CHAPTER 2: KEY ASPECTS OF THE 2008-09 BUDGET

Key aspects of the 2008-09 Budget:

2.1 The 2008-09 Budget completes funding for all of the government's output commitments made during the 2006 election and increases funding from about 48 per cent to around 72 per cent of asset commitments.

2.2 The government has set a new target of maintaining a budget surplus of at least one per cent of revenue which equates in 2008-09 to an estimated $378 million. The government expects to achieve a budget surplus of $828 million in 2008-09 and an average surplus of $907 million over the next three financial years, both significantly higher than the new target.

2.3 Two rating agencies have reconfirmed Victoria's triple-A credit rating.

2.4 Over the period 2008-09 to 2011-12, net infrastructure investment is expected to average $4.3 billion a year which represents additional annual infrastructure spending of $1 billion compared with the equivalent estimate in last year's budget.

2.5 The net infrastructure investment will be funded by a combination of cash operating surpluses (around 64 per cent) and an increase in net debt from an estimated $2.3 billion (0.9 per cent of GSP) at June 2008 to $9.5 billion (2.9 per cent of GSP) at June 2012.

2.6 Contingency provisions within the budget of at least $8.6 billion for unallocated outputs and of $3.6 billion for unallocated capital are available to the government over the four year period to 2011-12. These provisions represent an increase of 107 per cent for outputs and 127 per cent for assets compared with the equivalent estimates in last year's budget.

2.7 The government plans to generate savings totalling $371 million across departments over the remaining three years, 2008-09 to 2010-11, of its *Efficient Government Policy*.

2.8 The 2008-09 Budget also makes provision for additional *general efficiencies in administration* amounting to $500 million to be achieved by departments over the four year period to 2011-12. The nature and composition of these general efficiencies are not disclosed.

2.1 Key themes

The 12 key themes influencing the direction of the 2008-09 Budget and its new funding initiatives are identified in the budget documents as:[9]

- sound financial management;
- delivering record investment in infrastructure;
- driving jobs growth and competitive innovative businesses;
- providing major new support for Victorian families;
- investing in first class education for all Victorians;
- delivering high quality health services;
- meeting the growing demand for transport;
- securing a prospective future for Provincial Victoria;
- improving community safety and access to justice;
- reducing disadvantage and building a fairer Victoria;
- tackling climate change and securing water supplies; and
- building thriving liveable communities.

The theme, providing major new support for Victorian families, is a new separately-identified theme for the 2008-09 Budget. It reflects a range of government strategies and services outlined in the budget which are directed at families, including expanded maternity services and additional assistance for first homebuyers. A 2007-08 Budget theme, affordable housing, is no longer presented separately but is subsumed under the new 2008-09 theme for families.

The wording for most other themes has been expanded (from that used in 2007-08) in line with the overall direction of the current budget. For example, *excellence in education* now reads *investing in first class education for all Victorians* and *meeting environmental challenges* now reads *tackling climate change and securing water supplies*.

The government's budget themes align closely with the goals set out in its key visionary document *Growing Victoria Together*.

The overview document on the budget lists the main funding initiatives under each theme heading that have been earmarked for attention over the four year forward estimates period.[10] The major budgetary initiatives supporting the high-level goals of *Growing Victoria Together* are also summarised in the budget papers.[11] In addition, the strategy and outlook budget document tabulates the aggregate dollar values of new output and asset initiatives assigned to each department [12] and the service delivery document provides detailed information on these initiatives under each departmental heading.[13]

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9 Victorian Government *2008-09 Victorian Budget Overview: Taking action for our suburbs and our regions*, pp.5–7, 10-32

10 ibid.

11 Budget Paper No.3, *2008-09 Service Delivery*, pp.7–41

12 Budget Paper No.2, *2008-09 Strategy and Outlook*, pp.46, 50

13 Budget Paper No.3, *2008-09 Service Delivery*, pp.289-357

Last year's budget commenced delivery of all of the government's 2006 election output commitments and just under half of the asset commitments.[14] The 2008-09 Budget documents indicate that the current budget provides output funding over the forward estimates period to 2011-12 of $439 million which, together with earlier funding prior to and in the 2007-08 Budget, will fully cover all of the government's 2006 election output commitments.[15]

With regard to asset commitments, the budget documents show that just on 72 per cent ($2.4 billion) of total estimated election costings of $3.4 billion will now receive funding approval up to 2011-12.[16] The government has indicated that the remaining asset election commitments will be delivered over future budgets.[17]

