

# Victorian Pre-Election Budget Update

November 2014

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# **2014 Victorian Pre-Election Budget Update**

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A report by the Secretary of the  
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November 2014



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## FOREWORD

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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 *2014-15 Budget* was published in May 2014.

Chapter 1 *Economic conditions and outlook*, outlines the outlook for the Victorian, Australian and international economies, including risks to this outlook. Chapter 2 *Budget position and outlook*, overviews the projected budget position for the period 2014-15 to 2017-18 and outlines 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 is 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 the budget position*, outlines specific output and asset investment policy decisions since the *2014-15 Budget* and Appendix B *Sensitivity analysis table*, estimates the impact of selected economic and financial variables on income, expenses, the net result from transactions, the net result and net debt.

This *Pre-Election Budget Update* is based on Government decisions I was aware of on or before the issue of the election writs on 4 November 2014. Government decisions are those policy decisions that have been endorsed by Cabinet.



**David Martine**  
Secretary

Department of Treasury and Finance

November 2014





# CHAPTER 1 – ECONOMIC CONDITIONS AND OUTLOOK

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- Economic growth is expected to strengthen to 2.5 per cent in 2014-15 and 2.75 per cent from 2015-16.
- Labour market conditions are expected to strengthen. More recent employment outcomes are consistent with an improvement in employment growth in 2014-15.
- Population growth is expected to remain strong but moderate slightly.

## ECONOMIC OVERVIEW

### Victorian economic conditions and outlook

Victoria's economy is expected to continue to strengthen with real gross state product (GSP) forecast to increase by 2.5 per cent in 2014-15, and by 2.75 per cent in 2015-16 and later years.

The national shift in economic activity towards the non-resources sectors, supported by the depreciation in the exchange rate and ongoing low interest rates, is expected to underpin the performance of the Victorian economy in the medium term.

Household consumption growth is expected to improve in 2014-15 as strengthening employment and wages growth lead to a recovery in labour income. Low interest rates and rising household wealth, which have supported consumption growth amid the recent softness in labour income, are expected to further contribute to household spending.

Dwelling investment is expected to strengthen in 2014-15. Investor confidence is positive and the construction of significant multi-unit dwellings is expected to underpin strong growth. Recent strength in house prices and building approvals, as well as continued population growth, will also support dwelling investment in 2014-15.

Solid growth of 3.0 per cent is forecast in 2014-15 for business investment.

The latest budget data for Victoria and the Commonwealth point to a modest increase in public demand in 2014-15. Thereafter, public demand is expected to gradually return to trend growth, with solid investment growth and consumption growth constrained.

Victoria's international merchandise goods exports reached a record \$24 billion in 2013-14, the fourth consecutive annual increase. Prospects for international export volumes remain positive in the short term. The recent depreciation of the exchange rate, if sustained, is expected to support the competitive position of Victorian exports in international markets. Victoria's agricultural exports are likely to continue to perform well given growing demand from Asia.

Indicators for Victoria's service exports also point to an optimistic outlook. The demand for Australian student visas has increased, resulting in the Commonwealth Department of Immigration and Border Protection strongly revising upwards forecasts of net student arrivals. Demand from Asian markets, led by China, is expected to continue to drive growth in tourism. Growth in export volumes is likely to be outweighed by growth in imports as a result of stronger state final demand from 2015-16.

### ***Labour market***

Employment grew modestly in 2013-14, in line with below trend growth in the economy. However, more recent employment outcomes are consistent with an improvement in employment growth in 2014-15.

A stronger than expected recovery in the labour force participation rate in the first quarter of 2014-15 has affected Victoria's unemployment rate in recent months, lifting the base for 2014-15 and beyond. Consequently, unemployment rate forecasts have been increased by 0.25 percentage points for 2014-15 and the following two years, notwithstanding that employment growth is projected to continue to improve.

### ***Prices and wages***

After accelerating moderately over 2013-14, inflation is expected to slow in 2014-15 towards the lower half of the Reserve Bank's target range, in part reflecting the abolition of the carbon tax.

The price growth of non-tradable goods and services (excluding items less responsive to changes in labour costs, such as utilities and council rates) moderated in 2013-14, consistent with spare capacity in the economy and soft wages growth. Some further moderation is expected in 2014-15 although this will be subject to the timing and extent of the anticipated pick-up in labour market conditions. In contrast, the depreciation of the Australian dollar will continue to place upward pressure on consumer prices as import prices increase.

While wages growth is expected to remain contained in the near-term, the National Wage Case decision to increase the minimum wage rate by 3 per cent from 1 July 2014 and improvements in labour market conditions are expected to lead to an increase in wages growth in 2014-15. Growth in wages is expected to increase further over the forecast period, consistent with stronger economic growth and improving labour market conditions.

## Population

Population growth is forecast to remain strong in 2014-15, continuing a trend of growth above the long-term average. Victoria remains one of the fastest growing states, continuing to receive a positive net inflow of interstate migration. In the March quarter of 2014 and over the year, Victoria gained more people from interstate migration than any other state. Population growth estimates from 2014-15 onwards reflect a slight moderation from high levels in 2013-14, mainly due to an expected return of net interstate migration to more traditional volumes.

## Economic forecasts

The economic forecasts are set out in Table 1.1, with the *2014-15 Budget* forecasts in parentheses where different.

**Table 1.1: Victorian economic forecasts<sup>(a)</sup>**

	<i>(per cent)</i>				
	2013-14	2014-15	2015-16	2016-17	2017-18
	<i>actual</i>	<i>forecast</i>	<i>forecast</i>	<i>forecast</i>	<i>forecast</i>
Real gross state product	2.00 <sup>(b)</sup>	2.50	2.75	2.75	2.75
Employment	0.6 (0.75)	1.25	1.50	1.50	1.50
Unemployment rate <sup>(c)</sup>	6.2 (6.25)	6.50 (6.25)	6.25 (6.00)	6.00 (5.75)	5.50
Consumer price index <sup>(d)</sup>	2.8 (2.75)	2.25	2.50	2.50	2.50
Wage price index <sup>(e)</sup>	2.7 (2.75)	3.25	3.50	3.50	3.50
Population <sup>(f)</sup>	1.9 <sup>(b)</sup> (1.8)	1.8	1.8	1.8	1.8

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

### Notes:

(a) Per cent change in year average compared with previous year, except for unemployment rate (see note (c)) and population (see note (f)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (f)).

The key assumptions underlying the economic forecasts include: interest rates that follow movements in market expectations in the short term, and stabilise thereafter; a trade-weighted index of 71.7; and oil prices that follow the path suggested by oil futures.

(b) Estimate, actual not yet available.

(c) Year average, per cent.

(d) Melbourne consumer price index.

(e) Total hourly rate excluding bonuses.

(f) Per cent change over the year to 30 June. Forecasts are rounded to the nearest 0.1 percentage point.

## **Australian economic conditions and outlook**

The Australian economy grew at around trend in 2013-14. In the June quarter 2014 the Australian economy grew by 0.5 per cent and 3.1 per cent over the year. The main contributors to national growth in the quarter were changes in inventories, and to a lesser extent household consumption and business investment. The largest detractor from growth was net exports.

The economic outlook remains positive, however navigating the transition from the resources investment peak is a key near-term challenge. While the resources sector will continue to positively contribute to growth as it transitions to a production and exports phase, these higher exports are not expected to fully offset the negative impact of the decline in resources investment.

## **International economic conditions and outlook**

According to the International Monetary Fund's (IMF) October 2014 *World Economic Outlook*, global activity is expected to continue to be uneven.

Global growth is forecast to be 3.3 per cent in 2014, largely due to weaker than expected global activity in the first half of 2014, and is expected to rise to 3.8 per cent in 2015. For advanced economies, growth is forecast to rise to 1.8 per cent in 2014, an increase of 0.4 percentage points from 2013. Growth is estimated to be 2.2 per cent for the United States.

Asia as a whole is expected to grow by 5.5 per cent in 2014, rising to 5.6 per cent in 2015, driven by domestic demand and the projected rebound in advanced economies and China supporting export growth. For New Zealand, the IMF expects growth to pick up to 3.6 per cent in 2014, driven by exports.

In China, growth is forecast to remain strong at 7.4 per cent in 2014 due to policy measures to boost activity. Growth is projected to moderate in 2015 as the economy transitions to a more sustainable path and residential investment slows further.

## **RISKS TO THE OUTLOOK**

The expected strengthening of household consumption parallels the expected strengthening in labour market conditions. Delays in this strengthening would constrain spending growth directly through a slower recovery in labour income, and indirectly through more cautious use of discretionary income. Conversely, consumption growth may exceed forecasts if the household savings rate declines further than anticipated, perhaps due to stronger than expected increases in household wealth.

There are uncertainties surrounding the inflation forecast. Inflation may be weaker than forecast if non-tradable prices moderate more strongly than expected or soft labour market conditions persist. Conversely, a weaker Australian dollar could lead to higher inflation in tradable goods and services.

A lower than assumed exchange rate could lead to relatively cheaper prices for domestically produced goods and services compared with those produced abroad. This would benefit Victoria's exporting industries and those exposed to import competition. However industries dependent on imports in the production process would face increased costs. The net effect over the forecast period is likely to be an increase in Victoria's GSP.

There has been volatility in financial markets in recent times, reflecting various downside risks to world economic growth. Geopolitical uncertainties represent potential sources of shocks to the international economy, which could impact on Australia and Victoria.



## CHAPTER 2 – BUDGET POSITION AND OUTLOOK

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- The general government sector operating surplus is estimated to be \$1.1 billion in 2014-15, growing to \$3.0 billion in 2017-18.
- Government infrastructure investment is projected to be \$5.8 billion in 2014-15 and \$7.0 billion a year on average over the forward estimates.
- Net debt is projected to decrease from \$21.8 billion in June 2015 to \$19.6 billion by June 2018. As a proportion of gross state product (GSP), net debt is expected to peak at 5.9 per cent in June 2015, before declining to 4.5 per cent by June 2018.
- Net financial liabilities are projected to decrease from \$54.7 billion at June 2015 to \$51.3 billion by June 2018. As a proportion of GSP, they are expected to peak at 14.8 per cent at June 2015, before declining to 11.8 per cent by June 2018.

This chapter presents the financial position of the general government sector. The estimates take account of policy decisions of the Victorian Government, revisions to Commonwealth Government funding and other information that affects the financial statements up to the issue of the election writs on 4 November 2014.

## FISCAL AGGREGATES

**Table 2.1: General government fiscal aggregates<sup>(a)</sup>**

	Unit of measure	2013-14 actual	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
Net result from transactions	\$ billion	2.0	1.3	1.1	2.3	2.7	3.0
Net debt	\$ billion	21.2	23.0	21.8	17.6	18.6	19.6
Net debt to GSP	per cent	6.0	6.2	5.9	4.5	4.5	4.5
Government infrastructure investment <sup>(b)(c)</sup>	\$ billion	5.5	7.5	5.8	7.3	7.0	6.7

Source: Department of Treasury and Finance

*Notes:*

(a) Net debt figure for 2014-15 budget reflects actual opening balances at 1 July 2014 plus 2014-15 budgeted movements.

(b) Includes general government net infrastructure investment and estimated cash flows for Partnerships Victoria projects.

(c) Excludes the impact in 2015-16 of the medium-term lease of the Port of Melbourne operations.

The operating result (net result from transactions) for the general government sector is forecast to be a surplus of \$1.1 billion in 2014-15, increasing to \$3.0 billion by 2017-18. The increasing operating surpluses are based on average annual expense growth over the forward estimates of 2.3 per cent against average annual revenue growth of 3.4 per cent over the same period.

Compared with the *2014-15 Budget*, the net result from transactions has been revised down by \$234 million in 2014-15, \$736 million in 2015-16, \$504 million in 2016-17 and \$365 million in 2017-18.

These revisions primarily reflect the prepayment in 2013-14 by the Commonwealth of \$1 billion of its total contribution to the East West Link – Western Section and \$500 million being deferred from 2017-18 to 2018-19. Other key operating movements since the *2014-15 Budget* include lower estimates for land tax, partially offset by higher GST grants.

Government infrastructure investment is projected to be \$5.8 billion in 2014-15 and average \$7.0 billion per year over the forward estimates. Compared with the *2014-15 Budget*, government infrastructure investment has been revised down by around \$1.7 billion in 2014-15. This reflects cash receipts from the sale of the Rural Finance Corporation (which is netted off against infrastructure investment) being received in 2014-15 rather than 2013-14 and revised cash flow estimates for various road and rail projects.

Net debt is forecast to fall over the budget and forward estimates, from a peak of 5.9 per cent of GSP at June 2015 to 4.5 per cent of GSP by June 2018. This is an improvement from the *2014-15 Budget* which forecast net debt to peak at 6.2 per cent in June 2015.



## BUDGET AND FORWARD ESTIMATES OUTLOOK

Table 2.2 summarises the operating statement for the general government sector. A comprehensive operating statement is presented in Table 3.1 in Chapter 3 *Estimated financial statements and notes.*

**Table 2.2: Summary operating statement for the general government sector**

	(\$ million)					
	2013-14	2014-15	2014-15	2015-16	2016-17	2017-18
	actual	budget	revised	estimate	estimate	estimate
<b>Revenue</b>						
Taxation	16 900.9	18 067.5	17 871.1	18 692.1	19 662.6	20 487.6
Dividends, TER and interest <sup>(a)</sup>	1 277.1	1 426.8	1 925.8	1 737.5	1 738.0	2 008.5
Sales of goods and services	6 724.8	6 478.4	6 559.5	6 842.5	6 847.2	6 905.0
Grants	25 144.9	24 855.3	24 513.5	25 114.2	25 915.0	26 976.0
Other current revenue	2 316.9	2 073.9	2 141.7	2 095.9	2 183.2	2 147.5
<b>Total revenue</b>	<b>52 364.7</b>	<b>52 901.9</b>	<b>53 011.6</b>	<b>54 482.3</b>	<b>56 346.1</b>	<b>58 524.6</b>
<i>Per cent change <sup>(b)</sup></i>		1.0	1.2	2.8	3.4	3.9
<b>Expenses</b>						
Employee expenses	18 012.0	18 442.3	18 492.7	19 548.1	20 101.6	20 875.0
Superannuation <sup>(c)</sup>	2 928.5	2 887.5	2 952.6	2 969.7	2 970.7	2 965.7
Depreciation	2 363.8	2 496.0	2 454.9	2 544.4	2 726.8	2 947.9
Interest expense	2 138.5	2 195.8	2 116.3	2 013.5	1 985.4	2 020.1
Other operating expenses	17 360.1	17 259.2	17 664.8	16 600.5	16 981.9	17 694.1
Grants and other transfers	7 585.6	8 294.3	8 237.8	8 511.7	8 900.1	9 056.7
<b>Total expenses</b>	<b>50 388.5</b>	<b>51 575.1</b>	<b>51 919.1</b>	<b>52 187.9</b>	<b>53 666.5</b>	<b>55 559.4</b>
<i>Per cent change <sup>(b)</sup></i>		2.4	3.0	0.5	2.8	3.5
<b>Net result from transactions</b>	<b>1 976.2</b>	<b>1 326.7</b>	<b>1 092.4</b>	<b>2 294.4</b>	<b>2 679.6</b>	<b>2 965.2</b>
<b>Total other economic flows included in net result</b>	<b>(1 203.1)</b>	<b>(174.5)</b>	<b>(217.8)</b>	<b>4 255.1</b>	<b>(263.3)</b>	<b>(283.3)</b>
<b>Net result</b>	<b>773.1</b>	<b>1 152.2</b>	<b>874.6</b>	<b>6 549.5</b>	<b>2 416.3</b>	<b>2 681.9</b>

Notes:

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

(b) 2014-15 budget and 2014-15 revised per cent change figures refer to 2013-14 actual figures.

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

## Revenue outlook

Revenue is expected to grow by 1.2 per cent in 2014-15 before growing on average by 3.4 per cent a year over the forward estimates. The lower growth in 2014-15 is largely due to a higher 2013-14 base figure following the Commonwealth Government's decision to prepay \$1 billion of its contribution to the East West Link late in 2013-14.

## Taxation

State taxation revenue is expected to grow by 5.7 per cent in 2014-15, and average 4.7 per cent a year over the forward estimates. Specifically:

- payroll tax is expected to grow below trend, by 4.0 per cent in 2014-15, reflecting a cut in the tax rate from 4.90 per cent to 4.85 per cent announced in the *2014-15 Budget*. Over the forward estimates, growth is expected to average 5.7 per cent as labour market conditions improve;
- land tax revenue is expected to grow by 5.6 per cent in 2014-15 reflecting final revaluations from the 2014 cycle, and by 3.6 per cent a year on average over the forward estimates;
- land transfer duty is expected to grow by 6.1 per cent in 2014-15, and each year on average over the forward estimates as the property market returns to trend growth following a strong recovery in 2013-14;
- gambling taxes are expected to grow by 8.3 per cent in 2014-15, reflecting the change in tax rates on electronic gaming machines announced in the *2013-14 Budget Update*. Over the forward estimates, growth is expected to average 3.4 per cent a year as the share of household consumption allocated to electronic gaming machine expenditure continues its long-running decline;
- taxes on insurance are expected to grow by 4.4 per cent in 2014-15 and 6.6 per cent a year on average over the forward estimates. The subdued growth in 2014-15 reflects lower premiums due to increased competition among insurers; and
- motor vehicle taxes are expected to grow by 11.1 per cent in 2014-15, reflecting changes to registration fees and stamp duty rates. Thereafter, growth is expected to average 4.5 per cent a year over the forward estimates in line with economic growth.

## Dividends, income tax equivalent and interest

Total dividend, income tax equivalent and interest revenue is expected to increase by \$649 million in 2014-15, largely due to a stronger than expected result for the Victorian WorkCover Authority during 2013-14, and interim dividends from the public financial corporations (PFC) sector being paid in 2014-15 instead of 2013-14.

Across the forward estimates, interest income is projected to remain relatively steady, reaching \$879 million by 2017-18. Dividend and income tax equivalent revenue is projected to decline in 2015-16 and 2016-17 mainly due to reduced profitability for the Transport Accident Commission, associated with lower discount rates which are used to value its liabilities.

### ***Sales of goods and services***

Revenue from the sales of goods and services is expected to decrease by 2.5 per cent in 2014-15, before growing by 1.7 per cent a year on average over the forward estimates due to higher than anticipated fees for services provided in 2013-14.

The decline in sales of goods and services in 2014-15 is driven by the fall in revenue from a change to the ticketing payments system following the full roll-out of the *myki* ticketing system. From 1 January 2014, metropolitan train and tram operators receive a percentage of fare revenue directly, which will continue for the duration of the current franchise contracts. This is primarily offset by an increase in the capital assets charge from VicTrack.

### ***Grants***

Total grants revenue is expected to decrease by 2.5 per cent in 2014-15 but increase by 3.2 per cent a year on average over the forward estimates.

GST grants revenue is projected to grow by 4.3 per cent in 2014-15 and 8.0 per cent a year on average over the forward estimates, reflecting expected trend growth in the GST national pool and an increase in Victoria's share of the pool towards the end of the forward estimates.

Other grants revenue is anticipated to decrease by 8.2 per cent in 2014-15 and decrease by a further 1.7 per cent a year on average over the forward estimates. The decrease in revenue in 2014-15 is largely a result of the Commonwealth's decision to prepay \$1 billion of its contribution to the East West Link in 2013-14.

### ***Other current revenue***

Other current revenue includes fines, royalties, donations and gifts in addition to assets received free of charge and other miscellaneous revenues. This revenue is anticipated to decrease by 7.6 per cent in 2014-15, reflecting a lower than estimated level of fair value of assets received free of charge and other miscellaneous income.

Other current revenue is projected to be stable over the forward estimates compared to the revised 2014-15 figure.

## Expenses outlook

Total expenses are projected to increase by 3.0 per cent in 2014-15 and 2.3 per cent a year on average over the forward estimates. The increase in expenses is largely driven by:

- total employee expenses, including superannuation, which are expected to increase by 2.4 per cent in 2014-15 and by 3.6 per cent a year on average over the forward estimates;
- depreciation expenses which are projected to grow by 3.9 per cent in 2014-15 and by an average of 6.3 per cent a year over the forward estimates, in line with growth in the infrastructure stock and the expected impact of asset revaluations;
- interest payments, which are expected to decrease in 2014-15 by 1.0 per cent. Across the forward estimates, the fall in interest payments averages 1.5 per cent a year, in line with reducing net debt;
- other operating expenses, which are anticipated to increase by 1.8 per cent in 2014-15 and remain stable over the forward estimates; and
- grants and other transfer payments are expected to grow by 8.6 per cent in 2014-15 and by an average of 3.2 per cent a year over the forward estimates, and include funding for non-government schools and grants passed on to local government.

## Other economic flows

The difference between the net result from transactions and the net result is other economic flows included in the net result, which typically include gains and losses from the disposal of non-financial assets, adjustments for bad and doubtful debts and revaluations of financial assets and liabilities.

The revised loss in other economic flows of \$218 million in 2014-15 largely comprises an estimated \$303 million increase in bad and doubtful debts, partly offset by estimated gains on the disposal of non-financial assets of \$65 million.

## Reconciliation of estimates to the *2014-15 Budget*

The net result from transactions has been revised down by \$234 million in 2014-15 and by \$535 million on average across the forward estimates, since the *2014-15 Budget*. These variations are largely revenue related and reflect lower than expected Commonwealth specific purpose and national partnership grants revenue and land tax revenue over this period.

**Table 2.3: Reconciliation of estimates to the 2014-15 Budget**

(\$ million)

	2014-15 estimate	2015-16 estimate	2016-17 estimate	2017-18 estimate
<b>Net result from transactions: 2014-15 Budget</b>	<b>1 326.7</b>	<b>3 030.0</b>	<b>3 183.2</b>	<b>3 329.7</b>
Plus: variations in revenue from transactions since 2014-15 Budget				
Policy decision variations	20.8	59.8	96.0	98.2
<b>Economic/demographic variations</b>				
Taxation	( 176.0)	( 170.5)	( 127.4)	( 125.2)
Investment income <sup>(a)</sup>	506.8	( 23.0)	( 175.8)	2.8
	<b>330.8</b>	<b>( 193.5)</b>	<b>( 303.2)</b>	<b>( 122.5)</b>
<b>Commonwealth grant variations</b>				
General purpose grants	217.1	( 51.8)	( 16.7)	243.2
Specific purpose grants	( 554.2)	( 386.8)	( 304.5)	( 793.5)
	<b>( 337.1)</b>	<b>( 438.6)</b>	<b>( 321.2)</b>	<b>( 550.3)</b>
Variations in own-source revenue <sup>(b)</sup>	163.5	15.0	73.0	54.9
Administrative variations	( 68.2)	59.6	37.5	49.7
<b>Total variation in revenue from transactions since 2014-15 Budget</b>	<b>109.7</b>	<b>( 497.7)</b>	<b>( 417.9)</b>	<b>( 470.0)</b>
Less: variations in expenses from transactions since 2014-15 Budget				
Policy decision variations	124.8	194.2	142.6	118.4
Commonwealth grant variations	101.0	40.5	( 132.9)	( 207.8)
Variations in own-source revenue <sup>(b)</sup>	172.4	41.7	96.8	66.6
<b>Administrative variations</b>				
Superannuation variations	53.2	47.0	47.5	47.7
Other administrative variations <sup>(c)</sup>	( 107.4)	( 85.5)	( 68.2)	( 130.5)
<b>Total administrative variations</b>	<b>( 54.2)</b>	<b>( 38.4)</b>	<b>( 20.8)</b>	<b>( 82.8)</b>
<b>Total variation in expenses from transactions since 2014-15 Budget</b>	<b>344.0</b>	<b>237.9</b>	<b>85.7</b>	<b>( 105.5)</b>
<b>Net result from transactions</b>	<b>1 092.4</b>	<b>2 294.4</b>	<b>2 679.6</b>	<b>2 965.2</b>

Source: Department of Treasury and Finance

Notes:

- (a) Investment income includes dividends, income tax and rate equivalent revenue and interest revenue.  
 (b) Own-source revenue variations represent third party variations by departments.  
 (c) Includes the release of contingency for new policy decisions.

