



## The Treasurer of Victoria

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1 Treasury Place  
GPO Box 4379  
Melbourne Vic 3001  
Australia  
Telephone: (+61 3) 9651 6255  
Facsimile: (+61 3) 9651 0759  
DX 210759

The Hon Phillip Davis MP  
Chairman  
Public Accounts and Estimates Committee  
Parliament House  
EAST MELBOURNE VIC 3002

Dear Mr Davis

### **BUDGET ESTIMATES FOR 2012-13 QUESTIONS ON NOTICE TREASURER PORTFOLIO**

Thank you for your letter dated 7 June 2012 requesting responses to questions taken on notice during the 4 May 2012 Budget Estimates hearing for the Treasurer portfolio.

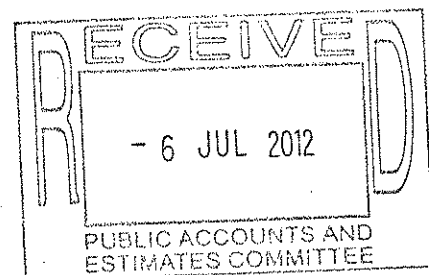
Your letter also sought further clarification on matters relating to the Department of Treasury and Finance's 2012-13 Budget Estimates questionnaire.

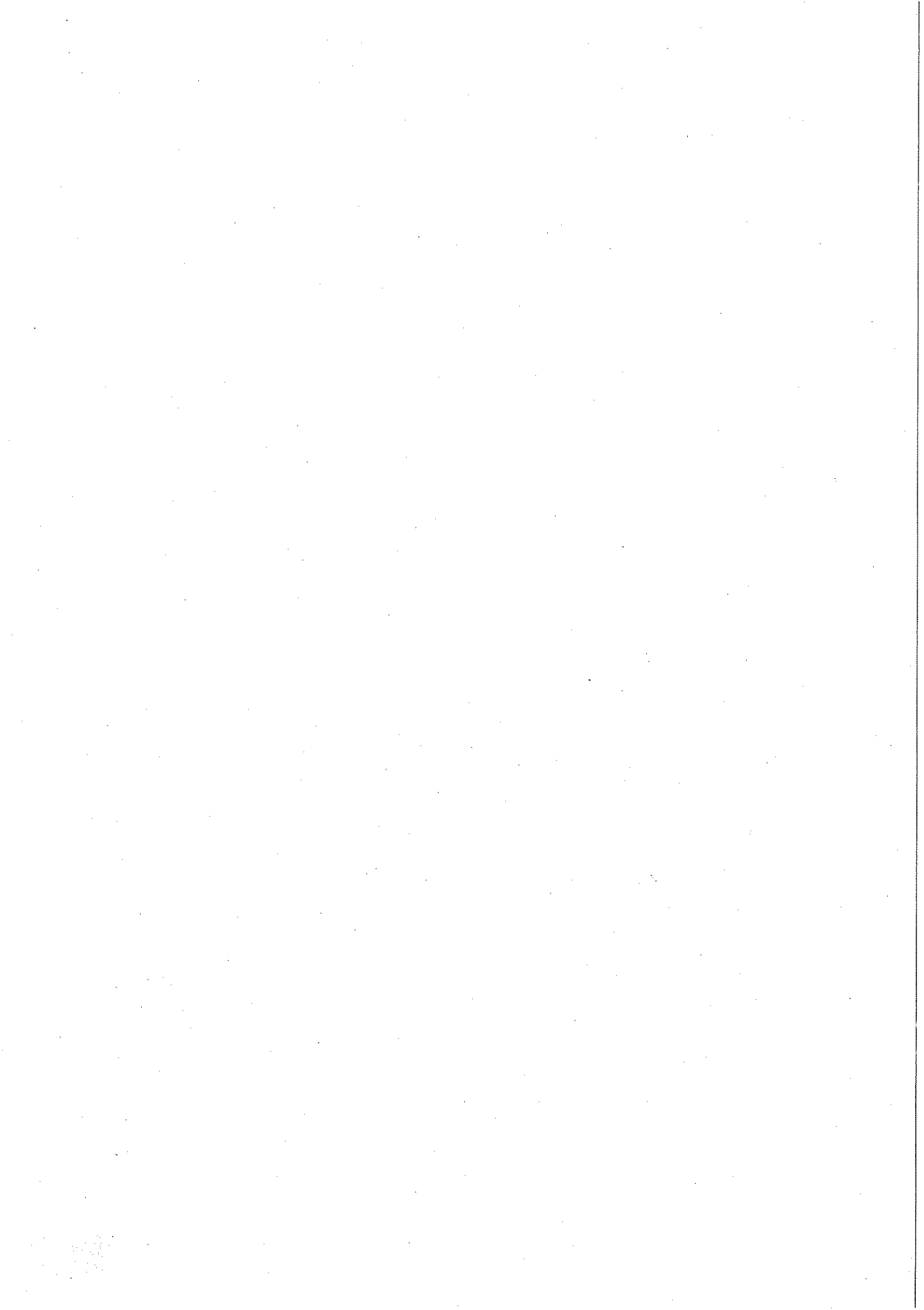
Please find enclosed the responses to the questions taken on notice and further clarification requests.