2.2 Changed fiscal target for annual operating surplus

For eight consecutive financial years, the government has met its commitment to maintaining an annual operating surplus of at least $100 million. The Committee has previously commented that the $100 million target had not been adjusted in dollar terms since 1999 and was expected to be significantly exceeded during budget periods up to 2010-11.[18]

When delivering the budget, the Treasurer stated the government had set and would meet a new target of maintaining a budget surplus of at least one per cent of revenue. The Treasurer stated that the new target will act as "*Victoria's buffer against harder global times*"[19] and that *"We will use these increased surpluses to manage future risks and to invest in vital infrastructure such as schools, hospitals, roads and public transport"*.[20]

In 2008-09, 1 per cent of operating revenue is estimated to be $378 million. The government is forecasting an operating surplus of $828 million in 2008-09 and an average of $907 million over the forward estimates period to 2011-12, significantly higher than the new target.[21] This new strategy will allow the operating surplus target to grow in line with movements in operating revenue.[22]

Table 2.1 shows revenue and expense projections for 2008-09 compared with the original budget and estimated actual position for 2007-08.

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14 Budget Paper No.1, *2007-08 Treasurer's Speech*, p.2
15 Budget Paper No.3, *2008-09 Service Delivery*, p.274
16 ibid.
17 ibid.
18 Public Accounts and Estimates Committee, *Report on the 2007-08 Budget Estimates-Part Three*, September 2007, p.25
19 Budget Paper No.1, *2008-09 Treasurer's Speech*, p.3
20 ibid.
21 ibid.
22 Budget Paper No.2, *2008-09 Strategy and Outlook*, p.7

Table 2.1: Revenue and expense estimates for 2008-09

Operating item	2007-08 Budget ($ million)	2007-08 Estimated ($ million)	2008-09 Budget ($ million)
Revenue	34,269.2	36,788.1	37,810.0
Expenses	33,944.9	35,792.1	36,982.4
Estimated operating surplus	**324.3**	**996.0**	**827.6**

Sources: Budget Paper No.2, 2008-09 Strategy and Outlook, p.39 and Budget Paper No.4, 2008-09 Statement of Finances, p.268

The latest expected operating surplus for 2007-08 is more than 200 per cent higher than the original budget estimate primarily because of an enhanced revenue position. Increased revenue is estimated to be $2.5 billion and unbudgeted additional expenditure is expected to be $1.8 million. The expected result for 2007-08 is also higher than the budgeted operating surplus for 2008-09, which as mentioned above, significantly exceeds the government's new target for its operating surplus of one per cent of estimated revenue. The likely solid result for 2007-08 has given the government a much stronger than initially envisaged basis for its spending on infrastructure.

2.2.1 Revenue and expense projections for 2008-09

The estimated revenue growth of around $1 billion (2.8 per cent) to **$37.8 billion** in 2008-09 (as shown in table 2.1), when compared with the expected result for 2007-08, is mainly attributable to:[23]

- an increase of $892 million (9.5 per cent) to $10.3 billion in GST grants, reflecting growth in the estimated GST pool and an increase in Victoria's share of that pool, offset by a net reduction of $518 million in other grants, and particularly specific purpose own use grants because of the completion or winding down of several programs and projects;
- net higher taxation revenue of $385 million (3 per cent) to $13.4 billion, with increases expected for most taxation categories including land tax and land transfer duties. The main growth ($139.1 million) is expected to be in payroll tax due to expected employment and wages growth (see also, tax relief measures, p.34); and
- an increase of $213 million from sales of goods and services arising from higher inter-sector asset charge revenue from increased VicTrack asset values, regulatory fees, hospitals revenue from other parties, VicRoads revenue from external works and indexation of fees and charges.

Table 2.1 also shows that operating expenses are projected to increase by $1.2 billion (3.3 per cent) to **$36.9 billion** in 2008-09, when compared with the revised result for 2007-08. Unlike previous budgets, the 2008-09 Budget documents do not include an analysis of differences between 2008-09 estimates and revised estimates for 2007-08 for the main expense categories.

[23] Budget Paper No.4, *2008-09 Statement of Finances*, pp.177–205

The commentary on estimated expenses in the current documents includes comparisons between the 2008-09 estimates and: [24]

- the expected average increase over the forward estimates period to 2011-12; and
- estimates presented in the 2007-08 Budget Update published in November 2007.