### Variations to revenue from transactions

Variations to total revenue from transactions since the 2014-15 Budget are mainly due to decreases in state taxation and Commonwealth capital grant payments, which are expected to be partly offset by stronger GST revenue and increased variations in own-source revenue.

### ***Policy decision variations***

Policy decisions are forecast to increase revenue by \$21 million in 2014-15 relative to the *2014-15 Budget*, and by an average of \$85 million a year over the forward estimates largely due to increased tax compliance measures being implemented by the State Revenue Office.

Details of specific policy initiatives since the *2014-15 Budget* are contained in Appendix A *Specific policy initiatives affecting the budget position*.

### ***Economic and demographic variations***

Taxation revenue has been revised down by \$176 million in 2014-15 and by \$141 million a year on average over the forward estimates. This is due to a range of economic and demographic factors, including:

- decreases in land tax of \$155 million a year in 2014-15 and 2015-16, and \$115 million in 2016-17 and 2017-18, due to a lower than expected outcome of the 2014 revaluation by the Valuer-General;
- decreases in land transfer duty of \$22 million in 2014-15 and \$24 million a year on average over the forward estimates reflecting slightly weaker actuals for 2013-14, compared with the revised budget forecast in May; and
- decreases in motor vehicle taxes of \$28 million in 2014-15 and \$18 million a year on average over the forward estimates, due to weaker than expected revenue from vehicle registrations.

These downward revisions have been partly offset by upward revisions to insurance taxes of \$19 million in 2014-15 and \$24 million a year on average over the forward estimates, reflecting stronger than expected growth in miscellaneous categories of general insurance.

Investment income is expected to increase by \$507 million in 2014-15 and then decrease by an average of \$65 million over the forward estimates. These movements are largely caused by:

- higher dividends for the PFC sector of \$328 million in 2014-15 reflecting the rephasing of interim dividend payments from 2013-14 to 2014-15 and the impact of improved operating performance on 2014-15 dividends;
- lower income tax equivalent revenue from the PFC sector in 2016-17 of \$177 million; and
- lower dividend revenue from both the PFC and PNFC sectors over the forward estimates.

### ***Commonwealth grants variations***

General purpose grants (GST) have been revised up by \$217 million in 2014-15, down by \$34 million a year on average from 2015-16 to 2016-17 and up by \$243 million in 2017-18. These variations reflect:

- stronger than expected growth in the national GST pool in 2013-14; offset by
- Victoria's GST share decreasing as a result of changes to other Commonwealth grants in the *2014-15 Commonwealth Budget*.

Commonwealth specific purpose and national partnership grants revenue is expected to fall by \$554 million in 2014-15 and decrease by an average of \$495 million a year over the forward estimates. These reductions largely reflect the prepayment in 2013-14 by the Commonwealth of \$1 billion of its total contribution to the East West Link, resulting in revenue being reduced by \$500 million in 2014-15 and a further \$500 million over the forward estimates, along with \$500 million being deferred from 2017-18 to 2018-19.

Other movements to Commonwealth specific purpose and national partnership grants include:

- the cessation of the National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders grants averaging \$76 million a year over the budget and forward estimates;
- reduced grants for government schools averaging \$58 million a year over the budget and forward estimates, including a reduction of \$105 million in 2017-18;
- lower expected funding for hospitals in 2017-18;
- a reduction in expected *Our Water Our Future* grant payments of \$125 million in 2017-18; partially offset by
- additional funding provided under the Universal Access to Early Childhood Education National Partnership averaging \$49 million a year over 2014-15 and 2015-16, and funding averaging \$57 million a year across the forward estimates for the Tullamarine Freeway widening – Melrose Drive to the Airport project.

### ***Own-source revenue variations***

Own-source revenue has been revised up by \$164 million in 2014-15 and by an average of \$48 million a year over the forward estimates. These movements are largely due to:

- additional expected operating revenues each year from the hospitals sector and other agencies which are matched by higher expected own-source expenses; and
- higher forecast revenue for Kew Residential Services in 2014-15.

### ***Administrative variations***

Administrative revenue has been revised up by an average of \$20 million a year over the budget and forward estimates relative to the *2014-15 Budget*. This reflects various administrative movements including the accounting recognition of the use of *myki* assets (owned by VicTrack) by Public Transport Victoria, partly offset by lower than expected fees and fines revenue in 2014-15 and 2015-16.

### ***Variations to expenses from transactions***

Relative to the *2014-15 Budget*, total expenses are higher by \$344 million in 2014-15 and by an average of \$162 million a year to 2016-17, and lower by \$105 million in 2017-18. These movements are largely driven by policy decision variations and variations in own-source revenue, partly offset by a fall in Commonwealth grant expenses from 2016-17.

### ***Policy decision variations***

New output policy decisions since the *2014-15 Budget* cost \$125 million in 2014-15 and an average of \$152 million a year over the forward estimates.

Details of new policy initiatives since the *2014-15 Budget* are contained in Appendix A *Specific policy initiatives affecting the budget position*.

### ***Commonwealth grants variations***

Commonwealth grants expenditure has been revised up by \$101 million in 2014-15 and \$40 million in 2015-16, and down by an average of \$170 million a year for 2016-17 and 2017-18. The downwards movements from 2016-17 primarily reflect movements in associated Commonwealth grant revenues, including:

- reduced funding for government schools and hospitals; and
- lower on-passed local government grants.

Expected Commonwealth grants expenditure has increased for 2014-15 primarily due to increased payments for the home and community care and homelessness national partnerships, and higher expected payments under the National Health Reform Agreement and the Universal Access to Early Childhood Education National Partnership.

### ***Variations in own-source revenue***

Expenses associated with own-source revenue increased by \$172 million in 2014-15 and by an average of \$68 million a year across the forward estimates. These movements largely relate to higher revenues for hospitals, Kew Residential Services, and agencies including the Adult Multicultural Education Services.

### ***Administrative variations***

Variations to superannuation expenses have resulted in an average upward revision of \$49 million a year over the budget and forward estimates. This is primarily due to the impact of reductions in the bond yields that underlie the key superannuation valuation assumptions.

Other administrative variations have decreased by an average of \$98 million over the budget and forward estimates, largely due to:

- lower depreciation estimates for the health sector;
- lower interest payments to reflect lower interest rates and a revised profile of government borrowings;
- adjustments to the level of contingency provisions in line with government funding decisions; and
- higher additional expenditure associated with the accounting recognition of the use of *myki* assets by Public Transport Victoria.



## CASH FLOWS

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

	(\$ million)					
	2013-14 actual	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
<b>Net result from transactions</b>	<b>1 976.2</b>	<b>1 326.7</b>	<b>1 092.4</b>	<b>2 294.4</b>	<b>2 679.6</b>	<b>2 965.2</b>
Add back: non-cash revenue and expenses (net) <sup>(a)</sup>	1 966.3	2 512.7	2 874.0	2 741.9	2 656.8	2 766.3
<b>Net cash flows from operating activities</b>	<b>3 942.5</b>	<b>3 839.5</b>	<b>3 966.5</b>	<b>5 036.3</b>	<b>5 336.4</b>	<b>5 731.4</b>
Less:						
<b>Net investment in fixed assets</b>						
Purchases of non-financial assets	3 997.3	5 312.4	4 761.6	4 763.4	5 350.4	5 036.0
Net cash flows from investments in financial assets for policy purposes	1 478.3	676.8	125.4	(5 002.2)	65.5	163.5
Funding not allocated to specific purposes <sup>(b)</sup>	..	..	..	300.0	523.3	809.9
Proceeds from asset sales	( 270.9)	( 384.9)	( 395.2)	( 310.6)	( 472.6)	( 396.1)
<b>Total net investment in fixed assets <sup>(c)</sup></b>	<b>5 204.7</b>	<b>5 604.3</b>	<b>4 491.9</b>	<b>( 249.4)</b>	<b>5 466.6</b>	<b>5 613.3</b>
<b>Surplus/(deficit) of cash from operations after funding net investment in fixed assets</b>	<b>(1 262.1)</b>	<b>(1 764.8)</b>	<b>( 525.4)</b>	<b>5 285.7</b>	<b>( 130.2)</b>	<b>118.2</b>
Finance leases <sup>(d)</sup>	109.5	36.4	36.4	1 050.4	873.0	1 055.8
Other investment activities (net)	( 19.1)	51.7	32.3	30.8	42.4	50.0
<b>Decrease/(increase) in net debt</b>	<b>(1 352.5)</b>	<b>(1 853.0)</b>	<b>( 594.1)</b>	<b>4 204.5</b>	<b>(1 045.6)</b>	<b>( 987.6)</b>

Source: Department of Treasury and Finance

Notes:

- (a) Includes depreciation, movements in the unfunded superannuation liability and liability for employee benefits.
- (b) Amount available to be allocated to specific departments and projects in future budgets including capital contributions to other sectors.
- (c) Includes total purchases of plant, property and equipment, and capital contributions to other sectors of government net of proceeds from asset sales.
- (d) The finance lease acquisition in 2014-15 relates to metropolitan buses contract. The 2015-16 estimate relates to the Victorian Comprehensive Cancer Centre. The 2016-17 estimate relates to the new Bendigo Hospital project (Stage 1), the Cranbourne-Pakenham Rail Corridor project and the School capital program (Tranche 1). The 2017-18 estimate relates to the Cranbourne-Pakenham Rail Corridor project, the Ravenhall Prison project, the School capital program (Tranche 2) and the new Bendigo Hospital project (Stage 2).

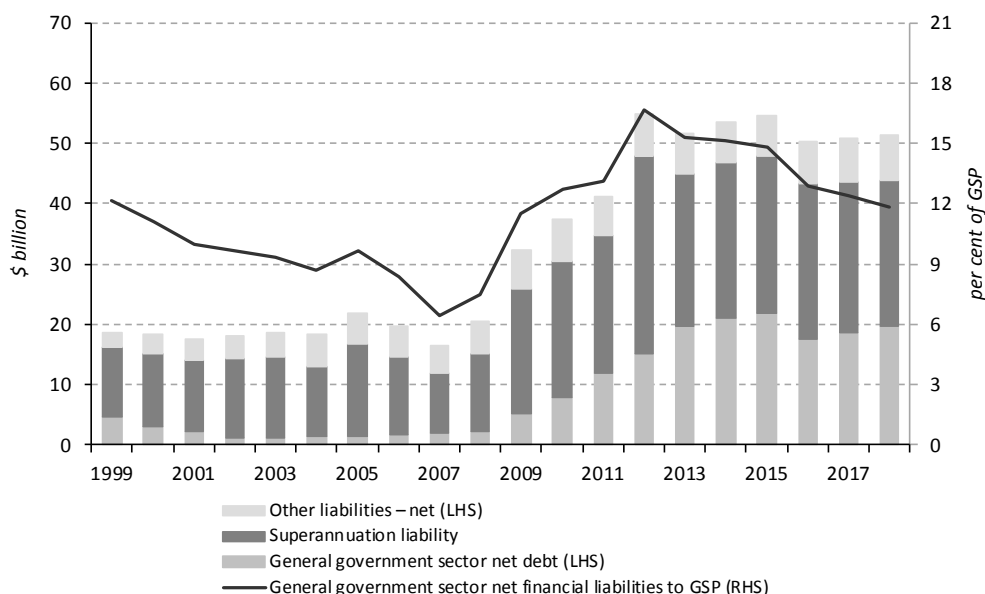
Total net investment in fixed assets is projected to be \$4.5 billion in 2014-15. In addition to net investment in fixed assets, infrastructure investment is also funded and delivered through public private partnerships. These projects are not captured through the net investment in fixed assets measure as the construction of these infrastructure assets is generally undertaken by the private sector.

By including estimated cash flows associated with the construction of infrastructure under public private partnership arrangements, total government infrastructure investment is projected to be \$5.8 billion in 2014-15 and \$7.0 billion a year on average over the forward estimates.

## NET DEBT AND NET FINANCIAL LIABILITIES

Chart 2.1 presents the trend in net financial liabilities, a key measure of overall indebtedness used by international credit rating agencies to assess the State’s financial position.

**Chart 2.1: General government net financial liabilities<sup>(a)</sup>**



Source: Department of Treasury and Finance

Note:

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

General government net financial liabilities is a measure that sums the superannuation liability, net debt (sum of deposits held, advances received and borrowings less the sum of cash, deposits, advances paid and investments, loans and placements) and other net liabilities.

Net debt is projected to peak at a lower level when compared to the *2014-15 Budget* largely due to the timing of payments for capital projects and revised capital grants from the Commonwealth.

Movement in the superannuation liability primarily reflects variations in the discount rate required to value the superannuation liability under Australian Accounting Standard AASB 119 *Employee Benefits*.

Overall, estimated net financial liabilities as a proportion of GSP are on a downward trajectory over the forward estimates.

**Table 2.5: General government sector net debt and net financial liabilities**

	(\$ billion)					
	2014 actual	2015 budget	2015 revised	2016 budget	2017 estimate	2018 estimate
<b>Financial assets</b>						
Cash and deposits	4.5	4.7	4.7	4.9	5.2	5.6
Advances paid	4.6	4.5	4.6	4.5	4.5	4.4
Investments, loans and placements	3.1	3.1	3.1	3.2	3.3	3.4
<b>Total</b>	<b>12.2</b>	<b>12.3</b>	<b>12.3</b>	<b>12.6</b>	<b>13.0</b>	<b>13.5</b>
<b>Financial liabilities</b>						
Deposits held and advances received	0.4	0.4	0.4	0.4	0.4	0.4
Borrowings	33.0	34.9	33.7	29.8	31.2	32.6
<b>Total</b>	<b>33.4</b>	<b>35.4</b>	<b>34.1</b>	<b>30.2</b>	<b>31.6</b>	<b>33.1</b>
<b>Net debt</b> <sup>(a)(b)</sup>	21.2	23.0	21.8	17.6	18.6	19.6
Superannuation liability	25.7	25.4	26.1	25.6	25.0	24.3
<b>Net debt plus superannuation liability</b>	<b>46.9</b>	<b>48.4</b>	<b>47.9</b>	<b>43.2</b>	<b>43.6</b>	<b>43.9</b>
Other liabilities (net) <sup>(c)</sup>	6.7	6.5	6.8	7.1	7.3	7.4
<b>Net financial liabilities</b> <sup>(d)</sup>	<b>53.5</b>	<b>54.9</b>	<b>54.7</b>	<b>50.3</b>	<b>50.9</b>	<b>51.3</b>
	(per cent)					
<b>Net debt to GSP</b> <sup>(e)</sup>	6.0	6.2	5.9	4.5	4.5	4.5
<b>Net debt plus superannuation liability to GSP</b> <sup>(e)</sup>	13.3	13.1	12.9	11.1	10.6	10.1
<b>Net financial liabilities to GSP</b> <sup>(e)</sup>	15.1	14.8	14.8	12.9	12.4	11.8

*Notes:*

- (a) Net debt figure for 2014-15 budget reflects actual opening balances at 1 July 2014 plus 2014-15 budgeted movements.
- (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) Includes other employee entitlements and provisions and liabilities, less other non-equity financial assets.
- (d) Net financial liabilities are the sum of superannuation, borrowings and other liabilities less other non-equity financial assets.
- (e) Ratios to GSP may vary from publications year to year due to revisions to the ABS GSP data.

## **FISCAL RISKS**

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

Details of specific contingent assets and liabilities, defined as possible assets or liabilities that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, are contained within Chapter 4 *Contingent assets and contingent liabilities*.

### **General fiscal risks**

#### ***State taxes***

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

For example, higher than expected economic activity or inflation will tend to lead to higher taxation revenue. Specific economic risks are presented in Chapter 1 *Economic conditions and outlook* and the fiscal implications of variations in economic parameters from forecasts are considered in Appendix B *Sensitivity analysis table*.

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

#### ***Commonwealth grants***

The distribution of GST grants between states and territories is determined by the size of the national GST pool and each jurisdiction's population share weighted by its GST relativity, as informed by the recommendations of the Commonwealth Grants Commission (CGC).

Changes to national economic conditions, particularly regarding consumer spending, affect the size of the national pool, while other changes, including to the CGC's methodology, will affect each jurisdiction's fiscal capacity.

The Commonwealth provides additional funding to Victoria as set out in national partnership agreements, several of which are due to lapse over the forward estimates.

#### ***Employee expenses***

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

## ***Demand growth***

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

The estimates incorporate contingency provisions to mitigate the impact of expenditure risks, which may be realised during the budget and forward estimates. The contingency provisions are designed to address the likely growth in Victoria's population and consequent derived demand for government services.

Realised expenditure risks will affect total expenditure and the annual budget position to the extent they exceed the contingency provision factored into the estimates. More detailed disclosures of general government output and asset contingencies not allocated to departments are shown in note 12(c) and note 19(c) of Chapter 3 *Estimated financial statements and notes*.

## ***Major capital investment***

The estimates incorporate provisions and plans for significant capital expenditure during and beyond the forward estimates, including for the impacts of the major transport initiatives announced as part of the *2014-15 Budget*.

The financing structure and annual cash flow profile of large and complex projects may change over the duration of the Government's approved capital program, and result in changes to annual capital expenditure estimates. It is expected that annual variations would not materially alter the broad trajectory for net debt beyond the forward estimates.

The budget and forward estimates assume capital cost pressures are managed within existing financial estimates. Capital cost pressures can be managed by:

- reallocating existing departmental resources within a department's global capital budget (reflecting the likelihood that cost overruns on some projects will be offset by cost underruns in other areas);
- re-scoping projects to fit within funding parameters; or
- funding projects from the 'funding not allocated to specific purposes' provision that provides capacity for future asset investments.

## **Specific fiscal risks**

### ***National Disability Insurance Scheme***

On 4 May 2013, the Victorian Government reached an agreement with the Commonwealth Government to roll out the National Disability Insurance Scheme (NDIS) across Victoria by July 2019. Once fully implemented, Victoria's investment in disability care and support will increase to an estimated \$2.5 billion a year, with the Commonwealth providing around \$2.6 billion a year. Further, Victoria continues to host a launch site for the NDIS in the Barwon area of the state. Victoria will work with the Commonwealth to monitor and manage any risks associated with implementing the full scheme.

### ***National Injury Insurance Scheme***

The Commonwealth Government expects the State to fund the total cost in Victoria of a National Injury Insurance Scheme, to support people who suffer catastrophic injuries. Victoria already provides support for people injured in motor vehicle and workplace accidents, but has not agreed to implement other streams of a National Injury Insurance Scheme.

### ***Commonwealth schools funding***

While final State allocations for the 2018 school year are still subject to negotiation, the *2014-15 Commonwealth Budget* indicated that Commonwealth funding for Victorian schools would be reduced to the rate of growth of the Consumer Price Index, plus an adjustment for enrolment growth.

### ***National Health Reform***

The National Health Reform Agreement (NHRA) significantly changed the way the Commonwealth funds Victorian health services. The Agreement includes a more complex funding model based on the number of procedures delivered (activity) and an efficient price determined by an independent administrator. Given this added complexity, as well as the early implementation stage of the Agreement, the Commonwealth funding outcome is uncertain. Moreover, the *2014-15 Commonwealth Budget* indicated that the Commonwealth Government will cease the guarantees that were previously included under the NHRA (for example, a guarantee that Victoria will receive equivalent funding to that under the previous arrangements). The Commonwealth Government indicated that it will cease the NHRA from 1 July 2017, and return to a funding model where growth funding is based on the Consumer Price Index and population growth.

## ***Methodology Review of GST Revenue Sharing Relativities***

The CGC is currently reviewing the methodology for calculating GST relativities for distributing the national pool among the states and territories. The CGC 2015 Methodology Review of GST Revenue Sharing Relativities is due to be released in February 2015, along with the relativities for the 2015-16 financial year. The final outcome of the review has the potential to affect Victoria's GST grant share, the magnitude of which will be unclear prior to the finalisation of relativities for 2015-16.

## ***Victoria's GST relativity***

Strong growth in mining royalties is an important driver for the per capita relativities of each jurisdiction over the forward estimates. Royalty revenue is influenced by commodity prices, the value of the Australian dollar and production and export volumes. Official forecasts currently reflect a softening of commodity prices offset by rising production and export volumes. Although the net effect is difficult to predict, it should be noted that the iron ore price has fallen significantly below that forecast by Western Australia in its *2014-15 Budget*, which could see mining royalties below expectations. This would pose a downside risk to Victoria's relativity, weighing on GST revenue from 2016-17.

## ***Australian Synchrotron***

The Australian Synchrotron is a world class national research facility supporting a broad range of high quality research, with applications in sectors from medicine and nanotechnology to manufacturing and mineral exploration. The State Government has been in discussions with the Commonwealth Government to transfer ownership of this asset to the Commonwealth for no consideration. The timing of this transfer is being negotiated.

## ***Melbourne Convention and Exhibition Centre***

The Government has commenced negotiations with Plenary to consider how an expansion of the Melbourne Convention and Exhibition Centre (MCEC) can be integrated into the existing facility. State costs associated with a future decision to proceed with an expansion of MCEC would require a funding decision by government.





