

APPENDIX C – REVISED 2008-09 BUDGET OUTCOME

This appendix provides revised estimates of the budget outcome for the 2008-09 financial year. The revised 2008-09 estimates take into account government policy decisions and economic developments impacting on both income and expenses since the presentation of the *2008-09 Budget* to Parliament in May 2008. This appendix also references the major policy decisions and commitments of the Commonwealth Government that have impacted on the financial position of Victoria in 2008-09.

REVISED 2008-09 COMPREHENSIVE OPERATING STATEMENT

The revised 2008-09 comprehensive operating statement is presented in Table C.1. It shows that the revised GG sector net result from transactions for 2008-09 is estimated at \$163 million, \$665 million lower than the *2008-09 Budget* estimate and \$219 million lower than that estimated in the *2008-09 Budget Update*.

Table C.1: 2008-09 Comprehensive operating statement

	(\$ million)			
	2008-09 Budget	2008-09 Revised	Change	Change %
Revenue				
Taxation revenue	13 382.9	12 720.0	(662.8)	(5.0)
Interest	402.2	408.2	6.0	1.5
Dividends and income tax equivalent and rate equivalent revenue	669.9	474.2	(195.7)	(29.2)
Sales of goods and services	4 334.5	5 076.6	742.1	17.1
Grants	17 555.0	18 789.4	1 234.3	7.0
Other current revenue	1 465.6	1 683.8	218.2	14.9
Total revenue	37 810.0	39 152.1	1 342.1	3.5
Expenses				
Employee expenses	14 225.6	14 366.6	141.0	1.0
Superannuation interest expense	518.6	609.7	91.1	17.6
Other superannuation	1 339.6	1 394.6	55.0	4.1
Depreciation	1 609.4	1 557.4	(52.0)	(3.2)
Interest expense	499.4	566.7	67.3	13.5
Other operating expenses	12 350.4	13 251.1	900.6	7.3
Grants and other transfers	6 439.4	7 243.0	803.6	12.5
Total expenses	36 982.4	38 989.1	2 006.7	5.4
Net result from transactions – Net operating balance	827.5	163.0	(664.6)	(80.3)
Other economic flows included in net result				
Net gain/ (loss) on sale of non-financial assets	39.9	11.7	(28.1)	(70.6)
Net gain/ (loss) on financial assets or liabilities at fair value	0.6	(26.1)	(26.7)	(4846.7)
Net actuarial gains/ (losses) of superannuation defined benefits plans	..	(11 316.7)	(11 316.7)	n.a
Other gains/ (losses) from other economic flows	(151.1)	(1 021.7)	(870.6)	576.4
Total other economic flows included in net result	(110.6)	(12 352.7)	(12 242.1)	11065.6
Net result	716.9	(12 189.7)	(12 906.7)	(1800.3)
Other Economic Flows – Other Movements in Equity				
Revaluations of non-financial assets	2 293.5	503.2	(1 790.3)	(78.1)
Net gain on equity investments in other sector entities at proportional share of net assets	407.2	(3 979.9)	(4 387.0)	(1077.5)
Other movements in equity	(10.5)	(19.0)	(8.5)	80.9
Total other economic flows – Other movements in equity	2 690.2	(3 495.7)	(6 185.9)	(229.9)
Comprehensive result – Total change in net worth	3 407.1	(15 685.4)	(19 092.5)	(560.4)
FISCAL AGGREGATES				
Net operating balance	827.5	163.0	(664.6)	(80.3)
Less: Net acquisition of non-financial assets from transactions	1 269.2	1 666.7	397.4	31.3
Net lending/ (borrowing)	(441.7)	(1 503.7)	(1 062.0)	240.4

Source: Department of Treasury and Finance.

Revenue from transactions

Total estimated revenue from transactions for 2008-09 has been revised upward by \$1 342 million (3.5 per cent) from the *2008-09 Budget* estimate of \$37 810 million. Of this movement, \$160 million was reported in the *2008-09 Budget Update*. The major factors contributing to the revision in estimates are discussed below.

