

CHAPTER 4 – STATE REVENUE

SUMMARY OF GENERAL GOVERNMENT SECTOR REVENUE

This chapter describes the major categories of revenue, comprising both state-sourced revenue and Commonwealth grants, and examines the expected movement in revenue between the 2007-08 revised estimates and the 2008-09 Budget estimates.

Total revenue comprises revenue from transactions and revenue from economic flows. Revenue from transactions represents the majority of total revenue in the 2008-09 Budget estimates and is the focus of discussion in this chapter.

As shown in Table 4.1, general government sector revenue is expected to increase by 2.8 per cent in 2008-09 to \$37 810 million.

Table 4.1: General government sector revenue and grants received

	(\$ million)		
	2007-08 Revised	2008-09 Budget	Change %
Taxation	12 997.4	13 382.9	3.0
Interest	372.9	402.2	7.9
Dividends, income tax and rate equivalent revenue	679.8	669.9	- 1.5
Sales of goods and services ^(a)	4 121.6	4 334.5	5.2
Other current revenue ^(a)	1 435.8	1 465.6	2.1
Grants received	17 180.7	17 555.0	2.2
Total revenue from transactions	36 788.1	37 810.0	2.8

Source: Department of Treasury and Finance

Note:

(a) Sales of goods and services and other current revenue 2007-08 revised estimates differ from that reported in Appendix C as the estimates in this chapter are based on AASB 1049 Whole of Government and General Government Sector Financial Reporting, while Appendix C is prepared under the Australian equivalents to International Financial Reporting Standards (A-IFRS).

Taxation revenue in 2008-09 is estimated to be \$13 383 million, an increase of \$385 million or 3.0 per cent on the 2007-08 revised estimate. This increase primarily reflects:

- growth in payroll tax revenue reflecting expected moderate employment and wages growth, partly offset by a further reduction in the payroll tax rate;
- higher land tax revenue reflecting the expected increase in land values, partially offset by land tax changes announced in this budget including an increase in land tax thresholds and a further cut in the top land tax rate;

- increases across most other tax categories reflecting a range of factors including continued economic growth and inflation; but
- partially offset by a decline in stamp duty on land transfer revenue due to an expected stabilisation of property prices and easing in transaction volumes, and changes announced in this budget, including the impact of a reduction in the effective rates of duty (through threshold adjustments).

Interest revenue in 2008-09 is expected to be \$402 million or 7.9 per cent higher than the 2007-08 revised estimate, due to changes in the holdings of cash and liquid assets and increases in deposit rates and interest revenue received as part of the Melbourne Exhibition and Convention Centre financing arrangements.

Dividends, income tax and rate equivalent revenue are estimated to be \$670 million in 2008-09, a decrease of \$9.9 million or 1.5 per cent on the 2007-08 revised estimate. This decrease reflects an expected return to a more normal level of income tax equivalent payments in 2008-09, which is partially offset by recognition of a dividend from SECV in 2008-09.

Sales of goods and services revenue is expected to increase by 5.2 per cent in 2008-09 to \$4 334 million primarily reflecting an increase in capital asset charge revenue as well as smaller increases in revenue from the provision of services and regulatory fees.

Other current revenue from transactions is expected to increase by 2.1 per cent to \$1 466 million. This is due to an increase in fines revenue, as well as smaller increases in other revenue categories, largely offset by a decline from fair value of assets received free of charge for which there was a large one-off transaction in 2007-08.

Grants revenue estimates and details provided in this chapter represent the latest information available to the Victorian Government at the time of finalisation of the 2008-09 Budget, and do not reflect the (not yet finalised) changes to the system of specific purpose payments agreed to by the Council of Australian Governments (COAG) in March 2008, expected to take effect from 1 January 2009.

General purpose grants from the Commonwealth are expected to increase by \$882 million (9.4 per cent) to \$10 281 million, reflecting growth in GST grants. The increase in GST grants of 9.5 per cent in 2008-09 compares with estimated growth of 5.9 per cent in the estimated GST revenue pool. Victoria's share of the GST revenue pool has been revised upward as a result of the Commonwealth Grants Commission (CGC) update on state revenue sharing relativities.

Specific purpose own use grants are expected to decrease by \$608 million (11.1 per cent) in 2008-09 due to a reduction in specific purpose own use capital grants arising from the completion or winding down of several programs and projects. Specific purpose grants for on-passing are forecast to increase by 4.0 per cent to \$2 118 million primarily driven by increased grants for on-passing to non-government schools.

STATE SOURCED REVENUE

Taxation

Taxation revenue in 2008-09 is estimated to be \$13 383 million, which is \$385 million (3.0 per cent) higher than the 2007-08 revised estimate (Table 4.2).

Table 4.2: Taxation estimates

	(\$ million)		
	2007-08 Revised	2008-09 Budget	Change %
Payroll tax	3 824.1	3 963.2	3.6
Taxes on property			
Land tax	871.0	1 049.8	20.5
Congestion levy	37.6	39.2	4.3
Land transfer duty	3 874.5	3 736.9	- 3.6
Other property duties	9.8	10.2	4.1
Metropolitan improvement levy	101.8	105.4	3.5
Property owners contributions to fire brigades	40.8	42.2	3.5
Financial accommodation levy	20.9	32.1	53.2
	4 956.4	5 015.7	1.2
Gambling taxes			
Private lotteries	337.3	354.8	5.2
Electronic gaming machines	992.3	1 025.0	3.3
Casino	127.1	135.0	6.2
Racing	122.6	129.4	5.6
Other	7.0	7.7	9.5
	1 586.3	1 651.9	4.1
Levies on statutory corporations	61.6	73.7	19.6
Taxes on insurance			
Non-life insurance	613.0	640.0	4.4
Life insurance	9.3	9.5	2.6
Duty on compulsory third party	126.1	133.4	5.7
Insurance contributions to fire brigades	400.3	424.2	6.0
	1 148.8	1 207.1	5.1
Motor vehicle taxes			
Vehicle registration fees	781.7	829.4	6.1
Duty on vehicle registrations and transfers	565.1	581.5	2.9
	1 346.7	1 410.9	4.8
Other taxes			
Liquor licence fees ^(a)	7.7	7.8	1.3
Transurban concession fees	20.1	7.2	- 64.4
Landfill levy	45.6	45.3	- 0.6
	73.4	60.3	- 17.9
Total taxation	12 997.4	13 382.9	3.0

Source: Department of Treasury and Finance

Note:

(a) Part of the 'Franchise taxes' category in Note 5 of Budget Paper No.4, Chapter 1, Estimated Financial Statements.

Payroll tax

Payroll tax is levied on taxable wages, which are defined to include salaries and wages, commissions, bonuses, allowances, remunerations, employer superannuation contributions, fringe benefits, and payments to some contractors. Payroll tax of 5.05 per cent is currently applicable on the payments of taxable wages in excess of the annual tax free threshold of \$550 000.

The payroll tax rate was scheduled to fall to 5.0 per cent from 1 July 2008, but measures introduced in this budget will see it fall to 4.95 per cent effective from that date.

This additional rate reduction sees the Victorian payroll tax rate drop to the lowest rate since 1974-75 and means that Victorian businesses with payrolls between \$4 million and \$13.5 million will pay lower payroll tax rates than in any other state.

