2010-11 Victorian Budget Update

(incorporating Quarterly Financial Report No. 1)

Presented by Kim Wells MP
Treasurer of the State of Victoria

State Government Victoria

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For the information of Honourable Members

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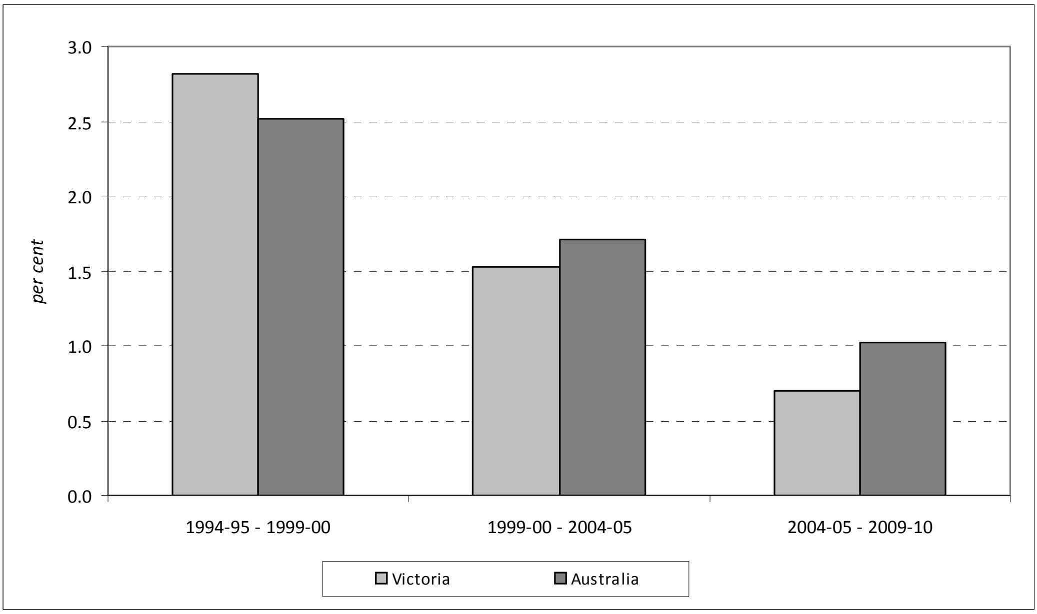
CHAPTER 1 – FISCAL AND ECONOMIC STRATEGIES AND OBJECTIVES

A strong economy and responsible financial management are key to the future prosperity of Victorians. While Victoria's finances are sound, recent trend growth in the size and cost of government and the level of government debt are not sustainable. This is particularly the case at a time when falling productivity and the resurgence of the resource-rich states pose substantial challenges to Victoria's competitiveness.

Victoria's gross state product (GSP) grew by an average annual rate of 2.5 per cent in the five years to 2009-10, however this was largely driven by strong population growth. Productivity growth, which is the ultimate determinant of improvements in living standards, languished at just 0.7 per cent over this period. This compares to productivity growth of 1.5 per cent in the five years to 2004-05 and 2.8 per cent in the five years to 1999-00 (see Chart 1.1 below).

Chart 1.1: Victorian and Australian average annual labour productivity growth



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

A sustained commodities boom will maintain upward pressure on the Australian dollar, reducing the cost competitiveness of Victorian exports and inducing skilled workers to move to resource-rich states. At the same time, growth in the size and cost of government threatens to reduce Victoria's tax competitiveness, without generating any offsetting improvements in productivity or improving frontline services to Victorians. This is particularly critical in the face of medium-term challenges associated with urban growth, an ageing population and the impacts of climate change.

The new Government is determined to strengthen Victoria's economic foundations, and to put in place a more efficient, responsive and transparent government sector. This chapter sets out a reinvigorated reform agenda that focuses on the key actions necessary to restore the State's fiscal position and to bolster the key drivers of Victoria's competitiveness.

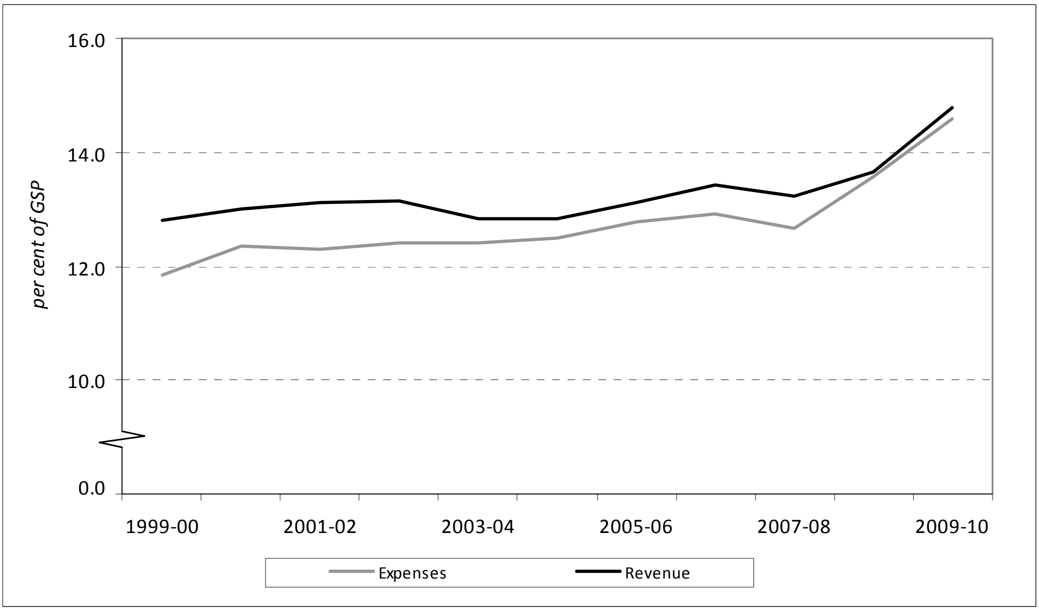
Chapters 2 to 6 outline Victoria's economic and fiscal position as inherited by the Government on entering office.

FINANCIAL MANAGEMENT

Overview

Recent growth in the size and cost of government cannot be allowed to continue without threatening Victoria's longer term fiscal sustainability. As shown in Chart 1.2, government expenses as a share of the economy have increased from 11.8 per cent of GSP a decade ago to 14.6 per cent in 2009-10. Over this period, expenses rose by an average annual rate of 8.0 per cent in nominal terms, faster than corresponding revenue growth which averaged 7.3 per cent.

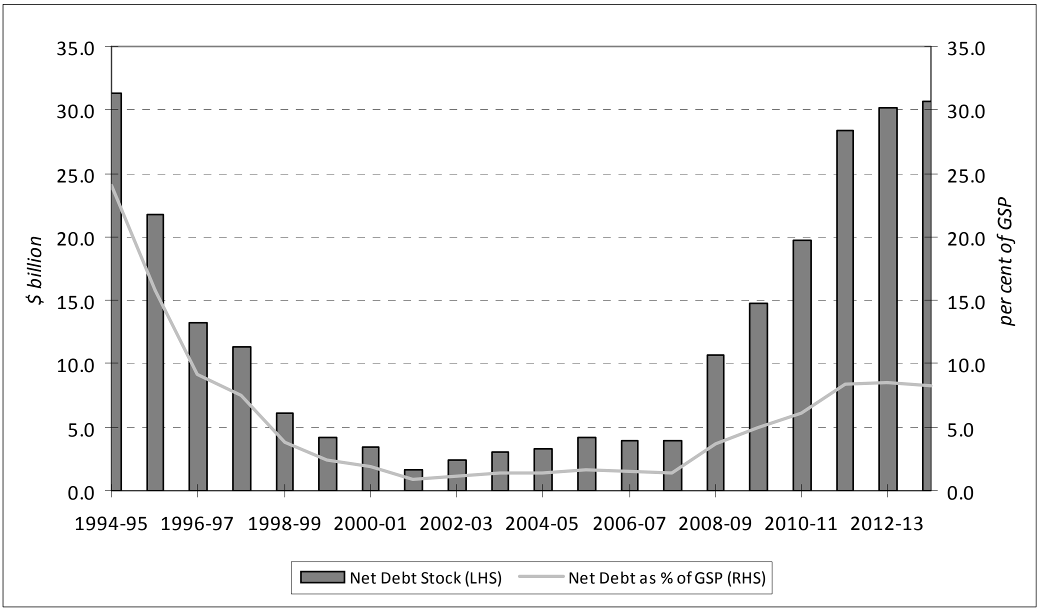
Chart 1.2: General government sector aggregates



Source: Department of Treasury and Finance

Likewise, recent actual and forecast growth in the public sector debt must be contained to ensure the State's balance sheet is sustainable. Net debt to GSP for the non-financial public sector (NFPS) has risen from 1.4 per cent ($3.9 billion) in 2007-08 to a projected 8.3 per cent ($30.7 billion) by 2013-14. While the global financial crisis has impacted on these measures, the underlying trends are unsustainable.

Chart 1.3: Non-financial public sector net debt



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

Fiscal strategy to restore a sustainable fiscal position

The Government is determined to take action in its first term to return the State's fiscal position to a more sustainable basis. To this end, it has formulated a responsible financial management plan for the State and will vigorously pursue the following immediate actions to address emerging fiscal pressures.

Independent review of state finances

The Government will commission an independent review of the State's finances. This will be the first root-and-branch financial analysis for well over a decade. The review will commence in early 2011, with interim and final reports due by April 2011 and February 2012 respectively. As well as identifying areas of waste and opportunities to increase the efficiency and effectiveness of government, the review will inform the Government's longer term fiscal strategies and objectives. The review will also provide a platform for further financial reforms.

Commitment to an annual minimum $100 million budget surplus

The Government will deliver a minimum budget surplus (net result from transactions) of $100 million each year over the forward estimates period. This will contribute to financing the infrastructure necessary for a growing state and to managing debt, and will demonstrate the Government's commitment to responsible management of the State's finances.

Sustainable levels of public debt

The Government will also ensure total public sector net debt does not exceed the levels forecast in this budget update. This will form part of the new Government's debt management strategy and ensure the State's fiscal settings are consistent with it maintaining a triple-A credit rating.

Implementing savings

The Government will act immediately to implement its substantial savings agenda. This agenda includes reducing the number of ministerial and media staff, stopping the funding of politically-based government advertising and opinion polling, as well as capping head office staffing.

Delivery of major projects on time and on budget

More rigorous central oversight will ensure that best-value projects are selected and that the most efficient and appropriate procurement and governance models are used. To this end, the Department of Treasury and Finance will become more involved in the scoping, cost/benefit analysis, business case development, cost control and procurement of major projects undertaken by all departments and agencies.

ECONOMIC REFORM

In addition to its fiscal strategy, the Government will target the following key areas to improve Victoria's competitiveness and productivity.

Reduced business costs through reinvigorated competition and regulation reform and a more efficient government sector

Through renewed focus on competition and regulation reform, the Government will reduce costs for business and households. A state-based reform agenda will be developed to boost productivity and participation in the Victorian economy and reduce red tape burdens.

More rigorous, transparent processes will deliver regulation that is risk-based and imposes minimal burdens while ensuring that broader community interests are protected. As a first step, the Government has identified land use planning as an area where there is scope to deliver more certain and timely outcomes while protecting local amenity and heritage values.

The Government will cut red tape from current levels by 25 per cent over the next four years. These cuts will be independently verified, and new regulations will only be put in place where they target clearly identified problems in the most efficient manner. More systematic evaluation of regulatory outcomes and stricter enforcement of sunsetting arrangements will ensure that regulation remains appropriate over time.

There are also opportunities to improve the efficiency and responsiveness of the government sector through the greater use of competition, better procurement processes and further consolidation of back-office functions through the use of shared services. These initiatives will reduce costs and improve the quality of frontline services.

The Government will engage with other jurisdictions in meaningful reform processes that boost Australia's productivity and competitiveness, but only where there are demonstrable benefits for Victoria. While past experience has shown that cooperative federalism can be important where markets are genuinely national, in many other areas stronger reform outcomes for Victoria can be driven by unilateral action. This is particularly the case where cooperative federalism results in 'lowest common denominator' changes.

Equally, the Government will push the Commonwealth for development of tax reform options that are in the long term interest of Victorians. Key to this will be reform to the Commonwealth's own taxation settings, including corporate taxes. To secure the best deal for Victoria, the Government will strengthen Victoria's advocacy for a fair share of goods and services tax revenue which better reflects the State's population share.

Enhanced knowledge, skills and infrastructure

Investment in knowledge, skills and productivity-enhancing infrastructure will benefit every sector of the Victorian economy, supporting higher participation and enabling step improvements in productivity.

Victoria's education report card is currently mixed and there is scope for much more to be done. Raising teacher quality is critical to improving student achievement. Increasing the autonomy and accountability of government school principals will also contribute to higher quality schooling. Moreover, targeted intervention in early childhood for disadvantaged children will lift long-term outcomes and ensure the best value for Victoria.

The Government will also support ongoing reform in the vocational education and training sector that increases choice and the responsiveness of training providers to the needs of students and businesses.

Capital investment is another crucial driver of productivity, particularly in the network infrastructure that underpins economic activity. Reform of infrastructure planning, financing and delivery will help drive investments that enhance productivity. Key priorities will include better long-term, integrated planning for urban and regional infrastructure, including Victoria's freight and logistics network which increasingly suffers from bottlenecks and congestion.

CONCLUSION

The economic and fiscal position inherited from the previous administration is set out in the remainder of this budget update. This provides the starting point for the new Government's strong program of reform designed to reverse recent, unsustainable fiscal trends and boost Victoria's productivity and competitiveness, putting the State back on the path to prosperity.

CHAPTER 2 – ECONOMIC CONDITIONS AND OUTLOOK

- Over the past six months, economic growth in emerging Asian economies has been strong, while the recovery in some advanced economies has remained patchy. High unemployment continues to drag on growth in the United States (US) and parts of the Euro area.
- Compared with most other advanced economies, the Australian economy has performed well. The economic recovery has continued, supported by public investment and a sharp recovery in the terms of trade. National employment growth has been strong and the outlook for the labour market remains positive.
- Victoria's gross state product (GSP) grew by 2 per cent in 2009-10, below Department of Treasury and Finance's (DTF) estimate of 2.5 per cent in the 2010 *Victorian Pre-Election Budget Update*. GSP is forecast to grow by 3.5 per cent in 2010-11, before returning to trend growth of 3 per cent in the out-years. Economic growth is expected to be supported by above-trend growth in employment and firm domestic demand.
- The economic outlook for Victoria is generally positive, although there are a number of short-term risks. These include a prolonged and uneven global economic recovery, slowing productivity growth, rising inflationary pressures, a high Australian dollar and a high terms of trade.

INTERNATIONAL ECONOMIC CONDITIONS AND OUTLOOK

The global economic recovery has continued through 2010, largely driven by growth in emerging economies. The International Monetary Fund's (IMF) October 2010 *World Economic Outlook* forecast growth in the world economy of 4.8 per cent in 2010, up from 4.6 per cent forecast in July. However, significant downside risks to the outlook remain, particularly for advanced economies.

Growth in advanced economies has been revised down by the IMF, largely driven by downward revisions to the outlook for the US. Economic growth in the US has been affected by the withdrawal of public sector stimulus, subdued consumer spending and weak housing construction. The US unemployment rate is currently 9.8 per cent and the labour market recovery is expected to be slow.

Elsewhere, the Japanese economy is recovering slowly, while the outlook for the Euro area has improved in recent months, though the recovery is likely to be uneven. Germany is expected to perform better than highly indebted countries, such as Greece, Spain and Ireland, which will be weighed down by tight credit conditions.

The outlook for emerging economies remains strong, especially in Asia. The IMF has forecast growth in emerging and developing economies of 7.1 per cent in 2010, moderating to 6.4 per cent in 2011. China's rapid economic growth has eased in recent months, as tighter monetary policies and measures to cool urban property markets take effect, but the outlook remains robust.

Global equity prices have risen slightly over the past six months. Commodity markets have recovered strongly, driven by demand from China, lifting Australia's terms of trade to its highest level on record. Oil prices have picked up to around US$90 per barrel, but the subdued outlook for advanced economies is expected to dampen price growth in the medium term. The sharp recovery in commodity prices and interest rate differentials between Australia and other advanced economies have resulted in a high Australian dollar, which is now trading just under parity with the US dollar.

AUSTRALIAN ECONOMIC CONDITIONS AND OUTLOOK

Compared with most other advanced economies, the Australian economy has performed well over the past six months. The economic recovery has gained traction, supported through 2009-10 by monetary policy, fiscal stimulus and a sharp rebound in the terms of trade.

According to the Australian Government's *Mid-Year Economic and Fiscal Outlook 2010-11*, the Australian economy is forecast to grow by 3.25 per cent in 2010-11 and 3.75 per cent in 2011-12. The main contributors to growth are expected to be business investment, household consumption and commodity exports. In particular, new business investment is expected to increase significantly over 2010-11 and 2011-12, returning to around 40-year highs as a proportion of gross domestic product. In contrast, public sector demand is forecast to slow sharply as fiscal stimulus continues to wind down.

The elevated terms of trade will support growth in the resource-rich jurisdictions over the medium term. Expanding mining production and port capacity in response to strong demand from Asia and high international commodity prices are expected to promote growth in non-rural commodity exports. Rapid growth in mining profits is also likely to boost business investment.

National employment growth was strong over 2009-10 and the outlook for the labour market is positive. The unemployment rate is forecast to drop from its current rate of 5.2 per cent to 4.5 per cent by the June quarter 2012.

With a strong labour market, record terms of trade and strong domestic demand, inflationary pressures are building. According to the Reserve Bank of Australia (RBA), headline and underlying inflation are forecast to be in the upper half of the RBA's 2 to

3 per cent medium-term target band over the next two years. While interest rates facing borrowers are currently slightly above their decade-average levels, financial markets expect further rises in 2011.

VICTORIAN ECONOMIC CONDITIONS AND OUTLOOK

The economic projections used in this budget update are set out in Table 2.1. These projections are unchanged from the 2010 *Victorian Pre-Election Budget Update*, except for the release of GSP growth for 2009-10 by the Australian Bureau of Statistics on 19 November 2010. The projections assume constant exchange rates and oil prices consistent with the path implied by oil futures contracts.

Table 2.1: Victorian economic projections[(a)]

	2009-10 Actual	2010-11 Forecast	2011-12 Forecast	2012-13 Forecast	2013-14 Forecast
Real gross state product	2.0	3.50	3.00	3.00	3.00
Employment	2.8	2.75	2.00	1.75	1.75
Unemployment rate [(b)]	5.5	5.50	5.25	5.00	5.00
Consumer price index	2.1	3.00	2.75	2.50	2.50
Wage price index [(c)]	2.8	3.25	3.50	3.50	3.50
Population [(d)]	1.90 [(e)]	1.80	1.70	1.60	1.60

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

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

Victoria's GSP grew by 2 per cent in 2009-10. The main contributors to growth were household consumption, public investment and private dwelling investment. However, the outcome was 0.5 percentage points lower than forecast in the 2010 *Victorian Pre-Election Budget Update*.

Economic growth is expected to strengthen in 2010-11, with GSP forecast to increase by 3.5 per cent. This reflects expected robust growth in household consumption and a recovery in business investment. In 2011-12, GSP growth is forecast to return to trend growth of around 3 per cent, reflecting the run down of the fiscal stimulus and a return to trend growth in private consumption. GSP growth is forecast to remain around trend in the out-years.

Victorian household consumption has held up despite the global downturn. Strong labour market conditions and the high terms of trade are expected to support consumption in 2010-11. However, the out-year forecasts for private consumption reflect the impact of slower population growth and rising interest rates.

The short-term outlook for dwelling investment remains positive, following robust growth in 2009-10. Dwelling approvals in Victoria have remained at an above-average level, albeit easing slightly following the phasing out of the Commonwealth Government's First Home Owners Boost. A softening in housing construction activity is expected in the out-years, due to rising interest rates and slower population growth.

Business investment stabilised in 2009-10, following the slight easing in 2008-09. Engineering construction activity continues to be robust, while machinery and equipment investment is patchy and non-residential building remains subdued. Overall, business investment growth is expected to recover over 2010-11 and 2011-12, in line with expected capacity expansions.

Victoria's international trade detracted from GSP growth in 2009-10, largely reflecting the strong growth in imports. The outlook for merchandise exports remains soft, given the high Australian dollar and increased international export competition. Prospects for service exports remain weak, reflecting a decline in student commencements and the relative increase in costs for inbound tourists.

After a good season in 2009-10, Victorian agricultural production is expected to increase in 2010-11 and add to GSP growth, underpinned by average to above-average rainfall in recent months. Although conditions have been favourable, there is a risk that a locust plague and/or excessive rainfall in growing districts could affect crop yields and quality.

Employment in Victoria has grown by 3.4 per cent over the year to November 2010 and the labour force participation rate has increased to historically high levels. Leading indicators suggest that employment is likely to continue growing at an above-trend pace over the next few months, but will then moderate. For the out-years, a return to trend growth has been assumed. As a consequence of the strong labour market conditions, the unemployment rate is expected to edge lower over the forecast period to around 5 per cent, with wages growth expected to pick up.

National and Victorian inflationary pressures have persisted over recent months. As a result, DTF's forecasts are for Melbourne inflation to remain in the upper half of the RBA's medium-term target band, consistent with national forecasts.

Population growth is expected to moderate over the forecast period. National net overseas migration is expected to ease to around 180 000 people a year by 2012-13, consistent with recent partial indicators of net overseas migration, such as net passenger movements, international student commencements and business visa applications.

RISKS TO THE OUTLOOK

The economic outlook is generally positive, consistent with a recovery from a downturn. However, there are a number of short-term risks, which are on balance weighted to the downside. These include a prolonged and uneven global economic recovery, slowing productivity growth, rising inflationary pressures, a high Australian dollar and a high terms of trade.

The global economic recovery is fragile and there are significant downside risks to the outlook for advanced economies. The recovery in the US is likely to be slow and protracted, while the re-emergence of sovereign debt problems means that many European economies are expected to be weighed down by fiscal consolidation. International financial markets continue to be volatile, reflecting sharp changes in risk appetite. There has also been some moderation in growth in emerging economies, although the outlook remains positive.

Productivity growth is an important determinant of long-run economic growth. Both national and Victorian labour productivity growth have slowed over the past decade. Victoria's labour market has performed relatively well since the global financial crisis, but there has not been a commensurate increase in GSP, leading to dampened labour productivity growth. In part, this is due to recent revisions to Victoria's historical GSP that seem inconsistent with the relative strength of the labour market. DTF is in discussion with the Australian Bureau of Statistics to better understand these trends. Nonetheless, some downward trend in labour productivity is evident. Any prolonged slow down poses a downside risk to trend GSP growth, especially in the out-years.

The return of strong demand for resources from overseas and the associated elevated terms of trade provide both benefits and challenges for the Victorian economy. On the upside, the higher terms of trade will boost incomes, which will flow through to domestic consumption and investment activity. Victoria will also benefit from interstate trade links with the resource-rich jurisdictions, particularly for services demanded by the mining industry and their expanding workforces.

However, this strong demand may also lead to capacity constraints, a high Australian dollar and higher interest rates. As investment is likely to favour mining-related activities, other industries may face labour and materials constraints, decreasing their ability to invest and increasing price and wage pressures. A sustained high Australian dollar, while tempering inflation, may act as a contractionary influence on the State economy, while interest rate rises would constrain growth in the medium term.

Previous recoveries in Victoria have generally been characterised by strong investment growth, as businesses use previously underemployed resources. Current forecasts have assumed this historical pattern will occur. However, while the recovery has been in progress for over one year, growth in business investment so far has been subdued. Failure of a pick up in business investment would pose significant downside risks to the forecasts.

Nevertheless, on balance, the longer-term prospects for the Victorian economy remain positive.

Further information regarding the sensitivity of fiscal aggregates to changes in key macroeconomic variables can be found in Appendix B.

CHAPTER 3 – BUDGET POSITION AND OUTLOOK

General government sector

- The net result from transactions is projected to increase from $633 million in 2010-11 to $873 million in 2013-14. These estimates are slightly lower than those published in the 2010 *Victorian Pre-Election Budget Update*, reflecting minor revisions to investment income.
- Net debt is projected to peak at $15.8 billion at 30 June 2013 (4.4 per cent of GSP), before declining to $15.7 billion by 30 June 2014 (4.2 per cent of GSP).
- Net financial liabilities are projected to increase from $37.5 billion at 30 June 2010 to $47.5 billion by 30 June 2014. As a proportion of GSP, they are expected to peak at 13.5 per cent at 30 June 2012, before declining to 12.8 per cent by 30 June 2014.

Non-financial public sector

- The non-financial public sector is projecting a revised operating deficit of $54 million in 2010-11, before returning to an operating surplus from 2011-12 onwards.
- As a proportion of GSP, net debt is projected to peak at 8.5 per cent at 30 June 2013, before declining to 8.3 per cent by 30 June 2014. Similarly, net financial liabilities are expected to peak at 17.9 per cent at 30 June 2012, before declining to 16.8 per cent by the end of the forward estimates period. These and other key financial indicators reinforce Victoria's current triple-A credit rating.

This chapter provides an overview of the revised budget position for the budget year (2010-11) and forward estimates years (2011-12 to 2013-14) for the general government sector, and a reconciliation and explanation of the movements since the 2010 *Victorian Pre-Election Budget Update* that affect the estimated net result from transactions.

This chapter also presents the revised budget position for the non financial public sector. The non financial public sector combines government owned enterprises such as water, rail and port authorities with the general government sector.

GENERAL GOVERNMENT SECTOR

The revised budget and forward estimates are based on the economic projections outlined in Chapter 2, *Economic conditions and outlook*, and reflect the accounting policies and assumptions in Chapter 4, *Estimated Financial Statements and Notes*.

The information presented in the Estimated Financial Statements reflects the financial position as at 14 December 2010.

The estimates presented reflect policy decisions as published in the 2010 *Victorian Pre-Election Budget Update*. As discussed in the *Reconciliation of forward estimates to previously published estimates* section of this chapter, the estimates have been revised to reflect movements in Commonwealth grants and changes in investment income.

Actual outcomes may differ from the projections for many reasons, including:

- the implementation of future government policy decisions;
- the impact of changed economic conditions, including any realisation of various economic risks, such as those outlined in Chapter 2, *Economic conditions and outlook*; and
- any realisation of fiscal risks, such as those outlined in this chapter.

Appendix B, *Sensitivity analysis table*, quantifies the estimated impact on revenue, expenses, the net result from transactions and the net result associated with variations to the forecasts of selected economic and financial variables.

The revised financial estimates (as detailed in Chapter 4, *Estimated Financial Statements and Notes)* used in this chapter are presented on the basis of the relevant Australian Accounting Standards.

Details of specific policy initiatives since the *2010-11 Budget* are contained in Appendix A of the 2010 *Victorian Pre-Election Budget Update*.

BUDGET AND FORWARD ESTIMATES OUTLOOK

Table 3.1 sets out the projected aggregate outlook over the budget and forward estimates period for the general government sector in a summary operating statement. The comprehensive operating statement is presented in Chapter 4, *Estimated Financial Statements and Notes*.

As Table 3.1 shows, the net result from transactions is projected to increase from $633 million in 2010-11 to $873 million in 2013-14.

Table 3.1: Summary operating statement for the period 2010-11 to 2013-14 for the general government sector[(a)]

($ million)

	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Revenue				
Taxation revenue	14 742.8	15 242.0	15 906.3	16 681.8
Dividends, TER and interest [(b)]	860.4	995.7	1 261.1	1 515.9
Sales of goods and services	5 868.2	6 628.8	6 546.9	6 651.9
Grants	22 347.1	22 887.1	24 170.4	24 483.9
Other revenue	1 749.3	1 804.0	1 803.4	1 849.4
Total revenue	**45 567.7**	**47 557.5**	**49 688.1**	**51 183.0**
% change		4.4%	4.5%	3.0%
Expenses				
Employee expenses	16 173.2	17 101.1	17 955.7	18 830.0
Superannuation [(c)]	2 623.4	2 677.0	2 753.3	2 787.8
Depreciation	2 259.0	2 456.2	2 614.3	2 722.6
Interest expense	963.1	1 332.5	1 767.2	1 849.2
Other operating expenses	14 822.5	15 726.2	16 000.4	16 362.3
Grants and other transfers	8 093.2	7 441.5	7 764.3	7 758.3
Total expenses	**44 934.3**	**46 734.5**	**48 855.2**	**50 310.2**
% change		4.0%	4.5%	3.0%
Net result from transactions	**633.4**	**823.1**	**832.9**	**872.8**
Total other economic flows included in net result	**(488.8)**	**(8.7)**	**98.4**	**(37.3)**
Net result	**144.6**	**814.4**	**931.2**	**835.5**

Source: Department of Treasury and Finance

Notes:

(a) *This is an abbreviated operating statement. The comprehensive operating statement is presented in Chapter 4,* Estimated Financial Statements and Notes.

(b) *Comprises dividends, income tax and rate equivalent revenue and interest.*

(c) *Comprises superannuation interest expense and other superannuation expenses.*

Revenue outlook

Total revenue in 2010-11 is projected to be $45.6 billion, increasing to $51.2 billion in 2013-14, or by 3.9 per cent on average per year over the budget and forward estimates period.

State taxation revenue and grants revenue (including GST) are projected to constitute 81 per cent of total revenue collected by the State in 2010-11, and are the main drivers of the anticipated revenue growth over the forward estimates.

Taxation revenue is projected to grow from $14.7 billion in 2010-11 to $16.7 billion in 2013-14, an average growth of 4.2 per cent per year. This anticipated increase reflects expected growth in economic activity, wages and prices as outlined in the 2010 *Victorian Pre-Election Budget Update*.

As reflected in the 2010 *Victorian Pre-Election Budget Update*, GST revenue is projected to grow from $11.0 billion in 2010-11 to $13.1 billion in 2013-14, reflecting growth of around 7 per cent in 2011-12 and 2012-13, before slowing to 3.8 per cent in 2013-14. Grants revenue from the Commonwealth (non-GST) is projected to be $11.3 billion in 2010-11, $11.0 billion in 2011-12, $11.5 billion in 2012-13 and $11.3 billion in 2013-14.

Dividends, income tax and rate equivalent revenue and interest are projected to be $860 million in 2010-11, $996 million in 2011-12, $1.3 billion in 2012-13 and $1.5 billion in 2013-14. The growth in 2011-12 and 2012-13 largely relates to interest paid by the public non-financial corporations sector to fund delivery of infrastructure. The growth in 2013-14 primarily reflects a forecast dividend from the State Electricity Commission of Victoria.