## CHAPTER 3 – ESTIMATED FINANCIAL STATEMENTS AND NOTES

**Table 3.1 Estimated general government sector comprehensive operating statement for the financial year ending 30 June**

<i>(\$ million)</i>						
	<i>Notes</i>	<i>2014-15 budget</i>	<i>2014-15 revised</i>	<i>2015-16 estimate</i>	<i>2016-17 estimate</i>	<i>2017-18 estimate</i>
<b>Revenue from transactions</b>						
Taxation revenue	2	18 067.5	17 871.1	18 692.1	19 662.6	20 487.6
Interest revenue		842.1	834.4	849.8	864.0	878.7
Dividends and income tax equivalent and rate equivalent revenue	3	584.7	1 091.5	887.7	874.0	1 129.8
Sales of goods and services	4	6 478.4	6 559.5	6 842.5	6 847.2	6 905.0
Grants	5	24 855.3	24 513.5	25 114.2	25 915.0	26 976.0
Other revenue	6	2 073.9	2 141.7	2 095.9	2 183.2	2 147.5
<b>Total revenue from transactions</b>		<b>52 901.9</b>	<b>53 011.6</b>	<b>54 482.3</b>	<b>56 346.1</b>	<b>58 524.6</b>
<b>Expenses from transactions</b>						
Employee expenses		18 442.3	18 492.7	19 548.1	20 101.6	20 875.0
Net superannuation interest expense	7	1 023.9	1 014.8	976.7	958.2	936.4
Other superannuation	7	1 863.7	1 937.8	1 993.0	2 012.5	2 029.3
Depreciation	8	2 496.0	2 454.9	2 544.4	2 726.8	2 947.9
Interest expense	9	2 195.8	2 116.3	2 013.5	1 985.4	2 020.1
Grants and other transfers	10	8 294.3	8 237.8	8 511.7	8 900.1	9 056.7
Other operating expenses	11	17 259.2	17 664.8	16 600.5	16 981.9	17 694.1
<b>Total expenses from transactions</b>	12	<b>51 575.1</b>	<b>51 919.1</b>	<b>52 187.9</b>	<b>53 666.5</b>	<b>55 559.4</b>
<b>Net result from transactions – net operating balance</b>		<b>1 326.7</b>	<b>1 092.4</b>	<b>2 294.4</b>	<b>2 679.6</b>	<b>2 965.2</b>
<b>Other economic flows included in net result</b>						
Net gain/(loss) on disposal of non-financial assets		106.3	65.1	61.8	64.6	73.8
Net gain/(loss) on financial assets or liabilities at fair value		2.8	3.3	4 503.6	6.8	6.8
Other gains/(losses) from other economic flows	13	( 283.6)	( 286.2)	( 310.3)	( 334.7)	( 363.8)
<b>Total other economic flows included in net result</b>		<b>( 174.5)</b>	<b>( 217.8)</b>	<b>4 255.1</b>	<b>( 263.3)</b>	<b>( 283.3)</b>
<b>Net result</b>		<b>1 152.2</b>	<b>874.6</b>	<b>6 549.5</b>	<b>2 416.3</b>	<b>2 681.9</b>

**Table 3.1 Estimated general government sector comprehensive operating statement for the financial year ending 30 June (continued)**

(\$ million)

	Notes	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
<b>Other economic flows – other comprehensive income</b>						
<b>Items that will not be reclassified to net result</b>						
Changes in non-financial assets revaluation surplus		3 906.5	3 871.6	426.0	1 933.4	4 595.9
Remeasurement of superannuation defined benefit plans	7	499.2	( 177.2)	699.6	714.2	728.4
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	14	2 884.3	2 884.3	438.8	( 137.4)	( 93.5)
Other movements in equity		0.1	( 0.8)	( 7.6)	( 8.4)	( 5.4)
<b>Items that may be reclassified subsequently to net result</b>						
Net gain/(loss) on financial assets at fair value		1.1	1.1	1.2	1.2	1.2
<b>Total other economic flows – other comprehensive income</b>		<b>7 291.2</b>	<b>6 579.1</b>	<b>1 558.1</b>	<b>2 503.0</b>	<b>5 226.6</b>
<b>Comprehensive result – total change in net worth</b>		<b>8 443.5</b>	<b>7 453.7</b>	<b>8 107.6</b>	<b>4 919.3</b>	<b>7 908.5</b>
<b>KEY FISCAL AGGREGATES</b>						
<b>Net operating balance</b>		1 326.7	1 092.4	2 294.4	2 679.6	2 965.2
Less: Net acquisition of non-financial assets from transactions	15	966.4	584.3	2 391.5	2 992.8	2 776.9
<b>Net lending/(borrowing)</b>		<b>360.4</b>	<b>508.2</b>	<b>( 97.1)</b>	<b>( 313.2)</b>	<b>188.3</b>

*The accompanying notes form part of these estimated financial statements*

**Table 3.2 Estimated general government sector balance sheet as at 30 June**

(\$ million)

	Notes	2015 budget <sup>(a)</sup>	2015 revised	2016 estimate	2017 estimate	2018 estimate
<b>Assets</b>						
<b>Financial assets</b>						
Cash and deposits		4 654.1	4 662.6	4 928.3	5 229.8	5 575.9
Advances paid	16	4 537.7	4 563.8	4 519.5	4 482.1	4 435.2
Receivables		4 861.3	5 055.3	4 879.6	4 874.8	4 946.6
Investments, loans and placements	16	3 140.3	3 102.1	3 198.5	3 318.4	3 444.5
Investments accounted for using equity method		44.1	44.1	44.1	44.1	44.1
Investments in other sector entities	14	81 013.8	80 287.5	81 149.5	81 709.4	82 653.0
<b>Total financial assets</b>		<b>98 251.3</b>	<b>97 715.4</b>	<b>98 719.6</b>	<b>99 658.6</b>	<b>101 099.4</b>
<b>Non-financial assets</b>						
Inventories		175.1	170.6	174.2	177.8	182.3
Non-financial assets held for sale		142.5	139.2	139.2	139.2	139.2
Land, buildings, infrastructure, plant and equipment	17, 18	108 299.7	107 867.5	110 807.2	115 776.5	123 230.7
Other non-financial assets		1 190.5	1 172.8	1 113.1	1 084.7	962.8
<b>Total non-financial assets</b>		<b>109 807.8</b>	<b>109 350.1</b>	<b>112 233.8</b>	<b>117 178.1</b>	<b>124 514.9</b>
<b>Total assets</b>	19(d)	<b>208 059.1</b>	<b>207 065.5</b>	<b>210 953.4</b>	<b>216 836.7</b>	<b>225 614.2</b>
<b>Liabilities</b>						
Deposits held and advances received		426.4	426.4	426.3	426.2	426.1
Payables	20	5 207.0	5 742.9	5 610.0	5 508.9	5 370.2
Borrowings	21	34 933.3	33 670.9	29 784.4	31 214.0	32 626.9
Employee benefits	22	5 535.2	5 527.8	5 778.2	6 027.8	6 280.4
Superannuation	7	25 377.9	26 107.4	25 635.8	24 997.4	24 313.9
Other provisions		649.1	649.6	670.5	694.9	720.7
<b>Total liabilities</b>		<b>72 128.8</b>	<b>72 124.9</b>	<b>67 905.2</b>	<b>68 869.2</b>	<b>69 738.2</b>
<b>Net assets</b>		<b>135 930.3</b>	<b>134 940.6</b>	<b>143 048.2</b>	<b>147 967.5</b>	<b>155 876.0</b>
Accumulated surplus/(deficit)		46 066.5	45 110.9	52 348.1	55 460.9	58 855.4
Reserves	23	89 813.8	89 779.6	90 650.0	92 456.5	96 970.6
Non-controlling interest		50.0	50.0	50.0	50.0	50.0
<b>Net worth</b>		<b>135 930.3</b>	<b>134 940.6</b>	<b>143 048.2</b>	<b>147 967.5</b>	<b>155 876.0</b>
<b>FISCAL AGGREGATES</b>						
Net financial worth		26 122.6	25 590.5	30 814.4	30 789.3	31 361.1
Net financial liabilities		54 891.3	54 697.1	50 335.1	50 920.1	51 291.9
Net debt		23 027.6	21 768.8	17 564.3	18 609.9	19 597.5

The accompanying notes form part of these estimated financial statements

Note:

(a) Balances represent actual opening balances at 1 July 2014 plus 2014-15 budgeted movements.

**Table 3.3 Estimated general government sector cash flow statement for the financial year ended 30 June**

		(\$ million)				
Notes	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate	
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Taxes received	18 043.9	18 077.2	18 694.1	19 613.7	20 358.8	
Grants	24 848.0	24 475.1	25 202.7	25 914.7	26 975.8	
Sales of goods and services <sup>(a)</sup>	7 094.1	7 234.0	7 619.7	7 662.6	7 696.9	
Interest received	821.7	813.9	830.7	846.8	861.4	
Dividends and income tax equivalent and rate equivalent receipts	581.1	1 087.9	887.6	868.5	1 124.3	
Other receipts	1 796.6	1 895.9	1 688.3	1 745.0	1 674.7	
<b>Total receipts</b>	<b>53 185.4</b>	<b>53 584.0</b>	<b>54 923.1</b>	<b>56 651.4</b>	<b>58 691.8</b>	
<b>Payments</b>						
Payments for employees	(18 212.0)	(18 274.3)	(19 299.9)	(19 854.2)	(20 624.7)	
Superannuation	(2 691.2)	(2 703.1)	(2 741.6)	(2 894.9)	(2 920.9)	
Interest paid	(2 155.3)	(2 075.8)	(1 975.9)	(1 949.0)	(1 983.5)	
Grants and subsidies	(8 331.7)	(8 277.8)	(8 576.3)	(9 000.3)	(9 082.3)	
Goods and services <sup>(a)</sup>	(17 285.6)	(17 614.9)	(16 633.4)	(16 922.1)	(17 614.7)	
Other payments	( 670.1)	( 671.5)	( 659.8)	( 694.6)	( 734.4)	
<b>Total payments</b>	<b>(49 345.9)</b>	<b>(49 617.5)</b>	<b>(49 886.9)</b>	<b>(51 315.0)</b>	<b>(52 960.4)</b>	
<b>Net cash flows from operating activities</b>	<b>3 839.5</b>	<b>3 966.5</b>	<b>5 036.3</b>	<b>5 336.4</b>	<b>5 731.4</b>	
<b>Cash flows from investing activities</b>						
Purchases of non-financial assets	19a, b (5 312.4)	(4 761.6)	(5 063.4)	(5 873.7)	(5 845.8)	
Sales of non-financial assets	384.9	395.2	310.6	472.6	396.1	
Cash flows from investments in non-financial assets	(4 927.5)	(4 366.5)	(4 752.8)	(5 401.1)	(5 449.7)	
Net cash flows from investments in financial assets for policy purposes	( 676.8)	( 125.4)	5 002.2	( 65.5)	( 163.5)	
<b>Subtotal</b>	<b>(5 604.3)</b>	<b>(4 491.9)</b>	<b>249.4</b>	<b>(5 466.6)</b>	<b>(5 613.3)</b>	
Net cash flows from investments in financial assets for liquidity management purposes	( 17.7)	13.6	( 76.9)	( 118.6)	( 123.0)	
<b>Net cash flows from investing activities</b>	<b>(5 622.0)</b>	<b>(4 478.3)</b>	<b>172.5</b>	<b>(5 585.2)</b>	<b>(5 736.2)</b>	

	2014-15 <i>Notes</i> <i>budget</i>	2014-15 <i>revised</i>	2015-16 <i>estimate</i>	2016-17 <i>estimate</i>	2017-18 <i>estimate</i>
<b>Cash flows from financing activities</b>					
Net borrowings	1 935.8	673.6	(4 942.9)	550.4	350.9
Deposits received (net)	( 0.1)	( 0.1)	( 0.1)	( 0.1)	( 0.1)
<b>Net cash flows from financing activities</b>	<b>1 935.7</b>	<b>673.5</b>	<b>(4 943.0)</b>	<b>550.3</b>	<b>350.9</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>153.2</b>	<b>161.7</b>	<b>265.8</b>	<b>301.5</b>	<b>346.1</b>
Cash and cash equivalents at beginning of reporting period <sup>(b)</sup>	4 500.9	4 500.9	4 662.6	4 928.3	5 229.8
<b>Cash and cash equivalents at end of reporting period <sup>(b)</sup></b>	<b>4 654.1</b>	<b>4 662.6</b>	<b>4 928.3</b>	<b>5 229.8</b>	<b>5 575.9</b>
<b>FISCAL AGGREGATES</b>					
Net cash flows from operating activities	3 839.5	3 966.5	5 036.3	5 336.4	5 731.4
Net cash flows from investments in non-financial assets	(4 927.5)	(4 366.5)	(4 752.8)	(5 401.1)	(5 449.7)
<b>Cash surplus/(deficit)</b>	<b>(1 088.0)</b>	<b>( 400.0)</b>	<b>283.5</b>	<b>( 64.7)</b>	<b>281.7</b>

*The accompanying notes form part of these estimated financial statements.*

Notes:

(a) Inclusive of goods and services tax.

(b) 2014-15 Budget figures have been restated to represent actual opening balances at 1 July 2014.

**Table 3.4 Estimated general government sector statement of changes in equity for the financial year ending 30 June**

(\$ million)

	<i>Accumulated surplus/(deficit)</i>	<i>Non-controlling interest</i>
<b>2014-15 budget <sup>(a)</sup></b>		
Balance at 1 July 2014	44 410.0	50.0
Net result for the year	1 152.2	..
Other comprehensive income for the year	504.3	..
<b>Total equity at end of period</b>	<b>46 066.5</b>	<b>50.0</b>
<b>2014-15 revised</b>		
Balance at 1 July 2014	44 410.0	50.0
Net result for the year	874.6	..
Other comprehensive income for the year	( 173.7)	..
<b>Total equity at end of period</b>	<b>45 110.9</b>	<b>50.0</b>
<b>2015-16 estimate</b>		
Balance at 1 July 2015	45 110.9	50.0
Net result for the year	6 549.5	..
Other comprehensive income for the year	687.7	..
<b>Total equity at end of period</b>	<b>52 348.1</b>	<b>50.0</b>
<b>2016-17 estimate</b>		
Balance at 1 July 2016	52 348.1	50.0
Net result for the year	2 416.3	..
Other comprehensive income for the year	696.5	..
<b>Total equity at end of period</b>	<b>55 460.9</b>	<b>50.0</b>
<b>2017-18 estimate</b>		
Balance at 1 July 2017	55 460.9	50.0
Net result for the year	2 681.9	..
Other comprehensive income for the year	712.5	..
<b>Total equity at end of period</b>	<b>58 855.4</b>	<b>50.0</b>

Note:

(a) Balances represent opening balances at 1 July 2014 plus 2014-15 budgeted movements.

<i>Land, buildings, infrastructure, plant and equipment revaluation surplus</i>	<i>Investment in other sector entities revaluation surplus</i>	<i>Other reserves</i>	<i>Total</i>
40 199.2	42 187.3	640.3	127 486.9
..	..	..	1 152.2
3 906.5	2 884.3	( 3.9)	7 291.2
<b>44 105.8</b>	<b>45 071.6</b>	<b>636.4</b>	<b>135 930.3</b>
40 199.2	42 187.3	640.3	127 486.9
..	..	..	874.6
3 871.6	2 884.3	( 3.1)	6 579.1
<b>44 070.8</b>	<b>45 071.6</b>	<b>637.2</b>	<b>134 940.6</b>
44 070.8	45 071.6	637.2	134 940.6
..	..	..	6 549.5
426.0	438.8	5.5	1 558.1
<b>44 496.9</b>	<b>45 510.4</b>	<b>642.7</b>	<b>143 048.2</b>
44 496.9	45 510.4	642.7	143 048.2
..	..	..	2 416.3
1 933.4	( 137.4)	10.5	2 503.0
<b>46 430.3</b>	<b>45 373.1</b>	<b>653.2</b>	<b>147 967.5</b>
46 430.3	45 373.1	653.2	147 967.5
..	..	..	2 681.9
4 595.9	( 93.5)	11.7	5 226.6
<b>51 026.2</b>	<b>45 279.6</b>	<b>664.8</b>	<b>155 876.0</b>

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## **Note 1: Statement of significant accounting policies and forecast assumptions**

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

Except as disclosed below, the accounting policies and forecast assumptions applied are consistent with those of the estimated financial statements as published in the 2014-15 Budget Paper No. 5 *Statement of Finances*, which should be read in conjunction with this statement. For further details of the accounting policies, refer to Note 1 of Chapter 4 *Annual Financial Report* of the 2013-14 *Financial Report* for the State of Victoria as presented to Parliament.

To gain a better understanding of the terminology and key aggregates used in this report, a glossary of terms can be found in Note 40 of Chapter 4 *Annual Financial Report* of the 2013-14 *Financial Report* for the State of Victoria.

### **(A) Statement of compliance**

These estimated financial statements have been prepared in accordance with Section 27-27C of the *Financial Management Act 1994*, having regard to Australian Accounting Standards (AAS). AAS include Interpretations issued by the Australian Accounting Standards Board (AASB).

The estimated financial statements are presented in a manner consistent with the principles of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049). However, the prospective nature of these estimated financial statements means that some AAS disclosures are neither relevant nor practical, and have been omitted. Where appropriate, those AAS paragraphs relevant to not-for-profit entities have been applied. As AAS do not include pronouncements that prescribe the preparation and presentation of prospective financial statements, the estimated financial statements have been prepared having regard to the principles set out in New Zealand Financial Reporting Standard 42 *Prospective Financial Statements*.

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

The information presented in the estimated financial statements takes into account all policy decisions taken by the Victorian Government, as well as known Commonwealth Government funding revisions and circumstances that may have a material effect on the estimated financial statements as at 4 November 2014.

### **(B) Basis of accounting, preparation and measurement**

The estimated financial statements have been prepared for the 2014-15 year in accordance with accounting policies expected to be used in preparing historically oriented general purpose financial statements for that year, and the same accounting policies have been used for the subsequent forecast years.

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

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

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

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

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

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

For assets and liabilities measured at fair value in the estimated balance sheet, the principles under AASB 13 *Fair Value Measurements* have been applied.

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

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

Economic flows are changes arising from market remeasurements or other changes in the volume of assets. They include gains and losses from disposals, revaluations and impairments of non-financial physical and intangible assets, actuarial gains and losses arising from defined benefit superannuation plans, fair value changes of financial instruments and agricultural assets, and depletion of natural assets (non-produced) from their use or removal.

### **(C) Reporting entity**

The estimated financial statements are prepared for the Victorian general government sector which includes all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. The primary function of entities in the Victorian general government sector is to provide public services (outputs), which are mainly non-market in nature, for the collective consumption of the community, and involve the transfer or redistribution of revenue that is financed mainly through taxes and other compulsory levies.

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

### **(D) Basis of consolidation**

The estimated financial statements present the consolidated assets and liabilities of all reporting entities in the Victorian general government sector, and their revenue, gains and expenses for the respective period, consistent with the principles of AASB 1049 and AASB 10 *Consolidated Financial Statements*.

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

AASB 10 is operative for the annual reporting periods beginning on or after 1 January 2014. This Standard replaces the requirements in AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 112 *Consolidation – Special Purpose Entities*, which were applied in the preparation of the audited 2013-14 annual financial report. The new Standard does not introduce new concepts, but rather builds on control guidance that existed in AASB 127 and Interpretation 112. Three criteria are required to assess whether control exists, including the entity's rights over an investee; the entity's exposure or rights to variable returns from an investee; and the ability to affect those returns through power over an investee. It has been assessed that the revised requirements are not expected to impact on the estimated financial statements.

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

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

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

The significant entities consolidated within the sector comprise those entities listed in Note 42 of Chapter 4 *Annual Financial Report* of the *2013-14 Financial Report* for the State of Victoria, except as stated in Note 26 of the estimated financial statements.

### **(E) Rounding**

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

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

### (F) Key financial measure

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

### (G) Revised material economic and other assumptions

The estimated financial statements have been prepared using material economic and other assumptions listed below, which have been updated since the publication of the *2014-15 Budget*.

#### Key economic assumptions<sup>(a)</sup>

	2014-15 forecast	2015-16 forecast	2016-17 forecast	2017-18 forecast
	(\$ billion)			
Nominal gross state product	369.9	390.3	411.4	433.5
	(percentage change) <sup>(b)</sup>			
Real gross state product	2.50	2.75	2.75	2.75
Employment	1.25	1.50	1.50	1.50
Unemployment rate	6.50	6.25	6.00	5.50
Consumer price index <sup>(c)</sup>	2.25	2.50	2.50	2.50
Wage price index <sup>(d)</sup>	3.25	3.50	3.50	3.50
Population	1.8	1.8	1.8	1.8

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

#### Notes:

- (a) The key assumptions underlying the economic forecasts include: interest rates that follow movements in market expectations in the short term, and stabilise thereafter; a trade-weighted index of 71.7; and oil prices that follow the path suggested by oil futures.
- (b) Per cent change in year-average compared with previous year, except for unemployment rate which is year-average per cent and population which is per cent change over the year to 30 June. Forecasts are rounded to the nearest 0.25 percentage points, except for population which is rounded to nearest 0.1 percentage point.
- (c) Melbourne consumer price index.
- (d) Total hourly rate excluding bonuses.

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

### Revised forecast assumptions for superannuation

The accounting policies relating to superannuation expenses and liabilities are consistent with those applied in preparing and presenting the *2014-15 Budget*. However, the forecast assumptions have been revised for the budget year and forward years for each relevant defined benefit superannuation scheme as disclosed in the following table.

<i>Underlying assumptions for all listed schemes</i> <sup>(a)</sup>	<i>Per cent</i>
Discount rate <sup>(b)</sup>	3.8
Wages growth <sup>(c)</sup>	3.9
Inflation rate <sup>(d)</sup>	2.4
<i>Expected return on assets</i> <sup>(e)</sup>	
Emergency Services and State Super	8.0
Health Super Fund Defined Benefit Scheme	5.8
Constitutionally protected schemes <sup>(f)</sup>	n/a

Source: Department of Treasury and Finance

Notes:

- (a) All rates are nominal annual rates and are applicable to all the listed schemes.
- (b) The discount rate is based on a long-term fixed interest Commonwealth Government bond rate. The rate stated above is an annual effective rate, gross of tax.
- (c) Wages growth is based on actuarial expectations.
- (d) The inflation rate assumed by the actuary reflects market expectations of price inflation, implied from the relationship between the yields on nominal and inflation linked Commonwealth Government bonds. This ensures consistency with the prescribed (i.e. market-based) discount rate.
- (e) The expected return on assets stated is gross of tax. Estimated tax payments are explicitly allowed for in the calculation process.
- (f) Pensions payable from constitutionally protected schemes are paid from the Consolidated Fund. These schemes hold no assets so there is no expected return on assets.

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

### Asset allocation

<i>Asset class</i>	<i>Per cent</i>
Domestic equity	26.8
International equity	26.8
Domestic and international debt assets	17.4
Property	7.6
Cash	4.2
Other (including private equity, hedge funds and infrastructure)	17.2
<b>Total</b>	<b>100.0</b>

Source: Department of Treasury and Finance

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

### **(H) Sensitivity analysis**

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

Refer to Appendix B *Sensitivity analysis table*, which sets out the sensitivity analysis performed by the Department of Treasury and Finance. This analysis sets out the impact on the above estimated aggregates of selected economic indicators being one per cent higher or lower than expected.

### **(I) Prospective accounting changes**

The following relevant AASs have been issued by the AASB but are not yet effective for the 2014-15 year. They become effective for the first consolidated financial statements for reporting periods commencing after the relevant operative date as follows:

- AASB 9 *Financial Instruments*, operative for reporting periods beginning from 1 January 2018 as revised by AASB 2014-1 *Amendments to Australian Accounting Standards (Part E Financial Instruments)*. AASB 9 simplifies requirements for the classification and measurement of financial assets, introduces a new hedging accounting model and also considers a revised impairment loss model to recognise impairment loss earlier, as opposed to the current approach that recognises impairment loss only when incurred.
- AASB 1056 *Superannuation Entities*, operative from 1 July 2016. AASB 1056 replaces AAS 25 *Financial Reporting by Superannuation Plans* and specify requirements for the general purpose financial statements of superannuation entities with a view to providing users with information useful for decision making in a superannuation entity context. However, superannuation entities are still required to comply with other AASs when preparing the general purpose financial statements unless specifically addressed by AASB 1056.

