

CHAPTER 1 – ECONOMIC AND FISCAL STRATEGIES AND OBJECTIVES

- The *2009-10 Budget* confirms Victoria's strong fiscal position, despite the substantial adverse impact of the Global Financial Crisis. The Government is forecasting an operating surplus of \$165 million in 2009-10, and an average of \$349 million over the forward estimates period.
- Victoria's economy faces a much more challenging economic environment than it has for many years, and there are risks that the outlook could be worse than forecast.
- The Government has reassessed its short-term operating surplus target to ensure it remains relevant, and has revised the target from at least 1 per cent of revenue to at least \$100 million to allow for the delivery of vital services and the provision of key infrastructure, while maintaining a sound fiscal position.
- The budget includes measures designed to support economic activity and secure jobs, and to assist recovery from the February 2009 bushfires. It also positions the State for long-term growth in production and employment as global conditions recover.
- Net infrastructure investment is projected to be \$7 billion in 2009-10 and an average of \$4.4 billion a year from 2010-11 to 2012-13. This investment will help to cushion Victoria from the worst effects of the Global Financial Crisis by securing 35 000 jobs and build capacity for future strong growth.
- Strong, sustainable state finances remain essential to the long-term health of the Victorian economy. They underpin the State's triple-A credit rating, low borrowing costs and a stable economic environment, which together maintain business and consumer confidence and drive investment and jobs growth.
- Reflecting the Government's substantial infrastructure program, general government net debt will increase to 5.1 per cent of gross state product (GSP) in 2012-13. The Government is committed to maintaining debt at prudent levels and will achieve this by constraining expenditure growth, maintaining operating surpluses and reducing borrowings in the medium term.

THE ECONOMY AND THE BUDGET

The Government is forecasting an operating surplus (net result from transactions) of \$165 million in 2009-10, with an average of \$349 million over the forward estimates period.

The budget has been framed against a deteriorating global and local economic environment and reflects the impact of slower growth on government finances. In particular, GST revenue and state taxation revenue forecasts have been revised down significantly since the *2008-09 Budget*, although revenue overall has been revised up primarily because of larger grants from the Commonwealth for specific purposes, including under the *Nation Building – Economic Stimulus Plan*. The budget includes measures designed to support economic activity and protect jobs through the downturn, and to assist recovery from the Victorian 2009 bushfires.

The budget also positions the State for long-term growth in production and employment as global conditions recover, maintaining a strong, sustainable fiscal position and building Victoria's infrastructure, skills and human capital in line with the Government's longer-term economic and fiscal strategies. The Government remains committed to delivery of key services in health, education and community safety.

Strong, sustainable state finances remain essential to the long-term health of the Victorian economy. They underpin the State's triple-A credit rating, low borrowing costs and a stable economic environment, which maintain business and consumer confidence and drive investment and jobs growth. The *2009-10 Budget* represents a strong response to short-term adverse economic circumstances, while also demonstrating the Government's commitment to prudent fiscal management and reform that will position the State to take advantage of improvements in economic conditions.

CURRENT ECONOMIC CONDITIONS AND OUTLOOK

The economic outlook for Victoria has deteriorated in the face of the Global Financial Crisis. Large falls in financial asset prices nationally and internationally have reduced household wealth and consumer confidence, leading to weakness in consumer spending. A decrease in business confidence and tightening credit conditions are likely to lead to large declines in private business investment. In line with national trends, the Victorian labour market has also softened. The unemployment rate increased sharply over the year to 5.7 per cent in March compared with just above 4 per cent a year earlier.

Victoria faces a much more challenging economic environment than it has for many years and risks remain on the downside. Further detail on the economy and the economic outlook is in Chapter 2, *Economic Conditions and Outlook*.

RESPONDING TO CURRENT CHALLENGES

Global Financial Crisis

The global nature and extent of the current downturn present major challenges for governments and monetary authorities.

In Australia, the Reserve Bank has reduced the cash rate by 4.25 percentage points since September 2008, bringing the official interest rate to 3 per cent, its lowest level in almost 50 years. Reductions in mortgage interest rates have improved housing affordability and, together with the stimulatory effect of the *First Home Owner Boost*, have resulted in a tentative recovery in dwelling approvals in Victoria. Despite the easing in monetary policy, conditions in the business sector are still affected by constrained access to credit and high borrowing costs.

The Commonwealth Government has introduced substantial measures to support economic activity, including over \$50 billion in spending on major stimulus packages since October 2008.

