

## CHAPTER 2: KEY ASPECTS OF THE 2009-10 BUDGET

### Summary of key aspects of the 2009-10 Budget:

- 2.1 Budget themes underpinning the 2009-10 Budget reflect the Government's assessment of the implications to Victoria of the global economic downturn and the task of recovering and rebuilding from the extensive bushfires of February 2009.
- 2.2 Further funding over the next four years of \$549 million has been provided to meet the Government's asset commitments made during the 2006 election and the Budget identifies the remaining commitment of \$429 million will be delivered in next year's budget. The previous year's Budget completed funding for the Government's output election commitments.
- 2.3 The Government has reverted to its former policy of generating an annual operating surplus of at least \$100 million in the light of the current fiscal and economic environment. The Budget Papers indicate the Government is committed to returning in the future to its policy, introduced in 2008-09, of achieving a budgeted operating surplus of at least 1 per cent of revenue.
- 2.4 The Budget forecasts an operating surplus of \$165 million in 2009-10 and an average surplus of \$349 million over the forward estimates period to 2012-13. The 2009-10 projection is similar to the latest estimated surplus for 2008-09 of \$163 million which is significantly lower than the initial budget surplus for that year of \$827.8 million.
- 2.5 Output funding of \$908 million over five years to 2012-13 and asset funding of \$78 million over three years to 2011-12 have been provided in the Budget for bushfire response and recovery. Around \$593 million, or 65 per cent of total output funding, was allocated in 2008-09 which illustrates the urgency of the assistance and recovery tasks faced by the Government.
- 2.6 The Government's net infrastructure investment in the General Government Sector is projected to exceed \$20 billion over the four years to 2012-13, including a record net spending target of \$7 billion in 2009-10. In the non-financial public sector, which combines the General Government Sector and public non-financial corporations, net infrastructure spending to 2012-13 is estimated to increase by an additional \$12.1 billion to \$32.1 billion.
- 2.7 Reflecting the Government's planned increase in infrastructure spending, general government net debt is expected to increase from \$5.2 billion, or 1.9 per cent of Gross State Product (GSP), at June 2009 to \$15.7 billion, 5.3 per cent of GSP, at June 2012, before reaching \$16 billion, or 5.1 per cent of GSP by June 2013. For the non-financial public sector, net debt is projected to increase to 10 per cent of GSP by June 2013.
- 2.8 Contingency provisions within the Budget of \$3.9 billion for unallocated outputs and of \$1.6 billion for unallocated capital are available to the Government over the four years to 2012-13. The level of these contingencies has decreased by 49.4 per cent and 54.5 per cent respectively from the equivalent levels in the 2008-09 Budget because of the underlying budgetary environment. The levels nevertheless remain significant.
- 2.9 The Government's capacity to draw on significant levels of contingency reserves is likely to have been useful to it in formulating 2009-10 Budget strategies to address its bushfire commitments and the implications of the global economic downturn.

- 2.10**      **The Budget Papers identify that efficiency targets totalling \$715 million, comprising general efficiencies of \$665 million over the four years to 2012-13 and savings for drought initiatives of \$50 million, in 2008-09 only, have been assigned to departments. These latest targets bring the total assigned to departments in the last three Budgets to in excess of \$1.8 billion.**
- 2.11**      **Apart from the savings set under the Efficient Government Policy, the specific nature and composition of targeted efficiencies have not been disaggregated at departmental or portfolio level in the Budget Papers.**

## 2.1 Introduction

In this introductory chapter to its report analysing the budget estimates for 2009-10, the Committee has summarised what it considers to be the principal aspects of the Government's 2009-10 Budget. The Chapter examines the Budget in a macro manner under the following headings:

- key budget themes;
- fiscal target for operating surplus;
- bushfire recovery;
- funding for infrastructure investments;
- maintenance of Triple-A credit rating;
- new funding initiatives for 2009-10;
- contingency provisions;
- efficiency targets assigned to departments in 2009-10; and
- revenue foregone measures.

Because of its overview nature, no recommendations are presented in this chapter. However, the Committee has made some suggestions for the Government's consideration under particular headings which, if adopted, would improve disclosure of information in the Budget Papers and enhance Parliament's consideration of published material. These suggestions relate to:

- the importance of the Government ensuring there is comprehensive and transparent reporting to Parliament on its management of bushfire funding and its effectiveness in achieving planned recovery outcomes;
- a need for the Government to closely monitor its budgetary position over the forward estimates period with the aim of ensuring that net debt levels do not adversely impact its operating results and overall financial position;
- more informative disclosure of deductions made from new output funding initiatives when determining their net financial impact on the Budget; and
- a more structured approach to the presentation of planned efficiencies, including more definitive information on the nature of expected savings and the basis adopted for their allocation across departments.

In a number of places, the Committee's commentary is cross-referenced to other chapters of the report which contain more detailed information and, where appropriate, recommendations relating to the respective subjects.

## 2.2 Key Budget themes

The Government's published overview of the 2009-10 Budget identifies that the following six key themes underpin the overall direction of the Budget and its new funding initiatives:<sup>5</sup>

- *Bushfire Recovery;*
- *Protecting and Creating Jobs for all Victorians;*
- *Partnering with the Commonwealth Government;*
- *Continuing to Deliver Core Services;*
- *Building Liveable and Caring Communities; and*
- *Regional Victoria.*

The number of Budget themes has halved from twelve in 2008-09. This reduction reflects in part the Government's assessment of the implications to the Budget of the global economic downturn and the task of recovering and rebuilding from Victoria's extensive summer bushfires. The Treasurer identified these implications in the *Victorian Budget 2009-10 Overview* document and stated that:<sup>6</sup>

*The 2009 State Budget is being delivered in some of the most difficult economic conditions in many decades.*

*With the Global Financial Crisis and a deep global recession affecting the Australian economy, the impacts on Victoria include jobs under threat, lower business and consumer confidence, a credit crunch that is hindering investment, and a decline in world demand for many of our products and services.*

*We are also facing the enormous and costly task of recovering from the worst bushfires in our history ...*

The new budget themes for 2009-10 are:

- *Bushfire Recovery* – underlying its significance as a specific budgetary strategy; and
- *Partnering with the Commonwealth Government* – recognising the emerging importance of the partnership formed between the Commonwealth and Victorian Governments to stimulate the economy, fast track investment in public infrastructure and secure jobs. This theme also reflects the increasing involvement of the Commonwealth Government through its statutory advisory council, Infrastructure Australia, established in April 2008, in planning, funding and implementing Australia's future infrastructure needs. A budget theme from 2008-09, *Delivering Record Investment in Infrastructure*, has been subsumed within this new theme.

