

## **APPENDIX C – REVISED 2007-08 BUDGET OUTCOME**

---

This appendix provides revised estimates of the budget outcome for the 2007-08 financial year. The revised 2007-08 estimates take into account government policy decisions and economic developments impacting on both income and expenses since the presentation of the *2007-08 Budget* to the Parliament in May 2007. This appendix also references the policy decisions and commitments of the Commonwealth Government that have impacted on the financial position of Victoria in 2007-08.

### **REVISED 2007-08 OPERATING STATEMENT**

The revised 2007-08 operating statement is presented in Table C.1. It shows that the revised general government sector net result from transactions for 2007-08 is estimated at \$996 million, some \$672 million higher than the *2007-08 Budget* estimate or \$154 million higher than that estimated in the *2007-08 Budget Update*.

**Table C.1: 2007-08 Operating statement**

(\$ million)

	2007-08 Budget	2007-08 Revised	Change	Change %
<b>Income from transactions</b>				
Taxation	11 589.0	12 997.4	1 408.3	12.2
Fines and regulatory fees	842.8	811.1	( 31.7)	(3.8)
Dividends, income tax and rate equivalent revenue	905.4	679.8	( 225.6)	(24.9)
Interest	301.9	372.9	71.0	23.5
Grants	16 158.7	17 180.7	1 022.0	6.3
Sale of goods and services	2 643.8	2 832.2	188.5	7.1
Fair value of assets received free of charge or for nominal consideration	..	85.5	85.5	n.a.
Other income	1 827.6	1 828.6	1.0	0.1
<b>Total income from transactions</b>	<b>34 269.2</b>	<b>36 788.1</b>	<b>2 518.9</b>	<b>7.4</b>
<b>Expenses from transactions</b>				
Employee benefits	12 726.2	13 025.9	299.6	2.4
Superannuation	1 622.9	1 613.0	( 9.9)	(0.6)
Depreciation and amortisation	1 470.1	1 456.6	( 13.5)	(0.9)
Finance costs	486.3	480.3	( 6.0)	(1.2)
Grants and transfer payments	6 520.3	6 466.9	( 53.3)	(0.8)
Supplies and services	11 118.6	12 584.7	1 466.0	13.2
Other expenses	0.4	164.7	164.3	n.a.
<b>Total expenses from transactions</b>	<b>33 944.9</b>	<b>35 792.1</b>	<b>1 847.2</b>	<b>5.4</b>
<b>Net result from transactions</b>	<b>324.3</b>	<b>996.0</b>	<b>671.7</b>	<b>207.1</b>
<b>Income/(expenses) from other economic flows</b>				
Net gain/(loss) from disposal of physical assets	15.5	70.3	54.8	353.7
Actuarial gains/(losses) of superannuation defined benefit plans	..	( 2 782.7)	( 2 782.7)	n.a.
Net gains/(losses) on financial assets at fair value	4.1	1.9	( 2.3)	(54.9)
Other gains/(expenses) from other economic flows	( 40.6)	( 132.1)	( 91.6)	225.6
<b>Net result from other economic flows</b>	<b>( 21.0)</b>	<b>( 2 842.7)</b>	<b>( 2 821.7)</b>	<b>n.a.</b>
<b>Net result</b>	<b>303.3</b>	<b>( 1 846.7)</b>	<b>( 2 150.0)</b>	<b>( 708.9)</b>

Source: Department of Treasury and Finance

## Income from transactions

Total estimated income from transactions for 2007-08 has been revised upward by \$2 519 million (7.4 per cent) from the *2007-08 Budget* estimate of \$34 269 million. Of this movement, \$1 523 million was reported in the *2007-08 Budget Update*. The major factors contributing to the revision in estimates are further discussed below.

### Taxation

In 2007-08, taxation revenue is expected to total \$12 997 million, \$1 408 million (12.2 per cent) higher than the original *2007-08 Budget* estimate and an upward revision of \$433 million since the *2007-08 Budget Update*. The increase for 2007-08 is primarily the result of higher than expected land transfer duty revenue, as well as higher than expected payroll tax, land tax, gambling taxes and insurance taxes revenue. These increases have been largely driven by the continuing strength of the Victorian economy.