Yours sincerely

4/7/12

**KIM WELLS MP**  
Treasurer





TREASURER'S PORTFOLIO

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1. Please indicate whether there will be any people who currently pay the fire services levy who will pay more after the move to a property-based levy?

The Government is currently considering a range of policy, design, transition and implementation issues relating to the new property based levy. An announcement about the new levy is expected soon.

2. Regarding the line item 'Fair value of assets received free of charge or for nominal consideration' in the notes to the comprehensive operating statement for the nine months to 31 March 2012,<sup>1</sup> please provide an explanation for why that item increases from a total of \$1.1 million to March to an estimated \$129.0 million for the whole year. In explaining this, please provide details of what assets are included in that \$129.0 million.

This increase is partly attributable to the centralisation of insurance arrangements with the Victorian Managed Insurance Authority (VMIA). \$103 million of non-centralised insurance liabilities were transferred from the Department of Health to the VMIA in 2011-12.

This resulted in a one-off revenue (\$103 million) being included in the General Government (GG) sector's net result from transactions in the period that the liabilities are transferred to the VMIA. Reference to this transaction can also be found on page 172 of the *Victorian Budget 2012-13 Statement of Finances*.

\$23 million is also attributable to the Department of Transport where VicRoads received assets free of charge from local government.

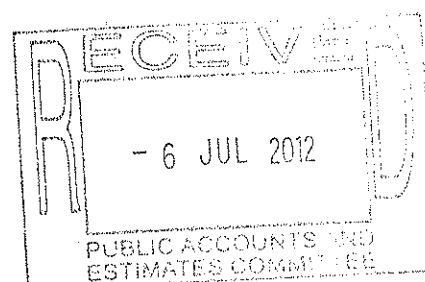
3. Please quantify the impact (in dollars) on the net result from transaction for 2011-12 and 2012-13 of the Reserve Bank of Australia's decision to lower the official cash rate by 50 basis points. Please indicate whether or not this impact had been calculated as part of the regular management of the State's finances.

