

## CHAPTER 4: REVENUE AND REVENUE FOREGONE

### Key findings of the Committee:

- 4.1** In relation to the general government sector, which comprises departments and other budget-funded agencies, income from transactions increased to \$39.3 billion in 2008-09, a rise of \$1.9 billion (5.2 per cent) from 2007-08.
- 4.2** Total revenue for the State of Victoria, which also includes the public financial corporations and public non-financial corporations sectors, rose to \$45.4 billion, an increase of \$1.9 billion (4.3 per cent) from 2007-08.
- 4.3** Major movements in income from transactions raised by the general government sector between 2007-08 and 2008-09 consisted of increased revenue to the State derived from grants (\$1.8 billion or 10.2 per cent), sales of goods and services (\$452 million or 10.1 per cent), and other current revenue (\$311 million or 19.9 per cent), with a reduction in taxation by \$236 million (1.8 per cent), and dividends and income tax equivalent and rate equivalent revenue by \$270 million (35.5 per cent).
- 4.4** Major variations in specific revenue items between 2007-08 and 2008-09 in the general government sector were as follows:
- land tax increased by \$372.2 million (43.0 per cent) due to increased revaluations of site values as at 1 January 2008;
  - land transfer duty reduced by \$904.6 million (-24.4 per cent) reflecting the impact of the global financial crisis (GFC) on the property market. There were large falls in transaction volumes, particularly in the non-residential sector and high-end residential market, and moderate falls in house prices. However, there was strong first home buyer activity at low-end of the residential market due to the impact of the State and Commonwealth Government first home owners grants;
  - income tax equivalent and rate equivalent revenue reduced by \$254.6 million (-64.3 per cent) reflecting the impact of the GFC on the investment market performance of the Public Financial Corporation sector in 2008-09;
  - refunds and reimbursements increased by \$280.6 million (572.5 per cent) reflecting the \$266 million reimbursement from the Commonwealth Government for costs associated with the 2009 Victorian bushfires;
  - other specific-purpose Commonwealth grants increased by \$1,384.3 million (24.0 per cent) largely representing additional funding provided via the national stimulus packages.
- 4.5** In May 2009, the Government reassessed its short-term operating surplus target to ensure it remains relevant, and revised the target from at least 1 per cent of revenue back to at least \$100 million to allow for the delivery of vital services and the provision of key infrastructure, while maintaining a sound fiscal position.

- 4.6** A greater level of discussion and analysis on the State of Victoria revenue outcomes, including comparison with prior year actuals, in addition to that already provided for the general government sector, would be useful in the Financial Report for the State of Victoria.
- 4.7** Against an initial estimate of \$14.1 billion in taxation revenue and income tax equivalent revenue to be received in 2008-09, actual taxation revenue and income tax equivalent revenue for the year amounted to \$13.1 billion, a decrease of 6.7 per cent. This result exceeded the target set for the Department of Treasury and Finance's output measure 'Accuracy of estimating State taxation revenue' for equal to or less than 5.0 per cent accuracy in 2008-09.
- 4.8** The estimated tax expenditures that could be costed (including thresholds) for 2008-09 totalled \$4.6 billion compared to the prior year estimate of \$4.2 billion, an increase of \$0.4 billion or 9.5 per cent. The largest components of these estimated tax expenditures comprised Land Tax Exemptions (estimated at \$1.6 billion) and Payroll Tax exemptions (estimated at \$2.6 billion).
- 4.9** Budget estimates for concessions for 2008-09 were \$1.3 billion compared to the estimate for 2007-08 of \$1.2 billion. With an estimate of \$506 million for 2008-09, health comprised the largest category of concessions.
- 4.10** With regards to the granting of concessions and subsidies in 2008-09, the largest items of revenue foregone noted by the Committee included:
- **Department of Human Services**
    - Water and Sewerage Charges      \$96.3 million; and
    - Municipal Council Rates          \$75.6 million.
  - **Department of Transport**
    - Public Transport                      \$212 million; and
    - VicRoads                                Net revenue foregone from collections on behalf of the Victorian Government totalled \$75.2 million and on behalf of the Transport Accident Commission totalled \$108.9 million.

## **4.1. Introduction**

Chapter 2 (Overview of the State's 2008-09 Financial and Performance Outcomes) of this report provides an overview of the State's financial outcomes in 2008-09. It summarises information on revenue received by the general government sector, including explanations for variances in selected revenue items against the revised estimates for 2008-09, as presented in the Government's 2008-09 Annual Financial Report. Discussion on variances between actual revenue raised for 2008-09 to the prior year is also made for various selected revenue items.

This chapter discusses Revenue and Revenue Foregone and provides a high level analysis of revenue for 2008-09 for the general government sector and the wider State of Victoria compared to the prior year. The Committee has also reviewed revenue foregone in terms of tax expenditures, concessions and subsidies.

The Committee makes selective comments, in this chapter, given the various information already available through publications released by the Department of Treasury and Finance in the form of budget papers and the financial reports, annual reports of agencies and Auditor-General's reports.

## 4.2. Revenue

### 4.2.1 Revenue summary

A summary of revenue derived by the general government sector and the State of Victoria is presented in Table 4.1. The table shows that in aggregate terms:

- for the general government sector, which comprises departments and other budget funded agencies, income from transactions increased to \$39.3 billion in 2008-09, an increase of \$1.9 billion (5.2 per cent) from 2007-08; and
- for the State of Victoria, which also includes the public financial corporations and public non-financial corporations sectors, revenue increased to \$45.4 billion in 2008-09, an increase of \$1.9 billion (4.3 per cent) from 2007-08.

The main components of various key revenue items are set out below:

- **Taxation:** Payroll tax (31.5 per cent of taxation), taxes on property which include land transfer duty and land tax (33.8 per cent), gambling taxes which include taxes on electronic gaming machines (13.1 per cent), taxes on insurance (9.8 per cent) and motor vehicle taxes (10.5 per cent);
- **Dividends, income tax equivalent and rate equivalent revenue:** Amounts received by the State from government business enterprises; and
- **Grants:** include general purpose grants (GST grants) (49.1 per cent of total grants), specific purpose grants for on-passing (11.8 per cent) and other specific purpose grants (37.7 per cent) from the Commonwealth.

