

APPENDIX A – OPERATING STATEMENT RECONCILIATION

INTRODUCTION

This appendix supports the commentary provided in Chapter 3, *Budget Position and Outlook*, by providing a reconciliation and explanations of the key movements in the 2009-10 to 2011-12 net result from transactions since these estimates were published in the *2008-09 Budget Update*.

Table A.1: Reconciliation of 2008-09 Budget Update to 2009-10 Budget estimates^(a)

	(\$ million)		
	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Net result from transactions: 2008-09 Budget Update	412.4	429.7	547.7
Plus: Variations in income from transactions since 2008-09 Budget Update			
Policy decision variations	17.0	17.4	17.9
Economic/demographic variations			
Taxation	(365.0)	(410.4)	(485.1)
Investment income ^(b)	(210.1)	(1.9)	9.0
Total economic/demographic variations	(575.1)	(412.3)	(476.2)
Commonwealth grant variations			
General purpose grants	(1 137.9)	(1 179.9)	(1 080.6)
Specific purpose payment grants	4 229.8	2 701.6	1 500.4
Total Commonwealth grant variations	3 091.9	1 521.7	419.8
Increase in own-source revenue	171.7	129.8	104.8
Administrative variations	242.1	375.6	515.5
Total variation in income from transactions since 2008-09 Budget Update	2 947.6	1 632.1	581.7
Less: Variations in expenses from transactions since 2008-09 Budget Update			
Policy decision variations^{(c) (d)}	689.1	224.9	139.9
Commonwealth variations	1 462.4	744.3	199.0
Variations due to changes in own-source revenue	83.5	90.6	88.8
Administrative variations			
Superannuation variations	130.0	136.7	118.1
Other administrative variations	830.0	670.0	293.4
Total administrative variations	959.9	806.7	411.5
Total variation in expenses from transactions since 2008-09 Budget Update	3 194.8	1 866.5	839.2
Revised net result from transactions	165.1	195.3	290.3

Source: Department of Treasury and Finance

Notes:

- (a) Totals may not add due to rounding.
- (b) Investment income includes dividends, income tax and rate equivalent revenue and interest.
- (c) Policy decisions are net of funding from contingencies and other efficiencies.
- (d) Policy decisions include some expenditure associated with Commonwealth funding for the delivery of the Commonwealth Nation Building – Economic Stimulus Plan and the COAG outcomes of November 2008.

Variations to income from transactions

When compared to the estimates published in the *2008-09 Budget Update*, total income from transactions is estimated to be \$2 948 million higher in 2009-10, \$1 632 million higher in 2010-11 and \$582 million higher in 2011-12.

New revenue policy decisions made by government are expected to result in increased revenue of \$17 million in 2009-10 and an average of \$18 million a year in 2010-11 and 2011-12. This reflects increased taxpayer compliance as a result of the *State Revenue Office – Compliance and e-Sys* initiative announced in this budget.

The impact of the Global Financial Crisis on the Victorian economy and other economic and demographic variables have resulted in downward revisions in taxation revenue of \$365 million in 2009-10 and an average of \$448 million a year in 2010-11 and 2011-12.

Material changes to taxation revenue estimates due to economic and demographic changes include:

- a downwards revision to land transfer duty revenue (down by \$174 million in 2009-10 and on average by \$152 million a year in the following two years) reflecting the current weakness in the property market and the deterioration in the economic outlook;
- a downwards revision to payroll tax revenue (down by \$150 million in 2009-10 and by an average of \$225 million a year in the following two years) primarily due to the deterioration in the employment outlook;
- a downwards revision to gambling taxes and duty on motor vehicle registrations and transfer (down by \$119 million combined in 2009-10 and by an average \$158 million a year in the following two years);
- an upwards revision to land tax revenue (up \$48 million in 2009-10 and by an average \$44 million a year in the following two years) due to higher than expected site revaluations as at 1 January 2008; and
- an upwards revision to insurance tax revenue (up \$17 million in 2009-10 and by an average \$23 million a year in the following two years) reflecting expected increases in insurance premiums.