Taxation

In 2008-09, taxation revenue is expected to amount to \$12 720 million, \$663 million (5.0 per cent) lower than the original *2008-09 Budget* estimate and a downward revision of \$160 million since the *2008-09 Budget Update*. The decrease for 2008-09 is primarily the result of lower than expected land transfer duty revenue, gambling and motor vehicle taxes, offset by higher than expected land tax revenue.

Table C.2: 2008-09 Taxation

	(\$ million)			
	2008-09 Budget	2008-09 Revised	Change	Change %
Taxes on employers' payroll and labour force	3 963.2	4 023.5	60.3	1.5
Taxes on property				
Taxes on immovable property				
Land tax	1 049.8	1 236.8	187.0	17.8
Congestion levy	39.2	42.1	2.9	7.3
Metropolitan improvement levy	105.4	106.0	0.6	0.6
Property owner contributions to fire brigades	42.2	41.3	(1.0)	(2.3)
Total taxes on immovable property	1 236.6	1 426.2	189.6	15.3
Financial and capital transactions				
Land transfer duty	3 736.9	2 894.6	(842.2)	(22.5)
Other property duties	10.2	8.6	(1.6)	(15.8)
Financial accommodation levy	32.1	26.6	(5.4)	(16.9)
Total financial and capital transactions	3 779.1	2 929.9	(849.3)	(22.5)
Total taxes on property	5 015.7	4 356.0	(659.7)	(13.2)
Taxes on the provision of goods and services				
Gambling taxes				
Private lotteries	354.8	343.3	(11.5)	(3.2)
Electronic gaming machines	1 025.0	1 000.7	(24.3)	(2.4)
Casino	135.0	142.5	7.4	5.5
Racing	129.4	130.4	1.0	0.8
Other	7.7	8.4	0.7	9.0
Total gambling taxes	1 651.9	1 625.3	(26.6)	(1.6)
Levies on statutory corporations	73.7	73.7
Taxes on insurance	1 207.1	1 221.0	13.9	1.2
Total taxes on the provision of goods and services	2 932.7	2 920.0	(12.7)	(0.4)
Taxes on the use of goods and performance of activities				
Motor vehicle taxes				
Vehicle registration fees	829.4	822.0	(7.4)	(0.9)
Duty on vehicle registrations and transfers	581.5	498.0	(83.5)	(14.4)
Total motor vehicle taxes	1 410.9	1 320.0	(90.9)	(6.4)
Franchise taxes	7.8	11.7	3.9	50.0
Other	52.5	88.8	36.4	69.3
Total taxes on the use of goods and performance of activities	1 471.2	1 420.5	(50.7)	(3.4)
Total taxation	13 382.9	12 720.0	(662.8)	(5.0)

Source: Department of Treasury and Finance.

Major variations from the *2008-09 Budget* estimates are:

- land tax revenue in 2008-09 has been revised upward by \$187 million or 17.8 per cent, because of higher than expected revaluations of site values as at 1 January 2008;
- land transfer duty revenue in 2008-09 is expected to be lower by \$842 million (22.5 per cent) compared with the original *2008-09 Budget*. Of this decrease, \$609 million was reported in the *2008-09 Budget Update*. The *2008-09 Budget* estimates were predicated on a gradual re-alignment of the property market with underlying economic fundamentals. This re-alignment has occurred at a much more rapid pace than expected, reinforced by the current economic downturn;
- payroll tax revenue has been revised up by \$60 million (or 1.5 per cent) since the *2008-09 Budget*, including an upward revision of \$50 million reported in the *2008-09 Budget Update*. The increase reflects stronger than expected collections for the year-to-date; and
- motor vehicle taxation revenue has been revised downwards by \$91 million (6.4 per cent), mainly due to lower motor vehicle duty because of a decline in car sales.