**Table 4.1: Revenue summary for the general government sector and the State of Victoria: Comparison of revenue for 2008-09 to the actual for 2007-08, and the initial budget and revised budget for 2008-09**

Revenue item	General government sector <sup>(a)</sup>						State of Victoria <sup>(b)</sup>			
	Actual 2007-08 (\$ million)	Estimate 2008-09 (\$ million)	Revised Estimate 2008-09 (\$ million)	Actual 2008-09 (\$ million)	Year on Year Variance <sup>(c)</sup> (\$ million)	Year on Year Variance <sup>(c)</sup> %	Actual 2007-08 (\$ million)	Actual 2008-09 (\$ million)	Variance (\$ million)	Variance %
Taxation	12,862.9	13,382.9	12,720	12,626.9	-236	-1.8	12,697.5	12,443.6	-253.9	-2
Interest	451.6	402.2	408.2	378.2	-73.4	-16.3	1,300.9	1,190.0	-110.9	-8.5
Dividends and income tax equivalent and rate equivalent revenue	759.9	669.9	474.2	490.4	-269.5	-35.5	576.1	394.3	-181.8	-31.6
Sales of goods and services	4,488.3	4,334.5	5,076.6	4,940.5	452.2	10.1	9,752.2	10,326.9	574.7	5.9
Grants	17,210.1	17,555.0	18,789.4	18,970.0	1,759.9	10.2	17,108.5	18,722.6	1,614.1	9.4
Other current revenue	1,567.5	1,465.6	1,683.8	1,878.9	311.4	19.9	2,128.4	2,354.5	226.1	10.6
<b>Total</b>	<b>37,340.3</b>	<b>37,810.0</b>	<b>39,152.1</b>	<b>39,284.8</b>	<b>1,944.5</b>	<b>5.2</b>	<b>43,563.4</b>	<b>45,432.0</b>	<b>1,868.6</b>	<b>4.3</b>

Notes:

- (a) The general government sector consists of government departments, offices and other bodies such as public hospitals that are engaged in providing services free of charge or at prices significantly below their cost of production. This sector is largely responsible for the delivery of government policy as set out in the annual State budget.
- (b) The State of Victoria comprises the general government sector, the public non-financial corporations sector which provides goods and services of a non-financial nature, along commercial lines, through the adoption of cost recovery procedures (includes the various water, rail and port authorities) and the public financial corporations sector which provides financial services in accordance with commercial principles (includes the Transport Accident Commission, Victorian Workcover Authority, Treasury Corporation of Victoria and the Victorian Funds Management Corporation).
- (c) Change between 2008-09 Actual and 2007-08 Actual.

Sources: Budget Paper No.4: Statement of Finances, 2008-09, p. 10; Budget Paper No.4: Statement of Finances, 2009-10, p.284; Department of Treasury and Finance, Financial Report for the State of Victoria 2008-09, October 2009, p.45

## 4.2.2 Revenue – the Government’s strategy and outlook for 2008-09

The Government, in its 2008-09 budget, indicated that:<sup>53</sup>

- its short-term operating surplus target had been changed from at least \$100 million to at least 1 per cent of revenue each year, ensuring the surplus target grows in line with revenue;
- in response to an increasingly uncertain economic environment, it remains committed to ongoing economic reform to maintain the prosperity of current and future generations;
- a surplus of \$828 million was forecast in 2008-09 and an average of \$907 million over the forward estimates period;
- tax relief for business, including new reductions to payroll tax, land tax, stamp duty on land transfers and workcover premiums, as well as the provision of targeted exemptions to land tax and stamp duty on land transfers;
- more restrictive monetary policy should affect the national economy in 2008-09, with growth in household demand in particular likely to slow. Nonetheless, growth should still be solid; and
- downside risks dominate the short-to-medium term economic outlook. The main risks to the Victorian economic projections are from higher inflation and interest rates, financial market volatility, global economic developments, exchange rate movements and prospects for the rural sector.

In the Committee’s review of impacts on revenue generation for the State, the Committee observed that the Government also predicted in May 2008 that Victoria’s Gross State Product (GSP) was expected to moderate to around trend growth of 3 per cent in 2008-09 compared to forecast growth of 3.25 per cent in 2007-08.<sup>54</sup> The Government reported that this largely reflected more moderate household consumption growth in light of higher interest rates and petrol prices. Higher interest rates will also constrain the strength of dwelling investment recovery. Business investment is also expected to grow more moderately, with non-residential business construction the main driver of near-term business investment growth.<sup>55</sup>

The Committee noted that in terms of revenue risks, with regards to Commonwealth grants (estimated to be \$17.6 billion in 2008-09 or 46.4 per cent of the estimated general government sector revenue), the level of specific purpose payments was determined by policies of the Commonwealth Government, while the level of Goods and Services Tax (GST) grants was affected by the general level of activity in the Australian economy and the GST revenue sharing relativities calculated by the Commonwealth Grants Commission.<sup>56</sup> Further, there are two main sources of risk to the taxation estimates being changes in economic conditions from those projected and changes in the relationship between the economic variables and taxation revenue.<sup>57</sup>

53 Budget Paper No.2: *Strategy and Outlook, 2008-09*, pp.5, 15, 27, 34

54 *ibid.*, pp.23, 28

55 *ibid.*, p.28

56 *ibid.*, p.47

57 *ibid.*

### **4.2.3 Revision to revenue expectations during 2008-09**

As reported by the Government in November 2008 in its mid-cycle review of the annual State Budget, the economic outlook has deteriorated since the May 2008 budget. Of particular significance was that the Victorian Gross State Product was forecast to grow by 1.5 per cent in 2008-09, slower than the 3.0 per cent expected at budget time. This reflected the impact of slower global demand, tightening credit conditions, falling asset prices and lower consumer and business confidence. The Committee also noted that employment growth, while continuing, will be at a slower rate, and the unemployment rate is expected to rise.<sup>58</sup>

The Government's 2008-09 mid-cycle review of the annual State Budget, which took into account the financial impacts of all policy decisions of the Government up to 24 November 2008<sup>59</sup>, revealed that revisions to key economic variables, reflecting lower growth rates than projected at the time of the 2008-09 Budget, have resulted in downward revisions to estimates for general purpose Commonwealth grants (GST grants) and State taxation revenue. There have also been some offsetting upward revisions associated with specific purpose payment Commonwealth grants and State own-source revenue.<sup>60</sup>

The Committee noted that the Government in November 2008 revised its estimate of the operating surplus for 2008-09 downwards to an estimated \$382 million for the general government sector, \$446 million lower than at the 2008-09 Budget.