**Table C.2: 2007-08 Taxation**

	(\$ million)			
	2007-08 Budget	2007-08 Revised	Change	Change %
<b>Payroll tax</b>	<b>3 601.8</b>	<b>3 824.1</b>	<b>222.4</b>	<b>6.2</b>
<b>Taxes on immovable property</b>				
Land tax	765.4	871.0	105.6	13.8
Congestion levy	38.7	37.6	( 1.1)	(2.8)
Metropolitan improvement levy	100.6	101.8	1.3	1.3
Property owner contributions to fire brigades	41.1	40.8	( 0.3)	(0.8)
<b>Total taxes on immovable property</b>	<b>945.8</b>	<b>1 051.2</b>	<b>105.5</b>	<b>11.2</b>
<b>Financial and capital transactions</b>				
Land transfer duty	2 854.3	3 874.5	1 020.2	35.7
Rental business duty	..	..	..	..
Other property duties	9.8	9.8	..	(0.1)
Financial accommodation levy	20.6	20.9	0.3	1.4
<b>Total financial and capital transactions</b>	<b>2 884.7</b>	<b>3 905.2</b>	<b>1 020.4</b>	<b>35.4</b>
<b>Levies on statutory corporations</b>	<b>61.6</b>	<b>61.6</b>	<b>..</b>	<b>..</b>
<b>Gambling taxes</b>				
Private lotteries	322.3	337.3	15.0	4.6
Electronic gaming machines	941.4	992.3	50.9	5.4
Casino	130.8	127.1	( 3.7)	(2.8)
Racing	129.4	122.6	( 6.8)	(5.3)
Other	5.9	7.0	1.1	19.3
<b>Total gambling taxes</b>	<b>1 529.8</b>	<b>1 586.3</b>	<b>56.5</b>	<b>3.7</b>
<b>Taxes on insurance</b>	<b>1 135.5</b>	<b>1 148.8</b>	<b>13.3</b>	<b>1.2</b>
<b>Motor vehicle taxes</b>				
Vehicle registration fees	779.1	781.7	2.6	0.3
Duty on vehicle registrations and transfers	559.3	565.1	5.7	1.0
<b>Total motor vehicle taxes</b>	<b>1 338.4</b>	<b>1 346.7</b>	<b>8.3</b>	<b>0.6</b>
<b>Other taxes</b>	<b>91.4</b>	<b>73.4</b>	<b>( 18.0)</b>	<b>(19.7)</b>
<b>Total taxation</b>	<b>11 589.0</b>	<b>12 997.4</b>	<b>1 408.3</b>	<b>12.2</b>

Source: Department of Treasury and Finance

Major variations from the *2007-08 Budget* estimates are:

- Land tax revenue in 2007-08 has been revised upward by \$106 million or 13.8 per cent, reflecting the flow-on effect of a higher revenue base in 2006-07, largely stemming from the new trust surcharge and higher compliance activity;
- Land transfer duty revenue in 2007-08 is expected to increase by \$1 020 million (35.7 per cent) compared with the original *2007-08 Budget*. Of this increase, \$700 million was reported in the *2007-08 Budget Update*. The higher than expected revenue during the year reflects the unexpected strength in the property market, associated with a larger number of transactions and large increases in property prices;
- Payroll tax revenue has been revised up by \$222 million (or 6.2 per cent) since the *2007-08 Budget*, including an upward revision of \$143 million reported in the *2007-08 Budget Update*. The increase for the year mainly reflects higher than expected employment growth;
- Gambling taxation revenue has been revised upwards by \$57 million (3.7 per cent), in part reflecting the strength in household consumption expenditure; and
- Insurance taxation revenue in 2007-08 has been revised up by \$13 million (or 1.2 per cent), as a result of an increase in the insurance contribution to fire brigades. This is partly offset by lower than expected non-life insurance revenue, generally reflecting further softening in the non-life insurance market.

