Building for Growth

2013-14 Victorian Budget Update

Presented by The Hon. Michael O'Brien MP
Treasurer of the State of Victoria

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for the information of Honourable Members

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CHAPTER 1 – ECONOMIC AND FISCAL OVERVIEW

Sustainable government finances are vital for Victoria's ongoing prosperity and the future of our State. They underpin the State's infrastructure investment and high quality frontline service delivery. They also send a clear message that Victoria is a safe and attractive place to live, invest and do business.

Over the past three years, the Government has restored sound management to Victoria's finances, which are now the strongest in Australia. Victoria is the only Australian state forecasting budget surpluses over the next four years and the only state to hold a triple-A credit rating with a stable outlook from both major international credit rating agencies. The triple-A credit rating reduces the State's interest bills, leaving more funds for infrastructure and frontline services.

Government infrastructure investment is projected to be $5.8 billion in 2013-14, averaging $5.0 billion a year over the forward estimates period, in line with the Government's infrastructure investment parameter. This includes investment in economic infrastructure that will enhance Victoria's future competitiveness as well as other infrastructure required to keep pace with population growth and maintain Victoria's liveability.

To achieve the best possible outcomes for Victorians in core service delivery areas, the Government has committed to deliver significant service and funding reforms through the National Disability Insurance Scheme (NDIS) and the Better Schools Plan. More than 100 000 eligible Victorians with a disability are scheduled to receive support through the NDIS by July 2019. Victoria's educational reform agenda provides a foundation for giving every single student the best possible learning experience, and fostering real improvements for every student in every classroom. The Government has an agreement with the Commonwealth which seeks to provide $12.2 billion of additional funding to Victorian schools. The Government will work with the Commonwealth to confirm funding arrangements that ensure schools have the funding they need to support this reform agenda.

The Government's economic strategy builds on Victoria's diverse industry base, skilled workforce and competitive business environment, positioning the State to capitalise on new opportunities emerging from the post-mining boom phase of economic growth. With close links to Asia, Victoria is ideally placed to meet growing Asian demand for business and knowledge services, food and agricultural products, education and tourism.

Victoria's real gross state product is expected to strengthen in 2013-14 relative to 2012-13, growing by 2 per cent. Victoria's highly diversified economy delivers less volatile growth than other states that are highly exposed to only a few sectors. Trend growth of 2.75 per cent is projected over the forward estimates period.

Since the *2013-14 Budget*, State finances have come under further pressure. Stronger than expected land transfer duty and GST revenue, and a lower non-cash superannuation expense, is more than offset by lower growth across other components of the tax base (including gambling and payroll taxes). In response, the Government is undertaking moderate revenue and efficiency measures. This will enable the Government to keep investing in infrastructure and services while ensuring net debt remains broadly at the levels published in the *2013-14 Budget*. These measures build on previous initiatives to deliver efficiencies and better services. Measures implemented since the *2013-14 Budget* are detailed in Appendix A, *Specific policy initiatives affecting budget position*.

Prudent financial management in an environment of a growing population and increasing demand for public services requires a continued commitment to carefully managing expenditure growth and improving public sector productivity. This will ensure the Government continues to deliver the strong operating surpluses needed to continue investing in infrastructure and fund services while prudently and responsibly managing net debt.

ECONOMIC OUTLOOK

Victoria's attractiveness as a residential and business location is confirmed by its strong population growth and performance against a number of economic indicators. The economy remains sound, despite a national slowdown following the end of the mining investment boom and a high, although moderating, Australian dollar.

While Victorian household consumption is expected to be subdued in 2013-14, the property market has been improving with Melbourne house prices recovering throughout 2013 and auction activity and clearance rates remaining solid. Low interest rates and positive consumer sentiment are expected to continue this recovery in the near term.

Victorian employment is expected to grow moderately over the next two years, before returning to trend growth of around 1.75 per cent in 2015-16. Victoria's labour participation rate is the highest among the non-mining states and the unemployment rate remains low relative to historical levels.

Population growth in Victoria has accelerated since the middle of 2011, supported by higher birth rates and greater migration. For example, births in Victoria rose by 4.9 per cent in 2012, more than double the growth for Australia of 2.2 per cent.

In the March quarter of 2013, Victoria recorded its largest quarterly net interstate migration gain since March 2002. The State's population gain and net overseas migration intake were the highest of all the Australian states for the March quarter of 2013. In the five years to June 2012, Greater Melbourne had the largest population gain of any capital city in Australia. The four statistical areas with the largest growth in the country between 2007 and 2012 were all on the outskirts of Greater Melbourne, including South Morang and Point Cook. Recent trends in migration are likely to continue, leading to forecast population growth that is slightly higher than experienced in recent years.

International goods exports started to show signs of recovery last year, reflecting a moderating Australian dollar and favourable conditions for agricultural production. Driven by food and livestock trade, Victoria's export of goods increased by 11.3 per cent over the year to September 2013. Since the release of the Budget in May 2013, there has been a depreciation of the exchange rate which, if sustained, should increase demand for exports in 2013-14.

Prospects for service exports are also improving, with education exports and tourism expected to recover faster as the moderating Australian dollar enables them to be more competitive.

Chapter 2 *Economic context* provides further detail on economic conditions in Victoria in the context of the international and Australian economic environment.

STRONG FINANCIAL MANAGEMENT

A sound budget position is at the heart of the Government's economic and fiscal strategy. The Government continues to deliver the operating surpluses needed to fund infrastructure investment and services while prudently and sustainably managing net debt (Table 1.1).

Table 1.1: General government fiscal aggregates and measures

	Unit of Measure	*2012-13 Actual*	*2013-14 Budget*	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Net result from transactions	$ million	316.4	224.5	221.8	911.0	2 051.5	2 718.9
Government fiscal result [(a)]	$ million	316.4	817.6	762.9	1 475.7	2 628.2	3 307.0
Net debt [(b)]	$ billion	19.8	23.0	22.7	24.8	23.9	22.8
Net debt to GSP [(c)]	per cent	5.9	6.4	6.4	6.7	6.1	5.6
Government infrastructure investment [(d)]	$ billion	5.4	6.1	5.8	7.2	4.2	3.5

Source: Department of Treasury and Finance

Notes:

(a) Equals the net result from transactions after excluding the impact of the revised AASB 119 Employee Benefits*, which applies from 2013-14 onwards.*

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

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

(d) Includes net infrastructure investment and estimated capital cash flows for Partnerships Victoria projects, and excludes one-off fiscal stimulus payments for Nation Building – Economic Stimulus Plan *Social Housing component and* Building the Education Revolution.

The Government's medium-term fiscal strategy, achieved through sustainable expenditure growth, improved public sector productivity and more efficient delivery of infrastructure and services, ensures Victoria's finances can withstand unexpected adverse fiscal or economic events.

Over the past three years, the Government has acted decisively to contain expenditure growth. Expenditure is projected to grow by 2.0 per cent in 2013-14 and an average of 2.3 per cent a year over the forward estimates period. This represents a further reduction in expenditure growth over the past three years (where expenditure grew by an average of 3.2 per cent a year) and the decade to 2009-10 (where expenditure grew by an average of 8 per cent a year).

The Government has driven public sector productivity by reducing back office costs and administrative expenditure, and by reducing internal red tape. The Government's Sustainable Government Initiative (SGI) has refocused the public service. Service delivery staff, as a percentage of the total Victorian public service (VPS) workforce, is 5 percentage points greater than before SGI was introduced. This focus on service delivery has seen the number of full time equivalent employees increase in areas including government schools, Ambulance Victoria, Victoria Police, fire services and some health sector entities.

To ensure the efficiency gains achieved through the SGI are not lost, the Government will introduce a Labour Sustainability Cap from 1 January 2014. The Labour Sustainability Cap will limit department and agency expenditure on VPS staff and contractors. This cap on total labour expenditure will moderate overall labour cost growth while providing flexibility to departments and agencies to deliver government business and service delivery needs.

Table 1.2 outlines the Government's medium-term fiscal parameters.

Table 1.2: Medium-term fiscal strategy

Financial measures	*Parameters*
Infrastructure investment	Infrastructure investment of 1.3 per cent of GSP (calculated as a rolling five-year average).
Net debt	General government net debt reduced as a percentage of GSP over the decade to 2022.
Superannuation liabilities	Fully fund the unfunded superannuation liability by 2035.
Operating surplus	A net operating surplus of at least $100 million and consistent with the infrastructure and debt parameters.

Since the *2013-14 Budget*, State finances have come under further pressure. Stronger than expected land transfer duty and GST revenue, and a lower non-cash superannuation expense, is forecast to be more than offset by lower than expected growth across other components of the tax base, lower investment income and agency cost pressures.

Consequently, the *2013-14 Budget Update* introduces modest revenue and efficiency measures to enable the Government to continue funding new infrastructure and services while keeping net debt projections on track with the Government's medium-term fiscal strategy. Details of specific revenue and efficiency measures introduced since the *2013-14 Budget* are contained in Appendix A *Specific policy initiatives affecting budget position*.

As a result of these new measures, the revised forecast operating result for 2013-14 is $222 million, increasing to $2.7 billion in 2016-17. Consistent with estimates in the *2013-14 Budget*, net debt is projected to decline both nominally and as a percentage of GSP from June 2015, reaching $22.8 billion (5.6 per cent of GSP) by June 2017.

Consistent with the *2013-14 Budget*, the Government is on track to fully fund its infrastructure program without additional borrowing from 2015-16 onwards. Government infrastructure investment is in line with the Government's infrastructure parameter over the budget and forward estimates period.

Chapter 3 *Budget position and outlook* provides an overview of the revised budget position for 2013-14 and the forward estimate years (2014-15 to 2016-17.)

FUTURE GROWTH MUST COME FROM STRONG FUNDAMENTALS

The Government has a long term vision for Victoria's future, which requires an ongoing commitment to strong finances and productivity reform.

While Victoria's prospects are positive, there are also a number of long-term challenges common to all mature economies. Without significant improvements to current productivity levels, the effect of our ageing population is projected to slow real economic growth over the next 40 years largely as a result of falling workforce participation. These demographic changes will also increase demand for health care which, without further public sector reform, will result in unsustainable expenditure growth.

Economic growth can be higher if governments take action to boost labour force participation and productivity. However, even with this action, revenue growth is unlikely to return to historical rates. Addressing these challenges will require transformation of public service delivery models so that high quality services can be provided more efficiently and with greater choice for consumers.

The Government is addressing these challenges by strengthening budget capacity, providing more responsive and productive service delivery, improving productivity including through providing major infrastructure, continuing to build the skills and capabilities of the Victorian workforce, and ensuring Victoria is a competitive and low cost place to do business.

Chapter 4 *Economic strategy for long term growth* outlines the Government's economic reform strategy.

FEDERAL FINANCIAL RELATIONS

While the Government is pursuing a strong fiscal and economic strategy, meeting the long-term challenges also requires an improved and more productive relationship between states and the Commonwealth Government that will benefit both levels of government.

A long-term weakness in the Australian federation arises from the Commonwealth raising most of the revenue while the states are responsible for providing infrastructure and most service delivery. This leaves states heavily reliant on goods and services tax (GST) revenue and other federal transfers, which for Victoria represents around 40 per cent of the State's revenue. These problems are compounded by the GST distribution, which systematically provides Victoria with less than its per capita share of GST.

The Commonwealth can support Victoria to deliver effective services by providing Victoria with a fairer share of, and certainty around, state transfers.

Achieving this will require reforming the way the GST is distributed among the states by moving to a population based distribution, with smaller states supported by Commonwealth specific purpose payments. This should be coupled with removing Commonwealth duplication and overreach into areas of state responsibility.

In this context, the Commonwealth Government's white papers on federalism and tax reform provide an opportunity to improve the fiscal sustainability of all levels of government, with an appropriate matching of revenue and service delivery responsibilities.

As a critical input to the white papers, the Commonwealth's Commission of Audit provides an opportunity to reset federal financial relations, and remove administrative duplication and overlap. In recent years, excessive reporting obligations and micro management of service delivery by the Commonwealth, coupled with the transaction costs of dealing with the large number of federal bureaucrats not involved in actual service delivery, has impeded efficient government. Removing this inefficiency and waste is a priority of the Victorian Government.

CHAPTER 2 – ECONOMIC CONTEXT

- The Victorian economy is adjusting to weaker national demand as a result of a fall in mining investment. Nonetheless, the fundamentals supporting the Victorian economy remain strong. The State's performance is underpinned by a diverse and flexible economy and supported by strength in business and knowledge-based services.
- Consumer confidence is rising in a low interest rate environment and the property market continues to show signs of improvement. Unemployment and inflation remain low relative to historical levels and Victoria's labour participation rate is the highest among the non-mining states.
- Population growth in Victoria has accelerated since the middle of 2011, supported by higher birth rates and greater net overseas migration. Victoria continues to receive a positive net inflow of interstate migrants, unlike other non-mining states. In the March quarter of 2013, the State's population gain and net overseas migration intake were the highest of all the Australian states.
- Victorian real gross state product (GSP) in 2013-14 is expected to build on GSP growth of 1.6 per cent in 2012-13, strengthening to 2 per cent. This reflects stronger growth in dwelling investment and a larger contribution from international merchandise trade. Economic growth forecasts in the medium term will return to trend of 2.75 per cent a year.
- Against the backdrop of a still challenging global outlook, the Australian real economy is expected to continue to grow a little below trend in the near term as the transition from resource investment-led growth towards broader based growth unfolds.
- The economic outlook for Victoria is generally positive, although there are a number of short-term risks. While rebounding asset prices, rising confidence and higher population growth could lead to stronger than expected growth, there is also a risk that a slower pick up in global growth, uncertainty around the national economy's strength and enduring business caution could dampen activity more than anticipated.

ECONOMIC OVERVIEW

Victorian economic conditions and outlook

Victoria's flexible and dynamic economy has been both resilient and adaptable to constantly changing economic circumstances and the outlook remains positive. Nevertheless, the local economy is expected to grow more moderately in 2013-14 than previously forecast. This reflects weaker national demand, as a result of the end of the mining investment boom, with consequential impact on the labour market, wages and prices in 2013-14 and 2014-15.

Despite this challenge, Victoria's economy is expected to strengthen in 2013-14 relative to 2012-13, with gross state product (GSP) forecast to increase by 2 per cent – 0.4 percentage points above GSP growth in 2012-13. This reflects stronger growth in dwelling investment and a larger contribution from international merchandise trade partially offset by moderate household consumption and business investment. From 2014-15, GSP growth is expected to return to trend rate of 2.75 per cent a year.

Victorian household consumption is expected to recover moderately in 2013-14 after recording subdued growth last year. Recent slowing in household consumption growth occurred despite rising consumer sentiment, but was consistent with weak growth in real labour income in 2012-13. Successive Reserve Bank of Australia interest rate cuts to record low levels provided a boost to household disposable income but mortgage holders have tended to pay down debt rather than increase spending. Gradual improvements in the labour market through to 2015-16 and the flow-through effects of increasing financial and property wealth are expected to support a return to trend growth from 2015-16.

The Victorian property market has improved with low interest rates encouraging finance commitments. Melbourne house prices have recovered from the beginning of 2013, while auction clearance rates remain solid. The number of land transfer duty transactions in the September quarter of 2013 was 13.4 per cent higher than the same period last year. Positive sentiment around the real estate market is expected to continue in the near term, with recent data showing an improvement in the value of residential building approvals.

Growth in business investment is forecast to be below trend in 2013-14. Weakness in business conditions and forward orders continue to weigh on investment decisions in the near term. Beyond 2013-14, investment activity is expected to rise more strongly with non-residential construction supporting a return to trend growth.

Public demand is expected to pick up moderately in 2013-14, reflecting the Government's commitment to infrastructure investment. Forecast increases in population are expected to drive demand for public services, increasing growth in public demand from 2015-16.

Victoria's international total exports reached a new high in 2012-13, supported by record exports of services. Goods exports started to show signs of recovery last year, reflecting the lower Australian dollar and favourable conditions for agricultural production. Driven by food and livestock trade, Victoria's export of goods increased by 11.3 per cent over the year in the three months to September 2013, recording the third highest growth among the states. Victoria's increase in international service exports in 2012-13 was greater than any increase in the other major states and was driven by strong increases in tourism and business services exports. The balancing item continues to be a significant contributor to Victorian GSP growth. It grew by 15.8 per cent in 2012-13, confirming that Victoria's linkages with the other states remain important to its continued economic prosperity.

Prospects for international export volumes remain good and exports are expected to significantly contribute to GSP growth in the coming years. The depreciation of the exchange rate since the release of the budget in May, if sustained, is expected to increase demand for exports in 2013-14. Prospects for exports of services are improving; education exports are expected to recover faster as the weaker Australian dollar boosts competitiveness. A lower Australian dollar and subdued domestic demand are likely to keep import growth modest in 2013-14 before recovering in 2014-15. Recent softness in international service imports is expected to persist in 2013-14 before heading towards trend from 2014-15.

Labour market

Victoria's labour market fundamentals are expected to remain sound in 2013-14. The unemployment rate remains low relative to historical levels and Victoria has the lowest regional unemployment rate in Australia over the year to September 2013. Victoria's labour participation rate is the highest among the non-mining states.

Victorian employment should continue to grow moderately over the next two years, by 1.0 per cent in 2013-14 and 1.5 per cent in 2014-15. Employment growth is expected to return to trend of 1.75 per cent in 2015-16 as domestic demand picks up. Despite expected moderation in the labour force participation rate over the forward estimates period, below trend employment growth in the near term will continue to put upward pressure on the unemployment rate.

Prices and wages

Inflation was contained over 2012-13, partly due to falls in the prices of tradable goods and services offsetting the introduction of the carbon tax in July 2012. Reductions in inflationary expectations in response to weaker consumer demand and softer wage growth are likely to keep inflation contained in the near term. Forecast inflation in 2014-15 is lower due to the slated removal of the carbon tax from 1 July 2014.

Annual growth in public sector wages has been below private sector wage growth since 2011, consistent with the Victorian Government's commitment to public sector wage growth restraint. The softer near term labour market outlook is expected to lead to continued moderate growth in wage rates over the next two years.

Population

Population growth in Victoria has accelerated since the middle of 2011, supported by higher birth rates and greater net overseas migration. Victoria continues to receive a positive net inflow of interstate migrants, unlike other non-mining states. In the March quarter of 2013, the State's population gain and net overseas migration intake were the highest of all the Australian states. For this period, Victoria recorded its largest quarterly net interstate migration gain since March 2002. Recent gains in migration are likely to continue, leading to forecast population growth slightly higher than experienced in recent years.

Economic projections

The economic projections are set out in Table 2.1, with the *2013-14 Budget* forecasts in parentheses where different.

Table 2.1: Victorian economic projections[a][b]

(per cent)

	2012-13 Actual	2013-14 Forecast	2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
Real gross state product	1.6	2.00	2.75	2.75	2.75
	(1.50)	(2.25)			
Employment	0.9	1.00	1.50	1.75	1.50
	(0.50)	(1.50)	(1.75)		
Unemployment rate [c]	5.6	6.00	5.75	5.50	5.00
	(5.75)	(5.50)	(5.25)	(5.00)	
Consumer price index	2.2	2.50	2.25	2.50	2.50
	(2.25)		(2.50)		
Wage price index [d]	3.3	3.00	3.25	3.50	3.50
	(3.50)	(3.50)	(3.50)		
Population [e]	1.80 [f]	1.70	1.70	1.70	1.70
	(1.70)				

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) Assumptions underlying the economic projections include: interest rates following the forecasts prepared by the Treasury Corporation of Victoria up to the June quarter 2014 and held constant thereafter; exchange rates are held constant; and oil prices follow the path suggested by oil futures.

(c) Year-average, per cent.

(d) Total hourly rate excluding bonuses.

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

(f) Estimate, actual not yet available.

Australian economic conditions

The Australian economy grew slightly below trend in 2012-13, mainly owing to modest growth in household consumption and public final demand. While the outlook remains positive, managing the end of the resources investment peak will be the key near-term economic challenge facing Australia. The resources sector will continue to contribute to growth as it transitions to the production and exports phase, however higher exports are not expected to fully offset the impact on growth of the decline in resources investment. The Australian economy is expected to transition away from resource investment-led growth towards broader based growth, against the backdrop of a still challenging global outlook. The Australian real economy is expected to continue to grow a little below trend in the near term as the transition unfolds.

International economic conditions

The outlook for the international economy remains challenging with global growth expected to remain below trend in 2013. The International Monetary Fund's October 2013 *World Economic Outlook* forecast growth in the world economy of 2.9 per cent in 2013, down from 3.1 per cent forecast in July. Similarly, the forecast for 2014 has been downgraded to 3.6 per cent from 3.8 per cent, suggesting that world growth remains tepid, but is expected to improve over the coming 12 months.

Most of the pickup in growth in 2014 is expected to be driven by advanced economies. Strengthening activity in Japan and encouraging prospects for the United States and the euro area are being offset by moderating growth in some emerging economies, including Indonesia and Brazil. Chinese growth has stabilised at around 7.5 per cent, which is a little lower than the pre-global financial crisis trend. Global growth is expected to rise over the forecast period, underpinned by improving prospects in advanced economies and still solid growth in emerging Asian economies.

Changes in expectations about United States' monetary policy have led to a broad-based appreciation of the US dollar since April. These changes have contributed to a significant depreciation of the Australian dollar. In trade-weighted terms the Australian dollar is around 11 per cent lower than the high reached just prior to the release of the budget in May. This follows a period where the currency had been relatively stable despite the decline in the terms of trade and a narrowing of interest rate differentials.

RISKS TO THE OUTLOOK

The economic outlook is generally positive. However, there are a number of risks to Victoria's growth, which are on balance weighted to the downside in the short term. These centre around growing concerns of a slower pick up in global growth, uncertainty around the national economy's strength and enduring business caution.

The International Monetary Fund expects global activity to strengthen moderately next year but notes that the risks to the global economy remain on the downside. While advanced economies will grow gradually, emerging market economies are expected to face the dual challenges of slowing growth and tighter global financial conditions.

Domestically, a deterioration in growth in Victoria's major trading partners could be reflected in reduced demand for Victoria's international exports. Weaker growth in emerging Asian economies could also indirectly hinder Victorian trade with the mining states. International and national uncertainty could lead to weaker local business and consumer confidence. This could soften consumer spending and business investment, leading to a further slowing in employment.

The key upside risks stem from rebounding asset prices and associated wealth and confidence effects. Sustained higher population growth and a stronger recovery in housing activity could lead to the economy recovering more quickly than currently anticipated. The current high rates of household savings and strength in consumer confidence could lead to increases in consumer spending exceeding growth in incomes which could also benefit the economy.

A significant fall in the Australian dollar, should it occur, would provide both benefits and challenges for the Victorian economy. Further falls in the Australian dollar would put upward pressure on the inflation rate. However, on the upside, it would assist trade exposed sectors of the economy by boosting Victoria's competitiveness and may provide the impetus for improved investment and employment growth.

CHAPTER 3 – BUDGET POSITION AND OUTLOOK

- Victoria's public finances are the strongest in Australia. Victoria is the only state to hold a triple-A credit rating with a stable outlook from both major international credit rating agencies. This reflects the Government's resolve to restore responsible management of the State's finances despite challenging fiscal conditions.
- Victoria is the only Australian state forecasting budget surpluses over the next four years with the general government sector estimated operating surplus growing from $222 million in 2013-14 to $2.7 billion in 2016-17. The Government's operating surpluses will fund productivity-enhancing infrastructure and create capacity to weather future revenue shocks.
- Expense growth pressures have been managed soundly with operating expenses projected to grow by 2.2 per cent a year on average over the budget and forward estimates period. This is a further decrease from the 3.2 per cent a year average expense growth over the past three years and the 8.0 per cent average in the decade to 2009-10.
- Government infrastructure investment is projected to be $5.8 billion in 2013-14, and $5.0 billion a year on average over the forward estimates period, in line with the Government's infrastructure investment parameter.
- Consistent with the *2013-14 Budget*, the Government is on track to fully fund its infrastructure program without additional borrowing from 2015-16 onwards. As a result, net debt is projected to decline both nominally and as a percentage of gross state product (GSP) from June 2015.
- The non-financial public (NFP) sector is projected to return to an operating surplus from 2014-15 onwards, mainly reflecting stronger operating performances in the general government sector. The public non-financial sector has constrained expenditure growth to ensure it remains in a strong and sustainable position.
- NFP sector net debt as a proportion of GSP is projected to decline to 9.9 per cent by 30 June 2017. This will help support the State's triple-A credit rating.
- The public financial corporations sector is projected to generate strong and sustainable surpluses averaging $602 million over the budget and forward estimates period.

This chapter presents the financial position of the public sector, incorporating the general government sector, the public non-financial corporations (PNFC) sector and the public financial corporations (PFC) sector. The estimates take account of policy decisions of the Victorian Government, revisions to Commonwealth Government funding and other information that affects the financial statements as at 2 December 2013, unless otherwise stated.

Specific policy decisions approved since the *2013-14 Budget* that affect the budget position are summarised in Appendix A *Specific policy initiatives affecting budget position*.

GENERAL GOVERNMENT SECTOR

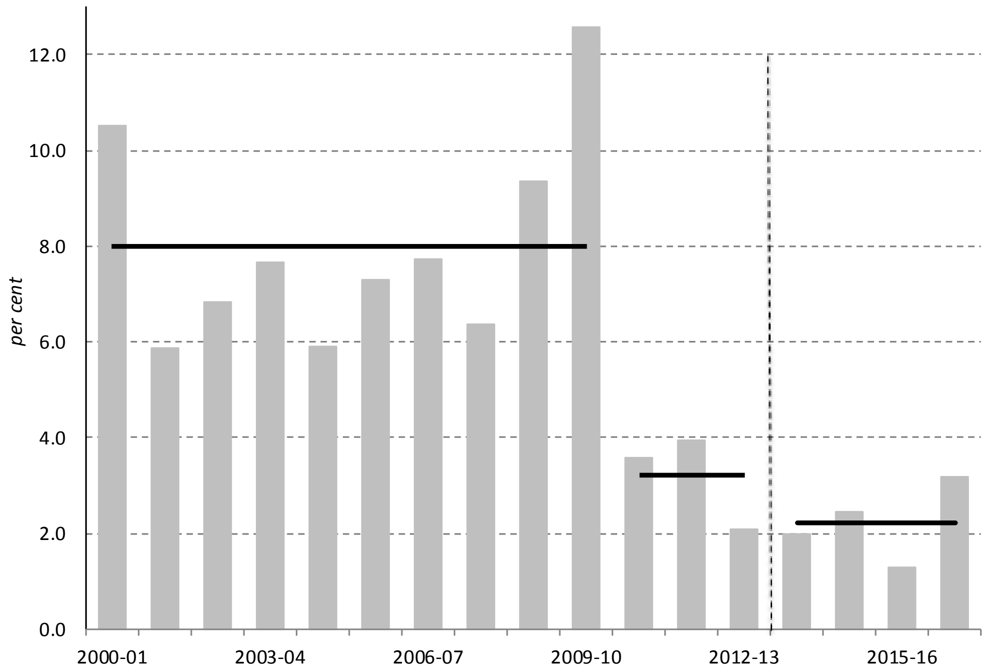
Overview

The *2013-14 Budget Update* continues the Government's policy of delivering operating surpluses that generate sufficient cash flows to invest in infrastructure while prudently managing net debt.

Since the *2013-14 Budget*, the State's finances have faced both upside and downside pressures to the forecast operating result. State taxation is broadly unchanged with the expected recovery in land transfer duty primarily offset by below-trend growth in other components of the tax base. Increases to GST revenue and lower superannuation expense have been partly offset by some agency cost pressures and lower investment income.

The Government continues to focus on restraining expense growth. Faced with average expense growth of 8.0 per cent a year over the previous decade to 2009-10, the Government has kept average expense growth to 3.2 per cent a year over the past three years and forecast expense growth over the budget and forward estimates period is expected to be 2.2 per cent a year on average. Chart 3.1 highlights the Government's success in placing expense growth on a sustainable footing.

Chart 3.1: Annual average expenditure growth [(a)]



Source: Department of Treasury and Finance

Note:

(a) *The estimated expense growth for 2013-14 and average estimated expense growth over the budget and forward estimates period exclude the impact of the revised AASB 119* Employee Benefits.

As cost pressures remain, the Government will remain vigilant in delivering services and infrastructure in a financially sustainable manner. The *2013-14 Budget Update* introduces modest revenue measures to support the State's revenue base and keep net debt projections on track with the Government's medium-term fiscal strategy. As a result of these measures, the revised operating result for 2013-14 is $222 million, increasing to $2.7 billion by 2016-17.

Consistent with the *2013-14 Budget*, net debt peaks in June 2015 and is estimated to reduce to $22.8 billion by June 2017. Year-on-year variations to the *2013-14 Budget* estimates reflect the accounting recognition of the new Bendigo Hospital and Ravenhall Prison projects as finance leases, capital expenditure re-phasing and associated operating result movements.

Government infrastructure investment is expected to be $5.8 billion in 2013-14 and is estimated to average $5.0 billion a year over the forward estimates period, in line with the Government's infrastructure investment parameter.

Table 3.1: General government fiscal aggregates and measures

	Unit of measure	2012-13 Actual	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Net result from transactions	$ million	316.4	221.8	911.0	2 051.5	2 718.9
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Source: Department of Treasury and Finance

Notes:

(a) Equals the net result from transactions after excluding the impact of the revised AASB 119 Employee Benefits*, which applies from 2013 14 onwards.*

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

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

(d) Includes net infrastructure investment and estimated capital cash flows for Partnerships Victoria projects, and excludes one off fiscal stimulus payments for Nation Building – Economic Stimulus Plan *Social Housing component and* Building the Education Revolution.

Budget and forward estimates outlook

Table 3.2 summarises the operating statement for the general government sector. A comprehensive operating statement is presented in Chapter 5 *Estimated financial statements and notes*.

Table 3.2: Summary operating statement for the general government sector [(a)] [(b)]

($ million)

	2012-13 Actual	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Revenue					
Taxation	15 530.7	16 495.4	17 641.0	18 402.9	19 340.9
Dividends, TER and interest [(c)]	2 042.4	1 412.2	1 406.0	1 609.7	1 554.6
Sales of goods and services	6 869.3	6 721.2	6 626.7	6 849.8	6 897.0
Grants	21 902.2	23 251.8	24 268.0	24 819.0	26 166.4
Other current revenue	2 268.3	2 142.5	1 997.1	2 057.2	2 094.9
Total revenue	**48 612.9**	**50 023.0**	**51 938.8**	**53 738.6**	**56 053.8**
% change	*1.5%*	*2.9%*	*3.8%*	*3.5%*	*4.3%*
Expenses					
Employee expenses	17 788.5	17 814.3	18 470.6	19 188.7	19 811.6
Superannuation [(d)]	2 370.2	2 898.1	2 869.6	2 888.4	2 890.4
Depreciation	2 254.3	2 408.9	2 511.9	2 619.7	2 786.4
Interest expense	1 775.3	2 168.0	2 276.0	2 280.8	2 303.3
Other operating expenses	16 094.1	16 723.5	16 683.9	16 357.1	16 839.0
Grants and other transfers	8 013.9	7 788.4	8 215.8	8 352.4	8 704.3
Total expenses	**48 296.4**	**49 801.3**	**51 027.8**	**51 687.1**	**53 335.0**
% change [(e)]	*2.1%*	*2.0%*	*2.5%*	*1.3%*	*3.2%*
Net result from transactions	**316.4**	**221.8**	**911.0**	**2 051.5**	**2 718.9**
Total other economic flows included in net result	**7 097.4**	**(163.6)**	**(180.4)**	**(222.1)**	**(222.9)**
Net result	**7 413.8**	**58.1**	**730.6**	**1 829.4**	**2 495.9**
Expected return on superannuation assets taken to other comprehensive income and not included in net result from transactions	..	541.2	564.7	576.8	588.2
Government fiscal result [(f)]	**316.4**	**762.9**	**1 475.7**	**2 628.2**	**3 307.0**

Source: Department of Treasury and Finance

Notes:

(a) *This is an abbreviated operating statement. The comprehensive operating statement is presented in Chapter 5* Estimated financial statements and notes, *and provides additional information on economic flow measurements which, when added to the net result from transactions, yields the net result.*

(b) *Figures for 2012-13 are prepared under accounting standards relevant at the time, which do not take into account the changes to the revised* AASB 119 Employee Benefits.

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

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

(e) *The estimated expense growth for 2013-14 excludes the impact of the revised AASB 119* Employee Benefits.

(f) *Equals the net result from transactions after excluding the impact of the revised AASB 119* Employee Benefits*, which applies from 2013-14 onwards.*

Revenue outlook

Revenue is expected to grow by 2.9 per cent in 2013-14, reflecting a moderately improving Victorian and national economy. Over the forward estimates period, revenue is expected to increase by 3.9 per cent a year on average. However, a return to the 7.3 per cent average growth rate of the previous decade to 2009-10 is unlikely.

State taxation revenue is expected to grow by 6.2 per cent in 2013-14, largely driven by the expected recovery in land transfer duty but partly offset by below-trend growth in other major components of the tax base. Over the forward estimates period, taxation revenue is forecast to grow at an average of 5.4 per cent a year as the Victorian and national economy returns to higher growth. Specifically:

- payroll tax is expected to grow by 3.3 per cent in 2013-14 and 5.6 per cent a year on average over the forward estimates period, consistent with the expected recovery in the labour market;
- land tax revenue is expected to fall by 1.4 per cent in 2013-14 following growth of 13.4 per cent in 2012-13, reflecting the biennial land tax revaluation cycle. Growth is expected to return to 8.2 per cent a year on average over the forward estimates period;
- land transfer duty is expected to increase by 19.3 per cent in 2013-14, returning to 2010-11 levels following two years of decline. The improvement in the Victorian property market is expected to continue driving growth of 6.0 per cent a year on average over the forward estimates period;
- gambling taxes are expected to decline by 0.2 per cent in 2013-14, reflecting subdued growth in household consumption and an expected continued decline in the share of consumption allocated to electronic gaming machine expenditure. However, this weakness is expected to be partly offset by the gambling revenue initiatives detailed in Appendix A *Specific policy initiatives affecting budget position*. As a result, gambling taxes are expected to return to steady growth of 4.3 per cent a year on average across the forward estimates period;
- taxes on insurance (excluding contributions to fire services) are expected to decrease by 1.3 per cent in 2013-14 reflecting the removal of stamp duty that was charged on top of the previous insurance-based fire services levy. The insurance-based fires services levy was replaced by the Fire Services Property Levy. Thereafter, growth in taxes on insurance is expected to average 6.5 per cent a year over the forward estimates period; and
- motor vehicle taxes are expected to grow by 3.7 per cent in 2013-14 and 4.5 per cent a year on average across the forward estimates period, underpinned by both population and economic growth.

