Victorian Pre-Election Budget Update

November 2010

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Department of Treasury and Finance

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

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FOREWORD

This *Pre-Election Budget Update* is published by the Department of Treasury and Finance in accordance with reporting requirements under Part 5, Division 6 of the *Financial Management Act 1994* (FMA). Appendix C, *Requirements of the Financial Management Act 1994* details how these requirements have been met.

The purpose of this *Pre-Election Budget Update* is to update information on the general government sector since the publication of the *2010-11 Budget* in May 2010.

Chapter 1, *Economic conditions and outlook,* provides an outline of the outlook for the international, Australian and Victorian economies, including risks to this outlook. Chapter 2, *Budget position and outlook,* provides an overview of the projected budget position for the period 2010-11 to 2013-14 and lists, and where possible quantifies, the fiscal risks which could materially alter these budget projections. Chapter 3, *Estimated Financial Statements and Notes,* provides the formal financial statements, and underpinning notes and assumptions, required by the FMA and prepared in accordance with applicable Australian Accounting Standards. Chapter 4, *Contingent assets and contingent liabilities,* outlines quantifiable and non-quantifiable contingent assets and contingent liabilities. Appendix A, *Specific policy initiatives affecting budget position,* outlines specific output and asset investment policy decisions since the *2010-11 Budget* and Appendix B, *Sensitivity analysis table*, estimates the impact of selected economic and financial variables on income, expenses, the net result from transactions and the net result.

This *Pre-Election Budget Update* is based on government decisions I was aware of on or before the issue of election writs on 2 November 2010. Government decisions are those policy decisions that have been endorsed by Cabinet.

Grant Hehir
Secretary

Department of Treasury and Finance

November 2010

CHAPTER 1 – ECONOMIC CONDITIONS AND OUTLOOK

- Since the *2010-11 Budget,* economic growth in emerging Asia has been strong, while the recovery in some advanced economies has slowed. High unemployment continues to drag on growth in the United States (US) and some parts of the Euro area.
- Compared with most other advanced economies, the Australian economy has performed well. The economic recovery has gathered momentum, supported by public investment and a sharp recovery in the terms of trade. National employment growth has been strong and the outlook for the labour market remains positive.
- Victoria's gross state product (GSP) is estimated to have grown by 2.5 per cent in 2009-10 and is forecast to grow by 3.5 per cent in 2010-11, before returning to trend growth of 3 per cent in the out-years. Economic growth is expected to be supported by above-trend growth in employment and firm domestic demand.
- The economic outlook for Victoria is generally positive, although there are a number of short-term risks. These include a prolonged and uneven global economic recovery, rising inflationary pressures, a high Australian dollar and a high terms of trade.

INTERNATIONAL ECONOMIC CONDITIONS AND OUTLOOK

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

Growth in advanced economies has been revised down by the IMF, largely driven by downward revisions to the outlook for the US. Economic growth in the US has been affected by the withdrawal of public sector stimulus, subdued consumer spending and weak housing construction. The US unemployment rate is currently 9.6 per cent and the labour market recovery is expected to be slow.

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

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

Global equity prices are somewhat higher than at the time of the *2010-11 Budget*. Commodity markets have recovered strongly, driven by demand from China, lifting Australia's terms of trade to its highest level on record. Oil prices have picked up to around US$80 per barrel, but the subdued outlook for advanced economies is expected to dampen price growth in the medium term. The sharp recovery in commodity prices and interest rate expectations in Australia have resulted in a high Australian dollar, which is now trading around parity with the US dollar.

AUSTRALIAN ECONOMIC CONDITIONS AND OUTLOOK

Compared with most other advanced economies, the Australian economy has performed well since the *2010-11 Budget*. The economic recovery has gained traction, supported through 2009-10 by monetary and fiscal stimulus and a sharp rebound in the terms of trade. According to the Commonwealth Treasury's *Pre-Election Economic and Fiscal Outlook 2010*, the Australian economy is expected to grow by 3 per cent in 2010-11 and 3.75 per cent in 2011-12. However, as the fiscal stimulus runs down, growth will be increasingly dependent on the private sector.

The elevated terms of trade are expected to support growth in the resource-rich jurisdictions in the medium term. Business investment, particularly in the mining industry, and mining-related exports are expected to strengthen over 2010-11 and 2011-12.

National employment growth was strong over 2009-10 and the outlook for the labour market is positive. The unemployment rate is forecast to drop to 4.75 per cent by the June quarter 2012.

With a strong labour market, record terms of trade and strong domestic demand, inflationary pressures are building. According to the Reserve Bank of Australia (RBA), headline and underlying inflation are forecast to be in the upper half of the RBA's 2 to 3 per cent medium-term target band over the next two years. Interest rates facing borrowers returned to around decade-average levels by the end of 2009-10, but financial markets expect further rises in the first half of 2011.

VICTORIAN ECONOMIC CONDITIONS AND OUTLOOK

The economic projections used in this *Pre-Election Budget Update* are set out in Table 1.1. Where they differ, the projections made in the *2010-11 Budget* are given in parentheses. The projections assume constant exchange rates and oil prices consistent with the path implied by oil futures contracts.

Table 1.1: Victorian economic projections[(a)]

	2009-10 Actual	2010-11 Forecast	2011-12 Forecast	2012-13 Forecast	2013-14 Forecast
Real gross state product	2.50 [(b)] (2.25)	3.50 (3.25)	3.00	3.00	3.00
Employment	2.8	2.75 (2.00)	2.00 (1.75)	1.75	1.75
Unemployment rate [(c)]	5.5	5.50	5.25	5.00 (5.25)	5.00 (5.25)
Consumer price index	2.1	3.00 (2.25)	2.75 (2.50)	2.50	2.50
Wage price index [(d)]	2.8	3.25	3.50	3.50	3.50
Population [(e)]	1.90 [(b)] (2.10)	1.80 (1.90)	1.70 (1.80)	1.60 (1.70)	1.60 (1.70)

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

Figures in parentheses are forecasts from the 2010-11 Budget*, where they differ from current forecasts.*
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) Estimated.
(c) Year-average level, per cent.
(d) Total hourly rate excluding bonuses.
(e) June quarter, per cent change on previous June quarter.

Victoria's GSP is estimated to have grown by 2.5 per cent in 2009-10, 0.25 percentage points higher than expected in the *2010-11 Budget*. The upward revision reflects a higher outcome for state final demand, principally due to strong public investment and household consumption growth. The actual 2009-10 GSP result will be released by the Australian Bureau of Statistics on 19 November 2010.

Economic growth is expected to strengthen in 2010-11, with GSP forecast to increase by 3.5 per cent. The small upward revision to the forecast since the *2010-11 Budget* reflects higher growth in household consumption and business investment and a recovery in merchandise exports. In 2011-12, GSP growth is forecast to return to trend growth of around 3 per cent, reflecting the run down of the fiscal stimulus and a return to trend growth in private consumption. GSP growth is forecast to remain around trend in the out-years.

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

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

Overall, Victorian business investment remains reasonably buoyant. High capacity utilisation combined with improving business profitability is encouraging investment by firms, particularly in engineering construction and machinery and equipment. However, non-residential building has been subdued outside the health and education sectors, where activity is being largely driven by government stimulus. Business investment growth is expected to pick up over 2010-11 and 2011-12, in line with capacity expansions consistent with strong domestic demand.

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

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

Employment in Victoria has grown by 4.3 per cent over the year to September 2010 and the labour force participation rate has increased to be around historically high levels. Leading indicators suggest that employment is likely to continue growing at an above-trend pace over the next few months, but will then moderate. For the out-years, a return to trend growth has been assumed. As a consequence of the strong labour market conditions, the unemployment rate is expected to edge lower over the forecast period to around 5 per cent, with wages growth expected to pick up.

National and Victorian inflationary pressures have increased over recent months. As a result, forecasts for Melbourne inflation have been revised up, consistent with the RBA's national forecasts.

Population growth is expected to moderate over the forecast period. National net overseas migration is now expected to ease to around 180 000 people a year by 2012-13, which is lower than the 230 000 people assumed in the *2010-11 Budget*. This revision is consistent with recent partial indicators of net overseas migration, such as net passenger movements, international student commencements and business visa applications.

RISKS TO THE OUTLOOK

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

The global economic recovery is fragile and there are significant downside risks to the outlook for advanced economies. The possibility of a double-dip recession in the US has increased, although remains unlikely, and many European economies are expected to be weighed down by fiscal consolidation. International financial markets continue to be volatile, reflecting sharp changes in risk appetite. There has also been some moderation in growth in emerging economies, although the outlook remains positive.

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

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

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

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

CHAPTER 2 – BUDGET POSITION AND OUTLOOK

- The net result from transactions is projected to increase from $635 million in 2010-11 to $843 million in 2011-12 and remain relatively constant at $840 million in 2012-13, before rising to $895 million in 2013-14.
- When compared with the *2010-11 Budget*, the net result from transactions has been revised downwards by $237 million in 2010-11, upwards by $192 million in 2011-12, downwards by $548 million in 2012-13 and downwards by $599 million in 2013-14.
  - These revisions reflect a range of State revenue and Commonwealth funding variations, the impact of new policy decisions, as well as non-cash items such as superannuation and depreciation expenses and the one-off impact of revenue recognition in 2011-12 in relation to the desalination plant.
- Net infrastructure investment is projected to be $6.5 billion in 2010-11, decreasing to $3.7 billion in 2013-14.
- Net debt is projected to increase from $8.0 billion at 30 June 2010 to $15.6 billion by 30 June 2014. As a proportion of GSP, it is expected to peak at 4.3 per cent at 30 June 2013, before declining to 4.0 per cent by 30 June 2014.
- Net financial liabilities are projected to increase from $37.5 billion at 30 June 2010 to $47.4 billion by 30 June 2014. As a proportion of GSP, they are expected to peak at 13.0 per cent at 30 June 2012, before declining to 12.2 per cent by 30 June 2014.

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

The revised budget and forward estimates are based on the economic projections outlined in Chapter 1, *Economic conditions and outlook*, and reflect the accounting policies and assumptions in Chapter 3, *Estimated Financial Statements and Notes*. The estimates take into account the financial impacts of policy decisions taken by the Victorian Government prior to issuing of election writs on 2 November 2010, known Commonwealth funding revisions and other information that affect the estimated general government sector financial statements. Specific Victorian Government policy decisions taken since the *2010-11 Budget* are included in Appendix A, *Specific policy initiatives affecting budget position*.

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

- the implementation of future government policy decisions;
- the impact of changed economic conditions, including any realisation of various economic risks, such as those outlined in Chapter 1, *Economic conditions and outlook*; and
- any realisation of fiscal risks, such as those outlined in this chapter.

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

BUDGET AND FORWARD ESTIMATES OUTLOOK

Table 2.1 sets out the projected aggregate outlook over the budget and forward estimates period for the general government sector in a summary operating statement. The comprehensive operating statement is presented in Chapter 3, *Estimated Financial Statements and Notes*.

As Table 2.1 shows, the net result from transactions is projected to increase from $635 million in 2010-11 to $843 million in 2011-12 and remain relatively constant at $840 million in 2012-13, before rising to $895 million in 2013-14.

Table 2.1: Summary operating statement for the period 2010-11 to 2013-14 for the general government sector[(a)]

($ million)

	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Revenue				
Taxation revenue	14 742.8	15 242.0	15 906.3	16 681.8
Dividends, TER and interest [(b)]	861.7	1 015.2	1 267.7	1 537.6
Sales of goods and services	5 868.2	6 628.8	6 546.9	6 651.9
Grants	22 243.8	22 878.6	24 170.4	24 483.9
Other revenue	1 749.3	1 804.0	1 803.4	1 849.4
Total revenue	**45 465.9**	**47 568.5**	**49 694.7**	**51 204.7**
% change		4.6%	4.5%	3.0%
Expenses				
Employee expenses	16 173.2	17 101.1	17 955.7	18 830.0
Superannuation [(c)]	2 623.4	2 677.0	2 753.3	2 787.8
Depreciation	2 259.0	2 456.2	2 614.3	2 722.6
Interest expense	963.1	1 332.5	1 767.2	1 849.2
Other operating expenses	14 822.5	15 726.2	16 000.4	16 362.3
Grants and other transfers	7 989.9	7 433.0	7 764.3	7 758.3
Total expenses	**44 831.1**	**46 726.0**	**48 855.2**	**50 310.2**
% change		4.2%	4.6%	3.0%
Net result from transactions	**634.8**	**842.6**	**839.5**	**894.5**
Total other economic flows included in net result	**(488.8)**	**(8.7)**	**98.4**	**(37.3)**
Net result	**146.0**	**833.9**	**937.8**	**857.2**

Source: Department of Treasury and Finance

Notes:

(a) *This is an abbreviated operating statement. The comprehensive operating statement is presented in Chapter 3,* Estimated Financial Statements and Notes.

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

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

Revenue outlook

Total revenue in 2010-11 is projected to be $45.5 billion, increasing to $51.2 billion in 2013-14, or by 4.0 per cent on average per year over the budget and forward estimates period.

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

Taxation revenue is projected to grow from $14.7 billion in 2010-11 to $16.7 billion in 2013-14, an average growth of 4.2 per cent a year. This anticipated increase reflects expected growth in economic activity, wages and prices. In particular, over the three years to 2013-14:

- land transfer duty is expected to grow by an average of 3.0 per cent a year. This includes a slight fall in revenue in 2011-12 consistent with the moderation in property market turnover indicated by recent trends in leading indicators due in part to the impact of higher interest rates. However, continued economic and population growth will support land transfer duty revenue in subsequent years;
- land tax revenue is expected to grow by an average of 0.9 per cent a year, reflecting the land revaluation cycle used in the determination of land tax;
- payroll tax is expected to grow by an average of 6.3 per cent a year consistent with the outlook for employment and wages;
- insurance taxation revenue is expected to grow by an average of 4.8 per cent a year, with non-life (or general) insurance revenue supported by underlying economic activity and, initially, a continuation of recent strong premium rate growth;
- revenue from gambling taxes is expected to increase by an average of 3.8 per cent a year. This principally reflects expected growth in consumer spending, changes to Crown Casino's licence conditions (including a progressive increase in the tax rate on the Casino's gaming machines) and wagering, gaming and Keno licence revenue from 2012-13, partially offset by the impact of reductions in wagering tax rates from mid August 2012; and
- motor vehicle taxation revenue is expected to grow by an average of 4.2 per cent a year, consistent with expected inflation, economic activity and population growth.

GST revenue is projected to grow from $11.0 billion in 2010-11 to $13.1 billion in 2013-14, reflecting growth of around 7 per cent in 2011-12 and 2012-13, before slowing to 3.8 per cent in 2013-14. This reflects anticipated growth in the national GST pool over the forward estimates and, initially, an increase in Victoria's share of the pool before the share declines in 2013-14. The decline in the share reflects the estimated impact on the GST revenue sharing relativities of changes in Victoria's share of other (non-GST) Commonwealth grants.

Grants revenue from the Commonwealth (non-GST) is projected to be $11.2 billion in 2010-11, $11.0 billion in 2011-12, $11.5 billion in 2012-13 and $11.3 billion in 2013-14. The decline in 2011-12 primarily reflects the wind back of Commonwealth grants revenue under the *Nation Building – Economic Stimulus Plan*. This is partially offset by expected general growth in specific purpose payments (SPP) and national partnerships (NP) funding. Growth in 2012-13 primarily reflects growth in SPP funding, particularly for education and health. In 2013-14, the expected growth in these SPP grants is more than offset by a decline in NPs in this year, particularly for the Nation Building Program (Auslink) and the Commonwealth contribution to the Victorian Comprehensive Cancer Centre.

Dividends, income tax and rate equivalent revenue and interest are projected to be $862 million in 2010-11, $1.0 billion in 2011-12, $1.3 billion in 2012-13 and $1.5 billion in 2013-14. The growth in 2011-12 and 2012-13 largely relates to interest paid by the public non-financial corporations sector to fund delivery of infrastructure. The growth in 2013-14 primarily reflects a forecast dividend from the State Electricity Commission of Victoria.

Goods and services related revenues are projected to grow from $5.9 billion in 2010-11 to $6.7 billion in 2013-14. The growth in sales of goods and services primarily reflects the activities of schools, hospitals and TAFEs to fund own-source expenditure, and expected receipts associated with public transport fare revenue. Goods and services revenue in 2011-12 includes the one-off impact of payments from Melbourne Water Corporation which were previously recognised as revenue in 2009-10 and 2010-11 and will now be recognised as revenue in 2011-12 when the desalination plant is commissioned, consistent with the accounting treatment in the *2009-10 Financial Report for the State of Victoria*.

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

Expenses outlook

Total expenses are projected at $44.8 billion in 2010-11, rising to $50.3 billion in 2013-14, or by 3.9 per cent on average per year over the budget and forward estimates period.

The growth in expenditure over the budget and forward estimates period is largely driven by the effect of announced output policy decisions, the expenditure of Commonwealth SPP and NP funding and expenditure of own-source revenue.

In particular, growth in expenses over the forward estimates period reflects:

- employee expenses (including superannuation) which are projected to grow from $18.8 billion in 2010-11 to $21.6 billion in 2013-14 or 4.8 per cent on average a year. The year on year growth primarily reflects the wages costs associated with growth in services, the anticipated impact on service delivery of economic and demographic changes and wage outcomes in line with existing wages policy;
- depreciation expenses which are projected to grow from $2.3 billion in 2010-11 to $2.7 billion in 2013-14, due to the depreciation associated with growth in infrastructure and the projected impact of asset revaluations;
- interest expense, which is projected to grow from $963 million in 2010-11 to $1.8 billion in 2013-14, consistent with the level of borrowings over the period;
- other operating expenses which are projected to grow from $14.8 billion in 2010-11 to $16.4 billion in 2013-14 or 3.3 per cent on average a year, primarily reflecting funding of output policy initiatives and output price indexation applied under the departmental funding model; and

- grants and other transfers which are projected to be $8.0 billion in 2010-11, decreasing to $7.4 billion in 2011-12, and increasing to $7.8 billion in both 2012-13 and 2013-14. The decline in 2011-12 partially reflects the winddown of the Commonwealth fiscal stimulus with a corresponding reduction in capital grants on-passed to non-government schools. The growth in 2012-13 partially reflects the impact of the output policy initiative *Growing housing associations* (as outlined in Appendix A, *Specific policy initiatives affecting budget position*).

Other economic flows

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

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

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

Fiscal aggregates

Fiscal aggregate measures are set out in Table 2.2.

Table 2.2: Fiscal aggregates

($ million)

	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Net operating balance/Net result from transactions	634.8	842.6	839.5	894.5
Net result [(a)]	146.0	833.9	937.8	857.2
Net lending/(borrowing) [(b)]	(1 306.7)	(1 810.6)	(476.7)	1 178.9
Cash surplus/(deficit) [(c)]	(653.4)	(587.7)	662.0	1 438.8

Source: Department of Treasury and Finance

Notes:

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

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

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

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

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

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

The cash surplus/(deficit) is equal to net cash flows from operating activities, less net cash investment in non-financial assets. It excludes acquisitions under finance leases. The projected cash surplus/(deficit) broadly follows the same profile as the *2010-11 Budget*. The State is forecast to have a cash surplus from 2012-13.

SUMMARY BALANCE SHEET

The revised 2010-11 estimates and commentary on revisions to the balance sheet are based on the audited closing balances for 2009-10 as published in the 2009-10 *Financial Report for the State of Victoria*.

Table 2.3 provides a summary of the general government sector balance sheet. A more detailed balance sheet is provided in Chapter 3, *Estimated Financial Statements and Notes*.

Table 2.3: Summary balance sheet as at 30 June for the general government sector[(a)(b)]

($ billion)

	2010 Actual	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Assets					
Non-financial assets	90.6	94.8	102.3	106.3	110.8
Financial assets	9.0	8.7	13.1	13.3	13.6
Investments in other sector entities					
Public non-financial corporations	64.2	67.3	69.1	70.8	72.1
Public financial corporations	0.3	0.7	1.2	1.6	2.1
Total assets	**164.1**	**171.5**	**185.7**	**191.9**	**198.6**
Liabilities					
Superannuation	22.5	23.5	24.1	24.4	24.6
Borrowings	13.6	16.5	24.1	25.6	25.8
Other liabilities	10.4	10.5	10.3	10.4	10.6
Total liabilities	**46.6**	**50.6**	**58.5**	**60.4**	**61.0**
Net assets	**117.6**	**121.0**	**127.2**	**131.5**	**137.6**

Source: Department of Treasury and Finance

Notes:

(a) This is an abbreviated balance sheet. The full balance sheet for the general government sector is reported in Chapter 3, Estimated Financial Statements and Notes.

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

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

At 30 June 2010, the general government sector had total assets of $164.1 billion and total liabilities of $46.6 billion, leaving a net asset position of $117.6 billion. Net assets are projected to grow to $137.6 billion by 30 June 2014 as growth in total assets exceeds growth in total liabilities. The projected increase can be attributed both to asset revaluations and infrastructure investment.

CASHFLOWS

Table 2.4 provides a summary of cash generated through the operations of Victorian Government departments and other general government sector agencies. This table shows how cash is applied to infrastructure investment, and the associated impact on net debt.

Table 2.4: Application of cash resources for the general government sector

($ million)

	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Net result from transactions	**634.8**	**842.6**	**839.5**	**894.5**
Add back: Non-cash income and expenses (net) [(a)]	2 790.1	2 653.2	3 089.2	2 982.7
Net cash flows from operating activities	**3 424.9**	**3 495.8**	**3 928.7**	**3 877.2**
Less:				
Net investment in fixed assets				
Expenditure on approved projects	6 750.3	5 654.2	4 238.5	3 196.2
Capital provision approved but not yet allocated [(b)]	..	315.3	555.9	785.1
Proceeds from asset sales	(259.4)	(301.9)	(399.5)	(245.7)
Total net investment in fixed assets	**6 490.9**	**5 667.6**	**4 394.9**	**3 735.6**
Finance leases [(c)]	121.0	1 075.9	844.8	..
Other investment activities (net)	(13.4)	(4.8)	40.3	46.2
Decrease/(increase) in net debt	**(3 173.6)**	**(3 242.8)**	**(1 351.4)**	**95.4**

Source: Department of Treasury and Finance

Notes:

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

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

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

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

Net cashflows from operating activities are projected to fund an increasing proportion of the infrastructure investment program (53 per cent in 2010-11, 62 per cent in 2011-12 and 89 per cent in 2012-13) with borrowings funding the remainder of the program. In 2013-14, net cashflows from operating activities will fund the total infrastructure investment program of $3.7 billion and contribute to a $95 million decrease in net debt.

The capital provision approved but not yet allocated has increased over the forward estimates years compared with the *2010-11 Budget* and maintains infrastructure investment at around 1 per cent of GSP in 2013-14.

NET DEBT AND NET FINANCIAL LIABILITIES

The key measures of the State's financial position are the government finance statistics measures of net debt and net financial liabilities, which are presented for the general government sector in Table 2.5. International credit rating agencies focus on both net debt and net financial liabilities as measures of overall indebtedness. Victoria's AAA credit rating was formally reaffirmed by Moody's Investors Service in January 2009 and by Standard & Poor's in October 2010.

Table 2.5: General government sector net debt and net financial liabilities as at 30 June

($ billion)

	2010 Actual [(a)]	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Assets					
Cash and deposits	3.2	3.1	3.3	3.5	3.7
Advances paid	0.3	0.3	4.5	4.5	4.4
Investments, loans and placements	2.6	2.5	2.5	2.4	2.4
Total	**6.1**	**5.9**	**10.2**	**10.4**	**10.6**
Liabilities					
Deposits held and advances received	0.5	0.5	0.5	0.5	0.5
Borrowings	13.6	16.5	24.1	25.6	25.8
Total	**14.1**	**17.0**	**24.6**	**26.1**	**26.2**
Net debt [(b)]	**8.0**	**11.1**	**14.4**	**15.7**	**15.6**
Superannuation liability	22.5	23.5	24.1	24.4	24.6
Net debt plus superannuation liability	**30.5**	**34.7**	**38.5**	**40.1**	**40.3**
Other liabilities (net) [(c)]	7.0	7.2	6.9	7.0	7.2
Net financial liabilities [(d)]	**37.5**	**41.8**	**45.4**	**47.2**	**47.4**
		(per cent)			
Net debt to GSP [(e)]	2.5	3.3	4.1	4.3	4.0
Net debt plus superannuation liability to GSP [(e)]	9.7	10.4	11.0	10.9	10.4
Net financial liabilities to GSP [(e)]	11.9	12.6	13.0	12.8	12.2

Source: Department of Treasury and Finance

Notes:

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

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

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

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

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

As shown in Table 2.5, net debt is projected to increase from $8.0 billion at 30 June 2010 to $15.6 billion by 30 June 2014. As a proportion of GSP, it is expected to peak at 4.3 per cent at 30 June 2013, before declining to 4.0 per cent by 30 June 2014. The movement in net debt is mainly driven by the difference between the amount of cash generated from the net result from transactions and the size of the projected infrastructure investment program. The level of net debt over the forward estimates is slightly lower than published in the *2010-11 Budget*.

As a proportion of GSP, net financial liabilities are expected to peak at 13.0 per cent at 30 June 2012, before declining to 12.2 per cent by 30 June 2014. In nominal terms, net financial liabilities are expected to increase from $37.5 billion at 30 June 2010 to $47.4 billion by 30 June 2014, driven by net debt (see above) and the superannuation liability.

The level of net financial liabilities across the forward estimates is projected to be higher than published in the *2010-11 Budget*, with the increase primarily driven by an upwards revision to the superannuation liability of $2.9 billion in 2010-11 (with an associated impact in the forward estimates years) as a result of a decrease in the Commonwealth Government bond rates used to value the liability and a partial offset by an actuarial gain associated with better than expected investment returns on superannuation assets.

Reconciliation of forward estimates to previously published estimates

As shown in Table 2.6, compared with the *2010-11 Budget*, the net result from transactions has been revised downwards by $237 million in 2010-11, revised upwards by $192 million in 2011-12, revised downwards by $548 million in 2012-13 and revised downwards by $599 million in 2013-14. Major variations in revenue and expense items are detailed below.

Table 2.6: Reconciliation of estimates to the *2010-11 Budget*

($ million)

	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Net result from transactions: *2010-11 Budget* [(a)]	**871.9**	**650.4**	**1 387.6**	**1 493.2**
Plus: Variations in income from transactions since *2010-11 Budget*				
Policy decision variations	**32.9**	**30.8**	**37.5**	**52.5**
Economic/demographic variations				
Taxation	286.9	229.6	166.9	87.4
Investment income [(b)]	7.3	(77.0)	(71.2)	(58.1)
Total economic/demographic variations	**294.2**	**152.7**	**95.7**	**29.3**
Commonwealth grant variations				
General purpose grants	(163.9)	(22.0)	82.5	130.5
Specific purpose grants	(485.4)	372.5	78.0	296.6
Total Commonwealth grant variations	**(649.3)**	**350.6**	**160.5**	**427.1**
Increase in own-source revenue	**58.8**	**98.3**	**111.0**	**168.3**
Administrative variations	**(30.0)**	**340.8**	**120.8**	**127.3**
Total variation in income from transactions since *2010-11 Budget*	**(293.5)**	**973.1**	**525.6**	**804.6**
Less: Variations in expenses from transactions since *2010-11 Budget*				
Policy decision variations [(c)]	**39.0**	**230.4**	**451.1**	**421.9**
Commonwealth variations	**(235.7)**	**83.0**	**123.3**	**340.6**
Variations due to changes in own-source revenue	**63.5**	**112.2**	**143.0**	**210.0**
Administrative variations				
Superannuation variations	145.6	154.3	159.4	173.4
Other administrative variations	(68.7)	200.9	197.0	257.4
Total administrative variations	**76.9**	**355.2**	**356.4**	**430.8**
Total variation in expenses from transactions since *2010-11 Budget*	**(56.4)**	**780.9**	**1 073.7**	**1 403.3**
Revised net result from transactions	**634.8**	**842.6**	**839.5**	**894.5**

Source: Department of Treasury and Finance

Notes:

(a) 2010-11 Budget *net result from transactions.*

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

(c) *Policy decisions are net of funding from contingencies and other efficiencies*

Variations to revenue

Compared with the *2010-11 Budget*, total revenue is expected to be $294 million lower in 2010-11, $973 million higher in 2011-12, $526 million higher in 2012-13, and $805 million higher in 2013-14.