The latter comparison identifies that expenses are expected to be $784 million higher in 2008-09, when compared with the budget update, due principally to:[25]

- new output policy initiatives, involving additional expenses of $182 million, taken since the budget update;
- flow-on expense impacts totalling $111 million from variations to Commonwealth grant funding; and
- an increase of $415 million in administrative variations primarily relating to an increase in the contingency provision not allocated to departments. This provision takes into account the growth in demand for government services due to an anticipated population growth and possible funding for programs that may need to continue to meet service delivery priorities.[26]

Only limited information is provided on estimated movements in the government's highest expense item, employee benefits including superannuation, during 2008-09, compared to the revised estimate for 2007-08. There is a brief comparison of 2008-09 outlays with expected forward expenses over the forward estimates period which states that:[27]

> *"Growth in employee expenses over the forward estimates period is expected to average $921 million, or 5.4 per cent, a year which is consistent with historical growth. This primarily reflects the government's wages policy and output policy initiatives, including 2008-09 Budget initiatives."*

The Committee considers that identification of the reasons for changes in estimated operating expenses between the latest revised figures for the preceding and current budget periods should be incorporated in the annual budget documents, as has been the case in previous years. The disclosed information should encompass a description of the factors contributing to the principal movements in each key expense category.

2.2.2 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.[28]

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24 Budget Paper No.2, *2008-09 Strategy and Outlook*, pp.44-5, 94-5
25 ibid. pp.94-5
26 ibid. p.95
27 ibid. p.44
28 Department of Treasury and Finance, *Victoria's Credit Rating*, www.dtf.vic.gov.au, accessed 4 September 2008

In a bulletin issued by Standard & Poor's on 6 May 2008, the firm stated that:[29]

> *"[The] budget announced today for the state of Victoria is consistent with the state's 'AAA' rating.*
>
> *The strength of the government's forecast operating performance and existing low debt enables the state to maintain high capital spending without affecting its current credit rating.*
>
> *Victoria's review of its operating surplus target further demonstrates its commitment to a prudent medium-term fiscal strategy.*
>
> *There currently is little downside risk to the rating... In the next two to three years the rating would only be threatened in the unlikely event of a major unexpected deterioration in the operating position combined with government inactivity in addressing the problem."*

Moody's Investors Service provided its latest credit opinion on Victoria in April 2008. This opinion reaffirmed the state's AAA credit rating. The agency's summary comments on the rating stated that:[30]

> *"…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 sizable and diversified economic base which amply supports the state's financial obligations…."*

On Victoria's rating outlook, Moody's commented:[31]

> *"The outlook is stable, based on Moody's assessment that the state's strong financial profile and low debt burden position it well to absorb financing deficits (net borrowing result) and an associated increase in debt burden anticipated over the medium term."*

On what could change the rating, the agency stated:[32]

> *"An unlikely scenario combining a severe decline in the housing market and economic recession along with a significant change in the government's prudent fiscal policies that would lead to a rapid accumulation of debt, could have an adverse impact on the rating."*

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29 Standard & Poor's, *Victorian State Budget's Forecast Net Debt Increases Consistent With 'AAA' Rating*, bulletin, 6 May 2008

30 Moody's Investors Service, *Credit Opinion: Victoria (State of) Australia*, 15 April 2008

31 ibid.

32 ibid.

2.3 Funding for infrastructure investments

The Treasurer has stated that, over the next four years, the government will invest a further $17 billion in infrastructure, which is in addition to around $20 billion allocated to delivery of its infrastructure program since 1999.[33]

The budget papers identify that net infrastructure investment is expected to be $3.9 billion in 2008-09 and to average $4.3 billion a year over the forward estimates period.[34] The latter figure represents additional annual spending on infrastructure of $1 billion when compared with the equivalent estimate shown in last year's budget.

The capital expenditure estimates for the three year period 2009-10 to 2011-12 incorporate an unallocated provision totalling $3.6 billion. The government has indicated that this provision will be allocated, in accordance with existing budget practice, to specific projects in future budgets "*to ensure realistic forward projections of infrastructure investment*".[35]

Cash flow projections shown in the budget indicate that around 64 per cent of net infrastructure investment will be funded by the cash surplus, after adjustment for the adding back of depreciation and other non-cash accrual items. The remainder of the infrastructure program will be funded by borrowings.[36]

The budget papers state that, over the forward estimates period, general government net debt is projected to rise from $2.3 billion at June 2008 to $9.5 billion at June 2012.[37] As a percentage of gross state product, net debt is expected to rise from 0.9 per cent at June 2008 to 2.9 per cent at June 2012, compared with 3.0 per cent ($4.8 billion) at June 1999.[38]