Victoria is working actively with the Commonwealth Government to implement projects funded through the *Nation Building – Economic Stimulus Plan*, as well as through a series of National Partnerships designed to improve services in education, health and housing. Victoria will also leverage Commonwealth labour market programs and target increased education, training and retraining opportunities to help school leavers and retrenched workers position themselves for recovery.

The Victorian Government will deliver a record infrastructure program, with a focus on projects that can start quickly and secure jobs. Net infrastructure investment is projected to be a record high of \$7 billion in 2009-10 and will average \$4.4 billion a year over the forward estimates period. This builds on the already large infrastructure program of recent years, of around \$4 billion annually. The Government has provided funding for the delivery of the first stage of the *Victorian Transport Plan* and is also investing in essential infrastructure in the areas of housing, health and education.

These investments, funded by the Victorian Government and through the Commonwealth fiscal stimulus package, represent a large and targeted economic stimulus that will help to cushion the Victorian economy from the worst of the Global Financial Crisis, as well as prepare the State to take advantage quickly of the economic upturn by reducing infrastructure bottlenecks. Combined with significant projects being delivered through public-private partnerships and the public non-financial corporations sector, this investment program will secure up to 35 000 jobs in 2009-10.

The Government is also taking immediate action to fast-track major private sector development projects to support activity and employment. Since April 2009, the Government announced that it would fast-track ten significant projects, and more enduring planning and regulatory reforms are being developed. The Government is also committed to supporting residential construction activity through releasing land in a timely way and continuing to assist home buyers.

Victorian 2009 bushfires

The Government is investing in the recovery of bushfire affected towns and regions in response to the Victorian 2009 bushfires, one of the worst natural disasters in Australian history. The Government has established, in partnership with the Commonwealth, the Victorian Bushfire Reconstruction and Recovery Authority to oversee and coordinate the rebuilding of communities.

The Government is also working in partnership with the Red Cross and the Commonwealth Government to manage the unprecedented volume of donations generously provided by Victorians, Australians and the international community. A Royal Commission has been established to investigate the causes and response to the fires and to make recommendations to mitigate similar events occurring in the future.

Further detail on specific policy measures in this budget is provided in Budget Paper No. 3 Appendix A, *Output, Asset Investment and Revenue Initiatives*.

ENSURING LONG-TERM STRONG SUSTAINABLE GROWTH

The Global Financial Crisis and the resulting impact on the Victorian economy mean that the focus of the *2009-10 Budget* is on supporting economic activity and employment. In the current environment, the Government needs to support economic activity in ways that meet the needs of the community and build capacity for the future. This budget is a strong response to these difficult economic times.

However, the health of the Victorian economy over the medium term, especially its ability to support investment and generate jobs, also requires government to give high priority to ensuring that the conditions are in place to underpin strong growth as economic conditions improve.

The lessons of the past decade are instructive. Victoria's strong economic record has been supported by a combination of sound financial management, investment in the State's productive capacity and an ambitious reform agenda. These three building blocks for growth in production and jobs remain a priority for Victoria.

This budget demonstrates the Government's commitment to protecting the State's triple-A rating, ensuring a sustainable operating balance and helping to return the economy to a strong growth path.

At the same time, the Government is investing heavily in Victoria's infrastructure, skills and human capital, which will support strong growth in output and jobs in the future.

Victoria also remains committed to a vigorous reform program to improve competitiveness and take full advantage of the economic upturn when it comes, including through skills reform, infrastructure initiatives, and reducing the burden of state regulation on businesses. The economic downturn presents opportunities to accelerate reforms in areas such as education and training, which will strengthen the capability of the workforce for the future. The current environment also means that the public sector must continue to identify efficiencies in its own operations to protect jobs and maintain key services for a growing and ageing population.

Further detail on the Government's fiscal strategy and investment program is in the following section. Further detail on the Government's reform agenda is provided in Chapter 5, *Economic Reform Agenda*.

SUSTAINABLE FISCAL STRATEGY

The Victorian Government's fiscal strategy is underpinned by a set of key short-term and long-term financial policy objectives. These objectives are built on the following principles of sound fiscal management set out in the *Financial Management Act 1994* (the Act):

- manage financial risks faced by the state prudently, having regard to economic circumstances;
- pursue spending and taxing policies consistent with a reasonable degree of stability and predictability in the level of the tax burden;
- maintain the integrity of the Victorian tax system;
- ensure that government policy decisions have regard to their financial effects on future generations; and
- provide full, accurate and timely disclosure of financial information relating to the activities of the Government and its agencies.