### ***Fines and regulatory fees***

The 2007-08 published estimates of \$843 million for revenue from fines and regulatory fees has been revised downward by \$32 million (3.8 per cent) mainly due to a decrease in the number of traffic infringements, reflecting improved driver behaviour, increased public awareness of road safety cameras, higher than scheduled camera downtime arising from increased maintenance requirements and the impact of transitioning to the new traffic camera contracts.

### ***Dividends, income tax and rate equivalent revenue***

In 2007-08, dividends, income tax and rate equivalent income is expected to be \$680 million, \$226 million (24.9 per cent) lower than forecast in the *2007-08 Budget* (see Table C.3), including a downwards revision of \$202 million reported in the *2007-08 Budget Update*. The revision reflects a change in the government's approach to assessing dividends from the Transport Accident Commission (TAC) to better reflect the entity's underlying insurance operations. The revision also reflects lower dividends from the water sector as a result of lower than expected water consumption. The decrease in investment revenue is offset to some extent by increases in income tax revenue, largely driven by a restructuring of the investment portfolios of the TAC and the Victorian WorkCover Authority, which has resulted in the realisation of higher than expected taxable gains.

**Table C.3: Dividends, income tax and rate equivalent revenue**

(\$ million)

	2007-08 <i>Budget</i>	2007-08 <i>Revised</i>	<i>Change</i>	<i>Change</i> %
Dividends	683.2	358.5	( 324.7)	(47.5)
Income tax and rate equivalent revenue	222.2	321.3	99.1	44.6
<b>Total dividends, income tax and rate equivalent revenue</b>	<b>905.4</b>	<b>679.8</b>	<b>( 225.6)</b>	<b>(24.9)</b>

*Source: Department of Treasury and Finance*

### **Grants income**

Total grants revenue is expected to be \$17 181 million in 2007-08, \$653 million higher than at *2007-08 Budget Update* and \$1 022 million (6.3 per cent) higher than the *2007-08 Budget* (see Table C.4). The upward revision reflects:

- Increased GST revenue of \$264 million (3.0 per cent), resulting from a rise in the GST pool above that expected at the time of the *2007-08 Budget*;
- Higher specific purpose payments, including specific purpose grants for on-passing. In aggregate these payments have been revised upwards by \$748 million since the *2007-08 Budget*, including an increase of \$503 million since the *2007-08 Budget Update*. The increase for the year mainly relates to policy decisions of the Commonwealth in the areas of education, health, transport and roads and various drought and water related projects. The revenue is matched by increased expenditure in these areas on both output and capital initiatives; and
- At the 26 March 2008 Council of Australian Governments (COAG) meeting, the Prime Minister, Premiers and Chief Ministers, and Treasurers agreed to allocate an additional \$500 million grant from the Commonwealth to the public hospital system. Victoria anticipates an additional \$121 million from the Commonwealth in 2007-08 under the Australian Health Care Agreement. As a result, the state has been able to invest in maintaining health system performance, long-term reform of the sector and improved health outcomes for Victorians.

**Table C.4: Grants**

	(\$ million)			
	2007-08 Budget	2007-08 Revised	Change	Change %
<b>Operating grants</b>				
General purpose grants	9 124.8	9 399.0	274.2	3.0
Specific purpose grants for on-passing	1 808.6	1 865.5	56.9	3.1
Other specific purpose grants	4 430.1	4 717.1	287.0	6.5
<b>Total operating grants</b>	<b>15 363.5</b>	<b>15 981.5</b>	<b>618.0</b>	<b>4.0</b>
<b>Capital grants</b>				
Specific purpose grants for on-passing	141.4	145.7	4.3	3.0
Other specific purpose grants	653.8	1 053.5	399.7	61.1
<b>Total capital grants</b>	<b>795.2</b>	<b>1 199.2</b>	<b>404.0</b>	<b>50.8</b>
<b>Total grants</b>	<b>16 158.7</b>	<b>17 180.7</b>	<b>1 022.0</b>	<b>6.3</b>

Source: Department of Treasury and Finance

### **Sales of goods and services and other income**

In 2007-08, revenue from the sale of goods and services and other income are expected to total \$2 832 million, \$188 million higher than the original 2007-08 Budget estimate, including an increase of \$120 million on the 2007-08 Budget Update. This mainly reflects an increase in third party revenue in the education and health sectors.

