0	830.9	836.1	841.5
Dividends and income tax equivalent and rate equivalent revenue	3	958.1	945.4	784.6	742.9	863.1
Interest		293.1	314.6	309.9	304.0	291.9
Grants	4	15 077.9	15 160.3	15 987.2	16 449.4	16 936.2
Sale of goods and services		2 552.4	2 532.2	2 570.3	2 635.2	2 640.3
Fair value of assets received free of charge or for nominal consideration		..	..	..	181.0	..
Other income	5	1 757.2	1 807.0	1 842.2	1 827.6	1 799.0
Total income from transactions		32 442.1	32 785.2	33 716.5	34 783.0	35 625.8
Expenses from transactions						
Employee benefits		12 019.5	12 085.2	12 366.3	12 719.8	12 978.8
Superannuation	6(a)	1 710.4	1 673.9	1 684.8	1 719.5	1 751.8
Depreciation and amortisation	7	1 322.1	1 366.6	1 438.0	1 506.0	1 586.1
Finance costs	8	428.0	473.4	499.0	604.2	677.5
Grants and transfer payments	9	6 207.2	6 404.0	6 116.0	5 934.9	5 923.4
Supplies and services		10 437.7	10 363.2	11 188.9	11 868.7	12 345.7
Other expenses		0.5	0.5	0.5	0.5	0.5
Total expenses from transactions	10	32 125.3	32 366.7	33 293.5	34 353.7	35 263.8
Net result from transactions		316.8	418.6	423.0	429.4	361.9
Income/(expenses) from other economic flows						
Net gain/(loss) from disposal of physical assets		9.7	34.3	5.0	5.0	5.4
Actuarial gains/(losses) on superannuation defined benefit plans	6(a)	..	111.8	..	..	..
Net gains/(losses) on financial assets at fair value		0.1	0.1	0.1	0.1	0.1
Other gains/(losses) from other economic flows	11	(51.0)	(50.9)	(40.8)	(35.8)	(35.8)
Total other economic flows		(41.2)	95.3	(35.7)	(30.7)	(30.3)
Net result		275.6	513.9	387.4	398.7	331.6

The accompanying notes form part of these Estimated Financial Statements.

Table 4.2: Estimated balance sheet as at 30 June

(\$ million)						
	Notes	2007 Budget ^(a)	2007 Revised	2008 Estimate	2009 Estimate	2010 Estimate
Current assets						
Cash and cash equivalents	16(a)	2 534.2	2 518.4	2 517.8	2 506.2	2 499.3
Receivables		1 935.0	1 981.1	2 218.1	2 458.2	2 572.5
Prepayments		103.1	103.1	103.3	103.5	103.7
Inventories		137.8	137.6	139.2	140.7	142.3
Other financial assets		1 290.6	1 288.7	1 249.2	860.1	394.0
		6 000.7	6 028.8	6 227.6	6 068.8	5 711.9
Non-current assets classified as held for sale		59.2	59.2	59.2	59.2	59.2
Total current assets		6 059.9	6 088.0	6 286.8	6 128.1	5 771.1
Non-current assets						
Receivables		252.9	325.5	244.1	187.9	163.3
Investments accounted for using the equity method		607.6	607.6	612.6	617.6	622.6
Other financial assets		479.1	479.1	496.5	515.6	534.7
Property, plant and equipment	12, 13	59 668.6	60 033.5	64 389.8	69 353.1	74 445.9
Intangibles		159.4	176.5	163.4	164.0	146.0
Other assets	14	209.8	209.8	166.7	167.2	175.6
Total non-current assets		61 377.4	61 831.9	66 073.1	71 005.3	76 088.0
Total assets		67 437.3	67 920.0	72 360.0	77 133.4	81 859.1
Current liabilities						
Payables		2 427.6	2 310.8	2 348.3	2 386.4	2 424.5
Interest-bearing liabilities		191.5	160.2	152.5	148.1	132.6
Employee benefits	15	2 746.9	2 745.8	2 791.5	2 836.6	2 881.7
Superannuation	6(d)	510.1	335.1	417.1	535.1	639.3
Other provisions		110.4	110.4	74.8	47.1	19.4
Other liabilities		419.1	499.1	614.4	695.5	732.0
Total current liabilities		6 405.5	6 161.3	6 398.6	6 648.8	6 829.5
Non-current liabilities						
Payables		531.6	529.3	528.9	513.0	468.0
Interest-bearing liabilities		6 251.7	6 666.5	8 217.2	9 560.6	10 410.8
Employee benefits	15	848.1	849.1	928.3	1 007.9	1 088.6
Superannuation	6(d)	12 923.2	12 941.7	13 003.9	12 967.7	12 833.1
Other provisions		595.3	592.9	608.2	624.2	640.3
Other liabilities		244.3	250.2	243.2	215.2	208.2
Total non-current liabilities		21 394.1	21 829.7	23 529.7	24 888.7	25 649.0
Total liabilities		27 799.7	27 991.0	29 928.3	31 537.5	32 478.6
Net assets		39 637.6	39 929.0	42 431.7	45 595.9	49 380.6

The accompanying notes form part of these Estimated Financial Statements.

Note:

(a) 2006-07 Budget above and its accompanying notes are based on actual opening balances at 1 July 2006 plus 2006-07 budgeted movement.

Table 4.3: Estimated statement of recognised income and expense for the financial year ending 30 June

		(\$ million)				
	Notes	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Gain on revaluation of property plant and equipment	13	2 799.8	2 799.8	3 123.0	3 479.6	3 869.4
Net income recognised directly in equity		2 799.8	2 799.8	3 123.0	3 479.6	3 869.4
Net result for the period		275.6	513.9	387.4	398.7	331.6
Total recognised income and expense for the period		3 075.4	3 313.7	3 510.4	3 878.3	4 201.1

The accompanying note forms part of these Estimated Financial Statements.

Table 4.4: Estimated statement of cash flows for the year ending 30 June

		(\$ million)				
	Notes	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Cash flows from operating activities						
Receipts						
Taxation		11 176.8	11 326.8	11 475.8	11 861.6	12 277.0
Fines and regulatory fees		699.5	691.0	708.0	718.2	723.6
Grants		15 078.2	15 160.6	15 987.5	16 449.7	16 936.5
Sales of goods and services		2 540.5	2 527.1	2 559.7	2 629.2	2 634.0
Interest received		292.9	314.4	309.7	303.8	291.7
Dividends and income tax equivalent and rate equivalent revenue		965.0	951.1	773.2	729.6	879.2
Other receipts		1 709.1	1 801.2	1 802.5	1 731.2	1 775.6
Total receipts		32 462.0	32 772.3	33 616.4	34 423.4	35 517.6
Payments						
Employee benefits		(11 853.7)	(11 919.6)	(12 241.4)	(12 595.1)	(12 853.0)
Superannuation		(1 173.6)	(1 181.8)	(1 540.5)	(1 637.6)	(1 782.2)
Interest paid		(414.3)	(461.1)	(463.2)	(555.4)	(622.3)
Grants and transfer payments		(6 151.9)	(6 408.4)	(6 078.4)	(5 919.0)	(5 931.7)
Supplies and services ^(a)		(10 491.0)	(10 484.9)	(11 185.7)	(11 904.0)	(12 399.8)
Total payments		(30 084.5)	(30 455.8)	(31 509.1)	(32 611.2)	(33 589.0)
Net cash flows from operating activities	16 (b)	2 377.4	2 316.5	2 107.2	1 812.2	1 928.7
Cash flows from investing activities						
Purchases of non-financial assets ^(a)	17	(2 351.2)	(2 388.7)	(2 877.6)	(2 688.5)	(2 882.2)
Proceeds from sale of non-financial assets		130.8	173.5	204.8	115.1	95.5
Net disposal/(purchase) of investments		387.5	389.4	17.1	365.1	442.1
Net customer loans (granted)/repaid		0.6	0.6	0.6	0.7	0.7
Net contribution to other sectors of government ^(a)		(962.9)	(909.8)	(1 007.7)	(714.1)	(416.4)
Net cash flows from investing activities		(2 795.2)	(2 735.1)	(3 662.8)	(2 921.7)	(2 760.3)
Cash flows from financing activities						
Net borrowings		253.8	238.8	1 555.0	1 097.9	824.7
Net cash flows from financing activities		253.8	238.8	1 555.0	1 097.9	824.7
Net increase/(decrease) in cash and cash equivalents		(164.0)	(179.8)	(0.5)	(11.6)	(6.9)

Table 4.4: Estimated statement of cash flows for the year ending 30 June
(continued)

		(\$ million)				
	Notes	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Cash and cash equivalents at beginning of reporting period		2 695.0	2 695.0	2 515.1	2 514.6	2 503.0
Cash and cash equivalents at end of reporting period	16 (a)	2 531.0	2 515.1	2 514.6	2 503.0	2 496.1

The accompanying notes form part of these Estimated Financial Statements.

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

Cash surplus/(deficit)	157.1	101.2	(565.6)	(761.2)	(858.1)
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Note:

(a) *Reclassification to purchases of non financial assets from supplies and services (relates to inventories) and from net contribution to other sectors of government.*

NOTES TO THE ESTIMATED FINANCIAL STATEMENTS

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

Assumptions

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

Material economic and other assumptions ^(a)

	2006-07	2007-08	2008-09	2009-10
Gross state product	2.75	3.25	3.25	3.25
Employment	2.25	1.25	1.25	1.25
Consumer price index	3.25	2.50	2.50	2.50
Wage cost index ^(b)	3.75	3.50	3.50	3.50
Population ^(c)	1.10	1.10	1.10	1.10

Source: 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. Projections of population are rounded to the nearest 0.1 percentage point.
- (b) Total hourly rate excluding bonuses.
- (c) June quarter, per cent change on previous June quarter.

Note 1: Statement of significant accounting policies

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

(A) Statement of compliance framework

The Estimated Financial Statements have generally been prepared in accordance with Australian equivalents to International Financial Reporting Standards (A-IFRS), including those paragraphs applicable to not for profit entities. However, the prospective nature of the Estimated Financial Statements means that not all A-IFRS disclosures are relevant or practical and so have been omitted. Because A-IFRS do not include pronouncements that prescribe the preparation and presentation of prospective financial statements, the Estimated Financial Statements have been prepared consistent with New Zealand Financial Reporting Standard *Prospective Financial Statements* (FRS 42).

In addition to A-IFRS and FRS 42, these Estimated Financial Statements have been prepared in accordance with sections 23H to 23K of the *Financial Management Act 1994* (FMA), Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). The information presented in the Estimated Financial Statements takes into account government decisions and other circumstances that may have a material effect on the statements.

(B) Basis of accounting and measurement

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

The report has been prepared in accordance with the historical cost convention except for:

- non-current physical assets (excluding plant, equipment and vehicles, and certain infrastructure assets held by water and rail entities, which are valued at historical cost), which subsequent to acquisition are measured at valuation and are reassessed with sufficient regularity to ensure the carrying amount does not materially differ from their fair value;
- investments and productive trees in commercial native forests, which are recognised at their net market value;
- derivative financial instruments and interest bearing liabilities of the State, which are measured at fair value through profit and loss;
- available-for-sale investments, which are measured at fair value with movements reflected in equity until the asset is derecognised; and
- certain liabilities, most notably unfunded superannuation, workers' compensation and transport accident compensation, which are calculated with regard to actuarial assessments.

Cost is based on the fair values of the consideration given in exchange for assets.

(C) Reporting entity

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

The primary function of entities within the general government sector is to provide public services (outputs), which are mainly non-market in nature, for the collective consumption of the community, and involve the transfer or redistribution of income and are financed mainly through taxes and other compulsory levies.

(D) Basis of consolidation

The Estimated Financial Statements include all reporting entities in the Victorian general government sector. 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 operating statement, balance sheet and cash flows of the general government sector alone. All material inter-agency transactions and balances are eliminated in the Statements.

(E) Developments in financial reporting standards

The AASB has recently approved a new accounting standard AASB 1049 *Financial Reporting of General Government Sectors by Governments*, which applies to the general government sector (GGS) of government. The Standard will be applicable for annual reporting periods beginning on or after 1 July 2008, and requires compliance with other Australian accounting standards except as specifically required by the Standard. It also includes additional disclosure requirements.

The effect of any changes to recognition or measurement requirements as a result of this new Standard is being evaluated.

The AASB has also advised its intention to withdraw the accounting standards specific to Government Departments (AAS 29) and Government (AAS 31) and replace them where required by topic specific financial reporting standards. The final outcome and timing of this project is uncertain, but there is not expected to be a significant effect on the results or financial position of the general government sector.

The AASB also continues to make new and revise existing financial reporting standards, including the July 2004 'stable platform of A-IFRS'. These changes result from both the AASB's own activities and changes made to International Financial Reporting Standards. The impact that may occur as a result of these changes is unknown and is not accounted for in the Estimated Financial Statements.

(F) 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 30 June, the most recently audited financial year results are used as a basis for the opening balance beginning 1 July 2006. For example, TAFE institutes have a reporting period ending on 31 December.

(G) Income from transactions

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

Taxation

State taxation and fee revenue is recognised upon either the earlier of 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 taxation revenue raised by the State include:

- payroll tax;
- land tax;
- duties levied principally on conveyances and land transfers and rental business;
- gambling taxes levied mainly on public lotteries, electronic gaming machines, casino operations and racing;
- insurance duties relating to compulsory third party, life and non life policies;
- insurance company contributions to fire brigades;
- motor vehicle taxes, including registration fees and duty on registrations and transfers;
- other taxes, including landfill levies, progressive recognition of upfront concession fees paid by Transurban in respect of Melbourne CityLink, and licence fees; and
- levies on statutory corporations (including the environmental levy).

Forecast assumption

The State's tax revenues are forecast by a process that involves:

- application of the Department of Treasury and Finance's economic forecasts, where there is a relationship between taxation revenue and economic variables. This enables an assessment of economic and other factors influencing the tax bases from which taxes are sourced (e.g. for payroll tax, an assessment of the outlook for employment and wages; for motor vehicle taxes, assessment of the outlook for demand for vehicles reflecting various economic influences; for gambling taxes, assessment of the outlook for consumer spending);
- progressive recognition of the upfront concession notes received from Transurban over the remaining life of the concession term;

- analysis of historical information and relationships using econometric and other statistical methods; and
- consultation with private sector economists, industry associations, and relevant government authorities.

The government announced that it is undertaking a licence-awarding process for the next public lotteries licence(s) to apply from 2007 to 2017. The current estimates are based on existing policy and therefore do not take into account any possible changes to future licensing structures.