GST grants revenue is projected to grow by 4.1 per cent in 2013-14 and 6.4 per cent a year on average over the forward estimates period, reflecting an expectation of trend growth in the GST national pool and an increase in Victoria's share in the pool towards the end of the period.

Other grants revenue is anticipated to increase by 8.2 per cent in 2013-14, following a fall of 10.7 per cent in 2012-13. The growth in 2013-14 reflects increased revenue under the National Health Reform agreement, grants to schools and capital grants for road and rail projects. Growth over the forward estimates period reflects the funding arrangements for national agreements in the education and health portfolios, partly offset by the cessation of Regional Rail Link funding in 2015-16 and the removal of Home and Community Care grants revenue beyond 2014-15 due to the transfer of responsibility for over 65s to the Commonwealth.

Total dividend, income tax equivalent and interest revenue is expected to decrease by 30.9 per cent in 2013-14, largely as a result of dividends from the State Electricity Commission of Victoria (SECV) received in 2012-13. Interest revenue will increase in 2013-14 due to the first full year of interest on the back-to-back finance lease arrangement between the Government and Melbourne Water Corporation for the Victorian desalination plant. Across the forward estimates period, interest income will remain stable, while dividend and income tax equivalent revenue is expected to increase by 6.4 per cent a year on average, broadly in line with the projected performance of water sector corporations and State-owned insurers.

Revenue from the sales of goods and services is expected to decrease by 2.2 per cent in 2013-14 following a large one-off recognition of revenue from the commissioning of the Victorian desalination plant in 2012-13. This reduction also reflects the contracted change in public transport fare revenue sharing arrangements with Metro Trains and Yarra Trams following the full rollout of the *myki* ticketing system. Revenue from the sales of good and services is expected to grow 0.9 per cent a year on average over the forward estimates period.

Other current revenue includes fines, royalties, donations and gifts in addition to assets received free of charge and other miscellaneous revenues. This revenue is anticipated to decrease by 5.5 per cent in 2013-14, reflecting the one-off impacts of higher than expected assets received free of charge by VicRoads and Public Transport Victoria in 2012-13. Other current revenue is projected to be stable over the forward estimates period.

Expenses outlook

The Government will spend an estimated $49.8 billion on service delivery in 2013-14. Total expenses are projected to grow by 2.0 per cent in 2013-14 and 2.3 per cent a year on average over the forward estimates period. Growth in operating expenses across the budget and forward estimates period is largely driven by:

- total employee expenses (including superannuation, but excluding the impacts of the revised AASB 119 *Employee Benefits*), which are expected to increase by 0.1 per cent in 2013-14. Total employee expenses are projected to grow 3.1 per cent a year on average over the forward estimates period. Factors influencing employee expense growth are increased service demand, restrained wage increases due to the Government’s wages policy and efficiency gains in non-service delivery functions;

- other operating expenses, which are anticipated to increase by 3.9 per cent in 2013-14 and 0.2 per cent a year on average over the forward estimates period. The growth over the forward estimates period reflects reduced payments associated with the contracted change in public transport fare revenue sharing arrangements with Metro Trains and Yarra Trams following the full rollout of the *myki* ticketing system and the removal of expenditure associated with Home and Community Care service delivery due to the transfer of responsibility for over 65s to the Commonwealth. Efficiencies in departmental and agency non-service delivery functions are also driving down estimated expenditure growth;
- grants and transfer payments, which are expected to decrease by 2.8 per cent in 2013-14, but grow 3.8 per cent a year on average over the forward estimates period. The decrease in 2013-14 reflects the impact of financial assistance grants to local government that the Commonwealth brought forward into 2012-13 from 2013-14. Growth over the forward estimates largely reflects the funding of non-government schools and payments to local government;
- depreciation expenses, which are predicted to grow by 6.9 per cent in 2013-14 and 5.0 per cent a year on average across the forward estimates period. The depreciation expense increase reflects the Government's infrastructure investment profile over the budget and forward estimates period; and
- interest expense, which is anticipated to increase by 22.1 per cent in 2013-14 due to the first full year of service payments for the Victorian desalination plant. Interest related impacts of the desalination plant are budget neutral for the general government sector as there is matching interest revenue arising from the finance lease receivable from Melbourne Water Corporation. Interest expense is estimated to grow by 2.0 per cent a year on average over the forward estimates period, in line with the profile of net debt which stabilises in June 2015, declining thereafter.

Other economic flows

Differences between the net result from transactions and the net result are other economic flows which typically include gains and losses from the sale of non-financial assets, and bad and doubtful debts.

The revised $164 million loss from other economic flows in 2013-14 comprises an estimated $285 million loss associated with bad and doubtful debts, partly offset by estimated gains on the sale of non-financial assets of $112 million.

Reconciliation of estimates to previously published estimates

The net result from transactions has been revised down marginally in 2013-14 and upwards thereafter. The upwards variations over the budget and forward estimates reflect the impact of higher GST, new policy measures and reductions in superannuation expenses more than offsetting the impact of agency cost pressures and lower investment income.

Table 3.3: Reconciliation of estimates to the *2013-14 Budget*

($ million)

	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Net result from transactions: *2013-14 Budget*	**224.5**	**398.7**	**1 927.7**	**2 547.4**
Plus: variations in revenue from transactions since *2013-14 Budget*				
Policy decision variations	37.3	203.3	251.6	280.4
Economic/demographic variations				
Taxation	61.8	(42.8)	(74.6)	(118.2)
Investment income [(a)]	(102.4)	(71.3)	(29.6)	(53.9)
	(40.6)	**(114.1)**	**(104.2)**	**(172.1)**
Commonwealth grant variations				
General purpose grants	145.5	122.6	123.7	122.6
Specific purpose grants	(206.8)	243.4	(525.0)	(197.4)
	(61.4)	**365.9**	**(401.3)**	**(74.8)**
Variations in own source revenue [(b)]	(58.1)	(37.1)	(25.3)	(15.4)
Administrative variations	(181.7)	(453.9)	(456.5)	(507.7)
Total variation in revenue from transactions since *2013-14 Budget*	**(304.5)**	**(36.0)**	**(735.7)**	**(489.5)**
Less: variations in expenses from transactions since *2013-14 Budget*				
Policy decision variations [(c)]	54.6	69.1	70.8	66.4
Commonwealth grant variations	(176.9)	110.5	(363.6)	(308.8)
Variations in own-source revenue [(b)]	(11.7)	(13.0)	(8.9)	(8.9)
Administrative variations				
Superannuation variations	(119.6)	(169.3)	(165.1)	(166.3)
Other administrative variations [(c)]	(48.2)	(545.5)	(392.7)	(243.5)
Total administrative variations	**(167.8)**	**(714.8)**	**(557.8)**	**(409.8)**
Total variation in expenses from transactions since *2013-14 Budget*	**(301.8)**	**(548.2)**	**(859.5)**	**(661.0)**
Revised net result from transactions	**221.8**	**911.0**	**2 051.5**	**2 718.9**

Source: Department of Treasury and Finance

Notes:

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

(b) Own-source revenue variations represent third party variations by departments.

(c) In this table policy decision variations are shown at gross levels rather than net of contingency provisions. Release of new contingency provisions are shown in Other administrative variations.

Variations to revenue from transactions

Policy decision variations

Policy decisions are projected to increase revenue by $37 million in 2013-14 and $245 million a year on average over the forward estimates period.

Details of specific policy initiatives since the *2013-14 Budget* are contained in Appendix A *Specific policy initiatives affecting budget position.*

Economic/demographic variations

Taxation revenue has been revised up by $62 million in 2013-14 and down by $79 million a year on average over the forward estimates period due to economic/demographic factors, mainly reflecting:

- a decrease in gambling taxes of $196 million in 2013-14, and $257 million a year on average over the forward estimates period, primarily reflecting lower than expected electronic gaming machine receipts;
- a decrease in payroll tax of $201 million in 2013-14, and $241 million a year on average over the forward estimates period, reflecting weaker than expected employment conditions; and
- a decrease in motor vehicle taxes of $23 million in 2013-14, and $25 million a year on average over the forward estimates period, largely reflecting the impact of a weaker economic outlook on motor vehicle registration fees.

These downward revisions have been offset by upward revisions to land transfer duty by $494 million in 2013-14 and $461 million a year on average over the forward estimates period, reflecting a stronger than expected recovery in the property market.

Investment income is expected to be $64 million lower a year on average over the budget and forward estimates period. The downward revisions primarily reflect the operating performance of the PNFC sector, including:

- a special dividend from the SECV being received in 2012-13, previously expected in 2013-14;
- reduced expected dividends and income tax equivalent revenue from the water industry from 2013-14 onwards, reflecting revised profit assumptions following the Essential Services Commission’s final pricing decisions; and
- lower expected dividends from the Transport Accident Commission associated with higher projected expense claims due to adverse claims experience.

These downward revisions have been partly offset by an expected increase to dividends from the Victorian Workcover Authority reflecting reduced claims costs.

Commonwealth grant variations

General purpose grants (or GST grants) have been revised up by $129 million a year on average over the budget and forward estimates period. This reflects the net impact of:

- higher growth in the GST national pool, in line with the Commonwealth Government's estimates published in the *2013 Pre-election Economic and Fiscal Outlook*; and
- a slightly lower population share.

Commonwealth specific purpose and national partnerships grants revenue has been revised down in 2013-14 by $207 million but revised upwards in 2014-15 by $243 million. This largely reflects the Commonwealth Government's decision to bring forward a number of grant payments, including:

- the Commonwealth Government rephasing financial assistance grants to local government and grants for roads and Regional Rail Link from 2013-14 into 2012-13;
- the rephasing of Regional Rail Link payments by the Commonwealth from 2015-16 into 2013-14 and 2014-15; and
- additional capital payments for hospitals from the Health and Hospitals Fund.

In 2015-16 and 2016-17, non-GST grants revenue has been revised down by $361 million a year on average, largely as a result of:

- the removal of funding in recognition of the transfer of Home and Community Care services for over 65s to the Commonwealth; and
- the rephasing of Regional Rail Link funding into earlier years; partly offset by
- increased state road grants.

Across the budget and forward estimates period there have also been revisions to Commonwealth revenues for the health, human services and education sectors that have largely been offset by corresponding expense revisions.

Own-source revenue

Own-source revenue is lower throughout the budget and forward estimates period by an average of $34 million a year. This primarily reflects lower interest revenue forecasts for the Legal Services Board and lower expected sales volumes in 2013-14 for Land Victoria.

Administrative variations

Revenue estimates have been revised downwards by $182 million in 2013-14 and $473 million a year on average over the forward estimates period primarily due to a downwards revision to public transport fare revenue estimates and the contracted change in public transport fare revenue sharing arrangements with Metro Trains and Yarra Trams following the full rollout of the *myki* ticketing system. These decreases are partly offset by increases in revenue associated with:

- increases in fines and regulatory fee revenue driven by an increase in infringement volumes and the processing of a backlog of infringements; and
- updated revenue estimates for schools to better reflect expected operating performance.

Variations to expenses from transactions

Policy decision variations

Policy decisions are projected to increase expenses by $65 million a year on average over the budget and forward estimates period.

Details of specific policy initiatives including efficiency measures since the *2013-14 Budget* are contained in Appendix A *Specific policy initiatives affecting budget position*.

Commonwealth grant variations

Expenditure revisions associated with Commonwealth grant variations account for lower expenditure in 2013-14 by $177 million and an increase of $110 million in 2014-15. This reflects:

- the rephasing of Commonwealth financial assistance grants to local government from 2013-14 into 2012-13; partly offset by
- revisions to health, human services and education funding agreements across the budget and forward estimates period.

In 2015-16 and 2016-17, Commonwealth grant variations have decreased operating expenses by $336 million a year on average largely driven by the removal of expenditure associated with the Home and Community Care national partnership to recognise the transfer of Home and Community Care services for over 65s to the Commonwealth.

Variations in own-sourced revenue

Own-source expenses are $11 million lower on average each year of the budget and forward estimates period. This primarily relates to lower expected expenditure by the Legal Services Board associated with lower interest revenue estimates.

Administrative variations

Superannuation related expenditure is forecast to be lower than *2013-14 Budget* by $155 million a year on average over the budget and forward estimates period. This is primarily due to movements in the bond yield that underpins key superannuation valuation assumptions.

Other administrative variations are projected to decrease expenses by $48 million in 2013-14 and $394 million a year on average over the forward estimates period.

Downward revisions to expenses due to administrative variations primarily reflect the contracted change in public transport fare revenue sharing arrangements following the full rollout of the *myki* ticketing system resulting in lower payments to Metro Trains and Yarra Trams. The 2016-17 estimate has also been impacted by an increase in estimated quarterly service payments. These reductions have been partly offset by upward revisions to the price of contracted services, and revised operating expense estimates for government entities including schools to better reflect expected operating performance.

The revised 2013-14 estimate is additionally affected by upwards revisions to expenses associated with:

- activities of the TAFE sector; and
- further payments to local councils for restoration works associated with floods.

The forward estimates period also reflects revisions to contingencies to better reflect growth in expenditure associated with the revised fiscal and economic outlook, as well as variations to depreciation and interest costs.

Cash flows

The Government's commitment to restrain expenditure growth and drive improved public sector productivity will provide increased cash from operating activities over the budget and forward estimates period to fund infrastructure investments while prudently managing net debt.

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

($ million)

	2012-13 Actual	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Net result from transactions	**316.4**	**221.8**	**911.0**	**2 051.5**	**2 718.9**
Add back: non-cash revenue and expenses (net) [(a)]	1 375.9	2 351.5	2 456.3	2 596.4	2 450.0
Net cash flows from operating activities	**1 692.3**	**2 573.2**	**3 367.3**	**4 647.8**	**5 168.9**
Less:					
Net investment in fixed assets					
Purchases of non-financial assets	4 133.2	4 185.2	4 225.0	2 668.0	3 377.1
Net cash flows from investments in financial assets for policy purposes	1 316.8	1 526.6	1 388.8	39.7	94.9
Capital provision approved but not yet allocated [(b)]	..	..	164.5	428.8	734.1
Proceeds from asset sales	(248.0)	(407.7)	(419.3)	(485.8)	(445.2)
Total net investment in fixed assets [(c)]	**5 202.0**	**5 304.2**	**5 358.9**	**2 650.7**	**3 760.8**
Finance leases [(d)]	1 064.8	111.0	36.4	1 050.4	279.3
Other investment activities (net)	10.7	38.9	51.3	57.6	29.4
Decrease/(increase) in net debt	**(4 585.2)**	**(2 880.8)**	**(2 079.3)**	**889.1**	**1 099.3**

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 capital contributions to other sectors.

(c) Includes total purchases of property, plant and equipment, and capital contributions to other sectors of government net of proceeds from asset sales.

(d) The finance lease amount in 2012-13 relates to the Peninsula Link and Biosciences Research Centre projects and is net of the financing arrangements associated with the Victorian desalination plant project which forms part of the PNFC net debt. The 2013-14 and 2014-15 estimates relate to the metropolitan Melbourne buses contract. The 2015-16 estimate relates to the Victorian Comprehensive Cancer Centre and the 2016-17 estimate relates to the new Bendigo Hospital project.

By 2015-16, the State's increasing cash surpluses are projected to be sufficient to fully fund infrastructure investment and begin repaying accumulated debt.

Total net investment in fixed assets is projected to be $5.3 billion in 2013-14 and $3.9 billion a year on average over the forward estimates period.

In addition to net investment in fixed assets, the Government funds, facilitates and delivers infrastructure investment through *Partnerships Victoria* (PV). These projects are not captured through the net investment in fixed assets estimates. Total government funded infrastructure (government infrastructure investment) is projected to be $5.8 billion in 2013-14 and $5.0 billion a year on average over the forward estimates period. Government infrastructure investment is projected to be inline with the medium-term infrastructure investment parameter of 1.3 per cent of GSP as a rolling five-year average.

Net debt and net financial liabilities

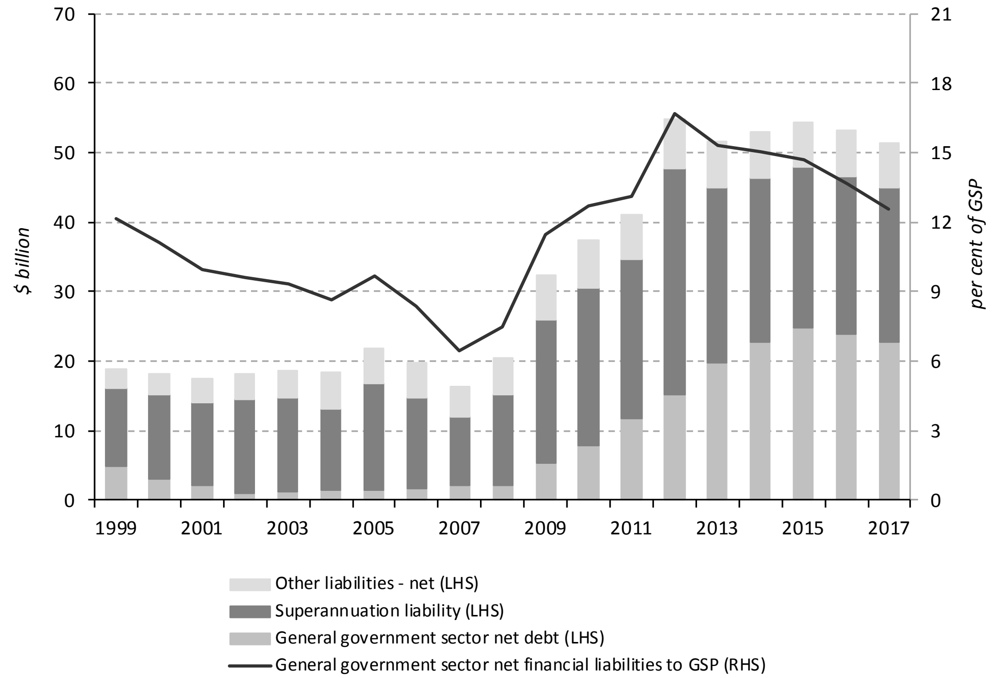
The *2013-14 Budget Update* continues to deliver on the Government's commitment to contain and then reduce net debt, demonstrated by the forecast peak of net debt in June 2015 and subsequent decline.

In line with estimates published in the *2013-14 Budget*, net debt is anticipated to decline in nominal terms and as a percentage of GSP from its June 2015 peak of $24.8 billion (6.7 per cent of GSP) to $22.8 billion (5.6 per cent of GSP) by June 2017.

Estimated net financial liabilities as a proportion of GSP are also forecast to decline, having peaked at 15.3 per cent at June 2013, and are projected to steadily decline over the budget and forward estimates period. The Government remains committed to fully funding the unfunded superannuation liability by 2035 and any changes in the superannuation liability that arise due to discount rate movements will not impact funding requirements.

The reported value of the State's superannuation liability has been increasingly volatile over recent years, particularly during the global financial crisis. These variations primarily reflect movements in the discount rate that is required to be used to measure Victoria's superannuation liability and does not affect the State's cash position.

Chart 3.2: General government net financial liabilities as at 30 June [(a)]



Source: Department of Treasury and Finance

Note:

(a) Superannuation liabilities between 1999 and 2004 are calculated under the previous Australian accounting standard, whereas from 2005 onward AASB 119 Employee benefits *has been applied.*

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

($ billion)

	2013 *Actual*	2014 *Revised*	2015 *Estimate*	2016 *Estimate*	2017 *Estimate*
Financial assets					
Cash and deposits	4.0	4.0	4.2	4.5	4.9
Advances paid	4.6	4.6	4.5	4.5	4.5
Investments, loans and placements	3.4	3.4	3.5	3.6	3.7
Total	**12.0**	**12.0**	**12.2**	**12.6**	**13.0**
Financial liabilities					
Deposits held and advances received	0.4	0.4	0.4	0.4	0.4
Borrowings	31.3	34.3	36.6	36.1	35.4
Total	**31.8**	**34.7**	**37.0**	**36.5**	**35.8**
Net debt (a)	**19.8**	**22.7**	**24.8**	**23.9**	**22.8**
Superannuation liability	25.1	23.6	23.2	22.8	22.2
Net debt plus superannuation liability	**45.0**	**46.3**	**48.0**	**46.7**	**45.0**
Other liabilities (net) (b)	6.7	6.6	6.4	6.5	6.5
Net financial liabilities (c)	**51.6**	**52.9**	**54.4**	**53.2**	**51.5**
Net debt to GSP (d)	**5.9**	**6.4**	**6.7**	**6.1**	**5.6**
Net debt plus superannuation liability to GSP (d)	**13.3**	**13.1**	**13.0**	**12.0**	**11.0**
Net financial liabilities to GSP (d)	**15.3**	**15.0**	**14.7**	**13.6**	**12.5**

Source: Department of Treasury and Finance

Notes:

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

(b) Includes other employee benefits and provisions, payables and other liabilities less other non-equity financial assets.

(c) Net financial liabilities is the sum of superannuation, borrowings and other net liabilities less non-equity financial assets.

(d) Ratios to GSP may vary from publications year to year due to revisions made by the ABS to its published GSP data.

Fiscal risks

This section considers a number of known risks, which if realised are likely to impact on the State's financial position and budget outcomes.

Revenue risks

State taxes

State tax forecasts are primarily based on an estimated relationship between taxation revenue and projected economic variables. As a result, the main source of risk to the taxation estimates is the economic environment.

For example, higher than expected economic activity or inflation will tend to lead to higher taxation revenue. Specific economic risks are presented in Chapter 2 *Economic context* and the fiscal implications of variations in economic parameters from forecast are considered in Appendix D *Sensitivity analysis*.

There is also the risk of changes in the relationship between the economic variables and taxation revenue (such as between consumer spending and motor vehicle taxes, or between employment and payroll tax). Some state taxes, such as stamp duty on land transfers, are sourced from relatively volatile tax bases, and revenue from these sources may be subject to substantial annual variation.

Commonwealth grants

The distribution of GST grants between states and territories is determined by the size of the GST national pool and each state or territory's population share weighted by its GST relativities, as informed by recommendations of the Commonwealth Grants Commission (CGC). Any changes to national economic conditions will affect the GST national pool, while changes to the CGC's methodology, changing fiscal circumstances of any state or territory or revisions to data used by the CGC could materially change Victoria's share of the pool. Revisions to historical data may be significant in the CGC's *2014 Update* as the Australian Bureau of Statistics continues to update its social and demographic statistics as a result of the 2011 census.

The level of specific purpose payments is determined by funding arrangements agreed by the Council of Australian Governments and the level of National Partnership funding received is often subject to the State achieving certain performance benchmarks. Decisions of the Commonwealth Government outside these agreements can also substantially alter the ongoing provision or phasing of payments under individual agreements, with significant revenue implications in a given financial period.

The National Health Reform Agreement, National Disability Insurance Scheme and Better Schools Agreement are a new type of funding arrangement under which state and Commonwealth funding contributions are determined by a product of price and the level of service activity. This method of funding creates additional risks to government from variations in demand and cost parameters. Any variability in activity can have a significant impact on Victoria's required contribution and payments from the Commonwealth. Movements in activity and costs in these new arrangements can have a significant impact on Victoria's budget flexibility.

Expenditure risks

Employee expenses are the State's largest expense. Major enterprise bargaining agreements are a significant driver of this expense. If the related costs above the guideline rate are not offset by genuine productivity gains, this will increase expenditure.

Another key risk is growth in demand for government services exceeding current projections. This can occur, for example, as a result of higher population growth or expenditure in response to unforeseen events such as natural disasters, including bushfires and floods.

The *2013-14 Budget Update* includes a contingency provision to mitigate the impact of expenditure risks which may be realised during the budget and forward estimates period. The contingency provision also includes a general allowance for likely growth in Victoria's population, and consequent derived demand for government services. Realised expenditure risks will affect total expenditure and the annual budget position to the extent they exceed the contingency provision factored into the estimates. The aggregate level of operating contingency provision is shown in Note 12 of Chapter 5 *Estimated financial statements and notes*.

The forward estimate years also include an unallocated capital provision to provide capacity for future asset investment requirements. Given the size and complexity of the capital program, there are likely to be positive and negative variations in actual costs (compared with budgets) for individual asset investment projects. However, the budget and forward estimates period assumes that capital cost pressures are managed within existing financial estimates. Management of capital cost pressures may occur by:

- reallocating existing departmental resources within a department's global capital budget (reflecting the likelihood that cost overruns on some projects will be offset by cost underruns in other areas); or
- re-scoping projects to fit within funding parameters; or
- funding projects from the unallocated capital provision that provides capacity for future asset investments.

Specific fiscal risks

Better schools plan heads of agreement

In August 2013, Victoria signed a six year Heads of Agreement on National Education Reform with the previous Commonwealth Government. The new Commonwealth Government has indicated it is committed to funding over the budget and forward estimates period. Victoria is in the process of confirming its understanding of the Commonwealth's school funding commitments.

National Injury Insurance Scheme

The Commonwealth Government expects the State to fund the total cost in Victoria of a National Injury Insurance Scheme, to support people who suffer catastrophic injuries. If fully implemented, the Productivity Commission estimated that the National Injury Insurance Scheme could cost Victoria around an additional $145 million each year (in 2010-11 dollars).

Superannuation contributions

In March 2012, the former Commonwealth Government amended the Superannuation Guarantee (SG) legislation to provide for a series of increases in the rate of compulsory employer contributions. Consequently, from 1 July 2013 the SG rate increased from 9 per cent to 9.25 per cent and further increases will result in the SG rate ultimately reaching 12 per cent. It is currently legislated that this target rate will be attained from 1 July 2019 but the current Commonwealth Government has indicated that it will defer this by two years.

The Public Sector Workplace Relations Policies (2012) stipulated that in complying with wages policy, all agreed wage outcomes need to take into account employer superannuation guarantee contributions.

Social and community services sector pay equity case

Fair Work Australia handed down its decision in the social and community sector equal remuneration case on 1 February 2012. The Victorian Government has committed to fund its share of the wage increase, to the value of $200 million. Supplementation for 2012-13 and 2013-14 is being provided to affected non-government organisations enabling them to pay their staff in accordance with the Fair Work Australia decision.

NON-FINANCIAL PUBLIC SECTOR

This section overviews the activities of the non-financial public sector (NFP), which consolidates the PNFC and general government sectors. The PNFC sector has a wide range of entities that provide services primarily funded from user charges and fees. The largest Victorian PNFCs provide water, housing, transport and port services. An important measure of financial sustainability of the Victorian Government is the level of debt in the NFP sector which is a key variable supporting the State's triple-A credit rating.

Summary operating statement

Table 3.6: Summary operating statement for the non-financial public sector[(a)(b)]

($ million)

	2012-13 Actual	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Revenue					
Taxation	15 198.9	16 086.6	17 187.6	17 901.3	18 907.1
Interest	435.0	360.6	363.5	388.3	403.9
Dividends, TER and interest [(c)]	609.4	419.1	425.8	499.4	503.4
Sales of goods and services	9 826.4	10 770.0	10 853.0	11 168.3	11 260.1
Grants	21 879.2	23 246.6	24 265.1	24 816.7	26 167.1
Other current revenue	2 728.9	2 526.0	2 416.9	2 495.3	2 539.8
Total revenue	**50 677.8**	**53 408.9**	**55 512.1**	**57 269.3**	**59 781.3**
% change	(0.1)	5.4	3.9	3.2	4.4
Expenses					
Employee expenses	18 778.0	18 814.5	19 500.8	20 247.1	20 893.0
Superannuation [(d)]	3 093.6	2 985.2	2 958.9	2 980.5	2 985.2
Depreciation	4 092.4	4 319.5	4 489.2	4 759.5	5 108.6
Interest expense	2 433.8	2 870.5	3 017.7	3 056.7	3 102.7
Other operating expenses	18 580.9	19 733.0	19 727.8	19 229.5	19 742.4
Grants and other transfers	5 399.1	4 999.2	5 366.9	5 545.4	5 885.5
Total expenses	**52 377.7**	**53 721.9**	**55 061.3**	**55 818.7**	**57 717.4**
% change [(e)]	2.1	2.6	2.5	1.4	3.4
Net result from transactions	**(1 699.9)**	**(312.9)**	**450.7**	**1 450.6**	**2 063.9**
Total other economic flows included in net result	**(473.4)**	**(199.9)**	**(209.3)**	**(255.8)**	**(253.5)**
Net result	**(2 173.3)**	**(512.8)**	**241.4**	**1 194.8**	**1 810.4**

Source: Department of Treasury and Finance

Notes:

(a) *This is a summary operating statement. The comprehensive operating statement is presented in Chapter 6* Supplementary uniform presentation framework tables.

(b) *The 2012-13 actual comparative figures have been restated to reflect a revised accounting standard, AASB 119* Employee Benefits*, which has been issued changing the way defined benefit superannuation expenses are calculated from 2013-14.*

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

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

(e) *The expense growth for 2012-13 is based on published numbers as per* 2012-13 Financial Report.

The net result from transactions in 2013-14 for the NFP sector is projected to be a deficit of $313 million, progressively improving to a surplus of $2.1 billion by 2016-17. This is largely due to the forecast performance of the general government sector, which improves from a $222 million surplus in 2013-14 to a $2.7 billion surplus by 2016-17. The trends driving this improvement have been discussed earlier in the chapter.

The PNFC sector is projected to record deficits in the net result from transactions, ranging from $369 million in 2013-14 to $497 million in 2016-17. The deficits in the sector mainly reflect:

- the funding arrangements in place for VicTrack, whereby grants from the general government sector are sufficient to allow a cash operating surplus, but do not fully fund depreciation on a year by year basis, resulting in operating losses; and
- projected deficits in the Director of Housing across the forward estimates period. This is due to the impact of its current rental operating model which has relatively fixed revenue streams and escalating costs associated with managing a large and ageing asset portfolio.

The forecast PNFC sector deficits are higher than projected in the *2013-14 Budget*. This mainly reflects lower profit forecasts for the metropolitan water businesses following the Essential Services Commission's (ESC) final pricing decisions. The final ESC pricing decision released in June 2013 results in lower revenue outcomes for the water sector compared with earlier forecasts reflected in the *2013-14 Budget*.

The impact of this lower revenue on the operating position has been constrained by lower projected PNFC sector expenditure compared to *2013-14 Budget* and in particular stronger operating performances from the transport sector such as savings and efficiencies to be delivered by V/Line Passenger Corporation under a new service agreement.

PNFC sector interest and depreciation expense is projected to be lower compared with previous estimates reflected in the *2013-14 Budget*, as the sector has moderated its capital infrastructure program.

Despite the forecast deficits, the PNFC sector is forecast to remain in a strong and sustainable position, as evidenced by improving operating cash flow surpluses, averaging $1.4 billion a year across the budget and forward estimates.

Application of cash resources

The NFP sector is forecast to record growing operating cash flow surpluses across the budget and forward estimates period. Importantly, this will result in the NFP sector infrastructure program being fully funded through net operating cash inflows without relying on increased debt by 2015-16. As a result, net debt will start to fall in 2015-16. This enables the State to deliver significant infrastructure projects without compromising debt sustainability.

Table 3.7: Application of cash resources for the non-financial public sector

($ million)

	2012-13 Actual	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Net result from transactions	(1 699.9)	(312.9)	450.7	1 450.6	2 063.9
Add back: non-cash income and expenses (net) [(a)]	4 197.4	3 970.3	4 250.6	4 561.4	4 632.7
Net cash flows from operating activities	**2 497.5**	**3 657.4**	**4 701.4**	**6 011.9**	**6 696.7**
Less:					
Net investment in fixed assets					
Expenditure on approved projects	7 497.4	8 096.9	7 813.9	4 924.0	5 435.0
Capital provision approved but not yet allocated [(b)]	..	..	164.5	428.8	734.1
Proceeds from asset sales	(404.4)	(507.8)	(535.1)	(572.7)	(518.3)
Total net investment in fixed assets	**7 093.0**	**7 589.1**	**7 443.3**	**4 780.1**	**5 650.7**
Finance leases [(c)]	5 433.8	111.0	36.4	1 050.4	279.3
Other investment activities (net)	(65.6)	18.1	7.3	(2.3)	(1.2)
Decrease/(increase) in net debt	**(9 963.6)**	**(4 060.8)**	**(2 785.7)**	**183.8**	**767.8**

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 capital contributions to other sectors.

(c) The finance lease in 2012-13 relates to the Biosciences Research Centre, Peninsula Link and the Victorian desalination plant projects. The 2013-14 revised estimate figure relates to the metropolitan Melbourne buses contract The 2015-16 estimate relates to Victorian Comprehensive Cancer Centre and the 2016-17 figure relates to the Bendigo Hospital redevelopment project.

The NFP sector is projected to invest a total of $25.5 billion in infrastructure over the budget and forward estimates of which 47 per cent will be delivered by the PNFC sector. The key PNFC sector infrastructure projects under development include:

- the Regional Rail Link project delivering dedicated regional tracks from West Werribee to Southern Cross Station, two new dedicated regional service platforms at Southern Cross Station, new stations at Wyndham Vale, Tarneit and West Footscray, substantial modifications to Sunshine and Footscray stations, and several new rail bridges;
- the Port Capacity project, which includes developing a third container terminal and a purpose built automotive facility at Webb Dock. This will ensure that Victoria's port handling capacity continues to grow; and
- other transport infrastructure, including significant investment in new trains (metropolitan and regional) and trams to help meet patronage growth and improve network performance.