<sup>5</sup> Department of Treasury and Finance, Building Jobs: Building Victoria, *Victorian Budget 2009-10 Overview*, May 2009, pp.4-23

<sup>6</sup> *ibid.*, p.3

Several budget themes from 2008-09, including *Investing in a First Class education for all Victorians*, *Delivering High Quality Health Services*, and *Meeting the Growing Demand for Transport* have been subsumed into an omnibus theme for 2009-10, *Continuing to Deliver Core Services*. The titles of other 2008-09 themes have been slightly altered to better accord with the 2009-10 direction of the Budget with:

- *Protecting and Creating Jobs for all Victorians* replacing *Driving Jobs Growth and Competitive Innovative Businesses*;
- *Building Liveable and Caring Communities* replacing *Building Thriving Liveable Communities* and incorporating the former *Improving Community Safety and Access to Justice*; and
- *Regional Victoria* replacing *Securing a Prosperous Future for Provincial Victoria*.

As in previous years, the Government's *Victorian Budget 2009-10 Overview* document describes the main new funding initiatives under each theme heading that will be implemented over the next four years.<sup>7</sup> The major budgetary initiatives supporting the high-level goals of the Government's key visionary document, *Growing Victoria Together*, are also summarised in the Budget Papers.<sup>8</sup> In addition, the *Strategy and Outlook* budget document tabulates the aggregate dollar values of new output and asset initiatives assigned to each department<sup>9</sup> and the *Service Delivery* budget document describes each initiative under departmental headings and the departmental output/s to which they contribute.<sup>10</sup>

Last year's Budget identified that funding provided over the four years to 2011-12 together with funding in earlier budgets fully covered all of the Government's 2006 election output commitments.<sup>11</sup> On the Government's election asset commitments, the 2008-09 Budget documents showed that funding approved up to 2011-12, \$2.4 billion, represented around 72 per cent of the estimated election costings of \$3.4 billion.<sup>12</sup>

The 2009-10 Budget documents show that a further asset funding allocation of \$549 million has been provided over the four years to 2012-13 and the remaining 2006 election asset commitment of \$429 million 'will be delivered in next year's budget.'<sup>13</sup>

## 2.3 Fiscal target for operating surplus

When delivering the previous year's budget, the Treasurer stated the Government had set a new target of maintaining a budget operating surplus of at least 1 per cent of revenue.<sup>14</sup> This new target replaced the Government's longstanding policy of generating an operating surplus of at least \$100 million which had been consistently met over eight consecutive financial years.

The 2009-10 Budget Papers indicate that the Government has reassessed its short-term operating surplus target to ensure it remains relevant in the current fiscal and economic environment. The Budget Papers state:<sup>15</sup>

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<sup>7</sup> *ibid.*, pp.4-23

<sup>8</sup> Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, pp.7-44

<sup>9</sup> Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, pp.45 and 51

<sup>10</sup> Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, pp.282-370

<sup>11</sup> Department of Treasury and Finance, Budget Paper No. 3, *2008-09 Service Delivery*, May 2008, p.274

<sup>12</sup> *ibid.*

<sup>13</sup> Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, pp.275-81

<sup>14</sup> Department of Treasury and Finance, Budget Paper No. 1, *2008-09 Treasurer's Speech*, May 2008, p.3

<sup>15</sup> Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.8

*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 of \$165 million in 2009-10 and an average of \$349 million over the forward estimates period to 2012-13. Table 2.1 shows revenue and expense projections for 2009-10 together with the original Budget, the *2008-09 Budget Update* and the latest estimated actual position (presented in the 2009-10 Budget) for 2008-09.

**Table 2.1: Revenue and expense estimates – 2008-09 and 2009-10**

Operating item	2008-09 Budget (\$ million)	2008-09 Budget Update (\$ million)	2008-09 Revised Estimate (\$million)	2009-10 Budget (\$ million)
Revenue	37,810.0	37,970.3	39,152.1	42,388.3
Expenses	36,982.4	37,588.5	38,989.1	42,223.2
<b>Estimated operating surplus</b>	<b>827.6</b>	<b>381.8</b>	<b>163.0</b>	<b>165.1</b>

Sources: *2008-09 Budget Update, p.58, Budget Paper No. 2, 2009-10 Strategy and Outlook, p.37 and Budget Paper No.4, 2009-10 Statement of Finances, p.270*

Table 2.1 identifies that there has been a sharp fall of \$664.6 million or 80 per cent in the operating surplus projections for 2008-09 from the time of that year's Budget through to and beyond the *2008-09 Budget Update*.

The equivalent movement in operating surplus projections for 2007-08 was a rise of 207 per cent which identifies very clearly the differing economic circumstances prevailing for each period.

The Committee's future report on the 2008-09 financial and performance outcomes will analyse in some detail the factors underlying the actual movement in the operating surplus for 2008-09.

The Government provided an interim explanation of the reasons for the lower projected surplus as at December 2008 in its *2008-09 Budget Update*, which identified that the downward revision of the 2008-09 projected surplus at that time reflects:<sup>16</sup>

*...a significant reduction in state taxation and GST revenue (due to slowing economic activity). This is offset by increases in Commonwealth specific purpose payment grants and state third party revenue, which also have corresponding increases in expenditure.*

The 2009-10 Budget Papers describe at some length the factors impacting on Victoria's economic conditions and outlook, and the Government's strategies for responding to the current challenges, including the global economic crisis and the 2009 bushfires.<sup>17</sup>

<sup>16</sup> *2008-09 Budget Update, p.25*

<sup>17</sup> *ibid., pp.4-7, 19-34*

### **2.3.1 Revenue and expense projections for 2009-10**

#### **Revenue projections**

As shown in Table 2.1, operating revenue for 2009-10 is expected to be \$42.4 billion, which is \$3.2 billion, or 8.3 per cent, higher than the latest estimated actual for 2008-09 of \$39.2 billion. The 2009-10 Budget Papers contain detailed commentary on the movements in particular revenue items between these two sets of figures and the main underlying reasons.<sup>18</sup> The Budget Papers indicate that the estimated revenue growth in 2009-10 is mainly attributable to the following two factors:

#### ***An increase of \$2.8 billion in Commonwealth grants (other than GST grants)***

The 2009-10 Budget Papers point out that this increase principally reflects:

- additional funding (which is stated as amounting to around \$1.7 billion over five years) for the five new broadbanded specific purpose payments in the areas of healthcare, schools, skills, affordable housing and disability;
- new funding associated with the creation of a new stream of reform oriented National Partnerships to drive national economic and social reforms; and
- funding provided under the *Nation Building – Economic Stimulus Plan* (which is stated as approximately \$5 billion from 2009-10 to 2011-12) for economic activity aimed at improved nation building and supporting economic growth and jobs.

The Budget Papers also indicate that, as part of the new framework for Commonwealth financial relations, many payments for Commonwealth grants previously paid directly to the relevant departments are paid directly to the Department of Treasury and Finance.

