

Strategy and Outlook

2008-09



Presented by

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for the information of Honourable Members

Budget Paper No. 2

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INTRODUCTION

Budget Paper No. 2, *Strategy and Outlook*, describes the state's current economic and financial position and outlook. It shows how the state's fiscal strategy is to use operating surpluses to underwrite increased investment in productive infrastructure to support key services. It also shows how the government's economic reform agenda will meet the challenges to Victoria's ongoing economic prosperity.

MACHINERY OF GOVERNMENT CHANGES – DEPARTMENT OF TRANSPORT

The government recently announced the creation of a new Department of Transport which takes over responsibility for most of the functions of the former Department of Infrastructure. However, certain functions, in particular relating to Major Projects Victoria, have been transferred to the Department of Innovation, Industry and Regional Development. The new administrative arrangements came into effect on 30 April 2008 through Administrative Arrangements Order No. 199 of 2008. For financial reporting purposes, these transfers do not take effect until after the end of the current financial year 2007-08.

There is no net impact of these changes on the aggregate budget, however the full impact of these changes on the 2008-09 departmental estimates is yet to be quantified. Therefore, this machinery of government change has not been reflected in the 2008-09 Budget Papers. Any consequent adjustments to the departmental estimates and re-allocation of appropriations will be made at a later date.

Budget Paper No. 2 consists of the following chapters and appendices.

CHAPTER 1 – FINANCIAL POLICY OBJECTIVES AND STRATEGY

Chapter 1 focuses on the government's five financial policy objectives and strategies, which embody the principles of sound financial management.

The chapter provides a rationale for, and progress against, each objective, along with a discussion as to how the initiatives in the 2008-09 Budget will contribute towards the achievement of these goals.

CHAPTER 2 – ECONOMIC CONDITIONS AND OUTLOOK

Chapter 2 provides an overview of the current economic conditions in Victoria in the context of the international and Australian economic environment. It provides a detailed discussion on the projected economic trends in the key measures of economic growth: gross state product, employment, unemployment rate, inflation, wages and population. The chapter also details the key risks and challenges to the Victorian economy.

CHAPTER 3 – BUDGET POSITION AND OUTLOOK

Chapter 3 outlines the general government (GG) current budget position and the future outlook. It shows how the government's financial policy objectives and strategies, discussed in Chapter 1, will impact on the GG sector's financial performance and position in the context of the economic environment, as discussed in Chapter 2.

The chapter includes a summary of the forecast movement in key financial aggregates across the forward estimates, along with the major factors behind these movements. Further, this chapter discusses the financial assumptions underpinning the financial projections and comments as to their sensitivity to fiscal risks.

CHAPTER 4 – FISCAL SUSTAINABILITY OF THE STATE

Chapter 4 presents the financial performance of the broader public sector, through the addition of the state's public non-financial corporations (PNFCs) to the GG sector's financial information, as presented in Chapter 3.

The PNFC sector is comprised by government entities that are not funded by government resources, but rather operate in a cost-recovery manner in the provision of goods and services to the public.

CHAPTER 5 – ECONOMIC REFORM AGENDA

Chapter 5 summarises the government's economic reform program, the objective of which is to foster economic growth for the state.

The chapter provides a brief overview of what reforms have been implemented by the government, and their outcomes. It then moves to the strategies government will employ to meet the challenges to economic growth. An important aspect of economic reform that is detailed in this chapter is the relationship of reforms to intergovernmental relations and how Victoria is doing its part in the implementation of national reforms.

APPENDIX A – OPERATING STATEMENT RECONCILIATION

Appendix A reconciles the movement in the state’s financial estimates over the three years from 2008-09 to 2010-11 from when they were published in the *2007-08 Budget Update* to the estimates published in the 2008-09 Budget. As part of this reconciliation, explanations are provided on the key elements driving the movements in estimates.

APPENDIX B – SENSITIVITY ANALYSIS TABLE

Appendix B details the economic indicators and assumptions underpinning the forward estimates and illustrates the impact that changes to these assumptions will have on the state’s budget position.