The Treasurer described this projected level of debt as "*modest, manageable and sustainable.*" [39]

In its previously mentioned May 2008 Bulletin confirming the state's AAA rating, Standard & Poor's drew attention to the longer-term ramifications of a rising level of debt with the comment "*... In the longer-term, the rating could be threatened if debt continued to grow at the forecast rate beyond the current 2012 estimate.*" However, the rating agency considered this "*is unlikely.*"[40]

2.4 New funding initiatives for 2008-09

The government's key themes underpinning the 2008-09 Budget are principally reflected in the new revenue, output and asset funding initiatives presented in the budget papers.

An appendix to the service delivery document provides the main budget presentation of output and asset funding initiatives, comprising an alphabetical listing of all initiatives under the responsible department accompanied by a short description of each initiative and specification of the output to which it contributes.[41] Disclosure of this latter relationship between initiatives and output represents a valuable addition to the budget papers introduced in last year's budget.

33 Budget Paper No.1, *2008-09 Treasurer's Speech*, p.4
34 Budget Paper No.2, *2008-09 Strategy and Outlook*, p.49
35 ibid. pp.49-50
36 ibid. p.49
37 ibid. p.56
38 ibid.
39 Budget Paper No.1, *2008-09 Treasurer's Speech*, p.4
40 Standard & Poor's, *Victorian State Budget's Forecast Net Debt Increases Consistent With 'AAA' Rating*, bulletin, 6 May 2008
41 Budget Paper No.3, *2008-09 Service Delivery*, pp.289–360

Table 2.2 shows the aggregate dollar values for 2008-09 and over the forward estimates period of new output initiatives announced in the budget together with the budget's new asset funding initiatives assigned to each department:

Table 2.2: New output and asset initiatives announced in 2008-09 Budget

Department	2008-09 Output initiatives ($ million)	2009-10 to 2011-12 Output initiatives ($ million)	2008-09 Asset initiatives ($ million)	Total estimated asset investment [(b)] ($ million)
Education and Early Childhood Development	55.4	197.5	233.9	592.3
Human Services	485.3	1,069.2	144.2	524.3
Infrastructure (c)	136.5	486.0	212.3	1,402.2
Innovation, Industry and Regional Development	166.2	497.9	14.4	49.8
Justice	188.5	743.3	118.3	443.7
Planning and Community Development	42.8	157.0	17.4	65.4
Premier and Cabinet	6.9	19.8	7.2	11.2
Primary Industries	10.4	22.5	2.8	13.9
Sustainability and Environment	106.3	93.4	45.4	91.6
Treasury and Finance	18.7	-	1.9	1.9
Parliament	6.5	23.3	0.9	3.8
Government wide	202.7	527.8	23.7	45.9
Total 2008-09 Budget funding	**1,426.3**	**3,837.8**	**822.4**	**3,246.0**
Less: **Funding from demand contingency and efficiencies**	**1,244.2**	**3,457.6**	**n/a**	**n/a**
Net impact of new 2008-09 Budget output funding [(a)]	**182.0**	**380.2**	**822.4**	**n/a**

Notes: (a) *Excludes initiatives funded from internal reprioritisation or other existing funding sources and 2007-08 Budget update initiatives.*

(b) *Total estimated investment includes projects to be delivered through the public non-financial corporations sector on behalf of the government.*

(c) *Most functions of the former Department of Infrastructure were transferred to a new Department of Transport under machinery of government changes announced shortly before release of the 2008-09 Budget.*

n/a not applicable

Some minor variations in additions may not add up due to rounding

Source: *Budget Paper No.2, 2008-09 Strategy and Outlook, pp.46, 50*

The Committee identified in its report on the 2007-08 Budget estimates that, although there is extensive coverage of new funding initiatives in the departmental sections of the budget papers, the output and asset initiatives assigned to each department are not grouped, and budget allocations not sub-totalled, according to applicable budget themes. With this form of presentation, the Committee considered it was difficult to ascertain from the budget documents the extent of each department's responsibility in servicing the budget themes.[42]

As pointed out by the Committee in its previous report, the 2006-07 Budget documents grouped budget initiatives (but did not sub-total funding allocations) according to key strategic policy documents such as *A Fairer Victoria*, *Moving Forward*, *Maintaining the Advantage* and *Healthy Futures* etc. However, this practice was discontinued in the 2007-08 Budget documents. In the current budget documents, some government-wide initiatives have been grouped according to certain government strategies such as *Climate Change* and *Future Farming* but all departmental initiatives are listed in alphabetical order without any connecting link to a strategy or budget theme.