Fines and regulatory fees

Revenue is recognised at the time the fine is issued or the regulatory fee is billed. Drivers licence fees are included in regulatory fees.

Forecast assumption

The forecasts of regulatory fees and fines are prepared by those government agencies that collect them. Some of the components may be based on contractual obligations, while the prediction of fines principally involves assessment for the behaviour of road users. Automatic indexation is applied to fees and fines payable under provisions in the *Monetary Units Act 2004*. An indexation factor of 2.5 per cent has been applied for the forecast period to fines and regulatory fees.

Dividends, income tax and rate equivalent revenue

This represents revenue received from other sectors of government. Revenue is recognised when dividends are determined.

Forecast assumption

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 amounts paid or payable of 65 per cent of pre-tax profit.

Other commercial factors considered that will affect the dividend forecasts include the views of each agency's board of directors, the liquidity, operating cash flow and forecast cash requirements of each government business enterprise, 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. Revenue raised under the National Tax Equivalent Regime (NTER), administered by the Australian Taxation Office, remains with the State. Currently, about 40 government business enterprises (including subsidiaries) are subject to the NTER.

Interest revenue

Interest revenue includes interest received, discount interest on financial assets and interest on bank term deposits and other investments. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset. Net realised and unrealised gains and losses on the revaluation of investments do not form part of income from transactions, but are reported as part of income from other economic flows in the operating statement or as unrealised gains or losses taken direct to equity in the statement of changes in equity.

Forecast assumption

Forecast interest revenue assumes projected budget cash surpluses are invested.

Grants income

Grants mainly comprise funds provided by the Commonwealth to assist the State in meeting general or specific service delivery obligations, primarily for the purpose of aiding in the financing of the operations of the recipient, capital purposes and/or for on passing to other recipients. Grants 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.

Forecasts of Goods and Services Tax (GST) grants are based on the latest published Commonwealth forecast of the national GST pool. Victoria's annual per capita relativities are assumed to converge to their current five year average by 2009-10. Victoria's share of future GST grants is based on the Commonwealth's population projections and a rolling five year average of the future annual per capita relativities, in accordance with Commonwealth Grants Commission procedures. In addition, an adjustment is made to the share to reflect anticipated movements in the assessed relativities as a result of the phased abolition of certain State duties over the forward estimates period.

Sale of goods and services

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the revenue can be reliably measured.

Revenue from rendering of services is recognised on a stage of completion basis and is measured by reference to the labour hours supplied or as a percentage of total services to be performed.

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 imposed by departments and budget sector agencies in line with the *Guidelines for Setting Fees and Charges* and/or indexation as provided for under the *Monetary Units Act 2004*. Unless government policy states otherwise, fees will be set to recover the full costs of the goods or services provided.

Fair value of assets received free of charge or for nominal consideration

Income arising from assets received free of charge or for nominal consideration are measured at the fair value of the contribution and are recognised when the State gains control of the contribution or the right to receive the contribution.

(H) Expenses from transactions

Expenses are recognised when they are incurred, and reported in the financial year to which they relate.

Employee benefits

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 benefits are forecast on the basis of staffing profiles and current salaries and conditions. For the forecast period, employee benefits are adjusted for approved wage agreements with allowance made for further changes in the future consistent with the Government's wage policy. Under this policy, costs associated with Enterprise Bargaining Agreement outcomes beyond the maintenance of real wages (based on the normal indexation factor used to escalate departmental output revenue) are funded from real and sustainable productivity improvements, cost savings and improved service delivery.

Superannuation

Superannuation expense is determined on the following basis:

- for defined contribution plans, the amount recognised as an expense reflects the State's contribution, paid or accrued, in respect of the reporting period; and
- for defined benefit plans, the superannuation expense relates to service cost (the cost of employer financed benefits that are expected to accrue for defined benefit members during the reporting period), interest cost and the expected return on assets. This excludes the impact of actuarial gains and losses which are not classified as transactions and are therefore reported separately as superannuation expenses from other economic flows.

Forecast assumption

Future defined contribution superannuation expenses are based on assumptions regarding future salaries, rates of increase and legislated contribution rates.

Future defined benefit superannuation expenses are based on actuarial projections of the components outlined above.

Depreciation

All infrastructure assets, buildings, plant and equipment and other non-current physical assets (excluding items under operating leases, assets held for sale and investment properties) that have a limited useful life are depreciated. Depreciation is generally calculated on a straight line basis, at rates that allocate the asset's value, less any residual value, over its estimated useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following are typical estimated useful lives for the different asset classes for both current and prior years:

<i>Asset class</i>	<i>Useful life</i>
Dwellings	40 to 50 years
Other buildings	30 to 60 years
Road pavement	60 years
Bridges	90 years
Plant, equipment and vehicles	3 to 10 years
Cultural assets	100 years
Water infrastructure – storage facilities	25 to 300 years
Water infrastructure – other	25 to 100 years
Rail infrastructure	2 to 50 years
Other infrastructure	10 to 32 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 has not, in any material sense, been consumed during the reporting 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, but includes the estimated impact of future revaluation of assets. However, any future changes in depreciable lives, carrying value, residual value, or methodology would result in a change in future depreciation expense.

Finance costs

Finance costs are recognised as expenses in the period in which they are incurred, and 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;
- finance lease charges; and
- the increase in financial liabilities and provisions due to the unwinding of discount to reflect the passage of time.

Forecast assumption

Estimates for finance costs are based on the forecast level of outstanding general government sector debt and expected changes in current financial liabilities and provisions. General government debt is expected to mainly comprise a fixed rate facility, and index-linked securities from the Treasury Corporation of Victoria. All maturities in the forecast period are assumed to be refinanced at forward interest rates.

Grants and transfer payments

Grants and transfer payments to third parties are recognised as an expense in the reporting period 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 and, for the general government sector those payments to 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

Supplies and services generally represent cost of goods sold and the day-to-day running costs, including maintenance costs, incurred in the normal operation of the State. These items are recognised as an expense in the reporting period in which they are incurred. The carrying amount of any inventories held for distribution are expensed when distributed.

Forecast assumption

Supplies and services are forecast on the basis of experience and 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.

(I) Income and expenses from other economic flows

Other economic flows measure the change in volume or value of assets or liabilities that does not result from a transaction. This includes realised or unrealised gains and losses from disposals, revaluations and impairment of non-current physical assets and intangible assets; actuarial gains and losses from superannuation defined benefit plans; fair value changes of financial instruments and agricultural assets; foreign exchange gains or losses; and depletion of natural resources.

Net gain/(loss) from disposal of physical assets

Any gain or loss on disposal of physical assets is recognised at the date of disposal and is determined after deducting from the proceeds the carrying value of the asset at that time.

Actuarial gains/(losses) on superannuation defined benefit plans

Actuarial gains or losses on superannuation defined benefit plans represents the impact on the net superannuation defined benefit liability of differences between actual experience and the assumptions used to calculate the superannuation expense from transactions. Actuarial gains or losses are recognised in the operating statement in the period in which they occur.

Gains/(losses) from disposal of investments

Any gains or losses on disposal of financial assets are recognised at the expected date of disposal and are determined after deducting from the proceeds the carrying value of the asset at that time.

(J) Assets

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank, deposits at call and highly liquid investments with short periods to maturity, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Forecast assumption

Cash assets are assumed to be held at levels sufficient to cover operating requirements over the forecast period.

Prepayments

Prepayments represent payments in advance of receipt of goods or services or an expenditure made in one accounting period covering a term extending into the next accounting period.

Forecast assumption

Unless otherwise stated, prepayments for expenditure extending into the next accounting period are assumed to apply only to minor contractual obligations for goods and service.

Receivables

Receivables consist predominantly of debtors in relation to goods and services, taxes and fines, accrued investment income, and GST input tax credits recoverable.

Receivables and loans are recorded at amortised cost, using the effective interest method, less any accumulated impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

Forecast assumption

Receivables are forecast on the basis of revenue activity levels.

Investments and other financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Other investments are classified in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets. The classification depends on the purpose for which the investments were acquired and this is determined at initial recognition.

Investments held for trading purposes are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in profit or loss.

Other investments held are classified as being available for sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in profit or loss for the period.

Forecast assumption

All surplus cash resources for the period 2006-07 to 2009-10 are assumed to be held as financial assets (investments) to preserve budget decision making flexibility.

Assets held for sale

Those non-current assets classified as held for sale, for which the carrying amount of the asset will be recovered principally through a sale transaction rather than through continuing use. An asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell and is not subject to depreciation.

Forecast assumption

Assets held for sale are forecast on the basis of experience and known asset sales programs including the application of government policy such as asset management strategies and changes in the method of output delivery.

Property, plant and equipment

Land and buildings are measured initially at cost and subsequently revalued at the amounts for which assets could be exchanged between knowledgeable willing parties in an arm's length transaction (that is, fair value).

National parks, land underlying State forests and other Crown land is measured with regard to the property's highest and best use after due consideration is made for any legal or constructive restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset. Theoretical opportunities that may be available in relation to the asset are not taken into account until it is virtually certain that the restrictions will no longer apply.

Road network assets (including earthworks of the declared road networks but excluding land under roads) are measured at fair value, determined by reference to the asset's depreciated replacement cost. Land under roads is not recognised.

Cultural depreciated assets and collections, heritage assets and other non-current physical assets that the State intends to preserve because of their unique historical, cultural or environmental attributes are measured at the cost of replacing the asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

Plant, equipment, vehicles and water infrastructure assets and rail infrastructure assets are measured at cost.

Forecast assumption

The value of non-current physical assets will change during the forecast period to account for acquisitions, disposals and the impact of depreciation and revaluation.

Biological Assets

Commercial native forests are measured at their fair value less estimated point of sale costs. The fair value is determined as the difference between the net present value of cash flows expected to be generated by the commercial native forests (discounted at a current market determined rate, which reflects the risks associated with the forests) less the fair value of the land on which the commercial native forests are growing.

Forecast assumption

The value of biological assets will change during the forecast period to account for acquisitions, disposals and the impact of revaluations.

Land under roads

Forecast assumption

AASB 1045 *Land Under Roads* provides transitional relief to governments to not recognise land under roads until the reporting period ending 30 June 2007. As permitted by AASB 1045, the State has adopted an accounting policy to not recognise land under roads. The State has not yet established the policy that will apply for the recognition and measurement of land under roads. Accordingly, land under roads has not been recognised during the forecast period.

Partnerships Victoria projects

Infrastructure projects that are approved in principle by the Government for possible delivery under the *Partnerships Victoria* model are initially included in the Estimated Financial Statements as non current physical assets (with associated financing and depreciation costs). An exception to this is EastLink which will be funded by user pay tolls.

A final decision on whether an infrastructure project is 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 an assessment of value for money and satisfaction of the public interest. If, at the conclusion of the tender process, a decision is made to proceed with a *Partnerships Victoria* delivery approach, the budget treatment will be adjusted as required, to convert the budgeted asset investment, depreciation and financing flows to ensure appropriate disclosure as either an operating or finance lease.

Leases

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

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance leases are recognised as assets and liabilities at amounts equal to the fair value of the lease property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. The lease asset is depreciated 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 operating statement. Contingent rentals associated with finance leases are recognised as an expense in the period in which they are incurred.

Operating lease payments, including any contingent rentals, are recognised as an expense in the operating statement on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset.

The aggregate cost (or benefit) associated with operating lease incentives are recognised as a reduction of rental income (or rental expense) on a straight line basis over the lease term.

The cost of leasehold improvements is capitalised as an asset and depreciated 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.

Restrictive nature of cultural and heritage assets, Crown land and infrastructure

Certain agencies in the Victorian general government sector hold cultural assets, heritage assets, Crown land and infrastructure which are deemed worthy of preservation because of the social rather than financial benefits they provide to the community.

Consequently, there are certain limitations and restrictions imposed on their use and/or disposal.

Investments in associated entities and joint ventures

Associates are those entities over which the State exercises significant influence, but not control.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the State's share of the post acquisition profits or losses of associates is recognised in the consolidated operating statement and its share of post-acquisition movements in reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment.

Joint ventures are contractual arrangements between the State or a subsidiary entity and one or more other parties to undertake an economic activity that is subject to joint control. Joint control only exists when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Interests in jointly controlled operations and jointly controlled assets are accounted for by recognising in the State's financial statements, its share of the assets, liabilities and any revenue and expenses of such joint ventures.

Interests in jointly controlled entities are accounted for in the consolidated financial statements using the equity method. Under this method, the State's share of the post-acquisition profits or losses of jointly controlled entities is recognised in the consolidated operating statement and its share of post acquisition movements in reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the cost of the jointly controlled entity.

Intangible assets

Intangible assets represent identifiable non-monetary assets without physical substance.

Intangible assets are recognised at cost. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the State.

Amortisation is allocated to intangible assets with finite useful lives on a systematic basis over the asset's useful life. Amortisation commences when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each annual reporting period. In addition, an assessment is made at each reporting date to determine whether there are indicators that the intangible asset concerned is impaired. If so, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount.

Intangible assets with indefinite useful lives are not amortised. The useful lives of intangible assets that are not being amortised are reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. In addition, as previously mentioned, all intangible assets with indefinite useful lives are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired by comparing its recoverable amount with its carrying amount. Any excess of the carrying amount over the recoverable amount is recognised as an impairment loss.

Forecast assumption

The value of intangible assets during the forecast period will change to account for forecast acquisitions, disposals and the impact of amortisation.

Impairment of assets

Goodwill and intangible assets with indefinite useful lives are tested annually as to whether their carrying value exceeds their recoverable amount. All other assets are assessed annually for indications of impairment, except for:

- inventories;
- assets arising from construction contracts;
- assets arising from employee benefits;
- deferred tax assets;
- financial assets;
- investment property that is measured at fair value;
- certain biological assets related to agricultural activity;
- certain deferred acquisition costs and intangible assets arising from an insurer's contractual rights; and
- non current assets classified as held for sale.

If there is an indication of possible impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written-off by a charge to the operating statement except to the extent that the write-down can be debited to an asset revaluation reserve amount applicable to that class of asset.

It is deemed that, in the event of the loss of an asset, the future economic benefits arising from the use of the asset will be replaced unless a specific decision to the contrary has been made. The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs to sell. The recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

Revaluations

Assets other than those that are carried at cost are re-valued with sufficient regularity to ensure that the carrying amount of each asset does not differ materially from its fair value. This revaluation process normally occurs every five years. Revaluation increments or decrements arise from differences between an asset's depreciated cost or deemed cost and fair value.