Revenue policy decision variations

Revenue policy decisions are expected to increase revenue by $33 million in 2010-11, $31 million in 2011-12, $38 million in 2012-13 and $53 million in 2013-14. This mainly reflects expected revenue for the Growth Areas Infrastructure Contribution.

Details of specific policy initiatives since the *2010-11 Budget* are contained in Appendix A, *Specific policy initiatives affecting budget position.*

Economic/demographic variations

Taxation revenue has been revised upwards by $287 million in 2010-11, $230 million in 2011-12, $167 million in 2012-13 and $87 million in 2013-14 based on economic/ demographic factors. These mainly include:

- an increase in payroll tax revenue of $139 million in 2010-11 and an average of $152 million a year over the forward estimates period, reflecting greater than expected revenue since the *2010-11 Budget*, consistent with stronger employment and wages outcomes, and the upwards revision to the employment outlook;
- an increase in land transfer duty of $149 million in 2010-11 and an average of $38 million a year over the forward estimates period, reflecting stronger than expected revenue to date, mainly driven by a larger than expected increase in the number of land transfers. However, indicators such as auction and private sales suggest that the market has returned to a more normal level of activity. Higher interest rates, lower household financial wealth and lower projected population growth relative to the *2010-11 Budget*, are expected to constrain growth in the forward estimates period; and
- an increase in motor vehicle taxation revenue of $45 million in 2010-11 and an average of $31 million a year over the forward estimates period. This primarily reflects higher than expected registration revenue from heavy vehicles and an increase in duty from sales of new motor vehicles.

These upwards revisions have been partly offset by downwards revisions to other tax sources, in particular to gambling revenue. Gambling revenue has been revised downwards by $46 million in 2010-11 and by an average of $67 million a year over the forward estimates period. This in part reflects lower than expected revenue received since the *2010-11 Budget*, and lower expected trend growth for some gambling taxes in light of recent experience.

Changes to investment income (comprising dividend, income tax and rate equivalent income and interest) due to economic and demographic factors, involve downward revisions of $77 million in 2011-12, $71 million in 2012-13 and $58 million in 2013-14. These revisions mainly reflect lower estimates of distributions from the Transport Accident Commission due to unfavourable claims experience and an actuarial reassessment of future claims, and lower estimates of distributions from metropolitan water corporations due to lower forecast profitability. This is partially offset by higher distributions from Treasury Corporation of Victoria and the Port of Melbourne Corporation due to an increase in forecast trade volumes.

Commonwealth grant variations

Total Commonwealth Government grants have been revised downwards by $649 million in 2010-11 and upwards in the forward estimates years by $351 million in 2011-12, $161 million in 2012-13 and $427 million in 2013-14.

The variance to general purpose grants is due to revised GST revenue estimates. GST revenue has been revised downwards in 2010-11 and 2011-12, but upwards in 2012-13 and 2013-14. The impact of a downwards revision in the size of the GST pool from 2010-11 is increasingly offset through the forward estimates by an expected increase in Victoria's share of the pool. The change to Victoria's share reflects both a higher expected share of national population and a lower share of Commonwealth non-GST grants to the states and territories (which will increase Victoria's GST revenue sharing relativity).

Major revisions to Commonwealth specific purpose grants revenue relate to:

- funding for government and non-government schools, which has been revised upwards by $178 million in 2011-12, $136 million in 2012-13 and $392 million in 2013-14 to reflect updated Commonwealth estimates including amounts for *Nation Building – Economic Stimulus Plan* (with the increases for non-government schools being associated with corresponding expenditure revisions);
- the timing of the *Nation Building – Economic Stimulus Plan* payments for social housing, which have been revised downwards by $322 million in 2010-11 (due to payments being received from the Commonwealth in 2009-10 rather than 2010-11), which has a corresponding expenditure revision, and new funding in the housing sector for the Housing Affordability Fund of $47 million in 2011-12 and $89 million in 2012-13;
- funding for transport related projects, including the Nation Building Program (AusLink) as announced in the 2010-11 Commonwealth budget and the rephasing of funding for the Regional Rail Link project. Movements are a downwards revision in 2010-11 of $264 million, an upwards revision in 2011-12 of $152 million, a downwards revision of $43 million in 2012-13 and a downwards revision in 2013-14 of $280 million; and
- funding for health services, which has been revised upwards by $66 million in 2010-11, downwards by $9 million in 2011-12, downwards by $124 million in 2013-14 and upwards by $136 million in 2013-14. These changes largely reflect revisions to the *National Health and Hospitals Network Agreement* and the national healthcare SPP to align the State budget with anticipated receipts from the Commonwealth.

Own-source revenue

Own-source revenue has been revised upwards by $59 million in 2010-11, $98 million in 2011-12, $111 million in 2012-13 and $168 million in 2013-14. This mainly relates to revisions to third party revenue in the schools sector, to better align their forward estimates with recent actual outcomes, and revisions to revenue in the TAFE sector, which are both associated with corresponding expenditure.

Administrative variations

The upwards revision of $341 million in 2011-12 primarily reflects a non-cash revenue increase relating to payments from Melbourne Water Corporation which were previously recognised as revenue in 2009-10 and 2010-11, but will now be recognised as revenue in 2011-12 when the desalination plant is commissioned (as reflected in the *2009-10 Financial Report for the State of Victoria)*.

Other revenue variations for administrative reasons reflect increased revenue collected through the Fire Services Levy associated with the implementation of the *Bushfire Royal Commission Final Report Government Response* as well as the rephasing of estimated receipts for various transport related initiatives.

Variations to expenses

Compared with the *2010-11 Budget*, total expenses are projected to be $56 million lower in 2010-11, $781 million higher in 2011-12, $1.1 billion higher in 2012-13 and $1.4 billion higher in 2013-14.

Policy decision variations

Output policy decisions (net of funding from available contingencies and other efficiencies) since the *2010-11 Budget* are expected to increase expenses by $39 million in 2010-11, $230 million in 2011-12, $451 million in 2012-13 and $422 million in 2013-14.

Details of specific policy decisions since the *2010-11 Budget* are contained in Appendix A, *Specific policy initiatives affecting budget position*.

Commonwealth grant variations

Commonwealth grant related expenses have been revised downwards in 2010-11 by $236 million, mainly reflecting the timing of the on-passing of the fiscal stimulus funding for social housing. Revisions over the forward estimates period largely reflect the impact of the on-passing of additional non-government schools funding.

Variations due to changes in own-source revenue

Expenses associated with own-source revenue have been revised upwards by $64 million in 2010-11, $112 million in 2011-12, $143 million in 2012-13 and $210 million in 2013-14, largely consistent with the impact of revisions to revenue in the schools and the TAFE sector as outlined earlier in the revenue section.

Administrative variations

Expenses have been revised upwards for administrative reasons by $77 million in 2010-11 and by an average of $381 million a year over the forward estimates. These revisions include:

- the impact of an upwards revision to the non-cash superannuation expense of $146 million in 2010-11, increasing to $173 million in 2013-14, primarily due to the flow-on effect of the decrease in bond rates between 31 March 2010 (the basis for the *2010-11 Budget* estimates) and 30 June 2010;
- an increase in the estimated depreciation expense of health services assets of $79 million in 2010-11 rising to $170 million by 2013-14, primarily due to a revaluation of health services buildings and other non-current physical assets, together with a reassessment of the useful lives of these assets, performed by the Victorian Valuer-General's Office; and
- adjustments to the level of contingency provisions to better reflect future expenditure requirements, including an allowance for increased output price indexation to be applied under the departmental funding model as a result of an upwards revision to the CPI forecast.

FISCAL RISKS

The State's financial performance could be affected by the realisation of economic and fiscal risks. Economic risks are outlined in Chapter 1, *Economic conditions and outlook*. Fiscal risks are explained below, and are those potential future events and circumstances that could affect the State's fiscal outlook. Matters disclosed here as specific fiscal risks are those that the Secretary of the Department of Treasury and Finance considers, using best judgement, may have a material effect but are not certain enough to include in the fiscal forecasts.

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

Revenue risks

Commonwealth grants

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

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

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

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

State revenue

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

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

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

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

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

Expenditure risks

In order to manage total government expenditure, under the departmental funding model (introduced in 2004-05), departments are required to plan for and manage all costs associated with delivering services. Under the model, variations to previous budget CPI forecast growth rates applied to output prices for the budget and forward estimates years are determined in the context of the next annual budget.

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

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

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

Realised expenditure risks will only impact on total expenditure and the annual budget position to the extent that they cannot be accommodated within the contingency provision built into the budget estimates. The aggregate level of the operating contingency provision is shown in Note 11 to the *Estimated Financial Statements and Notes*.

The contingency provision includes a general allowance for:

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

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

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

The aggregate level of the unallocated capital contingency provisions contained within the estimates is shown in Table 2.4 (earlier in this chapter).

Specific fiscal risks

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

National Health and Hospitals Network Agreement

Victoria has signed the *National Health and Hospitals Network – National Partnership Agreement on Improving Public Hospital Services*, which commits the State to meeting a new four hour emergency department access target, new elective surgery targets and a new elective surgery access guarantee. These new commitments may require the State to provide additional funding over the forward estimates period.

National Disability Insurance Scheme

The Commonwealth Government has asked the Productivity Commission to examine the feasibility, cost and benefits of replacing current disability services arrangements with a new national disability care and support scheme. The major costs of a national insurance scheme to Victoria are unclear as it depends on Commonwealth decisions regarding the scope of the scheme, revenue sources to fund it and the extent to which it engages with or replaces state government services. However, it is possible that such a scheme would have significant cost implications for the State. Similarly the cost and operational implications for Victoria's existing statutory insurance arrangements (TAC, WorkCover) are unclear but could be significant.

Staged closure of the Hazelwood Power Station

The State has entered into negotiations with International Power in relation to the closure of two units of the Hazelwood Power Station. These negotiations remain commercial-in-confidence.

CHAPTER 3 – ESTIMATED FINANCIAL STATEMENTS AND NOTES

INTRODUCTION

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

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

The Estimated Financial Statements, including the Victorian general government sector's investment in other sectors, have been prepared in accordance with applicable Australian Accounting Standards (AAS), including Interpretations. However due to the prospective nature of these Estimated Financial Statements, some AAS disclosures are neither relevant nor practical and so these have been omitted. Current AAS do not include pronouncements that prescribe the preparation and presentation of prospective financial statements, accordingly these Estimated Financial Statements have been prepared having regard to the principles set out in New Zealand Financial Reporting Standard 42 *Prospective Financial Statements* (FRS-42).

The statements are presented in a format that complies with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. This standard also complies with the Uniform Presentation Framework as it relates to the general government sector.

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

ESTIMATED FINANCIAL STATEMENTS FOR THE VICTORIAN GENERAL GOVERNMENT SECTOR

Table 3.1: Estimated consolidated comprehensive operating statement for the financial year ending 30 June

($ million)

	Notes	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Revenue from transactions						
Taxation revenue	2	14 437.8	14 742.8	15 242.0	15 906.3	16 681.8
Interest		358.0	340.8	559.6	820.9	833.3
Dividends and income tax equivalent and rate equivalent revenue	3	504.9	520.9	455.6	446.7	704.4
Sales of goods and services	4	5 847.4	5 868.2	6 628.8	6 546.9	6 651.9
Grants	5	22 893.1	22 243.8	22 878.6	24 170.4	24 483.9
Other revenue	6	1 718.0	1 749.3	1 804.0	1 803.4	1 849.4
Total revenue from transactions		**45 759.3**	**45 465.9**	**47 568.5**	**49 694.7**	**51 204.7**
Expenses from transactions						
Employee expenses		16 221.0	16 173.2	17 101.1	17 955.7	18 830.0
Superannuation interest expense	7a	884.1	931.6	961.6	988.0	1 008.1
Other superannuation expenses	7a	1 597.8	1 691.8	1 715.4	1 765.3	1 779.6
Depreciation	8	2 214.3	2 259.0	2 456.2	2 614.3	2 722.6
Interest expense	9	939.5	963.1	1 332.5	1 767.2	1 849.2
Grants and other transfers	10	7 910.1	7 989.9	7 433.0	7 764.3	7 758.3
Other operating expenses		15 120.6	14 822.5	15 726.2	16 000.4	16 362.3
Total expenses from transactions	11	**44 887.4**	**44 831.1**	**46 726.0**	**48 855.2**	**50 310.2**
Net result from transactions – net operating balance	**24a**	**871.9**	**634.8**	**842.6**	**839.5**	**894.5**
Other economic flows included in net result						
Net gain/(loss) on sale of non-financial assets		134.7	144.0	152.5	267.0	137.5
Net gain/(loss) on financial assets or liabilities at fair value		1.0	1.8	1.8	1.8	1.8
Net actuarial gains/(losses) of superannuation defined benefits plans	7a	..	(473.7)	..	..	..
Other gains/(losses) from other economic flows	12	(155.2)	(160.8)	(163.0)	(170.4)	(176.6)
Total other economic flows included in net result		**(19.5)**	**(488.8)**	**(8.7)**	**98.4**	**(37.3)**
Net result	**22b**	**852.3**	**146.0**	**833.9**	**937.8**	**857.2**
Other economic flows – other movements in equity						
Movement of non-financial asset reserves		2 182.2	2 146.7	4 589.7	2 120.4	4 652.6
Net gain on equity investments in other sector entities at proportional share of the carrying amount of net assets	14	1 286.4	1 109.5	840.5	1 244.1	548.2
Other movements in equity		11.7	1.2	1.6	2.0	2.1
Total other economic flows – other movements in equity		**3 480.4**	**3 257.5**	**5 431.8**	**3 366.5**	**5 202.8**
Comprehensive result – total change in net worth	**24b**	**4 332.7**	**3 403.4**	**6 265.7**	**4 304.3**	**6 060.1**

Table 3.1: Estimated consolidated comprehensive operating statement for the financial year ending 30 June *(continued)*

($ million)

	Notes	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
FISCAL AGGREGATES						
Net operating balance		**871.9**	**634.8**	**842.6**	**839.5**	**894.5**
Less: Net acquisition of non-financial assets from transactions	15	2 097.0	1 941.4	2 653.2	1 316.1	(284.4)
Net lending/(borrowing)	**24c**	**(1 225.2)**	**(1 306.7)**	**(1 810.6)**	**(476.7)**	**1 178.9**

The accompanying notes form part of these estimated financial statements.

Table 3.2: Estimated consolidated balance sheet as at 30 June

($ million)

	Notes	2011 Budget	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Assets						
Financial assets						
Cash and deposits		3 342.6	3 092.3	3 268.9	3 465.5	3 744.4
Advances paid [(a)]		292.6	297.0	4 510.3	4 475.3	4 434.0
Investments, loans and placements		2 653.6	2 501.0	2 461.4	2 420.1	2 430.3
Receivables	13	2 846.6	2 807.8	2 851.5	2 893.0	2 958.7
Investments accounted for using equity method		40.1	35.1	35.1	35.1	35.1
Investments in other sector entities	14	67 986.9	67 986.9	70 326.1	72 433.3	74 163.1
Total financial assets		**77 162.4**	**76 720.1**	**83 453.3**	**85 722.4**	**87 765.6**
Non-financial assets						
Inventories		268.4	269.3	269.0	268.7	268.2
Non-financial assets held for sale		82.0	81.2	74.6	68.0	61.4
Land, buildings, infrastructure, plant and equipment	16a, 17	93 852.0	93 710.4	101 248.0	105 248.6	109 906.5
Other non-financial assets	18	754.2	756.3	702.9	671.1	598.3
Total non-financial assets		**94 956.6**	**94 817.2**	**102 294.5**	**106 256.3**	**110 834.5**
Total assets	19b	**172 119.1**	**171 537.2**	**185 747.8**	**191 978.7**	**198 600.0**
Liabilities						
Deposits held and advances received		478.7	478.7	478.2	478.2	478.2
Borrowings	20	16 762.8	16 548.7	24 142.4	25 614.0	25 766.4
Payables		4 811.1	4 756.7	4 385.2	4 409.9	4 435.3
Superannuation	7d	22 933.5	23 538.6	24 112.2	24 389.8	24 618.6
Employee benefits	21	4 545.6	4 555.9	4 720.6	4 887.1	5 054.6
Other provisions		699.2	699.7	684.6	670.8	657.9
Total liabilities		**50 230.9**	**50 578.3**	**58 523.2**	**60 449.8**	**61 011.0**
Net assets		**121 888.2**	**120 958.9**	**127 224.6**	**131 528.9**	**137 589.0**
Accumulated surplus/(deficit)		44 093.2	43 375.7	44 178.9	45 096.8	45 934.0
Reserves	23	77 750.4	77 538.7	83 001.2	86 387.6	91 610.5
Non-controlling interest		44.5	44.5	44.5	44.5	44.5
Net worth	24d	**121 888.2**	**120 958.9**	**127 224.6**	**131 528.9**	**137 589.0**
FISCAL AGGREGATES						
Net financial worth		26 931.6	26 141.7	24 930.1	25 272.6	26 754.5
Net financial liabilities		41 055.3	41 845.1	45 395.9	47 160.7	47 408.5
Net debt		10 952.6	11 137.2	14 380.0	15 731.4	15 636.0

The accompanying notes form part of these estimated financial statements.

Note:

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

Table 3.3: Estimated consolidated cash flow statement for the financial year ending 30 June

($ million)

	Notes	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Cash flows from operating activities						
Receipts						
Taxes		14 529.7	14 813.4	15 223.6	15 983.8	16 744.8
Grants		22 893.1	22 243.8	22 878.6	24 170.4	24 483.9
Sales of goods and services [(a)]		6 420.4	6 395.3	6 998.0	7 224.0	7 335.9
Interest		322.9	305.8	527.1	788.8	833.0
Dividends and income tax equivalent and rate equivalent		534.6	564.6	462.8	446.1	688.4
Other receipts		1 540.6	1 589.2	1 609.5	1 568.0	1 618.8
Total Receipts		**46 241.3**	**45 912.1**	**47 699.6**	**50 181.0**	**51 704.9**
Payments						
Payments for employees		(16 032.7)	(15 976.8)	(16 938.1)	(17 790.8)	(18 664.2)
Superannuation		(2 082.6)	(2 092.7)	(2 103.4)	(2 475.8)	(2 559.0)
Interest paid		(878.9)	(902.0)	(1 274.0)	(1 714.7)	(1 799.9)
Grants and subsidies		(7 955.1)	(8 034.9)	(7 414.0)	(7 513.3)	(7 681.3)
Goods and services [(b)]		(15 418.2)	(15 097.2)	(16 085.2)	(16 354.0)	(16 701.9)
Other payments		(381.1)	(383.6)	(389.1)	(403.7)	(421.4)
Total payments		**(42 748.6)**	**(42 487.3)**	**(44 203.8)**	**(46 252.3)**	**(47 827.7)**
Net cash flows from operating activities	22b	**3 492.8**	**3 424.9**	**3 495.8**	**3 928.7**	**3 877.2**
Cash flows from investing activities						
Purchases of non-financial assets	19a	(4 435.0)	(4 337.6)	(4 385.4)	(3 666.3)	(2 684.1)
Sales of non-financial assets		244.9	259.4	301.9	399.5	245.7
Cash flows from investments in non-financial assets		(4 190.1)	(4 078.3)	(4 083.5)	(3 266.7)	(2 438.4)
Net cash flows from investments in financial assets for policy purposes		(2 179.4)	(2 412.6)	(1 584.0)	(1 128.2)	(1 297.2)
Sub-total		**(6 369.5)**	**(6 490.9)**	**(5 667.6)**	**(4 394.9)**	**(3 735.6)**
Net cash flows from investments in financial assets for liquidity management purposes		(23.7)	129.9	41.6	43.3	(8.1)
Net cash flows from investing activities		**(6 393.2)**	**(6 360.9)**	**(5 626.0)**	**(4 351.6)**	**(3 743.8)**
Cash flows from financing activities						
Advances received (net)		(0.7)	(0.7)	(0.5)	..	..
Net borrowings		3 022.4	2 807.7	2 307.3	619.5	145.5
Net cash flows from financing activities		**3 021.7**	**2 807.0**	**2 306.8**	**619.5**	**145.5**
Net increase/(decrease) in cash and cash equivalents		**121.3**	**(129.1)**	**176.6**	**196.6**	**279.0**
Cash and cash equivalents at beginning of reporting period		3 221.3	3 221.3	3 092.3	3 268.9	3 465.5
Cash and cash equivalents at end of reporting period	**22a**	**3 342.6**	**3 092.3**	**3 268.9**	**3 465.4**	**3 744.4**

Table 3.3: Estimated consolidated cash flow statement for the financial year ending 30 June *(continued)*

($ million)

	Notes	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
FISCAL AGGREGATES						
Net cash flows from operating activities		**3 492.8**	**3 424.9**	**3 495.8**	**3 928.7**	**3 877.2**
Net cash flows from investments in non-financial assets		**(4 190.1)**	**(4 078.3)**	**(4 083.5)**	**(3 266.7)**	**(2 438.4)**
Cash surplus/(deficit)	**24e**	**(697.4)**	**(653.4)**	**(587.7)**	**662.0**	**1 438.8**

The accompanying notes form part of these estimated financial statements.

Note:

(a) Inclusive of goods and services tax.

Table 3.4: Estimated consolidated statement of changes in equity for the financial year ending 30 June

($ million)

	Equity at 1 Jul	Total comprehensive result	Equity at 30 Jun
2010-11 (revised)			
Accumulated surplus/(deficit)	43 263.9	146.0	43 409.9
Other movements in equity	..	(34.2)	(34.2)
Non-controlling interest	44.5	..	44.5
Property, plant and equipment revaluation reserve	33 193.2	2 146.7	35 339.9
Net movements in other reserves	895.0	35.5	930.5
Accumulated net gain on equity investments in other sector entities	40 158.8	1 109.5	41 268.3
Total equity at end of the period	**117 555.5**	**3 403.4**	**120 958.9**
2011-12			
Accumulated surplus/(deficit)	43 375.7	833.9	44 209.6
Other movements in equity	..	(30.6)	(30.6)
Non-controlling interest	44.5	..	44.5
Property, plant and equipment revaluation reserve	35 339.9	4 589.7	39 929.6
Net movements in other reserves	930.5	32.3	962.8
Accumulated net gain on equity investments in other sector entities	41 268.3	840.5	42 108.8
Total equity at end of the period	**120 958.9**	**6 265.7**	**127 224.6**
2012-13			
Accumulated surplus/(deficit)	44 178.9	937.8	45 116.7
Other movements in equity	..	(20.0)	(20.0)
Non-controlling interest	44.5	..	44.5
Property, plant and equipment revaluation reserve	39 929.6	2 120.4	42 050.1
Net movements in other reserves	962.8	21.9	984.7
Accumulated net gain on equity investments in other sector entities	42 108.8	1 244.1	43 352.8
Total equity at end of the period	**127 224.6**	**4 304.3**	**131 528.9**
2013-14			
Accumulated surplus/(deficit)	45 096.8	857.2	45 954.0
Other movements in equity	..	(20.1)	(20.1)
Non-controlling interest	44.5	..	44.5
Property, plant and equipment revaluation reserve	42 050.1	4 652.6	46 702.6
Net movements in other reserves	984.7	22.1	1 006.9
Accumulated net gain on equity investments in other sector entities	43 352.8	548.2	43 901.0
Total equity at end of the period	**131 528.9**	**6 060.1**	**137 589.0**

The accompanying notes form part of these estimated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Statement of significant accounting polices and forecast assumptions

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

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

(A) Assumptions

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

Material economic and other assumptions[(a)]

(per cent change)

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

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

Notes:

(a) Year average per cent change on previous year unless otherwise indicated. All economic projections apart from population are rounded to the nearest 0.25 percentage point. Projections of population are rounded to the nearest 0.1 percentage point.

(b) Year-average level, per cent.

(c) Total hourly rate excluding bonuses.

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

(B) Sensitivity analysis

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

Refer to Appendix B *Sensitivity Analysis Table*, which sets out the sensitivity analysis performed by DTF. This analysis sets out the impact on both the net result from transactions and the net result of selected economic indicators being 1 per cent higher than expected in 2010-11.

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

(C) Statement of compliance

These Estimated Financial Statements have been prepared in accordance with Section 27-27C of the *Financial Management Act 1994* and applicable Australian Accounting Standards (AAS). The latter include Interpretations issued by the Australian Accounting Standards Board (AASB).

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

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

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

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

The Government Financial Statistics (GFS) information included in this report is based on the GFS manual published by the Australian Bureau of Statistics.

The information presented in these 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 8 November 2010.

These Estimated Financial Statements were authorised for issue by the Secretary of DTF on 8 November 2010.

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

(D) Basis of accounting, preparation and measurement

The accrual basis of accounting has been applied in the preparation of these 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.

These Estimated Financial Statements are presented in Australian dollars which is also the functional currency of the Victorian general government sector.

In the application of AAS, 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.

The estimates and associated assumptions are reviewed on an ongoing basis. 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.

These 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 which are measured at the proportional share of net asset value;
- non-current 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 consolidated comprehensive operating statement (fair value through profit and loss);
- certain liabilities, most notably superannuation and 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 movements in equity'.

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

Assets, liabilities, revenue or expenses arise from past transactions or other past events, therefore estimates are recognised for those transactions or other events that on best information are expected to occur during each estimated financial reporting period. Where the transactions would result from an agreement between government and other parties, the estimated transactions are only recognised when the agreement has, or there is reasonable expectation that it will, become irrevocable during the reporting period.

(E) Reporting entity

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

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

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

(F) Basis of consolidation

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

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

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 accordance with AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 1049.

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

Where control of an entity is expected to be obtained during the financial period, its results are included in the estimated consolidated comprehensive operating statement from the date on which control would 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 these Estimated Financial Statements.

In the process of reporting the Victorian general government sector, all material transactions and balances between entities within the sector are eliminated. Details of significant entities consolidated within the sector are shown in Note 27 of these Estimated Financial Statements.

(G) Scope and presentation of financial statements

Estimated consolidated comprehensive operating statement

Revenues and expenses in the estimated consolidated comprehensive operating statement are classified according to whether or not they arise from 'transactions' or 'other economic flows'. This classification is consistent with that required under AASB 1049.

'Transactions' and 'Other economic flows' are defined by the *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005 Cat. No. 5514.0*, published by the Australian Bureau of Statistics.

Note 24 *Reconciliations to government finance statistics* identifies and reconciles unconverged differences between GFS and AAS.