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

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

## Note 2: Taxation

	(\$ million)				
	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
<b>Taxes on employers' payroll and labour force</b>	<b>5 135.0</b>	<b>5 148.4</b>	<b>5 445.3</b>	<b>5 758.0</b>	<b>6 085.9</b>
<b>Taxes on property</b>					
<b>Taxes on immovable property</b>					
Land tax	1 903.6	1 750.9	1 716.4	2 006.9	1 948.2
Fire Services Property Levy	626.5	606.5	618.7	627.1	625.8
Congestion levy	122.3	121.6	120.2	123.4	126.5
Metropolitan improvement levy	145.7	145.7	150.8	157.4	158.0
<b>Total taxes on immovable property</b>	<b>2 798.1</b>	<b>2 624.6</b>	<b>2 606.1</b>	<b>2 914.8</b>	<b>2 858.6</b>
<b>Financial and capital transactions</b>					
Land transfer duty	4 440.6	4 422.0	4 696.2	4 982.7	5 280.7
Other property duties	6.9	5.7	5.9	6.0	6.2
Financial accommodation levy	151.0	144.7	165.2	168.4	183.9
Growth Areas Infrastructure Contribution	71.5	77.0	81.3	85.7	90.5
<b>Total financial and capital transactions</b>	<b>4 670.1</b>	<b>4 649.5</b>	<b>4 948.5</b>	<b>5 242.9</b>	<b>5 561.2</b>
<b>Total taxes on property</b>	<b>7 468.2</b>	<b>7 274.1</b>	<b>7 554.6</b>	<b>8 157.7</b>	<b>8 419.7</b>
<b>Taxes on the provision of goods and services</b>					
<b>Gambling taxes</b>					
Private lotteries	412.2	410.6	427.4	444.8	458.5
Electronic gaming machines	1 070.1	1 068.8	1 090.7	1 115.3	1 143.0
Casino	224.6	222.8	244.9	253.8	263.2
Racing	87.9	85.0	86.2	86.6	88.8
Other	22.4	23.9	30.3	38.5	48.7
<b>Total gambling taxes</b>	<b>1 817.2</b>	<b>1 811.1</b>	<b>1 879.4</b>	<b>1 939.0</b>	<b>2 002.2</b>
<b>Levies on statutory corporations <sup>(a)</sup></b>	<b>112.5</b>	<b>112.0</b>	<b>112.0</b>	..	..
<b>Taxes on insurance</b>	<b>1 094.4</b>	<b>1 113.3</b>	<b>1 180.9</b>	<b>1 261.6</b>	<b>1 347.8</b>
<b>Total taxes on the provision of goods and services</b>	<b>3 024.1</b>	<b>3 036.4</b>	<b>3 172.2</b>	<b>3 200.5</b>	<b>3 350.0</b>
<b>Taxes on the use of goods and performance of activities</b>					
<b>Motor vehicle taxes</b>					
Vehicle registration fees	1 421.2	1 392.0	1 464.1	1 537.2	1 614.0
Duty on vehicle registrations and transfers	714.0	714.9	746.0	768.5	791.7
<b>Total motor vehicle taxes</b>	<b>2 135.1</b>	<b>2 106.9</b>	<b>2 210.1</b>	<b>2 305.8</b>	<b>2 405.7</b>
<b>Liquor license fees</b>	<b>22.4</b>	<b>22.6</b>	<b>21.9</b>	<b>22.6</b>	<b>23.2</b>
<b>Other</b>	<b>282.7</b>	<b>282.6</b>	<b>288.0</b>	<b>218.1</b>	<b>203.1</b>
<b>Total taxes on the use of goods and performance of activities</b>	<b>2 440.3</b>	<b>2 412.2</b>	<b>2 520.0</b>	<b>2 546.4</b>	<b>2 632.0</b>
<b>Total taxation revenue</b>	<b>18 067.5</b>	<b>17 871.1</b>	<b>18 692.1</b>	<b>19 662.6</b>	<b>20 487.6</b>

Note:

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



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

**(a) Dividends and income tax equivalent and rate equivalent revenue**

*(\$ million)*

	<i>2014-15 budget</i>	<i>2014-15 revised</i>	<i>2015-16 estimate</i>	<i>2016-17 estimate</i>	<i>2017-18 estimate</i>
Dividends from PFC sector	344.9	674.2	406.2	440.0	483.7
Dividends from PNFC sector	69.1	247.6	178.6	143.3	99.5
Dividends from non-public sector	2.1	2.1	2.1	2.1	2.1
<b>Dividends</b>	<b>416.1</b>	<b>923.8</b>	<b>586.9</b>	<b>585.3</b>	<b>585.3</b>
Income tax equivalent from PFC sector	3.0	32.1	147.4	137.7	366.4
Income tax equivalent from PNFC sector	159.9	129.8	147.4	144.7	171.6
<b>Income tax equivalent revenue</b>	<b>162.9</b>	<b>161.9</b>	<b>294.8</b>	<b>282.4</b>	<b>538.0</b>
Local government rate equivalent revenue	5.7	5.7	6.0	6.2	6.6
<b>Total dividends and income tax equivalent and rate equivalent revenue</b>	<b>584.7</b>	<b>1 091.5</b>	<b>887.7</b>	<b>874.0</b>	<b>1 129.8</b>

**Note 3: Dividends and income tax equivalent and rate equivalent revenue (*continued*)**

**(b) Dividends by entity**

	(\$ million)				
	2014-15 <i>budget</i>	2014-15 <i>revised</i>	2015-16 <i>estimate</i>	2016-17 <i>estimate</i>	2017-18 <i>estimate</i>
<b>Public financial corporations</b>					
Transport Accident Commission	189.0	254.5	192.6	223.3	265.7
Victorian WorkCover Authority	109.8	332.3	178.5	179.8	176.8
Treasury Corporation of Victoria	42.6	67.0	32.4	33.7	37.7
Rural Finance Corporation	..	17.5	..	..	..
Victorian Funds Management Corporation	2.7	1.7	1.7	1.7	1.7
State Trustees Ltd	0.8	1.2	1.0	1.5	1.8
<b>Dividends from PFC sector</b>	<b>344.9</b>	<b>674.2</b>	<b>406.2</b>	<b>440.0</b>	<b>483.7</b>
<b>Public non-financial corporations</b>					
State Electricity Commission of Victoria (Shell)	..	100.0	100.0	83.4	..
South East Water Corporation	16.0	49.3	28.4	32.2	38.2
Melbourne Water Corporation	16.7	21.5	..	..	24.3
Port of Melbourne Corporation	24.2	28.9	27.6	..	..
City West Water Corporation	6.3	16.0	12.6	16.8	20.1
Yarra Valley Water Corporation	5.2	21.8	5.0	5.1	6.9
Urban Renewal Authority Victoria (Places Victoria)	..	9.1	3.6	3.4	7.1
Victorian Regional Channels Authority	0.7	0.6	1.5	1.5	1.5
Others	..	0.5	..	0.9	1.4
<b>Dividends from PNFC sector</b>	<b>69.1</b>	<b>247.6</b>	<b>178.6</b>	<b>143.3</b>	<b>99.5</b>

## Note 4: Sale of goods and services

(\$ million)

	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
Motor vehicle regulatory fees	213.3	213.3	210.5	195.0	174.5
Other regulatory fees	437.2	475.4	500.0	521.8	580.5
Sale of goods	96.1	84.3	77.4	78.0	78.8
Provision of services	3 974.3	4 070.5	4 177.8	4 159.2	4 164.8
Rental	54.8	59.1	59.2	59.2	59.2
Refunds and reimbursements	69.8	69.7	71.2	71.2	71.2
Inter-sector capital asset charge	1 632.8	1 587.2	1 746.5	1 762.8	1 776.0
<b>Total sales of goods and services</b>	<b>6 478.4</b>	<b>6 559.5</b>	<b>6 842.5</b>	<b>6 847.2</b>	<b>6 905.0</b>

## Note 5: Grants

(\$ million)

	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
General purpose grants – goods and services tax	11 781.9	11 999.0	12 541.6	13 465.3	15 106.0
Specific purpose grants for on-passing	3 140.1	3 122.0	3 313.8	3 515.6	3 716.8
Other grants for specific purposes	9 792.8	9 256.7	9 132.1	8 821.1	8 042.8
<b>Total</b>	<b>24 714.9</b>	<b>24 377.8</b>	<b>24 987.5</b>	<b>25 802.0</b>	<b>26 865.6</b>
Other contributions and grants	140.4	135.7	126.6	113.0	110.4
<b>Total grants</b>	<b>24 855.3</b>	<b>24 513.5</b>	<b>25 114.2</b>	<b>25 915.0</b>	<b>26 976.0</b>

## Note 6: Other revenue

(\$ million)

	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
Fair value of assets received free of charge or for nominal consideration	1.8	56.7	56.6	56.8	56.5
Fines	784.8	722.0	756.0	791.7	827.6
Royalties	50.0	51.4	51.4	51.3	51.3
Donations and gifts	255.0	262.4	259.1	299.4	249.3
Other non-property rental	22.5	17.7	17.9	18.0	18.0
Other miscellaneous revenue	959.8	1 031.5	955.0	966.1	944.8
<b>Total other revenue</b>	<b>2 073.9</b>	<b>2 141.7</b>	<b>2 095.9</b>	<b>2 183.2</b>	<b>2 147.5</b>

## Note 7: Superannuation

Note 8 in Chapter 4 of the *2013-14 Financial Report* for the State of Victoria contains a comprehensive disclosure of the State's superannuation schemes, the associated funding arrangements and the sensitivity of the liability to movements in the key valuation assumptions. There have not been any substantive changes to these items since that note was prepared.

### (a) Superannuation expense recognised in the operating statement

	(\$ million)				
	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
<b>Defined benefit plans</b>					
Net superannuation interest expense	1 023.9	1 014.8	976.7	958.2	936.4
Current service cost	680.3	737.9	752.0	745.5	734.1
Remeasurements:					
Expected return on superannuation assets excluding interest income	( 499.2)	( 630.9)	( 699.6)	( 714.2)	( 728.4)
Other actuarial (gain)/loss on superannuation assets	..	( 208.3)	..	..	..
Actuarial and other adjustments to unfunded superannuation liability	..	1 016.3	..	..	..
<b>Total (gain)/expenses recognised in respect of defined benefit plans</b>	<b>1 205.0</b>	<b>1 929.9</b>	<b>1 029.0</b>	<b>989.5</b>	<b>942.2</b>
<b>Defined contribution plans</b>					
Employer contributions to defined contribution plans	1 122.4	1 138.9	1 179.3	1 204.8	1 232.3
Other (including pensions)	61.0	61.0	61.6	62.3	62.9
<b>Total expense recognised in respect of defined contribution plans</b>	<b>1 183.4</b>	<b>1 199.9</b>	<b>1 241.0</b>	<b>1 267.0</b>	<b>1 295.2</b>
<b>Total superannuation (gain)/expense recognised in operating statement</b>	<b>2 388.4</b>	<b>3 129.8</b>	<b>2 270.0</b>	<b>2 256.5</b>	<b>2 237.3</b>
<b>Represented by:</b>					
Superannuation interest expense	1 023.9	1 014.8	976.7	958.2	936.4
Other superannuation	1 863.7	1 937.8	1 993.0	2 012.5	2 029.3
<b>Superannuation expense from transactions</b>	<b>2 887.5</b>	<b>2 952.6</b>	<b>2 969.7</b>	<b>2 970.7</b>	<b>2 965.7</b>
<b>Remeasurement recognised in other comprehensive income</b>	<b>( 499.2)</b>	<b>177.2</b>	<b>( 699.6)</b>	<b>( 714.2)</b>	<b>( 728.4)</b>
<b>Total superannuation costs recognised in operating statement</b>	<b>2 388.4</b>	<b>3 129.8</b>	<b>2 270.0</b>	<b>2 256.5</b>	<b>2 237.3</b>

## Note 7: Superannuation (*continued*)

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

(\$ million)

	2014-15 <i>budget</i>	2014-15 <i>revised</i>	2015-16 <i>estimate</i>	2016-17 <i>estimate</i>	2017-18 <i>estimate</i>
<b>Opening balance of defined benefit obligation</b>	<b>44 358.2</b>	<b>44 358.2</b>	<b>45 371.3</b>	<b>45 314.3</b>	<b>45 137.0</b>
Current service cost	680.3	737.9	752.0	745.5	734.1
Interest cost	1 876.5	1 755.1	1 692.3	1 689.3	1 683.2
Contributions by plan participants	193.3	194.4	189.1	184.3	179.3
Remeasurement:					
Actuarial (gain)/loss arising from change in financial assumptions	..	1 016.3	..	..	..
Benefits paid	(2 577.9)	(2 690.6)	(2 690.3)	(2 796.3)	(2 865.9)
<b>Closing balance of defined benefit obligation</b>	<b>44 530.4</b>	<b>45 371.3</b>	<b>45 314.3</b>	<b>45 137.0</b>	<b>44 867.7</b>

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

(\$ million)

	2014-15 <i>budget</i>	2014-15 <i>revised</i>	2015-16 <i>estimate</i>	2016-17 <i>estimate</i>	2017-18 <i>estimate</i>
<b>Opening balance of plan assets</b>	<b>18 677.5</b>	<b>18 677.5</b>	<b>19 263.9</b>	<b>19 678.5</b>	<b>20 139.6</b>
Interest income	852.6	740.3	715.6	731.1	746.8
Remeasurements:					
Expected return on plan assets excluding interest income	499.2	630.9	699.6	714.2	728.4
Actuarial gain/(loss) relative to expected return	..	208.3	..	..	..
Employer contributions	1 507.9	1 503.2	1 500.6	1 627.9	1 625.7
Contributions by plan participants	193.3	194.4	189.1	184.3	179.3
Benefits paid (including tax paid)	(2 577.9)	(2 690.6)	(2 690.3)	(2 796.3)	(2 865.9)
<b>Closing balance of plan assets</b>	<b>19 152.5</b>	<b>19 263.9</b>	<b>19 678.5</b>	<b>20 139.6</b>	<b>20 553.9</b>

## Note 7: Superannuation (continued)

### (d) Reconciliation of the superannuation liabilities

(\$ million)

	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
<b>Emergency Services and State Super</b> <sup>(a)</sup>					
Defined benefit obligation	39 980.1	41 268.4	41 247.5	41 128.3	40 916.2
Tax liability <sup>(b)</sup>	2 142.5	2 265.9	2 236.1	2 184.5	2 130.2
Plan assets	(17 776.5)	(18 342.2)	(18 805.3)	(19 316.6)	(19 779.6)
<b>Net liability/(asset)</b>	<b>24 346.1</b>	<b>25 192.1</b>	<b>24 678.3</b>	<b>23 996.2</b>	<b>23 266.9</b>
<b>Other funds</b> <sup>(c)</sup>					
Defined benefit obligation	2 413.4	1 844.6	1 837.2	1 829.7	1 825.9
Tax liability <sup>(b)</sup>	( 5.6)	( 7.6)	( 6.5)	( 5.5)	( 4.6)
Plan assets	(1 376.0)	( 921.7)	( 873.2)	( 823.0)	( 774.3)
<b>Net liability/(asset)</b>	<b>1 031.7</b>	<b>915.3</b>	<b>957.5</b>	<b>1 001.2</b>	<b>1 047.0</b>
<b>Total superannuation</b>					
Defined benefit obligation	42 393.5	43 113.0	43 084.8	42 958.1	42 742.2
Tax liability <sup>(b)</sup>	2 136.9	2 258.3	2 229.6	2 179.0	2 125.6
Plan assets	(19 152.5)	(19 263.9)	(19 678.5)	(20 139.6)	(20 553.9)
<b>Superannuation liability</b>	<b>25 377.9</b>	<b>26 107.4</b>	<b>25 635.8</b>	<b>24 997.4</b>	<b>24 313.9</b>
<b>Represented by:</b>					
Current liability	1 000.0	1 000.0	1 133.4	1 136.4	1 164.8
Non-current liability	24 377.9	25 107.4	24 502.4	23 861.0	23 149.1
<b>Total superannuation liability</b>	<b>25 377.9</b>	<b>26 107.4</b>	<b>25 635.8</b>	<b>24 997.4</b>	<b>24 313.9</b>

Notes:

- (a) From 1 April 2014, Emergency Services and State Super includes the former Parliamentary Contributory Superannuation Fund. This change is reflected in the revised budget and forward estimates.
- (b) 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.
- (c) For the 2014-15 budget, other funds included 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. For the Revised Budget and forward estimates, other funds includes constitutionally protected schemes and the Defined Benefit Scheme of the Health Super Fund.

## Note 8: Depreciation

(\$ million)

	2014-15 <i>budget</i>	2014-15 <i>revised</i>	2015-16 <i>estimate</i>	2016-17 <i>estimate</i>	2017-18 <i>estimate</i>
Buildings <sup>(a)</sup>	1 026.4	979.6	987.3	1 080.8	1 105.1
Leasehold buildings	97.6	97.3	97.4	107.4	139.1
Infrastructure systems	31.6	31.6	32.3	32.7	33.0
Plant, equipment and vehicles <sup>(a)</sup>	657.6	647.2	648.6	659.0	687.8
Road and road networks <sup>(a)</sup>	588.4	590.8	666.8	746.0	863.4
Cultural assets	28.9	28.9	24.7	25.0	25.0
Intangible produced assets <sup>(b)</sup>	65.6	79.5	87.2	76.1	94.5
<b>Total depreciation</b>	<b>2 496.0</b>	<b>2 454.9</b>	<b>2 544.4</b>	<b>2 726.8</b>	<b>2 947.9</b>

Notes:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2014-15 to 2017-18.

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

## Note 9: Interest expense

(\$ million)

	2014-15 <i>budget</i>	2014-15 <i>revised</i>	2015-16 <i>estimate</i>	2016-17 <i>estimate</i>	2017-18 <i>estimate</i>
Interest on long-term interest-bearing liabilities	1 334.2	1 268.8	1 177.0	1 059.4	1 058.3
Interest on short-term interest-bearing liabilities	50.0	48.8	48.1	47.2	44.1
Finance charges on finance leases	770.6	757.8	750.3	842.0	880.9
Discount interest on payables	41.0	41.0	38.0	36.8	36.8
<b>Total interest expense</b>	<b>2 195.8</b>	<b>2 116.3</b>	<b>2 013.5</b>	<b>1 985.4</b>	<b>2 020.1</b>

## Note 10: Grants and other transfers

(\$ million)

	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
<b>Current grants and other transfers expense</b>					
Commonwealth Government	189.9	195.0	210.6	203.5	193.1
Local government (including grants for on-passing)	892.0	901.5	783.4	775.5	780.4
Private sector and not-for-profit for on-passing	2 566.3	2 579.4	2 768.6	2 970.3	3 134.8
Other private sector and not-for-profit	1 612.7	1 452.8	1 734.6	1 963.3	2 088.5
Grants within the Victorian Government	2 920.6	2 990.7	2 968.6	2 945.2	2 818.7
Grants to other state governments	10.7	13.5	12.3	12.3	12.3
<b>Total current grants and other transfers</b>	<b>8 192.3</b>	<b>8 133.0</b>	<b>8 478.2</b>	<b>8 870.1</b>	<b>9 027.8</b>
<b>Capital grants expense</b>					
Commonwealth Government	2.0	..	..	..	..
Local government (including grants for on-passing)	11.1	12.6	1.1	6.0	6.0
Private sector and not-for-profit on-passing	47.9	52.1	28.9	19.9	18.8
Other private sector and not-for-profit	3.7	3.6	3.6	4.1	4.1
Grants within the Victorian Government	1.9	1.2	..	..	..
Other grants	35.4	35.4	..	..	..
<b>Total capital grants and other transfers</b>	<b>102.0</b>	<b>104.8</b>	<b>33.6</b>	<b>30.0</b>	<b>28.9</b>
<b>Total grants and other transfers</b>	<b>8 294.3</b>	<b>8 237.8</b>	<b>8 511.7</b>	<b>8 900.1</b>	<b>9 056.7</b>

## Note 11: Other operating expenses

(\$ million)

	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
Purchase of supplies and consumables	7 477.8	7 789.5	7 446.4	7 727.9	8 356.9
Cost of goods sold	88.6	121.1	21.3	21.7	22.3
Finance expenses and fees	21.1	21.4	21.1	21.0	21.2
Purchase of services	7 904.9	7 956.1	7 387.7	7 438.2	7 488.3
Maintenance	827.1	819.7	794.4	805.4	798.8
Operating lease payments	252.7	249.9	233.7	236.3	235.0
Other	687.1	707.1	695.9	731.2	771.5
<b>Total other operating expenses</b>	<b>17 259.2</b>	<b>17 664.8</b>	<b>16 600.5</b>	<b>16 981.9</b>	<b>17 694.1</b>



## Note 12: Total expenses by government purpose and by department

### (a) Expenses by government purpose classification<sup>(a)</sup>

(\$ million)

	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
<b>Expenses</b>					
General public services	891.4	806.4	904.3	830.0	819.5
Public order and safety <sup>(b)</sup>	5 913.2	6 037.5	5 879.9	5 963.0	6 249.5
Education	12 943.6	13 198.4	13 302.9	13 567.2	13 939.7
Health <sup>(c)</sup>	14 437.1	14 515.5	14 384.8	14 778.9	14 934.9
Social security and welfare <sup>(c)</sup>	4 048.6	4 129.3	3 746.2	3 806.5	3 894.9
Housing and community amenities <sup>(d)</sup>	3 022.2	3 012.9	2 792.1	2 725.8	2 620.3
Recreation and culture	653.8	675.8	625.6	612.5	598.5
Fuel and energy	183.3	167.0	204.7	196.3	139.8
Agriculture, forestry, fishing, and hunting	362.1	463.8	356.6	352.6	347.6
Transport and communications	5 839.9	5 914.4	6 037.2	6 067.9	6 080.0
Other economic affairs	1 173.4	1 348.2	922.2	863.1	791.3
Other purposes <sup>(e)</sup>	2 106.7	1 650.0	3 031.2	3 902.5	5 143.3
<b>Total expenses by government purpose classification</b>	<b>51 575.1</b>	<b>51 919.1</b>	<b>52 187.8</b>	<b>53 666.5</b>	<b>55 559.4</b>

*Notes:*

- (a) Note 41 of the 2013-14 Financial Report for the State of Victoria provides definitions and descriptions of government purpose classifications.
- (b) The downward movement in 2015-16 relates to funding carried over from 2013-14 into 2014-15, sunseting initiatives and movements in funding across years for various initiatives.
- (c) From July 2015, the Commonwealth will be responsible for home support services for people aged over 65 years. Health expenditure is adjusted from 2015-16 to reflect this transfer. Movements in 2015-16 also reflects one-off funding for initiatives in 2014-15 that is not carried forward.
- (d) The downward movement into 2015-16 relates to sunseting initiatives and movements in funding across years for various initiatives.
- (e) Other purposes include provision available to be allocated to specific departments and projects, future demand growth, departmental underspending and items not yet formalised at the time of publication.

## Note 12: Total expenses by government purpose and by department (continued)

### (b) Total expenses by department

	(\$ million)				
	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
<b>Expenses</b>					
Education and Early Childhood Development	14 638.9	14 857.1	15 022.3	15 303.0	15 685.8
Environment and Primary Industries <sup>(a)</sup>	2 462.2	2 597.8	2 313.2	2 195.1	2 046.6
Health <sup>(b)</sup>	16 072.3	16 176.5	15 780.1	16 256.1	16 451.8
Human Services	3 868.1	3 949.1	3 900.1	3 983.1	4 071.0
Justice <sup>(c)</sup>	5 492.9	5 642.8	5 437.3	5 553.5	5 746.8
Premier and Cabinet	692.7	700.6	645.8	647.0	639.8
State Development, Business and Innovation	1 140.5	1 260.9	940.4	863.0	763.2
Transport, Planning and Local Infrastructure	6 965.9	7 106.5	7 115.6	7 162.8	7 227.3
Treasury and Finance	6 019.5	6 016.4	6 087.7	6 171.4	6 344.7
Parliament	183.3	181.3	176.7	178.2	178.7
Courts <sup>(d)</sup>	512.7	506.5	520.4	529.2	537.0
Regulatory bodies and other part funded agencies <sup>(e)</sup>	1 943.3	1 915.1	1 840.8	1 842.7	1 867.8
Contingencies not allocated to departments <sup>(f)</sup>	307.2	177.9	872.9	1 755.9	2 948.7
<b>Total expenses by department including administered items</b>	<b>60 299.6</b>	<b>61 088.6</b>	<b>60 653.2</b>	<b>62 440.9</b>	<b>64 509.2</b>
Less eliminations and adjustments <sup>(g)</sup>	(8 724.4)	(9 169.5)	(8 465.4)	(8 774.3)	(8 949.8)
<b>Total expenses</b>	<b>51 575.1</b>	<b>51 919.1</b>	<b>52 187.9</b>	<b>53 666.5</b>	<b>55 559.4</b>

Notes:

- (a) The downward movement into 2015-16 relates to sunseting initiatives and movements in funding across years for various initiatives.
- (b) From July 2015, the Commonwealth will be responsible for home support services for people aged over 65 years. Health expenditure is adjusted from 2015-16 to reflect this transfer. Movements in 2015-16 also reflects one-off funding for initiatives in 2014-15 that is not carried forward.
- (c) The downward movement in 2015-16 relates to funding carried over from 2013-14 into 2014-15, sunseting initiatives and movements in funding across years for various initiatives.
- (d) Courts, which was formerly part of Department of Justice, came into operation from 1 July 2014.
- (e) Other general government sector agencies not allocated to departmental portfolios.
- (f) Note 12(c) provides a detailed breakdown of the general government output contingencies not allocated to departments.
- (g) Mainly comprising payroll tax, capital asset charge, departmental underspend estimates and inter-departmental transfers.