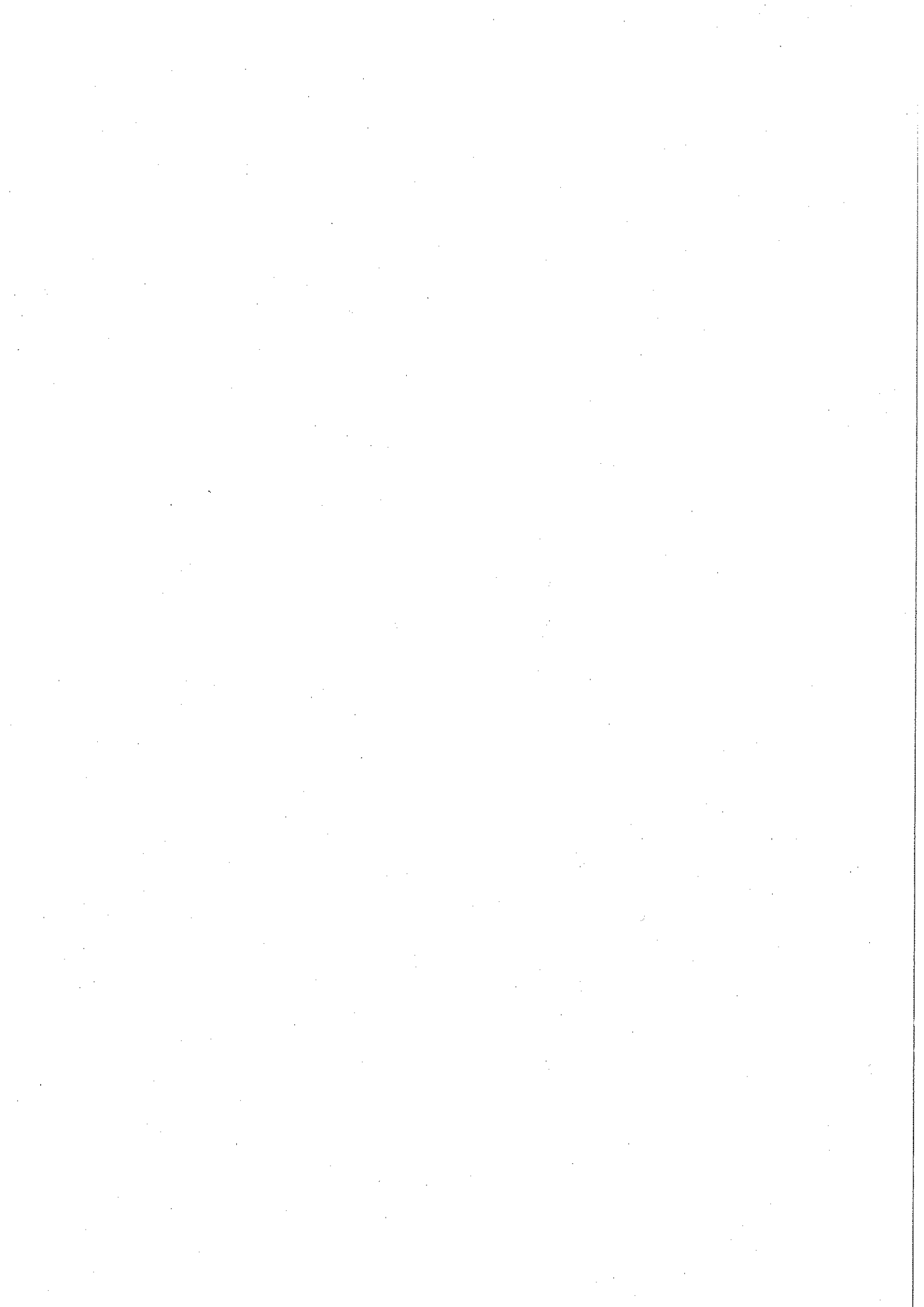
The bulk of State borrowings is held on a fixed interest rate basis. Only a very small proportion of borrowings are referenced directly to the Reserve Bank of Australia (RBA) cash rate. It is important to note that movements in the cash rate do not directly impact the rates applicable to fixed rate borrowings. The cost of fixed interest rate borrowings only changes when they are refinanced and the interest rate on these longer term borrowings reflect market expectations of future cash rates and inflation levels. Any change to longer term interest rates will therefore depend upon the extent to which the market has already factored in any changes to the cash rate. This cannot be quantified.

Therefore a change in the RBA cash rate will not materially impact borrowing costs going forward.