The Committee continues to encourage the government to adopt as a standard feature of each year's budget papers the linking of output and asset initiatives in each departmental section with the applicable budgetary theme or policy priority under Growing Victoria Together. Such themes form the basis of the government's summary document on the budget and reflect the priorities and directions of funding proposed by the government for the ensuing year. The Committee will further consider this issue as part of its current inquiry into financial and performance reporting practices in the public sector.

2.5 Contingency provisions

The dissection of budgeted operating expenses in table 3.1 of Budget Paper No.4 discloses that *Contingencies not allocated to departments* are estimated to total $429.3 million for 2008-09 as part of an aggregate of $7.7 billion for the four year period to 2011-12.[43] An explanatory footnote 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 2008-09*".

The contingency provision for asset spending is presented in the budget as an approved capital provision of $3.6 billion to 2011-12 that will be allocated to specific projects in future budgets.[44] This provision forms part of the computation of estimates for the net cash investment in fixed assets which, as mentioned in the earlier section 2.3 relating to infrastructure funding, is financed by a combination of the operating cash surplus and an increase in net debt.

A third form of contingency provision available to the government is the Advance to the Treasurer to meet urgent claims that may arise before Parliamentary approval. This provision forms part of annual appropriations recorded under the Department of Treasury and Finance in the annual appropriation act. The provision for 2008-09 totals $932 million.[45]

[42] Public Accounts and Estimates Committee, *Report on the 2007-08 Budget Estimates – Part Three*, September 2007, p.29

[43] Budget Paper No.4, *2008-09 Statement of Finances*, p.97

[44] Budget Paper No.2, *2008-09 Strategy and Outlook*, pp.49-50

[45] *Appropriation (2008-09) Act 2008*, Schedule 1, p.15

Table 2.3 brings together the above contingency items as presented in the current budget and the appropriation act for 2008-09:

Table 2.3: Contingency items within the 2008-09 Budget and Appropriation Act

Item	2008-09 Budget ($ million)	2009-10 Estimate ($ million)	2010-11 Estimate ($ million)	2011-12 Estimate ($ million)	Total ($ million)
Output contingencies					
Output contingencies not allocated to departments (a)	429.3	1,687.3	2,434.0	3,121.1	7,671.7
Advance to the Treasurer to meet urgent claims that may arise before Parliamentary approval (b)	932.0	-	-	-	932.0
Total	1,361.3	1,687.3	2,434.0	3,121.1	8,603.7
Asset contingencies					
Approved capital provision to be allocated to specific projects in future budgets (c)	-	607.0	1,146.4	1,904.0	3,657.4

Sources: (a) Budget Paper No.4, 2008-09 Statement of Finances, p.97

(b) Appropriation (2008/09) Act 2008, page 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 2008-09 would be included in the respective appropriation Act

(c) Budget Paper No.2, 2008-09 Strategy and Outlook, p.49

The equivalent total contingency provisions presented in last year's budget were $4.2 billion for output spending and $1.6 billion for asset spending which means that output contingencies have increased in comparison by $4.5 billion or 107 per cent for outputs and by $2.1 billion or 127 per cent for assets.

The magnitude of the above contingency items may appear, on an initial assessment, to be considerable and 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.[46] 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 local economic conditions. They are also available for future program or policy initiatives which might be in the process of being developed but were not finalised at the time of the budget. A counter argument is that excessive reserve provisions in budgets should be avoided with freed up funds redirected to taxation relief or to delivery of key community services.

Table 2.4 restates and compares, for the current and previous budgets, the above output and asset contingency figures as a percentage of total operating expenses and of net cash investment in fixed assets respectively.

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46 Public Accounts and Estimates Committee, *Report on the 2007-08 Budget Estimates – Part Three*, September 2008, p.31

Table 2.4: Comparison of output and asset contingencies for forward estimates period shown in the 2007-08 and 2008-09 Budgets

Contingency item	2007-08 Budget (4 years to 2010-11) (%)	2008-09 Budget (4 years to 2011-12) (%)
Output contingency		
Contingencies not allocated to departments expressed as a percentage of total operating expenses	2.6	4.9
Asset contingency		
Unallocated capital provision expressed as a percentage of net cash investment in fixed assets	12.2	21.4

Sources: Budget Paper No.2, 2007-08 Strategy and Outlook, p.45, 49; and Budget Paper No.4, 2007-08 Statement of Finances, p.44, 97.