With regard to the revision of taxation estimates downwards, the Committee noted that the Budget Update disclosed that:<sup>61</sup>

- income from taxes on financial and capital transactions, largely comprising stamp duty on land transfers, was revised downwards by \$706 million in 2008-09; and
- declines in expected total motor vehicle, insurance and gambling tax revenue of \$70 million principally reflecting the projected slowdown in economic activity.

In relation to GST grants, the revision of this item downwards by \$342 million in 2008-09 reflects a decrease in the size of the GST pool. The lower GST pool reflected an expected decline in national household consumption.<sup>62</sup>

Investment income from dividends, income tax equivalent and rate equivalent revenue was revised downwards by \$169 million largely reflecting the impact of the decline in the financial market on the performance of the State's public financial corporations and therefore the income tax equivalent and rate equivalent levied on their forecast profits.<sup>63</sup>

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58 Victorian Government, *2008-09 Budget Update*, p.17

59 *ibid.*, p.1

60 *ibid.*, p.2

61 *ibid.*, p.31

62 *ibid.*, p.32

63 *ibid.*, p.32

Conversely, the following estimated increase in revenue was expected:<sup>64</sup>

- Commonwealth specific purpose grants of \$417 million in 2008-09 to reflect new and additional specific purpose grant funding for first home owners, health and disability services, capital funding for the Commonwealth's Elective Surgery Wait List Reduction Plan, TAFE funding, and expected income from the State's claim to the Commonwealth for reimbursement for natural disaster relief provided by the State in 2006-07; and
- Own-source revenue of \$504 million as a result of expected increased third party revenue in the hospital, TAFE and schools sectors.

Further, during the *2009-10 Budget*, the Government reassessed its short-term operating surplus target to ensure it remains relevant, and has revised the target from at least 1 per cent of revenue back to at least \$100 million to allow for the delivery of vital services and the provision of key infrastructure, while maintaining a sound fiscal position.<sup>65</sup> Further, in the face of the Global Financial Crisis, the Victorian economic outlook has deteriorated and the economic projections revised down significantly since the *2008-09 Budget Update*. In the *2009-10 Budget*, the Government estimated Victoria's GSP to grow by 0.5 per cent in 2008-09,<sup>66</sup> down from the 1.5 per cent expected in the mid-cycle Budget Update.

#### **4.2.4 Revenue outcomes for 2008-09**

As shown in Table 4.1, the Government received income from transactions collected by departments and other budget funded agencies (the general government sector) totalling \$39.3 billion in 2008-09, around 86.5 per cent of the State's total revenue for the year of \$45.4 billion.<sup>67</sup> Therefore, the focus of the Committee's comments is aimed at revenue derived from the general government sector.

The largest revenue items within the general government sector for 2008-09 were:

- **Grants:** \$19.0 billion (48.3 per cent of total general government sector revenue); and
- **Taxation:** \$12.6 billion (32.1 per cent of total general government sector revenue).

The major movements in income from transactions raised by the general government sector between 2007-08 and 2008-09 consisted of increased revenue derived from grants of \$1.8 billion (10.2 per cent), sales of goods and services of \$452.2 million (10.1 per cent) and other current revenue of \$311.4 million (19.9 per cent). These increases were partially offset by decreased revenue derived from taxation of \$236 million (1.8 per cent) and dividends and income tax equivalent and rate equivalent revenue of \$269.5 million (35.5 per cent).

Some of the main reasons for major variances in revenue categories between 2007-08 and 2008-09 are summarised in Table 4.2.

64 *ibid.*, p.32

65 Department of Treasury and Finance, Budget Paper No. 2: *Strategy and Outlook, 2009-10*, pp.3 and 8

66 *ibid.*, p.19

67 Department of Treasury and Finance, *2008-09 Financial Report for the State of Victoria*, October 2009, p.45

**Table 4.2: General government sector: Explanation for revenue movements 2007-08 compared to 2008-09**

Revenue item	2007-08 Actual (\$ million)	2008-09 Actual (\$ million)	Variance (\$ million)	Variance %	Explanation for variance
<b>Taxation</b>					
Land tax	865.4	1,237.6	372.2	43.0	Increase in revaluations of site values as at 1 January 2008, in line with two yearly valuation cycles as specified in legislation. <sup>(a)</sup>
Land transfer duty	3,705.6	2,801	-904.6	-24.4	Reflecting the impact of the global financial crisis (GFC) on the property market. In particular, the drop was precipitated by large falls in transaction volumes and moderate falls in house prices. <sup>(b)</sup>
<b>Dividends and income tax equivalent and rate equivalent revenue</b>					
Income tax equivalent and rate equivalent revenue	395.8	141.2	-254.6	-64.3	Lower income tax equivalent revenue from the public financial corporations (PFC) sector, reflecting the impact of the GFC on the investment market performance in 2008-09. Refer to further Committee comments below on this issue.
<b>Sales of goods and services</b>					
Refunds and reimbursements	49	329.6	280.6	572.7	A \$266 million reimbursement from the Commonwealth Government for costs associated with the 2009 Victorian bushfires, as part of the National Disaster Relief and Recovery Arrangements (NDRRA). <sup>(c)</sup>
<b>Grants</b>					
Other specific purpose grants	5,775.3	7,159.6	1,384.3	24	Representing additional funding provided by the Commonwealth Government via the national stimulus packages. <sup>(d)</sup> Refer to further Committee comments below on this issue.
<b>Other current revenue</b>					
Fair value of assets received free of charge of for nominal consideration	76.7	131.3	54.6	71.2	Assets received free of charge by the Murray-Darling Basin Authority. <sup>(e)</sup>
Donations and gifts	211.2	269.3	58.1	27.5	Higher donations, bequests, and fund raising income received by health services. <sup>(f)</sup>
Other miscellaneous income	779.4	936	156.6	20.1	Receipt of additional unclaimed monies following amendments to the <i>Unclaimed Money Act 2008</i> , where the period required to forward unclaimed monies to the State was reduced from two years to one year. Higher revenue generated by Major Projects Victoria, mainly relating to the redevelopment of the former Kew Cottages site into a new integrated residential neighbourhood. <sup>(g)</sup>