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<sup>1</sup> Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.235





TREASURER'S PORTFOLIO

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1. **Regarding the line item: 'Net cash flows from investments in financial assets for policy purposes' in the general government sector estimated cash flow statement (Budget Paper No.5, p.8):**

The Department of Treasury and Finance's questionnaire explains that *'the majority of the contributions are within the transport portfolio, and mainly relate to delivery by VicTrack of various rail projects'*. Please provide the following additional information about this line item:

- a. **Why are these payments classified as financial assets (i.e. what about the general government sector's contributions to these projects make them investments in financial assets rather than investments in non-financial assets)?**

These infrastructure investments funded by the general government sector are delivered by Public Non-Financial Sector (PNFC) entities such as Victrack. Because the physical assets are included on the balance sheet of these PNFCs rather than the balance sheet of the general government sector, the accounting standards require the amounts to be classified by the general government sector as cash investments by owner (i.e. investments in financial assets for policy purposes). As such, they are included as financial assets (investments in other sector entities) in *2012-13 Budget Paper No 5, Table 1.2 Estimated balance sheet for the general government sector*.

- b. **Does the government expect these contributions to be repaid, either in full or in part?**

The government as owner provides equity investments through cash contributions to its PNFC entities so that those entities can deliver additional or improved services to Victoria through enhanced or new infrastructure assets. Depending on the nature of the entity, the government may expect a return on the investment by way of dividends. The government may also decide from time to time to de-capitalise those entities where the funds are no longer required (for example from the sale of an entity's surplus assets). However, these return of capital decisions are generally in the nature of once-off decisions for a particular entity.

- c. **As this figure is net, are there any flow backs from the PNFCs to the general government sector? If so, please provide a break-down, for each year of 2012-13 to 2015-16, of the total incoming cash flow and the total outgoing cash flow that result in the net figure.**

There are generally no flow backs from the PNFCs to the general government sector. However, as mentioned above, from time to time a government may decide to de-capitalise those entities where their funds are no longer required.

2. Regarding public private partnerships (PPPs):

- a. Please indicate all line items in the general government sector comprehensive operating statement and cash flow statement that include payments made in relation to PPPs (including payments for the principal, payments for interest and operating payments).

Principal payments are reflected under net borrowings in the cash flow statement.

Interest payments are reflected under interest expense in the operating statement and interest paid in the cash flow statement.

Operating payments are reflected under other operating expenses in the operating statement and goods and services in the cash flow statement.

Table 1.1: Estimated comprehensive operating statement for the general government sector for the financial year ending 30 June

(\$ million)					
	Notes	2012-13 Budget	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate
<b>Revenue from transactions</b>					
Taxation revenue	2	15 782.8	16 585.3	17 611.1	18 472.9
Interest		709.5	884.6	886.7	882.5
Dividends and income tax equivalent and rate equivalent revenue	3	1 001.9	591.5	712.4	861.3
Sales of goods and services	4	6 753.1	6 668.6	6 903.6	7 105.0
Grants	5	22 220.0	23 844.8	24 378.0	25 751.5
Other revenue	6	1 889.4	1 883.8	1 893.1	1 928.6
<b>Total revenue from transactions</b>		<b>48 356.7</b>	<b>50 458.7</b>	<b>52 384.9</b>	<b>55 001.6</b>
<b>Expenses from transactions</b>					
Employee expenses		17 257.2	17 768.0	18 418.6	19 098.5
Superannuation interest expense	7a	729.2	722.9	713.6	700.7
Other superannuation expenses	7a	1 811.2	1 821.2	1 834.1	1 863.0
Depreciation	8	2 385.9	2 535.7	2 674.3	2 795.3
Interest expense	9	1 725.6	2 189.7	2 271.1	2 303.6
Other operating expenses	10	15 913.7	16 109.2	16 694.6	16 895.6
Grants and other transfers	11	8 379.0	8 451.0	8 702.2	8 817.2
<b>Total expenses from transactions</b>	12	<b>48 201.8</b>	<b>49 597.6</b>	<b>51 308.4</b>	<b>52 473.8</b>
<b>Net result from transactions – net operating balance</b>		<b>154.9</b>	<b>861.1</b>	<b>1 076.4</b>	<b>2 527.8</b>