The Government's short-term and long-term financial objectives and targets are summarised in Table 1.1 below. Further detail on the objectives and a discussion of how the *2009-10 Budget* will continue to support their achievement is in following sections, and in Chapter 3, *Budget Position and Outlook*.

Table 1.1: 2009-10 Financial objectives and strategies

<i>Objective</i>	<i>Short-term target</i>	<i>Long-term target</i>
Operating surplus	Operating surplus of at least \$100 million in each year	Maintain a substantial budget operating surplus that allows for the delivery of the Government's infrastructure objectives
Infrastructure	Implement strategic infrastructure projects	Deliver world-class infrastructure to maximise economic, social and environmental benefits
Service delivery	Implement the 2006 election commitments	Provide improved service delivery to all Victorians
Taxation	Implement reforms	Provide a fair and efficient tax system that is competitive with other states
Net financial liabilities	Maintain a triple-A credit rating	Maintain state government net financial liabilities at prudent levels

Source: Department of Treasury and Finance

Operating surplus

Despite the economic downturn, Victoria's fiscal position remains strong, and the prudent approach taken by the Government will ensure sustainable fiscal outcomes through the forward estimates period.

The Government remains committed to achieving its short and long-term operating surplus targets.

The Government has reassessed its short-term operating surplus target to ensure it remains relevant in the current fiscal and economic environment. The target has been revised from an operating surplus of at least 1 per cent of revenue (in the *2008-09 Budget*) to at least \$100 million to allow for the delivery of vital services and the provision of key infrastructure, while also maintaining a sound fiscal position.

In the future, the Government is committed to returning to a budgeted operating surplus of at least 1 per cent of revenue. Budgeting for operating surpluses allows the Government to deliver on its infrastructure program to secure Victorian jobs, while maintaining net debt at prudent levels.

The Government is forecasting an operating surplus (net result from transactions) of \$165 million in 2009-10, with an average of \$349 million over the forward estimates period (see Chart 1.1).

In the short term, the operating surplus has been affected by a number of factors, including:

- lower state taxation and GST revenue as a result of the current economic downturn and Global Financial Crisis;

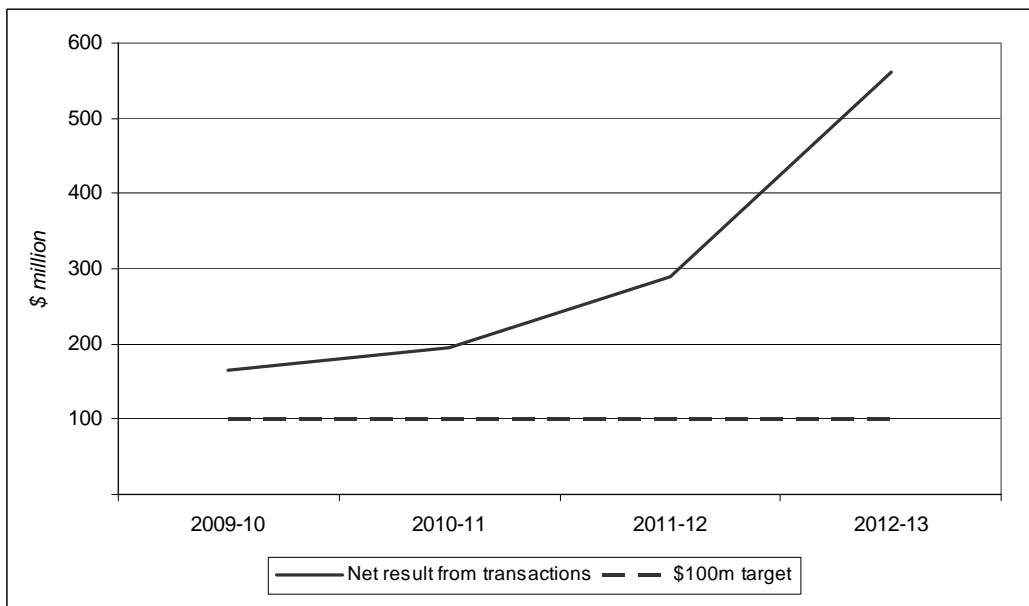
- policy measures taken by the Government to support activity and meet short-term needs, including for recovery from the Victorian 2009 bushfires; and
- the one-off Commonwealth Government fiscal stimulus package, which funds a mix of services and infrastructure; the associated expenditure is therefore recorded partially on the operating statement and partially on the balance sheet as part of the Government's infrastructure investment program.