It can be seen from table 2.4 that the government has made provision in the 2008-09 Budget for a significant increase in the quantum of output and asset contingencies relative to projected operating expenses and cash outlays on assets respectively over the forward estimates period, when compared with the previous budget. This situation means that the government will have substantially increased flexibility over the next four years to address both planned and unforeseen future output and asset occurrences, while remaining within established budgetary parameters relating to budgeted surplus and projected debt levels.

As explained in its report on the 2007-08 Budget estimates, the Committee views the management of contingencies as a significant element of the government's fiscal responsibilities. In that report, the Committee considered, from an accountability perspective, there was scope for greater transparency by the government in the presentation of contingencies, including their role and impacts in the budgetary process and the basis adopted for their quantification.[47]

The Committee was therefore pleased to see some additional commentary in the 2008-09 Budget papers on the nature and function of contingencies as part of an explanation of the government's expenditure risks.[48] It sees potential for the government to build on this initial step in future budgets through tabular disclosure of all contingencies and identification of the basis for their quantification. The Committee will further consider the adequacy of external reporting in this area as part of its current inquiry into financial and performance reporting in the public sector.

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47 Public Accounts and Estimates Committee, *Report on the 2007-08 Budget Estimates – Part Three*, September 2008, p.34

48 Budget Paper No. 2, *Strategy and Outlook*, p.48

2.6 Major planned efficiencies across government outlined in the 2008-09 Budget

2.6.1 Savings targets set under Efficient Government Policy

The Committee's report on the 2007-08 Budget estimates identified that last year's budget commenced implementation of the government's *Efficient Government Policy* which forms part of the government's 2006 election commitments.[49] The policy provides for output savings to be achieved by departments over the four year period 2007-08 to 2010-11. It incorporates a strategy of *Buying Smarter, Buying Less* and is aimed at encouraging all departments to reduce non-necessary expenditure, use new technology to improve service delivery at a reduced cost, and operate more efficiently.[50] The Government Services Group within the Department of Treasury and Finance has primary responsibility for delivering the *Efficient Government Polic*y.

The 2008-09 Budget papers disclose that output savings totalling $371 million are to be realised by departments under the policy's six efficiency measures over its remaining three years, 2008-09 to 2010-11. The composition of these savings is presented in the budget papers as follows:[51]

- the Buying Smarter, Buying Less program – $241 million;
- a whole of government approach to shared services – $55 million;
- the *Best Practice In Grant Administration* program – $30 million;
- more efficient management of the government vehicle fleet – $15 million;
- reduced advertising and consultancy expenditure – $15 million; and
- better integration of ICT services across government – $15 million.

The budget papers deduct these savings from each year's output funding allocations for the government's 2006 election commitments to arrive at the net funding available across departments for implementation of the commitments. Most of these funding allocations were announced in last year's budget. The budget papers do not identify the share of targeted savings assigned to each department.

2.6.2 General efficiencies to be achieved by departments

A second category of efficiencies identified in the 2008-09 Budget papers relates to *general efficiencies in administration* totalling $500 million to be achieved by departments over the four year forward estimates period to 2011-12.[52] Each department's share of the planned efficiencies is shown in the budget papers as a deduction from aggregate funding allocated for new output initiatives falling within the department's responsibility. Table 2.5 shows the spread across departments of the planned general efficiencies.

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49 Public Accounts and Estimates Committee, *Report on the 2007-08 Budget Estimates – Part Three*, September 2008, pp.34-7

50 Budget Paper No.3, *2007-08 Service Delivery*, p.35

51 ibid. p.282

52 ibid. p.358

Table 2.5: General efficiencies for departments announced in 2008-09 Budget

Department	**2008-09 General efficiencies ($ million)**	**2009-10 General efficiencies ($ million)**	**2010-11 General efficiencies ($ million)**	**2011-12 General efficiencies ($ million)**	**Total ($ million)**
Education and Early Childhood Development	25.0	25.0	25.0	25.0	100.0
Human Services	25.0	25.0	25.0	25.0	100.0
Infrastructure [(a)]	12.5	12.5	12.5	12.5	50.0
Innovation, Industry and Regional Development	8.3	8.3	8.3	8.3	33.2
Justice	12.5	12.5	12.5	12.5	50.0
Planning and Community Development	8.3	8.3	8.3	8.3	33.2
Premier and Cabinet	8.3	8.3	8.3	8.3	33.2
Primary Industries	8.3	8.3	8.3	8.3	33.2
Sustainability and Environment	8.3	8.3	8.3	8.3	33.2
Treasury and Finance	8.3	8.3	8.3	8.3	33.2
Total general efficiencies in 2008-09 Budget	**124.8**	**124.8**	**124.8**	**124.8**	**499.2**