 Source: Department of Treasury and Finance, *Financial Report for the State of Victoria 2008-09, October 2009, pp. 82-4, 126-8*

## Sources:

- (a) Department of Treasury and Finance, 2008-09 Financial Report for the State of Victoria, October 2009, p.126
- (b) *ibid.*
- (c) *ibid.*
- (d) *ibid.*, p.19
- (e) *ibid.*, p.128
- (f) *ibid.*
- (g) *ibid.*

The Committee noted that the decline in financial assets values in the public financial corporations sector during 2008-09 resulted in a large reduction in the income tax expense for related agencies (This sector includes agencies such as Transport Accident Commission, Victorian Workcover Authority and Victorian Managed Insurance Authority). As a result, revenue derived from income tax equivalent and rate equivalent for that sector decreased by \$372.3 million (98.2 per cent) from \$379 million in 2007-08 to \$6.7 million in 2008-09.<sup>68</sup>

A review of the financial statements of the Transport Accident Commission, Victorian Workcover Authority, and the Victorian Managed Insurance Authority for 2008-09 revealed that investments declined significantly from 30 June 2008 to 30 June 2009.

**Table 4.3: Investment portfolio movements between 2007-08 and 2008-09 in the insurance entities**

Entity	2008-09 \$ million	2007-08 \$ million	Variance %
Transport Accident Commission	5,859.3	6,713.9	-12.7
Victorian Workcover Authority	7,999.4	9,534.6	-16.1
Victorian Managed Insurance Authority	847.8	992.4	-14.6

Source: Transport Accident Commission, 2008-09 Annual Report, October 2009, p.46, Victorian Workcover Authority, 2008-09 Annual Report, October 2009, p.50, Victorian Managed Insurance Authority, 2008-09 Annual Report, October 2009, p.31

The Committee noted that the State received significant additional grant funding from the Commonwealth during 2008-09. This funding resulted from the Commonwealth Government's *Nation Building – Economic Stimulus Plan*, new funding associated with the creation of a new stream of reform orientated National Partnerships, and underlying growth funding for the five new broadbanded specific purpose payments in the areas of healthcare, schools, skills, affordable housing and disability. This included additional grant funding for the following:<sup>69</sup>

- \$261 million for government and non-government school infrastructure as part of the *Nation Building – Economic Stimulus Plan* (Building the Education Revolution);
- \$316 million for hospital and health workforce reform;
- \$136 million for public hospitals under the National Healthcare Agreement;

68 Department of Treasury and Finance, *Financial Report for the State of Victoria, 2008-09*. p.83

69 *ibid.*, pp.19, 127

- \$116.8 million for Housing initiatives, including \$64.4 million under the Commonwealth's *Nation Building – Economic Stimulus Plan* for the construction of new social housing dwellings and refurbishment of existing stock;
- \$150 million for the Regional Rail Link project;
- \$209 million for the Commonwealth's First Home Owners Boost;
- \$242 million for computers in government and non-government schools as part of the Digital Education Revolution initiative; and
- \$90.6 million for road projects.

Further information on the Commonwealth's 2008-09 *Economic Stimulus Plan* grants received by the State are included in Chapter 7 (Fiscal Stimulus Packages and Grants) of this report.

#### **4.2.5 Financial Report for the State of Victoria – analysis of end of year revenue outcomes with prior year actuals**

The Committee noted that the Government, when commenting on revenue variations concerning outcomes for the State of Victoria in its end of year Financial Report for the State of Victoria, provided limited discussion and analysis on the revenue outcomes, including comparison with prior year actuals, for revenue generated by the public non-financial corporations and public financial corporations sectors.

The Committee maintains that a greater level of analysis on the State of Victoria revenue outcomes, in addition to that already provided for the general government sector, would be useful in the Financial Report for the State of Victoria.

**Recommendation 6:**      **As the Government's end of year Financial Report for the State of Victoria constitutes the Government's key accountability document for the management and stewardship of the State's finances, the Department of Treasury and Finance consider providing a more detailed discussion and analysis on the revenue outcomes for the State of Victoria.**

#### **4.2.6 Accuracy of revenue estimation**

The Committee noted that in relation to the Department of Treasury and Finance's output measure '*Accuracy of estimating State taxation revenue*', the target for equal to or less than 5.0 per cent accuracy was exceeded in 2008-09. Against an initial estimate of \$14,052.8 million, actual taxation revenue and income tax equivalent revenue for the year amounted to \$13,117.3 million (see Table 4.1), a decrease of 6.7 per cent.<sup>70</sup>

Given that the variance was due to the impact of the global financial crisis on land transfer duty revenue and income tax equivalent revenue, the Committee was interested in determining whether the Department had implemented any strategies to further improve the accuracy of taxation revenue forecasting procedures in the future.

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70 Department of Treasury and Finance, *2008-09 Annual Report*, October 2009, p.20

Information supplied by the Department indicated that:<sup>71</sup>

*DTF will continue to regularly review both its forecasting procedures and forecast performance to identify improvement opportunities. The Department maintains a work program aimed at updating and improving its forecast methodology and procedures. Incorporating developments in economic literature and forecasting/modelling techniques, improving the range and accessibility of relevant data, and improved liaison with interstate counterparts and external parties are some of the means through which the Department aims to improve its forecast performance.*

### 4.3. Revenue foregone

Each year, the Government presents commentary in the annual budget papers on the expected financial impact of revenue foregone initiatives such as exemption thresholds, concessions, subsidies and other reductions in revenue announced in the budget.