Compared with the estimates published in the *2008-09 Budget Update*, the operating surplus is expected to be \$247 million lower in 2009-10, and an annual average of \$246 million lower from 2010-11 to 2011-12. Although economic growth is expected to be significantly lower and economic conditions have worsened, total revenue has been revised upwards since the *2008-09 Budget Update*. This primarily reflects payments from the Commonwealth for specific purposes, including under the fiscal stimulus package, partly offset by substantial reductions in State taxation and GST revenue.

Revenue and expenses are projected to grow by 1.6 per cent a year and 1.3 per cent a year on average, respectively, between 2009-10 and 2012-13.

Growth in revenue and expenses is similar in 2009-10 and 2010-11, but expenditure grows more slowly than revenue during the later forward estimates years. This widening gap between revenue and expenditure growth from 2011-12 reflects a rebuilding of the taxation base as economic conditions improve, and the Government's commitment to prudent management of operating expenditure.

Chart 1.1: General government sector net result from transactions



Source: Department of Treasury and Finance

Infrastructure

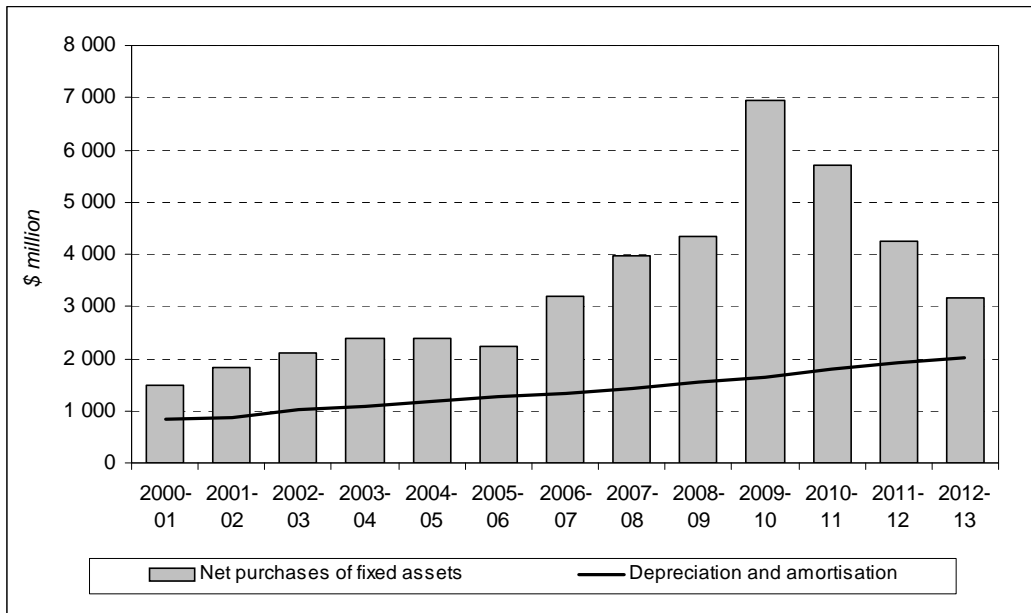
The Government continues to invest in strategic infrastructure projects to generate jobs in the short term and deliver world class infrastructure assets that generate economic, social and environmental benefits for current and future generations. These projects will help to ensure that Victoria is well positioned to take advantage of opportunities from the economic recovery.

Net infrastructure investment by the general government sector is projected to be a record \$7 billion in 2009-10 and an average of \$4.4 billion a year from 2010-11 to 2012-13 (see Chart 1.2).

The substantial investment in 2009-10 and 2010-11 reflects a temporary boost from the projects being funded by the Commonwealth fiscal stimulus package, as well as the exceptionally high levels of Victorian Government infrastructure investment. In 2011-12 and 2012-13, general government net infrastructure investment remains at historically high levels, even though the Commonwealth stimulus investment and substantial state initiatives will be almost concluded. Returning the state capital program to long-term sustainable levels is an important element of the Government's budget management strategy, and critical to ensuring that the State's budget remains on a prudent path within and beyond the forward estimates period.

Infrastructure investment is expected to exceed estimated depreciation between 2009-10 and 2012-13 (see Chart 1.2), resulting in growth of 9 per cent in the general government real capital stock over this period. The general government real capital stock is the accumulation of past acquisitions of land, buildings, infrastructure, equipment and intangible assets by the general government sector, less amounts used up in depreciation. It represents an important part of the State's capacity to grow, to deliver quality services, and to support private sector economic activity.

