Financial Report for the State of Victoria 2005-06

Presented by

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for the information of Honourable Members

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HIGHLIGHTS

- The 2005-06 *Financial Report for the State of Victoria* demonstrates that the Government continues to achieve its financial objectives.
- The Government continues to deliver on its financial objective of maintaining an operating surplus of at least $100 million in each year.
- The Government measures its primary operating target against the net result from transactions, using the Australian equivalents to International Financial Reporting Standards (A-IFRS). The net result from transactions reflects the financial decisions controlled by government, and excludes remeasurement items, such as actuarial adjustments and market revaluations of financial assets.

General government sector outcome

- The Government achieved a net result from transactions of $825 million in the general government sector for 2005-06, compared to the revised estimate of $450 million published in the 2006-07 Budget in May 2006.
- As detailed in Chapter 2, the higher than forecast general government sector net result from transactions primarily reflects higher than expected income as a result of the ongoing strength of the economy.
- In particular, strong growth in the Victorian and national economies has resulted in marginally higher than budgeted State taxation income, GST and other grants revenue from the Commonwealth, and income tax and rate equivalent revenue from the public financial corporations and public non-financial corporations sectors. Associated with the increase in grants revenue was a subsequent increase in expenditure to support the delivery of a range of additional programs.
- Including superannuation actuarial adjustments and revaluations, the 2005-06 net result for the general government sector was $3 922 million. This compares to the revised budget estimate of $4 806 million. The variance between the revised net result and the 2005-06 actual outcome primarily reflects higher than expected superannuation expenses associated with a weakening of equity market performance in the last quarter of 2005-06 and changes in actuarial assumptions.
- General government net infrastructure investment spending in 2005-06 was $2 692 million largely due to the expansion of the Government's infrastructure program, particularly in the key areas of education, health, community services and transport.

- General government net infrastructure investment has risen from $1.0 billion in 1999-2000 to an annual average of around $2.0 billion in the six years to 2005-06.
- The Government is maintaining modest and sustainable levels of net financial liabilities, consistent with its triple-A credit rating. General government net financial liabilities were $14 666 million (or 6.3 per cent of Gross State Product (GSP)) as at 30 June 2006, approximately $2 433 million lower than the previous year. The net financial liabilities of the broader non-financial public sector decreased from 8.9 per cent of GSP as at 30 June 2005, to 7.6 per cent of GSP at 30 June 2006.
- Net debt for the general government sector was $1 769 million as at 30 June 2006 (0.8 per cent of GSP), a decrease of $42 million from 1 July 2005. For the broader non-financial public sector, net debt increased from 1.6 per cent to 2.0 per cent of GSP over the same period.

State of Victoria outcome

- Chapter 3 discusses the 2005-06 results compared to 2004-05 actual results for the broader State of Victoria public sector, which includes the general government, public non-financial corporations and public financial corporations sectors. These sectors include various water, rail and port authorities and government-owned finance and insurance bodies.
- The net result from transactions for the State of Victoria for 2005-06 was $1 056 million, a decrease of $422 million (or 28.6 per cent) compared to 2004-05.
- This result was largely driven by operations within the general government and public non-financial corporations sectors.
- In particular, this result reflects growth in income in the general government sector as a result of the ongoing strength of the Victorian and national economies and continued strength of equity markets compared to 2004-05, offset by higher growth in expenses.
- The lower net result from transactions in 2005-06 is also driven by a number of one-off revenue inflows in 2004-05 as well as increased expenses in 2005-06 associated with the running of the Commonwealth Games, within the public non-financial corporations sector.
- Including the impact of gains in financial markets on superannuation fund investments and other assets, the net result for the State of Victoria public sector was $5 876 million for 2005-06, compared to $1 346 million in 2004-05.

2004-05 outcome remeasurement

- This is the first *Financial Report for the State of Victoria* using A-IFRS, and comparatives for the year ended 30 June 2005 have been restated accordingly.

CHAPTER 1 – FINANCIAL POLICY OBJECTIVES AND STRATEGY

- The Government achieved its financial objectives against all measures in 2005-06.
- The net result from transactions recorded a surplus of $825 million in the general government sector in 2005-06. The net result from transactions shows the outcome of the financial decisions by Government, and is the most robust measure of the Government's financial management under A-IFRS.
- The Government increased infrastructure spending in 2005-06. On average, in June 2006 each Victorian was supported in real terms by $9 106 of public infrastructure, up from $9 018 in June 2005.
- The Government continues to provide a tax system that is competitive with other States. In 2005-06, Victoria's taxation revenue as a percentage of GSP was below that of New South Wales and around the Australian average.
- Net financial liabilities were $14 666 million (6.3 per cent of GSP) as at 30 June 2006, $2 433 million lower than the previous year, primarily due to a reduction in the unfunded superannuation liability, largely driven by strong investment market performance and a rise in the discount rate used to value the liability.

FINANCIAL STRATEGY

The Government's financial policy objectives and strategies are set out in the *Financial Management (Financial Responsibility) Act 2000*. The Act includes a set of financial management principles. These are to:

- manage financial risks faced by the State prudently, taking into consideration economic circumstances;
- pursue spending and taxation policies that are consistent with a reasonable degree of stability and predictability in the level of the tax burden;
- maintain the integrity of the Victorian tax system;
- ensure that government policy decisions have regard to their effects on future generations; and

- provide full, accurate and timely disclosure of financial information relating to the activities of the Government and its agencies.

Growing Victoria Together is a vision for Victoria for 2010 and beyond. A refreshed edition of *Growing Victoria Together* was released by the Premier in March 2005. This update resulted in a commitment to ten shared goals for Victoria's future. One of these goals is sound financial management, which will allow the Government to provide the long-term capacity to achieve a secure economic future for Victoria.

The Government's short- and long-term financial objectives are summarised in Table 1.1. Progress made in 2005-06 against each of the five financial objectives is discussed below.

Table 1.1: 2005-06 Financial objectives

Long-term	*Short-term*
Maintain a substantial budget operating surplus	Operating surplus of at least $100 million in each year
Deliver world-class infrastructure to maximise economic, social and environmental benefits	Implement strategic infrastructure projects
Provide improved service delivery to all Victorians	Complete the implementation of the 2002 election commitments
Provide a fair and efficient tax system that is competitive with other states	Implement reforms to Victoria's business taxation system
Maintain state government net financial liabilities at prudent levels	Maintain a triple-A credit rating

While the focus of this chapter is on progress made during 2005-06, some trend analysis back to 1999 is included to provide a broader context.

Objective one: Operating surplus

Table 1.2 shows that the net result from transactions is $825 million in 2005-06, which meets the Government's target of an operating surplus of at least $100 million in each year. The net result from transactions is considered to be the most robust measure of the Government's financial management under A-IFRS. Other operating statement measures are discussed in Chapter 2.

Table 1.2: Income and expenses from transactions

($million)

	2005-06 Actual	*2005-06 Revised* [(a)]	*Change*	*% Change*
Income from transactions	31 972.0	31 198.9	773.1	2.5
Expenses from transactions	31 147.5	30 749.4	398.2	1.3
Net result from transactions	824.5	449.5	375.0	83.4

Source: Department of Treasury and Finance

Note:
(a) Revised 2005-06 estimate published in the 2006-07 Budget in May 2006.

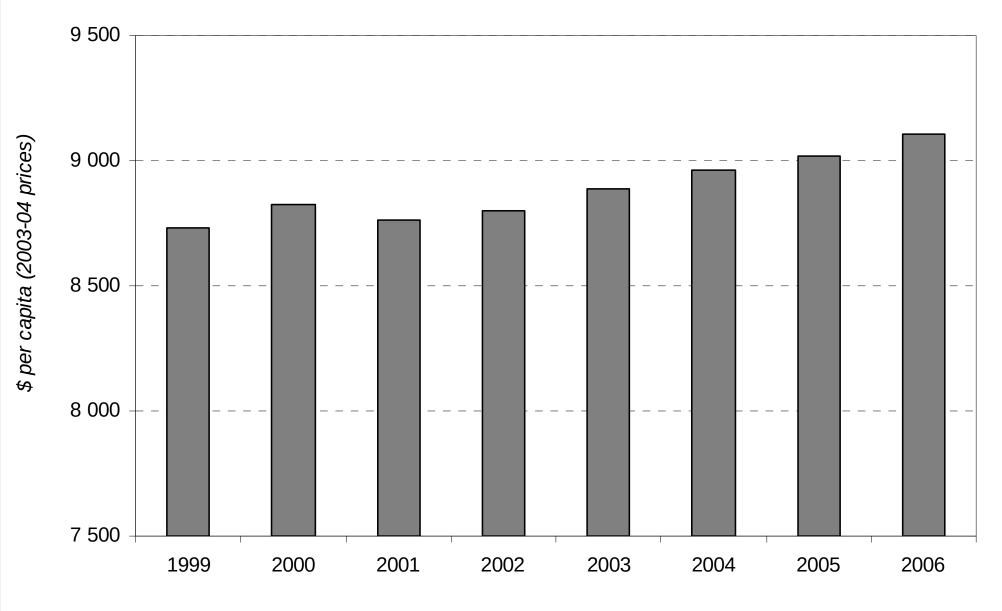
For explanations of the main drivers of the general government sector result, see Chapter 2. For a discussion of the whole-of-State result, see Chapter 3.

Objective two: Infrastructure

The Government's commitment to delivering world-class infrastructure to enhance social, economic and environmental benefits across the State continued in 2005-06.

Chart 1.1 shows that the real capital stock per capita has generally trended upward over the period 30 June 1999 to 30 June 2006. The real capital stock rose from $9 018 per capita in June 2005 to $9 106 per capita in June 2006. This represents growth in the real capital stock per capita of one per cent.

Chart 1.1: General Government real capital stock per capita as at 30 June [(a)]



Source: Department of Treasury and Finance

Note:
(a) Movements in real capital stock reflect general government investment (excluding net contributions to other sectors) less depreciation.

This significant boost to Victoria's infrastructure has been made possible by Victoria's strong financial position. Cash surpluses from operating activities together with modest and sustainable levels of net debt have enabled the Government to pursue its program of significantly upgrading and modernising infrastructure.