Dividends, income tax and rate equivalent revenue

In 2008-09, dividends, income tax and rate equivalent income is expected to be \$474 million, \$196 million (29.2 per cent) lower than forecast in the *2008-09 Budget* (see Table C.3), but an upwards revision of \$27 million from that reported in the *2008-09 Budget Update*. This largely reflects the impact of the decline in the financial markets on the performance of the State's public financial corporations and therefore the income tax and rate equivalent levied on their forecast profits.

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

	(\$ million)			
	2008-09 Budget	2008-09 Revised	Change	Change %
Dividends	421.1	361.2	(59.9)	(14.2)
Income tax equivalent revenue	246.5	107.9	(138.6)	(56.2)
Local government rate equivalent revenue	2.3	5.1	2.8	123.0
Total dividends and income tax equivalent and rate equivalent revenue	669.9	474.2	(195.7)	(29.2)

Source: Department of Treasury and Finance.

Grants income

Total grants revenue is expected to be \$18 789 million in 2008-09, \$1 071 million higher than at *2008-09 Budget Update* and \$1 234 million (7.0 per cent) higher than the *2008-09 Budget* (see Table C.4). The upward revision reflects higher payments for specific purpose current grants have been revised upwards by \$1 573 million since the *2008-09 Budget*, including an increase of \$1 223 million since the *2008-09 Budget Update*. The increase for the year mainly relates to additional funding secured through the new Intergovernmental Agreement on Federal Financial Relations announced by the Council of Australian Governments (COAG) in November 2008, together with the Commonwealth Government's fiscal stimulus package and provides a significant funding injection by the Commonwealth into the areas of health, education, skills and workforce development and housing.

This increase is partially offset by lower GST revenue of \$933 million (9.1 per cent) since the *2008-09 Budget* (including \$591 million since the *2008-09 Budget Update*). This is due to a lower than expected GST pool reflecting the economic downturn.

Table C.4: Grants

(\$ million)

	2008-09 Budget	2008-09 Revised	Change	Change %
Current grants				
Current grants from the Commonwealth				
General purpose grants	10 281.4	9 347.9	(933.5)	(9.1)
Specific purpose grants for on-passing	1 967.5	1 978.3	10.8	0.5
Payments for specific purposes	4 657.0	6 230.4	1 573.4	33.8
Total	16 905.9	17 556.6	650.7	3.8
Other contributions and grants	6.0	144.2	138.2	na
Total current grants	16 911.9	17 700.8	788.9	4.7
Capital grants				
Capital grants from the Commonwealth				
Specific purpose grants for on-passing	150.4	231.4	81.1	53.9
Payments for specific purposes	383.0	718.9	336.0	87.7
Total	533.3	950.4	417.1	78.2
Other contributions and grants	109.8	138.2	28.4	25.8
Total capital grants	643.2	1 088.6	445.4	69.3
Total grants	17 555.0	18 789.4	1 234.3	7.0

Source: Department of Treasury and Finance.

Sales of goods and services and other current revenue

In 2008-09, revenue from the sale of goods and services is expected to total \$5 077 million, \$742 million higher than the original 2008-09 Budget estimate, including an increase of \$287 million on the 2008-09 Budget Update. This includes a \$266 million reimbursement from the Commonwealth with regards to the February 2009 bushfires, along with an increase in third party revenue in the hospital, TAFE and schools sectors. This additional revenue is offset by an increase in expenditure incurred in the delivery of relief to victims of the bushfire and health and education services. The additional third party revenue will be used, in part, to fund asset related expenditure.

Other current revenue is also \$218 million higher than the original 2008-09 Budget estimate. Of this movement, \$180 million was reported in the 2008-09 Budget Update. The increase is primarily driven by the increase in number of both conventional and wheelchair accessible taxi licences. These reforms arise from the Government's response to the Essential Services Commission's Taxi Fare Review 2007-08.

Expenses from transactions

As shown in Table C.1, GG sector operating expenses for 2008-09 are now projected to be \$38 989 million, \$2 007 million higher than the May 2008 budget estimate of \$36 982 million. Of this movement, \$606 million was reported in the *2008-09 Budget Update*.