Financial sustainability of the Victorian Government

The State remains on track to fully fund its infrastructure spending requirements by operational cash flow surpluses, rather than debt by 2015-16. As a result, the State projects net debt to decline both in nominal terms and as a percentage of GSP from 2015-16.

Table 3.8: Non-financial public sector net debt and net financial liabilities

($ billion)

	2012-13 Actual	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Assets					
Cash and deposits	4.8	4.6	4.9	5.3	5.8
Advances paid	0.1	0.1	0.1	0.1	0.1
Investments, loans and placements	4.4	4.3	4.3	4.4	4.5
Total	**9.3**	**9.0**	**9.3**	**9.8**	**10.4**
Liabilities					
Deposits held and advances received	0.6	0.6	0.6	0.6	0.6
Borrowings	43.3	47.1	50.2	50.5	50.3
Total	**43.9**	**47.6**	**50.8**	**51.0**	**50.8**
Net debt (a)	**34.6**	**38.6**	**41.4**	**41.2**	**40.5**
Superannuation	25.2	23.7	23.3	22.9	22.3
Net debt plus superannuation liabilities	**59.8**	**62.3**	**64.7**	**64.1**	**62.8**
Other liabilities (net) (b)	6.6	6.4	6.2	6.3	6.3
Net financial liabilities (c)	**66.4**	**68.7**	**70.9**	**70.4**	**69.1**
Net debt to GSP (d)	**10.2**	**11.0**	**11.2**	**10.6**	**9.9**
Net debt plus superannuation liabilities to GSP (d)	**17.7**	**17.7**	**17.5**	**16.5**	**15.3**
Net financial liabilities to GSP (d)	**19.7**	**19.5**	**19.2**	**18.1**	**16.8**

Source: Department of Treasury and Finance

Notes:

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

(b) Includes other employee benefits and provisions, payables and other liabilities less other non-equity financial assets.

(c) Net financial liabilities is the sum of superannuation, borrowings and other net liabilities less non-equity financial assets.

(d) Ratios to GSP may vary from publications year to year due to revisions made by the ABS to its published GSP data.

Table 3.9 presents indicators of financial sustainability for the NFP sector. The ratio of operating cash flow surplus to revenue is a measure of operating performance. The rapid growth in this ratio over the forward estimates indicates an increasing level of cash generated from operations which can be used to fund necessary infrastructure and also meet the State's commitment to fully funding the superannuation liability by 2035.

The ratio of the NFP sector's interest expense to revenue is a measure of the State's debt service burden. This ratio is expected to increase to 5.4 per cent in 2014-15, before declining in 2015-16 as debt levels moderate. This is broadly in line with the ratio projected in the *2013-14 Budget*, and reflects the Government's commitment to maintain fiscal discipline and constrain expense growth. The reducing debt burden is demonstrated by the ratio of gross debt to revenue which falls from a peak of 91.5 per cent in 2014-15 to 85.0 per cent in 2016-17.

Table 3.9: Indicators of financial sustainability for the non-financial public sector

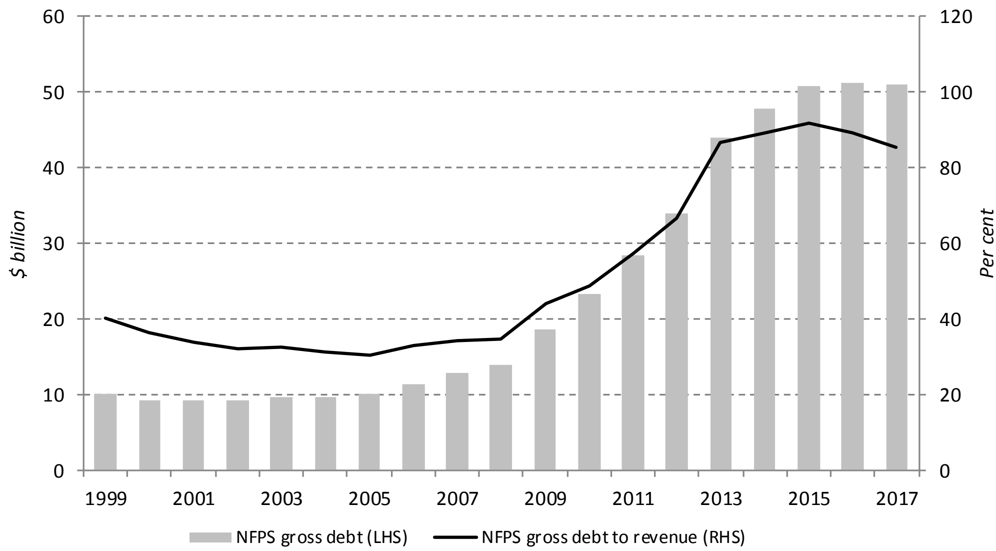
(per cent)

	2012-13 Actual	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Operating cash flow surplus to revenue	4.9	6.8	8.5	10.5	11.2
Gross debt to revenue	86.5	89.2	91.5	89.1	85.0
Interest expense to revenue	4.8	5.4	5.4	5.3	5.2

Source: Department of Treasury and Finance

The chart below shows a longer term trend of the ratio of NFP sector gross debt to revenue.

Chart 3.3: Non-financial public sector gross debt to revenue[(a)]



Note:
(a) Gross debt includes borrowings and deposits held and advances received.

STATE OF VICTORIA

The State of Victoria financial results are obtained by consolidating the PFC sector with the NFP sector. There are two broad types of PFCs: those that provide services to the general public and businesses (such as the statutory insurers like the Transport Accident Commission and Victorian WorkCover Authority), and those that provide financial services, predominantly to other government entities (such as the Victorian Funds Management Corporation and Treasury Corporation of Victoria).

Table 3.10: Summary operating statement for the State of Victoria[a][b]

($ million)

	2012-13 Actual	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Revenue					
Taxation	15 184.7	16 071.6	17 172.2	17 885.6	18 891.6
Interest	970.4	960.6	999.0	1 057.9	976.1
Dividends, TER and interest [c]	610.9	592.3	630.5	665.9	706.0
Sales of goods and services	12 896.9	13 968.1	14 219.2	14 705.6	14 965.9
Grants	21 790.4	23 134.9	24 154.6	24 710.2	26 060.4
Other current revenue	2 749.6	2 546.9	2 439.6	2 517.7	2 563.1
Total revenue	**54 203.0**	**57 274.4**	**59 615.1**	**61 542.9**	**64 163.1**
% change	(0.5)	5.7	4.1	3.2	4.3
Expenses					
Employee expenses	18 794.9	18 812.9	19 495.3	20 238.2	20 873.8
Superannuation [d]	3 116.9	3 009.0	2 983.2	3 005.4	3 009.8
Depreciation	4 131.6	4 368.6	4 547.4	4 817.4	5 169.8
Interest expense	2 538.6	2 902.9	3 082.7	3 128.9	3 176.7
Other operating expenses	23 342.6	24 600.4	24 787.3	24 507.0	25 212.4
Grants and other transfers	5 398.3	4 999.2	5 366.9	5 545.4	5 885.5
Total expenses	**57 322.8**	**58 693.0**	**60 262.8**	**61 242.3**	**63 328.1**
% change [e]	1.8	2.4	2.7	1.6	3.4
Net result from transactions	**(3 119.8)**	**(1 418.6)**	**(647.7)**	**300.6**	**834.9**
Total other economic flows included in net result	**4 655.8**	**1 345.1**	**1 296.9**	**1 334.3**	**1 422.1**
Net result	**1 536.0**	**(73.4)**	**649.2**	**1 634.8**	**2 257.0**

Source: Department of Treasury and Finance

Notes:

(a) *This is a summary operating statement. The comprehensive operating statement is presented in Chapter 6* Supplementary uniform presentation framework tables*.*

(b) *The 2012-13 actual comparative figures have been restated to reflect a revised accounting standard, AASB 119* Employee Benefits*, which has been issued changing the way defined benefit superannuation expenses are calculated from 2013-14.*

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

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

(e) *The expense growth rate for 2012-13 is based on published numbers as per* 2012-13 Financial Report*.*

The State of Victoria is projected to record $73 million deficit in 2013-14, increasing to a surplus of $2.3 billion by 2016-17. This is significantly stronger than projected at the time of the *2013-14 Budget*, and includes significant improvement in the PFC sector arising from lower claims costs.

The PFC sector is forecast to record an average net result of $602 million surplus a year over the budget and forward estimates period. This includes significant gains from other economic flows averaging $1.4 billion a year. This is largely driven by investment returns which are forecast to grow in line with longer term trends.

As the nature of the PFC sector's core business includes investment activities, the net result is considered a more meaningful measure of the expected operating position of this sector and the State. Gains from other economic flows include income derived from the PFC sector's investment assets. This investment income is a core revenue source for the sector as it is used to fund emerging liabilities of government insurance entities over time. Other economic flows also include valuation gains on revaluation of financial liabilities, which primarily result from movements in bond rates used to value these liabilities.

The PFC sector results are largely due to the performance of the two largest entities, the Victorian WorkCover Authority (VWA) and the Transport Accident Commission. In particular, the VWA is projected to perform significantly stronger than the projections in *Budget 2013-14*, due to reduced claims costs arising from revised actuarial assumptions including higher bond rates used to value its liabilities.

CHAPTER 4 – ECONOMIC STRATEGY FOR LONG TERM GROWTH

- The Government's commitment to strong finances, improved service delivery and productivity reform is critical in the face of longer term challenges to growth.
- Since coming to office, the Government has improved the efficiency of service delivery by reducing back office costs and administrative expenditure, and will continue to drive longer term improvements.
- The Government is improving productivity through:
  – investment in productivity enhancing infrastructure, with a particular focus on road, rail and port projects, to reduce costs to business and attract increased private investment;
  – investment in and reform of skills, and education and training to boost workforce participation and flexibility;
  – creating competitive markets and reducing business costs through the implementation of number of reforms. The Government is committed to delivering red tape reductions of 25 per cent, implementing taxi industry reforms and the Fire Services Property Levy;
  – growing export markets to support Victorian businesses, particularly through enhanced international engagement, to give more opportunities to enter into new markets; and
  – supporting industries and employees in transition, by providing support services and encouraging retraining.

While Victoria's medium and long-term prospects are positive, the State faces a number of challenges common to all mature economies. Without significant improvements to current productivity levels, our ageing population is projected to lead to a slowdown of real economic growth over the next 40 years, leading to lower revenue growth. At the same time expenditure pressures including those associated with an ageing population, such as demand for health care, are likely to increase.

Productivity growth is critical in determining Victoria's wealth and living standards over the longer term. The easing in labour productivity growth experienced over the past decade represents a significant risk to Victoria's prosperity. Addressing this trend requires an ongoing economic reform effort.

The Government's economic and fiscal strategy directly addresses the challenges facing Victoria, within the scope of a state government, to drive future growth and prosperity.

The Government is focused on strengthening budget capacity, providing more responsive and productive services and improving productivity, including through the provision of major infrastructure. It will continue to build the skills and capabilities of the workforce and help ensure Victoria is a competitive and low cost place to do business.

HIGH QUALITY, INNOVATIVE AND EFFICIENT SERVICES

The essential role of government is service delivery, and community demand for the services provided by the State Government will continue to grow over time. While Victorians rightfully demand high quality services, they expect them to be provided efficiently and without imposing undue tax or regulatory burdens on the community. Moreover services must be provided without burdening future generations of Victorians with unsustainable levels of debt.

Better service delivery

Since coming to office the Government has taken decisive steps to boost public sector productivity by reducing back office costs and administrative expenditure, and by reducing internal red tape.

The Government's Sustainable Government Initiative (SGI) has refocussed the public service so that the percentage of staff in the Victorian public sector (VPS) devoted to frontline service delivery, as a share of the total workforce, has grown by 5 percentage points.

Further, the introduction of the Government's wages policy emphasised that enterprise bargaining outcomes need to deliver measurable improvements in service delivery, workforce productivity and workplace reform while maintaining fiscal sustainability. This reduced the cost of enterprise bargaining agreements in both the budget and non-budget sectors and lowered growth in the public sector wage bill. There has been a reduction of almost 1 per cent in the annualised average cost of agreements since the release of the policy.

At the same time, investment in frontline service delivery in key areas has increased. For example:

- a record $14.3 billion is being invested in health in 2013-14 with targets to provide an increase of 54 000 acute hospital separations and 189 000 people treated in specialist outpatient clinics;
- building on the $336 million investment for protecting vulnerable children as part of the *2012-13 Budget*, the *2013-14 Budget* increased funding to programs such as out-of-home care by an additional $152 million over four years. This funding targets the needs of complex clients to improve outcomes for vulnerable children; and
- there has been increased funding for frontline policing through the recruitment of an additional 1 700 police and 940 Protective Services Officers as announced in the *2011-12 Budget*.

Driving longer term change for high quality and efficient services will involve a service delivery transformation through:

- reforming the way services are delivered to provide greater choice and control to Victorians;
- improving the use of models that elicit information from consumers about where demand is high and where it is low, so that services are targeted to where there is greatest demand;
- ensuring easier access to services including through the use of technology;
- improving the skills and capabilities of the public service to successfully move to new service delivery models; and
- improving responsiveness to customer feedback including through benchmarking the productivity of public services to evaluate both value for money and performance and where possible using choice based models.

These reforms will provide more customer focus and enable the continued delivery of quality services in the context of long-term fiscal pressures.

Promoting competition and innovation will also improve the diversity and quality of services available.

A 'commissioning' model can help deliver future services by clearly identifying public needs and the outcomes that government wants to purchase. Services are then designed that best address those needs and allow more innovative and efficient approaches to emerge. Commissioning involves making decisions about:

- the outcomes that public services are expected to deliver;
- the level at which they will be procured and delivered (local, state or national);
- the way in which they will be obtained (this could include consideration of a range of service delivery methods from direct state delivery, to non-government sector delivery or a combination of both); and
- whether or not they will be obtained within a single organisation or more broadly.

The National Disability Insurance Scheme

The National Disability Insurance Scheme (NDIS) that the Government has recently agreed to with the Commonwealth has the potential to put aspects of the commissioning model into practice. It separates funding from provision, and is designed to provide people with an individual package of support and their choice of service provider. The NDIS will provide lifetime care and support for people with a serious disability, helping them to achieve their goals, and supporting their social and economic participation.

The Government is implementing a number of projects that aim to transform services so that they are more tailored to people's needs, help people build their strengths and capabilities to improve their lives, and are delivered efficiently.

Services Connect

Services Connect aims to better connect vulnerable and disadvantaged Victorians with the right support to address all of their service needs. Key elements will include a single assessment of a person's or family's needs, one key worker instead of multiple workers that duplicate each other, and one coordinated plan that focuses on helping people move towards greater independence.

Trial sites of the *Services Connect* model are testing the various opportunities to create a more effective and efficient service system.

Service Sector Reform

The Government's *Service Sector Reform* project, led by Professor Peter Shergold AC, has reviewed the relationship between Government and the community service sectors and identified opportunities for more effective and financially sustainable community services.

Professor Shergold's final report, *Service Sector Reform: A roadmap for community and human services reform*, recommends a shift to a more integrated approach to service delivery which is centred on individual needs, and based on:

- a stronger focus on results and measuring outcomes in people's lives;
- improved productivity and accountability in government funded services;
- greater collaboration between government and the community sector;
- simplifying funding so that it can be used flexibly to provide coordinated services to people facing multiple disadvantage;
- more choice and control for users of community services; and
- simplified regulation and processes.

The Government has established a Community Sector Reform Council to advise on the effective implementation of the reform directions.

Reforms to mental health community support programs

The Government is implementing reforms to mental health community support programs through its Psychiatric Disability Rehabilitation Support Services Reform Program that will drive the kinds of system, practice and culture changes needed to deliver individualised, client directed packages and ensure that support is effective, efficient and integrated. Under a reformed system:

- services will be easy to access and navigate;
- new clients will receive an initial assessment and supported referral to mental health community support services as well as other health, human services and social support services they may need;
- clients will work in partnership with their service provider and carer to develop a recovery plan;

- clients will receive a support package based on their recovery plan that will help them to:
  - improve their daily living, self care and social and relationship skills, as appropriate;
  - achieve their broader quality of life needs regarding physical health, social connectedness, housing, education and employment;
  - coordinate access to, and engagement with, the range of health and community services they need; and
- carers and families will be actively supported in their caring role.

Elective surgery

The Government is implementing reforms to improve the efficiency of elective surgery service delivery. Through the past two budgets, the Government provided $101 million in 2013-14 and ongoing, and $44 million in 2012-13 to be allocated on a competitive basis to drive efficiencies in the provision of elective surgery and increase throughput. This initiative reforms the way funding is allocated and allows patients to be treated more quickly.

Bus contracts

New bus contracts for approximately one third of the Melbourne network were recently allocated via a competitive tender process. The new contracts introduce new timetables and routes to better meet customer demand and incorporate incentives for operators to increase patronage. This demonstrated that contestability delivers value for money as well as better outcomes for consumers.

GROWING VICTORIA'S ECONOMY – COMPETITIVENESS, PRODUCTIVITY AND INVESTMENT

Victorian labour productivity grew by 2.4 per cent in 2011-12 and 1.4 per cent in 2012-13, following two consecutive years of negative growth. While these results are strong, annual productivity growth is inherently volatile. A continuous and focused reform effort is required.

Government's influence on the productivity of the private sector is largely through the impact of its institutional frameworks and policies on business decisions. The Government is focusing on policies to ensure the delivery of productivity-enhancing infrastructure that attracts private sector investment, develops the skills and capabilities of the Victorian workforce and ensures that regulatory and planning frameworks continue to support Victoria remaining a competitive place to do business.

Investing in major infrastructure for the future

High-quality economic infrastructure reduces business costs, attracts new private investment, and improves workforce participation and productivity. The Government is reforming infrastructure financing and delivery models and investing in major transformational infrastructure which will link people and products across the State, creating new markets and boosting growth.

The Government has released the draft *Plan Melbourne* for public comment. The new metropolitan planning strategy sets out an integrated approach to land use, transport planning and social and economic infrastructure delivery across Melbourne for the next 40 years.

The draft strategy proposes to align infrastructure delivery with growth in urban renewal precincts and growth areas, make better use of under used land and open up new funding sources by investigating private sector partnerships.

Major economic infrastructure projects

The Government's freight and logistics strategy, as outlined in *Victoria – The Freight State* and *Plan Melbourne,* aims to improve road freight movement through the East West Link project, upgrades to the M80 Ring Road and constructing the Dingley Bypass. Construction work on the Dingley Bypass is expected to commence in mid-2014. Combined with the recent opening of the Dandenong Bypass (previously referred to as the Dingley Arterial), this project will provide a 19 kilometre road link between key freight and commercial hubs in Moorabbin, Braeside and Dandenong South.

The Government is committed to delivering the East West Link project, with the first stage being the eastern section from the Eastern Freeway at Hoddle Street to City Link in Parkville. A competitive short-listed field of three consortia are vying for the opportunity to partner with the Government to build East West Link Stage 1. The Government has recently released a Comprehensive Impact Statement for public comment and the Linking Melbourne Authority is hosting a number of public information displays. Contracts to deliver the project are expected to be awarded in late 2014 with completion anticipated by 2019-20. East West Link Stage 1 will ease traffic congestion and improve travel times, boost Victoria's productivity and is expected to create 3 200 jobs during construction. The full East West Link will be an 18 kilometre cross-city road connection extending across Melbourne from the Eastern Freeway to the Western Ring Road.

The Commonwealth and Victorian Governments have jointly funded upgrades of three sections of the M80 Ring Road. These upgrades provide additional traffic lanes and incorporate managed motorways technology to improve traffic flows. Two of the upgrade sections have been completed and works are progressing on the third section between Edgars and Plenty Roads.

The Bayside rail improvement project is a program of station upgrades and infrastructure enhancements to improve passenger services on the Frankston line. It also involves infrastructure upgrades to support the deployment of high performance X'Trapolis trains on the Frankston, Werribee and Williamstown rail lines. Planning for the project is well advanced and it is expected the majority of station upgrades will be completed by the end of 2014. All works are expected to be completed by the end of 2015, including the deployment of X'Trapolis trains on the Frankston line.

An investment of $110 million was provided in the *2013-14 Budget* to the Port of Hastings Development Authority to develop the Port of Hastings as Victoria's second international container port. With a significant increase expected in container throughput in Victoria, providing additional container port capacity will enable efficient handling of increased container trade and generate economic flow on benefits for all of Victoria. The Port of Hastings Development Authority has started planning for the expansion of the port, including initiating a stakeholder engagement network as part of its consultation strategy. Completing the Port of Hastings project will significantly expand Victoria's container capacity and complements the current $1.6 billion expansion of container capacity at the Port of Melbourne.

Infrastructure for a growing population

At the same time, the Government is investing in new infrastructure to meet the needs of a growing population, secure future economic growth and enhance liveability.

The Government has significantly progressed a number of major projects to develop or upgrade Victorian hospitals including: procuring key contractors for the new Monash Children's Hospital, the Royal Victorian Eye and Ear Hospital redevelopment, the construction of the new Community Hospital in Southern Geelong, the redevelopment of Box Hill Hospital, investment in the new Bendigo Hospital and the construction of the Victorian Comprehensive Cancer Centre.

The upgrade of the Ringwood railway station will deliver a modern integrated hub for commuters and complement more private sector investment in the adjacent retail precinct. This project demonstrates how targeted investments, integrated transport and urban planning can boost employment and deliver better community outcomes. Detailed design is well underway and construction is expected to commence in 2014.

As part of the Metro Level Crossing Blitz program, the *2013-14 Budget* funded early works as a step towards removing railway level crossings at Main Road (St Albans), North Road (Ormond), Blackburn Road (Blackburn), and Mountain Highway and Scoresby Road (Bayswater). Funding was also provided to undertake planning for removing level crossings at Murrumbeena Road (Murrumbeena) and Burke Road (Glen Iris). These activities have commenced and are progressing according to schedule.

Better asset management and infrastructure value for money

Better management of the State's balance sheet will ensure government-owned assets are put to best economic use, and reform of infrastructure financing and delivery models offer new opportunities to improve economic and social infrastructure.

The Government is streamlining planning and other policies and processes associated with selling government-owned land to ensure that surplus land can be disposed of more efficiently, thereby encouraging sensible redevelopment and new housing and employment opportunities in Victoria's established neighbourhoods. The Government has also agreed to a new financial framework to better manage surplus government land.

Reforms to the public private partnership (PPP) model announced in May 2013 will help better engage the private sector to drive innovation and efficiency in infrastructure delivery. Changes include adopting modified financing structures, including a greater range of services and streamlining PPP tender processes. These reforms are currently being applied on the East West Link Stage1 project and the Ravenhall Prison project tender processes. Value for money will continue to be tested through a robust Public Sector Comparator benchmark. The assumed alternative procurement option will be removed and where appropriate the comparator will be an affordability benchmark with a scope ladder. Work continues to assess the suitability of the PPP model for smaller, less complex projects.

Building the skills and capabilities of Victoria's workforce

Improving the educational outcomes of Victorian students and the skills of the Victorian workforce will boost productivity and workforce participation as well as enabling the workforce to respond to new economic opportunities.

A responsive training system

Victoria's training system remains the most responsive in Australia to the changing needs of the labour market. Reforms to the system led to a 76 per cent increase in government funded enrolments between 2008 and 2012. Data from the National Centre for Vocational Education Research indicate that in 2012 Victoria had the highest participation rate in vocational education and training of 15 to 64 year olds of all states and territories.

The *2013-14 Budget* provided $2.3 billion for higher education and skills for 2013-14. Enrolments have dropped back in 2013 from unusually high levels in 2012, but remain much higher than in 2011, and have shifted towards training in courses that generate high value for the community. Data from the September quarter 2013 show that 70 per cent of commencing enrolments were in highest value courses compared with 49 per cent at in the first half of 2013.

The training market is continuing to develop and providers are becoming more responsive to industry need. The Government is facilitating market development by enabling potential students to make informed decisions about their training choices. For example, the Victorian Skills Gateway includes advice about courses, training providers, possible employment opportunities and government assistance with the cost of training. Government and business groups have also collaborated to develop a website, *Rate Your Training,* so that employers can rate their experience with a registered training organisation in a particular area of study, and view and compare the opinions of other employers.

The Government is also undertaking governance reforms to empower TAFEs to compete in an open, competitive market. This includes introducing new commercial and strategic planning guidelines and changes to board composition, working towards giving TAFEs greater control of their asset base and reducing regulatory burden.

School funding and reforms

The Government is committed to lifting the performance of the school system to world leading standards in the next 10 years. The Government will work with the Commonwealth to ensure that schools have the funding they need to achieve this goal.

The Government's reform agenda for school education, outlined in *Towards Victoria as a Learning Community* and the recently released *From new directions to action: World class teaching and school leadership*, is focused on improving teaching and leadership quality and facilitating this through greater school-level autonomy, accountability and support.

From new directions to action: World class teaching and school leadership sets out initiatives that will be pursued in three priority areas:

- attract people into teaching – attract better quality teaching candidates and improve their preparation;
- create a high-performance profession – stimulate a culture of excellence and effective professional development; and
- provide strong direction and support – elevate the role of leadership at school and system levels.

Towards Victoria as a learning community focuses on new expectations for professional practice, increased autonomy for schools, rigorous accountability, enhanced support for schools and a commitment to strengthening partnerships. Further detail on school evaluation and accountability arrangements is provided in the recently released *Overview* and *School Accountability* papers in the *Professional Practice and Performance for Improved Learning* series. These papers establish a consistent and transparent way of measuring school performance, a process for school evaluation, and, where necessary, targeted intervention and support.

Ensuring Victoria is a competitive and low cost place to do business

The Government is providing a more competitive business environment in Victoria.

Planning and land use reforms

Reforms to Victoria's residential, commercial, industrial and rural planning zones announced in July 2012 provide greater certainty by clarifying planning regulations for businesses. New commercial zones will provide greater flexibility and growth opportunities for Victoria's commercial and business centres. Amendments to replace the previous five business zones with two commercial zones came into effect in July 2013. The reforms allow Victoria's planning zones to better respond to present day requirements, support business investment and job creation, and provide greater clarity on what development can be expected in a given area.

Progress towards red tape target reduction

The Government is committed to reducing regulatory costs imposed on businesses, not-for-profit organisations, individuals and government services providers by 25 per cent by July 2014. To date, the red tape reduction program has identified red tape savings in excess of $600 million a year , much of which has been independently verified or is in the process of verification. The Government also appointed Mr John Lloyd, PSM as Victoria's first Red Tape Commissioner in January 2013. The Commissioner's engagement with business is informing a priority list of actions to eliminate red tape, supplementing the work already underway in the red tape reduction program.

Regulator statement of expectations reform process

The Government is introducing a new statement of expectations framework to lift regulator performance and reduce costs imposed by regulators. As a first step, responsible Ministers issued statements of expectations to the Victorian WorkCover Authority, VicRoads, the Environment Protection Authority, Consumer Affairs Victoria and the Victorian Commission for Gambling and Liquor Regulation. Ministers asked these regulators to develop and implement actions to reduce the cost of high-impact or high-volume compliance and administrative activities by reducing timelines and streamlining processes. A second wave of statements of expectations is being rolled out more widely to around 50 business regulators in 2013-14 and will further improve regulator outcomes and reduce costs on regulated parties.

Implementation of taxi industry reforms

The Government has introduced major structural reform of the taxi industry, focusing on boosting competition in the industry. A new regulatory framework – to be administered by the Taxi Services Commission – will cut industry costs and enable the development of innovative, customer-focused services. Legislation to deliver the reforms is being progressively introduced.

Fire Services Property Levy

The Government has implemented the Victorian Bushfires Royal Commission recommendation that the insurance-based fire services levy be replaced with a direct property levy to ensure that all Victorian property owners pay a fair contribution to our fire services. Under the previous arrangements, property owners who chose not to insure, under insure or self insure, made no (or an inadequate) contribution to funding fire services. The property based arrangement is a fairer system, as it is spread more broadly, and GST and stamp duty will no longer be charged on the levy. This provides savings for many families and businesses.

Review of regulatory efficiency

The Government will undertake a review focused on improving the efficiency and performance of Victorian regulators. Victoria has about 60 bodies involved in regulating business. The Government will undertake reforms to ensure that Victoria's regulatory environment is efficient and reduces regulatory burden on businesses without compromising regulatory outcomes.

Private sector investment and employment

Access to new markets, both interstate and overseas, creates jobs and investment and enables companies to grow.

As the investment phase of the resources boom peaks, global investors and businesses around the nation will look to Victoria's diverse sectors for new opportunities to drive investment and growth.

The State's international engagement strategy supports businesses to tap into new sources of trade and investment opportunities. This will be particularly important over the next 20 years as Asian markets grow in wealth and population, opening up new opportunities for Victorian exports.

Victorian businesses are already establishing themselves in the Asian region.

Victorian universities and vocational education providers have built a substantial export industry by providing higher education to foreign students and opening campuses throughout Asia. Valued at $4.3 billion in 2012-13, education is Victoria's largest service export, constituting 30 per cent of Australia's total education exports.

Food and fibre exports are also vital to Victoria's economic future. Despite having only 3 per cent of Australia's arable land base, Victoria accounts for 29 per cent of Australian food and fibre exports. Victorian food and fibre exports were worth $9.4 billion in 2012-13, up 5 per cent on the previous year. Assisted by varied climatic conditions across its regions, the State has earned a strong international reputation for clean, green, high-nutritional food and beverages, including dairy, meats, fruit, wine, cereals and confectionery. China is Victoria's top market for food and fibre exports, accounting for 23 per cent of Victoria's food and fibre exports in 2012-13. The market more than doubled over the past four years.

The Government's overseas trade missions are helping Victoria's world-class producers to further establish networks in new markets. There have been 65 Victorian Government trade missions to 31 countries since 2010.

The seven Victorian Government trade missions to China since 2010 have resulted in over $1.8 billion in projected additional export activity. In June the Premier led the largest trade mission from Australia to South East Asia. So far the Super Trade Mission has resulted in a projected additional export activity of over $221 million and 319 new jobs over the next two years.

Assisting industries and workers in transition

Victoria's manufacturing sector has significantly adjusted in response to intensifying competition, a high dollar, the globalisation of supply chains and growing demand for more specialised products.

Its resilience is demonstrated by its steady employment levels over the past year and some parts of the sector expanding. These trends underscore the sector's increasingly productive and specialised product offering.

Governments have a role in helping industries and workforces in transition. For example, the Geelong Development Fund will drive jobs growth and increase the skills of people in greater Geelong.

The Government has also implemented a number of initiatives to support retrenched workers.

Since October 2011, the Government has been providing retrenched workers with an opportunity to retrain or build on their current skills through the *Workers in Transition Program*. Workers from participating companies are offered the opportunity to take up a government subsidised training place in accredited training to help them transition to new employment as quickly as possible. Normally government subsidised training is only available for people who want to train at a level higher than their current qualification – this program removes this requirement for workers affected by retrenchment. Affected workers are also offered a range of support services including the provision of advice regarding careers, skills recognition assessments, and entry to a range of training opportunities.

A range of specialised financial and counselling support services are also provided and funded by the State Government. These include *MoneyHelp*, a free service that provides independent and confidential financial advice to Victorians struggling to pay their mortgage or rent, or facing job loss. As well there are programs to assist people facing financial hardship such as the Utility Relief Grant Scheme, the Generalist Financial Counselling program and the Housing Establishment Fund.

More generally, reforms to the vocational education and training sector to better match education with industry needs will help increase people's long-term employment opportunities. Government investment in major road and rail infrastructure will also assist in creating new employment opportunities.

The *2013-14 Budget Update* provides funding for an Economic Diversity Fund, which will support new private investment and job creation in the Hume, Geelong and immediate surrounding areas affected by Ford's decision to cease manufacturing in Australia from October 2016.

The Government's recent submission to the Productivity Commission inquiry into public support for Australia's automotive industry calls for continuing of current Commonwealth Government funding over a 10 year period. This is to assist the automotive industry to become profitable and sustainable as manufacturers, employees and the broader supply chain adjust to changing global conditions. Further, the Government encouraged the Productivity Commission to assess the policy reform effort needed to boost the automotive industry's international competitiveness. Such microeconomic reforms should benefit manufacturing and industry more broadly by improving the State's business environment.