### **Expenses from transactions**

As shown in Table C 1, general government sector operating expenses for 2007-08 are now projected to be \$35 792 million for 2007-08, \$1 847 million higher than the May 2007 budget estimate of \$33 945 million. Of this movement, \$1 006 million was reported in the 2007-08 Budget Update.

The major variation within operating expenses is attributable to an upward revision of the supplies and services expense of \$1 466 million (13.2 per cent), largely attributable to the impact of policy decisions taken since the 2007-08 Budget. Details of specific policy decisions since the 2007-08 Budget are summarised in Appendix A, *Specific Policy Initiatives Affecting the Budget Position*.

The movement in supplies and services expense has also been impacted by the reclassification to this item of \$309 million, previously classified as grants and transfer payments, to more correctly account for this expenditure in compliance with the requirements of the new accounting standard relating to government reporting; the transfer of \$150 million of properties to registered housing associations to achieve further social housing growth; and the transfer of Docklands assets valued at \$211 million to the Melbourne City Council.

Revised expenditure estimates also include an increase in employee benefits of \$300 million since the 2007 08 Budget, reflecting the government's continuing commitment to improved service delivery primarily in the areas of health, education and justice, and an increase of \$164 million in other expenses resulting from an upward revision of bad and doubtful debts.

## **Net Result**

The difference between the net result and the net result from transactions is due to other economic flows. Other economic flows include actuarial gains and losses on defined benefit superannuation plans, various revaluation gains and losses on assets and liabilities and provision for doubtful debts. In particular, the non-cash impact of actuarial gains and losses on superannuation liabilities that arise due to movements in bond rates and investment markets add substantial volatility to the net result. Given that the government has no direct control over these factors, the net result from transactions is the more appropriate measure of the government's financial management.

The net result for 2007-08 is expected to be negative \$1 847 million, compared with a positive estimated net result of \$303 million in the *2007-08 Budget*. This accounting variance is largely due to a negative revaluation of \$2 783 million as at 31 March 2008 associated with the state's defined benefit superannuation plans, largely driven by lower than expected investment market returns on superannuation assets and movements in the discount rate used to value the superannuation liability. Given the volatility inherent in the net result, the final outcome for the year will be significantly affected by market movements until 30 June 2008, which the government does not seek to forecast.

## REVISED 2007-08 BALANCE SHEET

The 2007-08 balance sheet is presented in Table C.5. Net assets are projected to increase by \$1 722 million over the course of 2007-08 to be \$45 207 million at 30 June 2008, \$268 million lower than 2007-08 Budget estimates.