From 1 July 2007, Victoria and NSW harmonised payroll tax legislation including common definitions and exemptions, but excluding rates and thresholds, to help reduce red tape for businesses, streamline administration and reduce compliance costs.

Victoria and NSW are also moving towards introducing harmonised administrative arrangements, such as common payroll tax forms/systems, a one-stop-shop for businesses paying payroll tax in both states, and common interpretations of the law by revenue offices. Work is continuing on developing common revenue rulings: 22 joint revenue rulings have been published in the period to March 2008. NSW also made changes to its 2007-08 online monthly tax calculator to make it consistent with the Victorian application. These initiatives will make it easier for the approximately 8 000 businesses that operate in both Victoria and NSW to comply with their payroll tax obligations.

Victoria remains committed to expanding harmonisation arrangements already adopted with NSW to other jurisdictions.

In 2008-09 payroll tax revenue is estimated to be \$3 963 million, an increase of \$139 million (3.6 per cent) over the 2007-08 revised estimate, reflecting moderate employment and wages growth, partly offset by the further reduction in the payroll tax rate.

Taxes on property

Land tax

Land tax is an annual tax assessed on the total taxable land owned by a landowner. The taxable value of land is the municipal value provided by the relevant municipality. There are several exemptions, including land owned and used by charitable institutions for charitable purposes, land used for primary production, and land that is used as the landowner's principal place of residence.

The 2008-09 Budget provides an increase of approximately 10 per cent to all tax thresholds, increasing the tax free threshold from \$225 000 to \$250 000, and reduces the top land tax rate from 2.5 per cent to 2.25 per cent effective from the 2009 land tax year.

These initiatives will mean that virtually all Victorian businesses with land holdings valued between \$0.4 million and \$5.7 million will pay lower rates of land tax than in NSW and Queensland.

This budget also extends the exemptions for aged care facilities, supported residential care services and rooming houses, announced in the 2005-06 Budget, to include facilities which cater to groups such as young people with disabilities.

Table 4.3 shows the land tax rates that are applicable from the 2009 land tax year onwards.

Table 4.3: 2009 land tax rates

General land tax rates	
<i>Value of property</i>	<i>Land tax payable</i>
Not more than \$249 999	Nil
\$250 000 to \$599 999	\$275 plus 0.2% of the value in excess of \$250 000
\$600 000 to \$ 999 999	\$975 plus 0.5% of the value in excess of \$600 000
\$1 000 000 to \$1 799 999	\$2 975 plus 0.8% of the value in excess of \$1 000 000
\$1 800 000 to 2 999 999	\$9 375 plus 1.3% of the value in excess of \$1 800 000
\$3 000 000 and over	\$24 975 plus 2.25% of the value in excess of \$3 000 000

Trusts land tax rates ^(a)	
<i>Value of property</i>	<i>Land tax payable</i>
\$0 to \$24 999	Nil
\$25 000 to \$249 999	\$82 plus 0.375% of the value in excess of \$25 000
\$250 000 to \$599 999	\$926 plus 0.575% of the value in excess of \$250 000
\$600 000 to \$ 999 999	\$2 938 plus 0.875% of the value in excess of \$600 000
\$1 000 000 to \$1 799 999	\$6 438 plus 1.175% of the value in excess of \$1 000 000
\$1 800 000 to 2 999 999	\$15 838 plus 0.7614% of the value in excess of \$1 800 000
\$3 000 000 and over	\$24 975 plus 2.25% of the value in excess of \$3 000 000

Source: Department of Treasury and Finance

Note:

(a) The surcharge phases out for taxable values in excess of \$1.8 million. For landholdings valued at over \$3 million, the surcharge is zero and the general marginal rate applies.

Land tax revenue is expected to reach \$1 050 million in 2008-09, a 20.5 per cent increase on the 2007-08 revised estimate of \$871 million. This reflects the expected increase in land values for the two years to 2008-09, consistent with the strength in the property market, as well as the progressiveness in land tax scales. It is partly offset by the changes announced in this budget and by the ongoing disaggregation of land holdings.

Land tax on trust lands

Certain trusts are subject to a land tax surcharge of 0.375 per cent (on top of the ordinary land tax rates). The surcharge is phased out for taxable land values between \$1.8 million and \$3 million to ensure that the special trusts rate is the same as the ordinary rate on values above \$3 million.

Congestion levy

The Congestion levy is an annual charge on owners of long-stay off-street car parking spaces in Melbourne's Central Business District and adjacent areas such as Southbank, Docklands and the St Kilda Road precinct.

The levy for 2008 is \$820 per car parking space, and is subject to indexation based on the consumer price index (CPI), with the exception of the area bounded by Montague Street, the West Gate Freeway, City Link and the Yarra River for which the levy was fixed at \$400 in 2007 and 2008 pending the outcome of the government's review of parking requirements in planning schemes. Various car parking spaces are exempt from the levy, including short-stay parking spaces, parking spaces used exclusively for residential purposes, and certain other parking spaces such as those used by ambulances and charitable institutions.

A review of the Implementation of the Congestion Levy was released in April 2007. As a result of this review, the government has amended the law to ensure that, in cases where there is joint and several liability, the party who has the ability to set the fees for the car park under relevant contractual agreements indemnifies the other for the full amount of the levy. The SRO has also reviewed and substantially improved its administrative processes including levy forms and website information to better assist compliance by owners and operators of car parks.

All revenue generated from the levy is used to fund metropolitan transport improvements. Each year, \$5 million of the revenue is provided to the City of Melbourne to fund urban upgrades.

Revenue in 2008-09 is expected to be \$39 million, 4.3 per cent higher than the 2007-08 revised estimate mainly due to CPI indexation.

Stamp duty on land transfer

Stamp duty is payable on any transaction that results in a change of beneficial ownership of land and associated real assets.

Properties bought as a principal place of residence attract a lower marginal rate for certain dutiable values. Effective on or after 2008-09 Budget day, there will be an adjustment of approximately 10 per cent to the general rate of stamp duty and principal place of residence concession thresholds while leaving all tax rates unchanged.

The new rates of duty are shown in Table 4.4.

Table 4.4: Duty on land transfer

General land transfer duty rates	
<i>Value of property transferred</i>	<i>Duty payable</i>
Up to \$25 000	1.4% of the value of the property
\$25 001 - \$130 000	\$350 plus 2.4% of the value in excess of \$25 000
\$130 001 - \$960 000	\$2 870 plus 6% of the value in excess of \$130 000
\$960 001 and over	5.5% of the value of the property

Land transfer duty rates for principal place of residence purchases	
<i>Value of property transferred</i>	<i>Duty payable</i>
Up to \$25 000	1.4% of the value of the property
\$25 001 - \$130 000	\$350 plus 2.4% of the value in excess of \$25 000
\$130 001 - \$440 000	\$2 870 plus 5% of the value in excess of \$130 000
\$440 001 - \$550 000	\$18 370 plus 6% of the value in excess of \$440 000
\$550 001 - \$960 000	\$28 070 plus 6% of the value in excess of \$550 000
\$960 001 and over	5.5% of the value of the property

Source: *Duties Act 2000*

Victorian first homebuyers who qualify for the government's \$7 000 *First Home Owner Grant* are also eligible for a \$3 000 *First Home Bonus* for homes valued up to \$500 000. The value of the bonus increases to \$5 000 for purchases of newly constructed homes, and is available until 30 June 2009.