CHAPTER 5 – ESTIMATED FINANCIAL STATEMENTS AND NOTES

Table 5.1: Estimated comprehensive operating statement for the financial year ending 30 June

($ million)

	Notes	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Revenue from transactions						
Taxation revenue	2	16 454.4	16 495.4	17 641.0	18 402.9	19 340.9
Interest revenue		867.0	842.2	841.2	859.9	868.7
Dividends and income tax equivalent and rate equivalent revenue	3	671.5	570.0	564.9	749.8	685.9
Sales of goods and services	4	6 949.5	6 721.2	6 626.7	6 849.8	6 897.0
Grants	5	23 310.5	23 251.8	24 268.0	24 819.0	26 166.4
Other revenue	6	2 074.5	2 142.5	1 997.1	2 057.2	2 094.9
Total revenue from transactions		**50 327.5**	**50 023.0**	**51 938.8**	**53 738.6**	**56 053.8**
Expenses from transactions						
Employee expenses		17 947.1	17 814.3	18 470.6	19 188.7	19 811.6
Net superannuation interest expense	7	1 129.2	1 052.0	1 005.3	991.2	970.4
Other superannuation	7	1 901.8	1 846.1	1 864.3	1 897.2	1 920.0
Depreciation	8	2 377.7	2 408.9	2 511.9	2 619.7	2 786.4
Interest expense	9	2 176.9	2 168.0	2 276.0	2 280.8	2 303.3
Grants and other transfers	10	7 997.4	7 788.4	8 215.8	8 352.4	8 704.3
Other operating expenses	11	16 573.0	16 723.5	16 683.9	16 357.1	16 839.0
Total expenses from transactions	12	**50 103.0**	**49 801.3**	**51 027.8**	**51 687.1**	**53 335.0**
Net result from transactions – net operating balance		**224.5**	**221.8**	**911.0**	**2 051.5**	**2 718.9**
Other economic flows included in net result						
Net gain/(loss) on disposal of non-financial assets		111.3	112.0	96.3	78.3	94.2
Net gain/(loss) on financial assets or liabilities at fair value		(0.4)	3.3	3.3	3.3	3.3
Other gains/(losses) from other economic flows	13	(374.8)	(279.0)	(280.0)	(303.7)	(320.5)
Total other economic flows included in net result		**(264.0)**	**(163.6)**	**(180.4)**	**(222.1)**	**(222.9)**
Net result		**(39.6)**	**58.1**	**730.6**	**1 829.4**	**2 495.9**
Other economic flows – other comprehensive income						
Items that will not be reclassified to net result						
Changes in non-financial assets revaluation surplus		3 918.0	813.8	3 536.8	994.8	1 948.6
Remeasurement of superannuation defined benefit plans	7	593.2	1 834.5	564.7	576.8	588.2

Table 5.1: Estimated comprehensive operating statement for the financial year ending 30 June *(continued)*

($ million)

	Notes	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets		1 559.2	1 683.9	2 626.0	1 028.5	(406.2)
Other movements in equity		2.3	7.6	(434.5)	(4.7)	(7.4)
Items that may be reclassified subsequently to net result						
Net gain/(loss) on financial assets at fair value		1.0	1.0	1.0	1.0	1.1
Total other economic flows – other comprehensive income		**6 073.5**	**4 340.7**	**6 294.0**	**2 596.4**	**2 124.2**
Comprehensive result – total change in net worth		**6 033.9**	**4 398.8**	**7 024.6**	**4 425.8**	**4 620.2**
KEY FISCAL AGGREGATES						
Net operating balance		**224.5**	**221.8**	**911.0**	**2 051.5**	**2 718.9**
Less: Net acquisition of non-financial assets from transactions	15	2 120.0	1 528.6	1 538.6	1 109.4	1 198.1
Net lending/(borrowing)		**(1 895.6)**	**(1 306.9)**	**(627.6)**	**942.1**	**1 520.8**

The accompanying notes form part of these estimated financial statements.

Table 5.2: Government fiscal result

($ million)

	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
GOVERNMENT FISCAL PARAMETER					
Net operating balance	224.5	221.8	911.0	2 051.5	2 718.9
Plus: Expected return on superannuation assets in excess of AASB 119 discount rate taken to other comprehensive income	593.2	541.2	564.7	576.8	588.2
Government fiscal result	**817.7**	**762.9**	**1 475.7**	**2 628.2**	**3 307.0**

The accompanying notes form part of these estimated financial statements.

Since the *2013-14 Budget*, the Government has introduced the 'government fiscal result' to ensure consistent, comprehensive and informed assessments can continue to be made of the State's financial performance in light of the substantial change and volatility introduced by the revised Australian Accounting Standard AASB 119 *Employee Benefits* in reporting the State's defined benefit superannuation interest expense.

The government fiscal result is comparable to the 'net result from transactions – net operating balance' published in previous budgets, to which previous budget settings and estimated outcomes were based.

The government fiscal result complements Victoria's reported net operating balance, providing another analytical measure of the State's operating performance. Compared with the net operating balance, the government fiscal result also takes into account the full impact of the expected return of the superannuation plan assets dedicated to fund and support the costs associated with servicing the Government's defined superannuation obligations.

Table 5.3: Estimated consolidated balance sheet as at 30 June

($ million)

	Notes	2013-14 Budget [a]	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Assets						
Financial assets						
Cash and deposits		4 150.2	3 998.9	4 206.9	4 532.0	4 890.7
Advances paid	16	4 584.6	4 590.3	4 541.1	4 484.8	4 456.8
Receivables		4 885.5	5 003.9	4 949.5	4 823.4	4 849.9
Investments, loans and placements	16	3 467.4	3 407.4	3 492.6	3 589.0	3 678.9
Investments accounted for using equity method		49.4	49.4	49.4	49.4	49.4
Investments in other sector entities	14	73 328.9	73 534.2	78 531.4	80 186.8	80 124.4
Total financial assets		**90 466.1**	**90 584.2**	**95 771.0**	**97 665.4**	**98 050.0**
Non-financial assets						
Inventories		192.6	194.0	198.4	203.0	207.5
Non-financial assets held for sale		135.5	107.2	100.6	93.9	87.3
Land, buildings, infrastructure, plant and equipment	17, 18	106 072.7	102 484.4	106 007.9	107 639.3	110 672.0
Other non-financial assets		918.7	951.2	906.7	839.6	812.6
Total non-financial assets		**107 319.5**	**103 736.8**	**107 213.6**	**108 775.7**	**111 779.4**
Total assets	19(c)	**197 785.5**	**194 321.0**	**202 984.6**	**206 441.2**	**209 829.4**
Liabilities						
Deposits held and advances received		455.9	448.9	448.9	448.9	448.9
Payables		5 670.2	5 678.2	5 137.0	4 853.5	4 621.7
Borrowings	20	34 711.3	34 250.7	36 573.9	36 050.0	35 371.2
Employee benefits	21	5 401.6	5 390.9	5 592.5	5 805.4	6 027.0
Superannuation	7(d)	24 932.5	23 568.0	23 196.5	22 792.0	22 218.0
Other provisions		622.9	628.3	655.1	684.9	716.0
Total liabilities		**71 794.4**	**69 965.0**	**71 604.0**	**70 634.8**	**69 402.9**
Net assets		**125 991.1**	**124 356.0**	**131 380.6**	**135 806.4**	**140 426.6**
Accumulated surplus/(deficit)		43 719.5	45 068.6	45 918.4	48 308.8	51 374.5
Reserves	22	82 221.6	79 237.4	85 412.2	87 447.6	89 002.1
Non-controlling interest		50.0	50.0	50.0	50.0	50.0
Net worth		**125 991.1**	**124 356.0**	**131 380.6**	**135 806.4**	**140 426.6**
FISCAL AGGREGATES						
Net financial worth		18 671.7	20 619.3	24 167.0	27 030.7	28 647.1
Net financial liabilities		54 657.3	52 915.0	54 364.5	53 156.2	51 477.3
Net debt		22 964.9	22 702.9	24 782.3	23 893.2	22 793.8

The accompanying notes form part of these estimated financial statements.

Note:

(a) Balances represent actual opening balances at 1 July 2013 plus 2013-14 budgeted movements.

Table 5.4: Estimated consolidated cash flow statement for the financial year ending 30 June

($ million)

	Notes	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Cash flows from operating activities						
Receipts						
Taxes received		16 450.9	16 530.4	17 617.7	18 423.3	19 280.8
Grants		23 310.5	23 200.8	24 267.8	24 869.5	26 166.1
Sales of goods and services [(a)]		7 631.3	7 433.9	7 318.4	7 554.6	7 594.4
Interest received		844.9	820.3	820.3	840.8	851.4
Dividends and income tax equivalent and rate equivalent receipts		650.4	612.7	561.3	749.7	680.4
Other receipts		1 784.9	1 784.4	1 678.9	1 696.5	1 722.1
Total receipts		**50 672.9**	**50 382.4**	**52 264.4**	**54 134.4**	**56 295.2**
Payments						
Payments for employees		(17 757.4)	(17 634.4)	(18 268.9)	(18 975.7)	(19 589.8)
Superannuation		(2 647.9)	(2 638.1)	(2 676.4)	(2 716.1)	(2 876.3)
Interest paid		(2 133.0)	(2 125.4)	(2 236.3)	(2 243.8)	(2 268.0)
Grants and subsidies		(8 118.3)	(7 909.4)	(8 273.4)	(8 416.7)	(8 804.0)
Goods and services [(a)]		(16 662.0)	(16 879.1)	(16 783.1)	(16 446.1)	(16 870.9)
Other payments		(622.8)	(622.8)	(659.0)	(688.2)	(717.4)
Total payments		**(47 941.3)**	**(47 809.1)**	**(48 897.1)**	**(49 486.6)**	**(51 126.4)**
Net cash flows from operating activities		**2 731.6**	**2 573.2**	**3 367.3**	**4 647.8**	**5 168.9**
Cash flows from investing activities						
Purchases of non-financial assets	19(a)	(4 868.9)	(4 185.2)	(4 389.5)	(3 096.8)	(4 111.2)
Sales of non-financial assets		420.2	407.7	419.3	485.8	445.2
Cash flows from investments in non-financial assets		**(4 448.7)**	**(3 777.5)**	**(3 970.1)**	**(2 611.0)**	**(3 666.0)**
Net cash flows from investments in financial assets for policy purposes		(1 377.3)	(1 526.6)	(1 388.8)	(39.7)	(94.9)
Sub-total		**(5 826.0)**	**(5 304.2)**	**(5 358.9)**	**(2 650.7)**	**(3 760.8)**
Net cash flows from investments in financial assets for liquidity management purposes		(83.1)	(19.3)	(80.4)	(91.6)	(85.1)
Net cash flows from investing activities		**(5 909.1)**	**(5 323.4)**	**(5 439.3)**	**(2 742.3)**	**(3 845.9)**
Cash flows from financing activities						
Net borrowings		3 359.0	2 787.4	2 279.9	(1 580.4)	(964.3)
Deposits received (net)		6.8	(0.2)	..	..	..
Net cash flows from financing activities		**3 365.7**	**2 787.2**	**2 279.9**	**(1 580.4)**	**(964.3)**

	Notes	*2013-14 Budget*	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Net increase/(decrease) in cash and cash equivalents		**188.2**	**37.0**	**207.9**	**325.1**	**358.7**
Cash and cash equivalents at beginning of reporting period		3 962.0	3 962.0	3 998.9	4 206.9	4 532.0
Cash and cash equivalents at end of reporting period		**4 150.2**	**3 998.9**	**4 206.9**	**4 532.0**	**4 890.7**
FISCAL AGGREGATES						
Net cash flows from operating activities		2 731.6	2 573.2	3 367.3	4 647.8	5 168.9
Net cash flows from investments in non-financial assets		(4 448.7)	(3 777.5)	(3 970.1)	(2 611.0)	(3 666.0)
Cash surplus/(deficit)		**(1 717.1)**	**(1 204.3)**	**(602.8)**	**2 036.8**	**1 502.9**

The accompanying notes form part of these estimated financial statements.

Note:
(a) These items are inclusive of goods and services tax.

Table 5.5: Estimated consolidated statement of changes in equity for the financial year ending 30 June

($ million)

	Accumulated surplus/(deficit)	*Non-controlling Interest*
2013-14 Budget		
Balance at 1 July 2013	43 174.7	50.0
Net result for the year	(39.6)	..
Other comprehensive income for the year	584.4	..
Transactions with owners in their capacity as owners	..	..
Total equity at end of period	**43 719.6**	**50.0**
2013-14 Revised		
Balance at 1 July 2013	43 174.7	50.0
Net result for the year	58.1	
Other comprehensive income for the year	1 835.8	..
Transactions with owners in their capacity as owners	..	..
Total equity at end of period	**45 068.6**	**50.0**
2014-15 Estimate		
Balance at 1 July 2014	45 068.6	50.0
Net result for the year	730.6	..
Other comprehensive income for the year	119.2	..
Transactions with owners in their capacity as owners	..	..
Total equity at end of period	**45 918.4**	**50.0**
2015-16 Estimate		
Balance at 1 July 2015	45 918.4	50.0
Net result for the year	1 829.4	..
Other comprehensive income for the year	561.0	..
Transactions with owners in their capacity as owners	..	..
Total equity at end of period	**48 308.8**	**50.0**
2016-17 Estimate		
Balance at 1 July 2016	48 308.8	50.0
Net result for the year	2 495.9	..
Other comprehensive income for the year	569.8	..
Transactions with owners in their capacity as owners	..	
Total equity at end of period	**51 374.5**	**50.0**

	Land, buildings, infrastructure, plant and equipment revaluation surplus	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
	37 663.0	38 148.1	921.3	119 957.2
	..	..	..	(39.6)
	3 918.0	1 559.2	11.9	6 073.5
	..	..	..	..
	41 581.0	**39 707.3**	**933.3**	**125 991.2**
	37 663.0	38 148.1	921.3	119 957.2
				58.1
	813.8	1 683.9	7.3	4 340.7
	..	..	..	..
	38 476.8	**39 832.0**	**928.6**	**124 356.0**
	38 476.8	39 832.0	928.6	124 356.0
	..	..	..	730.6
	3 536.8	2 626.0	12.0	6 294.0
	..	..	..	..
	42 013.6	**42 458.0**	**940.6**	**131 380.6**
	42 013.6	42 458.0	940.6	131 380.6
	..	..	..	1 829.4
	994.8	1 028.5	12.1	2 596.4
	..	..	..	..
	43 008.4	**43 486.6**	**952.7**	**135 806.4**
	43 008.4	43 486.6	952.7	135 806.4
	..	..	..	2 495.9
	1 948.6	(406.2)	12.1	2 124.2
				..
	44 957.0	**43 080.4**	**964.8**	**140 426.6**

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Statement of significant accounting policies and forecast assumptions

The following summary sets out the basis applied in the preparation and presentation of these updated estimated financial statements, which includes the budget year and the estimates for the three subsequent years (referred to as the budget and forward estimates period).

Except as disclosed below, the accounting policies and forecast assumptions applied are consistent with those of the estimated financial statements as published in the 2013-14 Budget Paper No. 5 *Statement of Finances*, which should be read in conjunction with this update. For further details of the accounting policies, refer to Note 1 of Chapter 4 *Annual Financial Report* of the *2012-13 Financial Report* as presented to Parliament.

To gain a better understanding of the terminology and key aggregates used in this report, a glossary of terms can be found in Note 39 of Chapter 4 *Annual Financial Report* of the *2012-13 Financial Report.*

(A) Statement of compliance

These estimated financial statements have been prepared in accordance with Section 23L of the *Financial Management Act 1994*, having regard to Australian Accounting Standards (AAS). AAS include Interpretations issued by the Australian Accounting Standards Board (AASB).

The estimated financial statements are presented in a manner consistent with the principles 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 have been omitted. Where appropriate, those AAS paragraphs relevant 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 having regard to the principles set out in New Zealand Financial Reporting Standard 42 *Prospective Financial Statements.*

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

The information presented in the estimated financial statements takes into account all policy decisions taken by the Victorian Government, as well as known Commonwealth Government funding revisions and circumstances that may have a material effect on the estimated financial statements as at 2 December 2013.

(B) Basis of accounting, preparation and measurement

The estimated financial statements have been prepared for the 2013-14 year in accordance with accounting policies expected to be used in preparing historically oriented general purpose financial statements for that year, and the same accounting policies have been used for the subsequent forecast years.

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

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.

The estimated financial statements are presented in Australian dollars which is also the functional currency of the Victorian general government sector.

Judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision.

The estimated financial statements have been prepared in accordance with the historical cost convention. Historical cost is based on the fair values of the consideration given in exchange for assets. Exceptions to the historical cost convention include:

- general government sector investments in other sector entities that are measured at the proportional share of net asset value;
- non-financial physical assets which, subsequent to acquisition, are measured at a revalued amount being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amounts do not materially differ from their fair value;
- productive trees in commercial native forests, which are recognised at their fair value less costs to sell;
- derivative financial instruments, managed investment schemes, certain debt securities and investment properties after initial recognition, which are measured at fair value with changes reflected in the estimated comprehensive operating statement (fair value through profit and loss);
- certain liabilities, most notably unfunded superannuation and some insurance claim provisions, which are subject to an actuarial assessment; and
- available-for-sale investments which are measured at fair value with movements reflected in 'Other economic flows – other comprehensive income'.

As required by AASB 1049, the estimated comprehensive operating statement distinguishes between 'transactions' and 'other economic flows' based on the principles in the ABS GFS manual. Transactions are defined as economic flows that arise as a result of government policy decisions, usually an interaction between two entities by mutual agreement. Taxation is regarded under GFS as mutually agreed between the government and the taxpayer. Transactions also include flows within an organisation such as depreciation because the owner is seen as simultaneously acting as the owner of the depreciating asset and the consumer of the service provided by the asset. Transactions may be settled in kind or for cash.

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

Economic flows are changes arising from market remeasurements or other changes in the volume of assets. They include gains and losses from disposals, revaluations and impairments of non-financial 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.

(C) Reporting entity

The estimated financial statements are prepared for the Victorian general government sector which 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 primary function of entities in 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.

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.

(D) 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, consistent with the principles of AASB 1049 and AASB 127 *Consolidated and Separate Financial Statements*.

Entities in the public non-financial corporations (PNFC) and public financial corporations (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 Government's proportional share of the carrying amount of net assets of PNFC and PFC sector entities before consolidation eliminations. Where the carrying amount of an entity's net assets before consolidation eliminations is less than zero, the amount is not included. Any change in the carrying amount of the investment from period to period is accounted for as if the change in carrying amount is a change in fair value and accounted for in a manner consistent with AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 1049.

Where control of an entity is expected to be obtained during the financial period, its results are included in the estimated comprehensive operating statement from the date on which control will commence. Where control is expected to cease during a financial period, the entity's results are included for that part of the period for which control would exist. Where dissimilar accounting policies are adopted by entities and their effect is considered material, adjustments are made to ensure consistent policies are adopted in the estimated financial statements.

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

In the process of reporting the Victorian general government sector, all material transactions and balances between entities within the sector are eliminated.

The significant entities consolidated within the sector comprise those entities listed in Note 41 of Chapter 4 *Annual Financial Report* of the *2012-13 Financial Report*, except as stated in Note 25 of the estimated financial statements.

(E) Rounding

All amounts in the estimated financial statements have been rounded to the nearest $100 000 unless otherwise stated. Figures in the estimated financial statements may not add due to rounding.

(F) Key financial measure

The Government expects to achieve a net operating surplus (net result from transactions) of at least $100 million each year over the budget and forward estimates period that is consistent with the infrastructure and debt parameters, as set out in Chapter 1 *Economic and Fiscal Overview*.

(G) Revised material economic and other assumptions

The estimated financial statements have been prepared using material economic and other assumptions listed below, which have been updated since the publication of the *2013-14 Budget*.

Key economic assumptions[a]

	2013-14 Forecast	*2014-15 Forecast*	*2015-16 Forecast*	*2016-17 Forecast*
		($ billion)		
Nominal gross state product	352.6	370.0	389.8	410.4
		(percentage change) [b]		
Real gross state product	2.00	2.75	2.75	2.75
Employment	1.00	1.50	1.75	1.50
Unemployment rate	6.00	5.75	5.50	5.00
Consumer price index [c]	2.50	2.25	2.50	2.50
Wage price index [d]	3.00	3.25	3.50	3.50
Population	1.70	1.70	1.70	1.70

Source: Department of Treasury and Finance

Notes:

(a) The key assumptions underlying the economic projections include interest rates that follow market expectations up to the March quarter 2015 and held constant thereafter, constant exchange rates, and oil prices that follow the path suggested by oil futures.

(b) Year-average per cent change on previous year, except for the unemployment rate which is a year-average per cent, and population which is a year-ended per cent change to 30 June. 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.

(c) All references to the consumer price index refer to the Melbourne consumer price index.

(d) Total hourly rate excluding bonuses.

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

Revised forecast assumptions for superannuation

The accounting policies relating to superannuation expenses and liabilities are consistent with those applied in preparing and presenting the *2013-14 Budget*. However, the forecast assumptions have been revised for the budget year and forward years for each relevant defined benefit superannuation scheme as disclosed in the following table.

Underlying assumptions for all listed schemes [(a)]	*Per cent*
Discount rate [(b)]	4.4
Wages growth [(c)]	3.8
Inflation rate [(d)]	2.3
Expected return on assets [(e)]	
Emergency Services and State Super	8.0
Parliamentary Contributory Superannuation Fund	8.0
Health Super Fund Defined Benefit Scheme	7.2
Constitutionally protected schemes [(f)]	n.a.

Source: Department of Treasury and Finance

Notes:

(a) All rates are nominal annual rates and are applicable to all the listed schemes.

(b) The discount rate is based on a long-term fixed interest Commonwealth Government bond rate. The rate stated above is an annual effective rate, gross of tax.

(c) Wages growth is based on actuarial expectations.

(d) The inflation rate assumed by the actuary reflects market expectations of price inflation, implied from the relationship between the yields on nominal and inflation linked Commonwealth Government bonds. This ensures consistency with the prescribed (i.e. market-based) discount rate.

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

(f) Pensions payable from constitutionally protected schemes are paid from the Consolidated Fund. These schemes hold no assets so there is no expected return on assets.

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

Asset allocation

Asset class	*Per cent*
Domestic equity	26.7
International equity	26.1
Domestic and international debt assets	18.9
Property	8.2
Cash	6.0
Other (including private equity, hedge funds and infrastructure)	14.1
Total	**100.0**

Source: Department of Treasury and Finance

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

A revised version of AASB 119 *Employee Benefits* was issued in September 2011 and applies from 1 January 2013. The revised AASB 119 changes the way defined benefit superannuation expenses are presented in the comprehensive operating statement. More specifically, the revised AASB 119 requires the net superannuation interest expense to be calculated using the discount rate (a long-term government bond rate) without reference to the expected rate of investment return on assets, as was previously the case.

This significantly increased the reported net superannuation interest expense and negatively affected the general government sector's net result from transactions.

However, the overall reported defined benefit superannuation expense is unchanged under the revised standard as any increase in the net superannuation interest expense is offset by a corresponding actuarial gain that is included in the comprehensive result. The reported superannuation liability, and associated funding requirements, are also unchanged under the revised standard.

The impact of the revised standard has been included in the estimated financial statements.

(H) 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).

Refer to Appendix D *Sensitivity analysis*, 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 one per cent higher or lower than expected.

(I) Prospective accounting changes

The following relevant AAS have been issued by the AASB but are not yet effective for the 2013-14 year. They become effective for the first consolidated financial statements for reporting periods commencing after the relevant operative date as follows:

- AASB 9 *Financial Instruments*, operative from 1 January 2015 with early adoption permitted. This Standard simplifies requirements for the classification and measurement of financial assets and replaces those requirements in AASB 139 *Financial Instruments: Recognition and Measurement.*

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

- AASB 10 *Consolidated Financial Statements,* operative from 1 January 2014 for not-for-profit entities. Once applicable, this Standard replaces those requirements in AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 112 *Consolidation – Special Purpose Entities*. Similar to AASB 127, the new Standard focuses on 'control' in determining whether an entity needs to consolidate another entity. However, the criteria to assess 'control' under the new Standard have changed. Three criteria are required to assess whether control exists, being: the entity's power over an investee, the entity's exposure, or rights, to variable returns from an investee, and the ability to affect those returns through power over an investee. Recently the AASB issued an implementation guidance for application by not-for-profit entities. In light of the guidance, considerations will be made with regard to the State's relationships with other entities, including the potential consolidation implications.
- AASB 11 *Joint Arrangements,* operative from 1 January 2014 for not-for-profit entities. This Standard requires entities that have an interest in arrangements that are controlled jointly to assess whether the arrangement is a joint operation or joint venture. If the arrangement is assessed to be a joint operation, it shall be accounted for as per AASB 11. If the arrangement is assessed to be a joint venture, it shall be accounted for as per AASB 128 *Investments in Associates and Joint Ventures* (see below). AASB 11 replaces those requirements in AASB 131 *Interests in Joint Ventures*. In light of the implementation guidance recently issued by the AASB for not-for-profit entities, the State is continuing its assessment of the potential implications of the Standard.
- AASB 12 *Disclosure of Interests in Other Entities,* operative from 1 January 2014 for not-for-profit entities. This Standard requires disclosure of information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on the financial statements. This Standard replaces the disclosure requirements in AASB 127 *Separate Financial Statements* and AASB 131 *Interests in Joint Ventures*. In light of the implementation guidance recently issued by the AASB for not-for-profit entities, the State is continuing its assessment of the potential implications of the Standard.
- AASB 127 *Separate Financial Statements,* operative from 1 January 2014 with early adoption permitted for not-for-profit entities from 1 January 2013. This revised Standard prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements and replaces AASB 127 (March 2008, as amended). In light of the implementation guidance recently issued by the AASB for not-for-profit entities, the State is continuing its assessment of the potential implications of the Standard.

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

- AASB 128 *Investments in Associates and Joint Ventures,* operative from 1 January 2014 with early adoption permitted for not-for-profit entities from 1 January 2013. This revised Standard sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. In light of the implementation guidance recently issued by the AASB for not-for-profit entities, the State is continuing its assessment of the potential implications of the Standard.
- AASB 1055 *Budgetary Reporting*, operative from 1 January 2014. This Standard sets out the budgetary reporting requirements for the whole of government, the general government sector, as well as for not-for-profit entities in the general government sector to the extent that separate budgetary information is presented to Parliament. From the whole of government and general government sector's perspective, this Standard replicates the budgetary disclosure requirements that currently exist in AASB 1049 and therefore will not result in any impacts on reporting.

Several other amending standards have been issued that are applicable for future reporting periods which have insignificant impacts on public sector reporting.

At this stage, there is no intention to early adopt the above accounting standards.

Note 2: Taxation

($ million)

	2013-14 Budget	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Taxes on employers' payroll and labour force	**5 110.9**	**4 910.0**	**5 180.1**	**5 481.0**	**5 786.0**
Taxes on property					
Taxes on immovable property					
Land tax	1 564.6	1 566.4	1 803.9	1 762.6	1 984.5
Fire services property levy	610.9	610.9	605.9	612.4	625.1
Congestion levy	93.5	93.5	123.0	125.9	129.1
Metropolitan improvement levy	141.3	140.8	145.7	150.8	157.4
Total taxes on immovable property	**2 410.2**	**2 411.6**	**2 678.5**	**2 651.8**	**2 896.1**
Financial and capital transactions					
Land transfer duty	3 459.5	3 908.6	4 143.7	4 392.1	4 655.3
Other property duties	8.1	6.8	6.9	7.1	7.3
Financial accommodation levy	132.8	130.8	171.0	214.0	244.5
Growth Areas Infrastructure Contribution	64.3	59.5	62.8	66.2	69.8
Total financial and capital transactions	**3 664.7**	**4 105.6**	**4 384.4**	**4 679.4**	**4 976.9**
Total taxes on property	**6 074.9**	**6 517.1**	**7 062.9**	**7 331.1**	**7 873.0**
Taxes on the provision of goods and services					
Gambling taxes					
Private lotteries	410.1	397.7	408.3	424.4	437.7
Electronic gaming machines	1 154.4	1 013.4	1 098.1	1 100.8	1 104.1
Casino	230.6	223.6	283.3	294.5	306.3
Racing	91.3	88.1	89.5	90.7	91.9
Other	20.2	19.7	23.2	28.9	36.4
Total gambling taxes	**1 906.6**	**1 742.5**	**1 902.4**	**1 939.3**	**1 976.3**
Levies on statutory corporations [(a)]	**117.5**	**112.5**	**112.5**	**112.5**	**..**
Taxes on insurance	**1 049.8**	**1 041.9**	**1 111.1**	**1 182.7**	**1 259.0**
Total taxes on the provision of goods and services	**3 073.8**	**2 896.9**	**3 126.0**	**3 234.5**	**3 235.3**
Taxes on the use of goods and performance of activities					
Motor vehicle taxes					
Vehicle registration fees	1 239.7	1 223.1	1 294.3	1 358.7	1 426.8
Duty on vehicle registrations and transfers	661.1	654.6	674.4	694.6	715.7
Total motor vehicle taxes	**1 900.8**	**1 877.7**	**1 968.7**	**2 053.3**	**2 142.5**
Liquor license fees	**23.5**	**23.1**	**22.4**	**21.8**	**22.4**
Other	**270.6**	**270.5**	**280.8**	**281.2**	**281.7**
Total taxes on the use of goods and performance of activities	**2 194.8**	**2 171.4**	**2 272.0**	**2 356.3**	**2 446.7**
Total taxation revenue	**16 454.4**	**16 495.4**	**17 641.0**	**18 402.9**	**19 340.9**

Note:
(a) The existing environmental levy payable by water authorities is not expected to continue beyond 2015-16.

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

($ million)

	2013-14 Budget	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Dividends	449.4	407.8	375.8	545.9	485.8
Income tax equivalent	216.8	156.7	183.3	198.0	193.8
Local government rate equivalent revenue	5.3	5.5	5.7	6.0	6.2
Total dividends and income tax equivalent and rate equivalent revenue	**671.5**	**570.0**	**564.9**	**749.8**	**685.9**

Note 4: Sale of goods and services

($ million)

	2013-14 Budget	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Motor vehicle regulatory fees	227.3	229.9	217.9	215.1	199.5
Other regulatory fees	402.3	465.7	434.1	445.1	460.6
Sale of goods	108.4	91.6	93.9	95.0	94.1
Provision of services	4 565.1	4 287.7	4 127.5	4 280.0	4 330.3
Rental	53.7	53.6	53.7	53.9	54.0
Refunds and reimbursements	68.3	68.3	69.7	71.2	71.2
Inter-sector capital asset charge	1 524.4	1 524.4	1 629.9	1 689.5	1 687.4
Total sales of goods and services	**6 949.5**	**6 721.2**	**6 626.7**	**6 849.8**	**6 897.0**

Note 5: Grants

($ million)

	2013-14 Budget	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
General purpose grants – goods and services tax	11 297.2	11 442.7	11 906.5	12 758.4	13 778.3
Specific purpose grants for on-passing	2 977.9	2 712.8	3 096.5	3 312.3	3 516.3
Other grants for specific purposes	8 904.6	8 972.5	9 145.3	8 633.4	8 759.7
Total	**23 179.8**	**23 128.0**	**24 148.4**	**24 704.1**	**26 054.4**
Other contributions and grants	130.7	123.7	119.6	114.9	112.1
Total grants	**23 310.5**	**23 251.8**	**24 268.0**	**24 819.0**	**26 166.4**

Note 6: Other revenue

($ million)

	2013-14 Budget	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Fair value of assets received free of charge or for nominal consideration	1.8	5.5	1.8	1.7	1.9
Fines	714.9	720.8	771.7	787.8	804.0
Royalties	47.5	47.5	48.6	49.8	49.8
Donations and gifts	235.7	247.8	245.9	260.2	260.8
Other non-property rental	21.0	22.3	22.4	22.5	22.5
Other miscellaneous revenue	1 053.6	1 098.6	906.6	935.1	955.9
Total other revenue	**2 074.5**	**2 142.5**	**1 997.1**	**2 057.2**	**2 094.9**

Note 7: Superannuation

(a) Superannuation expense recognised in the operating statement

($ million)

	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Defined benefit plans					
Net superannuation interest expense	1 129.2	1 052.0	1 005.3	991.2	970.4
Current service cost	763.8	719.6	691.3	676.1	664.8
Expected return on plan assets not included in interest income					
Expected return on superannuation assets excluding interest income	(593.2)	(541.2)	(564.7)	(576.8)	(588.2)
Other actuarial (gain)/loss on superannuation assets	..	(629.9)	..	..	..
Actuarial and other adjustments to unfunded superannuation liability	..	(663.5)	..	..	..
Total (gain)/expenses recognised in respect of defined benefit plans	**1 299.8**	**(62.9)**	**1 131.9**	**1 090.5**	**1 047.0**
Defined contribution plans					
Employer contributions to defined contribution plans	1 078.4	1 066.9	1 112.0	1 160.1	1 194.2
Other (including pensions)	59.6	59.6	61.1	61.1	61.1
Total expense recognised in respect of defined contribution plans	**1 138.0**	**1 126.5**	**1 173.0**	**1 221.2**	**1 255.2**
Total superannuation (gain)/expense recognised in operating statement	**2 437.9**	**1 063.6**	**2 304.9**	**2 311.6**	**2 302.2**
Represented by:					
Net superannuation interest expense	1 129.2	1 052.0	1 005.3	991.2	970.4
Other superannuation	1 901.8	1 846.1	1 864.3	1 897.2	1 920.0
Superannuation expense from transactions	**3 031.0**	**2 898.1**	**2 869.6**	**2 888.4**	**2 890.4**
Remeasurement recognised in other comprehensive income	**(593.2)**	**(1 834.5)**	**(564.7)**	**(576.8)**	**(588.2)**
Total superannuation costs recognised in operating statement	**2 437.9**	**1 063.6**	**2 304.9**	**2 311.6**	**2 302.2**

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

($ million)

	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Opening balance of defined benefit obligation	**42 295.1**	**42 295.1**	**41 806.6**	**41 906.0**	**41 914.7**
Current service cost	763.8	719.6	691.3	676.1	664.8
Interest cost	1 793.0	1 773.1	1 786.2	1 790.5	1 787.4
Contributions by plan participants	199.3	197.3	191.6	186.5	181.3
Actuarial (gains)/losses	..	(663.5)	..	..	..
Benefits paid	(2 486.5)	(2 514.9)	(2 569.7)	(2 644.3)	(2 770.2)
Closing balance of defined benefit obligation	**42 564.8**	**41 806.6**	**41 906.0**	**41 914.7**	**41 778.1**

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

($ million)

	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Opening balance of plan assets	**17 157.6**	**17 157.6**	**18 238.6**	**18 709.5**	**19 122.7**
Interest income	663.8	721.0	780.9	799.3	817.0
Return on plan assets not included in interest income	593.2	541.2	564.7	576.8	588.2
Actuarial gains/(losses)	..	629.9	..	..	..
Employer contributions	1 504.8	1 506.6	1 503.4	1 495.0	1 621.1
Contributions by plan participants	199.3	197.3	191.6	186.5	181.3
Benefits paid (including tax paid)	(2 486.5)	(2 514.9)	(2 569.7)	(2 644.3)	(2 770.2)
Closing balance of plan assets	**17 632.2**	**18 238.6**	**18 709.5**	**19 122.7**	**19 560.1**

(d) Reconciliation of the superannuation liabilities

($ million)

	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Emergency Services and State Super					
Defined benefit obligation	37 364.6	36 810.7	36 915.5	36 932.8	36 830.2
Tax liability [a]	2 729.8	2 522.7	2 494.0	2 464.0	2 412.1
Plan assets	(16 314.8)	(16 893.6)	(17 372.3)	(17 792.6)	(18 239.6)
Net liability/(asset)	**23 779.6**	**22 439.8**	**22 037.3**	**21 604.2**	**21 002.7**
Other funds [b]					
Defined benefit obligation	2 474.3	2 478.8	2 501.4	2 522.2	2 539.3
Tax liability [a]	(4.0)	(5.6)	(4.9)	(4.2)	(3.6)
Plan assets	(1 317.4)	(1 345.0)	(1 337.2)	(1 330.1)	(1 320.5)
Net liability/(asset)	**1 152.9**	**1 128.2**	**1 159.3**	**1 187.9**	**1 215.2**
Total superannuation					
Defined benefit obligation	39 839.0	39 289.5	39 416.9	39 454.9	39 369.5
Tax liability [a]	2 725.8	2 517.1	2 489.1	2 459.8	2 408.5
Plan assets	(17 632.2)	(18 238.6)	(18 709.5)	(19 122.7)	(19 560.1)
Superannuation liability	**24 932.5**	**23 568.0**	**23 196.5**	**22 792.0**	**22 218.0**
Represented by:					
Current liability	1 000.0	1 000.0	1 000.0	1 133.4	1 264.2
Non-current liability	23 932.5	22 568.0	22 196.5	21 658.7	20 953.7
Total superannuation liability	**24 932.5**	**23 568.0**	**23 196.5**	**22 792.0**	**22 218.0**

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)

	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Buildings [a]	947.5	945.9	1 040.7	1 065.1	1 223.3
Leasehold buildings	92.3	95.1	94.7	94.9	103.9
Infrastructure systems	25.1	30.4	30.9	31.5	31.8
Leased plant, equipment and vehicles	669.0	661.1	670.0	669.2	665.8
Road and road networks	569.3	577.4	585.8	667.7	677.6
Cultural assets	19.0	29.2	19.2	19.2	19.2
Intangible produced assets [b]	55.4	69.8	70.6	72.0	64.8
Total depreciation	**2 377.7**	**2 408.9**	**2 511.9**	**2 619.7**	**2 786.4**

Notes:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2013-14 to 2016-17.