**Note 12: Total expenses by government purpose and by department  
(continued)**

**(c) General government output contingencies not allocated to departments**

(\$ million)

	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
Decisions made but not yet allocated <sup>(a)</sup>	207.2	136.4	674.0	1 456.3	2 519.9
Funding not allocated to specific purposes <sup>(b)</sup>	100.0	41.5	198.9	299.6	428.8
<b>Total general government output contingencies</b>	<b>307.2</b>	<b>177.9</b>	<b>872.9</b>	<b>1 755.9</b>	<b>2 948.7</b>

Notes:

- (a) Reflects existing policy decisions made by government for which funding has yet to be allocated to departments; provisions not yet allocated to departments to meet additional price and demand growth for health, disability and education; and a provision for estimated additional depreciation costs associated with the general government unallocated capital contingency.
- (b) An unallocated provision available to contribute to future government policy decisions and commitments, including for decisions to extend lapsing programs across the budget and forward estimates.

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

(\$ million)

	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
Net (increase) in provision for doubtful receivables	( 177.8)	( 184.1)	( 169.6)	( 171.6)	( 200.5)
Amortisation of intangible non-produced assets	( 10.5)	( 2.3)	( 2.3)	( 2.3)	( 2.3)
Net (increase) in bad debts	( 119.2)	( 119.2)	( 152.9)	( 153.1)	( 153.3)
Other gains/(losses)	23.9	19.3	14.5	( 7.7)	( 7.7)
<b>Total other gains/(losses) from other economic flows</b>	<b>( 283.6)</b>	<b>( 286.2)</b>	<b>( 310.3)</b>	<b>( 334.7)</b>	<b>( 363.8)</b>

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

*(\$ million)*

	<i>2015 budget</i>	<i>2015 revised</i>	<i>2016 estimate</i>	<i>2017 estimate</i>	<i>2018 estimate</i>
Balance of investment in PNFC and PFC sectors at beginning of period	75 869.2	75 869.2	80 287.5	81 149.5	81 709.4
Net contributions to other sectors by owner	2 260.3	1 534.0	423.1	697.3	1 037.1
Revaluation gain/(loss) for period	2 884.3	2 884.3	438.8	( 137.4)	( 93.5)
<b>Investment in other sector entities at end of period</b>	<b>81 013.8</b>	<b>80 287.5</b>	<b>81 149.5</b>	<b>81 709.4</b>	<b>82 653.0</b>

**Note 15: Net acquisition on non-financial assets from transactions**

*(\$ million)*

	<i>2014-15 budget</i>	<i>2014-15 revised</i>	<i>2015-16 estimate</i>	<i>2016-17 estimate</i>	<i>2017-18 estimate</i>
Purchases of non-financial assets (including change in inventories)	5 312.4	4 761.6	5 063.4	5 873.7	5 845.8
Less: Sales of non-financial assets	( 384.9)	( 395.2)	( 310.6)	( 472.6)	( 396.1)
Less: Depreciation	(2 496.0)	(2 454.9)	(2 544.4)	(2 726.8)	(2 947.9)
Plus: Other movements in non-financial assets	(1 465.1)	(1 327.2)	183.1	318.5	275.0
<b>Total net acquisition of non-financial assets from transactions</b>	<b>966.4</b>	<b>584.3</b>	<b>2 391.5</b>	<b>2 992.8</b>	<b>2 776.9</b>

## Note 16: Advances paid and investments, loans and placements

(\$ million)

	2015 budget	2015 revised	2016 estimate	2017 estimate	2018 estimate
<b>Current advances paid and investments, loans and placements</b>					
Loans and advances paid	45.1	52.1	41.0	48.2	53.5
Equities and managed investment schemes	757.9	761.3	771.2	782.0	792.8
Australian dollar term deposits	1 840.9	1 743.1	1 825.7	1 933.2	2 049.8
Debt securities	6.3	6.3	6.3	6.3	6.3
<b>Total current advances paid and investments, loans and placements</b>	<b>2 650.1</b>	<b>2 562.8</b>	<b>2 644.2</b>	<b>2 769.6</b>	<b>2 902.4</b>
<b>Non-current advances paid and investments, loans and placements</b>					
Loans and advances paid	4 492.6	4 511.7	4 478.6	4 433.9	4 381.8
Equities and managed investment schemes	236.4	292.5	296.0	299.0	302.8
Australian dollar term deposits	254.1	254.1	254.6	253.2	248.1
Debt securities	44.7	44.7	44.7	44.7	44.7
<b>Total non-current advances paid and investments, loans and placements</b>	<b>5 027.9</b>	<b>5 103.1</b>	<b>5 073.9</b>	<b>5 030.9</b>	<b>4 977.3</b>
<b>Total advances paid and investments, loans and placements</b>	<b>7 678.0</b>	<b>7 665.9</b>	<b>7 718.1</b>	<b>7 800.5</b>	<b>7 879.7</b>
<b>Represented by:</b>					
Advances paid	4 537.7	4 563.8	4 519.5	4 482.1	4 435.2
Investment loans and placement	3 140.3	3 102.1	3 198.5	3 318.4	3 444.5

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

(\$ million)

	2015 budget	2015 revised	2016 estimate	2017 estimate	2018 estimate
Buildings (written down value)	24 735.7	24 230.5	24 557.9	26 522.5	26 805.6
Buildings leasehold	2 346.6	2 353.7	3 337.1	4 143.2	5 028.8
Land and national parks	38 328.1	38 176.3	38 187.1	38 026.4	38 200.1
Infrastructure systems (written down value)	1 329.7	1 327.3	1 453.0	1 584.1	1 683.2
Plant, equipment and vehicles (written down value)	2 388.2	2 643.4	2 402.1	2 113.1	1 759.8
Roads and road infrastructure (written down value)	24 930.9	24 858.8	26 441.6	28 776.0	33 815.3
Earthworks	8 759.9	8 797.9	8 942.0	9 135.7	10 477.8
Cultural assets (written down value)	5 480.5	5 479.6	5 486.4	5 475.4	5 460.1
<b>Total land, buildings, infrastructure, plant and equipment</b>	<b>108 299.7</b>	<b>107 867.5</b>	<b>110 807.2</b>	<b>115 776.5</b>	<b>123 230.7</b>

## Note 18: Reconciliation of movements in land, buildings, infrastructure, plant and equipment<sup>(a)</sup>

(\$ million)

	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
Carrying amount at the start of the year	103 644.2	103 644.2	107 867.5	110 807.2	115 776.5
Additions <sup>(b)</sup>	5 032.4	4 475.6	6 115.0	6 694.1	6 898.7
Disposals at written down value	( 314.1)	( 365.5)	( 248.9)	( 408.0)	( 322.3)
Revaluations	3 906.3	3 871.4	425.8	1 933.1	4 595.6
Assets reclassified	(1 538.6)	(1 382.7)	( 895.1)	( 599.2)	( 864.4)
Depreciation expense	(2 430.5)	(2 375.4)	(2 457.1)	(2 650.7)	(2 853.4)
<b>Carrying amount at the end of the year</b>	<b>108 299.7</b>	<b>107 867.5</b>	<b>110 807.2</b>	<b>115 776.5</b>	<b>123 230.7</b>

Notes:

(a) The reconciliation of movements comprises land and buildings, infrastructure systems, plant, equipment, vehicles, roads, road infrastructure and cultural asset and excludes intangible assets, investment properties and other non-financial assets.

(b) Includes assets acquired under finance lease arrangements.

## Note 19: Assets classified by government purpose and by department

### (a) Purchases of non-financial assets by government purpose classification<sup>(a)</sup>

(\$ million)

	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
General public services	45.2	40.7	26.4	44.2	25.0
Public order and safety	1 092.7	1 218.9	373.2	226.8	487.3
Education	531.5	459.8	379.7	236.9	208.5
Health	860.5	969.8	535.1	899.8	254.5
Social security and welfare	112.8	123.1	68.4	49.8	49.5
Housing and community amenities	139.0	88.2	36.0	43.4	41.2
Recreation and culture	49.8	54.5	35.2	21.1	12.6
Fuel and energy	3.1	3.1	3.0	2.7	2.7
Agriculture, forestry, fishing, and hunting	26.5	55.2	22.3	12.2	12.0
Transport and communications	2 166.1	2 027.8	1 915.7	1 402.1	681.7
Other economic affairs	153.4	149.3	45.5	34.5	25.2
Other purposes	0.5	0.5	1.4	1.4	1.4
Not allocated by purpose <sup>(b)</sup>	131.3	( 429.3)	1 621.6	2 898.6	4 044.3
<b>Total purchases of non-financial assets</b>	<b>5 312.4</b>	<b>4 761.6</b>	<b>5 063.4</b>	<b>5 873.7</b>	<b>5 845.8</b>

Notes:

(a) Note 41 of the 2013-14 Financial Report for the State of Victoria provides definitions and descriptions of government purpose classifications.

(b) Estimated amount available to be allocated to departments and projects in future budgets, including for East West Link and the Melbourne Rail Link. This includes departmental underspending, which may be subject to carryover.

**Note 19: Assets classified by government purpose and by department  
(continued)**

**(b) Purchases of non-financial assets by department**

	(\$ million)				
	2014-15 <i>budget</i>	2014-15 <i>revised</i>	2015-16 <i>estimate</i>	2016-17 <i>estimate</i>	2017-18 <i>estimate</i>
Education and Early Childhood Development	527.7	460.3	373.9	231.8	203.4
Environment and Primary Industries	97.9	129.1	66.9	57.6	52.2
Health	896.2	1 004.8	555.6	916.7	272.5
Human Services	97.4	104.8	53.9	34.4	32.9
Justice	852.3	956.9	216.3	119.1	403.0
Premier and Cabinet	59.4	60.9	29.6	22.6	14.1
State Development, Business and Innovation	136.4	129.9	29.4	21.6	15.8
Transport, Planning and Local Infrastructure	2 262.2	2 078.1	1 936.0	1 418.0	694.9
Treasury and Finance	32.7	31.5	17.2	35.0	15.9
Parliament	1.5	1.5	2.3	2.3	2.3
Courts <sup>(a)</sup>	23.6	24.6	45.7	29.9	9.8
Regulatory bodies and other part funded agencies <sup>(b)</sup>	193.9	205.0	102.7	81.1	84.8
Contingencies not allocated to departments <sup>(c)</sup>	380.5	379.1	1 579.7	2 852.2	4 042.3
Adjustments <sup>(d)</sup>	( 249.1)	( 804.9)	54.1	51.4	2.0
<b>Total purchases of non-financial assets</b>	<b>5 312.4</b>	<b>4 761.6</b>	<b>5 063.4</b>	<b>5 873.7</b>	<b>5 845.8</b>

Notes:

- (a) Courts, which was formerly part of Department of Justice, came into operation from 1 July 2014.
- (b) Other general government sector agencies not allocated to departmental portfolios.
- (c) Note 19(c) provides a detailed breakdown of the general government asset contingencies not allocated to departments.
- (d) Mainly comprises estimated departmental underspend which may be subject to carryover and estimated outer budget agency underspend.



## Note 19: Assets classified by government purpose and by department (continued)

### (c) General government asset contingencies not allocated to departments

(\$ million)

	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
Decisions made but not yet allocated <sup>(a)</sup>	380.5	379.1	1 279.7	2 328.8	3 232.4
Funding not allocated to specific purposes <sup>(b)</sup>	..	..	300.0	523.3	809.9
<b>Total general government asset contingencies</b>	<b>380.5</b>	<b>379.1</b>	<b>1 579.7</b>	<b>2 852.2</b>	<b>4 042.3</b>

Notes:

- (a) A provision to account for existing asset policy decisions made by government for which the funding has yet to be allocated to departments.
- (b) An unallocated provision available for future government asset investment decisions.

### (d) Total assets by government purpose classification <sup>(a)</sup>

(\$ million)

	2015 budget	2015 revised	2016 estimate	2017 estimate	2018 estimate
General public services	1 188.6	1 182.7	1 178.0	1 194.5	1 173.7
Public order and safety	8 899.4	8 983.1	9 061.3	8 930.4	9 533.1
Education	17 022.6	16 942.1	16 917.4	16 834.3	16 809.5
Health	12 795.9	12 991.6	13 695.1	13 895.3	12 863.0
Social security and welfare	1 084.7	1 094.9	1 125.5	1 134.6	1 147.6
Housing and community amenities	7 271.3	7 224.9	7 240.3	7 200.5	7 109.3
Recreation and culture	8 515.8	8 519.1	8 543.1	8 514.9	8 454.3
Fuel and energy	15.6	15.6	16.1	16.6	17.0
Agriculture, forestry, fishing, and hunting	559.7	635.3	630.6	615.0	599.3
Transport and communications	51 921.8	51 876.2	52 242.1	52 433.5	55 990.0
Other economic affairs	593.2	597.7	624.2	611.3	601.2
Other purposes	1.7	1.7	2.8	3.9	5.0
Not allocated by purpose <sup>(b)</sup>	98 188.9	97 000.7	99 676.9	105 452.0	111 311.3
<b>Total assets</b>	<b>208 059.1</b>	<b>207 065.5</b>	<b>210 953.4</b>	<b>216 836.7</b>	<b>225 614.2</b>

Notes:

- (a) Note 41 of the 2013-14 Financial Report for the State of Victoria provides definitions and descriptions of government purpose classifications.
- (b) Represents financial assets which are not able to be allocated by purpose. This mainly includes balances relating to the general government sector's investment in other sector entities.

## Note 20: Payables

(\$ million)

	2015 <i>budget</i>	2015 <i>revised</i>	2016 <i>estimate</i>	2017 <i>estimate</i>	2018 <i>estimate</i>
<b>Current payables</b>					
Accounts payable and accrued expenses	3 094.2	3 095.7	3 065.8	2 974.5	2 884.6
Accrued taxes payable	33.3	32.8	33.6	34.5	35.2
Unearned income	624.0	634.7	636.2	635.2	633.7
<b>Total current payables</b>	<b>3 751.5</b>	<b>3 763.2</b>	<b>3 735.6</b>	<b>3 644.2</b>	<b>3 553.5</b>
<b>Non-current payables</b>					
Accounts payable and accrued expenses	160.1	159.2	95.5	87.6	79.3
Unearned income	1 295.4	1 820.5	1 779.0	1 777.0	1 737.5
<b>Total non-current payables</b>	<b>1 455.5</b>	<b>1 979.7</b>	<b>1 874.4</b>	<b>1 864.7</b>	<b>1 816.7</b>
<b>Total payables</b>	<b>5 207.0</b>	<b>5 742.9</b>	<b>5 610.0</b>	<b>5 508.9</b>	<b>5 370.2</b>

## Note 21: Borrowings

(\$ million)

	2015 <i>budget</i>	2015 <i>revised</i>	2016 <i>estimate</i>	2017 <i>estimate</i>	2018 <i>estimate</i>
<b>Current borrowings</b>					
Domestic borrowings	1 443.0	1 443.0	1 448.0	1 453.0	1 458.0
Finance lease liabilities	148.3	120.2	99.8	104.5	115.9
<b>Total current borrowings</b>	<b>1 591.3</b>	<b>1 563.2</b>	<b>1 547.8</b>	<b>1 557.5</b>	<b>1 573.9</b>
<b>Non-current borrowings</b>					
Domestic borrowings	25 538.6	24 240.3	19 422.5	20 100.4	20 618.8
Finance lease liabilities	7 782.6	7 846.6	8 793.3	9 535.3	10 413.5
Derivative financial instruments	20.8	20.8	20.8	20.8	20.8
<b>Total non-current borrowings</b>	<b>33 342.0</b>	<b>32 107.6</b>	<b>28 236.6</b>	<b>29 656.4</b>	<b>31 053.0</b>
<b>Total borrowings</b>	<b>34 933.3</b>	<b>33 670.9</b>	<b>29 784.4</b>	<b>31 214.0</b>	<b>32 626.9</b>

## Note 22: Employee benefits

(\$ million)

	2015 budget	2015 revised	2016 estimate	2017 estimate	2018 estimate
<b>Current</b>					
Accrued salaries and wages <sup>(a)</sup>	1 627.8	1 626.0	1 685.5	1 738.1	1 792.4
Long service leave	3 177.4	3 176.8	3 308.8	3 444.7	3 578.9
<b>Total current employee benefits</b>	<b>4 805.2</b>	<b>4 802.8</b>	<b>4 994.3</b>	<b>5 182.7</b>	<b>5 371.3</b>
<b>Non-current</b>					
Long service leave	730.0	725.0	783.9	845.1	909.0
<b>Total non-current employee benefits</b>	<b>730.0</b>	<b>725.0</b>	<b>783.9</b>	<b>845.1</b>	<b>909.0</b>
<b>Total employee benefits</b>	<b>5 535.2</b>	<b>5 527.8</b>	<b>5 778.2</b>	<b>6 027.8</b>	<b>6 280.4</b>

Note:

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

## Note 23: Reserves

(\$ million)

	2015 budget	2015 revised	2016 estimate	2017 estimate	2018 estimate
Property plant and equipment revaluation surplus	44 105.8	44 070.8	44 496.9	46 430.3	51 026.2
Available-for-sale investments revaluation surplus	59.4	59.4	60.6	61.8	63.1
Revaluation reserve for investments in PFC and PNFC entities	45 071.6	45 071.6	45 510.4	45 373.1	45 279.6
Other reserves	577.0	577.8	582.1	591.3	601.8
<b>Total reserves</b>	<b>89 813.8</b>	<b>89 779.6</b>	<b>90 650.0</b>	<b>92 456.5</b>	<b>96 970.6</b>

## Note 24: Reconciliations to government finance statistics – derivation of GFS cash/surplus deficit

(\$ million)

	2014-15 budget	2014-15 revised	2015-16 estimate	2016-17 estimate	2017-18 estimate
<b>Cash surplus/(deficit)</b>	<b>(1 088.0)</b>	<b>( 400.0)</b>	<b>283.5</b>	<b>( 64.7)</b>	<b>281.7</b>
<i>Convergence differences:</i>					
Less: Acquisitions under finance leases and similar arrangements <sup>(a)</sup>	<b>( 36.4)</b>	<b>( 36.4)</b>	<b>(1 050.4)</b>	<b>( 873.0)</b>	<b>(1 055.8)</b>
<b>Total convergence differences</b>	<b>( 36.4)</b>	<b>( 36.4)</b>	<b>(1 050.4)</b>	<b>( 873.0)</b>	<b>(1 055.8)</b>
<b>GFS cash surplus/(deficit) <sup>(b)(c)</sup></b>	<b>(1 124.5)</b>	<b>( 436.4)</b>	<b>( 766.9)</b>	<b>( 937.7)</b>	<b>( 774.1)</b>

*Notes:*

- (a) *The finance lease acquisition in 2014-15 relates to metropolitan buses contract. The 2015-16 estimate relates to the Victorian Comprehensive Cancer Centre. The 2016-17 estimate relates to the new Bendigo Hospital project (Stage 1), the Cranbourne-Pakenham Rail Corridor project and the School Capital program (tranche 1). The 2017-18 estimate relates to the Cranbourne-Pakenham Rail Corridor project, the Ravenhall Prison project, the School capital program (tranche 2) and the new Bendigo Hospital project (Stage 2).*
- (b) *Determined in accordance with the ABS GFS manual.*
- (c) *From 2015-16 new infrastructure investment (included in cash flows from investments in non-financial assets) is fully funded from net cash flows from operations.*

## Note 25: Financial instruments

Note 33 in Chapter 4 of the *2013-14 Financial Report* for the State of Victoria contains a comprehensive disclosure of the State's financial risk management objectives and policies. There has been no substantive change to the accounting classification of financial assets and liabilities reported in the *2013-14 Financial Report* for the State of Victoria.

## Note 26: Controlled entities

Note 42 *Controlled Entities* in the 2013-14 *Financial Report* for the State of Victoria contains a list of significant controlled entities which have been consolidated for the purposes of the financial report.

The following is a list of changes from 1 July 2014, of general government sector entities which have been consolidated for the purposes of the estimated financial statements.

Controlled entities	Entities included as investments in other sectors		
	General government	Public non-financial corporation	Public financial corporation
<b>Department of Education and Early Childhood Development</b>	*		
Bendigo Kangan Institute <sup>(a)</sup>	*		
<b>Department of Environment and Primary Industries</b>	*		
Game Management Authority <sup>(b)</sup>	*		
Barwon South West Waste and Resource Recovery Group <sup>(c)</sup>		*	
Gippsland Waste and Resource Recovery Group <sup>(c)</sup>		*	
Goulburn Valley Waste and Resource Recovery Group <sup>(c)</sup>		*	
Grampians Central Waste and Resource Recovery Group <sup>(c)</sup>		*	
Loddon Mallee Waste and Resource Recovery Group <sup>(c)</sup>		*	
North East Waste and Resource Recovery Group <sup>(c)</sup>		*	
<b>Department of Health</b>	*		
Bass Coast Health <sup>(d)</sup>	*		
<b>Department of Justice</b>	*		
Office of the Commissioner for Privacy and Data Protection <sup>(e)</sup>	*		
<b>Courts <sup>(f)</sup></b>	*		
Judicial College of Victoria <sup>(f)</sup>	*		

**Notes:**

- (a) The Bendigo Kangan Institute was established on 1 July 2014 as a result of a merger between Bendigo Regional Institute of TAFE and Kangan Institute of TAFE.
- (b) The Game Management Authority Act 2014 established the Game Management Authority as a statutory authority to improve the effectiveness of game management and promote responsibility in game hunting, effective from 1 July 2014.
- (c) Under changes to the Environment Protection Act 1970, the twelve regional Waste Management Groups wound up on 31 July 2014 and six new regional Waste and Resource Recovery Groups were established, effective from 1 August 2014 as follows:
  - Southern Western Regional Waste Management Group and Barwon Regional Waste Management Group have been transferred into the Barwon South West Waste And Resource Recovery Group;
  - Gippsland Regional Waste Management Group has been transferred to the Gippsland Waste and Resource Recovery Group;

## Note 26: Controlled entities *(continued)*

Notes *(continued)*:

- Goulburn Valley Regional Waste Management Group has been transferred to the Goulburn Valley Waste and Resource Recovery Group;
  - Desert Fringe Regional Waste Management Group, Grampians Regional Waste Management Group and Highlands Regional Waste Management Group have been transferred to the Grampians Central Waste and Resource Recovery Group;
  - Calder Regional Waste Management Group, Central Murray Regional Waste Management Group and Mildura Regional Waste Management Group have been transferred to the Loddon Mallee Waste and Resource Recovery Group;
  - North East Victorian Regional Waste Management Group has been transferred to the North East Waste and Resource Recovery Group; and
  - Mornington Peninsula has been transferred into the Metropolitan Waste and Resource Recovery Group (an existing entity not abolished under the reform).
- (d) Bass Coast Regional Health was renamed to Bass Coast Health from 4 September 2014.
- (e) Effective 17 September 2014, the Office of the Commissioner for Privacy and Data Protection commenced operations replacing the Office of the Victorian Privacy Commissioner, which ceased operations on 16 September 2014.
- (f) The Court Services Victoria Act 2014 established Court Services Victoria as a statutory public sector body to provide the administrative services and facilities for Victoria’s courts, the Victorian Civil and Administrative Tribunal and the Judicial College of Victoria taking effect from 1 July 2014.

## CHAPTER 4 – CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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This chapter contains information on contingent assets and liabilities for the general government sector and should be read in conjunction with Chapter 3.

### CONTINGENT ASSETS

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

These are classified as either quantifiable, where the potential economic benefit is known, or non-quantifiable. The table below contains quantifiable contingent assets as at 4 November 2014.

**Table 4.1: Quantifiable contingent assets**

(\$ million)

	As at November 2014	Published budget estimate <sup>(a)</sup>
Guarantees, indemnities and warranties	6.4	2.0
Legal proceedings and disputes	6.8	8.7
Other <sup>(b)</sup>	100.8	8.0
<b>Total contingent assets</b>	<b>114.0</b>	<b>18.7</b>

Notes:

(a) As published in the 2014-15 Budget.

(b) The increase in other contingent assets since May 2014 is mainly due to \$100 million relating to the second contingent payment for Crown Melbourne licence amendments that may be payable in calendar year 2022. In accordance with accounting standards, the first contingent payment of \$100 million has been factored into the State's estimates over the Casino license period.