The budget papers provide commentary on tax relief from two perspectives, tax expenditures and revenue concessions.

#### 4.3.1 Tax expenditures managed by the Department of Treasury and Finance

Tax expenditures are defined as tax concessions granted to certain taxpayers, activities or assets, which are a deviation from the normal taxation treatment. This includes 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>72</sup>

The Department of Treasury and Finance has major responsibility for the administration of tax expenditures with most managed through the State Revenue Office.

The 2008-09 budget delivered the following tax relief measures:<sup>73</sup>

- **land tax** – an upward adjustment to land tax thresholds of approximately 10 per cent; reducing the top land tax rate from 2.5 per cent to 2.25 per cent; and extending the current land tax exemption for aged care facilities, supported residential care services and rooming houses to include facilities which cater for young people with disabilities (\$122.3 million benefit, 2008-09);
- **land transfer duty**– reduction of approximately 10 per cent to all stamp duty on land transfer thresholds; targeted assistance to first homebuyers by enabling them to receive both the First Home Bonus and principal place of residence concession for the first time; two new specific exemptions for homes transferred into special disability trusts and a corporate reconstruction exemption to provide relief to listed property trusts (\$149.5 million benefit, 2008-09);
- **payroll tax** – reduce the payroll tax rate to 4.95 per cent, effective 1 July 2008 (\$36.6 million benefit, 2008-09).

The above initiatives were aimed at benefiting taxpayers by \$308.4 million in 2008-09.

71 Department of Treasury and Finance, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part Two, received 10 December 2009, p.11

72 Department of Treasury and Finance, Budget Paper No. 4: *Statement of Finances*, 2008-09, p.207

73 Department of Treasury and Finance, Budget Paper No. 2: *Strategy and Outlook*, 2008-09, pp.42-43

A review of the information contained in the budget papers showed that the estimated tax expenditures that could be costed (including thresholds) for 2008-09 totalled \$4.6 billion compared to the prior year estimate of \$4.2 billion, an increase of \$0.4 billion or 9.5 per cent. The largest components of these estimated tax expenditures comprised Land Tax exemptions (estimated at \$1.6 billion in total with the main categories within this item comprising \$589 million for principal place of residence, \$235 million in relation to land used for primary production, \$160 million in relation to Crown Property, \$152 million in relation to Commonwealth land and \$149 million in relation to land vested in a public statutory authority) and Payroll Tax exemptions (estimated at \$2.6 billion with the main items relating to employers payroll below the \$550,000 threshold of \$1.9 billion, wages paid at public hospitals and by public benevolent institutions/charities of \$226 million and \$211 million respectively).<sup>74</sup>

The Committee requested the Department of Treasury and Finance to provide an itemised schedule of tax expenditures in the form of tax concessions actually granted in 2008-09 compared to the budget and the actual tax relief granted in 2007-08, including the number of taxpayers affected. Information provided to the Committee by the Department of Treasury and Finance is set out below in Tables 4.4 and 4.5.

A schedule of tax expenditures in the form of tax concessions is presented in Table 4.4.

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74 Department of Treasury and Finance, Budget Paper No. 4: *Statement of Finances*, 2008-09, pp.209-210

Table 4.4: Tax expenditures (excluding thresholds) by type of tax

Description	2007-08 Estimate <sup>(a)</sup> (\$ million)	2008-09 Budget <sup>(b)</sup> (\$ million)	2008-09 Estimate <sup>(c)</sup> (\$ million)	Comparison of 2008-09 Estimate to 2007-08 Estimate (\$ million)	Comparison of 2008-09 Estimate to 2007-08 Estimate (per cent)	Comparison of 2008-09 Estimate to 2008-09 Budget (\$ million)	Comparison of 2008-09 Estimate to 2008-09 Budget (per cent)
Land tax	1,198	1,749	1,749	551	46.1	0	0.0
Payroll tax	730	757	749	19	2.6	-8	-1.1
Gambling tax	76	77	79	3	3.9	2	2.6
Motor vehicle taxes	75	78	78	3	4.0	0	0.0
Other stamp duties <sup>(d)</sup>	152	181	171	19	12.5	-10	-6.6
Congestion levy	41	33	31	-10	-24.4	-2	-6.1

## Notes:

(a) From 2007-08 Budget Update: estimated outcome.

(b) From 2008-09 Budget estimated forecast.

(c) Latest estimated outcome (Budget Update 2009-10).

(d) Principally stamp duty on land transfer.

Sources:

Department of Treasury and Finance, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 10 December 2009, pp.31–2.

Table 4.5 presents the estimated number of units affected by tax concessions in 2007-08 and 2008-09. The Department of Treasury and Finance advised that data not available would be provided to the Committee when it becomes available.

**Table 4.5: Tax expenditures: number of units affected**

Description	2007-08	2008-09
Land tax <sup>(a)</sup>	n.y.a.	n.y.a.
Payroll tax <sup>(b)</sup>	1,892	1,967
Gaming levy <sup>(c)</sup>	269	268
Motor vehicle taxes <sup>(d)</sup>	808,710	820,065
Other stamp duties	27,167	47,938
Congestion levy <sup>(e)</sup>	25,932	23,513

**Notes:**

*n.y.a. Not Yet Available*

- (a) *Data on the number of taxpayers affected by tax concessions on land tax are not expected to be available until early 2010; obtaining these figures requires the employment of significant resources at the State Revenue Office.*
- (b) *The number represents the 'Number of businesses' excluding thresholds.*
- (c) *Number of clubs not paying the Community Support Fund levy.*
- (d) *Number of vehicles for which owners received tax concessions. Due to the possibility of one owner owning more than one such vehicle (especially primary producers), the number of taxpayers is likely to be lower than the number of vehicles presented here.*
- (e) *The Department advised the Committee that data for the congestion levy relates to the 2008 and 2009 calendar years as 'data for the number of spaces are only available on a calendar year basis.'*

**Source:** *Department of Treasury and Finance, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 10 December 2009, p.32*

In terms of explaining variances of over 10 per cent in individual tax concession items between the actual tax concessions/subsidies granted in 2008-09 compared to budget and that of the previous year, the Department of Treasury and Finance provided the following response to the Committee:<sup>75</sup>

- land tax concessions were 46 per cent higher in 2008-09 compared to 2007-08 due to higher property valuations being introduced in the 2009 land tax year (being the 2008-09 financial year);
- other stamp duties concessions were 12 per cent higher in 2008-09 compared to 2007-08. There was a reduction in transactions and revenue for duty on land transfers however in response to the first home buyer boost there was an increase in the transactions that qualified for the concessions in respect to principal place of residence and first home buyers; and
- Congestion Levy exemptions were lower in 2009 compared to 2008. Improved accuracy in the identification and reporting of parking spaces made available for short stay parking has resulted in a significantly lower estimate of the cost of the exemption provided for those spaces.