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

Note 9: Interest expense

($ million)

	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Interest on long-term interest-bearing liabilities	1 306.2	1 298.5	1 415.9	1 454.7	1 389.5
Interest on short-term interest-bearing liabilities	52.7	50.8	53.0	53.1	53.1
Finance charges on finance leases	774.4	775.1	766.2	735.0	823.9
Discount interest on payables	43.6	43.6	41.0	38.0	36.8
Total interest expense	**2 176.9**	**2 168.0**	**2 276.0**	**2 280.8**	**2 303.3**

Note 10: Grants and other transfers

($ million)

	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Current grants and other transfers expense					
Commonwealth Government	170.7	182.0	165.7	199.1	202.3
Local government (including grants for on-passing)	781.8	642.8	788.6	745.1	740.3
Private sector and not-for-profit for on-passing [(a)]	2 450.5	2 433.1	2 613.8	2 809.4	2 809.4
Other private sector and not-for-profit [(a)]	1 658.9	1 534.9	1 598.9	1 675.3	2 015.9
Grants within the Victorian Government	2 767.7	2 829.9	2 891.4	2 847.8	2 857.5
Grants to other state governments	11.3	13.4	10.7	11.0	11.0
Total current grants and other transfers	**7 841.0**	**7 636.1**	**8 069.1**	**8 287.7**	**8 636.4**
Capital grants expense					
Commonwealth Government	0.3	1.7	0.2	0.2	0.2
Local government (including grants for on-passing)	77.3	71.7	74.9	29.5	35.8
Private sector and not-for-profit on-passing	69.7	69.7	50.9	30.8	27.2
Other private sector and not-for-profit	3.5	3.7	3.7	3.7	4.2
Other grants	5.5	5.5	17.0	0.5	0.5
Total capital grants and other transfers	**156.4**	**152.3**	**146.7**	**64.7**	**68.0**
Total grants and other transfers	**7 997.4**	**7 788.4**	**8 215.8**	**8 352.4**	**8 704.3**

Note:

(a) Grants have been reallocated from 'private sector and not for profit for on-passing' to 'other private sector and not for profit' restating the estimate for the 2013-14 published budget.

Note 11: Other operating expenses

($ million)

	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Purchase of supplies and consumables	7 640.3	7 497.6	7 758.4	7 678.2	8 051.9
Cost of goods sold	178.7	179.1	13.8	14.1	14.2
Finance expenses and fees	24.3	24.5	21.1	20.8	20.7
Purchase of services	7 037.5	7 296.0	7 126.0	6 863.5	6 934.6
Maintenance	821.1	830.4	824.9	820.7	826.9
Operating lease payments	231.8	256.7	264.1	255.0	256.9
Other	639.2	639.3	675.5	704.7	733.9
Total other operating expenses	**16 573.0**	**16 723.5**	**16 683.9**	**16 357.1**	**16 839.0**

Note 12: Total expenses by government purpose and by department

(a) Expenses by government purpose classification

($ million)

	2013-14 Budget [(a)]	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Expenses					
General public services	827.8	749.7	663.7	713.4	832.8
Public order and safety	5 324.3	5 350.8	5 679.9	5 754.6	5 983.5
Education	12 368.9	12 449.7	12 880.2	13 327.2	13 762.2
Health	13 584.7	13 523.7	14 000.6	14 071.8	14 621.6
Social security and welfare	3 978.5	3 947.4	4 090.2	4 250.9	4 442.6
Housing and community amenities	2 351.7	2 167.4	2 417.1	2 375.0	2 368.9
Recreation and culture	649.9	654.6	651.3	596.3	625.5
Fuel and energy	231.4	249.9	177.9	150.2	136.3
Agriculture, forestry, fishing, and hunting	274.1	284.9	272.4	263.0	269.2
Transport and communications	5 525.6	5 388.8	5 326.0	5 424.8	5 562.2
Other economic affairs	1 003.9	1 081.3	797.9	680.3	629.4
Other purposes	3 982.2	3 953.2	4 070.5	4 079.6	4 100.8
Total expenses by government purpose classification [(b)]	**50 103.0**	**49 801.3**	**51 027.8**	**51 687.1**	**53 335.0**

Notes:

(a) Several previously published allocations have been restated reflecting the refinement of allocation methodology.

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

(b) Expenses by department including administered items

($ million)

	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Expenses					
Education and Early Childhood Development	14 080.1	14 229.0	14 338.8	14 618.2	14 823.3
Environment and Primary Industries	3 305.1	3 421.5	3 351.2	3 207.3	2 998.1
Health	15 864.2	15 875.2	16 018.7	15 969.9	16 446.0
Human Services	3 718.6	3 706.7	3 689.3	3 802.2	3 892.1
Justice	8 300.3	8 224.3	8 675.3	8 752.7	8 842.7
Parliament	190.7	192.3	178.3	179.7	181.5
Premier and Cabinet	672.0	676.5	655.5	635.4	639.0
State Development, Business and Innovation	1 179.0	1 443.3	1 043.8	889.8	805.7
Transport, Planning and Local Infrastructure	9 611.0	9 218.7	9 357.3	9 454.6	9 588.7
Treasury and Finance	40 963.3	41 190.4	42 605.1	43 978.3	45 990.0
Regulatory bodies and other part funded agencies [(a)]	1 920.2	1 932.8	1 885.7	1 865.6	1 865.0
Contingencies not allocated to departments [(b)]	(88.4)	(502.9)	931.0	1 666.9	2 706.1
Total expenses by department including administered items	**99 716.2**	**99 607.8**	**102 730.0**	**105 020.6**	**108 778.0**
Less eliminations and adjustments [(c)]	(49 613.2)	(49 806.6)	(51 702.3)	(53 333.5)	(55 443.0)
Total expenses	**50 103.0**	**49 801.3**	**51 027.8**	**51 687.1**	**53 335.0**

Notes:

(a) Other general government sector agencies, which receive less than 50 per cent of their revenue from appropriations and therefore are not allocated to departments.

(b) Contingencies include provisions available to be allocated to specific departments and projects, future demand growth, departmental underspending and items not yet formalised at the time of publication.

(c) Mainly comprising payroll tax, capital asset charge and inter-departmental transfers.

Note 13: Other gains/(losses) from other economic flows

($ million)

	2013-14 Budget	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Net (increase) in provision for doubtful receivables	(267.7)	(170.2)	(177.8)	(158.5)	(152.9)
Amortisation of intangible non-produced assets	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)
Net (increase) in bad debts	(114.1)	(114.7)	(119.1)	(152.9)	(153.1)
Other gains/(losses)	17.4	16.4	27.4	18.1	(4.0)
Total other gains/(losses) from other economic flows	**(374.8)**	**(279.0)**	**(280.0)**	**(303.7)**	**(320.5)**

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

($ million)

	2013-14 Budget	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Balance of investment in PNFC and PFC sectors at beginning of period	69 489.5	69 489.5	73 534.2	78 531.4	80 186.8
Net contributions to other sectors by owner	2 280.3	2 360.9	2 371.2	626.9	343.8
Revaluation gain/(loss) for period	1 559.2	1 683.9	2 626.0	1 028.5	(406.2)
Investment in other sector entities at end of period	**73 328.9**	**73 534.2**	**78 531.4**	**80 186.8**	**80 124.4**

Note 15: Net acquisition on non-financial assets

($ million)

	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Purchases of non-financial assets (including change in inventories)	4 868.9	4 185.2	4 389.5	3 096.8	4 111.2
Less: Sales of non-financial assets	(420.2)	(407.7)	(419.3)	(485.8)	(445.2)
Less: Depreciation	(2 377.7)	(2 408.9)	(2 511.9)	(2 619.7)	(2 786.4)
Plus: Other movements in non-financial assets	48.9	159.9	80.3	1 118.0	318.5
Total net acquisition of non-financial assets	**2 120.0**	**1 528.6**	**1 538.6**	**1 109.4**	**1 198.1**

Note 16: Advances paid and investments, loans and placements

($ million)

	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Current advances paid and investments, loans and placements					
Loans and advances receivable	63.6	63.7	63.7	63.7	63.7
Equities and managed investment schemes	476.2	480.8	508.2	512.6	516.6
Australian dollar term deposits	2 539.6	2 466.3	2 525.1	2 629.8	2 743.9
Debt securities	1.8	1.8	1.8	1.8	1.8
Total current advances paid and investments, loans and placements	**3 081.1**	**3 012.6**	**3 098.8**	**3 207.9**	**3 326.0**
Non-current advances paid and investments, loans and placements					
Loans and advances receivable	4 520.9	4 526.7	4 477.5	4 421.1	4 393.1
Equities and managed investment schemes	212.5	209.7	207.3	193.2	163.4
Australian dollar term deposits	197.6	208.8	210.2	211.6	213.2
Debt securities	39.9	39.9	39.9	39.9	39.9
Total non-current advances paid and investments, loans and placements	**4 970.9**	**4 985.1**	**4 934.9**	**4 865.9**	**4 809.7**
Total advances paid and investments, loans and placements	**8 052.0**	**7 997.7**	**8 033.7**	**8 073.7**	**8 135.6**

Note 17: Land, buildings, infrastructure, plant and equipment

($ million)

	2013-14 Budget	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Buildings (written down value)	23 210.3	22 555.6	22 581.3	23 660.6	26 038.6
Buildings leasehold (written down value)	2 341.4	2 345.8	2 291.6	3 271.0	3 994.1
Land and national parks	37 746.4	37 721.2	38 404.2	38 526.7	39 106.1
Infrastructure systems (written down value)	2 335.0	2 384.7	2 408.6	2 432.3	2 462.6
Plant, equipment and vehicles (written down value)	2 802.4	2 891.6	2 069.2	1 650.9	1 232.4
Roads and road networks (written down value)	23 680.0	21 355.2	23 876.0	23 537.9	23 187.6
Earthworks	8 496.2	7 779.4	8 921.1	9 086.6	9 183.8
Cultural assets (written down value)	5 461.0	5 450.9	5 456.0	5 473.2	5 466.9
Total land, buildings, infrastructure, plant and equipment	**106 072.7**	**102 484.4**	**106 007.9**	**107 639.3**	**110 672.0**

Note 18: Reconciliation of movements in land, buildings, infrastructure, plant and equipment

($ million)

	2013-14 Budget	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Carrying amount at the start of the year [(a)]	100 804.1	100 804.1	102 484.4	106 007.9	107 639.3
Additions [(b)]	4 844.8	4 268.0	3 688.8	4 126.6	4 384.5
Disposals at written down value	(314.5)	(301.3)	(340.0)	(408.1)	(351.6)
Revaluations	3 917.7	813.0	3 536.6	994.6	1 948.3
Assets reclassified	(857.3)	(760.3)	(920.6)	(534.2)	(226.9)
Depreciation expense	(2 322.3)	(2 339.0)	(2 441.3)	(2 547.6)	(2 721.6)
Carrying amount at the end of the year	**106 072.7**	**102 484.4**	**106 007.9**	**107 639.3**	**110 672.0**

Notes:

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

(b) Includes assets acquired under finance lease arrangements.

Note 19: Assets classified by government purpose and by department

(a) Purchases of non-financial assets government purpose classification

($ million)

	2013-14 Budget [(a)]	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
General public services	31.4	27.8	28.0	16.7	9.4
Public order and safety	1 083.0	821.2	916.7	231.4	224.3
Education	517.0	535.3	350.7	242.8	279.2
Health	1 159.9	1 137.7	721.5	670.1	1 021.7
Social security and welfare	102.5	106.8	67.2	57.4	63.5
Housing and community amenities	196.3	154.8	133.8	82.7	74.4
Recreation and culture	54.3	51.9	38.0	33.1	21.8
Fuel and energy	1.6	1.6	2.1	2.0	1.6
Agriculture, forestry, fishing, and hunting	57.1	49.4	7.7	1.3	1.3
Transport and communications	1 987.8	1 903.1	1 831.1	909.0	386.6
Other economic affairs	178.4	174.3	61.3	40.2	35.4
Other purposes	0.1	0.1	0.1	0.1	0.1
Not allocated by purpose [(b)]	(500.3)	(778.5)	231.1	810.2	1 991.9
Total purchases of non-financial assets [(c)]	**4 868.9**	**4 185.2**	**4 389.5**	**3 096.8**	**4 111.2**

Notes:

(a) Several previously published allocations have been restated reflecting the refinement of allocation methodology.

(b) Estimated amount available to be allocated to departments and projects in future budgets. This includes departmental underspending, which may be subject to carryover.

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

(b) Purchases of non-financial assets by department

($ million)

	2013-14 Budget [a]	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Education and Early Childhood Development	516.0	534.2	349.7	243.2	279.0
Environment and Primary Industries	208.1	168.3	74.7	57.0	51.8
Health	1 205.1	1 182.0	749.1	699.9	1 064.8
Human Services	78.3	86.5	53.9	43.1	31.6
Justice	839.6	535.0	787.1	141.6	120.5
Parliament	3.3	1.9	3.0	3.0	3.0
Premier and Cabinet	80.4	81.8	39.1	25.4	21.0
State Development, Business and Innovation	150.8	159.0	35.9	36.8	32.4
Transport, Planning and Local Infrastructure	2 065.7	1 963.3	1 918.5	955.0	423.9
Treasury and Finance	17.2	18.0	16.3	11.6	4.4
Regulatory bodies and other part budget funded agencies [b]	204.8	233.8	131.2	70.1	86.9
Contingencies not allocated to departments [c]	(500.3)	(778.5)	231.1	810.2	1 991.9
Total purchases of non-financial Assets	**4 868.9**	**4 185.2**	**4 389.5**	**3 096.8**	**4 111.2**

Notes:

(a) Several previously published allocations have been restated reflecting the refinement of allocation methodology.

(b) Other general government sector agencies, which receive less than 50 per cent of their revenue from appropriations and therefore are not allocated to departments.

(c) Estimated amount available to be allocated to departments and projects in future budgets. This includes departmental underspending, which may be subject to carryover.

(c) Total assets

($ million)

	2013-14 Budget[(a)]	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
General public services	1 377.5	1 417.5	1 702.3	2 273.9	3 425.7
Public order and safety	9 487.7	9 136.6	9 363.7	9 414.0	9 453.6
Education	17 327.8	17 232.0	16 988.1	16 923.8	17 218.4
Health	11 113.2	11 058.2	10 743.3	11 591.0	12 277.7
Social security and welfare	894.8	897.7	892.6	912.0	932.1
Housing and community amenities	4 162.3	4 151.9	4 192.2	4 308.8	4 351.4
Recreation and culture	8 176.6	8 140.7	8 021.2	8 093.5	8 246.2
Fuel and energy	4.6	4.6	4.8	5.2	5.5
Agriculture, forestry, fishing, and hunting	3 304.3	3 298.0	3 266.0	3 342.0	3 319.1
Transport and communications	50 510.0	47 436.8	51 086.0	50 952.0	51 570.1
Other economic affairs	958.2	960.3	951.2	957.2	977.2
Other purposes	2.4	2.4	2.3	2.3	2.3
Not allocated by purpose [(b)]	90 466.1	90 584.2	95 771.0	97 665.4	98 050.0
Total assets	**197 785.5**	**194 321.0**	**202 984.6**	**206 441.2**	**209 829.4**

Notes:

(a) Several previously published allocations have been restated reflecting the refinement of allocation methodology.

(b) Represents financial assets which are not able to be allocated by purpose. This mainly includes balances relating to the general government sector's investment in other sector entities.

Note 20: Borrowings

($ million)

	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Current borrowings					
Domestic borrowings	**2 602.8**	2 635.9	2 640.9	2 645.9	2 650.9
Finance lease liabilities	**98.0**	98.4	123.3	145.8	172.9
Total current borrowings	**2 700.8**	**2 734.3**	**2 764.3**	**2 791.7**	**2 823.9**
Non-current borrowings					
Domestic borrowings	**24 211.9**	23 617.6	26 056.8	24 634.5	23 811.5
Finance lease liabilities	**7 789.6**	7 889.7	7 743.8	8 614.7	8 726.8
Derivative financial instruments	**9.0**	9.0	9.0	9.0	9.0
Total non-current borrowings	**32 010.5**	**31 516.4**	**33 809.7**	**33 258.3**	**32 547.4**
Total borrowings	**34 711.3**	**34 250.7**	**36 573.9**	**36 050.0**	**35 371.2**

Note 21: Employee benefits

($ million)

	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Current					
Accrued salaries and wages [(a)]	1 658.5	1 651.9	1 686.3	1 722.4	1 759.4
Long service leave	3 084.5	3 079.6	3 211.2	3 347.9	3 486.9
Total current employee benefits	**4 742.9**	**4 731.5**	**4 897.5**	**5 070.3**	**5 246.3**
Non-current					
Long service leave	658.7	659.4	695.0	735.0	780.8
Total non-current employee benefits	**658.7**	**659.4**	**695.0**	**735.0**	**780.7**
Total employee benefits	**5 401.6**	**5 390.9**	**5 592.5**	**5 805.4**	**6 027.0**

Note:

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

Note 22: Reserves

($ million)

	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Property plant and equipment revaluation surplus	41 581.0	38 476.8	42 013.6	43 008.4	44 957.0
Available-for-sale investments revaluation surplus	52.8	52.7	53.7	54.8	55.8
Revaluation reserve for investments in PFC and PNFC entities	39 707.3	39 832.0	42 458.0	43 486.6	43 080.4
Other reserves	880.6	875.9	886.9	897.9	909.0
Total reserves	**82 221.6**	**79 237.4**	**85 412.2**	**87 447.6**	**89 002.1**

Note 23: Reconciliations to government finance statistics – derivation of GFS cash/surplus deficit

($ million)

	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Cash surplus/(deficit)	**(1 717.1)**	**(1 204.3)**	**(602.8)**	**2 036.8**	**1 502.9**
Convergence differences:					
Acquisitions under finance leases and similar arrangements	..	(111.0)	(36.4)	(1 050.4)	(279.3)
Total convergence differences	..	(111.0)	(36.4)	(1 050.4)	(279.3)
GFS cash surplus/(deficit)	**(1 717.1)**	**(1 315.3)**	**(639.3)**	**986.4**	**1 223.6**

Note 24: Financial instruments

The *Annual Financial Report* of the *2012-13 Financial Report* (Note 32) contains a comprehensive disclosure of the State's financial risk management objectives and policies. There has been no substantive change to the accounting classification of financial assets and liabilities reported in the *Annual Financial Report* of the *2012-13 Financial Report*.

Note 25: Controlled entities

Note 41 *Controlled Entities* in the *Annual Financial Report* of the *2012-13 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 2013, of general government sector entities which have been consolidated for the purposes of the estimated financial statements.

		Entities included as investments in other sectors	
Controlled entities (a)	*General government*	*Public non-financial corporation*	*Public financial corporation*
Department of Education and Early Childhood Development			
TAFE Division:			
Royal Melbourne Institute of Technology (b)	*		
Swinburne University of Technology (b)	*		
University of Ballarat (b)	*		
Victoria University (b)	*		
Department of Environment and Primary Industries			
Veterinary Practitioners Registration Board of Victoria (c)	*		
Agriculture Victoria Services Pty Ltd (c)		*	
Dairy Food Safety Victoria (c)		*	
Murray Valley Citrus Board (c)		*	
Murray Valley Wine Grape Industry Development Committee (c)		*	
Northern Victorian Fresh Tomato Industry Development Committee (c)		*	
Phytogene Pty Ltd (c)		*	
PrimeSafe (c)		*	
VicForests (c)		*	
Victorian Strawberry Industry Development Committee (c)		*	
Department of Premier and Cabinet			
Shrine of Remembrance Trustees (d)	*		
Victorian Aboriginal Heritage Council (d)	*		
Victorian Veterans Council (d)	*		

Controlled entities (a)	General government	Entities included as investments in other sectors: Public non-financial corporation	Public financial corporation
Department of State Development, Business and Innovation			
CenITex (e)	*		
Energy Safe Victoria (f)	*		
Regional Development Victoria (g)	*		
Department of Transport, Planning and Local Infrastructure (h)(i)			
Architects Registration Board of Victoria (j)	*		
Metropolitan Planning Authority (k)	*		
Heritage Council (j)	*		
Melbourne Cricket Ground Trust (j)	*		
Victorian Building Authority (j)(l)	*		
Victorian Institute of Sport Limited (j)	*		
Victorian Institute of Sport Trust (j)	*		
Melbourne and Olympic Parks Trust (j)		*	
State Sport Centres Trust (j)		*	
Urban Renewal Authority Victoria (Places Victoria) (j)		*	

Notes:

(a) Effective 1 July 2013, the following departments ceased to exist and had their functions and operations transferred to other Victorian government departments:

- *Department of Planning and Community Development; and*
- *Department of Primary Industries.*

(b) The Education and Training Reform Amendment (Dual Sector Universities) Bill 2013 is currently before Parliament and, if enacted, will give effect to the deconsolidation of the four dual sector universities from 1 January 2014.

(c) Entities moved as a result of the machinery of government changes effective 1 July 2013 from the Department of Primary Industries to the Department of Environment and Primary Industries.

(d) Entities moved as a result of the machinery of government changes effective 1 July 2013 from the Department of Planning and Community Development to the Department of Premier and Cabinet.

(e) Effective from 29 August 2013, CenITex was transferred from the Department of Treasury and Finance to the Department of State Development, Business and Innovation.

(f) Entity moved as a result of the machinery of government changes effective 1 July 2013 from the Department of Primary Industries to the Department of State Development, Business and Innovation.

(g) Entity moved as a result of the machinery of government changes effective 1 July 2013 from the Department of Planning and Community Development to the Department of State Development, Business and Innovation.

(h) At 30 June 2013, the Public Transport Ticketing Body ceased to exist and its operations transferred to Public Transport Victoria, a general government entity.

(i) Effective 1 July 2013, the Building Commission, and Plumbing Industry Commission ceased to exist and operations were transferred to the Victorian Building Authority.

(j) Entity moved as a result of the machinery of government changes effective 1 July 2013 from the Department of Planning and Community Development to the Department of Transport, Planning and Local Infrastructure.

(k) Effective 9 October, the Growth Areas Authority was renamed the Metropolitan Planning Authority.

(l) On 1 July 2013, the Victorian Building Authority commenced operations.

CHAPTER 6 – SUPPLEMENTARY UNIFORM PRESENTATION FRAMEWORK TABLES

Table 6.1: Public non-financial corporations sector comprehensive operating statement

($ million)

	2012-13 Actual	*2013-14 Estimate*	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Revenue						
Interest	77.2	42.2	39.3	35.1	32.2	30.9
Dividends	144.2	82.9	88.1	91.5	91.7	94.9
Sales of goods and services	4 915.7	6 005.9	5 790.2	6 091.7	6 227.8	6 272.7
Grants	2 654.4	2 763.0	2 831.8	2 892.5	2 848.7	2 858.4
Other current revenue	460.6	411.1	383.5	419.9	438.1	444.8
Total revenue	**8 252.0**	**9 305.1**	**9 132.9**	**9 530.6**	**9 638.6**	**9 701.8**
Expenses						
Employee expenses	1 039.6	1 046.1	1 046.3	1 077.4	1 106.8	1 130.8
Superannuation interest expense [a]	(2.5)	..	..	..	..	..
Other superannuation	92.9	86.1	87.0	89.3	92.1	94.9
Depreciation	1 838.1	2 019.3	1 910.6	1 977.4	2 139.8	2 322.2
Interest expense	1 001.4	1 284.6	1 223.6	1 254.7	1 279.9	1 295.4
Grants and other transfers	206.9	235.1	231.5	232.1	231.8	124.9
Other operating expenses	4 263.0	4 809.8	4 928.2	5 128.4	5 045.7	5 109.9
Other property expenses	110.9	125.2	74.7	90.7	110.5	121.0
Total expenses	**8 550.3**	**9 606.2**	**9 501.9**	**9 849.9**	**10 006.6**	**10 199.1**
Net result from transactions – net operating balance	**(298.2)**	**(301.1)**	**(369.0)**	**(319.2)**	**(368.0)**	**(497.2)**
Other economic flows included in net result						
Net gain/(loss) on sale of non-financial assets	0.3	(4.6)	(5.4)	(2.9)	(2.8)	1.1
Net gain/(loss) on financial assets or liabilities at fair value	(48.8)	1.2	1.4	1.2	1.0	0.8
Share of net profit/(loss) from associates/ joint venture entities, excluding dividends	(77.7)	..	..	..	..	..
Other gains/(losses) from other economic flows	47.5	67.6	114.0	125.5	152.3	185.3
Total other economic flows included in net result	**(78.6)**	**64.2**	**110.0**	**123.8**	**150.5**	**187.2**
Net result	**(376.8)**	**(236.9)**	**(259.0)**	**(195.4)**	**(217.5)**	**(310.1)**

Table 6.1: Public non-financial corporations sector comprehensive operating statement *(continued)*

($ million)

	2012-13 Actual	*2013-14 Estimate*	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Other economic flows – other comprehensive income						
Items that will not be reclassified to net result						
Changes in non-financial assets revaluation surplus	(133.2)	1 876.6	1 874.1	2 779.3	1 268.0	(121.3)
Remeasurement of superannuation defined benefit plans [(a)]	42.0	..	(4.3)	(4.3)	(4.3)	(4.3)
Other movements in equity	(582.9)	2.4	(0.3)	1.8	0.3	(1.5)
Items that may be reclassified subsequently to net result						
Net gain/(loss) on financial assets at fair value	63.9	6.9	23.5	(9.0)	1.4	(0.3)
Total other economic flows – other comprehensive income	**(610.2)**	**1 885.9**	**1 893.0**	**2 767.8**	**1 265.4**	**(127.4)**
Comprehensive result – total change in net worth	**(987.0)**	**1 649.1**	**1 634.0**	**2 572.4**	**1 047.8**	**(437.5)**
FISCAL AGGREGATES						
Net operating balance	**(298.2)**	**(301.1)**	**(369.0)**	**(319.2)**	**(368.0)**	**(497.2)**
Less: net acquisition of non-financial assets from transactions	6 181.3	1 704.5	2 147.6	1 718.2	663.7	(142.2)
Net lending/(borrowing)	**(6 479.6)**	**(2 005.6)**	**(2 516.6)**	**(2 037.4)**	**(1 031.7)**	**(355.1)**

Source: Department of Treasury and Finance

Note:

(a) The 2012-13 actual has been restated to reflect a revised accounting standard, AASB 119 Employee Benefits*, which has been issued changing the way defined benefit superannuation expenses are calculated from 2013-14.*

Table 6.2: Public non-financial corporations sector balance sheet

($ million)

	2012-13 Actual	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Assets						
Financial assets						
Cash and deposits	797.9	851.1	649.4	741.6	742.3	878.3
Advances paid	50.4	48.5	55.2	53.6	52.3	51.5
Receivables	1 312.3	1 340.6	1 182.6	1 083.4	973.1	935.6
Investments, loans and placements	1 056.2	1 000.8	859.0	821.9	836.4	828.6
Investments accounted for using equity method	1 319.2	1 319.2	1 319.2	1 319.2	1 319.2	1 319.2
Total financial assets	**4 536.0**	**4 560.3**	**4 065.4**	**4 019.7**	**3 923.4**	**4 013.1**
Non-financial assets						
Inventories	678.9	666.7	638.8	503.1	408.9	329.3
Non-financial assets held for sale	4.5	4.2	..	..	..	..
Land, buildings, infrastructure, plant and equipment	88 605.2	93 050.6	93 244.3	99 614.6	102 540.9	102 540.6
Other non-financial assets	1 065.3	1 099.9	1 088.3	1 103.9	1 105.0	1 106.2
Total non-financial assets	**90 353.9**	**94 821.4**	**94 971.4**	**101 221.6**	**104 054.8**	**103 976.0**
Total assets	**94 889.9**	**99 381.6**	**99 036.9**	**105 241.3**	**107 978.1**	**107 989.2**
Liabilities						
Deposits held and advances received	420.0	432.0	418.7	433.7	447.2	461.6
Payables	1 568.6	1 694.9	1 452.7	1 514.9	1 503.5	1 561.7
Borrowings	16 249.7	17 150.4	17 090.4	17 835.5	18 541.5	18 986.1
Employee benefits	326.4	343.8	339.5	345.9	355.3	357.9
Superannuation	83.0	80.3	83.3	83.9	84.0	84.0
Other provisions	8 702.0	8 383.9	8 134.1	8 643.1	8 799.4	8 482.5
Total liabilities	**27 349.7**	**28 085.4**	**27 518.8**	**28 857.1**	**29 730.9**	**29 933.8**
Net assets	**67 540.2**	**71 296.3**	**71 518.1**	**76 384.2**	**78 247.2**	**78 055.4**
Accumulated surplus	4 863.3	4 479.0	4 584.5	4 305.4	3 885.1	3 448.4
Reserves	62 676.9	66 817.2	66 933.6	72 078.8	74 362.1	74 607.0
Net worth	**67 540.2**	**71 296.3**	**71 518.1**	**76 384.2**	**78 247.2**	**78 055.4**
FISCAL AGGREGATES						
Net financial worth	(22 813.7)	(23 525.1)	(23 453.4)	(24 837.4)	(25 807.6)	(25 920.7)
Net financial liabilities	22 813.7	23 525.1	23 453.4	24 837.4	25 807.6	25 920.7
Net debt	14 765.3	15 682.0	15 945.5	16 652.2	17 357.7	17 689.4

Source: Department of Treasury and Finance

Table 6.3: Public non-financial corporations sector cash flow statement

($ million)

	2012-13 Actual	*2013-14 Budget*	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Cash flows from operating activities						
Receipts						
Grants	2 727.2	2 881.6	2 958.3	2 988.2	2 932.3	2 918.0
Sales of goods and services [(a)]	5 490.5	6 456.7	6 508.7	6 676.8	6 796.2	6 848.4
Interest	64.2	20.0	33.8	29.8	29.9	30.9
Dividends	144.1	82.9	88.6	91.5	91.7	94.9
Other receipts	198.9	273.9	252.7	257.9	326.6	285.9
Total receipts	**8 624.8**	**9 715.2**	**9 842.2**	**10 044.2**	**10 176.8**	**10 178.1**
Payments						
Payments for employees	(1 035.0)	(1 031.5)	(1 033.9)	(1 071.8)	(1 098.2)	(1 129.0)
Superannuation	(118.7)	(88.7)	(91.0)	(92.9)	(96.3)	(99.1)
Interest	(961.6)	(1 234.1)	(1 185.1)	(1 228.4)	(1 258.4)	(1 278.7)
Grants	(189.9)	(165.6)	(167.6)	(137.3)	(137.0)	(83.5)
Goods and services [(a)]	(3 375.8)	(3 858.2)	(4 229.4)	(4 075.2)	(3 941.0)	(3 949.0)
Other payments	(1 467.3)	(1 937.5)	(1 934.3)	(2 044.0)	(2 072.9)	(2 029.8)
Total payments	**(7 148.3)**	**(8 315.6)**	**(8 641.3)**	**(8 649.5)**	**(8 603.8)**	**(8 569.0)**
Net cash flows from operating activities	**1 476.5**	**1 399.5**	**1 200.9**	**1 394.7**	**1 572.9**	**1 609.1**
Cash flows from investing activities						
Non-financial assets						
Purchases of non-financial assets	(3 702.5)	(3 736.3)	(3 958.3)	(3 649.2)	(2 719.8)	(2 074.1)
Sales of non-financial assets	156.4	105.7	100.1	115.7	86.9	73.1
Cash flows from investments in non-financial assets	(3 546.1)	(3 630.6)	(3 858.2)	(3 533.5)	(2 632.9)	(2 001.0)
Net cash flows from investments in financial assets for policy purposes	(45.0)	4.0	49.2	3.2	1.9	(0.9)
Net cash flows from investments in financial assets for liquidity purposes	12.3	58.8	163.5	35.8	(8.5)	10.4
Net cash flows from investing activities	**(3 578.8)**	**(3 567.8)**	**(3 645.5)**	**(3 494.4)**	**(2 639.5)**	**(1 991.5)**
Cash flows from financing activities						
Advances received (net)	6.6	12.9	12.6	13.2	13.2	13.2
Net borrowings	1 053.3	959.6	900.9	805.0	774.3	486.5
Deposits received (net)	20.1	(1.0)	(13.9)	1.8	0.3	1.2
Other financing (net)	1 046.5	1 248.1	1 394.3	1 371.9	279.6	17.4
Net cash flows from financing activities	**2 126.5**	**2 219.6**	**2 293.9**	**2 191.9**	**1 067.4**	**518.3**

	2012-13 Actual	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Net increase/(decrease) in cash and cash equivalents	**24.1**	**51.4**	**(150.7)**	**92.1**	**0.8**	**135.9**
Cash and cash equivalents at beginning of reporting period	773.8	797.9	797.9	647.1	739.3	740.1
Cash and cash equivalents at end of reporting period (b)	**797.9**	**849.3**	**647.1**	**739.3**	**740.1**	**876.0**
FISCAL AGGREGATES						
Net cash flows from operating activities	1 476.5	1 399.5	1 200.9	1 394.7	1 572.9	1 609.1
Dividends paid	(720.3)	(152.0)	(159.3)	(60.8)	(159.8)	(81.5)
Cash flows from investments in non-financial assets	(3 546.1)	(3 630.6)	(3 858.2)	(3 533.5)	(2 632.9)	(2 001.0)
Cash (deficit)	**(2 789.9)**	**(2 383.0)**	**(2 816.6)**	**(2 199.6)**	**(1 219.8)**	**(473.4)**

Source: Department of Treasury and Finance

Notes:

(a) These items are inclusive of goods and service tax.