Source: Department of Treasury and Finance (2012-13 Budget Paper No.5, p.5)

Table 1.3: Estimated cash flow statement for the general government sector for the financial year ending 30 June

(\$ million)					
	Notes	2012-13 Budget	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Taxes received		15 840.3	16 602.2	17 630.8	18 532.8
Grants		22 220.0	23 844.8	24 378.0	25 751.5
Sales of goods and services <sup>(a)</sup>		7 078.1	7 314.2	7 551.8	7 776.8
Interest received		653.7	862.3	865.8	863.4
Dividends and income tax equivalent and rate equivalent receipts		1 023.0	583.9	702.8	860.9
Other receipts		1 573.6	1 554.7	1 534.3	1 529.1
<b>Total receipts</b>		<b>48 388.6</b>	<b>50 762.1</b>	<b>52 663.5</b>	<b>55 314.4</b>
<b>Payments</b>					
Payments for employees		(17 078.2)	(17 581.1)	(18 227.2)	(18 898.2)
Superannuation		(2 500.7)	(2 619.9)	(2 744.9)	(2 689.8)

	Notes	2012-13 Budget	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate
Interest paid		(1 677.3)	(2 144.9)	(2 229.3)	(2 265.2)
Grants and subsidies		(8 491.4)	(8 552.9)	(8 769.7)	(8 881.8)
Goods and services <sup>(a)</sup>		(16 039.3)	(16 059.7)	(16 738.6)	(16 928.6)
Other payments		(596.0)	(631.3)	(669.1)	(700.0)
<b>Total payments</b>		<b>(46 382.8)</b>	<b>(47 589.9)</b>	<b>(49 378.7)</b>	<b>(50 363.7)</b>
<b>Net cash flows from operating activities<sup>(a)</sup></b>		<b>2 005.8</b>	<b>3 172.2</b>	<b>3 284.8</b>	<b>4 950.7</b>
<b>Cash flows from investing activities</b>					
Purchases of non-financial assets	19a,b	(3 529.6)	(3 963.7)	(2 887.1)	(3 488.2)
Sales of non-financial assets		552.5	372.2	353.6	353.7
Cash flows from investments in non-financial assets <sup>(b)</sup>		(2 977.1)	(3 591.5)	(2 533.6)	(3 134.6)
Net cash flows from investments in financial assets for policy purposes <sup>(b)</sup>		(2 817.2)	(1 716.7)	(1 369.0)	(614.5)
<b>Subtotal</b>		<b>(5 794.3)</b>	<b>(5 308.2)</b>	<b>(3 902.6)</b>	<b>(3 749.1)</b>
Net cash flows from investments in financial assets for liquidity management purposes		(115.7)	(203.8)	(174.3)	(160.8)
<b>Net cash flows from investing activities</b>		<b>(5 910.0)</b>	<b>(5 512.0)</b>	<b>(4 076.8)</b>	<b>(3 909.9)</b>
<b>Cash flows from financing activities</b>					
Net borrowings		4 122.8	2 577.0	1 111.3	(647.9)
Deposits received (net)		4.1	7.0	0.1	0.1
<b>Net cash flows from financing activities</b>		<b>4 126.9</b>	<b>2 584.0</b>	<b>1 111.9</b>	<b>(647.7)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>222.7</b>	<b>244.2</b>	<b>319.8</b>	<b>393.1</b>
<b>Cash surplus/(deficit)</b>		<b>(971.3)</b>	<b>(419.3)</b>	<b>751.2</b>	<b>1 816.2</b>

Source: Department of Treasury and Finance (2012-13 Budget Paper No.5, p.8)

- b. Do these line items include all payments from the general government sector to the private sector for PPPs, or do some payments not appear in either statement? If so, please specify what these payments are and where, if anywhere, they are detailed in the budget papers.

