



2000-01 Budget Update

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2000-01 Budget Update

Presented by
The Honourable John Brumby MP
Treasurer of the State of Victoria





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Budget Paper No. 3 - Budget Estimates
Budget Overview

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For the information of Honourable Members

FOREWORD

The *Financial Management (Financial Responsibility) Act 2000* was passed by Parliament in April 2000. It inserted the financial responsibility provisions now contained in Part 5 of the *Financial Management Act 1994*.

The *2000-01 Budget Update* has been prepared in accordance with these financial responsibility provisions. The Act requires that, amongst other things, the Government publish by 15 January each year a report which provides updated information to allow the assessment of the Government's financial performance against its financial policy objectives and strategies.

Consistent with these requirements, the *2000-01 Budget Update* includes revised estimated financial statements setting out the projected financial results for the Victorian budget sector.

Appendix E of this document outlines the requirements of the financial responsibility provisions of the *Financial Management Act 1994* and how they have been complied with in this Budget Update.

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2000-01 BUDGET UPDATE HIGHLIGHTS

- The 2000-01 budget sector operating surplus is now expected to be \$953 million, up from the \$592 million estimate published in the 2000-01 Budget.
- The operating surplus is expected to average around \$670 million per annum over the remainder of forward estimates period to 2003-04.
- The projected net asset position of the budget sector as at 30 June 2001 has improved from \$13 533 million at budget time to \$15 604 million.
- General government net financial liabilities (excluding Growing Victoria financial assets set aside for future infrastructure spending) are forecast to decline from \$16.3 billion or 10.1 per cent of GSP at 30 June 2000 to \$14.7 billion or 7.2 per cent of GSP at 30 June 2004.
- Policy initiatives announced since the 2000-01 Budget will increase operating expenses by \$198 million in 2000-01 and around \$290 million per annum on average over the remainder of the outlook period. These initiatives are targeted to key priority areas such as education, health and community safety.
- The Government's financial policy objectives and strategies have not changed since the 2000-01 Budget. In particular, the Government is still committed to maintaining a substantial operating surplus of at least \$100 million in each year, and to maintaining state government net financial liabilities at prudent levels and Victoria's triple-A credit rating.
- A 'soft landing' for the Victorian economy remains in prospect. In the near term, weakening domestic demand growth can be expected to be largely offset by a continuing strong export performance.
- Economic growth in Victoria is now expected to be 3¾ per cent in 2000-01 and 3½ per cent in later years. Strong employment growth since the budget means that full-year employment growth is likely to be stronger in 2000-01 than forecast at budget time (3¼ per cent, up from 1¾ per cent).

CHAPTER 1: FINANCIAL POLICY OBJECTIVES AND STRATEGIES

- The Government is committed to maintaining a substantial operating surplus of at least \$100 million in each year.
- The Government will provide capital works to enhance social and economic infrastructure throughout Victoria, including through the establishment of the \$1 billion Growing Victoria infrastructure reserve.
- Improved services delivery will be provided to all Victorians, with the key priorities being education, health, and community safety.
- The Government is committed to ensuring competitive and fair taxes and charges by re-examining the state tax mix and improving Victoria's business tax system.
- The Government will maintain state government net financial liabilities at prudent levels and Victoria's triple-A credit rating.

PRINCIPLES OF SOUND FINANCIAL MANAGEMENT

This chapter sets out the Government's financial policy objectives and strategies as required by the *Financial Management (Financial Responsibility) Act 2000*. The Act includes a set of principles of sound financial management. These are to:

- manage financial risks faced by the State prudently, having regard to economic circumstances;
- pursue spending and taxation policies that are consistent with a reasonable degree of stability and predictability in the level of the tax burden;
- maintain the integrity of the Victorian tax system;
- ensure that government policy decisions have regard to their financial effects on future generations; and

- provide full, accurate and timely disclosure of financial information relating to the activities of the Government and its agencies.

These financial management principles underpin the Government’s financial policy objectives and strategies, which have not changed since the 2000-01 Budget.

FINANCIAL STRATEGY, OBJECTIVES AND PRIORITIES

The broad strategic priority underlying the Government’s financial strategy is to provide a sound and stable financial basis to promote growth across the whole State. A sound financial position is also essential to ensure that improved services can be provided to all Victorians.

The Government’s financial responsibility legislation requires a statement of its short and long-term financial objectives in the Budget Update. It is also a necessary element of the financial management principle of providing full, accurate and timely disclosure of financial information relating to the activities of the Government and its agencies.

Consistent with this, the Government has a number of short and long-term financial objectives, as shown in Table 1.1.

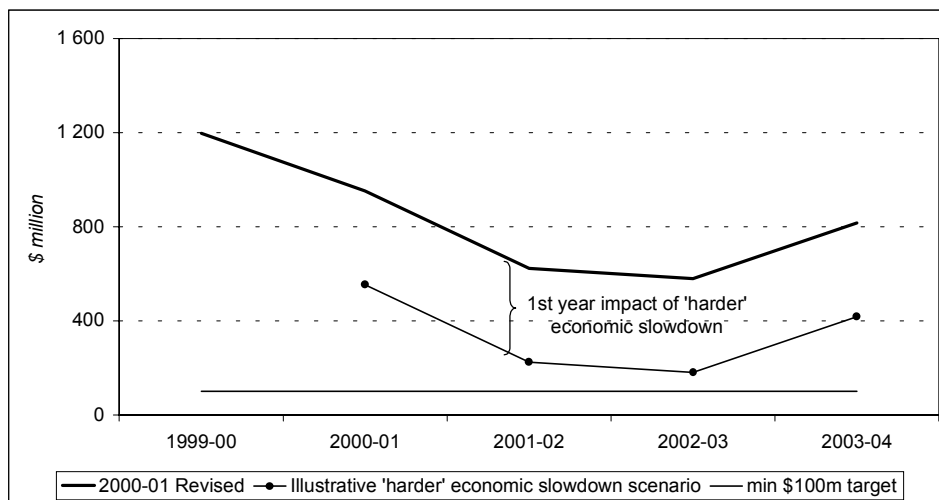
Table 1.1: Financial objectives

<i>Long-term</i>	<i>Short-term</i>
Maintain a substantial budget sector operating surplus	Operating surplus of at least \$100 million in each year
Provide capital works to enhance social and economic infrastructure throughout Victoria	Establish a \$1 billion infrastructure reserve
Provide improved service delivery to all Victorians	Expenditure priority on education, health, and community safety
Ensure competitive and fair taxes and charges to Victorian businesses and households	Re-examine and improve Victoria's business taxation system
Maintain state government net financial liabilities at prudent levels	Maintain a triple-A credit rating

Operating surplus

The Government's long-term objective is to maintain a substantial budget sector operating surplus. In the short term its objective is to maintain an operating surplus of at least \$100 million in each year. This is the Government's key financial measure. The revised outlook for the budget sector operating surplus remains consistent with this objective, as can be seen in Chart 1.1. Following a surplus of \$1 198 million in 1999-2000, the budget sector operating surplus is now forecast to be \$953 million in 2000-01 and to average around \$670 million in the following three years. At its lowest point in 2002-03, the budget sector operating surplus is estimated to be \$580 million, still comfortably above the target of at least \$100 million.

Chart 1.1: Budget sector operating surplus ^(a)



Source: Department of Treasury and Finance

(a) The 'budget sector operating surplus' is equivalent to the 'net result' in the statement of financial performance in Chapter 4, *Estimated Financial Statements and Notes*.

Given the uncertainties associated with the budget projections, it is prudent to plan for a budget sector operating surplus in excess of the Government's minimum target level. There are a number of economic risks to the Victorian economic outlook, including the possibility of unanticipated developments in the national and international economy and uncertainties associated with the GST. Lower than expected economic growth or adverse movements in property, share and other asset markets could substantially reduce the operating surplus.

The 2000-01 Budget Update has been prepared on the basis of a forecast 'soft landing' for the Victorian economy (see Chapter 2, *Economic Conditions and*

Outlook). Estimates of the impact on the budget surplus of an illustrative ‘harder’ economic slowdown are set out in Chapter 5, *Statement of Risks*. The first-year impact of such a slowdown would be around \$400 million, and less in subsequent years. As Chart 1.1 shows, even if a ‘harder’ economic slowdown were to eventuate at some stage over the next several years, the Government’s target of a minimum \$100 million surplus in each year would still be met.

The operating surplus objective is consistent with the financial management principle of pursuing expenditure and taxation policies that are consistent with a reasonable degree of stability and predictability in tax burden levels. With the committed maintenance of a substantial budget sector operating surplus, businesses and households can have confidence that tax rates and the level of service delivery will not need to be adjusted markedly and unexpectedly at some future date to retrieve the State’s financial position.

For a more detailed discussion of economic and other risks, and the sensitivity of the budget sector operating surplus to changes in economic conditions, see Chapter 5, *Statement of Risks*.

Infrastructure

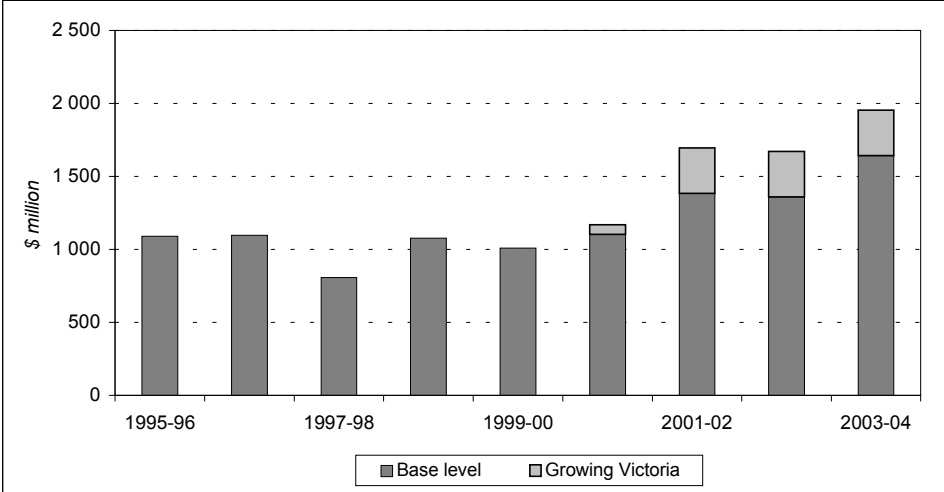
The Government recognises that building effective infrastructure is essential for promoting growth across the whole State. In line with this objective, the 2000-01 Budget established a \$1 billion infrastructure reserve, Growing Victoria. The State’s strong financial position, as indicated by its triple-A credit rating and the \$1 198 million 1999-2000 budget sector operating surplus, provided an opportunity to significantly improve and modernise infrastructure without incurring additional borrowings. Growing Victoria represents an increase of around 20 per cent in asset investment over the next four years from an already strong base (see Chart 1.2).

In the 2000-01 Budget, the Government announced the allocation of part of the Growing Victoria infrastructure reserve, including \$110 million for school modernisation projects and an \$80 million injection to rail infrastructure to develop high-speed rail services between Melbourne and the key regional centres of Ballarat, Bendigo, Geelong and Traralgon. Since the budget, the Government has announced a further allocation of \$470 million from the Growing Victoria reserve toward development of fast rail links to regional centres, increasing to \$550 million the Government’s contribution towards this important infrastructure project.

Other asset investments approved since the 2000-01 Budget include:

- the redevelopment of the Austin and Repatriation Medical Centre and relocation of the Mercy Hospital for Women (at a total project cost of around \$320 million);
- an additional \$71 million, to be funded from the Better Roads Trust Fund, to complete the extension of the Eastern Freeway from Springvale Road to Ringwood, increasing the Government’s total commitment to the project to \$326 million. The additional commitment will ensure that construction of the Eastern Freeway extension protects the local environment and surrounding homes; and
- funding (totalling \$88 million) for a number of other asset investment initiatives, including implementation of a recreational motor boat licensing system, purchase of the Metropolitan Women’s Correctional Centre, purchase of a site for the new Hawthorn/Kew Police Station, and additional funding provided for completion of the Federation Square project.

Chart 1.2: Budget sector net purchases of fixed assets



Source: Department of Treasury and Finance

Service delivery

The Government has moved swiftly to deliver improved services. A primary focus has been the key areas of health, education, and community safety, as well as the important priority of regional development.

In addition to the Government’s initiatives as part of the 2000-01 Budget, further new initiatives have since been approved to meet the needs in key

service delivery areas. These post-budget initiatives have a net impact of \$198 million in 2000-01. The average impact over the remainder of the outlook period is around \$290 million per annum. Information on post-budget policy initiatives impacting on the budget position is provided in Appendix A, *Specific Policy Initiatives Affecting the Budget Position*.

Taxes

The Government is committed to ensuring that taxes and charges on Victorian households and businesses are competitive and fair. Notably, the Government is determined to make sure that business taxes in Victoria remain competitive to ensure a business environment conducive to investment and job creation.

A key factor that will affect Victoria's taxation system in the immediate future is the abolition of financial institutions duty and stamp duty on listed marketable securities. Furthermore, the Government will reduce business taxes by a minimum of \$200 million by July 2003, including \$100 million from July 2001, subject to the maintenance of a substantial budget sector operating surplus of at least \$100 million in each year. The Government's response to the Review of State Business Taxes (final report due February 2001) will be detailed in the 2001-02 Budget.

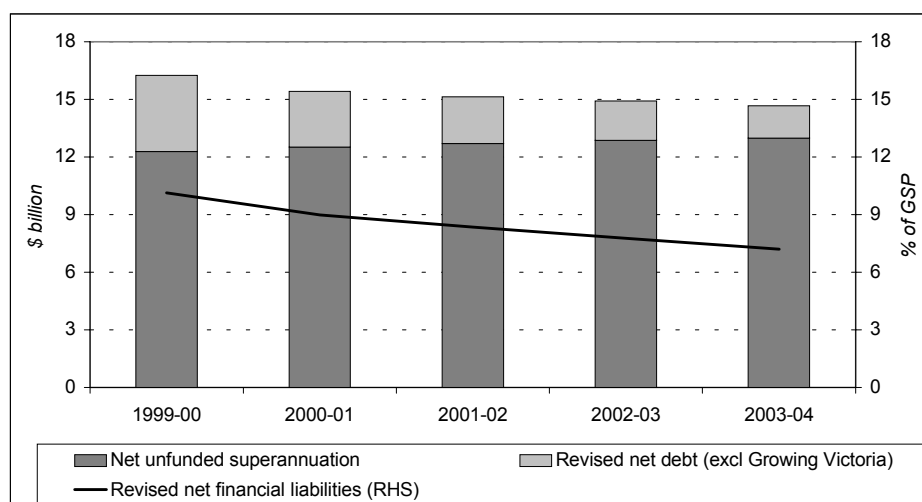
Net financial liabilities

The Government is committed to maintaining the State's net financial liabilities at prudent levels. An independent performance measure of this is the credit rating assessments made by Moody's Investor Service (Moody's) and Standard and Poor's.

On 20 December 1999, Victoria's long-term local currency rating of AAA was affirmed by Standard & Poor's. On 8 February 2000, Moody's upgraded Victoria's long-term local currency rating to Aaa. Factors cited by the agencies in making these decisions included the low level of debt, the Government's commitment to maintaining an operating surplus in each year, and the view that these trends were sustainable.

The 2000-01 revised budget outlook reinforces these positive factors. Substantial operating surpluses are projected for 2000-01 and the remainder of the forward estimates period. General government net financial liabilities (excluding Growing Victoria) are expected to decrease from \$16.3 billion or 10.1 per cent of GSP in June 2000 to \$14.7 billion or 7.2 per cent of GSP by June 2004 (see Chart 1.3). As a result Victoria's net financial liabilities position is expected to remain comparable with most other triple-A jurisdictions.

Chart 1.3: General government net financial liabilities excluding Growing Victoria^(a)



Source: Department of Treasury and Finance

Note:

(a) General government net financial liabilities comprise net debt and net unfunded superannuation liabilities.

FUTURE REPORTING BASIS

Future estimated financial statements are expected to be prepared on a consistent basis, except for any changes in reporting required by new Australian Accounting Standards (see Chapter 4, *Estimated Financial Statements and Notes* for further details on the accounting standards on which this report is based).

CHAPTER 2: ECONOMIC CONDITIONS AND OUTLOOK

- The Victorian economy performed strongly in 1999-2000, largely in line with budget forecasts. Higher oil prices and a lower Australian dollar, as well as the introduction of the GST, have been important developments since budget time.
- A 'soft landing' for Victoria remains in prospect. In the near term, weakening domestic demand growth can be expected to be largely offset by a continuing strong export performance.
- Economic growth in Victoria is expected to moderate from 4.6 per cent in 1999-2000 to 3¾ per cent in 2000-01 (3½ per cent at budget time), and to 3½ per cent in later years. Strong employment growth since the budget means that full-year employment growth is likely to be stronger in 2000-01 than forecast at budget time (3¼ per cent, up from 1¾ per cent).
- Risks to the outlook include unexpected developments internationally, inflationary effects from oil prices and the exchange rate, and unexpected changes to interstate migration patterns.

ECONOMIC CONDITIONS SINCE THE BUDGET

World economy

Since the budget in May 2000 robust global growth has continued, fuelled by solid growth in the United States, the strong recovery in non-Japan Asia and an improving economic performance in Europe. The strength of the US economy has contributed to an appreciation of the US dollar during much of 2000. This, combined with an increase in the international price of oil to its highest level for ten years, placed sharp upward pressure on domestic petrol prices which rose 25 per cent between January and September in Melbourne.

Overall, global growth had been somewhat stronger than expected at budget time. While there are emerging signs of moderation in US growth, a sharp slowing is unlikely in the absence of a major downward correction in asset prices.

This positive international environment, combined with a lower Australian dollar, has set the scene for continuing growth in net overseas export volumes, both nationally and in Victoria. At the same time higher interest rates and fuel costs than at budget time and post-GST weakness in housing construction can be expected to restrain domestic sources of growth.

Australia and Victoria

The national economy grew by 4.3 per cent in 1999-2000, while Victorian gross state product (GSP) rose by 4.6 per cent, slightly above the budget forecast of 4¼ per cent. Of all the States, Victoria was the equal second fastest growing economy.

In year-average terms, Victorian employment grew by 2.5 per cent, in line with the budget forecast. This was sufficient to reduce the Victorian unemployment rate to 6.8 per cent in the June quarter, again consistent with the budget forecast. Employment growth has been solid in both metropolitan and regional areas since the budget (although subject to substantial local variations). Full-time employment growth has been particularly strong in Victoria.

Partial indicators since mid-year suggest that the expected moderation in national and Victorian growth has begun. In particular, evidence is now accumulating that Australian and Victorian domestic demand growth is slowing. Quarterly trend growth in Victorian state final demand has eased to 0.3 per cent in the September quarter 2000 from 1.5 per cent a year earlier, and a similar slowing is evident at the national level.

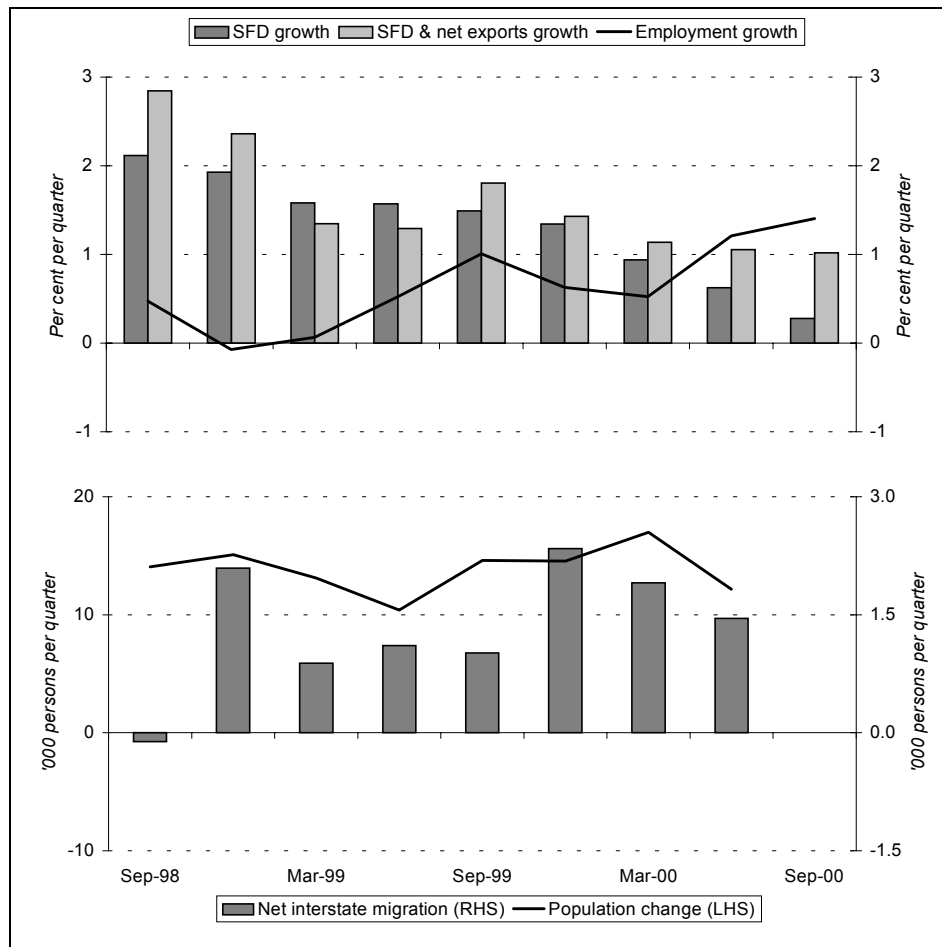
Spending patterns were distorted by the introduction of the GST on 1 July, with dwelling investment and many areas of retail spending (such as clothing and furnishings) brought forward, while purchases of motor vehicles were deferred. The Sydney Olympics also affected state economic activity, with retail spending rising sharply in New South Wales in September, but declining in adjacent States (Victoria, Queensland and South Australia.)