<sup>75</sup> Department of Treasury and Finance, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 10 December 2009, pp.32-3

### 4.3.2 Direct Concessions and subsidies

Concessions are 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. Concessions allow certain groups in the community to access and/or purchase important amenities like energy, health and transportation at a cheaper rate or zero cost.<sup>76</sup>

The budget papers indicate that concessions in 2008-09 had an estimated value of \$1.3 billion (compared with an equivalent estimate in 2007-08 of \$1.2 billion) and were categorised as follows in Table 4.6.

**Table 4.6: Estimated concessions by category – 2007-08 and 2008-09**

Concession category	2007-08 Estimate (revised) (\$ million)	2008-09 Estimate (\$ million)
Energy, municipal rates, water and sewerage	281	309
Education	188	200
Health	486	506
Hardship assistance	21	22
Transport	249	258
<b>Total Estimate</b>	<b>1,225</b>	<b>1,294</b>

Source: Department of Treasury and Finance, Budget Paper No. 4, Statement of Finances, 2008-09, p.213

Information provided to the Committee in response to a request for an itemised schedule of concessions and subsidies provided by Departments and agencies in 2008-09, including the number of concessions and subsidies in each category, is presented below. This information also includes a variance analysis and comment on the achievement of anticipated outcomes from the granting of concessions and subsidies. This information is presented for those agencies that have a key role in providing concessions and subsidies, namely the Department of Human Services, Department of Transport, including VicRoads, Department of Treasury and Finance and Department of Justice including Victoria Police.

**Table 4.7: Department of Human Services Revenue concessions impacting on households: 2008-09 compared to 2007-08**

Concession Type	2007-08 Number of concessions (households – unless otherwise stated)	2008-09 Number of concessions (households – unless otherwise stated)	Variance (%)	2007-08 (\$ million)	2008-09 (\$ million)	Variance (%) <sup>(a)</sup>
Utility Relief Grants (*grants)	9,139	15,415	68.7	3.01	5.49	82.4
Home Wise (*grants)	2,729	16,877	518.4	2.18	16.87	673.9
Mains Electricity Concessions	739,734	747,346	1.0	59.92	66.00	10.1
Mains Gas Concessions	563,479	558,630	-0.9	44.50	43.07	-3.2
Non-Mains Energy Concessions	19,534	20,752	6.2	2.09	2.59	23.9
Municipal Council Rates	425,918	405,931	-4.7	71.53	75.61	5.7
Water and Sewerage Charges	642,345	670,377	4.4	83.15	96.32	15.8
Trustee Services	N/A	N/A	N/A	15.16	15.88	4.7
Sewerage Connection Assistance Scheme (*grants)	73	66	-9.6	0.35	0.33	-5.7
Social and Community Services	N/A	N/A	N/A	5.55	6.92	24.7
Buying Service	N/A	N/A	N/A	0.08	0.11	37.5
Carted Water Rebate	835	1,377	64.9	0.1	0.16	60.0
Ambulance Community Service Obligation (CSO)		382,746		280.6	312.0	11.2

Note:

(a) Comparison of 2008-09 actual to 2007-08 actual included by the Public Accounts and Estimates Committee.

Source: Department of Human Services, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 18 January 2010, p.28

## Department of Human Services

Table 4.7 above outlines information provided to the Committee by the Department of Human Services regarding the number of concessions and subsidies provided in 2008-09 compared to 2007-08 according to concession type as well as the value of concessions granted.

Variances greater than 10 per cent were due to the following factors as explained by the Department:<sup>77</sup>

- Utility Relief Grants – 2008-09 grants increased by 82.4 per cent due to increased demand for electricity, gas and water utility relief grants.
- Home Wise – 2008-09 grants increased by 673.9 per cent reflecting greater demand in 2008-09 for the Home Wise Program.
- Mains Electricity Concessions – 2008-09 expenditure increased by 10.1 per cent relating to increased demand for Winter Energy Concessions for mains electricity.
- Non-Mains Energy Concessions – 2008-09 expenditure increased by 23.9 per cent due to the revision of the existing pricing schedule for rebates in 2008-09, to more effectively address the needs of those concession card holders who are dependent on non-mains energy.
- Water and Sewerage Charges – 2008-09 expenditure increased by 15.8 per cent due to increased water and sewerage prices across metropolitan and regional water authorities in 2008-09. The concessions cap was increased by 14.8 per cent plus CPI effective from 1 July 2008.
- Social and Community Services – 2008-09 expenditure increased by 24.7 per cent reflecting increased demand for charity freight services and costs associated with the bushfire relief effort in 2008-09.
- Buying Service – 2008-09 expenditure increased by 37.5 per cent reflecting additional investment in the Good Shepherd Buying Service in 2008-09, to assist with an increase in the number of referrals.

With regards to achieving planned outcomes, the Department informed the Committee that concessions are entitlements-based programs designed to assist low-income earners in Victoria to access and afford essential services.<sup>78</sup>

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77 Department of Human Services, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 18 January 2010, p.28

78 *ibid.*

## Department of Transport

Table 4.8 sets out an itemised schedule of payments involved in the following concession and subsidy arrangements handled by the Department:<sup>79</sup>

- Public Transport Concessions;
- Multi Purpose Taxi Program; and
- Freight Subsidy.