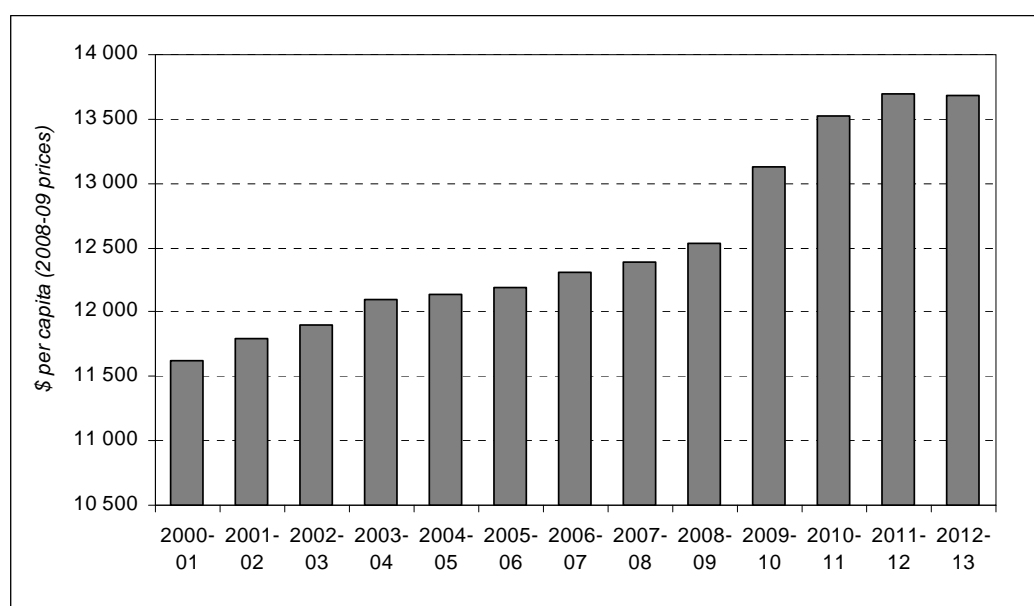
Chart 1.2: General government sector net infrastructure investment



Source: Department of Treasury and Finance

Growth in the general government real capital stock is expected to outstrip population growth, resulting in a significant rise in the average stock of public infrastructure for each Victorian (see Chart 1.3).

Chart 1.3: General government sector real capital stock per capita as at 30 June^(a)



Source: Department of Treasury and Finance

Note:

(a) Real capital stock is equal to total non-financial assets less inventories, non-financial assets held for sale and other non-financial assets in 2008-09 prices.

The 2009-10 Budget delivers substantial funding commitments for the first tranche of initiatives under the *Victorian Transport Plan*, with \$4.9 billion provided in partnership with the Commonwealth Government to deliver new services and infrastructure to transform Victoria's transport system.

Victoria is working actively with the Commonwealth Government to cushion the economy from the worst of the Global Financial Crisis and to ensure Victoria is well positioned to benefit from the expected economic recovery. In partnership with the Commonwealth, Victoria will deliver a \$1.7 billion boost to social housing which will provide over 5 000 new dwellings and stimulate jobs in the construction sector.

Victorian government schools will receive a significant boost of \$2.9 billion in infrastructure funding in this budget. This includes \$402 million total estimated investment from the State Government to continue the rebuilding and modernising of all government schools under the *Victorian Schools Plan*, and \$2.4 billion for Victorian education infrastructure under the Commonwealth Government's *Building the Education Revolution* initiative.

Outside the general government sector, significant investment will be delivered, including the construction of the Wonthaggi desalination plant and other projects from the Victorian Water Plan.

It is estimated that delivery of this overall program of infrastructure investment, coupled with Victoria's expected share (based on population) of the Commonwealth's three infrastructure funds, will secure up to 35 000 jobs in 2009-10. This includes an estimated 25 000 people working on these projects in construction and related services, plus up to 10 000 in other parts of the economy supplying materials, components and services for those projects.

Service delivery

The *2009-10 Budget* provides \$6.5 billion over five years in funding for output initiatives. It also demonstrates the benefits of a cooperative relationship with the Commonwealth Government, with funding to implement a number of major initiatives agreed by the Council of Australian Governments in the areas of health, education, housing, skills and Indigenous services.