Victorian consumer spending declined by 0.5 per cent in the September quarter. This weakness was concentrated in retail trade (representing around 40 per cent of consumer spending) which declined by 5.9 per cent in volume terms, compared with a fall of 3.3 per cent nationally. Partly, this reflects the impact of Olympics spending in New South Wales. It also follows a period of rapid growth in late 1999 during which Victorian retail spending consistently

outpaced the rest of Australia. Since the GST, Victorian monthly retail trade values have been rising and in October were 6.5 per cent above their July trough.

Chart 2.1 shows that while Victorian state final demand has been slowing, the slowdown in activity is less pronounced when the contribution from net international merchandise exports is included. International merchandise export volumes grew at an extraordinary 24.1 per cent in seasonally adjusted terms in the September quarter.

Chart 2.1: Victorian economic growth indicators^(a)



Source: Australian Bureau of Statistics, Cat. Nos. 3101.0, 5242.0 and 6202.0

(a) Trend data.

In many other areas, the slowdown in growth in Victoria has been more moderate than in the rest of Australia.

- Victorian monthly trend employment growth slowed from 0.5 per cent in mid-2000 to 0.1 per cent in November, by which time national trend employment had begun declining. In the three months ending November 2000, Victorian seasonally adjusted employment grew by 0.5 per cent over the previous three-month period, compared with a decline of 0.1 per cent nationally. Full-time employment growth remains particularly strong in Victoria, growing at a trend rate of 0.4 per cent in November compared with a decline nationally.
- The decline in ANZ Bank job ads between their peak in October 1999 and November 2000 has been heavier nationally (down 22.0 per cent in trend terms) than in Victoria (down 16.0 per cent).
- Private dwelling investment fell 14.8 per cent (seasonally adjusted) in Victoria in the September quarter, compared with 21.5 per cent nationally. The number of Victorian private dwelling unit approvals in October was more than 20 per cent above the trough of the last housing cycle in 1996, while national approvals have fallen below that trough.
- The Victorian share of new motor vehicle registrations has been above its population share for much of the past two years, and has remained so post-GST.

Victorian private business investment has remained robust (abstracting from major asset sales between the private and public sectors) reaching a record high in the September quarter and growing by 5.6 per cent over the past year. However, consumer confidence and business sentiment have weakened in recent months, both nationally and in Victoria.

Melbourne consumer price inflation was 2.6 per cent in 1999-2000, close to the budget forecast. The Melbourne consumer price index (CPI) jumped by 3.8 per cent in the September quarter to give an annual inflation rate of 6.3 per cent, reflecting the impact of the GST as well as higher petrol prices.

The Victorian wage cost index (WCI) grew by 2.9 per cent in 1999-2000, also in line with the budget forecast. Wages pressures have picked up modestly with quarterly Victorian WCI growth rising from 0.7 per cent to 1.0 per cent and new federal enterprise agreements yielding average annual wage rises of 4.1 per cent nationally in the September quarter. Wages growth in Victoria over the year was slightly stronger in the private sector (3.2 per cent) than the public sector (3.0 per cent). There is little evidence that GST-induced price increases are influencing wage demands.

ECONOMIC OUTLOOK

Economic projections

In its latest projections, released in October, the International Monetary Fund expects US growth to moderate from 5.2 per cent in 2000 to 3.2 per cent in 2001, and the private sector consensus is similar. Growth in Europe is generally expected to average between 3 and 3½ per cent over the same period, while annual Japanese growth is forecast to approach 2 per cent. The recovery throughout most of non-Japan East Asia is likely to continue.

In its *Mid-Year Economic and Fiscal Outlook*, released in November, the Commonwealth revised its forecasts for national growth in 2000-01 from 3¾ to 4 per cent in line with the improved global outlook and the lower Australian dollar. National growth in 2001-02 is expected to ease slightly to 3¾ per cent.

Growth in Victorian gross state product is still expected to ease from the high 1999-2000 growth rate of 4.6 per cent to more sustainable levels (see Table 2.1). Growth is now expected to be 3¾ per cent in 2000-01, revised up from the budget estimate of 3½ per cent.

Victorian export growth has been strong, with the volume of international merchandise exports growing 13.5 per cent in 1999-2000, reflecting favourable international conditions and a more competitive exchange rate. Export growth was strongest in China, Thailand, South Korea, Japan and the United States. Strong domestic demand contributed to a 9.4 per cent rise in import volumes in 1999-2000. Robust net exports in 2000-01 are expected to further soften the slowdown in domestic demand growth.

The expected decline in Victorian housing construction is likely to be less severe than nationally. The unsatisfied demand for accommodation in Victoria is greater than the national average. Solid population growth and a relatively long pipeline of housing construction work yet to be done should help to buffer the decline in construction activity in Victoria.

The long-term outlook for Victorian economic growth is now around 3½ per cent per annum, which is slightly stronger than budget estimates. This reflects new population projections by the Australian Bureau of Statistics which are based on net interstate migration gains of 2000 people per annum in the long term (lower than the recent rate of annual gain of over 6700), compared with net losses of 7000 per annum in the ABS projections available at budget time. This means that annual Victorian population growth is now projected to be around ¼ percentage point higher than at budget time.

Victorian employment is now expected to grow by $3\frac{1}{4}$ per cent in 2000-01 (compared with $1\frac{3}{4}$ per cent at budget time) following the unexpected strength of the labour market in mid-2000. The forecast for the participation rate for 2000-01 has also been revised up, but higher expected employment levels mean that the unemployment rate is now expected to decline to 6 per cent by mid-2001 (down from $6\frac{1}{2}$ per cent at budget time).

In the longer term, annual employment growth is still assumed to return to a more sustainable rate of around $1\frac{1}{2}$ per cent. Assuming also that the participation rate stabilises near its average level of the past few years, the unemployment rate is projected to decline to $5\frac{1}{2}$ per cent in 2003-04.

Consumer price inflation, abstracting from the GST, is expected to be $3\frac{1}{2}$ per cent in 2000-01, higher than the $2\frac{3}{4}$ per cent expected at budget time largely because of the surge in petrol prices in mid-2000. Headline CPI inflation is now expected to be $6\frac{1}{4}$ per cent in 2000-01 (up from $5\frac{3}{4}$ per cent at budget time).

The forecasts assume that the Australian dollar exchange rate will gradually appreciate over the next six months, returning towards 1999-2000 average values by mid-2001. This, combined with downward pressure on international oil prices, is assumed to cause unleaded petrol prices in Melbourne to moderate during 2001. Assuming also that the GST impact on consumer prices does not lead to compensating wage claims, headline CPI inflation is still expected to ease to 2 per cent in 2001-02 and to $2\frac{1}{4}$ per cent in the medium term.

Following subdued wages growth in the March and June quarters, the Victorian WCI is expected to grow by $3\frac{1}{4}$ per cent in 2000-01, down slightly on the budget time forecast. Medium-term annual wages growth is still expected to be $3\frac{1}{2}$ per cent.

Risks to the economic outlook

Major risks to the economic outlook include:

- a sharper slowdown in the United States than is currently generally expected;
- the inflationary consequences of higher oil prices and a lower exchange rate; and
- lower net interstate migration gains than assumed.

These are discussed in more detail in Chapter 5, *Statement of Risks*.

Table 2.1: Economic projections^(a)

(Projections in 2000-01 Budget, where different, are in brackets)

	Actual	Projections			
	1999-00	2000-01	2001-02	2002-03	2003-04
Gross state product	4.6 (4¼)	3¾ (3½)	3½ (3¼)	3½ (3¼)	3½ (3¼)
Employment	2.5 (2½)	3¼ (1¾)	1½	1½	1½
Unemployment rate ^(b)	6.8 (6¾)	6 (6½)	5¾ (6¼)	5½ (6)	5½ (5¾)
Participation rate ^(c)	63.1 (63)	63½ (63¼)	63¼	63¼	63¼
Consumer price index ^(d)	2.6 (2½)	6 (5¾)	2	2¼	2¼
Wage cost index ^(e)	2.9 (3)	3¼ (3½)	3½	3½	3½
Population ^(f)	1.3 (1.0)	1.2 (0.9)	1.0 (0.8)	1.0 (0.8)	0.9 (0.7)

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

Notes:

- (a) Per cent change on preceding year unless otherwise indicated.*
- (b) Estimate for June quarter, per cent.*
- (c) Year average, per cent.*
- (d) 2000-01 CPI projection 3½ per cent abstracting from GST*
- (e) Total hourly rate, excluding bonuses.*
- (f) June quarter, per cent change on previous June quarter, based on ABS Series R projections, adjusted for recent net interstate migration experience.*

CHAPTER 3: BUDGET POSITION AND OUTLOOK

- The 2000-01 budget sector operating surplus is now expected to amount to \$953 million, up from the \$592 million estimate published in the 2000-01 Budget.
- The operating surplus is expected to average around \$670 million per annum over the remainder of forward estimates period to 2003-04.
- The revised budget outlook incorporates the impact of stronger than expected economic conditions and all post 2000-01 Budget policy initiatives.
- The net asset position of the budget sector is projected to increase from \$14 620 million as at 30 June 2000 to \$15 604 million by 30 June 2001.

This chapter provides details of the revised budget position and outlook for the period 2000-01 to 2003-04. The discussion of the budget and forward estimates focuses on trends in the aggregate budget position, including the reconciliation of major variations in key budget aggregates since the 2000-01 Budget published in May 2000.

The forward estimates outlined in this chapter are based on the economic projections outlined in Chapter 2, *Economic Conditions and Outlook* and reflect the detailed accounting policies and assumptions documented in Chapter 4, *Estimated Financial Statements and Notes*. The estimates take into account all policy initiatives of the Victorian Government, the impact of Commonwealth Government funding revisions and other factors expected to impact on the projected budget sector financial statements as at 11 December 2000. The forward estimates represent planning projections for future budgets based on an unchanged policy assumption.

FORWARD ESTIMATES OUTLOOK 2000-01 TO 2003-04

Table 3.1 shows a summary budget sector statement of financial performance, highlighting the revised aggregate budget outlook for 2000-01 and the forward estimates period to 2003-04. A more detailed statement of financial performance for the outlook period is provided in Chapter 4, *Estimated Financial Statements and Notes*.

Table 3.1: Summary statement of financial performance 2000-01 to 2003-04

	(\$ million)				
	2000-01 Budget	2000-01 Revised	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
Taxation	7 845.3	8 121.2	7 567.3	7 855.9	8 142.0
Public authority income	947.7	1 029.4	687.2	619.8	500.1
Grants	10 198.1	10 250.7	11 287.0	11 555.0	11 856.2
Sales of goods and services	1 939.8	1 992.4	2 021.8	2 042.8	2 059.7
Other revenue ^(a)	1 249.1	1 400.3	1 382.6	1 456.6	1 432.6
Total revenue	22 180.0	22 794.0	22 945.9	23 530.1	23 990.7
Superannuation	1 380.3	1 513.7	1 534.8	1 595.7	1 594.7
Depreciation	773.3	798.2	852.5	903.2	954.5
Borrowing costs	510.4	501.3	471.4	456.9	451.6
Employee entitlements	7 721.3	7 682.5	8 151.6	8 474.5	8 772.8
Supplies and services	7 020.6	7 007.3	7 219.6	7 362.4	7 338.8
Other expenses ^(b)	4 182.6	4 338.4	4 092.4	4 157.8	4 062.0
Total expenses	21 588.5	21 841.4	22 322.4	22 950.6	23 174.2
Net result - operating surplus	591.5	952.6	623.5	579.5	816.4

Source: Department of Treasury and Finance

Notes:

- (a) *Comprises regulatory fees and fines, fair value of assets received free of charge, gains/losses on disposal of physical assets, capital asset charge revenue and other miscellaneous revenue.*
- (b) *Includes grants and transfer payments and amortisation expense.*

As indicated in Table 3.1, the net result for the budget sector for 2000-01 is now expected to be an operating surplus of \$953 million, \$361 million higher than the original budget estimate of \$592 million published in the May 2000 budget papers. The improvement in the estimated 2000-01 operating position reflects a significant increase in projected operating revenue (\$614 million or 2.8 per cent). This is partly offset by an increase in operating expenses of \$253 million, or 1.2 per cent, relative to the published budget estimates. A more

detailed reconciliation of the improvement in budget sector operating position, including an explanation of the key factors contributing to the increase in operating revenue and expenses since the 2000-01 Budget, is provided later in this chapter.

The operating surplus is forecast to decline from \$953 million in 2000-01 to \$580 million by 2002-03, before rising to \$816 million in 2003-04.

The projected decline in the operating surplus in 2001-02 reflects the projected low growth in operating revenue, which in that year is expected to rise by only 0.7 per cent compared to projected growth in operating expenses of 2.2 per cent. The low growth in revenue forecast for 2001-02 is largely due to a projected \$342 million decline in public authority income in that year. This mainly reflects the wind down of gas industry distributions following the expiration of existing gas supply contracts and the introduction of competition in the retail gas market from September 2001.

The scheduled abolition of financial institutions duty and stamp duty on listed marketable securities from 1 July 2001 accounts for a large part of the projected decline in taxation revenue (\$554 million or 6.8 per cent) forecast for 2001-02. However, taxation revenue forgone as a result of the abolition of these taxes is expected to be offset by an increase Commonwealth grants, consistent with the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*.

Additional constraints on revenue growth include:

- implementation of the first \$100 million instalment of the Government's minimum \$200 million business tax cuts, announced in the 2000-01 Budget, to take effect on 1 July 2001; and
- the cessation of electricity franchise fees following the introduction of full competition into retail electricity markets from 1 January 2001.

RECONCILIATION OF FORWARD ESTIMATES TO PREVIOUSLY PUBLISHED ESTIMATES

Table 3.2 compares the revised outlook for budget operating surplus for the period 2000-01 to 2003-04 to the previously published budget estimates. The improvement in the budget outlook over this period is mainly attributable to stronger than expected revenue growth, partly offset by an increase in operating expenses.

Variations to total operating revenue

Table 3.2 highlights the increase in projected operating revenue for the period 2000-01 to 2003-04 relative to the original budget estimates. Projected operating revenue for 2000-01 is \$614 million higher than the published budget estimates, with the improvement over the remainder of the outlook period averaging around \$650 million per year.

The improvement in the revenue outlook is in large part attributable to the continued strength of asset markets and economic growth generally. This reflects, in particular, the impact of continued buoyant property markets on conveyancing stamp duties, stronger than expected payroll and gambling taxes, and stronger than expected performance of government business enterprises leading to higher public authority distributions.

The improved economic outlook has resulted in an expected increase in taxation revenue of \$276 million in 2000-01 and an average increase of \$240 million in the out-years. Higher than expected payroll tax and gambling tax receipts account for the major part of the improvement in the tax revenue outlook over the period as a whole. Increased revenue from property conveyancing and share duties, reflecting stronger than expected property and share market conditions, also makes a significant contribution to the improvement in taxation revenue in 2000-01 and 2001-02, but is not expected to be sustained over the period as a whole. The shorter-term nature of the improvement in conveyancing and share duties reflects:

- an expected moderation in property market activity over the medium term; and
- the abolition of stamp duty on listed marketable securities from 1 July 2001.

Improved economic conditions have also contributed to stronger than expected performance of the government enterprises sector, resulting in higher than budgeted public authority distributions, particularly in the 2000-01 financial year. The increase in public authority income, totalling \$82 million in 2000-01

and averaging around \$45 million per year over the remainder of the period, is mainly attributable to higher than budgeted revenue from Transport Accident Commission dividends and tax equivalent receipts.

Taking together the impact of stronger economic conditions on taxes and public authority income reveals a gross boost to projected revenues since budget of \$358 million in 2000-01 and an average around \$285 million per annum for the out-years (see Table 3.2).

The impact of Commonwealth funding revisions is expected to result in an increase in total revenue, relative to the published budget estimates, of \$80 million in 2000-01 rising to \$175 million per annum, on average, over the following three years. This increase reflects:

- higher than forecast specific purpose payments from the Commonwealth, mainly in relation to various roads programs and higher than budgeted health funding grants under the Australian Health Care Agreement; and
- an increase in general purpose grants, reflecting the net impact of revisions to GST revenue, state taxation revenue forgone, financial assistance grants forgone, revenue replacement payments forgone and GST administration costs payable to the Australian Taxation Office.

The introduction of licensing for recreational boat operators is expected to increase revenue by \$3 million in 2001-02 and around \$19 million in 2002-03. Funding has been provided to implement initiatives that contribute to improving recreational boating safety (see Appendix A, *Specific Policy Initiatives Affecting The Budget Position*).

Other factors (comprising a wide range of miscellaneous revenue variations including interest received, third party revenues and fees and fines) contribute to an increase in total revenue of \$176 million in 2000-01 and around \$175 million per year on average over the remainder of the period (see Table 3.2). An increase in interest revenue, reflecting investment returns generated on higher than expected budget sector cash surpluses, accounts for \$27 million of the increase in 2000-01 and \$50 million per annum on average over the following three years. Other administrative variations totalling \$149 million in 2000-01 are broadly explained by:

- an increase in revenues from fines, largely reflecting a change from a cash accounting presentation to an accrual accounting presentation; and
- an increase in revenue from sales of goods and services and other miscellaneous revenue sources, including higher than budgeted revenue from commercial activities in the health sector.

Table 3.2: Reconciliation of revised forward estimates to 2000-01 Budget

	(\$ million)			
	2000-01 Revised	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
Operating surplus - 2000-01 Budget	591.5	401.0	461.5	603.4
Plus: Revenue variation since 2000-01 Budget				
Economic/demographic effects:				
Taxation revenue	276.2	225.3	217.3	279.1
Public authority income	81.7	30.5	61.9	47.1
Total economic/demographic variations	357.9	255.9	279.2	326.2
Policy decisions				
Licence fees	..	3.0	18.6	2.0
Total policy variations	..	3.0	18.6	2.0
Impact of Commonwealth funding revisions				
General purpose grants	45.3	71.9	55.4	85.1
Specific purpose payments	34.9	134.8	111.0	73.6
Total Commonwealth funding variations	80.1	206.7	166.4	158.7
Administrative variations				
Budget financing - interest revenue	27.2	40.5	41.4	64.7
Fines - accrual adjustment	77.9	74.7	73.5	72.6
Other	71.3	54.1	53.8	52.4
Total administrative variations	176.4	169.4	168.7	189.6
Total revenue variation	614.4	634.9	632.9	676.5
Less: Operating expenses variation since 2000-01 Budget				
Policy decisions	197.5	263.7	295.2	304.7
Commonwealth funding revisions	60.6	66.5	48.5	50.2
Administrative variations				
GST implementation - estimates revision	40.9	32.1	- 2.7	- 3.1
Budget financing - public debt interest costs	- 9.1	- 18.7	- 20.8	- 27.6
Superannuation - preliminary actuarial review	132.0	69.0	100.0	48.0
Other ^(a)	- 169.0	- 0.5	94.3	91.1
Total administrative variations	- 5.2	81.9	170.8	108.4
Total operating expenses variation	252.9	412.0	514.6	463.2
Revised operating surplus	953.0	623.9	579.9	816.8

Source: Department of Treasury and Finance

Note:

(a) Includes variations in operating expenses attributable to revised depreciation expense, approved appropriation transfers and departmental expenses funded by third party revenue sources (such as sales of goods and services), net of contingency funding.

Variations to total operating expenses

As shown in Table 3.2, budget sector operating expenses for 2000-01 are \$253 million higher than the 2000-01 Budget estimates published in May 2000. Operating expenses over the remainder of the forward estimates period are around \$465 million higher on average than the published 2000-01 Budget estimates. As indicated in Table 3.2, the increase in projected operating expenses is more than offset by an improvement in the revenue outlook over the forecast period.

Policy decisions announced since the 2000-01 Budget account for a substantial part of the increase in operating expenses, consistent with the Bracks Government's commitment to improved service delivery. These increases have largely been in key priority areas such as education, health and community safety, and will increase operating expenses by \$198 million in 2000-01 and around \$290 million per annum on average over the remainder of the outlook period. Appendix A, *Specific Policy Initiatives Affecting The Budget Position* provides more detail on specific policy initiatives impacting the budget outlook since 2000-01 Budget.