#### ***An increase of \$554 million in taxation revenue***

Factors affecting taxation revenue are identified in the 2009-10 Budget Papers as primarily:<sup>19</sup>

- an expected recovery in property market activity through the course of 2009-10, initially in response to historically low mortgage interest rates in early 2009;
- the introduction of the Growth Areas Infrastructure Contribution with estimated revenue in 2009-10 of \$84.7 million – this contribution applies to all eligible Urban Growth Boundary land sold or subdivided since December 2008;
- relatively weak growth in payroll tax revenue as labour market conditions soften – the estimated increase in payroll tax revenue for 2009-10 is \$60 million or 1.5 per cent compared with an equivalent projected increase of \$139.1 million or 3.6 per cent for 2008-09;
- increased motor vehicle registration fees in line with population growth and the consumer price index; and
- the effects of several special factors including rising domestic home and vehicle insurance premiums, increased borrowings by water corporations and higher credit risk spreads (financial accommodation levy) and modernising emergency services (insurance contributions to fire brigades).

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<sup>18</sup> Department of Treasury and Finance, Budget Paper No. 4, *2009-10 Statement of Finances*, May 2009, pp.193-221  
<sup>19</sup> *ibid.*, pp.193-4

## Expense projections

Table 2.1 identifies that 2009-10 operating expenses are projected to increase by \$3.2 billion (8.3 per cent, the same projected rise for operating revenue) to \$42.2 billion, when compared with the latest estimated actual for 2008-09.

The commentary on estimated expenses in the 2009-10 Budget documents includes comparisons between the 2009-10 estimates and:<sup>20</sup>

- the expected average increase over the forward estimates period to 2012-13; and
- estimates for 2009-10 presented in the *2008-09 Budget Update* published in December 2008.

The forward projections over the period to 2012-13 identify growth for the Government's highest expense item, employee benefits including superannuation, is expected to average \$735 million, or 4 per cent, per year which is lower than the growth expected at the time of the *2008-09 Budget Update* (6.1 per cent a year on average). The Budget Papers attribute this lower growth position to the Government's April 2009 new wages policy which provides:<sup>21</sup>

*... 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.*

The Budget Papers also point out that the projected year-on-year growth in employee expenses primarily reflects:<sup>22</sup>

*... the outcome of appropriately remunerating front line staff, as well as output policy initiatives, including 2009-10 Budget initiatives. The increased Commonwealth specific purpose payments ... also have corresponding expenditure that contributes to the growth in services. These additional services will be delivered by additional staff and will contribute to growth in employee expenses over the forward estimates period.*

For the second major expense item, other operating expenses, which includes purchases of supplies and services, maintenance expenses and operating lease payments, expenses in 2009-10 are forecast to be \$13.9 billion or 33 per cent of total expenditure<sup>23</sup> which is around 1 per cent less than the equivalent percentage for the aggregate revised 2008-09 estimate. These expenses are projected to decrease by an average of \$55 million over the period 2010-11 to 2011-12 and increase by \$80 million in 2012-13.

The estimated financial statements presented in the 2009-10 Budget Papers show that the forecast operating surplus over the forward estimates period is expected to rise from the 2009-10 estimate of \$165.1 million to \$562.1 million in 2012-13, with the major increase predicted for 2012-13.<sup>24</sup> The Budget Papers state that, while growth in revenue and expenses is similar in 2009-10 and 2010-11, a widening gap between revenue and expenditure growth from 2011-12 reflects an expected rebuilding of the taxation base as economic conditions improve, and a commitment to prudent management of operating expenditure.

<sup>20</sup> Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, pp.42-44, 89-91

<sup>21</sup> *ibid.*, p.43

<sup>22</sup> *ibid.*

<sup>23</sup> *ibid.*

<sup>24</sup> Department of Treasury and Finance, Budget Paper No. 4, *2009-10 Statement of Finances*, May 2009, p.10

## 2.4 Bushfire recovery

The Committee identified in an earlier paragraph in this chapter that Bushfire recovery is a new budget theme which reflected the budgetary implications of the task of recovering and rebuilding from Victoria's extensive summer bushfires of February 2009. As indicated in the 2009-10 Budget, the bushfires were the worst in Australia's history.<sup>25</sup>

The Budget Papers state that a total of \$908 million in output funding over five years to 2012-13 and \$78 million in asset funding to 2011-12 have been provided for bushfire response and recovery.<sup>26</sup> Of the total output funding of \$908 million, around \$593 million (or 65 per cent) was provided in 2008-09 which illustrates the urgency of the assistance and recovery tasks faced by the Government.

The Treasurer stated that the above funding is in addition to more than \$330 million raised by the Bushfire Appeal Fund.<sup>27</sup> The Victorian Bushfire Appeal Fund Advisory Panel subsequently announced that a total of \$382 million, including around \$3 million in interest, was raised by the Fund.<sup>28</sup>

The Budget Papers identify that the Commonwealth Government has shared the cost of many of the funding initiatives announced in the Budget, '*on a dollar for dollar basis under the National Disaster Relief and Recovery Arrangements and has also worked in partnership with Victoria to deliver programs and support, and ensure services are integrated.*'<sup>29</sup>

The Budget Papers describe the main output funding initiatives over five years for bushfire response and recovery under the following headings:<sup>30</sup>

- Fighting the fires and emergency management – initiatives totalling \$379 million including \$344 million for fire suppression activities;
- Supporting bushfire-affected individuals – initiatives totalling \$115.5 million;
- Assisting bushfire-affected businesses – initiatives totalling \$71.7;
- Rebuilding communities – initiatives totalling \$135.4 million, including \$21 million for the operation of the Victorian Bushfire Reconstruction and Recovery Authority;
- Preparing for the future – initiatives totalling \$165 million allocated to improving emergency services; and
- Royal Commission – \$40 million.

The Budget Papers also list the funding initiatives for each year as government-wide initiatives under departmental headings.<sup>31</sup> All ten departments have been allocated funding which illustrates the spread of responsibility across the public sector for bushfire response and recovery. The major portion of output funding, \$500 million or 55 per cent of aggregate funding, is understandably allocated to the Department of Sustainability and Environment.

The Committee looks forward to a comprehensive and transparent reporting to Parliament on management of bushfire funding and the level of effectiveness in achieving recovery outcomes.

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<sup>25</sup> Department of Treasury and Finance, *Victorian Budget 2009-10 Overview*, May 2009, *Building Jobs, Building Victoria*, p.4

<sup>26</sup> Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, p.10

<sup>27</sup> Department of Treasury and Finance, Budget Paper No. 1, *2009-10 Treasurer's Speech*, p.3

<sup>28</sup> Department of Human Services' website, [www.dhs.vic.gov.au](http://www.dhs.vic.gov.au), accessed 16 September 2009

<sup>29</sup> Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, p.10

<sup>30</sup> *ibid.*, pp.10-13

<sup>31</sup> *ibid.*, pp.284-7, 304-5



Further commentary on the State's response to the 2009 bushfire tragedy is presented in Chapter 15 of this report.