The budget provides \$1.1 billion over the next five years for health and hospital services, including funding to meet Victoria's National Partnership commitments. Highlights include \$781 million over five years for an expansion of hospital services to address increasing demand pressures, a \$72 million investment in the health workforce and a \$45 million boost for an elective surgery blitz.

In addition, there is also funding for *Mental Health Reform Strategy* initiatives and disabilities reform, with \$84 million and \$68 million respectively provided to enable people with mental health issues and disabilities to lead fulfilling lives and participate in the community.

Bushfire response and recovery measures have been allocated funding of \$908 million over five years. This includes funding for fire suppression and emergency management of the Victorian 2009 bushfires, initiatives to support individuals, businesses and communities affected by the bushfires, and initiatives to increase preparedness for future bushfires.

The *2009-10 Budget* also commits \$330 million over four years in additional funding to strengthen the justice system, provide for enhanced policing and expand corrections services. To build on skills reform, \$141 million over five years in skills initiatives has been committed to ensure that all Victorians are given the opportunity to access the training they require to find employment.

The Government is continuing to build services in health, education and community safety by implementing its *Labor's Financial Statement 2006* election commitments. Through the *2008-09 Budget*, the Government completed funding for the delivery of all its election output commitments totalling \$2.7 billion. Continuing through this budget, the Government makes significant progress towards funding its election asset commitments with a total estimated investment of \$549 million, building on the \$2.5 billion of initiatives previously funded. The remaining \$429 million of election asset commitments will be delivered in next year's budget.

Taxation

The Victorian Government remains committed to providing a fair and efficient tax system that is competitive with other states.

The Government has announced and implemented substantial tax reform over the past 10 years. These reforms aim to improve economic outcomes by increasing the efficiency and equity of the Victorian tax system, and include:

- over \$5.3 billion worth of announced tax cuts;
- abolishing eight state taxes as agreed with the Commonwealth Government under the *Intergovernmental Agreement on Federal Financial Relations*, faster than any other state;
- a flattening out of the land tax scale and significant reductions in payroll and land tax rates;
- significant reform of land tax to moderate the impact of the property market boom; and
- measures to reduce the capacity for tax evasion so that taxpayers who are doing the right thing are not unduly burdened. Examples include strengthening anti-avoidance provisions in the conveyancing duty base and reducing the incentive for landowners to minimise their land tax liabilities through the use of trusts.

In addition, the Government has been a leader in reducing compliance costs for businesses dealing with state taxes across borders by harmonising payroll tax administration with the other states from 2007. More recently, the Victorian Government has reduced compliance costs on business by establishing an online tax e-business system, which is now used by 96 per cent of businesses to lodge their payroll tax and is available to all businesses to manage their land tax affairs. This has saved businesses up to \$10 million in administrative costs.

The Government has implemented a number of reforms aimed at making home ownership easier for Victorians. These include the introduction of the *First Home Bonus* from June 2004 and implementing the 2006 election policy to introduce a Principal Place of Residence concession on stamp duty on land transfers. The *2008-09 Budget* also extended the Principal Place of Residence conveyancing duty concession to those eligible for the *First Home Owner Grant* and *First Home Bonus*, and introduced the *Regional First Home Bonus*.

The Commonwealth Government's review of Australia's tax and transfer system (the Henry Review) – including state taxes and transfers – represents an opportunity to identify other potential tax reforms. To make changes, the Commonwealth and state governments have to work together to improve the effectiveness of a tax system that is out of step with the responsibilities of different levels of government. The states operate

in an environment of vertical fiscal imbalance, where they raise insufficient revenue to fund their expenditure responsibilities, and so depend on Commonwealth grants. This imbalance stands in the way of significant reform to state taxation; any reforms made must not be to the further detriment of state financial independence.