Post-budget revisions to Commonwealth specific purpose grants are expected to contribute to an increase in expenses of \$61 million in 2000-01 and \$55 million per annum over the following three years. This mainly reflects higher than budgeted Commonwealth funding for various roads programs and for implementation of the Forest Industry Structural Adjustment Program.

A range of administrative and technical factors account for the remainder of the variation in projected operating expenses since the 2000-01 Budget. These include:

- higher than budgeted costs associated with implementation of changes to the national taxation system (\$41 million in 2000-01 and \$32 million in 2001-02), mainly reflecting increased administration costs payable to the Australian Taxation Office under the terms of the Intergovernmental Agreement with the Commonwealth Government;
- lower than budgeted borrowing costs (\$9 million in 2000-01 rising to \$28 million in 2003-04) mainly reflecting the impact of lower than expected debt levels;
- an increase in projected superannuation expense of \$132 million in 2000-01 and \$70 million per annum on average over the remainder of the outlook period, reflecting a preliminary assessment of a triennial actuarial review of the State's unfunded superannuation liability; and

- a range of miscellaneous variations. These include post-budget revisions to depreciation expense, approved appropriation transfers, increased departmental expenses funded by miscellaneous revenue sources (such as revenue from sale of goods and services) and revised estimates for 2000-01 departmental underspending.

SUMMARY STATEMENT OF FINANCIAL POSITION

Table 3.3 provides a summary of the budget sector statement of financial position. A more detailed revised statement of financial position is provided in Chapter 4, *Estimated Financial Statements and Notes*.

Projected net assets for the period from 2000-01 to 2003-04 have increased since the publication of the 2000-01 Budget, in significant part reflecting the better than expected budget outcome for 1999-2000. The budget sector net assets were \$14 620 million at 30 June 2000 compared with \$12 942 million projected at budget time.

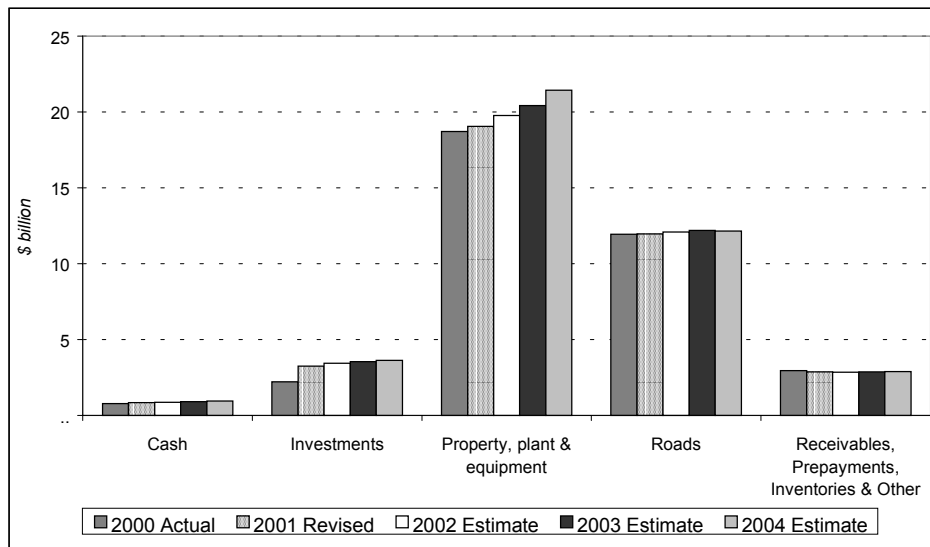
Table 3.3: Budget sector summary statement of financial position as at 30 June

	(\$ million)				
	2000 Actual	2001 Revised	2002 Estimate	2003 Estimate	2004 Estimate
Current assets	2 624	2 626	2 649	2 735	2 810
Non-current assets	33 973	35 397	36 380	37 209	38 240
Total assets	36 596	38 023	39 029	39 945	41 050
Current liabilities	2 225	3 075	3 153	3 335	3 257
Non-current liabilities	19 752	19 344	19 649	19 803	20 171
Total liabilities	21 977	22 419	22 802	23 138	23 427
Net assets	14 620	15 604	16 227	16 807	17 623

Source: Department of Treasury and Finance

Budget sector assets are projected to grow by 12 per cent from \$36.6 billion at 30 June 2000 to \$41.1 billion at 30 June 2004. This mainly reflects a projected increase in non-current physical assets driven by strong growth in infrastructure expenditure over the period (including projects to be funded by the Growing Victoria infrastructure reserve) and, to a lesser extent, growth in budget sector investments (see Chart 3.1).

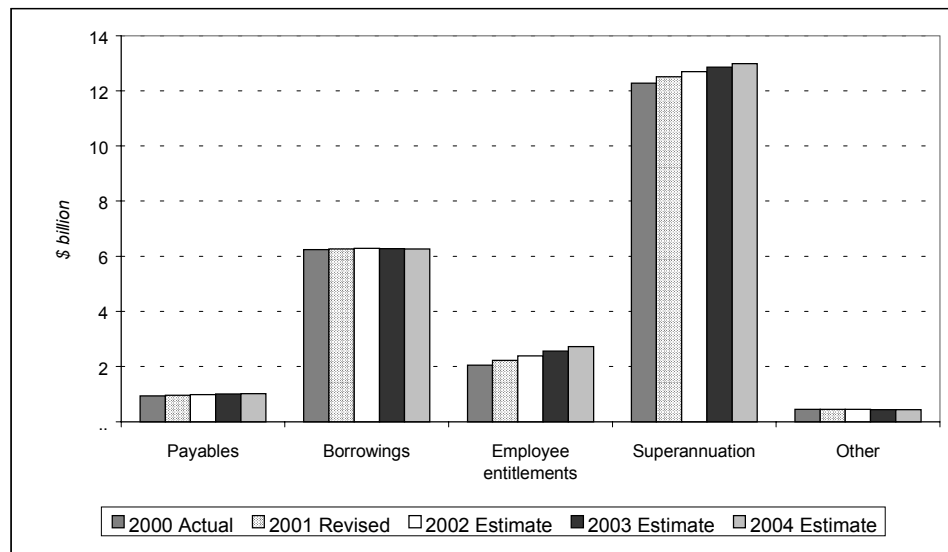
Chart 3.1: Projected budget sector assets by category as at 30 June



Source: Department of Treasury and Finance

As shown in Table 3.3, total budget sector liabilities are projected to remain fairly constant over the forward years, rising slightly from \$22.0 billion at 30 June 2000 to \$23.4 billion at 30 June 2004. This mainly reflects forecast growth in employee entitlements and the unfunded superannuation liability with budget sector borrowings forecast to remain steady at around \$6.3 billion (see Chart 3.2).

Chart 3.2: Projected budget sector liabilities by category as at 30 June



Source: Department of Treasury and Finance

The underlying growth in assets and liabilities contributes to a significant improvement in the net asset position over the outlook period. Net assets are expected to increase from \$14.6 billion as at 30 June 2000 to \$17.6 billion by 30 June 2004, with this improvement broadly reflecting the budget operating surpluses projected over the period.

Net financial liabilities

The Government is committed to maintaining net financial liabilities at prudent levels. Table 3.4 shows projected general government net financial liabilities for the years from 2000 to 2004.

Table 3.4: Projected general government^(a) net financial liabilities as at 30 June

	2000 Actual	2001 Revised	2002 Estimate	2003 Estimate	2004 Estimate
<i>\$billion</i>					
Financial assets					
Cash and deposits	0.9	0.9	1.0	1.0	1.1
Advances paid	0.4	0.3	0.3	0.2	0.1
Investments, loans and placements	1.4	2.6	3.1	3.5	3.9
Growing Victoria	1.0	0.9	0.6	0.3	0.0
Total	3.7	4.8	5.0	5.1	5.1
Financial liabilities					
Deposits held	0.2	0.2	0.3	0.3	0.3
Advances received	0.1	0.1	0.1	0.1	0.1
Borrowings	6.4	6.4	6.4	6.4	6.4
Total	6.7	6.8	6.8	6.8	6.8
Net debt	3.0	2.0	1.8	1.7	1.7
Net debt (excl. Growing Victoria)	4.0	2.9	2.4	2.1	1.7
Unfunded superannuation	12.3	12.5	12.7	12.9	13.0
Net financial liabilities	15.3	14.5	14.5	14.6	14.7
Net financial liabilities (excl. Growing Victoria)	16.3	15.4	15.1	14.9	14.7
<i>per cent</i>					
Net financial liabilities to GSP (excl. Growing Victoria)	10.1	9.0	8.3	7.8	7.2

Source: Department of Treasury and Finance

Note:

(a) General government consists primarily of the budget sector.

General government net financial liabilities (excluding Growing Victoria financial assets set aside for future infrastructure spending) are forecast to decline from \$16.3 billion or 10.1 per cent of GSP at 30 June 2000 to \$14.7 billion or 7.2 per cent of GSP at 30 June 2004.

Unfunded superannuation liabilities

The most significant liability on the budget sector's balance sheet is unfunded superannuation. The unfunded liability of Victoria's superannuation schemes represents the present value of future benefits that its members have accrued during past service which are not covered by fund assets.

As at 30 June 2000, unfunded superannuation liability for the budget sector was \$12.3 billion. The unfunded superannuation liability is expected to grow on a nominal basis over the forward estimates period to approximately \$13.0 billion by 30 June 2004 (6.4 per cent of GSP), an average annual growth rate of 1.4 per cent. The growth is mainly due to the increasing average age of the public sector workforce covered by defined benefit schemes.

The average annual growth rate of 1.4 per cent is higher than anticipated in the May 2000 Budget because of changes in actuarial assumptions related to work undertaken by the actuary of the State Superannuation Fund, as part of the regular triennial review of the Fund. The rate of growth in unfunded superannuation liability however is expected to be less than the expected growth in GSP. The Government is committed to the management of its unfunded superannuation liabilities and has adopted a funding framework that aims to achieve 100 per cent funding of these liabilities by 2035.

SUMMARY CASH FLOW STATEMENT

Table 3.5 provides a revised summary cash flow statement for 2000-01 Budget and the forward estimates period to 2003-04. A more detailed cash flow statement is provided in Chapter 4, *Estimated Financial Statements and Notes*.

Net cash flow from operating activities over the period to 2003-04 is broadly consistent with the corresponding improvement in the projected operating surplus noted above.

Expenditure on the purchase of property, plant and equipment is now expected to total \$1 294 million in 2000-01, \$15 million higher than the original budget estimate. This small increase reflects the net impact of a range of variations including:

- funding (totalling \$32 million) approved for a number of asset investment initiatives, including funding for implementation of the recreational motor boat licensing system, purchase of the Metropolitan Women's Correctional Centre, purchase of a site for the new Hawthorn/Kew Police Station, and additional funding provided for completion of the Federation Square project;
- higher than budgeted fixed asset investment in the hospital sector (\$25 million) funded by increased third party revenue;
- partly offset by a range of factors, including project timing delays and approved appropriation transfers, which are expected to reduce 2000-01 expenditure on fixed assets by around \$42 million.

Table 3.5: Budget sector summary cash flow statement

	(\$ million)				
	2000-01 Budget	2000-01 Revised	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
Net cash flow from operating activities	1 780.2	2 220.3	1 833.5	1 771.8	2 022.5
Purchase of property, plant and equipment	-1 278.9	-1 294.2	-1 785.0	-1 739.1	-1 993.8
Sale of property, plant and equipment	127.0	127.0	88.9	66.8	39.8
Net proceeds from other investing activities	- 612.3	- 986.9	- 110.6	- 33.5	- 7.0
Net cash flow from investing activities	-1 764.3	-2 154.1	-1 806.7	-1 705.8	-1 961.0
Net cash flow from financing activities	8.0	- 7.6	- 5.0	- 20.9	- 20.2
Net cash inflow^(a)	23.9	58.6	21.8	45.1	41.3
Cash at beginning of reporting period	782.7	782.7	841.3	863.1	908.2
Cash at end of reporting period	806.6	841.3	863.1	908.2	949.5

Source: Department of Treasury and Finance

Expenditure on purchase of property, plant and equipment is expected to grow strongly over the remainder of the forecast period. This reflects maintenance of growth in underlying infrastructure expenditure in line with growth in nominal gross state product, together with the additional boost to infrastructure expenditure over the period funded by the \$1 billion Growing Victoria infrastructure reserve.

As noted above, the Government is committed to maintaining state government net financial liabilities at prudent levels. Consistent with this objective, the projections assume that future cash surpluses from operating and investing activities are applied to reducing net financial liabilities. In particular, the forward estimates incorporate a technical assumption whereby future cash surpluses are assumed to be applied to increasing financial assets rather than reducing gross borrowing. Consistent with this assumption, the revised forward estimate cash flow projections reflect:

- no further repayment or increase of borrowings in the budget sector debt portfolio, resulting in only modest projected net cash flows from financing activities as whole (mainly representing changes in deposits repayable and finance leases);
- a \$987 million increase in investment in financial assets in 2000-01, mainly representing the application of the projected 2000-01 cash surplus; and

- a more moderate increase in financial assets between 2001-02 and 2003-04, with the application of future underlying cash surpluses to increasing financial assets partly offset by the drawdown of Growing Victoria reserve assets to fund increased investment in infrastructure assets over that period.

CHAPTER 4: ESTIMATED FINANCIAL STATEMENTS AND NOTES

INTRODUCTION

The Estimated Financial Statements have been prepared in accordance with the provisions in the *Financial Management Act 1994* (the Act). The Act requires that the Estimated Financial Statements be based on generally accepted accounting principles (GAAP) and that they be consistent with the current Financial Policy Objectives and Strategies Statement (see Chapter 1, *Financial Policy Objectives and Strategies*).

The purpose of the Estimated Financial Statements is to set out the forecast financial results for the Victorian budget sector. Because of the prospective nature of these statements it is important to note that they reflect a number of professional judgements about the most likely operating and financial conditions for the Victorian budget sector.

The accompanying notes to the Estimated Financial Statements provide details of material economic and other assumptions used and the specific forecast assumptions underlying material items in the financial statements. Similarly, the Estimated Financial Statements are based on a number of economic and other assumptions, which are subject to uncertainties and are outside the control of the Government.

Estimated statement of financial performance

For the year ending 30 June (\$ million)

	Notes	2000-01 Budget	2000-01 Revised	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
Revenue from ordinary activities						
Taxation	2	7 845.3	8 121.2	7 567.3	7 855.9	8 142.0
Fines and regulatory fees		273.3	354.6	316.7	332.5	313.0
Public authority revenue	3	947.7	1 029.4	687.2	619.8	500.1
Grants	4	10 198.1	10 250.7	11 287.0	11 555.0	11 856.2
Sale of goods and services		1 939.8	1 992.4	2 021.8	2 042.8	2 059.7
Gains/(losses) on the disposal of physical assets		29.6	29.6	12.8	7.3	0.5
Inter sector capital asset charge		477.0	477.0	489.0	501.0	514.0
Other revenue	5	469.2	539.1	564.1	615.8	605.1
Total revenue		22 180.0	22 794.0	22 945.9	23 530.1	23 990.7
Expenses from ordinary activities						
Employee entitlements		7 721.3	7 682.5	8 151.6	8 474.5	8 772.8
Superannuation		1 380.3	1 513.7	1 534.8	1 595.7	1 594.7
Depreciation	6	773.3	798.2	852.5	903.2	954.5
Amortisation	7	24.5	24.5	19.0	18.4	18.4
Borrowing costs	8	510.4	501.3	471.4	456.9	451.6
Grants and transfer payments	9	4 150.3	4 279.3	4 038.8	4 104.9	4 009.1
Supplies and services		7 020.6	7 007.3	7 219.6	7 362.4	7 338.8
Other expenses		7.8	34.5	34.5	34.5	34.5
Total expenses	10	21 588.5	21 841.4	22 322.4	22 950.6	23 174.2
Result from ordinary activities		591.5	952.6	623.5	579.5	816.4
Increase/(decrease) in asset revaluation reserve						
			37.4	..	..	..
Increase/(decrease) in retained operating surplus from transitional adjustments						
			(6.1)	..	..	..
Total adjustments recognised directly in equity						
		..	31.3	..	..	..
Total changes in equity		591.5	983.9	623.5	579.5	816.4

The accompanying notes form part of these Estimated Financial Statements.

Estimated statement of financial position

<i>As at 30 June (\$ million)</i>					
	<i>Notes</i>	<i>2001 Revised</i>	<i>2002 Estimate</i>	<i>2003 Estimate</i>	<i>2004 Estimate</i>
Current assets					
Cash		847.2	869.0	914.1	955.4
Investments		896.3	893.9	891.6	889.4
Receivables		673.9	677.9	720.0	755.3
Prepayments		39.7	39.8	40.0	40.2
Inventories		165.6	165.7	166.6	167.3
Other	13	2.9	2.9	2.9	2.9
Total current assets		2 625.6	2 649.2	2 735.1	2 810.5
Non-current assets					
Investments		2 367.7	2 551.4	2 654.8	2 731.6
Receivables		359.5	321.4	289.2	261.2
Inventories		3.4	3.4	3.4	3.4
Property, plant and equipment	11	19 055.1	19 762.5	20 420.8	21 425.6
Roads	12	11 977.2	12 101.5	12 185.6	12 158.8
Other	13	1 634.3	1 640.1	1 655.6	1 659.3
Total non-current assets		35 397.3	36 380.2	37 209.4	38 239.8
Total assets		38 022.8	39 029.4	39 944.5	41 050.2
Current liabilities					
Payables		953.8	974.6	995.6	1 016.5
Interest-bearing liabilities		547.2	547.2	680.5	554.5
Employee entitlements	14	707.8	713.0	718.7	725.8
Superannuation	15	673.0	726.0	748.0	769.0
Other		193.8	192.8	191.8	190.9
Total current liabilities		3 075.5	3 153.5	3 334.7	3 256.6
Non-current liabilities					
Payables		6.0	5.9	5.9	5.9
Interest-bearing liabilities		5 724.6	5 742.1	5 595.8	5 709.2
Employee entitlements	14	1 516.9	1 678.3	1 839.9	2 001.6
Superannuation	15	11 836.0	11 969.0	12 115.0	12 214.0
Other		260.3	253.5	246.7	239.8
Total non-current liabilities		19 343.8	19 648.8	19 803.3	20 170.6
Total liabilities		22 419.3	22 802.3	23 137.9	23 427.2
Equity					
Retained surplus		10 376.3	11 328.9	11 952.4	12 531.9
Reserves		4 274.7	4 274.7	4 274.7	4 274.7
Net result for year		952.6	623.5	579.5	816.4
Total equity		15 603.6	16 227.1	16 806.6	17 623.0

The accompanying notes form part of these Estimated Financial Statements.

Estimated statement of cash flows

For the year ending 30 June (\$ million)

	Notes	2000-01 Budget	2000-01 Revised	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
Cash flows from operating activities						
Receipts						
Taxation		7 814.9	8 090.7	7 534.1	7 819.8	8 102.5
Regulatory fees and fines		273.3	285.1	247.2	262.9	243.4
Public authority revenue		1 082.6	1 105.1	725.1	617.8	503.2
Grants		10 168.2	10 250.7	11 287.0	11 555.0	11 856.2
Sale of goods and services		1 927.6	1 980.2	2 008.7	2 029.9	2 046.6
Interest received		119.7	175.1	213.4	220.7	246.5
Capital asset charge received		477.0	477.0	489.0	501.0	514.0
Other receipts		374.3	394.1	355.3	401.4	365.9
Total receipts		22 237.5	22 758.0	22 859.7	23 408.5	23 878.4
Payments						
Employee entitlements		7 553.4	7 514.7	7 984.9	8 307.2	8 604.0
Superannuation		1 281.3	1 282.7	1 348.8	1 427.7	1 474.7
Grants		4 118.7	4 277.6	4 037.2	4 103.2	4 007.4
Supplies and services		7 031.6	6 999.4	7 207.2	7 350.6	7 326.9
Interest paid		472.3	463.2	448.0	448.0	443.0
Other payments		0.0	..	..	..	..
Total payments		20 457.3	20 537.7	21 026.2	21 636.6	21 855.9
Net cash flows from operating activities	16	1 780.2	2 220.3	1 833.5	1 771.8	2 022.5
Cash flows from investing activities						
Net customer loans repaid		63.5	68.5	70.6	67.6	67.6
Net proceeds of investments		(674.5)	(1 048.8)	(180.7)	(100.7)	(74.1)
Term and fixed deposits		(0.6)	(0.6)	(0.5)	(0.4)	(0.5)
Sale of property, plant and equipment		127.0	127.0	88.9	66.8	39.8
Purchases of property, plant and equipment		(1 278.9)	(1 294.2)	(1 785.0)	(1 739.1)	(1 993.8)
Other		(0.8)	(6.1)	..	..	..
Net cash flows from investing activities		(1 764.3)	(2 154.1)	(1 806.7)	(1 705.8)	(1 961.0)
Cash flows from financing activities						
Net proceeds (repayments) of borrowings		8.0	(7.6)	(5.0)	(20.9)	(20.2)
Net cash flows from financing activities		8.0	(7.6)	(5.0)	(20.9)	(20.2)
Net increase in cash held		23.9	58.6	21.8	45.1	41.3
Cash at beginning of reporting period		782.7	782.7	841.3	863.1	908.2
Cash at end of reporting period		806.6	841.3	863.1	908.2	949.5

The accompanying notes form part of these Estimated Financial Statements.