(b) Cash and cash equivalents at the end of reporting period does not equal to cash and deposit on the balance sheet. This is due to the overdraft being included on the cash flow statement.

Table 6.4: Public non-financial corporations sector statement of changes in equity

($ million)

	Accumulated surplus/(deficit)	*Contribution by owners*
2012-13 Actual		
Balance at 1 July 2012	5 830.0	27 854.1
Net result	(376.8)	..
Other comprehensive income for the year	130.4	..
Dividends paid	(720.3)	..
Transactions with owners in their capacity as owners	..	2 770.8
Total equity at end of period	**4 863.3**	**30 624.9**
2013-14 Budget		
Balance at 1 July 2013	4 863.3	30 624.9
Net result	(236.9)	..
Other comprehensive income for the year	4.6	..
Dividends paid	(152.0)	..
Transactions with owners in their capacity as owners	..	2 259.0
Total equity at end of period	**4 479.0**	**32 883.9**
2013-14 Revised		
Balance at 1 July 2013	4 863.3	30 624.9
Net result	(259.0)	..
Other comprehensive income for the year	(24.1)	..
Dividends paid	4.3	..
Transactions with owners in their capacity as owners	..	2 339.6
Total equity at end of period	**4 584.5**	**32 964.5**
2014-15 Estimate		
Balance at 1 July 2014	4 584.5	32 964.5
Net result	(195.4)	..
Other comprehensive income for the year	(22.8)	..
Dividends paid	(60.8)	..
Transactions with owners in their capacity as owners	..	2 354.6
Total equity at end of period	**4 305.4**	**35 319.1**
2015-16 Estimate		
Balance at 1 July 2015	4 305.4	35 319.1
Net result	(217.5)	..
Other comprehensive income for the year	(42.9)	..
Dividends paid	(159.8)	..
Transactions with owners in their capacity as owners	..	975.0
Total equity at end of period	**3 885.1**	**36 294.0**
2016-17 Estimate		
Balance at 1 July 2016	3 885.1	36 294.0
Net result	(310.1)	..
Other comprehensive income for the year	(45.1)	..
Dividends paid	(81.5)	..
Transactions with owners in their capacity as owners	..	327.2
Total equity at end of period	**3 448.4**	**36 621.2**

Source: Department of Treasury and Finance

Land, buildings, infrastructure, plant and equipment revaluation surplus	Other reserves	Total
31 887.3	905.3	66 476.7
..	..	(376.8)
(133.2)	(607.5)	(610.2)
..	..	(720.3)
..	..	2 770.8
31 754.1	**297.9**	**67 540.2**
31 754.1	297.9	67 540.2
..	..	(236.9)
1 876.6	4.8	1 885.9
..	..	(152.0)
..	..	2 259.0
33 630.7	**302.7**	**71 296.3**
31 754.1	297.9	67 540.2
..	..	(259.0)
1 874.1	43.0	1 893.0
..	..	4.3
..	..	2 339.6
33 628.2	**340.9**	**71 518.1**
33 628.2	340.9	71 518.1
..	..	(195.4)
2 779.3	11.4	2 767.8
..	..	(60.8)
..	..	2 354.6
36 407.5	**352.3**	**76 384.2**
36 407.5	352.3	76 384.2
..	..	(217.5)
1 268.0	40.3	1 265.4
..	..	(159.8)
..	..	975.0
37 675.5	**392.6**	**78 247.2**
37 675.5	392.6	78 247.2
..	..	(310.1)
(121.3)	39.0	(127.4)
..	..	(81.5)
..	..	327.2
37 554.2	**431.6**	**78 055.4**

Table 6.5: Derivation of public non-financial corporations sector GFS cash surplus/(deficit)

($ million)

	2012-13 Actual	*2013-14 Budget*	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Cash surplus/(deficit)	**(2 789.9)**	**(2 383.0)**	**(2 816.6)**	**(2 199.6)**	**(1 219.8)**	**(473.4)**
Convergence differences:						
Acquisitions under finance leases and similar arrangements [(a)]	(4 369.0)	..	..	..	..	..
GFS cash surplus/(deficit) [(b)]	**(7 158.9)**	**(2 383.0)**	**(2 816.6)**	**(2 199.6)**	**(1 219.8)**	**(473.4)**

Source: Department of Treasury and Finance

Notes:
(a) The 2012-13 actual reflects the recognition of the finance lease arrangement between the Government and Melbourne Water Corporation for the Victorian desalination plant.
(b) Determined in accordance with ABS GFS manual.

Table 6.6: Net acquisition of non-financial assets – public non-financial corporations sector

($ million)

	2012-13 Actual	*2013-14 Estimate*	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Purchases of non-financial assets	3 702.5	3 736.3	3 958.3	3 649.2	2 719.8	2 074.1
Less: Sales of non-financial assets	(156.4)	(105.7)	(100.1)	(115.7)	(86.9)	(73.1)
Less: Depreciation	(1 838.1)	(2 019.3)	(1 910.6)	(1 977.4)	(2 139.8)	(2 322.2)
Plus: Other movements in non-financial assets	4 473.3	93.2	200.0	162.1	170.6	179.1
Total net acquisition of non-financial assets	**6 181.3**	**1 704.5**	**2 147.6**	**1 718.2**	**663.7**	**(142.2)**

Source: Department of Treasury and Finance

Table 6.7: Non-financial public sector comprehensive operating statement

($ million)

	2012-13 Actual	2013-14 Estimate	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Revenue						
Taxation revenue	15 198.9	16 050.3	16 086.6	17 187.6	17 901.3	18 907.1
Interest	435.0	388.1	360.6	363.5	388.3	403.9
Dividends and income tax equivalents and rate equivalents	609.4	399.5	419.1	425.8	499.4	503.4
Sales of goods and services	9 826.4	11 226.7	10 770.0	10 853.0	11 168.3	11 260.1
Grants	21 879.2	23 290.6	23 246.6	24 265.1	24 816.7	26 167.1
Other revenue	2 728.9	2 485.6	2 526.0	2 416.9	2 495.3	2 539.8
Total revenue	**50 677.8**	**53 841.0**	**53 408.9**	**55 512.1**	**57 269.3**	**59 781.3**
Expenses						
Employee expenses	18 778.0	18 948.1	18 814.5	19 500.8	20 247.1	20 893.0
Superannuation interest expense [(a)]	1 076.8	1 129.2	1 052.0	1 005.3	991.2	970.4
Other superannuation	2 016.9	1 987.9	1 933.1	1 953.5	1 989.3	2 014.8
Depreciation	4 092.4	4 397.0	4 319.5	4 489.2	4 759.5	5 108.6
Interest expense	2 433.8	2 940.4	2 870.5	3 017.7	3 056.7	3 102.7
Grants and other transfers	5 399.1	5 268.7	4 999.2	5 366.9	5 545.4	5 885.5
Other operating expenses	18 580.9	19 476.0	19 733.0	19 727.8	19 229.5	19 742.4
Total expenses	**52 377.7**	**54 147.3**	**53 721.9**	**55 061.3**	**55 818.7**	**57 717.4**
Net result from transactions – net operating balance	**(1 699.9)**	**(306.3)**	**(312.9)**	**450.7**	**1 450.6**	**2 063.9**
Other economic flows included in net result						
Net gain/(loss) on sale of non-financial assets	21.1	106.7	106.6	93.4	75.5	95.3
Net gain/(loss) on financial assets or liabilities at fair value	(29.5)	0.8	4.8	4.5	4.3	4.1
Share of net profit/(loss) from associates/ joint venture entities, excluding dividends	(83.4)	..	..	..	..	..
Other (losses) from other economic flows	(381.6)	(406.0)	(311.2)	(307.2)	(335.6)	(352.9)
Total other economic flows included in net result	**(473.4)**	**(298.5)**	**(199.9)**	**(209.3)**	**(255.8)**	**(253.5)**
Net result	**(2 173.3)**	**(604.8)**	**(512.8)**	**241.4**	**1 194.8**	**1 810.4**
Other economic flows – other comprehensive income						
Items that will not be reclassified to net result						
Changes in non-financial assets revaluation surplus	796.4	5 774.7	2 687.2	7 164.1	2 864.6	1 696.9

Table 6.7: Non-financial public sector comprehensive operating statement *(continued)*

($ million)

	2012-13 *Actual*	2013-14 *Estimate*	2013-14 *Revised*	2014-15 *Estimate*	2015-16 *Estimate*	2016-17 *Estimate*
Remeasurement of superannuation defined benefit plans [(a)]	7 989.8	593.2	1 830.3	560.4	572.5	583.9
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	897.0	62.1	45.6	114.4	140.5	112.8
Other movements in equity	395.4	4.7	(38.1)	(400.6)	(103.4)	142.3
Items that may be reclassified subsequently to net result						
Net gain/(loss) on financial assets at fair value	84.0	7.9	24.4	(8.0)	2.4	0.7
Total other economic flows – other comprehensive income	**10 162.6**	**6 442.4**	**4 549.4**	**7 430.4**	**3 476.7**	**2 536.6**
Comprehensive result – total change in net worth	**7 989.3**	**5 837.6**	**4 036.6**	**7 671.8**	**4 671.4**	**4 347.0**
FISCAL AGGREGATES						
Net operating balance	**(1 699.9)**	**(306.3)**	**(312.9)**	**450.7**	**1 450.6**	**2 063.9**
Less: net acquisition of non-financial assets from transactions	8 846.3	3 770.0	3 564.0	3 134.9	1 587.5	976.3
Net lending/(borrowing)	**(10 546.2)**	**(4 076.3)**	**(3 876.9)**	**(2 684.1)**	**(136.9)**	**1 087.6**

Source: Department of Treasury and Finance

Note:

(a) *The 2012-13 actual comparative figure has been restated to reflect a revised accounting standard,* AASB 119 Employee Benefits*, which has been issued changing the way defined benefit superannuation expenses are calculated from 2013-14.*

Table 6.8: Non-financial public sector government fiscal result

($ million)

	2012-13 *Actual*	2013-14 *Budget*	2013-14 *Revised*	2014-15 *Estimate*	2015-16 *Estimate*	2016-17 *Estimate*
GOVERNMENT FISCAL PARAMETER						
Net operating balance	**(1 699.9)**	**(306.3)**	**(312.9)**	**450.7**	**1 450.6**	**2 063.9**
Plus: Expected return on superannuation assets in excess of AASB 119 discount rate taken to other comprehensive income	633.0	593.2	541.2	564.7	576.8	588.2
Government fiscal result	**(1 066.9)**	**286.8**	**228.2**	**1 015.4**	**2 027.3**	**2 652.1**

Source: Department of Treasury and Finance

Table 6.9: Non-financial public sector balance sheet

($ million)

	2012-13 Actual	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Assets						
Financial assets						
Cash and deposits	4 759.9	5 001.4	4 648.4	4 948.4	5 274.3	5 769.0
Advances paid	72.1	69.7	82.5	79.8	77.5	75.5
Receivables	4 985.3	4 959.8	5 011.3	4 978.4	4 834.1	4 863.9
Investments, loans and placements	4 439.6	4 468.2	4 266.3	4 314.5	4 425.4	4 507.4
Investments accounted for using equity method	1 666.1	1 666.1	1 666.1	1 666.1	1 666.1	1 666.1
Investments in other sector entities	1 949.3	2 032.6	2 016.2	2 147.2	1 939.6	2 069.0
Total financial assets	**17 872.1**	**18 197.8**	**17 690.8**	**18 134.4**	**18 217.0**	**18 950.9**
Non-financial assets						
Inventories	871.0	859.3	832.7	701.5	611.8	536.7
Non-financial assets held for sale	146.6	139.7	107.2	100.6	93.9	87.3
Land, buildings, infrastructure, plant and equipment	189 409.2	199 123.2	195 728.8	205 622.5	210 180.2	213 212.6
Other non-financial assets	1 844.8	1 837.2	1 855.4	1 822.2	1 752.7	1 723.3
Total non-financial assets	**192 271.6**	**201 959.5**	**198 524.1**	**208 246.8**	**212 638.7**	**215 560.0**
Total assets	**210 143.7**	**220 157.3**	**216 214.8**	**226 381.2**	**230 855.6**	**234 510.9**
Liabilities						
Deposits held and advances received	583.4	589.5	569.1	571.0	571.3	572.5
Payables	6 604.9	6 573.2	6 376.5	5 983.9	5 800.4	5 661.4
Borrowings	43 272.9	47 594.1	47 073.6	50 203.0	50 453.5	50 259.2
Employee benefits	5 535.2	5 745.5	5 730.5	5 938.4	6 160.7	6 384.9
Superannuation	25 225.4	25 012.8	23 651.3	23 280.4	22 876.0	22 302.0
Other provisions	1 104.5	987.2	959.8	878.7	796.6	786.7
Total liabilities	**82 326.4**	**86 502.3**	**84 360.9**	**86 855.5**	**86 658.4**	**85 966.7**
Net assets	**127 817.4**	**133 655.0**	**131 854.0**	**139 525.8**	**144 197.2**	**148 544.2**
Accumulated surplus [a]	46 802.6	48 523.4	48 056.1	48 425.9	50 039.9	52 526.1
Reserves [a]	80 964.8	85 081.6	83 747.9	91 049.8	94 107.3	95 968.1
Non-controlling interest	50.0	50.0	50.0	50.0	50.0	50.0
Net worth	**127 817.4**	**133 655.0**	**131 854.0**	**139 525.8**	**144 197.2**	**148 544.2**
FISCAL AGGREGATES						
Net financial worth	(64 454.2)	(68 304.5)	(66 670.1)	(68 721.1)	(68 441.4)	(67 015.7)
Net financial liabilities	66 403.5	70 337.1	68 686.3	70 868.3	70 381.1	69 084.8
Net debt	34 584.8	38 644.3	38 645.6	41 431.3	41 247.5	40 479.7

Source: Department of Treasury and Finance

Note:
(a) Impact is due to the correction of balances as at 30 June 2013 between deferred tax liability accounts.

Table 6.10: Non-financial public sector cash flow statement

($ million)

	2012-13 Actual	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Cash flows from operating activities						
Receipts						
Taxes	14 886.3	16 046.8	16 121.6	17 164.4	17 921.7	18 847.0
Grants	21 988.5	23 292.5	23 205.4	24 270.1	24 869.1	26 166.8
Sales of goods and services [(a)]	10 715.9	12 353.4	12 187.1	12 131.8	12 441.7	12 527.5
Interest	428.6	379.6	355.3	357.7	385.6	403.3
Dividends and income tax equivalent and rate equivalents	607.8	399.5	419.6	425.2	499.0	502.7
Other receipts	2 097.5	2 002.8	1 986.1	1 884.3	1 972.2	1 960.3
Total receipts	**50 724.5**	**54 474.7**	**54 275.1**	**56 233.5**	**58 089.4**	**60 407.6**
Payments						
Payments for employees	(18 548.6)	(18 743.7)	(18 622.2)	(19 293.6)	(20 025.6)	(20 669.5)
Superannuation	(2 629.2)	(2 736.6)	(2 729.0)	(2 769.3)	(2 812.4)	(2 975.3)
Interest	(2 343.8)	(2 881.7)	(2 811.4)	(2 972.1)	(3 016.7)	(3 067.4)
Grants	(5 623.2)	(5 384.4)	(5 123.2)	(5 424.7)	(5 621.0)	(5 970.3)
Goods and services [(a)]	(18 781.6)	(20 121.3)	(20 698.8)	(20 401.3)	(19 902.8)	(20 299.8)
Other payments	(300.6)	(627.9)	(633.0)	(671.2)	(698.8)	(728.7)
Total payments	**(48 227.0)**	**(50 495.6)**	**(50 617.7)**	**(51 532.2)**	**(52 077.4)**	**(53 711.0)**
Net cash flows from operating activities	**2 497.5**	**3 979.1**	**3 657.4**	**4 701.4**	**6 011.9**	**6 696.7**
Cash flows from investing activities						
Purchases of non-financial assets	(7 816.6)	(8 550.7)	(8 085.8)	(7 977.6)	(5 699.2)	(6 145.4)
Sales of non-financial assets	404.4	525.9	507.8	535.1	572.7	518.3
Cash flows from investments in non-financial assets	(7 412.2)	(8 024.8)	(7 578.0)	(7 442.5)	(5 126.5)	(5 627.1)
Net cash flows from investments in financial assets for policy purposes	319.2	(15.0)	(11.1)	(0.8)	346.4	(23.6)
Net cash flows from investments in financial assets for liquidity purposes	(1 110.1)	(24.3)	144.1	(44.7)	(100.2)	(74.8)
Net cash flows from investing activities	**(8 203.1)**	**(8 064.1)**	**(7 445.0)**	**(7 488.1)**	**(4 880.3)**	**(5 725.5)**
Cash flows from financing activities						
Advances received (net)	0.5	..	(0.6)	..	..	..
Net borrowings	4 614.0	4 318.6	3 688.2	3 085.0	(806.0)	(477.8)
Deposits received (net)	75.8	6.0	(13.8)	1.8	0.3	1.2
Net cash flows from financing activities	**4 690.3**	**4 324.5**	**3 673.9**	**3 086.8**	**(805.7)**	**(476.6)**
Net increase/(decrease) in cash and cash equivalents	**(1 015.2)**	**239.6**	**(113.8)**	**300.1**	**325.9**	**494.6**

	2012-13 *Actual*	2013-14 *Budget*	2013-14 *Revised*	2014-15 *Estimate*	2015-16 *Estimate*	2016-17 *Estimate*
Cash and cash equivalents at beginning of reporting period	5 775.1	4 759.8	4 759.8	4 646.1	4 946.2	5 272.1
Cash and cash equivalents at end of reporting period [(b)]	**4 759.8**	**4 999.5**	**4 646.1**	**4 946.2**	**5 272.1**	**5 766.7**
FISCAL AGGREGATES						
Net cash flows from operating activities	2 497.5	3 979.1	3 657.4	4 701.4	6 011.9	6 696.7
Net cash flows from investments in non-financial assets	(7 412.2)	(8 024.8)	(7 578.0)	(7 442.5)	(5 126.5)	(5 627.1)
Cash surplus/(deficit)	**(4 914.7)**	**(4 045.7)**	**(3 920.6)**	**(2 741.2)**	**885.4**	**1 069.6**

Source: Department of Treasury and Finance

Notes:

(a) These items are inclusive of goods and service tax.

(b) Cash and cash equivalents at the end of reporting period does not equal to cash and deposit on the balance sheet. This is due to the overdraft being included on the cash flow statement.

Table 6.11: Non-financial public sector statement of changes in equity

($ million)

	Accumulated surplus/(deficit)	*Non-controlling interest*
2012-13 Actual		
Balance at 1 July 2012 [a]	39 836.1	50.0
Net result	(2 173.3)	..
Other comprehensive income for the year [a]	9 139.8	..
Transactions with owners in their capacity as owners	..	..
Total equity at end of period	**46 802.6**	**50.0**
2013-14 Budget		
Balance at 1 July 2013 [a]	46 802.6	50.0
Net result	(604.8)	..
Other comprehensive income for the year [a]	2 325.6	..
Total equity at end of period	**48 523.4**	**50.0**
2013-14 Revised		
Balance at 1 July 2013	46 802.6	50.0
Net result	(512.8)	..
Other comprehensive income for the year	1 766.3	..
Total equity at end of period	**48 056.1**	**50.0**
2014-15 Estimate		
Balance at 1 July 2014	48 056.1	50.0
Net result	241.4	..
Other comprehensive income for the year	128.4	..
Total equity at end of period	**48 425.9**	**50.0**
2015-16 Estimate		
Balance at 1 July 2015	48 425.9	50.0
Net result	1 194.8	..
Other comprehensive income for the year	419.2	..
Total equity at end of period	**50 039.9**	**50.0**
2016-17 Estimate		
Balance at 1 July 2016	50 039.9	50.0
Net result	1 810.4	..
Other comprehensive income for the year	675.8	..
Total equity at end of period	**52 526.1**	**50.0**

Source: Department of Treasury and Finance

Note:
(a) Impact is due to the correction of balances as at 30 June 2013 between deferred tax liability accounts.

Land, buildings, infrastructure, plant and equipment revaluation surplus	Investment in other sector entities revaluation surplus	Other reserves	Total
75 552.6	762.9	1 889.8	118 091.4
..	..	..	(2 173.3)
2 533.1	897.0	(670.6)	11 899.3
..	..	..	..
78 085.7	**1 659.9**	**1 219.2**	**127 817.4**
78 085.7	1 659.9	1 219.2	127 817.4
..	..	..	(604.8)
4 038.0	62.1	16.7	6 442.4
82 123.7	**1 722.0**	**1 236.0**	**133 655.0**
78 085.7	1 659.9	1 219.2	127 817.4
..	..	..	(512.8)
2 687.2	45.6	50.3	4 549.4
80 772.9	**1 705.5**	**1 269.5**	**131 854.0**
80 772.9	1 705.5	1 269.5	131 854.0
..	..	..	241.4
7 164.1	114.4	23.4	7 430.4
87 937.0	**1 820.0**	**1 292.9**	**139 525.8**
87 937.0	1 820.0	1 292.9	139 525.8
..	..	..	1 194.8
2 864.6	140.5	52.4	3 476.7
90 801.6	**1 960.5**	**1 345.3**	**144 197.2**
90 801.6	1 960.5	1 345.3	144 197.2
..	..	..	1 810.4
1 696.9	112.8	51.2	2 536.6
92 498.4	**2 073.3**	**1 396.4**	**148 544.2**

Table 6.12: Derivation of non-financial public sector GFS cash surplus/(deficit)

($ million)

	2012-13 Actual	*2013-14 Budget*	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Cash surplus/(deficit)	**(4 914.7)**	**(4 045.7)**	**(3 920.6)**	**(2 741.2)**	**885.4**	**1 069.6**
Convergence differences:						
Acquisitions under finance leases and similar arrangements (a)	(5 433.8)	..	(111.0)	(36.4)	(1 050.4)	(279.3)
GFS cash surplus/(deficit) (b)	**(10 348.5)**	**(4 045.7)**	**(4 031.6)**	**(2 777.6)**	**(165.0)**	**790.3**

Source: Department of Treasury and Finance

Notes:
(a) The 2012-13 actual reflects the recognition of the finance lease for the desalination plant.
(b) Determined in accordance with ABS GFS manual.

Table 6.13: Net acquisition of non-financial assets – non-financial public sector

($ million)

	2012-13 Actual	*2013-14 Estimate*	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Purchases of non-financial assets	7 816.6	8 550.7	8 085.8	7 977.6	5 699.2	6 145.4
Less: Sales of non-financial assets	(404.4)	(525.9)	(507.8)	(535.1)	(572.7)	(518.3)
Less: Depreciation	(4 092.4)	(4 397.0)	(4 319.5)	(4 489.2)	(4 759.5)	(5 108.6)
Plus: Other movements in non-financial assets (a)	5 526.4	142.1	305.5	181.6	1 220.5	457.8
Total net acquisition of non-financial assets	**8 846.3**	**3 770.0**	**3 564.0**	**3 134.9**	**1 587.5**	**976.3**

Source: Department of Treasury and Finance

Note:
(a) The 2015-16 finance lease amount predominantly relates to the Victorian Comprehensive Cancer Centre.

Table 6.14: Public financial corporations sector comprehensive operating statement

($ million)

	2012-13 *Actual*	2013-14 *Estimate*	2013-14 *Revised*	2014-15 *Estimate*	2015-16 *Estimate*	2016-17 *Estimate*
Revenue						
Interest	2 388.6	2 715.5	2 620.0	2 827.0	2 956.5	2 836.1
Dividends	460.1	434.1	501.7	535.2	570.2	607.1
Sales of goods and services	3 723.3	3 913.0	3 909.2	4 095.0	4 302.5	4 505.4
Grants	2.9	..	..	0.1	0.1	0.1
Other current revenue	20.7	23.2	20.9	22.6	22.4	23.3
Total revenue	**6 595.5**	**7 085.9**	**7 051.8**	**7 479.9**	**7 851.7**	**7 972.0**
Expenses						
Employee expenses	302.4	307.2	306.9	312.9	317.9	313.1
Superannuation interest expense	..	..	..	..	..	..
Other superannuation	23.3	24.7	23.8	24.4	24.9	24.6
Depreciation	39.3	48.1	49.1	58.2	57.9	61.2
Interest expense	1 957.9	2 195.3	2 052.4	2 256.5	2 359.0	2 337.9
Other operating expenses	5 234.0	5 381.8	5 396.7	5 596.0	5 838.3	6 059.6
Other property expenses	17.2	15.6	21.2	22.3	24.7	7.2
Total expenses	**7 574.0**	**7 972.8**	**7 850.2**	**8 270.2**	**8 622.7**	**8 803.8**
Net result from transactions – net operating balance	**(978.5)**	**(886.9)**	**(798.4)**	**(790.3)**	**(771.0)**	**(831.7)**
Other economic flows included in net result						
Net (loss) on sale of non-financial assets	(0.1)	(0.1)	..	..	..	..
Net gain on financial assets or liabilities at fair value	3 168.3	805.6	857.9	839.4	900.8	965.4
Other (losses) from other economic flows	1 069.9	478.3	556.7	497.3	490.3	493.5
Total other economic flows included in net result	**4 238.1**	**1 283.8**	**1 414.6**	**1 336.7**	**1 391.0**	**1 458.9**
Net result	**3 259.7**	**396.9**	**616.2**	**546.4**	**620.0**	**627.2**
Other economic flows – other comprehensive income						
Items that will not be reclassified to net result						
Changes in non-financial assets revaluation surplus	(1.0)	..	(12.9)	..	..	..
Other movements in equity	..	..	12.5	(1.2)	(1.0)	(0.9)
Total other economic flows – other comprehensive income	**(1.0)**	**..**	**(0.4)**	**(1.2)**	**(1.0)**	**(0.9)**
Comprehensive result – total change in net worth	**3 258.7**	**396.9**	**615.8**	**545.2**	**619.0**	**626.2**

Table 6.14: Public financial corporations sector comprehensive operating statement *(continued)*

($ million)

	2012-13 Actual	2013-14 Estimate	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
FISCAL AGGREGATES						
Net operating balance	**(978.5)**	**(886.9)**	**(798.4)**	**(790.3)**	**(771.0)**	**(831.7)**
Less: Net acquisition of non-financial assets from transactions	33.2	37.7	26.9	6.4	(10.4)	(4.0)
Net lending/(borrowing)	**(1 011.7)**	**(924.6)**	**(825.3)**	**(796.7)**	**(760.7)**	**(827.7)**

Source: Department of Treasury and Finance

Table 6.15: Public financial corporations sector balance sheet

($ million)

	2012-13 Actual	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Assets						
Financial assets						
Cash and deposits	4 158.4	4 459.2	3 622.3	3 852.6	4 055.5	4 259.5
Advances paid, investments, loans and placements	25 610.4	26 676.9	27 132.3	28 488.1	28 139.1	29 826.7
Loans receivable from non-financial public sector [(a)]	33 501.6	38 045.1	37 996.4	41 352.7	40 806.9	40 564.9
Receivables	3 122.3	3 134.1	2 757.1	2 789.8	2 859.3	2 945.6
Total financial assets	**66 392.7**	**72 315.3**	**71 508.1**	**76 483.3**	**75 860.8**	**77 596.8**
Non-financial assets						
Non-financial assets held for sale	26.4	26.4	..	..	..	..
Land, buildings, infrastructure, plant and equipment	63.8	67.7	81.6	79.5	63.3	57.3
Other non-financial assets	1 710.2	1 632.1	1 616.1	1 461.3	1 272.3	1 060.9
Total non-financial assets	**1 800.4**	**1 726.2**	**1 697.7**	**1 540.8**	**1 335.6**	**1 118.3**
Total assets	**68 193.1**	**74 041.5**	**73 205.9**	**78 024.1**	**77 196.4**	**78 715.1**
Liabilities						
Deposits held and advances received	5 986.4	5 998.6	5 876.1	5 950.5	5 955.9	6 124.2
Payables	2 138.5	2 204.7	2 229.7	2 304.7	2 380.6	2 477.9
Borrowings [(b)]	38 303.9	42 929.0	42 052.2	45 377.0	43 402.7	43 155.8
Employee benefits	89.5	91.3	81.0	82.9	82.1	86.5
Other provisions	22 527.5	23 546.4	23 492.4	24 583.9	25 761.2	27 014.3
Total liabilities	**69 045.9**	**74 770.1**	**73 731.5**	**78 299.0**	**77 582.5**	**78 858.8**
Net assets [(c)]	**(852.8)**	**(728.6)**	**(525.6)**	**(274.9)**	**(386.1)**	**(143.7)**
Accumulated surplus/(deficit)	(1 765.4)	(1 669.5)	(966.3)	(739.9)	(511.3)	(292.6)
Reserves	912.6	940.9	440.7	465.0	125.1	148.9
Net worth [(c)]	**(852.8)**	**(728.6)**	**(525.6)**	**(274.9)**	**(386.1)**	**(143.7)**
FISCAL AGGREGATES						
Net financial worth	(2 653.2)	(2 454.8)	(2 223.3)	(1 815.7)	(1 721.7)	(1 262.0)
Net financial liabilities	2 653.2	2 454.8	2 223.3	1 815.7	1 721.7	1 262.0
Net debt	(18 980.1)	(20 253.6)	(20 822.7)	(22 365.9)	(23 642.9)	(25 371.1)

Source: Department of Treasury and Finance

Notes:

(a) Loans receivable from the non-financial public sector are measured at amortised cost.

(b) Borrowings with the private sector are reported at market value.

(c) Treasury Corporation of Victoria's external loan liabilities are reported at marked-to-market while the corresponding assets, that is lending to the non-financial public sector, are reported at historical value. This mismatch results in the negative net asset position of the sector.

Table 6.16: Public financial corporations sector cash flow statement

($ million)

	2012-13 Actual	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Cash flows from operating activities						
Receipts						
Grants	2.9	..	..	0.1	0.1	0.1
Sales of goods and services [(a)]	4 116.4	4 376.3	4 355.3	4 559.9	4 775.5	4 970.5
Interest	2 202.6	2 613.5	2 578.1	2 785.2	2 914.6	2 794.3
Dividends	299.9	434.1	497.2	525.9	560.4	596.8
Other receipts	68.4	4.6	6.7	5.2	9.1	13.9
Total receipts	**6 690.2**	**7 428.5**	**7 437.3**	**7 876.3**	**8 259.8**	**8 375.6**
Payments						
Payments for employees	(288.5)	(305.4)	(315.4)	(311.0)	(318.8)	(308.7)
Superannuation	(23.3)	(24.7)	(23.8)	(24.4)	(24.9)	(24.6)
Interest	(1 954.5)	(2 196.2)	(2 070.5)	(2 300.8)	(2 391.3)	(2 383.0)
Grants	..	..	..	..	..	..
Goods and services [(a)]	(3 685.9)	(4 136.6)	(4 131.0)	(4 223.1)	(4 402.7)	(4 520.0)
Other payments	(16.5)	(19.2)	(18.7)	(18.8)	(21.2)	(3.5)
Total payments	**(5 968.6)**	**(6 682.1)**	**(6 559.4)**	**(6 878.2)**	**(7 158.9)**	**(7 239.8)**
Net cash flows from operating activities	**721.6**	**746.4**	**877.9**	**998.1**	**1 100.9**	**1 135.8**
Cash flows from investing activities						
Purchases of non-financial assets	(74.4)	(87.4)	(94.4)	(66.0)	(48.9)	(58.0)
Sales of non-financial assets	1.9	1.6	18.4	1.4	1.4	0.8
Cash flows from investments in non-financial assets	(72.5)	(85.8)	(76.1)	(64.6)	(47.5)	(57.2)
Net cash flows from investments in financial assets for policy purposes	(46.6)	(112.7)	(43.9)	(125.6)	(129.6)	(3.0)
Net cash flows from investments in financial assets for liquidity purposes	(3 558.2)	(4 584.2)	(5 200.0)	(3 710.9)	7.5	(437.8)
Net cash flows from investing activities	**(3 677.3)**	**(4 782.8)**	**(5 320.0)**	**(3 901.1)**	**(169.6)**	**(498.0)**
Cash flows from financing activities						
Advances received (net)	209.6	1.7	(23.1)	0.3	0.2	0.9
Net borrowings	3 000.0	4 597.5	4 304.7	3 353.5	(431.4)	(218.3)
Deposits received (net)	(697.0)	10.5	(87.2)	74.1	68.3	167.4
Other financing (net)	(443.8)	(272.6)	(288.5)	(294.5)	(365.5)	(383.8)
Net cash flows from financing activities	**2 068.9**	**4 337.1**	**3 905.9**	**3 133.3**	**(728.3)**	**(433.8)**
Net increase/(decrease) in cash and cash equivalents	**(886.8)**	**300.7**	**(536.1)**	**230.3**	**202.9**	**204.0**

	2012-13 Actual	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Cash and cash equivalents at beginning of reporting period	5 045.2	4 158.4	4 158.4	3 622.3	3 852.6	4 055.5
Cash and cash equivalents at end of reporting period [(b)]	**4 158.4**	**4 459.2**	**3 622.3**	**3 852.6**	**4 055.5**	**4 259.5**
FISCAL AGGREGATES						
Net cash flows from operating activities	721.6	746.4	877.9	998.1	1 100.9	1 135.8
Dividends paid	(440.6)	(293.9)	(309.8)	(311.1)	(382.1)	(400.4)
Net cash flows from investments in non-financial assets	(72.5)	(85.8)	(76.1)	(64.6)	(47.5)	(57.2)
Cash surplus/(deficit)	**208.5**	**366.7**	**492.0**	**622.4**	**671.3**	**678.2**

Source: Department of Treasury and Finance

Note:
(a) These items are inclusive of goods and services tax.