The 2005-06 Budget delivered in May 2005 provided funding for the commencement of new infrastructure investment projects with a total estimated investment (TEI) of $2.3 billion (including projects announced in the 2004-05 Budget Update). During 2005-06, the largest expenditure on capital works occurred on the following projects:

- school modernisation program ($136 million) – upgrade of existing facilities in Victorian government schools to provide improved teaching and learning conditions;
- police facilities expansion and upgrade program ($101 million) – site acquisition and construction and the purchase and fit-out of mobile police stations;
- regional fast rail ($99 million) – upgrade of the Ballarat, Bendigo, Geelong and Latrobe Valley lines; and
- Pakenham Bypass ($78 million) – construction of a 20 kilometre four-lane divided freeway to divert the Princes Highway around Pakenham.

Since the 2005-06 Budget, the Government has continued to invest in new asset initiatives, including:

- the rebuilding of the Royal Children's Hospital (RCH) with a TEI of $847 million. The new RCH will have the capacity to treat additional patients each year with improved accommodation and facilities;
- $283 million TEI for the design, development and implementation of a new public transport ticketing system. The system will be based on re-usable Smartcard technology and will be rolled out from 2007;
- as part of our *Meeting Our Transport Challenges*, funding of $66 million TEI for the Western Highway: Deer Park Bypass and Leakes Road Interchange Upgrade (funded from Better Roads Victoria trust fund);
- $48 million TEI to replace, upgrade and expand medical equipment across non-acute services (public health, aged care, mental health, and dental health) and sub-acute services such as rehabilitation; and
- $42 million TEI for counter-terrorism and to fight organised crime. The funding will improve preparedness, build capacity and raise awareness to prevent a major terrorism incident in Victoria and to fight organised crime.

Objective three: Service delivery

The Government continues to deliver on the commitments it has made in *Growing Victoria Together* (refer to 2006-07 Budget Paper No. 3, *Service Delivery*, for the *Growing Victoria Together* progress report and the Government's election commitments implementation report card).

In addition, the Government announced major policy commitments in 2005-06 through a number of statements:

- *Moving Forward: Making Provincial Victoria the Best Place to Live, Work and Invest*;
- *Maintaining the Advantage: Skilled Victorians* – investing in our training system;
- *Healthy Futures* – delivering better health, research and jobs for Victorians; and
- *Meeting Our Transport Challenges* – connecting Victorian communities.

Further, in August 2006 the Government released an action plan to deliver real and practical benefits to small business: *Time to Thrive – Supporting the changing face of Victorian small business.*

The Government's investment in key service delivery areas is returning dividends. This is evident in the Government's commitment to increasing community safety and improving access to justice which has resulted in:

- reduced crime – a drop in the crime rate from 9 518 offences per 100 000 persons in 2000-01 to 7 383 offences per 100 000 persons in 2005-06, a reduction of 22.4 per cent;

- more police – an increase in the number of police officers, including recruits, from 9 500 in June 1999 to 11 220 in June 2006; and
- reduced recidivism – the number of prisoners who return to prison within two years has fallen from 41.8 per cent in 2000-01 to 36.5 per cent in 2005-06.

With respect to valuing and investing in education and training, the Government has achieved the following:

- in 2004, the proportion of Victorian primary students achieving the national benchmarks for reading, writing and numeracy was at or above the national average;
- the prep to year two average class size in government schools reduced from 24.3 students in 1999 to 20.8 in 2006;
- approximately 85 per cent of Victorians aged 20 to 24 years in 2005 had attained year 12 or equivalent, above the national average of 82.7 per cent;
- approximately 89 per cent of Victorians aged between 15 and 19 years in 2005 were engaged in full-time education or training, full-time work, or in both part-time work and part-time education or training, above the national average of 86.1 per cent; and
- total vocational education and training activity (student contact hours) has increased by 21.4 per cent since 1999.

The Government's commitment to high quality, accessible health and community services is reflected in significant achievements, including:

- a rise in the number of admissions to public hospitals to 1 312 000 in 2005-06 (preliminary estimate), an increase of 52 000 on 2004-05;
- the proportion of time that hospital emergency departments were on hospital bypass in 2005-06 fell to 1.3 per cent, well below the Government's target of three per cent;
- in 2005-06, hospitals continued to treat a higher than target percentage of emergency department patients within nationally recommended timeframes; and
- the number of visits to community dental clinics increased by 52 894 in 2005-06, or 12 per cent. Waiting times also improved, and emergency assessments were seen within 24 hours.

Objective four: Taxation

A key financial objective of the Government is to provide a fair and efficient tax system that is competitive with other states. To achieve this, the Government has continued to implement a range of reforms and initiatives to strengthen incentives for businesses to grow, workforce participation to expand and population to increase.

In the 2005-06 Budget, the Government continued significant reform of Victoria's land tax system by extending a substantial relief package to taxpayers worth $823 million over five years ($206 million in 2005-06). In addition, debits tax was abolished on 1 July 2005, saving taxpayers $258 million in 2005-06.

The 2006-07 Budget further assisted Victorian businesses to grow and keep competitive by:

- reducing the payroll tax rate to 5 per cent over three years; and
- announcing additional land tax reform worth $167 million over four years.

This is in addition to the abolition of rental business duty from 1 January 2007.

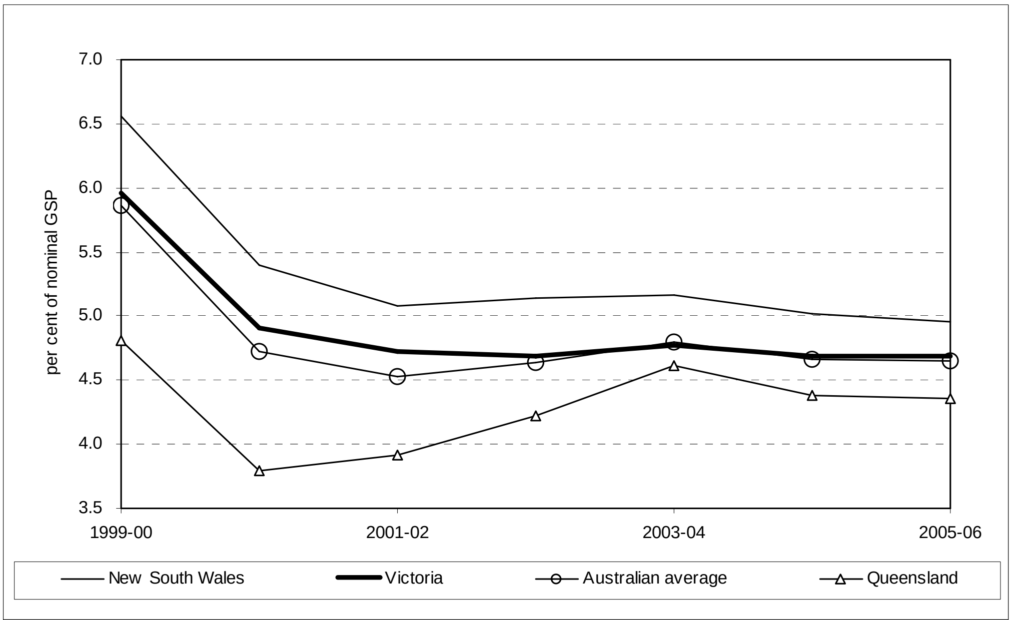
The reform of Victoria's taxation system is part of a wider reform agenda led by the Government which aims to lift productivity and workforce participation through reforms embracing human capital, competition and best practice regulation.

The competitiveness of Victoria's tax regime plays an important role in underpinning economic growth and investment. The Government aims to ensure that Victoria's taxes remain competitive with the Australian average.

Victoria's preferred measure of tax competitiveness is state taxation expressed as a share of nominal GSP. This measure relates the level of taxation revenue to economic capacity. Taxation revenue as a share of nominal GSP for the six years to 2005-06 for Victoria, New South Wales, Queensland and the Australian average is shown in Chart 1.2. Victoria's share of nominal GSP initially fell sharply as Victoria abolished several taxes as part of the *Intergovernmental Agreement on the Reform of Commonwealth – State Financial Relations* (IGA) when the GST was introduced. Since then, the ratio has generally been steady.

Based upon the 2005-06 Victorian taxation outcome and forecast results for other jurisdictions, as published in 2006-07 Budgets (the latest available data for all jurisdictions), Victoria's taxation revenue in 2005-06 was 4.69 per cent of GSP – the same as in 2004-05. In 2005-06, Victoria's tax ratio was 0.27 percentage points (about $600 million) below New South Wales and around the Australian average.

Chart 1.2: Taxation revenue as a share of nominal GSP [(a)]



Sources: Australian Bureau of Statistics, Department of Treasury and Finance for Victoria 2005-06 outcome, respective 2006-07 Budgets for all other jurisdictions

Note:
(a) The 2005-06 Victorian data are based on actual taxation outcomes. Data for all other jurisdictions are 2005-06 revised estimates (as published in their 2006-07 Budgets).

Objective five: Net financial liabilities

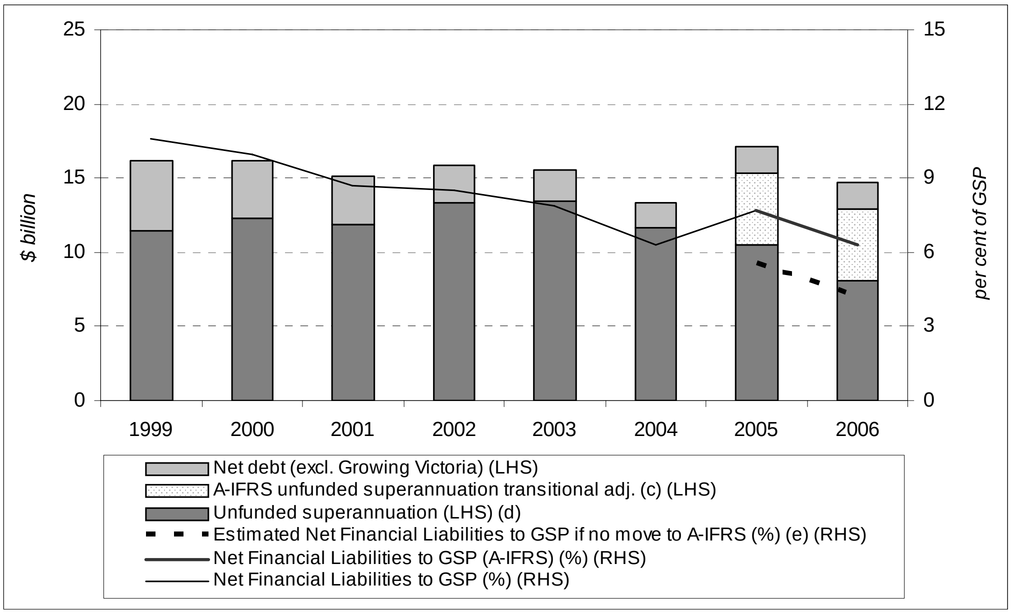
Victoria's balance sheet remained very strong in 2005-06. Victoria's triple-A credit rating was re-affirmed by international credit rating agencies Moody's Investors Service (in December 2005) and Standard & Poor's (in August 2006). Both agencies cited Victoria's strong fiscal position, low debt levels and prudent financial management as the key factors behind the triple-A credit rating.