NOTES TO THE ESTIMATED FINANCIAL STATEMENTS

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

Assumptions

The Estimated Financial Statements have been prepared using the material economic and other assumptions listed below. See Chapter 2, *Economic Conditions and Outlook* for a detailed discussion of these assumptions.

Material economic and other assumptions^(a)

	2000-01	2001-02	2002-03	2003-04
Gross state product	3¾	3½	3½	3½
Employment	3¼	1½	1½	1½
Unemployment rate ^(b)	6	5¾	5½	5½
Participation rate ^(c)	63½	63¼	63¼	63¼
Consumer price index ^(d)	6¼	2	2¼	2¼
Wage cost index ^(e)	3¼	3½	3½	3½
Population ^(f)	1.2	1.0	1.0	0.9

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

Notes:

- (a) Per cent change on preceding year unless otherwise indicated.
- (b) Estimate for June quarter, per cent.
- (c) Year average, per cent.
- (d) 3½ per cent in 2000-01 abstracting from GST
- (e) Total hourly rate, excluding bonuses
- (f) June quarter, per cent change on previous June quarter, based on ABS Series R projections, adjusted for recent net interstate migration experience.

Key financial measure

The Government has set out its key financial measure in the Financial Policy Objectives and Strategies Statement (see Chapter 1, *Financial Policy Objectives and Strategies*). The key financial measure of a substantial budget sector operating surplus (referred to as “result from ordinary activities” in the statement of financial performance) is expected to be achieved throughout the forecast period.

Fiscal target

Key financial measure	Target
Maintain a substantial budget sector operating surplus.	Operating surplus of at least \$100 million in each year.

Note 1: Statement of significant accounting policies and forecast assumptions

In order to assist in understanding the financial information presented, the following summary presents the significant accounting policies and forecast assumptions which have been adopted in preparing the Estimated Financial Statements for the forecast period (which includes the budget year and the estimates for the three subsequent years).

A. Compliance framework

These Estimated Financial Statements for the Victorian budget sector have been prepared in accordance with sections 23H and 23J of the Act and are based on Australian GAAP.

In accordance with Australian GAAP, all applicable extant Australian Accounting Standards (AASs) have been applied in the preparation and presentation of the Estimated Financial Statements. However, as there is no specific AAS or other Australian authoritative pronouncement on the preparation and presentation of prospective financial statements, AAS 6 *Accounting Policies* permits the application of pronouncements of other national accounting standard setting bodies. Because Australian and New Zealand accounting standards are closely harmonised, the major requirements of New Zealand Financial Reporting Standard (FRS 29) *Prospective Financial Information* have been applied in presenting the Estimated Financial Statements. The requirements of FRS 29 have been modified to achieve presentation consistent with AAS 1 *Statement of Financial Performance*, AAS 36 *Statement of Financial Position* and AAS 37 *Financial Report Presentation and Disclosure*.

B. Basis of accounting and measurement

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

The actual (audited) opening balances as at 1 July 2000 are based on either a historical cost basis or at valuation. Those items measured at valuation include:

- most non-current physical assets which are valued at current cost using a deprival value approach;

- investments and productive trees in commercial native forests which are recognised at their net market value; and
- certain liabilities (e.g. unfunded superannuation) which are calculated with regard to actuarial assessment.

In the State's capacity as a taxpayer under the new GST arrangements which applied 1 July 2000, the Estimated Financial Statements do not include any estimate of the amount of GST receivable or payable from the Commonwealth at year-end for the forecast period as there is no historical data on the operation of the GST. However, allowance has been made for higher expenses in the case of public housing and financial services as these items are input taxed and therefore GST payable by budget sector entities will not be recoverable.

C. Budget sector reporting entity

The budget sector reporting entity includes government departments, and other budget dependent entities. Details of the entities included in the budget sector are shown in Note 17.

D. Basis of consolidation

The Estimated Financial Statements include all entities in the budget sector that are controlled by the Crown. Entities in the non-budget sector that are controlled by the Crown are not consolidated as the intent of the Estimated Financial Statements is to convey the financial performance, position and cash flows of the budget sector alone.

In the process of reporting the budget sector as a single economic entity, all material transactions and balances between budget sector entities are eliminated.

E. Forecast reporting periods

The reporting period for the budget sector is the year ending 30 June. However, for those entities with a reporting period other than the year ending 30 June, the latest audited financial statements revised for estimated movements since that date are used as the basis of the opening balance for 1 July 2000. For example, schools and TAFE institutions have a reporting period ending 31 December. Consequently, the results of these entities for the year ended 31 December and the balances existing as at 31 December have been used in the preparation of these financial statements.

F. Revenues

Taxation

Accounting policy

Budget sector taxation and fee revenue is recognised upon the earlier of either the receipt by the State of a taxpayer's self-assessment or the time the taxpayer's obligation to pay arises, pursuant to the issue of an assessment.

The types of revenue included in the estimates are as follows:

- payroll tax;
- land tax;
- stamp duties – including conveyancing, land transfers, marketable securities, mortgages, rental businesses and leases;
- financial institutions duty and debit tax;
- gambling taxes – including private lotteries, electronic gaming machines, casino and racing;
- insurance duty – compulsory third party, life and non-life;
- motor vehicle taxes – registration fees, stamp duty, driver licence fees; and
- electricity franchise fees.

Forecast assumption

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

- assessment of demand and supply conditions in the markets from which the taxes are sourced (e.g. in the case of payroll tax, assessment of employment and wages outlooks; in the case of motor vehicle fees, assessment of the outlook for demand for cars reflecting long-term underlying demand factors and cyclical demand factors);
- analysis of historical information and relationships using econometric and other statistical methods;
- application of the Department of Treasury and Finance's economic forecasts where there is an established relationship between taxation variables and economic variables (e.g. GSP, employment growth, wages growth, CPI); and
- consultation with private sector economists, industry associations, and relevant government authorities (e.g. State Revenue Office, VicRoads, Victorian Casino and Gaming Authority).

The following taxation items will cease, effective from 1 July 2001:

- stamp duty on listed marketable securities; and
- financial institutions duty.

Under the *Intergovernmental Agreement on Commonwealth-State Financial Relations* the Commonwealth has agreed to ensure that the state budget will be no worse off following the removal of these taxation revenues.

Regulatory fees and fines

Accounting policy

Revenue is recognised in the period in which the fine or regulatory fee is issued.

Forecast assumption

The forecasts of regulatory fees and fines are prepared by those government agencies which collect them. Some of the components (e.g. electricity sector licence fees) are based on contractual obligations, while the prediction of fines involves assessment of the behaviour of people on the roads and elsewhere. The estimation of the many small, miscellaneous fees is based on an assessment of recent experience in each of the markets.

Public authority revenue

Accounting policy

Public authority revenue comprises dividends and tax equivalent payments (including income tax, wholesale sales tax and local government rate equivalent taxes) paid by government business enterprises.

Forecast assumption

As part of the budget process, government business enterprises provide their best available estimates of these future payments for the forecast period.

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

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

Other commercial factors which are considered and will affect the dividend forecasts include the views of the board of directors, the liquidity, operating cash flow and forecast cash requirements of each government business

enterprise (including planned capital works), gearing and interest cover of the business, retained earnings and any other specific commercial factors relating to individual businesses.

Forecast tax equivalent payments are estimated by the government business enterprises with respect to a set of rules which mirror Commonwealth legislation.

Grants

Accounting policy

These are mainly funds provided by the Commonwealth to assist the State in meeting general or specific service delivery obligations. They are recognised when the State obtains control over them. They also include grants from other jurisdictions.

Forecast assumption

The forecast receipt of financial assistance from the Commonwealth is determined on the latest available advice from the Commonwealth at the time of preparation of the Estimated Financial Statements, taking into account the payment schedules and escalation factors relevant to each type of grant. The payment schedules for some financial assistance from the Commonwealth are on a monthly, quarterly or annual basis, while others are on an irregular basis such as on a project progress basis.

As a result of the introduction of GST, Commonwealth general purpose financial assistance grants have ceased and have been replaced by GST revenue grants.

Sale of goods and services

Accounting policy

Revenues arising from the sale of goods and services are recognised when the goods or services are provided.

Forecast assumption

Revenues arising from the sale of goods and services are forecast by taking into account all known factors, such as proposed fee increases in line with the *Guidelines for Setting Fees and Charges Imposed by Departments and Budget Sector Agencies* issued by the Department of Treasury and Finance, and projected variations in activities. Unless government policy states otherwise, fees will be set to recover the full costs of the goods or services provided.

G. Expenses

Employee entitlements

Accounting policy

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

Forecast assumption

Employee entitlements are forecast on the basis of staffing profiles and current salaries and conditions. For the forecast period employee entitlements are adjusted for approved wage agreements with allowance made for further changes in the future.

Superannuation

Accounting policy

Superannuation expense is determined on the following basis:

- funded schemes: the expense reflects the superannuation contribution payable by entities within the budget sector; and
- unfunded schemes: the expense reflects the forecast net movement in the unfunded superannuation liability during each forecast period together with superannuation contributions payable by public sector employers and annual payments by the State.

Forecast assumption

For the forecast period, superannuation expenses for unfunded schemes have been estimated by the Department of Treasury and Finance and are consistent with projections provided by various actuaries of each superannuation fund.

Depreciation

Accounting policy

All infrastructure, buildings, plant and equipment and other non-current physical assets that have a limited useful life are depreciated. Depreciation is generally calculated using the straight-line method at a rate which allocate the asset's value, less any residual value, over its useful life.

The typical useful lives for the different asset classes used in the financial statements of budget sector entities and in developing forecasts are as follows:

<i>Asset class</i>	<i>Useful life</i>
Dwellings	40 to 50 years
Other buildings	30 to 60 years
Other construction	10 to 32 years
Road pavement	60 years
Bridges	90 years
Plant and equipment	3 to 10 years
Heritage assets	100 years

Land, earthworks associated with the declared road network and core cultural assets, which are considered to have an indefinite life, are not depreciated. Depreciation is not recognised in respect of these assets as their service potential will not, in any material sense, be consumed during the forecast period.

Forecast assumption

Depreciation is forecast on the basis of known asset profiles, asset sales programs and approved new asset investment programs.

Borrowing costs

Accounting policy

Borrowing costs, other than those capitalised in relation to qualifying assets, are recognised as expenses in the period in which they are forecast to be incurred. Borrowing costs include:

- interest on outstanding borrowings;
- amortisation of discounts or premiums relating to borrowings;
- indexation of principal outstanding for capital indexed securities and indexed annuities in line with movements in CPI; and
- finance lease charges.

Forecast assumption

Estimates for borrowing costs are based on the forecast level of outstanding budget sector debt. This is expected to mainly comprise of approximately \$5 billion in a fixed rate facility, \$1 billion of indexed linked securities from the Treasury Corporation of Victoria, and \$220 million motor vehicle lease facility with Commonwealth Bank of Australia. The indexed securities are adjusted in line with movements in CPI and any movements in the principal outstanding is recognised as a finance cost. All maturities in the forecast period are assumed to be generally refinanced at forward interest rates.

Grants and transfer payments

Accounting policy

Payments to third parties are recognised as an expense during the financial year in which they are paid and include transactions such as grants, subsidies and other transfer payments made to local government, non-government schools and community groups.

Forecast assumption

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

Supplies and services (including maintenance)

Accounting policy

These generally represent the day-to-day running costs incurred in the normal operation of budget sector entities.

Forecast assumption

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

H. Assets

Investments

Accounting policy

The opening balance of investments represents the audited value as at 1 July 2000, and comprises marketable securities (less provision for diminution) and deposits which are valued at market value, except for long-term investments. Long-term investments, such as international bonds, are investments that are expected to be held for greater than twelve months. Long-term investments are recognised using the cost method of valuation, being the cost at the date of acquisition. Any discount or premium is amortised over the life of the investments and gains or losses arising from the investments prior to maturity are recognised in the statement of financial performance.

Forecast assumption

All surplus cash resources for the period 2000-01 to 2003-04 are assumed to be held as financial assets to preserve budget decision-making flexibility. As a result, financial assets are expected to increase by the level of forecast cash surpluses over the forecast period.

Receivables**Accounting policy**

The opening balance of receivables represents the audited value as at 1 July 2000, and is recognised at the nominal amounts due, less any provision for bad and doubtful debts forecast to be collected.

Forecast assumption

Receivables are forecast on the basis of revenue activity levels.

Inventories**Accounting policy**

The opening balance of inventories represents the audited value as at 1 July 2000, and is valued at the lower of cost and net realisable value. The methods used to assign costs to inventories are weighted average cost and cost on a 'first-in-first-out' basis.

Forecast assumption

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

Non-current physical assets***Capitalisation***

In general, all non-current physical assets with a value over \$1 000 are capitalised.

Valuation

The opening balance of non-current physical assets is based on actual audited opening balances as at 1 July 2000. Non-current physical assets are not revalued in the forecast period.

New investments in assets are valued at the forecast purchase price.

Land and buildings

Accounting policy

The opening balance of land and buildings is recognised at historical cost or at the latest available valuation.

Forecast assumption

It is assumed that the value of land and buildings will not change during the forecast period, other than for acquisitions and disposals.

Plant and equipment

Accounting policy

The opening balance of plant and equipment is recognised at historical cost or at the latest available valuation.

Forecast assumption

It is assumed that the value of plant and equipment will not change during the forecast period, other than for acquisitions and disposals.

Infrastructure assets

Infrastructure assets include such items as road pavements, bridges, earthworks, and construction-in-progress. Individual components of infrastructure assets are valued as follows:

Road pavements and bridges

Accounting policy

The opening balance of road pavements and bridges are recognised at written-down replacement cost.

Forecast assumption

It is assumed that the value of road pavements and bridges will not change during the forecast period, other than for acquisitions and disposals.

Earthworks

Accounting policy

The opening balance of earthworks is recognised at replacement cost.

Forecast assumption

It is assumed that the value of earthworks will not change during the forecast period, other than for acquisitions and disposals.

*Land under roads***Accounting policy**

Land under roads and road reserves has not been recognised consistent with *Accounting and Financial Reporting Bulletin* No. 19, issued under Part 1 of the Directions of the Minister for Finance under the Act.

*National parks, state forests and other Crown land***Accounting policy**

National parks and state forests are generally recognised at the estimated current market buying price of adjacent land, discounted to adjust for the restricted nature of current use. This valuation methodology does not take into account the intrinsic value of these assets to the community.

Other Crown land in rural areas has been recognised at values determined by applying an average valuation for broad area rural improved land (cropping and grazing) and unimproved land (bushland and water) for all parishes and townships in the State.

Forecast assumption

It is assumed that the value of national parks, State forests and other Crown land will not change during the forecast period, other than for acquisitions and disposals.

*Heritage assets and collections***Accounting policy**

Heritage assets and collections are defined as those non-current physical assets that the State intends to preserve because of their unique historical, cultural or environmental attributes. These assets include items such as the State Library, Government House, Parliament House, historic houses, monuments, certain museum exhibits, art collections, archival collections and other items of cultural significance.

The opening balances of heritage assets and collections are generally recognised at their estimated current value. In particular, core heritage assets and collections that generate substantial revenues are valued at the greater of current

market buying price and net present value. All other core heritage assets and collections are valued at estimated written-down replacement cost. All natural non-core heritage assets and collections are valued at estimated realisable value or net present value, whichever is the higher.

Forecast assumption

It is assumed that the value of heritage assets and collections will not change during the forecast period, other than for acquisitions and disposals.

Leases

Accounting policy

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

Finance leases are recognised as assets and liabilities at the present value of the minimum lease payments. The lease asset is amortised either on a straight-line basis over the term of the lease or, where it is likely that the entity will obtain ownership of the asset, the useful life of the asset to the entity. Lease payments are allocated between the principal component of the lease liability and the interest expense.

Operating lease payments are recognised systematically as an expense in the statement of financial performance over the term of the lease.

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

Forecast assumption

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

I. Liabilities

Payables

Accounting policy

This item consists predominantly of creditors and other sundry liabilities.

Forecast assumption

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

Interest-bearing liabilities**Accounting policy**

Borrowings represent funds raised from the following sources:

- public borrowings mainly through the Treasury Corporation of Victoria;
- the residual amount outstanding for loans raised by the Commonwealth on behalf of the State in previous years; and
- motor vehicle lease facility with the Commonwealth Bank of Australia.

Budget sector debt is recognised at estimated book value (i.e. historical cost adjusted for amortisation of discount and premium).

Forecast assumption

For forecasting, budget sector debt is also valued at its historical cost including unamortised premiums/discounts.

Employee entitlements**Accounting policy**

An estimate of the provision is made in the Estimated Financial Statements for entitlements not taken at the end of each forecast reporting date in respect of wages and salaries, annual leave and long service leave. The amounts are accrued consistent with the level of wages included in the statement of financial performance except for long service leave, which is estimated at the present value of the estimated future cash outflows arising from forecast employees' service at the end of each period.

Forecast assumption

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

Superannuation

Accounting policy

The opening balance of the State's superannuation obligations represents the audited value as at 1 July 2000, in respect of the contributory service of current and past government employees, is recognised at the latest actuarial assessment of the members' entitlements, net of scheme assets. The valuation is determined by discounting to present value the gross benefit payments at a current, actuarially-determined, risk-adjusted discount rate appropriate to the plan.

Forecast assumption

For the forecast period the superannuation liability has been estimated by the Department of Treasury and Finance and is consistent with projections provided by the various Fund actuaries.

Other liabilities

Accounting policy

All other liabilities are recognised at the estimated amounts payable.

J. Statement of cash flows

Accounting policy

For the purposes of the statement of cash flows, cash comprises cash on hand, cash at bank, bank overdrafts and deposits at call, and highly liquid investments with short periods to maturity, which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

K. Rounding

Accounting policy

All amounts in the Estimated Financial Statements have been rounded to the nearest hundred thousand dollars unless otherwise stated.

Note 2: Taxation

	<i>2000-01 Budget</i>	<i>2000-01 Revised</i>	<i>2001-02 Estimate</i>	<i>2002-03 Estimate</i>	<i>2003-04 Estimate</i>
Payroll tax	2 469.3	2 540.5	2 683.1	2 857.3	3 017.4
Taxes on immovable property	560.2	546.2	585.9	594.5	609.6
Financial and capital transactions	2 067.0	2 215.2	1 544.9	1 520.4	1 590.8
Gambling	1 235.1	1 290.3	1 369.3	1 447.5	1 531.0
Insurance	429.1	428.9	455.6	477.6	499.5
Motor vehicles	931.6	936.5	978.9	1 006.4	1 037.2
Business franchise fees, licences and levies	153.0	163.5	49.6	52.4	56.5
Proposed business tax cuts	..	..	( 100.0)	(100.0)	(200.0)
Total taxation	7 845.3	8 121.2	7 567.3	7 855.9	8 142.0

Note 3: Public authority revenue

	<i>2000-01 Budget</i>	<i>2000-01 Revised</i>	<i>2001-02 Estimate</i>	<i>2002-03 Estimate</i>	<i>2003-04 Estimate</i>
Dividends	772.7	823.5	585.7	537.8	430.6
Tax equivalent revenue	175.0	205.9	101.6	81.9	69.5
Total public authority revenue	947.7	1 029.4	687.2	619.8	500.1

Note 4: Grants

	<i>2000-01 Budget</i>	<i>2000-01 Revised</i>	<i>2001-02 Estimate</i>	<i>2002-03 Estimate</i>	<i>2003-04 Estimate</i>
Current grants					
General purpose grants	5 857.2	5 902.5	6 673.6	6 864.8	7 089.2
Specific purpose grants for onpassing	1 112.2	1 089.5	1 124.0	1 159.8	1 196.6
Other specific purpose grants	2 815.4	2 760.5	2 858.1	2 936.7	3 065.4
Total current grants	9 784.8	9 752.4	10 655.8	10 961.3	11 351.3
Capital grants					
Specific purpose grants for onpassing	108.2	108.2	110.7	113.4	116.1
Other specific purpose grants	305.2	390.2	520.5	480.3	388.9
Total capital grants	413.3	498.3	631.2	593.7	505.0
Total grants	10 198.1	10 250.7	11 287.0	11 555.0	11 856.2

Note 5: Other revenue

	2000-01 Budget	2000-01 Revised	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
Interest	119.7	175.1	213.4	220.7	246.5
Royalties	48.2	48.2	48.6	49.1	49.4
Rents	26.2	26.2	26.1	26.4	27.3
Other	275.1	289.6	276.0	319.6	281.9
Total other revenue	469.2	539.1	564.1	615.8	605.1

Note 6: Depreciation

	2000-01 Budget	2000-01 Revised	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
Plant, equipment and infrastructure	317.8	322.6	340.3	350.5	355.4
Buildings ^(a)	252.4	252.4	288.1	325.6	369.0
Roads	198.3	223.1	224.1	227.1	230.1
Other assets	4.8	..	..	..	..
Total depreciation	773.3	798.2	852.5	903.2	954.5

Note:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2001-02 to 2003-04.