Goods and services related revenues are projected to grow from $5.9 billion in 2010-11 to $6.7 billion in 2013-14 as outlined in the 2010 *Victorian Pre-Election Budget Update*. The growth in sales of goods and services primarily reflects the activities of schools and TAFEs to fund own-source expenditure, and expected receipts associated with public transport fare revenue.

Other current revenue is projected to remain relatively constant at around $1.8 billion a year over the forward estimates period.

Expenses outlook

Total expenses are projected at $44.9 billion in 2010-11, rising to $50.3 billion in 2013-14, or by 3.8 per cent on average per year over the budget and forward estimates period.

The growth in expenditure over the budget and forward estimates period is largely driven by the effect of previous output policy decisions, the expenditure of Commonwealth special purpose payments (SPP) and National Partnership Payment (NP) funding and expenditure of own-source revenue.

As outlined in the 2010 *Victorian Pre-Election Budget Update*, growth in expenses over the forward estimates period comprises:

- employee expenses (including superannuation) which are projected to grow from $18.8 billion in 2010-11 to $21.6 billion in 2013-14 or 4.8 per cent on average a year;
- depreciation expenses which are projected to grow from $2.3 billion in 2010-11 to $2.7 billion in 2013-14;
- interest expense, which is projected to grow from $963 million in 2010-11 to $1.8 billion in 2013-14, consistent with the level of borrowings over the period;
- other operating expenses which are projected to grow from $14.8 billion in 2010-11 to $16.4 billion in 2013-14 or 3.3 per cent on average a year; and
- grants and other transfers which are projected to be $8.1 billion in 2010-11, decreasing to $7.4 billion in 2011-12, and increasing to $7.8 billion in both 2012-13 and 2013-14.

Other economic flows

Net other economic flows in 2010-11 primarily reflect a forecast actuarial loss on superannuation of $474 million, based on experience to 30 September 2010 (which is discussed further in the net debt and net financial liabilities section of the 2010 *Victorian Pre-Election Budget Update*). This forecast actuarial loss reflects:

- decreases in the bond rates used to value the State's superannuation liability since 30 June 2010 which have resulted in an actuarial loss on superannuation of approximately $898 million; and
- an actuarial gain of $424 million due to investment returns being slightly higher than expected since 30 June 2010, which partially offsets the actuarial loss.

This actuarial loss does not affect the cash required to meet the State's superannuation liability.

Fiscal aggregates

Fiscal aggregate measures are set out in Table 3.2.

Table 3.2: Fiscal aggregates

($ million)

	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Net operating balance/Net result from transactions	633.4	823.1	832.9	872.8
Net result [(a)]	144.6	814.4	931.2	835.5
Net lending/(borrowing) [(b)]	(1 308.0)	(1 830.1)	(483.3)	1 157.1
Cash surplus/(deficit) [(c)]	(654.8)	(607.2)	655.4	1 417.1

Source: Department of Treasury and Finance

Notes:

(a) The net result adds the net result from transactions to various revaluation gains and losses on assets and liabilities, such as those arising from movements in market prices and actuarial adjustments, which are outside the direct control of government.

(b) Represents the financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. A positive result reflects a net lending position and a negative result reflects a net borrowing position.

(c) Cash surplus/(deficit) equals the net cash flows from operating activities less investments in non-financial assets.

The net operating balance (equivalent to the net result from transactions) is the conceptual basis for budgets in most other Australian jurisdictions and the Commonwealth.

The net result is the net result from transactions plus the effect of other economic flows. It is obtained by adding various revaluation gains and losses on assets and liabilities, such as those arising from movements in market prices, actuarial adjustments or the disposal of physical assets, to the net result from transactions.

The net lending/borrowing result is the net operating balance less the net acquisition of non-financial assets. Net borrowing represents, in broad terms, the extent to which the general government sector's net acquisition of non-financial assets has been funded using financial assets or incurring liabilities. Net borrowing is projected to be $1.3 billion in 2010-11. The general government sector is projected to have a net borrowing position until 2012-13, with the sector is returning to a projected net lending position in 2013-14.

The cash surplus/(deficit) is equal to net cash flows from operating activities, less net cash investment in non-financial assets. Unlike the derivation of net lending/borrowings, it excludes acquisitions under finance leases. The State is forecast to have a cash surplus from 2012-13.

SUMMARY BALANCE SHEET

Table 3.3 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 3.3: Summary balance sheet as at 30 June for the general government sector[a]

($ billion)

	2010 Actual	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Assets					
Non-financial assets	90.6	94.8	102.3	106.3	110.8
Financial assets	9.0	8.7	13.1	13.3	13.6
Investments in other sector entities					
Public non-financial corporations	64.2	66.8	68.5	69.6	70.4
Public financial corporations	0.3	0.7	1.1	1.4	1.7
Total assets	**164.1**	**171.0**	**185.0**	**190.5**	**196.5**
Liabilities					
Superannuation	22.5	23.5	24.1	24.4	24.6
Borrowings	13.6	16.6	24.2	25.6	25.8
Other liabilities	10.4	10.5	10.3	10.4	10.6
Total liabilities	**46.6**	**50.6**	**58.5**	**60.5**	**61.1**
Net assets	**117.6**	**120.5**	**126.5**	**130.0**	**135.5**

Source: Department of Treasury and Finance

Note:

(a) *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. *The 2011 revised estimate is based on the actual opening balance for 1 July 2010 plus the estimated 2010-11budgeted movement.*

The general government sector's net asset position (total assets less total liabilities), is an important indicator of the sector's financial strength. A strong net asset position gives Victoria the capacity and flexibility to absorb financial and economic shocks that may arise.

At 30 June 2010, the general government sector had total assets of $164.1 billion and total liabilities of $46.6 billion, leaving a net asset position of $117.6 billion. Net assets are projected to grow to $135.5 billion by 30 June 2014 as growth in total assets exceeds growth in total liabilities. The projected increase is the combined result of asset revaluations and infrastructure investment.

CASHFLOWS

Table 3.4 provides a summary of cash generated through the operations of Victorian government departments and other general government sector agencies. This table shows how cash is applied to infrastructure investment and the associated impact on net debt.

Table 3.4: Application of cash resources for the general government sector

($ million)

	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Net result from transactions	**633.4**	**823.1**	**832.9**	**872.8**
Add back: Non-cash income and expenses (net) [(a)]	2 790.1	2 653.2	3 089.2	2 982.7
Net cash flows from operating activities	**3 423.5**	**3 476.3**	**3 922.1**	**3 855.5**
Less:				
Net investment in fixed assets				
Expenditure on approved projects	6 750.3	5 654.2	4 238.5	3 196.2
Capital provision approved but not yet allocated [(b)]	..	315.3	555.9	785.1
Proceeds from asset sales	(259.4)	(301.9)	(399.5)	(245.7)
Total net investment in fixed assets	**6 490.9**	**5 667.6**	**4 394.9**	**3 735.6**
Finance leases [(c)]	121.0	1 075.9	844.8	..
Other investment activities (net)	(13.4)	(4.8)	40.3	46.2
Decrease/(increase) in net debt	**(3 174.9)**	**(3 262.3)**	**(1 358.0)**	**73.6**

Source: Department of Treasury and Finance

Notes:

(a) *Includes depreciation, movements in the unfunded superannuation liability and liability for employee benefits.*

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

(c) *The finance lease amount in 2010-11 relates to the Partnerships Victoria in Schools project, the finance lease in 2011-12 relates to Ararat Prison project and the redevelopment of the Royal Children's Hospital, and the finance lease in 2012-13 relates to the Peninsula Link project.*

The general government sector's net infrastructure investment program (which includes total purchases of property, plant and equipment, capital contributions to other sectors of government less proceeds from asset sales), is projected to be $6.5 billion in 2010-11, decreasing to $3.7 billion in 2013-14.

Net cashflows from operating activities are projected to fund an increasing proportion of the infrastructure investment program (53 per cent in 2010-11, 61 per cent in 2011-12 and 89 per cent in 2012-13) with borrowings funding the remainder of the program. In 2013-14, net cashflows from operating activities will fund the total infrastructure investment program of $3.7 billion and contribute to a $74 million decrease in net debt.

NET DEBT AND NET FINANCIAL LIABILITIES

The key measures of the State's financial position are the government finance statistics measures of net debt and net financial liabilities, which are presented for the general government sector in Table 3.5.

Table 3.5: General government sector net debt and net financial liabilities as at 30 June

($ billion)

	2010 Actual (a)	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Assets					
Cash and deposits	3.2	3.1	3.3	3.5	3.7
Advances paid	0.3	0.3	4.5	4.5	4.4
Investments, loans and placements	2.6	2.5	2.5	2.4	2.4
Total	**6.1**	**5.9**	**10.2**	**10.4**	**10.6**
Liabilities					
Deposits held and advances received	0.5	0.5	0.5	0.5	0.5
Borrowings	13.6	16.6	24.2	25.6	25.8
Total	**14.1**	**17.0**	**24.6**	**26.1**	**26.3**
Net debt (b)	**8.0**	**11.1**	**14.4**	**15.8**	**15.7**
Superannuation liability	22.5	23.5	24.1	24.4	24.6
Net debt plus superannuation liability	**30.5**	**34.7**	**38.5**	**40.1**	**40.3**
Other liabilities (net) (c)	7.0	7.2	6.9	7.0	7.2
Net financial liabilities (d)	**37.5**	**41.8**	**45.4**	**47.2**	**47.5**
	(per cent)				
Net debt to GSP (e)	2.6	3.5	4.3	4.4	4.2
Net debt plus superannuation liability to GSP (e)	10.1	10.8	11.4	11.3	10.8
Net financial liabilities to GSP (e)	12.4	13.1	13.5	13.3	12.8

Source: Department of Treasury and Finance

Notes:

(a) *As published in the* 2009-10 Financial Report for the State of Victoria.

(b) *Net debt is the sum of deposits held, advances received and borrowings less the sum of cash deposits, advances paid, less investments, loans and placements.*

(c) *Other net liabilities include other employee entitlements and provisions and other non-equity liabilities, less other non-equity financial assets.*

(d) *Net financial liabilities is the sum of superannuation, borrowings and other liabilities less financial assets.*

(e) *Published ratios to GSP may vary from year to year due to revisions to ABS GSP data.*

As shown in Table 3.5, net debt is projected to peak at $15.8 billion at 30 June 2013 (4.4 per cent of GSP), before declining to $15.7 billion by 30 June 2014 (4.2 per cent of GSP). The movement in nominal net debt is mainly driven by the difference between the amount of cash generated from the net result from transactions and the size of the projected infrastructure investment program.

While compared to the 2010 *Victorian Pre-Election Budget Update*, there is an increase in nominal net debt of $49 million by 30 June 2014, the increase in the net debt to GSP ratio primarily reflects a reduction in the GSP forecasts following the release of the latest *Australian National Accounts: State Accounts* data by the Australian Bureau of Statistics on 19 November 2010.

As a proportion of GSP, net financial liabilities are expected to peak at 13.5 per cent at 30 June 2012, before declining to 12.8 per cent by 30 June 2014. In nominal terms, net financial liabilities are expected to increase from $37.5 billion at 30 June 2010 to $47.5 billion by 30 June 2014, driven by net debt (see above) and the superannuation liability.

Reconciliation of forward estimates to previously published estimates

As shown in Table 3.6, compared with the 2010 *Victorian Pre-Election Budget Update*, the net result from transactions has been revised downwards slightly for each of the years 2010-11 to 2013-14. Variations in revenue and expense items are detailed below.

Table 3.6: Reconciliation of estimates to the *2010-11 Budget*

($ million)

	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Net result from transactions: 2010 *Victorian Pre-Election Budget Update* [a]	**634.8**	**842.6**	**839.5**	**894.5**
Plus: Variations in income from transactions since 2010 *Victorian Pre-Election Budget Update*				
Economic/demographic variations to investment income [b]	**(1.4)**	**(19.5)**	**(6.6)**	**(21.7)**
Commonwealth grant variations	**103.3**	**8.5**	**..**	**..**
Total variation in income from transactions since 2010 *Victorian Pre-Election Budget Update*	**101.9**	**(11.0)**	**(6.6)**	**(21.7)**
Less: Variations in expenses from transactions since 2010 *Victorian Pre-Election Budget Update*				
Commonwealth variations	**103.3**	**8.5**	**..**	**..**
Total variation in expenses from transactions since 2010 *Victorian Pre-Election Budget Update*	**103.3**	**8.5**	**..**	**..**
Revised net result from transactions	**633.4**	**823.1**	**832.9**	**872.8**

Source: Department of Treasury and Finance

Notes:

(a) *2010* Victorian Pre-Election Budget Update *net result from transactions.*

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

Variations to revenue

Compared with the 2010 *Victorian Pre-Election Budget Update*, total revenue is expected to be $102 million higher in 2010-11, $11 million lower in 2011-12, $6.6 million lower in 2012-13, and $22 million lower in 2013-14.

Economic/demographic variations to investment income

Since the 2010 *Victorian Pre-Election Budget Update*, there has been a minor downwards revision to income tax equivalent and dividend revenue from the public non-financial corporation sector mainly reflecting lower profitability of Melbourne Water Corporation as a result of higher depreciation expense.

Commonwealth grant variations

Since the 2010 *Victorian Pre-Election Budget Update*, Commonwealth grants have been revised upwards by $103 million in 2010-11 and by $8.5 million in 2011-12.

This revision reflects revised funding arrangements for the Commonwealth's *Water for the Future* package, where payments previously made directly to irrigators have been reclassified by the Commonwealth as payments to the States to be subsequently passed on.

Variations to expenses

Compared with the 2010 *Victorian Pre-Election Budget Update*, total expenses are projected to be $103 million higher in 2010-11 and $8.5 million higher in 2011-12.

Commonwealth grant variations

Commonwealth grant related expenses have been revised upwards since 2010 *Victorian Pre-Election Budget Update* in line with the on-passing of additional Commonwealth grants received.

FISCAL RISKS

The State's financial performance could be affected by the realisation of economic and fiscal risks. Economic risks are outlined in Chapter 2, *Economic conditions and outlook*. Fiscal risks are explained below, and are those potential future events and circumstances that could affect the State's fiscal outlook.

In addition to the fiscal risks below, Appendix B, *Sensitivity analysis table*, quantifies the impact on revenue, expenses, the net result from transactions and the net result associated with variations to forecasts of selected economic and financial variables.

Revenue risks

Commonwealth grants

Commonwealth grants are expected to be approximately $22 billion in 2010-11. Commonwealth grants include general purpose grants (GST grants), SPP and NP payments.

The level of SPP and NP funding received by Victoria is determined by the policies of the Commonwealth Government and new funding arrangements agreed by the Council of Australian Governments. Some NP funding is also subject to the State achieving certain performance benchmarks. Decisions of the Commonwealth Government can substantially alter the ongoing provision or phasing of payments under individual agreements, with significant revenue implications in a given financial period. From 2011-12, an amount of GST revenue will be dedicated to the provision of healthcare services in Victoria, and will no longer be available for 'general purposes'. This will not reduce the aggregate amount of GST paid to Victoria, but may reduce budget flexibility.

The level of GST grants is affected by the general level of activity in the Australian economy and the GST revenue sharing relativities recommended by the Commonwealth Grants Commission (CGC). The CGC updates its recommendations regarding GST revenue sharing relativities in February each year. These are then subject to approval by the Commonwealth Treasurer.

Any changes to economic conditions in the budget and forward estimates period will have a direct impact on the amount of GST revenue available to be distributed among the states.

State revenue

The State's tax revenues are primarily forecast on an assumed or estimated relationship between taxation revenue and projected economic variables. As a result, there are two main sources of risk to the taxation estimates. First, changes in economic conditions from those projected will affect taxation revenue. For example, higher than expected economic activity or inflation will tend to lead to higher taxation revenue.

Second, there is the risk of changes in the relationship between the economic variables and taxation revenue (such as between consumer spending and motor vehicles, or between employment and payroll taxes).

Moreover, some state taxes, such as stamp duty on land transfer, are sourced from tax bases that are subject to volatility, and revenue from these sources may be subject to substantial annual variation.

A number of policy measures for electronic gaming machines have been proposed, including by the Commonwealth through the Council of Australian Governments' Select Council on Gambling Reform, which could impact Victorian gambling tax revenue over the forward estimates period. At this stage, the final scope and impact of these initiatives is unclear.

Revenue received from public transport fares is used to fund contractual arrangements with public transport operators and a number of transport infrastructure and service delivery projects. There is a risk that public transport patronage and fare revenue may vary from projected levels with a resulting impact on the budget.

Expenditure risks

In order to manage total government expenditure under the departmental funding model, departments are required 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 budget and forward estimates years are determined in the context of the next annual budget.

Employee expenses are the largest expense incurred by the State. Several major enterprise bargaining agreements are due to expire in 2011, for police, nurses, teachers and the Victorian public service. If the related costs exceed the available funding, it will impose an expenditure risk or a risk to service delivery.

Another key risk that affects expenditures relates to growth in demand for government services, such as demand driven by population changes, government commitments contingent on external factors and responses to unforeseen events such as natural disasters, including bushfires and floods.

The *2010-11 Budget* and forward estimates include a contingency provision for a level of expenditure risks which may be realised during the remainder of the budget year or over the forward estimates period. This provision is based on the best available information, and reflects sound budget management principles that support the State's capacity to respond to unexpected events.

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 contingency provision includes a general expense allowance for:

- likely growth in Victoria's population, and consequent derived demand for government services;
- depreciation associated with new asset investment funded from the unallocated capital provision (subject to government approval);
- the likelihood that a number of existing initiatives that will conclude in 2010-11 or the following years may continue or be replaced with other programs to meet service delivery priorities; and
- other expenditure risks, which were unforeseen or not able to be quantified, or were not finalised at the time of producing the published estimates.

The *2010-11 Budget* and forward estimates also include an unallocated capital provision to provide capacity for future asset investment requirements. While there are likely to be variations in actual costs (compared with budget) for individual asset investment projects, the budget and forward estimates assume that capital cost pressures are managed within existing financial estimates. Management of capital cost pressures may occur by:

- reallocating existing departmental resources 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 projects to fit within funding parameters (subject to government approval); and/or
- funding projects 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 estimates is shown in Table 3.4 (earlier in this chapter).

NON-FINANCIAL PUBLIC SECTOR

This section provides an overview of the activities of the broader public sector, adding the State's public non-financial corporation (PNFC) sector to the general government sector, to form the State's non-financial public sector (NFPS). The analysis within this section compares revised NFPS estimates to forecasts published in the *2010-11 Budget*, as revisions to NFPS estimates were not required in the 2010 *Victorian Pre-Election Budget Update*. Most drivers of the NFPS are largely reflected in the operations of the general government sector and discussed earlier in this chapter.

Summary operating statement

As shown in Table 3.7, the NFPS is projecting an operating deficit of $54 million in 2010-11, before returning to an operating surplus from 2011-12 onwards. The 2010-11 revised estimate represents a $776 million downward revision to that published in the *2010-11 Budget*, which for the PNFC sector is primarily due to a higher asset base within VicTrack resulting in an upward revision to depreciation expense. The rephasing of Housing grant receipts from the Commonwealth also impacted on the revised result.

Table 3.7: Summary operating statement for the period 2010-11 to 2013-14 for the non-financial public sector [(a)]

($ million)

	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Revenue				
Taxation revenue	14 526.9	15 002.7	15 726.8	16 493.5
Dividends, TER and interest [(b)]	605.1	602.0	661.0	700.9
Sales of goods and services	9 052.0	9 794.2	10 571.9	10 740.4
Grants	22 338.7	22 881.5	24 166.7	24 480.3
Other current revenue	2 191.8	2 277.6	2 269.5	2 324.7
Total revenue	**48 714.6**	**50 558.0**	**53 395.9**	**54 739.8**
% change		3.8%	5.6%	2.5%
Expenses				
Employee expenses	17 059.2	17 993.8	18 872.3	19 767.2
Superannuation [(c)]	2 694.3	2 749.9	2 827.8	2 864.3
Depreciation	3 948.0	4 305.4	4 619.9	4 801.1
Interest expense	1 615.2	2 284.1	3 046.3	3 150.7
Other operating expenses	17 485.7	17 737.7	18 338.6	18 714.9
Grants and other transfers	5 966.1	5 118.3	5 393.6	5 319.6
Total expenses	**48 768.5**	**50 189.2**	**53 098.5**	**54 617.8**
% change		2.9%	5.8%	2.9%
Net result from transactions	**(53.9)**	**368.8**	**297.4**	**122.0**
Total other economic flows included in net result	**(495.4)**	**(22.2)**	**77.9**	**(53.1)**
Net result	**(549.3)**	**346.6**	**375.3**	**69.0**

Source: Department of Treasury and Finance

Notes:

(a) *This is an abbreviated operating statement. The comprehensive operating statement is presented in Chapter 5,* Supplementary Uniform Presentation Framework Tables.

(b) *Comprises dividends, income tax and rate equivalent revenue and interest.*

(c) *Comprises superannuation interest expense and other superannuation expenses.*

Revenue outlook

Total revenue for the NFPS is expected to grow from $48.7 billion in 2010-11 to $54.7 billion by 2013-14. The 2010-11 revised estimate represents a downward revision of $232 million from that published in the *2010-11 Budget*. Within the PNFC sector, the significant driver behind this revision was the receipt of Housing grant revenue from the Commonwealth in 2009-10 rather than 2010-11 as originally projected. All other significant revisions to NFPS revenues in 2010-11 are reflected in the general government sector's operating statement.

Expense outlook

Total expenses for the NFPS are expected to increase from $48.8 billion in 2010-11 to $54.6 billion by 2013-14. The 2010-11 revised estimate represents an upward revision of $543 million from that published in the *2010-11 Budget*. Within the PNFC sector, this revision is primarily driven by higher depreciation costs stemming from the revaluation of transport assets. All other significant revisions to NFPS expenses in 2010-11 are reflected in the general government sector's operating statement.

Summary balance sheet

Table 3.8 shows the summary balance sheet for the NFPS. Net assets are expected to reach $124.1 billion at 30 June 2011, increasing to $139.0 billion by 30 June 2014. The decrease in the projected level of net assets from the *2010-11 Budget* is primarily due to an upward revision to the superannuation liability as a result of a decrease in the Commonwealth Government bond rate used to value the liability (partially offset by an actuarial gain associated with better than expected returns on superannuation assets).

Table 3.8: Summary balance sheet as at 30 June for the non-financial public sector [(a)]

($ billion)

	2010 Actual	2011 Revised [(b)]	2012 Estimate	2013 Estimate	2014 Estimate
Assets					
Non-financial assets [(c)]	166.1	174.8	189.1	194.2	200.0
Financial assets [(d)]	12.5	12.0	12.0	12.3	12.4
Investments in other sector entities [(e)]	0.3	0.7	1.1	1.4	1.7
Total assets	**179.0**	**187.5**	**202.2**	**207.9**	**214.0**
Liabilities					
Superannuation	22.6	23.6	24.2	24.4	24.7
Borrowings [(f)]	23.1	27.6	36.3	38.1	38.6
Other liabilities	12.0	12.3	11.8	11.8	11.8
Total liabilities	**57.8**	**63.4**	**72.2**	**74.4**	**75.0**
Net assets	**121.2**	**124.1**	**130.0**	**133.5**	**139.0**

Source: Department of Treasury and Finance

Notes:

(a) *This is an abbreviated balance sheet. The full balance sheet is presented in Chapter 5,* Supplementary Uniform Presentation Framework Tables.

(b) *The 2011 revised estimate is based on the actual opening balance for 1 July 2010 plus the estimated 2010-11 movement.*

(c) *Includes non-financial assets held for sale, land, buildings, infrastructure, plant and equipment, inventories and other non-financial assets.*

(d) *Includes cash and deposits, advances paid, investments, loans and placements, receivables and investments accounted for using the equity method.*

(e) *Consists of investment in public financial corporations.*

(f) *Includes deposits held and advances received.*

The increase in total assets over the forward estimates period is predominantly driven by non-financial assets, consisting of land and buildings, plant and equipment, inventories and other fixed assets. Non-financial assets are projected to reach $200.0 billion by 30 June 2014, increasing by $33.8 billion from 30 June 2010. This investment in new infrastructure (which is in part debt funded), will see borrowings (including advances received and deposits held) increase by $15.5 billion over the same period.

Application of cash resources

Table 3.9 provides a summary of cash generated through the operations of the NFPS, and how that cash is applied to infrastructure investment, and the associated impact on net debt.

Table 3.9: Application of cash resources for the non-financial public sector

($ million)

	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Net result from transactions	**(53.9)**	**368.8**	**297.4**	**122.0**
Add back: Non-cash income and expenses (net) [(a)]	4 090.7	4 384.1	4 788.6	4 652.0
Net cash flows from operating activities	**4 036.8**	**4 752.9**	**5 086.0**	**4 774.0**
Less:				
Net investment in fixed assets				
Expenditure on approved projects	9 455.2	8 053.2	5 747.2	4 700.1
Capital provision approved but not yet allocated [(b)]	..	315.3	555.9	785.1
Proceeds from asset sales	(416.3)	(300.7)	(463.3)	(319.4)
Total net investment in fixed assets	**9 038.9**	**8 067.8**	**5 839.8**	**5 165.8**
Finance leases [(c)]	121.0	5 278.9	844.8	..
Other investment activities (net)	(255.0)	89.3	151.7	217.4
Decrease/(increase) in net debt	**(4 868.2)**	**(8 683.1)**	**(1 750.3)**	**(609.1)**

Source: Department of Treasury and Finance

Notes:

(a) *Includes depreciation and movements in the unfunded superannuation liability and liability for employee benefits.*

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

(c) *The finance lease amount in 2010-11relates to the Partnerships Victoria in Schools project. The finance lease amount in 2011-12 relates to the Ararat Prison project, the redevelopment of the Royal Children's Hospital and the Victorian Desalination Project at Wonthaggi, and the finance lease amount in 2012-13 relates to the Peninsula Link project.*

Net investment in fixed assets by the NFPS is estimated to be $9.0 billion in 2010-11, and $19.1 billion over the remaining three forward estimate years. In aggregate, this $28.1 billion net investment remains significantly in line with the $27.9 billion projected in the *2010-11 Budget*. Of the investment in new infrastructure, it is estimated that 66 per cent will be funded from cash operating surpluses. The key infrastructure investments within the PNFC sector relate to the water and transport sectors.

Financial sustainability

As shown in Table 3.10, net financial liabilities are expected to peak at 17.9 per cent of GSP at 30 June 2012, before declining to 16.8 per cent of GSP by 30 June 2014 as the level of new borrowings stabilises and economic growth remains strong.

In nominal terms, net financial liabilities are projected to increase to $62.7 billion at 30 June 2014 from $45.3 billion at 30 June 2010. In addition to borrowings, the increase is driven by the superannuation liability as a result of some schemes being only partially funded, thus the return on assets is not sufficient to offset growth in the accrued liability.

The upward revision to net financial liabilities (both nominally and as a proportion of GSP) since the *2010-11 Budget* is primarily driven by the superannuation liability (discussed previously), as well as revisions to GSP forecast data.

Table 3.10: Key financial indicators of the non-financial public sector

	2010 Actual	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
	($ billion)				
Net debt [a]	14.8	19.7	28.4	30.1	30.7
Net financial liabilities [b]	45.3	51.4	60.2	62.1	62.7
	(per cent)				
Net debt to GSP [c]	4.9	6.2	8.4	8.5	8.3
Debt service cost [d]	2.1	2.5	3.7	5.0	5.0
Net financial liabilities to GSP [c]	15.0	16.1	17.9	17.5	16.8
Liability service cost [e]	3.9	4.5	5.6	6.8	6.9

Source: Department of Treasury and Finance

Notes:

(a) The sum of borrowings, deposits held and advances received less the sum of cash and deposits, advances paid, and investments, loans and placements.

(b) Total liabilities less financial assets (excluding investments in other sector entities).

(c) Ratios to GSP may vary from publications year to year due to revisions to the ABS GSP data.

(d) Net interest to total revenue, where net interest equals interest expense less interest revenue.

(e) Net interest plus superannuation interest expense to total revenue.

Victoria receives credit ratings from two international ratings agencies, Standard & Poor's (S&P) and Moody's Investors Service. Both agencies examine a wide range of financial and non-financial indicators when assessing the credit worthiness of a jurisdiction.

One of the key S&P indicators is net debt (excluding advances paid) plus superannuation of the NFPS as a proportion of NFPS operating revenue. In Victoria's case, S&P has indicated that the trigger point for a ratings downgrade from triple-A would be if this ratio were to exceed 130 per cent. Victoria's ratio is forecast to peak at 104 per cent over the forward estimates period. Victoria's triple-A credit rating was last formally reaffirmed by S&P in October 2010 and Moody's Investors Service in January 2009.