The 2005-06 result reinforces these positive factors as:

- general government net debt decreased in 2005-06 from $1 811 million to $1 769 million. Net debt at 30 June 2006 was 0.8 per cent of GSP and remained modest compared to 3.1 per cent of GSP in June 1999; and
- general government net financial liabilities (the sum of net debt and unfunded superannuation liabilities) decreased in 2005-06 from $17 099 million to $14 666 million, due to a decrease in superannuation liabilities. Over the period, net financial liabilities fell from 7.7 per cent of GSP to 6.3 per cent of GSP (see Chart 1.3).

It should be noted that with the introduction of reporting on an A-IFRS basis from 1 July 2005, measured net financial liabilities have increased. This increase is due to a change in the discount rate that must be used to value unfunded superannuation liabilities. Chart 1.3 highlights the impact on General Government net financial liabilities.

Chart 1.3: General government net financial liabilities as at 30 June [(a)(b)]



Source: Department of Treasury and Finance

Notes:

(a) General Government net financial liabilities are calculated as the sum of net debt and unfunded superannuation liabilities.

(b) Net debt is calculated as gross debt less liquid financial assets. In the years applicable, Growing Victoria investments are excluded as an offset to gross debt on the grounds that these investments are earmarked for infrastructure projects and are therefore not available to redeem gross debt.

(c) For comparative purposes only, the transitional adjustment applied to unfunded superannuation liabilities in 2004-05 has also been separately identified in 2005 and 2006.

(d) Unfunded superannuation liabilities between 1999 and 2004 are calculated under the previous Australian accounting standards, whereas in 2005 and 2006 the A-IFRS standard AASB 119 has been applied.

(e) The net financial liabilities to GSP (as calculated applying the previous Australian accounting standard) between 2005 and 2006 are estimates.

CHAPTER 2 – GENERAL GOVERNMENT SECTOR OUTCOMES

- The 2005-06 net result from transactions, which excludes actuarial adjustments and revaluations, was $825 million. This compares to the revised estimate of $450 million published in the 2006-07 Budget in May 2006. The higher net result from transactions is largely reflective of higher than expected income, driven by the ongoing strength of the economy.
- Including actuarial adjustments and revaluations, the 2005-06 net result was $3 922 million compared to the revised 2006-07 Budget estimate of $4 806 million. The lower than expected net result reflects higher than expected superannuation expenses associated with a weakening of equity market performance in the last quarter of the financial year and changes in actuarial assumptions.
- Infrastructure investment spending in 2005-06 was $2 692 million, reflecting the expansion of the Government's infrastructure program, particularly in the key areas of education, health and transport.
- Net debt decreased by $42 million in 2005-06, when compared to the net debt of $1 811 million as at 1 July 2005.
- Net financial liabilities were $14 666 million (6.3 per cent of GSP) as at 30 June 2006, $2 433 million lower than the previous year, primarily due to a reduction in the unfunded superannuation liability, largely driven by strong investment market performance and a rise in the discount rate used to value the liability.

The general government sector is the sector largely responsible for the delivery of government policy as set out in the annual State Budget. For each financial year, the Government sets out its financial objectives, estimated financial statements, and policy priorities for the coming year in the budget papers.

Chapter 1 of this report presented the Government's progress against its financial objectives. This chapter compares the 2005-06 actual outcomes for the general government sector with the revised 2005-06 estimates published in the 2006-07 Budget in May 2006.

FINANCIAL PERFORMANCE

The net result from transactions reflects the financial decisions controlled by government and excludes remeasurement items such as actuarial adjustments and revaluations. This is the primary reason why the net result from transactions is a more appropriate measure of the Government's financial management and gives the clearest representation of Victoria's underlying budget position.

Table 2.1: 2005-06 Summary operating statement

($ million)

	2005-06 Actual	*2005-06 Revised*	*Change*	*% Change*
Income from transactions				
Taxation	10 885.4	10 770.0	115.4	1.1
Dividends, income tax and rate equivalent revenue	1 009.2	826.7	182.5	22.1
Grants	14 624.3	14 382.5	241.9	1.7
Sale of goods and services and other income [(a)]	5 453.1	5 219.7	233.4	4.5
Total income from transactions	**31 972.0**	**31 198.9**	**773.1**	**2.5**
Expenses from transactions				
Employee benefits	11 473.5	11 394.1	79.3	0.7
Superannuation	1 917.2	1 757.3	159.9	9.1
Supplies and services and other expenses [(b)]	17 756.8	17 597.9	158.9	0.9
Total expenses from transactions	**31 147.5**	**30 749.4**	**398.2**	**1.3**
Net result from transactions	**824.5**	**449.5**	**375.0**	**83.4**
Income/(expenses) from other economic flows				
Actuarial gains/(losses) of superannuation defined benefit plans	2 420.9	2 996.9	(576.0)	(19.2)
Other gains/(losses and expenses) from other economic flows [(c)]	676.3	1 359.8	(683.5)	(50.3)
Total other economic flows	**3 097.2**	**4 356.7**	**(1 259.5)**	**(28.9)**
Net result	**3 921.7**	**4 806.3**	**(884.5)**	**(18.4)**

Source: Department of Treasury and Finance

Notes:
(a) *Includes fines and regulatory fees, fair value of assets received free of charge and interest.*
(b) *Includes depreciation and amortisation, finance costs, capital asset charge and grants and transfer payments.*
(c) *Other gains/(losses and expenses) from other economic flows includes net gain/(loss) from disposal of physical assets and share of net profits of associates and joint venture partnerships.*

Table 2.1 shows that the 2005-06 net result from transactions was $825 million, compared to the 2005-06 revised estimate of $450 million published in the 2006-07 Budget.

The higher than estimated result primarily reflects higher than expected total income, driven by the ongoing strength of the economy. In particular, strong growth in the Victorian and national economies has resulted in marginally higher than budgeted State taxation income, GST and other grants revenue from the Commonwealth and income tax and rate equivalent revenue from the public financial corporations and public non-financial corporations sectors.

Associated with the increase in grants revenue was a subsequent increase in expenditure to support the delivery of a range of additional programs.

Alternative measures of financial performance

Alternative measures of financial performance are set out in Table 2.2. This includes Government Finance Statistics (GFS) measures used by the Australian Bureau of Statistics and the net result.

Table 2.2: Summary of alternative measures of financial performance

($ million)

	2005-06 Actual	*2005-06 Revised*
A-IFRS Net result from transactions / GFS net operating balance	824.5	449.5
GFS net lending/(borrowing)	(397.6)	(1 168.4)
GFS cash surplus/(deficit) - excluding the impact of finance leases	498.0	120.4
Net result	3 921.7	4 806.3

Source: Department of Treasury and Finance

The *GFS net operating balance* is identical to the net result from transactions. Both measures exclude the effects of revaluation (holding gains or losses) arising from changes in the market prices and other changes in the volume of assets. The GFS net operating balance is the conceptual basis of most state budgets. This allows comparability with other states and brings the budget measure closer to the expected harmonisation of GFS and the generally accepted accounting principles (GAAP) reporting standards.

The *GFS net borrowing result* is equal to the GFS net operating balance less net acquisitions of non-financial assets. As net lending takes into account total spending on fixed assets during the period, rather than just the current year's expense (through depreciation), the 2005-06 net borrowing result of $398 million is lower than the GFS net operating balance.

The *GFS cash surplus*, which is equal to net cash flows from operating activities less net cash investment in non-financial assets, was $498 million in 2005-06. Although both net lending and the cash surplus include the immediate impact of expenditure on fixed assets, the cash surplus in 2005-06 exceeds net lending as a result of removing non-cash revenues and expenses (including the imputed superannuation interest cost), and allowing for cash contributions made to the unfunded superannuation liability (see Chapter 5 for more details).

The net result was $3 922 million (refer to Table 2.1). The variance between the 2005-06 revised estimate and 2005-06 actual outcome is mainly due to:

- lower than expected investment returns on superannuation scheme assets in the latter part of 2005-06 as a result of a weakening of equity market performance; and
- the results of the triennial actuarial review of the Emergency Services Superannuation Scheme (including the State Superannuation Fund) which resulted in changes to a number of assumptions used to value superannuation liabilities.

These factors were partially offset by an increase in the discount rate used to value scheme liabilities, which gave rise to an actuarial gain. It should be noted that changes in the reported value of the superannuation liability arising from movements in the discount rate have no impact on the amount of cash actually required to fund this liability.

There have also been various significant valuation gains on other assets and liabilities. These are discussed later in this chapter under other economic flows.

Income from transactions

Total income from transactions for 2005-06 was $31 972 million, some $773 million (or 2.5 per cent) higher than the original 2005-06 revised estimate (see Table 2.1). This is driven by a range of factors discussed below.

Taxation

In 2005-06 taxation revenue was $10 885 million, an increase of $115 million (or 1.1 per cent) over the 2005-06 revised estimate. The increase in taxation revenue is mainly attributable to stronger than expected land transfer revenue, partially offset by decreases mainly in payroll tax and gambling taxes. This is shown in Table 2.3.

As discussed in Chapter 1, the Government's preferred measure of tax competitiveness is state taxation expressed as a share of nominal GSP. This measure relates the level of taxation revenue to economic capacity. In 2005-06, Victoria's taxation revenue was estimated at 4.69 per cent of nominal GSP, the same as in 2004-05 and a decrease on 2003-04, which was 4.73 per cent.