Investment income has been revised downwards by \$210 million in 2009-10, with minor revisions in 2010-11 and 2011-12.

The fall in investment income in 2009-10 mainly reflects a deferral of State Electricity Commission of Victoria (SECV) dividends and a reduction in dividends from the Transport Accident Commission (TAC) as a result of reduced profitability during 2008-09 due to challenging financial conditions. It also reflects a downward revision in investment revenue of \$35 million from both the Victorian Property Fund and the Residential Tenancy Fund due to a decrease in interest rates affecting fund earnings.

Further deterioration in financial markets since the *2008-09 Budget Update* has resulted in a reduction of expected income tax equivalent revenue from the TAC and the Victorian WorkCover Authority (VWA) of \$154 million in 2011-12 as a result of carry-forward tax losses. No ITEs are forecast to be received from these agencies over the period 2009-10 to 2011-12.

Total Commonwealth grants have been revised upwards by \$3 092 million in 2009-10, \$1 522 million in 2010-11 and \$420 million in 2011-12.

General purpose grants in the form of GST have been revised downwards by \$1 138 million in 2009-10 and by an average of \$1 130 million a year in 2010-11 and 2011-12. This reduction is primarily related to a decline in the GST pool reflecting the deterioration in the outlook for the Australian economy.

Specific purpose payment (SPP) grants from the Commonwealth have been revised upwards by \$4 230 million in 2009-10, \$2 702 million in 2010-11 and \$1 500 million in 2011-12. The profile of the expected total additional Commonwealth SPP grants revenue since the *2008-09 Budget Update* primarily reflects the timing of the *Nation Building – Economic Stimulus Plan* in 2009-10 and 2010-11. This upwards revision primarily reflects:

- additional funding secured through the new *Intergovernmental Agreement on Federal Financial Relations* announced by the Council of Australian Governments (COAG) in November 2008. This is expected to average \$785 million a year from 2009-10 to 2011-12 and provides a significant funding injection by the Commonwealth into the areas of health, education, skills and workforce development and housing;
- increased grants for the delivery of the Commonwealth *Nation Building – Economic Stimulus Plan*. This includes funding for the expansion of the Government's infrastructure investment program in schools, housing, community infrastructure and roads. Funding is also included for repairs to existing public housing dwellings and grants for on-passing to non-government schools for further infrastructure investment in this sector; and
- funding expected under the Nation Building Program (AusLink II) agreement with the Commonwealth has been revised upwards by an average of \$272 million a year over the three-year period based on updated estimates of project cashflows. This will be invested in the Government's infrastructure investment program.

Own-source revenue has been revised upwards by \$172 million in 2009-10 and an average of \$117 million a year in 2010-11 and 2011-12 primarily reflecting contributions from water authorities to the infrastructure investment associated with the *Northern Victoria Irrigation Renewal Project (NVIRP)* (\$78 million a year on average over the period). The upwards revision also reflects additional revenue for the health sector (\$31 million a year on average over the period) from TAC, VWA and other sources for additional services.

Administrative variations have been revised upwards by \$242 million in 2009-10, \$376 million in 2010-11 and by \$515 million in 2011-12. This primarily reflects:

- the receipt of higher capital assets charge (CAC) revenue from VicTrack (\$106 million in 2010-11 and \$215 million in 2011-12) reflecting the Government's significant investment in new rail-related infrastructure as part of the *2009-10 Budget*;
- contributions associated with the establishment and operation of a new cross-border health service, *Albury Wodonga Health*, (\$55 million in 2009-10 rising to \$58 million in 2011-12) which is associated with offsetting expenditure; and
- additional revenue of \$31 million in 2009-10 and an average of \$31 million a year in the following two years due to a change in accounting treatment which progressively recognises gross (rather than net) City Link concession fee revenue in accordance with accounting conventions.