CHAPTER 4 – ESTIMATED FINANCIAL STATEMENTS AND NOTES

Table 4.1: Estimated consolidated comprehensive operating statement for the financial year ending 30 June [(a)]

($ million)

	Notes	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Revenue from transactions						
Taxation revenue	2	14 437.8	14 742.8	15 242.0	15 906.3	16 681.8
Interest		358.0	340.8	559.6	820.9	833.3
Dividends and income tax equivalent and rate equivalent revenue	3	504.9	519.6	436.1	440.1	682.6
Sales of goods and services	4	5 847.4	5 868.2	6 628.8	6 546.9	6 651.9
Grants	5	22 893.1	22 347.1	22 887.1	24 170.4	24 483.9
Other revenue	6	1 718.0	1 749.3	1 804.0	1 803.4	1 849.4
Total revenue from transactions		**45 759.3**	**45 567.7**	**47 557.5**	**49 688.1**	**51 183.0**
Expenses from transactions						
Employee expenses		16 221.0	16 173.2	17 101.1	17 955.7	18 830.0
Superannuation interest expense	7a	884.1	931.6	961.6	988.0	1 008.1
Other superannuation expenses	7a	1 597.8	1 691.8	1 715.4	1 765.3	1 779.6
Depreciation	8	2 214.3	2 259.0	2 456.2	2 614.3	2 722.6
Interest expense	9	939.5	963.1	1 332.5	1 767.2	1 849.2
Other operating expenses		15 120.6	14 822.5	15 726.2	16 000.4	16 362.3
Grants and other transfers	10	7 910.1	8 093.2	7 441.5	7 764.3	7 758.3
Total expenses from transactions	11	**44 887.4**	**44 934.3**	**46 734.5**	**48 855.2**	**50 310.2**
Net result from transactions – net operating balance	**24a**	**871.9**	**633.4**	**823.1**	**832.9**	**872.8**
Other economic flows included in net result						
Net gain/(loss) on sale of non-financial assets		134.7	144.0	152.5	267.0	137.5
Net gain/(loss) on financial assets or liabilities at fair value		1.0	1.8	1.8	1.8	1.8
Net actuarial gains/(losses) of superannuation defined benefits plans	7a	..	(473.7)	..	..	..
Other gains/(losses) from other economic flows	12	(155.2)	(160.8)	(163.0)	(170.4)	(176.6)
Total other economic flows included in net result		**(19.5)**	**(488.8)**	**(8.7)**	**98.4**	**(37.3)**
Net result		**852.3**	**144.6**	**814.4**	**931.2**	**835.5**

Table 4.1: Estimated consolidated comprehensive operating statement for the financial year ending 30 June [(a)] *(continued)*

($ million)

	Notes	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Other economic flows – other movements in equity						
Movement of non-financial asset reserves		2 182.2	2 146.7	4 589.7	2 120.4	4 652.6
Net gain on equity investments in other sector entities at proportional share of the carrying amount of net assets	14	1 286.4	642.6	589.7	470.0	(0.9)
Transfers to accumulated funds/other movements in equity		11.7	1.2	1.6	2.0	2.1
Total other economic flows – other movements in equity		**3 480.4**	**2 790.5**	**5 181.0**	**2 592.4**	**4 653.7**
Comprehensive result – total change in net worth	**24b**	**4 332.7**	**2 935.1**	**5 995.5**	**3 523.6**	**5 489.2**
FISCAL AGGREGATES						
Net operating balance		**871.9**	**633.4**	**823.1**	**832.9**	**872.8**
Less: Net acquisition of non-financial assets from transactions	15	2 097.0	1 941.4	2 653.2	1 316.1	(284.4)
Net lending/(borrowing)	**24c**	**(1 225.2)**	**(1 308.0)**	**(1 830.1)**	**(483.3)**	**1 157.1**

The accompanying notes form part of these Estimated Financial Statements

Note:

(a) On 1 January 2011, the Commonwealth Government will introduce a Paid Parental Leave Scheme. It allows parents of newborn or early adopted children to take up to 18 weeks leave, paid at the minimum wage rate. As at the date of the publication of this report, the financial impact of this Scheme, which will be funded by the Commonwealth, is yet to be quantified.

Table 4.2: Estimated consolidated balance sheet as at 30 June

($ million)

	Notes	2011 Budget	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Assets						
Financial assets						
Cash and deposits		3 342.6	3 092.3	3 268.9	3 465.5	3 744.4
Advances paid [(a)]		292.6	297.0	4 510.3	4 475.3	4 434.0
Investments, loans and placements		2 653.6	2 501.0	2 461.4	2 420.1	2 430.3
Receivables	13	2 846.6	2 807.8	2 851.5	2 893.0	2 958.7
Investments accounted for using equity method		40.1	35.1	35.1	35.1	35.1
Investments in other sector entities	14	67 986.9	67 519.9	69 608.3	70 941.5	72 122.1
Total financial assets		**77 162.4**	**76 253.1**	**82 735.6**	**84 230.6**	**85 724.6**
Non-financial assets						
Inventories		268.4	269.3	269.0	268.7	268.2
Non-financial assets held for sale		82.0	81.2	74.6	68.0	61.4
Land, buildings, infrastructure, plant and equipment	16a, 17	93 852.0	93 710.4	101 248.0	105 248.6	109 906.5
Other non-financial assets	18	754.2	756.3	702.9	671.1	598.3
Total non-financial assets		**94 956.6**	**94 817.2**	**102 294.5**	**106 256.3**	**110 834.5**
Total assets	19b	**172 119.1**	**171 070.3**	**185 030.1**	**190 486.9**	**196 559.0**
Liabilities						
Deposits held and advances received		478.7	478.7	478.2	478.2	478.2
Borrowings	20	16 762.8	16 550.1	24 163.2	25 641.5	25 815.7
Payables		4 811.1	4 756.7	4 385.2	4 409.9	4 435.3
Superannuation	7d	22 933.5	23 538.6	24 112.2	24 389.8	24 618.6
Employee benefits	21	4 545.6	4 555.9	4 720.6	4 887.1	5 054.6
Other provisions		699.2	699.7	684.6	670.8	657.9
Total liabilities		**50 230.9**	**50 579.7**	**58 544.1**	**60 477.3**	**61 060.2**
Net assets		**121 888.2**	**120 490.6**	**126 486.0**	**130 009.6**	**135 498.8**
Accumulated surplus/(deficit)		44 093.2	43 374.3	44 158.0	45 069.3	45 884.7
Reserves	23	77 750.4	77 071.8	82 283.5	84 895.8	89 569.5
Non-controlling interest		44.5	44.5	44.5	44.5	44.5
Net worth	24d	**121 888.2**	**120 490.6**	**126 486.0**	**130 009.6**	**135 498.8**
FISCAL AGGREGATES						
Net financial worth		26 931.6	25 673.4	24 191.5	23 753.3	24 664.3
Net financial liabilities		41 055.3	41 846.5	45 416.8	47 188.2	47 457.7
Net debt		10 952.6	11 138.5	14 400.9	15 758.8	15 685.2

The accompanying notes form part of these Estimated Financial Statements

Note:

(a) *The 2011-12 estimate and beyond reflect the recognition of the finance lease arrangement between the Government and Melbourne Water Corporation for the desalination plant.*

Table 4.3: Estimated consolidated cash flow statement for the financial year ending 30 June [(a)]

($ million)

	Notes	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Cash flows from operating activities						
Receipts						
Taxes received		14 529.7	14 813.4	15 223.6	15 983.8	16 744.8
Grants		22 893.1	22 347.1	22 887.1	24 170.4	24 483.9
Sales of goods and services [(b)]		6 420.4	6 395.3	6 998.0	7 224.0	7 335.9
Interest received		322.9	305.8	527.1	788.8	833.0
Dividends and income tax equivalent and rate equivalent receipts		534.6	563.2	443.3	439.5	666.6
Other receipts		1 540.6	1 589.2	1 609.5	1 568.0	1 618.8
Total Receipts		**46 241.3**	**46 014.0**	**47 688.6**	**50 174.4**	**51 683.1**
Payments						
Payments for employees		(16 032.7)	(15 976.8)	(16 938.1)	(17 790.8)	(18 664.2)
Superannuation		(2 082.6)	(2 092.7)	(2 103.4)	(2 475.8)	(2 559.0)
Interest paid		(878.9)	(902.0)	(1 274.0)	(1 714.7)	(1 799.9)
Grants and subsidies		(7 955.1)	(8 138.2)	(7 422.5)	(7 513.3)	(7 681.3)
Goods and services [(b)]		(15 418.2)	(15 097.2)	(16 085.2)	(16 354.0)	(16 701.9)
Other payments		(381.1)	(383.6)	(389.1)	(403.7)	(421.4)
Total payments		**(42 748.6)**	**(42 590.5)**	**(44 212.3)**	**(46 252.3)**	**(47 827.7)**
Net cash flows from operating activities	22b	**3 492.8**	**3 423.5**	**3 476.3**	**3 922.1**	**3 855.5**
Cash flows from investing activities						
Purchases of non-financial assets	19a	(4 435.0)	(4 337.6)	(4 385.4)	(3 666.3)	(2 684.1)
Sales of non-financial assets		244.9	259.4	301.9	399.5	245.7
Cash flows from investments in non-financial assets		(4 190.1)	(4 078.3)	(4 083.5)	(3 266.7)	(2 438.4)
Net cash flows from investments in financial assets for policy purposes		(2 179.4)	(2 412.6)	(1 584.0)	(1 128.2)	(1 297.2)
Net cash flows from investments in financial assets for liquidity management purposes		(23.7)	129.9	41.6	43.3	(8.1)
Net cash flows from investing activities		**(6 393.2)**	**(6 360.9)**	**(5 626.0)**	**(4 351.6)**	**(3 743.8)**
Cash flows from financing activities						
Advances received (net)		(0.7)	(0.7)	(0.5)	..	..
Net borrowings		3 022.4	2 809.0	2 326.8	626.1	167.2
Deposits received (net)		..	..	..	..	..
Other financing (net)		..	..	..	..	..
Net cash flows from financing activities		**3 021.7**	**2 808.3**	**2 326.3**	**626.1**	**167.2**
Net increase/(decrease) in cash and cash equivalents		**121.3**	**(129.1)**	**176.6**	**196.6**	**279.0**

Table 4.3: Estimated consolidated cash flow statement for the financial year ending 30 June [a] *(continued)*

($ million)

	Notes	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Cash and cash equivalents at beginning of reporting period		3 221.3	3 221.3	3 092.3	3 268.9	3 465.5
Cash and cash equivalents at end of reporting period	**22a**	**3 342.6**	**3 092.3**	**3 268.9**	**3 465.4**	**3 744.4**
FISCAL AGGREGATES						
Net cash flows from operating activities		**3 492.8**	**3 423.5**	**3 476.3**	**3 922.1**	**3 855.5**
Net cash flows from investments in non-financial assets		**(4 190.1)**	**(4 078.3)**	**(4 083.5)**	**(3 266.7)**	**(2 438.4)**
Cash surplus/(deficit)	**24e**	**(697.4)**	**(654.8)**	**(607.2)**	**655.4**	**1 417.1**

The accompanying notes form part of these estimated financial statements

Notes:

(a) *On 1 January 2011, the Commonwealth Government will introduce a Paid Parental Leave Scheme. It allows parents of newborn or early adopted children to take up to 18 weeks leave, paid at the minimum wage rate. As at the date of the publication of this report, the financial impact of this Scheme, which will be funded by the Commonwealth, is yet to be quantified.*

(b) *Inclusive of goods and services tax.*

Table 4.4: Estimated consolidated of changes in equity for the financial year ending 30 June

($ million)

	Equity at 1 Jul	Total comprehensive result	Equity at 30 Jun
2010-11			
Accumulated surplus/(deficit)	43 263.9	144.6	43 408.5
Other movements in equity	..	(34.2)	(34.2)
Non-controlling interest	44.5	..	44.5
Property, plant and equipment revaluation reserve	33 193.2	2 146.7	35 339.9
Net movements in other reserves	895.0	35.5	930.5
Accumulated net gain on equity investments in other sector entities	40 158.8	642.6	40 801.3
Total equity at end of the period	**117 555.5**	**2 935.1**	**120 490.6**
2011-12			
Accumulated surplus/(deficit)	43 374.3	814.4	44 188.7
Other movements in equity	..	(30.6)	(30.6)
Non-controlling interest	44.5	..	44.5
Property, plant and equipment revaluation reserve	35 339.9	4 589.7	39 929.6
Net movements in other reserves	930.5	32.3	962.8
Accumulated net gain on equity investments in other sector entities	40 801.3	589.7	41 391.1
Total equity at end of the period	**120 490.6**	**5 995.5**	**126 486.0**
2012-13			
Accumulated surplus/(deficit)	44 158.0	931.2	45 089.3
Other movements in equity	..	(20.0)	(20.0)
Non-controlling interest	44.5	..	44.5
Property, plant and equipment revaluation reserve	39 929.6	2 120.4	42 050.1
Net movements in other reserves	962.8	21.9	984.7
Accumulated net gain on equity investments in other sector entities	41 391.1	470.0	41 861.0
Total equity at end of the period	**126 486.0**	**3 523.6**	**130 009.6**
2013-14			
Accumulated surplus/(deficit)	45 069.3	835.5	45 904.8
Other movements in equity	..	(20.1)	(20.1)
Non-controlling interest	44.5	..	44.5
Property, plant and equipment revaluation reserve	42 050.1	4 652.6	46 702.6
Net movements in other reserves	984.7	22.1	1 006.9
Accumulated net gain on equity investments in other sector entities	41 861.0	(0.9)	41 860.1
Total equity at end of the period	**130 009.6**	**5 489.2**	**135 498.8**

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Statement of significant accounting policies and forecast assumptions

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

Except as disclosed below, the accounting policies and forecast assumptions applied are consistent with those of the Estimated Financial Statements as published in the 2010-11 Budget Paper No. 4 *Statement of Finances*, which should be read in conjunction with this update.

To gain a better understanding of the terminology and key aggregates used in this report, a glossary of technical terms can be found in Note 26 to these Estimated Financial Statements.

(A) Assumptions

The Estimated Financial Statements have been prepared using the material economic and other assumptions listed below, which have been updated since the publication of the *2010-11 Budget*.

Material economic and other assumptions[(a)]

(per cent change)

	2010-11	2011-12	2012-13	2013-14
Real gross state product	3.50	3.00	3.00	3.00
Employment	2.75	2.00	1.75	1.75
Unemployment rate [(b)]	5.50	5.25	5.00	5.00
Consumer price index	3.00	2.75	2.50	2.50
Wage price index [(c)]	3.25	3.50	3.50	3.50
Population [(d)]	1.80	1.70	1.60	1.60

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

Notes:

(a) Year average per cent change on previous year unless otherwise indicated. All economic projections 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) Year-average level, per cent.

(c) Total hourly rate excluding bonuses.

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

(B) Sensitivity analysis

The estimates for revenue, expenses, the net result from transactions, and the net result have been subject to analysis of assumed movements for a range of major economic and other risks by the Department of Treasury and Finance (DTF).

Note 1: Statement of significant accounting policies and forecast assumptions *(continued)*

Refer to Appendix B *Sensitivity Analysis Table*, which sets out the sensitivity analysis performed by DTF. This analysis sets out the impact on both the net result from transactions and the net result of selected economic indicators being 1 per cent higher than expected.

(C) Statement of compliance

These Estimated Financial Statements have been prepared in accordance with Section 23L of the *Financial Management Act 1994* and applicable Australian Accounting Standards (AAS). The latter include Interpretations issued by the Australian Accounting Standards Board (AASB).

In particular, these Estimated Financial Statements are presented in a manner consistent with the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049). However, the prospective nature of these Estimated Financial Statements means that some AAS disclosures are neither relevant nor practical and so these have been omitted. Further, where appropriate, those AAS paragraphs applicable to not-for-profit entities have been applied.

Because AAS do not include pronouncements that prescribe the preparation and presentation of prospective financial statements, the Estimated Financial Statements have been prepared with regard to the principles set out in New Zealand Financial Reporting Standard 42 *Prospective Financial Statements.*

The Estimated Financial Statements have been prepared in accordance with the accounting policies expected to be used in preparing historically oriented general purpose financial statements for the 2010-11 financial year, and the same accounting policies have been used for the subsequent forecast years. The accounting policies applied are also consistent with those applied in preparing and presenting the *2010-11 Budget.*

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The Government Financial Statistics (GFS) information included in this report is based on the GFS manual published by the Australian Bureau of Statistics, *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005 Cat. No.5514.0.*

The information presented in the Estimated Financial Statements reflects the state of the accounts as at 14 December 2010.

Note 1: Statement of significant accounting policies and forecast assumptions *(continued)*

(D) Basis of accounting, preparation and measurement

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

(E) 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 Victorian general government sector is not a separate entity but represents a sector within the State of Victoria whole of government reporting entity. Unless otherwise noted, accounting policies applied by the State apply equally to the Victorian general government sector.

The primary function of entities within the Victorian 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 revenue that is financed mainly through taxes and other compulsory levies.

These entities are not-for-profit entities and apply, where appropriate, those paragraphs of AAS applicable to not-for-profit entities.

(F) Basis of consolidation

The Estimated Financial Statements present the consolidated assets and liabilities of all reporting entities in the Victorian general government sector, and their revenue, gains and expenses for the respective period, in accordance with AASB 1049 and AASB 127 *Consolidated and Separate Financial Statements*.

Entities in the public non-financial corporation (PNFC) and public financial corporation (PFC) sectors are not consolidated into the financial statements of the Victorian general government sector, but are accounted for as equity investments measured at the Victorian general government sector's proportional share of the carrying amount of net assets of the PNFC and PFC sector entities before consolidation eliminations. Where the carrying amount of the entity's net assets before consolidation eliminations is less than zero, the amount is not included.

(G) Revised forecast assumptions for superannuation

The accounting policies relating to superannuation expenses and liabilities are consistent with those applied in preparing and presenting the *2010-11 Budget*. However, the forecast assumptions have been revised for the budget and forward years for each relevant defined benefit superannuation scheme as disclosed in the following table and are consistent with those presented in the 2010 *Victorian Pre-Election Budget Update*.

Note 1: Statement of significant accounting policies and forecast assumptions *(continued)*

Victorian statutory schemes	*Assumptions*	*Per cent* [(a)]
Emergency Services and State Super	Expected return on assets [(b)]	8.0
	Discount rate [(c)]	5.1
	Wages growth [(d)]	4.0
	Inflation rate [(e)]	2.5
Constitutionally Protected Schemes	Discount rate [(c)]	5.1
	Wages growth [(d)]	4.0
	Inflation rate [(f)]	n/a
Parliamentary Contributory Superannuation Fund	Expected return on assets [(b)]	8.0
	Discount rate [(c)]	5.1
	Wages growth [(d)]	4.0
	Inflation rate [(f)]	n/a
Health Super Fund Defined Benefit Scheme	Expected return on assets [(b)]	6.0
	Discount rate [(c)]	5.1
	Wages growth [(d)]	4.0
	Inflation rate [(e)]	2.5

Source: Victorian Department of Treasury and Finance

Notes:

(a) All rates are nominal annual rates.

(b) The expected return on assets stated is gross of tax. Estimated tax payments are explicitly allowed for in the calculation process.

(c) In accordance with accounting standards, the discount rate is based on the longest dated fixed interest Commonwealth Government bond rate. The rate stated above is an annual effective rate, gross of tax.

(d) Wages growth is based on actuarial expectations.

(e) For these schemes, the inflation rate assumed by the actuary reflects market expectations of price inflation as implied based on the relationship between the yields on Commonwealth Government Bonds, both nominal and inflation linked. This ensures consistency with the prescribed (i.e. market based) discount rate.

(f) Pensions payable from both the Parliamentary Contributory Superannuation Fund and Constitutionally Protected Schemes are linked to wages growth, not price inflation.

The expected return on assets, as shown above, is determined by weighting the expected long-term return for each superannuation fund asset class by the target allocation of assets to each class (as detailed in the table below).

Asset allocation

Asset class	*Per cent*
Domestic equity	26.8
International equity	25.5
Domestic and International debt assets	19.3
Property	10.9
Cash	4.2
Other (including private equity, hedge funds and infrastructure)	13.3
Total	**100.0**

Source: Victorian Department of Treasury and Finance

Note 1: Statement of significant accounting policies and forecast assumptions *(continued)*

(H) Prospective accounting changes

Further to the prospective accounting changes outlined in the *2010-11 Budget*, the following relevant AAS have been issued by the AASB but are not yet effective. They become effective for the first consolidated financial statements for reporting periods commencing after the operative date as follows:

- AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* [AASB Interpretation 14], operative from 1 January 2011. This amending Standard removes the option in Interpretation 14 *AASB 119 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, to use present value in measuring the reduction in future contributions for employees;
- AASB 1053 *Application of Different Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*, operative from 1 July 2013. These Standards prescribe the reduced disclosure requirements for entities that apply Tier 2 financial reporting. The Standards do not change the recognition or measurement of assets or liabilities, and do not affect the consolidated financial reports of governments;
- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* [AASB 1, 7, 101, 134 and Interpretation 13], operative from 1 January 2011. These amendments result from proposals that were included in the Exposure Drafts ED 188 *Improvements to IFRSs* published in September 2009 and in ED 185 *Rate-regulated Activities* published in July 2009, and follow the issuance of the International Accounting Standard Board's *Standard Improvements to IFRSs* in May 2010. These amendments primarily clarify disclosure requirements;
- AASB 2010-5 *Amendments to Australian Accounting Standards* [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023, 1038 and Interpretations 112, 115, 127, 132 and 1042], operative from 1 January 2011. This amending standard makes numerous editorial amendments to a range of AAS and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board. These amendments have no major impact on the requirements of the amended pronouncements; and
- AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets*, operative from 1 July 2011. This amending standard adds and amends disclosure requirements about transfers of financial assets and makes amendments to AASB 1 and AASB 7 based on amendments to IFRS 7 *Disclosures-Transfers of Financial Assets* by the International Accounting Standards Board in October 2010.

The impact of these changes has not yet been determined, and therefore is not incorporated in the Estimated Financial Statements.

Note 2: Taxation revenue

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Taxes on employers' payroll and labour force	**4 258.5**	**4 397.2**	**4 679.8**	**4 980.6**	**5 288.0**
Taxes on property					
Taxes on immovable property					
Land tax	1 362.4	1 377.1	1 330.0	1 450.2	1 413.7
Congestion levy	45.8	48.4	49.8	51.1	52.4
Metropolitan improvement levy	125.4	125.4	129.8	134.3	139.0
Property owner contributions to fire brigades	35.9	28.4	31.8	32.5	34.2
Total taxes on immovable property	**1 569.4**	**1 579.4**	**1 541.4**	**1 668.0**	**1 639.2**
Financial and capital transactions					
Land transfer duty	3 672.4	3 821.3	3 768.7	3 920.3	4 178.6
Growth Areas Infrastructure Contribution	..	27.1	36.2	42.0	48.3
Other property duties	8.6	8.4	8.4	8.4	8.4
Financial accommodation levy	80.5	71.8	87.3	98.7	103.4
Total financial and capital transactions	**3 761.5**	**3 928.6**	**3 900.6**	**4 069.4**	**4 338.8**
Total taxes on property	**5 330.9**	**5 508.0**	**5 442.0**	**5 737.5**	**5 978.0**
Taxes on the provision of goods and services					
Gambling taxes					
Private lotteries	384.5	374.4	388.1	402.1	416.2
Electronic gaming machines	1 018.6	992.4	1 034.7	1 133.1	1 176.6
Casino	170.9	162.6	180.3	199.9	215.4
Racing	139.3	137.4	141.3	69.1	60.7
Other	9.4	10.2	10.6	6.8	6.3
Total gambling taxes	**1 722.7**	**1 676.8**	**1 755.1**	**1 811.0**	**1 875.2**
Levies on statutory corporations	**73.7**	**73.7**	**73.7**	**..**	..
Taxes on insurance	**1 478.1**	**1 473.8**	**1 604.9**	**1 614.5**	**1 696.6**
Total taxes on the provision of goods and services	**3 274.6**	**3 224.4**	**3 433.7**	**3 425.5**	**3 571.8**
Taxes on the use of goods and performance of activities					
Motor vehicle taxes					
Vehicle registration fees	887.0	905.2	954.1	1 002.6	1 052.9
Duty on vehicle registrations and transfers	561.7	588.1	592.4	612.4	637.5
Total motor vehicle taxes	**1 448.8**	**1 493.4**	**1 546.6**	**1 615.0**	**1 690.4**
Franchise taxes	29.2	24.0	24.6	25.2	25.8
Other	95.8	95.8	115.3	122.6	127.8
Total taxes on the use of goods and performance of activities	**1 573.8**	**1 613.2**	**1 686.5**	**1 762.8**	**1 844.1**
Total taxation	**14 437.8**	**14 742.8**	**15 242.0**	**15 906.3**	**16 681.8**

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

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Dividends	340.8	348.3	289.9	303.3	531.8
Income tax equivalent revenue	159.1	166.2	140.8	131.5	145.5
Local government rate equivalent revenue	5.1	5.1	5.4	5.4	5.3
Total dividends and income tax equivalent and rate equivalent revenue	**504.9**	**519.6**	**436.1**	**440.1**	**682.6**

Note 4: Sales of goods and services

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Motor vehicle regulatory fees	131.3	131.3	151.8	151.9	119.6
Other regulatory fees	304.2	303.6	290.3	288.2	277.7
Sale of goods	123.3	163.0	153.0	123.0	83.5
Provision of services	4 004.9	3 986.4	4 631.2	4 482.4	4 644.8
Rental	43.2	43.4	44.2	44.0	44.0
Refunds and reimbursements	56.8	56.8	58.0	59.2	60.4
Inter-sector capital asset charge	1 183.6	1 183.6	1 300.3	1 398.3	1 422.0
Total sales of goods and services	**5 847.4**	**5 868.2**	**6 628.8**	**6 546.9**	**6 651.9**

Note 5: Grants

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
General purpose grants	11 142.7	10 978.8	11 756.0	12 602.2	13 083.7
Specific purpose grants for on-passing	2 768.2	2 308.9	2 535.6	2 661.2	2 794.4
Grants for specific purposes	8 868.6	8 945.8	8 502.5	8 823.2	8 521.9
Total	**22 779.5**	**22 233.4**	**22 794.1**	**24 086.6**	**24 400.0**
Other contributions and grants	113.7	113.7	93.0	83.8	83.9
Total grants	**22 893.1**	**22 347.1**	**22 887.1**	**24 170.4**	**24 483.9**

Note 6: Other revenue

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Fair value of assets received free of charge or for nominal consideration	1.0	1.0	0.7	45.7	46.0
Fines	559.4	587.1	607.3	630.9	644.2
Royalties	46.2	46.2	46.7	47.7	48.8
Donations and gifts	233.9	234.3	293.1	209.1	224.3
Other non-property rental	21.7	21.7	21.7	21.8	21.9
Other miscellaneous revenue	855.9	859.0	834.6	848.2	864.2
Total other revenue	**1 718.0**	**1 749.3**	**1 804.0**	**1 803.4**	**1 849.4**

Note 7: Superannuation

(a) Superannuation expense recognised in the operating statement

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Defined benefit plans					
Interest cost [(a)]	2 018.0	2 046.0	2 103.0	2 129.8	2 148.9
Expected return on plan assets (net of expenses) [(a)]	(1 133.9)	(1 114.5)	(1 141.4)	(1 141.8)	(1 140.8)
Superannuation interest expense	**884.1**	**931.6**	**961.6**	**988.0**	**1 008.1**
Current service cost [(a)]	597.7	696.0	690.8	690.3	665.3
Amortisation of past service cost [(a)]	..	..	..	..	..
Actuarial (gains)/losses [(b)]	..	473.7	..	..	..
Total expense recognised in respect of defined benefit plans	**1 481.9**	**2 101.3**	**1 652.4**	**1 678.3**	**1 673.4**
Defined contribution plans					
Employer contributions to defined contribution plans [(a)]	947.2	943.0	969.7	1 017.8	1 054.9
Other (including pensions) [(a)]	52.9	52.9	55.0	57.2	59.5
Total expense recognised in respect of defined contribution plans	**1 000.0**	**995.8**	**1 024.7**	**1 075.0**	**1 114.4**
Total superannuation expense recognised in operating statement	**2 481.9**	**3 097.1**	**2 677.0**	**2 753.3**	**2 787.8**
Represented by:					
Superannuation interest expense	884.1	931.6	961.6	988.0	1 008.1
Other superannuation	1 597.8	1 691.8	1 715.4	1 765.3	1 779.6
Superannuation expense from transactions	**2 481.9**	**2 623.4**	**2 677.0**	**2 753.3**	**2 787.8**
Superannuation expense from other economic flows	**..**	**473.7**	**..**	**..**	**..**
Total superannuation expense recognised in operating statement	**2 481.9**	**3 097.1**	**2 677.0**	**2 753.3**	**2 787.8**

Notes:

(a) Superannuation expense from transactions.

(b) Superannuation expense from other economic flows.

Note 7: Superannuation *(continued)*

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

($ million)

	2010-11 Budget	*2010-11 Revised*	*2011-12 Estimate*	*2012-13 Estimate*	*2013-14 Estimate*
Opening balance of defined benefit obligation	**37 744.8**	**37 744.8**	**39 103.6**	**39 627.7**	**40 010.5**
Current service cost	597.7	696.0	690.8	690.3	665.3
Interest cost	2 018.0	2 046.0	2 103.0	2 129.8	2 148.9
Contributions by plan participants	200.7	209.9	196.1	184.8	173.3
Actuarial (gains)/losses	..	898.2	..	..	..
Benefits paid	(2 234.8)	(2 491.3)	(2 465.8)	(2 622.2)	(2 786.0)
Closing balance of defined benefit obligation	**38 326.5**	**39 103.6**	**39 627.7**	**40 010.5**	**40 212.0**

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

($ million)

	2010-11 Budget	*2010-11 Revised*	*2011-12 Estimate*	*2012-13 Estimate*	*2013-14 Estimate*
Opening balance of plan assets	**15 210.6**	**15 210.6**	**15 565.1**	**15 515.5**	**15 620.7**
Expected return on plan assets	1 133.9	1 114.5	1 141.4	1 141.8	1 140.8
Actuarial gains/(losses)	..	424.5	..	..	..
Employer contributions	1 082.6	1 096.9	1 078.7	1 400.8	1 444.6
Contributions by plan participants	200.7	209.9	196.1	184.8	173.3
Benefits paid (including tax paid)	(2 234.8)	(2 491.3)	(2 465.8)	(2 622.2)	(2 786.0)
Closing balance of plan assets	**15 393.0**	**15 565.1**	**15 515.5**	**15 620.7**	**15 593.5**

Note 7: Superannuation *(continued)*

(d) Reconciliation of the superannuation liabilities

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
ESSS (including SSF)					
Defined benefit obligation	33 834.2	34 520.3	34 878.0	35 168.0	35 330.6
Tax liability [(a)]	2 606.7	2 659.6	2 789.9	2 851.2	2 858.2
Plan assets	(14 089.9)	(14 247.4)	(14 179.8)	(14 271.8)	(14 235.2)
Net liability/(asset)	**22 351.1**	**22 932.5**	**23 488.2**	**23 747.4**	**23 953.6**
Other funds [(b)]					
Defined benefit obligation	1 881.4	1 919.6	1 957.0	1 989.9	2 023.1
Tax liability [(a)]	4.1	4.2	2.8	1.4	0.1
Plan assets	(1 303.1)	(1 317.6)	(1 335.8)	(1 348.9)	(1 358.2)
Net liability/(asset)	**582.4**	**606.1**	**624.0**	**642.4**	**664.9**
Total superannuation					
Defined benefit obligation	35 715.6	36 439.9	36 835.1	37 157.9	37 353.7
Tax liability	2 610.8	2 663.8	2 792.7	2 852.6	2 858.3
Plan assets	(15 393.0)	(15 565.1)	(15 515.5)	(15 620.7)	(15 593.5)
Superannuation liability	**22 933.5**	**23 538.6**	**24 112.2**	**24 389.8**	**24 618.5**
Represented by:					
Current liability	560.0	560.0	900.0	958.8	1 238.6
Non-current liability	22 373.5	22 978.6	23 212.2	23 431.0	23 379.9

Notes:

(a) Tax liability represents the present value of future tax payments on investment income generated by superannuation assets plus the present value of future tax payments on expected future employer contributions.