### Non-quantifiable contingent assets

#### **CityLink compensable enhancement claims**

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

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

### ***Peninsula Link compensable enhancement claim***

The EastLink Concession Deed contains compensable enhancement provisions that enable the State to claim 50 per cent of any additional revenue derived by ConnectEast Pty Ltd (ConnectEast) as a result of certain events that particularly benefit EastLink, including changes to the adjoining road network.

On 2 January 2014, the State lodged a compensable enhancement claim as a result of the opening of the Peninsula Link. The claim remains outstanding.

### ***Revenue sharing from Monash/CityLink/West Gate Upgrade***

On 25 July 2006, CityLink Melbourne Limited (CML), Transurban Infrastructure Management Limited and the State of Victoria entered into the M1 Corridor Redevelopment Deed. Under the terms of this Deed:

- the State upgraded the Monash and West Gate Freeways, while CML upgraded the Southern Link section of CityLink; and
- CML agreed that the State would be entitled to 50 per cent of the additional CityLink revenue generated by the Monash/CityLink/West Gate Upgrade, above the investment case for the project relating to works on the Southern Link section of CityLink.

The method used to calculate additional CityLink revenue generated from the upgrade involved a comparison of actual CityLink toll revenue (up to and including the financial year ending 30 June 2014) with agreed trends that were set out in the M1 Corridor Redevelopment Deed.

Based on the actual CityLink toll revenue reported by CML up to and including the financial year ending 30 June 2014:

- the additional CityLink revenue generated from the upgrade has not exceeded the investment case for the project relating to works on the Southern Link section of CityLink; and
- as a result, the State is not entitled to any revenue sharing payment.

The State is undertaking further due diligence to confirm the accuracy of the CityLink toll revenue data provided, on which the initial calculation of the additional CityLink revenue has been based.



## ***Gambling licences***

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

On 10 April 2008, the State announced that a new regulatory and licencing regime would be implemented post August 2012. The main changes included:

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

After considering the end of licence arrangements in the *Gambling Regulation Act 2003*, the State formed the view that neither Tatts nor Tabcorp were entitled to compensation after the expiration of their licences.

On 16 August 2012, Tatts commenced legal proceedings against the State. Tabcorp commenced legal proceedings against the State on 24 August 2012. Each sought, in essence, to hold the State to an obligation to provide compensation. Tatts claimed \$490.5 million, later revised down to \$451.2 million, amounting to \$540.5 million including interest, and Tabcorp claimed \$686.8 million, amounting to \$821.2 million including interest.

The State defended both claims and was successful in relation to the Tabcorp claim but unsuccessful in relation to the Tatts claim.

The State paid Tatts its claimed amount including interest, amounting to \$540.5 million. The matter went on appeal to the Court of Appeal. The appeal hearing was held in October 2014 and is pending judgement.

## **CONTINGENT LIABILITIES**

Contingent liabilities are:

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

As with contingent assets, contingent liabilities are also classified as either quantifiable or non-quantifiable. The table below contains quantifiable contingent liabilities as at 4 November 2014.

**Table 4.2: Quantifiable contingent liabilities**

(\$ million)

	As at November 2014	Published budget estimate <sup>(a)</sup>
Guarantees, indemnities and warranties	313.3	320.9
Legal proceedings and disputes	382.1	443.9
Other	216.4	286.3
Non-general government debt <sup>(b)</sup>	11 195.1	12 287.6
<b>Total contingent liabilities</b>	<b>12 106.9</b>	<b>13 338.7</b>

Notes:

- (a) As published in the 2014-15 Budget, except for non-general government debt which has been restated to more accurately reflect the contingent liability as at May 2014.
- (b) The reduction in non-general government debt since May 2014 is mainly due to Rural Finance Corporation extinguishing its loans with Treasury Corporation of Victoria upon settlement of the sale to Bendigo and Adelaide Bank Limited, which occurred in July 2014.

## Non-quantifiable contingent liabilities

A number of potential obligations are non-quantifiable at this time arising from:

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

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

### **AgriBio Centre for AgriBioscience (formerly known as The Biosciences Research Centre)**

The quarterly service fee payment obligations of the AgriBio Centre for AgriBioscience on behalf of the joint venture participants are supported by the State of Victoria via a State Support Deed. Under this Deed, the State ensures that the joint venture participants (Department of Environment and Primary Industries and La Trobe University) have severally the financial capacity to meet their payment obligations to Biosciences Research Centre Pty Ltd (BRC), thereby enabling BRC to meet its obligations to pay the service fee to the concessionaire pursuant to the project agreement. The State underwrites the risk of any default by BRC.

## **Department of Education and Early Childhood Development**

The Department has a number of unquantifiable contingent liabilities, arising from indemnities provided by it, as follows:

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

### **East West Link – Eastern Section**

On 29 September 2014, the Government signed the contract for the East West Link – Eastern Section with the East West Connect (EWC) consortium. The Treasurer also provided EWC with a Side Letter, independent of the contract, confirming and assuring EWC that, on the basis of strong legal advice, the Executive Government has the requisite executive power to enter into the contract.

In the event that a court of competent jurisdiction makes a declaration or a decision, within a specified time, that the State did not have the requisite executive power to execute the Project Agreement (PA), such that the PA is void, the Side Letter commits the State of Victoria to pay EWC compensation as if the PA was not found to be void and were terminated. The Side Letter provides no additional protection or relief nor does it confer additional right or entitlement for EWC beyond what is in the contract. The letter merely commits the State to stand by the termination compensation in the contract.

Any compensation payable by the State under the letter and in the contract is linked to a formula in the contract, the quantum of which would change depending on timing. The structure of the PA, including termination payments, is consistent with National Public Private Partnership Policy and Guidelines, the *Partnerships Victoria* framework and Victorian public private partnership precedent.

### **East West Link Judicial Review**

On 30 June 2014, the Minister for Planning made an Approval Decision for the East West Link – Eastern Section project under Section 77 of the *Major Transport Projects Facilitation Act 2009*.

On 21 July 2014, Moreland and Yarra City Councils filed proceedings in the Supreme Court of Victoria challenging the Minister for Planning's decision to issue applicable approvals for the East West Link – Eastern Section project under the *Major Transport Projects Facilitation Act 2009*. The matter is listed for hearing on 15 December 2014. The outcome of these proceedings is unknown at the date of this publication and as such any potential impact or liability arising from this court action is not able to be quantified.

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

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

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

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

### ***Public transport rail partnership agreements***

Public Transport Victoria (PTV) is party to partnership contractual arrangements with franchisees to operate metropolitan rail transport services in the State, operative from 30 November 2009 until 30 November 2017. The major contingent liabilities arising from the contractual arrangements in the event of early termination or expiry of the partnership contractual agreement are:

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

### ***Fiskville firefighting independent investigation***

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

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

### ***Gambling licences***

In relation to the 'Gambling licenses' item within non-quantifiable contingent assets, given that the State was successful in the Tabcorp proceeding, it did not need to pay Tabcorp its claimed amount together with interest, which would have amounted to \$821.2 million. The matter went on appeal to the Court of Appeal. The appeal hearing was held in October 2014 and is pending judgement.

### ***Public Lottery Licence Litigation***

On 27 August 2014, Intralot Australia Pty Ltd served a writ and Statement of Claim on the State. Intralot's claim relates to allegations that Tattersall's Sweeps Pty Ltd was granted favourable treatment relating to the awarding of public lottery licences on 24 October 2007. Intralot claims its total costs to 30 June 2014 are \$63.4 million. The State has lodged its defence and the matter will be heard in the Supreme Court.

### ***Health Benefit Levy***

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

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

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

On 24 June 2013, a Supreme Court judgement was handed down in favour of Tabcorp and Tatts quashing the Treasurer's determinations. The State appealed to the Court of Appeal, maintaining that the determinations were valid and that the Treasurer did not have discretion to adjust the application of the levy formula under the Act. The State was successful in both appeals and Tatts and Tabcorp have now paid the State the full amounts of the Health Benefit Levies together with interest.

Tatts and Tabcorp have sought Special Leave to Appeal to the High Court of Australia.

### ***Compulsory property acquisitions***

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

### ***Land remediation – environmental concerns***

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

### ***Native Title***

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

### ***Melbourne Park redevelopment***

In 2010, the State entered into a capital works agreement with Tennis Australia and the Melbourne and Olympic Park Trust for the Australian Open to remain at Melbourne Park until 2036. The agreement contains a number of conditions including that the State will invest in further improvements to Melbourne Park in three stages or (if an agreed investment threshold is reached), pay a rights fee to retain the Australian Open at Melbourne Park until 2036. In the *2010-11 Budget*, Stage 1 of the Melbourne Park redevelopment with a total estimated investment of \$363 million was announced. In January 2014, a further \$338 million total estimated investment was announced by the State for Stage 2 of the redevelopment.

### ***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, from completion of their tenure in 2008 until 2015.

### ***Royal Melbourne Showgrounds redevelopment***

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

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

### ***Victorian Managed Insurance Authority – insurance cover***

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

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





## APPENDIX A – SPECIFIC POLICY INITIATIVES AFFECTING THE BUDGET POSITION

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Appendix A outlines specific Government policy initiatives that affect output, asset investment and revenue positions, including Treasurer’s Advances, made since the *2014-15 Budget* and before the issue of the election writs on 4 November 2014. The following tables provide details of:

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

Appendix A includes a cross reference between initiatives and their relevant departmental outputs which aims to clearly indicate the impact of policy decisions on relevant portfolios.

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

### REVENUE INITIATIVES

**Table A.1: Revenue initiatives**

	<i>(\$ million)</i>			
	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
State Revenue Office – assessment and compliance	8.0	29.7	68.3	72.7
Crown Melbourne licence amendments	8.5	24.3	21.8	19.4
On-the-spot penalty fares	4.3	5.8	6.0	6.1
<b>Total revenue initiatives</b>	<b>20.8</b>	<b>59.8</b>	<b>96.0</b>	<b>98.2</b>

*Source: Department of Treasury and Finance*

## **State Revenue Office – assessment and compliance**

The State Revenue Office will enhance its compliance activities, primarily in relation to land tax, landholder and land rich duties, and payroll tax. These activities include greater investigation of reported land ownership, utilising new technology and data, and accelerating the resolution of duty assessments.

## **Crown Melbourne licence amendments**

Crown Melbourne's casino licence will be extended from 2033 to 2050 and Crown will be permitted to operate an additional 40 gaming tables, 50 fully automated table game terminals and 128 electronic gaming machines (within the existing statewide cap of 30 000 gaming machines). The super tax on commission-based play for international and interstate VIP players will be removed. The agreement also provides for Crown to receive capped compensation if the State implements certain policies that adversely affect Crown.

The State will receive \$250 million in 2014 and \$250 million in 2033, up to \$200 million in 2022 contingent on Crown Melbourne's gaming revenue growth, and guaranteed annual tax payments related to new gaming products of at least \$35 million a year for six years commencing in 2015-16.

The revenue relating to the licence amendments, including the payments of \$250 million in 2014 and \$250 million in 2033, has been amortised over the life of the agreement and includes forgone revenue from the abolition of the super tax on commission-based play for international and interstate VIP players.

## **On-the-spot penalty fares**

Public transport passengers who travel without a valid ticket can now pay on-the-spot penalty fares, providing an efficient alternative to existing penalty payment arrangements with the aim of reducing fare evasion.

## GOVERNMENT-WIDE INITIATIVES

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

### Output initiatives

**Table A.2: Output initiatives – government-wide**

	(\$ million)			
	2014-15	2015-16	2016-17	2017-18
<b>Ending violence against women and children</b>				
<b>Education and Early Childhood Development</b>				
Education pilot for children impacted by family violence	0.5	1.0	0.5	..
<b>Human Services</b>				
Crisis accommodation support for women and children	..	1.0	1.0	1.1
Enhanced access to support services	1.0	2.3	1.2	3.3
Flexible post-crisis responses for women and children	1.9	3.8	3.8	3.9
Individualised responses for Aboriginal people	..	0.6	0.6	0.6
Multi-Disciplinary Centres – expanding the scope to include family violence	..	0.6	0.6	0.6
Multi-Disciplinary Centres – new centre	..	1.8	1.8	1.8
Performance framework and monitoring	0.7	0.7	0.7	0.7
Proven prevention and local coordination	1.2	4.3	4.3	3.1
Statewide behaviour change campaign	3.0	3.0	2.5	2.0
<b>Justice</b>				
Crime prevention initiatives	..	2.4	2.4	2.4
Evaluation of justice-related family violence responses	0.3	0.4	0.4	0.3
GPS monitoring of perpetrators	..	1.0	1.0	..
Information sharing and risk monitoring pilot	..	2.0	0.5	..
Legal Aid expansion	0.8	1.6	1.6	1.7
Multi-Disciplinary Centres – expanding the scope to include family violence	..	0.6	0.6	0.6
Multi-Disciplinary Centres – new centre	..	1.8	1.8	1.8
Targeted programs for offenders in correctional settings	..	0.9	0.9	0.9
<b>Courts</b>				
Coroners Court family violence review expansion	..	0.2	0.2	0.2
Court Integrated Services Program expansion	..	2.3	2.4	2.4
Specialist family violence courts program expansion	2.1	3.2	3.3	3.4
<b>Total output initiatives – Ending violence against women and children</b>	<b>11.4</b>	<b>35.3</b>	<b>32.2</b>	<b>30.9</b>

**Table A.2: Output initiatives – government-wide (continued)**

(\$ million)

	2014-15	2015-16	2016-17	2017-18
<b>Government response to the Betrayal of Trust report</b>				
<b>Human Services</b>				
New child safety standards and reportable conduct scheme	1.4	3.0	3.1	1.6
<b>Justice</b>				
Expansion of Working with Children Checks	0.2	0.3	0.3	0.3
<b>Total output initiatives – Government response to the Betrayal of Trust report</b>	<b>1.5</b>	<b>3.2</b>	<b>3.4</b>	<b>1.9</b>
<b>Government strategy to address ice use</b>				
<b>Health</b>				
Additional resources for mental health services	1.0	1.0	1.0	..
Community education forums	0.7	0.7	0.7	0.7
Expansion of the Good Sports program	0.3	..	..	..
Prevent Alcohol and Risk-related Trauma in Youth (PARTY) program	0.4	0.2	0.2	0.2
<b>Justice</b>				
Drug screening of arrested offenders	0.6	0.6	0.6	0.6
Ice crime prevention grants	0.6	0.7	0.4	0.2
Mandatory drug screening for offenders on Community Correction Orders	0.1	0.2	0.2	0.3
Passive Alert Detection dogs	1.4	2.1	2.2	2.3
<b>Total output initiatives – Government strategy to address ice use</b>	<b>5.1</b>	<b>5.5</b>	<b>5.4</b>	<b>4.3</b>
<b>Jobs in the 21st Century – International Engagement</b>				
<b>Premier and Cabinet</b>				
International and domestic engagement	1.2	0.6	0.6	0.6
<b>State Development, Business and Innovation</b>				
Victorian Government Business Offices	0.4	1.1	0.5	0.5
<b>State Development, Business and Innovation/Premier and Cabinet</b>				
Inbound and outbound trade mission program	3.0	3.0	3.0	3.0
<b>Jobs in the 21st Century – Manufacturing Statement</b>				
<b>State Development, Business and Innovation</b>				
Automotive supply chain support program	2.0	2.0	..	..
Manufacturing, Innovation and Technology Fund	5.0	5.0	10.0	10.0
Victorian Industry Participation Officers	1.0	1.0	1.0	1.0
<b>Jobs in the 21st Century – Skills</b>				
<b>Education and Early Childhood Development</b>				
Better Pathways for Young People: Your Future Your Choice	1.5	3.0	3.0	1.5
More Decisions Support: Your Future Your Choice	0.5	1.0	1.0	0.5
Skills of the Future Fund	7.5	..	..	..
<b>Total output initiatives – Jobs in the 21st Century</b>	<b>22.1</b>	<b>16.7</b>	<b>19.1</b>	<b>17.1</b>

**Table A.2: Output initiatives – government-wide (*continued*)**

(\$ million)

	2014-15	2015-16	2016-17	2017-18
<b>Strengthening Victoria's Social Cohesion</b>				
<b>Justice</b>				
Countering violent extremism	0.5	..	..	..
<b>Premier and Cabinet</b>				
Social cohesion initiatives	1.0	..	..	..
<b>Total output initiatives – Strengthening Victoria's Social Cohesion</b>	<b>1.5</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>Total output initiatives</b>	<b>41.7</b>	<b>60.8</b>	<b>60.1</b>	<b>54.2</b>

Source: Department of Treasury and Finance

## **Ending violence against women and children**

### *Education and Early Childhood Development*

#### **Education pilot for children impacted by family violence**

A new approach to meeting the educational needs of children impacted by family violence will be piloted and evaluated. Outreach teachers will work with children who are displaced from their usual school or traumatised as a consequence of family violence. This initiative will also provide training to teachers and educational support staff to assist them to better respond to the needs of students affected by family violence.

This initiative contributes to the Department of Education and Early Childhood Development's Support Services Delivery output.

### *Human Services*

#### **Crisis accommodation support for women and children**

Additional accommodation using an innovative approach will be provided for women and children escaping family violence. It will provide safe and immediate accommodation that provides suitable temporary options for families who, with the right support, have the capacity to safely return to the family home or access longer-term private rental housing. A focus will be on transitioning women and children in crisis to longer-term housing opportunities in the private rental market so they can stabilise their lives and regain independence.

This initiative contributes to the Department of Human Services' Housing Assistance output.

#### **Enhanced access to support services**

Additional capacity will be provided in services that assist women experiencing family violence, including providing an integrated response following police intervention. Integrated access will be trialled to ensure clients have access to a rapid risk screening, and referral and connection to the range of services they require.

This initiative contributes to the Department of Human Services' Child Protection and Family Services output.

### **Flexible post-crisis responses for women and children**

A flexible response will be provided to more families with children who have experienced family violence. As the impacts of family violence are different for every child and family, responses will be tailored to each family's or child's individual needs. These responses may include short-term or ongoing support and protection, or short-term counselling to help deal with trauma. Funding will be directed to the most appropriate service responses that keep women and children safe and stabilise their lives.

This initiative contributes to the Department of Human Services' Child Protection and Family Services, and Housing Assistance outputs.

### **Individualised responses for Aboriginal people**

Healing and Time Out services will be expanded to support Aboriginal families experiencing family violence through an enhanced response to both perpetrators and victims of family violence.

This initiative contributes to the Department of Human Services' Child Protection and Family Services output.

### **Multi-Disciplinary Centres – expanding the scope to include family violence**

Funding is provided to broaden the scope of the Geelong Multi-Disciplinary Centre (MDC) from a focus on sexual assault to also include family violence. The original MDC model provides an integrated multi-disciplinary environment including specialist police, sexual assault counsellors and child protection workers. The expanded focus will co-locate family violence support workers, child protection practitioners, and specialist family violence police officers with ancillary services such as legal and financial services.

This initiative contributes to the Department of Justice's Policing Services output, and the Department of Human Services' Child Protection and Family Services output.

### **Multi-Disciplinary Centres – new centre**

An additional Multi-Disciplinary Centre (MDC) will be established in Wyndham, bringing the total number of centres to seven across Victoria. The centres provide for the co-location of Victoria Police's Sexual Offences and Child Abuse Investigative Teams, child protection workers and Centres for Sexual Assault counsellors to provide an integrated multi-agency response to sexual assault and child sexual abuse. This new MDC will also include family violence services comprising family violence support workers, child protection practitioners and specialist family violence policy officers with ancillary services such as legal and financial services.

This initiative contributes to the Department of Justice's Policing Services output and the Department of Human Services' Child Protection and Family Services output.

### **Performance framework and monitoring**

A performance framework will be developed that establishes a baseline against which the impacts of the prevention programs and the statewide behaviour change campaign can be measured, including shifts in community attitudes and behaviours over time.

This initiative contributes to the Department of Human Services' Office of Women's Affairs output.

### **Proven prevention and local coordination**

Each of the State's local areas will receive funding to increase their capacity to implement new programs in line with the statewide behaviour change campaign, reflecting local priorities. Local prevention initiatives will involve proven programs such as Respectful Relationships and will be delivered in a range of community settings, including those for Aboriginal women, culturally and linguistically diverse (CALD) women, and women with a disability.

This initiative contributes to the Department of Human Services' Office of Women's Affairs output.

### **Statewide behaviour change campaign**

A social marketing campaign focused on preventing violence against women and children through sustained attitudinal and behavioural change will be implemented statewide and supported by local initiatives. The prevention campaign will be delivered in partnership with Our Watch (formerly the Foundation to Prevent Violence against Women and their Children). The funding will also support research and evaluation, measuring the shift in attitudes over time.

This initiative contributes to the Department of Human Services' Office of Women's Affairs output.

## *Justice*

### **Crime prevention initiatives**

Funding will continue to provide grants for a range of initiatives that maintain community safety, including prevention of violence against women and children. Funding will implement specific initiatives identified as priorities in local areas.

This initiative contributes to the Department of Justice's Enhancing Community Safety output.

### **Evaluation of justice-related family violence responses**

Analysis and evaluation of data will be undertaken to help identify system gaps, limitations and improvement opportunities across the Justice portfolio, as well as informing the most appropriate responses.

This initiative contributes to the Department of Justice's Enhancing Community Safety output.

### **GPS monitoring of perpetrators**

A pilot program will be developed to enhance the safety of women through a trial of court ordered GPS monitoring of men assessed as a high risk on family violence intervention orders.

This initiative contributes to the Department of Justice's Community-Based Offender Supervision output.

### **Information sharing and risk monitoring pilot**

New information and communications technology will be trialled to better assess risks associated with individual intervention order applications and improve the quality of information accompanying applications.

This initiative contributes to the Department of Justice's Enhancing Community Safety output.

### **Legal Aid expansion**

Funding is provided for Victoria Legal Aid to increase representation in family violence intervention order matters, both directly and through community legal centres. This will contribute to increased compliance with orders by helping to ensure that orders are properly tailored to the individual's situation and that respondents are properly informed about their obligations under the order.

This initiative contributes to the Department of Justice's Access to Justice and Support Services output.

### **Multi-Disciplinary Centres – expanding the scope to include family violence**

Refer to the Department of Human Services output initiative for a description of this initiative.

### **Multi-Disciplinary Centres – new centre**

Refer to the Department of Human Services output initiative for a description of this initiative.

### **Targeted programs for offenders in correctional settings**

Programs delivered through Corrections Victoria that address offenders' violent behaviour that has occurred in a family violence context will be expanded.

This initiative contributes to the Department of Justice's Prisoner Supervision and Support and Community-Based Offender Supervision outputs.

## *Courts*

### **Coroners Court family violence review expansion**

The capacity of the Family Violence Death Review Panel will be expanded to enable more detailed analysis of deaths occurring in a family violence context.

This initiative contributes to the Courts output.

### **Court Integrated Services Program expansion**

Funding is provided to expand the Court Integrated Services Program in the Magistrates' Court. The program provides a coordinated approach to the assessment and treatment of accused persons by facilitating links with specialist services such as drug and alcohol, accommodation and mental health services. This assistance will help perpetrators of family violence to address factors that have contributed to their violent behaviour.

This initiative contributes to the Courts output.



### **Specialist family violence courts program expansion**

The specialist family violence service program will be expanded to an additional seven courts bringing the total to 13 courts which will provide a focused family violence service. Specialist services include a registrar, trained in the nature of family violence, assistance for applicants and respondents in intervention order matters, and referral to specialist services.

This initiative contributes to the Courts output.

### ***Government response to the Betrayal of Trust report***

#### *Human Services*

#### **New child safety standards and reportable conduct scheme**

A new child safety standards regime will be introduced requiring organisations, such as schools and pastoral and spiritual care services, to have policies and procedures in place to ensure a child-safe environment. A reportable conduct scheme is also being implemented that requires organisations with the highest levels of responsibility for children to notify the Commission for Children and Young People of all allegations and findings of child abuse.