**Table 4.8: Department of Transport Concession and Subsidy payment: 2008-09 payments compared to the prior year and 2008-09 budget**

Concession / Subsidy	2007-08 Actual (\$ million)	2008-09 Budget (\$ million)	2008-09 Actual (\$ million)	Variance <sup>(b)</sup> (per cent)
Public Transport <sup>(a)</sup>	189.3	n/a	212	12
Multi Purpose Taxi Program	42.2	43.7	44.8	6.2
Rail Freight Support	0.8	10.7	6.7	737.5

*Notes:*

- (a) The Public Transport concession/subsidy total includes V/Line, \$16.8 million (2007-08 Actual) and \$19.9 million (2008-09 Actual).
- (b) Comparison of 2008-09 actual to 2007-08 actual included by the Public Accounts and Estimates Committee.

Source: Department of Transport, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 15 April 2010, p.31

In relation to the public transport concessions, the increase from 2007-08 to 2008-09 is primarily due to the increase in patronage and fares in the period. With regards to the Rail Freight Support subsidy, the increase reflects the expansion in the program. Expenditure in 2008-09 was lower than budgeted due to the impact of the drought on the grain harvest for the year.<sup>80</sup>

### ***VicRoads***

VicRoads administers the collection of certain fees, licences and duties on behalf of the Victorian Government and Transport Accident Commission.<sup>81</sup>

The Department states that pensioner, health care and Department of Veterans' Affairs gold cardholders receive a 50 per cent concession on their motor vehicle registration fee. Pensioner concession cardholders and Department of Veterans' Affairs gold cardholders also receive a 50 per cent discount on compulsory third party insurance.<sup>82</sup>

79 Department of Transport, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 15 April 2010, p.31

80 *ibid.*, p.32

81 *ibid.*

82 *ibid.*

During 2008-09, the net revenue foregone from collections on behalf of the:

- Victorian Government in respect of registration fees totalled \$65.7 million compared with \$60 million in the previous year;
- Victorian Government in respect of registration fees relating to farmer light vehicles and charity benevolent organisations totalled \$5.7 million;
- Victorian Government in respect of driver licence rewards totalled \$3.8 million; and
- Transport Accident Commission totalled \$108.9 million compared with \$100.7 million in the previous year.<sup>83</sup>

With regard to outcomes, the Committee was informed by the Department that:<sup>84</sup>

- public transport concessions continues to ensure that services remain affordable for lower income groups, including students, Health Care Card holders and pensioners;
- the Multi Purpose Taxi Program continues to ensure that subsidised taxi transport is available to all Victorians with severe and permanent disabilities who are unable to access public transport;
- the Rail Freight Support Package provides a rebate on rail access fees to ensure that rail freight is a viable alternative to road freight; and
- VicRoads administers the concessions on behalf of the Victorian Government and the Transport Accident Commission with the expectation of providing these discounts as a service to the community.

### **Department of Treasury and Finance**

Table 4.9 provides a comparison of the number and value of various subsidies made by the Department of Treasury and Finance in 2008-09 compared to the previous year.

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83      *ibid.*

84      *ibid.*, p.31–2

**Table 4.9: Department of Treasury and Finance Number and value of subsidies 2008-09 compared to 2007-08**

Subsidies	2008-09 Actual (\$ million)	2007-08 Actual (\$ million)	Variance (per cent) <sup>(b)</sup>
Liquor Subsidies <sup>(a)</sup>	2.8	3.1	-10.5
Petroleum Subsidies	-	2.7	-100.0
Duty Exemptions – Pensioner and First Home Buyer	9.4	11.8	-20.3

**Notes:**

- (a) Under section 177 (2) of the Liquor Control Reform Act of 1988, the State makes payments to persons who hold or have held licences (whether granted under the law of Victoria or of another State or Territory) relating to the sale of liquor in which taxes have been paid to the Commonwealth.

The Federal Government has announced modifications to the Wine Equalisation Tax (WET) rebate effective from October 1, 2004. Under these arrangements the Federal Government will provide wine producers with a WET rebate of up to \$1 million each year.

The Victorian Government will continue to pay a cellar door subsidy on eligible cellar door sales once the \$1 million Federal Government rebate has been exceeded.

- (b) Comparison of 2008-09 actual value of subsidies to prior year actual included by the Public Accounts and Estimates Committee.

Source: Department of Treasury and Finance, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Clarification Questions, 15 April 2010 15 April 2010, p.5-6

In terms of explaining variances of more than 10 per cent, the Department advised that with regard to the petroleum subsidies, as part of the Government's 2007-08 State Budget it was announced that the fuel subsidies paid to oil companies would be abolished and that funding from these subsidies would be redirected towards reductions in motor vehicle duty rates. In accordance with this announcement, the State Revenue Office has ceased the payment of the fuel subsidy effective from 1 July 2007.<sup>85</sup>

**Department of Justice**

Table 4.10 discloses a summary of revenue foregone that arose from concessions granted by the Department of Justice in 2007-08 and 2008-09 in relation to 'Working with Children' checks.

**Table 4.10: Department of Justice Concessions 'Working with Children' checks 2007-08 and 2008-09**

Source of Revenue	2007-08 Revenue foregone (\$ million)	Volunteer applications processed free of charge in 2007-08 (Number)	2008-09 Revenue foregone (\$ million)	Volunteer applications processed free of charge in 2008-09 (Number)
Working with Children Check	8.3	115,684	6.8	91,856

Source: Department of Justice, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 3 December 2009, p.36

85 Department of Treasury and Finance, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Clarification Questions, received 15 April 2010, p5

As 'Working with Children' checks are cyclical in nature, once completed, the check is valid for five years. These checks commenced in 2005-06 with a range of categories phased over five years. Depending on the phasings of each of the categories processed, revenue foregone will vary between years and this explains the decrease in revenue foregone between 2007-08 and 2008-09.