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

Note 8: Depreciation

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Buildings [(a)]	933.8	1 002.3	1 131.3	1 209.9	1 275.9
Plant, equipment and infrastructure systems	598.4	607.8	634.8	642.8	649.2
Road networks	497.8	461.8	472.0	541.1	560.8
Other assets	14.1	14.3	21.3	21.9	22.4
Leased plant and equipment	41.0	41.0	36.5	36.6	36.6
Leasehold buildings	75.5	78.1	98.9	103.4	105.7
Intangible produced assets [(b)]	53.7	53.6	61.4	58.7	72.0
Total depreciation	**2 214.3**	**2 259.0**	**2 456.2**	**2 614.3**	**2 722.6**

Notes:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2010-11 to 2013-14.

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

Note 9: Interest expense

($ million

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Interest on long-term interest-bearing liabilities	699.6	722.0	877.8	989.3	1 022.8
Interest on short-term interest-bearing liabilities	32.7	33.4	33.5	34.1	37.3
Finance charges on finance leases	146.8	146.9	363.0	691.5	740.1
Discount interest on payables	60.4	60.9	58.3	52.3	49.0
Total interest expense	**939.5**	**963.1**	**1 332.5**	**1 767.2**	**1 849.2**

Note 10: Grants and other transfers

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Current grants and other transfers expense					
Commonwealth Government	136.7	136.7	123.6	130.2	137.1
Local government on-passing	657.4	603.4	651.2	668.9	651.2
Private sector and not for profit on-passing	3 359.1	3 628.1	3 596.3	3 658.7	3 784.6
Other private sector and not for profit	398.8	460.5	328.2	343.8	372.1
Grants within the Victorian Government	2 664.7	2 507.0	2 384.3	2 428.8	2 459.6
Grants to other state governments	13.2	14.0	13.4	13.2	13.2
Total current grants and other transfers	**7 229.9**	**7 349.7**	**7 096.9**	**7 243.6**	**7 417.8**
Capital grants expense					
Local government on-passing	14.8	25.2	25.0	23.7	23.9
Private sector and not for profit on-passing	509.4	559.8	128.3	78.0	74.3
Other private sector and not for profit	156.1	158.4	141.3	144.0	142.3
Other grants	..	..	50.0	275.0	100.0
Total capital grants and other transfers	**680.2**	**743.4**	**344.5**	**520.7**	**340.5**
Total grants and other transfers	**7 910.1**	**8 093.2**	**7 441.5**	**7 764.3**	**7 758.3**

Note 11: Total expenses by government purpose classification

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
General public services	815.2	665.0	835.8	864.0	917.1
Public order and safety	4 890.5	5 040.0	5 073.0	5 281.5	5 424.9
Education	12 009.9	12 172.9	12 503.3	13 085.4	13 594.9
Health	12 163.8	12 319.6	12 648.0	13 114.9	13 458.4
Social security and welfare	3 467.6	3 472.8	3 555.0	3 674.8	3 900.8
Housing and community amenities	3 366.4	3 097.1	3 575.4	4 010.2	3 850.9
Recreation and culture	925.1	754.7	948.4	980.4	1 040.7
Fuel and energy	21.8	17.8	22.4	23.1	24.6
Agriculture, forestry, fishing, and hunting	582.7	700.9	637.7	642.9	669.3
Mining, manufacturing, and construction	23.4	19.1	24.0	24.8	26.3
Transport and communications	4 669.2	4 828.1	4 826.7	5 007.3	5 124.4
Other economic affairs	541.8	516.9	592.7	612.7	650.4
Other purposes	1 410.0	1 329.4	1 491.8	1 533.3	1 627.6
Total expenses by government purpose classification [(a)]	**44 887.4**	**44 934.3**	**46 734.5**	**48 855.2**	**50 310.2**

Note:

(a) *Classifications have been determined using ratios based on historical data and the impact of policy and non-policy estimate variations.*

Note 12: Other gains/(losses) from other economic flows

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Net (increase)/decrease in provision for doubtful receivables	(69.6)	(69.9)	(72.1)	(73.6)	(71.9)
Amortisation of intangible non-produced assets	(8.3)	(10.2)	(10.3)	(10.5)	(10.5)
Net (increase)/decrease in bad debts	(94.0)	(95.1)	(95.1)	(96.7)	(102.1)
Other gains/(losses)	16.7	14.4	14.6	10.4	8.0
Total other gains/(losses) from other economic flows	**(155.2)**	**(160.8)**	**(163.0)**	**(170.4)**	**(176.6)**

Note 13: Receivables

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Contractual					
Sales of goods and services	733.4	705.8	708.9	705.4	704.8
Accrued investment income	84.4	70.3	63.6	64.4	80.6
Other receivables	460.8	442.9	440.8	433.4	436.2
Provision for doubtful contractual receivables	(49.0)	(49.7)	(49.7)	(49.7)	(49.6)
Statutory					
Taxes receivables	895.0	916.3	934.3	956.4	993.0
Fines and regulatory fees	885.6	885.9	953.6	1 021.9	1 069.6
GST input tax credits recoverable	287.4	287.7	288.3	288.8	289.4
Provision for doubtful statutory receivables	(451.2)	(451.5)	(488.3)	(527.7)	(565.4)
Total receivables	**2 846.6**	**2 807.8**	**2 851.5**	**2 893.0**	**2 958.7**
Represented by:					
Current receivables	2 781.9	2 740.5	2 778.5	2 820.8	2 886.6
Non-current receivables	64.7	67.3	73.0	72.2	72.1

Note 14: Reconciliation of net gain on equity investments in other sector entities at proportional share of net assets

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Balance of investment in PNFC and PFC sectors at beginning of period	64 508.7	64 508.7	67 519.9	69 608.3	70 941.5
Net contributions to other sectors by owner	2 191.7	2 368.6	1 498.7	863.2	1 181.5
Revaluation gain/(loss) for period	1 286.4	642.6	589.7	470.0	(0.9)
Investment in other sector entities at end of period	**67 986.9**	**67 519.9**	**69 608.3**	**70 941.5**	**72 122.1**

Note 15: Net acquisition of non-financial assets from transactions

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Purchases of non-financial assets	4 435.0	4 337.6	4 385.4	3 666.3	2 684.1
Less: Sales of non-financial assets	(244.9)	(259.4)	(301.9)	(399.5)	(245.7)
Less: Depreciation	(2 214.3)	(2 259.0)	(2 456.2)	(2 614.3)	(2 722.6)
Plus: Change in inventories	..	0.9	(0.3)	(0.4)	(0.4)
Plus: Other movements in non-financial assets	121.3	121.3	1 026.1	664.1	0.2
Total net acquisition of non-financial assets	**2 097.0**	**1 941.4**	**2 653.2**	**1 316.1**	**(284.4)**

Note 16: Land, buildings, infrastructure, plant and equipment

(a) Total land, buildings, infrastructure, plant and equipment

($ million)

	2011 Budget	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Buildings (written down value)	21 813.1	21 657.1	24 957.2	26 139.6	28 275.1
Land and national parks	38 032.4	37 896.9	39 013.5	40 761.2	41 123.6
Infrastructure systems (written down value)	1 334.8	1 354.0	1 407.3	1 347.2	1 256.1
Plant, equipment and vehicles (written down value)	2 532.3	2 626.7	2 680.5	2 654.2	2 492.6
Roads and road networks (written down value)	19 033.0	19 083.2	21 446.2	22 617.9	24 292.4
Earthworks	6 479.2	6 479.2	7 127.5	7 127.5	7 885.6
Cultural assets (written down value)	4 627.2	4 613.2	4 615.8	4 601.0	4 581.1
Total land, buildings, infrastructure, plant and equipment	**93 852.0**	**93 710.4**	**101 248.0**	**105 248.6**	**109 906.5**

(b) Land, National Parks and buildings

($ million)

	2011 Budget	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Buildings	25 260.5	25 142.0	29 609.2	32 058.4	35 535.6
Accumulated depreciation	(3 447.4)	(3 484.9)	(4 652.0)	(5 918.9)	(7 260.5)
Buildings (written down value)	**21 813.1**	**21 657.1**	**24 957.2**	**26 139.6**	**28 275.1**
Land	35 892.2	35 756.8	36 873.3	38 621.0	38 983.4
National Parks and other 'land only' holdings	2 140.2	2 140.2	2 140.2	2 140.2	2 140.2
Land and National Parks	**38 032.4**	**37 896.9**	**39 013.5**	**40 761.2**	**41 123.6**
Total land National Parks and buildings	**59 845.4**	**59 554.1**	**63 970.7**	**66 900.8**	**69 398.7**

Note 16: Land, buildings, infrastructure, plant and equipment *(continued)*

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

($ million)

	2011 Budget	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Infrastructure systems	1 694.8	1 715.3	1 792.2	1 756.1	1 689.4
Accumulated depreciation	(359.9)	(361.3)	(384.9)	(408.9)	(433.3)
Infrastructure systems (written down value)	**1 334.8**	**1 354.0**	**1 407.3**	**1 347.2**	**1 256.1**
Plant, equipment and vehicles	5 571.3	5 691.3	6 155.4	6 555.1	6 822.9
Accumulated depreciation	(3 083.2)	(3 107.5)	(3 485.8)	(3 905.2)	(4 327.8)
Leased plant, equipment and vehicles	201.3	200.6	196.7	221.3	245.1
Accumulated depreciation	(157.0)	(157.7)	(185.7)	(217.1)	(247.5)
Plant, equipment and vehicles (written down value)	**2 532.3**	**2 626.7**	**2 680.5**	**2 654.2**	**2 492.6**
Total plant, equipment and vehicles, and infrastructure systems	**3 867.2**	**3 980.7**	**4 087.9**	**4 001.3**	**3 748.7**

(d) Road networks and earthworks

($ million)

	2011 Budget	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Roads	23 806.1	23 820.3	26 806.2	28 180.7	30 679.3
Accumulated depreciation	(9 922.8)	(9 886.8)	(11 233.9)	(11 656.4)	(13 259.9)
Road infrastructure	8 078.3	8 078.3	9 205.3	9 544.0	10 799.6
Accumulated depreciation	(2 928.6)	(2 928.6)	(3 331.5)	(3 450.5)	(3 926.6)
Roads (written down value)	**19 033.0**	**19 083.2**	**21 446.2**	**22 617.9**	**24 292.4**
Earthworks	**6 479.2**	**6 479.2**	**7 127.5**	**7 127.5**	**7 885.6**
Total road networks and earthworks	**25 512.1**	**25 562.4**	**28 573.7**	**29 745.4**	**32 178.0**

(e) Cultural assets

($ million)

	2011 Budget	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Cultural assets	4 762.8	4 729.1	4 742.5	4 747.0	4 747.0
Accumulated depreciation	(135.5)	(115.9)	(126.7)	(145.9)	(165.9)
Total cultural assets	**4 627.2**	**4 613.2**	**4 615.8**	**4 601.0**	**4 581.1**

Note 17: Reconciliation of movements in land, buildings, infrastructure, plant and equipment

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Carrying amount at the start of the year [(a)]	89 419.7	89 419.7	93 710.4	101 248.0	105 248.6
Additions [(b)(c)]	4 512.1	4 405.0	9 630.8	4 508.4	2 704.0
Disposals at written down value	(112.4)	(117.6)	(4 402.3)	(407.6)	(208.1)
Revaluations	2 182.2	2 146.7	4 589.7	2 120.4	4 652.6
Assets reclassified	9.9	60.8	113.2	333.9	159.0
Depreciation expense	(2 159.5)	(2 204.3)	(2 393.7)	(2 554.6)	(2 649.5)
Carrying amount at the end of the year	**93 852.0**	**93 710.4**	**101 248.0**	**105 248.6**	**109 906.5**

Notes:

(a) *Property, plant and equipment comprises land and buildings, infrastructure systems, plant, equipment, vehicles, road networks and cultural assets. Excludes movements in intangible, investment properties and other non-financial assets.*

(b) *Includes assets acquired under finance lease arrangements.*

(c) *The 2011-12 estimate reflects the recognition of the finance lease arrangement between the Government and Melbourne Water Corporation for the desalination plant.*

Note 18: Other non-financial assets

($ million)

	2011 Budget	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Intangible produced assets	685.9	695.8	715.3	749.0	760.1
Accumulated depreciation	(338.2)	(339.9)	(398.3)	(453.8)	(522.7)
Intangible non-produced assets	81.1	81.1	81.1	81.1	81.1
Accumulated depreciation	(51.9)	(53.8)	(64.2)	(74.7)	(85.1)
Total intangibles	**377.0**	**383.2**	**334.0**	**301.7**	**233.3**
Investment properties	26.5	27.8	27.8	27.9	27.9
Biological assets [(a)]	36.6	31.7	27.1	27.1	27.1
Other assets	314.2	313.6	313.9	314.4	310.0
Total other non-financial assets	**754.2**	**756.3**	**702.9**	**671.1**	**598.3**

Note:

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

Note 19: Assets classified by government purpose classification

(a) Purchases of non-financial assets

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
General public services	357.7	393.9	400.8	470.4	251.7
Public order and safety	429.1	357.6	342.0	321.4	191.9
Education	1 696.2	1 944.9	404.3	224.7	128.2
Health	498.6	447.4	416.8	428.7	361.0
Social security and welfare	222.4	244.9	249.2	292.5	156.5
Housing and community amenities	532.0	540.6	363.7	275.5	197.7
Recreation and culture	240.9	265.3	269.9	316.8	169.5
Fuel and energy	0.7	0.7	0.7	0.9	0.5
Agriculture, forestry, fishing, and hunting	44.1	48.5	49.4	58.0	31.0
Mining, manufacturing, and construction	2.7	2.9	3.0	3.5	1.9
Transport and communications	1 390.3	1 427.8	1 304.2	648.7	398.9
Other economic affairs	11.1	12.2	12.4	14.6	7.8
Other purposes	3.4	3.8	3.9	4.5	2.4
Not allocated by purpose [(a)]	(994.2)	(1 353.0)	565.3	605.9	785.1
Total purchases of non-financial assets [(b)]	**4 435.0**	**4 337.6**	**4 385.4**	**3 666.3**	**2 684.1**

Notes:

(a) *Estimated amount available to be allocated to specific departments and projects. This includes departmental underspending, which may be subject to carryover.*

(b) *Classifications have been determined using ratios based on historical data and the impact of policy and non-policy estimate variations.*

(b) Total assets

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
General public services	1 187.9	1 180.7	1 277.0	1 314.7	1 356.6
Public order and safety	6 042.6	6 005.8	6 495.9	6 687.5	6 900.6
Education	17 188.4	17 083.6	18 477.7	19 022.6	19 629.0
Health	10 329.9	10 266.9	11 104.7	11 432.2	11 796.6
Social security and welfare	666.9	662.9	717.0	738.1	761.7
Housing and community amenities	8 913.5	8 859.2	9 582.1	9 864.7	10 179.1
Recreation and culture	6 701.6	6 660.8	7 204.3	7 416.8	7 653.2
Fuel and energy	2.0	2.0	2.1	2.2	2.3
Agriculture, forestry, fishing, and hunting	480.7	477.8	516.8	532.0	549.0
Transport and communications	46 143.3	45 862.1	49 604.6	51 067.5	52 695.4
Other economic affairs	267.8	266.2	287.9	296.4	305.8
Other purposes	7.4	7.4	8.0	8.2	8.5
Not allocated by purpose [(a)]	74 187.0	73 734.9	79 751.9	82 103.9	84 721.1
Total assets [(b)]	**172 119.1**	**171 070.3**	**185 030.1**	**190 486.9**	**196 559.0**

Notes:

(a) *Mainly representing financial assets which are not able to be allocated by purpose.*

(b) *Classifications have been determined using ratios based on historical data.*

Note 20: Borrowings

($ million)

	2011 Budget	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Current borrowings					
Domestic borrowings	727.8	727.6	725.6	723.6	722.1
Finance lease liabilities	139.5	139.3	123.8	153.3	175.9
Derivative financial instruments	5.3	5.3	5.3	5.3	5.3
Total current borrowings	**872.6**	**872.2**	**854.7**	**882.2**	**903.3**
Non-current borrowings					
Domestic borrowings	14 235.8	14 023.1	16 435.8	17 159.6	17 474.0
Finance lease liabilities	1 654.2	1 654.6	6 872.5	7 599.6	7 438.2
Derivative financial instruments	0.2	0.2	0.2	0.2	0.2
Total non-current borrowings	**15 890.2**	**15 677.9**	**23 308.5**	**24 759.3**	**24 912.4**
Total borrowings	**16 762.8**	**16 550.1**	**24 163.2**	**25 641.5**	**25 815.7**

Note 21: Employee benefits

($ million)

	2011 Budget	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Current					
Accrued salaries and wages [(a)]	1 299.4	1 295.0	1 329.4	1 364.0	1 398.4
Long service leave	2 695.6	2 752.1	2 854.2	2 957.9	3 060.0
Total current employee benefits	**3 995.0**	**4 047.1**	**4 183.6**	**4 321.9**	**4 458.4**
Non-current					
Long service leave	550.6	508.8	536.9	565.2	596.2
Total non-current employee benefits	**550.6**	**508.8**	**536.9**	**565.2**	**596.2**
Total employee benefits	**4 545.6**	**4 555.9**	**4 720.6**	**4 887.1**	**5 054.6**

Note:

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

Note 22: Cash flow information

(a) Reconciliation of cash and cash equivalents

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Cash	1 063.0	1 171.6	1 303.1	1 754.8	2 277.1
Deposits at call	2 279.7	1 920.6	1 965.8	1 710.6	1 467.3
Cash and cash equivalents	**3 342.6**	**3 092.3**	**3 268.9**	**3 465.5**	**3 744.4**
Bank overdraft	..	..	..	..	..
Balances as per cash flow statement	**3 342.6**	**3 092.3**	**3 268.9**	**3 465.5**	**3 744.4**

(b) Reconciliation of net result to net cash flows from operating activities

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Net result	852.3	144.6	814.4	931.2	835.5
Non-cash movements					
Depreciation and amortisation	2 222.6	2 269.2	2 466.5	2 624.8	2 733.1
Revaluation of investments	(0.5)	(4.0)	(4.0)	(4.0)	(4.0)
Assets and services (received)/provided free of charge	(0.2)	(0.3)	49.8	229.8	54.8
Discount/premium on other financial assets/borrowings	6.8	7.3	7.3	7.1	6.7
Foreign currency dealings	..	0.2	0.2	0.2	0.2
Movements included in investing and financing activities					
Net revenues from sale of plant and equipment	(134.7)	(144.0)	(152.5)	(267.0)	(137.5)
Net revenues from sale of investments	(0.5)	2.0	2.0	2.0	2.0
Movements in assets and liabilities					
Increase/(decrease) in provision for bad and doubtful debts	65.7	66.7	36.9	39.4	37.7
Increase/(decrease) in payables	(135.0)	(189.4)	(386.8)	(90.6)	(58.0)
Increase/(decrease) in employee benefits	187.8	198.1	164.6	166.5	167.5
Increase/(decrease) in superannuation	399.3	1 004.4	573.6	277.5	228.8
Increase/(decrease) in other provisions	(18.8)	(18.3)	(15.1)	(13.9)	(12.8)
(Increase)/decrease in receivables	56.1	93.8	(80.6)	19.1	(3.3)
(Increase)/decrease in other non-financial assets	(8.2)	(6.9)	..	(0.1)	5.0
Net cash flows from operating activities	**3 492.8**	**3 423.5**	**3 476.3**	**3 922.1**	**3 855.5**

Note 23: Reserves

($ million)	2011 Budget	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Property plant and equipment revaluation surplus	35 375.5	35 339.9	39 929.6	42 050.1	46 702.6
Available-for-sale investments revaluation surplus	28.3	28.3	28.3	28.3	28.3
Revaluation reserve for investments in PFC and PNFC entities	41 445.2	40 801.3	41 391.1	41 861.0	41 860.1
Other reserves	901.5	902.2	934.5	956.4	978.6
Total reserves	**77 750.4**	**77 071.8**	**82 283.5**	**84 895.8**	**89 569.5**

Note 24: Reconciliations to government finance statistics

(a) Reconciliation to GFS net operating balance [a]

($ million)	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Net result from transactions – net operating balance	871.9	633.4	823.1	832.9	872.8
Convergence differences:	..	..	..	..	..
plus total convergence difference:	..	..	..	..	..
GFS net operating balance	**871.9**	**633.4**	**823.1**	**832.9**	**872.8**

Note:
(a) *Determined in accordance with the ABS GFS manual.*

Note 24: Reconciliations to government finance statistics *(continued)*

(b) Reconciliation to GFS total change in net worth [a]

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Comprehensive result – total change in net worth	4 332.7	2 935.1	5 995.5	3 523.6	5 489.2
Convergence differences:					
Relating to other economic flows: [b]					
Doubtful receivables general government sector [c]	65.7	66.7	36.9	39.4	37.7
Net gain on equity investments in other sector entities: [d]					
Doubtful receivables of the PNFC/PFC sector	0.9	(50.0)	0.8	0.8	0.5
Net deferred tax liability of the PNFC/PFC sector	151.2	31.6	22.3	118.3	174.2
plus total convergence differences	217.7	48.3	60.0	158.4	212.3
GFS total change in net worth	**4 550.4**	**2 983.4**	**6 055.4**	**3 682.0**	**5 701.5**

Notes:

(a) Determined in accordance with the ABS GFS Manual.

(b) Excludes transactions with owners as owner, therefore excluding non-controlling interest

(c) The convergence difference arises because GFS does not recognise doubtful receivables, whereas the operating statement recognises the expense of providing for doubtful receivables, classified as other economic flows.

(d) The convergence difference arises because the amount of net assets (and therefore the change in carrying amount of net assets) of other sector entities determined under GFS principles and rules differs from the carrying amount of net assets (and therefore the change in the carrying amount of net assets) of the subsidiaries recognised in the balance sheet. The difference is therefore the total change in net worth impacting either through the net operating balance or other economic flows.

(c) (Reconciliation to GFS net lending/(borrowing) [a]

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Net lending/(borrowing)	(1 225.2)	(1 308.0)	(1 830.1)	(483.3)	1 157.1
Convergence differences:	..	..	..	..	..
Total convergence difference:	..	..	..	..	..
GFS net lending/(borrowing)	**(1 225.2)**	**(1 308.0)**	**(1 830.1)**	**(483.3)**	**1 157.1**

Notes:

(a) Determined in accordance with the ABS GFS manual.

Note 24: Reconciliations to government finance statistics *(continued)*

(d) Reconciliation to GFS net worth [(a)]

($ million)

	2011 Budget	2010-11 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Net worth	121 888.2	120 490.6	126 486.0	130 009.6	135 498.8
Convergence differences:					
Non-controlling interest	(44.5)	(44.5)	(44.5)	(44.5)	(44.5)
Doubtful receivables general government sector [(b)]	500.1	501.1	538.0	577.3	615.0
Investments in other sector entities: [(c)]					
Doubtful receivables of the PNFC/PFC sector	66.4	15.5	16.4	17.1	17.6
Net deferred tax liability of the PNFC/PFC sector	1 772.7	1 653.1	1 675.4	1 793.6	1 967.8
Total convergence differences	2 294.7	2 125.3	2 185.2	2 343.6	2 555.9
GFS net worth	**124 182.9**	**122 615.8**	**128 671.2**	**132 353.2**	**138 054.7**

Notes:

(a) Determined in accordance with the ABS GFS manual.

(b) The convergence difference in accounts receivable arises because GFS does not recognise doubtful receivables, whereas a provision for doubtful receivables is recognised in the balance sheet.

(c) The convergence difference in investments in other sector entities arises in the general government sector in relation to the accounts receivable (provisions for doubtful receivables) in the PNFC and PFC sectors, future tax benefits and deferred tax liability in those sectors. In addition to the non-recognition of doubtful receivables mentioned above, GFS does not recognise deferred tax liabilities or future tax benefits unless or until those liabilities or benefits are realised.

(e) Derivation of GFS cash surplus/(deficit) [(a)]

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Cash surplus/(deficit)	**(697.4)**	**(654.8)**	**(607.2)**	**655.4**	**1 417.1**
Convergence differences:					
Less: Acquisitions under finance leases and similar arrangements	(121.0)	(121.0)	(1 075.9)	(844.8)	..
Total convergence differences	(121.0)	(121.0)	(1 075.9)	(844.8)	..
GFS cash surplus/(deficit)	**(818.4)**	**(775.8)**	**(1 683.1)**	**(189.5)**	**1 417.1**

Note:

(a) Determined in accordance with the ABS GFS manual.

Note 25: Financial instruments

Note 32 of the *2009-10 Financial Report for the State of Victoria* contains a comprehensive disclosure of the State's (including the general government sector's) financial risk management objectives and policies. There has been no subsequent substantive change to these objectives and policies.

In relation to the general government sector, the following is a summary of how these risks are reviewed and managed.

The general government sector's principal holdings of financial instruments comprise domestic loans and long term liabilities, finance leases, cash, Australian currency term deposits and other debt securities.

These financial instruments arise primarily as a consequence of the need to raise finance for the State's operations including investment in assets or from the effective management of financial surpluses. The State also has various other financial assets and liabilities such as receivables and payables, which arise directly from its operations. The Treasury Corporation of Victoria (TCV) may enter into derivative transactions on behalf of the general government sector, however these are for hedging purposes only.

Responsible and prudent financial risk management is carried out individually by each consolidated entity, in accordance with the State's risk management framework, developed by the Department of Treasury and Finance (DTF) and established by the Treasurer. The State's risk management framework comprises the following key components:

- the Treasurer is responsible for the approval and establishment of the prudential framework containing policies and guidelines on financial risk management;
- the Senior Executive Group of DTF is responsible for providing advice to the Government on the management of the State's financial risks;
- DTF's Risk Management Committee is responsible for monitoring the balance sheet and risk management frameworks of the State's financial and non-financial risks, and advising or making recommendations to the Senior Executive Group;
- the TCV is the State's central borrowing authority and financing advisor. An independent prudential supervisor and prudential auditor are appointed by the Treasurer to monitor TCV's compliance with its prudential framework;
- the Victorian Funds Management Corporation (VFMC) acts as the State's central investment fund manager through the provision of expertise in investment strategy development and delivery of funds management services in accordance with each entity's investment objectives; and
- all entities are responsible for the day to day operational management of their financial instruments and associated risks in accordance with the Treasury Management Guidelines.

Note 25: Financial instruments *(continued)*

It is the State's policy not to enter into or trade financial instruments for speculative purposes. The main risks arising from the State's financial instruments are fair value and cash flow interest rate risk, credit risk, liquidity risk, foreign currency risk and equity price risk.

Interest rate risk

The general government sector adopts a conservative risk philosophy, and operates within prescribed portfolio management guidelines to limit the impact on the budget of adverse movements in interest rates within acceptable bounds.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Only a small portion of the State's financial instruments are exposed to cash flow interest rate risk. The majority of the State's exposure to interest rate risk arises from fair value interest rate risk in relation to the State's long term debt obligations with fixed interest rates.

The State's borrowings are mainly managed by TCV, the State's central borrowing authority. Interest rate risk inherent in TCV's asset and liability management activities is monitored on a daily basis against TCV Board approved limits, using the value at risk methodology. Value at risk is a measure of the estimated loss faced by TCV within a certain level of confidence over a given holding period under normal market conditions. The value at risk is based on the historical movement of prices, yield and spread of potential losses a portfolio may incur over a certain period.

The State's policy for the management of interest rate risk on general government borrowings is to achieve relative certainty of interest cost while seeking to minimise net borrowing costs within portfolio risk management guidelines. Generally, this is achieved by undertaking fixed rate borrowings with relatively even maturity profiles. Over 95 per cent of the general government sector's borrowings are at a fixed rate of interest.

Credit risk

The general government sector's maximum exposure to credit risk, in relation to each class of financial asset, is the carrying amount of those assets in the estimated balance sheet.

With respect to credit risk arising from financial assets, which mainly comprise cash and cash equivalents, available for sale assets and receivables, the exposure to credit risk arises from default of the counterparty.

Cash equivalents and available for sale investments are mainly managed through the State's principal borrowing and investing authorities. These corporations manage credit risks by avoiding concentration of exposures to any one counterparty and having a wide range of approved counterparties.

Note 25: Financial instruments *(continued)*

Entities in the general government sector manage other receivables, predominantly debtors in relation to goods and services, statutory debtors in relation to taxes and fines, accrued investment income, and GST input tax credits recoverable, in accordance with guidelines consistent with the compliance framework issued by the Minister for Finance. A prudent level of provisions for doubtful receivables is included in the estimated balance sheet.

Liquidity risk

Liquidity risk arises from being unable to meet financial obligations as they fall due. The State is exposed to liquidity risk mainly through the maturity of its external borrowings raised from TCV and the need to fund cash deficits. TCV, as the State's central treasury, has the responsibility of ensuring the State's liquidity needs can be met at all times and has in place liquidity policies to ensure that it can meet its obligations in this area. The State also manages liquidity through rigorous cash flow and maturities planning and monitoring, including the annual budget process and through holding high quality liquid assets.

Foreign currency risk

The general government sector has no interest bearing liabilities or financial assets denominated in foreign currencies. The currency risk arising from the State's offshore funding program is managed primarily through TCV using currency swaps, forward foreign exchange contracts and foreign exchange options. It is the State's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

Equity price risk

The general government sector is exposed to equity price risk in equities and managed investment schemes. Such investments are allocated and traded to match investment objectives appropriate to the State's liabilities. A significant exposure is from the superannuation assets that are managed by VFMC. The equity price risk is limited through diversification of the investment portfolio. Equities managed by VFMC are determined by VFMC and reflected in the Investment Risk Management Plan approved by the Treasurer, and in accordance with the *Borrowing and Investments Powers Act 1987*, and the prudential supervisory policies and framework of the State.

Note 26: Glossary of technical terms

The following is a summary of the major technical terms used in this report.

ABS GFS manual

The ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005* as updated from time to time.

Advances paid

Loans acquired for policy rather than liquidity management purposes. These include long and short term loans (including finance leases), non-marketable debentures and long and short term promissory agreements (bond and bills) issued to public sector units for achieving government policy objectives.

Borrowings

Borrowings refers to interest bearing liabilities mainly raised from public borrowings raised through the Treasury Corporation of Victoria and finance leases and other interest bearing arrangements. Borrowings exclude liabilities raised from other government entities (including finance lease arrangements), which are classified as advances received.

Biological assets

Biological assets may comprise commercial forests and also any living animal, plant or agricultural produce that is the harvested product of biological assets.

Capital grants

Transactions in which the ownership of an asset (other than cash and inventories) is transferred from one institutional unit to another, in which cash is transferred to enable the recipient to acquire another asset or in which the funds realised by the disposal of another asset are transferred, for which no economic benefits of equal value are receivable or payable in return.