'Transactions' are those economic flows that are considered to arise as a result of policy decisions, usually interactions between two entities by mutual agreement, and also flows within an entity, such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the State and taxpayers. Transactions can be cash or in kind (e.g. assets provided/given free of charge or for nominal consideration).

'Other economic flows' are changes arising from market remeasurements. 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.

The net result is equivalent to profit or loss derived in accordance with AAS.

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

Estimated consolidated balance sheet

Assets and liabilities are presented in a manner consistent with the GFS manual and the *Uniform Presentation Framework 2008*.

Current and non-current assets and liabilities (non-current being those assets or liabilities expected to be recovered or settled more than 12 months after the end of the reporting period) are disclosed in the notes, where relevant.

Estimated consolidated cash flow statement

Cash flows are classified according to whether they arise from operating activities, investing activities or financing activities. This classification is consistent with the requirements under AASB 107 *Statement of Cash Flows*.

Investing activities are split between investing for liquidity management purposes and investing for policy purposes.

For cash flow statement presentation purposes, cash and cash equivalents include bank overdrafts, which are included as current borrowings on the balance sheet.

Estimated consolidated statement of changes in equity

The estimated consolidated statement of changes in equity presents reconciliations of non-owner and owner changes in equity from opening balances at the beginning of the reporting period to the closing balances at the end of the reporting period.

Rounding

All amounts in these Estimated Financial Statements have been rounded to the nearest $100 000.

(H) Revenue from transactions

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

Taxation revenue

Estimates of State taxation revenue are recognised on the earlier of either the receipt by the State of a taxpayer’s self assessment or the time when the taxpayer’s obligation to pay arises, pursuant to the issue of an assessment.

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

Taxation revenue represents revenue received from the State's taxpayers and includes:

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

Forecast assumption

The State's taxation revenue is forecast by a process that involves:

- application of DTF's economic forecasts, where there is a relationship between taxation revenue and economic variables. This enables an assessment of economic and other factors influencing the tax bases from which taxes are sourced (e.g. for payroll tax, an assessment of the outlook for employment and wages; for motor vehicle taxes, assessment of the outlook for demand for vehicles reflecting various economic influences; for gambling taxes, assessment of the outlook for consumer spending);
- analysis of historical information and relationships using econometric and other statistical methods; and
- consultation with private sector economists, industry associations, and relevant government authorities.

Upfront concession notes, such as those for toll roads and gambling licence fees, are recognised progressively over the term of the applicable concession.

Some state taxes are sourced from tax bases which are particularly volatile. Tax revenue from these sources is subject to substantial annual variation, and the risk that actual revenue may differ from the estimate. Duty on land transfers is an example of a volatile tax base.

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

Interest

Interest revenue includes interest received on deposits and other investments and the unwinding over time of the discount on financial assets. Interest revenue is recognised using the effective interest method which allocates the interest over the relevant period.

Net realised and unrealised gains and losses on the revaluation of investments do not form part of revenue from transactions, but are reported either as part of revenue from other economic flows in the net result or as unrealised gains or losses taken directly to equity, forming part of the total change in net worth in the comprehensive result.

Forecast assumption

Forecast interest revenue arises from estimated cash balances that are invested.

Dividends, income tax equivalent and rate equivalent revenue

Victorian general government sector dividends, income tax equivalent and rate equivalent revenue, largely represents revenue received from other sectors of government. Such revenue for the Victorian general government sector is recognised when the right to receive the payment is established.

Dividends earned from non-state sources are also reflected in these Estimated Financial Statements.

Forecast assumption

The forecasts are provided by government business enterprises using their best available estimates.

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

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

The exceptions are:

- the Transport Accident Commission, which is forecast to pay dividends of 50 per cent of Performance From Insurance Operations; and
- Treasury Corporation of Victoria, which pays dividends of 100 per cent of profit.

Other commercial factors considered that will affect the dividend forecasts include the views of the board of directors of each government business enterprise, their forecast liquidity, operating cash flow and cash requirements, gearing and interest cover of the government business enterprise, accumulated surplus/(deficit) and any other specific commercial factors relating to individual businesses.

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

Dividend and income tax equivalent forecasts can also be significantly influenced by a number of factors, including the volatility of financial markets and their impact on investment returns, and climatic conditions impacting on water corporations. Income tax raised under the National Tax Equivalent Regime, which is applicable to government business enterprises and is administered by the Australian Taxation Office, remains with the State.

Sales of goods and services

Revenue from supply of services

Revenue from the supply of services is recognised by reference to the stage of completion of the services being performed. The revenue is recognised when:

- the amount of the revenue, stage of completion and transaction costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the entity.

Under the stage of completion method, revenue is recognised by reference to labour hours supplied or to labour hours supplied as a percentage of total services to be performed in each annual reporting period.

Revenue from the sale of goods

Revenue from the sale of goods is recognised when:

- the State no longer has any of the significant risks and rewards of ownership of the goods transferred to the buyer;
- the State no longer has continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- the amount of revenue, and the costs incurred or to be incurred in respect of the transactions, can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the State.

Sale of goods and services includes regulatory fees which are recognised at the time the regulatory fee is billed.

Forecast assumption

Revenue arising from the sale of goods and the supply of services is forecast by taking into account all known factors, such as proposed fee increases imposed by departments and budget sector agencies in line with the *Cost Recovery Guidelines* (issued by DTF) and/or indexation as provided for under the *Monetary Units Act 2004*.

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

Unless government policy states otherwise, fees will be set to recover the full costs of the goods or services provided.

Under provisions in the *Monetary Units Act 2004* automatic indexation is applied to regulatory fees.

Grants

Revenue from grants is recognised when the State obtains control over the underlying assets.

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

Forecast assumption

The forecast receipt of financial assistance from the Commonwealth is determined on the latest available information at the time of preparation of the Estimated Financial Statements, taking into account the payment schedules and escalation factors relevant to each type of grant.

Forecasts of goods and services tax (GST) grants are based on the latest available information on the national GST pool. Victoria's share of the GST pool for 2010-11 is based on Victoria's assessed relativity for that year and population projections. The Commonwealth Grants Commission makes recommendations to the Commonwealth Treasurer on updated GST revenue sharing relativities around February each year. The Commonwealth Grants Commission calculates an assessed relativity as the average of the past three annual per capita relativities.

The forecasts of future assessed relativities assume that annual per capita relativities will move over the forecast period to equal the current (2010-11) assessed relativity. This projection is made on a basis excluding the impact of non-GST Commonwealth grants, and is then adjusted for known non-GST Commonwealth grants. The forecast GST share is based on these projected assessed relativities and population projections.

Other revenue

Other revenue includes non-property rental, fines, assets received free of charge, royalties, donations and other miscellaneous non-operating revenue.

Contributions of resources received free of charge or for nominal consideration are recognised at fair value when control is obtained over them, irrespective of whether these contributions are subject to restrictions or conditions over their use. Contributions in the form of services are only recognised when a fair value can be reliably determined and the services would have been purchased if not received as a donation.

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

Forecast assumption

The forecast of fines principally involves assessment of the behaviour of road users.

Under provisions in the *Monetary Units Act 2004*, automatic indexation is applied to fines. An indexation factor of 2.25 per cent has been applied in the budget year, with anticipated further indexation applied over the forward estimates period.

(l) Expenses from transactions

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

Employee expenses

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

Forecast assumption

Employee expenses are forecast on the basis of staffing profiles and current salaries, conditions and on-costs. For the forecast period, employee expenses are adjusted for approved wage agreements, with allowance made for further adjustments consistent with wages policy, beyond the period of the agreements.

Employee expense forecasts also reflect the impact of new initiatives.

Superannuation interest expense and other superannuation expenses

The superannuation expenses are determined on the following basis:

- in relation to defined contribution (i.e. accumulation) superannuation plans, the associated expense is simply the employer contributions that are paid or payable in respect of employees who are members of these plans during the reporting period; and
- for defined benefit plans, the superannuation expense reflects the employer financed component of defined benefits that are expected to accrue over the reporting period (i.e. service cost), along with the superannuation interest expense.

In addition, actuarial gains and losses, which are not classified as transactions, are included in the net result as other economic flows.

Forecast assumptions

Future defined contribution superannuation expenses are based on assumptions regarding future salaries and legislated contribution rates. Future defined benefit superannuation expenses are based on actuarial projections of the components outlined above.

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

Depreciation

All infrastructure assets, buildings, plant and equipment and other non-financial physical assets (excluding items under operating leases, assets held for sale, land and investment properties) that have finite useful lives are depreciated. Depreciation is generally calculated on a straight-line basis, at rates that allocate the asset's value, less any estimated residual value, over its estimated useful life. Refer to Note 1(M) for the depreciation policy for leasehold improvements.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, and adjustments made where appropriate.

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

Asset class	*Useful life*
Dwellings	40 to 50 years
Other buildings	30 to 60 years
Road pavement	60 years
Bridges	90 years
Plant, equipment and vehicles	3 to 10 years
Cultural assets (with finite useful lives)	100 years

Land, earthworks, land under declared roads and core cultural assets, which are considered to have an indefinite life, are not depreciated. Depreciation is not recognised in respect of these assets because their service potential has not, in any material sense, been consumed during the reporting period.

Intangible produced assets with finite useful lives are depreciated as an expense from transactions on a systematic (typically straight-line) basis over the asset's useful life. Depreciation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

For capitalised software development costs, typical useful lives range from between three and five years.

All intangible assets are tested for impairment whenever there is an indication that the asset may be impaired (refer to Note 1(N)).

The consumption of intangible non-produced assets with finite useful lives is not classified as a transaction, but as amortisation and included in the net result as an other economic flow.

Intangible assets with indefinite useful lives are not depreciated or amortised, but are tested annually for impairment.

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

Forecast assumption

Depreciation is forecast on the basis of known asset profiles, asset sales programs and approved new asset investment programs. The expense is based on the assumption that there will be no change in depreciation rates over the forecast period, but includes the estimated impact of future revaluation of assets. However, any future changes in depreciable lives, carrying value, residual value or methodology would result in a change in future depreciation expense.

Interest expense

Interest expense (excluding swap interest which is classified as an other economic flow) is recognised in the period in which it is incurred.

Interest expense includes the following items:

- interest on outstanding borrowings;
- amortisation of discounts or premiums relating to borrowings;
- finance lease charges; and
- the increase in financial liabilities and provisions due to the unwinding of discount to reflect the passage of time.

Also refer to Note 1(O) in relation to borrowing costs.

Forecast assumption

Estimates for interest expense are based on the forecast level of outstanding Victorian general government sector debt and expected changes in non-current financial liabilities and provisions. Victorian general government sector debt is expected to mainly comprise a fixed rate facility from the Treasury Corporation of Victoria.

Grants and other transfers

Grants and other transfers to third parties are recognised as an expense in the reporting period in which they are paid or payable.

They include transactions such as grants, subsidies, personal benefit payments made in cash to individuals and other transfer payments made to local government, non-government schools and community groups. Grants and transfer payments also include payments by the Victorian general government sector to PNFCs and PFCs.

Forecast assumption

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

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

Other operating expenses

Other operating expenses generally represent the day-to-day running costs incurred in normal operations and includes:

- supplies and services costs which are recognised as an expense in the reporting period in which they are incurred. The carrying amounts of any inventories held for distribution are expensed when distributed; and
- bad and doubtful debts.

Forecast assumption

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

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

Bad and doubtful debts are forecast on the basis of experience and known activity changes.

(J) Other economic flows included in net result

Other economic flows measure the change in volume or value of assets or liabilities that do not result from transactions.

Net gain/(loss) on disposal of non-financial assets

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

Impairment of non-financial assets

Goodwill and intangible assets not yet available for use or with indefinite useful lives are tested annually for impairment (as described below) and whenever there is an indication that the asset may be impaired.

All other assets are assessed annually for indications of impairment, except for:

- inventories (refer Note 1(M));
- investment properties that are measured at fair value (refer Note 1(N));
- certain biological assets related to agricultural activity (refer Note 1(N));
- non-financial physical assets held for sale (refer Note 1(M)); and
- assets arising from construction contracts (refer Note 1(M)).

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

If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written-off as an other economic flow, except to the extent that the write-down can be debited to an asset revaluation surplus amount applicable to that class of asset.

If there is an indication that there has been a change in the estimate of an asset's recoverable amount since the last impairment loss was recognised, the carrying amount is increased to its recoverable amount. This reversal of the impairment loss occurs only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

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

Refer to Note 1(M) in relation to the recognition and measurement of non-financial assets.

Net gain/(loss) on financial assets or liabilities at fair value

Net gain/(loss) on financial instruments

Net gain/(loss) on financial instruments includes:

- realised and unrealised gains and losses from revaluations of financial instruments at fair value through profit or loss;
- impairment and reversal of impairment for financial instruments at amortised cost; and
- disposals of financial assets and derecognition of financial liabilities.

Revaluations of financial instruments at fair value

Refer to Note 1(K).

Net actuarial gains/ (losses) on superannuation defined benefit plans

Actuarial gains or losses reflect the change in the superannuation liability that arises due to differences between the assumptions used to calculate the superannuation expense from transactions and actual outcomes.

The effect of any change in actuarial assumptions during the period is also included. Actuarial gains or losses are fully recognised in the period in which they occur.

Forecast assumptions are detailed in Note 1(O).

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

Other gains/(losses) from other economic flows

Other gains/(losses) from other economic flows include the gains or losses from:

- bad and doubtful debts;
- the revaluation of the present value of the long service leave liability due to changes in the bond interest rates; and
- valuation changes associated with the indemnity for the electricity supply arrangements with Alcoa of Australia Ltd.

(K) Financial instruments

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of the State's activities, certain financial assets and financial liabilities arise under statute rather than a contract. Such financial assets and financial liabilities do not meet the definition of financial instruments in AASB 132 *Financial Instruments: Presentation*. For example, statutory receivables arising from taxes, fines and penalties do not meet the definition of financial instruments as they do not arise under contract. However, guarantees issued by the Treasurer on behalf of the State are financial instruments because, although authorised under statute, the terms and conditions for each financial guarantee may vary and are subject to an agreement.

Where relevant, for note disclosure purposes, a distinction is made between those financial assets and financial liabilities that meet the definition of financial instruments in accordance with AASB 132 and those that do not.

The following refers to financial instruments unless otherwise stated.

Categories of non-derivative financial instruments

Loans and receivables

Loans and receivables are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Loans and receivables category includes cash and deposits, term deposits with maturity greater than three months, trade receivables, loans and other receivables, but not statutory receivables.

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

Available-for-sale financial assets

Available-for-sale financial instrument assets are those designated as available-for-sale or not classified in any other category of financial instrument asset. Such assets are initially recognised at fair value. Subsequent to initial recognition, they continue to be measured at fair value with gains and losses arising from changes in fair value, recognised in 'Other economic flows – other movements in equity' until the investment is disposed.

Movements resulting from impairment and foreign currency changes are recognised in the net result as other economic flows. On disposal, the cumulative gain or loss previously recognised in 'Other economic flows – other movements in equity' is transferred to 'Other economic flows included in the net result'.

Fair value is determined in the manner described in Note 25 *Financial instruments*.

Available-for-sale category includes certain equity investments and those debt securities that are designated as available-for-sale.

Held-to-maturity financial assets

If the entity concerned has the positive intent and ability to hold nominated investments to maturity, then such financial assets may be classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

The State makes limited use of this classification because any sale or reclassification of more than an insignificant amount of held-to-maturity investments not close to their maturity would result in the whole category being reclassified as available-for-sale. The State would also be prevented from classifying investment securities as held-to-maturity for the current and the following two financial years.

The held-to-maturity category includes certain term deposits and debt securities for which the entity concerned intends to hold to maturity.

Financial assets and liabilities at fair value through profit and loss

Financial assets are categorised as fair value through profit or loss at trade date if they are classified as held for trading or designated as such upon initial recognition. Financial instrument assets are designated at fair value through profit or loss on the basis that the financial assets form part of a group of financial assets that are managed by the entity concerned based on their fair values, and have their performance evaluated in accordance with documented risk management and investment strategies.

The State's borrowings, mainly raised through the Treasury Corporation of Victoria, are designated at fair value through profit or loss on trade date on the basis that the financial liability forms a group of financial liabilities which are managed on a fair value basis in accordance with documented risk strategies.

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

Financial instruments at fair value through profit or loss are initially measured at fair value and attributable transaction costs are expensed as incurred. Subsequently, any changes in fair value are recognised in the net result as other economic flows. Any dividend or interest on a financial asset is recognised in the net result from transactions.

Financial liabilities at amortised cost

Financial instrument liabilities are initially recognised on the date they are originated. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the interest-bearing liability, using the effective interest rate method.

Financial instrument liabilities measured at amortised cost include all payables, deposits held and advances received, and interest-bearing arrangements other than those designated at fair value through profit or loss.

Derivative financial instruments

Derivative financial instruments are classified as held for trading financial assets and liabilities. They are initially recognised at fair value on the date on which a derivative contract is entered into. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivatives after initial recognition, are recognised in the consolidated comprehensive operating statement as an 'other economic flow included in the net result'.

Offsetting financial instruments

Financial instrument assets and liabilities are offset and the net amount presented in the estimated consolidated balance sheet only when the entity concerned has a legal right to offset the amounts and intend either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Reclassification of financial instruments

Subsequent to initial recognition and under rare circumstances, non-derivative financial instruments assets that have not been designated at fair value through profit or loss upon recognition, may be reclassified out of the fair value through profit or loss category, if they are no longer held for the purpose of selling or repurchasing in the near term.

Financial instrument assets that meet the definition of loans and receivables may be reclassified out of the fair value through profit and loss category into the loans and receivables category, where they would have met the definition of loans and receivables had they not been required to be classified as fair value through profit and loss. In these cases, the financial instrument assets may be reclassified out of the fair value through profit and loss category, if there is the intention and ability to hold them for the foreseeable future or until maturity.

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

Available-for-sale financial instrument assets that meet the definition of loans and receivables may be reclassified into the loans and receivables category if there is the intention and ability to hold them for the foreseeable future or until maturity.

(L) Financial assets

Forecast assumption

The estimated 1 July 2010 opening balances of assets represent the audited carrying value as at 30 June 2010.

Cash and deposits

Cash and deposits, including cash equivalents, comprise cash on hand and cash at bank, deposits at call and those highly liquid investments with an original maturity of three months or less, which are held for the purpose of meeting short-term cash commitments rather than for investment purposes, and which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Forecast assumption

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

Advances paid

Advances paid represent inter sector loans and advances, initially measured at fair value and subsequently measured at amortised cost, made by the Victorian general government sector to the PNFC and PFC sectors, for policy rather than liquidity management purposes. They exclude equity contributions.

Forecast assumption

Repayments of existing balances are based on entities' activity schedules.

Investments, loans and placements

Investments are classified in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

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

Any dividend or interest earned on the financial asset is recognised in the consolidated comprehensive operating statement as a transaction.

Where the State has the positive intent and ability to hold investments to maturity, they are stated at amortised cost less impairment losses.

Forecast assumption

All surplus cash resources over the forecast period are assumed to be held as financial assets (investments) pending repayment of debt when appropriate.

Receivables

Receivables consist of:

- contractual receivables, such as debtors in relation to goods and services and accrued investment revenue; and
- statutory receivables, such as taxes, fines and goods and services tax input tax credits recoverable.

Contractual receivables are classified as financial instruments and categorised as loans and receivables (refer to Note 1(K) for recognition and measurement). Statutory receivables are recognised and measured similarly to contractual receivables (except for impairment), but are not classified as financial instruments because they do not arise from a contract.

Forecast assumption

Receivables are forecast on the basis of revenue activity levels.

Investments accounted for using the equity method

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

Investments in associates are accounted for in these Estimated Financial Statements using the equity method. Under this method, the State's share of the post acquisition profits or losses of associates is recognised in the net result as other economic flows. The share of post acquisition movements in revaluation surpluses and any other reserves is recognised in both the estimated consolidated comprehensive operating statement and the estimated consolidated statement of changes in equity. The cumulative post acquisition movements are adjusted against the cost of the investment.

Joint ventures are contractual arrangements between the State or a subsidiary entity and one or more other parties to undertake an economic activity that is subject to joint control.

Interests in jointly controlled entities are accounted for in these Estimated Financial Statements using the equity method, as applied to investments in associates.

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

Forecast assumption

Investments in existing joint ventures are assumed to remain unchanged during the forecast period.

Investments in jointly controlled assets and operations

In respect of its interest in jointly controlled assets, the State recognises:

- its share of jointly controlled assets;
- liabilities incurred;
- its share of liabilities incurred jointly by the joint venture;
- any income earned from the selling or using of its share of the output from the joint venture; and
- any expenses incurred in relation to being an investor in the joint venture.

For jointly controlled operations the State recognises:

- the assets that it controls and the liabilities that it incurs;
- expenses that it incurs; and
- its share of income that it earns from selling outputs of the joint venture.

Investments in other sector entities

Refer to Note 1(F).

Forecast assumption

Investments in other sector entities are estimated based on their audited net assets as at 30 June 2010, adjusted by management estimates of subsequent operating results and distributions.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the State retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

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

- the State has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset; or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the State has neither transferred nor retained substantially all the risks and rewards or transferred control, the asset is recognised to the extent of the State's continuing involvement in the asset.

Impairment of financial assets

At the end of each reporting period, the relevant entity assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. All financial instrument assets, except those measured at fair value through profit or loss, are subject to annual review for impairment.

Receivables are assessed for bad and doubtful debts on a regular basis. Those bad debts considered as written-off by mutual consent are classified as a transaction expense. Bad debts not written-off by mutual consent, and the allowance for doubtful receivables, are classified as other economic flows in the net result.

The amount of the allowance is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

In assessing impairment of statutory (non-contractual) financial assets, which are not financial instruments, professional judgement is applied in assessing materiality using estimates, averages and other computational methods in accordance with AASB 136 *Impairment of Assets*.

(M) Non-financial assets

The estimated 1 July 2010 opening balances of assets represent the audited carrying value as at 30 June 2010.

Inventories

Inventories include goods and other property held either for sale, or for distribution at zero or nominal cost, or for consumption in the ordinary course of business operations.

Inventories held for distribution are measured at cost, adjusted for any loss of service potential. All other inventories, including land held for sale, are measured at the lower of cost and net realisable value. Where inventories are acquired for no cost or nominal consideration, they are measured at current replacement cost at the date of acquisition.

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

Cost includes an appropriate portion of fixed and variable overhead expenses. Cost is assigned to land held for sale (undeveloped, under development and developed) and to other high value, low volume inventory items on a specific identification of cost basis. Cost for all other inventory is measured on the basis of weighted average cost.

Bases used in assessing loss of service potential for inventories held for distribution include current replacement cost and technical or functional obsolescence. Technical obsolescence occurs when an item still functions for some or all of the tasks it was originally acquired to do, but no longer matches existing technologies. Functional obsolescence occurs when an item no longer functions the way it did when it was first acquired.

Forecast assumption

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

Non-financial assets held-for-sale

Non-financial assets (including disposal group assets) are treated as current and classified as held-for-sale if their carrying amount will be recovered through a sale transaction rather than through continuing use.

This condition is regarded as met only when:

- the asset is available for immediate use in the current condition; and
- the sale is highly probable and the asset's sale is expected to be completed within one year from the date of classification.

These non-financial assets, related liabilities and financial assets are measured at the lower of carrying amount and fair value less costs to sell, and are not subject to depreciation or amortisation.

Forecast assumption

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

Land, buildings, infrastructure, plant and equipment

All non-financial physical assets are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment.

The initial cost for non-financial physical assets under a finance lease (refer to Note 1(P)) is measured at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

Where an asset is received for no or nominal consideration, the cost is the asset's fair value at the date of acquisition.

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

Non-financial physical assets, such as national parks, other Crown land and heritage assets, are measured at fair value with regard to the property's highest and best use after due consideration is made for any legal or constructive restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset. Theoretical opportunities that may be available in relation to the asset are not taken into account until it is virtually certain that the restrictions will no longer apply.

The fair value of cultural assets and collections, heritage assets and other non-financial physical assets that the State intends to preserve because of their unique historical, cultural or environmental attributes, is measured at the replacement cost of the asset less, where applicable, accumulated depreciation (calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset) and any accumulated impairment. These policies and any legislative limitations and restrictions imposed on their use and/or disposal may impact their fair value.

Road network assets (including earthworks of the declared road networks) are measured at fair value, determined by reference to the asset's depreciated replacement cost.

Land under declared roads acquired prior to 1 July 2008 is measured at fair value. Land under declared roads acquired on or after 1 July 2008 is measured initially at cost of acquisition and subsequently at fair value. The fair value methodology applied by the Valuer-General Victoria is based on discounted site values for relevant municipal areas applied to land area under the arterial road network, including related reservations.

The fair value of infrastructure systems and plant, equipment and vehicles, is normally determined by reference to the asset's depreciated replacement cost, or where the infrastructure is held by a for-profit entity, the fair value may be derived from estimates of the present value of future cash flows. For plant, equipment and vehicles, existing depreciated historical cost is generally a reasonable proxy for depreciated replacement cost because of the short lives of the assets concerned.

Certain assets are acquired under finance leases, which may form part of a service concession arrangement. Refer to Notes 1(P) and 1(R) in relation to such assets and arrangements.

The cost of constructed non-financial physical assets includes the cost of all materials used in construction, direct labour on the project, and an appropriate proportion of variable and fixed overheads.

For the accounting policy on impairment of non-financial physical assets, refer to impairment of non-financial assets under Note 1(J).

Leasehold improvements

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

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

Revaluations of non-financial physical assets

Non-financial physical assets are measured at fair value, in accordance with the Financial Reporting Directions (FRDs) issued by the Minister for Finance. A full revaluation normally occurs every five years, based on the asset's government purpose classification but may occur more frequently if fair value assessments indicate material changes in values. Independent valuers are generally used to conduct these scheduled revaluations. Certain infrastructure assets are revalued using specialised valuers. Any interim revaluations are determined in accordance with the requirements of the FRDs.

Revaluation increases or decreases arise from differences between an asset's carrying value and fair value.

Net revaluation increases (where the carrying amount of a class of assets is increased as a result of a revaluation) are recognised in 'Other economic flows – other movements in equity' and accumulated in equity under the asset revaluation surplus. However, the net revaluation increase is recognised in the net result to the extent that it reverses a net revaluation decrease in respect of the same class of property, plant and equipment previously recognised as an expense (other economic flows) in the net result.

Net revaluation decreases are recognised immediately as other economic flows in the net result, except that the net revaluation decrease is recognised in 'Other economic flows – other movements in equity' to the extent that a credit balance exists in the asset revaluation surplus in respect of the same class of property, plant and equipment. The net revaluation decrease recognised in 'Other economic flows – other movements in equity' reduces the amount accumulated in equity under the asset revaluation surplus.

Revaluation increases and decreases relating to individual assets within a class of property, plant and equipment, are offset against one another within that class but are not offset in respect of assets in different classes. Any asset revaluation surplus is not normally transferred to accumulated funds on derecognition of the relevant asset.

Forecast assumption

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

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

The forward estimates include the estimated impact of revaluations of non-financial physical assets. These estimates have been derived based on examination and extrapolation of historical trends in asset revaluations by major asset class.

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

(N) Other non-financial assets

Where an asset is received for no or nominal consideration, the cost is the asset's fair value at the date of acquisition.

Intangible assets

Purchased intangible assets are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the State.

When the recognition criteria in AASB 138 *Intangible Assets* is met, internally generated intangible assets are recognised and measured at cost less accumulated amortisation and impairment.