Table 2.3: 2005-06 Taxation

($ million)	2005-06 Actual	2005-06 Revised	Change	% Change
Payroll tax	**3 301.5**	**3 356.9**	**(55.4)**	**(1.7)**
Taxes on immovable property				
Land tax	780.1	771.7	8.4	1.1
Congestion levy	19.1	19.4	(0.3)	(1.6)
Metropolitan improvement levy	93.8	93.6	0.2	0.2
Property owner contributions to fire brigades	38.4	34.9	3.5	10.1
Total taxes on immovable property	**931.4**	**919.6**	**11.8**	**1.3**
Financial and capital transactions				
Land transfer duty	2 671.2	2 460.5	210.7	8.6
Rental business duty	56.9	57.4	(0.5)	(0.9)
Other property duties	8.0	8.8	(0.8)	(8.7)
Debits tax (a)	22.3	22.3	..	(0.2)
Financial accommodation levy	13.1	13.3	(0.3)	(2.0)
Total financial and capital transactions	**2 771.4**	**2 562.4**	**209.1**	**8.2**
Levies on statutory corporations	**60.2**	**60.4**	**(0.2)**	**(0.3)**
Gambling taxes				
Private lotteries	316.2	302.3	13.9	4.6
Electronic gaming machines	911.1	961.1	(50.0)	(5.2)
Casino	113.7	115.2	(1.5)	(1.3)
Racing	114.0	115.2	(1.2)	(1.0)
Other	5.0	3.4	1.6	46.1
Total gambling taxes	**1 459.9**	**1 497.2**	**(37.3)**	**(2.5)**
Taxes on insurance	**1 048.3**	**1 036.3**	**12.0**	**1.2**
Motor vehicle taxes				
Vehicle registration fees	694.8	693.8	1.1	0.2
Duty on vehicle registrations and transfers	546.9	560.7	(13.8)	(2.5)
Total motor vehicle taxes	**1 241.8**	**1 254.5**	**(12.7)**	**(1.0)**
Other taxes	**70.9**	**82.8**	**(11.9)**	**(14.4)**
Total taxation	**10 885.4**	**10 770.0**	**115.4**	**1.1**

Source: Department of Treasury and Finance

Note:
(a) Debits tax was abolished on 1 July 2005. Revenue in 2005-06 represents carryover amounts from the previous year.

Major variations from the 2005-06 revised estimates were:

- payroll taxation revenue was $3 302 million in 2005-06, $55 million (or 1.7 per cent) lower than the revised estimate, reflecting a slowing in revenue growth (to a rate below employment and wages growth) in the latter half of 2005-06;
- taxes on financial and capital transactions in 2005-06 were $2 771 million, $209 million (or 8.2 per cent) higher than the revised estimate. This was mainly due to higher land transfer revenue, reflecting stronger than anticipated non-residential property market activity; and
- gambling taxation in 2005-06 was $1 460 million, some $37 million (or 2.5 per cent) lower than the revised estimate, most likely reflective of restrained

discretionary expenditure by households due to high petrol prices and interest rate increases.

Dividends, income tax and rate equivalent revenue

Table 2.4 shows that in 2005-06, dividends, income tax and rate equivalent revenue was $1 009 million, which was $183 million (or 22.1 per cent) higher than anticipated, mainly due to the significantly better than expected financial result for the Public Financial Corporations sector (PFC) primarily driven by strong investment market performance.

Table 2.4: 2005-06 Dividends, income tax and rate equivalent revenue

($ million)

	2005-06 Actual	*2005-06 Revised*	*Change*	*% Change*
Dividends	593.2	591.3	1.9	0.3
Income tax and rate equivalent revenue	416.0	235.4	180.6	76.7
Total dividends, income tax and rate equivalent revenue	**1 009.2**	**826.7**	**182.5**	**22.1**

Source: Department of Treasury and Finance

Grants income

As highlighted in Table 2.5, total grants received were $14 624 million in 2005-06, $242 million (1.7 per cent) higher than the 2005-06 revised estimate with increases in general purpose grants and both operating and capital specific purpose grants.

Table 2.5: 2005-06 Grants

($ million)

	2005-06 Actual	*2005-06 Revised*	*Change*	*% Change*
Operating grants				
General purpose grants	8 120.3	8 038.2	82.1	1.0
Specific purpose grants for on-passing	1 662.6	1 663.6	(1.0)	(0.1)
Other specific purpose grants	4 136.8	4 055.4	81.4	2.0
Total operating grants	**13 919.7**	**13 757.2**	**162.5**	**1.2**
Capital grants				
Specific purpose grants for on-passing	159.9	132.5	27.4	20.7
Other specific purpose grants	544.8	492.8	52.0	10.5
Total capital grants	**704.6**	**625.2**	**79.4**	**12.7**
Total grants	**14 624.3**	**14 382.5**	**241.9**	**1.7**

Source: Department of Treasury and Finance

General purpose grants of $8 120 million were broadly in line with the 2005-06 revised estimate. The increase of $82 million (or 1.0 per cent) is attributed to stronger growth in the GST revenue pool than originally forecast by the Commonwealth Government, as a result of continued strong national economic growth. As GST grants exceeded the guaranteed minimum amount that Victoria was entitled to receive under the IGA, Victoria did not require GST transitional payments in 2005-06.

In 2005-06, total specific purpose grants (operating and capital), including grants for on passing, increased by $160 million relative to the revised estimate, with the major variations being:

- increased capital funding for non-government schools together with increased operational funding for TAFE institutes;
- increased AusLink funding for a number of road programmes including the Deer Park Bypass, Calder Highway, Geelong Bypass, Craigieburn Bypass and Goulburn Valley Highway;
- higher than expected grants for regional development programs; and
- receipt of company tax compensation from the Commonwealth for Victoria's share of increased company tax paid by Snowy Hydro Limited.

Additional specific purpose grants revenue for the delivery of a range of additional programs had the subsequent effect of increasing expenditure above the 2005-06 revised estimate. The additional expenses were largely in the areas of education, health and infrastructure and were in line with the increase in grants revenue.

Sale of goods and services and other income

Table 2.6 shows that in 2005-06, sales of goods and services and other income (comprising regulatory fees and fines, fair value of assets received free of charge, capital asset charge and other miscellaneous income) was $5 453 million, some $233 million (or 4.5 per cent) higher than the 2005-06 revised estimate.

Table 2.6: 2005-06 Sale of goods and services and other income

($ million)

	2005-06 Actual	*2005-06 Revised*	*Change*	*% Change*
Sale of goods and services	2 526.3	2 524.5	1.9	0.1
Interest	390.5	318.1	72.4	22.8
Other income [(a)]	2 536.2	2 377.5	158.7	6.7
Total sale of goods and services and other income	**5 453.1**	**5 220.1**	**233.0**	**4.5**

Source: Department of Treasury and Finance

Note:

(a) Other income includes regulatory fees and fines, fair value of assets received free of charge, capital asset charge and other miscellaneous income.

The higher than expected outcome in 2005-06 reflects several factors including an increase in:

- unclaimed monies;
- revenue from a number of general government agencies (Education, Human Services and Infrastructure) and the non-budget sector, particularly from the two fire services; and
- donations, bequests and grants to hospitals from the private sector.

The increases were offset to some extent by a decrease in fines and regulatory fees as a result of lower than expected revenue from traffic infringements due to delays in the implementation of safety initiatives.

Movements in expenses from transactions

As shown previously in Table 2.1, general government sector expenses from transactions for 2005-06 were $31 148 million some $398 million (1.3 per cent) higher than the revised estimate of $30 749 million published in the 2006-07 Budget. The movement largely reflects:

- spending associated with higher Commonwealth grants revenue to support the delivery of a range of additional programs;
- superannuation expenses of $1 917 million that were $160 million higher than the revised estimate published in the 2006-07 Budget. This was largely due to a recalibration of the Commonwealth Government's share of the liabilities of Victoria's defined benefit superannuation schemes; and
- increases in depreciation and amortisation expenses due primarily to changes in accounting treatment requiring a change in assets recognition for projects associated with the State-wide Integrated Public Safety Communication Strategy (SIPSaCS), the requirement to capitalise, in 2005-06, new prisons under the finance lease arrangement and the amended finance lease treatment for private prisons and the County Court.

Other economic flows

The difference between the net result and the net result from transactions is due to other economic flows, which includes various revaluation gains and losses on assets and liabilities and provision for doubtful debts. In particular, the non-cash impact of revaluation gains and losses on superannuation liabilities in the current financial year adds substantial volatility to the net result through movements in factors such as bond rates and share markets, over which the Government has no direct control.

Other economic flows for 2005-06 are $3 097 million, $1 260 million lower than the 2005-06 revised estimate in the 2006-07 Budget. This is largely due to:

- an actuarial adjustment arising as a result of the triennial actuarial review of the Emergency Services Superannuation Scheme (including the State Superannuation Fund) which was conducted as at 30 June 2006; and
- lower than expected gains as a result of the financial performance of the assets invested by defined benefit superannuation schemes. This reduction is a result of a weakening in equity markets in the latter part of 2005-06.

It should be noted that other elements having an impact on other economic flows in 2005-06 were:

- $558 million gain associated with the State's indemnity to the State Electricity Commission of Victoria (SECV) in respect of the Electricity Supply Agreements with the aluminium smelters at Point Henry and Portland, in light of much higher current and forecast aluminium prices; and
- an increase in the Commonwealth bond rate that underpins the discount rate used to value unfunded superannuation liabilities. The increase in discount rate reduced the underlying value of the superannuation liability and in turn increased the gain from other economic flows.

Superannuation expense

Under the A-IFRS reporting format, superannuation expenses are split between transactions and other economic flows:

- superannuation expenses relating to service cost (the cost of employer funded benefits that are expected to accrue in respect of defined benefit scheme members over the reporting period), interest cost, and the expected return on assets, are included as part of the net result from transactions along with employer contributions to defined contribution (accumulation) superannuation schemes; and
- any variations between actual experience and the actuarial assumptions, together with the impact of any changes to actuarial assumptions, are reported as actuarial gains or losses, and are included in other economic flows.

Actuarial gains and losses on superannuation are highly volatile, with potentially large movements arising from month to month as a result of changes in financial markets, or changes in the Commonwealth bond rate which flows through to the discount rate used to value superannuation liabilities. Changes in the reported value of the superannuation liability arising from movements in the discount rate have no impact on the amount of cash required to fund this liability.

The State's superannuation schemes invest in a range of asset classes, including cash, fixed interest, property and equities. These assets and the earnings they generate are used to fund superannuation benefits as they fall due. During 2005-06, investment earnings on assets invested by the State's superannuation schemes were significantly higher than expected. In particular, the Emergency Services Superannuation Scheme and the State Superannuation Fund (which was integrated into the Emergency

Services Superannuation Scheme in December 2005) both achieved a return on assets of over 16 per cent (compared to an assumed return of 7.5 per cent).

While being favourable, these returns were lower than those projected at the time of preparing the revised estimates in the 2006-07 Budget. This reduced income from other economic flows in 2005-06 by approximately $450 million.