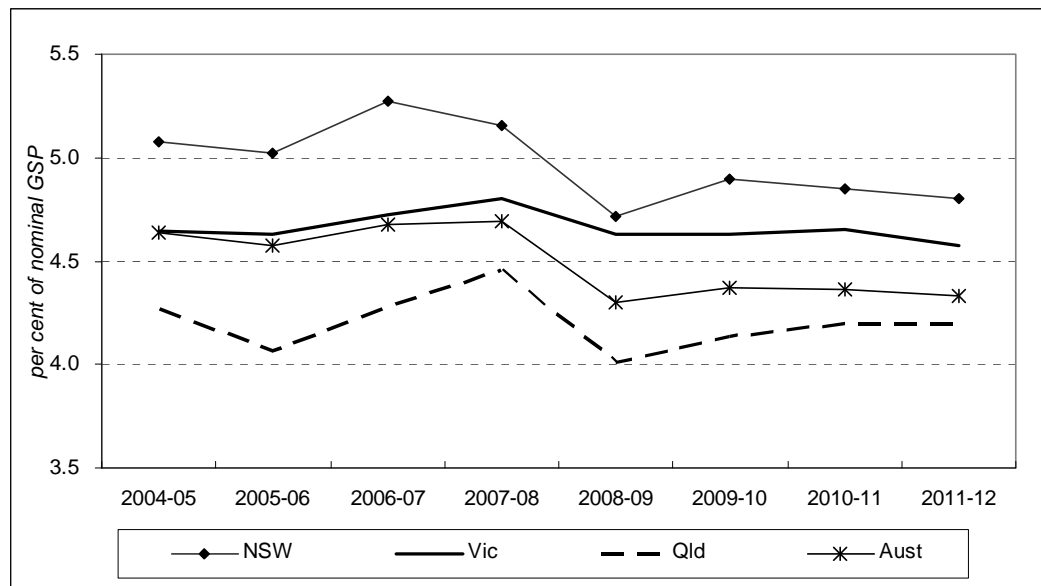
Under the *Intergovernmental Agreement on Federal Financial Relations*, all states and territories agreed to abolish a range of taxes by 1 July 2013. Victoria was the first state to abolish all the agreed taxes, doing so by 1 January 2007, and Tasmania is the only other state to have also complied. Given the expected economic benefits to business and the broader community, the Victorian Government remains committed to taxation reforms, even though taking the lead in this important area of reform has arguably disadvantaged Victoria from a budgetary point of view. Had Victoria delayed tax reform by following the New South Wales (NSW) timetable, it is estimated that Victoria would have received around \$1.4 billion extra revenue over the last nine years and \$400 million over the next three years.

Since the *2008-09 Budget Update*, several states including NSW, Queensland and South Australia have announced that they were deferring abolition of some taxes that were to be abolished under the *Intergovernmental Agreement on Federal Financial Relations*.

Chart 1.4 provides a comparison of Victoria's taxation competitiveness with NSW, Queensland and the Australian average, based on estimates published at a similar time in the *2008-09 Budget Update* (or equivalent publication) of these jurisdictions. Over the period 2004-05 to 2011-12, Victoria maintains a lower tax to GSP ratio than NSW and is expected to narrow the gap with Queensland and move closer to the Australian average over the forward estimates period.

States have recently announced revenue raising measures to address deteriorating budget positions as a result of the Global Financial Crisis. For example, NSW and Queensland increased their land tax rates and have deferred abolition of taxes. As a result, Victorian businesses and investors with landholdings valued over \$400 000 will now pay less land tax than those in NSW. Meanwhile, compared with Queensland, Victorian businesses now pay lower land tax than their counterparts for all properties valued between \$350 000 and \$5.7 million, increasing to \$7 million in 2010.

Chart 1.4: Taxation revenue as a percentage of GSP^(a)



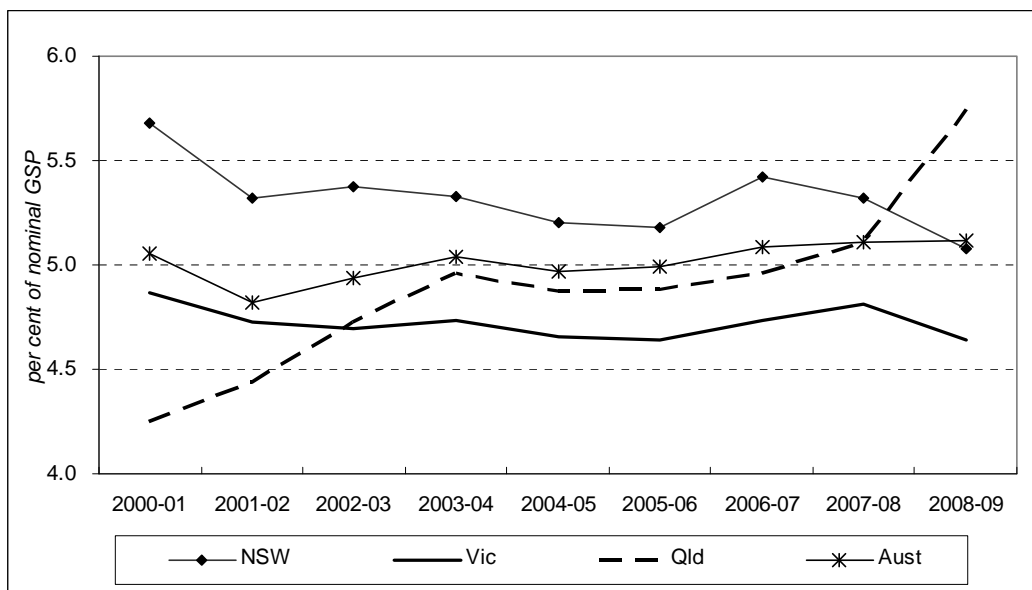
Sources: Australian Bureau of Statistics, Department of Treasury and Finance and various state publications