Note 7: Amortisation

	2000-01 Budget	2000-01 Revised	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
Plant and equipment	14.4	14.4	16.5	15.9	15.9
Buildings	10.2	10.2	2.5	2.5	2.5
Total amortisation	24.5	24.5	19.0	18.4	18.4

Note 8: Borrowing costs

	<i>2000-01 Budget</i>	<i>2000-01 Revised</i>	<i>2001-02 Estimate</i>	<i>2002-03 Estimate</i>	<i>2003-04 Estimate</i>
Interest on short-term borrowings	5.2	5.2	5.2	5.2	5.2
Interest on long-term borrowings	445.7	429.2	426.0	426.0	421.0
Finance charges on finance leases	15.8	15.8	6.4	6.4	6.4
Other borrowing costs	43.7	51.1	33.8	19.3	18.9
Total borrowing costs	510.4	501.3	471.4	456.9	451.6

Note 9: Grants and transfer payments

	<i>2000-01 Budget</i>	<i>2000-01 Revised</i>	<i>2001-02 Estimate</i>	<i>2002-03 Estimate</i>	<i>2003-04 Estimate</i>
Commonwealth	0.1	0.1	0.1	0.1	0.1
Local government	412.6	428.3	436.7	452.0	415.6
Private sector	2 263.3	2 268.4	2 219.3	2 255.7	2 272.9
Other	1 474.3	1 582.6	1 382.8	1 397.1	1 320.6
Total grants paid	4 150.3	4 279.3	4 038.8	4 104.9	4 009.1

Note 10: Total expenses from ordinary activities by Department

	<i>2000-01 Budget</i>	<i>2000-01 Revised</i>	<i>2001-02 Estimate</i>	<i>2002-03 Estimate</i>	<i>2003-04 Estimate</i>
Expenses from ordinary activities					
Education Employment and Training	6 779.7	6 806.9	6 873.2	6 982.5	7 036.2
Human Services	7 555.9	7 881.4	7 995.9	8 121.8	8 149.5
Infrastructure	2 716.5	2 777.0	2 822.1	2 870.2	2 749.0
Justice	1 703.6	1 752.3	1 758.2	1 781.1	1 782.2
Natural Resources and Environment	942.3	1 039.5	918.4	882.6	835.0
Premier and Cabinet	470.1	470.5	513.0	468.2	470.5
State and Regional Development	328.6	343.9	336.5	348.1	264.1
Treasury and Finance	2 222.2	2 448.2	1 956.8	1 931.7	1 905.0
Parliament	99.1	100.5	94.5	95.8	96.0
Contingencies not allocated to departments	256.7	(281.7)	610.4	1 004.0	1 425.9
Total	23 074.8	23 338.4	23 879.0	24 486.0	24 713.3
<i>Less eliminations</i>	<i>(1 486.4)</i>	<i>(1 497.0)</i>	<i>(1 556.6)</i>	<i>(1 535.4)</i>	<i>(1 539.0)</i>
Total operating expenses	21 588.5	21 841.4	22 322.4	22 950.6	23 174.2

Note:

(a) *Departmental expenses will be supplemented for certain costs that are provided for in contingencies.*

Note 11: Property, plant and equipment

	2001 <i>Revised</i>	2002 <i>Estimate</i>	2003 <i>Estimate</i>	2004 <i>Estimate</i>
Land, national parks and other "land only" holdings	5 227.8	5 183.7	5 147.7	5 132.2
Buildings ^(a)	9 637.0	10 675.2	11 767.7	13 323.4
<i>Deduct: accumulated depreciation</i>	<i>(813.2)</i>	<i>(1 103.6)</i>	<i>(1 431.6)</i>	<i>(1 802.9)</i>
Buildings (written down value)	8 823.7	9 571.5	10 336.1	11 520.5
Infrastructure systems	4 749.7	4 912.3	5 012.6	5 026.5
<i>Deduct: accumulated depreciation</i>	<i>(1 085.5)</i>	<i>(1 093.2)</i>	<i>(1 102.4)</i>	<i>(1 115.7)</i>
Infrastructure systems (written down value)	3 664.2	3 819.1	3 910.2	3 910.9
Plant, equipment and vehicles	3 035.7	3 233.6	3 429.6	3 622.7
<i>Deduct: accumulated depreciation</i>	<i>(1 894.9)</i>	<i>(2 227.8)</i>	<i>(2 569.4)</i>	<i>(2 911.7)</i>
Plant, equipment and vehicles (written down value)	1 140.9	1 005.8	860.2	711.0
Leased plant, equipment and vehicles	235.3	235.3	235.3	235.3
<i>Deduct: accumulated amortisation</i>	<i>(36.7)</i>	<i>(53.0)</i>	<i>(68.6)</i>	<i>(84.3)</i>
Leased plant, equipment and vehicles (written down value)	198.6	182.3	166.6	151.0
Total property, plant and equipment	19 055.1	19 762.5	20 420.8	21 425.6

Note:

(a) Includes amounts not yet allocated to projects in 2001-02 to 2003-04.

Note 12: Roads

	2001 <i>Revised</i>	2002 <i>Estimate</i>	2003 <i>Estimate</i>	2004 <i>Estimate</i>
Roads	15 231.4	15 579.7	15 891.0	16 094.3
<i>Deduct: accumulated depreciation</i>	<i>(3 254.2)</i>	<i>(3 478.3)</i>	<i>(3 705.4)</i>	<i>(3 935.5)</i>
Total roads	11 977.2	12 101.5	12 185.6	12 158.8

Note 13: Other assets

	2001 <i>Revised</i>	2002 <i>Estimate</i>	2003 <i>Estimate</i>	2004 <i>Estimate</i>
Current				
Other assets	2.9	2.9	2.9	2.9
Total current	2.9	2.9	2.9	2.9
Non-current				
Natural resource reserves	311.6	311.6	311.6	311.6
Other assets-including works of art, museum collections, rare book collections and intangibles	1 354.7	1 360.6	1 376.2	1 380.1
<i>Deduct: Accumulated depreciation</i>	<i>(31.9)</i>	<i>(32.1)</i>	<i>(32.3)</i>	<i>(32.5)</i>
Total non-current	1 634.3	1 640.1	1 655.6	1 659.3

Note 14: Employee entitlements

	2001 <i>Revised</i>	2002 <i>Estimate</i>	2003 <i>Estimate</i>	2004 <i>Estimate</i>
Accrued salaries and wages	137.6	142.8	148.4	155.4
Annual leave	385.0	385.5	386.2	386.8
Long service leave	185.2	184.6	184.1	183.7
Total current employee entitlements	707.8	713.0	718.7	725.8
Long service leave	1 509.5	1 671.0	1 832.5	1 994.2
Other employee entitlements	7.3	7.3	7.4	7.4
Total non-current employee entitlements	1 516.9	1 678.3	1 839.9	2 001.6
Total employee entitlements	2 224.6	2 391.3	2 558.6	2 727.4

Note 15: Superannuation

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

Unfunded superannuation liability

The actuaries of the State's public sector defined benefit schemes conduct a valuation of the benefits accrued by scheme members. Any shortfall between the value of these accrued benefits and the net market value of the scheme assets determines the value of any unfunded superannuation liability.

The funding status of the State's share of defined benefit schemes for the period, based on Department of Treasury and Finance estimates, is forecast as follows:

	<i>2001 Revised</i>	<i>2002 Estimate</i>	<i>2003 Estimate</i>	<i>2004 Estimate</i>
State Superannuation Fund	12 348.6	12 520.2	12 672.4	12 775.3
Other	160.4	174.8	190.6	207.7
Total unfunded superannuation liability	12 509.0	12 695.0	12 863.0	12 983.0
Current liability	673.0	726.0	748.0	769.0
Non-current liability	11 836.0	11 969.0	12 115.0	12 214.0
Total liability	12 509.0	12 695.0	12 863.0	12 983.0

The Emergency Services Superannuation Fund and the Parliamentary Contributory Superannuation Fund are not included as these public sector schemes are currently in surplus. These surpluses have been excluded in the reporting of the State's unfunded superannuation liability, as the State does not have control of these surplus assets. It is assumed that these public sector schemes will remain in surplus during the forecast period.

Note 16: Cash flow information

	2000-01 Budget	2000-01 Revised	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
Reconciliation of cash					
Cash	246.1	280.8	296.3	325.5	346.0
Deposits at call	566.4	566.4	572.7	588.6	609.4
Bank overdraft	(5.9)	(5.9)	(5.9)	(5.9)	(5.9)
Cash held at 30 June	806.6	841.3	863.1	908.2	949.5
Operating surplus/(deficit)	591.8	952.6	623.5	579.5	816.4
Add/(less) non-cash items:					
Depreciation	773.3	798.2	852.5	903.2	954.5
Amortisation	24.5	24.5	19.0	18.4	18.4
(Un)realised gains/losses on borrowings	37.1	37.1	22.5	8.0	7.6
Add/(less) Items included in investing/financing activities:					
Net revenues from sale of plant & equipment	(29.6)	(29.6)	(12.8)	(7.3)	(0.5)
Changes in assets and liabilities:					
Increase/(decrease) in provision for doubtful debts	0.0	0.0	0.0	0.0	0.0
Increase/(decrease) in payables	0.8	16.8	20.8	21.0	20.9
Increase/(decrease) in employee benefits	167.8	167.8	166.6	167.3	168.8
Increase/(decrease) in superannuation	99.0	231.0	186.0	168.0	120.0
Increase/(decrease) in other liabilities	(7.8)	(2.5)	(7.8)	(7.8)	(7.8)
(Increase)/decrease in receivables	123.8	25.0	(36.6)	(77.5)	(74.9)
(Increase)/decrease in other current assets	(0.7)	(0.7)	(0.2)	(1.0)	(0.9)
Net cash flows from operating activities	1 780.2	2 220.3	1 833.5	1 771.8	2 022.5

Note 17: Budget sector entities

The following is a list of budget sector entities which have been consolidated for the purposes of the Estimated Financial Statement. For further details on consolidation policy see Note 1 D 'Basis of Consolidation'.

Budget sector entities

Department of Education, Employment and Training

Adult, Community and Further Education Board
Bendigo Regional Institute of TAFE
Board of Studies
Box Hill Institute of TAFE
Central Gippsland Institute of TAFE
Chisholm Institute of TAFE
Council of Adult Education
Driver Education Centre of Australia Ltd
East Gippsland Institute of TAFE
Gordon Institute of TAFE
Goulburn Ovens Institute of TAFE
Holmesglen Institute of TAFE
International Fibre Centre Limited
Kangan Batman Institute of TAFE
Northern Melbourne Institute of TAFE
Royal Melbourne Institute of Technology TAFE
South West Institute of TAFE
State Training Board of Victoria
Sunraysia Institute of TAFE
Swinburne University of Technology TAFE
Victorian University of Technology TAFE
William Angliss Institute of TAFE
Wodonga Institute of TAFE

Department of Human Services

Alexandra and District Ambulance Service
Alexandra District Hospital
Alpine Health
Ambulance Officers Training Centre
Ambulance Service Victoria Metropolitan Region
Austin and Repatriation Medical Centre
Bairnsdale Regional Health Service
Ballarat Health Services
Barwon Health
Beaufort and Skipton Health Service
Beechworth Hospital
Benalla and District Memorial Hospital
Bendigo Health Care Group
Boort District Hospital
Casterton Memorial Hospital

Budget sector entities

Central Gippsland Health Service (formerly Central Wellington Health Service and the Maffra District Hospital)
Cobram District Hospital
Cohuna District Hospital
Colac Community Health Services
Coleraine and District Hospital
Dental Health Services Victoria
Djerriwarrh Health Services
Dunmunkle Health Services
East Grampians Health Service
East Wimmera Health Service (amalgamation of East Wimmera Health Service and Wycheproof and District Health Service)
Echuca Regional Health
Edenhope and District Memorial Hospital
Far East Gippsland Health and Support Service
Gippsland Southern Health Service
Goulburn Valley Health
Hepburn Health Service
Hesse Rural Health Service
Heywood and District Memorial Hospital
Infertility Treatment Authority
Inglewood and District Health Service
Inner and Eastern Health Care Network
Kerang and District Hospital
Kilmore and District Hospital, The
Kooweerup Regional Health Service
Kyabram and District Memorial Community Hospital
Kyneton District Health Service
Latrobe Regional Hospital
Lorne Community Hospital
Maldon Hospital
Mallee Track Health and Community Services
Manangatang and District Hospital
Mansfield District Hospital
Maryborough District Health Service
McIvor Health and Community Services
Mental Health Review Board
Mildura Base Hospital
Moynes Health Services (formerly Port Fairy Hospital)
Mt Alexander Hospital
Nathalia District Hospital
North Western Health Care Network
Numurkah District Health Service
Omeo District Hospital
Otway Health and Community Services, The
Peninsula Health Care Network
Portland and District Hospital
Prince Henry's Institute of Medical Research
Psychosurgery Review Board
Queen Elizabeth Centre, The

Budget sector entities

Robinvale District Health Services
Rochester and Elmore District Health Service
Rural Ambulance Victoria
Rural Northwest Health
Seymour District Memorial Hospital
South Gippsland Hospital
South West Healthcare (formerly Corangamite Regional Hospital Services and
Warrnambool and District Base Hospital)
Southern Health Care Network
Stawell District Hospital
Swan Hill District Hospital
Tallangatta Health Services (formerly Tallangatta Hospital)
Terang and Mortlake Health Service
Timboon and District Health Care Service
Tweddle Child and Family Health Service
Upper Murray Health and Community Services
Victorian Health Promotion Foundation
Victorian Institute of Forensic Mental Health
Wangaratta District Base Hospital
West Gippsland Health Care Group
West Wimmera Health Service
Western District Health Service
Wimmera Health Care Group
Wodonga Regional Health Service
Women's and Children's Health Care Network
Wonthaggi and District Hospital
Yarram and District Health Service
Yarrawonga District Health Service (formerly Yarrawonga District Hospital)
Yea and District Memorial Hospital

Department of Infrastructure

Heritage Council
Marine Board of Victoria
Melbourne City Link Authority
Roads Corporation

Department of Justice

Victoria Police (Office of the Chief Commissioner of Police)
Victorian Electoral Commission
Victorian Institute of Forensic Medicine

Department of Natural Resources and Environment

Environment Protection Authority
Surveyors Board

Department of Premier and Cabinet

Library Board of Victoria (includes State Library of Victoria Foundation)
Museums Board of Victoria
National Gallery of Victoria, Council of Trustees
Office of Public Employment

Budget sector entities

Office of the Ombudsman
Victorian Relief Committee

Department of State and Regional Development

Liquor Licensing Panel (formerly Liquor Licensing Commission)
Tourism Victoria

Department of Treasury and Finance

Office of the Regulator-General
Victorian Casino and Gaming Authority

Parliament of Victoria

Victorian Auditor-General's Office

DEPARTMENT OF TREASURY AND FINANCE STATEMENT IN RELATION TO THE ESTIMATED FINANCIAL STATEMENTS

The Estimated Financial Statements for the Victorian budget sector have been prepared on the basis of the economic and fiscal information available to the Department of Treasury and Finance. Given the prospective nature of the Estimated Financial Statements, it has been necessary to apply the best professional judgment in preparing the Estimated Financial Statements.

In my opinion, the Estimated Financial Statements have been properly prepared for the purposes of sections 23H and 23J of the *Financial Management Act 1994* and take into account government decisions and other circumstances that have a material effect.



Ian W Little
Secretary

Department of Treasury and Finance
December 2000

CHAPTER 5: STATEMENT OF RISKS

- Key economic risks include unanticipated developments in the international economy, inflationary consequences of oil prices and exchange rate movements, and changes in net interstate migration patterns.
- The budget operating position, over the entire forward estimates period, is likely to be highly sensitive to changes in either the levels of economic activity (gross state product and employment) or wages. The majority of this effect is due to the impact on taxation receipts and departmental expenses.
- The operating position is likely to display even greater sensitivity to movements in asset markets. Asset prices and volumes traded (in equity, property and bond markets) affect the operating surplus through their impact on public authority income, taxation revenue and changes to unfunded superannuation liabilities.
- In contrast, the budget operating position appears relatively less sensitive to fluctuations in consumer prices and interest rates due to largely offsetting impacts on both revenue and expenses.
- A number of contingent liabilities have been identified.

ECONOMIC RISKS

There are a number of upside and downside risks to the economic outlook.

A sharper slowdown in the United States than is currently generally expected would be detrimental to the Victorian growth outlook. As indicated in Chapter 2, *Economic Conditions and Outlook*, the economic projections assume a moderate slowing in US growth. However, a sharp loss of confidence in US asset markets might trigger a more rapid easing in demand there which might spill over into other major economies. Despite recent declines, price-earnings ratios in US equity markets remain well above long-run averages.

Recent oil price and exchange rate movements carry some risk of higher inflation. Although international oil prices have eased from their recent peaks and the Australian dollar has recovered some ground against the US dollar, previous increases in transport costs are already flowing through the domestic economy. The projections assume that petroleum prices, in local currency, gradually return to the levels prevailing in early 2000. If this does not occur, inflationary pressures will be stronger and the authorities may consider a further tightening of monetary policy.

The Victorian population projections assume that net interstate migration gains stabilise at 2000 persons annually in the long term. This is considerably higher than the average net loss of over 11 000 persons per annum over the past two decades. This difference is equivalent to over $\frac{1}{4}$ percentage point to the annual growth rate of Victoria's population and gross state product. Slower population growth would also have important implications for the Victorian housing construction sector during a period in which national house building is already slowing.

SENSITIVITY OF THE BUDGET TO ECONOMIC CONDITIONS

The importance of these economic risks can be gauged by the sensitivity of the budget to changes in economic conditions. This section updates estimates, included in the 2000-01 budget papers, of the sensitivity of the budget sector operating balance to changes in key economic variables. It also contains the results of some scenario analysis, which provide an indication of how variations in the parameters may interact and affect the operating position in practice.

Sensitivity analysis

The sensitivity analysis estimates the impact on revenue, expenses and the budget sector operating surplus of independent and uniform changes to a range of economic indicators. In each case, the level of the economic indicator is permanently increased by one percentage point.

The major variables that affect Victoria's operating position are economic growth, employment, prices, wages, interest rates and variability within asset markets. The full-year effect of a one percentage point increase in each indicator on the budget over a four-year period is shown in Table 5.1. In line with convention, the sensitivity analysis has been undertaken on an 'other things remaining constant' basis. However, some of the economic indicators detailed in Table 5.1 are not completely independent of each other and this needs to be considered when interpreting the table.

The results suggest that:

- the budget's operating position is particularly sensitive over the forward estimates period to changes, of a similar magnitude, in the levels of GSP, employment and wages;
- movements in equity prices also impact significantly on the budget operating result, but primarily in the year in which the movement occurs; and
- changes in consumer price levels, interest rates and in property prices tend to have a smaller effect on the operating position than changes of a similar size in the levels of activity or wages.

In interpreting the estimates in Table 5.1, it is worth noting that some of the economic indicators listed have been more volatile historically than others. In particular, since the mid-1980s, while variations in GSP growth, employment growth, wage and consumer price inflation and interest rates have been broadly similar, they have been considerably less volatile than property and share markets.

Table 5.1: Impact on the budget operating position of a 1 percentage point increase in selected economic indicators in the first year ^(a)

	(\$ million)			
	Year 1	Year 2	Year 3	Year 4
GSP and employment				
Taxes, regulatory fees and fines	48	48	51	53
Other revenue	11	11	12	12
Superannuation expenses	..	..	..	..
Other expenses	-1	-4	-7	-10
Budget balance	61	64	69	75
Consumer prices				
Taxes, regulatory fees and fines	12	9	9	10
Other revenue	103	110	112	114
Superannuation expenses	..	..	..	..
Other expenses	92	96	95	92
Budget balance	23	24	26	32
Average weekly earnings				
Taxes, regulatory fees and fines	37	39	41	44
Other revenue	-20	..	..	..
Superannuation expenses	7	7	8	8
Other expenses	76	84	91	98
Budget balance	-67	-53	-58	-62
Share prices (volumes) ^(b)				
Taxes, regulatory fees and fines	3 (3)	0	0	0
Other revenue	17	..	..	..
Superannuation expenses	-39	-3	-3	-3
Other expenses	-1	-1	-2	-2
Budget balance	59 (3)	5	5	5
Property prices (volumes) ^(b)				
Taxes, regulatory fees and fines	17 (12)	16 (12)	23 (12)	24 (12)
Other revenue	..	..	..	..
Superannuation expenses	-7	..	..	..
Other expenses	-1 (..)	-2 (-1)	-3 (-2)	-5 (-3)
Budget balance	24 (13)	17 (13)	26 (14)	29 (15)

Source: Department of Treasury and Finance

Table 5.1 (cont): Impact on the budget operating position of a 1 percentage point increase in selected economic indicators in the first year ^(a)

	(\$ million)			
	Year 1	Year 2	Year 3	Year 4
Interest rates ^(c)				
Taxes, regulatory fees and fines	..	..	..	..
Other revenue	50	-7	-9	-11
Superannuation expenses	72	..	..	..
Other expenses	3	7	13	19
Budget balance	-24	-14	-22	-30

Source: Department of Treasury and Finance

Notes:

- (a) A positive number for the budget balance denotes an improvement in the budget position (increase in budget operating surplus or decrease in budget operating deficit). Numbers may not balance due to rounding.
- (b) Numbers in brackets represent impact of 1 per cent change in volumes holding prices constant.
- (c) Assumes a 1 percentage point increase in interest rates over the entire period.