## 2.5 Funding for infrastructure investments

### 2.5.1 Level of net estimated infrastructure investment

The Government announced in the 2009-10 Budget that net infrastructure investment in the General Government Sector over the four year period to 2012-13 is projected to exceed \$20 billion, including a record net spending target of \$7 billion in 2009-10.<sup>32</sup>

The aim of this major investment program is to help '*cushion Victoria from the worst effects of the global financial crisis by securing 35,000 jobs and build capacity for future strong growth.*'<sup>33</sup>

The 2009-10 Budget also established a new budget theme, *Partnering with the Commonwealth Government*, in recognition of the emerging significance of the partnership formed between the two governments to stimulate the economy, fast track investment in public infrastructure and secure jobs.

The capital expenditure estimates for the three year period 2010-11 to 2012-13 incorporate an unallocated provision totalling \$1.7 billion.<sup>34</sup> The equivalent unallocated provision in the 2008-09 *Budget Estimates* was \$3.6 billion.

The previous year's budget identified that the unallocated capital provision is allocated, in accordance with existing budget practice, to specific projects in future budgets to ensure realistic forward projections of infrastructure investments. The 2009-10 Budget Papers do not reiterate this comment. However, the Budget Papers do identify in the Schedule of Projected Capital Outlays (which total \$4.5 billion to 2012-13) under the Government's December 2008 *Victorian Transport Plan*, that any remaining State contributions to complete the funding of the listed capital projects '*will be sourced from Unallocated Capital.*'<sup>35</sup> It is not possible for the Committee to quantify the extent of the anticipated drawdown from unallocated capital as the Budget Papers indicate that:<sup>36</sup>

*Some of the initiatives are to be delivered in partnership with the Commonwealth Government and the commencement and funding of these projects will be announced once agreement with the Commonwealth has been reached.*

Further comment on the unallocated capital provision is provided in Chapter 12.

Cash flow projections shown in the Budget Papers for the General Government Sector indicate that an average of around 50 per cent (down from around 64 per cent in the previous Budget) of the \$20 billion net infrastructure investment program will be funded from operating cash surpluses, after the adding back of depreciation and other non-cash accrual items. The remainder of the program will be funded by borrowings.<sup>37</sup> The Committee's analysis of the budget estimates on an annual basis indicates the projected level of funding available from cash surpluses will be much lower in the earlier forward years, 33 per cent and 41 per cent in 2009-10 and 2010-11 respectively, but will rise sharply to 63 per cent in 2011-12 and to in excess of 90 per cent in 2012-13. Table 2.2 illustrates the percentage movements over the forward estimates period.

<sup>32</sup> Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, pp.10, 49

<sup>33</sup> *ibid.*, p.3

<sup>34</sup> *ibid.*, p.49

<sup>35</sup> Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, pp.479-81

<sup>36</sup> *ibid.*, p.479

<sup>37</sup> Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.50

**Table 2.2: Forecast percentage of total net cash investment in fixed assets funded from cash operating surplus, 2009-10 to 2012-13**

Item	2009-10 (\$ million)	2010-11 (\$ million)	2011-12 (\$ million)	2012-13 (\$ million)
Net operating cash flow (a)	2,311.3	2,363.6	2,686.2	2,878.2
Total net investment in fixed assets (b)	6,960.6	5,702.7	4,259.2	3,174.7
	(%)	(%)	(%)	(%)
Percentage of (a) over (b)	33.2	41.4	63.0	90.7

Source: Percentages calculated by Committee from data in Department of Treasury and Finance, Budget Paper No. 2, 2009-10 Strategy and Outlook, May 2009, p.49

The Budget Papers also outline projections of net infrastructure spending for the non-financial public sector (NFPS) which combines the General Government Sector with information relating to the State's public non-financial corporations. The latter category mainly comprises entities providing water, housing, transport and port services.<sup>38</sup>

The Budget Papers indicate that net investment in fixed assets in the NFPS is expected to be \$10.5 billion in 2009-10 and to total \$32.1 billion over the four years to 2012-13.

## 2.5.2 Net debt projections

The combination of a reduced level of funding forecast to be available from operating cash surpluses, particularly in the early years, and the significant increase in the Government's planned infrastructure spending is reflected in higher estimates of general government net debt levels over the budget's forward estimates period. The Budget Papers state that general government net debt is projected to rise from \$5.2 billion in June 2009 (estimated in last year's budget at \$3.7 billion) to \$16 billion by June 2013.<sup>39</sup>

As a percentage of Gross State Product (GSP), general government net debt is expected to rise from 1.9 per cent as at June 2009 to 5.3 per cent as at June 2012, before declining to 5.1 per cent by June 2013.<sup>40</sup> The Budget Papers state that the reduction of the net debt to GSP ratio in 2012-13 reflects:<sup>41</sup>

*the Government's commitment to repay borrowings, and limit new borrowings by reducing the infrastructure program to lower, historical levels, without compromising the quality of service delivery.*

*A significant proportion of infrastructure spending will be financed by cash operating surpluses, thereby limiting the reliance upon additional borrowings.*

These comments explain the sharp rise to over 90 per cent in 2012-13 in the expected level of infrastructure funding available from cash surpluses identified in the earlier paragraph.

For the NFPS, net debt as a percentage of GSP is estimated to be \$11.2 billion, or 4.2 per cent of GSP at June 2009, rising to \$31.2 billion, or 10 per cent of GSP, by June 2013.<sup>42</sup>

<sup>38</sup> *ibid.*, pp.59-60

<sup>39</sup> *ibid.*, p.56

<sup>40</sup> *ibid.*

<sup>41</sup> *ibid.*

<sup>42</sup> *ibid.*, p.68

The Treasurer outlined the Government's perspective on the increased borrowings during the Budget's forward estimates period as:<sup>43</sup>

*... striking a balance between the short-term imperative of supporting the Victorian economy during a severe downturn and the longer-term goal of keeping government borrowings at a sustainable level.*

The Committee recognises the unique economic circumstances which have influenced the Government's development of the 2009-10 Budget. It considers, however, that it will be important for the Government to closely monitor its budgetary position over the forward estimates period with the aim of ensuring that net debt levels do not adversely impact its operating results and overall financial position.

The Committee also recognises the material presented in the Budget Papers on the NFPS which, as mentioned above, incorporates financial estimates pertaining to the General Government Sector and public non-financial corporations. The Committee has recommended in its June 2009 report on *New Directions in Accountability*, which documents the results of its inquiry into Victoria's public finance practices and legislation, that the Government further enhance its annual Budget Papers through inclusion of information on Victoria's public financial corporations in order to present a whole-of-government budgetary position.