Revaluation increments are credited directly to equity in the revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the net result, the increment is recognised as revenue (other economic flows) in determining the net result.

Revaluation decrements are recognised immediately as expenses (other economic flows) in the net result, except that, to the extent that a credit balance exists in the revaluation reserve in respect of the same class of assets, they are debited to the revaluation reserve.

Revaluation increments and decrements relating to individual assets within a class of property, plant and equipment are offset against one another within the same class of non-current assets but are not offset in respect of assets in different classes.

Revaluation reserves are not normally transferred to accumulated funds on derecognition of the relevant asset.

(K) Liabilities

Payables

Payables consist predominantly of creditors and other sundry liabilities. Payables arise when the State becomes obliged to make future payments in respect of the purchase of these goods and services.

Forecast assumption

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

Interest-bearing liabilities

The State's interest-bearing liabilities mainly represent funds raised from the following sources:

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

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings held by the State are subsequently measured at fair value with gains and losses recognised in profit or loss.

For the general government sector, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Forecast assumption

General government sector debt is assumed to be refinanced at forward interest rates.

Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits are measured based on their expected settlement. Provisions which are expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the State in respect of services provided by employees up to reporting date.

Regardless of the expected timing of settlement, provisions made in respect of employee benefits are classified as a current liability unless there is an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date, in which case it would be classified as a non-current liability. The non-current liability as presented includes long service leave entitlements accrued for employees with less than seven years of continuous service.

Forecast assumption

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

Superannuation

At each forward estimate reporting date, a liability or asset in respect of defined benefit superannuation is recognised and is measured as the difference between the present value of employees' accrued benefits at the reporting date and the net market value of the superannuation plan's assets at that date.

The present value of accrued benefits is based on expected future payments which arise from membership of the plans to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using rates on long term Commonwealth Bonds.

The superannuation liability recognised in the balance sheet also allows for any past service cost that has not yet been recognised in the operating statement.

Forecast assumptions

The general government sector's superannuation liabilities at future balance dates are estimated in accordance with the above policy using projections provided by the actuaries of the various defined benefit plans. These projections are based on a number of demographic and financial assumptions which include, in particular, an expected return on the assets of the defined benefit plans and a discount rate for determining the present value of accrued benefits. Consistent with the long-term actuarial assumptions, the expected return on assets is assumed to remain constant across the budget and forecast periods. The discount rates used are based on prevailing long-term Commonwealth bond rates which are also assumed to remain constant across the forward estimates period. Actual experience may differ significantly from the assumptions used, which may cause significant variation in the superannuation liabilities. Any such variation primarily impacts on other economic flows in the operating statement.

Other provisions

Other provisions include a liability for outstanding insurance claims, which is independently assessed by actuaries. This liability covers claims reported but not yet paid, claims incurred but not yet reported, and the anticipated direct and indirect costs of settling those claims. The actuaries take into account projected inflation and other factors to arrive at expected future payments. These are then discounted at the reporting date using a market determined, risk adjusted discount rate.

Forecast assumption

The level of outstanding insurance claims liability at the end of each forecast year is based on historical trends, existing actuarial valuations and projections adjusted for forecast activity levels.

Other liabilities

All other liabilities are recognised at the estimated amounts payable. The upfront receipt of concession notes from Transurban is recognised as unearned income liability. The unearned income liability will reduce each year as revenue is progressively brought to account over the remaining period of the concession term.

(L) *Right to receive assets*

The State has entered into a number of concession arrangements with independent private sector entities. These private sector entities typically lease land and sometimes State works, from the State and construct an asset. During the concession period the operator has the right to obtain revenue from services that utilise the asset and has the obligation to supply agreed upon services including maintenance of the asset. At the end of the concession period the land and State works, together with the constructed facilities will be returned to the State. In the literature these are sometimes referred to as Build, Own, Operate, Transfer arrangements.

Significant arrangements include the CityLink network which charges tolls to motorists during the concession period which has a nominal term of 33.5 years expiring 15 January 2034 and EastLink which will also be a tollway with a nominal term of 35 years expiring 30 November 2043.

There is currently no consistent or authoritative accounting guidance on the recognition or measurement of the right of the State to receive assets in the future from such concession arrangements. This matter is being considered by the accounting profession, in particular the International Financial Reporting Interpretations Committee (IFRIC), which is considering this matter as part of its review of accounting treatment for service concessions. A decision on the appropriate accounting treatment (for Australia) has been deferred until authoritative guidance is available internationally. Accordingly these assets are not recognised pending authoritative guidance or the development of relevant Australian accounting standards.

(M) *Accounting for the goods and services tax (GST)*

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 receivables and other liabilities.

(N) Estimated cash flow statement

For the purposes of the estimated cash flow statement, cash and cash equivalents comprises cash on hand, cash at bank, bank overdrafts and deposits at call, and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(O) Rounding

All amounts in the financial report have been rounded to the nearest hundred thousand dollars unless otherwise stated. Figures in the financial report may not add due to rounding.

Note 2: Taxation

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Payroll tax	3 418.1	3 434.5	3 517.7	3 641.8	3 810.9
Taxes on immovable property					
Land tax	747.6	781.6	768.4	782.8	770.3
Congestion levy	38.8	38.8	39.7	40.6	41.5
Metropolitan improvement levy	97.3	97.3	100.6	104.0	107.5
Property owner contributions to fire brigades	35.6	35.6	36.4	38.0	38.0
Total taxes on immovable property	919.3	953.3	945.1	965.4	957.3
Financial and capital transactions					
Land transfer duty	2 424.4	2 672.4	2 679.7	2 726.1	2 791.2
Rental business duty	43.3	42.8	..	..	..
Other property duties	9.3	9.3	9.8	10.2	10.9
Financial accommodation levy	16.4	16.0	19.2	24.4	25.8
Total financial and capital transactions	2 493.4	2 740.5	2 708.7	2 760.7	2 827.9
Levies on statutory corporations	60.4	60.4	61.6	73.7	73.7
Gambling taxes					
Public lotteries	309.3	323.0	323.8	330.9	338.2
Electronic gaming machines	1 006.4	955.5	943.7	1 002.8	1 068.5
Casino	118.1	116.2	124.4	135.2	147.0
Racing	119.0	119.6	117.3	121.1	125.3
Other	3.5	4.0	4.3	4.6	4.9
Total gambling taxes	1 556.3	1 518.3	1 513.5	1 594.6	1 683.9
Taxes on insurance	1 104.1	1 100.1	1 161.9	1 216.0	1 271.0
Motor vehicle taxes					
Vehicle registration fees	747.6	749.7	800.5	846.2	894.9
Duty on vehicle registrations and transfers	591.5	557.8	591.1	620.6	651.6
Total motor vehicle taxes	1 339.1	1 307.5	1 391.6	1 466.8	1 546.5
Other taxes	80.3	87.2	91.4	87.8	82.5
Total taxation	10 971.0	11 201.8	11 391.5	11 806.7	12 253.7

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

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	<i>Budget</i>	<i>Revised</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
Dividends	769.9	727.7	531.3	446.7	548.3
Income tax equivalent and rate equivalent revenue	188.2	217.7	253.3	296.3	314.8
Total dividends and income tax equivalent and rate equivalent revenue	958.1	945.4	784.6	742.9	863.1

Note 4: Grants

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	<i>Budget</i>	<i>Revised</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
Operating grants					
General purpose grants	8 469.2	8 469.2	9 006.4	9 544.1	9 961.0
Specific purpose grants for on-passing	1 740.2	1 740.5	1 798.5	1 858.9	1 858.9
Other specific purpose grants	4 094.0	4 167.1	4 307.5	4 409.6	4 569.2
Total operating grants	14 303.5	14 376.8	15 112.4	15 812.6	16 389.1
Capital grants					
Specific purpose grants for on-passing	136.4	137.1	137.7	138.4	138.4
Other specific purpose grants	638.1	646.5	737.1	498.3	408.7
Total capital grants	774.5	783.5	874.8	636.7	547.1
Total grants	15 077.9	15 160.3	15 987.2	16 449.4	16 936.2

Note 5: Other income

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	<i>Budget</i>	<i>Revised</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
Inter-sector capital asset charge	833.5	833.5	855.2	858.0	845.7
Royalties	63.1	41.1	41.4	42.0	42.5
Rents	15.4	15.4	15.5	15.6	15.6
Donations and gifts	183.4	146.1	152.4	159.0	164.4
Other non-property rental	0.2	0.2	0.2	0.2	0.2
Other miscellaneous income	661.8	770.8	777.5	753.0	730.6
Total other income	1 757.2	1 807.0	1 842.2	1 827.6	1 799.0

Note 6: Superannuation

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

(a) Superannuation expense recognised in the operating statement

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Defined benefit plans					
Current service cost ^(a)	683.7	640.0	634.1	643.3	641.1
Interest cost ^(a)	1 554.7	1 707.8	1 738.7	1 766.8	1 790.7
Expected return on plan assets (net of expenses) ^(a)	(1 206.0)	(1 288.7)	(1 337.8)	(1 364.1)	(1 391.3)
Amortisation of past service cost ^(a)	(14.5)	(14.5)	(14.5)	(14.5)	(10.2)
Actuarial (gains)/losses ^(b)	..	(111.8)	..	..	..
Total expense recognised in respect of defined benefit plans	1 018.0	932.8	1 020.6	1 031.5	1 030.2
Defined contribution plans					
Employer contributions to defined contribution plans ^(a)	652.1	588.9	622.3	644.5	676.3
Other (including pensions) ^(a)	40.3	40.3	41.9	43.6	45.3
Total expense recognised in respect of defined contribution plans	692.4	629.3	664.2	688.1	721.6
Total superannuation expense recognised in operating statement	1 710.4	1 562.0	1 684.8	1 719.5	1 751.8

Notes:

(a) Superannuation expense from transactions.

(b) Superannuation expense from other economic flows.

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

	(\$ million)				
	2006-07 Budget ^(a)	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Opening balance of defined benefit obligation	30 302.6	30 302.9	31 136.6	31 663.5	32 131.8
Current service cost	682.7	640.0	634.1	643.3	641.1
Interest cost	1 554.7	1 707.8	1 738.7	1 766.8	1 790.7
Contributions by plan participants	216.0	223.4	215.2	206.7	198.1
Actuarial (gains)/losses	..	371.6	..	..	..
Benefits paid	(1 866.9)	(2 109.2)	(2 061.0)	(2 148.6)	(2 262.1)
Closing balance of defined benefit obligation	30 889.2	31 136.6	31 663.5	32 131.8	32 499.5

Note:

(a) 2006-07 Budget above is based on actual opening balances at 1 July 2006 plus 2006-07 budgeted movement.

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

	(\$ million)				
	2006-07 Budget ^(a)	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Opening balance of plan assets	17 459.8	17 459.8	17 899.0	18 267.3	18 639.1
Expected return on plan assets	1 206.0	1 288.7	1 337.8	1 364.1	1 391.3
Actuarial gains/(losses)	..	483.5	..	..	..
Employer contributions	480.3	552.8	876.4	949.6	1 060.7
Contributions by plan participants	216.0	223.4	215.2	206.7	198.1
Benefits paid (including tax paid)	(1 866.9)	(2 109.2)	(2 061.0)	(2 148.6)	(2 262.1)
Closing balance of plan assets	17 495.2	17 899.0	18 267.3	18 639.1	19 027.1

Note:

(a) 2006-07 Budget above is based on actual opening balances at 1 July 2006 plus 2006-07 budgeted movement.

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

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
ESSS (including SSF)					
Defined benefit obligation	28 168.2	28 590.0	29 104.9	29 559.2	29 917.1
Tax liability ^(a)	977.4	850.1	840.1	836.2	829.8
Plan assets	(16 220.9)	(16 636.2)	(16 987.5)	(17 346.2)	(17 724.1)
Unrecognised past service cost ^(b)	39.2	39.2	24.7	10.2	..
Net liability/(asset)	12 963.9	12 843.1	12 982.2	13 059.4	13 022.9
Other funds ^(a)					
Defined benefit obligation	1 739.2	1 684.6	1 709.7	1 730.4	1 749.4
Tax liability ^(a)	4.6	11.8	8.8	5.9	3.1
Plan assets	(1 274.3)	(1 262.8)	(1 279.8)	(1 292.9)	(1 303.0)
Unrecognised past service cost ^(b)	..	..	..	..	..
Net liability/(asset)	469.4	433.6	438.8	443.5	449.5
Total unfunded superannuation					
Defined benefit obligation	29 907.3	30 274.6	30 814.6	31 289.5	31 666.5
Tax liability ^(a)	982.0	861.9	849.0	842.1	833.0
Plan assets	(17 495.2)	(17 899.0)	(18 267.3)	(18 639.1)	(19 027.1)
Unrecognised past service cost ^(b)	39.2	39.2	24.7	10.2	..
Unfunded superannuation liability	13 433.3	13 276.7	13 420.9	13 502.8	13 472.3
Represented by:					
Current liability	510.1	335.1	417.1	535.1	639.3
Non-current liability	12 923.2	12 941.7	13 003.9	12 967.7	12 833.1
	13 433.3	13 276.7	13 420.9	13 502.8	13 472.3

Notes:

- (a) The tax liability represents the present value of expected future tax payments, relating to both investment tax and contributions tax.
- (b) Past service cost arises due to a change in benefits payable. This cost is recognised as an expense over the period until the benefits become vested. Unrecognised past service cost represents the amount of past service cost yet to be recognised as an expense.

Note 7: Depreciation and amortisation

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Depreciation					
Buildings ^(a)	363.4	363.4	401.4	433.9	478.9
Plant, equipment and infrastructure systems	570.4	570.8	607.7	621.8	630.1
Road networks	308.0	308.0	321.6	335.6	352.2
Other assets	29.2	34.2	30.6	30.7	30.8
Total depreciation	1 271.0	1 276.4	1 361.3	1 422.0	1 492.0
Amortisation					
Leased plant and equipment	7.7	20.9	8.5	8.4	8.5
Leasehold buildings	22.9	48.9	48.8	53.5	58.3
Intangible produced assets	20.4	20.4	19.5	22.1	27.3
Total amortisation	51.1	90.2	76.7	84.0	94.0
Total depreciation and amortisation	1 322.1	1 366.6	1 438.0	1 506.0	1 586.1

Notes:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2007-08 to 2009-10.