The 2008-09 Budget provides for an additional \$3 000 *First Home Bonus* for eligible first homebuyers purchasing newly constructed homes in regional Victoria, for contracts entered into on, or after, 2008-09 Budget day and will also be available until 30 June 2009. This brings the total assistance for such purchases to \$15 000.

In addition, first homebuyers that qualify for the bonus on or after budget day are also eligible for the concessional rate of duty for principal places of residence (PPR). This replaces the current requirement for first homebuyers to elect between the two. For a first home buyer purchasing a home at the median first home buyer price (\$317 000) the extension of the PPR concessions and the threshold adjustments equate to a \$2 460 saving. These arrangements are summarised in Table 4.5.

Table 4.5: First home buyer support

	<i>Established homes</i>	<i>New homes</i>	
		<i>Metropolitan</i>	<i>Regional</i>
First Home Owner Grant	\$7 000	\$7 000	\$7 000
First Home Bonus ^(a)	\$3 000	\$5 000	\$8 000
Access to principal place of residence concessional rate	Yes	Yes	Yes

Source: *Department of Treasury and Finance*

Note:

(a) For homes valued up to \$500 000 and for contracts entered into before 1 July 2009.

First homebuyers with families have the option of a full duty exemption in lieu of the *First Home Bonus* when they purchase property worth not more than \$150 000, with a partial exemption available for property worth not more than \$200 000.

This budget also introduces a stamp duty exemption for homes transferred into special disability trusts in recognition of the particular nature of the arrangements for persons with a severe disability.

The budget also increases the thresholds for duty concessions on property purchases for pensioner and concession cardholders. A full stamp duty exemption will now apply to property purchases valued up to \$330 000, while a partial exemption will apply to purchases valued over \$330 000 up to \$440 000.

Furthermore, a corporate reconstruction exemption will provide relief to certain stapled real estate investment trusts in circumstances that are consistent with the Commonwealth Government's arrangements with respect to capital gains tax rollover relief. This will allow Australian Listed Property Trusts to become more competitive in off-shore markets and achieve stronger returns for Australian investors. It further supports this government's objectives of cutting red tape and strengthening Victoria's financial services sector.

Stamp duty revenue is expected to have grown unusually strongly by \$913 million or 30.8 per cent in 2007-08 over 2006-07. The growth in revenue in 2007-08 is due to both increases in the volume of transactions and the average value per transaction. The increase in volumes may in part be attributable to changes by the Commonwealth Government to superannuation laws which appear to have generated extra buying and selling of properties, with some of the revenue accruing in 2007-08.

The increase in average value per transaction in 2007-08 is consistent with growth in property prices over the year. Solid economic growth, including significant growth in household financial wealth as well as strong population growth, have contributed, but changes in these 'fundamentals' cannot fully explain the increase in property prices.

It is expected that over the forward estimates period growth of property prices will re-align with economic fundamentals, as well as respond to the more recent interest rate rises and financial volatility. In particular, the increases in mortgage interest rates from August 2007, and the shock to financial wealth resulting from the decline in equity prices since November 2007, may relieve the upward pressure on property prices. The decline in auction clearance rates experienced so far in 2008 suggests that a re-alignment of the property market is already underway. The estimates assume that this correction towards fundamentals will occur over several years, and that property prices will stabilise over the estimates period.

The increase in interest rates, the neutral outlook for prices, and the absence of one-off superannuation impacts, suggest that there will be an initial easing in volumes, before modest growth returns towards the end of the forward estimates period. Before allowing for the measures announced in this budget, stamp duty revenue is expected to be broadly unchanged in 2008-09 and experience a small decline in 2009-10, before increasing slightly over the remainder of the forward estimates period.

The revenue impact from changes to the thresholds result in an expected decline in stamp duty in 2008-09 of \$138 million (or 3.6 per cent) compared with the 2007-08 revised estimate.

Other property duties

This category includes revenue from minor duties such as duty on declarations of trust over property other than land and duty on the sale of certain livestock, with revenue directed to a trust fund relating to disease control.

Revenue also includes any minor adjustment amounts relating to property taxes that have been abolished in recent years.

Revenue in 2008-09 is estimated to be \$10 million, which is \$0.4 million higher than the 2007-08 revised estimate.

Metropolitan improvement levy

The rate of the levy is set each year with regard to expected disbursements from the Parks and Reserves Trust Account, taking into account the inflation rate. The revenue is earmarked by the Department of Sustainability and Environment for expenditure on metropolitan parks, gardens and waterways.

Revenue in 2008-09 is estimated to be \$105 million or \$3.6 million (3.5 per cent) higher than the 2007-08 revised estimate due to both annual indexation of the levy and increases in the number of properties in the metropolitan area.

Property owners contributions to fire brigades

Municipal councils whose districts are within or partly within the metropolitan area serviced by the Metropolitan Fire and Emergency Services Board are collectively required by legislation to contribute 12.5 per cent of the Metropolitan Fire and Emergency Services Board's approved annual budget.

Revenue in 2008-09 is expected to be \$42 million, some \$1.4 million (3.5 per cent) higher than the 2007-08 revised estimate, which reflects continued investment in the state's urban emergency services.

Financial accommodation levy

The financial accommodation levy applies to government-owned entities declared to be leviable authorities for the purposes of the *Financial Management Act 1994*. The purpose of the levy is to remove the competitive advantage that government entities may experience in borrowing, and is consistent with the competitive neutrality principles as prescribed by the National Competition Policy framework.

Revenue in 2008-09 is expected to be \$32 million, some \$11 million (53.2 per cent) higher than the 2007-08 revised estimate. This increase is mainly due to the expected increase in borrowings by water corporations to fund capital projects and higher interest rates.

Gambling taxes

Gambling taxes are imposed on public lotteries, electronic gaming machines (EGMs), the Casino, racing, and some other minor forms of gambling. The taxes are typically in the form of a percentage of 'player loss', with the tax rate varying by category of gambling. Player loss is equal to the amount gambled less prizes or refunds to players. In the case of EGMs, there is also an annual health benefit levy of \$4 333.33 per machine in operation.

Most government revenue from these forms of gambling is transferred by standing appropriation to the Hospitals and Charities Fund, the Mental Health Fund and the Community Support Fund. In 2008-09, it is estimated that 82 per cent (or some \$1 358 million) of total gambling taxation revenue will be transferred by standing appropriation to these funds.

Overall gambling taxes are expected to increase by 4.1 per cent (\$66 million) to \$1 652 million in 2008-09, compared with the 2007-08 revised estimate, principally reflecting growth in household consumption expenditure.

Levies on statutory corporations

Water corporations are required to pay an annual environmental contribution to fund water-related initiatives that seek to promote the sustainable management of water, and to improve environmental performance.

The environmental contribution levy has been extended for a further four years from 1 July 2008 to 30 June 2012, and is estimated to raise an additional \$295 million over this period (compared to an estimated \$227 million over the four years to 30 June 2008). The environmental contribution is calculated based on a percentage of a corporation's revenue, and the percentage rates are expected to be consistent with the original levy (5 per cent for metropolitan water corporations and 2 per cent for rural water corporations). However, the estimates for the environmental contribution levy are still to

be finalised, with the final funding profile being determined in accordance with the process set out in the *Water Industry Act 1994*. This will occur prior to the end of this financial year and will be the subject of an Order in Council to notify water corporations of the final annual amounts to be sought over the next four-year period.