The 2005-06 superannuation expense also reflects the outcome of the triennial actuarial review of the Emergency Services Superannuation Scheme (including the State Superannuation Fund). As a result of this review, a number of demographic assumptions used to value the liability were changed. These changes, along with a weakening of equity market performance, increased the State's unfunded superannuation liability by approximately $1 400 million.

These reductions to income from other economic flows were partially offset by an increase in the Commonwealth bond rate that underpins the discount rate used to value superannuation scheme liabilities. The increase in the discount rate has the effect of reducing the State's unfunded superannuation liabilities and, in turn, the expenses by around $1 300 million relative to the revised estimates.

FINANCIAL POSITION

Table 2.7: 2005-06 Balance Sheet

($ million)

	Opening *1 July* 2005	*Actual* *30 June* 2006	*Actual movement*
Assets			
Capital stock [(a)]	53 147.6	56 350.6	3 203.0
Financial assets [(b)]	4 800.3	5 462.9	662.6
Other assets	2 590.8	2 565.9	(24.8)
Total assets	**60 538.7**	**64 379.4**	**3 840.7**
Liabilities			
Superannuation	15 287.8	12 896.5	(2 391.3)
Borrowings	5 856.4	6 180.4	324.0
Other liabilities	7 886.9	7 777.4	(109.4)
Total liabilities	**29 031.0**	**26 854.3**	**(2 176.7)**
Net assets	**31 507.7**	**37 525.1**	**6 017.4**

Source: Department of Treasury and Finance

Notes:

(a) Capital stock includes land and buildings, plant and equipment, roads and earthworks, cultural and other assets.

(b) Financial assets include cash assets, investments, loans and placements.

Total assets

As shown in Table 2.7, the general government sector total assets increased by $3 841 million, to $64 379 million as at 30 June 2006. The increase in total assets was mainly due to the movement in capital stock and financial assets.

Capital stock

Capital stock (comprising of land and buildings, plant, equipment and infrastructure systems, roads and earthworks, and cultural and other assets) rose by $3 203 million to 30 June 2006. The movement in capital stock is reflective of:

- revaluations of $2 016 million mainly in roads infrastructure;
- a change in the accounting requirement on asset recognition for projects associated with SIPSaCS, the requirement to capitalise new prisons under the finance lease arrangement and amended finance lease treatment for private prisons and the County Court;
- a change in the recognition of the Showgrounds Joint Venture, which was previously accounted for as equity and is now recognised as a split between receivables and land share, consistent with A-IFRS standards; and
- increased capital stock investment resulting from the completion of a number of asset investment projects (see the *Cash Flows* section below).

Financial assets

Financial assets include cash assets, investments, loans and placements. General government financial assets increased by $663 million, with the increased financial assets being used to fund the Government's substantial infrastructure program.

Other assets

Other assets include receivables, repayments, inventories, assets held for sale, and other current assets. Other assets for the general government sector decreased by $25 million compared to the revised estimate of an increase of $58 million. The movement is mainly driven by a decrease in taxes receivable.

Total liabilities

Total general government liabilities decreased by $2 177 million to $26 854 million as at 30 June 2006, largely due to movements in the unfunded superannuation liability – as discussed below.

Unfunded superannuation liabilities

The State's total unfunded superannuation liabilities fell by $2 391 million, $372 million less that the revised estimate, due to factors previously outlined in this chapter. This was partially offset by an additional payment of $350 million to the State Superannuation Fund that was not factored into the revised estimates in the 2006-07 Budget.

Borrowings

The actual 2005-06 movement of $324 million in general government borrowings was mainly attributable to a reduction in the value of the leases for Private Prisons and County Court and the delay in recognition of a new finance lease for Southern Cross Station that was not completed in 2005-06.

Other liabilities

Other liabilities, consisting of employee entitlements, outstanding provisions, payables, and other liabilities, decreased by $109 million. The movement is mainly attributable to a reduction in the amount payable to the SECV under the State's indemnity agreement with SECV for the supply of electricity to the aluminium smelters at Point Henry and Portland, in light of much higher current and forecast aluminium prices.

CASH FLOWS

As shown in Table 2.8, the $2 641 million net cash inflows from operating activities was the main source of financing for the substantial 2005-06 net infrastructure investment program. The additional cash inflow has been applied to maintain net debt at a constant level, with a marginal decrease in net debt of $42 million in 2005-06.

Compared with the revised estimates published in the 2006-07 Budget, net debt fell by $536 million more than anticipated due primarily to marginally lower infrastructure investment as a result of changed timing profiles in the delivery of a large asset investment program, and higher than expected cash flows from operations.

Table 2.8: Application of cash resources

($ million)

	2005-06 Actual	2005-06 Revised
Net result from transactions	824.5	449.5
Add back: Non-cash revenues and expenses (net) [(a)]	1 816.1	1 894.6
Net cash flow from operating activities	**2 640.6**	**2 344.1**
Less:		
Net investment in fixed assets		
Expenditure on approved projects [(b)]	2 850.3	2 892.6
Proceeds from asset sales	(158.8)	(148.4)
Net investment in fixed assets	**2 691.5**	**2 744.2**
Finance leases	366.8	615.1
Other investment activities (net)	(459.7)	(521.0)
Decrease/(increase) in net debt	**42.1**	**(494.2)**

Source: Department of Treasury and Finance

Notes:

(a) Includes depreciation and non-cash movements in liabilities such as unfunded superannuation and employee benefits.

(b) Includes purchases of property, plant and equipment plus contributions to other sectors for capital purposes. This is excludes the $600 million return of surplus TAC capital, which is included under other investment activities.

General government sector infrastructure investment

Infrastructure investment in the general government sector (purchases of property, plant and equipment, capital contributions to other sectors of government, less asset sales) has continued at record levels, with investment during 2005-06 of $2 692 million. This includes contributions to other sectors of government of $549 million, mainly in the areas of rail infrastructure, housing and the State's water authorities (excluding $600 million return of TAC surplus capital that occurred during 2005-06).

Infrastructure investment in 2005-06 was largely in the areas of health, education, community services and road infrastructure. Key spending included:

- investment of $420 million for the building of new and replacement schools and TAFE campuses, modernising and refurbishing existing educational facilities, the construction of specialist educational facilities, land for future educational facilities and the provision of additional equipment, including computers for schools and training institutions;
- $689 million related to investment in health, aged care and community services including the completion of Dandenong Hospital redevelopment Stage 2c, Royal Melbourne Hospital redevelopment Stage 3b, the Cancer Treatment Centre at the LaTrobe Regional Hospital, the Lorne Community Hospital redevelopment, Residential Aged Care and Rural Health redevelopments and upgrades and the Werribee Mercy Hospital redevelopment. Work has continued on other significant projects including the Alfred Centre, refurbishment of existing

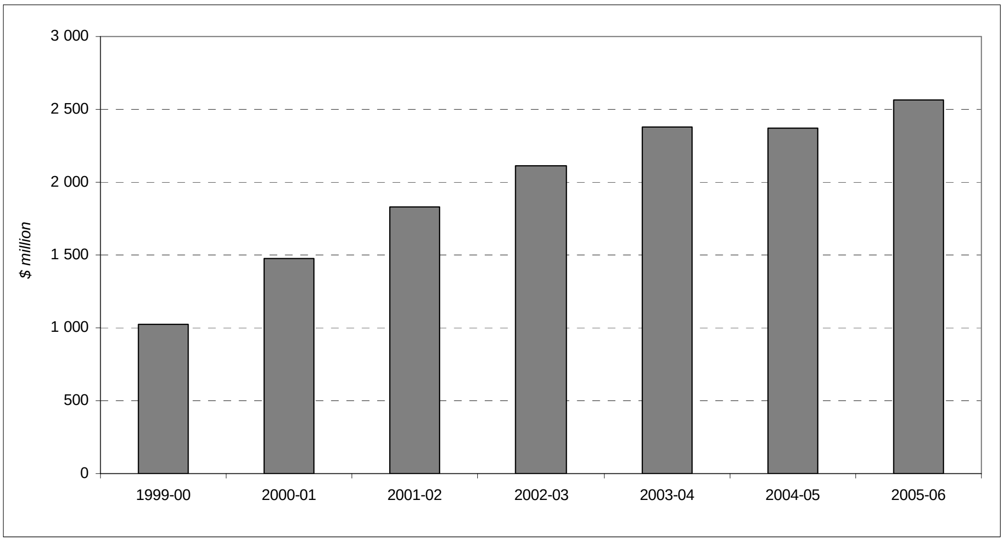
buildings as part of the Austin redevelopment/Mercy relocation project, and the Grace McKellar Centre redevelopment;

- $460 million to enhance and improve Victoria's road infrastructure network. Key projects included the Tullamarine-Calder Freeway Interchange, Geelong Bypass, Pakenham Bypass, Hume Highway upgrade – Albury – Wodonga, Deer Park Bypass and the Safer Roads Infrastructure Program; and
- investment of $284 million for the replacement and upgrade of police stations across Victoria and the completion of the Margoneet Correctional Centre in Lara and the Metropolitan Remand Centre.

The Government's commitment to infrastructure investment is reflected in Chart 2.1, which demonstrates significantly increased annual expenditure on net infrastructure investment by the general government sector since 1999-2000.

General government net infrastructure investment has risen from $1.0 billion in 1999-00 to $2.6 billion in 2005-06 with an average of around $2.0 billion over the six years to 2005-06. In the same period, real capital stock has grown by 11 per cent, significantly higher than the population growth of 7 per cent.

Chart 2.1: General government net infrastructure investment [(a)]



Source: Department of Treasury and Finance

Note:
(a) Includes purchases of property, plant and equipment, less asset sales, plus net contributions to other sectors for capital purposes.

NET DEBT AND NET FINANCIAL LIABILITIES

The Government's commitment to sound financial management includes maintaining the State's net financial position at prudent levels in order to achieve its objective of maintaining Victoria's triple-A credit rating. Key measures of the State's financial position are net debt and net financial liabilities of the general government sector and the non-financial public sector. Table 2.9 highlights these key measures for the general government sector, while Chapter 3 contains an analysis of the non-financial public sector.

Victoria's triple-A long-term local currency and foreign currency debt ratings were re-affirmed by Moody's Investors and Service in December 2005 and Standard & Poor's in August 2006. Both rating agencies cited Victoria's strong balance sheet, low debt level and record of prudent financial management as key reasons behind their affirmations.