Refer to Note 1(I) for the policy on the depreciation of produced and non-produced intangible assets and Note 1(J) for impairment of intangible assets.

Forecast assumption

The value of intangible assets during the forecast period reflects forecast acquisitions, disposals and the impact of depreciation.

Investment properties

Investment properties represent properties held to earn rentals or for capital appreciation, or both. Investment properties exclude properties held to meet service delivery objectives of the State.

Investment properties are initially recognised at cost. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the State.

Subsequent to initial recognition at cost, investment properties are revalued to fair value with changes in the fair value recognised as 'other economic flows' in the comprehensive operating statement in the period that they arise. These properties are neither depreciated nor tested for impairment.

Rental income from leasing of investment properties is recognised in the comprehensive operating statement on a straight-line basis over the term of the lease.

Forecast assumption

The value of investment properties during the forecast period reflects forecast acquisitions, disposals and the impact of depreciation.

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

Biological assets

Productive trees in commercial native forests and breeding livestock are recognised as biological assets. These biological assets are measured at fair value less costs to sell and are revalued at 30 June each year.

For breeding livestock, fair value is based on the amount that could be expected to be received from the disposal of livestock with similar attributes.

For productive trees, revaluation to fair value is determined using a discounted cash flow method based on expected net future cash flows, discounted by a current market determined rate. After harvest, productive trees are treated as inventories (refer to Note 1(M)).

An increase or decrease in the fair value of these biological assets is recognised in the estimated consolidated comprehensive operating statement as an 'other economic flow'.

Forecast assumption

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

Other assets

Prepayments

Non-financial other assets include prepayments which represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

Forecast assumption

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

(O) Liabilities

Deposits held and advances received

Deposits held include deposits, security deposits, and trust fund provisions held on behalf of public or private sector bodies. Advances received include loans and other repayable funds from public sector bodies for policy purposes.

Deposits held and advances received are categorised as financial liabilities at amortised cost (refer to Note 1(K)).

Forecast assumption

Deposits held and advances received are forecast on the basis of estimated activity in trust funds and on agreed loan activities between central government and agencies.

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

Borrowings

All interest-bearing liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The measurement basis subsequent to initial recognition depends on whether the entity concerned has categorised its interest-bearing liabilities as either, financial liabilities designated at fair value through profit or loss, or financial liabilities at amortised cost. The classification depends on the nature and purpose of the interest-bearing liabilities. The State determines the classification of its interest-bearing liabilities at initial recognition.

The State (consistent with the paragraphs of AASB 123 *Borrowing Costs*, applicable to not-for-profit public sector entities) recognises borrowing costs immediately as an expense, even where they are directly attributable to the acquisition, construction or production of a qualifying asset.

Forecast assumption

Borrowing estimates are based on the ability to repay maturing debt and the need to finance capital expenditure.

The forecast for finance lease liabilities across the forward estimates period relates primarily to the expected commissioning of a number of public private partnerships projects.

Payables

Payables consist of:

- contractual payables, such as accounts payable, and unearned revenues including deferred revenue from concession arrangements. Accounts payable represent liabilities for goods and services provided to the State prior to the end of the financial year that are unpaid, and arise when the State becomes obliged to make future payments in respect of the purchase of those goods and services; and
- statutory payables, such as goods and services tax and fringe benefits tax payables.

Contractual payables are classified as financial instruments and categorised as financial liabilities at amortised cost (refer to Note 1(K)). Statutory payables are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from a contract.

The State indemnifies the State Electricity Commission of Victoria's contractual obligation for the supply of electricity to Alcoa of Australia Ltd's aluminium smelters at Portland and Point Henry. A review of the contract is periodically undertaken to remeasure this liability, which is included in payables.

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

Forecast assumption

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

The unearned income liability relating to concession arrangements will reduce each year as income is progressively brought to account over the remaining period of the concession term. The estimated changes in other components are based on historical experience.

The indemnity payable to the State Electricity Commission of Victoria takes into account market aluminium prices, with reference to electricity prices.

Superannuation

Defined benefit superannuation plans provide benefits based on years of service and final average salary. At each forward estimate reporting date, a liability or asset is recognised in respect of defined benefit superannuation obligations. This is measured as the difference between the present value of accrued liabilities at the end of the reporting period and the net market value of the superannuation plans' assets at that date.

The present value of accrued liabilities is based on future payments which are expected to arise due to membership of the superannuation plan to date. Consideration is given to expected future salary levels and the experience of employee departures. In accordance with prevailing accounting standards, expected future payments are discounted to present values using rates applying to long-term Commonwealth Government Bonds.

Superannuation interest expense and other superannuation expenses

Refer to Note 1(I).

Net actuarial gains/(losses) on superannuation defined benefit plans

Refer to Note 1(J).

Forecast assumptions

The superannuation liability at future balance dates is estimated in accordance with the above policy by the actuaries of the various defined benefit superannuation plans. These estimates are based on a number of demographic and financial assumptions which include, in particular, an expected return on the assets of the schemes and a discount rate for determining the present value of accrued liabilities.

Consistent with the long term actuarial assumptions, the expected return on assets is assumed to remain constant across the budget and forecast periods. The discount and inflation rates that are adopted are based on prevailing long-term Commonwealth Government Bonds (both nominal and inflation linked) which are also assumed to remain constant across the forward estimates period. Actual experience may differ significantly from assumptions which may cause significant variations in the reported superannuation liability. Any such variation would primarily be reported under other economic flows in the estimated consolidated comprehensive operating statement.

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

The following table provides additional information regarding the forecast assumptions for the budget and forward years for each relevant defined benefit superannuation scheme.

Superannuation assumptions

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

Source: Victorian Department of Treasury and Finance

Notes:
(a) All rates are nominal annual rates.
(b) The expected return on assets stated is gross of tax. Estimated tax payments are explicitly allowed for in the calculation process.
(c) In accordance with accounting standards, the discount rate is based on the longest dated fixed interest Commonwealth Government bond rate. The rate stated above is an annual effective rate, gross of tax.
(d) Wages growth is based on actuarial expectations.
(e) For these schemes, the inflation rate assumed by the actuary reflects market expectations of price inflation as implied based on the relationship between the yields on Commonwealth Government Bonds, both nominal and inflation linked. This ensures consistency with the prescribed (i.e. market based) discount rate.
(f) Pensions payable from both the Parliamentary Contributory Superannuation Fund and Constitutionally Protected Schemes are linked to wages growth, not price inflation.

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

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

Asset allocation

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

Source: Victorian Department of Treasury and Finance

Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered to the end of the reporting period.

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including annual leave and accumulating sick leave are recognised in the provision for employee benefits, classified as current liabilities. Those liabilities which are expected to be settled within 12 months of the reporting period, are measured at their nominal values.

Those liabilities that are not expected to be settled within 12 months are also recognised in the provision for employee benefits as current liabilities, but are measured at present value of the amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

(ii) Long service leave

Liability for long service leave (LSL) is recognised in the provision for employee benefits.

Unconditional LSL is disclosed in the notes to the financial statements as a current liability, even where the State does not expect to settle the liability within 12 months, because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of this current LSL liability are measured at:

- nominal value – component that the State expects to settle within 12 months; and
- present value – component that the State does not expect to settle within 12 months.

Conditional LSL is disclosed as a non-current liability. There is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service. This non-current LSL liability is measured at present value.

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

Any gain or loss following revaluation of the present value of non-current LSL liability is recognised in the estimated consolidated comprehensive operating statement as a transaction, except to the extent that a gain or loss arises due to changes in bond interest rates for which it is then recognised as an 'other economic flow' (refer to Note 1(J)).

(iii) Employee benefits on-costs

Employee benefits on-costs such as payroll tax, workers compensation and superannuation are recognised separately from the provision for employee benefits.

Forecast assumption

Other employment benefits, including long service leave, are forecast on the basis of staffing profiles, salaries, conditions and on-costs.

Other provisions

Other provisions are recognised when the State has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be received from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Other provisions include a liability for outstanding insurance claims, which is actuarially assessed. This liability covers claims reported but not yet paid, claims incurred but not yet reported and the anticipated costs of settling those claims. Because of the inherent uncertainty in the estimate of the outstanding insurance claims, a risk margin is included. The risk margin is set to increase the probability that the liability estimate will be sufficient.

To estimate the liability for outstanding insurance claims, actuaries take into account projected inflation and other factors to arrive at expected future payments. These are then discounted to the reporting date using a market determined, risk free discount rate.

Forecast assumption

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

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised as an 'other economic flow' in the estimated consolidated comprehensive operating statement.

(P) Leases

A lease is a right to use an asset for an agreed period of time in exchange for payment.

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership. Leases of infrastructure, property, plant and equipment are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership from the lessor to the lessee. All other leases are classified as operating leases.

Finance leases

State as lessor

Amounts due from lessees under finance leases are recorded as receivables. Finance lease receivables are initially recorded at amounts equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease receipts are apportioned between periodic interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

State as lessee

At the commencement of the lease term, finance leases are initially recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The leased asset is accounted for as a non-financial physical asset and depreciated over the shorter of the estimated useful life of the asset or the term of the lease.

Minimum finance lease payments are apportioned between the reduction of the outstanding lease liability and the periodic finance expense which is calculated using the interest rate implicit in the lease and charged directly to the estimated consolidated comprehensive operating statement. Contingent rentals associated with finance leases are recognised as an expense in the period in which they are incurred.

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

Operating leases

State as lessor

Rental revenue from operating leases is recognised on a straight-line basis over the term of the relevant lease.

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.

In the event that lease incentives are given to the lessee, the aggregate cost of incentives are recognised as a reduction of rental revenue over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern over which the economic benefit of the leased asset is diminished.

State as lessee

Operating lease payments, including any contingent rentals, are recognised as an expense from transactions in the estimated consolidated comprehensive operating statement on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset. The leased asset is not recognised in the estimated consolidated balance sheet.

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.

In the event that lease incentives are received to enter into operating leases, the aggregate benefit of incentives are recognised as a reduction of rental expense over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Forecast assumption

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

(Q) Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the estimated consolidated balance sheet. However, they are disclosed in Chapter 4, *Contingent assets and contingent liabilities*. Where contingencies are quantifiable, they are measured at nominal value. Contingent assets and contingent liabilities are presented inclusive of GST receivable or payable respectively.

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

(R) Service concession arrangements

The State sometimes enters into certain arrangements with private sector participants to design and construct or upgrade assets used to provide public services. These arrangements are typically complex and usually include the provision of operational and maintenance services for a specified period of time. These arrangements are often referred to as either public private partnerships or service concession arrangements (SCAs).

These SCAs usually take one of two main forms. In the more common form, the State pays the operator over the period of the arrangement, subject to specified performance criteria being met. At the date of commitment to the principal provisions of the arrangement, these estimated periodic payments are allocated between a component related to the design and construction or upgrading of the asset and components related to the ongoing operation and maintenance of the asset. The former component is accounted for as a lease payment in accordance with the lease policy (see Note 1(P)). The remaining components are accounted for as commitments for operating costs which are expensed in the estimated consolidated comprehensive operating statement as they are incurred.

The other, less common form of SCA, is one in which the State grants to an operator, for a specified period of time, the right to collect fees from users of the SCA asset, in return for which the operator constructs the asset and has the obligation to supply agreed upon services, including maintenance of the asset for the period of the concession. These private sector entities typically lease land, and sometimes other state property, from the State and construct infrastructure. At the end of the concession period, the land and property, together with the constructed facilities, will be returned to the State.

Significant tollway service concession arrangements include the CityLink network, which has a nominal term of 33.5 years expiring 14 January 2034 and EastLink, with a nominal term of 35 years expiring 30 November 2043.

There is currently no authoritative accounting guidance applicable to grantors (the State) on the recognition and measurement of the right of the State to receive assets from such concession arrangements, so there has been no change to existing policy and those assets are not currently recognised.

The impact that may occur as a result of possible changes to the accounting by the State cannot be reliably estimated and is therefore not accounted for in these Estimated Financial Statements.

(S) Accounting for the goods and services tax

Revenues, expenses and assets are recognised net of the amount of associated goods and services tax (GST), except where GST incurred is not recoverable from the taxation authority. In this case GST payable is recognised as part of the cost of acquisition of an asset or part of an item of expense.

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

Receivables and payables are stated inclusive of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the estimated consolidated balance sheet.

Cash flows are presented on a gross basis. GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as an operating cash flow.

Contingent assets and contingent liabilities are also stated inclusive of GST.

(T) Foreign currency balances/transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign monetary items existing at the end of the reporting period are translated at the closing rate at the end of the reporting period. Non-monetary assets carried at fair value that are denominated in foreign currencies are translated to the functional currency at the rates prevailing at the date when the fair value was determined.

Foreign currency translation differences are recognised in other economic flows in the estimated consolidated comprehensive operating statement and accumulated in a separate component of equity, in the period in which they arise.

(U) Prospective accounting changes

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

- AASB 2009-5 *Amendments to Australian Accounting Standards – Arising from the Annual Improvements Projects* [AASB 5, 8, 101, 107, 117, 118, 136 and 139], operative from 1 January 2010. This Standard makes mainly editorial amendments for clarification, except for amendments to AASB 139 *Financial Instruments: Recognition and Measurement* relating to:
  - application of hedged accounting to transactions between segments within the same group; and
  - reclassification of hedging losses from 'Other economic flows – other movements in equity' to net result;
- AASB 2010-1 *Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters* [AASB 1 and AASB 7], operative from 1 July 2010. This amending Standard provides an exemption from disclosing comparatives for first time adopters of the updated version of AASB 7 *Financial Instruments: Disclosures* (due to AASB 2009-2 amendments). This exemption is also available to existing users when transitioning to the revised AASB 7;

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

- AASB 2009-12 *Amendments to Australian Accounting Standards* [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 and 1031, and Interpretations 2, 4, 16, 1039 and 1052], operative from 1 January 2011. This Standard mainly makes editorial amendments to align with recent changes made to equivalent international standards (IASB). Additionally, the amendment to AASB 8 *Operating Segments* requires a determination of whether a government and the entities under its control, are considered a single customer for the purposes of certain operating segment disclosures;
- AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* [AASB Interpretation 14], operative from 1 January 2011. This amending Standard removes the option in Interpretation 14 AASB 119 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, to use present value in measuring the reduction in future contributions for employees;
- AASB 9 *Financial Instruments*, operative from 1 January 2013. This Standard simplifies requirements for the classification and measurement of financial assets and replaces these requirements in AASB 139;
- AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023, 1038, and Interpretations 10 and 12], operative from 1 January 2013. This Standard makes consequential amendments to applicable AAS related to AASB 9 *Financial Instruments*; and
- AASB 1053 *Application of Different Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*, operative from 1 July 2013. These Standards prescribe the reduced disclosure requirements for entities that apply Tier 2 financial reporting. The Standards do not change the recognition or measurement of assets or liabilities, and do not affect the consolidated financial reports of governments.

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

Note 2: Taxation revenue

($ million)

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

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

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Dividends	340.8	348.3	309.4	309.9	534.8
Income tax equivalent revenue	159.1	167.5	140.8	131.5	164.3
Local government rate equivalent revenue	5.1	5.1	5.4	5.4	5.3
Total dividends and income tax equivalent and rate equivalent revenue	**504.9**	**520.9**	**455.6**	**446.7**	**704.4**

Note 4: Sales of goods and services

($ million)

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

Note 5: Grants

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
General purpose grants	11 142.7	10 978.8	11 756.0	12 602.2	13 083.7
Specific purpose grants for on-passing	2 768.2	2 308.9	2 535.6	2 661.2	2 794.4
Grants for specific purposes	8 868.6	8 842.5	8 494.0	8 823.2	8 521.9
Total	**22 779.5**	**22 130.2**	**22 785.6**	**24 086.6**	**24 400.0**
Other contributions and grants	113.7	113.7	93.0	83.8	83.9
Total grants	**22 893.1**	**22 243.8**	**22 878.6**	**24 170.4**	**24 483.9**

Note 6: Other revenue

($ million)

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

Note 7: Superannuation

(a) Superannuation expense recognised in the operating statement

($ million)

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

Notes:

(a) Superannuation expense from transactions.

(b) Superannuation expense from other economic flows.

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

($ million)

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

Note 7: Superannuation *(continued)*

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

($ million)

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

(d) Reconciliation of the superannuation liabilities

($ million)

	2010-11 Budget	*2010-11 Revised*	*2011-12 Estimate*	*2012-13 Estimate*	*2013-14 Estimate*
ESSS (including SSF)					
Defined benefit obligation	33 834.2	34 520.3	34 878.0	35 168.0	35 330.6
Tax liability [(a)]	2 606.7	2 659.6	2 789.9	2 851.2	2 858.2
Plan assets	(14 089.9)	(14 247.4)	(14 179.8)	(14 271.8)	(14 235.2)
Net liability/(asset)	**22 351.1**	**22 932.5**	**23 488.2**	**23 747.3**	**23 953.6**
Other funds [(b)]					
Defined benefit obligation	1 881.4	1 919.6	1 957.0	1 989.9	2 023.1
Tax liability [(a)]	4.1	4.2	2.8	1.4	0.1
Plan assets	(1 303.1)	(1 317.6)	(1 335.8)	(1 348.9)	(1 358.2)
Net liability/(asset)	**582.4**	**606.1**	**624.0**	**642.4**	**664.9**
Total superannuation					
Defined benefit obligation	35 715.6	36 439.9	36 835.1	37 157.9	37 353.7
Tax liability	2 610.8	2 663.8	2 792.7	2 852.6	2 858.3
Plan assets	(15 393.0)	(15 565.1)	(15 515.5)	(15 620.7)	(15 593.5)
Superannuation liability	**22 933.5**	**23 538.6**	**24 112.2**	**24 389.8**	**24 618.6**
Represented by:					
Current liability	560.0	560.0	900.0	958.8	1 238.6
Non-current liability	22 373.5	22 978.6	23 212.2	23 431.0	23 379.9

Notes:

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

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

Note 8: Depreciation

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

Notes:

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

(b) Amortisation of intangible non-produced assets is included under other economic flows (see note 12).

Note 9: Interest expense

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

Note 10: Grants and other transfers

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Current grants and other transfers expense					
Commonwealth Government	136.7	136.7	123.6	130.2	137.1
Local government on-passing	657.4	603.4	651.2	668.9	651.2
Private sector and not for profit on-passing	3 359.1	3 524.9	3 587.8	3 658.7	3 784.6
Other private sector and not for profit	398.8	460.5	328.2	343.8	372.1
Grants within the Victorian Government	2 664.7	2 507.0	2 384.3	2 428.8	2 459.6
Grants to other state governments	13.2	14.0	13.4	13.2	13.2
Total current grants and other transfers	**7 229.9**	**7 246.5**	**7 088.4**	**7 243.6**	**7 417.8**
Capital grants expense					
Local government on-passing	14.8	25.2	25.0	23.7	23.9
Private sector and not for profit on-passing	509.4	559.8	128.3	78.0	74.3
Other private sector and not for profit	156.1	158.4	141.3	144.0	142.3
Other grants	..	..	50.0	275.0	100.0
Total capital grants and other transfers	**680.2**	**743.4**	**344.5**	**520.7**	**340.5**
Total grants and other transfers	**7 910.1**	**7 989.9**	**7 433.0**	**7 764.3**	**7 758.3**

Note 11: Total expenses by government purpose classification and by department

(a) Expenses by government purpose classification

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
General public services	815.2	665.0	835.8	864.0	917.1
Public order and safety	4 890.5	5 040.0	5 073.0	5 281.5	5 424.9
Education	12 009.9	12 172.9	12 503.3	13 085.4	13 594.9
Health	12 163.8	12 319.6	12 648.0	13 114.9	13 458.4
Social security and welfare	3 467.6	3 472.8	3 555.0	3 674.8	3 900.8
Housing and community amenities	3 366.4	3 097.1	3 575.4	4 010.2	3 850.9
Recreation and culture	925.1	754.7	948.4	980.4	1 040.7
Fuel and energy	21.8	17.8	22.4	23.1	24.6
Agriculture, forestry, fishing, and hunting	582.7	700.9	637.7	642.9	669.3
Mining, manufacturing, and construction	23.4	19.1	24.0	24.8	26.3
Transport and communications	4 669.2	4 828.1	4 826.7	5 007.3	5 124.4
Other economic affairs	541.8	516.9	592.7	612.7	650.4
Other purposes	1 410.0	1 226.1	1 483.3	1 533.3	1 627.6
Total expenses by government purpose classification [(a)]	**44 887.4**	**44 831.1**	**46 726.0**	**48 855.2**	**50 310.2**

Note:

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

Note 11: Total expenses by government purpose classification and by department *(continued)*

(b) Total expenditure by department including administered items[a]

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Expenses					
Education and Early Childhood Development	10 961.1	11 124.1	10 891.4	11 124.4	11 319.6
Health	13 738.6	13 894.4	14 107.2	14 393.8	14 792.6
Human Services	3 396.9	3 119.6	3 249.8	3 587.1	3 362.4
Innovation, Industry and Regional Development	2 611.7	2 798.3	2 630.3	2 526.1	2 528.0
Justice	6 726.5	6 876.0	6 797.7	6 932.4	7 197.6
Planning and Community Development	1 040.0	1 016.5	1 049.6	938.0	919.5
Premier and Cabinet	617.7	657.7	586.7	592.4	606.2
Primary Industries	619.2	737.3	619.5	598.6	594.7
Sustainability and Environment	1 869.6	2 108.9	2 409.5	3 072.6	2 992.5
Transport	7 162.4	7 321.4	7 441.2	7 770.1	8 025.0
Treasury and Finance	41 271.6	41 193.0	40 734.4	43 297.8	44 287.3
Parliament	182.8	180.9	162.3	166.1	169.9
Contingencies not allocated to departments [b]	442.5	(513.9)	1 613.5	2 505.2	3 155.7
Regulatory bodies and other part funded agencies [c]	1 838.7	1 952.3	1 973.1	1 871.0	1 855.5
Total	**92 479.2**	**92 466.6**	**94 266.0**	**99 375.6**	**101 806.6**
Less eliminations and adjustments [d]	(47 591.8)	(47 635.5)	(47 540.1)	(50 520.3)	(51 496.3)
Total expenses	**44 887.4**	**44 831.1**	**46 726.0**	**48 855.2**	**50 310.2**

Notes:

(a) *This table is consistent with the format used for Table 3.1 Total expenses by department, presented in the 2010-11 Statement of Finances (Budget Paper No. 4). It shows total expenses per department, including administered items. The table in Note 11(a) nets-off the latter to present the consolidated expenditure by General Purpose Classification.*

(b) *This contingency includes a provision for programs lapsing, future demand growth, departmental underspending and items not yet formalised at the time of publication.*

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

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

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

($ million)

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

Note 13: Receivables

($ million)

	2011 Budget	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Contractual					
Sales of goods and services	733.4	705.8	708.9	705.4	704.8
Accrued investment income	84.4	70.3	63.6	64.4	80.6
Other receivables	460.8	442.9	440.8	433.4	436.2
Provision for doubtful contractual receivables	(49.0)	(49.7)	(49.7)	(49.7)	(49.6)
Statutory					
Taxes receivables	895.0	916.3	934.3	956.4	993.0
Fines and regulatory fees	885.6	885.9	953.6	1 021.9	1 069.6
GST input tax credits recoverable	287.4	287.7	288.3	288.8	289.4
Provision for doubtful statutory receivables	(451.2)	(451.5)	(488.3)	(527.7)	(565.4)
Total receivables	**2 846.6**	**2 807.8**	**2 851.5**	**2 893.0**	**2 958.7**
Represented by:					
Current receivables	2 781.9	2 740.5	2 778.5	2 820.8	2 886.6
Non-current receivables	64.7	67.3	73.0	72.2	72.1

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

($ million)	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Balance of investment in PNFC and PFC sectors at beginning of period	64 508.7	64 508.7	67 986.9	70 326.1	72 433.3
Net contributions to other sectors by owner	2 191.7	2 368.6	1 498.7	863.2	1 181.5
Revaluation gain/(loss) for period	1 286.4	1 109.5	840.5	1 244.1	548.2
Investment in other sector entities at end of period	**67 986.9**	**67 986.9**	**70 326.1**	**72 433.3**	**74 163.1**

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

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

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

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

($ million)

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

(b) Land, national parks and buildings

($ million)

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

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

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

($ million)

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

(d) Road networks and earthworks

($ million)

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

(e) Cultural assets

($ million)

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

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

($ million)

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

Notes:

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

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

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

Note 18: Other non-financial assets

($ million)

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

Note:

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

Note 19: Assets classified by government purpose classification

(a) Purchases of non-financial assets

($ million)

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

Notes:

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

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

(b) Total assets

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
General public services	1 187.9	1 183.9	1 282.0	1 325.0	1 370.7
Public order and safety	6 042.6	6 022.2	6 521.1	6 739.8	6 972.3
Education	17 188.4	17 130.3	18 549.4	19 171.6	19 832.8
Health	10 329.9	10 294.9	11 147.8	11 521.7	11 919.1
Social security and welfare	666.9	664.7	719.8	743.9	769.6
Housing and community amenities	8 913.5	8 883.3	9 619.3	9 941.9	10 284.8
Recreation and culture	6 701.6	6 679.0	7 232.3	7 474.9	7 732.7
Fuel and energy	2.0	2.0	2.1	2.2	2.3
Agriculture, forestry, fishing, and hunting	480.7	479.1	518.8	536.2	554.7
Transport and communications	46 143.3	45 987.3	49 797.0	51 467.5	53 242.6
Other economic affairs	267.8	266.9	289.0	298.7	309.0
Other purposes	7.4	7.4	8.0	8.3	8.6
Not allocated by purpose [(a)]	74 187.0	73 936.2	80 061.2	82 746.9	85 600.8
Total assets [(b)]	**172 119.1**	**171 537.2**	**185 747.8**	**191 978.7**	**198 600.0**

Notes:

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

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

Note 20: Borrowings

($ million)

	2011 Budget	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Current borrowings					
Domestic borrowings	727.8	727.6	725.6	723.6	722.1
Finance lease liabilities	139.5	139.3	123.8	153.3	175.9
Derivative financial instruments	5.3	5.3	5.3	5.3	5.3
Total current borrowings	**872.6**	**872.2**	**854.7**	**882.2**	**903.3**
Non-current borrowings					
Domestic borrowings	14 235.8	14 021.7	16 415.0	17 132.1	17 424.8
Finance lease liabilities	1 654.2	1 654.6	6 872.5	7 599.6	7 438.2
Derivative financial instruments	0.2	0.2	0.2	0.2	0.2
Total non-current borrowings	**15 890.2**	**15 676.5**	**23 287.6**	**24 731.9**	**24 863.2**
Total borrowings	**16 762.8**	**16 548.7**	**24 142.4**	**25 614.0**	**25 766.4**

Note 21: Employee benefits

($ million)

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

Note:

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

Note 22: Cash flow information

(a) Reconciliation of cash and cash equivalents

($ million)