Note 8: Finance costs

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Interest on long-term interest-bearing liabilities	318.7	318.7	343.5	436.1	503.6
Interest on short-term interest-bearing liabilities	26.1	26.1	26.4	26.3	26.3
Finance charges on finance leases	41.4	88.1	80.9	80.3	79.0
Discount interest on payables	23.8	22.5	30.8	41.1	47.2
Fees and other finance costs	18.0	17.9	17.5	20.3	21.4
Total finance costs	428.0	473.4	499.0	604.2	677.5

Note 9: Grants and transfer payments

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Commonwealth Government	65.8	66.6	67.3	69.2	71.2
Local Government	547.9	558.6	525.9	496.3	506.0
Private sector	3 700.3	3 683.7	3 544.7	3 559.4	3 535.9
Grants within the Victorian Government	1 887.8	2 089.5	1 974.4	1 806.1	1 806.5
Other	5.3	5.6	3.9	3.9	3.9
Total grants and transfer payments	6 207.2	6 404.0	6 116.0	5 934.9	5 923.4

Note 10: Total expenses from transactions by department

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Expenses from transactions					
Parliament	116.1	118.3	114.0	115.0	116.9
Education and Training	9 545.3	9 521.8	9 712.0	9 930.9	10 110.7
Human Services	12 223.5	12 306.9	12 572.3	12 908.6	13 286.9
Infrastructure	3 865.5	4 026.2	4 036.3	4 079.6	4 177.2
Innovation, Industry and Regional Development	433.5	467.1	404.6	329.3	327.6
Justice	3 119.4	3 180.9	3 130.4	3 194.4	3 239.6
Premier and Cabinet	539.5	542.9	550.7	589.7	556.5
Primary Industries	398.7	503.7	372.9	338.3	339.0
Sustainability and Environment	1 089.8	1 193.9	1 113.6	1 139.6	1 129.6
Treasury and Finance	1 848.9	1 773.2	1 708.1	1 810.1	1 892.7
Victorian Communities	815.5	903.3	791.6	742.4	726.4
Contingencies not allocated to departments ^(a)	(60.1)	(291.3)	689.5	1 068.2	1 290.6
Regulatory bodies and other part budget funded agencies ^(b)	1 075.7	1 075.4	1 106.9	1 126.5	1 126.5
Total	35 011.4	35 322.6	36 302.9	37 372.5	38 320.3
<i>Less eliminations ^(c)</i>	<i>(2 886.1)</i>	<i>(2 955.9)</i>	<i>(3 009.5)</i>	<i>(3 018.8)</i>	<i>(3 056.4)</i>
Total expenses from transactions	32 125.3	32 366.7	33 293.5	34 353.7	35 263.8

Notes:

- (a) This contingency includes a provision for programs lapsing, future demand growth, items not yet formalised at the time of the Budget, and an allowance for departmental underspending in 2006-07 which may be subject to carryover into 2007-08. Under the departmental funding model, since 1 July 2004, departments have been required to manage all costs within their departmental budgets.
- (b) Other general government sector agencies, which receive less than 50 per cent of their revenue from appropriations and therefore are not allocated to departments.
- (c) Comprising payroll tax, capital asset charge and inter-departmental transfers.

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

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Net gain from revaluation of biological assets	8.4	8.4	8.4	8.4	8.4
Net (increase)/decrease in provision for doubtful receivables	(59.1)	(59.1)	(49.1)	(44.1)	(44.1)
Other gains/(losses)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Total other gains/(losses) from other economic flows	(51.0)	(50.9)	(40.8)	(35.8)	(35.8)

Note 12: Property, plant and equipment

(a) Total property, plant and equipment

	(\$ million)				
	2007	2007	2008	2009	2010
	Budget	Revised	Estimate	Estimate	Estimate
Buildings (written down value)	14 939.2	14 846.0	16 255.7	18 170.7	20 365.0
Land and national parks	19 386.1	19 388.2	20 860.6	22 541.8	24 489.0
Infrastructure systems (written down value)	291.0	695.6	840.6	942.9	950.7
Plant, equipment and vehicles (written down value)	2 065.5	2 141.5	1 994.2	1 774.2	1 530.0
Roads (written down value)	15 002.1	14 977.5	16 361.9	17 750.5	18 837.9
Earthworks	4 426.2	4 426.2	4 426.2	4 426.2	4 426.2
Cultural assets (written down value)	3 558.6	3 558.6	3 650.7	3 746.9	3 847.1
Total property, plant and equipment	59 668.6	60 033.5	64 389.8	69 353.1	74 445.9

(b) Land and buildings

	(\$ million)				
	2007	2007	2008	2009	2010
	Budget	Revised	Estimate	Estimate	Estimate
Buildings ^(a)	16 427.1	16 359.8	18 208.3	20 601.4	23 324.4
Accumulated depreciation	(1 487.9)	(1 513.8)	(1 952.6)	(2 430.7)	(2 959.4)
Buildings (written down value)	14 939.2	14 846.0	16 255.7	18 170.7	20 365.0
Land	17 400.2	17 402.3	18 868.6	20 549.9	22 497.1
National parks and other 'land only' holdings	1 985.9	1 985.9	1 992.0	1 992.0	1 992.0
Land and national parks	19 386.1	19 388.2	20 860.6	22 541.8	24 489.0
Total land and buildings	34 325.2	34 234.2	37 116.3	40 712.5	44 854.1

Note:

(a) Includes amounts not yet allocated to projects in 2007-08 to 2009-10.

(c) Plant, equipment and infrastructure systems

	(\$ million)				
	2007	2007	2008	2009	2010
	Budget	Revised	Estimate	Estimate	Estimate
Infrastructure systems	321.6	726.2	895.4	1 023.7	1 058.6
Accumulated depreciation	(30.6)	(30.6)	(54.8)	(80.8)	(107.9)
Infrastructure systems (written down value)	291.0	695.6	840.6	942.9	950.7
Plant, equipment and vehicles	4 899.3	4 959.5	5 338.8	5 655.0	5 955.1
Accumulated depreciation	(3 050.8)	(3 018.4)	(3 541.7)	(4 074.7)	(4 615.8)
Leased plant, equipment and vehicles	361.8	343.9	343.9	343.9	343.8
Accumulated depreciation	(144.8)	(143.5)	(146.8)	(150.0)	(153.2)
Plant, equipment and vehicles (written down value)	2 065.5	2 141.5	1 994.2	1 774.2	1 530.0
Total plant, equipment and infrastructure systems	2 356.5	2 837.1	2 834.8	2 717.1	2 480.7

(d) Road networks and earthworks

(\$ million)

	2007	2007	2008	2009	2010
	Budget	Revised	Estimate	Estimate	Estimate
Roads	17 258.9	17 243.3	18 705.0	20 117.2	21 100.6
Accumulated depreciation	(6 276.7)	(6 276.7)	(6 534.3)	(6 803.1)	(7 085.6)
Road infrastructure	6 022.1	6 013.1	6 257.4	6 569.3	7 025.5
Accumulated depreciation	(2 002.2)	(2 002.2)	(2 066.2)	(2 132.9)	(2 202.7)
Roads (written down value)	15 002.1	14 977.5	16 361.9	17 750.5	18 837.9
Earthworks	4 426.2	4 426.2	4 426.2	4 426.2	4 426.2
Total road networks and earthworks	19 428.3	19 403.6	20 788.1	22 176.6	23 264.0

(e) Cultural assets

(\$ million)

	2007	2007	2008	2009	2010
	Budget	Revised	Estimate	Estimate	Estimate
Cultural assets	3 657.0	3 657.0	3 757.1	3 861.2	3 969.4
Accumulated depreciation	(98.4)	(98.4)	(106.4)	(114.3)	(122.3)
Total cultural assets (written down value)	3 558.6	3 558.6	3 650.7	3 746.9	3 847.1

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

Note 13: Reconciliation of movements in fixed assets

(\$ million)

	2007	2007	2008	2009	2010
	Budget	Revised	Estimate	Estimate	Estimate
Carrying amount at the start of the year ^(a)	55 953.8	55 953.8	60 033.5	64 389.8	69 353.1
Additions ^(b)	2 329.4	2 756.8	2 870.2	3 077.3	2 871.9
Disposals at written down value	(112.7)	(130.7)	(218.4)	(109.7)	(89.7)
Revaluations increments	2 799.8	2 799.8	3 123.0	3 479.6	3 869.4
Depreciation/amortisation expense	(1 301.7)	(1 346.2)	(1 418.5)	(1 483.9)	(1 558.8)
Carrying amount at the end of the year	59 668.6	60 033.5	64 389.8	69 353.1	74 445.9

Notes:

(a) Comprises land and buildings, infrastructure systems, plant, equipment, vehicles, road networks and cultural assets. Excludes movements in other assets in Note 14 below.

(b) Includes assets acquired under finance lease arrangements.

Note 14: Other assets

	(\$ million)				
	2007	2007	2008	2009	2010
	Budget	Revised	Estimate	Estimate	Estimate
Non-current other assets					
Investment properties	13.4	13.4	13.4	13.4	13.4
Biological assets ^(a)	89.4	89.4	97.8	106.2	114.6
Other assets	107.0	107.0	55.5	47.6	47.6
Total non-current other assets	209.8	209.8	166.7	167.2	175.6

Note:

(a) The majority of biological assets comprises of commercial forests.

Note 15: Employee benefits

	(\$ million)				
	2007	2007	2008	2009	2010
	Budget	Revised	Estimate	Estimate	Estimate
Current					
Accrued salaries and wages ^(a)	991.1	991.1	1 011.5	1 031.4	1 051.2
Long service leave	1 755.9	1 754.7	1 780.0	1 805.2	1 830.5
Total current employee benefits	2 746.9	2 745.8	2 791.5	2 836.6	2 881.7
Non-current					
Accrued salaries and wages ^(a)	20.0	20.0	20.0	20.0	20.0
Long service leave	828.0	829.0	908.2	987.8	1 068.6
Total non-current employee benefits	848.1	849.1	928.3	1 007.9	1 088.6
Total employee benefits	3 595.0	3 594.8	3 719.8	3 844.4	3 970.3

Note:

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

Note 16: Cash flow information

(a) Reconciliation of cash

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	Budget	Revised	Estimate	Estimate	Estimate
Cash	744.2	744.2	759.7	775.1	790.5
Deposits at call	1 790.0	1 774.1	1 758.1	1 731.1	1 708.8
Cash and cash equivalent	2 534.2	2 518.4	2 517.8	2 506.2	2 499.3
Bank overdraft	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)
Balances as per cash flow statement	2 531.0	2 515.1	2 514.6	2 503.0	2 496.1

(b) Reconciliation of net cash flows from operating activities

	(\$ million)				
	2006-07 Budget	2006-07 Revised	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Net result	275.6	513.9	387.4	398.7	331.6
Non-cash movements					
Depreciation and amortisation	1 322.1	1 366.6	1 438.0	1 506.0	1 586.1
Revaluation of investments	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Assets (received)/given free of charge	..	(8.0)	..	(181.0)	..
Revaluation of assets	(8.4)	(8.4)	(8.4)	(8.4)	(8.4)
Discount/premium on other financial assets/interest bearing liabilities	5.4	5.4	4.8	7.5	7.8
Movements included in investing and financing activities					
Net revenue from sale of property, plant and equipment	(9.7)	(34.3)	(5.0)	(5.0)	(5.4)
Movements in assets and liabilities					
Increase/(decrease) in provision of doubtful debts	59.0	59.0	49.0	43.9	43.9
Increase/(decrease) in payables	1.3	(117.9)	37.0	22.2	(6.8)
Increase/(decrease) in employee benefits	165.8	165.6	124.9	124.7	125.9
Increase/(decrease) in superannuation	536.8	380.2	144.2	81.9	(30.5)
Increase/(decrease) in other provisions ^(a)	(30.0)	(32.4)	(20.3)	(11.7)	(11.7)
Increase/(decrease) in other liabilities ^(a)	(6.9)	79.0	108.4	53.2	29.4
(Increase)/decrease in receivables	31.8	(86.9)	(203.4)	(226.7)	(132.5)
(Increase)/decrease in other assets ^(b)	34.7	34.7	50.7	7.1	(0.7)
Net cash flows from operating activities ^(b)	2 377.4	2 316.5	2 107.2	1 812.2	1 928.7

Notes:

- (a) *Other provisions has been renamed from outstanding insurance claims, as it appeared in the 2005-06 Budget Papers, and the definition has been broadened to include certain items previously classified as other liabilities.*
- (b) *Inventories were reclassified from net cash flows from operating activities to net cash flows from investing activities.*

Note 17: Purchase of property, plant and equipment by department

	(\$ million)				
	2006-07	2006-07	2007-08	2008-09	2009-10
	Budget	Revised	Estimate	Estimate	Estimate
Parliament	9.3	13.1	7.3	2.7	2.7
Education and Training	716.5	729.3	465.9	247.8	231.2
Human Services	659.9	612.5	603.6	681.3	369.0
Infrastructure ^(a)	704.7	685.4	963.7	748.4	591.4
Innovation, Industry and Regional Development	11.6	19.0	11.7	11.7	16.7
Justice	205.2	258.0	153.2	132.6	118.4
Premier and Cabinet	66.6	73.1	81.6	2.4	12.3
Primary Industries	6.6	7.5	7.9	6.8	6.1
Sustainability and Environment	147.6	151.8	144.5	99.0	25.1
Treasury and Finance ^{(b)(c)}	52.9	47.9	36.1	39.9	53.3
Victorian Communities	10.2	28.4	6.3	6.2	6.2
Regulatory bodies and other part budget funded agencies	118.6	123.4	84.9	85.3	85.3
Not allocated to departments ^{(c)(d)}	(358.6)	(360.6)	311.0	624.5	1 364.6
Total purchase of property, plant and equipment	2 351.2	2 388.7	2 877.6	2 688.5	2 882.2

Notes:

- (a) Inventories were reclassified from supplies and services to purchase of property, plant and equipment.
- (b) Includes amounts under the vehicle leasing facility not allocated to departments.
- (c) Amount available to be allocated to specific departments and projects in future budgets. This includes an allowance for departmental underspending in 2006-07 which may be subject to carryover in 2007-08.
- (d) Eliminations were previously included in Treasury and Finance.

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 D, Basis of Consolidation.

Public non-financial and public financial corporations do not form part of the general government sector and are therefore not included in this list of controlled entities. For a complete listing of all government entities, please refer to the 2006-07, Budget Paper No. 4, *Statement of Finances*.