Further commentary on the Government's infrastructure investment program is presented in Chapters 4 and 5 of this report.

## **2.6 Maintenance of triple-A credit rating**

Victoria's credit rating is assessed by two international agencies – Standard & Poor's and Moody's Investors Service Limited. Both agencies conduct reviews of the State's economic structure and prospects, financial performance and outlook, balance sheet position, liquidity and debt management strategy, and the Government's fiscal strategy.<sup>44</sup>

In a bulletin issued by Standard & Poor's on 5 May 2009, the day the 2009-10 Budget was presented to Parliament, the Agency reported that its 'AAA' was unaffected by the Budget. The Agency stated:<sup>45</sup>

*... the budget announced today for the State of Victoria is consistent with the 'AAA' credit rating and stable outlook already assigned to the State.*

*The broader economic downturn has significantly affected Victoria's revenues. However, the Government's revision of its operating expenses reveals that Victoria's total public sector is forecasting a small deficit in fiscal 2009 and modest surpluses over the forecast period. Significantly less operating revenues in combination with an increase in the value of its unfunded superannuation liability has resulted in Victoria's ratio of whole-of-government net financial liabilities (net debt plus unfunded superannuation) to operating revenue reaching 119% by fiscal 2013, which remains below the 130% mark that we highlighted as an inducement for us to reassess the rating. The strength of Victoria's balance sheet prior to the economic downturn has meant that the state has some capacity to undertake additional capital expenditure without threatening its 'AAA' rating.*

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<sup>43</sup> Department of Treasury and Finance, Budget Paper No. 1, *2009-10 Treasurer's Speech*, p.6

<sup>44</sup> Department of Treasury and Finance, *Victoria's Credit Rating*, [www.dtf.vic.gov.au](http://www.dtf.vic.gov.au), accessed 5 August 2009

<sup>45</sup> Standard & Poor's, Bulletin: *Victoria 'AAA/A-1+' Ratings Unaffected by State Budget*, [www.standardandpoors.com.au](http://www.standardandpoors.com.au), accessed 6 August 2009

Standard & Poor's went on to say:

*The rating could be put under pressure if the broader economic downturn is deeper and longer than forecast and the State's operating position and balance sheet deteriorate further.*

On 1 September 2009, the Treasurer announced that Standard & Poor's had confirmed Victoria's AAA credit rating.

Moody's Investors Service Limited provided its latest credit opinion on Victoria in January 2009, not long after the release of the Government's *2008-09 Budget Update*. The Agency's summary comments relating to Victoria stated that:<sup>46</sup>

*Victoria's credit quality reflects a sound record of financial performance underpinned by the State's prudent fiscal practices along with strength in tax revenues and commonwealth grants, a modest debt burden stemming from positive cash operations over many years, and a sizeable and diversified economic base which amply supports the state's financial obligations. A rise in capital spending recently has resulted in modest deficits in the general government sector and somewhat larger deficits in the State's consolidated operations.*

*The State is well positioned to face a more challenging economic and fiscal environment that is unfolding in Australia as a result of the global downturn and credit crisis. Deficits in the general government and consolidated government sectors are expected to widen due to increased investment in state infrastructure and a slowdown in revenues. However, Victoria is well placed to absorb these deficits given its low debt burden.*

The Government has stated in the Budget Papers that it monitors closely indicators developed by the ratings agencies when formulating its budgetary strategy 'to ensure its triple-A credit rating is maintained.'<sup>47</sup>

## 2.7 New funding initiatives for 2009-10

The six key themes underpinning the 2009-10 Budget, which were described in an earlier section of this chapter, are principally reflected in the new output and asset funding initiatives presented in the Budget Papers.

Consistent with the presentation in previous years, an appendix to the Budget Paper No. 3, *2009-10 Service Delivery* provides the main presentation of output and asset funding initiatives extending over the next four years.<sup>48</sup> This document contains an expanded listing of 2009-10 government-wide funding initiatives because of the special attention given to bushfire response and recovery actions, together with an alphabetical listing of all other initiatives under the responsible departmental heading. All initiatives are accompanied by a short description of their salient features and specification of the output to which they contribute.

Table 2.3 shows the estimated net financial impact across departments for 2009-10 and over the forward estimates period to 2012-13 of new output initiatives announced in the Budget together with the aggregate value of new asset funding initiatives for 2009-10 allocated to departments and their Total Estimated Investment (TEI).

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<sup>46</sup> Moody's Investors Service, *Credit Opinion: Victoria (State of) Australia*, 22 January 2009, p.2

<sup>47</sup> Department of Treasury and Finance, *Budget Paper No. 2, 2009-10 Strategy and Outlook*, May 2009, p.70

<sup>48</sup> Department of Treasury and Finance, *Budget Paper No. 3, 2009-10 Service Delivery*, May 2009, pp.284-367

**Table 2.3: New output and asset initiatives announced in 2009-10 Budget**

Department	2009-10 Output initiatives <sup>(a)</sup> (\$ million)	2010-11 to 2012-13 Output initiatives <sup>(a)</sup> (\$ million)	2010-11 Asset initiatives (\$ million)	Total estimated asset investment <sup>(d)</sup> (\$ million)
Education and Early Childhood Development <sup>(b)</sup>	382.4	1215.3	1446.5	2677.1
Human Services <sup>(c)</sup>	575.8	1582.9	556.9	1074.9
Innovation, Industry and Regional Development	88.5	108.3	31.8	92.7
Justice	118.9	259.5	38.7	80.2
Planning and Community Development	60.0	101.2	13.1	118.5
Premier and Cabinet	13.1	58.9	9.5	31.8
Primary Industries	5.4	12.8	-	-
Sustainability and Environment	4.1	44.0	14.0	24.5
Transport	98.4	369.6	911.2	4450.3
Treasury and Finance	141.8	71.8	22.7	39.2
Parliament	1.3	-	-	-
Government wide	203.5	235.2	41.4	78.3
<b>Total 2009-10 Budget funding</b>	<b>1693.2</b>	<b>4059.3</b>	<b>3085.6</b>	<b>8667.6</b>
<b>Less: Funding from demand contingency and other efficiencies</b>	<b>1004.2</b>	<b>3400.4</b>	<b>n/a</b>	<b>n/a</b>
<b>Net impact of new 2009-10 Budget output funding</b>	<b>689.1</b>	<b>659.0</b>	<b>3085.6</b>	<b>n/a</b>

Notes (direct from Budget Papers):

- (a) These numbers show the impact on the General Government Sector net result from transactions and differ from Budget Paper No. 3, Appendix A, as amounts funded from internal reprioritisation or other existing sources have been deducted from the figures above.
- (b) Variance is attributable to three main factors:
- (i) the impact of an output price review;
  - (ii) initiatives funded from within the 2009-10 Budget;
  - (iii) additional supplementation funded by the Commonwealth and price escalation for anticipated cost increases in 2009-10.
- (c) Output price increases arise from initiatives funded within the 2009-10 Budget, additional supplementation provided by the Commonwealth, an output price review and price escalation for anticipated cost increases in 2009-10.
- (d) Total Estimated Investment includes projects which are to be delivered through the public non-financial corporations sector on behalf of the Government.