Taxes on insurance

Non-life insurance

Duty is payable on the gross value of premiums on general insurance business at a rate of 10 per cent. General insurance is any sort of insurance that is applicable to property in Victoria, a risk, contingency or event that may occur within, or partly in Victoria, or both. Motor, home and contents insurance are examples of general insurance. The definition includes insurance in respect of trauma and disabilities, but it excludes health insurance, life insurance and compulsory third party motor vehicle insurance.

Exemptions from payment of this duty relate to policies against damage by hail to cereal and fruit crops, workers' compensation premiums, commercial marine hull insurance, private guarantee fidelity insurance schemes, insurance businesses carried on by organisations registered under Part VI of the Commonwealth *National Health Act 1953* and transport insurance policies. Reinsurance policies are also not dutiable.

Non-life insurance revenue is expected to increase to \$640 million in 2008-09, or by \$27 million (4.4 per cent) compared to the 2007-08 revised estimate, mainly reflecting an expected improvement in non-life insurance premium rates for commercial and domestic classes.

Life insurance

Life insurance is any insurance or assurance in respect of life or lives, or an event or contingency relating to or depending on a life or lives, of persons domiciled in Victoria. Temporary or term life insurance is taxed once at 5 per cent of the first year's premium. For whole of life insurance, duty is payable on the sum insured. Revenue is expected to increase by \$0.2 million (2.6 per cent) in 2008-09 to \$9.5 million compared to the 2007-08 revised estimate.

Duty on compulsory third party premiums

Duty is payable on the value of compulsory third party premiums at a rate of 10 per cent. Compulsory third party premium revenue is expected to increase by \$7.2 million (5.7 per cent) in 2008-09 compared to the 2007-08 revised estimate. This growth reflects an expected increase in the number of registered motor vehicles in 2008-09, as well as the indexation of premiums in line with growth in the CPI.

Insurance contributions to fire brigades

Like New South Wales, Victoria partly funds fire services through an insurance-based funding model. Insurance companies generally choose to recover their contributions through an insurance industry ‘fire services levy’ imposed on premiums from policyholders.

The level of required contributions by insurance companies to the approved annual budget of the Victorian fire services is prescribed under Section 37 of the *Metropolitan Fire Brigades Act 1958* (75.0 per cent) and Section 76 of the *Country Fire Authority Act 1958* (77.5 per cent).

As part of the insurance industry’s contribution, non-residential property owners who choose to either self-insure or insure off-shore, are required by legislation to pay a contribution to whichever fire service covers the area in which their property is located.

In 2008-09, revenue from insurance contributions to fire services is anticipated to increase by \$24 million (6.0 per cent) compared to the 2007-08 revised estimate and reflects continued investments in the state’s emergency services such as modernising statewide emergency services communications, and funding increased demands on fire services to respond to new types of major incidents.

Motor vehicle taxes

Motor vehicle taxes include registration fees and motor vehicle duty.

Vehicle registration fees

Motor vehicle registration fees are fees charged upon the registration of a vehicle and vary according to vehicle type and use of the vehicle. Pensioner and health care cardholders receive a 50 per cent concession on their motor vehicle registration fee while Commonwealth Department of Veterans’ Affairs gold cardholders receive a 100 per cent reduction on their motor vehicle registration fee.

Duty on vehicle registrations and transfer

Duty is levied on the registration and transfer of registration of motor vehicles, motorcycles and trailers in Victoria. The duty is levied on the market value or purchase price (whichever is greater) of the vehicle, at a progressive rate on new passenger cars, and at a flat rate for other vehicles. The rate scale is shown in Table 4.6.

Table 4.6: Motor vehicle duty rates

<i>Market value of vehicle</i>	<i>Duty payable</i>
For motor vehicles not previously registered:	
<i>Passenger cars</i>	
\$ 0 - \$ 57 009	\$5.00 per \$200 or part thereof on entire price
\$ 57 010 or more	\$10.00 per \$200 or part thereof on entire price
<i>Other vehicles</i>	
All values	\$5.00 per \$200 or part thereof on entire price
For motor vehicles previously registered, regardless of where:	
All values	\$8.00 per \$200 or part thereof on entire price

Source: Duties Act 2000

Aggregate motor vehicle taxation revenue is expected to grow by \$64 million (4.8 per cent) compared to the 2007-08 revised estimate.

Of this, registration fee revenue is forecast to increase by \$48 million (6.1 per cent) in 2008-09, as a result of an expected increase in registration volumes principally driven by household and population growth, increasing motor vehicle ownership, solid growth in business vehicle ownership, as well as the indexation of motor vehicle registration fees in line with growth in the CPI. Revenue from duty on motor vehicle registrations and transfers is expected to increase by \$16 million (2.9 per cent) in 2008-09 compared to the 2007-08 revised estimate, with forecast growth in transaction volumes in line with economic activity and moderate growth in average duty paid.

Other taxes

This category includes the landfill levy, which is aimed at reducing the volume of non-recyclable waste disposed at Victorian landfills, concession fees paid in advance by Transurban with respect to Melbourne City Link, which are progressively recognised as income, and liquor licence fees.

The expected decline in Transurban concession fees of \$13 million between 2007-08 revised estimate and 2008-09 reflects a change in the accounting treatment of concession fees which affects several categories in the general government operating statement, but has no overall impact on the net result from transactions.

Dividends, income tax and rate equivalent revenue

This category of revenue comprises dividends, income tax and rate equivalent revenue received by the state from government business enterprises as detailed in Table 4.7.

Table 4.7: Dividends, income tax and rate equivalent revenue

(\$ million)			
	2007-08 <i>Revised</i>	2008-09 <i>Budget</i>	<i>Change</i> %
Dividends	358.5	421.1	17.5
Income tax equivalent revenue	319.1	246.5	- 22.8
Local government rate equivalent revenue	2.2	2.3	4.5
Total dividends, income tax and rate equivalent revenue	679.8	669.9	- 1.5

Source: Department of Treasury and Finance

Dividend, income tax and rate equivalent revenue is expected to be \$670 million in 2008-09, which is \$9.9 million (1.5 per cent) lower than the 2007-08 revised estimate.

Total dividend revenue is expected to increase by \$63 million (17.5 per cent) between the 2007-08 revised estimate and 2008-09. The increase is primarily driven by the recognition of a dividend from SECV of \$75 million in 2008-09.

Total income tax equivalent revenue is expected to decrease by \$73 million (22.8 per cent) in 2008-09 compared with the 2007-08 revised estimate. The 2007-08 revised result is primarily driven by a restructure of investments held by the Transport Accident Commission and Victorian WorkCover Authority, which has triggered significant capital gains tax payments. In 2008-09 the income tax equivalent payments are expected to fall to the anticipated long-term average.

Interest revenue

Interest revenue is estimated to be \$402 million in 2008-09, \$29 million or 7.9 per cent higher than the 2007-08 revised estimate. This is mainly due to the finalisation of accounting entries relating to the Melbourne Exhibition and Convention Centre which reflect the first full financial year following financial close. The increase in interest revenue also reflects a small increase in cash and liquid assets held within the general government sector and increases in deposit rates.