General government sector entities

Education and Training

Adult Community and Further Education Board

Adult Multicultural Education Services

Centre for Adult Education

TAFEs including:

Bendigo Regional Institute of TAFE

Box Hill Institute of TAFE

Central Gippsland Institute of TAFE

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)

William Angliss Institute of TAFE

Wodonga Institute of TAFE

Victorian Curriculum and Assessment Authority

Victorian Institute of Teaching

Victorian Learning and Employment Skills Commission

Victorian Qualifications Authority

General government sector entities

Human Services

Health Purchasing Victoria

Hospitals and Ambulance Services including:

Alexandra District Ambulance Service
Alexandra District Hospital
Alpine Health
Ambulance Service Victoria Metropolitan Region
Austin Health
Bairnsdale Regional Health Service
Ballarat Health Services
Barwon Health
Bass Coast Regional Health
Bayside Health
Beaufort and Skipton Health Service
Beechworth Health Service
Benalla and District Memorial Hospital
Bendigo Health Care Group
Boort District Hospital
Casterton Memorial Hospital
Central Gippsland Health Service
Cobram District Hospital
Cohuna District Hospital
Colac Area Health
Dental Health Services Victoria
Djerriwarrh Health Services
Dunmunkle Health Services
East Grampians Health Service
East Wimmera Health Service
Eastern Health
Echuca Regional Health
Edenhope and District Memorial Hospital
Gippsland Southern Health Service
Goulburn Valley Health
Hepburn Health Service
Hesse Rural Health Service
Heywood Rural Health
Inglewood and District Health Service
Kerang and District Hospital
Kooweerup Regional Health Service
Kyabram and District Health Services
Kyneton District Health Service
Latrobe Regional Hospital
Lorne Community Hospital

General government sector entities

Maldon Hospital
Mallee Track Health and Community Services
Manangatang and District Hospital
Mansfield District Hospital
Maryborough District Health Service
Mclvor Health and Community Services
Melbourne Health
Moynes Health Services
Mt Alexander Hospital
Nathalia District Hospital
Northeast Health Wangaratta
Northern Health
Numurkah District Health Service
Omeo District Health
Orbost Regional Health
Otway Health and Community Services
Peninsula Health
Peter MacCallum Cancer Institute
Portland District Health
Robinvale District Health Services
Rochester and Elmore District Health Service
Rural Ambulance Victoria
Rural Northwest Health
Seymour District Memorial Hospital
South Gippsland Hospital
South West Healthcare
Southern Health
Stawell Regional Health
Swan Hill District Hospital
Tallangatta Health Service
Terang and Mortlake Health Service
The Kilmore and District Hospital
The Queen Elizabeth Centre
The Royal Children's Hospital
The Royal Victorian Eye and Ear Hospital
The Royal Women's Hospital
Timboon and District Health Care Service
Tweddle Child and Family Health Service
Upper Murray Health and Community Services
Victorian Institute of Forensic Mental Health
West Gippsland Health Care Group
West Wimmera Health Service
Western District Health Service

General government sector entities

Western Health
Wimmera Health Care Group
Wodonga Regional Health Service
Yarram and District Health Service
Yarrawonga District Health Service
Yea and District Memorial Hospital
Infertility Treatment Authority
Mental Health Review Board
Psychosurgery Review Board
Registration Boards including:
Chinese Medicine Registration Board of Victoria
Chiropractors Registration Board of Victoria
Dental Practice Board of Victoria
Medical Practitioners Board of Victoria
Nurses Board of Victoria
Optometrists Registration Board of Victoria
Osteopaths Registration Board of Victoria
Pharmacy Board of Victoria
Physiotherapists Registration Board of Victoria
Podiatrists Registration Board of Victoria
Psychologists Registration Board of Victoria
Victorian Health Promotion Foundation
Victorian Relief Committee

Infrastructure

Energy Safe Victoria
Roads Corporation
Southern and Eastern Integrated Transport Authority
Southern Cross Station Authority

Innovation Industry and Regional Development

Prince Henry's Institute of Medical Research
Tourism Victoria

Justice

Country Fire Authority
Emergency Services Telecommunications Authority
Equal Opportunity Commission
Judicial College of Victoria
Legal Services Board (formerly Legal Practice Board)
Legal Services Commissioner (formerly Office of the Legal Ombudsman)
Liquor Licensing Panel
Metropolitan Fire and Emergency Services Board
Office of Police Integrity

General government sector entities

Office of Public Prosecutions
Office of the Public Advocate
Office of the Victorian Privacy Commissioner
Sentencing Advisory Council
Victoria Legal Aid
Victoria Police (Office of the Chief Commissioner of Police)
Victoria State Emergency Service Authority
Victorian Commission for Gambling Regulation
Victorian Electoral Commission
Victorian Institute of Forensic Medicine
Victorian Law Reform Commission

Parliament

Victorian Auditor-General's Office

Premier and Cabinet

Australian Centre for the Moving Image
Film Victoria
Library Board of Victoria
Museums Board of Victoria
National Gallery of Victoria, Council of Trustees
Office of the Ombudsman
State Services Authority

Primary Industries

Veterinary Practitioners Registration Board of Victoria

Sustainability and Environment

Architects Registration Board of Victoria
Building Commission
Catchment Management Authorities including:
 Corangamite Catchment Management Authority
 East Gippsland Catchment Management Authority
 Glenelg Hopkins Catchment Management Authority
 Goulburn Broken Catchment Management Authority
 Mallee Catchment Management Authority
 North Central Catchment Management Authority
 North East Catchment Management Authority
 Port Phillip and Westernport Catchment Management Authority
 West Gippsland Catchment Management Authority
 Wimmera Catchment Management Authority
Environment Protection Authority
Heritage Council
Office of the Commissioner for Environmental Sustainability
Parks Victoria

General government sector entities

Plumbing Industry Commission
Royal Botanic Gardens Board
Surveyors Registration Board of Victoria
Sustainability Victoria
Trust for Nature (Victoria)

Treasury and Finance

Domestic Building (HH) Indemnity Fund and Housing Guarantee Claims Fund
Essential Services Commission
Victorian Competition and Efficiency Commission

Victorian Communities

2007 World Swimming Championships Corporation
Shrine of Remembrance Trustees
Victorian Institute of Sport Limited
Victorian Institute of Sport Trust

APPENDIX A: SPECIFIC POLICY DECISIONS AFFECTING THE BUDGET POSITION

Appendix A outlines specific government policy decisions that affect output, asset investment and revenue positions, including Treasurer's Advances, made since the May 2006 Budget.

OUTPUT AND ASSET DECISIONS

Government-wide decisions

The following table provides details of the total cost of Government-wide output decisions (initiatives that are administered and delivered by more than one Department). The figures included are the total cost of decisions. Funding from reprioritisation and existing fund sources has not been deducted from the total cost of the decision.

Table A1: Output decisions – Government-wide

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
Air Ambulance Victoria and Victoria Police Air Wing Co-location	..	0.1	0.1	0.1
Allergy training ^(a)	0.6	0.5	0.5	0.5
Fire Preparedness - Additional Resources for Bushfire Suppression	6.1	..	..	..
Liquefied Petroleum Gas (LPG) Conversions	1.2	..	..	..
2007 FINA World Swimming Championships Security Requirements ^(b)	..	..	..	..
Drought Response				
Apprenticeships initiative	3.8	..	..	..
Providing water security for sportsgrounds through summer	0.8	..	..	..
Our Environment Our Future – Sustainability Action Statement 2006				
Adapting for Victoria's Future	1.8	4.0	4.3	4.7
Support for National Emissions Trading	0.1	0.1	..	..
Total output decisions ^(b)	14.4	4.8	4.9	5.3

Source: Department of Treasury and Finance

Notes:

(a) Allergy training has \$0.3 million funding in 2010-11.

(b) 2007 FINA World Swimming Championships Security Requirements details withheld as security plans and arrangements of this kind are subject to an elevated level of sensitivity and confidentiality.

Air Ambulance Victoria and Victoria Police Air Wing Co-location

The Department of Human Services and the Department of Justice have been provided funding for the establishment of new facilities for the accommodation of the Air Ambulance Victoria and Victoria Police rotary air wing at Essendon Airport. This funding will develop a purpose-built Emergency Services Precinct.

Allergy training

The Department of Education and Training and the Department of Human Services will introduce uniform policy and training for teachers and children's services workers in response to life threatening allergies.

Fire Preparedness – Additional Resources for Bushfire Suppression

Funding is provided to the Department of Justice, Country Fire Authority and the Department of Sustainability and Environment for additional air support and supplementary fire equipment including water tanks, specialist water relay equipment and water transport to enhance existing fire suppression capability during the 2006-07 fire season.

Liquefied Petroleum Gas (LPG) Conversions

The Liquefied Petroleum Gas (LPG) Training decision has provided for 500 training places at TAFE Institutes to upgrade the skills of mechanics and related tradespersons to meet registration requirements for LPG installations and conversions. The Department of Education and Training has been provided funding of \$0.7 million, which has been allocated on the advice of the Victorian Automotive Chamber of Commerce, as well as \$0.1 million from the Skill-Up program to address immediate skill shortages in the production of LPG kits.

The Department of Innovation, Industry and Regional Development has also been provided with funding of \$0.4 million to implement the LPG Communications Strategy, which focuses on encouraging public confidence and emphasising safety and national standards.

2007 FINA World Swimming Championships Security Requirements

This decision provides funding from the Department of Justice and the Department for Victorian Communities to ensure the delivery of a safe and secure World Swimming Championships in Melbourne in March 2007.

Drought Response

Apprenticeships initiative

The Department of Primary Industries and the Department for Victorian Communities will provide funding to support the retention of apprentices employed in businesses located in Exceptional Circumstances areas that derive the majority of their income from servicing primary producers. One-off grants of \$1 500 will be paid to employers (sole traders, partnerships and private companies) for each apprentice that is retained to 31 December 2006.

Providing water security for sportsgrounds through summer

The Department of Sustainability and Environment and the Department for Victorian Communities will provide funding to assist regional and rural councils to keep municipal sportsgrounds open over this summer.

Our Environment, Our Future – Sustainability Action Statement 2006

Adapting for Victoria's Future

This decision, being implemented by the Department of Human Services, the Department of Primary Industries and the Department of Sustainability and Environment, will increase Victoria's scientific knowledge and technical expertise to help communities adapt to climate change. Specific components will include improving the resilience of Victoria's natural assets and agricultural systems and making our infrastructure more adaptable to climate change.

Support for National Emissions Trading

This decision, being implemented by the Department of Infrastructure and the Department of Sustainability and Environment, will provide for further analysis and assessment of emission trading options to inform Victoria's involvement in the National Emissions Trading Taskforce.

Table A2: Asset decisions – Government-wide

	(\$ million)				
	2006-07	2007-08	2008-09	2009-10	TEI
Air Ambulance Victoria and Victoria Police Air Wing Co-location	3.8	7.6	..	..	11.4
Total asset decisions	3.8	7.6	..	..	11.4

Source: Department of Treasury and Finance

Air Ambulance Victoria and Victoria Police Air Wing Co-location

See output decisions.

Departmental decisions

The following tables provide details of output and asset investment decisions since the May 2006 Budget, for each applicable department. Except where specified, figures indicate the total cost of decisions. Funding from reprioritisation and existing funding sources has not been deducted from the total cost of the decision.

Education and Training

Output decisions

Table A3: Output decisions – Education and Training

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
Our Environment Our Future – Sustainability				
Action Statement 2006				
Greening our Schools	1.0	..	..	..
Sustainability Skills	2.5	5.0	2.5	..
Sustainable Schools	0.1	0.1	0.1	0.1
Training for Tradies	0.2	0.3	0.3	..
Total output decisions	3.8	5.4	2.9	0.1

Source: Department of Treasury and Finance

Our Environment, Our Future – Sustainability Action Statement 2006

Greening our Schools

Funds will be invested for schools and education facilities to be more energy efficient through technology upgrades, education and behaviour change programs and improvements to construction, operation and maintenance guidelines. All new government schools will be built using the latest green rating tools.

Sustainability Skills

Funds will be invested to develop a National Centre for Sustainability, Environmental Design and Land Management at Swinburne TAFE's Wantirna campus and appoint a Statewide Sustainability Skills Advisor. Once completed, the Centre will focus on developing skills in sustainable land management and design that reduce impacts on the environment.

Sustainable Schools

This decision provides for an expansion of environmental sustainability programs to more government schools. Linkages that exist between schools and their local communities will be broadened under this program to include biodiversity and energy and water use.

Training for Tradies

Funds will be invested to bring more tradespeople and professionals up to speed on sustainable practices. This will complement proposed developments at the national level and support the implementation of 5 Star building regulations by working with electricians, residential heating/air conditioning installers and home sustainability assessors.

Asset decisions

Table A4: Asset decisions – Education and Training

	(\$ million)				
	2006-07	2007-08	2008-09	2009-10	TEI
Technical Wings and Trade Equipment for government schools ^(a)	..	19.7	9.3	8.8	50.0
Total asset decisions	..	19.7	9.3	8.8	50.0

Source: Department of Treasury and Finance

Note:

(a) *Technical Wings and Trade Equipment for government schools has \$8.2 million funding in 2010-11 and \$4.1 million in 2011-12.*

Technical Wings and Trade Equipment for government schools

Funding has been provided for building works and equipment in government secondary colleges, to encourage students to take up apprenticeships and trades. New trade wings will be built in 30 government secondary colleges with all other secondary colleges receiving grants of up to \$100 000 to purchase items such as computer aided drafting and manufacturing equipment and software, machining equipment, digital lathes and automotive and engineering equipment.

Human Services

Output decisions

Table A5: Output decisions – Human Services

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
Children's Sexual Assault Counselling Services	0.8	..	..	..
Council of Australian Governments: Health Workforce	6.8	6.3	6.2	7.7
Ensuring our hospitals are as clean and safe as possible ^(a)	..	2.0	0.9	0.9
Fire Preparedness - Community Development Officers	0.6	..	..	..
Health Workforce Recruitment and Retention	3.8	5.3	6.7	7.9
Non-Government Organisations Price Indexation	5.9	12.0	18.9	16.9
Royal Children's Hospital	12.4	15.9	16.3	16.7
Royal Melbourne Showgrounds Crèche Relocation	..	..	0.6	..
Drought Response				
Supporting families through drought	0.9	0.1	..	..
Supporting the human side of drought	3.8	..	..	..
Tackling mental health	0.9	..	..	..
Tackling rural poverty	0.3	..	..	..
Our Environment Our Future – Sustainability Action Statement 2006				
Greening our Hospitals	1.0	1.2	1.1	0.6
Water Efficiency in Public Housing	0.4	1.1	1.2	1.3
Protecting Our Communities – New Initiatives to Combat Terrorism				
Health and medical response	0.7	..	..	..
Total output decisions	38.1	43.9	51.9	52.0

Source: Department of Treasury and Finance

Note:

(a) Ensuring our hospitals are as clean and safe as possible has \$0.9 million funding in 2010-11.