Table 6.17: Public financial corporations sector statement of changes in equity

($ million)

	Accumulated surplus/(deficit)	Contribution by owners
2012-13 Actual		
Balance at 1 July 2012	(4 675.8)	254.9
Net result	3 259.7	..
Other comprehensive income for the year	91.3	..
Dividends paid	(440.6)	..
Transactions with owners in their capacity as owners	..	(3.2)
Total equity at end of period	**(1 765.4)**	**251.8**
2013-14 Budget		
Balance at 1 July 2013	(1 765.4)	251.8
Net result	396.9	..
Other comprehensive income for the year	(7.0)	..
Dividends paid	(293.9)	..
Transactions with owners in their capacity as owners	..	21.3
Total equity at end of period	**(1 669.5)**	**273.1**
2013-14 Revised		
Balance at 1 July 2013	(1 765.4)	251.8
Net result	616.2	..
Other comprehensive income for the year	492.8	..
Dividends paid	(309.8)	..
Transactions with owners in their capacity as owners	..	21.3
Total equity at end of period	**(966.3)**	**273.1**
2014-15 Estimate		
Balance at 1 July 2014	(966.3)	273.1
Net result	546.4	..
Other comprehensive income for the year	(8.8)	..
Dividends paid	(311.1)	..
Transactions with owners in their capacity as owners	..	16.6
Total equity at end of period	**(739.9)**	**289.7**
2015-16 Estimate		
Balance at 1 July 2015	(739.9)	289.7
Net result	620.0	..
Other comprehensive income for the year	(9.2)	..
Dividends paid	(382.1)	..
Transactions with owners in their capacity as owners	..	(348.1)
Total equity at end of period	**(511.3)**	**(58.4)**
2016-17 Estimate		
Balance at 1 July 2016	(511.3)	(58.4)
Net result	627.2	..
Other comprehensive income for the year	(8.1)	..
Dividends paid	(400.4)	..
Transactions with owners in their capacity as owners	..	16.6
Total equity at end of period	**(292.6)**	**(41.8)**

Source: Department of Treasury and Finance

Land, buildings, infrastructure, plant and equipment revaluation surplus	Other reserves	Total
16.0	737.2	(3 667.7)
..	..	3 259.7
(1.0)	(91.3)	(1.0)
..	..	(440.6)
..	..	(3.2)
15.0	**645.9**	**(852.8)**
15.0	645.9	(852.8)
..	..	396.9
..	7.0	..
..	..	(293.9)
..	..	21.3
15.0	**652.9**	**(728.6)**
15.0	645.9	(852.8)
..	..	616.2
(12.9)	(480.3)	(0.4)
..	..	(309.8)
..	..	21.3
2.1	**165.6**	**(525.6)**
2.1	165.6	(525.6)
..	..	546.4
..	7.6	(1.2)
..	..	(311.1)
..	..	16.6
2.1	**173.3**	**(274.9)**
2.1	173.3	(274.9)
..	..	620.0
..	8.2	(1.0)
..	..	(382.1)
..	..	(348.1)
2.1	**181.5**	**(386.1)**
2.1	181.5	(386.1)
..	..	627.2
..	7.1	(0.9)
..	..	(400.4)
..	..	16.6
2.1	**188.6**	**(143.7)**

Table 6.18: Derivation of public financial corporations sector GFS cash surplus/(deficit)

($ million)

	2012-13 Actual	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Cash surplus/(deficit)	**208.5**	**366.7**	**492.0**	**622.4**	**671.3**	**678.2**
Convergence differences:						
Acquisitions under finance leases and similar arrangements	..	..	..	..	..	..
GFS cash surplus/(deficit) [a]	**208.5**	**366.7**	**492.0**	**622.4**	**671.3**	**678.2**

Source: Department of Treasury and Finance

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

Table 6.19: Net acquisition of non-financial assets – public financial corporations sector

($ million)

	2012-13 Actual	2013-14 Estimate	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Purchases of non-financial assets	74.4	87.4	94.4	66.0	48.9	58.0
Less: Sales of non-financial assets	(1.9)	(1.6)	(18.4)	(1.4)	(1.4)	(0.8)
Less: Depreciation	(39.3)	(48.1)	(49.1)	(58.2)	(57.9)	(61.2)
Total net acquisition of non-financial assets	**33.2**	**37.7**	**26.9**	**6.4**	**(10.4)**	**(4.0)**

Source: Department of Treasury and Finance

Table 6.20: State of Victoria operating statement

($ million)

	2012-13 Actual	2013-14 Estimate	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Revenue						
Taxation revenue	15 184.7	16 035.5	16 071.6	17 172.2	17 885.6	18 891.6
Interest	970.4	1 022.7	960.6	999.0	1 057.9	976.1
Dividends and rate equivalents	610.9	520.6	592.3	630.5	665.9	706.0
Sales of goods and services	12 896.9	14 379.6	13 968.1	14 219.2	14 705.6	14 965.9
Grants	21 790.4	23 180.1	23 134.9	24 154.6	24 710.2	26 060.4
Other current revenue	2 749.6	2 508.8	2 546.9	2 439.6	2 517.7	2 563.1
Total revenue	**54 203.0**	**57 647.3**	**57 274.4**	**59 615.1**	**61 542.9**	**64 163.1**
Expenses						
Employee expenses	18 794.9	18 945.3	18 812.9	19 495.3	20 238.2	20 873.8
Superannuation interest expense [(a)]	1 076.8	1 129.2	1 052.0	1 005.3	991.2	970.4
Other superannuation	2 040.1	2 012.6	1 956.9	1 977.9	2 014.2	2 039.4
Depreciation	4 131.6	4 445.1	4 368.6	4 547.4	4 817.4	5 169.8
Interest expense	2 538.6	3 054.7	2 902.9	3 082.7	3 128.9	3 176.7
Grants and other transfers	5 398.3	5 268.7	4 999.2	5 366.9	5 545.4	5 885.5
Other operating expenses	23 342.6	24 282.3	24 600.4	24 787.3	24 507.0	25 212.4
Total expenses	**57 322.8**	**59 138.0**	**58 693.0**	**60 262.8**	**61 242.3**	**63 328.1**
Net result from transactions – net operating balance	**(3 119.8)**	**(1 490.7)**	**(1 418.6)**	**(647.7)**	**300.6**	**834.9**
Other economic flows included in net result						
Net gain/(loss) on sale of non-financial assets	21.0	106.6	106.5	93.3	75.5	95.3
Net gain on financial assets or liabilities at fair value	3 168.5	806.3	862.7	843.9	905.1	969.5
Share of net profit/(loss) from associates, excluding dividends	(83.4)	..	..	..	..	..
Other gains/(losses) from other economic flows	1 549.7	194.6	375.9	359.7	353.7	357.3
Total other economic flows included in net result	**4 655.8**	**1 107.6**	**1 345.1**	**1 296.9**	**1 334.3**	**1 422.1**
Net result	**1 536.0**	**(383.1)**	**(73.4)**	**649.2**	**1 634.8**	**2 257.0**
Other economic flows – other comprehensive income						
Items that will not be reclassified to net result						
Changes in non-financial assets revaluation surplus	795.4	5 774.7	2 674.3	7 164.1	2 864.6	1 696.9
Remeasurement of superannuation defined benefits plans [(a)]	7 989.8	593.2	1 830.3	560.4	572.5	583.9
Other movements in equity	369.3	4.7	(25.6)	(401.8)	(104.4)	141.3

Table 6.20: State of Victoria operating statement *(continued)*

($ million)

	2012-13 Actual	*2013-14 Estimate*	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Items that may be reclassified subsequently to net result						
Net gain/(loss) on financial assets at fair value	84.0	7.9	24.4	(8.0)	2.4	0.7
Total other economic flows – other comprehensive income	**9 238.5**	**6 380.4**	**4 503.3**	**7 314.7**	**3 335.1**	**2 422.9**
Comprehensive result – total change in net worth	**10 774.5**	**5 997.2**	**4 429.9**	**7 963.9**	**4 970.0**	**4 679.9**
FISCAL AGGREGATES						
Net operating balance	**(3 119.8)**	**(1 490.7)**	**(1 418.6)**	**(647.7)**	**300.6**	**834.9**
Less: net acquisition of non-financial assets from transactions	8 586.3	3 807.7	3 591.0	3 141.3	1 577.1	972.3
Net lending/(borrowing)	**(11 706.1)**	**(5 298.4)**	**(5 009.5)**	**(3 789.0)**	**(1 276.5)**	**(137.4)**

Source: Department of Treasury and Finance

Note:

(a) The 2012-13 actual comparative figure has been restated to reflect a revised accounting standard, AASB 119 Employee Benefits*, which has been issued changing the way defined benefit superannuation expenses are calculated from 2013-14.*

Table 6.21: State of Victoria balance sheet

($ million)

	2012-13 Actual	*2013-14 Budget*	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Assets						
Financial assets						
Cash and deposits	6 252.9	6 804.6	6 200.2	6 678.8	7 214.3	7 796.7
Receivables	7 871.9	7 837.4	7 199.3	7 175.3	7 074.7	7 162.4
Advances paid, investments, loans and placements	27 695.7	28 770.3	29 145.7	30 528.0	30 220.6	31 936.7
Investments accounted for using equity method	1 666.1	1 666.1	1 666.1	1 666.1	1 666.1	1 666.1
Total financial assets	**43 486.5**	**45 078.4**	**44 211.2**	**46 048.1**	**46 175.6**	**48 561.8**
Non-financial assets						
Inventories	871.0	859.3	832.7	701.5	611.8	536.7
Non-financial assets held for sale	173.0	166.1	107.2	100.6	93.9	87.3
Land, buildings, infrastructure, plant and equipment	189 473.0	199 190.9	195 810.4	205 702.0	210 243.4	213 269.9
Other non-financial assets	2 053.1	2 086.1	2 100.2	2 081.7	2 023.1	1 999.0
Total non-financial assets	**192 570.0**	**202 302.4**	**198 850.5**	**208 585.8**	**212 972.3**	**215 893.0**
Total assets	**236 056.6**	**247 380.8**	**243 061.7**	**254 633.8**	**259 147.9**	**264 454.9**
Liabilities						
Deposits held and advances received	2 088.9	2 098.5	2 063.7	2 069.3	2 014.7	2 016.4
Payables	8 506.0	8 523.3	8 032.6	7 688.3	7 552.0	7 459.5
Borrowings	47 437.0	51 839.6	51 077.7	54 175.4	52 997.2	52 798.0
Employee benefits	5 624.7	5 836.8	5 811.5	6 021.3	6 242.7	6 471.5
Superannuation	25 225.4	25 012.8	23 651.3	23 280.4	22 876.0	22 302.0
Other provisions	23 542.4	24 440.4	24 362.9	25 373.1	26 469.3	27 731.9
Total liabilities	**112 424.5**	**117 751.5**	**114 999.7**	**118 607.9**	**118 152.0**	**118 779.1**
Net assets	**123 632.1**	**129 629.3**	**128 062.0**	**136 025.9**	**140 995.9**	**145 675.8**
Accumulated surplus [(a)]	43 616.3	45 551.9	45 802.0	46 570.7	48 615.5	51 540.3
Reserves [(a)]	79 965.8	84 027.5	82 210.0	89 405.2	92 330.4	94 085.5
Non-controlling interest	50.0	50.0	50.0	50.0	50.0	50.0
Net worth	**123 632.1**	**129 629.3**	**128 062.0**	**136 025.9**	**140 995.9**	**145 675.8**
FISCAL AGGREGATES						
Net financial worth	(68 937.9)	(72 673.1)	(70 788.5)	(72 559.8)	(71 976.4)	(70 217.2)
Net financial liabilities	68 937.9	72 673.1	70 788.5	72 559.8	71 976.4	70 217.2
Net debt	15 577.3	18 363.2	17 795.5	19 037.9	17 577.1	15 081.0

Source: Department of Treasury and Finance

Note:
(a) Impact is due to the correction of balances as at 30 June 2013 between deferred tax liability accounts.

Table 6.22: State of Victoria cash flow statement

($ million)

	2012-13 Actual	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Cash flows from operating activities						
Receipts						
Taxes received	14 872.0	16 032.0	16 106.6	17 149.0	17 906.0	18 831.5
Grants	21 899.6	23 182.0	23 093.7	24 159.6	24 762.6	26 060.2
Sales of goods and services [(a)]	13 548.2	15 969.6	15 829.6	15 963.0	16 452.0	16 698.4
Interest	1 203.0	912.1	911.6	951.8	1 013.8	934.2
Dividends and rate equivalents receipts	450.6	520.6	588.3	621.2	656.0	695.6
Other receipts	1 882.2	2 007.4	1 986.7	1 889.5	1 981.4	1 974.3
Total receipts	**53 855.6**	**58 623.7**	**58 516.4**	**60 734.1**	**62 772.0**	**65 194.1**
Payments						
Payments for employees	(18 551.6)	(18 739.1)	(18 629.1)	(19 286.2)	(20 017.5)	(20 645.9)
Superannuation	(2 652.5)	(2 761.3)	(2 752.9)	(2 793.6)	(2 837.3)	(2 999.9)
Interest paid	(2 384.2)	(2 997.0)	(2 860.1)	(3 081.8)	(3 121.7)	(3 187.0)
Grants and subsidies	(5 619.5)	(5 384.4)	(5 123.2)	(5 424.7)	(5 621.0)	(5 970.3)
Goods and services [(a)]	(21 399.7)	(23 682.3)	(24 292.6)	(24 088.0)	(23 744.8)	(24 230.2)
Other payments	(596.0)	(627.9)	(633.0)	(671.2)	(698.8)	(728.7)
Total payments	**(51 203.4)**	**(54 192.0)**	**(54 290.9)**	**(55 345.7)**	**(56 041.2)**	**(57 762.0)**
Net cash flows from operating activities	**2 652.2**	**4 431.7**	**4 225.5**	**5 388.4**	**6 730.8**	**7 432.1**
Cash flows from investing activities						
Purchases of non-financial assets	(7 597.8)	(8 638.1)	(8 180.2)	(8 043.6)	(5 748.1)	(6 203.4)
Sales of non-financial assets	406.3	527.5	526.1	536.4	574.1	519.1
Cash flows from investments in non-financial assets	(7 191.5)	(8 110.6)	(7 654.1)	(7 507.2)	(5 174.0)	(5 684.3)
Net cash flows from investments in financial assets for policy purposes	262.6	(105.5)	(45.2)	(109.7)	(131.1)	(9.6)
Net cash flows from investments in financial assets for liquidity management purposes	520.5	(47.6)	(640.5)	(380.5)	(571.7)	(703.4)
Net cash flows from investing activities	**(6 408.4)**	**(8 263.7)**	**(8 339.8)**	**(7 997.4)**	**(5 876.8)**	**(6 397.3)**
Cash flows from financing activities						
Advances received (net)	294.8	0.9	(12.1)	0.2	0.1	0.4
Net borrowings	2 981.8	4 372.3	4 084.5	3 082.0	(327.0)	(454.1)
Deposits received (net)	676.8	8.7	(13.1)	5.4	8.4	1.2
Net cash flows from financing activities	**3 953.4**	**4 381.9**	**4 059.3**	**3 087.9**	**(318.4)**	**(452.5)**
Net increase/(decrease) in cash and cash equivalents	**197.2**	**549.8**	**(55.0)**	**478.9**	**535.5**	**582.4**

	2012-13 Actual	2013-14 Budget	2013-14 Revised	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Cash and cash equivalents at beginning of reporting period	6 055.6	6 252.9	6 252.9	6 197.9	6 676.8	7 212.3
Cash and cash equivalents at end of reporting period [(b)]	**6 252.9**	**6 802.7**	**6 197.9**	**6 676.8**	**7 212.3**	**7 794.6**
FISCAL AGGREGATES						
Net cash flows from operating activities	2 652.2	4 431.7	4 225.5	5 388.4	6 730.8	7 432.1
Net cash flows from investments in non-financial assets	(7 191.5)	(8 110.6)	(7 654.1)	(7 507.2)	(5 174.0)	(5 684.3)
Cash surplus/(deficit)	**(4 539.3)**	**(3 678.9)**	**(3 428.5)**	**(2 118.8)**	**1 556.8**	**1 747.8**

Source: Department of Treasury and Finance

Notes:

(a) These items are inclusive of goods and services tax.

(b) Cash and cash equivalents at the end of the reporting period does not equal to cash and deposit on the balance sheet. This is due to overdraft being included on the cash flow statement.

Table 6.23: State of Victoria statement of changes in equity

($ million)

State of Victoria	*Accumulated surplus/(deficit)*	*Non-controlling interest*
2012-13 Actual		
Balance at 1 July 2012 [(a)]	32 875.3	50.0
Net result	1 536.0	..
Other comprehensive income for the year [(a)]	9 205.0	..
Transactions with owners in their capacity as owners	..	..
Total equity at end of period	**43 616.3**	**50.0**
2013-14 Budget		
Balance at 1 July 2013 [(a)]	43 616.3	50.0
Net result	(383.1)	..
Other comprehensive income for the year [(a)]	2 318.7	..
Transactions with owners in their capacity as owners	..	
Total equity at end of period	**45 551.9**	**50.0**
2013-14 Revised		
Balance at 1 July 2013	43 616.3	50.0
Net result	(73.4)	..
Other comprehensive income for the year	2 259.1	..
Total equity at end of period	**45 802.0**	**50.0**
2014-15 Estimate		
Balance at 1 July 2014	45 802.0	50.0
Net result	649.2	..
Other comprehensive income for the year	119.6	..
Total equity at end of period	**46 570.7**	**50.0**
2015-16 Estimate		
Balance at 1 July 2015	46 570.7	50.0
Net result	1 634.8	..
Other comprehensive income for the year	410.0	..
Total equity at end of period	**48 615.5**	**50.0**
2016-17 Estimate		
Balance at 1 July 2016	48 615.5	50.0
Net result	2 257.0	..
Other comprehensive income for the year	667.7	..
Total equity at end of period	**51 540.3**	**50.0**

Source: Department of Treasury and Finance

Note:
(a) Impact is due to the correction of balances as at 30 June 2013 between deferred tax liability accounts.

Land, buildings, infrastructure, plant and equipment revaluation surplus	*Other reserves*	*Total*
75 568.6	2 627.0	111 121.0
..	..	1 536.0
2 532.1	(761.9)	10 975.2
..	..	..
78 100.7	**1 865.1**	**123 632.1**
78 100.7	1 865.1	123 632.1
..	..	(383.1)
4 038.0	23.7	6 380.4
		..
82 138.7	**1 888.8**	**129 629.3**
78 100.7	1 865.1	123 632.1
..	..	(73.4)
2 674.3	(430.0)	4 503.3
80 774.9	**1 435.1**	**128 062.0**
80 774.9	1 435.1	128 062.0
..	..	649.2
7 164.1	31.1	7 314.7
87 939.0	**1 466.2**	**136 025.9**
87 939.0	1 466.2	136 025.9
..	..	1 634.8
2 864.6	60.6	3 335.1
90 803.6	**1 526.7**	**140 995.9**
90 803.6	1 526.7	140 995.9
..	..	2 257.0
1 696.9	58.3	2 422.9
92 500.5	**1 585.0**	**145 675.8**

Table 6.24: Derivation of whole of State sector GFS cash surplus/(deficit)

($ million)

	2012-13 Actual	*2013-14 Budget*	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Cash surplus/(deficit)	**(4 539.3)**	**(3 678.9)**	**(3 428.5)**	**(2 118.8)**	**1 556.8**	**1 747.8**
Convergence differences:						
Acquisitions under finance leases and similar arrangements [(a)]	(5 433.8)	..	(111.0)	(36.4)	(1 050.4)	(279.3)
GFS cash surplus/(deficit) [(b)]	**(9 973.1)**	**(3 678.9)**	**(3 539.5)**	**(2 155.2)**	**506.3**	**1 468.5**

Source: Department of Treasury and Finance

Notes:
(a) The 2011-12 actual reflects the recognition of the finance lease for the Victorian desalination plant.
(b) Determined in accordance with ABS GFS manual.

Table 6.25: Net acquisition of non-financial assets – State of Victoria

($ million)

	2012-13 Actual	*2013-14 Estimate*	*2013-14 Revised*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Purchases of non-financial assets	7 597.8	8 638.1	8 180.2	8 043.6	5 748.1	6 203.4
Less: Sales of non-financial assets	(406.3)	(527.5)	(526.1)	(536.4)	(574.1)	(519.1)
Less: Depreciation	(4 131.6)	(4 445.1)	(4 368.6)	(4 547.4)	(4 817.4)	(5 169.8)
Plus: Other movements in non-financial assets [(a)]	5 526.4	142.1	305.5	181.6	1 220.5	457.8
Total net acquisition of non-financial assets	**8 586.3**	**3 807.7**	**3 591.0**	**3 141.3**	**1 577.1**	**972.3**

Source: Department of Treasury and Finance

Note:
(a) The 2015-16 finance lease amount predominantly relates to the Victorian Comprehensive Cancer Centre.

VICTORIA'S 2013-14 LOAN COUNCIL ALLOCATION

As required under the Uniform Presentation Framework, Victoria is required to publish the Loan Council Allocation (LCA) estimates. The LCA is a measure of each government's net call on financial markets in a given financial year to meet its budget obligations. The method of public release is the responsibility of each individual jurisdiction. Victoria discloses its LCA information through the Financial Report for the State of Victoria, Budget Paper No. 5 *Statements of Finances* and the budget update.

Table 6.26 compares the Victorian 2013-14 LCA nomination (based on *2012-13 Budget Update* estimates) approved by the Loan Council in April 2013, with the 2013-14 revised LCA.

Table 6.26: Loan Council Allocation

($ million)

	2013-14 Nomination	*2013-14 Revised*
General government cash deficit (+)	1 631.4	1 204.3
Public non-financial corporations sector cash deficit (+)	2 227.6	2 383.0
Non-financial public sector cash deficit (+) [(a)]	3 856.2	3 920.6
Acquisitions under finance leases and similar arrangements	..	111.0
ABS GFS cash deficit(+)	3 856.2	4 031.6
Net cash flows from investments in financial assets for policy purposes [(b)]	(124.2)	(11.1)
Memorandum items [(c)]	605.0	715.0
Loan Council Allocation	**4 585.4**	**4 757.7**
Tolerance limit [(d)]	1 099.0	1 099.0

Notes:

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

(b) The ABS GFS cash deficit is adjusted to include in the LCA the impact of net cash flows from investments in financial assets for policy purposes.

(c) The ABS GFS cash deficit is adjusted to include in the LCA the impact of memorandum items, which include certain transactions that have many of the characteristics of public sector borrowings but do not constitute formal borrowings (e.g. operating leases). They also include, where appropriate, transactions that the Loan Council has agreed should not be included in the LCA (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 the movement between a jurisdiction's LCA nomination and LCA revised budget estimate (calculated using estimates in the 2012-13 Budget Update*). The tolerance limit applying to the movement between Victoria's 2013-14 LCA nomination and its LCA revised budget estimate is $1 099 million (2 per cent of $54 948.5 million).*

As part of the Loan Council arrangements, the Council has agreed that if at any time a state or territory finds that it is likely to exceed its tolerance limit, in either direction, it is required to provide an explanation to the Council and, in line with the emphasis of increased transparency to make the explanation public. Victoria's 2013-14 revised LCA (a deficit of $4.8 billion) did not exceed the tolerance limit established under the LCA nomination process.

In the interest of transparency, the State is required to disclose the details of new infrastructure projects with private sector involvement that are expected to be contracted during the LCA year, 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 the LCA. 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 the Government as a result of the default.

There are no *Partnerships Victoria* contracts that are currently expected to be signed during the 2013-14 financial year.

CHAPTER 7 – CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The estimated financial statements for the general government sector in Chapter 5 should be read in conjunction with the following chapter. This chapter contains information pertaining to the general government sector.

CONTINGENT ASSETS

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly in the control of the entity.

These are classified as either quantifiable, where the potential economic benefit is known, or non-quantifiable. The table below contains quantifiable contingent assets as at 1 December 2013.

Quantifiable contingent assets

($ million)

	As at Nov 2013	*Published budget estimate* [a]
Guarantees, indemnities and warranties	1.6	1.6
Legal proceedings and disputes [b]	8.7	17.3
Other [b]	10.3	13.2
Total contingent assets	**20.6**	**32.1**

Notes:
(a) *As published in the* 2013-14 Budget.
(b) *A number of the comparatives have been split out to reflect current information regarding classification.*

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 West Gate Freeway (between Lorimer and Montague Streets), and in the vicinity of the intersection of the Bulla Road and the Tullamarine Freeway. 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 the deed:

- the State upgraded the Monash and West Gate Freeways, while CML upgraded the Southern Link section of CityLink; and
- the State became 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 is based on comparing actual CityLink revenue with agreed trends. The calculation date for the additional CityLink revenue and the State's revenue sharing entitlement is 30 June 2014.

CONTINGENT LIABILITIES

Contingent liabilities are:

- possible obligations that arise 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
- present obligations that arise from past events but are not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations; or
  - the amount of the obligations 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 1 December 2013.

Quantifiable contingent liabilities

($ million)

	As at Nov 2013	*Published budget estimate (a)*
Guarantees, indemnities and warranties (b)	597.1	717.3
Legal proceedings and disputes	486.2	485.3
Other	289.4	294.0
Non-general government debt (b)	11 016.3	10 416.8
Total contingent liabilities	**12 389.0**	**11 913.4**

Notes:
(a) As published in the 2013-14 Budget.
(b) Comparatives have been split out to show separately non-general government debt.

Non-quantifiable contingent liabilities

A number of potential obligations are non-quantifiable at this time 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.

National Electricity Code Administrator

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

Royal Melbourne Showgrounds redevelopment

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

The State has also entered into an agreement through the State Support Deed – Non-Core Land with Showgrounds Retail Developments Pty Ltd and the RASV whereby the State agrees to support certain payment obligations of the RASV that may arise under the non-core development agreement.

Public transport rail partnership agreements

Public Transport Victoria (PTV) is party to 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 the contractual arrangements in the event of early termination or expiry of the partnership contractual agreement:

- partnership assets: to maintain continuity of services, at early termination or expiry of the franchise contract, assets will revert to PTV or a successor. In the case of some assets, a reversion back to PTV would entail those assets being purchased; and
- unfunded superannuation: at the early termination or expiry of the contract, PTV will assume any unfunded superannuation amounts (apart from contributions the operator is required to pay over the contract term) to the extent that the State becomes the successor operator.

Compulsory property acquisitions

The State has compulsorily acquired a number of properties (residential and commercial) through the *Land Acquisition and Compensation Act 1986* to facilitate delivery of various projects. Possible future claims for compensation arising from the compulsory acquisition of these properties cannot be quantified at this stage.

Public acquisition overlays for the future development of rail and road infrastructure

Public acquisition overlays are in placed in order to reserve certain areas of land for future development of rail and road infrastructure. Under section 98 of the *Planning and Environment Act 1987*, the State has a legislative responsibility to pay compensation to eligible land and property owners who face either:

- loss on sale – an eligible landowner is entitled to compensation for the incremental loss on sale when a property affected by a public acquisition overlay is sold for less than its market value; or
- financial loss – the entitlement to financial loss compensation is triggered when a development permit is refused because the property is required for a public purpose.

Compensation and purchase claims occur as a result of claims by land owners. The quantum of the future liability depends on factors including the number of claims received and the prevailing value of land at the time the claim is made, which cannot be reliably quantified.

Land remediation – environmental concerns

In addition to properties for which remediation costs have been provided in the State's 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.

The Biosciences Research Centre

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 via a State support deed. Under this deed, the State ensures that the joint venture participants have the financial capacity to meet their payment obligations to the company, thereby enabling the company to meet its obligations to pay the service fee to the concessionaire pursuant to the project agreement. The State underwrites the risk of any default by the Biosciences Research Centre Pty Ltd.

Department of Education and Early Childhood Development

The Department has a number of unquantifiable contingent liabilities as follows:

Indemnities are provided by the Department to:

- volunteer school workers and volunteer student workers: the *Education and Training Reform Act 2006* provides a specific indemnity for personal injuries suffered by volunteer school workers and volunteer student workers arising out of or in the course of engaging in school work or community work respectively;
- members of school councils: the *Education and Training Reform Act 2006* provides an indemnity to members of school councils for any legal liability, whether in contract, negligence, defamation or other; and
- teachers: in the event that a teacher is named as a defendant in a student personal injury claim, any costs and damages will generally be paid by the Department provided the teacher was not drunk, under the influence of illicit drugs or engaging in a criminal offence and the behaviour was not outrageous and was related to, or undertaken in the course of their employment.

Native Title

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

Victorian Managed Insurance Authority – Insurance cover

The Victorian Managed Insurance Authority (VMIA) was established in 1996 as an insurer for State Government departments, participating bodies and other entities as defined under the *Victorian Managed Insurance Authority Act 1996*. VMIA provides its clients 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 occurrence, up to a maximum of $850 million for public and products liability, and for losses above $50 million arising out of any one event, up to a maximum of $3.05 billion for property. The risk of losses above these reinsured levels is borne by the State.

VMIA also insures the Department of Health for all public sector medical indemnity claims incurred in each policy year from 1 July 2003, regardless of when claims are finally settled. Under the indemnity deed to provide stop loss protection for VMIA, the Department of Treasury and Finance has agreed to reimburse VMIA if the ultimate claims payouts exceed by more than 20 per cent the initial estimate on which the risk premium was based.

Fiskville firefighting independent investigation

An independent investigation was undertaken into the historical use of chemicals for live fire fighting training at Fiskville between 1971 and 1999. The report of the independent investigation has been released and the Country Fire Authority has accepted all of the facts, recommendations and conclusions and is committed to implementing all recommendations.

In August 2012, the Country Fire Authority established a Program Office to manage the implementation of the report's recommendations and an additional 11 management initiatives to which the Country Fire Authority Board committed in its response to the report. At this stage, it is impractical to quantify the financial effects as a result of the investigation's recommendations.

Gambling licences

In 1992, a gaming operator's licence was issued to the Trustees of the Will and Estate of the late George Adams, later succeeded by Tatts Group. In 1994, the State issued a wagering and gaming licence to Tabcorp Holdings Limited (Tabcorp). These licences expired in August 2012. The *Gambling Regulation Act 2003* specified end of licence arrangements which included compensation provisions for the licensees predicated on the previous licensing arrangements being rolled over beyond their scheduled expiry date.

On 10 April 2008, the previous Government announced a new regulatory and licencing regime post August 2012. The main changes included:

- separating the wagering and gaming licence to instead license wagering on a standalone basis; and
- transitioning from the 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 previous Government formed the view that neither Tatts Group nor Tabcorp were entitled to compensation after the expiration of their previous licences.

On 16 August 2012, Tatts Group commenced formal legal proceedings against the State. Tabcorp commenced proceedings on 24 August 2012. Each seeks, in essence, to hold the State to an obligation to provide compensation. Tatts Group is claiming $490.50 million and in the alternative, remedies including damages and equitable compensation. Tabcorp is claiming $686.83 million and various alternative relief including damages.

The Government will defend the State against both claims.

Health benefit levy

Under the *Gambling Regulation Act 2003*, the two former gaming operator licensees, Tabcorp and Tatts were required to pay a Health Benefit Levy.

On 1 May 2013, the Treasurer determined that Tabcorp's and Tatts' 2012-13 levy was $42.1 million and $42.6 million respectively, on the basis that he did not have discretion under the Act to determine a pro rata based levy amount.

Tabcorp and Tatts subsequently commenced legal proceedings against the Treasurer in the Supreme Court of Victoria. Tabcorp and Tatts claim that the Treasurer had discretion under the Act to determine a pro rata based levy amount to reflect the 45 days they operated gaming machines in 2012-13.

On 24 June 2013, a Supreme Court judgement was handed down in favour of Tabcorp and Tatts quashing the determinations. The Government has lodged an appeal to the Court of Appeal in the Supreme Court of Victoria, maintaining that the determinations are valid and that the Treasurer did not have discretion to adjust the application of the levy formula under the Act.

Tabcorp and Tatts had each paid the first instalment of the levy prior to the Supreme Court judgement. The State's solicitors are currently discussing with Tatts' and Tabcorp's solicitors an appropriate arrangement with respect to the monies that have been paid.

Melbourne Park redevelopment

The State entered into an agreement with Tennis Australia and the Melbourne and Olympic Park Trust for the Australian Open to remain at Melbourne Park until 2036. Stage 1 of the redevelopment of Melbourne Park (total estimated investment of $363 million announced in the *2010-11 Budget*) was negotiated at the same time. The agreement had 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 works beyond Stage 1 do not proceed for the Australian Open to remain at Melbourne Park.

Melbourne metropolitan bus franchise

Public Transport Victoria is party to a franchise agreement with Transdev Australasia Pty Ltd to operate metropolitan bus services from 4 August 2013. The Melbourne metropolitan bus franchise may entail the acquisition of bus assets at the expiration or early termination of the franchise agreement.