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

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

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Net result	852.3	146.0	833.9	937.8	857.2
Non-cash movements					
Depreciation and amortisation	2 222.6	2 269.2	2 466.5	2 624.8	2 733.1
Revaluation of investments	(0.5)	(4.0)	(4.0)	(4.0)	(4.0)
Assets and services (received)/provided free of charge	(0.2)	(0.3)	49.8	229.8	54.8
Discount/premium on other financial assets/ borrowings	6.8	7.3	7.3	7.1	6.7
Foreign currency dealings	..	0.2	0.2	0.2	0.2
Movements included in investing and financing activities					
Net revenues from sale of plant and equipment	(134.7)	(144.0)	(152.5)	(267.0)	(137.5)
Net revenues from sale of investments	(0.5)	2.0	2.0	2.0	2.0
Movements in assets and liabilities					
Increase/(decrease) in provision for bad and doubtful debts	65.7	66.7	36.9	39.4	37.7
Increase/(decrease) in payables	(135.0)	(189.4)	(386.8)	(90.6)	(58.0)
Increase/(decrease) in employee benefits	187.8	198.1	164.6	166.5	167.5
Increase/(decrease) in superannuation	399.3	1 004.4	573.6	277.5	228.8
Increase/(decrease) in other provisions	(18.8)	(18.3)	(15.1)	(13.9)	(12.8)
(Increase)/decrease in receivables	56.1	93.8	(80.6)	19.1	(3.3)
(Increase)/decrease in other non-financial assets	(8.2)	(6.9)	..	(0.1)	5.0
Net cash flows from operating activities	**3 492.8**	**3 424.9**	**3 495.8**	**3 928.7**	**3 877.2**

Note 23: Reserves

($ million)

	2011 Budget	2011 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Property plant and equipment revaluation reserve	35 375.5	35 339.9	39 929.6	42 050.1	46 702.6
Available-for-sale investments revaluation reserve	28.3	28.3	28.3	28.3	28.3
Revaluation reserve for investments in PFC and PNFC entities	41 445.2	41 268.3	42 108.8	43 352.8	43 901.0
Other reserves	901.5	902.2	934.5	956.4	978.6
Total reserves	**77 750.4**	**77 538.7**	**83 001.2**	**86 387.6**	**91 610.5**

Note 24: Reconciliations to government finance statistics

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

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Net result from transactions – net operating balance	871.9	634.8	842.6	839.5	894.5
Convergence differences:	..	..	..	..	..
plus total convergence difference:	..	..	..	..	..
GFS net operating balance	**871.9**	**634.8**	**842.6**	**839.5**	**894.5**

Note:

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

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

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

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Comprehensive result – total change in net worth	4 332.7	3 403.4	6 265.7	4 304.3	6 060.1
Convergence differences:					
Relating to other economic flows: [b]					
Doubtful receivables general government sector [c]	65.7	66.7	36.9	39.4	37.7
Net gain on equity investments in other sector entities: [d]					
Doubtful receivables of the PNFC/PFC sector	0.9	(50.0)	0.8	0.8	0.5
Net deferred tax liability of the PNFC/PFC sector	151.2	31.6	22.4	117.4	191.3
plus total convergence differences	217.7	48.3	60.1	157.6	229.4
GFS total change in net worth	**4 550.4**	**3 451.7**	**6 325.8**	**4 461.8**	**6 289.4**

Notes:

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

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

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

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

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

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Net lending/(borrowing)	(1 225.2)	(1 306.7)	(1 810.6)	(476.7)	1 178.9
Convergence differences:	..	..	..	..	..
Total convergence difference:	..	..	..	..	..
GFS net lending/(borrowing)	**(1 225.2)**	**(1 306.7)**	**(1 810.6)**	**(476.7)**	**1 178.9**

Note:

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

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

(d) Reconciliation to GFS net worth[a]

($ million)

	2011 Budget	2010-11 Revised	2012 Estimate	2013 Estimate	2014 Estimate
Net worth	121 888.2	120 958.9	127 224.6	131 528.9	137 589.0
Convergence differences:					
Non-controlling interest	(44.5)	(44.5)	(44.5)	(44.5)	(44.5)
Doubtful receivables general government sector [b]	500.1	501.1	538.0	577.3	615.0
Investments in other sector entities: [c]					
Doubtful receivables of the PNFC/PFC sector	66.4	15.5	16.4	17.1	17.6
Net deferred tax liability of the PNFC/PFC sector	1 772.7	1 653.1	1 675.6	1 793.0	1 984.2
Total convergence differences	2 294.7	2 125.3	2 185.4	2 343.0	2 572.3
GFS net worth	**124 182.9**	**123 084.2**	**129 410.0**	**133 871.9**	**140 161.3**

Notes:

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

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

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

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

($ million)

	2010-11 Budget	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
Cash surplus/(deficit)	**(697.4)**	**(653.4)**	**(587.7)**	**662.0**	**1 438.8**
Convergence differences:					
Less: Acquisitions under finance leases and similar arrangements	(121.0)	(121.0)	(1 075.9)	(844.8)	..
Total convergence differences	(121.0)	(121.0)	(1 075.9)	(844.8)	..
GFS cash surplus/(deficit)	**(818.4)**	**(774.4)**	**(1 663.6)**	**(182.9)**	**1 438.8**

Note:

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

Note 25: Financial instruments

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

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

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

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

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

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

Note 25: Financial instruments *(continued)*

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

Interest rate risk

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

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

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

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

Credit risk

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

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

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

Note 25: Financial instruments *(continued)*

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

Liquidity risk

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

Foreign currency risk

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

Equity price risk

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

Note 26: Glossary of technical terms

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

ABS GFS manual

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

Advances paid

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

Borrowings

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

Biological assets

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

Capital grants

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

Cash surplus/deficit

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

Cash surplus/deficit – ABS GFS version

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

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

Change in net worth

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

Comprehensive result

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

Effective interest method

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

Current grants

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

Employee expenses

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

Financial asset

A financial asset is any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:

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

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

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

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

Fiscal aggregates

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

Government units

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

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

Government Finance Statistics

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

General government sector

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

These services are financed mainly through taxes, other compulsory levies and user charges. A listing of all entities comprising the general government sector is included in Note 27.

Grants

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

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

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

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

Grants for on passing

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

Institutional unit

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

Intangible produced assets

Refer to produced assets in this glossary.

Intangible non-produced assets

Refer to non-produced assets in this glossary.

Interest expense

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

Key fiscal aggregates

Referred to as analytical balances in the ABS GFS manual, key fiscal aggregates are data identified as useful for macroeconomic analysis purposes, including assessing the impact of a government and its sectors on the economy. They are:

- opening net worth;
- net operating balance;
- net lending/(borrowing);

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

- change in net worth due to revaluations;
- change in net worth due to other changes in the volume of assets;
- total change in net worth;
- closing net worth; and
- cash surplus/(deficit).

Net acquisition of non-financial assets (from transactions)

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

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

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

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

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

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

Net debt

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

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

Net financial liabilities

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

Net financial worth

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

Net gain on equity investments in other sector entities

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

Net lending/borrowing

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

Net operating balance

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

Net result

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

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

Net result from transactions/net operating balance

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

Net worth

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

Non-financial assets

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

Non-financial public sector

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

Non-produced assets

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

Non-profit institution

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

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

Other economic flows

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

Payables

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

Produced assets

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

Public financial corporation sector

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

Public non-financial corporation sector

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

Quasi corporation

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

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

Receivables

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

Sale of goods and services

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

Superannuation interest expense

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

Superannuation – other superannuation expenses

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

Taxation revenue

Taxation revenue represents revenue received from the State's taxpayers and includes: payroll tax; land tax; duties levied principally on conveyances and land transfers; gambling taxes levied mainly on private lotteries, electronic gaming machines, casino operations and racing; insurance duty relating to compulsory third party, life and non-life policies; insurance company contributions to fire brigades; motor vehicle taxes, including registration fees and duty on registrations and transfers, levies (including the environmental levy) on statutory corporations in other sectors of government; and other taxes, including landfill levies, licence and concession fees.

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

Transactions

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

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

Note 27: Controlled entities

The following is a list of significant controlled entities which have been consolidated for the purposes of the financial report. For further details on consolidation policy, refer to Note 1(F), *Basis of consolidation* in the summary of significant accounting policies. The list also provides the names of significant controlled entities in the PNFC and PFC sectors which have been accounted for as equity investments, measured at the proportionate share of the carrying amount of their net assets, refer also Note 1(F). Unless otherwise noted below, all such entities are wholly owned.

		Entities included as investments in other sectors	
Controlled entities	*General government*	*Public non-financial corporation*	*Public financial corporation*
Department of Education and Early Childhood Development	*		
Victorian Curriculum and Assessment Authority	*		
Victorian Institute of Teaching	*		
Victorian Registration and Qualifications Authority	*		
Department of Health [(a)] [(b)]	*		
Health Purchasing Victoria	*		
Hospitals, Health and Ambulance Services including:			
Albury Wodonga Health	*		
Alexandra District Hospital	*		
Alfred Health	*		
Alpine Health	*		
Ambulance Victoria	*		
Austin Health	*		
Bairnsdale Regional Health Service	*		
Ballarat Health Services	*		
Barwon Health	*		
Bass Coast Regional Health	*		
Beaufort and Skipton Health Service	*		
Beechworth Health Service	*		
Benalla and District Memorial Hospital	*		
Bendigo Health Care Group	*		
Boort District Health	*		
Casterton Memorial Hospital	*		
Castlemaine Health	*		
Central Gippsland Health Service	*		
Cobram District Health	*		
Cohuna District Hospital	*		
Colac Area Health	*		
Dental Health Services Victoria	*		
Djerriwarrh Health Services	*		
Dunmunkle Health Services	*		

Note 27: Controlled entities *(continued)*

Controlled entities	General government	*Entities included as investments in other sectors* Public non-financial corporation	Public financial corporation
East Grampians Health Service	*		
East Wimmera Health Service	*		
Eastern Health	*		
Echuca Regional Health	*		
Edenhope and District Memorial Hospital	*		
Gippsland Southern Health Service	*		
Goulburn Valley Health	*		
Heathcote Health	*		
Hepburn Health Service	*		
Hesse Rural Health Service	*		
Heywood Rural Health	*		
Inglewood and District Health Service	*		
Kerang and District Hospital	*		
Kooweerup Regional Health Service	*		
Kyabram and District Health Services	*		
Kyneton District Health Service	*		
Latrobe Regional Hospital	*		
Lorne Community Hospital	*		
Maldon Hospital	*		
Mallee Track Health and Community Services	*		
Mansfield District Hospital	*		
Maryborough District Health Service	*		
Melbourne Health	*		
Moyne Health Services	*		
Nathalia District Hospital	*		
Northeast Health Wangaratta	*		
Northern Health	*		
Numurkah District Health Service	*		
Omeo District Health	*		
Orbost Regional Health	*		
Otway Health and Community Services	*		
Peninsula Health	*		
Peter MacCallum Cancer Institute	*		
Portland District Health	*		
Robinvale District Health Services	*		
Rochester and Elmore District Health Service	*		
Rural Northwest Health	*		
Seymour District Memorial Hospital	*		
South Gippsland Hospital	*		
South West Healthcare	*		
Southern Health	*		
Stawell Regional Health	*		
Swan Hill District Health	*		

Note 27: Controlled entities *(continued)*

Controlled entities	General government	Entities included as investments in other sectors: Public non-financial corporation	Entities included as investments in other sectors: Public financial corporation
Tallangatta Health Service	*		
Terang and Mortlake Health Service	*		
The Kilmore and District Hospital	*		
The Royal Children's Hospital	*		
The Royal Victorian Eye and Ear Hospital	*		
The Royal Women's Hospital	*		
Timboon and District Healthcare Service	*		
Upper Murray Health and Community Services	*		
Victorian Assisted Reproductive Treatment Authority	*		
Victorian Institute of Forensic Mental Health	*		
West Gippsland Healthcare Group	*		
West Wimmera Health Service	*		
Western District Health Service	*		
Western Health	*		
Wimmera Health Care Group	*		
Yarram and District Health Service	*		
Yarrawonga District Health Service	*		
Yea and District Memorial Hospital	*		
Medical Radiation Practitioners Board of Victoria	*		
Registration Boards including:			
Chinese Medicine Registration Board of Victoria	*		
Victorian Health Promotion Foundation	*		
Cemeteries including:			
Ballarat General Cemeteries Trust		*	
Bendigo Cemeteries Trust		*	
Greater Metropolitan Cemeteries Trust		*	
The Mildura Cemetery Trust		*	
Southern Metropolitan Cemeteries Trust		*	
Trustees of the Geelong Cemeteries Trust		*	
Department of Human Services	*		
The Queen Elizabeth Centre	*		
Tweddle Child and Family Health Service	*		
Director of Housing (PNFC)		*	
Department of Innovation Industry and 0Regional Development	*		
Australian Synchrotron Holding Company [c]	*		
Film Victoria	*		
Melbourne Central City Studios Pty Ltd	*		
Regional Development Victoria	*		
Tourism Victoria	*		
Victorian Skills Commission	*		

Note 27: Controlled entities *(continued)*

Controlled entities	General government	Entities included as investments in other sectors: Public non-financial corporation	Entities included as investments in other sectors: Public financial corporation
TAFEs including:			
Bendigo Regional Institute of TAFE	*		
Box Hill Institute of TAFE	*		
Central Gippsland Institute of TAFE	*		
Chisholm Institute of TAFE	*		
Driver Education Centre Australia Ltd	*		
East Gippsland Institute of TAFE	*		
Gordon Institute of TAFE	*		
Goulburn Ovens Institute of TAFE	*		
Holmesglen Institute of TAFE	*		
International Fibre Centre Limited	*		
Kangan Batman Institute of TAFE	*		
Northern Melbourne Institute of TAFE	*		
Royal Melbourne Institute of Technology (TAFE Division)	*		
South West Institute of TAFE	*		
Sunraysia Institute of TAFE	*		
Swinburne University of Technology (TAFE Division)	*		
University of Ballarat (TAFE Division)	*		
Victoria University TAFE Division	*		
William Angliss Institute of TAFE	*		
Wodonga Institute of TAFE	*		
Australian Grand Prix Corporation		*	
Emerald Tourist Railway Board		*	
Fed Square Pty Ltd		*	
Melbourne Convention and Exhibition Trust		*	
Melbourne Market Authority		*	
Victorian Major Events Company Limited		*	
Department of Justice	*		
Country Fire Authority	*		
Emergency Services Telecommunications Authority	*		
Judicial College of Victoria	*		
Legal Services Board	*		
Legal Services Commissioner	*		
Metropolitan Fire and Emergency Services Board	*		
Office of Police Integrity	*		
Office of Public Prosecutions	*		
Office of the Victorian Privacy Commissioner	*		
Sentencing Advisory Council	*		

Note 27: Controlled entities *(continued)*

		Entities included as investments in other sectors	
Controlled entities	*General government*	*Public non-financial corporation*	*Public financial corporation*
Victoria Legal Aid	*		
Victoria Police (Office of the Chief Commissioner of Police)	*		
Victoria State Emergency Service Authority	*		
Victorian Commission for Gambling Regulation	*		
Victorian Electoral Commission	*		
Victorian Equal Opportunity and Human Rights Commission	*		
Victorian Institute of Forensic Medicine	*		
Victorian Law Reform Commission	*		
Victorian Professional Standards Council	*		
Greyhound Racing Victoria		*	
Harness Racing Victoria		*	
Department of Planning and Community Development	*		
Adult Community and Further Education Board	*		
Adult Multicultural Education Services	*		
Architects Registration Board of Victoria	*		
Building Commission	*		
Centre for Adult Education	*		
Growth Areas Authority	*		
Heritage Council	*		
Melbourne Cricket Ground Trust	*		
Plumbing Industry Commission	*		
Shrine of Remembrance Trustees	*		
Victorian Aboriginal Heritage Council	*		
Victorian Institute of Sport Limited	*		
Victorian Institute of Sport Trust	*		
Victorian Veterans Council	*		
Melbourne and Olympic Parks Trust		*	
Queen Victoria Women's Centre		*	
State Sport Centres Trust		*	
Victorian Urban Development Authority (VicUrban)		*	
Department of Premier and Cabinet	*		
Australian Centre for the Moving Image	*		
Library Board of Victoria	*		
Melbourne Recital Centre Limited	*		
Museums Board of Victoria	*		
National Gallery of Victoria, Council of Trustees	*		
Ombudsman Victoria	*		
State Services Authority	*		
Victorian Multicultural Commission	*		

Note 27: Controlled entities *(continued)*

Controlled entities	General government	Entities included as investments in other sectors: Public non-financial corporation	Public financial corporation
Geelong Performing Arts Centre Trust		*	
Victorian Arts Centre Trust		*	
VITS Languagelink		*	
Department of Primary Industries	*		
Energy Safe Victoria	*		
Veterinary Practitioners Registration Board of Victoria	*		
Agriculture Victoria Services Pty Ltd		*	
Dairy Food Safety Victoria		*	
Murray Valley Citrus Board		*	
Murray Valley Wine Grape Industry Development Committee		*	
Northern Victorian Fresh Tomato Industry Development Committee		*	
Phytogene Pty Ltd		*	
PrimeSafe		*	
VicForests		*	
Victorian Strawberry Industry Development Committee		*	
Department of Sustainability and Environment	*		
Catchment Management Authorities including:			
Corangamite Catchment Management Authority	*		
East Gippsland Catchment Management Authority	*		
Glenelg Hopkins Catchment Management Authority	*		
Goulburn Broken Catchment Management Authority	*		
Mallee Catchment Management Authority	*		
North Central Catchment Management Authority	*		
North East Catchment Management Authority	*		
Port Phillip and Westernport Catchment Management Authority	*		
West Gippsland Catchment Management Authority	*		
Wimmera Catchment Management Authority	*		
Environment Protection Authority	*		
Office of the Commissioner for Environmental Sustainability	*		
Parks Victoria	*		
Royal Botanic Gardens Board	*		

Note 27: Controlled entities *(continued)*

Controlled entities	*General government*	*Entities included as investments in other sectors* — *Public non-financial corporation*	*Public financial corporation*
State Owned Enterprise for Irrigation Modernisation in Northern Victoria	*		
Surveyors Registration Board of Victoria	*		
Sustainability Victoria	*		
Trust for Nature (Victoria)	*		
Alpine Resorts Management Board including:			
Alpine Resorts Co-ordinating Council		*	
Falls Creek Alpine Resort Management Board		*	
Lake Mountain Alpine Resort Management Board		*	
Mount Baw Baw Alpine Resort Management Board		*	
Mount Buller and Mount Stirling Alpine Resort Management Board		*	
Mount Hotham Alpine Resort Management Board		*	
Phillip Island Nature Park Board of Management Inc.		*	
Waste Management Groups including:			
Barwon Regional Waste Management Group		*	
Calder Regional Waste Management Group		*	
Central Murray Regional Waste Management Group		*	
Desert Fringe Regional Waste Management Group		*	
Gippsland Regional Waste Management Group		*	
Goulburn Valley Regional Waste Management Group		*	
Grampians Regional Waste Management Group		*	
Highlands Regional Waste Management Group		*	
Metropolitan Waste Management Group		*	
Mildura Regional Waste Management Group		*	
Mornington Peninsula Regional Waste Management Group		*	
North Eastern Victorian Regional Waste Management Group		*	
South Western Regional Waste Management Group		*	

Note 27: Controlled entities *(continued)*

Controlled entities	General government	Entities included as investments in other sectors: Public non-financial corporation	Public financial corporation
Water Authorities including:			
Barwon Region Water Corporation		*	
Central Gippsland Region Water Corporation		*	
Central Highlands Region Water Corporation		*	
Coliban Region Water Corporation		*	
East Gippsland Region Water Corporation		*	
Gippsland and Southern Rural Water Corporation		*	
Goulburn Valley Region Water Corporation		*	
Goulburn-Murray Rural Water Corporation		*	
Grampians Wimmera-Mallee Water Corporation		*	
Lower Murray Urban and Rural Water Corporation		*	
Melbourne Water Corporation		*	
North East Region Water Corporation		*	
South Gippsland Region Water Corporation		*	
Wannon Region Water Corporation		*	
Western Region Water Corporation		*	
Westernport Region Water Corporation		*	
Zoological Parks and Gardens Board of Victoria		*	
Department of Transport	*		
Roads Corporation	*		
Linking Melbourne Authority	*		
Port of Melbourne Corporation [(d)]		*	
Transport Ticketing Authority		*	
V/Line Passenger Corporation		*	
Victorian Rail Track		*	
Victorian Regional Channels Authority		*	
Department of Treasury and Finance	*		
CenITex	*		
Domestic (HIH) Indemnity Fund and Housing Guarantee Claims	*		
Essential Services Commission	*		
Victorian Competition and Efficiency Commission	*		
City West Water Limited		*	
South East Water Limited		*	
State Electricity Commission of Victoria (shell)		*	
Victorian Plantations Corporation (shell)		*	
Yarra Valley Water Limited		*	

Note 27: Controlled entities *(continued)*

Controlled entities	General government	Entities included as investments in other sectors: Public non-financial corporation	Entities included as investments in other sectors: Public financial corporation
Rural Finance Corporation of Victoria			*
State Trustees Limited			*
Transport Accident Commission			*
Treasury Corporation of Victoria			*
Victorian Funds Management Corporation			*
Victorian Managed Insurance Authority			*
Victorian WorkCover Authority			*
Parliament of Victoria	*		
Victorian Auditor-General's Office	*		

Notes:

(a) Entities moved from Department of Health to the Australian Health Practitioner Regulation Agency effective 1 July 2010:
- *Dental Practice Board of Victoria*
- *Medical Practitioners Board of Victoria*
- *Nurses Board of Victoria*
- *Pharmacy Board of Victoria*
- *Chiropractors Registration Board of Victoria*
- *Optometrists Registration Board of Victoria*
- *Osteopaths Registration Board of Victoria*
- *Physiotherapists Registration Board of Victoria*
- *Podiatrists Registration Board of Victoria*
- *Psychologists Registration Board of Victoria*

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

(c) The Victorian Government has a controlling interest in the Australian Synchrotron Holding Company and holds
- *approximately 76 per cent of the issued shares.*

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

CHAPTER 4 – CONTINGENT ASSETS AND CONTINGENT LIABILITIES

CONTINGENT ASSETS

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

These are classified as either quantifiable, where the potential economic benefit is known, or non-quantifiable.

Quantifiable contingent assets

Table 4.1: Quantifiable contingent assets

($ million)

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

Source: Department of Treasury and Finance

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

Non-quantifiable contingent assets

CityLink compensable enhancement claims

The Melbourne CityLink concession deed contains compensable enhancement provisions that enable the Victorian Government 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 by the Victorian Government relating to works for improving traffic flows on the Westgate Freeway (between Lorimer and Montague Streets), and the Tullamarine Freeway (in the vicinity of the intersection with Bulla Road). The claims were lodged on 20 May 2005 and 29 September 2006 respectively, and are still outstanding.

Revenue sharing from the Monash CityLink West Gate upgrade

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

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

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

Contingent asset arising from goods and services tax

In November 2009, the Commissioner of Taxation appealed a decision made in October 2009 to allow the Department of Transport to claim input tax credits for certain transport related subsidies. The Commissioner has sought leave to appeal that decision to the High Court and currently the contingent asset is unquantifiable.

CONTINGENT LIABILITIES

A contingent liability is:

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

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

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

Quantifiable contingent liabilities

Table 4.2: Quantifiable contingent liabilities

($ million)

	2010 [(a)]	2009 [(b)]
Guarantees, indemnities and warranties	601.4	611.3
Legal proceedings and disputes	345.8	389.6
Other	345.2	201.5
Non-general government debt [(c)]	8 077.0	6 220.2
Total contingent liabilities	**9 369.4**	**7 422.6**

Source: Department of Treasury and Finance

Notes:

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

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

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

Non-quantifiable contingent liabilities

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

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

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

Asset sales

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

Royal Melbourne Showgrounds redevelopment

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

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

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

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

National Electricity Code Administrator

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

Australian Energy Market Operator Ltd

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

Public transport rail partnership agreements

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

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

OneLink Transit Systems performance bonus

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

Kamco performance related payments

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

Contingent liability arising from goods and services tax

CityLink Melbourne Limited and the State have approached the Australian Taxation Office seeking clarification as to the applicability of goods and services tax legislation in respect of services and supplies provided under the Melbourne CityLink concession deed. Discussions with the Australian Taxation Office are continuing.

Contingent liabilities arising from litigation

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

Native Title

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

Department of Education and Early Childhood Development

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

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

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

Contingent liabilities for employment related legal proceedings

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

The Biosciences Research Centre

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

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

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

Royal Children’s Hospital

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

HIH Insurance

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

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

Land remediation – environmental concerns

In addition to properties for which remediation costs have been provided in these financial statements, certain other properties have been identified as potentially contaminated sites. The State does not admit any liability in respect of these sites. However, remedial expenditure may be incurred to restore the sites to an acceptable environmental standard in the event of future developments taking place.

Victorian Managed Insurance Authority – insurance cover

The Victorian Managed Insurance Authority (VMIA) was established in 1996 as an insurer for departments and participating bodies (predominantly in the general government sector). VMIA provides its client bodies with a range of insurance cover, including for property, public and products liability, professional indemnity and contract works. VMIA reinsures in the private market for losses above $50 million arising out of any one event, up to a maximum of $750 million for public liability and for losses above $50 million arising out of any one event, up to a maximum of $1.5 billion for property. The risk of losses above these reinsured levels is borne by the State.

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

Domestic building insurance

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

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

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

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

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

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

Gambling licences

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

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

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

After considering the end of licence arrangements in the *Gambling Regulation Act 2003*, the Government formed the view that neither Tatts Group nor TABCORP will be entitled to compensation after the expiry of their current licences. The Government does not intend to alter or amend the provisions in the *Gambling Regulation Act 2003* that deal specifically with the end of licence arrangements for Tatts Group and TABCORP.

Melbourne Park redevelopment

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

Kilmore East fire

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

2022 FIFA World Cup

Australia is bidding to host the 2022 FIFA World Cup and as part of the bidding process, the Victorian Government has signed an agreement that commits resources for the Victorian share of event infrastructure and management costs associated with the event. A decision on whether Australia will host the 2022 event is expected to be made in December 2010, at which point in time the State's obligation will become clearer.

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, since the *2010-11 Budget* in May. The following tables provide details of output, asset and revenue initiatives for:

- government-wide programs; and
- government departments.

Appendix A includes a cross reference between initiatives and their relevant departmental output(s), to indicate the impact of policy decisions on portfolios.

The figures included are the total cost of decisions. Funding from reprioritisation and existing fund sources have not been deducted from the total cost of each decision.

GOVERNMENT-WIDE INITIATIVES

The following tables provide details of the total cost of government-wide output and asset decisions.

Output initiatives

Table A.1: Output initiatives – government-wide

($ million)

	2010-11	2011-12	2012-13	2013-14
Bushfire Royal Commission Final Report Government Response				
Bushfire safety policy				
Advice to property owners – Stage 2	0.6	0.5	0.0	0.0
Anglesea fire station and community fire education centre	0.1	0.1	0.1	0.1
Bushfire education mobile units	0.9	0.1	0.1	0.1
Bushfire education resource materials	1.6	..	..	..
CFA advanced early warning systems	1.8	2.7	0.7	0.8
CFA fire prevention planning	0.6	0.8	0.7	0.7
CFA member education and training	0.3	0.5	..	..
Community information and education program	9.0	4.7	..	..
Community registers	0.3	..	..	..
Extension of the Community Safety Emergency Support Fund	..	6.2	6.4	6.5
Integrated fire management planning	2.0	3.5	..	..