This initiative contributes to the Department of Human Services' Child Protection and Family Services output.

#### *Justice*

#### **Expansion of Working with Children Checks**

The introduction of a reportable conduct scheme will require the Working with Children Check to consider serious findings relating to allegations of child abuse referred from the Commission for Children and Young People. Under the new scheme, referrals from the Commissioner will trigger an assessment of a person's suitability to hold a Working with Children Check, increasing the volume of assessment activity.

This initiative contributes to the Department of Justice's Enhancing Community Safety output.

### ***Government strategy to address ice use***

#### *Health*

#### **Additional resources for mental health services**

Additional resources will be provided in 10 mental health units across Victoria to enhance the response to patients presenting with mental health issues associated with ice and other drug use.

This initiative contributes to the Department of Health's Drug Prevention and Control output.

### **Community education forums**

Community education forums will be delivered across the state through non-government organisations to raise awareness of the dangers of ice use, to provide information about where to get help and to facilitate local responses.

This initiative contributes to the Department of Health's Drug Prevention and Control output.

### **Expansion of the Good Sports program**

The Good Sports program supports community sport clubs to raise young persons' awareness of the dangers of high-risk drinking. The program will be expanded to enable clubs to lead discussions about the dangers of ice use.

This initiative contributes to the Department of Health's Drug Prevention and Control output.

### **Prevent Alcohol and Risk-related Trauma in Youth (PARTY) program**

Funding will continue for the PARTY program at the Alfred Hospital and the Royal Melbourne Hospital, and additional funding will be provided for a new 12 month trial in regional Victoria, enabling students to visit an emergency department and trauma ward to witness the consequences of risky behaviour including ice and other drug use.

This initiative contributes to the Department of Health's Drug Prevention and Control output.

## *Justice*

### **Drug screening of arrested offenders**

Offenders who have been arrested for an indictable offence and who are suspected of being under the influence of illicit drugs will be tested for the presence of drugs. This will act as a deterrent to offenders and will assist police in the investigation of drug related crime.

This initiative contributes to the Department of Justice's Access to Justice and Support Services output.

### **Ice crime prevention grants**

A \$2 million grants program will be established to facilitate the implementation of local solutions for communities with ice-related problems. Individual grants of up to \$100 000 will be made available to community organisations and/or councils partnering with community organisations to achieve this objective.

This initiative contributes to the Department of Justice's Enhancing Community Safety output.

### **Mandatory drug screening for offenders on Community Correction Orders**

Mandatory drug screening will be introduced for all offenders sentenced to a Community Correction Order (CCO) as a result of offences committed when affected by ice. This screening will help offenders comply with the conditions of their CCO, assist with their treatment and rehabilitation and lead to improved community safety.

This initiative contributes to the Department of Justice's Community Based Offender Supervision output.

### **Passive Alert Detection dogs**

Eleven additional Passive Alert Detection dogs (sniffer dogs) will increase the capability of Victoria Police to carry out search warrants in the city and hotspot regional areas where ice has infiltrated.

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

## **Jobs in the 21st Century**

### ***Jobs in the 21st Century – International Engagement***

#### ***Premier and Cabinet***

#### **International and domestic engagement**

Victorian businesses will be connected to new opportunities through support for engagement and awareness amongst local employers and communities.

This includes strengthening Victoria's ongoing sister-state relationships and establishing new relationships in India and Indonesia, further enhancing important cultural links and assisting the development of new business opportunities.

This initiative contributes to the Department of Premier and Cabinet's Strategic Advice and Government Support output.

#### ***State Development, Business and Innovation***

#### **Victorian Government Business Offices**

New Victorian Government Business Offices will be opened in Latin America and Singapore to attract new investment to Victoria and assist Victorian businesses with new market opportunities.

This initiative contributes to the Department of State Development, Business and Innovation's:

- Trade and Export Facilitation output; and
- Investment Attraction, Facilitation and Major Projects output.

#### ***State Development, Business and Innovation/Premier and Cabinet***

#### **Inbound and outbound trade mission program**

Building on existing trade missions and establishing a new inbound program, delegations will be brought to and from high-growth export markets to showcase the global capabilities of Victorian businesses. This program includes initiatives to strengthen cultural connections and leverage opportunities in international markets.

This initiative contributes to the Department of State Development, Business and Innovation's:

- Trade and Export Facilitation output; and
- Investment Attraction, Facilitation and Major Projects output.

This initiative also contributes to the Department of Premier and Cabinet's Arts and Cultural Development output.

## ***Jobs in the 21st Century – Manufacturing Statement***

### ***State Development, Business and Innovation***

#### **Automotive supply chain support program**

Assistance will be provided to automotive supply chain manufacturing companies to transition to new growth markets, at home and abroad.

This initiative contributes to the Department of State Development, Business and Innovation's Investment Attraction, Facilitation and Major Projects output.

#### **Manufacturing, Innovation and Technology Fund**

Eligible manufacturing firms will be provided with vouchers of up to \$250 000 to support their investment in innovative manufacturing processes and equipment. Access to innovative research, technologies and processes will enable firms to improve their competitive position in the marketplace.

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

#### **Victorian Industry Participation Officers**

Victorian Industry Participation Facilitators will be appointed to assist in identifying new opportunities for Victorian businesses in major infrastructure projects that have been declared as strategic projects.

This initiative contributes to the Department of State Development, Business and Innovation's Investment Attraction, Facilitation and Major Projects output.

## ***Jobs in the 21st Century – Skills***

### ***Education and Early Childhood Development***

#### **Better Pathways for Young People: Your Future Your Choice**

The Geelong Tertiary Futures program will be expanded to provide services for up to 90 schools in disadvantaged areas. The program provides hands-on learning experiences for year 9 students to reduce the risk of students disengaging from the school system and support students in identifying pathways to further learning.

This initiative contributes to the Department of Education and Early Childhood Development's School Education – Secondary output.

### **More Decisions Support: Your Future Your Choice**

An advisory phone line service and website will be established to provide advice on training eligibility, career direction and training provider information and referral services, to better inform training decisions.

This initiative contributes to the Department of Education and Early Childhood Development's Higher Education and Skills output.

### **Skills of the Future Fund**

The Skills of the Future Fund will be established to meet the costs of the construction of additional Future Skills Centres by TAFEs to provide specialised training tailored to the skills needs of specific industry sectors.

This initiative contributes to the Department of Education and Early Childhood Development's Higher Education and Skills output.

## ***Strengthening Victoria's Social Cohesion***

### *Justice*

#### **Countering violent extremism**

Support will continue for programs aiming to counter violent extremism and provide early intervention, such as the Community Integration Support Program. These programs target convicted Victorian terrorists, prisoners and individuals vulnerable to radicalisation.

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

### *Premier and Cabinet*

#### **Social cohesion initiatives**

A range of projects will be implemented to encourage greater participation, understanding and acceptance of diversity, and minimise the impact of international, national and local events on Victoria's social cohesion. These projects will be delivered through a range of bodies such as local councils, interfaith networks, schools, sporting clubs, Victoria Police and the Office of Multiculturalism and Citizenship.

This initiative contributes to the Department of Premier and Cabinet's Multicultural Affairs and Citizenship output.

## Asset initiatives

**Table A.3: Asset initiatives – government-wide**

	(\$ million)				
	2014-15	2015-16	2016-17	2017-18	TEI
<b>Ending violence against women and children</b>					
<b>Justice</b>					
Multi-Disciplinary Centres – new centre	2.0	2.0	..	..	4.0
<b>Courts</b>					
Courts – safe waiting areas	..	2.8	..	..	2.8
Specialist Family Violence Court program expansion – minor works	1.5	..	..	..	1.5
<b>Total asset initiatives – Ending violence against women and children</b>	<b>3.5</b>	<b>4.8</b>	<b>..</b>	<b>..</b>	<b>8.3</b>
<b>Jobs in the 21st Century – Skills</b>					
<b>Education and Early Childhood Development</b>					
Chisholm Institute Frankston Campus – Centre for Advanced Manufacturing and Trades	2.6	13.5	5.8	..	21.9
Skills of the Future Fund	..	7.5	5.0	..	12.5
<b>Total asset initiatives – Jobs in the 21st Century</b>	<b>2.6</b>	<b>21.0</b>	<b>10.8</b>	<b>..</b>	<b>34.4</b>
<b>Total asset initiatives</b>	<b>6.1</b>	<b>25.8</b>	<b>10.8</b>	<b>..</b>	<b>42.7</b>

Source: Department of Treasury and Finance

### **Ending violence against women and children**

#### *Justice*

#### **Multi-Disciplinary Centres – new centre**

Refer to the Department of Human Services output initiative for a description of this initiative.

#### *Courts*

#### **Courts – safe waiting areas**

Work will be undertaken in Magistrates' Courts to improve the amenity and safety of waiting areas for victims of family violence.

This initiative contributes to the Courts output.

### **Specialist Family Violence Court program expansion – minor works**

Work will be undertaken to support the expansion of the Specialist Family Violence Court program to a further seven courts.

This initiative contributes to the Courts output.

### ***Jobs in the 21st Century – Skills***

#### *Education and Early Childhood Development*

### **Chisholm Institute Frankston Campus – Centre for Advanced Manufacturing and Trades**

Funding is provided to the Chisholm Institute to construct a Centre for Advanced Manufacturing and Trades at its Frankston Campus. This will deliver specialised training tailored to the skills needs of the advanced manufacturing sector.

This initiative contributes to the Department of Education and Early Childhood Development's Higher Education and Skills output.

### **Skills of the Future Fund**

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

## **DEPARTMENT OF EDUCATION AND EARLY CHILDHOOD DEVELOPMENT**

### ***Output initiatives***

**Table A.4: Output initiatives – Education and Early Childhood Development**

*(\$ million)*

	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Independent public schools	4.5	4.5	4.5	..
Kindergarten enrolment growth	0.8	0.8	0.8	0.8
National Occasional Care Programme	1.1	1.2	1.2	1.2
National Partnership Agreement on Universal Access to Early Childhood Education	29.2	68.2	..	..
National School Chaplaincy Programme	12.3	12.3	12.3	12.3
Resourcing schools to raise performance	8.0	59.6	..	..
Student enrolment growth	10.6	12.3	14.0	15.7
<b>Total output initiatives</b>	<b>66.5</b>	<b>158.8</b>	<b>32.7</b>	<b>29.9</b>

*Source: Department of Treasury and Finance*

### **Independent public schools**

To assist government schools transition to greater independence, management training and capacity building will be provided to school leaders and school councils, along with administrative support for principals of small schools and support federated school governance models. These activities will assist principals and school communities to take full advantage of the autonomy available in the government school system.

This initiative contributes to the Department of Education and Early Childhood Development's:

- School Education – Primary output; and
- School Education – Secondary output.

### **Kindergarten enrolment growth**

Additional and ongoing funding is provided for forecast kindergarten enrolment growth.

This initiative contributes to the Department of Education and Early Childhood Development's Early Childhood Development output.

### **National Occasional Care Programme**

Under a Project Agreement on the National Occasional Care Programme, the Commonwealth will provide funding for flexible occasional care places, particularly in rural, regional and remote areas that do not currently have these services.

This initiative contributes to the Department of Education and Early Childhood Development's Early Childhood Development output.

### **National Partnership Agreement on Universal Access to Early Childhood Education**

Under a National Partnership Agreement on Universal Access to Early Childhood Education, the Commonwealth will provide funding for the continued provision of a 15 hour per week kindergarten program for the 2015 calendar year.

This initiative contributes to the Department of Education and Early Childhood Development's Early Childhood Development output.

### **National School Chaplaincy Programme**

Under a Project Agreement on the National School Chaplaincy Programme, the Commonwealth will provide funding for chaplaincy services in Victorian government and non-government schools to support the emotional wellbeing of students by providing pastoral care services.

This initiative contributes to the Department of Education and Early Childhood Development's:

- School Education – Primary output; and
- School Education – Secondary output.



## Resourcing schools to raise performance

Additional funding is provided to government and non-government schools to improve student outcomes. This initiative includes additional targeted funding for students from low socio-economic backgrounds, ensuring that resources are allocated to where they are most needed.

The funding is provided directly to schools, which will have the flexibility to use the funding in the way that will best drive improved educational outcomes.

This initiative contributes to the Department of Education and Early Childhood Development's:

- School Education – Primary output; and
- School Education – Secondary output.

## Student enrolment growth

Additional and ongoing funding is provided for government and non-government schools for higher than forecast student enrolments.

This initiative contributes to the Department of Education and Early Childhood Development's:

- School Education – Primary output; and
- School Education – Secondary output.

## Asset initiatives

**Table A.5: Asset initiatives – Education and Early Childhood Development**

	(\$ million)				
	2014-15	2015-16	2016-17	2017-18	TEI
School capital program <sup>(a)</sup>	tbc	tbc	tbc	tbc	38.0
<b>Total asset initiatives</b>	..	..	..	..	<b>38.0</b>

Source: Department of Treasury and Finance

Note:

(a) Estimated capital value only. The new schools will be undertaken under a public private partnership arrangement. Estimated annual expenditure to be confirmed upon contractual completion of public private partnership contracting arrangements.

## School capital program

Funding is provided for two new schools as well as additional relocatable classrooms for schools with growing enrolments. The new schools that will be constructed as part of the New Schools Public Private Partnership project announced in the 2014-15 Budget are:

- Armstrong Creek Primary School; and
- Armstrong Creek Special School.

This initiative contributes to the Department of Education and Early Childhood Development's:

- School Education – Primary output; and
- School Education – Secondary output.

## DEPARTMENT OF ENVIRONMENT AND PRIMARY INDUSTRIES

### *Output initiatives*

**Table A.6: Output initiatives – Environment and Primary Industries**

	(\$ million)			
	2014-15	2015-16	2016-17	2017-18
Building on reform of illegal puppy and kitten farms	2.3	1.5	1.3	1.0
Urban water reform	8.5	..	..	..
<b>Total output initiatives</b>	<b>10.8</b>	<b>1.5</b>	<b>1.3</b>	<b>1.0</b>

Source: Department of Treasury and Finance

#### **Building on reform of illegal puppy and kitten farms**

Funding will be provided to the RSPCA to enable increased enforcement of the *Domestic Animals Act 1994* to close illegal puppy and kitten farms. This includes a one-off grant of \$750 000 in 2014-15 to assist with the purchase of vehicles and equipment to aid in the seizure of dogs and cats from illegal establishments.

This initiative contributes to the Department of Environment and Primary Industries' Biosecurity output.

#### **Urban water reform**

Funding will be provided to support the implementation of the Fairer Water Bills initiative, which will require Victoria's urban water corporations to identify operational efficiencies in delivering water services to provide cost savings for customers.

This initiative contributes to the Department of Environment and Primary Industries' Effective Water Management and Supply output.

## DEPARTMENT OF HEALTH

### *Output initiatives*

**Table A.7: Output initiatives – Health**

(\$ million)

	2014-15	2015-16	2016-17	2017-18
Hazelwood health study	1.5	3.0	3.1	2.7
Seniors Participation Action Plan	0.3	1.3	1.4	1.1
Treatment services at Waurm Ponds	..	..	9.5	3.3
<b>Total output initiatives</b>	<b>1.8</b>	<b>4.3</b>	<b>14.0</b>	<b>7.1</b>

Source: Department of Treasury and Finance

#### **Hazelwood health study**

Funding is provided for the first stage of a long-term study into the potential health effects from the Hazelwood coal mine fire. This will be undertaken by an independent research consortium. The study forms part of the Government's response to the *Hazelwood Mine Fire Board of Inquiry* and responds to community concerns on the potential health impacts of the fire. Funding for subsequent stages will be provided as part of the next budget cycle.

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

#### **Seniors Participation Action Plan**

Funding is provided to support community participation by Victoria's seniors. This will be achieved by focusing efforts around five priority goals:

- respecting the voices of seniors, by actively involving seniors in the planning and implementation of initiatives;
- supporting seniors to keep healthy and well;
- promoting age-friendly communities, particularly through better planning of the built environment to improve accessibility;
- promoting economic participation, learning and life planning; and
- supporting volunteering and community engagement opportunities for seniors.

This initiative contributes to the Department of Health's Seniors Program and Participation output.

#### **Treatment services at Waurm Ponds**

Funding is provided to procure same day surgical, renal dialysis and chemotherapy services at the new Geelong Hospital facility being constructed by Epworth in Waurm Ponds.

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

## Asset initiatives

**Table A.8: Asset initiatives – Health**

	(\$ million)				
	2014-15	2015-16	2016-17	2017-18	TEI
Additional Geelong Hospital improvements	3.4	19.5	2.0	..	24.9
Additional scope at Barwon Health North	..	0.5	4.5	..	5.0
Project Agreement for the Bright Hospital Feasibility Study	0.1	0.1	..	..	0.2
Project Agreement for the Warrnambool Integrated Cancer Care Centre	10.0	..	..	..	10.0
Sunshine Hospital – new acute cardiac services	10.7	..	..	..	10.7
West Gippsland Healthcare Group energy performance contract	4.4	..	..	..	4.4
<b>Total asset initiatives</b>	<b>28.6</b>	<b>20.1</b>	<b>6.5</b>	<b>..</b>	<b>55.1</b>

Source: Department of Treasury and Finance

### Additional Geelong Hospital improvements

Funding is provided for additional improvements at the Geelong Hospital including the relocation of the current helipad to the rooftop of the acute services tower block. The new helipad will provide direct service links to the emergency department and ICU. Funding is also provided for refurbishments to deliver the new Interventional Day of Surgery Accommodation, and support services, and redevelopment of the current renal dialysis facilities to improve its amenity and functionality.

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

### Additional scope at Barwon Health North

Funding is provided for the inclusion of a number of new health services at Barwon Health North including renal dialysis and chemotherapy, as part of the urgent care centre that was announced in the *2014-15 Budget*. An increased number of generic consulting suites will also be provided. This will enable a greater range of services to be provided to the region, and will support better health outcomes to the community.

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

### Project Agreement for the Bright Hospital Feasibility Study

Under a Project Agreement for the Bright Hospital Feasibility Study, the Commonwealth will provide \$150 000 over two years for a feasibility study for the redevelopment of Bright Hospital.

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

### **Project Agreement for the Warrnambool Integrated Cancer Care Centre**

Under a Project Agreement on Warrnambool Integrated Cancer Care Centre, the Commonwealth will provide \$10 million for the construction of a regional integrated cancer care centre in Warrnambool. This will contribute to the previously announced commitment, radiotherapy services in South West Victoria.

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

### **Sunshine Hospital – new acute cardiac services**

Funding is provided for a major new acute cardiac service in Melbourne's west to address increasing demand and provide access to world leading cardiac services, closer to home. The new Coronary Care Unit will include cardiac catheter facilities, digital angiography services and a second tomography machine. These services will strongly support better health outcomes to the community.

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

### **West Gippsland Healthcare Group Energy Performance Contract**

Funding is provided to implement an Energy Performance Contract project, enabling greater energy and water efficiency to be achieved at government-owned buildings across the West Gippsland Healthcare Group. This is part of the Efficient Government Buildings initiative.

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

## **DEPARTMENT OF HUMAN SERVICES**

### ***Output initiatives***

**Table A.9: Output initiatives – Human Services**

*(\$ million)*

	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Family violence response	8.3	8.7	6.5	6.5
Out-of-home care	20.5	16.6	10.8	7.2
Queen Victoria Women's Centre	1.2	..	..	..
<b>Total output initiatives</b>	<b>30.0</b>	<b>25.3</b>	<b>17.3</b>	<b>13.7</b>

*Source: Department of Treasury and Finance*

### **Family violence response**

Responses to family violence will be strengthened through measures to protect and support women and children experiencing or at risk of family violence. The package will expand on the statewide Strengthening Risk Management program. This brings together police, the courts, family violence and family services to fast track support for women and children who have experienced family violence. The package will also expand case management and practical support for women and children.

This initiative contributes to the Department of Human Services' Child Protection and Family Services output.

### **Out-of-home care**

Additional therapeutic placements and increased levels of staffing will improve the support for children and young people in out of home care who are unable to remain safely with their families. Tailored care packages will be introduced to support children moving from residential care to home based care. Placement prevention programs that focus on addressing the over-representation of Aboriginal children in care will be expanded. These initiatives are consistent with the Government's *Out-of-home care: a five year plan*.

This initiative contributes to the Department of Human Services' Child Protection and Family Services output.

### **Queen Victoria Women's Centre**

Critical maintenance works will be undertaken on the Queen Victoria Women's Centre, including improving access for people with a disability. These works will stabilise the fabric of the building, enabling the continued operation of the centre as a home to a range of not-for-profit women's organisations that offer support and information services to women.

This initiative contributes to the Department of Human Services' Office of Women's Affairs output.

## **Asset initiatives**

**Table A.10: Asset initiatives – Human Services**

	<i>(\$ million)</i>				
	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>	<i>TEI</i>
Public housing energy performance contract	13.4	..	..	..	13.4
<b>Total asset initiatives</b>	<b>13.4</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>13.4</b>

*Source: Department of Treasury and Finance*

### **Public housing Energy Performance Contract**

Funding is provided to implement an Energy Performance Contract project across high-rise public housing properties to reduce energy and water usage and maintenance costs. This is part of the Efficient Government Buildings initiative.

This initiative contributes to the Department of Human Services' Housing Assistance output.

## DEPARTMENT OF JUSTICE

### *Output initiatives*

**Table A.11: Output initiatives – Justice**

	(\$ million)			
	2014-15	2015-16	2016-17	2017-18
Additional Protective Services Officers	5.7	12.0	13.0	13.5
Provision of additional firefighting aircraft resources	7.2	..	..	..
<b>Total output initiatives</b>	<b>12.9</b>	<b>12.0</b>	<b>13.0</b>	<b>13.5</b>

Source: Department of Treasury and Finance

#### **Additional Protective Services Officers**

A further 96 Protective Services Officers (PSOs) will be deployed to enable a dedicated PSO presence at 212 metropolitan stations and four major regional stations. This will bring the total number of PSOs to 1 036, further improving community safety around railway stations.

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

#### **Provision of additional firefighting aircraft resources**

Additional firefighting aircraft resources will be delivered to enhance Victoria’s firefighting capability, including a Helitak aircraft to be leased over the 2014-15 summer in the Latrobe Valley, and two large fixed-wing air tankers based at Avalon.

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

### *Asset initiatives*

**Table A.12: Asset initiatives – Justice**

	(\$ million)				
	2014-15	2015-16	2016-17	2017-18	TEI
Additional Protective Services Officers	0.5	..	..	..	0.5
Morwell Fire Station	..	5.0	..	..	5.0
<b>Total asset initiatives</b>	<b>0.5</b>	<b>5.0</b>	<b>..</b>	<b>..</b>	<b>5.5</b>

Source: Department of Treasury and Finance

## **Additional Protective Services Officers**

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

## **Morwell Fire Station**

A new Country Fire Authority station will be constructed in Morwell to enhance emergency services within the Latrobe region. This initiative forms part of the Government's response to the *Hazelwood Mine Fire Board of Inquiry*.

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

## **DEPARTMENT OF PREMIER AND CABINET**

### ***Asset initiatives***

**Table A.13: Asset initiatives – Premier and Cabinet**

	<i>(\$ million)</i>				
	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>	<i>TEI</i>
Maintaining Victoria's arts facilities	2.5	..	..	..	2.5
Museum Victoria Energy Efficiency project	11.3	..	..	..	11.3
<b>Total asset initiatives</b>	<b>13.8</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>13.8</b>

*Source: Department of Treasury and Finance*

### **Maintaining Victoria's arts facilities**

Funding is provided to the Arts and Cultural Facilities Maintenance Fund to support essential maintenance works at arts facilities. These arts facilities are used to house government and non-government arts organisations.

This initiative contributes to the Department of Premier and Cabinet's Cultural Infrastructure and Facilities output.