Scenario analysis

Another means of determining the sensitivity of the operating surplus to economic developments is to estimate the potential impact of a change in the economic projections. The projections are presented and discussed in Chapter 2, *Economic Conditions and Outlook* (see Table 2.1).

Table 5.2 sets out an illustrative ‘harder’ economic slowdown scenario. The scenario assumes a decline in economic activity compared with the forecasts used in this Budget Update. The scenario is based on the results of the sensitivity analysis and an investigation of the historical interactions between the economic indicators. (For a fuller discussion see 2000-01 Budget Paper No.2, Chapter 9, *Statement of Risks*.)

Under this scenario, there would be a reduction in the operating surplus of around \$400 million in the first year of the ‘harder’ economic slowdown compared with the 2000-01 Budget Update baseline, although this includes a number of one-off impacts.

Table 5.2: Illustrative 'harder' economic slowdown scenario

	Year 1	Year 2	Year 3	Year 4
<i>Level of:</i>	<i>Per cent deviations from baseline</i>			
Gross state product	-1.00	-2.25	-2.00	-1.50
Employment	-1.00	-2.25	-2.00	-1.50
Consumer price index	-0.50	-1.00	-1.25	-1.00
Wage cost index	0.00	-0.50	-0.75	-0.50
Property prices	-2.00	-3.00	-3.00	-2.00
Share prices	-5.00	-6.00	-3.00	-1.00
Interest rates	-0.50	-1.00	-1.00	-1.00
		<i>\$ million</i>		
Change in operating surplus	-398	-241	-22	-50

Source: Department of Treasury and Finance

EXPENDITURE RISKS

The main general factors which could increase expenditures above those allowed for in the forward estimates are unplanned increases in wage rates and prices.

The main risks to specific departmental expenditures relate to growth in demand for key services, and the maintenance and modernisation of assets. These impact on departments with the largest budgets: Human Services; Education, Employment and Training; Justice; Infrastructure; and Natural Resources and Environment.

Demand for key services provided by the Department of Human Services, particularly acute care in public hospitals, may increase the required level of service provision above that expected from predicted annual population growth and demographic changes.

The Department of Education, Employment and Training has a number of pressures associated with the maintenance, modernisation and replacement of school and TAFE infrastructure, particularly buildings and IT equipment. The Department has developed management strategies to address these issues. The Department is also experiencing strong demand growth in apprenticeships and traineeships which will also need to be addressed.

The number of people in the adult prison system continues to increase, to the point that prisoner numbers have reached or exceeded prison accommodation capacity. To manage short-term pressures, the Department of Justice has

increased temporary bed capacity, and commenced expansion by a further 357 permanent beds. The Government is considering longer-term strategies to manage the need for custodial and correctional facilities, focusing on drug management, crime prevention, prison diversion and rehabilitation options.

The Department of Infrastructure currently has a number of risks associated with public transport services in respect of rural and metropolitan bus services, the multi-purpose taxi program and various rail cost pressures.

The 2000-01 fire season may be more serious than usual. This could potentially impact on expenditure by the Department of Natural Resources and Environment in relation to public land management.

The restoration of adequate flows to the Snowy River is a major project that will be spread over ten years. Victoria is expected to commit up to \$150 million to fund a joint government enterprise (with the New South Wales and Commonwealth Governments) with a charter to acquire water primarily through investing in water savings projects.

CONTINGENT LIABILITIES

Quantifiable contingent liabilities

Quantifiable commitments made by the Government are set out in Table 5.3. A conservative approach has been used so that amounts shown represent the maximum potential liability, without taking into account any offsetting asset or security values.

Table 5.3: Budget sector quantifiable contingent liabilities at 30 June 2000

	<i>1999</i>	<i>2000</i>
	<i>\$ million</i>	<i>\$ million</i>
Guarantees and indemnities	283.5	254.1
Legal proceedings and disputes	198.3	111.9
Other	25.8	13.7
Department of Treasury and Finance	2 707.1	2 529.2
Total contingent liabilities	3 214.7	2 908.9

Contingent liabilities – non-quantifiable

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

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

Asset sales

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

Automated ticketing

In May 1994, the Public Transport Corporation (PTC) entered into contracts with the OneLink Consortium to provide automated ticketing and fare collection services to the PTC for its metropolitan public transport services over a period of ten years ending in 2007. Payments under the Automated Ticketing Service Contract will be in the order of \$300 million over the term of the contract, on a performance basis. This amount does not include any additional payments relating to variations to the system which have been or may be implemented under this contract. Delivery of the first stage (pilot commissioning) of the automated ticketing and fare collection services occurred in 1997, with commissioning of the system granted with effect from December 1998.

The Treasurer has guaranteed the payment obligations of the PTC under the terms of the Service Contract. As a result of the restructuring of the public transport system, it is proposed that the rights and obligations of the PTC under the Service Contract are to be transferred to a corporation named Revenue Clearing House Pty Ltd (RCH). The shareholders of RCH are the franchisees of the passenger transport businesses and the Secretary of the Department of Infrastructure, on behalf of the private bus operators. Contract assignment from the PTC to RCH has not yet occurred. However, PTC currently manages the Service Contract on behalf of RCH under an interim arrangement. After assignment it is proposed that the payment obligations of RCH under the Service Contract will be guaranteed by the Treasurer.

In addition, in April 2000, OneLink Transit Systems Pty Ltd lodged a claim under the Consolidated Service Contract claiming that the scope of the

automatic ticketing project was increased during the period between the signing of the contract (May 1994) and September 1995.

The PTC is currently reviewing the claims and is not in a position to assess the likelihood of success of the claims or the quantum of amounts payable (if any).

Land remediation — environmental concerns

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

Melbourne City Link

In October 1995, the State entered into a contractual agreement with Transurban City Link Limited for the design, construction, financing and operation of the Melbourne City Link. The key arrangements are set out in the Concession Deed, which has effect as at and from 20 October 1995.

On 1 December 1995, the Victorian Parliament passed the *Melbourne City Link Act 1995*. This Act provides the Government with the powers necessary to implement the Melbourne City Link project, while ratifying and enacting as law the Concession Deed (and Exhibits).

The negotiation of the Concession Deed was conducted on a commercial basis and as such, assumed certain "ground rules". In accordance with normal commercial practice, should these ground rules be varied, for example, by legislation, there are provisions outlining various means for Transurban, in certain circumstances, to claim redress for any financial disadvantages it suffers. The circumstances giving rise to any right of redress relate to matters over which the Government has discretionary powers, such as legislative and policy changes. The full set of these circumstances is set out in the Appendix to the Concession Deed.

Under the arrangements as set out in the Concession Deed and the legislation, the State is responsible for acquiring and paying for the land necessary for the project to proceed, paying for certain state works and general project costs. Funds necessary for these responsibilities have been made available to the Melbourne City Link Authority (MCLA) for the financial years 1995-96 to 1999-2000, and are in the approved budget of the MCLA for the 2000-01 financial year. The balance of the state works will be funded by underspent funds carried forward from the 2000-2001 year.

With regards to compensation for land acquisitions, some matters remain in the negotiation/determination phase in an effort to agree the ultimate level of compensation. There are also some outstanding property claims against the MCLA.

Exhibition Street Extension Project

On 30 June 1997, the then Minister for Planning and Local Government announced that the State would order a variation to the City Link Project under clause 2.4 of the Concession Deed, providing for a connecting road from the Punt Road interchange of the project to a road to be built extending Exhibition Street across the Jolimont rail yards to Batman Avenue near the Swan Street intersection. Both projects together are known as the Exhibition Street Extension Project.

Transfield-Obayashi Joint Venture is delivering the 'Punt Road end' of the project (Section 1), and under contract with the MCLA, VicRoads is coordinating delivery of the 'City end' of the project (Section 2), with the total cost of the project estimated to be \$92 million.

In April 1998, agreement was reached with Transurban to partially fund the project from 'financial close' and operate it as a tollway upon completion. Financial close occurred on 31 March 1999. Transurban has reimbursed MCLA for expenses incurred in the continued development of the 'Punt Road end' to that time, and from then assumed responsibility for the funding of the balance of that development.

The State assumed the risk associated with the construction and delivery of the 'City end' due to the concurrent works the State was undertaking in the vicinity (Federation Square and Jolimont Rail Yard rationalisation) and the need to manage the timing and availability of the rail yards.

On 5 November 1999, a contract sum of \$37 million was paid to the MCLA by Transurban's subsidiary, City Link Extension Pty Ltd, for the construction and delivery of the 'City end' of the Exhibition Street Extension Project.

While the extension is currently made available for restricted public use by Transurban (on a toll free and reduced toll basis), some work remains to be completed by the State. The completion of the Burnley tunnel is pivotal to the remodelling of the Swan Street/Batman Avenue intersection, and accordingly the State cannot complete all work associated with the 'City end' until that time.

Public Transport Corporation lease arrangements

Under various transport lease arrangements made by the Public Transport Corporation, the Treasurer has indemnified the lessors against adverse tax rulings and third party personal injury claims, where the third party is injured by the operation of the equipment during the period of the lease. All of these lease arrangements have been terminated. The normal statute of limitations for tax claims is five years and for personal injury claims is six years.

Public transport franchise arrangements

In 1999-2000, the Director of Public Transport, on behalf of the State, entered into contractual arrangements with franchisees to operate passenger rail transport services within the State. The following summarises the major contingent liabilities arising from those arrangements.

Contingent liabilities on early termination or expiry of franchise agreements

New Rolling Stock Lease Direct Agreements: As part of the franchising arrangements, the franchisee of each passenger rail business has undertaken to provide new rolling stock. Each franchisee will enter into a lease with a third party lessor with respect to this rolling stock and the Director will enter into rolling stock direct agreements with the respective lessors to protect the State's interest in the new rolling stock. Three of the five required rolling stock lease direct agreements have been executed. In the event of expiry or on early termination of the franchise arrangements, the Director can either exercise a right to acquire the new rolling stock at predetermined values or the lease payment obligations are transferred to the Director or a successor franchisee. The contingent liability of the Director to take over the lease payments only commences upon delivery of the units of new rolling stock. No units of new rolling stock have been delivered under this arrangement.

Other direct agreements: The Director is also party to a number of other direct agreements with the providers of key services to franchisees in respect of carrying out their operations. In the event of a 'step-in event' occurring or on early termination of a franchise arrangement, the providers of the key services will continue to carry out certain operations for the Director until such time as the Director ceases to operate the business. Under the terms of these agreements, the Director assumes certain rights and obligations as if it were party to the original contract between the provider of key services and the franchisee.

Payments on termination: On termination of the franchise agreements, by expiry or otherwise, the Director will be liable:

- to pay for certain assets and liabilities, as determined by the agreements. If on termination there is a net liability, the franchisees will be liable to the Director.
- for termination value payments in respect of designated rolling stock improvements and capital projects. The contingent liability is estimated to be \$7.9 million.

Contingent liability offsets on termination

With respect to any additional costs arising to the Director on the early termination of a franchise, the franchisee must indemnify the Director for any losses, damages or costs incurred by him as a result of the early termination. If the franchisee does not do so, the Director has the right to draw on the franchisee's performance bond for the amount of those losses, damages or costs. These bonds amounted to \$165 million and the Director also has a fixed and floating charge over franchisee assets as security for amounts payable by franchisees.

Contingent liabilities arising from changes to existing conditions

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

Latent defects: If a latent defect is identified in any part of the infrastructure which has been leased to the franchisees, and the cost of rectifying the defect is in excess of a threshold amount, the Director will indemnify the franchisee for the amount by which the cost of the works to rectify the defect exceeds the threshold amount.

Pre-existing contamination: The Director has indemnified franchisees from and against all losses, damages, liabilities, actions, suits, claims, demands, costs and expenses of every kind arising from a failure by the Director to clean-up the land, as defined in the infrastructure leases entered into with franchisees.

Native Title: The Director is liable for payments of any valid compensation claim to native title holders made under the *Native Title Act 1993* or other laws relating to native and aboriginal title in respect of the land as defined in the infrastructure leases entered into with franchisees.

Net gain and net loss provisions: On the occurrence of certain events specified in the franchise agreements, including the undertaking of infrastructure works by the State, the franchisees may make a claim against the Director if the franchisee incurs a net loss as a result of those events. The Director also has the right to claim against the franchisees any net gain as a result of those events.

Contingent liabilities relating to the Department of Infrastructure, as Bus Industry Representative

The Secretary of the Department of Infrastructure is a shareholder in the Revenue Clearing House Pty Ltd (RCH) and Victrip Pty Ltd as the appointed representative of route bus operators with whom the Department of Infrastructure has a bus service contract.

The RCH Shareholders Agreement and the VicTrip Shareholders Agreement contain several clauses which mean that the State (as well as the franchisees) will be liable for any losses suffered by the RCH and VicTrip and any additional capital requirements to allow the RCH and VicTrip to remain solvent.

The MetCard Management Agreement with the RCH contains several clauses which mean that the State (as well as the franchisees) will be liable for any shortfalls suffered by the RCH, in specific circumstances.

Native Title

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

Victorian Managed Insurance Authority

The Government established the Victorian Managed Insurance Authority (VMIA) in 1996 primarily as a captive insurer for departments and participating bodies (predominantly budget sector bodies). The VMIA has provided industrial special risks cover, public and products liability cover, and contract works cover to departments and participating bodies. VMIA has obtained re-insurance in the private sector market for excess of loss on industrial special risk cover between \$50 million and \$1.25 billion for all losses arising out of any one event, and excess of loss on contract works and public and products liability cover between \$50 million and \$750 million in respect of any one occurrence. The risk outside this cover, relating to external parties, is borne by the State.

Gas supply incident

The State, and a number of its instrumentalities, have been named as cross respondents in a representative proceeding before the Federal Court arising from the fire and explosion at Esso's gas processing plant at Longford. The proceeding was instituted against Esso Australia Ltd and Esso Australia

Resources Ltd (together 'Esso') on behalf of gas users and stood down workers who are alleged to have suffered losses during the incident. Esso has in turn cross claimed against the State and a number of its instrumentalities. The State and its instrumentalities have denied any liability in respect of Esso's cross claim and are vigorously defending the cross claim.

The State and a number of its instrumentalities have also issued a further cross claim against BHP Petroleum (Bass Strait) Pty Ltd for contribution and indemnity.

There is a dispute with insurers as to the extent of insurance cover. A claim has been made for indemnity by a number of the State's instrumentalities.

Transmission of business under section 149 of the Workplace Relations Act 1996

As a result of the outsourcing of governmental functions, contractors now performing those functions following acceptance of their tenders have often engaged staff on lesser rates and conditions than those which previously applied under awards for public sector employees. Recent Federal Court decisions have indicated that previous award rates and conditions may apply to the contractor's employees performing what was previously a government function. The application of this principle requires transfer of part of the business (of the Government) and the test which is generally applied is whether there is a 'substantial identity' between the activities before and after the outsourcing. If applicable, the principle would generally cause increases in employment costs for the contractor. The Federal Court decision is subject to an application for leave to appeal to the High Court by the State of Victoria. The financial implications on the State of the transmission of business applications under the *Workplace Relations Act* are unclear pending the appeal.

APPENDIX A: SPECIFIC POLICY INITIATIVES AFFECTING THE BUDGET POSITION

GOVERNMENT-WIDE INITIATIVES

Table A1: New initiatives – Government-wide

	(\$ million)			
	2000-01	2001-02	2002-03	2003-04
Cost of embedded tax savings on charities	5.8	10.6	11.6	11.5
WorkCover	27.4	27.4	27.4	27.4
Total	33.2	38.0	39.0	38.9

Cost of embedded tax savings on charities

Under the *Intergovernmental Agreement on Reform of Commonwealth-State Financial Relations*, the Federal Government reduced grants to Victoria to reflect the embedded tax savings available to the State expected from goods and services purchased from suppliers and contractors, following the abolition of a number of taxes. This included embedded cost savings from State grants to Victorian charities.

Subsequent to the 2000-01 Budget, the Government decided not to make any adjustment to such grants and instead absorb the cost of the Federal Government's embedded tax savings estimates in respect of charitable organisations.

Using the Australian Taxation Office's definition of charities, agencies identified the amount of savings in grants to charities that had previously been extracted, and relevant Departments have now had these amounts returned to their budgets.

WorkCover

The 2000-01 Budget made no allowance for the impact of the cost of the recent WorkCover changes as the form of the changes was not finalised and the legislation was not passed by the Parliament at the time the 2000-01 Budget was finalised.

The Government is committed to a WorkCover scheme that is fully funded, has competitive premiums and restores the common law rights of seriously injured workers. Specific changes to the scheme include:

- improved weekly benefits for both employees and employers;
- improvements to pain and suffering benefits;
- restrictions on legal costs; and
- a review of rehabilitation and return to work programs.

Accordingly, additional funding has been provided to Departments (\$20.5 million) and non-government organisations (\$6.9 million) receiving funding from the State, to enable the impact of the new common law and statutory benefits on the WorkCover premium to be met.

EDUCATION, EMPLOYMENT AND TRAINING

Table A2: New initiatives – Department of Education, Employment and Training

	(\$ million)			
	2000-01	2001-02	2002-03	2003-04
Continuous replacement cycles for teacher and principal notebook computers	..	4.4	8.8	18.2
School Teacher Classification and Performance Framework ^(a)	18.6	43.2	53.9	63.4
Middle Years of Schooling	7.8	14.9	14.9	14.9
Total DEET	26.4	62.5	77.6	96.5

Source: Department of Treasury and Finance

Note:

(a) Figures provided are net of wage contingency funding.

Continuous replacement cycles for teacher and principal notebook computers

This program is designed to be a major driver for the successful use of learning technologies in schools. Additional funding allows for the continuation (after October 2001) of the provision of a notebook computer to teachers and principals and to support their professional development in the use of technology.

School Teacher Classification and Performance Framework

The school teacher classification and performance framework flows from an industrial agreement which recognises and rewards excellence in teaching. It is a key driver of the Government's priorities for education and incorporates a range of initiatives to enhance literacy, numeracy and participation in education and training. The revised framework will also address issues of teacher attraction and retention.

Middle Years of Schooling

This initiative focuses on enhancing student engagement, improving literacy and numeracy outcomes, and improving truancy and attendance rates in years 5 to 9. The additional funding will be used to increase face-to-face teaching efforts by schools. Funding will be targeted to schools experiencing difficulty in achieving quality outcomes for students in the middle years.

HUMAN SERVICES

Table A3: New initiatives – Department of Human Services

	(\$ million)			
	2000-01	2001-02	2002-03	2003-04
Public health medical staff FBT compensation	8.5	8.5	8.5	8.5
International Year of Volunteers	1.0	..	..	..
Nurses' benefits and recruitment ^(a)	35.9	96.2	124.0	124.2
National Depression Initiative	2.6	3.5	3.5	3.5
Tobacco (Amendment) Bill	2.2	..	..	..
Total DHS	50.2	108.2	136.0	136.2

Source: Department of Treasury and Finance

Note:

(a) Figures provided are net of wage contingency funding.

Public health medical staff fringe benefits tax (FBT) compensation

Funding is to address the impact of the introduction of a cap on the FBT-exempt amount for medical staff of public hospitals under the Federal Government's new tax system. The compensation provided is consistent with the recommendations of the Ministerial Review of Victorian Public Health Medical Staff.

International Year of Volunteers

Funding is for Victoria's contribution to the International Year of Volunteers in 2001. This policy initiative aims to encourage greater community participation in volunteer activities and to enhance the skills and opportunities of volunteers consistent with the Government's policy commitment to strengthen communities.

Nurses' benefits and recruitment

The Government is committed to improving the public health system and to addressing the serious issue of nurse recruitment and retention in public hospitals. Funding has been provided to implement the outcomes of the Consent Arbitration in relation to nurses' pay and conditions. The package incorporates a range of initiatives designed to address workload, career structure, leave and

professional development. Elements of the package are specifically targeted to providing incentives to nurses to maintain and upgrade skills and qualifications and to attract the highest quality nurses back into the system.

National Depression Initiative

Funding will support Victoria's participation in the five-year National Depression Initiative as senior partner with the Commonwealth Government. The National Depression Initiative addresses depression and anxiety disorders which are prevalent and which are significant causes of disability within the community. This initiative will improve community awareness, research the causes, consequences and treatment of depressive disorders, improve the services providing early detection, prevention and treatment of depression, and increase training and development for professionals.