Sales of goods and services

As reported in Table 4.1, revenue from sales of goods and services is estimated to be \$4 334 million in 2008-09, an increase of 5.2 per cent or \$213 million on the 2007-08 revised estimate. Factors contributing to this change include:

- an increase in inter-sector capital asset charge revenue from VicTrack reflecting increased VicTrack asset values due to additional capital expenditure arising from past budget initiatives;

- growth in regulatory fee revenue due to increased warrant issue fees for unpaid fines and an increase in revenue from the Prescribed Industrial Waste levy;
- an increase in revenue from the provision of services, including hospitals revenue from other parties (such as commercial and private practice arrangements, ambulance and aged care residential services) and from VicRoads external works; and
- CPI indexation of a range of fees and charges.

Note 4 of the *Estimated Financial Statements*, Budget Paper No.4, Chapter 1, *Estimated Financial Statements and Notes*, provides a breakdown by major category.

Other current revenue

Other revenue includes the fair value of assets received free of charge, the inter-sector capital asset charge, royalties and rents, donations and gifts and other miscellaneous income. These are shown in Table 4.8.

Table 4.8: Other current revenue

	(\$ million)		
	2007-08 Revised	2008-09 Budget	Change %
Fair value of assets received free of charge or for nominal consideration	85.5	21.8	- 74.5
Fines	430.0	492.2	14.5
Royalties	40.4	42.0	3.8
Donations and gifts	168.5	175.7	4.3
Forgiveness of liability	
Other non-property rental	15.1	15.1	0.2
Other miscellaneous income	696.3	718.8	3.2
Other current revenue	1 435.8	1 465.6	2.1

Source: Department of Treasury and Finance

In 2008-09 other revenue is expected to be \$1 466 million, or \$30 million (2.1 per cent) higher than the 2007-08 revised estimate. This is due to an increase in revenue from fines, as well as small changes in other revenue sources, being largely offset by reduced revenue from assets received free of charge or for nominal consideration.

The decline in revenue in the form of assets received free of charge from the 2007-08 revised estimate of \$85 million to an expected \$22 million in 2008-09 is due to the one-off boost to 2007-08 revenue arising from the transfer of assets from EastLink to the state.

Fines revenue is expected to increase by 14.5 per cent between the 2007-08 revised estimate and 2008-09 to \$492 million. This is principally due to an expected increase in traffic camera and on-the-spot speeding fines arising from the planned opening of the EastLink Tollway which will begin to contribute fine revenue in early 2008-09 and the annual CPI indexation of fines. This is expected to be partially offset by lower infringement volumes in 2008-09 due to improved driver behaviour.

Other miscellaneous income is expected to increase by \$22 million to \$719 million in 2008-09. This reflects several factors including the partial forgiveness of a 2007-08 payment relating to social housing, and, in 2008-09, a contribution towards the Melbourne Theatre Company building by Melbourne University and fund raising by the Melbourne Recital Centre. Partly offsetting these factors is an expected return to more typical levels of unclaimed monies revenue, and the absence of several one-off receipts in 2007-08 (including a contribution from Connect East).

GRANTS

Summary information on the amounts budgeted to be received under the various grant categories in 2007-08 and 2008-09 are shown in Table 4.9.

The detailed estimates provided in this chapter represent the latest information available to the Victorian Government at the time of finalisation of the 2008-09 Budget. The changes to the system of specific purpose payments agreed to by COAG in March 2008, which are expected to commence on 1 January 2009, are discussed in Budget Paper No.2, Chapter 5, *Economic Reform Agenda*. Existing special purpose payments which lapse before 31 December 2008 are expected to be rolled over until 31 December 2008, with the exception of the Australian Health Care Agreement (AHCA). New arrangements for the AHCA and related health grants will be finalised by 31 December 2008 and commence on 1 July 2009. As the Commonwealth has indicated that ongoing grants will be extended on the basis of current terms and conditions, including existing indexation arrangements, grants that lapse over the estimates period have been forecast using current funding and growth factors.

Table 4.9: Grants

(\$ million)

	2007-08 Revised	2008-09 Budget	Change %
Current grants			
GST grants	9 389.1	10 281.4	9.5
Other general purpose grants	9.9	..	- 100.0
General purpose grants	9 399.0	10 281.4	9.4
Specific purpose own use grants ^(a)	4 551.2	4 487.3	- 1.4
Specific purpose grants for on-passing	1 865.5	1 967.5	5.5
Other Commonwealth grants ^(a)	159.9	169.7	6.1
Other contributions and grants	6.0	6.0	..
Total current grants	15 981.5	16 911.9	5.8
Capital grants			
Specific purpose own use grants ^(a)	920.2	376.5	- 59.1
Specific purpose grants for on-passing	170.7	150.4	- 11.9
Other Commonwealth grants ^(a)	0.5	6.5	1 268.5
Other contributions and grants	107.8	109.8	1.9
Total capital grants	1 199.2	643.2	- 46.4
Total grants	17 180.7	17 555.0	2.2

Source: Department of Treasury and Finance

Note:

(a) Specific purpose own use grants and other Commonwealth grants are equal to 'other specific purpose grants' in Note 5 of Budget Paper No.4, Chapter 1, Estimated Financial Statements.

General purpose grants are expected to increase by \$882 million (9.4 per cent) to \$10 281 million in 2008-09 reflecting growth in GST grants, which encompasses growth in the estimated GST pool (generally in line with economic growth) and an increase in Victoria's share of the GST pool.

Total specific purpose own use grants are expected to decline by \$608 million (11.1 per cent) in 2008-09 largely due to a reduction in specific purpose own use capital grants arising from the completion or winding down of several programs and projects.

Total specific purpose grants for on-passing are forecast to increase by \$82 million (4.0 per cent) in 2008-09, largely because of increased grants for on-passing to non-government schools.

General purpose grants

In accordance with the *Intergovernmental Agreement on the Reform of Commonwealth State Financial Relations*, the states and territories receive all GST revenue. The GST grant distributions between states and territories are determined by the GST relativities that are recommended by the Commonwealth Grants Commission (CGC) to the Commonwealth Government. These recommendations are underpinned by the principle of horizontal fiscal equalisation. The system is expected to distribute over \$45 billion in GST revenue in 2008-09.

The CGC attempts to comprehensively equalise the financial capacities of all states by conducting detailed assessments of capacity and disability for 13 revenue and 39 expenditure categories. The CGC updates its relativities annually to reflect movements in state circumstances, while the methodologies underpinning the annual updates are subject to detailed review by the CGC approximately every five years. The 2008 Update, released in March this year, was based on the application of the methodologies developed by the 2004 methodology review.

Based on the new relativities recommended in the 2008 Update, which was calculated from data for the five years to 2006-07, Victoria's GST grants for 2008-09 would notionally increase by \$317 million, or just 0.7 per cent of the total estimated GST pool, compared to the previous assessed relativity. According to the CGC, the improvement in Victoria's 2008-09 relativity mainly reflects the increased relative capacity of other states, in particular Western Australia and Queensland, to raise revenue from mining and stamp duty on land transfers.

The 2008 Update incorporated population and socio-demographic composition data from the 2006 Census for the first time. The Victorian population was revised up by proportionally more than the national population in all years between 2002 and 2006, which increased Victoria's population share. This in turn increased Victoria's share of the GST pool regardless of changes in CGC relativities.