Table 2.9: General government net debt and net financial liabilities

($ million)

	Opening 1 July 2005 [(a)]	*Actual 30 June* 2006	*Actual movement*
Assets			
Cash and deposits	1 821.1	2 698.2	877.1
Advances paid	105.5	69.9	(35.6)
Investments, loans and placements	2 546.8	2 162.1	(384.6)
Total	**4 473.4**	**4 930.2**	**456.8**
Liabilities			
Deposits held	449.2	519.8	70.6
Advances received and borrowings	5 835.4	6 179.5	344.1
Total	**6 284.6**	**6 699.4**	**414.8**
Net debt	**1 811.2**	**1 769.1**	**(42.1)**
Superannuation liabilities	15 287.8	12 896.5	(2 391.3)
Net financial liabilities	**17 099.0**	**14 665.6**	**(2 433.3)**

Source: Department of Treasury and Finance

Note:

(a) The 1 July 2005 balances have been adjusted to reflect the change in accounting standards following the introduction of A-IFRS.

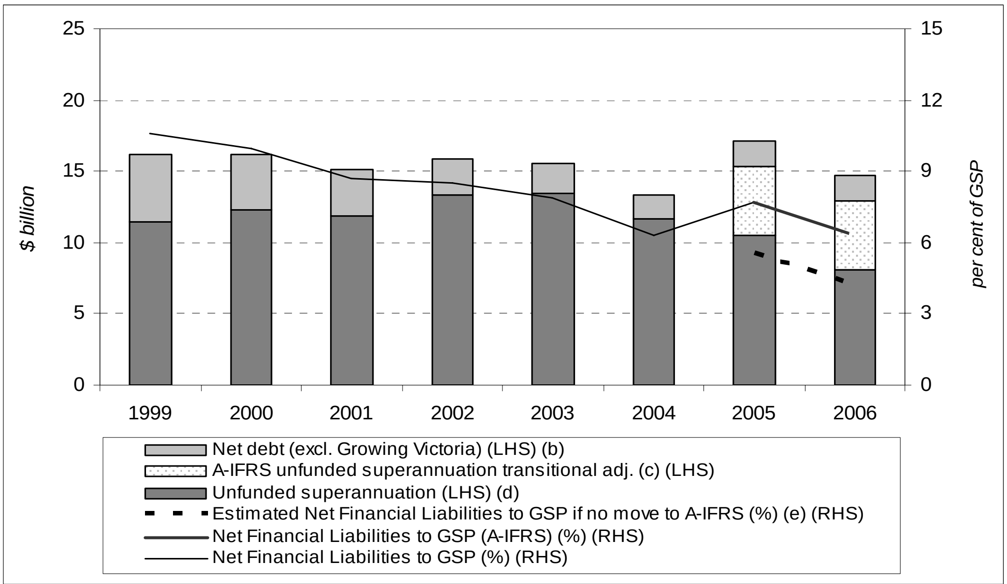
Net debt, which is the standard measure used to assess general government indebtedness, is determined by deducting liquid financial assets from gross debt. The rationale for deducting liquid financial assets is that, in a period of financial difficulty, liquid assets would be readily available to redeem debt. Net debt remained relatively stable at $1 769 million at 30 June 2006 (0.8 per cent of GSP) a decrease of $42 million from 1 July 2005.

Net financial liabilities are the sum of unfunded superannuation liabilities and net debt. As shown in Table 2.9, net financial liabilities decreased by $2 433 million in 2005-06 from $17 099 million as at 1 July 2005 (7.7 per cent of GSP) to

$14 666 million as at 30 June 2006 (6.3 per cent of GSP). The decrease in the net financial liabilities during the year was mainly due to a reduction in the unfunded superannuation liability, primarily driven by strong investment market performance and a rise in the discount rate used to value the liability.

Chart 2.2 shows the trend in financial liabilities. The level of net financial liabilities was significantly increased by an opening balance adjustment of $4 800 million in 2005 due to adoption of A-IFRS (this is shown in light shading). The increase in the reported unfunded superannuation liability that arises from the application of A-IFRS is due only to a change in valuation methodology. The amount of cash that is required to finance superannuation liabilities is unaffected by this change. Consequently, if the valuation adjustment is excluded, the chart shows that the underlying liability and its ratio to GSP has progressively fallen since 1999.

Chart 2.2: General government net financial liabilities as at 30 June [(a)]



Source: Department of Treasury and Finance

Notes:

(a) General Government net financial liabilities are calculated as the sum of net debt and unfunded superannuation liabilities.

(b) Net debt is calculated as gross debt less liquid financial assets. In the years applicable, Growing Victoria investments are excluded as an offset to gross debt on the grounds that these investments are earmarked for infrastructure projects and are therefore not available to redeem gross debt.

(c) For comparative purposes only, the transitional adjustment applied to unfunded superannuation liabilities in 2004-05 has also been separately identified in 2005 and 2006.

(d) Unfunded superannuation liabilities between 1999 and 2004 are calculated under the previous Australian accounting standards, whereas in 2005 and 2006 the A-IFRS standard AASB 119 has been applied.

(e) The net financial liabilities to GSP (as calculated applying the previous Australian accounting standard) between 2005 and 2006 are estimates.

CHAPTER 3 – STATE OF VICTORIA OUTCOME

- This Chapter provides a comparison between the **2005-06 actual and the 2004-05 actual results** for the State of Victoria, a very broad grouping including government financial and non-financial corporations as well as departments and agencies making up the general government sector.
- The net result from transactions for the State of Victoria for 2005-06 was $1 056 million, a decrease of $422 million (or 28.6 per cent) compared to 2004-05. This result is largely driven by operations within the general government sector and public non-financial corporations sector. The net result from transactions reflects the financial decisions primarily controlled by Government, and excludes remeasurement items such as actuarial adjustments and revaluations.
- Including actuarial adjustments and revaluations, the 2005-06 net result was $5 876 million, $4 531 million higher than the net result of $1 346 million for 2004-05. This reflects valuation gains on superannuation defined benefit plans in the general government sector and gains on financial assets within the public financial corporations sector.
- The net asset position for the State improved by $7 246 million or 10.4 per cent in 2005-06 to $76 724 million. This outcome was mainly due to an increase in the value of capital stock in the general government and public non-financial corporations sectors, and an increase in financial assets within the public financial corporation sector.
- Net financial liabilities for the non-financial public sector have decreased 10.8 per cent from $19 830 million at June 2005 to $17 680 million at June 2006. The variation is largely attributable to the decrease in the unfunded superannuation liability as a result of strong investment returns and arise in the discount rate used to value the liability.
- Net debt for the non-financial public sector increased marginally from $4 486 million at June 2005 to $4 746 million at June 2006.

This chapter provides a comparison between the 2005-06 and the 2004-05 actual financial results for the State of Victoria (the State). The State comprises the general government sector, the public non-financial corporations sector which includes the various water, rail and port authorities, and the public financial corporations sector which includes government-owned finance bodies such as Treasury Corporation of

Victoria (TCV), Rural Finance Corporation (RFC) and Victorian Funds Management Corporation (VFMC) and insurance bodies such as the Transport Accident Commission (TAC), Victorian WorkCover Authority (VWA) and the Victorian Managed Insurance Authority (VMIA). It is important to note that due to transactions occurring between the sectors, not all variations within each sector will impact on the overall outcome for the State.

Included in this chapter is a summary-level discussion of material movements in each of the individual sectors contributing to the overall outcome for the State. The actual results for a number of indicators of financial condition for 2005-06 and key trends over the past five years are also provided.

The detailed audited financial statements and associated notes covering the outcome for the State are provided in Chapter 4. The financial statements for each of the sectors contributing to the State's outcome are provided in Note 2 of the Financial Statements included in Chapter 4.

STATE OVERVIEW – OPERATING RESULT

Table 3.1: 2005-06 Summary operating statement

($ million)

	2004-05	*2005-06*	*Change*	*% Change*
Income from transactions				
Taxation	10 282.3	10 752.3	470.0	4.6
Dividends, income tax and rate equivalent revenue	457.6	520.5	62.9	13.7
Grants	13 393.7	14 542.1	1 148.5	8.6
Sale of goods and services and other income [(a)]	11 162.5	11 603.1	440.7	3.9
Total income from transactions	**35 296.1**	**37 418.1**	**2 122.0**	**6.0**
Expenses from transactions				
Employee benefits	11 448.7	12 247.3	798.6	7.0
Superannuation	1 699.2	1 985.1	285.9	16.8
Supplies and services and other expenses [(b)]	20 669.4	22 129.4	1 460.0	7.1
Total expenses from transactions	**33 817.3**	**36 361.8**	**2 544.5**	**7.5**
Net result from transactions	**1 478.7**	**1 056.3**	**(422.4)**	**(28.6)**
Income/(expenses) from other economic flows				
Actuarial gains/(losses) of superannuation defined benefit plans	(1 541.0)	2 435.0	3 976.0	(258.0)
Other gains/(losses and expenses) from other economic flows [(c)]	1 408.1	2 385.1	977.0	69.4
Total other economic flows	**(132.9)**	**4 820.1**	**4** 953.0	**(3726.8)**
Net result	**1 345.8**	**5 876.4**	**4 530.6**	**336.6**

Notes:

(a) Includes fines and regulatory fees, fair value of assets received free of charge and interest.

(b) Includes depreciation and amortisation, finance costs, capital asset charge and grants and transfer payments.

(c) Other gains/(losses and expenses) from other economic flows includes net gain/(loss) from disposal of physical assets and share of net profits of associates and joint venture partnerships.

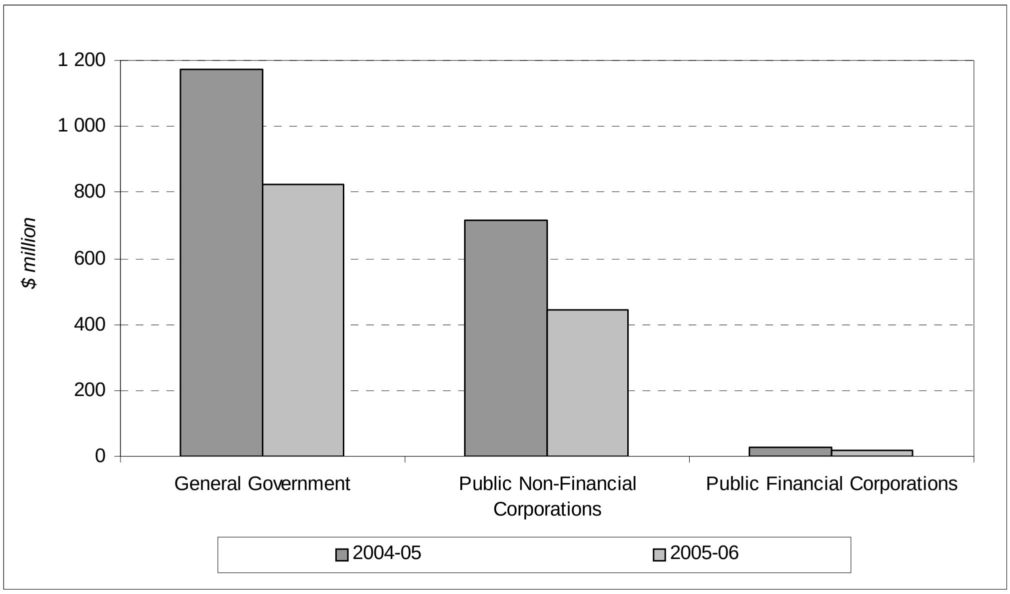
The 2005-06 net result from transactions for the State, as reported in Table 3.1, is $1 056 million, $422 million (or 28.6 per cent) lower compared to $1 479 million in 2004-05.