Children's Sexual Assault Counselling Services

Funding is been provided to increase the availability of counselling services for sexual assault.

Council of Australian Governments: Health Workforce

Funding has been provided to resource the additional growth in undergraduate medical, nursing and allied health places in order to meet Victoria's commitments to the COAG Health workforce reform package.

Ensuring our hospitals are as clean and safe as possible

Funding has been provided to expand Victoria's anti-superbug handwash program to all hospital visitors and to place microbiological rapid testing units in all major hospitals.

Fire Preparedness – Community Development Officers

Funding is provided for the employment of Community Development Officers to work with community groups to provide grants, food relief, augmentation of health services and counsellors and assist in the development and implementation of local recovery initiatives to support capacity building in high risk fire areas.

Health Workforce Recruitment and Retention

Funding has been provided to expand Victoria's health workforce through the provision of additional medical intern and specialist training positions as well as an international recruitment campaign.

Non-Government Organisations (NGOs) Price Indexation

This decision will provide indexation for Non-Government Organisations (NGOs) providing disability, community care, housing assistance, palliative care and drug services.

Funding has also been provided in 2006-07 to 2008-09 to establish an infrastructure fund to assist NGOs in meeting the costs of infrastructure purchase, replacement or upgrade.

Royal Children's Hospital

Funding has been provided to the Royal Children's Hospital to manage increased demand for general and paediatric orthopaedic services.

Royal Melbourne Showgrounds Crèche Relocation

Funding has been provided for the relocation of existing crèche facilities.

Drought Response

Supporting families through drought

Funding has been provided to help families maintain important aspects of family life for example Christmas hampers, toys and back to school costs.

Supporting the human side of drought

Funding has been provided for mental health counsellors and mental health projects, community engagement and public information campaigns and fee relief for kindergartens in drought affected areas.

Tackling mental health

Funding has been provided to strengthen and improve local community capacity to deal more effectively with local issues around mental health. This will be achieved through professional development of service providers and local leaders, improving information and referral networks and local health promotion initiatives.

Tackling rural poverty

Funding has been provided to strengthen and improve local community capacity to deal more effectively with local issues around rural poverty. This will be achieved through professional development of service providers and local leaders, enhancing information and referral networks, facilitating local information sharing forums and funding for prioritised emergency relief needs across drought affected municipalities.

Our Environment, Our Future – Sustainability Action Statement 2006

Greening our Hospitals

Funding has been provided to enhance the environmental performance of hospitals and aged care facilities by implementing a program of energy and water efficiency retrofits.

Water Efficiency in Public Housing

Funding has been provided to install AAA shower heads and dual flush toilets in all public housing over the next four years.

Protecting Our Communities – New Initiatives to Combat Terrorism

Health and medical response

Funding has been provided for training and equipment to the Department of Human Services and ambulance services to better respond to critical incidents.

Asset decisions

Table A6: Asset decisions – Human Services

	<i>(\$ million)</i>				
	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>TEI</i>
Ensuring our hospitals are as clean and safe as possible ^(a)	..	2.0	1.0	1.0	5.0
Royal Melbourne Hospital Brickwork Rectification	15.1	..	..	..	15.1
Our Environment Our Future – Sustainability Action Statement 2006					
Greening our Hospitals	..	1.5	0.9	0.9	3.3
Total asset decisions	15.1	3.5	1.9	1.9	23.4

Source: Department of Treasury and Finance

Note:

(a) Ensuring our hospitals are as clean and safe as possible has \$1.0 million funding in 2010-11.

Ensuring our hospitals are as clean and safe as possible

See output decisions.

Royal Melbourne Hospital Brickwork Rectification

Funding has been provided for the continuation of works to rectify brickwork in the facades at the Royal Melbourne Hospital.

Our Environment, Our Future – Sustainability Action Statement 2006

Greening our Hospitals

See output decisions.

Infrastructure

Output decisions

Table A7: Output decisions – Department of Infrastructure

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
Country Rail Network Maintenance - Passenger Initiative	23.0	23.6	..	..
New Young Driver Safety and Graduated Licensing Package	2.1	2.5	..	..
Our Environment Our Future – Sustainability Action Statement 2006				
Smart Metering	1.4	0.6	0.1	0.1
Victorian Renewable Energy Target	1.0	0.5	..	..
Total output decisions	27.5	27.2	0.1	0.1

Source: Department of Treasury and Finance

Country Rail Network Maintenance - Passenger Initiative

Funding has been provided for the maintenance of the country passenger rail network to ensure that the integrity of the infrastructure is retained.

New Young Driver Safety and Graduated Licensing Package

Funding is provided for a package of measures to improve the safety of young drivers, including a longer learner phase and increased supervised driving experience, an improved driving test, a two staged probationary period, a requirement for good driving record to move through licence stages and alcohol ignition interlocks for first time drink driving offenders.

Our Environment, Our Future – Sustainability Action Statement 2006

Smart Metering

This decision provides for pricing and metering trials to record power usage by households and identify ways to reduce power usage during peak periods. The roll out of the two-way interval meters will be sped up to provide two million households with access to this technology over the next three to five years.

Victorian Renewable Energy Target

This project provides for the establishment of a renewable energy target to drive new investment in renewable energy projects and reduce greenhouse gas emissions.

Asset decisions

Table A8: Asset decisions – Department of Infrastructure

	(\$ million)				
	2006-07	2007-08	2008-09	2009-10	TEI
Country Rail Network Maintenance - Passenger Initiative	30.0	30.8	..	..	60.8
Frankston Bypass Bridges	6.5	..	..	..	6.5
Geelong Bypass Stage 4 Planning ^(a)	0.8	2.2	..	..	3.0
New Young Driver Safety and Graduated Licensing Package	1.0	1.5	..	..	2.5
Plummer Street Bypass ^(a)	4.8	13.3	..	..	19.2
Regional Rolling Stock Requirements	18.9	16.1	16.5	13.6	65.1
Drought Response					
Road upgrades in drought affected communities	16.1	7.6	0.3	..	24.0
Protecting Our Communities – New Initiatives to Combat Terrorism					
Motorised rail trolleys	0.5	..	..	..	0.5
Radio Re-broadcasting System	1.0	..	..	..	1.0
Total asset initiatives ^(a)	73.1	71.5	16.8	13.6	176.1

Source: Department of Treasury and Finance

Note:

(a) TEI includes funding in 2005-06.

Country Rail Network Maintenance – Passenger Initiative

See output decisions.

Frankston Bypass Bridges

Funding has been provided to construct three ramps at the EastLink and Mornington Peninsula Freeway interchange to provide access to the future Frankston Bypass. These works are being conducted as a State Initiated Modification to EastLink and are to be funded from the Better Roads Victoria Trust.

Geelong Bypass Stage 4 Planning

Funding has been provided to undertake a planning study of a possible fourth stage of the Geelong Bypass. This study will examine the design and costs of extending the Bypass to rejoin the Princes Highway west of the Waurin Ponds Valley, as well as consider the feasibility of a link to the Surf Coast Highway.

New Young Driver Safety and Graduated Licensing Package

See output decisions.

Plummer Street Bypass

Funding has been provided from the Better Roads Victoria Trust Account for a local truck bypass in Port Melbourne. The Bypass includes an upgrade of Graham Street north of Williamstown Road and Plummer Street between Graham and Prohasky Streets, and an extension of Prohasky Street to connect into the West Gate Freeway. This project will see a 50 per cent reduction in truck traffic on residential areas of Williamstown Road, as well as more direct access to the West Gate Freeway in Port Melbourne.

Regional Rolling Stock Requirements

This decision has brought forward funding announced in *Meeting Our Transport Challenges* from 2010-11 (beyond the forward estimates period) for 14 centre (trailer) cars for the VLocity regional rail fleet. This will enable train configurations to be more flexible and better match fluctuations in demand for regional rail services.

Drought Response

Road upgrades in drought affected communities

A package of road upgrades in drought affected communities will be brought forward to commence in 2006-07. The package, to be funded from the Better Roads Victoria Trust Account, includes shoulder sealing of the Midland Highway from Elmore to east of Stanhope and road widening of Lismore Skipton Road, Heathcote Rochester Road, Natimuk Frances Road, Boort Wycheproof Road, and Wangaratta-Whitford Road.

Protecting Our Communities – New Initiatives to Combat Terrorism

Motorised rail trolleys

Funding has been provided to enable the purchase of a number of small battery operated trolleys to enable rapid evacuation of the City Loop in case of emergency.

Radio Re-broadcasting System

Funding has been provided for the installation of a radio re-broadcasting system within the City Loop to facilitate the broadcast of emergency information in case of an incident.

Innovation, Industry and Regional Development

Output decisions

Table A9: Output decisions – Department of Innovation, Industry and Regional Development

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
Cooperative airline marketing program	2.0	..	..	..
Grand Plaza Project, Docklands	10.0	..	..	..
Team Melbourne	0.3	..	..	..
Drought Response				
Business Continuity Package	1.5	..	..	..
Grants to local government for minor works and local infrastructure	11.1	..	..	..
Regional Infrastructure Development Fund projects - for projects in drought affected areas	10.0	..	..	..
Small Towns Development Fund projects - for innovative water projects	5.0	..	..	..
Small Towns Development Fund projects - for projects in drought affected areas	2.9	..	..	..
Our Environment Our Future – Sustainability Action Statement 2006				
Enhanced Sustainability in New Investment	1.0	1.2	1.3	..
Total output decisions	43.8	1.2	1.3	..

Source: Department of Treasury and Finance

Cooperative airline marketing program

Funding has been provided for cooperative marketing activities to promote Victoria internationally as a tourism destination in alliance with commercial airline operators in Victoria.

Grand Plaza Project, Docklands

Funding has been provided to accelerate works on the Grand Plaza project at the Docklands, now scheduled for completion in 2006-07. The works involve demolishing the existing wharf and constructing a new wharf at a lower level, as well as removing the existing level changes and stairs to enhance pedestrian circulation. The works will also improve safety by separating pedestrians and bicycles.

Team Melbourne

Funding has been provided to an alliance of Melbourne-based and Melbourne-named sporting clubs, as part of the branding and marketing of Victorian activities.

Drought Response

Business Continuity Package

Funding has been provided for direct counselling and group forums/workshops for businesses in drought affected areas.

Grants to local government for minor works and local infrastructure

Funding has been provided to give 37 local councils in Exceptional Circumstances affected areas cash grants of \$300 000 for minor works and local infrastructure projects. These funds will be provided on a 2:1 matched funding basis with councils, matching either in-kind or cash contributions.

Regional Infrastructure Development Fund projects – for projects in drought affected areas

Funding has been brought forward under the Regional Infrastructure Development Fund for projects in drought affected regions.

Small Towns Development Fund projects – for innovative water projects

Funding has been brought forward under the Small Towns Development Fund for innovative water projects in drought affected regions.

Small Towns Development Fund projects – for projects in drought affected areas

Funding has been brought forward under the Small Towns Development Fund for other projects in drought affected regions.

Our Environment, Our Future – Sustainability Action Statement 2006

Enhanced Sustainability in New Investment

This decision will encourage companies considering investment or expansion in Victoria to adopt technologies and processes that deliver enhanced sustainability outcomes. This action will expand the successful greenhouse-specific investment facilitation program, and provide matched incentives for investment in water saving and waste management, as well as greenhouse friendly technologies.

Justice

Output decisions

Table A10: Output decisions – Department of Justice

	<i>(\$ million)</i>			
	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>
Fire Preparedness - Community Awareness and Engagement of Bushfires	0.9	..	..	..
Living Country Racing Program ^(a)	..	0.4	0.4	0.4
Protecting Our Communities – New Initiatives to Combat Terrorism				
Emergency Management Exercise Group - Operations ^(b)	..	0.4	0.4	0.4
Total output decisions	0.9	0.8	0.8	0.8

Source: Department of Treasury and Finance

Notes:

(a) Living Country Racing Program has \$0.4 million funding in 2010-11.

(b) Emergency Management Exercise Group - Operations has \$0.4 million funding in 2010-11.

Fire Preparedness – Community Awareness and Engagement of Bushfires

Funding is provided to enhance a range of existing community awareness and engagement activities such as targeted communications in relation to fire preparedness and safety information including *Fire Ready Victoria*, community engagement facilitators and integrating fire emergency management, engagement and communications.

Living Country Racing Program

Funding is provided for the continuation of the Living Country Racing Program which aims to upgrade and improve racing infrastructure in regional Victoria and to increase opportunities for access to racing facilities for the non-racing community.

Protecting Our Communities – New Initiatives to Combat Terrorism

Emergency Management Exercise Group – Operations

Funding has been provided for the establishment of a multi agency emergency incident training coordination unit within the Department of Justice.

Asset decisions

Table A11: Asset decisions – Department of Justice

	(\$ million)				
	2006-07	2007-08	2008-09	2009-10	TEI
Police Cells Upgrade	3.8	..	..	..	3.8
Protecting Our Communities – New Initiatives to Combat Terrorism					
CCTV Van	0.3	..	..	..	0.3
Emergency Management Exercise Group – Equipment	0.2	..	..	..	0.2
Total asset decisions	4.3	..	..	..	4.3

Source: Department of Treasury and Finance

Police Cells Upgrade

This decision has provided funding for lighting and ventilation upgrades in police cells in 14 locations across the State, including the Melbourne Custody Centre.

Protecting Our Communities – New Initiatives to Combat Terrorism

CCTV Van

Funding has been provided for the purchase of a mobile CCTV Van to enable better management of major emergencies and events.

Emergency Management Exercise Group – Equipment

Funding has been provided for the purchase of necessary equipment for the new Emergency Management Exercise Group.

Premier and Cabinet

Output decisions

Table A12: Output decisions – Department of Premier and Cabinet

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
Cultural Program for the 2007 FINA World Swimming Championships	2.3	..	..	..
New Jewish Community Centre, Caulfield	2.3	..	..	..
Purchase of Von Guerard Painting 'View of Geelong'	1.5	..	..	..
Protecting Our Communities – New Initiatives to Combat Terrorism				
Centre for Dialogue	..	0.2	0.1	..
Counter Terrorism Research and Development	0.1	0.1	0.1	0.1
Global Terrorism Research Centre ^(a)	0.2	0.3	0.3	0.3
Total output decisions	6.3	0.6	0.5	0.4

Source: Department of Treasury and Finance

Note:

(a) Global Terrorism Research Centre has \$0.2 million funding in 2010-11.