Table A.1: Output initiatives – government-wide *(continued)*

($ million)

	2010-11	2011-12	2012-13	2013-14
Investigate warning sirens	..	1.2	..	..
Municipal Association of Victoria operational support	1.5	3.5	3.0	3.0
Neighbourhood safer places and other shelter options	4.5	6.0	1.0	..
Telephone based emergency warning system	6.8	9.0	2.3	2.3
Township protection program	..	6.1	..	..
Emergency and incident management				
CFA personal protective clothing – Structural apparel	2.4	2.6	2.6	5.1
CFA Statewide network of Incident Control Centres	4.0	..	..	..
CFA volunteer support package	..	9.5	8.6	9.3
Fire prediction and early warning system	3.2	6.0	4.0	4.2
Incident management team arrangements	2.7	2.7	2.8	2.9
Joint training of incident management teams	0.1	0.1	0.1	0.1
Volunteer identification card	0.7	..	..	..
Fireground response				
CFA radio communication standardisation	0.8	1.1	0.8	0.9
CFA radio communication strategy (including blackspot remediation)	1.6	0.5	0.5	0.6
CFA station upgrades and operational resourcing	5.2	10.5	22.9	34.1
CFA vehicle tracking system	1.7	..	..	..
Metropolitan Fire and Emergency Service Board operational staff	2.8	6.9	9.9	13.0
State Aircraft Unit – Dispatch and additional aircraft	10.4	0.8	0.8	0.9
Electricity caused fire				
Powerline bushfire reduction research and trials	2.0	..	..	..
Deliberately lit fires				
Victoria Police arson initiative	0.5	0.5	0.5	0.5
Planning and building				
Bushfire risk assessment planning capacity	2.1	3.1	..	..
Land use planning – Native vegetation planning controls	2.2	2.2	1.2	1.2
Native vegetation and hazard mapping	5.4	8.4	..	..
Strengthened building responses to bushfire risk	0.5	2.0	0.2	0.1
Land and fuel management				
Biodiversity monitoring	1.5	1.5	1.6	1.6
CFA vegetation management research	0.8	0.7	0.4	0.4
Improved bushfire prevention, preparedness, response and recovery	74.0	78.8	84.9	98.1
Roadside bushfire-risk management	1.8	3.9	3.9	3.5
Organisational structure				
Office of the Fire Commissioner	1.5	1.5	1.5	1.5
Monitoring and implementation				
Independent implementation monitor	0.5	0.5	0.1	..
Climate Change White Paper – The Action Plan				
Moving towards a cleaner energy future				
CarbonNet	14.0	14.0	1.0	1.0
Latrobe Valley Advantage Fund	6.3	6.2	6.3	6.2

Table A.1: Output initiatives – government-wide *(continued)*

($ million)

	2010-11	2011-12	2012-13	2013-14
Making Victoria the solar State				
ClimateTech Strategy [(a)]	1.3	1.2	1.3	1.2
Office of Solar Energy [(a)]	1.4	1.4	1.4	1.4
Shared benefits framework for renewable energy	0.7	0.6	0.2	..
Small scale renewable energy projects [(a)]	1.0	8.0	12.0	9.0
Supporting cleaner and more efficient homes				
Solar hot water rebates	4.0	4.0	..	..
Positioning Victoria to be a global leader in clean technology				
Climate communities – Clean Business Fund	2.2	3.2	8.1	8.6
Creating new opportunities in agriculture, food and forestry				
Innovation in the agricultural sector	3.6	4.1	0.7	0.7
Land carbon – Private land	1.5	1.5	..	..
Land carbon – Public land	0.3	0.9	0.9	0.4
Delivering innovative transport solutions				
Electric vehicle – Standards development	0.5	0.5	..	..
Greening government				
Greener government buildings	..	40.0	40.0	20.0
Government operations – Increased use of GreenPower	..	4.3	5.0	5.8
Helping Victorians adapt to climate change				
Climate change and emergency management sector	0.3	0.4	0.4	0.4
Climate health registers	0.5	0.5	..	..
Victorian climate change preparedness program	0.8	1.8	1.5	0.8
Water and climate change resilience	1.0	1.4	1.7	1.7
Strengthening our climate communities				
Climate communities – Communications strategy	2.0	5.0	5.0	6.0
Climate communities – Education and government	1.0	2.0	5.0	5.0
Climate communities – Household energy efficiency package	3.5	4.5	13.0	14.0
Local government climate communities [(b)]	..	5.0	5.0	5.0
Ready for Tomorrow – A Blueprint for Regional and Rural Victoria				
Investing in skills and young people				
Developing regional leaders	0.5	0.5	0.8	0.8
Linking young people to education and jobs	1.0	1.5	1.5	1.5
Regional tertiary education partnerships	1.5	1.5	1.5	2.0
Young professionals provincial cadetships program	1.3	2.5	2.5	3.0
Youth action strategy	0.6	0.6	0.8	0.7
Backing jobs and industry				
Economic development through Regional Development Australia	1.0	1.0	..	..
Industries for today and tomorrow	3.5	4.8	6.7	7.0
Industry Capability Network	0.4	1.0	1.0	1.0
Innovation through clusters	0.8	1.0	1.0	1.0
Regional tourism	1.5	2.0	3.0	3.5

Table A.1: Output initiatives – government-wide *(continued)*

($ million)

	2010-11	2011-12	2012-13	2013-14
Building infrastructure, connecting communities				
Better regional roads	30.0	30.0	..	..
Enhanced links for North-West Victoria [(c)]	7.0	1.5	..	..
More regional buses	1.3	2.1	2.2	2.3
Regional Infrastructure Development Fund (RIDF)	47.0	48.0	50.0	55.0
Regional housing industry development partnerships	0.5	0.5	0.5	0.5
Re-Innovate: Regional broadband innovation program	1.5	2.0	2.0	2.0
Supporting the regional and rural way of life				
BushTender	2.0	2.0	..	..
Eureka Stadium upgrade	0.4	0.6	..	..
Extending the country football and netball program	1.1	1.4	2.0	2.0
Improving liveability for older people	0.8	0.8	..	..
Landcare	2.0	2.6	2.6	2.7
Local life, local events	0.8	0.8	1.0	1.0
Provincial Victoria arts experience	1.5	2.0	2.0	2.0
Revitalising regional towns	0.9	1.0	1.0	1.0
Small towns adaptation	1.1	1.1	1.1	1.1
Sustainable alpine resorts	3.6	..	..	..
Sustainable Small Towns Development Fund	2.9	6.2	8.9	11.9
The good life campaign	2.5	2.5	2.5	2.5
Transforming Skilled Stadium	25.0	..	..	..
Planning better regions, a new partnership				
Coastal settlements of the future	2.5	2.5	3.5	3.5
Frameworks for the future	1.3	1.3	1.3	1.3
Local action for sustainability	1.0	1.0	1.0	1.0
Local skills partnerships	0.8	1.5	1.8	1.8
Networked rural councils	0.6	0.7	0.7	0.8
Planning for tomorrow	0.8	1.0	1.3	1.3
Regional growth for the future	2.5	3.2	5.0	4.5
Victorian 2010 flood recovery package				
Business recovery	5.0	..	..	..
Flood recovery officers	0.3	..	..	..
Flood recovery road and pavement works	14.8	11.5	..	..
Rebuilding in State forests	0.1	..	..	..
Recovery of catchments and rivers	6.3	..	..	..
Reopening walking tracks in national parks	0.7	..	..	..
Repairs to roads and crossings	0.4	..	..	..
Restoration of community infrastructure	5.0	..	..	..
Service coordination at Hepburn Community Health Centre	0.1	..	..	..
Stabilisation of trees and repairs to fences	0.6	..	..	..
Tourism and events	0.1	..	..	..
Urban and regional levees	1.0	..	..	..
Victorian State Emergency Service (VICSES) Flood Recovery	2.6	..	..	..

Table A.1: Output initiatives – government-wide *(continued)*

($ million)

	2010-11	2011-12	2012-13	2013-14
Victorian Bushfire Reconstruction and Recovery Authority transition strategy				
Continued operating funding for the Authority				
Victorian Bushfire Reconstruction and Recovery Authority service delivery functions	2.4	..	..	..
Funding to transition the Authority's ongoing functions				
Bereaved community recovery program	0.3	0.3	0.3	..
Community engagement coordinators	..	0.2	..	..
Kinglake, Flowerdale and Toolangi Strategic Planning and Design Framework	0.1	..	..	..
Marysville and Kinglake temporary villages	..	0.8	..	..
Marysville Central	0.1	0.3	..	..
Marysville Conference Centre project	..	..	19.0	..
Rebuilding Advisory Centres	0.2	0.2	..	..
Rebuilding Advisory Service	0.3	..	..	..
Staff resources for monitoring and reporting on rebuilding	..	0.2	0.5	0.4
Emerging needs and managing risks				
Accommodation and support services	1.4	1.9	..	..
Community advisory committee	0.3	0.5	0.5	..
Economic and tourism recovery support in Marysville	0.3	0.5	0.9	..
Grants for window solutions in bushfire prone areas	0.8	..	..	..
Social and community services sector pay equity case	tbd	tbd	tbd	tbd
Total output initiatives	**399.9**	**447.8**	**400.3**	**397.1**

Source: Department of Treasury and Finance

Notes:

(a) This initiative includes funding redirected from Energy Technology Innovation Strategy (ETIS).

(b) This initiative includes funding in 2011-12 redirected from the Local Sustainability Accord the Sustainable Small Towns Development Fund.

(c) Total funding for this initiative is $19 million, including $2 million in 2009-10 and a further $8.5 million from RIDF in 2010-11 and 2011-12.

Bushfire Royal Commission Final Report Government Response

Bushfire safety policy

Advice to property owners – Stage 2

Funding is provided for the Country Fire Authority (CFA) to employ eight fire safety officers to give site specific advice to 2 000 homeowners on how to better understand and manage individual bushfire risk to assist in bushfire survival plans.

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

Anglesea fire station and community fire education centre

Funding is provided for a government contribution to the construction of a new Anglesea Fire Station and a Community Fire Education Centre pilot.

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

Bushfire education mobile units

Funding is provided to expand the Fire Safe Kids Bushfire Education Program by providing two mobile units and additional staff, to be deployed throughout Victoria, to educate young people about the risk of fire and how to prepare for the fire season.

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

Bushfire education resource materials

Funding is provided to develop digital teaching and curriculum resources linking bushfire education to the current Victorian curriculum for years 4, 7 and 9 in science, geography, civics and citizenship.

This initiative contributes to the Department of Education and Early Childhood Development's Early Years (schools) and Middle Years (schools) outputs.

CFA advanced early warning systems

Funding is provided to extend the *One Source One Message* alert warning system to cover all emergency hazards and all emergency services organisations. This builds on the changes to warnings and community information processes implemented after the Black Saturday fires to deliver CFA and DSE incident updates from a single website and a new iPhone Facebook application.

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

CFA fire prevention planning

Funding is provided to increase the level of support the CFA provides to local government for fire prevention planning through reviewing current guidances provided by the CFA and support to implement new programs and develop processes that respond to local conditions.

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

CFA member education and training

Funding is provided for training, on the revised bushfire safety policy for all CFA members to ensure communities are receiving accurate, consistent, and up-to-date information and education.

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

Community information and education program

Funding is provided for community information and education programs and enhanced fire safety messages, including the development of information packs that bring together key messages from all government agencies.

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

Community registers

Funding is provided to audit databases of vulnerable people in high bushfire risk areas to support the provision of appropriate help and assistance to prepare and enact their own bushfire survival plans on days of fire danger.

This initiative contributes to the Department of Human Services' Information, Planning and Capacity Building output.

Extension of the Community Safety Emergency Support Fund

Funding is provided to extend the Community Safety Emergency Support Fund, which provides grants to local volunteer emergency services groups such as the CFA and the Victorian State Emergency Service (VICSES) for new equipment, and to expand the Valuing Volunteers Program to retain, recognise and recruit more volunteers to emergency services organisations.

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

Integrated fire management planning

Funding is provided for the appointment of additional CFA Fire Planning Network Managers to assist in the development of municipal fire management plans for high bushfire risk communities.

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

Investigate warning sirens

Funding is provided for research into the feasibility of installing warning sirens at CFA stations, or other community locations, and the effectiveness of sirens when used in conjunction with existing warning methods such as radio, television and telephone alerts.

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

Municipal Association of Victoria operational support

Funding is provided for local government to identify and designate Neighbourhood Safer Places, prepare local Municipal Fire Prevention Plans and Township Protection Plans. Additional staff will be employed through the Municipal Association of Victoria and additional local government staff will be employed in councils covering high bushfire risk areas.

This initiative contributes to the Department of Planning and Community Development's Developing the Local Government Sector output.

Neighbourhood safer places and other shelter options

Funding is provided for a grant program for the rectification and establishment of further Neighbourhood Safer Places and to establish standards to progress the development of other shelter options. Grants will be made available to councils, business and community groups to develop last-resort options that meet CFA criteria.

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

Telephone based emergency warning system

Funding is provided to progress stage two of the emergency alert telephony warning system that will allow emergency service organisations to deliver warnings to fixed and mobile phones within a geographical area based on the location of the handset rather than on billing address.

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

Township protection program

Funding is provided for the Township Protection Program to develop localised fire preparation and planned responses for communities in the event of a bushfire threat, including support to allow exercises to be conducted enacting individual Township Protection Plans in high bushfire risk communities.

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

Emergency and incident management

CFA personal protective clothing – Structural apparel

Funding is provided for commercial cleaning and repairs to protective clothing, the purchase of additional protective clothing and additional CFA staff to undertake purchasing and maintenance tasks.

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

CFA Statewide network of Incident Control Centres

Funding is provided to support the operation of Incident Control Centres (ICCs) across Victoria and to upgrade ICCs for service capability.

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

CFA volunteer support package

Funding is provided for a CFA volunteer support package including programs to recognise and boost volunteerism and strengthen partnerships with other volunteer organisations across Victoria.

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

Fire prediction and early warning system

Funding is provided to expand and integrate the existing FireWeb fire prediction and early warning system with the computer mapping and fire simulation system Phoenix RapidFire. The system is intended to deliver specific and detailed information on the spread of fires through a digital mapping system, providing up to six hours warning of the direction, speed and intensity of a fire.

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

Incident management team arrangements

Funding is provided to meet the requirements of the new incident management team arrangements to deploy teams to ICCs on days of high bushfire risk in advance of any fires occurring. Implementation of a mentoring program for incident controllers and appointment of safety officers to each Incident Management Team will also be undertaken.

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

Joint training of incident management teams

Funding is provided to undertake additional joint training across fire agencies to improve processes and co-ordination and to build on the improvements CFA and DSE have made to their joint operating procedures for consistency of training and standardisation of procedures.

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

Volunteer identification card

Funding is provided to supply CFA volunteers with an identification card to facilitate movement through roadblocks established under an emergency situation.

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

Fireground response

CFA radio communication standardisation

Funding is provided to standardise the interconnections of radio networks between the CFA and DSE to deliver operational information to ICCs and divisional command.

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

CFA radio communication strategy (including blackspot remediation)

Funding is provided to the CFA to update its communications strategy and technology with a greater focus on the identification and remediation of radio blackspots.

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

CFA station upgrades and operational resourcing

Funding is provided to employ an additional 342 fire fighters, support staff, training and operating and maintenance costs for ten new and upgraded CFA stations.

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

CFA vehicle tracking system

Funding is provided for a pilot program to enable tracking of CFA fire fighting vehicles at fire events.

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

Metropolitan Fire and Emergency Service Board operational staff

Funding is provided for 100 additional Metropolitan Fire and Emergency Service Board (MFESB) operational fire fighters to contribute to ongoing work on the bushfire risk mitigation strategy.

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

State Aircraft Unit – Dispatch and additional aircraft

Funding is provided to improve aircraft dispatch system response times and for the trial of two Convair 580 fire bomber fixed wing aircraft for the coming fire season. An additional Erikson Aircrane and additional fixed wing aircraft for reconnaissance work will also be made available for the coming fire season.

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

Electricity caused fire

Powerline bushfire reduction research and trials

The Government has implemented new legislation to strengthen maintenance obligations of electricity distributors, to increase incentives to minimise fire starts caused by powerlines and to enforce greater accountability for these organisations with funding provided for the establishment of a Powerline Bushfire Safety Taskforce.

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

Deliberately lit fires

Victoria Police arson initiative

Funding is provided for a new arson prevention operation on high bushfire risk days which will be deployed through Victoria Police's new Operational Response Unit and Crimestoppers.

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

Planning and building

Bushfire risk assessment planning capacity

Funding is provided for land use mapping and an education, compliance and enforcement system. Support is also provided for integrated fire management planning in communities to provide advice for developments in bushfire prone areas including guidelines for assessing risk.

This initiative contributes to the Department of Planning and Community Development's Planning output.

Land use planning – Native vegetation planning controls

Funding is provided to expand the development of native vegetation policies, prepare planning scheme amendments and manage implementation issues in response to changes in native vegetation controls and associated programs such as roadside vegetation management.

This initiative contributes to the Department of Sustainability and Environment's Biodiversity output.

Native vegetation and hazard mapping

Funding is provided for native vegetation and hazard mapping to determine where future development and subdivisions can be managed safely.

This initiative contributes to the Department of Sustainability and Environment's Biodiversity output.

Strengthened building responses to bushfire risk

Funding is provided to improve training and education for planning and building practitioners on bushfire related issues.

This initiative contributes to the Department of Planning and Community Development's Planning output.

Land and fuel management

Biodiversity monitoring

Funding is provided to examine the impacts of planned burning on biodiversity through long-term data collection, research, monitoring and modelling of the effects of fuel reduction burning programs and bushfires. This will assist in determining the appropriate balance between bushfire risk mitigation measures and environmental impacts.

This initiative contributes to the Department of Sustainability and Environment's Biodiversity output.

CFA vegetation management research

Funding is provided to undertake research on fire ecology, fire behaviour, biodiversity, roadside safety and risk management, training for key stakeholders and to participate in legislation reviews concerning roadside management.

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

Improved bushfire prevention, preparedness, response and recovery

Funding is provided for additional DSE fire management resources for fire prevention, preparedness, response and suppression activities including fire fighters, additional aircraft, fire fighting vehicles and equipment. Funding is also provided for the staged increase in the fuel reduction burning program.

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

Roadside bushfire-risk management

Funding is provided for the development of a strategic, coordinated management framework and program of works to reduce the bushfire risk of roadside vegetation to Victoria's arterial road network, including field risk assessments and development of risk mitigation treatments.

This initiative contributes to the Department of Transport's Road Asset Management output.

Organisational structure

Office of the Fire Commissioner

Funding is provided to reform the organisational structure of Victoria's fire fighting agencies through the establishment of a new Fire Services Commissioner as the most senior operational fire fighter in Victoria.

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

Monitoring and implementation

Independent implementation monitor

Funding is provided to appoint a monitor to oversee progress of the implementation of the Bushfire Royal Commission Final Report recommendations.

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

Climate Change White Paper – The Action Plan

Moving towards a cleaner energy future

CarbonNet

Funding is provided to explore the development of an integrated network to capture and transport carbon (captured from different technologies) to storage sites in the Gippsland Basin.

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

Latrobe Valley Advantage Fund

Funding is provided to support the initial adjustment needs and the transition to a low-carbon economy in the Latrobe Valley and the broader Gippsland region. Priority areas for early action include attracting new industries and jobs and sustainable research and development.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Economic Development, Investment and Promotion output.

Making Victoria the Solar State

ClimateTech Strategy

Funding is provided to develop and trial new climate technologies and ideas that may be viable and commercial in a low-carbon economy.

The initiative contributes to the Department of Innovation, Industry and Regional Development's Innovation output.

Office of Solar Energy

Funding is provided for an Office of Solar Energy which will provide information to industries, the community and educational institutes about solar energy and would be the first point of contact for solar programs being run by government agencies.

This initiative contributes to the Department of Primary Industries' Strategic and Applied Scientific Research output.

Shared benefits framework for renewable energy

Funding is provided to investigate and pilot best-practice approaches to sharing the benefits of renewable energy (particularly wind) across the broader community.

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

Small scale renewable energy projects

Funding is provided for research and development of pilot-scale demonstration projects and development proposals for sustainable energy technologies in areas such as solar, wave, geothermal and bio-energy.

This initiative contributes to the Department of Primary Industries' Strategic and Applied Scientific Research output.

Supporting cleaner and more efficient homes

Solar hot water rebates

Funding is provided to extend the Government's solar water heater rebate program to June 2012 and to support those households not covered by the Commonwealth Government's rebate for replacing electric storage systems with solar water heaters. An integrated program will remove the differentiation between metropolitan and regional Victoria.

This initiative contributes to the Department of Sustainability and Environment's Environmental Policy and Climate Change output.

Positioning Victoria to be a global leader in clean technology

Climate communities – Clean Business Fund

Funding is provided for the Clean Business Fund which will be used to form partnerships with industry bodies, providing information, tools and networks to assist businesses to respond to changes in the business environment and the potential impacts of climate change for projects that would have only been viable under a carbon price.

This initiative contributes to the Department of Sustainability and Environment's Environmental Policy and Climate Change output.

Creating new opportunities in agriculture, food and forestry

Innovation in the agricultural sector

Funding is allocated for information and farm level tools to support Victoria's agricultural businesses to reduce emissions, adapt to climate change and to participate in offset markets.

This initiative contributes to the Department of Primary Industries' Strategic and Applied Scientific Research and Sustainable Practice Change outputs.

Land carbon – Private land

Funding is provided to better understand carbon soil science and practices, with the aim of maximising opportunities and minimising barriers associated with soil carbon sequestration on private land.

This initiative contributes to the Department of Primary Industries' Strategic and Applied Scientific Research and Sustainable Practice Change outputs.

Land carbon – Public land

Funding is provided to build knowledge and science about the carbon potential of forests on public and private land in Victoria.

This initiative contributes to the Department of Sustainability and Environment's Environmental Policy and Climate Change output.

Delivering innovative transport solutions

Electric vehicle – Standards development

Funding is provided to develop, in conjunction with Standards Australia, nationally consistent technical, regulatory and safety standards for electric vehicles and recharging infrastructure.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Sector Development output.

Greening government

Greener government buildings

Funding is provided for projects to reduce energy costs and water use in government departments and agencies.

This initiative contributes to outputs across a number of departments.

Government operations – Increased use of GreenPower

Funding is provided to facilitate increased purchase of renewable energy by government departments and agencies.

This initiative contributes to outputs across a number of departments.

Helping Victorians adapt to climate change

Climate change and emergency management sector

Funding is provided to review and improve the capacity of the emergency management sector to cope with the likelihood of more emergency events.

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

Climate health registers

Funding is provided for 20 new community registers and the expansion of six existing community registers. These registers facilitate the communication of extreme weather and safety related information to elderly people and people with a disability living alone across Victoria.

This initiative contributes to the Department of Planning and Community Development's Seniors and Veterans output.

Victorian climate change preparedness program

Funding is provided to assist local communities to adapt to the impacts of climate change through targeted assistance including up-to-date information and advice on appropriate risk management strategies, access to successful examples of adaptation in industries and communities across Victoria and best-practice models internationally.

This initiative contributes to the Department of Sustainability and Environment's Environmental Policy and Climate Change output.

Water and climate change resilience

Funding is provided to build statewide capacity to anticipate, understand, respond to, and reduce the impacts of floods through collection of digital terrain data and field validation of drains, overland flow paths and barriers.

This initiative contributes to the Department of Sustainability and Environment's Environmental Policy and Climate Change output.

Strengthening our climate communities

Climate communities – Communications strategy

Funding is provided for a statewide behavioural change program which will build on the previous Black Balloons campaign and encourage Victorians to adopt a personal energy savings target, similar to the Target 155 water campaign.

This initiative contributes to the Department of Sustainability and Environment's Environmental Policy and Climate Change output.

Climate communities – Education and government

Funding is provided to ensure that education for sustainability is integrated across the Victorian education sector through the review and expansion of the ResourceSmart Australian Sustainable Schools Initiative (AuSSIVic) – Education for Sustainability program and the introduction of integrated sustainability programs into early education centres and tertiary facilities.

This initiative contributes to the Department of Sustainability and Environment's Environmental Policy and Climate Change output.

Climate communities – Household energy efficiency package

Funding is provided for a household retrofit program to assist Victorians to reduce their energy consumption through energy efficiency upgrades, including support for low income households and public housing tenants.

This initiative contributes to the Department of Sustainability and Environment's Environmental Policy and Climate Change output.

Local government climate communities

Funding is provided to establish the Local Government Climate Communities grants program which will support a range of projects that address climate change issues and which could include upgrading of public streetlights with low carbon lighting. Grants of up to $500 000 will provide for programs that demonstrate emissions reduction, cost effective abatement or help communities adapt to climate change.

This initiative contributes to the Department of Planning and Community Development's Developing the Local Government Sector output.

Ready for Tomorrow – A Blueprint for Regional and Rural Victoria

Investing in skills and young people

Developing regional leaders

Funding is provided for activities that seek to build leadership capability in key regional businesses and community sectors through a combination of formal training, informal learning opportunities, mentoring, network development and knowledge sharing.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Economic Development, Investment and Promotion output.

Linking young people to education and jobs

Funding is provided for transport projects that will assist young people from small towns and communities with limited transport options to get to work or study. The transport projects will be developed in partnership with local communities, employers and education providers.

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

Regional tertiary education partnerships

Funding is provided to facilitate partnerships between TAFE and higher education institutions to deliver more tertiary courses in regional locations. The partnership aims to raise the participation rates of regional Victorians in higher education by improving their access to new education, skilling and training opportunities.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Skills output.

Young professionals provincial cadetships program

Funding is provided to facilitate opportunities for students who move away from regional Victoria to study to undertake a paid work-based cadetship in a field related to their study, in regional Victoria, during the semester break.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Economic Development, Investment and Promotion output.

Youth action strategy

Funding is provided to build the capacity of local councils, community based services and youth advisory groups to increase the participation of young people in determining the direction of their communities. The strategy supports rural local governments to more effectively engage young residents and develop regional youth services partnerships.

This initiative contributes to the Department of Planning and Community Development's Youth Affairs output.

Backing jobs and industry

Economic development through Regional Development Australia

Funding is provided to support Regional Development Australia (RDA) committees to pursue economic development priorities in their Victorian regions. RDA committees will access this funding to implement projects arising from Regional Strategic Plans.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Economic Development, Investment and Promotion output.

Industries for today and tomorrow

Funding is provided to facilitate the development of regionally-based businesses with high growth potential and encourage new industry investment in regional locations. Support will be targeted towards activities that address business growth through new investment, adoption of new technology and innovation, market development and regional industry skills.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Economic Development, Investment and Promotion output.

Industry Capability Network

Funding is provided to expand the activities of the Industry Capability Network in matching local businesses to major public and private sector projects in regional Victoria. A particular focus involves opportunities for local industry participation arising from renewable energy projects in the Great South Coast region.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Exports output.

Innovation through clusters

Funding is provided to support the use of clusters as an industry development tool with the aim of strengthening innovation, productivity and competitive advantage in regional Victoria. Grants will be provided to firms, business associations and other organisations to improve supply chain management skills, and target the aviation, biotechnology, food and farming, information and communications technology and education sectors.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Economic Development, Investment and Promotion output.

Regional tourism

Funding is provided for new regional marketing campaigns to encourage more people to spend time in regional and rural areas.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Tourism output.

Building infrastructure, connecting communities

Better regional roads

Funding is provided to improve regional road connections and assist local government to upgrade local roads. A priority will be key timber transport roads.

This initiative contributes to the Department of Transport's Road Asset Management and Road Network Improvements outputs.

Enhanced links for North-West Victoria

Funding is provided for infrastructure works to enable the reopening of the Clunes railway station to passenger services and improve transit times on the north-west rail corridor.