Note (a) *Most functions of the former Department of Infrastructure were transferred to a new Department of Transport under machinery of government changes announced shortly before release of the 2008-09 Budget.*

Source: *Information compiled by Committee from data in Budget Paper No.3, 2008-09 Service Delivery, pp.302-356*

The above information is not presented in tabular form in the budget papers and it is necessary for readers to locate and add each department's annual targeted savings to arrive at an aggregate organisational figure for the forward estimates period.

Consistent with the approach adopted in last year's budget for the *Buying Smarter, Buying Less* component of the *Efficient Government* policy, the allocation across departments of general efficiencies identified in the current budget is on a proportionate basis, with similar targets assigned to particular groups of departments.

2.6.3 Further scope for improved presentation of planned efficiencies in budget papers

In its report on the 2007-08 Budget estimates, the Committee was critical of the limited approach adopted for presentation in the budget papers of savings targeted across departments under the Efficient Government policy and other efficiency strategies. The Committee suggested that future budget papers incorporate a simple reconciliation of aggregate targeted savings under each efficiency category and each department's expected contribution to those savings.[53]

Such an approach should complement information on savings included in published reporting documents such as departmental annual reports so that prospective data on planned efficiencies disclosed in the budget documents can be readily linked to the ex-post data on actual achievements reported by departments.

The Committee also considered that the formulation of budgeted efficiency savings might better reflect each department's unique organisational circumstances and potential to generate savings, rather than involve similar somewhat ad hoc allocations across particular groups of departments.[54]

The Committee recognises that the coverage of efficiencies in the 2008-09 Budget papers reflects an improvement on the previous year in that planned savings under each efficiency measure under the Efficient Government Policy are now separately recorded. However, the Committee considers there is scope for further improvement in the presentation of what has become an important aspect of annual budgets, given that the information included in the 2008-09 Budget papers:

- does not identify each department's expected contribution to the targeted savings of $371 million under the six efficiency measures of the *Efficient Government* policy over the policy's remaining three years;
- does not identify the nature and composition of general efficiencies in administration totalling $500 million expected to be achieved by departments over the four year period to 2011-12;
- indicates that the allocation across departments of the targeted general efficiencies is on a proportionate basis incorporating similar allocations for particular groups of departments, which does not necessarily reflect each department's unique organisational environment and potential to generate savings; and
- requires readers to collate the targeted annual savings from general efficiencies assigned to each department to determine its aggregate contribution to targets over the forward estimates period.

The Committee would prefer to see, in future budget papers a more structured approach to the presentation of planned efficiencies so that the published material and annual report give a clearer picture of each department's contribution to aggregate savings and more definitive information on the nature of expected savings and the basis adopted for their allocation across individual departments.

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53 Public Accounts and Estimates Committee, *Report on the 2007-08 Budget Estimates – Part Three*, September 2008, p.35

54 ibid. p.37

2.7 Revenue foregone initiatives contained in 2008-09 Budget

Each year, the government presents commentary in the budget papers on the expected financial impact of revenue foregone initiatives such as tax relief granted to certain taxpayers, and concessions and subsidies designed to assist particular groups.

2.7.1 Tax relief measures announced in 2008-09 Budget

The 2008-09 Budget papers identify three tax relief measures that were introduced in the 2008-09 Budget and their expected impact over the forward estimates period to 2011-12. Table 2.6 lists these three tax relief measures, valued at just over $1 billion over the four year period.