Variations to expenses from transactions

Compared to the *2008-09 Budget Update*, total expenses from transactions are estimated to be \$3 195 million higher in 2009-10, \$1 867 million higher in 2010-11 and \$839 million in 2011-12.

New output policy decisions (net of funding from contingencies and other efficiencies) made by the Government since the *2008-09 Budget Update* account for \$689 million in 2009-10, \$225 million in 2010-11 and \$140 million in 2011-12 of these additional expenses. This reflects the Government's commitment to secure Victorian jobs during the current economic downturn, and to continue to invest in high-quality service delivery.

Policy decisions made by Government include expenditure associated with the *Nation Building – Economic Stimulus Plan* such as maintenance funding for existing social housing dwellings. They also include expenditure associated with the new *Intergovernmental Agreement on Federal Financial Relations* announced by COAG in November 2008 as mentioned above.

Expenditure revisions associated with Commonwealth grant variations account for additional expenditure of \$1 462 million in 2009-10, \$744 million in 2010-11 and \$199 million in 2011-12. This mainly reflects the on-passing of grants to non-government schools, and non-government organisations to build social housing as part of the *Nation Building – Economic Stimulus Plan*. The expense profile of Commonwealth variations therefore reflects the timing of the *Nation Building – Economic Stimulus Plan* in 2009-10 and 2010-11.

Budget Paper No. 3, Chapter 1, *Service and Budget Initiatives*, provides more detailed information on the Government's service delivery commitments, while Budget Paper No. 3, Appendix A, *Output, Asset Investment and Revenue Initiatives*, provides a detailed list and description of all service delivery initiatives announced in the *2009-10 Budget*.

Expenditure associated with variations in own-source revenue has been revised upwards by \$83 million in 2009-10 and an average of \$90 million a year in 2010-11 to 2011-12. This primarily reflects the expenditure associated with the additional revenue generated by the health sector mentioned above as well as contributions from water authorities to the operating costs of NVIRP.

Total administrative variations are expected to increase by \$960 million in 2009-10, \$807 million in 2010-11 and \$412 million in 2011-12.

Superannuation related expenses have been revised upwards by \$130 million in 2009-10 and by an average of \$127 million a year in 2010-11 and 2011-12. The increase is primarily due to a lower value of superannuation assets being available to generate the planned return on assets and thus offset the accruing cost of superannuation entitlements. The lower than expected value of superannuation assets is primarily attributable to the ongoing Global Financial Crisis which has adversely impacted on asset values through financial market volatility and reduced corporate profitability. Despite this, the State's superannuation assets continue to be invested in accordance with a long term investment strategy that is appropriately aligned to the term and nature of the liabilities.

Other administrative variations include:

- an increase in the contingency provision of \$246 million in 2009-10 and an average of \$424 million in 2010-11 and 2011-12 that is not allocated to departments. This provides for the future funding of programs to meet the Government's service delivery priorities and takes into account anticipated future growth in the demand for government services and other unquantified expenditure risks such as those that may still be realised from the 2009 bushfires. It also reflects decisions made by Government that have not yet been announced;
- a revision to the existing departmental funding and price review models used to inform the appropriate level of funding for non-wage costs from 2010-11 onwards, in line with lower inflation expectations. Together with the new wages policy, this will allow the Government to manage underlying expenditure growth while supporting the government's commitment to maintaining real wages and its pledge to protect public sector jobs;
- an increase in interest expense reflecting the Government's commitment to maintain and expand its infrastructure program against the backdrop of a challenging economic environment (\$49 million in 2009-10 and an average of \$208 million in the following two years);
- increased expenditure associated with the establishment of *Albury Wodonga Health* of \$55 million in 2009-10 and an average of \$57 million a year in the following two years as mentioned above;

- additional expenditure of \$31 million in 2009-10 and an average of \$31 million a year in 2010-11 and 2011-12 associated with the change in accounting treatment for City Link concession fees as mentioned above; and
- an increase in CAC provided to VicTrack (\$44 million in 2009-10 and an average of \$129 million in 2010-11 and 2011-12 as mentioned above).