The major variation within operating expenses is attributable to an upward revision of other operating expenses of \$901 million (7.3 per cent), largely due to expenditure on bushfire relief, expenditure on the *Digital Education Revolution*, and the impact of policy decisions taken since the *2008-09 Budget*. Details of specific policy decisions since the *2008-09 Budget* are summarised in Budget Paper No. 3, *Appendix A, Specific Policy Initiatives Affecting the Budget Position*.

Grants and other transfers have also increased by \$804 million (12.5 per cent) since the *2008-09 Budget* estimate, largely attributable to funding received as part of the Commonwealth Government's fiscal stimulus package to increase affordable housing, as well as a boost of the First Home Owner's Grant.

Employee expenses have also increased by \$141 million since the *2008-09 Budget* estimate. Of this increase, \$32 million was reported in the *2008-09 Budget Update*. The increase in employee expenses mainly reflects the provision of additional service delivery in the health and education sectors, reflecting the policy decisions made by Government and the impact of wages growth arising from enterprise bargaining agreements. These agreements are consistent with the Government's wages policy in the GG sector.

Net Result

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

The net result for 2008-09 is expected to be negative \$12 190 million, compared with a positive estimated net result of \$717 million in the *2008-09 Budget*. This variance is largely due to a net actuarial loss on the State's defined benefit superannuation plans of \$11 317 million. Of this, over \$7 billion relates to the impact of the change in the discount rate used to value the superannuation liability. Movements in the discount rate do not impact on funding requirements and the State continues towards full funding of the State Superannuation Fund section of the Emergency Services and State Superannuation by 2035. The remaining loss on superannuation for 2008-09 of \$3.9 billion is due to lower than expected investment returns for the financial year to 31 March 2009.

The net result is also impacted by the recognition of the liability payable to State Electricity Commission of Victoria under an indemnity associated with onerous contracts related to the provision of electricity to the Alcoa aluminium smelters, attributable to declining world aluminium prices.

REVISED 2008-09 BALANCE SHEET

The 2008-09 balance sheet is presented in Table C.5. Net assets are projected to decrease by \$15 665 million over the course of 2008-09 to be \$74 760 million at 30 June 2009, \$19 093 million lower than forecast in the *2008-09 Budget Update* estimates.

Table C.5: 2008-09 Balance sheet as at 30 June

	(\$ million)				
	2008 Actual	Budgeted movement	2009 Budget ^(a)	Revised movement	2009 Revised
Assets					
Financial assets					
Cash and deposits	2 975.0	74.1	3 049.1	30.9	3 005.8
Advances paid	78.0	552.9	630.9	557.9	635.9
Investments, loans and placements	2 322.0	23.3	2 345.3	155.3	2 477.3
Receivables	2 620.2	(57.6)	2 562.7	37.4	2 657.7
Investments in GG sector entities using the equity method	648.1	..	648.1	(648.1)	..
Investments accounted for using equity method – other	20.0	5.0	25.0	7.9	27.9
Investments in other sector entities	44 857.1	1 682.1	46 539.3	(2 670.2)	42 186.9
Total financial assets	53 520.5	2 279.8	55 800.3	(2 528.9)	50 991.6
Non-financial assets					
Inventories	221.1	1.4	222.5	12.8	233.9
Non-financial assets held for sale	70.8	..	70.8	(33.2)	37.6
Land, buildings, infrastructure, plant and equipment	65 224.2	3 539.8	68 764.0	2 602.3	67 826.5
Other non-financial assets	482.2	8.5	490.6	42.1	524.2
Total non-financial assets	65 998.2	3 549.7	69 547.9	2 624.0	68 622.2
Total assets	119 518.7	5 829.5	125 348.2	95.0	119 613.7
Liabilities					
Deposits held	371.5	(..)	371.5	15.0	386.5
Advances received	2.6	(0.7)	1.9	(0.7)	1.9
Borrowings	7 799.1	2 118.6	9 917.7	3 166.1	10 965.1
Payables	3 354.4	53.0	3 407.3	678.1	4 032.5
Superannuation	12 926.8	128.3	13 055.1	11 512.6	24 439.4
Other employee benefits	3 973.3	144.4	4 117.7	384.2	4 357.4
Other provisions	665.4	(41.2)	624.1	5.2	670.6
Total liabilities	29 092.9	2 402.4	31 495.4	15 760.5	44 853.4
Net assets	90 425.7	3 427.1	93 852.8	(15 665.4)	74 760.3
Accumulated surplus/(deficit)	37 746.2	705.4	38 451.6	(12 217.8)	25 528.4
Other reserves	52 647.5	2 701.7	55 349.2	(3 467.6)	49 179.9
Minority interest	32.0	20.0	52.0	20.0	52.0
Net worth	90 425.7	3 427.1	93 852.8	(15 665.4)	74 760.3
FISCAL AGGREGATES					
Net financial worth	24 427.5	(122.6)	24 304.9	(18 289.4)	6 138.1
Net financial liabilities	20 429.6	1 804.7	22 234.3	15 619.2	36 048.8
Net debt	2 150.0	1 467.6	3 617.7	3 084.4	5 234.5