Cash surplus/deficit

Net cash flows from operating activities plus net cash flows from acquisition and disposal of non-financial assets (less dividends paid for the PNFC and PFC sectors).

Cash surplus/deficit – ABS GFS version

Equal to the cash surplus/deficit (above) less the value of assets acquired under finance leases and similar arrangements.

Note 26: Glossary of technical terms *(continued)*

Change in net worth

Change in net worth (comprehensive result) is revenue from transactions less expenses from transactions plus other economic flows and measures the variation in government's accumulated assets and liabilities.

Comprehensive result

The net result of all items of income and expense recognised for the period. It is the aggregate of net result and other movements in equity.

Effective interest method

The effective interest method is used to calculate the amortised cost of a financial asset and allocate 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.

Current grants

Amounts payable or receivable for current purposes for which no economic benefits of equal value are receivable or payable in return.

Employee expenses

These expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, redundancy payments.

Financial asset

A financial asset is any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:

- to receive cash or another financial asset from another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

(d) a contract that will or may be settled in the entity's own equity instruments and is:

- a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
- a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Note 26: Glossary of technical terms *(continued)*

Fiscal aggregates

Analytical balances that are useful for macroeconomic analysis purposes, including assessing the impact of a government and its sectors on the economy. AASB 1049 prescribes the presentation of net operating balance, net lending/borrowing (fiscal balance), change in net worth (comprehensive result), net worth, and cash surplus/deficit. Additional fiscal aggregates presented although not mandated in AASB 1049 are net debt, net financial worth and net financial liabilities.

Government units

Legal entities established by political processes which have legislative, judicial or executive authority over other institutional units within a given area and which:

- provide goods and services to the community and/or individuals free of charge or at prices that are not economically significant; and
- redistribute income and wealth by means of taxes and other compulsory transfers.

Government Finance Statistics

Government Finance Statistics (GFS) enable policymakers and analysts to study developments in the financial operations, financial position and liquidity situation of the Government. More details about the GFS can be found in the Australian Bureau of Statistics (ABS) GFS Manual *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005*.

General government sector

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

These services are financed mainly through taxes, other compulsory levies and user charges. A listing of all entities comprising the general government sector is included in Note 40 of the *2009-10 Financial Report for the State of Victoria.*

Grants

Transactions in which one unit provides goods, services, assets (or extinguishes a liability) or labour to another unit without receiving approximately equal value in return. Grants can either be of a current or capital nature (see current grants and capital grants).

Note 26: Glossary of technical terms *(continued)*

While grants to governments may result in the provision of some goods or services to the transferor, they do not give the transferor a claim to receive directly benefits of approximately equal value. Receipt and sacrifice of approximately equal value may occur, but only by coincidence. For example, governments are not obliged to provide commensurate benefits, in the form of goods or services, to particular taxpayers in return for their taxes. For this reason, grants are referred to by the AASB as involuntary transfers and are termed non-reciprocal transfers.

Grants can be paid as general purpose grants which refers to grants which are not subject to conditions regarding their use. Alternatively, they may be paid as specific purpose grants which are paid for a particular purpose and/or have conditions attached regarding their use.

Grants for on passing

Grants paid to one institutional sector (e.g. a state based general government entity) to be passed on to another institutional sector (e.g. local government or a private non-profit institution).

Institutional unit

An economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities.

Intangible produced assets

Refer to produced assets in this glossary.

Intangible non-produced assets

Refer to non-produced assets in this glossary.

Interest expense

Costs incurred in connection with the borrowing of funds. It includes interest on advances, loans, overdrafts, bonds and bills, deposits, interest components of finance lease repayments, and amortisation of discounts or premiums in relation to borrowings.

Net acquisition of non-financial assets (from transactions)

Purchases (and other acquisitions) of non-financial assets less sales (or disposals) of non-financial assets less depreciation plus changes in inventories and other movements in non-financial assets. Includes only those increases or decreases in non-financial assets resulting from transactions and therefore excludes write offs, impairment write downs and revaluations.

Note 26: Glossary of technical terms *(continued)*

Net cash flows from investments in financial assets (liquidity management purposes)

Net cash flows from investments in financial assets (liquidity management purposes) is cash receipts from liquidation or repayment of investments in financial assets for liquidity management purposes less cash payments for such investments. Investment for liquidity management purposes means making funds available to others with no policy intent and with the aim of earning a commercial rate of return.

Net cash flows from investments in financial assets (policy purposes)

Net cash flows from investments in financial assets (policy purposes) is cash receipts from the repayment and liquidation of investments in financial assets for policy purposes less cash payments for acquiring financial assets for policy purposes.

Acquisition of financial assets for policy purposes is distinguished from investments in financial assets (liquidity management purposes) by the underlying government motivation for acquiring the assets. Acquisition of financial assets for policy purposes is motivated by government policies such as encouraging the development of certain industries or assisting citizens affected by natural disaster.

Net debt

Net debt equals sum of deposits held, advances received, government securities, loans and other borrowing less the sum of cash and deposits, advances paid and investments, loans and placements.

Net financial liabilities

Total liabilities less financial assets, other than equity in PNFCs and PFCs. This measure is broader than net debt as it includes significant liabilities, other than borrowings (e.g. accrued employee liabilities such as superannuation and long service leave entitlements). For the PNFC and PFC sectors, it is equal to negative net financial worth.

Net financial worth

Net financial worth is equal to financial assets minus liabilities. It is a broader measure than net debt because it incorporates provisions made (such as superannuation, but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

Note 26: Glossary of technical terms *(continued)*

Net gain on equity investments in other sector entities

Net gain on equity investments in other sector entities measured at proportional share of the carrying amount of net assets/(liabilities) comprises the net gains relating to the equity held by the general government sector in other sector entities. It arises from a change in the carrying amount of net assets of the subsidiaries. The net gains are measured based on the proportional share of the subsidiary's carrying amount of net assets/(liabilities) before elimination of inter sector balances.

Net lending/borrowing

The financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. It also equals transactions in financial assets less transactions in liabilities. A positive result reflects a net lending position and a negative result reflects a net borrowing position.

Net operating balance

This is calculated as revenue from transactions less expenses from transactions.

Net result

Net result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner movements in equity'.

Net result from transactions/net operating balance

Net result from transactions or net operating balance is a key fiscal aggregate and is revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

Net worth

Assets less liabilities, which is an economic measure of wealth.

Non-financial assets

Non-financial assets are all assets that are not financial assets. It includes inventories, land, buildings, infrastructure, road networks, land under roads, plant and equipment, cultural and heritage assets, intangible assets and biological assets such as commercial forests.

Note 26: Glossary of technical terms *(continued)*

Non-financial public sector

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

Non-produced assets

Non-produced assets are assets needed for production that have not themselves been produced. They include land, subsoil assets, and certain intangible assets. Non-produced intangibles are intangible assets needed for production that have not themselves been produced. They include constructs of society such as patents.

Non-profit institution

A legal or social entity that is created for the purpose of producing or distributing goods and services but is not permitted to be a source of income, profit or other financial gain for the units that establish, control or finance it.

Other economic flows

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions. In simple terms, other economic flows are changes arising from market remeasurements. They include gains and losses from disposals, revaluations and impairments of non-current physical and intangible assets; actuarial gains and losses arising from defined benefit superannuation plans; fair value changes of financial instruments and agricultural assets; and depletion of natural assets (non-produced) from their use or removal.

Payables

Payables include short and long term trade debt and accounts payable, grants and interest payable.

Produced assets

Produced assets include buildings, plant and equipment, inventories, cultivated assets and certain intangible assets. Intangible produced assets may include computer software, motion picture films and research and development costs (which does not include the start up costs associated with capital projects).

Note 26: Glossary of technical terms *(continued)*

Public financial corporation sector

The public financial corporations (PFC) sector are bodies primarily engaged in the provision of financial intermediation services or auxiliary financial services. They are able to incur financial liabilities on their own account (e.g. taking deposits, issuing securities or providing insurance services). The public financial corporation sector includes the Treasury Corporation of Victoria and the Transport Accident Commission. Estimates are not published for the public financial corporation sector. A listing of all PFCs controlled by the Victorian general government sector is included in Note 27.

Public non-financial corporation sector

The public non-financial corporations (PNFC) sector comprises bodies mainly engaged in the production of goods and services (of a non-financial nature) for sale in the market place at prices that aim to recover most of the costs involved (e.g. water and port authorities). In general, PNFCs are legally distinguishable from the governments which own them. A listing of all PNFCs controlled by the Victorian general government sector is included in Note 27.

Quasi corporation

An unincorporated enterprise that functions as if it were a corporation, has the same relationship with its owner as a corporation, and keeps a separate set of accounts.

Receivables

Includes short and long term trade credit and accounts receivable, grants, taxes and interest receivable.

Sale of goods and services

Refers to revenue from the direct provision of goods and services, and includes fees and charges for the supply of services, sales of goods and services, fees from regulatory services and work done as an agent for private enterprises. It also includes rental income under operating leases and on produced assets such as buildings and entertainment, but excludes rent income from the use of non-produced assets such as land.

Superannuation interest expense

The superannuation interest expense is the increase during a period in the present value of a defined benefit obligation due to the fact that benefits are one period closer to settlement. This interest cost is then partially offset by the expected return on superannuation assets, as measured by the actuary based on long term assumptions.

Note 26: Glossary of technical terms *(continued)*

Superannuation – other superannuation expenses

Other superannuation expenses include all superannuation expenses from transactions except superannuation interest cost. It generally includes current service cost, which is the increase in entitlements associated with the employment services provided by employees in the current period, along with employer contributions to defined contribution superannuation plans. Superannuation actuarial gains/losses are excluded as they are considered other economic flows.

Taxation revenue

Taxation revenue represents revenue received from the State's taxpayers and includes: payroll tax; land tax; duties levied principally on conveyances and land transfers; gambling taxes levied mainly on private lotteries, electronic gaming machines, casino operations and racing; insurance duty 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, levies (including the environmental levy) on statutory corporations in other sectors of government; and other taxes, including landfill levies, licence and concession fees.

Transactions

Transactions are those economic flows that are considered to arise as a result of policy decisions, usually an interaction between two entities by mutual agreement. They also include flows within an entity such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset.

Taxation is regarded as mutually agreed interactions between the Government and taxpayers. Transactions can be in kind (e.g. assets provided/given free of charge or for nominal consideration) or where the final consideration is cash. In simple terms, transactions arise from the policy decisions of the Government.

Note 27: Controlled entities

Note 40 Controlled entities within the 2009-10 *Financial Report for the State of Victoria* contains a list of significant controlled entities which have been consolidated for the purposes of the financial report.

The following is a list of changes from 1 July 2010, of general government sector entities which have been consolidated for the purposes of the financial report.

		Entities included as investments in other sectors	
Controlled entities	*General government*	*Public non-financial corporation*	*Public financial corporation*
Department of Health [(a)] [(b)]	*		
Dental Practice Board of Victoria	*		
Medical Practitioners Board of Victoria	*		
Mental Health Review Board	*		
Nurses Board of Victoria	*		
Pharmacy Board of Victoria	*		
Psychosurgery Review Board	*		
Registration Boards including:			
Chiropractors Registration Board of Victoria	*		
Optometrists Registration Board of Victoria	*		
Osteopaths Registration Board of Victoria	*		
Physiotherapists Registration Board of Victoria	*		
Podiatrists Registration Board of Victoria	*		
Psychologists Registration Board of Victoria	*		
Department of Transport			
Port of Melbourne Corporation [(c)]		*	

Notes:

(a) *Entities moved from Department of Health to the Australian Health Practitioner Regulation Agency and no longer form part of the general government sector effective 1 July 2010:*
- *Dental Practice Board of Victoria;*
- *Medical Practitioners Board of Victoria;*
- *Nurses Board of Victoria;*
- *Pharmacy Board of Victoria;*
- *Chiropractors Registration Board of Victoria;*
- *Optometrists Registration Board of Victoria;*
- *Osteopaths Registration Board of Victoria;*
- *Physiotherapists Registration Board of Victoria;*
- *Podiatrists Registration Board of Victoria; and*
- *Psychologists Registration Board of Victoria.*

(b) *Entities merged into Department of Health effective 1 October 2009:*
- *Mental Health Review Board; and*
- *Psychosurgery Review Board.*

(c) *Entity name changes:*
- *1 September 2010 the Port of Hastings Corporation was merged with the Port of Melbourne Corporation.*

CHAPTER 5 – SUPPLEMENTARY UNIFORM PRESENTATION FRAMEWORK TABLES

This chapter provides additional information about sectoral financial statements for the public non-financial corporation sector and the non-financial public sector (the general government and public non-financial corporation sector less inter-sector eliminations) plus the Loan Council allocation table. These statements have been prepared in accordance with the Uniform Presentation Framework, which was approved by the Loan Council in March 2008.

Table 5.1: Public non-financial corporations sector comprehensive operating statement

($ million)

	2010-11 Budget	*2010-11 Revised*	*2011-12 Estimate*	*2012-13 Estimate*	*2013-14 Estimate*
Revenue					
Interest	46.0	53.3	54.7	56.7	55.4
Dividends	58.7	58.7	62.0	71.8	69.0
Sales of goods and services	4 538.1	4 445.5	5 031.9	5 703.6	5 838.0
Grants	2 695.9	2 534.0	2 460.0	2 506.3	2 537.2
Other current revenue	502.9	493.1	524.1	516.6	525.8
Total revenue	**7 841.6**	**7 584.6**	**8 132.8**	**8 854.9**	**9 025.5**
Expenses					
Employee expenses	870.8	925.6	933.3	958.0	979.6
Other superannuation	75.1	70.9	72.9	74.5	76.5
Depreciation	1 454.1	1 689.0	1 849.2	2 005.6	2 078.5
Interest expense	671.1	670.5	967.7	1 296.6	1 319.4
Other operating expenses	4 123.2	4 105.8	4 281.8	4 625.8	4 710.7
Grants and other transfers	485.1	485.2	212.3	209.4	174.3
Other property expenses	146.2	88.4	45.3	3.8	43.4
Total expenses	**7 825.5**	**8 035.4**	**8 362.5**	**9 173.7**	**9 382.5**
Net result from transactions – Net operating balance	**16.1**	**(450.9)**	**(229.7)**	**(318.7)**	**(357.0)**
Other economic flows included in net result					
Net gain/(loss) on sale of non-financial assets	8.0	20.2	13.6	8.1	8.5
Net gain/(loss) on financial assets or liabilities at fair value	57.9	(233.4)	41.1	29.4	8.6
Net actuarial gains/(losses) of superannuation defined benefits plans	..	..	..	..	..
Share of net profit/(loss) from associates/ joint venture entities, excluding dividends	..	..	..	..	..
Other gains/(losses) from other economic flows	(106.4)	175.7	(102.1)	(91.7)	(66.7)
Total other economic flows included in net result	**(40.5)**	**(37.5)**	**(47.4)**	**(54.3)**	**(49.6)**
Net result	**(24.4)**	**(488.4)**	**(277.1)**	**(373.0)**	**(406.6)**
Other economic flows – Other movements in equity					
Net gain on financial assets at fair value	..	13.6	..	..	..
Revaluations of non-financial assets	1 145.9	1 023.9	644.8	660.9	406.2
Other movements in equity	..	(34.5)	..	..	7.2
Total other economic flows – Other movements in equity	**1 145.9**	**1 002.9**	**644.8**	**660.9**	**413.5**
Comprehensive result – Total change in net worth	**1 121.5**	**514.6**	**367.7**	**287.8**	**6.8**

Table 5.1: Public non-financial corporations sector comprehensive operating statement *(continued)*

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
FISCAL AGGREGATES					
Net operating balance	**16.1**	**(450.9)**	**(229.7)**	**(318.7)**	**(357.0)**
Less: net acquisition of non-financial assets	3 305.7	3 521.1	6 567.1	833.7	921.3
Net lending/(borrowing)	**(3 289.6)**	**(3 972.0)**	**(6 796.8)**	**(1 152.4)**	**(1 278.4)**

Source: Department of Treasury and Finance

Table 5.2: Non-financial public sector comprehensive operating statement

($ million

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Revenue					
Taxation revenue	14 209.3	14 526.9	15 002.7	15 726.8	16 493.5
Interest	387.6	376.3	392.3	388.1	404.9
Dividends and income tax equivalents and rate equivalents	226.5	228.8	209.7	272.8	296.0
Sales of goods and services	9 069.4	9 052.0	9 794.2	10 571.9	10 740.4
Grants	22 883.7	22 338.7	22 881.5	24 166.7	24 480.3
Other current revenue	2 170.5	2 191.8	2 277.6	2 269.5	2 324.7
Total revenue	**48 946.9**	**48 714.6**	**50 558.0**	**53 395.9**	**54 739.8**
Expenses					
Employee expenses	17 053.4	17 059.2	17 993.8	18 872.3	19 767.2
Superannuation interest expense	884.1	931.6	961.6	988.0	1 008.1
Other superannuation	1 672.8	1 762.7	1 788.3	1 839.8	1 856.2
Depreciation	3 668.4	3 948.0	4 305.4	4 619.9	4 801.1
Interest expense	1 593.7	1 615.2	2 284.1	3 046.3	3 150.7
Other operating expenses	17 738.1	17 485.7	17 737.7	18 338.6	18 714.9
Grants and other transfers	5 614.8	5 966.1	5 118.3	5 393.6	5 319.6
Total expenses	**48 225.4**	**48 768.5**	**50 189.2**	**53 098.5**	**54 617.8**
Net result from transactions – Net operating balance	**721.6**	**(53.9)**	**368.8**	**297.4**	**122.0**
Other economic flows included in net result					
Net gain on sale of non-financial assets	142.7	164.2	166.1	275.1	146.1
Net gain/(loss) on financial assets or liabilities at fair value	58.8	(231.6)	42.9	31.1	10.3
Net actuarial gains/(losses) of superannuation defined benefits plans	..	(473.7)	..	..	..
Share of net profit/(loss) from associates/ joint venture entities, excluding dividends	..	..	..	..	..
Other gains/(losses) from other economic flows	(230.7)	45.7	(231.2)	(228.3)	(209.5)
Total other economic flows included in net result	**(29.2)**	**(495.4)**	**(22.2)**	**77.9**	**(53.1)**
Net result	**692.3**	**(549.3)**	**346.6**	**375.3**	**69.0**
Other economic flows – Other movements in equity					
Net gain on financial assets at fair value	..	13.6	..	..	..
Revaluations of non-financial assets	3 293.1	3 138.0	5 153.6	2 860.2	5 121.9
Net gain on equity investments in other sector entities at proportional share of net assets	371.7	355.4	382.1	274.4	315.2
Other movements in equity	11.7	(33.3)	1.6	2.0	9.3
Total other economic flows – Other movements in equity	**3 676.5**	**3 473.7**	**5 537.4**	**3 136.5**	**5 446.4**
Comprehensive result – Total change in net worth	**4 368.9**	**2 924.3**	**5 883.9**	**3 511.8**	**5 515.3**

Table 5.2: Non-financial public sector comprehensive operating statement *(continued)*

($ million)

	2010-11 Budget	*2010-11 Revised*	*2011-12 Estimate*	*2012-13 Estimate*	*2013-14 Estimate*
FISCAL AGGREGATES					
Net operating balance	**721.6**	**(53.9)**	**368.8**	**297.4**	**122.0**
Less: net acquisition of non-financial assets from transactions	5 437.8	5 495.1	9 301.2	2 021.9	518.9
Net lending/(borrowing)	**(4 716.2)**	**(5 549.0)**	**(8 932.4)**	**(1 724.5)**	**(396.8)**

Source: Department of Treasury and Finance

Table 5.3: Public non-financial corporations balance sheet

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Assets					
Financial assets					
Cash and deposits	670.5	631.3	643.7	730.3	553.9
Advances paid	83.3	89.1	75.9	72.1	74.9
Investments, loans and placements	1 570.2	1 559.0	1 452.1	1 240.2	952.2
Receivables	1 164.4	1 068.6	985.6	1 146.9	1 298.2
Investments accounted for using equity method	498.1	465.6	465.6	465.6	465.6
Total financial assets	**3 986.5**	**3 813.5**	**3 623.0**	**3 655.2**	**3 344.8**
Non-financial assets					
Inventories	703.5	773.3	873.3	857.8	862.5
Non-financial assets held for sale	15.7	5.6	..	0.9	0.9
Land, buildings, infrastructure, plant and equipment	78 417.3	78 461.4	85 130.7	86 305.8	87 480.9
Other non-financial assets	912.3	916.2	942.2	955.5	1 007.3
Total non-financial assets	**80 048.8**	**80 156.5**	**86 946.2**	**88 119.9**	**89 351.5**
Total assets	**84 035.4**	**83 970.1**	**90 569.2**	**91 775.1**	**92 696.3**
Liabilities					
Deposits held	104.9	105.3	107.0	106.5	106.2
Advances received	269.0	278.6	289.1	300.4	307.8
Borrowings	10 268.8	10 443.8	15 740.9	16 039.5	16 301.5
Payables	1 247.1	1 187.6	1 021.7	1 016.7	948.1
Superannuation	59.5	47.8	41.2	37.0	32.8
Other employee benefits	273.0	279.9	286.5	293.0	298.8
Other provisions	4 546.6	4 797.3	4 559.6	4 411.1	4 281.4
Total liabilities	**16 768.9**	**17 140.4**	**22 046.0**	**22 204.1**	**22 276.6**
Net assets	**67 266.5**	**66 829.7**	**68 523.3**	**69 570.9**	**70 419.7**
Accumulated surplus/(deficit)	5 875.2	5 374.4	4 953.1	4 503.7	3 781.9
Other reserves	61 391.3	61 455.3	63 570.2	65 067.2	66 637.8
Net worth	**67 266.5**	**66 829.7**	**68 523.3**	**69 570.9**	**70 419.7**
FISCAL AGGREGATES					
Net financial worth	(12 782.4)	(13 326.8)	(18 422.9)	(18 549.0)	(18 931.8)
Net financial liabilities	12 782.4	13 326.8	18 422.9	18 549.0	18 931.8
Net debt	8 318.6	8 548.3	13 965.3	14 403.8	15 134.6

Source: Department of Treasury and Finance

Table 5.4: Non-financial public sector balance sheet

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Assets					
Financial assets					
Cash and deposits	4 013.2	3 723.5	3 912.6	4 195.7	4 298.3
Advances paid	106.7	116.8	99.6	95.7	97.8
Investments, loans and placements	4 220.7	4 057.0	3 910.5	3 706.3	3 483.4
Receivables	3 735.4	3 605.7	3 621.7	3 787.1	3 977.4
Investments accounted for using equity method	538.2	500.7	500.7	500.7	500.7
Investments in other sector entities	702.1	690.2	1 085.1	1 370.6	1 702.4
Total financial assets	**13 316.2**	**12 693.9**	**13 130.2**	**13 656.1**	**14 060.0**
Non-financial assets					
Inventories	971.8	1 042.6	1 142.3	1 126.5	1 130.7
Non-financial assets held for sale	97.7	86.8	74.6	68.8	62.2
Land, buildings, infrastructure, plant and equipment	172 267.5	172 169.9	186 376.8	191 552.5	197 385.6
Other non-financial assets	1 524.7	1 527.7	1 500.7	1 475.0	1 388.8
Total non-financial assets	**174 861.7**	**174 827.0**	**189 094.4**	**194 222.8**	**199 967.4**
Total assets	**188 177.9**	**187 520.9**	**202 224.6**	**207 879.0**	**214 027.4**
Liabilities					
Deposits held	581.9	582.2	584.0	583.4	583.2
Advances received	1.5	1.4	0.9	1.0	1.0
Borrowings	27 030.2	26 992.5	35 699.8	37 525.7	38 016.8
Payables	5 535.1	5 444.2	4 938.6	4 975.7	4 956.7
Superannuation	22 993.0	23 586.4	24 153.4	24 426.8	24 651.3
Other employee benefits	4 818.6	4 835.9	5 007.0	5 180.1	5 353.4
Other provisions	1 668.7	1 973.8	1 852.5	1 686.3	1 449.5
Total liabilities	**62 628.9**	**63 416.5**	**72 236.3**	**74 378.8**	**75 011.9**
Net assets	**125 549.0**	**124 104.4**	**129 988.3**	**133 500.1**	**139 015.5**
Accumulated surplus/(deficit)	6 787.8	5 500.4	5 816.3	6 171.6	6 212.5
Other reserves	118 716.7	118 559.5	124 127.5	127 284.0	132 758.5
Minority interest of contributed capital	44.5	44.5	44.5	44.5	44.5
Net worth	**125 549.0**	**124 104.4**	**129 988.3**	**133 500.1**	**139 015.5**
FISCAL AGGREGATES					
Net financial worth	(49 312.7)	(50 722.6)	(59 106.0)	(60 722.7)	(60 951.9)
Net financial liabilities	50 014.8	51 412.8	60 191.1	62 093.3	62 654.3
Net debt	19 273.0	19 678.9	28 362.0	30 112.3	30 721.4

Source: Department of Treasury and Finance

Table 5.5: Public non-financial corporations sector cash flow statement

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Cash flows from operating activities					
Receipts					
Grants	2 697.5	2 534.9	2 461.3	2 507.6	2 538.5
Sales of goods and services [a]	4 885.5	4 846.4	5 454.3	6 232.0	6 377.0
Interest	45.9	43.4	44.1	60.9	60.9
Dividends	58.7	58.7	62.0	71.8	69.0
Other receipts	335.6	312.4	406.3	146.5	133.7
Total receipts	**8 023.2**	**7 795.7**	**8 428.0**	**9 018.7**	**9 179.1**
Payments					
Payments for employees	(867.2)	(914.6)	(927.0)	(951.8)	(974.1)
Superannuation	(79.0)	(86.6)	(79.5)	(78.7)	(80.8)
Interest	(1 803.4)	(1 801.3)	(2 222.0)	(2 651.0)	(2 762.7)
Grants	(417.0)	(415.2)	(142.2)	(139.2)	(102.0)
Goods and services [a]	(3 365.3)	(3 500.2)	(3 377.6)	(3 756.4)	(3 839.3)
Other payments	(310.5)	(299.5)	(319.9)	(152.7)	(163.7)
Total payments	**(6 842.4)**	**(7 017.4)**	**(7 068.3)**	**(7 729.8)**	**(7 922.6)**
Net cash flows from operating activities	**1 180.8**	**778.3**	**1 359.7**	**1 288.9**	**1 256.5**
Cash flows from investing activities					
Non-financial assets					
Purchases of non-financial assets	(4 642.4)	(5 058.4)	(3 994.7)	(2 708.5)	(2 837.4)
Sales of non-financial assets	121.0	154.8	86.8	63.8	73.8
Cash flows from investments in non-financial assets	(4 521.4)	(4 903.6)	(3 907.9)	(2 644.8)	(2 763.7)
Net cash flows from investments in financial assets for policy purposes	6.1	0.3	13.2	3.7	(10.9)
Net cash flows from investments in financial assets for liquidity purposes	63.3	402.0	53.1	83.8	89.1
Net cash flows from investing activities	**(4 452.0)**	**(4 501.3)**	**(3 841.5)**	**(2 557.2)**	**(2 685.4)**
Cash flows from financing activities					
Advances received (net)	16.9	26.5	10.5	11.3	7.4
Net borrowings	1 278.2	1 457.1	1 048.4	252.0	246.1
Deposits received (net)	(3.7)	(3.3)	1.8	(0.6)	(0.2)
Other financing (net)	1 971.9	2 195.6	1 432.8	1 091.8	999.0
Net cash flows from financing activities	**3 263.3**	**3 675.9**	**2 493.4**	**1 354.6**	**1 252.3**
Net increase/(decrease) in cash and cash equivalents	**(7.8)**	**(47.1)**	**11.6**	**86.3**	**(176.6)**
Cash and cash equivalents at beginning of reporting period	489.8	677.9	630.8	642.4	728.7
Cash and cash equivalents at end of reporting period	**482.0**	**630.8**	**642.4**	**728.7**	**552.1**

Table 5.5: Public non-financial corporations sector cash flow statement *(continued)*

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
FISCAL AGGREGATES					
Net cash flows from operating activities	1 180.8	778.3	1 359.7	1 288.9	1 256.5
Cash flows from investments in non-financial assets	(4 521.4)	(4 903.6)	(3 907.9)	(2 644.8)	(2 763.7)
Dividends paid	(184.5)	(186.8)	(144.3)	(76.3)	(307.1)
Cash surplus/(deficit)	**(3 525.1)**	**(4 312.1)**	**(2 692.4)**	**(1 432.2)**	**(1 814.2)**

Source: Department of Treasury and Finance

Note:
(a) Inclusive of goods and services tax.