Since the Commonwealth Government ceased National Competition Policy payments in 2005-06, general purpose grants to Victoria reflect solely GST grants, although in 2007-08, a National Competition Policy payment of \$9.9 million was received. This amount was part of the 2005 payment which had been suspended by the Commonwealth pending satisfactory progress by Victoria, South Australia and New South Wales on water trading in the Murray-Darling Basin.

In 2008-09, GST grant payments are expected to be \$10 281 million which represents an increase of \$892 million (9.5 per cent), compared to the 2007-08 revised estimate. This compares with an estimated growth of 5.9 per cent in the estimated total GST pool. Victoria's higher GST growth mainly reflects the increased share of the GST revenue pool as a result of the revised relativities outlined above.

2010 Commonwealth Grants Commission Review

Approximately every five years, the CGC undertakes a review of the methodology used to distribute the GST. The review to determine the methodology to apply from 2010-11 is currently underway (2010 Review).

The 2010 Review is examining key issues such as whether the present approach, which is based on a comprehensive assessment of virtually all revenue and expense items received or incurred by states, is appropriate and necessary, the size and trend of the redistributions, simplification, and data issues.

Specific purpose own use operational grants

Specific purpose own use operational (current) grants in 2008-09 are expected to be \$4 487 million. These mainly relate to the departments of Education and Early Childhood Development; Innovation, Industry and Regional Development; and Human Services (Table 4.10), although there are grants relating to other departments (Table 4.11).

Table 4.10: Specific purpose own use operational grants – Education and Early Childhood Development; Innovation, Industry and Regional Development and Human Services

	(\$ million)		
	2007-08 Revised	2008-09 Budget	Change %
Department of Education and Early Childhood Development			
Assistance to government schools	440.0	460.3	4.6
Literacy, Numeracy and Special Learning Needs	73.3	76.7	4.7
Special Learning Needs - ESL New Arrivals	28.8	20.3	- 29.6
All other current grants	31.5	27.4	- 13.0
	573.6	584.7	1.9
Department of Innovation, Industry and Regional Development			
Commonwealth TAFE	261.0	260.0	- 0.4
Australian Synchrotron	10.0	10.0	..
	271.0	270.0	- 0.4
Department of Human Services			
Health Care grant	2 348.1	2 349.4	0.1
Home and Community Care Program	246.8	263.3	6.7
Housing Agreement	216.1	216.1	..
Disability Agreement	143.0	145.4	1.7
Highly Specialised Drugs Program	130.0	143.0	10.0
Australian Immunisation Agreement	133.5	64.1	- 52.0
Compensation for extension of pensioner benefits	51.3	52.4	2.2
Public Health Outcome Funding Agreement	40.6	41.5	2.3
Supported Accommodation Assistance Program	38.9	39.9	2.5
Aged Care Assessment	16.5	17.5	5.8
COAG Drug Diversion Initiative	15.2	15.2	..
Elective surgery waiting list reduction plan	11.4	22.8	100.0
All other current grants	21.9	22.2	1.4
	3 413.2	3 392.8	- 0.6

Source: Department of Treasury and Finance

Education and Early Childhood Development

Commonwealth funding is provided for a range of Commonwealth and state programs for government and non-government schools. Funds are also provided to support Victoria's participation in national priority programs.

For school programs, the Commonwealth legislates funding allocations quadrennially without predicting likely cost movements over time. Supplementary funding is then provided retrospectively through regulation to meet any changes in costs that have occurred over the period.

Current funding to schools is usually supplemented according to changes in actual average per student costs in government schools (known as the Average Government School Recurrent Cost (AGSRC) Index).

Commonwealth financial assistance for schools is appropriated through the *Schools Assistance (Learning Together – Achievement Through Choice and Opportunity) Act 2004*. Funding conditions are specified in detail in the Quadrennial Funding Agreement and associated administrative guidelines and regulations. The current Quadrennial Funding Agreement was signed for the 2005-08 quadrennium on 22 June 2005. Victoria is expected to receive \$2.5 billion for government schools under the agreement comprising \$1.7 billion in general current grants and \$800 million for targeted programs and capital grants including the Investing in Our Schools Programme. A new agreement is currently subject to negotiation and is expected to apply from 1 January 2009. In 2008-09, overall operating Commonwealth assistance to government schools is estimated to be \$460 million, an increase of \$20 million on the 2007-08 revised estimate. As mentioned above, these estimates relate to the movements in AGSRC, which is set by the Commonwealth each year.

Literacy, Numeracy and Special Learning Needs is estimated to be \$77 million in 2008-09, an increase of \$3.4 million on the 2007-08 revised estimate. These estimates also relate to the movements in the AGSRC.

In 2008-09, Special Learning Needs – ESL New Arrivals is estimated to be \$20 million, a decrease of \$8.5 million on the revised 2007-08 estimate. In 2007-08 the department will receive the first of two instalments at 75 per cent instead of the usual 50 per cent. This is a one-off measure by the Commonwealth to cater for a rate increase introduced for humanitarian students only. The 2008-09 Budget does not reflect the full impact of this rate increase as the audited student numbers and composition will not become available until late 2008.

Innovation, Industry and Regional Development

Commonwealth funding for vocational education and training (VET) is appropriated and distributed under the 2005-08 Commonwealth-State agreement for Skilling Australia's Workforce, which has replaced the Australian National Training Authority annual agreement. The use of funds is subject to a VET plan which aligns with national priorities, along with an annual review process with the Commonwealth Government.

In 2008-09, operational funding for TAFEs is expected to be \$260 million. The Commonwealth Government allocates an indexed pool of funding for all states and allocates this funding based on each state's population share of certain demographic groups. The small decline between 2008-09 and the 2007-08 revised estimate reflects changes in Victoria's population shares for the relevant demographic groups between 2007 and 2008.

The Commonwealth and the Victorian Government have agreed to jointly contribute to the operating costs of the Australian Synchrotron under a deed of agreement between the Commonwealth of Australia, as represented by the Department of Education, Science and Training; and the State of Victoria, as represented by the Department of Innovation, Industry and Regional Development. Under the deed, the Commonwealth agreed to contribute \$50 million for expenses of the Synchrotron Company or the holding company over a five year period.

Human Services

The Health Care grant is provided through the *Australian Health Care Agreement* (AHCA) to assist Victoria to meet the cost of providing public hospital services to eligible persons. The current agreement ceases at 30 June 2008 and is to be rolled over until 30 June 2009. New arrangements for the AHCA will be finalised by 31 December 2008 and commence on 1 July 2009.

The aim of the *Home and Community Care Program* is to develop and deliver a range of integrated home and community care services to frail older people, people with disabilities and their carers. Services funded by the program include home care, respite, nursing, allied health, personal care, social support and meals. Local governments, district nursing services, community health services and non-government organisations deliver these services, either in the home or in community centres.

The *Commonwealth-State Housing Agreement* provides funding for the provision of long term housing assistance to low income Victorians, including through the public, community and Indigenous housing sectors. The agreement includes commitments to increase the provision of non-government participation in affordable housing, reduce workforce disincentives for tenants and improve Indigenous housing outcomes. This agreement is due to expire at the end of June 2008, but it is expected to be rolled-over until January 2009 to provide sufficient time for the finalisation of negotiations for its replacement - a broader National Affordable Housing Agreement.