Source: Department of Treasury and Finance, Budget Paper No. 2, 2009-10 Strategy and Outlook, May 2009, pp.45 and 51

In previous budget estimates reports, the Committee has commented on the benefit that would accrue to readers of the Budget Papers if new funding initiatives were grouped, with funding allocations sub-totalled, according to applicable budget themes or policy priorities under *Growing Victoria Together*. While the Government has opted not to take up this suggestion, it has enhanced presentation in the area in recent years such as through the linking of each funding initiative to its relevant output.

In Budget Paper No. 3, *2009-10 Service Delivery*, the Government has grouped certain major categories of output and asset initiatives in the government-wide and departmental sections of the Budget Paper. The major group presented under the government-wide heading relates to bushfire response and recovery actions. Under the departmental headings, some initiatives are grouped under the relevant Commonwealth-funded initiative such as *Building the Education Revolution* and *National Partnerships in Health, Social Housing and Homelessness*, while certain other initiatives are shown under State categories such as the *Victorian Schools Plan* and the *Victorian Transport Plan*.<sup>49</sup>

All other new funding initiatives are listed individually without headings under departmental headings.

Funding allocations for all grouped initiatives are not sub-totalled which means that readers of the Budget Papers have to do their own additions, which can involve several items across several departments over the forward estimates period, to identify the aggregate funding in each category. The Committee considers the Government could further enhance budget presentation in this area.

In addition, as stated in note (a) to Table 2.3, the information on new output initiatives presented in departmental order in Budget Paper No. 2, *Strategy and Outlook* represents their net financial impact on the Budget and differs from the sum of gross amounts for each new initiative shown in tables for each department in Appendix A of Budget Paper No. 3. This difference is explained in the note '*as amounts funded from internal reprioritisation or other existing sources ... deducted from the figures above*'.

For several departments, these differences are substantial and relate to the figures presented in Table 2.3 before the significant deductions shown in total against the item '*funding from demand contingency and other efficiencies*'. This latter item, which is not explained in the accompanying narrative, presumably has some relationship to unspent provisions from previous budgets and the Government's efficiency strategies.

The Committee considers there would be merit in the Government presenting in the Budget Papers a reconciliation of the differences in the figures for new output initiatives shown in Budget Papers Nos. 2 and 3 for each department. In addition to explaining the differences, this approach would assist readers in understanding the nature of the terms 'internal reprioritisation' or 'other existing sources'. The Committee also considers the reconciliation should extend to a dissection across departments of the deductions made for demand contingency and other efficiencies together with a description of that item.

Further information on the new funding initiatives outlined in the 2009-10 Budget is presented in Chapters 3, 5 and 17 of this report.

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<sup>49</sup> *ibid.*

## 2.8 Contingency provisions

Contingency provisions in the 2009-10 Budget fall into three categories, namely:

- contingencies for operating expenses;
- contingencies for unallocated capital spending; and
- the annual contingency provision available as an Advance to the Treasurer in the Appropriation Act.

The dissection of budgeted operating expenses by department presented in Table 3.1 of Budget Paper No.4 discloses that ‘*Contingencies not allocated to departments*’ are estimated to total \$181.5 million in 2009-10 as part of an aggregate of \$3.9 billion for the four year period to 2012-13.<sup>50</sup> An explanatory note states that this contingency:

*includes a provision for programs lapsing, future demand growth, items not yet formalised at the time of the budget and an allowance for departmental underspending in 2009-10 which may be subject to carryover into 2011-12.*

The contingency provision for capital spending is presented in the budget as a capital provision, approved but not yet allocated, amounting to \$1.7 billion over the forward estimates period to 2012-13 (nil in 2009-10).<sup>51</sup> This provision forms part of the computation of estimates for the net cash investment in fixed assets which, as described in the earlier section 2.5 relating to infrastructure funding, is financed by a combination of the operating cash surplus and an increase in net debt.

The third form of contingency provision, the annual Advance to the Treasurer, is available to meet urgent claims that may arise before Parliamentary sanction is obtained. This provision forms part of annual appropriations recorded under the Department of Treasury and Finance in the annual *Appropriation Act*. The estimated provision for 2009-10 is \$899.7 million.<sup>52</sup>

Table 2.4 brings together these three contingency items and shows the relevant estimated provision over the period to 2012-13, as presented in the current budget and the *2009-10 Appropriation Act*.

<sup>50</sup> Department of Treasury and Finance, Budget Paper No.4, *2009-10 Statement of Finances*, May 2009, p.105

<sup>51</sup> Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.49

<sup>52</sup> *Appropriation (2009-10) Act 2009*, Schedule 1, p.15

**Table 2.4: Contingency items within the 2009-10 Budget and Appropriation Act**

Item	2009-10 Budget (\$ million)	2010-11 Estimate (\$ million)	2011-12 Estimate (\$ million)	2012-13 Estimate (\$ million)	Total (\$ million)
<b>Output contingencies</b>					
Output contingencies not allocated to departments <sup>(a)</sup>	181.5	868.7	1,325.4	1,501.1	3,876.7
Advance to the Treasurer to meet urgent claims that may arise before Parliamentary approval <sup>(b)</sup>	899.7	-	-	-	899.7
<b>Total <sup>(b)</sup></b>	1,081.2	868.7	1,325.4	1,501.1	4,776.4
<b>Asset contingencies</b>					
Capital provision approved but not yet allocated <sup>(c)</sup>	-	262.8	555.0	845.0	1,662.8

Sources: (a) *Budget Paper No.4, 2009-10 Statement of Finances, p.105*

(b) *Department of Treasury and Finance, (2009-10) Appropriation Act 2009, p. 15 of Schedule 1. The total shown is a minimum figure as, based on past practice, it is likely that a similar provision for each year beyond 2009-10 would be included as an Advance to the Treasurer in the respective appropriation Acts*

(c) *Budget Paper No. 2, 2009-10 Strategy and Outlook, p.49*

The equivalent total output and asset contingency provisions presented in last year's Budget, not including the estimated Advance to the Treasurer, were \$7.7 billion and \$3.6 billion respectively. Output contingencies not allocated to departments have decreased by \$3.8 billion or 49.4 per cent and the unallocated capital provision by \$2 billion or 54.5 per cent. The Committee attributes these decreases to the underlying budgetary environment and the Government's significant financial commitments arising from its response to the 2009 extensive bushfires and the global economic downturn. Even with these decreases, the aggregate contingency provisions in the 2009-10 Budget over the four year period to 2012-13 remain significant in value.