Cultural Program: 2007 FINA World Swimming Championships

Funding has been provided for a free outdoor cultural program to be held in March 2007 during the FINA World Swimming Championships.

New Jewish Community Centre, Caulfield

Funding has been provided to enable the purchase of land in Caulfield for the development of a new Jewish Community Centre.

Purchase of Von Guerard Painting 'View of Geelong'

Funding has been provided to the Geelong Gallery for the purchase of the early Australian painting 'View of Geelong' by Eugene von Guerard.

Protecting Our Communities – New Initiatives to Combat Terrorism

Centre for Dialogue

Funding will be provided for the Centre for Dialogue at La Trobe University.

Counter Terrorism Research and Development

Funding has been provided to the operations of the National Security and Technology Unit and for research and consultation on the causes of terrorism.

Global Terrorism Research Centre

Funding will be provided for the establishment of a new Global Terrorism Research Centre at Monash University from January 2007.

Asset decisions

Table A13: Asset decisions – Department of Premier and Cabinet

	(\$ million)				TEI
	2006-07	2007-08	2008-09	2009-10	
Australian Centre for the Moving Image Ground Floor Planning and Redevelopment Works	3.0	..	..	..	3.0
Total asset decisions	3.0	..	..	..	3.0

Source: Department of Treasury and Finance

Australian Centre for the Moving Image Ground Floor Planning and Redevelopment Works

Funding has been provided for ground floor planning and redevelopment works at the Australian Centre for the Moving Image.

Primary Industries

Output decisions

Table A14: Output decisions – Primary Industries

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
Leasing of Aquaculture Sites	0.5	0.8	0.4	0.2
Locust Control in northern Victoria	3.0	..	..	..
Drought Response				
Additional Rural Financial Counsellors	0.6	0.6	..	..
Domestic and Stock Water Tank rebates	5.4	..	..	..
Drought communications	0.1	..	..	..
Exceptional Circumstances package - Business Interest Rate Subsidies	2.0	..	..	..
Extending Municipal Rates Subsidy to 2007-08	..	5.0	..	..
Future farm planning	0.7	0.7	..	..
One-on-one extension services for farmers	0.5	0.5	..	..
Stock slaughter program	1.0	..	..	..
Supplementary re-establishment grants	0.5	..	..	..
Our Environment Our Future – Sustainability Action Statement 2006				
Healthy Soil	1.0	1.0	1.0	1.0
Responding to Community Expectations of Mining	0.8	0.8	0.6	0.4
Reducing Emissions from the Agricultural Sector	0.4	..	..	..
Total output decisions	16.3	9.3	2.1	1.6

Source: Department of Treasury and Finance

Leasing of Aquaculture Sites

Funding has been provided to meet costs associated with the leasing of marine aquaculture sites on Crown land in Port Phillip Bay and Western Port.

Locust control in northern Victoria

Funding has been provided to meet the cost of undertaking urgent locust control activities in northern Victoria.

Drought Response

Additional Rural Financial Counsellors

Funding has been provided for four rural financial counsellors in Ouyen, Kerang, Kyabram and the Wimmera over the next two years.

Domestic and Stock Water Tank rebates

This decision will provide rebates on the cost of installing a water tank for eligible Grampians Wimmera Mallee Water stock and domestic water customers.

Drought communications

Funding has been provided to promote combined State Government drought response measures.

Exceptional Circumstances package – Business Interest Rate Subsidies

The funding represents the State's commitment to assist farmers affected by recent frosts at Goulburn Valley. A major component of the assistance is to provide business interest rate subsidies for eligible farmers in the area.

Extending Municipal Rates Subsidy to 2007-08

This decision will extend the 50 per cent municipal rates subsidy program into 2007-08.

Future farm planning

This decision will provide services and support for primary producers making decisions for the future.

One-on-one extension services for farmers

This decision has provided funding for one-on-one extension services and advice for farmers in drought 'hot spots' across the State.

Stock Slaughter Program

Funding has been provided to assist local councils with the costs of disposing of sheep or cattle that are in unsaleable condition due to drought conditions.

Supplementary re-establishment grants

This decision offers 12 months of support to retrain farmers choosing to exit the industry, assisting them with the process of leaving their landholdings, and often their homes. This decision complements a Commonwealth Government program.

Our Environment, Our Future – Sustainability Action Statement 2006

Healthy Soil

This decision will help primary producers responsibly manage their soil assets to help achieve production and environmental benefits. This will include putting them in touch with the best available information sources, diagnosing the condition and health of their soil, comparing their soil management against other local producers and pursuing improved soil productivity and environmental services.

Responding to Community Expectations of Mining

The major boom in the resource sector is bringing new pressures and new issues for communities and the environment. This decision will minimise conflict by ensuring the resources sector talks with communities at an early stage and consults on how it will improve environmental and social outcomes and protect rural amenities through sustainable development practices.

Reducing Emissions from the Agricultural Sector

Funding will be invested to support research into greenhouse emissions from Victorian agricultural activities, with a particular focus on the dairy industry. These emissions can be reduced through more efficient use of resources such as fertiliser and water, as well as being affected by animal treatment.

Sustainability and Environment

Output decisions

Table A15: Output decisions – Department of Sustainability and Environment

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
Analysis of Large Scale Water Supply Options for Melbourne	2.9	6.4	..	..
Analysis of Water Supply Options for Geelong	1.3	2.8	..	..
Annual Review of Factors Influencing Water Supply and Demand	2.3	..	..	..
Industrial Waste Reduction Programs	..	4.8	7.6	7.6
Mullum Mullum Creek Regional Park ^(a)	..	0.4	0.7	0.8
Sustainable Water Projects ^(b)	..	..	69.3	69.3
Drought Response				
Emergency bore and water supply network	3.0	..	..	..
Fire Ready Victoria for rural and isolated communities	0.6	..	..	..
Investing in Catchment and Land Protection	5.0	..	..	..
Municipal pools assistance program	1.1	..	..	..
Northern grid - promoting interconnections	2.0	6.0	..	..
Pumping Waranga Basin	4.3	..	..	..
Stock containment facilities	0.5	..	..	..
Using groundwater to secure urban water supplies	1.0	..	..	..
Water Rates Subsidies	40.0	2.0	2.0	2.0
Wimmera Mallee Pipeline - Fire Hydrants and Tanks	1.2	..	..	..

Table A15: Output decisions – Department of Sustainability and Environment
(continued)

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
Our Environment Our Future – Sustainability				
Action Statement 2006				
Air Quality Monitoring Stations	3.0	..	..	..
Alternative Fuels	0.7	0.2	..	..
Cities for Climate Protection	0.4	..	..	..
Eco-innovation Hub	0.3	0.4	0.4	0.4
Eco-living	0.8	0.8	0.8	0.8
Energy Efficiency and Sustainability Campaign	2.4	5.0	..	..
Energy Smart Business	0.5	0.3	0.8	1.0
Extending Bush Tender	..	0.9	0.9	0.9
Gippsland Lakes	2.3	2.0	1.8	..
Green Communities - Smart Energy Zones	1.0	1.1	1.1	0.8
GreenHomes	0.6	1.2	1.2	1.2
Greening our Car Fleet	0.5	..	..	..
It's Easy Being Green	0.4	0.4	0.4	0.4
Landcare	2.0	2.0	2.0	2.0
Learning to Live Sustainably	0.5	1.5	2.0	1.9
Lifecycle Management in Business and Industry	3.0	3.0	3.0	..
Litter Strategy	0.1	..	..	..
Market Solutions	1.3	4.3	4.2	4.2
Native Vegetation Trust	1.6	2.6	0.1	0.1
Neighbourhood Renewal (Environmental Initiatives)	0.3	0.4	0.3	0.3
Protecting Our Coastline	0.2	0.2	0.2	0.2
Rebates for Being Green	0.3	0.6	0.6	..
Recreational Parks -Trail Bikes	0.9	1.5	1.6	1.1
Regional Sustainability	0.3	0.7	0.7	0.8
Right Advice at the Right Place	0.9	1.2	..	..
Support for Renewable Energy Technologies	4.4	4.0	4.0	..
Support Smart Business	0.5	0.3	0.8	1.0
Sustainable Forestry	0.5	..	..	..
Sustainability Fund Grants	3.0	3.0	3.0	3.0
Take-back and Recycling Centres	1.6	1.4	0.5	0.5
Trade Waste	1.0	1.0	1.0	1.0
Victorian Local Sustainability Accord	1.0	1.4	1.3	1.3
Werribee Plains	0.2	0.2	0.2	..
Yarra Hot Spots	0.6	1.2	1.3	1.4
Total output decisions	102.2	64.9	113.7	103.7

Source: Department of Treasury and Finance

Notes:

- (a) Mullum Mullum Creek Regional Park has \$0.6 million funding in 2010-11.
 (b) Sustainable Water Projects will provide \$69.3 million funding in 2010-11 and 2011-12.

Analysis of Large Scale Water Supply Options for Melbourne

A State Government contribution is provided to undertake development of business cases for large scale water supply options for Melbourne such as the Eastern Treatment Water Recycling proposal and other augmentation feasibility studies including seawater desalination and stormwater re-use options.

Analysis of Water Supply Options for Geelong

A State Government contribution is provided to undertake feasibility studies of water supply options in Geelong and surrounding regions such as Newlingbrook and Jan Juc. Groundwater opportunities, aquifer storage and recovery initiatives and the potential for a Melbourne to Geelong interconnection will also be investigated.

Annual Review of Factors Influencing Water Supply and Demand

Funding has been provided to deliver an annual review of water availability and demand compared to predicted forecasts, the evaluation of progress in meeting water conservation targets and a program of community and stakeholder engagement on the outcomes of the annual review.

Industrial Waste Reduction Programs

Industry support programs will be established by the Environment Protection Authority in partnership with industry to reduce the generation of prescribed industrial waste. These programs will be funded from additional revenues arising from the introduction from 1 July 2007 of increased and differential landfill levies for the disposal of prescribed industrial waste.

Mullum Mullum Creek Regional Park

Funding is provided to establish the Mullum Mullum Creek Regional Park to provide recreational and environmental benefits to the communities of Nunawading, Ringwood and surrounding areas. The natural values contained along Mullum Mullum Creek will be protected through the establishment of natural features reserves.

Sustainable Water Projects

Funding is provided for water-related initiatives that seek to promote the sustainable management of water and to address adverse environmental impacts associated with water use. Funding is sourced from the second tranche of revenue from the Environmental Contribution Levy beginning 1 July 2008.

Drought Response

Emergency bore and water supply network

Funding has been provided to prepare an updated inventory of reliable and accessible emergency water supply points for water cartage across the State, as well as to upgrade existing water supply points and identify and establish new sites.

Fire Ready Victoria for rural and isolated communities

Funding has been provided to extend the Fire Ready Victoria model to isolated rural communities in higher drought and bushfire risk areas.

Investing in Catchment and Land Protection

Catchment Management Authorities will deliver fencing works, pest management, stock containment and environmental works to mitigate the impacts of drought.

Municipal pools assistance program

Funding is provided to approximately 20 regional and rural councils to assist keep municipal pools open over this summer.

Northern grid - promoting interconnections

Funding is provided for stage one of a northern irrigation district upgrade, comprising program development, system design, feasibility studies and business cases for piping, channel automation, channel lining, improved metering and system interconnections.

Pumping Waranga Basin

Funding is provided for Goulburn-Murray Water to pump 'dead water' from the Waranga Basin to increase water allocations.

Stock containment facilities

Funding is provided to respond to the impacts of soil erosion and soil health decline exacerbated by drought.

Using groundwater to secure urban water supplies

This decision has provided funding to help rural towns secure urban water supplies by identifying and accessing groundwater supplies.

Water Rates Subsidies

Funding has been provided by the Government towards the first \$5 000 of fixed water charges for all irrigators and stock and domestic farmers who received less than 50 per cent of their water entitlements in 2006-07 only. In addition, for those irrigators whose water bill is greater than \$5 000 the balance will be able to be deferred and repaid over the following four years in annual instalments, interest free.

Wimmera Mallee Pipeline - Fire Hydrants and Tanks

Funding is provided to assist eight local councils in the Wimmera Mallee region to install fire hydrants and fire tanks along trunk mains and distribution pipelines being renewed as part of the Wimmera Mallee Pipeline Project.

Our Environment, Our Future – Sustainability Action Statement 2006

Air Quality Monitoring Stations

In partnership with Ecotech Pty Ltd, the Environment Protection Authority will update the current metropolitan air monitoring network with new instrumentation, new shelters and infrastructure. Two new stations will be established in Melbourne's northern and western suburbs.

Alternative Fuels

Funding is provided to develop 'A Biofuels Action Plan for Victoria' that will focus on building the capacity of the local biofuels industry and position the Victorian automotive industry for a low carbon future. The project also contributes to a hybrid bus trial that is designed to demonstrate the capability and accessibility of alternative technologies to the broader public.

Cities for Climate Protection

This decision will cut greenhouse emissions by providing funding assistance to help local councils implement energy reduction measures and green purchasing policies, as outlined in their environmental action plans.

Eco-innovation Hub

This decision will seek to identify applications for new technologies that have the potential to provide significant environmental benefits. This will be done by linking university students across a range of design disciplines to sustainability projects with industry, Government, communities and a sustainable cities network.

Eco-living

Seed funding will be provided to local councils to establish six community buildings that demonstrate sustainability in action, based on the successful Port Phillip Eco-House and the CRES Centre in Brunswick. Funding will also be provided for practical examples of sustainability improvements in kindergartens, libraries, community centres, offices and small shops.

Energy Efficiency and Sustainability Campaign

This decision will provide for a high-profile, sustained media campaign to increase awareness of climate change and demonstrate how household actions can reduce energy use and greenhouse gas emissions.

Energy Smart Business

Funding support is provided for projects in the business and retail sectors which demonstrate the benefits of energy efficiency with the aim of promoting wider uptake. Funding is also provided to start benchmarking Victoria's energy performance in key business sectors, as well as the residential sector.

Extending Bush Tender

The BushTender program will be rolled out across the State, building on the successful expansion announced in the Provincial Statement. BushTender is an auction based approach where landholders competitively tender for contracts to improve their native vegetation.