This initiative contributes to the Department of Transport's Freight, Logistics, Ports and Marine Development and Rural and Regional Public Transport Services outputs.

More regional buses

Funding is provided to enhance town bus services in Lancefield, Romsey and the Latrobe Valley.

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

Regional Infrastructure Development Fund (RIDF)

Funding is provided for capital projects that support the development of infrastructure in regional Victoria. Priority sectors for support through this initiative include tertiary education, sustainable industries, industry investment and development, tourism, transport and access, and community and cultural infrastructure.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Infrastructure Development output.

Regional housing industry development partnerships

Funding is provided for housing demonstration projects in regional locations, focusing on the housing needs of targeted demographic segments.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Economic Development, Investment and Promotion output.

Re-Innovate: Regional broadband innovation program

Funding is provided for projects in regional Victoria that use high speed broadband applications with the aim of improving regional productivity and quality of life.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Innovation output.

Supporting the regional and rural way of life

BushTender

Funding is provided to extend the existing BushTender program in regional Victoria. This initiative aims to protect up to a further 7 000 hectares of native vegetation on private land in Victoria.

This initiative contributes to the Department of Sustainability and Environment's Biodiversity output.

Eureka Stadium upgrade

Funding is provided to support the upgrade to the Eureka Stadium in Ballarat.

This initiative contributes to the Department of Planning and Community Development's Sport and Recreation output.

Extending the country football and netball program

Funding is provided to extend the country football and netball grants program. This includes constructing new and upgrading existing community sporting facilities across regional Victoria.

This initiative contributes to the Department of Planning and Community Development's Sport and Recreation output.

Improving liveability for older people

Funding is provided to build local government and community capacity to plan and deliver projects that will improve quality of life, social participation, health and wellbeing for older people in towns with a significant ageing population.

This initiative contributes to the Department of Planning and Community Development's Seniors and Veterans output.

Landcare

Funding is provided to increase participation in the existing Victorian Landcare program. Landcare is a network of locally based volunteer groups who work towards improved environmental and sustainable agricultural outcomes.

This initiative contributes to the Department of Sustainability and Environment's Natural Resources output.

Local life, local events

Funding is provided to support new and existing local and regional events and related local business activities, and to support planning for longer term sustainability of events and collaborative activity.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Economic Development, Investment and Promotion output.

Provincial Victoria arts experience

Funding is provided to support the continued delivery of arts and cultural experiences and programs throughout the State's network of regional art galleries and performing arts centres.

This initiative contributes to the Department of Premier and Cabinet's Arts Development and Access output.

Revitalising regional towns

Funding is provided to support development in four towns in regional Victoria – Robinvale, Benalla, Lakes Entrance and Colac. This initiative will assist by linking state agencies and local government, facilitating exchange of ideas and coordinating investment.

This initiative contributes to the Department of Planning and Community Development's Community Development output.

Small towns adaptation

Funding is provided to support small rural town communities to increase awareness and capacity to adapt to the drivers and impacts of change. This involves developing community adaptation action plans and establishing partnerships that attract investment in small towns, creating business and employment opportunities and improving access to community infrastructure.

This initiative contributes to the Department of Planning and Community Development's Community Development output.

Sustainable alpine resorts

Funding is provided to support the operations of Mt Baw Baw and Lake Mountain alpine resorts.

This initiative contributes to the Department of Sustainability and Environment's Public Land output.

Sustainable Small Towns Development Fund

Funding is provided for projects that enhance rural townships and surrounding regions. Projects such as streetscapes, recreation reserves or community halls that improve public amenity and contribute to sustainable growth will be a focus of this initiative. The fund will also provide for the development of business cases for local renewable energy supply or energy efficiency projects.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Infrastructure Development output.

The good life campaign

This initiative builds on the *Make it Happen in Provincial Victoria* campaign to promote regional Victoria as a place to live, work and invest.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Economic Development, Investment and Promotion output.

Transforming Skilled Stadium

Funding is provided for a grant that contributes to stage three of the redevelopment of Skilled Stadium in Geelong.

This initiative contributes to the Department of Planning and Community Development's Sport and Recreation output.

Planning better regions, a new partnership

Coastal settlements of the future

Funding is provided to audit current land use commitments in coastal areas, assess the vulnerability of assets, develop statewide and local adjustment strategies, develop new land use planning tools and establish guidelines for future settlement growth.

This initiative contributes to the Department of Planning and Community Development's Planning output.

Frameworks for the future

Funding is provided to establish effective state and regional processes to coordinate the development and delivery of Regional Strategic Plans. This includes the provision of expert advice and support that will inform the development and ongoing management of regional plans and priorities.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Economic Development, Investment and Promotion output.

Local action for sustainability

Funding is provided to support local councils to develop and implement climate adaptation strategies and plans. This aims to ensure local strategies, priorities and opportunities are aligned with state and federal government policies, and build the capacity of local communities to adapt to climate change.

This initiative contributes to the Department of Sustainability and Environment's Environmental Policy and Climate Change output.

Local skills partnerships

Funding is provided for traineeships, cadetships and workforce placements that aim to strengthen the skills and capacity within local councils and local council representative bodies to deliver on economic development priorities in the region.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Economic Development, Investment and Promotion output.

Networked rural councils

Funding is provided for support networks and services to enable rural councils to work together to engage with communities, respond to changing needs and maximise economic development opportunities.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Economic Development, Investment and Promotion output.

Planning for tomorrow

Funding is provided to support local council and regional economic development organisations' planning activities by providing capacity to acquire technical resources and advice, create economic development strategies, structural plans and design guidelines.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Economic Development, Investment and Promotion output.

Regional growth for the future

Funding is provided to deliver comprehensive land use and urban plans to respond to population growth in regional cities including Geelong, Ballarat, Bendigo and the Latrobe Valley. Dedicated project teams will work with stakeholders to plan for the long-term development of these growth areas.

This initiative contributes to the Department of Planning and Community Development's Planning output.

Victorian 2010 flood recovery package

Business recovery

Funding is provided to assist the recovery of flood affected businesses with grants to flood damaged businesses and farm businesses.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Economic Development, Investment and Promotion output.

Flood recovery officers

Funding is provided to establish five flood recovery officer positions for six months to assist councils with the impact of the floods and the recovery process.

This initiative contributes to the Department of Human Services' Concessions to Pensioners and Beneficiaries output.

Flood recovery road and pavement works

Funding is provided to restore access and services to affected communities, and to address pot hole and road pavement failures on sections of the arterial road network damaged by flood waters and storms.

This initiative contributes to the Department of Transport's Road Asset Management output.

Rebuilding in State forests

Funding is provided to rebuild flood affected recreation sites and walking tracks in State forests.

This initiative contributes to the Department of Sustainability and Environment's Land and Fire output.

Recovery of catchments and rivers

Funding is provided to Catchment Management Authorities to address erosion to river beds and banks, repair built assets, and construct new infrastructure on breakaway water courses.

This initiative contributes to the Department of Sustainability and Environment's Sustainable Water output.

Reopening walking tracks in national parks

Funding is provided for the clearing of trees and removal of debris from walking tracks in national parks.

This initiative contributes to the Department of Sustainability and Environment's Forest and Parks output.

Repairs to roads and crossings

Funding is provided for repairs to flood damaged roads and crossings managed by the DSE and Parks Victoria. These roads and crossings provide emergency response access during the fire season.

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

Restoration of community infrastructure

Funding is provided for the restoration of community infrastructure in flood affected communities including local community halls and sporting clubs.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Economic Development, Investment and Promotion output.

Service coordination at Hepburn Community Health Centre

Funding is provided to establish a service co-ordination position at the Hepburn Community Health Centre for six months to assist individuals to recover from the floods.

This initiative contributes to the Department of Human Services' Concessions to Pensioners and Beneficiaries output.

Stabilisation of trees and repairs to fences

Funding is provided to address damage to trees and fencing losses caused by soil erosion resulting from the floods. This will allow for protection of livestock and waterways.

This initiative contributes to the Department of Sustainability and Environment's Public Land output.

Tourism and events

Funding is provided to assist flood affected councils and other incorporated bodies in hosting events to encourage visitors and business activity in regional areas.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Economic Development, Investment and Promotion and Tourism outputs.

Urban and regional levees

Funding is provided for condition assessments at key urban and rural levees across the Murray and lower Goulburn Rivers.

This initiative contributes to the Department of Sustainability and Environment's Sustainable Water output.

Victorian State Emergency Service (VICSES) Flood Recovery

Funding is provided to VICSES for additional resources required to assist the community during the 2010 Victorian floods. This includes the purchase and replenishment of operational clothing and equipment such as sandbags, additional communication costs and aircraft hours, incident control centre operations, accommodation and travel for staff and volunteers as well as reimbursement of interstate coastguards and SES agencies which assisted the emergency response.

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

Victorian Bushfire Reconstruction and Recovery Authority transition strategy

Continued operating funding for the Authority

Victorian Bushfire Reconstruction and Recovery Authority service delivery functions

Funding is provided to continue the Victorian Bushfire Reconstruction and Recovery Authority's (VBRRA) operations until June 2011.

This initiative contributes to the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

Funding to transition the Authority's ongoing functions

Bereaved community recovery program

Additional funding is provided to support the governance and implementation of the Victorian Bushfire Appeal Fund's bereaved community support services and recovery programs from 1 July 2010 until 30 June 2013.

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

Community engagement coordinators

Funding is provided to continue the VBRRA's community engagement functions at a reduced scale (i.e. three community engagement coordinators) until December 2012.

This initiative contributes to the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

Kinglake, Flowerdale and Toolangi Strategic Planning and Design Framework

Funding is provided for project management support to facilitate the implementation of a longer term vision for Kinglake, Flowerdale and Toolangi. This framework will provide for development, housing and community needs and shape the character of the towns.

This initiative contributes to the Department of Planning and Community Development's Planning output.

Marysville and Kinglake temporary villages

Funding is provided to continue the operation of the Marysville and Kinglake temporary villages from April 2011 until the end of December 2012.

This initiative contributes to the Department of Human Services' Housing Support and Homelessness Assistance output.

Marysville Central

Funding is provided to Murrindindi Shire Council to support the continued operation of Marysville Central for two years.

This initiative contributes to the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

Marysville Conference Centre project

Funding is provided to facilitate the construction of a conference centre in the Marysville region.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Infrastructure Development output.

Rebuilding Advisory Centres

Funding is provided to support the operation of the Marysville and Kinglake Rebuilding Advisory Centres.

This initiative contributes to the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

Rebuilding Advisory Service

Funding is provided to support the refocusing of the Rebuilding Advisory Service, which will assist people in accessing mainstream advisory services such as the Building Commission and Consumer Affairs Victoria.

This initiative contributes to the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

Staff resources for monitoring and reporting on rebuilding

Funding is provided to monitor and report on rebuilding progress and implementation, and to secure a corporate knowledge base to inform future disaster recovery arrangements.

This initiative contributes to the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

Emerging needs and managing risks

Accommodation and support services

Funding will enable the dismantling, transport and storage of moveable units, the maintenance, storage and return of donated caravans, and administrative costs.

This initiative contributes to the Department of Human Services' Housing Support and Homelessness Assistance output.

Community advisory committee

Funding is provided to support the administration of a Community Advisory Committee, which will have responsibility for the allocation of at least $16 million set aside by the Victorian Bushfire Appeal Fund Advisory Panel for medium-term recovery needs (up until June 2013).

This initiative contributes to the Department of Human Services' Concessions to Pensioners and Beneficiaries output.

Economic and tourism recovery support in Marysville

Funding is provided for event procurement, development and promotion for the Marysville area, along with tactical marketing for two years, and a marketing campaign to relaunch Marysville in 2012-13.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Economic Development, Investment and Promotion output.

Grants for window solutions in bushfire prone areas

Funding is provided to establish a grant program to encourage the development of compliant and cost-efficient window solutions to meet the regulatory requirements applying to buildings in bushfire prone areas.

This initiative contributes to the Department of Planning and Community Development's Planning output.

Other government-wide initiatives

Social and community services sector pay equity case

The Government has announced it will support the decision of Fair Work Australia on an application for an equal remuneration order for the social and community services sector. The funding associated with this initiative has not been disclosed at this time because the case is still subject to deliberation by Fair Work Australia.

This initiative contributes to outputs across a number of departments.

Asset initiatives

Table A.2: Asset initiatives – government-wide

($ million)

	2010-11	*2011-12*	*2012-13*	*2013-14*	*TEI*
Bushfire Royal Commission Final Report Government Response					
Bushfire safety policy					
Advice to property owners – Stage 2	0.1	..	..	..	0.1
Anglesea fire station and community fire education centre	1.0	..	..	..	1.0
Bushfire education mobile units	0.6	0.6	..	..	1.3
CFA fire prevention planning	..	0.2	0.1	0.1	0.5
Municipal Association of Victoria operational support	0.3	..	..	..	0.3
Emergency and incident management					
CFA crew protection program	8.1	10.6	3.3	..	22.1
CFA Statewide network of Incident Control Centres	4.0	..	..	..	4.0
CFA volunteer support package	..	12.7	4.0	0.5	17.2
Fire prediction and early warning system	0.9	1.6	0.9	0.9	4.2
Fireground response					
CFA radio communication standardisation	3.8	1.5	..	..	5.3
CFA radio communication strategy (including blackspot remediation)	0.9	0.8	0.8	0.9	3.4
CFA station upgrades and operational resourcing	..	13.5	16.9	16.7	60.4
State Aircraft Unit – Dispatch and additional aircraft	1.7	..	..	..	1.7
Land and fuel management					
Improved bushfire prevention, preparedness, response and recovery	9.9	17.4	9.6	9.8	46.6
Organisational structure					
Office of the Fire Commissioner	0.1	..	..	..	0.1
Ready for Tomorrow – A Blueprint for Regional and Rural Victoria					
Building Infrastructure, Connecting Communities					
More regional buses	0.5	0.1	..	..	0.9
Victorian 2010 flood recovery package					
Land instability rectification works	1.0	..	..	..	1.0
Rebuilding in State forests	0.2	..	..	..	0.2
Repairs to roads and crossings	6.3	..	..	..	6.3
Stabilising St Georges Dam in Creswick Regional Park	0.3	..	..	..	0.3
Total asset initiatives	**39.8**	**59.2**	**35.6**	**28.9**	**177.0**

Source: Department of Treasury and Finance

Bushfire Royal Commission Final Report Government Response

Bushfire safety policy

Advice to property owners – Stage 2

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

Anglesea fire station and community fire education centre

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

Bushfire education mobile units

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

CFA fire prevention planning

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

Municipal Association of Victoria operational support

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

Emergency and incident management

CFA crew protection program

Funding is provided to retrofit the Crew Protection System to CFA tankers providing protection for crews during burn over events. Tankers will be fitted with protective curtains inside exposed glass areas, water sprays over the exterior of the vehicle, and protection to vulnerable areas such as tyres and batteries.

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

CFA Statewide network of Incident Control Centres

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

CFA volunteer support package

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

Fire prediction and early warning system

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

Fireground response

CFA radio communication standardisation

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

CFA radio communication strategy (including blackspot remediation)

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

CFA station upgrades and operational resourcing

Funding is provided for 10 new and upgraded 24-hour, seven day a week CFA fire stations in metropolitan and regional areas to be delivered over the next six years.

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

State Aircraft Unit – Dispatch and additional aircraft

Funding is provided for airbase equipment to support the trial of two Convair 580 fire bomber fixed wing aircraft for the coming fire season and for infrared imaging technology and night vision helicopter goggles.

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

Land and fuel management

Improved bushfire prevention, preparedness, response and recovery

Funding is provided to construct and upgrade 70 fire towers across Victoria, to reconfigure the tanker fleet to include additional 2 700 litre and 1 500 litre tankers, for an additional 110 slip-on units, to extend and upgrade the State Control Centre at 8 Nicholson Street East Melbourne, and to expand regional facilities to accommodate additional fire fighters.

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

Organisational structure

Office of the Fire Commissioner

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

Ready for tomorrow – A Blueprint for regional and rural Victoria

Building Infrastructure, Connecting Communities

More Regional Buses

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

Victorian 2010 flood recovery package

Land instability rectification works

Funding is provided for works to protect critical infrastructure impacted by landslips during the 2010 Victorian floods. This includes landslips at alpine resorts.

This initiative contributes to the Department of Sustainability and Environment's Public Land output.

Rebuilding in State forests

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

Repairs to roads and crossings

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

Stabilising St Georges Dam in Creswick Regional Park

Funding is provided for short and medium-term measures to prevent overtopping at St Georges Dam. These works will minimise damage to the dam wall and risks to Creswick.

This initiative contributes to the Department of Sustainability and Environment's Forests and Parks output.

DEPARTMENTAL INITIATIVES

The following tables provide details of output and asset investment decisions for each department.

EDUCATION AND EARLY CHILDHOOD DEVELOPMENT

Output initiatives

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

($ million)

	2010-11	2011-12	2012-13	2013-14
Brighter Futures: Working together to improve services for young people	1.7	5.2	4.1	..
eSmart schools – Cyber safety	1.1	2.9	3.4	2.1
Kitchen garden project	1.1	..	..	..
Sub-total output initiatives	**3.9**	**8.1**	**7.5**	**2.1**
Government-wide initiatives	1.6	..	..	..
Total output initiatives	**5.5**	**8.1**	**7.5**	**2.1**

Source: Department of Treasury and Finance

Brighter Futures: Working together to improve services for young people

Funding is provided for three years to develop, demonstrate and evaluate a range of innovative tools and approaches, including a common assessment framework, in seven demonstration sites. This initiative aims to provide a cohesive response to young people at risk of disengaging or who have disengaged from education, training and employment.

This initiative contributes to the Department of Education and Early Childhood Development's Later Years and Youth Transitions output.

eSmart schools – Cyber safety

This initiative provides funding for an eSmart framework to be rolled out to all government schools and targeted non-government schools in partnership with the Alannah and Madeline Foundation (a not-for-profit organisation whose mission is to keep children safe from violence). The funding will provide schools with access to online resources, including teaching resources on cyber safety, and professional development for teachers.

This initiative contributes to the Department of Education and Early Childhood Development's Early Years (schools), Middle Years (schools) and Later Years and Youth Transitions outputs.

Kitchen garden project

Funding is provided for one year to continue the kitchen garden project with Stephanie Alexander. This project operates across years 3 to 6 and enables children to experience a vegetable garden on school grounds and to prepare their produce in a kitchen classroom.

This initiative contributes to the Department of Education and Early Childhood Development's Early Years (schools) and Middle Years (schools) outputs.

Asset initiatives

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

($ million)

	2010-11	*2011-12*	*2012-13*	*2013-14*	*TEI*
Land acquisition	7.0	..	..	..	7.0
Modernisation	2.0	..	..	..	2.0
Sub-total asset initiatives	**9.0**	**..**	**..**	**..**	**9.0**
Government-wide initiatives	..	..	..	..	..
Total asset initiatives	**9.0**	**..**	**..**	**..**	**9.0**

Source: Department of Treasury and Finance

Land acquisition

Funding is provided for the acquisition of land in growth corridors for new schools.

This initiative contributes to the Department of Education and Early Childhood Development's Early Years (schools), Middle Years (schools) and Later Years and Youth Transitions outputs.

Modernisation

Funding is provided for the completion of construction of a new arts centre at Emerald Secondary College and for modernisation works at McKinnon Primary School.

This initiative contributes to the Department of Education and Early Childhood Development's Early Years (schools), Middle Years (schools) and Later Years and Youth Transitions outputs.

HEALTH

Output initiatives

Table A.5: Output initiatives – Health

($ million)

	2010-11	2011-12	2012-13	2013-14
Carers Victoria	..	1.1	1.1	1.2
Improving ambulance service delivery – Outer metropolitan Melbourne	1.8	6.2	13.1	17.0
Improving ambulance service delivery – Regional and rural	9.9	12.8	14.2	14.6
Sub-total output initiatives	**11.7**	**20.1**	**28.5**	**32.8**
Government-wide initiatives	0.3	0.3	0.3	..
Total output initiatives	**12.0**	**20.4**	**28.8**	**32.8**

Source: Department of Treasury and Finance

Carers Victoria

Funding is provided for a training and intervention program for carers. The program is run by Carers Victoria and provides training, advocacy and resources to carers and support groups as well as advice to service providers.

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

Improving ambulance service delivery – Outer metropolitan Melbourne

Funding is provided for additional ambulance services in outer metropolitan Melbourne. Funding will enable new services and building upgrades at 16 branch locations and for the employment of 105 paramedics. In addition, 34 nurses in 14 metropolitan emergency departments will be employed to assist with the timely transfer of ambulance patients at times of peak demand.

This initiative contributes to the Department of Health's Ambulance Emergency Services and Ambulance Non-emergency Services outputs.

Improving ambulance service delivery – Regional and rural

Funding is provided for additional ambulance services in regional and rural Victoria, including 10 new Mobile Intensive Care Ambulance (MICA) single-responder units, 40 paramedic scholarships, eight dedicated non-emergency patient transfer crews and a regional and rural call referral service.

This initiative contributes to the Department of Health's Ambulance Emergency Services and Ambulance Non-emergency Services outputs.

Asset initiatives

Table A.6: Asset initiatives – Health

($ million)

	2010-11	2011-12	2012-13	2013-14	TEI
Aged Care Land Bank – South Melbourne [(a)]	4.1	..	..	..	4.1
Improving ambulance service delivery – Outer metropolitan Melbourne	..	6.8	7.8	5.7	21.2
Improving ambulance service delivery – Regional and rural	2.6	0.6	0.4	0.4	4.0
Sub-total asset initiatives	**6.7**	**7.4**	**8.2**	**6.1**	**29.3**
Government-wide initiatives	..	..	..	..	..
Total asset initiatives	**6.7**	**7.4**	**8.2**	**6.1**	**29.3**

Source: Department of Treasury and Finance

Note:
(a) *Total funding for this initiative is $6.6 million. $2.5 million was previously announced in the* 2010-11 Budget*, as part of the Aged Care Land Bank program.*

Aged Care Land Bank – South Melbourne

Funding is provided for the purchase of land in South Melbourne to build a residential aged care facility as part of the Aged Care Land Bank program.

This initiative contributes to the Department of Health's Residential Aged Care output.

Improving ambulance service delivery – Outer metropolitan Melbourne

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

Improving ambulance service delivery – Regional and rural

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

HUMAN SERVICES

Output initiatives

Table A.7: Output initiatives – Human Services

($ million)

	2010-11	2011-12	2012-13	2013-14
Growing housing associations	..	50.0	275.0	100.0
Homelessness 2020 Strategy	0.7	3.8	4.4	9.1
Melbourne Youth Justice Centre	2.6	2.6	2.6	2.6
Sub-total output initiatives	**3.3**	**56.4**	**282.0**	**111.7**
Government-wide initiatives	2.2	3.2	0.5	..
Total output initiatives	**5.5**	**59.6**	**282.5**	**111.7**

Source: Department of Treasury and Finance

Growing housing associations

This initiative involves continuation of the program to transfer public housing stock to the registered housing sector. It will enable this sector to house more Victorians from the public housing wait list and will generate further growth through the ability to leverage.

This initiative contributes to the Department of Human Services' Social Housing output.

Homelessness 2020 Strategy

The Homelessness 2020 Strategy introduces a life stages approach to preventing and reducing the incidence of homelessness. To implement the Strategy, funding is provided for a number of initiatives, including six four-year flagship projects, private rental brokerage funds and an employment linkages project.

This initiative contributes to the Department of Human Services' Housing Support and Homelessness Assistance output.

Melbourne Youth Justice Centre

Funding is provided to upgrade security at the Melbourne Youth Justice Centre. The upgrade will provide a single point of entry for all staff, visitors and vehicles entering and exiting the precinct and a range of other security measures.

This initiative contributes to the Department of Human Services' Youth Justice and Custodial Services output.

Asset initiatives

Table A.8: Asset initiatives – Human Services

($ million)

	2010-11	*2011-12*	*2012-13*	*2013-14*	*TEI*
Melbourne Youth Justice Centre	6.2	..	..	..	6.2
Sub-total asset initiatives	**6.2**	**..**	**..**	**..**	**6.2**
Government-wide initiatives	..	..	..	..	..
Total asset initiatives	**6.2**	**..**	**..**	**..**	**6.2**

Source: Department of Treasury and Finance

Melbourne Youth Justice Centre

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

INNOVATION, INDUSTRY AND REGIONAL DEVELOPMENT

Output initiatives

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

($ million)

	2010-11	2011-12	2012-13	2013-14
2009 Commonwealth TAFE projects	21.8	23.0	26.3	24.7
India Strategy	4.0	5.5	2.7	0.7
National ICT Australia – Victoria Research Laboratory	2.0	5.5	7.0	10.5
Review of Securing Jobs for Your Future – Skills for Victoria	12.2	15.9	5.5	2.8
The Conversation – Interactive website	0.5	..	..	..
Victorian Biotechnology Action Plan	..	3.0	6.0	8.8
Victorian Design Action Plan	..	2.7	3.0	2.4
Sub-total output initiatives	**40.4**	**55.6**	**50.5**	**49.8**
Government-wide initiatives	87.3	87.2	94.7	103.6
Total output initiatives	**127.7**	**142.7**	**145.2**	**153.4**

Source: Department of Treasury and Finance

2009 Commonwealth TAFE projects

Funding is provided for operating costs associated with TAFE capital projects approved under the 2009 Commonwealth TAFE Annual Infrastructure Plan.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Skills output.

India Strategy

Funding is provided to leverage Victoria's existing ties with India and create new opportunities to attract higher levels of investment in Victoria from India and assist Victorian industry to win export contracts in one of the world's fastest growing economies.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Tourism and Investment Attraction and Facilitation outputs.

National ICT Australia – Victoria Research Laboratory

Funding is provided to undertake information and communication technology research and development. The funding will also support complementary investment in the Institute for a Broadband Enabled Society to undertake research to develop new broadband enabled applications.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Science and Technology output.

Review of *Securing Jobs for Your Future – Skills for Victoria*

Funding is provided to undertake modifications to the *Securing Jobs for Your Future – Skills for Victoria* program following a review in 2010 and prior to the full introduction of skills reforms on 1 January 2011.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Skills output.

The Conversation – Interactive website

Funding is provided to establish an interactive website to connect the research, innovations, capabilities and expert opinions of universities, governments and thought leaders with the general public and business community.

This initiative contributes to the Department of Department of Innovation, Industry and Regional Development's Innovation output.

Victorian Biotechnology Action Plan

Funding is provided to support the development of biotechnology products and devices, collaboration between researchers and industry, and new applications in agriculture and industry.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Innovation output.

Victorian Design Action Plan

Funding is provided to support firms to use design as a driver of productivity and innovation, and strengthen the research, practice and application of design across a number of areas.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Innovation output.

Asset initiatives

Table A.10: Asset initiatives – Innovation, Industry and Regional Development

($ million)

	2010-11	2011-12	2012-13	2013-14	TEI
Docklands Studios Melbourne [(a)]	2.8	2.8	..	..	5.6
Federation Square East – Feasibility investigations	3.0	..	..	..	3.0
Sub-total asset initiatives	**5.8**	**2.8**	**..**	**..**	**8.6**
Government-wide initiatives	..	..	..	..	..
Total asset initiatives	**5.8**	**2.8**	**..**	**..**	**8.6**

Source: Department of Treasury and Finance

Note:
(a) This initiative was formally called Docklands Film and Television Studios.