The Committee has previously reported that it is difficult to be precise on what constitutes an appropriate level of contingency provisions for any four year forward estimates period. On the one hand, it can be argued that adequate allowance for contingencies in budget estimates is a fundamental component of sound risk management in order to guard against the impact of unforeseen occurrences or changes in global or economic conditions. The counter argument is that excessive reserve provisions in budgets should be avoided with freed up funds redirected.

The Government's capacity to draw on significant levels of contingency reserves is likely to have been useful to it in formulating 2009-10 Budget strategies to address its bushfire commitments and the implications of the global economic downturn.

Without favouring a view one way or the other on the ideal quantum of contingency provisions, the Committee concluded in its *Report on the 2007-08 Budget Estimates* that the management of contingencies was a significant element of the Government's fiscal responsibilities. It expressed the view that, from an accountability perspective, there was scope for greater transparency in the presentation of contingencies, including their role and impacts in the budgetary process and the basis adopted for their quantification.<sup>53</sup>

<sup>53</sup> Public Accounts and Estimates Committee, *Report on the 2007-08 Budget Estimates – Part Three*, September 2008, p.34



The Committee was therefore pleased that the Government included in last year's Budget Papers some additional commentary on the nature and function of contingencies in the budget process as part of an explanation of the Government's expenditure risks. This additional presentation has been repeated in the current Budget Papers.<sup>54</sup>

While again recognising continuation of the additional presentation on contingencies in the 2009-10 Budget, the Committee reiterates its view, expressed in its *Report on the 2008-09 Budget Estimates*, that there was potential for the Government to build on its initial step to incorporate in future budgets a tabular disclosure of all contingencies and identification of the basis for their quantification.<sup>55</sup> The Committee further considers that such disclosure should include a reconciliation of the movement in contingencies between each budget which would inform readers of the extent to which contingency reserves brought forward from the previous year have been taken up in the current budget and the magnitude of the provision for contingencies established in the current year. Such material would have been particularly useful to readers of the 2009-10 Budget Papers.

The Committee has also recommended in its June 2009 report, arising from its *Inquiry into Victoria's Public Finance Practices and Legislation*, that the estimated financial statements included in each year's Budget Papers separately disclose contingency expenses for operating purposes.<sup>56</sup>

## 2.9 Efficiency targets assigned to departments in 2009-10

The Committee's budget estimates reports in recent years have included commentary on significant efficiency targets assigned to departments under the Government's savings strategies.

The Committee's *Report on the 2007-08 Budget Estimates* identified that the 2007-08 Budget commenced implementation of the Government's *Efficient Government Policy* which was a specific element of the Government's 2006 election commitments.<sup>57</sup> The policy provides for output savings to be achieved by departments totalling \$447 million over the four year period 2007-08 to 2010-11. The Government also announced in the 2007-08 Budget output savings targets from other efficiencies amounting to \$185 million over the period to 2010-11.

In its *Report on the 2008-09 Budget Estimates*, the Committee identified that the Government announced in the 2008-09 Budget a second category of general efficiencies in administration totalling \$500 million to be achieved by departments over the four year period to 2011-12.<sup>58</sup>

The Government's 2009-10 Budget introduces a third category of efficiency targets assigned to departments. This latest category provides for general efficiencies amounting to \$665 million to be achieved by departments over the four year period to 2012-13.<sup>59</sup> The 2009-10 Budget Papers also show that drought savings targets totalling \$50 million were allocated to departments in 2008-09.<sup>60</sup>

<sup>54</sup> Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, pp.47-48

<sup>55</sup> Public Accounts and Estimates Committee, *Report on the 2008-09 Budget Estimates – Part Three*, September 2008, p.34

<sup>56</sup> Public Accounts and Estimates Committee, *New Directions in Accountability*, June 2009, p.30

<sup>57</sup> Public Accounts and Estimates Committee, *Report on the 2007-08 Budget Estimates – Part Three*, September 2008, pp.34-37

<sup>58</sup> Public Accounts and Estimates Committee, *Report on the 2008-09 Budget Estimates – Part Three*, September 2008, pp.36-8

<sup>59</sup> Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, p.368

<sup>60</sup> *ibid.*

In aggregate, the Government’s efficiency targets allocated to departments for achievement over the six year period 2007-08 to 2012-13 amount to in excess of \$1.8 billion. Of this amount, a target of \$388 million has been earmarked for achievement in the 2009-10 financial year.

Table 2.5 summarises the individual efficiency strategies and shows their 2009-10 component.

**Table 2.5: Output efficiency targets, including 2009-10 component, assigned to departments in the 2007-08, 2008-09 and 2009-10 Budgets**

Efficiency strategy	Aggregate target (\$million)	2009-10 component (\$million)
<b>2007-08 Budget</b>		
Efficient Government Policy - four years to 2010-11	447.0	125.0
Other efficiencies - four years to 2010-11	185.0	51.5
<b>2008-09 Budget</b>		
General efficiencies in administration – four years to 2011-12	500.0	125.0
<b>2009-10 Budget</b>		
General efficiencies – four years to 2012-13	665.0	86.5
Drought savings – 2008-09 only	50.0	n/a
<b>Total</b>	<b>1,847.0</b>	<b>388.0</b>

Sources: Compiled by the Committee from information in Department of Treasury and Finance, Budget Paper No. 3, 2007-08 Service Delivery, p.344, Budget Paper No. 3, 2008-09 Service Delivery, p.358 and Budget Paper No. 3, 2009-10 Service Delivery, p.368

The Committee’s analysis of the above information shows that \$314 million, or 47.2 per cent of the aggregate savings target of \$665 million introduced in 2009-10, has been allocated between the Departments of Education and Early Childhood Development and Human Services. The balance is spread across the other eight departments with similar targets allocated to particular groups of departments.

The presentation of information in the 2009-10 Budget on planned output efficiencies has, similar to previous years, scope for improvement in that the Budget Papers:

- do not identify the nature and composition of the ‘general efficiencies’ of \$665 million expected to be achieved by departments over the four year period to 2012-13;
- set out, without totals, each department’s expected contribution to savings targets in each year as a deduction from the aggregate value of its new output funding initiatives which requires readers to collate each department’s expected aggregate savings over the four year period to 2012-13; and
- indicate that the allocation of savings across at least eight of the ten departments continues to be on a proportionate basis which looks to reflect their size and not necessarily their underlying organisational circumstances and potential to generate savings.

In its previous budget estimates reports, the Committee has advocated a more structured approach to the presentation of planned efficiencies in the annual Budget Papers, including more definitive information on the nature of expected savings and the basis adopted for their allocation across departments. These comments remain relevant.

More detailed commentary on the Government’s targeted output efficiencies and their disclosure in the Budget Papers is given in Chapter 16.