Gippsland Lakes

This decision aims to improve water quality in the Gippsland Lakes and assist reduction of the frequency and severity of algal blooms. The third phase of the *Gippsland Lakes Future Directions and Action Plan* will continue major nutrient reduction programs, support wetlands biodiversity and increase the capacity of the catchment community to improve the environmental health of the Lakes.

Green Communities - Smart Energy Zones

This decision will demonstrate how leading Victorian communities can dramatically reduce their greenhouse gas emissions through integrating energy efficiency measures. Opportunities will be identified for communities to demonstrate how they can develop their own power through sustainable energy solutions.

GreenHomes

In partnership with local government and environment groups, the State Government will help households make eco-friendly choices covering energy, waste, packaging, transport, gardens and water.

Greening our Car Fleet

The State Government will operate a carbon neutral vehicle fleet by maintaining 150 hybrid vehicles and investing in offsetting greenhouse emissions.

It's Easy Being Green

The ECOBuy green purchasing scheme has been successful in empowering local governments to achieve environmentally friendly outcomes in their purchasing decisions. The scheme will be extended beyond local government, with the establishment of an ECOBuy Environmental Purchasing Centre in Melbourne.

Landcare

Building on the success of the *Victorian Action Plan for Second Generation Landcare*, this decision will increase the capacity of local and regional communities to participate in coordinated natural resources management activities, address key information gaps to improve the effectiveness of existing programs and facilitate sub catchment scale partnership projects. Funding will also help Landcare Groups recruit more Victorians to the Landcare movement.

Learning to Live Sustainably

This decision provides for an effective, efficient, Whole-of-State approach to education and behaviour change for environmental sustainability. Funding is provided for key elements of the 10-year *Learning to Live Sustainably Strategy*, including a major household behaviour change program led by the Australian Conservation Foundation and Environment Victoria, and incentive programs, including seed funding, accreditation, awards and locally targeted behaviour change campaigns.

Lifecycle Management in Business and Industry

The Environment Protection Authority will work with the Victorian Employers' Chamber of Commerce and Industry, the Australian Industry Group and the Plastic and Chemicals Industry Association to support environmental and efficiency improvements across the lifecycle of products and services in key industries.

Litter Strategy

In conjunction with the Victorian Litter Action Alliance and local councils, the State Government will develop a litter strategy to cover enforcement, better education and awareness raising programs. This strategy is intended to advance the State Government's goal of improving litter behaviour by 25 per cent.

Market Solutions

This decision involves the use of specially designed markets (such as auctions, tradeable permits and offset markets) to provide landholders with incentives to further integrate environmental considerations with the business decisions of the farm. Through this decision, a large scale pilot of EcoTender will be run in regional Victoria, enabling State government funding to be allocated to environmental initiatives identified by the private and community sectors that deliver multiple environmental benefits.

Native Vegetation Trust

Consistent with the State Government's goal of net vegetation gain, this decision establishes an offset market for native vegetation to allow developers to pay into a pooled fund for investment in native vegetation.

Neighbourhood Renewal (Environmental initiatives)

This decision will further integrate the State Government's social and environmental sustainability goals, by focussing on practical environmental initiatives in areas of disadvantage.

Protecting Our Coastline

This decision provides assistance to coastal councils to implement the *Coastal Spaces Settlement Framework*. This will enable coastal councils to respond to development pressures from 'Seachange' demographic shifts, as well as to the risks of climate change and its effects on the coastal zone.

Rebates for Being Green

Targeted rebates will be provided to encourage Victorians to replace inefficient household appliances that require the most power to operate. The rebates could include old fridges, upgrading old gas-ducting and insulation.

Recreational Parks – Trail Bikes

This decision will enhance the management of recreational vehicle use in State Forests. Specifically it will reduce environmental impacts from trail bike use, rehabilitate tracks, establish new trail bike unloading areas and create new buffer zones to protect residential areas and environmental assets.

Regional Sustainability

Regional sustainability strategies will be developed that set out the contribution each region will make to the State's sustainability objectives, identify regional needs, challenges and priorities and set out actions for driving better outcomes.

Right Advice at the Right Place

This decision will engage hardware stores and appliance and lighting retailers to provide Victorians with the best energy-saving advice at the point of sale. This will empower households to buy energy efficient appliances for the home.

Support for Renewable Energy Technologies

The decision provides funding support for renewable energy technology research and development. Grants will be provided to world-class research proposals that can leverage additional support from industry and the Commonwealth Government.

Support Smart Business

Funding is provided to expand successful business energy innovation programs to provide support for businesses investing in leading edge eco-efficient solutions that demonstrate the benefits of material efficiency, waste reduction and water conservation.

Sustainable Forestry

This decision will ensure that timber harvesting in Victoria is accredited with the highest possible environmental standards. Victoria will progress with achieving both the Australian Forestry Standard and Forest Stewardship Council certification standards.

Sustainability Fund Grants

Funding of \$12 million will be provided over the next four years under the annual Sustainability Fund allocations process to initiatives that improve our environment and have economic and social benefits.

Take-Back and Recycling Centres

Funding is provided to establish 12 'byte-back' and 'detox' centres to recycle household chemicals, paints and batteries, TVs, computers and other electronic equipment.

Trade Waste

Funding is provided to support rural food and dairy manufacturers reduce their trade waste volumes and use of potable water.

Victorian Local Sustainability Accord

Funding is provided to support local environmental priorities as part of agreements with local government, under the *Victorian Local Sustainability Accord*.

Werribee Plains

A *Regional Sustainability Framework for Werribee Plains* will be developed in partnership with the Australian Conservation Foundation to identify specific opportunities within the region to pursue and market sustainable development practices and technologies. This decision will help make the Werribee region a unique sustainable location to live, work and invest.

Yarra Hot Spots

This decision will enable the Environment Protection Authority to establish a high profile team to conduct field investigations, scientific evaluation and infrastructure audits along the Yarra River and its tributaries (including the Maribyrnong River). Funding is also provided to identify 'hot spots' for action and to assist business and the community to take actions to protect the river.

Asset decisions

Table A16: Asset decisions – Department of Sustainability and Environment

	<i>(\$ million)</i>				
	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>TEI</i>
Barwon Water/Shell Recycling Project	0.1	2.1	7.3	0.1	9.4
Sustainable Water Projects ^(a)	..	..	4.4	4.4	17.7
Drought Response					
Interconnect Waranga Channel with the Ballarat Urban Water Supply System	2.9	7.0	20.5	40.7	71.0
Investing in Catchment and Land Protection	5.0	..	..	..	5.0
Northern grid - promoting interconnections	0.8	1.8	..	..	2.5
Our Environment Our Future – Sustainability Action Statement 2006					
Better Parks (Great Parks for a Liveable City)	3.3	6.4	2.4	1.1	13.3
Total asset decisions	12.1	17.2	34.6	46.3	118.9

Source: Department of Treasury and Finance

Note:

(a) Sustainable Water Projects will provide \$4.4 million funding in 2010-11 and 2011-12.

Barwon Water/Shell Recycling Project

Funding over four years has been provided to assist delivery of a water recycling plant at Shell Refinery in Geelong as part of a Barwon Water/Shell alliance.

Sustainable Water Projects

See output decisions.

Drought Response

Interconnect Waranga Channel with the Ballarat Urban Water Supply System

This project links the Goulburn system to the Ballarat water system, providing Ballarat with access to a more reliable and secure supply of water. The State Government will contribute \$71.0 million to redistribute up to 20 gigalitres of water via a new pipeline.

Investing in Catchment and Land Protection

See output decisions.

Northern grid – promoting interconnections

This decision provides for a State Government contribution to Goulburn-Murray Water for construction of an interconnect from the Waranga Channel to the Campaspe Irrigation District.

Our Environment, Our Future – Sustainability Action Statement 2006.

Better Parks (Great Parks for a Liveable City)

This decision involves the development of three new parks in Melbourne's key growth corridors at Werribee, Melton and Craigieburn. New and expanded visitor facilities will be provided at the Point Gellibrand Coastal Park. Funding is also provided to undertake landscape and environment enhancement works at the four sites.

Treasury and Finance

Output decisions

Table A17: Output decisions – Department of Treasury and Finance

	<i>(\$ million)</i>			
	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>
Domestic Building Indemnity Fund	3.7	..	..	..
Total output decisions	3.7	..	..	..

Source: Department of Treasury and Finance

Domestic Building Indemnity Fund

Funding has been provided to process and settle claims from policyholders of builders' warranty insurance products issued by the HIH Insurance Group.

Victorian Communities

Output decisions

Table A18: Output decisions – Department for Victorian Communities

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
2007 FINA World Swimming Championships	3.8	..	..	..
Commonwealth Games Legacy Projects ^(a)	23.0	..	..	..
Drought Response				
Building Resilient Communities	0.8	0.8		
Total output decisions	27.6	0.8	..	..

Source: Department of Treasury and Finance

Note:

(a) Individual projects and phasings of the Commonwealth Games Legacy Projects have yet to be confirmed.

2007 FINA World Swimming Championships

Funding has been provided in 2006-07 to enhance the benefits from the 2007 FINA World Swimming Championships.

Commonwealth Games Legacy Projects

Funding from Melbourne 2006 Commonwealth Games Budget savings will be provided for sporting and other community-related initiatives. Program examples include Growing Sporting Participation, Community Walking Group grants and Improved School Sports Facilities.

Drought Response

Building Resilient Communities

This decision has provided funding over two years to the 15 most drought affected municipalities in Victoria for the development of local initiatives that build community resilience.

Asset decisions

Table A19: Asset decisions – Department for Victorian Communities

	(\$ million)				
	2006-07	2007-08	2008-09	2009-10	TEI
Commonwealth Games Legacy Projects - Demountable Pools	2.9	..	..	..	2.9
Total asset decisions	2.9	..	..	..	2.9

Source: Department of Treasury and Finance

Commonwealth Games Legacy Projects - Demountable Pools

Funding has been provided for the purchase of two temporary demountable swimming pools and associated plant and equipment to cater for the 2007 FINA World Swimming Championships. The pools will subsequently be distributed to local councils for future use as community swimming pools.

DEPARTMENTAL CONTRIBUTION LEVY – DROUGHT ASSISTANCE

Table A20: Departmental Contribution Levy – Drought Assistance

	(\$ million)				
	2006-07	2007-08	2008-09	2009-10	
Education and Training	10.0	..	..	..
Human Services	10.0	..	..	..
Infrastructure	5.0	..	..	..
Innovation, Industry and Regional Development	5.0	..	..	..
Justice	5.0	..	..	..
Premier and Cabinet	1.7	..	..	..
Primary Industries	1.7	..	..	..
Sustainability and Environment	5.0	..	..	..
Treasury and Finance	1.7	..	..	..
Victorian Communities	5.0	..	..	..
Total Departmental Contribution Levy - Drought Assistance	50.0	..	..	..

Source: Department of Treasury and Finance

Departmental Contribution Levy – Drought Assistance

In recognition of the exceptional circumstances created by the drought, a Departmental Contribution Levy has been applied totalling \$50 million in 2006-07 and sourced from existing appropriations for all departments. The Departmental Contribution Levy enables the implementation of a package of drought assistance decisions (as outlined throughout this Appendix).

REVENUE DECISIONS

Table A21: Revenue decisions

	(\$ million)			
	2006-07	2007-08	2008-09	2009-10
Environmental Contribution Levy ^(a)	73.7	73.7
Prescribed Industrial Waste Levy	..	15.3	4.0	3.4
Total revenue decisions	..	15.3	77.7	77.1

Source: Department of Treasury and Finance

Note:

(a) Environmental Contribution Levy will collect \$73.7 million in 2010-11 and 2011-12.

Environmental Contribution Levy

This is a continuation of the Environmental Contribution Levy to fund water-related initiatives that seek to promote the sustainable management of water and to address adverse environmental impacts associated with water use. The funding shown is indicative only, with the final funding profile being determined in accordance with the process set out in the *Water Industry Act 1994*.

Prescribed Industrial Waste Levy

From 1 July 2007, increased and differential landfill levies will apply for the disposal of prescribed industrial waste. The revenue raised from the levy increases will be reinvested by the EPA in partnership with industry to reduce the generation of prescribed industrial waste.

A levy of \$130 per tonne of higher level hazard prescribed industrial waste (Class B) will apply, as will a levy of \$50 per tonne of lower level prescribed industrial waste (Class C). Under the *Environment Protection (Amendment) Act 2006*, all Class A prescribed industrial waste must be treated to at least Class B standard before disposal. No levy will apply to the deposit of wastes to the long-term containment facility.

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

The provisions of the *Financial Management Act 1994* have been complied with in the *Pre-Election Budget Update*. Table B1 provides details of these requirements together with appropriate references in this document.

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

<i>Relevant section of the Act and corresponding requirement</i>	<i>Location</i>
Section 27B(1)	
A pre-election budget update comprises —	
(a) updated estimated financial statements for the Victorian general government sector for the financial year in respect of which they are prepared and the following 3 financial years;	Chapter 4, <i>Estimated Financial Statements and Notes</i>
(b) a statement of the material economic and other assumptions that have been used in preparing the updated statements;	Chapter 1, <i>Economic Conditions and Outlook</i> , Chapter 2, <i>Budget Position and Outlook</i> and Chapter 4, <i>Estimated Financial Statements and Notes</i>
(c) discussion of the sensitivity of the updated statements to changes in those economic and other assumptions;	Chapter 3, <i>Statement of Risks</i>
(d) a statement of risks, quantified where feasible, that may have a material effect on the updated statements including —	Chapter 3, <i>Statement of Risks</i> and Chapter 4, <i>Estimated Financial Statements and Notes</i>
(i) contingent liabilities;	
(ii) publicly announced Government commitments that are not yet included in the statements.	

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

<i>Relevant section of the Act and corresponding requirement</i>	<i>Location</i>
Section 27B(2)	
The information in a pre-election budget update must take into account, to the fullest extent possible, all Government decisions and all other circumstances that may have a material effect on the estimated financial statements.	Appendix A, <i>Specific Policy Decisions Affecting the Budget Position</i>
Section 27B(3)	
A pre-election budget update must be prepared on a basis consistent with —	Chapter 1, <i>Economic Conditions and Outlook</i> , Chapter 2, <i>Budget Position and Outlook</i> and Chapter 4, <i>Estimated Financial Statements and Notes</i>
(a) the current financial policy objectives and strategies statement; and	
(b) the most recent estimated financial statements or budget update, as applicable.	

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