This result reflects growth in income in the general government sector as a result of the ongoing strength of the Victorian and national economies and continued strength of equity markets, offset by higher growth in expenses. The lower net result from transactions in 2005-06 is also driven by a number of one-off revenue inflows in 2004-05 as well as increased expenses in 2005-06 associated with the Commonwealth Games within the public non-financial corporations sector.

The general government sector accounts for nearly 80 per cent of the operations driving the net result from transactions, which are directly influenced by the policy decisions of the Government. However, other activities contributing to the State's 2005-06 result are due to operations within the public non-financial corporations sector and the public financial corporations sector which are engaged in commercial activities.

Chart 3.1 shows the net result from transactions for each of the three sectors contributing to the 2005-06 result.

Chart 3.1: Summary net result from transactions for 2005-06 by sector



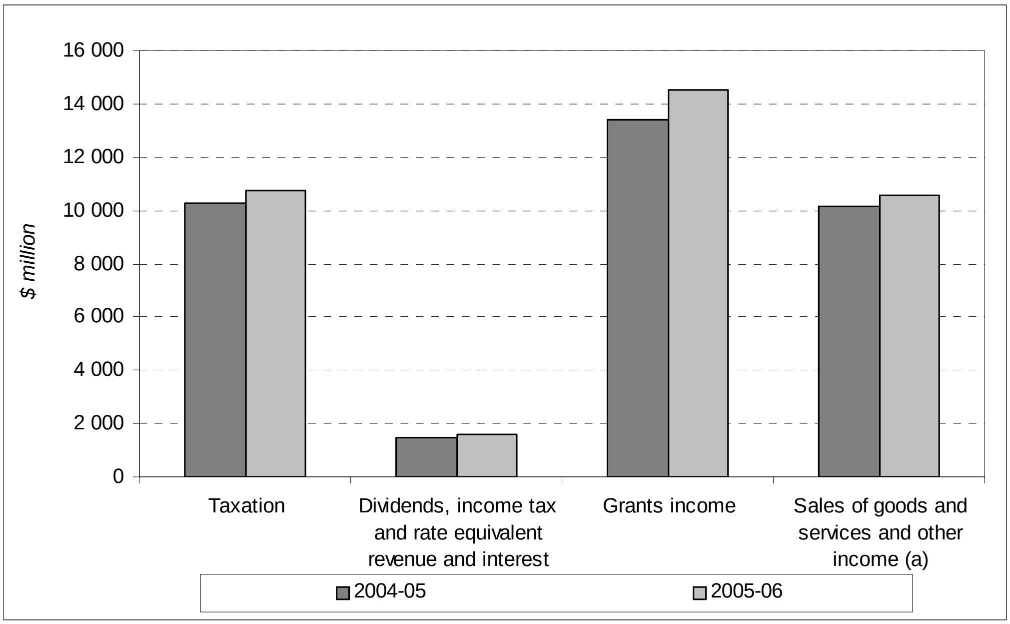
Source: Department of Treasury and Finance

The following sections discuss the movements in income and expenses for the State as well as key movements within each sector.

Income from transactions

Total income from transactions for the State in 2005-06 was $37 418 million, a $2 122 million (or 6.0 per cent) increase from 2004-05. Chart 3.2 attributes this increase to additional grants income ($1 149 million), taxation ($470 million), and sales of goods and services and other income ($441 million).

Chart 3.2: Income from transactions by category



Source: Department of Treasury and Finance

Note:
(a) Other income comprises fines and regulatory fees, fair value of assets received free of charge or for nominal consideration, and other income.

Taxation

In 2005-06 taxation revenue was $10 752 million, a moderate increase of $470 million (or 4.6 per cent) from 2004-05, reflecting the strength of the Victorian economy combined with the impact of changes to Victoria's taxation system associated with the Government's commitment to provide a competitive tax system.

Table 3.2 shows the change by taxation categories, with the largest increase attributable to payroll tax and land transfer duty, partly offset by a decrease in debits tax. Land tax was also slightly lower than in 2004-05, reflecting the Government's decision announced in the 2005-06 Budget to revise the top land tax rate and special trusts land tax rate scale.

Table 3.2: Taxation – Consolidated Whole of State

($ million)

	2004-05	*2005-06*	*Change*	*% Change*
Payroll tax	**3 008.7**	**3 260.5**	**251.8**	**8.4**
Taxes on immovable property				
Land tax	807.9	762.3	(45.6)	(5.6)
Congestion levy	..	19.1	19.1	..
Metropolitan improvement levy	89.8	93.8	4.0	4.5
Property owner contributions to fire brigades	36.2	38.4	2.2	6.2
Total taxes on immovable property	**933.8**	**913.6**	**(20.3)**	**(2.2)**
Financial and capital transactions				
Land transfer duty	2 337.2	2 671.2	334.0	14.3
Rental business duty	54.7	56.9	2.1	3.9
Mortgage duty	13.5	..	(13.5)	(100.0)
Other property duties	8.4	8.0	(0.4)	(4.4)
Debits tax [(a)]	265.9	22.3	(243.6)	(91.6)
Total financial and capital transactions	**2 679.7**	**2 758.4**	**78.7**	**2.9**
Levies on statutory corporations	**..**	**..**	**..**	**..**
Gambling taxes				
Private lotteries	304.1	316.2	12.0	4.0
Electronic gaming machines	840.9	911.1	70.3	8.4
Casino	107.1	113.7	6.6	6.1
Racing	113.2	114.0	0.8	0.7
Other	3.7	5.0	1.3	34.0
Total gambling taxes	**1 369.0**	**1 459.9**	**91.0**	**6.6**
Taxes on insurance	**996.7**	**1 048.3**	**51.6**	**5.2**
Motor vehicle taxes				
Vehicle registration fees	665.1	693.8	28.7	4.3
Duty on vehicle registrations and transfers	555.6	546.9	(8.7)	(1.6)
Total motor vehicle taxes	**1 220.7**	**1 240.7**	**20.0**	**1.6**
Other taxes	**73.7**	**70.9**	**(2.9)**	**(3.9)**
Total taxation	**10 282.3**	**10 752.3**	**470.0**	**4.6**

Source: Department of Treasury and Finance

Note:

(a) Debits tax was abolished on 1 July 2005. Revenue in 2005-06 represents carryover amounts from the previous year.

The major year-on-year taxation variations were:

- *Payroll tax* in 2005-06 was $252 million (or 8.4 per cent) higher than in the preceding year reflecting continued strength in the Victorian economy, leading to stronger employment and wages growth, combined with growth biased towards larger firms with payrolls exceeding the $550 000 tax free threshold;
- *Financial and capital transactions* were $79 million (or 2.9 per cent) higher in 2005-06, reflecting growth in land transfer revenue of $334 million (or 14.3 per cent) representing increased non-residential activity and a stronger higher-value residential market. This was significantly offset by the full year impact of the

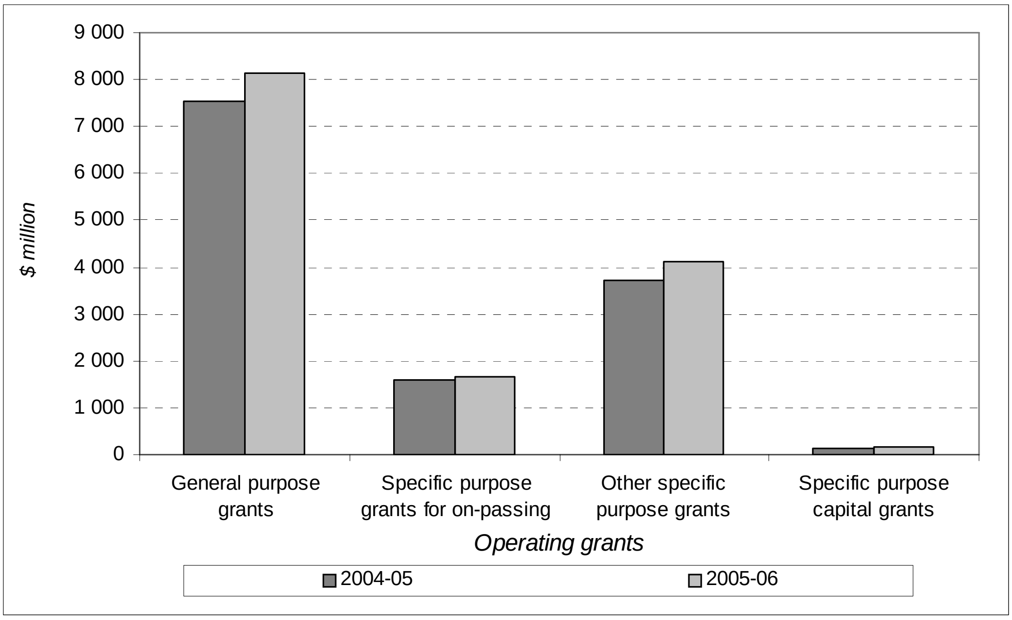
abolition of duty on mortgages from 1 July 2004 and the abolition of debits tax from 1 July 2005;

- *Gambling taxes* were $91 million (or 6.6 per cent) higher in 2005-06 than in the previous year reflecting growth in household consumption expenditure combined with the increase in the electronic gaming machine (EGM) levy to $3 033 per machine from July 2005; and
- *Insurance taxes* were $52 million (or 5.2 per cent) higher in 2005-06 than in the preceding year principally reflecting continuing economic growth and the impact of modernising the State's emergency fire services together with funding increased demands on fire services to respond to new types of major incidents.