Note:

(a) Historical taxation data to 2007-08. Thereafter, taxation data are 2008-09 Budget Update (or equivalent publication) estimates, being the latest forward estimates available on a consistent basis across all jurisdictions.

Making interstate comparisons of tax competitiveness is difficult and Victoria's position also needs to be considered in the broader context. For example, unlike some other states, Victoria has only limited access to royalty revenue. In 2007-08, Western Australia, Queensland and NSW each collected in excess of \$500 million in royalty revenue compared with around \$40 million for Victoria. Chart 1.5 shows that Victoria's ratio of taxes plus royalties to GSP is below that of the Australian average over the decade since 2000-01, with the gap widening in 2008-09.

Chart 1.5: Taxation and royalty revenue as a percentage of GSP^(a)



Sources: Australian Bureau of Statistics, Commonwealth Grants Commission, Department of Treasury and Finance and various state publications

Note:

- (a) Historical taxation and royalty data to 2007-08. Taxation and royalty data for 2008-09 are 2008-09 Budget Update (or equivalent publication) estimates. In addition, NSW and Tasmania royalty data for 2008-09 are estimated from data in their respective 2008-09 budgets.

Net financial liabilities

The Government's balance sheet remains solid. This has been achieved through a commitment to the sound financial management of the Victorian Government's net financial liabilities. Victoria's triple-A credit rating was reaffirmed by Standard & Poor's in November 2008, and by Moody's in January 2009. Over the forward estimates period, it is expected that 51 per cent of the general government sector infrastructure program will be financed by cash operating surpluses, with the balance to be funded by increases in borrowings. This is consistent with the Government's strategy to continue to invest in essential infrastructure to support economic activity and protect jobs during the current downturn, enhancing Victoria's competitiveness once recovery occurs.

The resulting increase in borrowings over the forward estimates period will remain within sustainable and fiscally prudent levels, as constrained growth in operating expenditure allows cash operating surpluses to contribute substantially to the financing of infrastructure spending.

General government borrowings (reflected in the measure of net debt to GSP) are projected to rise between 2009-10 and 2011-12, before falling in 2012-13 to 5.1 per cent of GSP. These borrowings are being applied to implement the Government's substantial, and historically high, capital investment program.

The Government recognises the importance of balancing the need to support the Victorian economy during the current economic downturn with ensuring that the State's budget remains on a sustainable path over the forward estimates period and beyond, and maintaining the State's triple-A credit rating.

In April 2009, the Government announced it would be securing and preserving jobs in the public sector through a new wages policy. In response to lower inflation forecasts, the Government announced that the 3.25 per cent a year guideline rate a year for Enterprise Bargaining Agreements would drop to 2.5 per cent, with the opportunity for further increases in line with productivity increases.

In line with the lower inflation expectations, the Government will also revise the existing departmental funding and price review models used to inform the appropriate level of funding for non-wage costs from 2010-11 onwards. Together the changes to how wage and non wage costs are funded 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.

To this end, the Government is committed to reducing its borrowings over the medium term by returning the infrastructure program to historical levels as a per cent of GSP towards the end of the forward estimates period, thus reducing the call on cash to fund new infrastructure, and allowing the projected increased operating surpluses to repay existing debt.

In combination, these measures will ensure that general government borrowings remain at sustainable levels and that the State is well placed to take advantage of opportunities presented in the economic recovery.

The ratio of net financial liabilities to GSP is set to rise over the forward estimates period, from 7.6 per cent in June 2008 to 15.5 per cent by June 2013. This increase reflects higher levels of borrowings along with an \$11.5 billion increase in the reported superannuation liability during 2008-09, with \$7.4 billion of this increase attributable to a reduction in the Commonwealth bond rate. The bond rate forms the basis of the discount rate required to be used to value the superannuation liability. The Government has no control over the discount rate and does not seek to forecast its future movements.