Source: Department of Treasury and Finance.

Note:

(a) The 2008-09 Budget is based on actual opening balances at 1 July 2008 plus 2008-09 Budgeted movement.

Total assets are projected to increase by \$95 million from 2008 to 2009, \$5 735 million lower than the budgeted increase of \$5 830 million. This movement largely reflects a decrease in the net assets of the public financial corporations sector (which is shown in investment in other sector entities) due to the impact of the global financial crisis on the value of investment holdings.

Total liabilities are projected to increase by \$15 761 million, \$13 358 million higher than the budgeted increase of \$2 402 million. This movement largely reflects an increase in the reported superannuation liability which is primarily attributed to a reduction in the Commonwealth Government bond rate which underpins the discount rate that is required to be used to value the liability for reporting purposes. The impact of share market volatility on superannuation assets has also contributed to the increase in the superannuation liability by reducing the value of the underlying investment holdings of superannuation funds.

The increase in liabilities also reflects increased borrowings to fund investment in infrastructure, and higher other employee benefit liabilities due to the reduction in the bond rate affecting the valuation of long service leave liabilities.

REVISED 2008-09 CASH FLOW STATEMENT

Table C.6 provides the revised cash flow statement for 2008-09. Table C.7 provides a summary of cash generated through the operations of Victorian government departments and other GG sector agencies during the year, and how cash is applied to infrastructure investment and financing activities. Table C.7 also provides a reconciliation of the projected budget operating surplus to the projected change in general government net debt.

Net cash flows from operating activities are expected to be \$761 million lower than at the *2008-09 Budget*, and \$359 million lower than reported in the *2008-09 Budget Update*. The variation reflects the impact of a \$1 582 million increase in operating receipts, offset by a \$2 344 million increase in payments in relation to operating activities. The expected increase in receipts mainly reflects the factors underlying the increase in operating income, in particular, the increased grants received from the Commonwealth and the reimbursement for the February 2009 bushfire expenditure under sales of goods and services. The increase in expenditure on grants and goods and services payments is similarly reflected in increased expenditure of cash for operating purposes.