## 2.10 Revenue foregone measures

Each year, the Government presents commentary in the Budget Papers on the expected financial impact of revenue foregone measures such as tax relief and concessions granted to certain taxpayers.

### 2.10.1 Tax relief decisions

Tax relief decisions announced in the 2009-10 Budget relate principally to actions taken by the Government as an immediate response to the February 2009 bushfires. The Budget Papers state that:<sup>61</sup>

*As an immediate response to the February 2009 bushfires, the Government waived land tax in a one-off measure on properties destroyed or damaged by the fires. Stamp duty relief was also available for the replacement of family homes or vehicles lost in the fires. For businesses affected by the bushfires, payroll tax assessments for late lodgement and payments due in January 2009 were deferred.*

The above tax relief measures were initially announced by the Treasurer in media releases issued on 19 February 2009. The Treasurer did not identify at the time the estimated cost to revenue of the relief decisions and the 2009-10 Budget Papers do not disclose such information.

In addition to the above bushfire-related relief measures, the Government announced in the 2009-10 Budget it had made provision for the extension of a first home buyers assistance package.<sup>62</sup> The Budget's listing of new output funding initiatives applicable to the Department of Treasury and Finance includes 'Extension of the *First Home Bonus*' but identifies that the cost of the initiative was 'TBD'.<sup>63</sup> In a media release of 21 May 2009, the Treasurer said the Government 'would invest \$125 million to extend the scheme [the First Home Owner Scheme] for an additional year which was funded from the 2009 State Budget.'<sup>64</sup>

### 2.10.2 Tax expenditures and concessions

Consistent with the practice of previous years, a whole chapter in the Budget Papers is devoted to estimates of aggregate tax expenditures and concessions arising from revenue decisions.<sup>65</sup>

#### **Tax expenditures**

The Budget Papers define tax expenditures as tax concessions granted to certain taxpayers, activities or assets, which are a deviation from the normal taxation treatment. They include tax free thresholds and can also take the form of exempting or applying a lower rate, deductions or rebate of a tax for a certain class of taxpayer, activity or asset.<sup>66</sup> The Budget Papers state that aggregate tax expenditures, excluding the impact of tax free thresholds, are projected to total \$2.9 billion in 2009-10, while tax expenditures that can be costed, including the impact of tax free

<sup>61</sup> Department of Treasury and Finance, Building Jobs: Building Victoria, *Victorian Budget 2009-10 Overview*, May 2009, p.14

<sup>62</sup> *ibid.*

<sup>63</sup> Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, p.366

<sup>64</sup> Mr J Lenders MLC, Treasurer, media release, *Victoria hits biggest first home boom for seven years*, 21 May 2009

<sup>65</sup> Department of Treasury and Finance, Budget Paper No. 4, *2009-10 Statement of Finances*, May 2009, pp.223-9

<sup>66</sup> *ibid.*, p.223

thresholds, are estimated to total \$4.9 billion.<sup>67</sup> The equivalent estimates in the 2008-09 Budget were slightly lower at \$2.7 billion and \$4.6 billion respectively.

Consistent with the practice of previous years, the Budget Papers provide a detailed listing of the estimated value over the four year period to 2012-13 of individual tax expenditures that can be costed. The estimates include the impact of tax free thresholds. Table 2.6 summarises the tax expenditure estimates for the categories identified in the Budget Papers.

**Table 2.6: Estimates (including the impact of tax free thresholds) of tax expenditures that can be costed**

Tax exemptions	2009-10 Estimate (\$ million)	2010-11 Estimate (\$ million)	2011-12 Estimate (\$ million)	2012-13 Estimate (\$ million)
Land tax	1,788	1,744	1,701	1,834
Payroll tax	2,718	2,757	2,815	2,872
Congestion levy tax	33	34	35	36
Gambling tax	77	80	83	87
Motor vehicle	82	85	88	92
Stamp duties <sup>(a)</sup>	195	220	216	218
<b>Total</b>	<b>4,894</b>	<b>4,920</b>	<b>4,939</b>	<b>5,139</b>

Note: (a) Principally stamp duty on land transfer.

Source: Department of Treasury and Finance, Budget Paper No.4, 2009-10 Statement of Finances, May 2009, pp.224-5

The two largest tax expenditure items are payroll tax exemptions for employers' payroll below \$550,000 which are costed at \$1.9 billion for 2009-10 and land tax exemptions for a principal place of residence costed at \$771 million for 2009-10.

## Concessions

The Budget Papers also provide a description of 'concessions' which are defined as a direct budget outlay or reduction in government charges that have the effect of reducing the price of a good or service for particular groups. Certain characteristics of the consumer, such as possession of a Commonwealth pension card or a health care card, are the basis for entitlement.<sup>68</sup>

The estimated value of major concessions in 2009-10 is \$1.26 billion. Table 2.7 shows the breakdown of this estimate according to type of concession identified in the Budget Papers.

<sup>67</sup> *ibid.*, pp.223-5

<sup>68</sup> *ibid.*, p.227

**Table 2.7: Total estimated value of concessions by category**

Type of concession	2008-09 Estimate	2009-10 Estimate
	(\$ million)	(\$ million)
Energy, municipal rates, water and sewerage	295	319
Education	71	76
Health	529	558
Hardship assistance	42	44
Transport	256	266
<b>Total</b>	<b>1,192</b>	<b>1,262</b>

Source: Department of Treasury and Finance, Budget Paper No.4, 2009-10 Statement of Finances, May 2009, p.228

The Budget Papers indicate that the energy, municipal rates, water and sewerage category consists of concessions for electricity and gas usage, municipal rates, water and sewerage charges and other small concessions related to energy usage. The 2009-10 Budget provides funding for an increase in the water and sewerage concession cap from \$187.90 in 2008-09 to \$216.60 in 2009-10 to assist low income households with water price increases expected to operate from 1 July 2009.

Additional funding under this concession category for 2009-10 has also been directed to the *Water Wise Program* which assists low income households to reduce their water usage by providing water audits and retrofitting of efficient water aids and appliances.

The reference in the Budget Papers to the relevant new output funding initiative for the Department of Human Services, Increase in the Water and Sewerage Concession Cap, identifies an expected cost in 2009-10 of \$ 12.5 million and a further cost of \$31.9 million over the forward estimates period to 2012-13.<sup>69</sup>

No explanation is given in the Budget Papers for the expected increase of \$29 million in 2009-10 in the value of health concessions which is the largest category. It includes free emergency ambulance transport for concession holders, as well as school, community and dental services and optical concessions. The category also includes community health programs.<sup>70</sup>

<sup>69</sup> Department of Treasury and Finance, Budget Paper No. 3, 2009-10 Service Delivery, May 2009, pp.314, 316

<sup>70</sup> Department of Treasury and Finance, Budget Paper No. 4, 2009-10 Statement of Finances, May 2009, p.229