### **Museum Victoria Energy Efficiency project**

Funding is provided to implement an energy performance project across Museum Victoria facilities to reduce energy and water usage.

This initiative contributes to the Department of Premier and Cabinet's Cultural Infrastructure and Facilities output.



## DEPARTMENT OF STATE DEVELOPMENT, BUSINESS AND INNOVATION

### *Output initiatives*

**Table A.14: Output initiatives – State Development, Business and Innovation**

*(\$ million)*

	2014-15	2015-16	2016-17	2017-18
Ex gratia payment to Latrobe City Council – Piggery Road	0.6	..	..	..
<b>Total output initiatives</b>	<b>0.6</b>	<b>..</b>	<b>..</b>	<b>..</b>

*Source: Department of Treasury and Finance*

### **Ex gratia payment to Latrobe City Council – Piggery Road**

The Latrobe City Council will be provided with a one-off payment of up to \$550 000 to support the remediation of Piggery Road, Boolarra following a natural disaster.

This initiative contributes to the Department of State Development, Business and Innovation’s Regional Development and Regional Cities output.

## DEPARTMENT OF TRANSPORT, PLANNING AND LOCAL INFRASTRUCTURE

### *Output initiatives*

**Table A.15: Output initiatives – Transport, Planning and Local Infrastructure**

*(\$ million)*

	2014-15	2015-16	2016-17	2017-18
Baw Baw Shire Council flood repairs	0.7	..	..	..
On-the-spot penalty fares	1.5	1.5	1.6	1.6
Protective Services Officers – station facilities	0.3	0.6	0.7	0.7
Rio Olympic and Paralympic Games	..	0.8	..	..
Shooting Sports Grants Program	3.0	4.0	5.8	..
Simonds Stadium	5.0	..	..	..
<b>Total output initiatives</b>	<b>10.5</b>	<b>6.9</b>	<b>8.1</b>	<b>2.3</b>

*Source: Department of Treasury and Finance*

### **Baw Baw Shire Council flood repair**

Funding is provided to Baw Baw Shire Council for essential public infrastructure including the North Canal Road and surrounding local road network, which has sustained significant flood damage.

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

### **On-the-spot penalty fares**

Public transport passengers who travel without a valid ticket can now pay on-the-spot penalty fares, providing an efficient alternative to existing penalty payment arrangements with the aim of reducing fare evasion. This initiative provides funding for the initial set-up and operation of on-the-spot penalty fares.

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

### **Protective Services Officers – station facilities**

Additional facilities will be constructed and maintained at 45 railway stations for PSOs across Victoria, supporting the additional PSOs that will be deployed to enable a permanent presence at metropolitan and major regional stations.

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

### **Rio Olympic and Paralympic Games**

Funding will be provided to support the preparation and travel of the Victorian members of the Australian Olympic and Paralympic team attending the 2016 Rio Olympic Games.

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

### **Shooting Sports Grants Program**

A grants program will be established to assist shooting clubs to purchase additional land or invest in capital infrastructure to build event capacity.

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

### **Simonds Stadium**

Funding will be provided for the next stage of the Simonds Stadium redevelopment in Geelong, including the development of a full business case and detailed design work.

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

## Asset initiatives

**Table A.16: Asset initiatives – Transport, Planning and Local Infrastructure**

	(\$ million)				
	2014-15	2015-16	2016-17	2017-18	TEI
Bellbrae tourism precinct infrastructure	1.0	1.5	..	..	2.5
Bittern pedestrian crossing	0.0	0.2	..	..	0.2
Canterbury Road and Armstrong Road, Heathmont intersection upgrade	0.1	3.4	..	..	3.5
Cardinia Road upgrade <sup>(a)</sup> – stage 2	..	9.4	..	..	9.4
Echuca-Moama Bridge <sup>(b)</sup>	0.5	4.5	20.7	32.2	96.0
Fixing congestion on Punt Road	0.5	..	..	..	0.5
On-the-spot penalty fares	1.2	..	..	..	1.2
Pedestrian crossing upgrade	1.5	0.3	..	..	1.7
Pedestrian underpass at Great Ocean Road, Fairhaven	3.5	..	..	..	3.5
Princes Highway East duplication – Traralgon to Sale <sup>(c)</sup>	..	..	85.0	..	85.0
Protective Services Officers – station facilities	11.0	5.0	..	..	16.0
Safer access to schools	0.6	..	..	..	0.6
Tullamarine Freeway widening – Melrose Drive to the Airport <sup>(d)</sup>	..	20.0	90.0	103.0	250.0
Western Highway duplication – Buangor to Ararat <sup>(e)</sup>	..	15.0	77.7	64.5	157.3
<b>Total asset initiatives</b>	<b>19.9</b>	<b>59.2</b>	<b>273.4</b>	<b>199.7</b>	<b>627.4</b>

Source: Department of Treasury and Finance

Notes:

- (a) The TEI includes developer contribution.
- (b) The TEI includes funding beyond 2017-18.
- (c) The TEI includes anticipated Commonwealth funding of \$70.0 million.
- (d) The TEI includes anticipated Commonwealth funding of \$200 million and includes funding beyond 2017-18.
- (e) The TEI includes anticipated Commonwealth funding of \$97.3 million.

### Bellbrae tourism precinct infrastructure

A package of road infrastructure works will be delivered in the Bellbrae tourism precinct, including a new roundabout, service road upgrade and turning lanes on Elkington Road, Forest Road and the Great Ocean Road. The package aims to assist Bellbrae become a major tourism precinct and will be funded from the reallocation of Better Roads Victoria project savings.

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

### **Bittern pedestrian crossing**

Pedestrian operated signals will be installed on Frankston-Flinders Road in Bittern, near the Bittern railway station to improve road and pedestrian safety. This will be funded from the reallocation of Better Roads Victoria project savings.

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

### **Canterbury Road and Armstrong Road, Heathmont intersection upgrade**

Funding will be provided to upgrade the intersection of Canterbury Road and Armstrong Road, Heathmont, reducing traffic congestion and improving road safety. This project will be funded from the reallocation of Better Roads Victoria project savings.

The initiative contributes to the Department of Transport's Road Network Improvements output.

### **Cardinia Road upgrade – stage 2**

Cardinia Road stage 2 works incorporate road widening to the railway line, and the section between Henry Road and the northern roundabout of the Pakenham Bypass including extending the duplication across the Pakenham rail line crossing. The works will reduce traffic congestion and improve road safety. This will be funded from the reallocation of Better Roads Victoria project savings.

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

### **Echuca-Moama Bridge**

The Victorian Government will make a contribution towards a second bridge crossing the Murray River, connecting Echuca in Victoria and Moama in New South Wales, including connections to the local road network. This is subject to co-contributions to fund the required works from the Commonwealth and New South Wales Governments. Construction of the bridge will improve amenity in and around the principal road network, increase transport network efficiency and improve connections in the region. The Victorian Government contribution is for \$96 million, including \$38.1 million in 2018-19.

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

### **Fixing congestion on Punt Road**

Funding is provided for initial car park construction and community consultation to enable a 24-hour clearway to be introduced on Punt Road south of Alexandra Avenue. This will be funded from the reallocation of Better Roads Victoria project savings.

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

### **On-the-spot penalty fares**

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

### **Pedestrian crossing upgrade**

A number of pedestrian operated signals will be installed and crossings upgraded to improve road and pedestrian safety. This includes the intersection of Toorong Road and Milton Parade in Malvern, and the Nepean Highway in Edithvale, near Denman Avenue.

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

### **Pedestrian underpass at Great Ocean Road, Fairhaven**

A pedestrian underpass will be installed on the Great Ocean Road adjacent to the Fairhaven Surf Life Saving Club, linking the car park on the north of the Great Ocean Road and the Fairhaven community to the Fairhaven beach and Surf Life Saving Club. The works will improve road and pedestrian safety for Fairhaven Club patrons. This will be funded from the reallocation of Better Roads Victoria project savings.

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

### **Princes Highway East duplication – Traralgon to Sale**

The duplication of three new sections of the Princes Highway East from Traralgon to Sale will be funded from a reallocation of savings from the Regional Rail Link project. This includes 1.5 kilometres from Minnedale Road towards Rosedale, a 3 kilometre section from Sale-Heyfield Road to Cowwarr Road and a 3 kilometre section from Nambrok to east of Rosedale-Maffra Road. The three sections will improve safety and capacity of the Highway.

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

### **Protective Services Officers – station facilities**

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

### **Safer access to schools**

Electronic variable school speed signs will be installed to provide safer access to a number of schools across Victoria, including Rowville Secondary College, Mountain Gate Primary School and Bentleigh West Primary School. This will improve pedestrian and road safety.

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

### **Tullamarine Freeway widening – Melrose Drive to the Airport**

The Tullamarine Freeway will be widened to add a new lane in each direction from Melrose Drive to the Melbourne Airport and the addition of a Freeway Management System. As part of the broader CityLink – Tulla widening, the project will reduce congestion and airport related travel times. This will be jointly funded by the Commonwealth and the State. This completes the widening of the Tullamarine Freeway and CityLink as previously announced in the *2014-15 Budget*.

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

### **Western Highway duplication – Buangor to Ararat**

A 12 kilometre duplication between Buangor and Ararat will be funded from a reallocation of savings from the Regional Rail Link project, completing the full duplication of the Western Highway between Ballarat and Ararat. The final stage will improve safety and capacity of the highway.

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

## **DEPARTMENT OF TREASURY AND FINANCE**

### ***Output initiatives***

**Table A.17: Output initiatives – Treasury and Finance**

	<i>(\$ million)</i>			
	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
State Revenue Office – assessment and compliance	2.5	8.1	11.6	12.1
<b>Total output initiatives</b>	<b>2.5</b>	<b>8.1</b>	<b>11.6</b>	<b>12.1</b>

*Source: Department of Treasury and Finance*

### **State Revenue Office – assessment and compliance**

The State Revenue Office will enhance its compliance activities, primarily in relation to land tax, landholder and land rich duties, and payroll tax. These activities include greater investigation of reported land ownership, utilising new technology and data, and accelerating the resolution of duty assessments.

This initiative contributes to the Department of Treasury and Finance’s Revenue Management Services output.

## APPENDIX B – SENSITIVITY ANALYSIS TABLE

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The economic forecasts and assumptions underpinning the *2014 Victorian Pre-Election Budget Update* are subject to variation. This section analyses the impact of variations in these parameters on key fiscal aggregates of the general government sector.

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

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

### SENSITIVITY TO INDEPENDENT VARIATIONS IN MAJOR ECONOMIC PARAMETERS

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

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

**Table B.1: Sensitivity of key fiscal aggregates to selected economic indicators being 1 per cent higher than expected from 2014-15<sup>(a)(b)(c)(d)</sup>**

(\$ million)

	2014-15 estimate	2015-16 estimate	2016-17 estimate	2017-18 estimate
<b>GSP</b>				
Income from transactions	157	164	174	192
Expenses from transactions	7	( 1)	( 9)	( 19)
<b>Net result from transactions</b>	<b>150</b>	<b>164</b>	<b>184</b>	<b>210</b>
<b>Net debt</b>	<b>150</b>	<b>315</b>	<b>498</b>	<b>709</b>
<b>Employment</b>				
Income from transactions	71	93	92	97
Expenses from transactions	( 2)	( 6)	( 11)	( 16)
<b>Net result from transactions</b>	<b>73</b>	<b>99</b>	<b>103</b>	<b>114</b>
<b>Net debt</b>	<b>73</b>	<b>173</b>	<b>276</b>	<b>390</b>
<b>Consumer prices<sup>(e)</sup></b>				
Income from transactions	300	214	291	329
Expenses from transactions	66	65	57	45
<b>Net result from transactions</b>	<b>234</b>	<b>149</b>	<b>233</b>	<b>284</b>
Other economic flows	1	1	1	1
<b>Net result</b>	<b>235</b>	<b>150</b>	<b>234</b>	<b>284</b>
<b>Net debt</b>	<b>235</b>	<b>385</b>	<b>619</b>	<b>904</b>
<b>Average weekly earnings</b>				
Income from transactions	83	( 83)	1	( 8)
Expenses from transactions	6	7	9	9
<b>Net result from transactions</b>	<b>76</b>	<b>( 90)</b>	<b>( 8)</b>	<b>( 17)</b>
<b>Net debt</b>	<b>76</b>	<b>( 13)</b>	<b>( 22)</b>	<b>( 38)</b>
<b>Enterprise agreements<sup>(f)</sup></b>				
Income from transactions	29	30	30	30
Expenses from transactions	198	246	264	283
<b>Net result from transactions</b>	<b>( 169)</b>	<b>( 217)</b>	<b>( 234)</b>	<b>( 253)</b>
<b>Net debt</b>	<b>( 169)</b>	<b>( 370)</b>	<b>( 588)</b>	<b>( 824)</b>
<b>Domestic share prices</b>				
Income from transactions	..	3	1	6
Expenses from transactions	..	( 2)	( 2)	( 3)
<b>Net result from transactions</b>	<b>..</b>	<b>5</b>	<b>3</b>	<b>8</b>
<b>Net debt</b>	<b>..</b>	<b>5</b>	<b>8</b>	<b>16</b>
<b>Overseas share prices</b>				
Income from transactions	1	18	4	18
Expenses from transactions	..	( 3)	( 3)	( 4)
<b>Net result from transactions</b>	<b>1</b>	<b>21</b>	<b>7</b>	<b>21</b>
<b>Net debt</b>	<b>1</b>	<b>22</b>	<b>28</b>	<b>50</b>



	2014-15 estimate	2015-16 estimate	2016-17 estimate	2017-18 estimate
<b>Property prices</b>				
Income from transactions	80	83	90	94
Expenses from transactions	( 2)	( 7)	( 12)	( 17)
<b>Net result from transactions</b>	<b>82</b>	<b>90</b>	<b>102</b>	<b>111</b>
Other economic flows	3	2	3	3
<b>Net result</b>	<b>84</b>	<b>92</b>	<b>105</b>	<b>113</b>
<b>Net debt</b>	<b>84</b>	<b>176</b>	<b>281</b>	<b>394</b>
<b>Property volumes</b>				
Income from transactions	46	49	51	54
Expenses from transactions	( 1)	( 4)	( 6)	( 9)
<b>Net result from transactions</b>	<b>47</b>	<b>52</b>	<b>58</b>	<b>63</b>
<b>Net debt</b>	<b>47</b>	<b>99</b>	<b>157</b>	<b>220</b>
<b>Interest rates <sup>(g)</sup></b>				
Income from transactions	178	202	264	129
Expenses from transactions	5	177	170	186
<b>Net result from transactions</b>	<b>173</b>	<b>25</b>	<b>94</b>	<b>( 57)</b>
<b>Net debt</b>	<b>173</b>	<b>198</b>	<b>292</b>	<b>235</b>

Source: Department of Treasury and Finance

Notes:

- (a) Variations are applied to the economic variables in 2014-15. For the out years it is assumed that variables' growth rates match those under a no-variation scenario. This implies that economic variables are 1 per cent higher across the budget and forward years compared with a no-variation scenario.
- (b) 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 a gain. A positive number for the net result from transactions and net result denotes a higher surplus or lower deficit. A positive number for net debt denotes a lower level of net debt in the relevant year compared with a no-variation scenario. A decrease in net debt is consistent with the Government's medium-term fiscal parameter of a reduction in net debt as a share of GSP over the decade to 2022. Numbers may not balance due to rounding.
- (c) The impact of a 1 per cent lower than expected outcome for an economic variable would, in most instances, simply be the opposite of the impact shown in the table.
- (d) Only reasonably quantifiable impacts have been included in the analysis.
- (e) Incorporates the impact of the departmental funding model arrangements. It is assumed that an increase in consumer prices within the budget year does not affect employee entitlements.
- (f) Represents a 1 per cent increase in all government enterprise agreements.
- (g) Assumes interest rates are 1 percentage point higher across the entire term structure, i.e. short and long-term rates, over the budget and forward estimates period.

## Sensitivity to economic activity

Higher than expected GSP is associated with higher household consumption, leading to higher goods and services tax (GST) grants revenue and own-source taxation revenue, and reduced borrowing costs as a result of the change in cash surplus. This increases the net result from transactions and reduces net debt. The reductions in net debt each year are of the same magnitude as the increases in the net result from transactions. As net debt is a stock variable, the impacts in each year accumulate over the forward estimates.

## **Sensitivity to employment**

Higher than expected employment results in additional payroll tax revenue. An increase in the remuneration base also results in additional premium revenue for the Victorian WorkCover Authority (VWA) and higher dividends and income tax equivalents (ITEs) payable to the State. The higher dividends and ITEs increase the net result from transactions.

## **Sensitivity to consumer prices**

Higher consumer prices lead to higher Commonwealth-sourced revenue (due to indexation), and higher GST and own-source taxation revenue, as the values of tax bases rise in nominal terms.

There is no impact on dividends payable by VWA in the budget year as dividends are based on performance from insurance operations, which excludes the initial impact of CPI movements. However, the increase in consumer prices results in lower dividends and ITEs in the out years due mainly to increased claims expenses.

Higher prices increase the net result of the Transport Accident Commission (TAC) from 2015-16 through higher insurance premium income, partially offset by an increase in claims expenses. This increases the dividends and ITEs payable to the State.

Government expenses are affected through the higher cost of supplies and services and some increases in outlays on grants and transfers. An increase in consumer prices also increases the superannuation expense in the out years.

Reflecting the operation of departmental funding arrangements, the impact of the increase in expenses is limited to the extent that departments can fund it from increased revenue from specific purpose grants and sales of goods and services.

Overall, there is a positive impact on the net result and the net result from transactions, and a cumulative reduction in net debt over the budget and forward estimates.

## **Sensitivity to average weekly earnings**

A rise in the level of economy-wide wages results in higher payroll tax revenue. It also leads to higher dividends from the VWA in the budget year due to additional premium revenue. However, an increase in average weekly earnings results in higher claims expenses and impacts the VWA's performance from insurance operations in the out years. This reduces the dividends and ITEs payable to the State.

The net impact of these effects is an increase in the net result from transactions in the budget year and decreases across the forward estimates. This leads to lower net debt in 2014-15 compared with a no-variation scenario but higher net debt in the remaining out years.

## **Sensitivity to enterprise agreements**

All government enterprise agreements are assumed to be unchanged over the projection period, but these can pose a substantial risk to Victoria's budget position. An increase in wages arising from enterprise agreements which exceeds wages policy increases the general government sector's employee entitlement expenses.

Increased employee entitlements also increase the value of the superannuation liability and flow through to a greater superannuation expense in the out years. These impacts result in a decline in the net result from transactions and cumulatively higher net debt over the budget and forward estimates.

Entities are required to fund enterprise agreements in accordance with wages policy. In addition, enterprise agreements are not negotiated concurrently, therefore a one-off impact is unlikely.

## **Sensitivity to domestic and overseas share prices**

A rise in share prices increases the net results of the TAC and VWA. This leads to an increase in the ITEs payable to the State; however the availability of carry-forward tax losses means there is little or no impact on total ITEs in the budget year. There is no significant impact on dividends payable to the State as these are based on the agencies' performance from insurance operations, which excludes the impact of investment returns being higher than the agencies' budgeted long-term rates of return.

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

## **Sensitivity to property prices and volumes**

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

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

## **Sensitivity to interest rates**

An increase in interest rates results in a gain on the valuation of insurance liabilities of the public financial corporations, partially offset by a loss on the valuation of investment assets.

As dividends of the State's insurance agencies are based on performance from insurance operations, which excludes the initial impact of discount rate movements, the increase will have no direct impact on dividends in the budget year. As ITEs of the insurance agencies are assessed on profit before tax, an increase in interest rates will increase ITEs.

Higher borrowing costs lead to reduced net results of public non-financial corporations, lowering dividends and ITEs payable to the State.

An increase in interest rates also increases the superannuation expense over the out years.

## **SENSITIVITY TO VARIATIONS IN THE ECONOMIC OUTLOOK**

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

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

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

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

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

## 2006-07 – economic growth exceeding expectations

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

**Table B.2: Actual deviations of growth rates of key economic variables from 2006-07 Budget forecasts**

*(per cent)*

	2006-07 budget <sup>(a)</sup>	2006-07 actual	Forecast error <sup>(b)</sup>
Real GSP	3.3	3.8	0.5
Employment	1.3	3.1	1.9
Consumer price index	2.5	2.6	0.1
Wage price index <sup>(c)</sup>	3.5	3.6	0.1

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

*Notes:*

(a) Forecast in May 2006 for 2006-07 Budget.

(b) Percentage point variation.

(c) Total hourly rate excluding bonuses.

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

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

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

**Table B.3: Actual deviations of key revenue lines from 2006-07 Budget forecasts**

(\$ million)

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

Source: Department of Treasury and Finance

## 2008-09 – global financial crisis

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

**Table B.4: Actual deviations of growth rates of key economic variables from 2008-09 Budget forecasts**

(per cent)

	2008-09 budget <sup>(a)</sup>	2008-09 actual	Forecast error <sup>(b)</sup>
Real GSP	3.0	1.1	(1.9)
Consumption (unpublished)	2.8	0.2	(2.6)
Employment	1.5	0.9	(0.6)
Consumer price index	3.0	2.8	(0.2)
Wage price index <sup>(c)</sup>	3.8	4.0	0.3

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

Notes:

(a) Forecast in May 2008 for 2008-09 Budget.

(b) Percentage point variation.

(c) Total hourly rate excluding bonuses.

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

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

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

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

The overestimation of land transfer duty and GST was dwarfed by the underestimation of other revenues. A large share of this was the increased Commonwealth Government disbursements to the states as part of the stimulus package. However, these revenues were partially offset by increased expenditure as the Commonwealth Government's stimulus payments were spent. Of the \$3.2 billion forecast error for other revenues, approximately \$2.4 billion is attributable to grants revenue other than GST.

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

**Table B.5: Actual deviations of key revenue lines from 2008-09 Budget forecasts**

(\$ million)

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

Source: Department of Treasury and Finance





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

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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 *2014 Victorian 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 *2014 Victorian Pre-Election Budget Update***

<i>Relevant section of the Act and corresponding requirement</i>	<i>Location</i>
Section 27B(1) A pre-election budget update comprises –	
(a) updated estimated financial statements for the Victorian general government sector for the financial year in respect of which they are prepared and the following 3 financial years;	Chapter 3, <i>Estimated Financial Statements and Notes</i>
(b) a statement of the material economic and other assumptions that have been used in preparing the updated statements;	Chapter 1, <i>Economic conditions and outlook</i> Chapter 2, <i>Budget position and outlook</i> and Chapter 3, <i>Estimated Financial Statements and Notes</i>
(c) discussion of the sensitivity of the updated statements to changes in those economic and other assumptions;	Appendix B, <i>Sensitivity analysis table</i>
(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, <i>Economic conditions and outlook</i> , Chapter 2, <i>Budget position and outlook</i> , Chapter 3, <i>Estimated Financial Statements and Notes</i> , Chapter 4, <i>Contingent assets and contingent liabilities</i>

**Table C.1: Statements required by the *Financial Management Act 1994* and their location in the *2014 Victorian Pre-Election Budget Update (continued)***

<i>Relevant section of the Act and corresponding requirement</i>	<i>Location</i>
<p>Section 27B(2)</p> <p>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.</p>	<p>Appendix A, <i>Specific policy initiatives affecting the budget position</i></p>
<p>Section 27B(3)</p> <p>A pre-election budget update must be prepared on a basis consistent with:</p> <p>(a) the current financial policy objectives and strategies statement; and</p> <p>(b) the most recent estimated financial statements or budget update, as applicable.</p>	<p>Chapter 1, <i>Economic conditions and outlook</i>            Chapter 2, <i>Budget position and outlook</i> and            Chapter 3, <i>Estimated Financial Statements and Notes</i></p>

## STYLE CONVENTIONS

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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:

..	zero, or rounded to zero
(xxx.x)	negative numbers
1 billion	1 000 million
Cat. No.	catalogue number
LHS	left-hand-side
RHS	right-hand-side
tbc	to be confirmed



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