Table C.6: 2008-09 Cash flow statement

	(\$ million)			
	2008-09 Budget	2008-09 Revised	Change	Change %
Cash flows from operating activities				
Receipts				
Taxes received	13 518.4	12 855.6	(662.8)	(4.9)
Grants	17 555.0	18 789.4	1 234.3	7.0
Sales of goods and services ^(a)	4 441.7	5 547.7	1 105.9	24.9
Interest received	386.2	392.5	6.3	1.6
Dividends and income tax equivalent and rate equivalent receipts	533.6	471.5	(62.1)	(11.6)
Other receipts	1 326.6	1 287.5	(39.1)	(2.9)
Total receipts	37 761.7	39 344.2	1 582.5	4.2
Payments				
Payments for employees	(14 081.2)	(14 207.4)	(126.3)	0.9
Superannuation	(1 729.9)	(1 808.4)	(78.5)	4.5
Interest paid	(466.8)	(525.9)	(59.0)	12.6
Grants and subsidies	(6 432.8)	(7 182.3)	(749.6)	11.7
Goods and services ^(a)	(12 016.8)	(13 324.7)	(1 307.9)	10.9
Other payments	(340.1)	(362.7)	(22.7)	6.7
Total payments	(35 067.5)	(37 411.4)	(2 344.0)	6.7
Net cash flows from operating activities ^(a)	2 694.2	1 932.8	(761.4)	(28.3)
Cash flows from investing activities				
Purchases of non-financial assets	(2 837.9)	(3 248.1)	(410.3)	14.5
Sales of non-financial assets	153.8	190.5	36.6	23.8
Cash flows from investments in non-financial assets	(2 684.0)	(3 057.6)	(373.6)	13.9
Net cash flows from investments in financial assets for policy purposes	(1 254.4)	(1 295.0)	(40.6)	3.2
Net cash flows from investments in financial assets for liquidity management purposes	(22.7)	(181.4)	(158.7)	698.4
Net cash flows from investing activities	(3 961.1)	(4 534.0)	(572.9)	14.5
Cash flows from financing activities				
Advances received (net)	(0.7)	(0.7)	..	0.0
Net borrowings	1 341.7	2 730.8	1 389.1	103.5
Deposits received (net)	..	15.0	15.0	n.a
Net cash flows from financing activities	1 341.0	2 745.1	1 404.1	104.7
Net increase/(decrease) in cash and cash equivalents	74.1	143.9	69.8	94.1
Cash and cash equivalents at beginning of reporting period	2 859.3	2 859.3	..	0.0
Cash and cash equivalents at end of reporting period	2 933.4	3 003.2	69.8	2.4
FISCAL AGGREGATES				
Net cash flows from operating activities	2 694.2	1 932.8	(761.4)	(28.3)
Net cash flows from investments in non-financial assets	(2 684.0)	(3 057.6)	(373.6)	13.9
Cash surplus / (deficit)	10.2	(1 124.9)	(1 135.1)	(11131.2)

Source: Department of Treasury and Finance.

Note:

(a) Inclusive of goods and services tax.

Infrastructure investment

As shown in Table C.7, the \$1 933 million net cash inflows from operating activities is a significant source of financing for the Government's infrastructure investment program in 2008-09. The Government's net investment in fixed assets (which includes purchases of property, plant and equipment, capital contributions to other sectors of government and net proceeds from sale of assets) is projected to be \$4 353 million in 2008-09.

Compared with the 2008-09 Budget estimates, net debt is expected to be \$1 617 million higher than originally anticipated, primarily due to higher than expected borrowings and the movement of Murray-Darling Basin Commission assets from investments using the equity method to buildings, plant and equipment.

Table C.7: Application of cash resources

	(\$ million)	
	2008-09 Budget	2008-09 Revised
Net result from transactions	827.5	163.0
Add back: Non-cash income and expenses (net) ^(a)	1 866.7	1 769.8
Net cash flow from operating activities	2 694.2	1 932.8
Less:		
Net investment in fixed assets		
Expenditure on approved projects ^(b)	4 092.2	4 543.1
Proceeds from asset sales	(153.8)	(190.5)
Total net investment in fixed assets	3 938.4	4 352.6
Finance leases	231.4	..
Other investment activities (net) ^(c)	(7.9)	664.6
Decrease/(increase) in net debt	(1 467.6)	(3 084.4)

Source: Department of Treasury and Finance.

Notes:

- (a) Includes depreciation and movements in the unfunded superannuation liability and liability for employee benefits.
- (b) Includes purchases of property, plant and equipment and net contributions to other sectors of government.
- (c) Includes movement of Murray Darling Basin Commission assets from investments using the equity method to buildings, plant and equipment.

