

Department of Economic Development, Jobs, Transport and Resources

Question 1

Four measures in the *Major Projects* output have changed their unit, from expressing targets and results as ratios (e.g. 4:5) to simple numbers (e.g. 4). (Budget Paper No.3, pp.135-6) Please confirm whether the number of projects expressed in each target is the total number of projects in operation during the year.

The new performance targets indicate the number of projects with construction contracts in place as at 1 July 2015.

Question 2

Moody's Investor Service, in commenting on the 2015-16 Budget, notes '*the impact of non-cash transfers of assets from Vic Track which are netted off capital expenditures.*' Please provide details of these transfers.

Moody's Investor Services Extract:

Sydney, May 05, 2015 -- Moody's Investors Service says that the State of Victoria's budget for FY2015/16 projects a minor deficit (on a net lending/(borrowing) basis, incorporating capital expenditures) for FY2015/16 and the medium term, with a solidly balanced position envisioned in four years from now in FY2018/19. But the budget, released on 5 May, 2015, also announces a ramp-up in current spending, which will shrink the state's operating margins -- excluding capital expenditures -- thereby moderating its financial flexibility, a credit negative.

In FY2015/16, the state's general government sector has budgeted for a small deficit of AUD191 million equal to -0.3% of revenues, which compares to last year's forecast of a surplus of AUD559 million for FY2015/16, or 1.0% of revenues. This projected deterioration reflects higher current spending -- up 4.5% over the figure estimated last year for FY2015/16, while revenues are only expected to come in at 1.0% above those forecasted last year.

*While the bottom-line does not deviate from the state's mid-year estimates, this situation largely reflects **the impact of non-cash transfers of assets from VicTrack which are netted off capital expenditures.***

Response:

Net lending/borrowing is an economic measure used by Moody's in determining whether the State is either providing financial resources to other sectors (net lending) or are using resources from other sectors (net borrowing). It is the sum of the net operating balance and the net acquisition of non-financial assets. It reflects the change in net financial liabilities resulting from transactions but excludes the impacts of other economic flows such as revaluations.

Net lending/borrowing also includes transfers from the general government sector to the Public Non-Financial Corporations (PNFC) sector (which increases net lending), which mainly relates to the transfer of transport assets to VicTrack. The Moody's report, and this PAEC follow up query, refer to *the impact of non-cash transfers of assets **from** VicTrack*. However, the financial statements reflect *the impact of non-cash transfers of assets **to** VicTrack*.

Transport assets that are to be transferred from the General Government sector to VicTrack in the *2015-16 Budget* are detailed on pages 98-100 of Budget Paper No. 4, State Capital Program.