The *Commonwealth State-Territory Disability Agreement* (CSTDA) funds specialist disability services and measures and reports progress on the national framework for people with a disability. The objective of the national framework is to enhance the quality of life experienced by people with a disability by assisting them to live as valued and participating members of the community. Victoria has administrative responsibility for accommodation and support services, while the Commonwealth Government has administrative responsibility for employment related services for people with

disabilities, with advocacy and print disability a shared responsibility between the Victorian and Commonwealth Governments. The CSTDA has an interim agreement to 30 June 2008. This is expected to be extended until January 2009 and replaced with a new, broader agreement.

The Commonwealth provides funding for a list of highly specialised medicines with a high unit cost that have a significant role in maintaining patients in a community setting. The Commonwealth provides these funds to the state to reimburse hospitals that have supplied the highly specialised medicines to community patients. The medicines that are funded are for chronic conditions that, because of their clinical use or special features, are restricted to supply through hospitals that have access to appropriate specialist facilities.

The *Australian Immunisation Agreement* provides funding and accountability mechanisms to enable Victoria and the Commonwealth to work cooperatively to prevent major vaccine preventable diseases. This is achieved through the provision of free immunisation to eligible cohorts and improved vaccine management.

Under the arrangement for the extension of pensioner benefits, the Commonwealth compensates state and territory governments for extending concessions to eligible pensioners, older long term allowees and beneficiaries.

The *Public Health Outcome Funding Agreement* creates flexible funding and accountability mechanisms to enable Victoria and the Commonwealth to work cooperatively to improve the health and wellbeing of Victorians. This is achieved through the enhanced delivery of public health activities, to adhere to nationally agreed policies and strategies. The broad public health objectives focus on communicable diseases, cancer screening and health risk factors.

The *Supported Accommodation Assistance Program Agreement* provides funding for the delivery of homelessness assistance and support services for people experiencing or at risk of homelessness, and to those affected by family violence. These services provide crisis accommodation directly, access to transitional housing management services for short to medium term accommodation and support to help people move to sustainable, long term housing options. Consideration is being given to subsuming the *Supported Accommodation Assistance Program Agreement* under the proposed *National Affordable Housing Agreement*.

Aged Care Assessment provides funding to ensure that older people (and in some exceptional circumstances younger people with disabilities) have access to services appropriate to meet their support needs. The funding allows for assessment of the physical, medical, psychological and social care needs of clients; development of a care plan with the individual and their carer/family along with provision of information and support to clients about appropriate services and referral to services which are available to meet clients' needs and preferences. The assessment determines eligibility for Commonwealth funded residential care facilities, community aged care, extended aged care at home, dementia and transition care program places, if appropriate.

The *COAG Drug Diversion Initiative* provides funding to increase incentives for drug users to identify and treat their illicit drug use early. It also aims to decrease the social impact of illicit drug use within the community and to prevent drug users committing drug-related crime therefore leading to safer community environments.

The *Elective surgery waiting list reduction plan* provides funding to perform elective surgery on patients that are waiting longer than the clinically recommended time for elective surgery. This funding will add to the capacity of Victoria's health services in undertaking elective surgery procedures and the provision of public hospital services.

In 2008-09, operational specific purpose grants for human services in Victoria are estimated to be \$3 393 million, a decrease of \$20 million (0.6 per cent) compared to the 2007-08 revised estimate, with major changes occurring in:

- the Health Care grant which is expected to increase by \$1.4 million (0.1 per cent) due to additional one-off funding of \$121 million anticipated to be received in 2007-08, to relieve pressure on public hospitals in 2008-09;
- *Home and Community Care Program* grants which are expected to increase by \$16 million (6.7 per cent) reflecting an expansion of the program by the Commonwealth;
- the *Highly Specialised Drugs Program* grant is expected to increase by \$13 million (10.0 per cent) reflecting the expansion of the Pharmaceutical Benefits Scheme;
- grants under the *Australian Immunisation Agreement* which are expected to decrease by \$69 million due to fixed-term funding for Human Papilloma Virus vaccine and Childhood Pneumococcal vaccine provided in 2007-08; and
- the Commonwealth's *Elective surgery waiting list reduction plan* funding which provides an additional \$11 million (100 per cent) to meet negotiated elective surgery activity.

Other specific purpose own use operational grants

Other operational specific purpose own use operational (current) grants are detailed in Table 4.11.

Table 4.11: Specific purpose own use operational grants – other Departments

(\$ million)			
	2007-08 <i>Revised</i>	2008-09 <i>Budget</i>	<i>Change</i> %
Department of Infrastructure			
Interstate road transport	14.4	14.7	2.5
	14.4	14.7	2.5
Department of Justice			
Compensation for transfer of corporate regulatory function to Commonwealth	50.7	52.0	2.5
Legal aid	31.6	28.9	-8.6
All other current grants	10.00	10.00	..
	92.3	90.9	-1.6
Department of Primary Industries			
Exceptional Circumstances relief payments	112.5	36.0	-68.0
All other current grants	1.7	1.7	..
	114.2	37.7	-67.0
Department of Sustainability and Environment			
Natural Heritage Trust ^(a)	31.8	43.3	36.2
National Action Plan - Salinity and Water Quality ^(a)	6.2	15.0	141.5
Snowy River environmental flows	15.9	15.9	..
All other current grants	18.4	22.0	19.7
	72.3	96.2	33.1
Other departments			
	0.3	0.3	..

Source: Department of Treasury and Finance

Note:

(a) *From 2008-09 these initiatives will be integrated into the new Commonwealth program Caring for our Country (with Victoria's program to be known as the Natural Resources Investment Program).*

These grants include:

- Interstate road transport: The Federal Interstate Registration Scheme (FIRS) levies registration charges on vehicles engaged in interstate trade and commerce under the *Interstate Road Transport Act 1985*. The Commonwealth Government pays a share of revenue collected under the FIRS scheme to states and territories, to cover the costs of maintenance and upkeep on roads used by motor vehicles registered under this Act.
- Compensation for transfer of corporate regulatory function to Commonwealth: In 1991, to ensure uniformity and efficiency in company and securities regulation, the states agreed to hand over their regulatory functions to the Commonwealth. The states are compensated by the Commonwealth for the financial loss of companies and securities regulation revenues as a result of this change.
- Legal aid: Commonwealth specific purpose grants are paid to assist the functioning of state legal aid schemes. The Commonwealth provides funding for a share of the operating costs of state legal aid commissions and for referrals to private practitioners on Commonwealth matters.
- Exceptional Circumstances relief payments: These payments relate to Commonwealth Government grant payments for drought assistance for farmers and farm-related small businesses in drought declared areas in Victoria. Based on the current declarations of Exceptional Circumstances, the funding requirement for these grants is expected to decline by \$77 million (68.0 per cent) in 2008-09 compared with the 2007-08 revised estimate. This will be reviewed during the year if there are any changes to the criteria or extensions to Exceptional Circumstances declared areas.
- The Commonwealth has introduced a new program, Caring for our Country, which will commence in 2008-09. This program will integrate a number of existing natural resource management programs, including the National Action Plan for Salinity and Water Quality and the Natural Heritage Trust, into a consolidated program. Victoria's contribution towards this program will be through the state's *Natural Resources Investment Program*. The 2008-09 estimates have yet to be confirmed by the Commonwealth, and are subject to the new funding framework that has been introduced by the Commonwealth for this program. Therefore, for budgeting purposes it has been assumed that the arrangements and expected funding profile in place prior to the introduction of this new program, will continue to be applicable in 2008-09.
- Snowy River environmental flows: funding to increase environmental flows to the Snowy River.