Table 5.6: Non-financial public sector cash flow statement

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Cash flows from operating activities					
Receipts					
Taxes	14 301.1	14 597.5	14 984.3	15 804.3	16 556.4
Grants	22 844.5	22 298.8	22 853.2	24 144.6	24 457.6
Sales of goods and services [(a)]	9 989.9	9 980.1	10 585.8	11 777.4	11 963.5
Interest	355.6	344.3	360.3	356.1	404.9
Dividends and income tax equivalent and rate equivalents	225.7	228.0	209.2	272.7	295.8
Other receipts	1 792.5	1 817.2	1 936.2	1 728.2	1 742.2
Total receipts	**49 509.4**	**49 265.9**	**50 929.0**	**54 083.4**	**55 420.3**
Payments					
Payments for employees	(16 861.5)	(16 851.9)	(17 824.7)	(18 701.2)	(19 595.9)
Superannuation	(2 161.6)	(2 179.3)	(2 182.9)	(2 554.5)	(2 639.8)
Interest	(1 495.5)	(1 515.0)	(2 188.3)	(2 958.8)	(3 097.8)
Grants	(5 620.5)	(5 971.9)	(5 070.8)	(5 120.4)	(5 219.7)
Goods and services [(a)]	(18 478.2)	(18 323.6)	(18 516.3)	(19 254.4)	(19 667.1)
Other payments	(384.9)	(387.5)	(393.2)	(408.1)	(426.1)
Total payments	**(45 002.3)**	**(45 229.1)**	**(46 176.2)**	**(48 997.3)**	**(50 646.3)**
Net cash flows from operating activities	**4 507.1**	**4 036.8**	**4 752.9**	**5 086.0**	**4 774.0**
Cash flows from investing activities					
Non-financial assets					
Purchases of non-financial assets	(9 114.5)	(9 430.8)	(8 373.0)	(6 295.9)	(5 458.4)
Sales of non-financial assets	368.0	416.3	300.7	463.3	319.4
Cash flows from investments in non-financial assets	(8 746.5)	(9 014.5)	(8 072.3)	(5 832.6)	(5 139.0)
Net cash flows from investments in financial assets for policy purposes	(15.0)	(24.4)	4.5	(7.3)	(26.8)
Net cash flows from investments in financial assets for liquidity purposes	39.6	531.9	94.7	78.1	26.0
Net cash flows from investing activities	**(8 721.9)**	**(8 507.0)**	**(7 973.1)**	**(5 761.7)**	**(5 139.8)**
Cash flows from financing activities					
Advances received (net)	(0.7)	(0.8)	(0.5)	..	..
Net borrowings	4 332.7	4 298.1	3 407.2	959.2	468.3
Deposits received (net)	(3.7)	(3.3)	1.8	(0.6)	(0.2)
Other financing (net)	..	..	..	..	..
Net cash flows from financing activities	**4 328.3**	**4 294.0**	**3 408.4**	**958.6**	**468.1**
Net increase/(decrease) in cash and cash equivalents	**113.4**	**(176.2)**	**188.2**	**282.9**	**102.3**
Cash and cash equivalents at beginning of reporting period	2 755.3	3 899.7	3 724.4	3 912.8	4 195.9
Cash and cash equivalents at end of reporting period	**2 868.8**	**3 723.5**	**3 912.6**	**4 195.7**	**4 298.3**

Table 5.6: Non-financial public sector cash flow statement *(continued)*

($ million)

	2010-11 Budget	*2010-11 Revised*	*2011-12 Estimate*	*2012-13 Estimate*	*2013-14 Estimate*
FISCAL AGGREGATES					
Net cash flows from operating activities	4 507.1	4 036.8	4 752.9	5 086.0	4 774.0
Net cash flows from investments in non-financial assets	(8 746.5)	(9 014.5)	(8 072.3)	(5 832.6)	(5 139.0)
Cash surplus/(deficit)	**(4 239.4)**	**(4 977.7)**	**(3 319.4)**	**(746.5)**	**(365.0)**

Source: Department of Treasury and Finance

Note:
(a) Inclusive of goods and services tax

Table 5.7: Public non-financial corporations sector statement of changes in equity

($ million)

	Equity at 1 Jul	*Total comprehensive result*	*Transactions with owners in their capacity as owners*	*Dividends*	*Equity at 30 Jun*
2010-11 Budget					
Accumulated surplus/(deficit)	6 084.1	(24.4)	..	(184.5)	5 875.2
Other movements in equity	..	..	..	..	..
Adjustment for change in accounting policy	..	..			..
Contributed capital	23 717.0		2 152.9	..	25 869.9
Physical asset revaluation reserve	33 485.0	1 145.9	..	..	34 630.9
Net movements in other reserves	890.4	..	..	..	890.4
Total equity at end of the period	**64 176.6**	**1 121.5**	**2 152.9**	**(184.5)**	**67 266.5**
2010-11 Revised					
Accumulated surplus/(deficit)	6 084.1	(488.4)	..	(186.8)	5 408.9
Other movements in equity	..	(2.1)	..	..	(2.1)
Adjustment for change in accounting policy	..	(32.5)	..	..	(32.5)
Contributed capital	23 717.0		2 325.4	..	26 042.4
Physical asset revaluation reserve	33 485.0	1 023.9	..	..	34 508.9
Net movements in other reserves	890.4	13.6	..	..	904.0
Total equity at end of the period	**64 176.6**	**514.6**	**2 325.4**	**(186.8)**	**66 829.7**
2011-12 Estimate					
Accumulated surplus/(deficit)	5 406.8	(277.1)	..	(144.3)	4 985.5
Other movements in equity	..	..	..	..	..
Adjustment for change in accounting policy	(32.5)	..			(32.5)
Contributed capital	26 042.4		1 470.1	..	27 512.5
Physical asset revaluation reserve	34 508.9	644.8	..	..	35 153.7
Net movements in other reserves	904.0	..	..	..	904.0
Total equity at end of the period	**66 829.7**	**367.7**	**1 470.1**	**(144.3)**	**68 523.3**

Table 5.7: Public non-financial corporations sector statement of changes in equity *(continued)*

($ million)

	Equity at 1 Jul	*Total comprehensive result*	*Transactions with owners in their capacity as owners*	*Dividends*	*Equity at 30 Jun*
2012-13 Estimate					
Accumulated surplus/(deficit)	4 985.5	(373.0)	..	(76.3)	4 536.2
Other movements in equity	..	..	..	..	..
Adjustment for change in accounting policy	(32.5)	..			(32.5)
Contributed capital	27 512.5		836.2	..	28 348.7
Physical asset revaluation reserve	35 153.7	660.9	..	..	35 814.6
Net movements in other reserves	904.0	..	..	..	904.0
Total equity at end of the period	**68 523.3**	**287.8**	**836.2**	**(76.3)**	**69 570.9**
2013-14 Estimate					
Accumulated surplus/(deficit)	4 536.2	(406.6)	..	(307.1)	3 822.4
Other movements in equity	..	(8.0)	..	..	(8.0)
Adjustment for change in accounting policy	(32.5)	..			(32.5)
Contributed capital	28 348.7		1 149.1	..	29 497.7
Physical asset revaluation reserve	35 814.6	406.2	..	..	36 220.8
Net movements in other reserves	904.0	15.3	..	..	919.3
Total equity at end of the period	**69 570.9**	**6.8**	**1 149.1**	**(307.1)**	**70 419.7**

Source: Department of Treasury and Finance

Table 5.8: Non-financial public sector statement of changes in equity

($ million)

	Equity at 1 Jul	*Total comprehensive result*	*Transactions with owners in their capacity as owners*	*Dividends*	*Equity at 30 Jun*
2010-11 Budget					
Accumulated surplus/(deficit)	50 796.7	692.3	..	..	51 489.1
Other movements in equity	..	(23.0)	..	..	(23.0)
Adjustment for change in accounting policy	..	..			..
Minority interest	44.5		..		44.5
Physical asset revaluation reserve	68 419.6	3 293.1	..	..	71 712.7
Net movements in other reserves	1 785.5	34.8	..	..	1 820.2
Accumulated net gain (loss) on equity investments in other sector entities	133.8	371.7	..	..	505.5
Total equity at end of the period	**121 180.1**	**4 368.9**	**..**	**..**	**125 549.0**
2010-11 Revised					
Accumulated surplus/(deficit)	50 796.7	(549.3)	..	..	50 247.4
Other movements in equity	..	(36.3)	..	..	(36.3)
Adjustment for change in accounting policy	..	(32.5)	..	..	(32.5)
Minority interest	44.5		..		44.5
Physical asset revaluation reserve	68 419.6	3 138.0	..	..	71 557.6
Net movements in other reserves	1 785.5	49.0	..	..	1 834.5
Accumulated net gain (loss) on equity investments in other sector entities	133.8	355.4	..	..	489.3
Total equity at end of the period	**121 180.1**	**2 924.3**		**..**	**124 104.4**
2011-12 Estimate					
Accumulated surplus/(deficit)	50 211.0	346.6	..	..	50 557.6
Other movements in equity	..	(30.6)	..	..	(30.6)
Adjustment for change in accounting policy	(32.5)	..			(32.5)
Minority interest	44.5		..		44.5
Physical asset revaluation reserve	71 557.6	5 153.6	..	..	76 711.2
Net movements in other reserves	1 834.5	32.3	..	..	1 866.8
Accumulated net gain (loss) on equity investments in other sector entities	489.3	382.1	..	..	871.4
Total equity at end of the period	**124 104.4**	**5 883.9**	**..**	**..**	**129 988.3**

Table 5.8: Non-financial public sector statement of changes in equity *(continued)*

($ million)

	Equity at 1 Jul	Total comprehensive result	Transactions with owners in their capacity as owners	Dividends	Equity at 30 Jun
2012-13 Estimate					
Accumulated surplus/(deficit)	50 527.0	375.3	..	..	50 902.2
Other movements in equity	..	(20.0)	..	..	(20.0)
Adjustment for change in accounting policy	(32.5)	..			(32.5)
Minority interest	44.5		..		44.5
Physical asset revaluation reserve	76 711.2	2 860.2	..	..	79 571.4
Net movements in other reserves	1 866.8	21.9	..	..	1 888.7
Accumulated net gain (loss) on equity investments in other sector entities	871.4	274.4			1 145.7
Total equity at end of the period	**129 988.3**	**3 511.8**	**..**	**..**	**133 500.1**
2013-14 Estimate					
Accumulated surplus/(deficit)	50 882.3	69.0	..	..	50 951.2
Other movements in equity	..	(28.1)	..	..	(28.1)
Adjustment for change in accounting policy	(32.5)	..			(32.5)
Minority interest	44.5		..		44.5
Physical asset revaluation reserve	79 571.4	5 121.9	..	..	84 693.3
Net movements in other reserves	1 888.7	37.4	..	..	1 926.1
Accumulated net gain (loss) on equity investments in other sector entities	1 145.7	315.2	..	..	1 460.9
Total equity at end of the period	**133 500.1**	**5 515.3**	**..**	**..**	**139 015.5**

Source: Department of Treasury and Finance

Table 5.9: Derivation of public non-financial corporations sector GFS cash surplus/(deficit)

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Cash surplus/(deficit)	**(3 528.5)**	**(4 312.1)**	**(2 692.4)**	**(1 432.2)**	**(1 814.2)**
Convergence differences:					
Acquisitions under finance leases and similar arrangements	(12.3)	..	(4 203.0)	..	..
GFS cash surplus/(deficit) [(a)]	**(3 540.8)**	**(4 312.1)**	**(6 895.4)**	**(1 432.2)**	**(1 814.2)**

Source: Department of Treasury and Finance

Note:
(a) Determined in accordance with ABS GFS manual.

Table 5.10: Derivation of non-financial public sector GFS cash surplus/(deficit)

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Cash surplus/(deficit)	**(4 239.4)**	**(4 977.7)**	**(3 319.4)**	**(746.5)**	**(365.0)**
Convergence differences:					
Acquisitions under finance leases and similar arrangements	(133.3)	(121.0)	(5 278.9)	(844.8)	..
GFS cash surplus/(deficit) [(a)]	**(4 372.7)**	**(5 098.7)**	**(8 598.3)**	**(1 591.4)**	**(365.0)**

Source: Department of Treasury and Finance

Note:
(a) Determined in accordance with ABS GFS manual.

Table 5.11: Net acquisition of non-financial assets – public non-financial corporations sector

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Purchases of non-financial assets	4 642.4	5 058.4	3 994.7	2 708.5	2 837.4
Less: Sales of non-financial assets	(121.0)	(154.8)	(86.8)	(63.8)	(73.8)
Less: Depreciation	(1 454.1)	(1 689.0)	(1 849.2)	(2 005.6)	(2 078.5)
Plus: Change in inventories	42.1	112.0	100.0	(15.5)	4.7
Plus: Other movements in non-financial assets	196.3	194.6	4 408.5	210.0	231.5
Total net acquisition of non-financial assets	**3 305.7**	**3 521.1**	**6 567.1**	**833.7**	**921.3**

Source: Department of Treasury and Finance

Table 5.12: Net acquisition of non-financial assets – non-financial public sector

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Purchases of non-financial assets	9 114.5	9 430.8	8 373.0	6 295.9	5 458.4
Less: Sales of non-financial assets	(368.0)	(416.3)	(300.7)	(463.3)	(319.4)
Less: Depreciation	(3 668.4)	(3 948.0)	(4 305.4)	(4 619.9)	(4 801.1)
Plus: Change in inventories	42.1	112.9	99.7	(15.8)	4.3
Plus: Other movements in non-financial assets	317.6	315.8	5 434.6	825.0	176.7
Total net acquisition of non-financial assets	**5 437.8**	**5 495.1**	**9 301.2**	**2 021.9**	**518.9**

Source: Department of Treasury and Finance

VICTORIA'S 2010-11 LOAN COUNCIL ALLOCATION

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

Table 5.13 compares the Victorian 2010-11 LCA nomination (based on *2009-10 Budget Update* estimates) approved by the Loan Council in March 2010, with the 2010-11 revised LCA based upon *2010-11 Budget Update* estimates.

Table 5.13: Loan Council Allocation

($ million)

	2010-11 Nomination	2010-11 Revised
General government cash deficit (+)/surplus (-)	1 528.5	654.8
Public non-financial corporations sector cash deficit (+)/surplus (-)	3 162.0	4 312.1
Non-financial public sector cash deficit (+)/surplus (-) [(a)]	4 712.0	4 977.7
Acquisitions under finance leases and similar arrangements	..	121.0
ABS GFS cash deficit(+)/surplus(-)	4 712.0	5 098.7
Net cash flows from investments in financial assets for policy purposes [(b)]	(15.0)	(24.4)
Memorandum items [(c)]	688.0	807.2
Loan Council Allocation	**5 415.0**	**5 930.4**
Tolerance limit [(d)]	944.8	944.8

Source: Department of Treasury and Finance

Notes:

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

(b) *The non-financial public sector surplus/deficit relating to 2010-11 includes net cash flows from investments in financial assets for policy purposes. These amounts are excluded from the surplus/deficit when calculating the LCA.*

(c) *Memorandum items are used to adjust the ABS deficit to include in LCAs certain transactions (such as operating leases) that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the ABS deficit certain transactions that Loan Council has agreed should not be included in LCAs (e.g. the over/under funding of employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities).*

(d) *A tolerance limit equal to 2 per cent of 'total non-financial public sector cash receipts from operating activities' applies to a jurisdiction's LCA nomination and revised LCA. The tolerance limit applying to Victoria in 2010-11 is $944.8 million (2 per cent of $47 241.1 million – sourced from* 2009-10 Budget Update*).*

As part of the Loan Council arrangements, the Loan Council has agreed that if at any time a jurisdiction finds that it is likely to exceed its tolerance limit, in either direction, it is required to provide an explanation to the Loan Council and, in line with the emphasis of increased transparency, to make the explanation public. Victoria's 2010-11 revised LCA of $5 930.4 million did not exceed the tolerance limit established in the LCA nomination process.

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

Listed below are details of the public private partnership (PPP) project that is expected to be contracted in the 2010-11 financial year.

Victorian Comprehensive Cancer Centre project

The new world-class Victorian Comprehensive Cancer Centre (Victorian CCC – formerly Parkville Comprehensive Cancer Centre) to be built in Parkville will bring together six clinical and research partners who will use the facilities at the centre, including the Peter McCallum Cancer Centre, the Ludwig Institute for Cancer Research, Melbourne Health (which includes the Royal Melbourne Hospital), the University of Melbourne, the Walter and Eliza Hall Institute of Medical Research and the Royal Women's Hospital.

Capital costs of the project are to be equally funded by Commonwealth and State contributions ($426.1 million each) and will be complemented by the sale of surplus land, partner contributions and philanthropic donations.

Under the Health and Hospitals Fund agreement between the Commonwealth and Victoria, the State assumes complete and total responsibility for the delivery of the Victorian CCC with the funding contribution from the Commonwealth to be linked to major procurement and construction milestones.

The project was put to market in November 2009. A private consortium will design, build, finance and maintain the Victorian CCCs facilities, with responsibility of all core clinical, research and education services to be retained by the project partners, including the State, at the conclusion of the tender process. Once operations at the Victorian CCC commence, the Government will subsequently begin quarterly payments to the private consortium, which will be dependent on attainment of key performance indicators relating to ongoing service provision.

Contract execution is expected to occur in quarter four of the 2010-11 financial year, with the construction of the centre to be completed by the end of 2015. The project contract will most likely include an obligation for the State to make a payment to the contractor should the government terminate the contract for default. The quantum of the payment is not expected to exceed the remaining balance of the approved project funding at any time.

There are no other Partnerships Victoria contracts greater than $5 million that involve private finance that are currently expected to be signed during the 2010-11 financial year.

CHAPTER 6 – CONTINGENT ASSETS AND CONTINGENT LIABILITIES (GENERAL GOVERNMENT)

CONTINGENT ASSETS

A contingent asset is a possible asset that arises from past events, 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 are classified as either quantifiable, where the potential economic benefit is known, or non-quantifiable.

Quantifiable contingent assets

Table 6.1: Quantifiable contingent assets

($ million)

	2010 [(a)]	2009 [(b)]
Guarantees, indemnities and warranties	0.9	2.0
Legal proceedings and disputes	..	..
Other	127.0	128.8
Total contingent assets	**127.9**	**130.8**

Source: Department of Treasury and Finance

Notes:
(a) As at November 2010.
(b) Sourced from Table 7.1: Quantifiable contingent assets of 2010-11 Budget Paper No. 4.

Non-quantifiable contingent assets

CityLink compensable enhancement claims

The Melbourne CityLink concession deed contains compensable enhancement provisions that enable the State to claim 50 per cent of additional revenue derived by CityLink Melbourne Limited (CML) as a result of certain events that particularly benefit CityLink, including changes to the adjoining road network.

Compensable enhancement claims have previously been lodged in respect of works for improving traffic flows on the Westgate Freeway (between Lorimer and Montague Streets), and the Tullamarine Freeway (in the vicinity of the intersection with Bulla Road). The claims were lodged on 20 May 2005 and 29 September 2006 respectively, and are still outstanding.

Revenue sharing from the Monash CityLink West Gate upgrade

On 25 July 2006, Citylink Melbourne Limited (CML), Transurban Infrastructure Management Ltd (TIML) and the State entered into the M1 Corridor redevelopment deed.

Under the terms of this deed, the State will upgrade the Monash and West Gate Freeways, while CML will upgrade the Southern Link section of CityLink. The State will become entitled to 50 per cent of the additional CityLink revenue created by the Monash CityLink West Gate upgrade after CML recovers its construction and additional operating costs relating to works on the Southern Link.

The method used to calculate the additional CityLink revenue generated from the upgrade will be based on comparing actual CityLink revenue with agreed trends. The actual calculation of the additional CityLink revenue will take place three full financial years after completion of the upgrade, on 30 June 2014.

CONTINGENT LIABILITIES

A contingent liability is:

- a possible obligation that arises from past events, 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.

The following table contains quantifiable contingent liabilities as at November 2010.

Quantifiable contingent liabilities

Table 6.2: Quantifiable contingent liabilities

($ million)

	2010 [a]	2009 [b]
Guarantees, indemnities and warranties	601.4	611.3
Legal proceedings and disputes	345.8	389.6
Other	329.2	201.5
Non-general government debt [c]	8 077.0	6 220.2
Total contingent liabilities	**9 353.4**	**7 422.6**

Source: Department of Treasury and Finance

Notes:

(a) *As at November 2010 except for non-general government debt, which is presented as at 30 June 2010.*

(b) *Sourced from Table 7.2: Quantifiable contingent liabilities* of 2010-11 Budget Paper No. 4.

(c) *Represents guarantees from the general government sector to agencies in the public non-financial corporation sector (primarily the water entities and other non-general government sector entities) for loans.*

Non-quantifiable contingent liabilities

A number of potential obligations, which are non-quantifiable at this time, have been recognised 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 monies, which may be subject to future claims by the general public against the State.

An overview of the more significant non-quantifiable liabilities follows.

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 redevelopment

The State, through the Department of Primary Industries (DPI), and the Royal Agricultural Society of Victoria (RASV) formed an unincorporated joint venture for the purposes of redeveloping the Royal Melbourne Showgrounds (the Showgrounds), with the State and the RASV each holding a 50 per cent interest in the joint venture. The joint venture participants then established an incorporated entity, Showgrounds Nominees Pty Ltd, to enter into contractual arrangements with the private sector party.

The project, a public private partnership involves a private sector consortium (concessionaire), which was responsible for the design, construction and financing of the Showgrounds' redevelopment and continues to be responsible for maintaining and providing facility management services at the Showgrounds for a period of 25 years, commencing August 2006.

Under the contract, the State supports the underlying payment obligations of the joint venture participants for Showgrounds Nominees Pty Ltd to meet its obligations to pay the service fee to the concessionaire. Any actual financial support provided by the State on behalf of the RASV under the contract will be treated as a loan, which will be repaid by the RASV by the end of the 25 year contract term. Repayment by the RASV may take the form of the transfer to the State of part or whole of the RASV's participating interest in the joint venture.

Separately and similarly, under another agreement between the State and RASV, the State supports certain obligations of the RASV that may arise out of a suite of joint venture agreements between the State and the RASV, or between the joint venture and a third party. In accordance with this agreement, the State will meet certain RASV obligations in the form of a loan, up to a maximum of $20 million, if requested by the RASV when the RASV does not have the financial capacity to pay. RASV must repay any such loan by the end of the 25 year term and this may take the form of a transfer to the State, of the whole or part, of the RASV participating interest in the joint venture.

National Electricity Code Administrator

As part of the wind up of the National Electricity Code Administrator (NECA), the State has undertaken to indemnify the actions of the NECA directors for a period of seven years upon completion of their tenure in 2015.

Australian Energy Market Operator Ltd

In order for the State Electricity Commission of Victoria (SECV) to participate in the national electricity market administered by Australian Energy Market Operator Ltd (AEMO), a guarantee must be provided to AEMO by an acceptable financial institution. Treasury Corporation of Victoria (TCV) has provided such a guarantee whereby it undertakes to pay to AEMO on demand any and all amounts to an aggregate amount not exceeding $147.4 million as security for the obligations of SECV to AEMO. The guarantee is issued pursuant to Section 9(1) of the *Treasury Corporation of Victoria Act 1992* and is approved by the Treasurer. The guarantee is fully supported by an indemnity from SECV and by non-withdrawable deposits which SECV is obliged to maintain with TCV at an amount of 101 per cent of the amount guaranteed.

Public transport rail partnership agreements

The Director of Public Transport (the Director), on behalf of the Crown, entered into partnership contractual arrangements with franchisees to operate metropolitan rail transport services in the State, operative from 30 November 2009 until 30 November 2017. The following summarises the major contingent liabilities arising from those arrangements in the event of early termination or expiry of partnership agreement:

- *Franchise assets:* to maintain continuity of services, the assets, at early termination or expiry of the franchise agreement, will revert to the Director or a successor. In the case of some assets, a reversion back to the Director would entail those assets as being purchased; and
- *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.

OneLink Transit Systems performance bonus

The State recognises a contingent liability relating to the performance bonus component of the contract with OneLink Transit Systems. It is more likely than not that system and equipment availability and overall performance achievements in 2010-11 through to the end of the contract may be higher than the original forecast level for performance bonus payments, given a current maintenance regime that may result in better than expected equipment reliability. At this time, it is not possible to accurately predict the amount of potential performance bonus payments as this will be impacted by variables such as patronage growth, equipment performance and vandalism. In particular, performance of these variables will be impacted by the reliability of equipment which is nearing the end of its design life.

Kamco performance related payments

The New Ticketing Solution Project Agreement provides a mechanism through which Kamco (Keane Australia Micropayments Consortium Pty Ltd) can earn performance-related bonuses. As it is too early to forecast the amount and likelihood of such payments, this contingent liability is considered unquantifiable.

Contingent liabilities arising from litigation

The Department of Transport is defending, on behalf of the State, a claim for damages relating to the development and management of an intermodal freight terminal in Gippsland in which the plaintiff is seeking damages of $44.7 million. The information usually required by AASB 137 *Provisions, Contingent Liabilities, and Contingent Assets* is not disclosed on the grounds that it can be expected to prejudice the outcome of the litigation.

Native Title

A number of claims have been filed with the Federal Court under the *Native Title Act 1993 (Commonwealth)* that affect Victoria. It is not feasible at this time to quantify any future liability.

Department of Education and Early Childhood Development

Indemnities are provided by the Department of Education and Early Childhood Development (DEECD) to:

- the Commonwealth in various funding contracts entered with the State throughout the year. Each indemnity is limited to $10 million for personal injuries and property damage, and $50 million for damages arising from internet usage;
- teachers, volunteer workers and school chaplains. The specific indemnity in respect to teachers is only in relation to negligence claims by students, provided the teacher was not intoxicated, or engaged in a criminal offence, or engaged in outrageous conduct, and was incurred in the course of the teacher's employment. Indemnities are also provided to teachers, as well as all other Departmental employees, in accordance with the *Government policy and guidelines: indemnities and immunities, June 2008*; and
- members of school councils. The *Education and Training Reform Act 2006* provides a comprehensive indemnity to members of school councils for any legal liability, whether in contract, negligence and defamation, etc.

The State also provides indemnities for people employed under *the Public Administration Act 2004*.

Contingent liabilities for employment related legal proceedings

Under the Victorian Public Service (VPS) Agreement, relevant departments and agencies have an obligation to indemnify VPS employees in relation to the costs of employment related legal proceedings that may arise from the performance of the duties of employees.

The Biosciences Research Centre

The Biosciences Research Centre (BRC) project is a joint initiative between the State, through the Department of Primary Industries (DPI), and La Trobe University (La Trobe). The project is being delivered as a public private partnership. DPI and La Trobe have formed an unincorporated joint venture for the purposes of undertaking the BRC project. The State holds 75 per cent participating interest and La Trobe holds 25 per cent participating interest in the joint venture. The facility that is being constructed will be known as AgriBio, the Centre for AgriBioscience.

The project involves a partnership between the joint venture and the private sector consortium, Plenary Research Pty Ltd (concessionaire), which is responsible for the design, construction, commissioning and financing of AgriBio and the provision of contracted services required for the maintenance and operation of the facility. The joint venture participants established an incorporated entity known as Biosciences Research Centre Pty Ltd for the purposes of entering into the contractual arrangements with the concessionaire. Construction of AgriBio commenced in May 2009, and the new facility is expected to be commissioned in late 2011 and fully operational in 2012.

Under the contract, the service fee payment obligations of Biosciences Research Centre Pty Ltd (on behalf of the joint venture participants) are supported by the State of Victoria. In accordance with the contract, the State supports the underlying payment obligations of the joint venture participants, including La Trobe, to the joint venture company, thereby enabling the joint venture company to meet its obligations to pay the service fee to the concessionaire pursuant to the contract. Any financial support provided by the State to La Trobe under the contract will be treated as a loan to be repaid by La Trobe by the end of the 25 year contract term. Repayment by La Trobe may take the form of the transfer to the State of part or all of La Trobe's participating interest in the joint venture.

Royal Children's Hospital

The Royal Children's Hospital Foundation (RCHF) has entered into a funding agreement with the Commonwealth Government for the provision of $21 million to undertake the Australian Early Development Index Project. RCHF has entered into this agreement at the request of the Royal Children's Hospital (RCH). In consideration of RCHF entering into the funding agreement, RCH has agreed to be responsible for the obligations and liabilities imposed on RCHF under the funding agreement, including but not limited to the indemnity granted by RCHF to the Commonwealth of Australia under clause 19 of the funding agreement.

HIH Insurance

The State's quantifiable direct exposures arising from the collapse of the HIH Insurance Group (HIH) are included in the liabilities shown in the financial statements of the entities directly responsible for them. The State's obligations in respect of its builders' warranty insurance rescue package are also shown as direct liabilities of the relevant government entities.

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

Land remediation – environmental concerns

In addition to properties for which remediation costs have been provided in these financial statements, certain other 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 – insurance cover

The Victorian Managed Insurance Authority (VMIA) was established in 1996 as an 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 of $750 million for public liability and for losses above $50 million arising out of any one event, up to a maximum of $1.5 billion for property. The risk of losses above these reinsured levels is borne by the State.

Effective from 31 March 2010, pursuant to a Ministerial direction under Section 25A of the *Victorian Managed Insurance Authority Act 1996*, VMIA will underwrite domestic building insurance.

Domestic building insurance

In mid April 2002, the State agreed to provide temporary (to 30 June 2002) reinsurance support to domestic building insurance provider Dexta Corporation following the withdrawal of some of its commercial reinsurance support. While this support was subsequently extended to policies issued before 30 September 2002, the former Government determined there would be no further extension.

The State received reinsurance premiums for this participation and may be required to contribute to payment of reinsured claims, as well as paying management fees. The precise timing and value of these receipts and payments is uncertain, as claims may be made by home owners for up to six and a half years after the arrangement ceases. These claims may also take an additional several years to be processed through the legal system.

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

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

Victoria has reinsurance agreements giving effect to these arrangements with three insurers. The agreements required the insurers to pay the reinsurance premiums to Victoria (and to any other state that is also a party to such an agreement) that are estimated to be sufficient for the State to at least break even on these arrangements. However, the State retains an unquantifiable contingent liability for additional claims.

Effective from 31 March 2010, pursuant to a Ministerial direction under Section 25A of the *Victorian Managed Insurance Authority Act 1996*, VMIA will underwrite domestic building insurance.

Gambling licences

In 1992, a gaming operator's licence was issued to the Trustees of the Will and Estate of the late George Adams, now trading as Tatts Group. In 1994, the State issued a wagering and gaming licence to TABCORP Holdings Limited (TABCORP). These licences expire in 2012. The *Gambling Regulation Act 2003 specifies* end of licence arrangements which include compensation provisions for the licensees predicated on the current licensing arrangements being rolled over for a further period beyond 2012.

On 10 April 2008, the former Government announced a new regulatory model for the post 2012 licences. The main changes include:

- separating the wagering and gaming licence to instead license wagering on a stand alone basis; and
- transitioning from the current gaming operator duopoly to a system where venue operators are licensed to own and operate gaming machines in their own right.

After considering the end of licence arrangements in the *Gambling Regulation Act 2003*, the former Government formed the view that neither Tatts Group nor TABCORP will be entitled to compensation after the expiration of their current licences.

Melbourne Park redevelopment

The State has entered into an agreement with Tennis Australia and the Melbourne and Olympic Park Trust to provide for the Australian Open to remain at Melbourne Park until 2036. At the same time the former Government provided for Stage 1 of the redevelopment of Melbourne Park in the *2010-11 Budget* (total estimated investment of $363 million). The agreement also provided a number of conditions, including that further improvements will be made to Melbourne Park or that a rights fee will be paid to Tennis Australia, if further works do not proceed, for the Australian Open to remain at Melbourne Park.

Kilmore East fire

A number of litigants have lodged claims against the electrical distributors, SP AusNet and PowerCor, in relation to the Coleraine, Horsham, Pomborneit–Weerite, Beechworth and Kilmore East fires. One of the claims is a group proceeding which was issued against electricity distributor SP AusNet in relation to the Kilmore East fire. The proceeding damages claims arise from alleged breaches of statutory duty under the *Electrical Safety Act 1998,* negligence and private nuisance. A defence and counterclaim was filed on 24 September 2010 by SPI Electricity (the defendants to the original proceeding) against Utility Services Corporation Limited, the Secretary to the Department of Sustainability and Environment, the Country Fire Authority; and the State of Victoria (on behalf of Victoria Police).