**Table C.5: 2007-08 Balance sheet as at 30 June**

	(\$ million)				
	2007 Actual	Budgeted movement	2008 Budget <sup>(a)</sup>	Revised movement	2008 Revised
<b>Current assets</b>					
Cash and cash equivalents	3 017.7	( 7.4)	3 010.3	( 892.2)	2 125.5
Receivables	2 909.5	101.8	3 011.4	( 939.6)	1 969.9
Prepayments	99.6	0.2	99.8	( 4.0)	95.6
Inventories	125.2	1.6	126.8	( 2.1)	123.2
Other financial assets	1 531.9	43.4	1 575.2	157.4	1 689.2
	7 683.9	139.6	7 823.5	(1 680.5)	6 003.4
Non-current assets classified as held for sale	51.9		51.9		51.9
<b>Total current assets</b>	<b>7 735.9</b>	<b>139.6</b>	<b>7 875.5</b>	<b>(1 680.5)</b>	<b>6 055.3</b>
<b>Non-current assets</b>					
Receivables	342.3	( 81.4)	260.9	( 128.2)	214.1
Investments accounted for using the equity method	629.5	5.0	634.5	10.0	639.5
Other financial assets	526.4	18.5	544.9	24.2	550.6
Property, plant and equipment	59 399.3	3 859.4	63 258.7	5 987.3	65 386.6
Intangibles	235.0	( 12.5)	222.5	( 14.7)	220.2
Other assets	206.0	( 38.9)	167.1	7.4	213.4
<b>Total non-current assets</b>	<b>61 338.5</b>	<b>3 750.1</b>	<b>65 088.6</b>	<b>5 886.0</b>	<b>67 224.5</b>
<b>Total assets</b>	<b>69 074.4</b>	<b>3 889.8</b>	<b>72 964.1</b>	<b>4 205.5</b>	<b>73 279.9</b>
<b>Current liabilities</b>					
Payables	2 631.4	34.0	2 665.4	( 78.1)	2 553.3
Interest-bearing liabilities	1 088.2	( 3.4)	1 084.8	( 799.9)	288.3
Employee benefits	3 245.2	40.6	3 285.8	113.2	3 358.5
Superannuation	335.0	82.0	417.0	82.0	417.0
Other provisions	214.3	( 0.4)	214.0	( 12.7)	201.6
Other liabilities	507.9	114.9	622.8	45.0	552.8
<b>Total current liabilities</b>	<b>8 022.1</b>	<b>267.8</b>	<b>8 289.8</b>	<b>( 650.5)</b>	<b>7 371.6</b>
<b>Non-current liabilities</b>					
Payables	242.1	( 0.4)	241.7	88.2	330.3
Interest-bearing liabilities	6 106.0	1 588.2	7 694.3	322.3	6 428.3
Employee benefits	375.6	89.6	465.2	35.7	411.3
Superannuation	9 802.7	( 19.1)	9 783.6	2 719.3	12 522.0
Other provisions	543.4	( 19.7)	523.7	( 20.0)	523.3
Other liabilities	496.5	( 5.9)	490.6	( 10.9)	485.6
<b>Total non-current liabilities</b>	<b>17 566.5</b>	<b>1 632.6</b>	<b>19 199.1</b>	<b>3 134.5</b>	<b>20 700.9</b>
<b>Total liabilities</b>	<b>25 588.5</b>	<b>1 900.4</b>	<b>27 488.9</b>	<b>2 484.0</b>	<b>28 072.5</b>
<b>Net assets</b>	<b>43 485.8</b>	<b>1 989.4</b>	<b>45 475.3</b>	<b>1 721.6</b>	<b>45 207.4</b>

Source: Department of Treasury and Finance

Note:

(a) 2007-08 Budget is based on actual opening balances at 1 July 2007 plus 2007-08 Budgeted movement.

Total assets are projected to increase by \$4 206 million, \$316 million higher than the budgeted increase of \$3 890 million. This movement largely reflects an increase in infrastructure assets driven by additional investment and asset revaluations, partially offset by a reduction in cash and receivables.

## **REVISED 2007-08 CASH FLOW STATEMENT**

Table C.6 provides the revised cash flow statement for 2007-08. Table C.7 provides a summary of cash generated through the operations of Victorian government departments and other general government sector agencies during the year, and how cash is applied to infrastructure investment and financing activities. Table C.7 also provides a reconciliation of the projected budget operating surplus to the projected change in general government net debt.

Net cash flows from operating activities are expected to be \$1 840 million higher than at the *2007-08 Budget*, including \$1 102 million reported in the *2007-08 Budget Update*. The variation reflects the impact of a \$3 210 million increase in operating receipts, offset by a \$1 370 million increase in payments in relation to operating activities. The expected increase in receipts generally reflects the factors underlying the increase in operating income. The increase in revised operating payments is similarly reflected in the increased expenditure of cash for operating purposes.