APPENDIX A – SPECIFIC POLICY INITIATIVES AFFECTING BUDGET POSITION

Appendix A outlines specific Government policy initiatives that affect output, asset investment and revenue positions, including Treasurer's Advances made since the *2013-14 Budget* in May. The following tables provide details of:

- government-wide efficiency measures;
- government-wide revenue initiatives; and
- output and asset initiatives for government departments.

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

The figures included are the total cost of decisions. Funding from reprioritisation and other sources has not been deducted from the total cost of decisions.

EFFICIENCY MEASURES

Table A.1: Efficiency measures

($ million)

	2013-14	*2014-15*	*2015-16*	*2016-17*
Energy Technology Innovation Strategy – Return of surplus funds	10.0	10.0	10.0	10.0
Regulatory efficiency	..	..	14.0	14.0
Total efficiency measures	**10.0**	**10.0**	**24.0**	**24.0**

Energy Technology Innovation Strategy – Return of surplus funds

The Energy Technology Innovation Strategy fund will be reduced from 2013-14. Funding had previously been set aside for some projects, including where projects are now not proceeding because the project proponents were unable to raise the required funds from alternate sources to meet the State funding agreements.

Regulatory efficiency

Victoria has approximately 60 bodies that regulate business. The Government is ensuring that Victoria's regulatory environment is efficient and reduces the burden on business without compromising regulatory outcomes.

Regulators will be reviewed in 2014 to improve their efficiency and performance. Likely areas of focus will include the more substantial regulators as well as areas where multiple regulators regulate a single industry or sector. The review will identify more efficient operating arrangements for the delivery of regulatory activities, for example, through more streamlined administrative arrangements. As well as delivering operational savings for regulators, reforms to improve the efficiency of regulators' operations are also likely to lead to reduced regulatory burden on business. There will be no reduction in current regulatory safety and protection outcomes.

REVENUE INITIATIVES

Table A.2: Revenue initiatives

($ million)

	2013-14	2014-15	2015-16	2016-17
Expanding the congestion levy area	..	27.3	28.0	28.7
Hotel and club electronic gaming machine tax	17.7	81.1	87.4	100.8
Casino electronic gaming machine levy	13.9	56.8	56.8	56.8
Public transport fare changes	5.7	21.1	46.4	61.2
Regulatory cost recovery	..	..	16.0	16.0
Restore the real value of a fee unit	..	17.0	17.0	17.0
Total revenue initiatives	**37.3**	**203.3**	**251.6**	**280.4**

Expanding the congestion levy area

The current congestion levy boundary will be expanded and new areas levied at a concessional rate of $950 per car space a year from 1 January 2015. This will address an anomaly that results under the current system whereby operators located near but outside the current boundary are unfairly advantaged. The levy will continue to be applied only to owners of non-residential, off-street car parking spaces. The existing exemptions will continue to apply.

The extension of the boundary recognises the impact of congestion in the areas surrounding the inner Melbourne area, and revenue from the levy will support the Government's public transport and road infrastructure initiatives.

Hotel and club electronic gaming machine tax

In 2008, the previous Government announced that it would introduce a new industry structure for gaming machine entitlement ownership from August 2012, and that the State's share of gaming machine revenue, through a new progressive tax system, would remain broadly similar. The previous tax rates maintained the State's share at 36 to 38 per cent of gaming machine revenue.

Since the commencement of the new arrangements, the Government's taxation share reduced to 34 per cent in 2012-13, and without government action is expected to remain at 35 per cent in 2013-14 and the forward estimates.

From 1 April 2014, the two top tax brackets for hotel and club venue operators will be increased by 4.2 percentage points to restore the Government's share of electronic gaming machine revenue to previous levels. In addition, the minimum return to player ratio will be reduced from 87 per cent to 85 per cent, providing greater options for venues in managing their operations and bringing Victoria into line with the ratio currently applied in New South Wales and Queensland.

Casino electronic gaming machine levy

A per gaming machine levy on the casino operator will be introduced from 1 April 2014. The casino operator will be required to pay $5 550 per electronic gaming machine it is entitled to operate in 2013-14 and $22 715 per electronic gaming machine it is entitled to operate from 2014-15 onwards. In addition, the minimum return to player ratio will be reduced from 87 per cent to 85 per cent, in line with the ratio change for hotel and club venues.

Public transport fare changes

A number of changes will be made to public transport fares to ensure continued improvements in service delivery. These include the following.

Public transport fares will increase by CPI plus 2.5 per cent from 2015 to 2018, contributing to ongoing investment in the network.

The public transport weekend daily fare cap will be adjusted to $6 from 1 January 2014. The current weekend daily cap on all metropolitan public transport travel provides a significant discount to weekend travel compared to the daily weekday fare. An increase to the daily weekend cap to $6 for Zone 1 and 2 travel will better align weekend and weekday fares while still providing value for weekend travellers.

Two hour fares will expire exactly two hours after touch on from 1 July 2014. Currently, two hour public transport fares expire two hours from the start of the next full hour. The fare change reduces complexity and is easier to administer than rounding to the start of the next full hour.

Regulatory cost recovery

As part of the review of regulatory efficiency, the level of fees and charges applied by regulators to the private sector will be examined against cost recovery principles. Where the review finds that regulators do not recover cost-reflective fees and charges from regulated businesses, the review will consider opportunities to do so. The final mix of efficiency and cost recovery initiatives will be determined through the review process over the course of 2014.

Restore the real value of a fee unit

A number of government fees and charges are adjusted each year by the automatic indexation of fee units. Since the introduction of automatic indexation, the value of a fee unit has fallen behind general price inflation in the economy. This measure realigns the real value of fee units with the real value of a fee unit when introduced in 2003-04.

DEPARTMENT OF HEALTH

Output initiatives

Table A.3: Output initiatives – Health

($ million)

	2013-14	2014-15	2015-16	2016-17
Peter Doherty Institute	1.4	1.4	1.4	1.4
Total output initiatives	**1.4**	**1.4**	**1.4**	**1.4**

Peter Doherty Institute

Funding is provided to Melbourne Health to meet lease costs associated with the Victorian Infectious Diseases Laboratory's co-location with the Peter Doherty Institute.

This initiative contributes to the Department of Health's Non-Admitted Services output.

Asset initiatives

Table A.4: Asset initiatives – Health

($ million)

	2013-14	2014-15	2015-16	2016-17	TEI
Mildura Hospital	37.7	..	..	..	37.7
Total asset initiatives	**37.7**	**..**	**..**	**..**	**37.7**

Mildura Hospital

The Government has purchased the Mildura Base Hospital asset from the Motor Trades Association of Australia to return it to public ownership.

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

DEPARTMENT OF JUSTICE

Output initiatives

Table A.5: Output initiatives – Justice

($ million)

	2013-14	2014-15	2015-16	2016-17
Prison capacity expansion	12.3	58.8	83.2	85.2
Police information technology refresh	26.8	..	..	..
Sports Integrity Intelligence Unit	1.0	1.0	..	..
Summer fire information and education strategy	3.5	..	..	..
Total output initiatives	**43.6**	**59.9**	**83.2**	**85.2**

Prison capacity expansion

This initiative will provide an additional 673 prison beds and bed units at various prison locations in order to meet growth in the prisoner population.

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

Police information technology refresh

This investment will upgrade the majority of Victoria Police's ageing Information Technology (IT) infrastructure, including software and back-end support to provide a contemporary, reliable and secure IT infrastructure environment.

This initiative contributes to the Department of Justice's Policing Services output.

Sports Integrity Intelligence Unit

The Sports Integrity Intelligence Unit has been established in Victoria Police to investigate allegations of organised crime in sport. The Sports Integrity Intelligence Unit will inform Victoria Police's response to issues surrounding illicit drugs, betting and organised crime in sporting codes.

This initiative contributes to the Department of Justice's Policing Services output.

Summer fire information and education strategy

The summer fire information and education strategy is part of a whole of government fire communications strategy, which will provide Victorians with information through the development and distribution of advertising campaigns to assist in their preparation and actions if threatened by a fire.

This initiative contributes to Department of Justice's State's Fire and Emergency Services output.

Asset initiatives

Table A.6: Asset initiatives – Justice

($ million)

	2013-14	*2014-15*	*2015-16*	*2016-17*	*TEI*
Police information technology refresh	25.9	..	..	..	25.9
Prison capacity expansion	49.5	36.6	..	..	86.1
Ravenhall Prison expansion [(a)]	tba	tba	tba	tba	tba
Total asset initiatives	**75.4**	**36.6**	**..**	**..**	**112.0**

Note:
(a) The capital cost of this project is subject to the outcome of the procurement process.

Police information technology refresh

Refer to the output initiative for a description of this initiative.

Prison capacity expansion

Refer to the output initiative for a description of this initiative.

Ravenhall Prison

Funding is provided for the expansion of the Ravenhall Prison project from a 500 bed prison to a 1 000 bed prison. The prison will be built and operated through a public private partnership. The expanded prison project will provide additional capacity to meet growing demand in the State's prison system.

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

DEPARTMENT OF PREMIER AND CABINET

Output initiatives

Table A.7: Output initiatives – Premier and Cabinet

($ million)

	2013-14	2014-15	2015-16	2016-17
Arts Centre financial sustainability	1.0	..	..	..
Total output initiatives	**1.0**	**..**	**..**	**..**

Arts Centre financial sustainability

Funding is provided to assist the Arts Centre to adjust its operations in response to shifting customer needs and rising overheads.

This initiative contributes to the Department of Premier and Cabinet's Arts Portfolio Agencies output.

DEPARTMENT OF STATE DEVELOPMENT, BUSINESS AND INNOVATION

Output initiatives

Table A.8: Output initiatives – State Development, Business and Innovation

($ million)

	2013-14	2014-15	2015-16	2016-17
Automotive New Markets Program	..	1.0	1.0	..
Economic Diversity Fund	2.0	3.5	3.5	..
Victorian Government ICT Strategy	8.3	4.2	..	..
Total output initiatives	**10.3**	**8.7**	**4.5**	**..**

Automotive New Markets Program

Additional funding for the Automotive New Markets Program will support companies in the automotive supply chain to diversify into new products and markets.

This initiative contributes to the Department of State Development, Business and Innovation's Trade and Export Facilitation output.

Economic Diversity Fund

The Economic Diversity Fund will support new private investment and job creation in the Hume, Geelong and immediate surrounding areas affected by Ford's decision to cease manufacturing in Australia from October 2016.

This initiative contributes to the Department of State Development, Business and Innovation's Trade and Export Facilitation output.

Victorian Government ICT Strategy

Additional funding for the Victorian Government ICT Strategy will support implementation of the Government's new approach to using information and communication to deliver better government services to businesses and the community.

The initiative contributes to the Department of State Development, Business and Innovation's Innovation and Technology output.

DEPARTMENT OF TRANSPORT, PLANNING, AND LOCAL INFRASTRUCTURE

Output initiatives

Table A.9: Output initiatives – Transport, Planning, and Local Infrastructure

($ million)

	2013-14	*2014-15*	*2015-16*	*2016-17*
ANZAC Day	0.3	0.3	..	..
Implementation of taxi reform	7.4	6.6	5.5	3.4
Total output initiatives	**7.7**	**6.9**	**5.5**	**3.4**

ANZAC Day

Supplementary funding is being provided to the ANZAC Day Proceeds Fund, which distributes funds raised from sporting events on ANZAC Day to organisations that provide for the welfare of the ex-service community.

This initiative contributes to the Department of Transport, Planning and Local Infrastructure's Sport and Recreation output.

Implementation of taxi reform

Funding is provided for the implementation of taxi reform, based on recommendations of the Taxi Industry Inquiry report. The reforms will improve services for customers, address safety concerns of customers and drivers, introduce greater competition and provide the Taxi Services Commission with new powers and functions to better regulate the industry.

This initiative contributes to the Department of Transport, Planning and Local Infrastructure's Transport Safety Regulation and Investigations output.

Asset initiatives

Table A.10: Asset initiatives – Transport, Planning and Local Infrastructure

($ million)

	2013-14	*2014-15*	*2015-16*	*2016-17*	*TEI*
Sneydes Road freeway interchange	7.6	19.9	12.4	..	39.9
Implementation of taxi reform	3.0	1.7	..	..	5.3
Total asset initiatives	**10.6**	**21.6**	**12.4**	**..**	**45.1**

Sneydes Road freeway interchange

Funding is provided to construct north and south interchanges between Sneydes Road and the Princes Freeway. This will improve access to the growing Werribee region and surrounding areas.

This initiative contributes to the Department of Transport, Planning and Local Infrastructure's Road Network Improvements output.

Implementation of taxi reform

Refer to the output initiative for a description of this initiative.

DEPARTMENT OF TREASURY AND FINANCE

Output initiatives

Table A.11: Output initiatives – Treasury and Finance

($ million)

	2013-14	*2014-15*	*2015-16*	*2016-17*
Highett gas works site	13.0	..	..	..
Total output initiatives	**13.0**	**..**	**..**	**..**

Highett gas works site

This initiative provides funding to facilitate the relocation of the gas infrastructure from the Highett gasworks site and for remediation of the land prior to sale.

This initiative contributes to the Department of Treasury and Finance's Land and Infrastructure Investment Management output.

APPENDIX B – AMENDMENTS TO THE 2013-14 OUTPUT PERFORMANCE MEASURES

Output measures for all departments were published in Chapter 2 and Appendix A of Budget Paper No. 3 *Service Delivery*. Following a review of substantially changed and proposed discontinued measures by the Public Accounts and Estimates Committee, the Government has accepted the Committee's recommendation to retain the following output measure for 2013-14. The Government has provided additional information regarding the remaining recommendations to the Committee for consideration and further discussion.

A full, amended version of Budget Paper No. 3 *Service Delivery* reflecting the changes below, is available at budget.vic.gov.au.

DEPARTMENT OF ENVIRONMENT AND PRIMARY INDUSTRIES

Major Outputs/Deliverables *Performance measures*	**Unit of Measure**	**2013-14 Target**	**2012-13 Expected Outcome**	**2012-13 Target**	**2011-12 Actual**
Land and Fire Management					
Timeliness					
Assessment of model of cover completed prior to fire season to assess resources available and requirement for the upcoming fire season	date	Dec 2013	Feb 2013	Dec 2012	Jan 2012
This performance measure has been retained following the recommendation of the Public Accounts and Estimates Committee contained in PAEC's 116th Report to Parliament on the 2013-14 Budget Estimates – Part Two, Recommendation 29. *The 2012-13 Expected Outcome is later than the 2012-13 Target due to the deferral of the assessment of model of cover pending revised capability and capacity level information from the relevant agencies. This information only became available in late November and December 2012.*					

Source: Department of Environment and Primary Industries

APPENDIX C – TAX EXPENDITURES AND CONCESSIONS

TAX EXPENDITURES

Tax expenditures are concessions, benefits and incentives delivered through the tax system which result in preferential treatment of certain taxpayers, activities or assets compared with the normal taxation treatment. This can include tax-free thresholds, exemptions or reduced rates, and deductions or rebates of a tax for a certain class of taxpayer, activity or asset. Tax expenditures exclude broadly applicable marginal tax rates as part of a tax scale.

Table C.1 shows aggregate tax expenditure estimates, excluding the effect of the tax-free thresholds for land tax and payroll tax, by the main categories of tax.

The 2013-14 estimate for total tax expenditures is $4.2 billion. This is $210 million lower than the 2012-13 estimate and is largely driven by a decrease in the stamp duty concessions for corporate reconstruction after unusually high levels in 2012-13.

The 2013-14 estimate is $141 million higher than that published in the *2013-14 Budget*. This is driven by higher land tax and land transfer duties tax expenditures, in line with the recovery in the property market. The increase in congestion levy tax expenditures between 2013-14 and 2014-15 reflects new policy measures introduced in the *2013-14 Budget Update*.

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

Description	*2012-13 Estimate*	*2013-14 Estimate*	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
Land tax	2 484.2	2 489.4	2 865.3	2 799.9	3 151.2
Fire services property levy	..	21.4	21.6	21.8	22.0
Payroll tax	1 005.5	1 034.9	1 069.1	1 105.8	1 144.7
Gambling taxes	70.3	70.6	72.8	72.9	73.3
Motor vehicle taxes	111.2	115.8	120.5	125.3	130.3
Land transfer duties	699.1	438.6	441.2	463.5	480.2
Congestion levy	35.5	25.2	69.1	70.8	72.6
Total estimated tax expenditures	**4 405.8**	**4 195.9**	**4 659.5**	**4 659.9**	**5 074.2**

Source: Department of Treasury and Finance

CONCESSIONS

Concessions are a direct budget outlay or reduction in government charges that reduce 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 or purchase important amenities like energy, education, health and transportation at a cheaper or zero cost.

Table C.2 classifies the major concessions provided by the Victorian Government into categories. The value of concessions has declined slightly by around $16 million between 2012-13 and 2013-14, and the 2013-14 estimate is $9 million lower than the *2013-14 Budget* estimate of $1.6 billion.

Table C.2: Concessions by category

Description	*2012-13 Estimate*	*2013-14 Estimate*
Electricity	171.9	177.2
Mains gas	62.0	58.1
Municipal rates	84.6	87.5
Water and sewerage	152.2	154.1
Total energy, municipal rates, water and sewerage	**470.6**	**477.0**
Ambulance	423.2	403.0
Dental services and spectacles	116.4	114.7
Community health programs	93.0	95.9
Total health	**632.5**	**613.6**
Education	**138.4**	**124.4**
Hardship schemes	**32.0**	**37.4**
Social and community services	**4.7**	**4.7**
Private transport	**178.3**	**177.7**
Public transport	**129.0**	**134.9**
Total for items estimated	**1 585.5**	**1 569.6**

Source: Department of Treasury and Finance

APPENDIX D – SENSITIVITY ANALYSIS

The economic forecasts and assumptions underpinning the *2013-14 Budget Update* are subject to variation. This section analyses the impact of variations in these parameters on income, expenses and the net result from transactions for the general government sector.

Two types of sensitivity analysis are presented. First, the fiscal impact of independent variations in key economic variables is considered. Such analysis may be useful, for example, in considering the impact of forecast error in any individual economic parameter on fiscal aggregates. Second, the simultaneous impact of variations in a number of economic variables is considered with reference to recent historical examples. Such analysis attempts to capture some, though not all, of the interrelationships between economic variables. This is likely to provide a better understanding of the fiscal impact where the general economic environment is materially different from forecast.

While sensitivity analysis provides a useful indication of the fiscal impact of variations in economic conditions, care should be exercised in using these results. The relationship between economic and fiscal aggregates is complex, and typically depends on the specific characteristics of the economic shock. For example, a property-led economic downturn is likely to have a very different fiscal impact to one concentrated in the retail sector, even if the overall impact on gross state product (GSP) and employment is similar.

SENSITIVITY TO INDEPENDENT VARIATIONS IN MAJOR ECONOMIC PARAMETERS

The major economic variables that affect Victoria's net result from transactions are economic growth, employment, consumer prices, wages, enterprise bargaining agreements, domestic and overseas share prices, property prices and volumes and interest rates.

Table D.1 presents the sensitivity of the net result from transactions (and where relevant, the net result) to a 1 per cent increase in each variable in isolation from any other changes. The impacts shown in the table are broadly symmetrical. That is, the estimated fiscal impact would apply equally in the opposite direction if a 1 per cent decrease in each variable were considered.

Table D.1: Sensitivity of key fiscal aggregates to selected economic indicators being 1 per cent higher than expected in 2013-14[(a)(b)(c)]

($ million)

	2013-14 Estimate	*2014-15 Estimate*	*2015-16 Estimate*	*2016-17 Estimate*
GSP				
Income from transactions	178	185	196	209
Expenses from transactions	7	(2)	(10)	(19)
Net result from transactions	**172**	**187**	**207**	**228**
Employment				
Income from transactions	49	52	55	58
Expenses from transactions	(1)	(4)	(6)	(9)
Net result from transactions	**50**	**56**	**61**	**67**
Consumer prices [(d)]				
Income from transactions	298	310	323	340
Expenses from transactions	62	61	51	39
Net result from transactions	**236**	**249**	**272**	**301**
Other economic flows	1	1	1	1
Net result	**237**	**250**	**273**	**302**
Average weekly earnings				
Income from transactions	43	45	47	50
Expenses from transactions	7	5	3	2
Net result from transactions	**37**	**40**	**44**	**48**
Enterprise bargaining agreements [(e)]				
Income from transactions	27	28	29	30
Expenses from transactions	190	233	251	267
Net result from transactions	**(163)**	**(205)**	**(222)**	**(237)**
Domestic share prices				
Income from transactions	..	..	..	..
Expenses from transactions	..	(2)	(2)	(3)
Net result from transactions	**..**	**2**	**2**	**3**
Overseas share prices				
Income from transactions	..	..	..	..
Expenses from transactions	..	(2)	(2)	(2)
Net result from transactions	**..**	**2**	**2**	**2**
Property prices				
Income from transactions	47	58	61	65
Expenses from transactions	(1)	(5)	(8)	(11)
Net result from transactions	**48**	**62**	**68**	**75**
Other economic flows	2	2	3	2
Net result	**50**	**65**	**71**	**78**
Property volumes				
Income from transactions	41	43	45	48
Expenses from transactions	(1)	(3)	(5)	(8)
Net result from transactions	**42**	**46**	**51**	**56**

	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Interest rates [(f)]				
Income from transactions	63	62	59	58
Expenses from transactions	6	223	258	266
Net result from transactions	**57**	**(161)**	**(199)**	**(209)**

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 impact of a 1 per cent lower than expected outcome for an economic variable would, in most instances, simply be the opposite of the impact shown in the table.

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

(d) Incorporates the impact of the departmental funding model arrangements. It is assumed that an increase in consumer prices within the budget year does not affect employee entitlements.

(e) Represents a 1 per cent increase in all government enterprise bargaining agreements.

(f) Assumes interest rates are 1 percentage point higher across the entire term structure, i.e. short and long-term rates, over the forward estimates period.

Sensitivity to economic growth

Higher than expected GSP is associated with higher household consumption, leading to higher goods and services tax (GST) grants revenue and own-sourced taxation revenue. This increases the net result from transactions.

Sensitivity to employment

Higher than expected employment results in additional payroll tax revenue and increases the net result from transactions.

Sensitivity to consumer prices

Higher consumer prices lead to higher Commonwealth-sourced revenue (due to indexation), and higher GST and own-sourced taxation revenue, as the values of tax bases rise in nominal terms. The higher revenue is partly offset by the higher cost of supplies and services and some increases in outlays on grants and transfers.

An increase in consumer prices also increases the superannuation expense in the remaining out years.

Reflecting the operation of departmental funding arrangements, the impact of the increase in expenses is limited to the extent that departments can fund it from increased revenue from specific purpose grants and sales of goods and services. Overall, there is a positive impact on the net result and the net result from transactions in the out years.

Sensitivity to average weekly earnings

A rise in the level of economy-wide wages results in higher payroll tax revenue, contributing to an increase in the net result from transactions. All government enterprise bargaining agreements are assumed to be unchanged over the projection period.

Sensitivity to enterprise bargaining agreements

In the short term, enterprise bargaining agreements are fixed. Enterprise bargaining agreements can pose a substantial risk to Victoria's budget position in the longer term. If funded, an across the board increase in wages arising from an enterprise bargaining agreement, which exceeds the wages policy guideline rate, results in a decline in the net result from transactions.

Increased employee entitlements increases the value of the superannuation liability and flows through to a greater superannuation expense in the remaining out years.

Sensitivity to domestic and overseas share prices

A rise in share prices increases the net result of the State's public financial corporations (PFCs). The associated impact would be an increase in the income tax equivalents (ITEs) of the Transport Accident Commission and Victorian WorkCover Authority. However, as there have been substantial decreases in share and other asset prices in recent years, accumulated carry forward tax losses mean there is little or no impact of share prices on ITEs paid until the losses have been fully used. There is no immediate impact on dividends payable to the State.

An increase in domestic and international share prices also reduces the value of the superannuation liability due to the associated increase in superannuation fund assets. This then reduces the superannuation interest expense beyond the budget year, thereby improving the net result from transactions in these years.

Sensitivity to property prices and volumes

Higher property prices have an immediate impact on the net result from transactions through increased collections of land transfer duty. At the same time, the value of the superannuation liability decreases, due to the increased value of property holdings in superannuation funds' investment portfolios. In later years, higher property prices continue to raise land transfer duty and land tax revenues, while the previous reduction in superannuation liability reduces ongoing superannuation expenses. All of these increase the net result from transactions.

Higher property transaction volumes increases land transfer duty receipts, leading to a rise in the net result from transactions.

Sensitivity to interest rates

An increase in interest rates reduces the valuation of long-term insurance liabilities of PFCs and increases the net profits of these entities. As dividends of the insurance agencies are based on performance from insurance operations, which excludes the impact of discount rate movements, the increase will have little direct impact on dividends. As ITEs of the State's insurance agencies are assessed on net profit, changes in interest rates will potentially impact general government ITEs. However, accumulated carry forward tax losses mean there is little or no impact on revenues through ITEs until those losses have been used.

Higher borrowing costs will result in reduced net profits of public non-financial corporations, lowering dividends and ITEs payable to the State. An increase in the borrowing costs of the general government sector will reduce the net result from transactions.

An increase in interest rates also increases the superannuation expense over the out years, thereby reducing the net result from transactions.

SENSITIVITY TO VARIATIONS IN THE ECONOMIC OUTLOOK

The previous section considered the fiscal implications of independent variations in selected economic parameters. Typically, however, variations in economic parameters do not occur in isolation. For example, general economic conditions may differ from expectations, particularly in the event of an unanticipated economic or financial shock, causing most or all economic parameters to vary from forecasts.

This section considers two examples where general economic conditions varied significantly from expectations, resulting in the broad sweep of economic parameters being different from forecast. In the first example, in 2006-07, growth was significantly stronger than anticipated while in the second example, in 2008-09, the onset of the global financial crisis resulted in most economic and financial variables being lower than initially forecast.

The analysis confirms that the fiscal impact of variations in economic variables can be significantly greater than indicated by the sum of each variable's individual impact. This highlights the point that the relationship between economic parameters and fiscal aggregates is complex and heavily influenced by the specific nature and characteristics of a given economic shock. Such shocks affect Victoria's fiscal position to varying degrees, but given the composition of Victoria's revenue base, property-related shocks are likely to have the largest impact on the fiscal situation.

The State's fiscal position in any year is the product of economic trends and policy changes in that and previous years. Similarly, an economic shock in a year will affect fiscal outcomes in that and later years.

The outcomes for a particular year will diverge from forecast values because of forecast errors and policy changes. This analysis highlights the critical impact that Government policy decisions have on the final result, which by nature cannot be captured by standard sensitivity analysis.

2006-07 – economic growth exceeding expectations

Table D.2 presents a situation where economic growth was underestimated. It shows the largest forecast error in the macroeconomic variables was for employment. Real GSP was also underestimated, and there were relatively minor errors in the forecasting of prices and wages.

Table D.2: Actual deviations to key economic variables from 2006-07 budgeted levels

(per cent)

	2006-07 Budget [a]	*2006-07 Actual*	*Forecast error* [b]
Real GSP	3.3	3.8	0.5
Employment	1.3	3.2	2.0
Consumer price index	2.5	2.6	0.1
Wage price index [c]	3.5	3.6	0.1

Source: Department of Treasury and Finance

Notes:
(a) *Forecast in May 2006 for* 2006-07 Budget*.*
(b) *Percentage point variation.*
(c) *Total hourly rate excluding bonuses.*

The main areas of revenue forecast error in 2006-07 relate to the underestimation of land transfer duty and of other revenue, while payroll tax was close to forecast (Table D.3). Strong land transfer duty revenues largely reflect the property cycle. As land transfer duty is a transaction-based tax, with the bulk of revenue collected from the residential property sector, collections are subject to the volatile nature of consumer sentiment. In 2006-07, both house prices and volumes were in growth phases, and in the second half of the financial year consumer sentiment was well above historical averages.

A significant portion of other revenue is composed of tied grants from the Commonwealth Government and largely comprises funding for health and education purposes. Forecasts are finalised around four months before the start of the relevant budget year and alternative arrangements may be made with the Commonwealth Government at any time during the ensuing 16 months to affect revenue from this source.

As payroll tax is levied on the stock of employees, forecast error in growth is unlikely to have a large effect on revenue from this line. This proved to be the case in 2006-07. Despite growth in employment being two percentage points higher than anticipated, the 2006-07 outcome for payroll tax was largely consistent with budgeted estimates. This highlights a disconnect between Victoria's labour market performance and payroll tax collections, and may occur because payroll tax is levied on a small share of Victorian businesses, which may not necessarily be drivers of growth at the time.

Table D.3: Actual deviations to key revenue lines from 2006-07 budgeted levels

($ million)

	2006-07 Budget	*2006-07 Actual*	*Forecast error*
Payroll taxes	3 418	3 479	61
Land transfer duty	2 424	2 961	537
Other own-sourced revenue	5 129	5 262	133
Taxation revenue	**10 971**	**11 702**	**731**
Other revenue	13 002	14 600	1 598
GST	8 469	8 584	114
Total revenue	**32 442**	**34 886**	**2 444**
Total expenses	**32 125**	**33 551**	**1 426**
Net result from transactions	**317**	**1 335**	**1 018**

Source: Department of Treasury and Finance

2008-09 – global financial crisis

A situation where economic growth was overestimated is shown in Table D.4. The largest forecast errors occurred in real GSP and consumption. Relatively small errors occurred in employment as employers chose to reduce hours and accept productivity falls rather than lay off staff. Consumer prices and wages were less affected by the global financial crisis and consequently the level of forecast error was much lower for these variables.

Table D.4: Actual deviations to key economic variables from 2008-09 budgeted levels

(per cent)

	2008-09 Budget (a)	*2008-09 Actual*	*Forecast error* (b)
Real GSP	3.0	1.1	(1.9)
Consumption (unpublished)	2.8	0.2	(2.6)
Employment	1.5	0.9	(0.6)
Consumer price index	3.0	2.8	(0.2)
Wage price index (c)	3.8	4.0	0.3

Source: Department of Treasury and Finance

Notes:
(a) Forecast in May 2008 for 2008-09 Budget.
(b) Percentage point variation.
(c) Total hourly rate excluding bonuses.

The impact of the global financial crisis on revenue is evident in Table D.5, which shows forecast revenue and expenditure compared to the actual outcome. Both revenue and expenditure were underestimated. However, expenditure was underestimated to a greater extent leading to a forecasting error of $576 million in the net result from transactions.

This increase in expenditure largely reflects the Commonwealth Government's fiscal stimulus packages, such as *Building the Education Revolution*, which was mostly distributed by the states.

Much of the overestimate in revenue can be attributed to the weak performance of the property market, with land transfer duty forecasts being over $900 million higher than the actual outcome. By contrast, the error in the forecast of revenue from employment taxes (payroll tax) was small and partly reflects the response of employers to hoard labour.

The pervading weak consumer sentiment during the global financial crisis led to much weaker consumption growth, and consequently to a sizable forecast error for GST revenue. The global financial crisis seems to have created a structural shift in the economy, with the impacts felt over a number of years. Households adjusted their behaviour and entered a phase of reducing debt. This hastened the return of the household savings ratio to long-term averages, following a sustained period of near zero savings.

The overestimation of land transfer duty and GST was dwarfed by underestimation of other revenues. A large share of this was the increased Commonwealth Government disbursements to the states as part of the stimulus package. However, these revenues were matched by increased expenditure as the Commonwealth Government's stimulus payments were spent. Of the $3.2 billion forecast error for other revenues, approximately $2.1 billion is attributable to grants revenue other than GST.

This analysis reports the contemporaneous effect of macroeconomic shocks, whereas in many situations there will be enduring influences. While the national GST pool recovered from the lows of 2009-10 following the global financial crisis, since then national GST pool growth has remained below trend. This is consistent with the changes in household consumption. Similarly, following a temporary recovery in land transfer volumes in 2009-10, property market turnover was subdued for a number of years as potential buyers were cautious about entering the market.

Table D.5: Actual deviations to key revenue lines from 2008-09 budgeted levels

($ million)

	2008-09 Budget	*2008-09 Actual*	*Forecast error*
Payroll taxes	3 963	3 980	17
Land transfer duty	3 737	2 801	(936)
Other own-sourced revenue	5 683	5 846	163
Taxation revenue	**13 383**	**12 627**	**(756)**
Other revenue	14 146	17 339	3 193
GST	10 281	9 319	(962)
Total revenue	**37 810**	**39 285**	**1 475**
Total expenses	**36 982**	**39 034**	**2 051**
Net result from transactions	**828**	**251**	**(576)**

Source: Department of Treasury and Finance

APPENDIX E – 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 *2013-14 Budget Update*.

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

Table E.1: Statements required by the *Financial Management Act 1994* and their location in the *2013-14 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 *Economic and fiscal overview*
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; – a statement of the accounting policies on which these statements are based and explanatory notes; and	Chapter 5 *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)
– government decisions and other circumstances that may have a material effect on the estimated financial statements.	Appendix A *Specific policy initiatives affecting budget position*

Table E.1: Statements required by the *Financial Management Act 1994* and their location in the *2013-14 Budget Update (continued)*

Relevant section of the Act and corresponding requirement	*Location*
Accompanying statement to estimated financial statements which:	
– outlines the material economic assumptions used in preparation of the estimated financial statements;	Chapter 2 *Economic context* and Chapter 5 *Estimated financial statements and notes*
– discusses the sensitivity of the estimated financial statements to changes in these assumptions;	Appendix D *Sensitivity analysis*
– provides an overview of estimated tax expenditures for the financial years covered by the estimated financial statements; and	Appendix C *Tax expenditures and concessions*
– provides a statement of the risks that may have a material effect on the estimated financial statements.	Chapter 2 *Economic context*; Chapter 3 *Budget position and outlook*; and Chapter 7 *Contingent assets and contingent liabilities*

STYLE CONVENTIONS

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

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

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

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