APPENDIX A – TAX EXPENDITURES AND CONCESSIONS

TAX EXPENDITURES

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

Table A.1 shows aggregate tax expenditure estimates by the main categories of tax for the period 2009-10 to 2013-14. The *2010-11 Budget Update* estimate for total tax expenditures for 2010-11 is $3 662 million, $221 million higher than the *2010-11 Budget* estimate of $3 441 million.

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

($ million)

Description	*2009-10 Estimate*	*2010-11 Estimate*	*2011-12 Estimate*	*2012-13 Estimate*	*2013-14 Estimate*
Land tax	1 939	2 266	2 188	2 385	2 325
Payroll tax	844	867	898	930	963
Gambling tax	74	74	78	83	87
Motor vehicle taxes	83	86	90	94	97
Other duties [(a)]	230	336	229	230	239
Congestion levy	32	33	34	35	35
Total estimated tax expenditures [(b)]	**3 201**	**3 662**	**3 517**	**3 758**	**3 746**

Source: Department of Treasury and Finance

Notes:
(a) Principally duty on land transfer
(b) Totals may not add due to rounding.

CONCESSIONS

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

Table A.2 classifies the major concessions provided by the Victorian Government into various categories. The current estimated total value of concessions for 2010-11 is $1 323 million, $39 million higher than the $1 284 million estimated in the *2010-11 Budget*.

Table A.2: Concessions by category

($ million)

Description	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Electricity	69	74	68
Mains gas	43	47	47
Municipal rate concessions	65	65	74
Water and sewerage	101	112	127
Total energy, municipal rates, water and sewerage	**278**	**297**	**315**
Ambulance	297	321	352
Dental and spectacles	117	121	133
Community health programs	114	119	124
Total health	**528**	**561**	**608**
Education	**71**	**75**	**79**
Hardship schemes	**41**	**53**	**41**
Social and community services	**7**	**7**	**7**
Private transport	**146**	**152**	**154**
Public transport	**111**	**116**	**120**
Total for items estimated (a)	**1 182**	**1 260**	**1 323**

Source: Department of Treasury and Finance

Note:
(a) Totals may not add due to rounding.

APPENDIX B – SENSITIVITY ANALYSIS TABLE

INTRODUCTION

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

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

It is assumed during the analysis of each variable that all other variables remain unaffected and will continue to follow their forecast growth. The analysis captures the effect of changing only a single variable at a time, and does not allow for the likelihood that other variables would also change. For example, an increase in consumer prices could be expected to affect interest rates, wage claims and other economic variables but, for the purposes of this analysis, such effects are ignored.

The sensitivity analysis in Table B.1 presents the sensitivity of both the net result from transactions and the net result to selected economic and financial indicators.

Table B.1: Impact on the general government fiscal results of selected economic indicators being one per cent higher than expected in 2010-11[(a)(b)(c)]

($ million)

	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
GSP				
Income from transactions	154	165	174	180
Expenses from transactions	-2	-9	-18	-24
Net result from transactions	**156**	**174**	**192**	**205**
Other economic flows	..	..	..	..
Net result	**156**	**174**	**192**	**205**
Employment				
Income from transactions	51	54	58	61
Expenses from transactions	-4	-8	-11	-14
Net result from transactions	**55**	**62**	**68**	**75**
Other economic flows	..	..	..	..
Net result	**55**	**62**	**68**	**75**
Consumer prices [(d)]				
Income from transactions	269	286	297	307
Expenses from transactions	90	98	90	88
Net result from transactions	**179**	**189**	**207**	**220**
Other economic flows	-189	..	..	..
Net result	**-9**	**190**	**208**	**221**
Average weekly earnings				
Income from transactions	57	60	64	67
Expenses from transactions	2	-1	-3	-6
Net result from transactions	**55**	**61**	**67**	**73**
Other economic flows	..	..	..	..
Net result	**55**	**61**	**67**	**73**
Enterprise bargaining agreements [(e)]				
Income from transactions	24	26	26	27
Expenses from transactions	181	226	246	264
Net result from transactions	**-157**	**-200**	**-219**	**-237**
Other economic flows	-189	..	..	..
Net result	**-346**	**-200**	**-219**	**-237**
Domestic share prices				
Income from transactions	..	..	..	..
Expenses from transactions	..	-3	-4	-4
Net result from transactions	**..**	**3**	**4**	**4**
Other economic flows	41	..	..	..
Net result	**41**	**3**	**4**	**4**
Overseas share prices				
Income from transactions	..	..	..	..
Expenses from transactions	..	-3	-3	-4
Net result from transactions	**..**	**3**	**3**	**4**
Other economic flows	39	..	..	..
Net result	**39**	**3**	**3**	**4**

Table B.1: Impact on the general government fiscal results of selected economic indicators being one per cent higher than expected in 2010-11 *(continued)*

($ million)

	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Property prices				
Income from transactions	53	74	77	81
Expenses from transactions	-4	-10	-14	-18
Net result from transactions	**58**	**83**	**90**	**100**
Other economic flows	17	..	..	..
Net result	**76**	**85**	**94**	**101**
Property volumes				
Income from transactions	39	39	40	43
Expenses from transactions	-3	-6	-8	-10
Net result from transactions	**42**	**44**	**48**	**53**
Other economic flows	..	..	..	..
Net result	**42**	**44**	**48**	**53**
Interest rates [(f)]				
Income from transactions	48	44	43	39
Expenses from transactions	7	59	89	106
Net result from transactions	**41**	**-15**	**-47**	**-67**
Other economic flows	1 060	..	..	..
Net result	**1 101**	**-15**	**-47**	**-67**

Source: Department of Treasury and Finance

Notes:

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

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

(c) Only reasonably quantifiable data have been included in the analysis.

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

(e) Represents a one per cent increase in all government enterprise bargaining agreements.

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

Sensitivity to economic growth

Higher than expected gross state product (GSP) leads to higher revenue, principally from the State's own taxation as well as higher dividends and income tax equivalent payments made by State-owned enterprises, and Commonwealth goods and services tax (GST) grants. This leads to a reduction in borrowing requirements and interest costs only partially offset by a small increase in the purchase of additional supplies and services. As a consequence both the net result from transactions and the net result increase.

Sensitivity to employment

Higher than expected employment results in additional payroll tax revenue, and both the net result from transactions and the net result are increased.

Sensitivity to consumer prices

Higher consumer prices are assumed to lead to higher Commonwealth-sourced revenue, revenue from sales of goods and services (reflecting indexation and changes in other charges), as well as higher GST and taxation revenue as the value of tax bases rise in nominal terms. However, the higher revenue is partly offset by the higher cost of supplies and services, and some increases in outlays on grants and transfers. Reflecting the operation of departmental funding arrangements, the impact of any increase in expenses is limited to the extent that departments can fund it from increased revenue from specific purpose grants and sales of goods and services.

The increase in consumer prices would also result in an immediate increase in the superannuation liability which would adversely affect the net result due to the associated actuarial loss. In subsequent years the now higher superannuation liability would also increase the superannuation expense slightly. However, overall, higher consumer prices are expected to have a positive impact on the net result from transactions.

Sensitivity to average weekly earnings

A rise in the level of economy wide wages would raise payroll tax revenue, contributing to an increase in the net result from transactions and net result. As with the sensitivity to consumer prices, where there is an increase in Commonwealth-sourced revenue (due to indexation arrangements), there is a proportional increase in expenses. Enterprise bargaining agreements are assumed to be unchanged over the projection period.

Sensitivity to enterprise bargaining agreements

An across-the-board rise in the State's enterprise bargaining agreements in excess of the level set out in its wages policy would result in an increase in employee entitlements and a corresponding decline in the net result from transactions. This is only partially offset by increased revenue from indexation arrangements and user charges (which are based on the cost of providing services).

The increased employee entitlements would also increase the value of the superannuation liability and give rise to an actuarial loss, thereby reducing the net result for the budget year. The higher superannuation liability would also increase the superannuation expense in the remaining out-years, further decreasing the net result from transactions.

Sensitivity to domestic and overseas share prices

Higher domestic and international share prices raise the profits (or reduce the losses) of the State's public financial corporations (PFCs), which have holdings of domestic and international shares as part of their respective investment portfolios. The associated income tax equivalents (ITEs) from PFCs generally rise.

As there have been substantial decreases in share and other asset prices in recent years, accumulated carry forward tax losses mean there will be little or no impact of share prices on ITEs.

Higher share prices reduce the value of the superannuation liability due to the associated increase in superannuation fund assets. This gives rise to an actuarial gain which would increase the net result in the budget year. The expected investment return on the higher level of superannuation fund assets also reduces the superannuation expense beyond the budget year, thereby improving the net result from transactions in these years.

Sensitivity to property prices

Higher property prices have an immediate impact on the net result from transactions through increased collections of land transfer duty revenue.

Akin to the impact of higher share prices, higher property prices reduce the value of the superannuation liability (due to the increased value of holdings of property in superannuation funds' investment portfolios). This reduction in the superannuation liability gives rise to an actuarial gain, which increases the net result in the budget year.

In later years, the higher property prices continue to be reflected in higher land transfer duty and land tax revenues, while the expected investment return on the higher level of superannuation assets reduces ongoing superannuation expenses. Overall, higher property prices are expected to increase the net result from transactions beyond the budget year.

Sensitivity to property volumes

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

Sensitivity to interest rates

A one percentage point increase in interest rates is assumed to occur equally across the entire term structure. The increase in interest rates reduces the valuation of long-term liabilities of the PFCs and will raise the profits of these entities, in particular the insurers. However, accumulated carry forward tax losses mean there will be little or no impact on revenues to the general government sector through ITEs, and there is little or no impact on dividends. There will be lower dividends and ITEs from public non-financial corporations due to higher borrowing costs, as well as an increase in the borrowing costs of the general government sector.

At the same time, the increase in interest rates reduces the value of the superannuation liability, giving rise to an actuarial gain, and increasing the net result in the budget year. In terms of ongoing superannuation expenses, higher interest rates are expected to increase the superannuation expense, primarily due to an increase in the interest cost associated with the superannuation liability. Accordingly, both the net result from transactions and the net result fall beyond the budget year.

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

The *Financial Management Act 1994* (the Act) requires the Minister to prepare a budget update for tabling in Parliament each financial year. The provisions of the Act have been complied with in the *2010-11 Budget Update*.

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

Table C.1: Statements required by the *Financial Management Act 1994* and their location in the *2010-11 Budget Update*

Relevant section of the Act and corresponding requirement	*Location*
Sections 23 E-G	
Statement of financial policy objectives and strategies for the year.	Chapter 1, *Fiscal and Economic Strategies and Objectives*
Sections 23 H-N	
Estimated financial statements for the year comprising: – an estimated statement of financial performance over the year; – an estimated statement of financial position at the end of the year; – an estimated statement of cash flows for the year; and – a statement of the accounting policies on which these statements are based and explanatory notes.	Chapter 4, *Estimated Financial Statements and Notes* (Estimated consolidated comprehensive operating statement, estimated consolidated balance sheet, estimated consolidated cash flow statement and estimated consolidated statement of changes in equity provided as per AASB 1049)
Accompanying statement to estimated financial statements which:	
– outlines the material economic assumptions used in preparation of the estimated financial statements;	Chapter 2, *Economic Conditions and Outlook* and Chapter 4, *Estimated Financial Statements and Notes*
– discusses the sensitivity of the estimated financial statements to changes in these assumptions;	Appendix B, *Sensitivity Analysis Table*

Table C.1: Statements required by the *Financial Management Act 1994* and their location in the *2010-11 Budget Update (continued)*

Relevant section of the Act and corresponding requirement	*Location*
– provides an overview of estimated tax expenditures for the financial years covered by the estimated financial statements; and	Appendix A, *Tax Expenditures and Concessions*
– provides a statement of the risks that may have a material effect on the estimated financial statements.	Chapter 2, *Economic Conditions and Outlook*; Chapter 3, *Budget Position and Outlook*; and Chapter 6, *Contingent Assets and Contingent Liabilities*

APPENDIX D – QUARTERLY FINANCIAL REPORT FOR THE VICTORIAN GENERAL GOVERNMENT SECTOR – SEPTEMBER 2010

OPERATING STATEMENT

The general government sector net result from transactions for the three month period to 30 September 2010 was $490.6 million, broadly on track with the 2010-11 revised budget full year net result of $633.4 million.

Revenue from transactions was $11.1 billion, 24.4 per cent of the revised budget estimate of $45.6 billion for the year. The slightly lower than pro rata outcome for the quarter is mainly driven by the timing of taxation revenue, in particular, the fact that the majority of land tax revenue is not recognised until the March quarter each year when assessment notices are issued.

Revenue from transactions in the September 2010 quarter was 13.7 per cent higher than for the same period a year ago. This mainly reflected increased Commonwealth Government grants, in particular GST revenue, and taxation revenue.

Expenses from transactions were $10.6 billion, or 23.6 per cent of the full year revised budget estimate of $44.9 billion. This outcome is mainly driven by lower than the pro rata revised budget estimate for employee expenses and other operating expenses, reflecting the normal seasonal pattern of departmental expenditure.

Once actuarial adjustments and revaluations are included, the net result for the three month period to 30 September 2010 is a deficit of $88.2 million, driven by the net negative impact of other economic flows of $578.7 million. This was mainly due to net actuarial losses of defined benefit superannuation plans of $473.7 million. These are a result of reductions in bond rates that are used to value the superannuation liability, partly offset by higher than expected investment returns on superannuation assets over the quarter. The impact that bond rate movements have on the liability is related to the required valuation methodology consistent with current accounting standards and does not affect the amount of cash that is required to fund this liability over time.

BALANCE SHEET

Net assets decreased over the September 2010 quarter by 0.1 per cent to $117.5 billion. Total assets decreased by 0.2 per cent to $163.8 billion, while liabilities decreased by 0.5 per cent to $46.3 billion.

The decrease in financial assets was broadly driven by lower cash and deposits, partially offset by an increase in non financial asset balances, mainly reflecting net infrastructure investment spending totalling $1.32 billion in the September quarter. The reduction in liabilities was mainly attributed to a 13.4 per cent decrease in payables, due to the timing of payments by departments.

Over the September quarter, the State's superannuation liability increased by $574.4 million to $23.1 billion. As previously mentioned, this is attributed to a decrease in the bond rates used to value the superannuation liability, partially offset by better than expected investment returns on superannuation assets.

Net debt increased by $834.8 million to $8.8 billion, broadly consistent with the revised budget expectations, primarily reflecting the funding of the general government infrastructure program.

CASH FLOWS

Cash flow movements disclosed in the cash flow statement for the quarter are consistent with the combined impact of the above mentioned drivers associated with the operating statement and movements in the balance sheet.

FINANCIAL STATEMENTS FOR THE GENERAL GOVERNMENT SECTOR

Consolidated comprehensive operating statement for the period ended 30 September

($ million)

2009-10 Actual to Sept		Notes	2010-11 Actual to Sept	2010-11 Revised Budget
	Revenue			
3 068.2	Taxation revenue	2	3 519.7	14 742.8
79.9	Interest		93.2	340.8
19.6	Dividends and income tax equivalent and rate equivalent revenue	3	39.0	519.6
1 268.6	Sales of goods and services	4	1 478.4	5 868.2
4 864.6	Grants	5	5 503.8	22 347.1
467.8	Other revenue	6	476.2	1 749.3
9 768.7	**Total revenue**		**11 110.4**	**45 567.7**
	Expenses			
3 639.6	Employee expenses		3 854.8	16 173.2
166.1	Superannuation interest expense	7	222.9	931.6
398.3	Other superannuation expense	7	394.4	1 691.8
375.6	Depreciation	8	489.0	2 259.0
180.3	Interest expense		213.7	963.1
3 157.4	Other operating expenses		3 498.8	14 822.5
1 869.8	Grants and other transfers		1 946.3	8 093.2
9 787.2	**Total expenses from transactions**	9	**10 619.8**	**44 934.3**
(18.5)	**Net result from transactions – net operating balance**		**490.6**	**633.4**
	Other economic flows included in net result			
5.2	Net gain/(loss) on sale of non-financial assets		(25.7)	144.0
5.5	Net gain/(loss) on financial assets or liabilities at fair value		1.1	1.8
330.7	Net actuarial gains/(losses) of superannuation defined benefits plans	7	(473.7)	(473.7)
(55.7)	Other gains/(losses) from other economic flows	10	(80.3)	(160.8)
285.7	**Total other economic flows included in net result**		**(578.7)**	**(488.8)**
267.3	**Net result**		**(88.2)**	**144.6**
	Other economic flows – other movements in equity			
5.3	Net gain on financial assets at fair value		1.4	..
(289.9)	Movement of non-financial assets		(9.8)	2 146.7
..	Net gain on equity investments in other sector entities at proportional share of net assets [(a)]		..	642.6
263.5	Transfer to accumulated funds/ other movements in equity		21.7	1.2
(21.2)	**Total other economic flows – other movements in equity**		**13.3**	**2 790.5**
246.1	**Comprehensive result – total change in net worth**		**(74.8)**	**2 935.1**
	FISCAL AGGREGATES			
(18.5)	**Net operating balance**		**490.6**	**633.4**
297.5	Less: Net acquisition of non-financial assets from transactions	12	522.1	1 941.4
(316.0)	**Net lending/(borrowing)**		**(31.5)**	**(1 308.0)**

The accompanying notes form part of these Estimated Financial Statements

Note:
(a) *As data for other sectors is only provided half-yearly, the investment is not revalued at quarter ended 30 September 2010.*

Consolidated balance sheet as at 30 September

($ million)

2009-10 Actual 30 Sept		Notes	2010-11 Opening 1 Jul	2010-11 Actual 30 Sept	2010-11 Revised Budget 30 Jun
	Assets				
	Financial assets				
2 199.1	Cash and deposits		3 221.3	2 133.5	3 092.3
303.8	Advances paid		278.0	285.9	297.0
2 780.2	Investments, loans and placements		2 629.0	2 719.2	2 501.0
2 379.0	Receivables	11	2 883.6	2 472.5	2 807.8
30.0	Investments accounted for using equity method		35.1	35.1	35.1
60 947.0	Investments in other sector entities [(a)]		64 508.7	64 880.4	67 519.9
68 639.0	**Total financial assets**		73 555.8	72 526.6	76 253.1
	Non-financial assets				
257.0	Inventories		268.4	267.6	269.3
70.2	Non-financial assets held for sale		91.5	76.6	81.2
87 625.9	Land, buildings, infrastructure, plant and equipment	13	89 419.7	89 965.3	93 710.4
871.0	Other non-financial assets	14	771.0	980.8	756.3
88 824.2	**Total non-financial assets**		90 550.7	91 290.3	94 817.2
157 463.2	**Total assets**		164 106.4	163 816.9	171 070.3
	Liabilities				
330.1	Deposits held and advances received		479.4	462.1	478.7
11 639.4	Borrowings		13 612.5	13 474.8	16 550.1
3 235.7	Payables		4 849.0	4 201.2	4 756.7
20 413.8	Superannuation		22 534.1	23 108.5	23 538.6
4 121.4	Employee benefits	15	4 357.9	4 369.5	4 555.9
802.9	Other provisions		718.0	720.0	699.7
40 543.3	**Total liabilities**		46 551.0	46 336.3	50 579.7
116 919.9	**Net assets**		117 555.5	117 480.7	120 490.6
48 956.3	Accumulated surplus/(deficit)		43 263.9	43 172.6	43 374.3
67 924.1	Reserves		74 247.0	74 263.6	77 071.8
39.5	Non-controlling interest		44.5	44.5	44.5
116 919.9	**Net worth**		117 555.5	117 480.7	120 490.6
	FISCAL AGGREGATES				
28 095.7	Net financial worth		27 004.8	26 190.3	25 673.4
32 851.3	Net financial liabilities		37 503.9	38 690.1	41 846.5
6 686.4	Net debt		7 963.6	8 798.4	11 138.5

The accompanying notes form part of these Estimated Financial Statements

Note:

(a) *As data for other sectors is only provided half-yearly, the investment is not revalued at the end of the quarter. The movement for the quarter represents net contributions to other sectors.*

Consolidated cash flow statement for the period ended 30 September

($ million)

2009-10 Actual to Sept		Notes	2010-11 Actual to Sept	2010-11 Revised Budget
	Cash flows from operating activities			
	Receipts			
3 430.7	Taxes received		3 853.1	14 813.4
4 632.4	Grants		5 503.8	22 347.1
1 496.7	Sales of goods and services [(a)]		1 513.1	6 395.3
82.3	Interest received		93.9	305.8
17.6	Dividends and income tax equivalent and rate equivalent receipts		39.3	563.2
511.1	Other receipts [(a)]		401.1	1 589.2
10 170.7	**Total receipts**		**11 404.4**	**46 014.0**
	Payments			
(3 794.5)	Payments for employees		(3 842.7)	(15 976.8)
(492.1)	Superannuation		(516.6)	(2 092.7)
(167.5)	Interest paid		(207.6)	(902.0)
(2 092.4)	Grants and subsidies		(2 093.7)	(8 138.2)
(3 911.4)	Goods and services [(a)]		(4 066.9)	(15 097.2)
(126.1)	Other payments		(123.2)	(383.6)
(10 584.0)	**Total payments**		**(10 850.6)**	**(42 590.5)**
(413.2)	**Net cash flows from operating activities**	16b	**553.8**	**3 423.5**
	Cash flows from investing activities			
(688.6)	Purchases of non-financial assets		(960.8)	(4 337.6)
23.0	Sales of non-financial assets		22.8	259.4
(665.6)	Cash flows from investments in non-financial assets		(938.0)	(4 078.3)
(360.6)	Net cash flows from investments in financial assets for policy purposes		(384.7)	(2 412.6)
(1 026.2)	**Sub-total**		**(1 322.8)**	**(6 490.9)**
(218.0)	Net cash flows from investments in financial assets for liquidity management purposes		(91.8)	129.9
(1 244.2)	**Net cash flows from investing activities**		**(1 414.5)**	**(6 360.9)**
	Cash flows from financing activities			
..	Advances received (net)		..	(0.7)
835.6	Net borrowings		(589.8)	2 809.0
13.0	Deposits received (net)		(17.3)	..
848.6	**Net cash flows from financing activities**		**(607.2)**	**2 808.3**
(808.8)	**Net increase/(decrease) in cash and cash equivalents**		**(1 467.9)**	**(129.1)**
2 845.5	Cash and cash equivalents at beginning of reporting period		3 221.3	3 221.3
2 036.6	**Cash and cash equivalents at end of reporting period**	16a	**1 753.5**	**3 092.3**
	FISCAL AGGREGATES			
(413.2)	Net cash flows from operating activities		**553.8**	**3 423.5**
(665.6)	Net cash flows from investments in non-financial assets		**(938.0)**	**(4 078.3)**
(1 078.8)	**Cash surplus/(deficit)**		**(384.2)**	**(654.8)**

The accompanying notes form part of these financial statements.

Note:

(a) Inclusive of goods and services tax.

Consolidated statement of changes in equity for the period ended 30 September 2010

($ million)

	Equity at 1 Jul	Total comprehensive result	Equity at 30 Sept	Revised Budget equity at 30 Jun
2010-11				
Accumulated surplus/(deficit)	43 011.7	(88.2)	42 923.5	43 408.5
Other movements in equity	252.3	(3.2)	249.1	(34.2)
Non-controlling interest	44.5	..	44.5	44.5
Physical asset revaluation reserve	33 193.2	(9.8)	33 183.5	35 339.9
Net movements in other reserves	895.0	26.3	921.3	930.5
Accumulated net gain on equity investments in other sector entities	40 158.8	..	40 158.8	40 801.3
Total equity at end of the period	**117 555.5**	**(74.8)**	**117 480.7**	**120 490.6**
2009-10				
Accumulated surplus/(deficit)	47 996.6	267.3	48 263.8	
Other movements in equity	428.3	262.9	691.2	
Adjustments due to change in accounting policy	..	1.2	1.2	
Non-controlling interest	39.5	..	39.5	
Physical asset revaluation reserve	29 776.6	(289.9)	29 486.6	
Net movements in other reserves	788.1	4.6	792.6	
Accumulated net gain on equity investments in other sector entities	37 644.8	..	37 644.8	
Total equity at end of the period	**116 673.8**	**246.1**	**116 919.9**	

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: A summary of significant accounting policies

This 2010-11 Quarterly Financial Report presents the unaudited special purpose financial report for the Victorian general government sector for the three months ended 30 September 2010. The purpose of this report is to provide users with progressive information about the sector's financial performance and financial position, compared with budget expectations.

The accounting policies applied are consistent with those applied for the financial statements published in *2009-10 Financial Report for the State of Victoria*, which should be read in conjunction with this update.

(A) Statement of compliance

The 2010-11 Quarterly Financial Report has been prepared in accordance with Section 26 of the *Financial Management Act 1994,* with reference to relevant Australian Accounting Standards (AAS) and Interpretations issued by the Australian Accounting Standards Board (AASB). In particular, the financial statements are presented in a manner consistent with the requirements of the AASB 1049 *Whole of Government and General Government Sector Financial Reporting.*

(B) Basis of accounting, preparation and measurement

The accrual basis of accounting has been applied in the preparation of these financial statements whereby assets, liabilities, equity, revenue and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

(C) Reporting entity

The Victorian general government sector includes all government departments, offices and other government bodies engaged in providing services free of charge or at prices significantly below their cost of production.

The Victorian general government sector is not a separate entity but represents a sector within the State of Victoria whole of government reporting entity. Unless otherwise noted, accounting policies applied by the State of Victoria apply equally to the Victorian general government sector.

Note 1: A summary of significant accounting policies *(continued)*

The primary function of entities within the Victorian 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 revenue that is financed mainly through taxes and other compulsory levies.

These entities are not-for-profit entities and apply, where appropriate, those AAS paragraphs applicable to not-for-profit entities.

(D) Basis of consolidation

The 2010-11 Quarterly Financial Report presents the consolidated assets and liabilities of all reporting entities in the Victorian general government sector, and their revenue and expenses for the respective period.

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

Information on entities consolidated for the general government sector is included in Note 19.

Note 2: Taxation revenue

($ million)

2009-10 Actual to Sept		2010-11 Actual to Sept	2010-11 Revised Budget
1 033.9	**Taxes on employers' payroll and labour force**	**1 118.4**	**4 397.2**
	Taxes on property		
	Taxes on immovable property		
(11.9)	Land tax	(4.5)	1 377.1
1.6	Congestion levy	(0.6)	48.4
68.4	Metropolitan improvement levy	92.6	125.4
11.5	Property owner contributions to fire brigades	8.9	28.4
69.6	**Total taxes on immovable property**	**96.4**	**1 579.4**
	Financial and capital transactions		
770.4	Land transfer duty	1 043.7	3 821.3
..	Growth areas infrastructure contribution	0.5	27.1
0.6	Other property duties	2.2	8.4
11.2	Financial accommodation levy	14.5	71.8
782.2	**Total financial and capital transactions**	**1 060.8**	**3 928.6**
851.7	**Total taxes on property**	**1 157.2**	**5 508.0**
	Taxes on the provision of goods and services		
	Gambling taxes		
91.1	Private lotteries	85.7	374.4
261.2	Electronic gaming machines	259.5	992.4
32.4	Casino	35.1	162.6
30.6	Racing	29.9	137.4
2.5	Other	4.0	10.2
417.8	**Total gambling taxes**	**414.2**	**1 676.8**
13.9	**Levies on statutory corporations**	**13.9**	**73.7**
378.0	**Taxes on insurance**	**400.1**	**1 473.8**
809.6	**Total taxes on the provision of goods and services**	**828.1**	**3 224.4**
	Taxes on the use of goods and performance of activities		
	Motor vehicle taxes		
226.5	Vehicle registration fees	238.8	905.2
135.9	Duty on vehicle registrations and transfers	149.7	588.1
362.4	**Total motor vehicle taxes**	**388.6**	**1 493.4**
..	**Franchise taxes**	**..**	**24.0**
10.5	**Other**	**27.3**	**95.8**
373.0	**Total taxes on the use of goods and performance of activities**	**415.9**	**1 613.2**
3 068.2	**Total taxation revenue**	**3 519.7**	**14 742.8**

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

($ million)

2009-10 Actual to Sept		2010-11 Actual to Sept	2010-11 Revised Budget
..	Dividends	0.7	348.3
19.6	Income tax equivalent revenue	38.3	166.2
..	Local government rate equivalent revenue	..	5.1
19.6	**Total dividends and income tax equivalent and rate equivalent revenue**	**39.0**	**519.6**

Note 4: Sales of goods and services

($ million)

2009-10 Actual to Sept		2010-11 Actual to Sept	2010-11 Revised Budget
30.8	Motor vehicle regulatory fees	35.5	131.3
83.6	Other regulatory fees	83.6	303.6
26.2	Sale of goods	52.0	163.0
841.0	Provision of services	992.2	3 986.4
10.9	Rental	11.8	43.4
10.0	Refunds and reimbursements	10.3	56.8
266.1	Inter-sector capital asset charge	293.0	1 183.6
1 268.6	**Total sales of goods and services**	**1 478.4**	**5 868.2**

Note 5: Grants

($ million)

2009-10 Actual to Sept		2010-11 Actual to Sept	2010-11 Revised Budget
2 293.0	General purpose grants	2 884.0	10 978.8
578.4	Specific purpose grants for on-passing	444.9	2 308.9
1 961.7	Grants for specific purposes	2 149.2	8 945.8
4 833.1	**Total**	**5 478.1**	**22 233.4**
31.5	Other contributions and grants	25.8	113.7
4 864.6	**Total grants**	**5 503.8**	**22 347.1**

Note 6: Other revenue

($ million)

2009-10 Actual to Sept		2010-11 Actual to Sept	2010-11 Revised Budget
0.3	Fair value of assets received free of charge or for nominal consideration	0.2	1.0
128.2	Fines	141.3	587.1
14.1	Royalties	11.8	46.2
104.7	Donations and gifts	58.6	234.3
6.4	Other non-property rental	7.0	21.7
214.2	Other miscellaneous income	257.3	859.0
467.8	**Total other revenue**	**476.2**	**1 749.3**

Note 7: Superannuation

($ million)

2009-10 Actual to Sept		2010-11 Actual to Sept	2010-11 Revised Budget
	Defined benefit plans		
415.7	Interest cost [(a)]	508.7	2 046.0
(249.5)	Expected return on plan assets (net of expenses) [(a)]	(285.8)	(1 114.5)
166.1	**Superannuation interest expense**	**222.9**	**931.6**
177.8	Current service cost [(a)]	150.7	696.0
(2.6)	Amortisation of past service cost [(a)]	..	..
(330.7)	Actuarial (gains)/losses [(b)]	473.7	473.7
10.7	**Total expense recognised in respect of defined benefit plans**	**847.3**	**2 101.3**
	Defined contribution plans		
205.4	Employer contributions to defined contribution plans [(a)]	226.4	943.0
17.6	Other (including pensions) [(a)]	17.3	52.9
223.0	**Total expense recognised in respect of defined contribution plans**	**243.7**	**995.8**
233.7	**Total superannuation expense recognised in operating statement**	**1 091.0**	**3 097.1**
	Represented by:		
166.1	Superannuation interest expense	222.9	931.6
398.3	Other superannuation	394.4	1 691.8
564.4	**Superannuation expense from transactions**	**617.2**	**2 623.4**
(330.7)	**Superannuation expense from other economic flows**	**473.7**	**473.7**
233.7	**Total superannuation expense recognised in operating statement**	**1 091.0**	**3 097.1**

Notes:

(a) Superannuation expense from transactions.