**Table C.6: 2007-08 Cash flow statement**

	(\$ million)			
	2007-08 Budget	2007-08 Revised	Change	Change %
<b>Cash flows from operating activities</b>				
<b>Receipts</b>				
Taxation	11 673.4	13 380.1	1 706.7	14.6
Fines and regulatory fees	719.9	688.2	( 31.7)	(4.4)
Dividends, income tax and rate equivalent revenue received	898.1	697.2	( 200.9)	(22.4)
Interest received	301.7	373.0	71.4	23.7
Grants	16 159.0	17 176.5	1 017.5	6.3
Sale of goods and services	2 590.7	2 932.6	341.9	13.2
Other receipts	1 944.0	2 249.1	305.1	15.7
<b>Total receipts</b>	<b>34 286.7</b>	<b>37 496.7</b>	<b>3 210.1</b>	<b>9.4</b>
<b>Payments</b>				
Employee benefits	(12 596.1)	(12 877.0)	( 280.9)	2.2
Superannuation	(1 560.0)	(1 594.4)	( 34.4)	2.2
Interest paid	( 448.5)	( 463.9)	( 15.5)	3.4
Grants and transfer payments	(6 482.6)	(6 401.0)	81.6	(1.3)
Supplies and services	(11 118.2)	(12 238.7)	(1 120.5)	10.1
<b>Total payments</b>	<b>(32 205.3)</b>	<b>(33 575.0)</b>	<b>(1 369.7)</b>	<b>4.3</b>
<b>Net cash flows from operating activities</b>	<b>2 081.4</b>	<b>3 921.7</b>	<b>1 840.3</b>	<b>88.4</b>
<b>Cash flows from investing activities</b>				
Purchases of non-financial assets	(2 925.6)	(2 993.6)	( 68.0)	2.3
Proceeds from sale of non-financial assets	202.3	212.1	9.7	4.8
Net (purchase)/disposal of investments	( 62.7)	( 189.7)	( 127.0)	202.4
Net customer loans (granted)/repaid	0.8	0.8	..	..
Net contribution to other sectors of government	( 898.4)	(1 374.4)	( 476.0)	53.0
<b>Net cash flows from investing activities</b>	<b>(3 683.6)</b>	<b>(4 344.9)</b>	<b>( 661.2)</b>	<b>18.0</b>
<b>Cash flows from financing activities</b>				
Net borrowings	1 594.9	( 469.0)	(2 063.9)	(129.4)
<b>Net cash flows from financing activities</b>	<b>1 594.9</b>	<b>( 469.0)</b>	<b>(2 063.9)</b>	<b>(129.4)</b>
<b>Net increase/(decrease) in cash and deposits held</b>	<b>( 7.4)</b>	<b>( 892.2)</b>	<b>( 884.8)</b>	<b>n.a.</b>
Cash and deposits at beginning of reporting period	3 014.6	3 014.6	..	..
<b>Cash and deposits at end of reporting period</b>	<b>3 007.2</b>	<b>2 122.4</b>	<b>( 884.8)</b>	<b>-29.4</b>

Source: Department of Treasury and Finance

## Infrastructure investment

As shown in Table C.7, the \$3 922 million net cash inflows from operating activities is a significant source of financing for the Government's infrastructure investment program in 2007-08. Net debt is expected to decrease by \$358 million in 2007-08. The decrease is largely attributable to a greater than expected increase in operating cash flows mainly from taxation and grants.

Compared with the 2007-08 budget estimates, net debt is expected to be \$1 895 million lower than originally anticipated. This includes a reduction of \$872 million reported in the *2007-08 Budget Update*.

**Table C.7: Application of cash resources**

	(\$ million)	
	2007-08 Budget	2007-08 Revised
<b>Net result from transactions</b>	<b>324.3</b>	<b>996.0</b>
Add back: Non-cash income and expenses (net) <sup>(a)</sup>	1 757.1	2 925.7
<b>Net cash flows from operating activities</b>	<b>2 081.4</b>	<b>3 921.7</b>
Less:		
<b>Net investment in fixed assets</b>		
Expenditure on approved projects <sup>(b)</sup>	3 816.5	4 355.4
Meeting Our Transport Challenges Reserve to be allocated in future	7.5	12.6
Proceeds from asset sales	( 202.3)	( 212.1)
<b>Total net investment in fixed assets</b>	<b>3 621.7</b>	<b>4 156.0</b>
Finance leases	..	..
Other investment activities (net)	( 2.8)	( 592.1)
<b>Decrease/(increase) in net debt</b>	<b>(1 537.6)</b>	<b>357.8</b>

Source: Department of Treasury and Finance

Notes:

- (a) Includes depreciation and movements in the unfunded superannuation liability and liability for employee benefits.
- (b) Includes purchases of property, plant and equipment and net contributions to other sectors of government.