With regards to outcomes, the Committee was informed by the Department that the objective of the Working with Children check is to continue to protect children when they participate in activities outside the home. Waiving the applicable fee for volunteers is a means of encouraging volunteers to carry out the check and ensure children are safeguarded. Given the large numbers of volunteers applying for the card, it is clear the expected outcomes from this fee waiver are being achieved.<sup>86</sup>

### Victoria Police

Concessions granted by Victoria Police in 2008-09 are detailed in Table 4.11. The waiver policy applied by Victoria Police to the charging of fees for officiating at events staged in Victoria during 2008-09 resulted in a reduction in fees payable by organisers of \$168,489 (30.6 per cent of estimated police charges were foregone).

**Table 4.11: Victoria Police Concessions 2008-09**

Name of Event	Estimated Police Charges	Waiver Amount	Charges Levied
	(\$)	(\$)	(\$)
Arthur's Seat Challenge 2008	940.70	-611.70	329.00
Aust Open Road Cycling Championships 2009	18,696.25	-9,346.25	9,350.00
Australian Cycling Grand Prix 2008	15,215.40	-5,725.40	9,490.00
Ballarat Cup 2008	4,766.40	-803.40	3,963.00
Bentleigh Festival 2009	1,986.00	-486.00	1,500.00
Berwick Annual Show 2009	5,941.40	-4,201.40	1,740.00
BMW Melbourne Caulfield Cup 2008	61,362.50	-9,900.00	51,462.50
Dandenong Agricultural Show 2008	7,490.80	-2,620.80	4,870.00
Doveton Show 2008	1,027.50	-619.40	408.10
E.J. Whitten Legends Game 2008	7,840.55	-7,056.55	784.00
E.J. Whitten Legends Game 2009	6,816.30	-6,116.30	700.00
Earthcore Global Carnival 2008	7,875.20	-355.20	7,540.00
Hanging Rock Australia Day Races 2009	1,717.50	-411.00	1,306.50
Hanging Rock New Year Day Races 2009	1,717.50	-217.50	1,500.00
Herald Sun Tour 2008	40,539.40	-4,054.40	36,485.00
Home Matches 2009	8,089.00	-1,155.32	6,933.68
Kabaddi Cup 2009	1,663.80	-1,413.80	250.00

86 Department of Justice, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 3 December 2010, p.40

Name of Event	Estimated Police Charges	Waiver Amount	Charges Levied
	(\$)	(\$)	(\$)
Kyneton Cup 2008	7,084.80	-4,934.80	2,150.00
Melbourne Marathon 2008	28,049.25	-2,911.25	25,138.00
Melbourne to Ballarat Road Cycling Classic 2008	3,401.30	-2,481.30	920.00
Philippine Festival 2008	4,436.80	-436.80	4,000.00
Port Fairy Folk Festival 2009	8,044.00	-1,204.00	6,840.00
Robinvale 80 Ski Race 2009	6,674.00	-6,000.00	674.00
Scott Peoples Memorial Race 2008	7,989.80	-3,289.80	4,700.00
Sinhala & Tamil New Year Festival 2009	7,342.40	-6,242.40	1,100.00
South Melbourne Football Club v Altona Magic 2008	1,229.10	-307.28	921.82
South Melbourne Football Club v Knights 2008	5,785.60	-1,446.40	4,339.20
Springvale Lunar New Year Festival 2009	14,027.00	-10,721.60	3,305.40
Springvale White Eagles v St. Albans 2008	2,098.50	-1,618.50	480.00
St Kilda Festival 2009	63,296.00	-28,496.00	34,800.00
The Frankston Cup 2008	1,055.50	-511.90	543.60
Tour of Gippsland Road Cycling Classic 2008	43,992.96	-36,926.40	7,066.56
Trade Union Races 2008	1,663.80	-807.40	856.40
Vietnamese Tet Festival 2009	5,366.40	-4,566.40	800.00
Werribee v Casey Scorpions 2008	1,109.20	-188.56	920.64
Werribee v Frankston 2008	1,109.20	-188.56	920.64
Werribee v Geelong 2008	794.40	-135.05	659.35
<b>TOTAL</b>	<b>408,236.21</b>	<b>-168,488.82</b>	<b>239,747.39</b>

Source: Department of Justice, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 3 December 2010, p.38

To understand the basis and criteria used by Victoria Police for the granting of police waivers, the Department of Justice advised the Committee that:<sup>87</sup>

*In determining the percentage of estimated police charges to be waived, various factors are considered, including the following:*

- *Assessed benefit to local policing strategies;*
- *Assessed economic and community benefits;*
- *Estimated police costs as a percentage of the proposed event deficit;*
- *Awareness of the User Pays policy and the need to budget for police costs;*
- *Scope of the event to generate sufficient additional income to cover estimated police costs;*
- *Ratio of controlled income (e.g. admission charges) compared with uncontrolled income (sponsorship);*
- *Scope to reduce event expenses;*
- *How the event deficit is to be funded.*

There were no individual waivers granted reflecting a variance of more than 10 per cent in value between the two years. The same number of actual waivers was granted in both years (37). The total amount in 2008-09 is significantly greater because:

- waivers for one event held in both 2007-08 and 2008-09 (E.J. Whitten Legends Game) were both granted in 2009; and
- waivers were granted for a total of five new events (not previous applicants for a waiver) and which attracted waivers with an actual value in excess of \$5,000 (and two – Tour of Gippsland Road Cycle Classic and Springvale Lunar New Year Festival) in excess of \$10,000). The quantum of those new waivers is unlikely to be repeated.<sup>88</sup>

To understand the desired outcomes to be achieved from the policy of granting waivers in relation to police charges, the Department again this year advised the Committee that:<sup>89</sup>

*...partial waivers are considered where the imposition of total police costs may threaten the viability of the event/event organiser or of the event being held in Victoria. Inherent in the waiver policy is acceptance by event organisers of the user pays policy and the gradual reduction of waivers as event organisers budget for a greater share of the police costs.*

In terms of outcome achievement, the Department indicated that no events were cancelled or transferred interstate as a consequence of the Victoria Police User Pays policy for police at sporting and entertainment events.<sup>90</sup>

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87 Department of Justice, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – clarification questions, received 25 March 2010, p.7

88 Department of Justice, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 3 December 2010, p.39

89 *ibid.*, p.40

90 *ibid.*, p.41