Specific purpose own use capital grants

Specific purpose own use capital grants are expected to be \$376 million in 2008-09 a decline of \$544 million (59.1 per cent) on the 2007-08 revised estimate. The major grants are detailed in Table 4.12.

Table 4.12: Specific purpose own use capital grants

(\$ million)			
	2007-08 Revised	2008-09 Budget	Change %
Department of Education and Early Childhood Development			
Government Schools	74.7	75.7	1.4
Investing in Our Schools: Government Schools	78.6	..	- 100.0
All other capital grants	0.8	0.8	..
	154.0	76.5	- 50.3
Department of Innovation, Industry and Regional Development			
Commonwealth TAFE	42.5	42.5	..
	42.5	42.5	..
Department of Human Services			
	10.9	0.2	- 98.3
Department of Infrastructure			
Roads	412.2	253.2	- 38.6
	412.2	253.2	- 38.6
Department of Sustainability and Environment			
Wimmera-Mallee Pipeline	164.5	1.0	- 99.4
National Water Initiative - Living Murray	11.0	2.2	- 80.3
Goldfields Superpipe	115.0	..	- 100.0
All other capital grants	10.1	0.9	- 91.5
	300.6	4.0	- 98.7
Total specific purpose own use capital grants	920.2	376.5	- 59.1

Source: Department of Treasury and Finance

Education and Early Childhood Development

For school programs, the Commonwealth legislates funding allocations quadrennially without predicting likely cost movements over time. Supplementary funding is then provided retrospectively through regulation to meet any changes in costs that have occurred over the period. Capital funding is supplemented in accordance with movements in the Building Price Index.

In 2008-09, capital funding for the Department of Education and Early Childhood Development is estimated to be \$77 million, a decrease of \$78 million (50.3 per cent) on the 2007-08 revised estimate. This reflects a \$79 million reduction in funding due to the conclusion of the Commonwealth's Investing in Our Schools Programme at the end of the 2007-08 financial year.

Innovation, Industry and Regional Development

In 2008-09 capital funding for TAFEs is estimated to be \$43 million, unchanged from the 2007-08 revised estimate. This funding is provided for TAFE institutions to purchase specialist training equipment and undertake specific approved major capital projects and a range of minor capital programs.

Human Services

The \$11 million reduction in specific purpose own use capital grants funding for human services primarily relates to the cessation of the *Pathways Home* program in 2007-08.

Infrastructure

The Commonwealth contributes roads funding through *AusLink*, which is an integrated approach to road and rail development launched in June 2004. *AusLink* provides for funding to key road and rail links throughout Australia that are of national significance. Through *AusLink*, the Commonwealth will commit \$1.5 billion from 2004-05 to 2008-09 to the development of Victorian road and rail infrastructure.

In 2008-09, roads grants under the *AusLink* program are estimated to be \$253 million, a decrease of \$159 million (38.6 per cent) compared to the 2007-08 revised estimate. This is mostly due to the original *AusLink* program winding down, resulting in lower cash flows for the remaining projects as they near completion. The amount of funding received each year varies depending on project timelines.

Additional roads grants will be provided by the Commonwealth in future years under an extension of the *AusLink* program, which will begin in 2009-10 and conclude in 2013-14.

Sustainability and Environment

The Wimmera-Mallee Pipeline project is currently running ahead of the original schedule, and as a consequence the majority of the Commonwealth funding was brought forward into 2007-08. The pipeline is now targeted to be completed in late 2009.

Under the Living Murray Initiative the Victorian Government has a commitment to achieve water savings of 214 billion litres a year for the River Murray and its Victorian tributaries by June 2009. The National Water Initiative - Living Murray grant provides funding for the Goulburn-Murray Water Recovery Package which will generate water savings through measures including the upgrade of headworks, development of reconfiguration plans and undertaking of reconfiguration works across the Goulburn-Murray area. The \$8.8 million decline between the 2007-08 revised estimate and 2008-09 reflects the payments schedules agreed to for the current projects under this initiative.

Construction on the Goldfields Superpipe project commenced in February 2007 and has been fast tracked to secure water supplies for Ballarat and Bendigo for the next 50 years. The Bendigo link of the Superpipe was completed in August 2007 and the Ballarat link is estimated to be completed by mid 2008. The \$115 million decline in grants for the Goldfields Superpipe project in 2008-09 compared to the 2007-08 revised estimate reflects the project timing.

Specific purpose grants for on-passing

The state also receives specific purpose grants which are 'on-passed' to various bodies such as non-government schools and local government authorities. In such cases, the state simply acts as the vehicle for distributing the Commonwealth funds. Specific purpose grants for on-passing in 2008-09 are estimated to be \$2 118 million, with the major grants as set out in Table 4.13.

Table 4.13: Specific purpose grants for on-passing

	(\$ million)		
	2007-08 <i>Revised</i>	2008-09 <i>Budget</i>	Change %
Current grants			
Assistance to non-government schools	1 495.6	1 584.9	6.0
Financial assistance grants to local government (operating)	303.4	314.7	3.7
Targeted programs for non-government schools	66.5	67.9	2.2
Total current grants	1 865.5	1 967.5	5.5
Capital grants			
Identified local roads grants to local government	112.0	116.2	3.7
Non-government schools	33.7	34.1	1.4
Investing in Our Schools: Non-government schools	25.0	..	- 100.0
Total capital grants	170.7	150.4	- 11.9
Total grants	2 036.2	2 117.9	4.0

Source: Department of Treasury and Finance

Assistance to non-government schools

Assistance is provided to non-government schools for operating and capital costs of school education. It is a major revenue source for a large proportion of non-government schools. Under the Commonwealth's socio-economic status (SES) of school communities model, the minimum funding entitlement on a per student basis is set at 13.7 per cent of the AGSRC, and payable to schools with an SES score of 130 points or more. The maximum payment is set at 70 per cent of the AGSRC and payable to schools with SES scores of 85 points or below.

Current and capital funding to non-government schools is expected to increase by \$66 million (4.1 per cent) in 2008-09 compared to the 2007-08 revised estimate, primarily reflecting an increase in the operational grants to non-government schools. This movement in the general current grant for non-government schools represents anticipated enrolment growth and estimated indexation as determined by the movement in the AGSRC. This increase has been partly offset by a \$25 million reduction in funding due to the conclusion of the Commonwealth Investing in Our Schools Programme at the end of 2007-08.

Financial assistance grants to local government (operating)

An equal per capita basis for distributing total assistance to the states and territories occurs pursuant to the *Local Government (Financial Assistance) Act 1995*. These grants are estimated to increase by 3.7 per cent to \$315 million in 2008-09, in line with Commonwealth estimates of population and CPI growth.

Identified local roads grants to local government

Funding to local councils is provided on a per capita and road length basis pursuant to the *Local Government (Financial Assistance) Act 1995*. These grants are estimated to increase by 3.7 per cent to \$116 million in 2008-09, in line with Commonwealth estimates of population and CPI growth.