Tobacco (Amendment) Bill

Funding is to implement and enforce the Tobacco (Amendment) Bill, which in part seeks to regulate tobacco advertising in retail outlets and to limit young people's access to cigarettes. This initiative includes monitoring and taking tougher action against tobacco retailers with respect to the sale of tobacco to children and adolescents. The aim is to reduce the uptake of smoking among young people, in accordance with the Government's health policy on early intervention and prevention.

INFRASTRUCTURE

Table A4: New initiatives – Department of Infrastructure

	<i>(\$ million)</i>			
	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>
Total output funding				
Recreational boat operator licensing	1.5	3.7	9.4	5.3
Resourcing of major rail infrastructure projects	15.0	20.0	5.0	..
Offset from revenue				
Recreational boat operator licensing	0.0	-3.0	-18.6	-2.0
Total DOI (net)	16.5	20.7	-4.2	3.3

Source: Department of Treasury and Finance

Recreational boat operator licensing

Funding has been provided to implement the licensing of recreational boat operators and towards initiatives that contribute to improving recreational boating safety. Licensing is being phased in, with those recreational boat operator groups presenting higher risks to boating safety (personal watercraft and young operators) being targeted initially.

Resourcing of major rail infrastructure projects

Funding has been provided to support the initial commercial and legal phase of the project activities of the Rail Project Group. The Group has been established to oversee the planning of three major infrastructure projects – Regional Fast Rail Links, Spencer Street Station redevelopment and the Airport Transit Link.

JUSTICE

Table A5: New initiatives – Department of Justice

	<i>(\$ million)</i>			
	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>
CFA reform package	27.5 ^(a)	7.9	4.4	3.7
Fixed site traffic cameras (City Link tunnels)	..	1.0	0.9	0.9
Total DOJ	27.5	8.9	5.3	4.6

Source: Department of Treasury and Finance

Note:

(a) Includes funding of \$5m from the Community Support Fund.

Country Fire Authority (CFA) reform package

This initiative represents the Government's contribution to the CFA reform package, which is designed to support changes in the CFA following recent tragedies such as the Linton Fire. It includes ongoing funding for additional operational and support staff, enhanced training programs, additional safety equipment and protective clothing, as well as capital purchases including additional fire fighting appliances, specialised fire fighting vehicles and new/upgraded fire stations.

Fixed site traffic cameras (City Link tunnels)

Speed related traffic tunnel accidents represent a significant road safety issue and impact upon the Government's commitment to reduce the road toll. Funding has been allocated for fixed site cameras to be installed and operated in the City Link tunnels.

NATURAL RESOURCES AND ENVIRONMENT

Table A6: New initiatives – Department of Natural Resources and Environment

	(\$ million)			
	2000-01	2001-02	2002-03	2003-04
Restoration of environmental flows to the Snowy River	40.0	..	..	..
Total DNRE	40.0	..	..	..

Source: Department of Treasury and Finance

Restoration of environmental flows to the Snowy River

Under the outcome to the Snowy Water Inquiry, the Victorian, New South Wales and the Commonwealth Governments have agreed to a target flow rate of 21 per cent of original flows to be returned to the Snowy River over the next ten years. As part of this process, it is intended that a joint government enterprise will be established by the Victorian, New South Wales and Commonwealth Governments with a charter to acquire water at least cost. The enterprise will acquire water primarily through investing in water savings projects.

An amount of \$40 million has been allocated in 2000-01 to enable Victoria to make an early contribution to the enterprise and begin implementation of water savings projects. This \$40 million represents the first tranche of Victoria's \$150 million commitment.

STATE AND REGIONAL DEVELOPMENT

Table A7: New initiatives – Department of State and Regional Development

	<i>(\$ million)</i>			
	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>
Major events funding cap	8.7	22.3	22.9	23.2
Total DSRD	8.7	22.3	22.9	23.2

Source: Department of Treasury and Finance

Major events funding cap

A funding limit of up to \$35 million per year has been set for Government financial support for major sporting and tourism events. The actual level of expenditure within this limit will be determined annually by Government. This arrangement provides flexibility for the Government to support events of significant social and/or economic benefit to the State, without creating an adverse impact on the current year budget or forward estimates. The estimates in Table A7 represent additional funding, within this cap, for new commitments over and above commitments already included in the 2000-01 Budget and forward estimates.

APPENDIX B: BUDGET SECTOR YEAR-TO-DATE ACTUALS

The operating result for the budget sector for the four months ended October 2000 was a surplus of \$704 million, compared with a revised estimated operating surplus for the whole of the 2000-01 of \$953 million.

Higher than expected taxation revenue and the seasonally low level of expenses for the first part of the financial year have combined to produce an operating result which indicates a stronger than expected surplus for the year as a whole. However, caution should be used in attempting to extrapolate the likely outcome for the year based on the year-to-October result, since strong seasonal factors will come into play in holding down the surplus over the remainder of the year.

A more detailed discussion and analysis of the revised budget outlook for the 2000-01 financial year as a whole is provided in Chapter 3, *Budget Position and Outlook*. The revised outlook takes into account the result to the end of October and the revised expectations for the remainder of the financial year.

REVENUE

Total revenue received in the four month period to October 2000 was \$7 507 million or 33 per cent of the revised estimate for 2000-01 as a whole.

Stronger than expected economic and employment conditions are reflected in the level of taxation received for the period ended October 2000 (\$2 793 million) and the revised forecasts for the 2000-01 year, particularly in relation to payroll tax, stamp duty on land transfers and marketable securities, and gambling taxes.

Revenue from public authorities for the four month period to October 2000 (\$505 million) was also slightly above original budget expectations and this is reflected in the revised estimate for 2000-01. Year-to date revenue exceeds the revised estimate on a pro-rata basis, however this reflects the seasonal

concentration of final public authority dividends in October and is consistent with the revised estimate for the year as a whole.

Grants revenue sourced from the Commonwealth for the four months to October 2000 of \$3 040 million was below the pro-rata budget estimate for this period, mainly due to timing delays in the receipt of GST revenue grants arising from complications associated with the processing of business activity statements.

EXPENSES

Total expenses incurred for the four months ended October 2000 were \$6 803 million or 31 per cent of the revised estimate for the 2000-01 financial year as a whole.

Expenditure levels of the budget sector are heavily influenced by seasonal factors which will result in a higher stream of payments later in the financial year. For instance, higher payments in respect of existing contractual obligations and on-passing payments, particularly in the infrastructure and education portfolios, are expected to be made later in the year.

Furthermore, the implementation of the Government's 2000-01 output initiatives are also expected to boost the level of expenditure during the latter half of the year. Implementation of such initiatives requires a period of pre-planning and it is expected that the associated expenses will have a greater impact in the second half of the financial year.

Table B1: Statement of financial performance

(\$ million)

	4 months to October	2000-01 Budget	2000-01 Revised
Revenues from ordinary activities			
Taxation	2 793.0	7 845.3	8 121.2
Fines and regulatory fees	128.0	273.3	354.6
Public authority revenue	505.4	947.7	1 029.4
Grants	3 039.9	10 198.1	10 250.7
Sale of goods and services	692.7	1 939.8	1 992.4
Gain from disposal of physical assets	23.2	29.6	29.6
Inter-sector capital asset charge	159.0	477.0	477.0
Other revenue	165.7	469.2	539.1
Total revenues	7 506.8	22 180.0	22 794.0
Expenses from ordinary activities			
Employee entitlements	2 495.7	7 721.3	7 682.5
Superannuation	470.5	1 380.3	1 513.7
Depreciation	257.0	773.3	798.2
Amortisation	8.8	24.5	24.5
Borrowing costs	169.3	510.4	501.3
Grants and transfer payments	1 259.1	4 150.3	4 279.3
Supplies and services	2 140.0	7 020.6	7 007.3
Other expenses	2.5	7.8	34.5
Total expenses	6 802.7	21 588.5	21 841.4
Result from ordinary activities	704.1	591.5	952.6
Increase/(decrease) in asset revaluation reserve	36.0	..	37.4
Increase/(decrease) in retained operating surplus from transitional adjustments	(6.7)	..	(6.1)
Total adjustments recognised directly in equity	29.3	..	31.3
Total changes in equity	733.4	591.5	983.9

Source: Department of Treasury and Finance

Table B2: Statement of financial position

(\$ million)

	<i>Opening Balances 1 July 2000</i>	<i>Closing Balances 31 October</i>	<i>2001 Revised 30 June</i>
Current assets			
Cash and deposits	788.6	1 159.9	869.0
Investments	898.9	928.2	893.9
Receivables	728.8	784.3	677.9
Prepayments	39.4	358.9	39.8
Inventories	165.2	166.6	165.7
Other	2.9	0.6	2.9
Total current assets	2 623.8	3 398.4	2 649.2
Non-current assets			
Investments	1 315.7	1 611.8	2 551.4
Receivables	398.2	397.0	321.4
Inventories	3.4	3.5	3.4
Land and buildings	13 704.1	13 772.0	14 755.3
Plant, equipment and infrastructure systems	5 002.5	4 924.7	5 007.2
Roads	11 936.2	11 943.5	12 101.5
Other	1 612.4	1 614.6	1 640.1
Total non-current assets	33 972.5	34 267.2	36 380.2
Total assets	36 596.3	37 665.6	39 029.4
Current liabilities			
Payables	932.1	782.7	974.6
Borrowings	83.7	311.5	547.2
Employee entitlements	698.9	748.2	713.0
Superannuation	321.0	514.2	726.0
Other	189.4	353.5	192.8
Total current liabilities	2 225.0	2 710.1	3 153.5
Non-current liabilities			
Payables	10.9	12.1	5.9
Borrowings	6 158.7	5 934.7	5 742.1
Employee entitlements	1 357.9	1 375.0	1 678.3
Superannuation	11 957.0	12 015.8	11 969.0
Other	267.1	264.8	253.5
Total non-current liabilities	19 751.7	19 602.4	19 648.8
Total liabilities	21 976.7	22 312.5	22 802.3
Net assets	14 619.6	15 353.1	16 227.1
Equity			
Reserves	4 237.3	4 266.6	4 274.7
Accumulated funds	10 382.3	11 086.5	11 952.4
Total equity	14 619.6	15 353.1	16 227.1

Source: Department of Treasury and Finance

Table B3: Statement of cash flows

	(\$ million)		
	4 months to October	2000-01 Budget	2000-01 Revised
Cash flows from operating activities			
Receipts			
Taxation	2 804.4	7 814.9	8 090.7
Regulatory fees and fines	105.5	273.3	285.1
Grants received	3 151.0	10 168.2	10 250.7
Sale of goods and services	740.3	1 927.6	1 980.2
Interest received	42.5	119.7	175.1
Public authority revenue	534.0	1 082.6	1 105.1
Inter-sector capital asset charge	159.0	477.0	477.0
Other receipts	18.4	374.3	394.1
Total receipts	7 555.2	22 237.5	22 758.0
Payments			
Employee entitlements	2 429.3	7 553.4	7 514.7
Superannuation	218.5	1 281.3	1 282.7
Grants paid	1 452.6	4 118.7	4 277.6
Supplies and consumables	2 431.5	7 031.6	6 999.4
Interest paid	116.1	472.3	463.2
Total payments	6 648.0	20 457.3	20 537.7
Net cash flows from operating activities	907.2	1 780.2	2 220.3
Cash flows from investing activities			
Net proceeds from customer loans	(0.2)	63.5	68.5
Net proceeds from/(purchases of) investments	(302.2)	(674.5)	(1 048.8)
Term and fixed deposits	(26.8)	(0.6)	(0.6)
Proceeds from sale of property, plant and equipment	24.1	127.0	127.0
Purchases of property, plant and equipment	(212.3)	(1 278.9)	(1 294.2)
Other investing activities	(5.8)	(0.8)	(6.1)
Net cash flows from investing activities	(523.1)	(1 764.3)	(2 154.1)
Cash flows from financing activities			
Net proceeds from/(repayment of) borrowings	(12.7)	8.0	(7.6)
Net cash flows from financing activities	(12.7)	8.0	(7.6)
Net cash inflow	371.3	23.9	58.6
Cash and deposits held at beginning	782.7	782.7	782.7
Cash and deposits held at end period	1 154.0	806.6	841.3

Source: Department of Treasury and Finance

APPENDIX C: ACCRUAL UNIFORM PRESENTATION OF GOVERNMENT FINANCE STATISTICS

The Government Finance Statistics (GFS) system employed by the Australian Bureau of Statistics (ABS) is designed to provide statistics relating to all Australian public sector entities. The GFS is based on two international standards, the United Nations' System of National Accounts (revised 1993 — SNA93) and the Manual on Government Finance Statistics, which is currently being reviewed by the International Monetary Fund (IMF). The statistics reported by the ABS show the consolidated transactions of the various institutional sectors of government, from an economic viewpoint.

THE ACCRUAL GFS PRESENTATION

The GFS gives details of the revenue, expenses, payments, receipts, assets and liabilities of the public sector in Australia. It includes only those transactions over which a government exercises control under its legislative or policy framework. This means that, unlike the accounting viewpoint, the GFS excludes from the calculation of net operating balance both revaluations (holding gains or losses) arising from a change in market prices, and other changes in the volume of assets that result from discoveries, depletion and destruction of assets. This means that differences arise between the GFS and accounting frameworks, particularly within the operating statement.

Operating statement

The operating statement is designed to capture the composition of GFS revenues and GFS expenses and the net cost of a government's activities within a fiscal year. It shows the full cost of resources consumed by government in achieving its objectives, and how these costs are met from various revenue sources.

Unlike a standard accounting operating statement, the GFS operating statement reports two major fiscal measures – the GFS net operating balance and GFS net

lending. The GFS net operating balance is calculated as GFS revenue minus GFS expenses. In contrast, GFS net lending, or fiscal balance, includes net capital expenditure but excludes depreciation, thereby giving a measure of a jurisdiction's call on financial markets.

Balance sheet

The balance sheet records a government's stocks of financial and non-financial assets and liabilities. This statement, also referred to as a statement of financial position, discloses the resources over which a government maintains control.

The GFS balance sheet differs from the standard accounting presentation in that it provides information on financial and non-financial assets, and does not distinguish between current and non-current assets and liabilities.

Cash flow statement

The cash flow statement records a government's cash receipts and payments and shows how a government obtains and expends cash.

The GFS cash flow statement reports two major fiscal measures – the net increase in cash held and the cash surplus. Net increase in cash held is the sum of net cash flows from all operating, investing and financing activities. The cash surplus comprises only net cash received from operating activities, and from sales and purchases of non-financial assets, minus distributions paid (in the case of public financial corporations and public non-financial corporations), minus finance leases and similar arrangements.

The GFS cash surplus measure is broadly comparable with the old cash-GFS surplus measure, allowing for comparisons between the two frameworks.

INSTITUTIONAL SECTORS

General government sector

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

Public non-financial corporations sector

The public non-financial corporations sector was formerly known as the public trading enterprises sector. It comprises bodies mainly engaged in the production of goods and services (of a non-financial nature) for sale in the market place at prices that aim to recover most of the costs involved (e.g. water and port authorities). In general, public non-financial corporations are legally distinguishable from the governments which own them.

Non-financial public sector

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

Public financial corporations

Public financial corporations are bodies primarily engaged in the provision of financial intermediation services or auxiliary financial services. They are able to incur financial liabilities on their own account (e.g. taking deposits, issuing securities or providing insurance services). The public financial corporations sector includes the Treasury Corporation of Victoria, and the Transport Accident Corporation. Estimates are not published for the public financial corporations sector.

Table C.1: General government sector operating statement

	(\$ million)				
	2000-01 Budget	2000-01 Revised	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
GFS revenue					
Taxation revenue	7 996	8 274	7 811	8 105	8 492
Current grants and subsidies	9 806	9 883	10 785	11 090	11 480
Capital grants	421	417	547	508	417
Sales of goods and services	2 364	2 425	2 325	2 366	2 273
Interest income	123	178	216	224	249
Other	1 731	1 894	1 563	1 553	1 410
Total revenue	22 441	23 071	23 248	23 845	24 320
GFS expenses					
Gross operating expenses	17 067	16 981	17 723	18 257	18 626
Nominal superannuation interest expense	544	859	876	889	900
Other interest expense	469	453	440	440	435
Other property expenses	0	0	0	0	0
Current transfers	3 290	3 310	3 174	3 259	3 236
Capital transfers	508	613	516	493	415
Total expenses	21 879	22 215	22 728	23 338	23 613
GFS net operating balance	562	855	520	507	707
Less: Net acquisition of non-financial assets					
Gross fixed capital formation	1 180	1 197	1 663	1 704	1 986
Less: Depreciation	826	850	902	954	1 007
Plus: Change in inventories	1	1	0	2	2
Plus: Other movements in non-financial assets	0	0	0	0	0
Total net acquisition of non-financial assets	355	347	761	752	981
GFS net lending (+) / borrowing (-)^(a)	208	509	- 241	- 245	- 274

Source: Department of Treasury and Finance

Notes:

- (a) GFS net lending also equals net transactions in financial assets less net transactions in liabilities.
- (b) The table below shows GFS net lending excluding the impact of Growing Victoria:

GFS net lending (+) / borrowing	272	573	71	67	38
(-) excluding Growing Victoria					

Table C.2: Public non-financial corporations sector operating statement

	(\$ million)		
	2000-01 Budget	2000-01 Revised	2001-02 Estimate
GFS revenue			
Sales of goods and services	3 104	3 346	3 135
Current grants and subsidies	636	636	638
Capital grants	310	319	321
Interest income	60	60	60
Other	207	207	193
Total revenue	4 316	4 568	4 347
GFS expenses			
Gross operating expenses	3 036	3 270	3 327
Property expenses	991	990	700
Current transfers	86	86	86
Capital transfers	23	33	33
Total expenses	4 135	4 379	4 146
GFS net operating balance	181	189	201
Less: Net acquisition of non-financial assets			
Gross fixed capital formation	798	844	762
Less: Depreciation	469	469	469
Plus: Change in inventories	- 10	- 30	- 30
Plus: Other movements in non-financial assets	0	0	0
Total net acquisition of non-financial assets	318	345	263
GFS net lending (+) / borrowing (-)^(a)	- 138	- 156	- 62

Source: Department of Treasury and Finance

Note:

(a) GFS net lending also equals net transactions in financial assets less net transactions in liabilities.

Table C.3: Non-financial public sector operating statement

	(\$ million)		
	2000-01 Budget	2000-01 Revised	2001-02 Estimate
GFS revenue			
Taxation revenue	7 980	8 258	7 795
Current grants and subsidies	9 856	9 891	10 793
Capital grants	426	430	561
Sales of goods and services	5 468	5 762	5 451
Interest income	182	238	277
Other	761	899	874
Total revenue	24 674	25 480	25 752
GFS expenses			
Gross operating expenses	19 626	19 797	20 599
Nominal superannuation interest expense	544	859	876
Other interest expense	639	622	605
Other property expenses	0	0	0
Current transfers	2 776	2 696	2 646
Capital transfers	216	324	217
Total expenses	23 800	24 298	24 943
GFS net operating balance	874	1 182	809
Less: Net acquisition of non-financial assets			
Gross fixed capital formation	1 977	2 040	2 425
Less: Depreciation	1 295	1 319	1 372
Plus: Change in inventories	- 10	- 29	- 30
Plus: Other movements in non-financial assets	0	0	0
Total net acquisition of non-financial assets	673	692	1 024
GFS net lending (+) / borrowing (-)^(a)	201	490	- 215

Source: Department of Treasury and Finance

Note:

(a) GFS net lending also equals net transactions in financial assets less net transactions in liabilities.

Table C.4: General government sector balance sheet

	(\$ million)				
	2000	2001	2002	2003	2004
	Opening	Revised	Estimate	Estimate	Estimate
Assets					
Financial assets					
Cash and deposits	895	948	969	1 014	1 055
Advances paid	411	343	272	204	137
Investments, loans and placements	2 432	3 490	3 732	3 836	3 915
Other non-equity assets	752	727	765	844	920
Equity	23 126	23 126	23 126	23 126	23 126
Total financial assets	27 617	28 634	28 864	29 024	29 153
Non-financial assets					
Land and fixed assets	33 531	33 953	34 736	35 497	36 480
Other non-financial assets	979	979	979	979	979
Total non-financial assets	34 510	34 932	35 715	36 476	37 459
Total assets	62 127	63 566	64 579	65 500	66 613
Liabilities					
Deposits held	233	249	264	280	295
Advances received	105	105	104	103	103
Borrowing	6 373	6 406	6 424	6 411	6 399
Superannuation liability	12 278	12 509	12 695	12 863	12 983
Other employee entitlements and provisions	2 269	2 439	2 607	2 776	2 948
Other non-equity liabilities	1 206	1 207	1 206	1 202	1 201
Total liabilities	22 465	22 913	23 300	23 636	23 929
Net worth	39 662	40 653	41 279	41 864	42 684
Net financial worth ^(a)	5 152	5 721	5 564	5 388	5 224
Net debt ^(b)	2 973	1 978	1 819	1 740	1 690

Source: Department of Treasury and Finance

Notes:

(a) Net financial worth equals total financial assets minus total liabilities.