Docklands Studios Melbourne

Funding is provided for modifications to increase utilisation and production capacity of the Docklands Studios Melbourne facility.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Sector Development output.

Federation Square East – Feasibility investigations

Funding is provided to investigate the feasibility of options to develop the Federation Square East site.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Major Projects output.

JUSTICE

Output initiatives

Table A.11: Output initiatives – Justice

($ million)

	2010-11	2011-12	2012-13	2013-14
Native Title National Partnership Agreement	6.0	..	..	..
Relocation of Emergency Services Telecommunication Authority State Emergency Communication Centre	0.8	1.7	2.0	2.1
Sentencing reform – Abolition of suspended sentences	8.8	20.8	22.4	23.4
Serious sex offender management	5.4	..	..	..
Sub-total output initiatives	**21.1**	**22.5**	**24.4**	**25.5**
Government-wide initiatives	51.8	75.9	59.5	76.1
Total output initiatives	**72.9**	**98.4**	**83.9**	**101.5**

Source: Department of Treasury and Finance

Native Title National Partnership Agreement

Funding is provided for Victoria's contribution as part of a National Partnership Agreement with the Commonwealth Government for native title settlement. The funding and agreement provide compensation to traditional owners for native title claims including the Gunaikurnai claim, recently settled under the Native Title Settlement Framework.

This initiative contributes to the Department of Justice's Legal Policy, Advice and Law Reform output.

Relocation of Emergency Services Telecommunications Authority State Emergency Coordination Centre

Funding is provided for the relocation of the Emergency Services Telecommunications Authority (ESTA) to a new site. The larger premises will enable ESTA to improve its ability to respond to major emergencies. The funding will also provide technology and communications hardware, network access, power, cabling and building fitout.

This initiative contributes to the Department of Justice's Enforcing Correctional Orders output.

Sentencing reform – Abolition of suspended sentences

This initiative supports the implementation of reforms to Victoria's sentencing laws, including abolishing suspended sentences for serious offences. Funding is provided for additional community correctional officers and support packages to high need or high risk offenders.

This initiative contributes to the Department of Justice's Community Based Offender Supervision output.

Serious sex offender management

Funding is provided to implement the *Serious Sex Offenders (Detention and Supervision) Act 2009* which aims to reduce the risk to the community from serious sex offenders. This initiative will mean that offenders who have served custodial sentences for certain sexual offences and who are assessed as presenting an unacceptable risk of harm to the community can be subject to ongoing detention or supervision.

This initiative contributes to the Department of Justice's Enforcing Correctional Orders output.

Asset initiatives

Table A.12: Asset initiatives – Justice

($ million)

	2010-11	2011-12	2012-13	2013-14	TEI
Coroners Court – Site contamination costs	4.0	16.0	..	..	20.0
Relocation of Emergency Services Telecommunication Authority State Emergency Communication Centre	6.5	9.5	..	..	16.0
Police Academy	10.0	..	..	..	10.0
Sentencing reform – Abolition of suspended sentences	4.0	..	..	..	4.0
Victoria Police – Burwood and Ashburton Police Station upgrades	0.9	..	..	..	0.9
Sub-total asset initiatives	**25.4**	**25.5**	**..**	**..**	**50.9**
Government-wide initiatives	18.7	40.1	25.1	18.2	115.5
Total asset initiatives	**44.1**	**65.6**	**25.1**	**18.2**	**166.4**

Source: Department of Treasury and Finance

Coroners Court – Site contamination costs

Funding is provided for the remediation of contamination at the State Coronial Services redevelopment site. This includes the removal or management of contaminated soil and ground water.

This initiative contributes to the Department of Justice's Court Matters and Dispute Resolution output.

Relocation of Emergency Services Telecommunication Authority State Emergency Coordination Centre

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

Police Academy

Funding is provided for upgrade works at the Victoria Police Academy.

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

Sentencing reform – Abolition of suspended sentences

Funding is provided for the fitout of office space to support the delivery of community correctional services.

This initiative contributes to the Department of Justice's Enforcing Correctional Orders output.

Victoria Police – Burwood and Ashburton police station upgrades

Funding is provided for upgrade works to the Burwood and Ashburton police stations. These works include replacing the roof and installing a lift at Burwood police station, and refurbishing and reconfiguring of the layout at the Ashburton police station.

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

PLANNING AND COMMUNITY DEVELOPMENT

Output initiatives

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

($ million)

	2010-11	2011-12	2012-13	2013-14
Ballarat basketball infrastructure upgrade	0.2	..	..	..
Bushfire Rebuild Facilitation Unit	1.4	..	..	..
Community finance hubs	0.7	1.5	1.5	0.6
Extension to the Office of the Community Sector	..	1.2	1.2	1.3
Frankston oval redevelopment	1.5	..	..	..
Frankston Regional Aquatic, Health and Wellness Centre	10.0	..	..	..
Melbourne's hinterlands – Open space for the future	0.7	0.7	0.7	0.7
Mary MacKillop canonisation celebrations	0.3	..	..	..
Princes Park redevelopment	1.5	..	..	..
Richmond Cricket Club	0.5	..	..	..
Structure planning in Melbourne's expanded growth areas	5.0	5.1	..	..
Women's leadership	0.1	..	..	..
Youth research	0.1	..	..	..
Sub-total output initiatives	**21.9**	**8.5**	**3.4**	**2.6**
Government-wide initiatives	40.3	25.3	21.5	20.9
Total output initiatives	**62.2**	**33.8**	**24.8**	**23.5**

Source: Department of Treasury and Finance

Ballarat basketball infrastructure upgrade

Funding is provided to support the Ballarat Basketball Association to repair the show court roof of the WIN Minerdome, which will enable ongoing competition at the venue.

This initiative contributes to the Department of Planning and Community Development's Sport and Recreation Development output.

Bushfire Rebuild Facilitation Unit

Funding is provided until June 2011 for a dedicated Bushfire Rebuild Facilitation Unit to support people rebuilding approximately 500 homes in bushfire prone areas. The Unit will also provide specialist planning advice for developments in bushfire prone areas.

This initiative contributes to the Department of Planning and Community Development's Planning output.

Community finance hubs

This initiative will establish three community finance hubs in Collingwood, Dandenong and Geelong. These hubs will enable a range of microfinance services targeting low income Victorians to be co-located and provide a point of co-ordinated service delivery as well as referral to other relevant programs. A financial institution will also contribute to this initiative.

This initiative contributes to the Department of Planning and Community Development's Community Development output.

Extension to the Office for the Community Sector

Funding is provided for the Office for the Community Sector until 2014. The Office will continue to undertake a range of activities that support the diverse not-for-profit sector and provide a coordination point for engagement across government.

This initiative contributes to the Department of Planning and Community Development's Community Development output.

Frankston oval redevelopment

Funding is provided for the redevelopment of the Frankston oval and the Frankston Dolphins Football Club rooms. This funding will upgrade the grounds and facilities at the oval in line with other metropolitan VFL clubs.

This initiative contributes to the Department of Planning and Community Development's Sport and Recreation Development output.

Frankston Regional Aquatic, Health and Wellness Centre

Funding is provided to contribute to urban renewal in the Frankston Central Activity District. The development of the centre will be led by the Frankston City Council and will cater for preventative health and wellbeing needs of the region.

This initiative contributes to the Department of Planning and Community Development's Sport and Recreation Development output.

Melbourne's hinterlands – Open space for the future

Funding is provided to implement an integrated land use and implementation management plan for Melbourne's hinterlands. Strategic land use plans will identify actions for sustainable development of land surrounding Melbourne and encourage landholders to adopt good land management practices. The initiative will also support local governments in their Green Wedge Management Plans and landholders wanting to change the use of their land.

This initiative contributes to the Department of Planning and Community Development's Planning output.

Mary MacKillop canonisation celebrations

Funding is provided to support the staging of events in Melbourne to celebrate the canonisation of Australia's first saint, Mary MacKillop.

This initiative contributes to the Department of Planning and Community Development's Sport and Recreation Development output.

Princes Park redevelopment

Funding is provided to support the redevelopment of Princes Park to accommodate the Melbourne Rebels rugby team. The redevelopment will provide new change rooms, a gymnasium, refurbished stands and new office and administration space. The initiative will be overseen by the Melbourne Rebels who will also contribute directly to the project.

This initiative contributes to the Department of Planning and Community Development's Sport and Recreation Development output.

Richmond Cricket Club

Funding is provided to support the development of new facilities for the Richmond Cricket Club at an alternative location.

This initiative contributes to the Department of Planning and Community Development's Sport and Recreation Development output.

Structure planning in Melbourne's expanded growth areas

Funding is provided to expand the Precinct Structure Plan program to include the new areas brought into the Urban Growth Boundary in 2010. This planning will provide for the appropriate zoning and development of the land.

This initiative contributes to the Department of Planning and Community Development's Planning output.

Women's leadership

Funding is provided for the Women's Leadership grants program which will support projects that aim to increase opportunities for women's leadership and increase their capacity to participate in decision making. These projects will be delivered by women's groups, local councils and community organisations.

This initiative contributes to the Department of Planning and Community Development's Women's Policy output.

Youth research

Funding is provided to undertake research into the current issues of relevance and concern for young people. This research will form the basis for an update to the Government's *Youth Agenda – Future Directions* which was released in 2006.

This initiative contributes to the Department of Planning and Community Development's Youth Affairs output.

Asset initiatives

Table A.14: Asset initiatives – Planning and Community Development

($ million)

	2010-11	*2011-12*	*2012-13*	*2013-14*	*TEI*
Investment in outdoor recreation infrastructure	0.8	0.8	..	..	1.5
Sub-total asset initiatives	**0.8**	**0.8**	**..**	**..**	**1.5**
Government-wide initiatives	0.3	..	..	..	0.3
Total asset initiatives	**1.0**	**0.8**	**..**	**..**	**1.8**

Source: Department of Treasury and Finance

Investment in outdoor recreation infrastructure

Funding is provided for the implementation of bushfire safety measures at state owned recreation camps in preparation for the upcoming bushfire season.

This initiative contributes to the Department of Planning and Community Development's Sport and Recreation Development output.

PREMIER AND CABINET

Output initiatives

Table A.15: Output initiatives – Premier and Cabinet

($ million)

	2010-11	*2011-12*	*2012-13*	*2013-14*
Contribution to the restoration of St Paul's Anglican Cathedral, Bendigo	0.5	..	..	..
Plan for a networked Victorian bushfire museum	0.2	..	..	..
Relief effort for communities affected by the floods in Pakistan	0.5	..	..	..
Sustaining the State Library of Victoria	2.5	2.5	2.0	2.0
Sub-total output initiatives	**3.7**	**2.5**	**2.0**	**2.0**
Government-wide initiatives	4.6	2.9	2.5	2.4
Total output initiatives	**8.3**	**5.4**	**4.5**	**4.4**

Source: Department of Treasury and Finance

Contribution to the restoration of St Paul's Anglican Cathedral, Bendigo

Funding is provided for major restoration works on the tower of the 142 year old St Paul's Anglican Cathedral in Bendigo, addressing key safety issues and allowing the Cathedral to re-open to the community.

This initiative contributes to the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

Plan for a networked Victorian bushfire museum

Funding is provided to develop a business model for the establishment and operation of networked museums across Victoria, linking major museums with a range of community venues in regions impacted by the 2009 Victorian bushfires. The exhibitions will record and share the stories and events of those affected by the 2009 bushfires with the wider community.

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

Relief effort for communities affected by the floods in Pakistan

Funding is provided to assist the relief, rehabilitation and recovery of flood affected communities in Pakistan.

This initiative contributes to the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

Sustaining the State Library of Victoria

Funding is provided to the State Library of Victoria to maintain community services and online access, and to manage growth in demand from the general public, young people, international students and cultural visitors.

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

PRIMARY INDUSTRIES

Output initiatives

Table A.16: Output initiatives – Primary Industries

($ million)

	2010-11	2011-12	2012-13	2013-14
Forestry review	3.1	3.0	..	..
Locust control	43.5	..	..	..
Modernising farm service and science assets	2.3	1.6	6.5	7.2
Red imported fire ants	0.9	..	..	..
Sub-total output initiatives	**49.7**	**4.6**	**6.5**	**7.2**
Government-wide initiatives	24.1	29.6	15.3	12.1
Total output initiatives	**73.8**	**34.2**	**21.8**	**19.2**

Source: Department of Treasury and Finance

Forestry review

Funding is provided for the examination of new institutional arrangements and reviews of saw log price allocation mechanisms and contracting arrangements. Funding is also provided for consensus-based discussions about the future of the industry, and for pre-logging flora and fauna survey work in East Gippsland.

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

Locust control

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

This initiative contributes to the Department of Primary Industries' Regulation and Compliance output.

Modernising farm service and science assets

Funding is provided to increase the Department of Primary Industries' current capacity to deliver tailored and targeted services to the agricultural sector through research facility upgrades, new facilities in regional Victoria and IT system and online support to farmers.

This initiative contributes to the Department of Primary Industries' Sustainable Practice Change output.

Red imported fire ants

Funding represents an increase in Victoria's contribution to the National Red Imported Fire Ants Eradication Program.

This initiative contributes to the Department of Primary Industries' Regulation and Compliance output.

Asset initiatives

Table A.17: Asset initiatives – Primary Industries

($ million)

	2010-11	2011-12	2012-13	2013-14	TEI
Modernising farm service and science assets	7.5	19.5	38.5	19.5	86.9
Sub-total asset initiatives	**7.5**	**19.5**	**38.5**	**19.5**	**86.9**
Government-wide initiatives	..	..	..	..	..
Total asset initiatives	**7.5**	**19.5**	**38.5**	**19.5**	**86.9**

Source: Department of Treasury and Finance

Modernising farm service and science assets

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

SUSTAINABILITY AND ENVIRONMENT

Output initiatives

Table A.18: Output initiatives – Sustainability and Environment

($ million)

	2010-11	2011-12	2012-13	2013-14
Bushfire recovery grants	1.6	..	..	..
Gunaikurnai Native Title	0.3	1.2	1.7	1.9
Snowy River environmental flows	2.8	..	..	..
Stevensons Road Landfill remediation program	1.5	..	..	..
Sub-total output initiatives	**6.2**	**1.2**	**1.7**	**1.9**
Government-wide initiatives	131.7	128.7	134.1	149.0
Total output initiatives	**137.9**	**129.9**	**135.9**	**150.9**

Source: Treasury and Finance

Bushfire recovery grants

This initiative will provide for environmental clean-up and restoration works in areas affected by the 2009 Victorian bushfires through funds from the sale of metal collected during the clean-up of properties impacted by the bushfires.

This initiative contributes to the Department of Sustainability and Environment's Natural Resources output.

Gunaikurnai Native Title

Funding is provided to establish and implement a joint management arrangement over Crown land subject to the native title agreement with the Gunaikurnai people.

This initiative contributes to the Department of Sustainability and Environment's Forest and Parks output.

Snowy River environmental flows

Funding is provided to repay water borrowings arising as part of the Snowy River inter-jurisdictional agreement. This initiative will boost environmental flows into the Snowy River.

This initiative contributes to the Department of Sustainability and Environment's Sustainable Water output.

Stevensons Road Landfill remediation program

Funding is provided for an ex-gratia payment to the Casey City Council to assist with its costs in remediating and managing the Stevenson's Road Landfill site.

This initiative contributes to the Department of Sustainability and Environment's Environmental Policy and Climate Change output.

Asset Initiatives

Table A.19: Asset initiatives – Sustainability and Environment

($ million)

	2010-11	*2011-12*	*2012-13*	*2013-14*	*TEI*
Sub-total asset initiatives	..	..	..	..	..
Government-wide initiatives	20.3	19.0	10.4	10.6	60.4
Total asset initiatives	**20.3**	**19.0**	**10.4**	**10.6**	**60.4**

Source: Department of Treasury and Finance

TRANSPORT

Output initiatives

Table A.20: Output initiatives – Transport

($ million)

	2010-11	2011-12	2012-13	2013-14
Balaclava Station upgrade	..	..	..	0.7
Bastion Point boat ramp [(a)]	0.5	1.0	..	..
New VicRoads call centre in Ballarat	0.4	1.3	..	..
Sand management at Lakes Entrance	2.4	2.2	2.2	2.3
South Morang to Mernda Busway	..	..	1.2	2.3
Truck action plan	..	..	..	0.2
Sub-total output initiatives	**3.3**	**4.4**	**3.4**	**5.4**
Government-wide initiatives	55.8	50.6	7.7	7.3
Total output initiatives	**59.1**	**55.0**	**11.1**	**12.8**

Source: Department of Treasury and Finance

Note:

(a) Total funding for this initiative is $6.2 million, including $3.2 million from the Regional Infrastructure Development Fund and $1.5 million from the Boating Safety and Facilities Program.

Balaclava Station upgrade

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

Bastion Point boat ramp

Funding is provided for the development of an ocean access boat ramp at Bastion Point to allow for safer launching for commercial fishing and recreational boats.

This initiative contributes to the Department of Transport's Marine Safety and Regulation output.

New VicRoads call centre in Ballarat

Funding is provided as part of the *Ready for Tomorrow: A Blueprint for Regional and Rural Development* statement to establish a new call centre in Ballarat and for additional permanent call centre positions.

This initiative contributes to the Department of Transport's Vehicle and Driver Regulation output.

Sand management at Lakes Entrance

Funding is provided for sand dredging at Lakes Entrance to maintain the entrance to Bass Strait and for improved sand management.

This initiative contributes to the Department of Transport's Freight, Logistics, Ports and Marine Development output.

South Morang to Mernda Busway

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

Truck action plan

Funding is provided to widen Shepherd Bridge, upgrade and widen Moreland Street and reconfigure Whitehall Street to redirect truck traffic away from the Whitehall/Napier Street intersection. These works will improve access to the port by providing a more direct truck route.

This initiative contributes to the Department of Transport's Freight, Logistics, Ports and Marine Development output.

Asset initiatives

Table A.21: Asset initiatives – Transport

($ million)

	2010-11	2011-12	2012-13	2013-14	TEI
Balaclava Station upgrade	0.7	4.5	6.7	..	11.9
Ballarat West Link planning	..	1.0	1.5	..	2.5
Dingley corridor planning	..	15.0	5.0	..	20.0
New VicRoads call centre in Ballarat	1.7	..	..	..	1.7
South Morang to Mernda Busway	1.0	18.1	23.5	..	42.6
Truck action plan	6.0	16.0	7.0	..	29.0
Sub-total asset initiatives	**9.4**	**54.6**	**43.7**	**..**	**107.7**
Government-wide initiatives	0.5	0.1	..	..	0.9
Total asset initiatives	**9.9**	**54.7**	**43.7**	**..**	**108.6**

Source: Department of Treasury and Finance

Balaclava Station upgrade

Funding is provided to upgrade the Balaclava railway station by providing improved access, better closed-circuit television (CCTV), lighting and passenger amenities. In addition, the station will be a premium station staffed from the first to last train, seven days a week.

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

Ballarat West Link planning

Funding is provided to the City of Ballarat to complete planning for the Ballarat West Link Road including detailed design work and planning approvals.

This initiative contributes to the Department of Transport's Network Improvements output.

Dingley corridor planning

Funding is provided to undertake planning and land acquisition activities for the next stage of a proposed new road link along the Dingley corridor between Warrigal Road and Westall Road.

This initiative contributes to the Department of Transport's Road Network Improvements output.

New VicRoads call centre in Ballarat

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

South Morang to Mernda Busway

Funding is provided for the construction of a dedicated bus link from the new South Morang railway station to Mernda, within the existing rail reservation, and the provision of train-linked bus services in the Whittlesea growth area.

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

Truck action plan

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

TREASURY AND FINANCE

Output initiatives

Table A.22: Output initiatives – Treasury and Finance

($ million)

	2010-11	2011-12	2012-13	2013-14
Contact centre improvement program	2.0	..	..	..
Domestic building insurance scheme – Establishment costs	12.2	..	..	..
Natural disaster relief funding arrangements	15.6	..	..	..
Regional decentralisation initiatives	1.0	0.4	1.2	..
Victorian energy efficiency target scheme	1.3	..	..	..
Sub-total output initiatives	**32.1**	**0.4**	**1.2**	**..**
Government-wide initiatives	..	44.3	45.0	25.8
Total output initiatives	**32.1**	**44.7**	**46.2**	**25.8**

Source: Department of Treasury and Finance

Contact centre improvement program

This initiative provides funding for one year to undertake detailed service design and due diligence work required for development of a whole of government contact centre organisation.

This initiative contributes to the Department of Treasury and Finance's Government Services output.

Domestic building insurance scheme – Establishment costs

Funding is provided for one year to enable the Victorian Managed Insurance Authority to cover initial establishment and transition costs associated with operation of the Government-underwritten Domestic Building Insurance Scheme.

This initiative contributes to the Department of Treasury and Finance's GBE Performance Monitoring and Financial Risk Management output.

Natural disaster relief funding arrangements

In order to support local councils to recover and rebuild communities affected by natural disasters, additional funding has been provided in 2010-11 to be used to meet eligible costs associated with:

- February 2009 bushfire repair and replacement claims from fire affected councils, including Murrindindi Shire Council; and
- flood and storm damage claims from Shire Councils.

This initiative contributes to the Department of Treasury and Finance's Economic and Financial Policy output.

Regional decentralisation initiatives

Funding is provided over three years for the establishment of a permanent sales and service centre for State Trustees Limited in Bendigo.

This initiative contributes to the Department of Treasury and Finance's GBE Performance Monitoring and Financial Risk Management output.

Victorian energy efficiency target scheme

Funding is provided to the Essential Services Commission to administer the Victorian Energy Efficiency Target Scheme in 2010-11.

This initiative contributes to the Department of Treasury and Finance's Economic Regulatory Services output.

Asset initiatives

Table A.23: Asset initiatives – Treasury and Finance

($ million)

	2010-11	*2011-12*	*2012-13*	*2013-14*	*TEI*
Domestic building insurance scheme – Capital funding	5.0	..	..	..	5.0
Regional decentralisation initiatives	0.6	3.9	5.5	..	9.9
Sub-total asset initiatives	**5.6**	**3.9**	**5.5**	**..**	**14.9**
Government-wide initiatives	..	..	..	..	..
Total asset initiatives	**5.6**	**3.9**	**5.5**	**..**	**14.9**

Source: Department of Treasury and Finance

Domestic building insurance scheme – Capital funding

Funding is provided to meet Victorian Managed Insurance Authority capital reserve adequacy requirements in support of the Government-underwritten Domestic Building Insurance Scheme.

This initiative contributes to the Department of Treasury and Finance's GBE Performance Monitoring and Financial Risk Management output.

Regional decentralisation initiatives

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

PARLIAMENT

Asset initiatives

Table A.24: Asset initiatives – Parliamentary Services

($ million)

	2010-11	2011-12	2012-13	2013-14	TEI
Heritage asset management strategy	4.6				4.6
Total asset initiatives	**4.6**	**..**	**..**	**..**	**4.6**

Source: Department of Treasury and Finance

Heritage asset management strategy

Funding is provided for works to upgrade and maintain Parliament House.

This initiative contributes to the Department of Parliamentary Services' Provision of Information and Resources to Parliament output.

REVENUE INITIATIVES

Table A.25: Revenue initiatives

($ million)

	2010-11	2011-12	2012-13	2013-14
Liquor licensing fees	(1.0)	(1.0)	(1.1)	(1.1)
Growth Areas Infrastructure Contribution	27.1	36.2	42.0	48.3
Registration discounts for hybrid and electric vehicles	(0.4)	(0.6)	(0.7)	(0.8)
Total revenue initiatives	**25.7**	**34.5**	**40.2**	**46.4**

Source: Department of Treasury and Finance

Liquor licensing fees

The Government introduced a risk-based liquor licensing fee to recognise the cost of regulating licensed venues applicable from 1 January 2010. Subsequent amendments to the *Liquor Control Reform Regulations 2009* have provided some exemptions for small businesses, and exemptions from the operating risk fees for businesses which only operate outside ordinary trading hours on Christmas Day and Good Friday. The amendments have led to a small reduction in Liquor Licence Fees.

Growth Areas Infrastructure Contribution

The Growth Areas Infrastructure Contribution (GAIC) commenced on 1 July 2010. It will partly fund the provision of infrastructure in growth areas and enable more timely provision of facilities and services. The GAIC applies to land brought into the Urban Growth Boundary (UGB) in recent years to provide for urban development.

Monies received from the GAIC will be allocated into two funds, the Growth Areas Public Transport Fund and the Building New Communities Fund and these will support the cost of public transport and community infrastructure in the new growth suburbs.

Registration discounts for hybrid and electric vehicles

As announced in the Victorian Climate Change White Paper, the Government has doubled the existing $50 registration discount for hybrid vehicles and has also made electric vehicles eligible for the discount.

APPENDIX B – SENSITIVITY ANALYSIS TABLE

INTRODUCTION

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

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

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

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

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

($ million)

	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
GSP				
Income from transactions	154	165	174	180
Expenses from transactions	-2	-9	-18	-24
Net result from transactions	**156**	**174**	**192**	**205**
Other economic flows	..	..	..	..
Net result	**156**	**174**	**192**	**205**
Employment				
Income from transactions	51	54	58	61
Expenses from transactions	-4	-8	-11	-14
Net result from transactions	**55**	**62**	**68**	**75**
Other economic flows	..	..	..	..
Net result	**55**	**62**	**68**	**75**
Consumer prices [(d)]				
Income from transactions	268	286	297	307
Expenses from transactions	89	97	90	88
Net result from transactions	**179**	**189**	**207**	**220**
Other economic flows	-189	..	..	..
Net result	**-9**	**190**	**208**	**221**
Average weekly earnings				
Income from transactions	57	60	64	67
Expenses from transactions	2	-1	-3	-6
Net result from transactions	**55**	**61**	**67**	**73**
Other economic flows	..	..	..	..
Net result	**55**	**61**	**67**	**73**
Enterprise bargaining agreements [(e)]				
Income from transactions	24	26	26	27
Expenses from transactions	181	226	246	264
Net result from transactions	**-157**	**-200**	**-220**	**-237**
Other economic flows	-189	..	..	..
Net result	**-346**	**-200**	**-220**	**-237**
Domestic share prices				
Income from transactions	..	..	..	..
Expenses from transactions	..	-3	-4	-4
Net result from transactions	**..**	**3**	**4**	**4**
Other economic flows	41	..	..	..
Net result	**41**	**3**	**4**	**4**
Overseas share prices				
Income from transactions	..	..	..	..
Expenses from transactions	..	-3	-3	-4
Net result from transactions	**..**	**3**	**3**	**4**
Other economic flows	39	..	..	..
Net result	**39**	**3**	**3**	**4**

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

($ million)

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

Source: Department of Treasury and Finance

Notes:

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

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

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

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

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

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

Sensitivity to economic growth

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

Sensitivity to employment

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

Sensitivity to consumer prices

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

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

Sensitivity to average weekly earnings

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

Sensitivity to enterprise bargaining agreements

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

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

Sensitivity to domestic and overseas share prices

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

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

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

Sensitivity to property prices

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

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

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

Sensitivity to property volumes

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

Sensitivity to interest rates

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

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

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

The *Financial Management Act 1994* (the Act) requires the Secretary of the Department of Treasury and Finance to prepare a pre-election budget update when a writ is issued for a general election. The provisions of the Act have been complied with in the *Pre-Election Budget Update*.

Table C.1 provides details of these requirements together with appropriate references in this document.

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

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

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

STYLE CONVENTIONS

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

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

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

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