Table 2.6: Tax relief measures in 2008-09 Budget

	2008-09 Budget ($ million)	2009-10 Estimate ($ million)	2010-11 Estimate ($ million)	2011-12 Estimate ($ million)	Total ($million)
Land tax cuts	-122.3	-119.1	-125.3	-122.0	-488.7
Land transfer duty	-149.5	-87.9	-90.3	-93.9	-421.6
Payroll tax cut	-36.6	-42.2	-44.6	-47.2	-170.6
Total tax relief	**-308.4**	**-249.2**	**-260.2**	**-263.1**	**-1,080.9**

Note: (a) A negative figure indicates reduced revenue

Source: Budget Paper No.2, 2008-09 Strategy and Outlook, p.42

The budget papers indicate that the 2008-09 land tax relief measures will complement the government's recent land tax reforms. The measures provide for an upward adjustment of approximately 10 per cent to land tax thresholds and reduction of the top land tax rate from 2.5 per cent to 2.25 per cent.[55]

The tax relief measure for land transfer duty includes a reduction of about 10 per cent to all stamp duty on land transfer thresholds, targeted assistance to first homebuyers and two additional exemption provisions.[56]

Tax relief from a cut in payroll tax arises from a reduction in the payroll tax rate to 4.95 per cent effective from 1 Jul 2008.

2.7.2 Tax expenditures and concessions

In addition to the above information on the specific impact over the forward estimates period of tax relief measures incorporated in the 2008-09 Budget, a whole chapter in the budget papers is devoted to estimates of aggregate tax expenditures and concessions arising from both past and current revenue decisions.[57]

55 Budget Paper No.2, *2008-09 Strategy and Outlook*, p.42
56 ibid.
57 Budget Paper No.4, *2008-09 Statement of Finances*, pp.207-214

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, entitlements to exemptions, lower tax rates, deductions or tax rebates.[58] Aggregate tax expenditures, excluding tax thresholds, are projected to total $2,684 million in 2008-09 while tax expenditures that can be costed, including tax thresholds, are estimated to be $4.6 billion.[59]

The budget papers define *concessions* 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. The papers explain that concessions allow certain groups in the community to access and/or purchase important amenities like energy, health and transportation at a cheaper or zero cost.[60] The total value of major concessions in 2008-09 is estimated to be $1.3 billion, with the breakdown according to type of concession shown in the budget papers as follows:

Table 2.7: Total estimated value of concessions by category

Type of concession	**2007-08 Estimate ($ 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
Total	**1,225**	**1,294**

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

The budget papers include a description of the various types of concessions.

As signalled in its report on the 2007-08 Budget estimates, the Committee is taking an increasing interest in the reporting of explicit and implicit subsidies in budgets and forward estimates. More detailed commentary on the revenue foregone initiatives included in the 2008-09 Budget is given in Chapter 10.

58 Budget Paper No.4, *2008-09 Statement of Finances,* p.207
59 ibid. pp.207, 210
60 ibid. p.212

2.8 Unapplied budgets carried forward to 2008-09 by departments

Section 32 of the *Financial Management Act 1994* provides the authority for unapplied output and asset appropriations to be carried forward to the following year. The capacity to carry forward unapplied appropriations formed part of legislative amendments introduced several years ago to increase the flexibility of departments in their management of appropriations.

The budget papers summarise, in aggregate form, the amounts to be carried forward from 2007-08 to 2008-09 for each department.[61] The total of these carried forward amounts (not shown in the budget papers) is $539.7 million comprising $267.5 million for output funding, $271.2 million for asset funding and $1 million for payments made on behalf of the State. The budget papers do not contain any information on the underlying reasons for each department's funding carry over or the intended revised timing for use of carried forward funds.

As part of its 2008-09 Budget Estimates inquiry, the Committee sought information from departments on the factors giving rise to the need for the carry over of funding. The responses received from departments, which were included in the Committee's *Report on the 2008-09 Budget Estimates – Part One*, disclose a wide range of underlying circumstances including:

- delays of many categories such as contractor issues, revisions to project timelines and cash flow forecasts, extended negotiation and consultation processes, and changes to project milestones following awarding of contracts;
- timing differences between the funding and implementation of programs (particularly those involving Commonwealth funding) across calendar and financial years;
- grant recipients not achieving milestones; and
- a need to recruit staff to administer new funding initiatives.

In its report on the 2007-08 Budget estimates, the Committee considered that, given the high dollar value of carried forward appropriations, more extensive coverage under each department, as appropriate in the budget papers and specifically in the government's Annual Financial Report, would enable Members of Parliament and other readers to assess the reasons for carry over funding, particularly relating to delays in the delivery of programs, and to seek explanations where deemed necessary.[62]

The Committee intends to further evaluate reporting practices relating to carried forward appropriations as part of its current inquiry into financial and performance reporting in the Victorian public sector.

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61 Budget Paper No.4, *2008-09 Statement of Finances*, pp.225-7

62 Public Accounts and Estimates Committee, *Report on the 2007-08 Budget Estimates – Part Three*, September 2008, p.38