(b) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table C.5: Public non-financial corporation sector balance sheet

(\$ million)

	2000 Opening	2001 Revised	2002 Estimate
Assets			
Financial assets			
Cash and deposits	489	537	539
Advances paid	428	353	278
Investments, loans and placements	809	680	661
Other non-equity assets	1 884	1 813	1 641
Equity	..	..	..
Total financial assets	3 611	3 383	3 120
Non-financial assets			
Land and fixed assets	25 105	25 932	26 170
Other non-financial assets	122	106	76
Total non-financial assets	25 226	26 038	26 246
Total assets	28 837	29 421	29 366
Liabilities			
Deposits held	42	42	43
Advances received	352	252	134
Borrowing	2 857	2 906	2 919
Superannuation liability	88	85	83
Other employee entitlements and provisions	2 314	2 199	2 054
Other non-equity liabilities	668	625	592
Total liabilities	6 321	6 109	5 824
Shares and other contributed capital	22 517	23 312	23 542
Net worth	..	..	..
Net financial worth ^(a)	-2 710	-2 726	-2 704
Net debt ^(b)	1 524	1 630	1 616

Source: Department of Treasury and Finance

Notes:

- (a) Net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital
- (b) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table C.6: Non-financial public sector balance sheet

(\$ million)

	2000 Opening	2001 Revised	2002 Estimate
Assets			
Financial assets			
Cash and deposits	1 384	1 486	1 508
Advances paid	527	447	372
Investments, loans and placements	3 106	4 035	4 258
Other non-equity assets	2 379	2 351	2 249
Equity	1 219	1 219	1 219
Total financial assets	8 616	9 538	9 606
Non-financial assets			
Land and fixed assets	58 547	59 796	60 817
Other non-financial assets	1 039	1 018	982
Total non-financial assets	59 586	60 814	61 799
Total assets	68 203	70 352	71 405
Liabilities			
Deposits held	269	285	300
Advances received	152	116	79
Borrowing	8 787	8 868	8 900
Superannuation liability	12 366	12 594	12 778
Other employee entitlements and provisions	3 762	3 764	3 771
Other non-equity liabilities	1 872	1 829	1 795
Total liabilities	27 208	27 456	27 624
Net worth	40 994	42 895	43 781
Net financial worth ^(a)	-18 592	-17 919	-18 018
Net debt ^(b)	4 191	3 301	3 142

Source: Department of Treasury and Finance

Notes:

(a) Net financial worth equals total financial assets minus total liabilities.

(b) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table C.7: General government sector cash flow statement

	(\$ million)				
	2000-01 Budget	2000-01 Revised	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
Cash receipts from operating activities					
Taxes received	7 965	8 243	7 778	8 069	8 452
Receipts from sales of goods and services	2 359	2 390	2 288	2 333	2 239
Grants/subsidies received	10 227	10 300	11 333	11 597	11 897
Other receipts	1 979	2 129	1 778	1 734	1 623
Total receipts	22 531	23 062	23 177	23 732	24 211
Cash payments from operating activities					
Payment for goods and services	-16 686	-16 672	-17 433	-17 995	-18 337
Grants and subsidies paid	-3 326	-3 444	-3 320	-3 369	-3 263
Interest paid	- 468	- 452	- 439	- 439	- 434
Other payments	- 276	- 283	- 154	- 145	- 146
Total payments	-20 756	-20 850	-21 347	-21 947	-22 180
Net cash flows from operating activities	1 775	2 212	1 830	1 785	2 031
Net cash flows from investing in non-financial assets					
Sales of non-financial assets	137	137	99	75	48
Purchases of non-financial assets	-1 318	-1 335	-1 762	-1 781	-2 036
Total cash flows from non-financial assets	-1 180	-1 197	-1 663	-1 706	-1 988
Net cash flows from investments in financial assets for policy purposes	62	56	62	69	64
Net cash flows from investments in financial assets for liquidity	- 677	-1 056	- 239	- 110	- 75
Net cash flows from financing activities					
Advances received (net)	- 1	- 1	- 1	- 1	- 1
Borrowings (net)	32	32	18	- 12	- 12
Deposits received (net)	16	16	16	16	16
Other financing (net)	- 8	- 8	- 3	5	7
Total net cash flows from financing activities	39	39	30	8	10
Net increase in cash held	19	53	20	45	41
Net cash from operating activities & investments in non-financial assets	586	1 015	167	79	43
Acquisition of assets under finance leases & similar arrangements	- 7	..	..	..	..
Surplus (+) /deficit (-)	580	1 015	167	79	43

Source: Department of Treasury and Finance

Table C.8: Public non-financial corporations sector cash flow statement

(\$ million)

	2000-01 Budget	2000-01 Revised	2001-02 Estimate
Cash receipts from operating activities			
Receipts from sales of goods and services	3 103	3 345	3 134
Grants/subsidies received	945	955	959
Other receipts	260	261	378
Total receipts	4 309	4 560	4 470
Cash payments from operating activities			
Payment for goods and services	-2 114	-2 331	-2 375
Grants and subsidies paid	- 37	- 47	- 47
Interest paid	- 170	- 170	- 165
Other payments	- 694	- 693	- 674
Total payments	-3 015	-3 240	-3 262
Net cash flows from operating activities	1 293	1 320	1 208
Net cash flows from investing in non-financial assets			
Sales of non-financial assets	80	80	80
Purchases of non-financial assets	- 800	- 826	- 775
Total cash flows from investing in non-financial assets	- 720	- 747	- 695
Net cash flows from investments in financial assets for policy purposes	23	23	- 2
Net cash flows from investments in financial assets for liquidity purposes	129	129	18
Net cash flows from financing activities			
Advances received (net)	- 36	- 36	- 36
Borrowings (net)	49	49	14
Deposits received (net)	0	0	0
Distributions paid	- 751	- 751	- 501
Other Financing (net)	60	61	- 4
Total net cash flows from financing activities	- 678	- 677	- 527
Net increase in cash held	48	48	2
Net cash from operating activities, dividends paid, and investments in non-financial assets	- 178	- 178	12
Acquisition of assets under finance leases and similar arrangements	- 1	..	..
Surplus (+) /deficit (-) ^(a)	- 179	- 178	12

Source: Department of Treasury and Finance

Note:

(a) Conceptually, the surplus/deficit aggregate contained in the cash flow statement is the same as the deficit measure obtained under the old cash presentation. However, in practice, the process of deriving these aggregates differs so that the measures are not directly comparable. Time-series data created by splicing these measures together should be used with caution.

Table C.9: Non-financial public sector cash flow statement

	(\$ million)		
	2000-01 Budget	2000-01 Revised	2001-02 Estimate
Cash receipts from operating activities			
Taxes received	7 965	8 227	7 762
Receipts from sales of goods and services	5 462	5 726	5 413
Grants/subsidies received	10 282	10 322	11 355
Other receipts	1 001	1 120	1 242
Total receipts	24 711	25 395	25 772
Cash payments from operating activities			
Payment for goods and services	-18 800	-19 025	-19 836
Grants and subsidies paid	-2 472	-2 525	-2 471
Interest paid	- 638	- 621	- 604
Other payments	- 468	- 449	- 301
Total payments	-22 378	-22 621	-23 212
Net cash flows from operating activities	2 333	2 775	2 560
Net cash flows from investing in non-financial assets			
Sales of non-financial assets	217	217	178
Purchases of non-financial assets	-2 117	-2 161	-2 537
Total cash flows from investing in non-financial assets	-1 900	-1 944	-2 359
Net cash flows from investments in financial assets for policy purposes	85	85	73
Net cash flows from investments in financial assets for liquidity purposes	- 547	- 927	- 220
Net cash flows from financing activities			
Advances received (net)	- 37	- 37	- 37
Borrowings (net)	81	81	32
Deposits received (net)	16	16	16
Other financing (net)	52	- 152	- 211
Total net cash flows from financing activities	113	- 91	- 200
Net increase in cash held	83	- 102	- 146
Net cash from operating activities and investments in non-financial assets	485	831	201
Acquisition of assets under finance leases and similar arrangements	- 8	..	..
Surplus (+) /deficit (-)^(a)	476	831	201

Source: Department of Treasury and Finance

Note:

(a) Conceptually, the surplus/deficit aggregate contained in the cash flow statement is the same as the deficit measure obtained under the old cash presentation. However, in practice, the process of deriving these aggregates differs, so that the measures are not directly comparable. Time-series data created by splicing these measures together should be used with caution.

VICTORIA'S 2000-01 LOAN COUNCIL ALLOCATION

As required under the Uniform Presentation Framework, Table C.10 compares Victoria's revised 2000-01 Loan Council Allocation (LCA) as published in the 2000-01 budget papers with the budget update for 2000-01.

Table C.10: Loan Council Allocation 2000-01

(\$ million)		
	2000-01 Budget	2000-01 Revised
General government sector cash (+) deficit / (-) surplus	-580	-1 015
Public non-financial corporation sector cash (+) deficit / (-) surplus	179	178
Non-financial public sector cash (+) deficit / (-) surplus ^{(a)(b)}	-476	- 831
Less: Net cash flows from investments in financial assets for policy purposes ^(c)	-85	- 85
Plus: Memorandum items ^(d)	319	319
Loan Council Allocation	-242	- 597
<i>Tolerance limit (2% of non-financial public sector revenue)</i>	<i>372</i>	<i>372</i>

Source: Department of Treasury and Finance

Notes:

- (a) The sum of the deficits of the general government and public non-financial corporation sector does not directly equal the non-financial public sector deficit due to intersectoral transfers, which are netted out in the calculation of the non-financial public sector figure.
- (b) The non-financial public sector surplus relating to the revised 2001-01 includes net cash flows from investments in financial assets for policy purposes (formerly known as net advances paid).
- (c) This item is the negative of net advances paid under a cash accounting framework.
- (d) Memorandum items are used to adjust the ABS deficit to include in LCAs certain transactions, such as operating leases, that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the ABS deficit certain transactions that Loan Council has agreed should not be included in LCAs – for example, the over/under funding of employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities.

Listed below are details of Victoria's infrastructure projects with private sector involvement where contracts have been or are expected to be signed during the 2000-2001 financial year.

Water and sewerage

North East Region Water Authority: Wodonga Wastewater Treatment Upgrade Project

The project involves the upgrade of the West Wodonga Wastewater Treatment Plant to consistently achieve tertiary standards to satisfy immediate and future demand, plus meet specified effluent quality requirements and EPA licence Conditions.

Expressions of interest were invited in March 2000 and a Request for Proposal was issued to the short-listed bidders in September 2000. The signing of the contract with a preferred bidder is scheduled for March 2001.

Coliban Region Water Authority: Echuca Rochester Wastewater Project

The project involves upgrading of the current wastewater plant operations at Echuca and Rochester to ensure sufficient capacity at the necessary standard is available to meet anticipated requirements for the next 25 years within these communities.

Request for Proposal documentation was issued to the short-listed bidders in November 2000 and the signing of the contract with a preferred bidder is scheduled for April 2001.

Health

Berwick Community Hospital

In July 2000, Mercy Health and Aged Care was announced as the preferred bidder. It is expected that a service contract will be signed during 2000-01, with commissioning occurring early in 2002.

APPENDIX D: TAX EXPENDITURES

The Victorian state tax system, in common with those of other state jurisdictions and the Commonwealth, provides a variety of concessions to taxpayers as a means of providing assistance, encouragement or relief to particular taxpayers or particular activities. These concessions may be provided via tax exemptions, deductions, rebates, credits, preferential rates or deferrals.

A full analysis of the nature and measurement of Victorian tax expenditures was published in 2000-01 Budget Paper No. 2, Appendix F, *Tax Expenditures*. The revised estimates contained in the following tables are not materially different from those earlier estimates.

Table D1: Tax expenditure value of tax-free thresholds that can be costed

<i>Description</i>	<i>(\$ million)</i>				
	<i>1995-96</i>	<i>1996-97</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-00</i>
Exemption from land tax for land owners with aggregated site value below \$85,000	152	152	8	10	9
Payroll tax exemption for employers' payroll below \$515,000	1 348	1 418	1 314	1 410	1391

Source: Department of Treasury and Finance

Table D2: Aggregate tax expenditures (excluding thresholds) classified by persons or entities affected 1995-96 to 1999-2000

<i>Description</i>	<i>(\$ million)</i>				
	<i>1995-96 Estimate</i>	<i>1996-97 Estimate</i>	<i>1997-98 Estimate</i>	<i>1998-99 Estimate</i>	<i>1999-00 Estimate</i>
Consumers of alcohol	17	19	19	21	23
Business	235	319	242	218	199
Construction industry	1	1	1	1	1
Charitable organisations	88	89	142	144	154
Employees	22	26	30	31	34
Educational institutions	42	43	45	44	46
Gamblers	37	42	46	54	65
Government departments and agencies	56	58	343	373	404
Hospitals	138	139	133	135	134
Non-residents	7	7	0	0	0
Pensioners	100	106	111	115	115
Property owners	2	5	80	100	122
Primary producers	72	72	76	92	94
Religious institutions	3	4	4	4	3
Sporting, recreation and cultural organisations	-	-	8	9	9
Other	2	1	2	2	1
Total for items estimated	822	931	1 282	1 343	1404

Source: Department of Treasury and Finance.

Table D3: Tax expenditures that can be costed and exceed zero

(\$ million)

<i>Description</i>	<i>1995-96</i>	<i>1996-97</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-00</i>
Land tax exemption for property of the Crown in right of the State of Victoria	na	na	126	137	148
Land tax exemption for land held in trust for public or municipal purposes or vested in any municipality	na	na	115	130	143
Stamp duty exemptions for corporate reconstruction	16	76	137	116	100
Payroll tax exemption for public hospitals	116	116	112	113	112
Exemption from motor vehicle (non-commercial) registration fee for eligible beneficiaries	93	96	100	102	102
Principal place of residence exemption from land tax	0	0	76	95	117
Payroll tax exemption for wages paid by a public benevolent institution or charity	88	89	91	91	94
Lower rate of tax applied to the net cash balance of electronic gaming machines located in clubs	37	42	46	54	65
Land tax exemption for land used by a charitable institution exclusively for charitable purposes	na	na	48	50	56
Rebate for diesel fuel purchased for off-road use(a)	69	69	46	50	50
Payroll tax exemption for wages paid by a non-profit, non-public, school	41	42	44	43	45
Land tax exemption for Commonwealth land(b)	na	na	39	42	46
Exemption from payroll tax for severance or redundancy payments made as compensation for loss of employment	39	46	43	41	39
Land tax exemption for land used for primary production	na	na	27	39	41
Payroll tax exemption for Commonwealth Government departments and agencies, other than transport and communication enterprises	36	38	35	35	37
Payroll tax concession resulting from the non-grossing up of fringe benefits	34	35	32	32	31
Payroll tax exemption for wages paid to an approved apprentice or trainee	22	26	30	31	34
Payroll tax exemption for wages paid by non-profit hospitals	22	23	21	22	22

Table D3: Tax expenditures that can be costed and exceed zero (cont.)

<i>Description</i>	<i>(\$ million)</i>				
	<i>1995-96</i>	<i>1996-97</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-00</i>
Payroll tax exemption for municipal councils (except wages associated with a council's trading activities)	18	18	18	18	19
Rebate for purchases of low alcohol beer (up to 3.8% alcohol) and low alcohol wine (up to 6.5% alcohol) ^(a)	14	16	15	16	18
Exemption from payroll tax for accrued sick leave, annual leave and long service leave paid on retirement or termination and accrued before 1 January 1996	14	15	13	12	11
Exemption from payroll tax for provision of fringe benefits excluded from <i>Fringe Benefits Tax Assessment Act 1986</i> (Commonwealth)	7	8	9	9	9
Exemption from land tax for the City Link corporation in respect of land used for the Link road	0	0	8	8	9
Land tax concessional rate for non-profit organisations carried on exclusively for social, sporting, cultural, literary purposes; or horse, pony or harness racing	na	na	5	6	6
Land tax exemption for land which is vested in a public statutory authority	na	na	5	6	6
FID exemption for the credit of an account kept for the payment of a pension, benefit or allowance	5	6	6	6	7
Cellar door and mail order wine rebate for vignerons ^(a)	3	3	4	5	5
Conveyance duty exemption/concession for pensioners acquiring a home not exceeding \$130,000	< 1	2	3	5	4
Payroll tax exemption for religious institutions	3	4	4	4	3
Land tax exemption for a non-profit organisation providing or promoting outdoor cultural or sporting recreation (excluding horse, pony or harness racing)	na	na	3	3	3
Assessment of land tax on a single holding basis for land owned by a charity and not used for other purposes	na	na	3	3	4
Assessment of land tax on a single holding basis for land owned by a municipality and not used for other purposes	na	na	3	3	3

Table D3: Tax expenditures that can be costed and exceed zero (cont.)

<i>Description</i>	<i>(\$ million)</i>				
	<i>1995-96</i>	<i>1996-97</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-00</i>
Exemption from registration fee for a vehicle of 4.5 tonnes or less that is used solely for primary production	3	3	3	3	3
Conveyance duty exemption/concession for first home buyers with dependent children and household income below \$40,000, with purchase price below \$165,000	1	4	3	3	3
Mortgage duty exemption for eligible first home buyers and pensioners	1	1	1	2	2
Financial institutions duty exemption for the credit of an account kept by a local government	2	2	2	2	2
Financial institutions duty exemption for the credit of an account kept for the payment of a veteran's pension	1	1	1	1	1
Land tax exemption for friendly societies	na	na	1	1	1
Registration fee concession for commercial passenger vehicle licensed for the carriage of school children	1	1	1	1	1
Registration fee exemption for non-commercial vehicle owned by an incapacitated war service pensioner	1	1	1	1	1
Payroll tax exemption for leave entitlements paid by the Construction Industry Long Service Leave Board	1	1	1	1	1
Land tax exemption for land used by eligible pensioners as a principal place of residence ^(c)	< 1	< 1	0	0	0
Exemption from franchise fees for liquor purchased under diplomatic privileges and liquor exported for sale, disposal and consumption outside Australia ^(d)	7	7	0	0	0
Registration fee concession for vehicle licensed as a metropolitan, urban or country special service omnibus, or touring omnibus ^(e)	1	0	0	0	0
Payroll tax exemption for employer superannuation contributions paid before 1 July 1997 ^(f)	125	139	0	0	0
Total	822	931	1 282	1 343	1404

Source: Department of Treasury and Finance

Notes:

- (a) Previously an exemption under the business franchise fee regime.*
- (b) See Commonwealth Constitution, section 114.*
- (c) Replaced by the general principal place of residence exemption from 1998.*
- (d) Repealed from 6 August 1997 following the High Court ruling against the States' franchise fee regimes.*
- (e) Exemption removed 1 January 1996 with the introduction of national heavy vehicle charges.*
- (f) Employer contributions to superannuation became subject to payroll tax from 1 July 1997.*

APPENDIX E: REQUIREMENTS OF FINANCIAL MANAGEMENT (FINANCIAL RESPONSIBILITY) ACT 2000

The *Financial Management (Financial Responsibility) Act 2000* was passed by Parliament in April 2000. It inserted the financial responsibility provisions now contained in Part 5 of the *Financial Management Act 1994*.

This appendix outlines financial responsibility provisions in Part 5 of the *Financial Management Act 1994* and how they have been complied with in the Budget Update. Table E1 details the statements required to be included in the Budget Update under the provisions of the Act, together with the respective chapters of the Budget Update where these statements can be found.

Table E1: Statements required by Part 5 of the *Financial Management Act 1994* and their location in the Budget Update

<i>Relevant section of the amended Acts and corresponding requirement</i>	<i>Location</i>
(Sections 23 E-G of the <i>Financial Management Act 1994</i>)	
Statement of financial policy objectives and strategies for the year.	Chapter 1, <i>Financial Policy Objectives and Strategies</i>
(Sections 23 L-N of the <i>Financial Management Act 1994</i>)	
Estimated financial statements for the year comprising:	Chapter 4, <i>Estimated Financial Statements and Notes</i>
- an estimated statement of financial performance over the year;	
- an estimated statement of financial position at the end of the year;	
- an estimated statement of cash flows for the year; and	
- a statement of the accounting policies on which these statements are based and explanatory notes.	

Table E1: Statements required by the *Financial Management Act 1994* and their location in Budget Update (cont.)

<i>Relevant section of the amended Acts and corresponding requirement</i>	<i>Location</i>
Budget sector financial statements to 31 October 2000	Appendix B, <i>Budget Sector Financial Statements to end October 2000</i>
(Section 23 K of the <i>Financial Management Act 1994</i>)	
Accompanying statement to estimated financial statements which:	
- outlines the material economic assumptions used in preparation of the estimated financial statements;	Chapter 2, <i>Economic Conditions and Outlook</i> and Chapter 4, <i>Estimated Financial Statements and Notes</i>
- discusses the sensitivity of the estimated financial statements to changes in these assumptions;	Chapter 5, <i>Statement of Risks</i>
- provides an overview of estimated tax expenditures in the budget;	Appendix D, <i>Tax Expenditures</i>
- provides a statement of the risks that may have a material effect on the estimated financial statements.	Chapter 5, <i>Statement of Risks</i>