The accounts above include all payments from General Government (GG) sector to the private sector for PPPs. However, certain PPPs are in the Public Non-Financial Corporations (PNFC) sector and payments to the private sector in relation to these PPPs do not pass through the GG sector, except the desalination project which passes through DSE. PPPs in the PNFC sector are reflected in a similar manner in the relevant PNFC sector financial statements.

- c. Are all PPPs arranged so that operational payments will be found under the same line items or are there variations in the accounting treatment of payments for different projects?

PPPs are typically arranged such that operational payments will be found under the same line items. However, the disclosure of payments relating to PPPs would depend ultimately on the specific terms of the arrangement.

**3. Regarding the line item 'Finance leases' in the 'Application of cash resources for the general government sector' table (Budget Paper No.2, p.48)**

The note to this line item explains which projects it relates to. The Committee also notes that these amounts appear as 'acquisitions under finance leases and similar arrangements' in Budget Paper No.5 (p.37). Please also detail what the nature of this expenditure is including:

**a. What event causes a project to be counted in this line item (e.g. the point at which an asset becomes operational or the point at which ownership transfers to the Government)?**

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership. Leases of infrastructure, property, plant and equipment are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership from the lessor to the lessee. The finance lease liability and the associated asset are recognised on the balance sheet at the point of commercial acceptance.

**b. What are the implications of an amount appearing in this line item (e.g. does this represent an amount that the Government will be required to pay off)?**

The leased asset is accounted for as a non-financial physical asset and depreciated over the shorter of the estimated useful life of the asset or the term of the lease.

Minimum finance lease payments are apportioned between the reduction of the outstanding lease liability and the periodic finance expense which is calculated using the interest rate implicit in the lease and charged directly to the consolidated comprehensive operating statement. Contingent rentals associated with finance leases are recognised as an expense in the period in which they are incurred.

**c. What is the value that is included in this line (e.g. is this just the value of the asset or does it include expected interest payments, operating payments, etc.)?**

At the commencement of the lease term, finance leases are initially recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease.

**d. Is any cash transferred when a project appears in this line item or does it simply record the liability/commitment acquired?**

No cash is transferred at the inception of a finance lease, it is simply recording the liability / commitment and the asset acquired by government.



**4. Regarding the line item 'Financial assets: Advances paid' in the general government sector net debt and net financial liabilities table (Budget Paper No.2, p.51)**

The value of 'advances paid' within the financial assets area increases by \$4.1 billion in 2012-13. Budget Paper No.5 (p.32) indicates that this reflects *'the recognition of the finance lease arrangement between the Government and Melbourne Water Corporation for the Victorian desalination plan'*. Please provide further details about the nature of this advance, including why this has been classified as a financial asset and how this reduces general government sector net debt.

Advances paid are loans provided, generally but not exclusively to other sectors of government, for policy rather than liquidity management purposes. They can be in a variety of forms such as long or short-term loans or non-marketable financial instruments in order to achieve government policy objectives. Advances paid are classified in line with the Australian Bureau of Statistics' Government Finance Statistics requirements as financial assets included in net debt. Advances paid in one sector of government are matched by advances received in another sector.

The financing of the Victorian desalination project with AquaSure Pty Ltd has been structured as a back-to back finance lease arrangement between the government represented by the Department of Sustainability and Environment (DSE) in the general government sector, and Melbourne Water Corporation (MWC) in the Public Non-Financial Corporations sector. DSE holds the finance lease liability to AquaSure Pty Ltd that is offset by a sub-lease arrangement to MWC, which in turn has a liability classified as an advance received, matched by the desalination plant as a physical asset. Consistent with the definition above, the arrangement between DSE and MWC has been classified as advances paid/received. Therefore there is a nil impact on general government sector net debt from the desalination project since the amount of the finance lease liability to AquaSure is exactly offset by the advance paid which is receivable from MWC.