(b) Superannuation expense from other economic flows.

Note 8: Depreciation

($ million)

2009-10 Actual to Sept		2010-11 Actual to Sept	2010-11 Revised Budget
117.6	Buildings	205.3	1 002.3
118.6	Plant, equipment and infrastructure systems	125.5	607.8
98.7	Road networks	111.5	461.8
3.0	Other assets	3.1	14.3
8.3	Leased plant and equipment	9.9	41.0
13.6	Leasehold buildings	20.5	78.1
15.7	Intangible produced assets [(a)]	13.2	53.6
375.6	**Total depreciation**	**489.0**	**2 259.0**

Note:
(a) *Amortisation of intangible non-produced assets is included under other economic flows.*

Note 9: Total expenses by department

($ million)

2009-10 Actual to Sept		2010-11 Actual to Sept	2010-11 Revised Budget
	Expenses from transactions		
2 433.3	Education and Early Childhood Development	2 697.9	11 085.2
..	Health	3 258.1	13 357.9
3 742.7	Human Services	784.2	3 103.9
554.9	Innovation, Industry and Regional Development	724.9	2 785.2
914.9	Justice	993.4	4 423.3
220.2	Planning and Community Development	140.6	1 013.8
174.7	Premier and Cabinet	160.3	656.4
109.4	Primary Industries	101.4	615.4
328.1	Sustainability and Environment	317.6	1 558.9
1 057.7	Transport	1 300.1	5 674.3
1 307.1	Treasury and Finance	1 445.0	6 367.2
38.0	Parliament	40.5	164.0
401.2	Regulatory bodies and other part funded agencies	480.2	1 952.3
..	Contingencies not allocated to departments	..	(513.9)
(1495.2)	*Less eliminations*	(1824.3)	(7309.6)
9 787.2	**Total expense from transactions**	**10 619.8**	**44 934.3**

Note 10: Other gains/(losses) from other economic flows

($ million)

2009-10 Actual to Sept		2010-11 Actual to Sept	2010-11 Revised Budget
(57.8)	Net (increase)/decrease in provision for doubtful receivables	(79.2)	(69.9)
..	Amortisation of intangible non-produced assets	(2.6)	(10.2)
1.1	Net (increase)/decrease in bad debts	(1.4)	(95.1)
1.0	Other gains/(losses)	2.9	14.4
(55.7)	**Total other gains/(losses) from other economic flows**	**(80.3)**	**(160.8)**

Note 11: Receivables

($ million)

2009-10 Actual 30 Sept		2010-11 Opening 1 Jul	2010-11 Actual 30 Sept	2010-11 Revised Budget 30 Jun
	Contractual			
594.1	Sales of goods and services	752.7	702.4	705.8
89.7	Accrued investment income	113.2	112.3	70.3
553.0	Other receivables	439.3	443.1	442.9
(54.0)	Provision for doubtful contractual receivables	(50.6)	(51.3)	(49.7)
	Statutory			
620.8	Taxes receivables	904.8	571.4	916.3
786.2	Fines and regulatory fees	821.3	880.6	885.9
168.7	GST input tax credits recoverable	286.8	262.2	287.7
(379.5)	*Provision for doubtful statutory receivables*	(383.8)	(448.2)	(451.5)
2 379.0	**Total receivables**	**2 883.6**	**2 472.5**	**2 807.8**
	Represented by:			
2 313.3	Current receivables	**2 821.1**	**2 408.6**	**2 740.5**
65.7	Non-current receivables	**62.5**	**63.9**	**67.3**

Note 12: Net acquisition of non-financial assets

($ million)

2009-10 Actual 30 Sept		2010-11 Actual 30 Sept	2010-11 Revised Budget 30 Jun
688.6	Purchases of non-financial assets	960.8	4 337.6
(23.0)	Less: Sales of non-financial assets	(22.8)	(259.4)
(375.6)	Less: Depreciation	(489.0)	(2 259.0)
7.7	Plus: Change in inventories	(0.8)	0.9
(0.3)	Plus: Other movements in non-financial assets	73.9	121.3
297.5	**Total net acquisition of non-financial assets**	**522.1**	**1 941.4**

Note 13: Land, buildings, infrastructure, plant and equipment

(a) Total land, buildings, infrastructure, plant and equipment

($ million)

2009-10 Actual 30 Sept		2010-11 Opening 1 Jul	2010-11 Actual 30 Sept	2010-11 Revised Budget 30 Jun
18 147.0	Buildings (written down value)	19 563.8	20 165.1	21 657.1
39 451.1	Land and national parks	36 797.4	36 684.2	37 896.9
992.6	Infrastructure systems (written down value)	1 177.3	1 191.2	1 354.0
2 199.1	Plant, equipment and vehicles (written down value)	2 442.7	2 375.3	2 626.7
16 963.1	Roads (written down value)	18 561.9	18 682.6	19 083.2
5 486.8	Earthworks	6 479.2	6 479.2	6 479.2
4 386.2	Cultural assets (written down value)	4 397.3	4 387.7	4 613.2
87 625.9	**Total land, buildings, infrastructure, plant and equipment**	**89 419.7**	**89 965.3**	**93 710.4**

Note 13: Land, buildings, infrastructure, plant and equipment *(continued)*

(b) Land, National Parks and buildings

($ million)

2009-10 Actual 30 Sept		2010-11 Opening 1 Jul	2010-11 Actual 30 Sept	2010-11 Revised Budget 30 Jun
20 455.4	Buildings	22 046.1	22 885.2	25 142.0
(2 308.4)	*Accumulated depreciation*	(2 482.3)	(2 720.2)	(3 484.9)
18 147.0	**Buildings (written down value)**	**19 563.8**	**20 165.1**	**21 657.1**
37 310.9	Land	34 657.3	34 544.0	35 756.8
2 140.2	National Parks and other 'land only' holdings	2 140.2	2 140.2	2 140.2
39 451.1	**Land and National Parks**	**36 797.4**	**36 684.2**	**37 896.9**
57 598.1	**Total land, National Parks and buildings**	**56 361.2**	**56 849.3**	**59 554.1**

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

($ million)

2009-10 Actual 30 Sept		2010-11 Opening 1 Jul	2010-11 Actual 30 Sept	2010-11 Revised Budget 30 Jun
1 307.9	Infrastructure systems	1 515.0	1 532.6	1 715.3
(315.3)	*Accumulated depreciation*	(337.6)	(341.4)	(361.3)
992.6	**Infrastructure systems (written down value)**	**1 177.3**	**1 191.2**	**1 354.0**
4 790.3	Plant, equipment and vehicles	5 090.0	5 171.2	5 691.3
(2 699.0)	*Accumulated depreciation*	(2 724.9)	(2 864.2)	(3 107.5)
197.5	Leased plant, equipment and vehicles	195.3	199.0	200.6
(89.7)	*Accumulated depreciation*	(117.8)	(130.7)	(157.7)
2 199.1	**Plant, equipment and vehicles (written down value)**	**2 442.7**	**2 375.3**	**2 626.7**
3 191.7	**Total plant, equipment and vehicles, and infrastructure systems**	**3 620.1**	**3 566.5**	**3 980.7**

Note 13: Land, buildings, infrastructure, plant and equipment *(continued)*

(d) Road networks and earthworks

($ million)

2009-10 Actual 30 Sept		2010-11 Opening 1 Jul	2010-11 Actual 30 Sept	2010-11 Revised Budget 30 Jun
20 108.4	Roads	23 176.0	23 408.1	23 820.3
(7 930.4)	*Accumulated depreciation*	(9 528.0)	(9 617.3)	(9 886.8)
7 342.2	Road infrastructure	7 739.6	7 739.6	8 078.3
(2 557.1)	*Accumulated depreciation*	(2 825.6)	(2 847.8)	(2 928.6)
16 963.1	**Roads (written down value)**	**18 561.9**	**18 682.6**	**19 083.2**
5 486.8	**Earthworks**	**6 479.2**	**6 479.2**	**6 479.2**
22 449.9	**Total road networks and earthworks**	**25 041.1**	**25 161.8**	**25 562.4**

(e) Cultural assets

($ million)

2009-10 Actual 30 Sept		2010-11 Opening 1 Jul	2010-11 Actual 30 Sept	2010-11 Revised Budget 30 Jun
4 498.3	Cultural assets	4 518.1	4 494.5	4 729.1
(112.1)	*Accumulated depreciation*	(120.8)	(106.8)	(115.9)
4 386.2	**Total cultural assets**	**4 397.3**	**4 387.7**	**4 613.2**

Note 14: Other non-financial assets

($ million)

2009-10 Actual 30 Sept		2010-11 Opening 1 Jul	2010-11 Actual 30 Sept	2010-11 Revised Budget 30 Jun
505.9	Intangibles produced assets	655.6	627.3	695.8
(241.2)	*Accumulated depreciation*	(291.9)	(280.3)	(339.9)
68.7	Intangible non-produced assets	81.1	81.1	81.1
(24.2)	*Accumulated depreciation*	(43.6)	(39.0)	(53.8)
309.3	**Total intangibles**	**401.3**	**389.2**	**383.2**
21.1	Investment properties	26.5	30.2	27.8
26.7	Biological assets [(a)]	31.8	31.8	31.7
514.0	Other assets	311.5	529.6	313.6
871.0	**Total other non-financial assets**	**771.0**	**980.8**	**756.3**

Note:

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

Note 15: Employee benefits

($ million)

2009-10 Actual 30 Sept		2010-11 Opening 1 Jul	2010-11 Actual 30 Sept	2010-11 Revised Budget 30 Jun
	Current			
1 190.0	Accrued salaries and wages [(a)]	1 266.5	1 281.2	1 295.0
2 496.1	Long service leave	2 618.2	2 598.2	2 752.1
3 686.1	**Total current employee benefits**	**3 884.7**	**3 879.3**	**4 047.1**
	Non-current			
435.3	Long service leave	473.2	490.2	508.8
435.3	**Total non-current employee benefits**	**473.2**	**490.2**	**508.8**
4 121.4	**Total other employee benefits**	**4 357.9**	**4 369.5**	**4 555.9**

Note:

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

Note 16: Cash flow information

(a) Reconciliation of cash and cash equivalents

($ million)

2009-10 Actual to Sept		2010-11 Actual to Sept
1 144.6	Cash	1 161.3
1 054.5	Deposits at call	972.1
2 199.1	**Cash and cash equivalents**	**2 133.5**
(162.5)	Bank overdraft	(380.0)
2 036.6	**Balances as per cash flow statement**	**1 753.5**

(b) Reconciliation of net result to net cash flows from operating activities

($ million)

2009-10 Actual to Sept		2010-11 Actual to Sept
267.3	**Net result**	(88.2)
	Non-cash movements	
375.6	Depreciation	491.6
(6.4)	Revaluation of investments	(1.4)
0.3	Assets and services (received)/provided free of charge	0.4
(0.2)	Assets not previously recognised	(2.7)
0.9	Discount/premium on other financial assets/ borrowings	2.0
(0.1)	Discounting of assets and liabilities	..
	Movements included in investing and financing activities	
(5.2)	Net revenues from sale of non-financial assets	25.7
..	Net revenues from sale of investments	0.3
0.9	Net realised gains/(losses) on borrowings	..
	Movements in assets and liabilities	
45.3	Increase/(decrease) in provision for doubtful debts	65.0
(853.4)	Increase/(decrease) in payables	(651.9)
(155.8)	Increase/(decrease) in employee benefits	11.7
(258.4)	Increase/(decrease) in superannuation	574.4
18.4	Increase/(decrease) in other provisions	2.0
359.1	(Increase)/decrease in receivables	346.7
(201.3)	(Increase)/decrease in other non-financial assets	(221.7)
(413.2)	**Net cash flows from operating activities**	**553.8**

Note 17: Public Account

(a) Consolidated Fund receipts and payments

($ million)

2009-10 Actual to Sept		2010-11 Actual to Sept	2010-11 Revised Budget
	Receipts		
3 341.0	Taxation	3 739.1	14 510.4
138.8	Fines and regulatory fees	140.2	689.2
3 757.1	Grants received	4 692.7	19 190.8
223.2	Sales of goods and services	255.3	1 007.3
0.9	Interest received	7.4	3.3
18.2	Public authority receipts	38.6	563.0
807.6	Other receipts	827.9	3 641.5
8 286.9	**Total operating activities**	**9 701.3**	**39 605.5**
1 459.3	Total inflows from investing and financing	11.6	5 483.5
9 746.2	**Total receipts**	**9 712.9**	**45 089.0**
	Payments to Departments		
2 085.2	Education and Early Childhood Development	2 459.4	10 010.9
..	Health	2 916.1	11 323.3
3 594.5	Human Services [(a)]	762.8	3 381.1
1 334.5	Transport	1 626.3	7 208.5
459.2	Innovation, Industry and Regional Development	510.9	2 325.8
1 032.0	Justice	1 074.3	4 344.0
187.9	Premier and Cabinet	149.5	594.1
131.3	Primary Industries	140.4	603.1
398.3	Sustainability and Environment	312.1	1 461.0
907.0	Treasury and Finance	643.9	4 455.5
177.9	Planning and Community Development	196.6	764.1
39.3	Parliament	41.5	162.6
10 347.2	**Total payments**	**10 833.9**	**46 634.0**
(600.9)	**Net receipts/(payments)**	**(1 121.0)**	**(1 545.1)**

Note:

(a) *Effective on 1 October 2009, the Department of Human Services (DHS) was disaggregated into DHS and the Department of Health reflecting the impact of the machinery of government changes. Thus, the compariative figures reflect the previous DHS as at 30 September 2009.*

Note 17: Public Account *(continued)*

(b) Trust Fund cash flow statement

($ million)

2009-10 Actual to Sept		2010-11 Actual to Sept	2010-11 Revised Budget
	Cash flows from operating activities		
	Receipts		
79.8	Taxation	28.1	198.9
10.8	Regulatory fees and fines	8.1	45.0
1 174.6	Grants received	1 481.6	5 588.4
87.8	Sale of goods and services	189.4	722.6
32.6	Interest received	35.7	115.8
2 814.8	Net transfers from consolidated fund	3 213.4	11 577.0
35.8	Other receipts	93.9	132.1
4 236.2	**Total receipts**	**5 050.2**	**18 379.8**
	Payments		
(30.3)	Employee benefits	(34.1)	(113.0)
(2.0)	Superannuation	(2.4)	(7.2)
(3 369.8)	Grants paid	(3 882.6)	(14 805.7)
(829.4)	Supplies and consumables	(1 011.4)	(3 478.7)
(4.3)	Interest paid	(3.7)	(12.9)
(4 235.9)	**Total payments**	**(4 934.2)**	**(18 417.4)**
0.3	**Net cash flows from operating activities**	**116.0**	**(37.6)**
	Cash flows from investing activities		
0.5	Net proceeds from customer loans	..	..
7.8	Proceeds from sale of property, plant and equipment	7.5	34.0
(7.8)	Purchases of property, plant and equipment	(10.3)	(28.0)
(73.8)	Other investing activities	(104.8)	72.0
(73.3)	**Net cash flows from investing activities**	**(107.5)**	**78.0**
	Cash flows from financing activities		
(401.5)	Net proceeds (repayments) from borrowings	(503.5)	(14.3)
(401.5)	**Net cash flows from financing activities**	**(503.5)**	**(14.3)**
(474.5)	**Net cash inflow/(outflow)**	**(495.0)**	**26.0**

Note 17: Public Account *(continued)*

(c) Reconciliation of cash flows to balances held

($ million)

	Balances held at 30 Jun 2010	*Sept movement YTD*	*Balances held at 30 Sept 2010*
Cash and deposits			
Cash balances outside the Public Account [(a)]	30.0	(30.4)	(0)
Deposits held with the Public Account – specific trusts	95.3	48.9	144.2
Deposits held with the Public Account – general trusts	1.3	..	1.3
Other balances held in the Public Account on behalf of trust accounts	1 823.2	(1 634.4)	188.8
Total cash and deposits	**1 949.9**	**(1 616.0)**	**333.9**
Investments			
Investments held with the Public Account – specific trusts	881.4	103.2	984.7
Total investments	**881.4**	**103.2**	**984.7**
Total fund balances	**2 831.3**	**(1 512.7)**	**1 318.6**
Less funds held outside the Public Account			
Cash [(a)]	30.0	(30.4)	(0)
Total fund balances held outside the Public Account	**30.0**	**(30.4)**	**(0)**
Total funds held within the Public Account [(b)(c)]	**2 801.3**	**(1 482.3)**	**1 319.0**

Notes:

(a) A prior year adjustment of $2.5 million has changed the previously published balances for 2009-10 by an equivalent amount, to reflect balances held outside the public account.

(b) Includes funds raised for the Victorian Bushfire Appeal after the 2009 Victorian bushfires. The Victorian Government holds in trust the donations received for the Red Cross Victorian Bushfire Appeal Fund.

(c) See Note 17 (c) above for details of securities and investments including amounts held in the Public Account on behalf of trust accounts.

Note 17: Public Account *(continued)*

(d) Details of securities held

($ million)

2009-10 Actual to Sept		*2010-11 Opening 1 Jul*	*Actual 30 Sept*
1 058.2	Amounts invested on behalf of specific trust accounts	976.7	1 128.9
1.3	Amounts invested on behalf of general trust accounts	1.3	1.3
257.3	General account balances	1 823.2	188.8
1 316.8	**Total public account**	**2 801.2**	**1 319.0**
	Represented by:		
935.1	Stocks and securities [(a)]	882.7	986.0
162.4	Cash and investments [(a)]	1 359.0	147.4
1 097.5	**Total stock, securities, cash and investments**	**2 241.7**	**1 133.4**
	Add cash advanced for:		
219.3	Advances pursuant to sections 36 and 37 of the *Financial Management Act 1994*	190.5	185.6
	Temporary Advance to the Consolidated Fund pursuant to Section 38 of the *Financial Management Act, No. 18 of 1994*	369.1	..
1 316.8	**Total public account**	**2 801.3**	**1 319.0**

Notes:

(a) Deposits held with TCV at call have been reclassified from Stocks and securities to Cash and investments.

Note 18: Glossary of technical terms

The *2009-10 Financial Report for the State of Victoria* (Note 38) contains a comprehensive summary of the major technical terms used in this report.

Note 19: Controlled entities

Note 40 Controlled entities within the *2009-10 Financial Report for the State of Victoria* contains a list of significant controlled general government entities which have been consolidated for the purposes of the financial report.

The following general government sector entities have been transferred from Department of Health to the Australian Health Practitioner Regulation Agency, effective 1 July 2010, which is an agency of the Commonwealth Government.

- Dental Practice Board of Victoria;
- Medical Practitioners Board of Victoria;
- Nurses Board of Victoria;
- Pharmacy Board of Victoria;
- Chiropractors Registration Board of Victoria;
- Optometrists Registration Board of Victoria;
- Osteopaths Registration Board of Victoria;
- Physiotherapists Registration Board of Victoria;
- Podiatrists Registration Board of Victoria; and
- Psychologists Registration Board of Victoria.

RESULTS QUARTER BY QUARTER – VICTORIAN GENERAL GOVERNMENT SECTOR

Consolidated operating statement for the past five quarters

($ million)

	2009-10				2010-11
	Sept	*Dec*	*Mar*	*Jun*	*Sept*
Revenue					
Taxation revenue	3 068.2	3 091.2	4 253.3	3 327.8	3 519.7
Interest	79.9	85.1	65.2	103.2	93.2
Dividends and income tax equivalent and rate equivalent revenue	19.6	157.0	32.0	277.1	39.0
Sales of goods and services	1 268.6	1 391.0	1 288.3	1 341.5	1 478.4
Grants	4 864.6	6 110.1	5 318.2	6 424.9	5 503.8
Other revenue	467.8	440.0	456.1	654.5	476.2
Total revenue	**9 768.7**	**11 274.3**	**11 413.2**	**12 129.1**	**11 110.4**
Expenses					
Employee expenses	3 639.6	3 907.8	3 801.5	4 055.8	3 854.8
Superannuation interest expense	166.1	270.8	213.7	216.1	222.9
Other superannuation	398.3	344.3	376.6	408.6	394.4
Depreciation	375.6	506.8	450.4	537.0	489.0
Interest expense	180.3	218.2	205.1	239.7	213.7
Other operating expenses	3 157.4	3 378.4	3 432.8	4 286.2	3 498.8
Grants and other transfers	1 869.8	2 617.8	2 537.3	2 149.6	1 946.3
Total expenses	**9 787.2**	**11 244.1**	**11 017.4**	**11 893.0**	**10 619.8**
Net result from transactions – Net operating balance	**(18.5)**	**30.2**	**395.8**	**236.1**	**490.6**
Other economic flows included in net result					
Net gain/(loss) on sale of non-financial assets	5.2	31.7	16.8	(94.1)	(25.7)
Net gain/(loss) on financial assets or liabilities at fair value	5.5	21.4	(1.2)	38.2	1.1
Net actuarial gains/(losses) of superannuation defined benefits plans	330.7	1 525.1	(1 073.9)	(2 232.1)	(473.7)
Share of net profit/(loss) from associates/joint venture entities, excluding dividends	..	..	..	(1.4)	..
Other gains/(losses) from other economic flows	(55.7)	93.9	(75.1)	(4 591.9)	(80.3)
Total other economic flows included in net result	**285.7**	**1 672.1**	**(1 133.3)**	**(6 881.3)**	**(578.7)**
Net result	**267.3**	**1 702.3**	**(737.5)**	**(6 645.2)**	**(88.2)**
Other economic flows – Other movements in equity					
Net gain on financial assets at fair value	5.3	10.2	3.4	(3.7)	1.4
Revaluations of non-financial assets	(289.9)	254.8	(21.2)	3 473.0	(9.8)
Net gain on equity investments in other sector entities at proportional share of net assets	..	1 391.9	(296.7)	1 418.7	..

Consolidated operating statement for the past five quarters *(continued)*

($ million)

	2009-10				2010-11
	Sept	*Dec*	*Mar*	*Jun*	*Sept*
Transfers to accumulated funds/other movements in equity	263.5	107.8	(240.3)	213.1	21.7
Total other economic flows – Other movements in equity	**(21.2)**	**1 764.7**	**(554.8)**	**5 101.1**	**13.3**
Comprehensive result – Total change in net worth	**246.1**	**3 467.1**	**(1 292.3)**	**(1 544.1)**	**(74.8)**
FISCAL AGGREGATES					
Net operating balance	**(18.5)**	**30.2**	**395.8**	**236.1**	**490.6**
Less: Net acquisition of non-financial assets from transactions	297.5	932.0	(130.7)	1 757.5	522.1
Net lending/(borrowing)	**(316.0)**	**(901.8)**	**526.5**	**(1 521.5)**	**(31.5)**

Consolidated balance sheet as at the end of the quarter

($ million)

	2009-10				2010-11
	Sept	*Dec*	*Mar*	*Jun*	*Sept*
Assets					
Financial assets					
Cash and deposits	2 199.1	2 186.2	2 347.6	3 221.3	2 133.5
Advances paid	303.8	305.8	276.0	278.0	285.9
Investments, loans and placements	2 780.2	2 806.5	2 807.8	2 629.0	2 719.2
Receivables	2 379.0	2 575.3	3 574.0	2 883.6	2 472.5
Investments accounted for using equity method	30.0	29.2	29.7	35.1	35.1
Investments in other sector entities	60 947.0	62 571.2	62 571.2	64 508.7	64 880.4
Total financial assets	**68 639.0**	**70 474.2**	**71 606.4**	**73 555.8**	**72 526.6**
Non-financial assets					
Inventories	257.0	333.3	270.5	268.4	267.6
Non-financial assets held for sale	70.2	66.6	61.4	91.5	76.6
Land, buildings, infrastructure, plant and equipment	87 625.9	88 409.9	88 459.8	89 419.7	89 965.3
Other non-financial assets	871.0	884.2	809.6	771.0	980.8
Total non-financial assets	**88 824.2**	**89 694.0**	**89 601.4**	**90 550.7**	**91 290.3**
Total assets	**157 463.2**	**160 168.2**	**161 207.7**	**164 106.4**	**163 816.9**
Liabilities					
Deposits held and advances received	330.1	406.4	374.1	479.4	462.1
Borrowings	11 639.4	12 326.2	12 979.4	13 612.5	13 474.8
Payables	3 235.7	3 149.9	3 581.1	4 849.0	4 201.2
Superannuation	20 413.8	19 008.7	20 177.1	22 534.1	23 108.5
Employee benefits	4 121.4	4 087.5	4 207.3	4 357.9	4 369.5
Other provisions	802.9	800.6	794.2	718.0	720.0
Total liabilities	**40 543.3**	**39 779.2**	**42 113.2**	**46 551.0**	**46 336.3**
Net assets	**116 919.9**	**120 388.9**	**119 094.6**	**117 555.5**	**117 480.7**
Accumulated surplus/(deficit)	48 956.3	50 763.0	49 773.5	43 263.9	43 172.6
Other reserves	67 924.1	69 584.4	69 281.6	74 247.0	74 263.6
Minority interest	39.5	41.5	39.5	44.5	44.5
Net worth	**116 919.9**	**120 388.9**	**119 094.6**	**117 555.5**	**117 480.7**
FISCAL AGGREGATES					
Net financial worth	28 095.7	30 694.9	29 493.2	27 004.8	26 190.3
Net financial liabilities	32 851.3	31 876.3	33 078.0	37 503.9	38 690.1
Net debt	6 686.4	7 434.1	7 922.1	7 963.6	8 798.4

Consolidated cash flow statement for the past five quarters

($ million)

	2009-10 Sept	Dec	Mar	Jun	2010-11 Sept
Cash flows from operating activities					
Receipts					
Taxes received	3 430.7	3 279.6	3 238.5	3 922.8	3 853.1
Grants	4 632.4	6 097.0	5 670.4	6 316.9	5 503.8
Sales of goods and services [(a)]	1 496.7	1 391.6	1 394.2	1 876.3	1 513.1
Interest received	82.3	80.6	64.2	96.7	93.9
Dividends and income tax equivalent and rate equivalent receipts	17.6	198.6	28.9	226.8	39.3
Other receipts	511.1	144.8	200.1	755.7	401.1
Total receipts	**10 170.7**	**11 192.2**	**10 596.2**	**13 195.2**	**11 404.4**
Payments					
Payments for employees	(3 794.5)	(3 916.2)	(3 675.5)	(3 949.7)	(3 842.7)
Superannuation	(492.1)	(495.1)	(495.9)	(499.7)	(516.6)
Interest paid	(167.5)	(195.1)	(189.2)	(215.6)	(207.6)
Grants and subsidies	(2 092.4)	(2 585.5)	(2 505.5)	(2 049.9)	(2 093.7)
Goods and services [(a)]	(3 911.4)	(3 173.6)	(3 219.7)	(3 890.0)	(4 066.9)
Other payments	(126.1)	(115.2)	(111.5)	(84.2)	(123.2)
Total payments	**(10 584.0)**	**(10 480.7)**	**(10 197.3)**	**(10 689.1)**	**(10 850.6)**
Net cash flows from operating activities	**(413.2)**	**711.6**	**399.0**	**2 506.0**	**553.8**
Cash flows from investing activities					
Purchases of non-financial assets	(688.6)	(1 443.4)	(361.3)	(2 168.0)	(960.8)
Sales of non-financial assets	23.0	86.1	24.6	53.6	22.8
Cash flows from investments in non-financial assets	(665.6)	(1 357.2)	(336.7)	(2 114.4)	(938.0)
Net cash flows from investments in financial assets for policy purposes	(360.6)	(133.1)	(521.2)	(221.7)	(384.7)
Sub-total	**(1 026.2)**	**(1 490.3)**	**(857.9)**	**(2 336.1)**	**(1 322.8)**
Net cash flows from investments in financial assets for liquidity management purposes	(218.0)	(0.6)	0.7	216.7	(91.8)
Net cash flows from investing activities	**(1 244.2)**	**(1 490.8)**	**(857.1)**	**(2 119.3)**	**(1 414.5)**
Cash flows from financing activities					
Advances received (net)	..	(0.1)	0.4	(0.5)	..
Net borrowings	835.6	852.4	651.9	552.8	(589.8)
Deposits received (net)	13.0	76.5	(32.7)	(65.1)	(17.3)
Other financing (net)	..	..	..	..	..
Net cash flows from financing activities	**848.6**	**928.7**	**619.5**	**487.2**	**(607.2)**
Net increase/(decrease) in cash and cash equivalents	**(808.8)**	**149.4**	**161.4**	**873.9**	**(1 467.9)**
Cash and cash equivalents at beginning of reporting period	2 845.5	2 036.6	2 186.1	2 347.5	3 221.3
Cash and cash equivalents at end of reporting period	**2 036.6**	**2 186.1**	**2 347.5**	**3 221.3**	**1 753.5**

Consolidated cash flow statement for the past five quarters *(continued)*

($ million)

	2009-10				2010-11
	Sept	*Dec*	*Mar*	*Jun*	*Sept*
FISCAL AGGREGATES					
Net cash flows from operating activities	**(413.2)**	**711.6**	**399.0**	**2 506.0**	**553.8**
Net cash flows from investments in non-financial assets	**(665.6)**	**(1 357.2)**	**(336.7)**	**(2 114.4)**	**(938.0)**
Cash surplus/(deficit)	**(1 078.8)**	**(645.7)**	**62.3**	**391.7**	**(384.2)**

Note:

(a) Inclusive of goods and services tax.

STYLE CONVENTIONS

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

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

n.a. or na	not available or not applicable
Cat. No.	catalogue number
1 billion	1 000 million
1 basis point	0.01 per cent
..	zero, or rounded to zero
tbd	to be determined
ongoing	continuing output, program, project etc
(xxx.x)	negative numbers

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2010-11 Victorian Budget Update
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State Government Victoria
Department of Treasury and Finance