Grants income

Grants income for the State in 2005-06 was $14 542 million, an increase of $1 149 million (or 8.6 per cent) compared to 2004-05. Chart 3.3 shows the change by grant category, with the largest increase being in general purpose and other specific purpose grants.

Chart 3.3: Grants to Victoria (by type)



Source: Department of Treasury and Finance

General purpose grants in 2005-06 totalled $8 120 million, which is $586 million (or 7.8 per cent) higher than in 2004-05. GST-related grants increased by $600 million (or 8.2 per cent) between 2004-05 and 2005-06, reflecting higher growth in the GST pool than originally forecast by the Commonwealth Government due to the strength of the national economy, together with an increase in Victoria's share of GST revenue.

This increase was partly offset by a decrease in national competition policy payments. The payments were lower than in 2004-05 because the 2004-05 payments included the reimbursement to Victoria of a suspension of payments (imposed in 2003-04). In addition, in 2005-06, the Commonwealth considered that Victoria had not fully implemented interstate trading in the southern Murray-Darling basin and so imposed a new suspension of payments.

Total (operating and capital) specific purpose grants (excluding grants for on-passing) were $4 600 million in 2005-06, $464 million (or 11.2 per cent) higher than the previous year. Major changes in 2005-06 compared to 2004-05 were:

- expansion of several human services programs including an increase for the highly specialised drug program reflecting the expansion of the Pharmaceutical Benefits Scheme;
- increases in AusLink funding in 2005-06, including for projects such as the Deer Park Bypass, Albury Wodonga Hume Freeway upgrade, Pakenham Bypass and Calder Highway combined with increased TAC funding for the Safer Road Infrastructure Program;
- non-recurring 2005-06 Commonwealth funding towards the Melbourne 2006 Commonwealth Games which were hosted by Melbourne in March 2006;
- additional funding in 2005-06 for non-government schools, generally representing an increase in enrolments; additional funding for the *Investing in Our Schools* programme, and indexation of recurrent funding for government schools and TAFE;
- finalisation in 2005-06 of the borrowing cost compensation agreement between the Commonwealth and Victoria with a lump sum payment made to Victoria; and
- additional *National Action Plan on Salinity and Water Quality* funding in 2005-06 as well as increased funding for drought affected regions in Victoria.

Total specific purpose grants for on-passing were $1 823 million which was $98 million (or 5.7 per cent) above the level in 2004-05 largely reflecting increased assistance to non-government schools.

Sales of goods and services and other income

In 2005-06, sales of goods and services and other income (comprising regulatory fees and fines, fair value of assets received free of charge and other miscellaneous income) was $11 603 million, $441 million (or 3.9 per cent) higher than corresponding income in 2004-05.

Major increases between 2004-05 and 2005-06 include:

- increases in own-source revenue (including fees for service) in the general government sector (associated with corresponding expenditure). Further detail is provided in Chapter 2; and
- increased traffic fine revenue of $43 million (or 17.3 per cent), reflecting the impact of the continuing roll-out of the fixed digital camera network and the re-establishment of the Western Ring Road camera network.

The effect of these increases was partly offset by the non-recurring 2004-05 impact of costs awarded to the State in relation to the Longford case.

Dividends, income tax and rate equivalent revenue

Dividend income increased by $63 million to $521 million largely due to increased external dividends received by the insurance sector as a result of a higher investment asset base during the year.

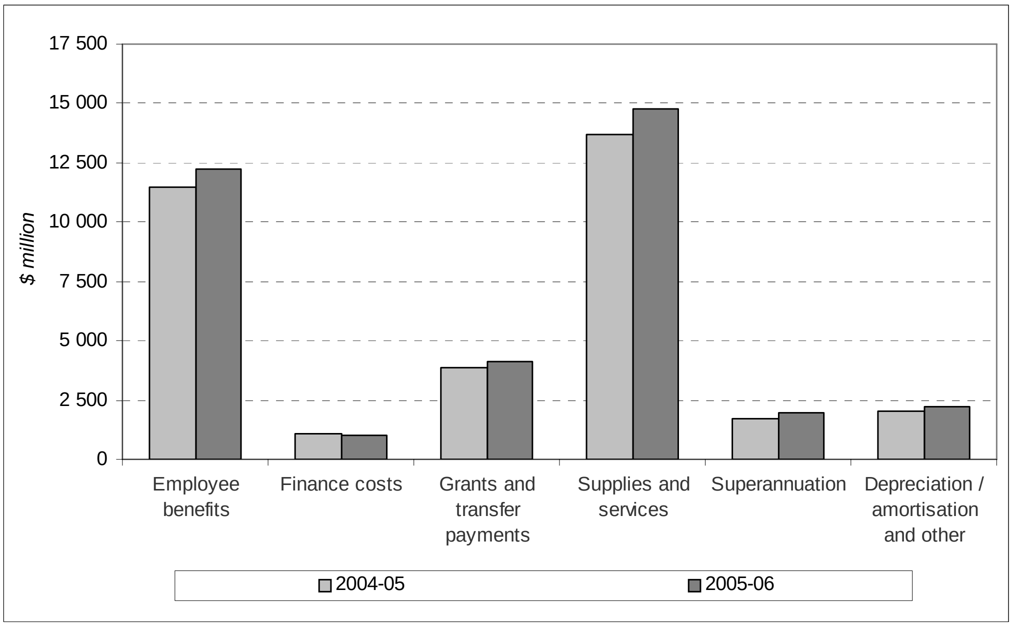
Expenses from transactions

Total expenses from transactions for the State in 2005-06 were $36 362 million, a $2 545 million (or 7.5 per cent) increase compared to 2004-05.

Chart 3.4 shows the level of each expense category in 2004-05 and 2005-06. The growth in expenses in 2005-06 reflects the impact of new policy decisions announced by the Government including the staging of the Commonwealth Games in March 2006, additional service delivery associated with an increase in own source revenue and the impact on superannuation expenses of a one-off reduction in 2004-05 associated with changes to the Emergency Services Superannuation Scheme.

A discussion of the movements in the individual sectors is also provided later in this chapter.

Chart 3.4: Expenses from transactions by category



Source: Department of Treasury and Finance

Employee benefits

Employee benefits for the State in 2005-06 were $12 247 million, an increase of $799 million (or 7.0 per cent) compared to 2004-05. This increase mainly reflects additional service delivery including commitments announced in the 2005-06 Budget in May 2005 and subsequent policy statements in key areas including health, education and community safety; and the impact of wages growth arising from enterprise bargaining agreements consistent with the Government's wages policy.

Employee expenses have also grown in line with growth in own source income from agencies including hospitals and TAFE's reflecting increased service delivery funded from the increase in the third party revenue.

Grants and transfer payments

Grants and transfer payments for the State in 2005-06 were $4 140 million, an increase of $280 million (or 7.3 per cent) compared to 2004-05. This reflects increased spending associated with higher Commonwealth grants for the general government sector, largely in the areas of education (predominantly to TAFEs and non-government schools in line with increased enrolment numbers), housing and road programmes.

Additional expenditure on grants relating to the First Home Bonus and First Home Owner's Grants as a result of the stronger than anticipated property market also contributed to the higher result. The commencement in 2005-06 of the new *School*

Start Bonus program announced in the 2006-07 Budget that provides a $300 payment for each Victorian student commencing prep and Year 7 has resulted in additional grants and transfer payment expenses in 2005-06.

Supplies and services

Supplies and services for the State in 2005-06 were $14 783 million, an increase of $1 071 million (or 7.8 per cent) compared to 2004-05. Higher expenses in 2005-06 mainly reflects the impact of new policy decisions announced by the Government as part of the 2005-06 Budget in May 2005 and subsequent policy decisions which are discussed in detail in Chapter 2.

The increase in expenditure in 2005-06 also reflects additional service delivery expenditure associated with an increase in own source revenue (including fees for services) from agencies including TAFEs and schools, third party revenue from hospitals and waste management programs. Additional Commonwealth Games related expenditure and the impact of actuarial adjustments to the insurance claims liability beyond the control of the Government also contributed to the result.

Superannuation

Superannuation expense from transactions includes the employer cost of contributing to defined contribution schemes together with expenses relating to defined benefit schemes. This excludes the impact of higher or lower than expected investment returns, changes to the discount rate used to value defined benefit superannuation liabilities, and other actuarial gains and losses. These latter items are reported as other economic flows.

The superannuation expense for the State was $1 985 million in 2005-06, an increase of $286 million (or 16.8 per cent) compared to 2004-05. The higher expense in 2005-06 is primarily due to the impact of a reduction of almost $200 million in 2004-05 due to the Emergency Services Superannuation Scheme moving from paying untaxed to taxed benefits. A recalibration of the Commonwealth Government’s share of the liabilities of Victoria’s defined benefit superannuation schemes also contributed to the result.

Other economic flows and net result

As shown in Table 3.1 above, the main difference between the net result from transactions and the net result is the inclusion of *other economic flows*.

Other economic flows include actuarial adjustments and investment gains over which the Government has no direct control. The separation of these remeasurement items from the net result from transactions provides a more robust representation of Victoria’s financial performance. This is the primary reason why the net result from transactions is a more appropriate measure of the Government’s financial management and gives a clearer representation of Victoria’s underlying position.

Combining the *net result from other economic flows* with the *net result from transactions* produces a net result for the State of $5 876 million for 2005-06, an increase of $4 531 million compared to 2004-05.

This result was largely driven by an increase in superannuation fund investments due to strong stock market returns during 2005-06. This reduced the underlying value of the unfunded superannuation liability by $1 495 million.

Under A-IFRS, the unfunded superannuation liability is calculated using a discount rate based on a long-term Commonwealth bond rate. Changes in this bond rate can cause significant fluctuations in the valuation of the unfunded superannuation liability. It is important to note, however, that changes in the reported value of the unfunded superannuation liability arising from movements in the discount rate have no impact on the amount of cash required to fund this liability. During 2005-06 an increase in the bond rate, and hence the applicable discount rate, resulted in a $2 411 million fall in the liability.

Offsetting the decrease to the liability due to investment returns and changes in the discount rate was an increase of $1 429 million as a result of the triennial actuarial review of the Emergency Services Superannuation Scheme (including the State Superannuation Fund) which updated the actuarial valuation assumptions based on recent fund experience and a range of economic factors.

The strong financial market performance also resulted in strong gains from equity investments by public financial corporations such as the TAC and VWA. Further, higher aluminium prices resulted in a reduction of the State's outstanding liability for the subsidy to the smelters at Portland and Point Henry. These impacts contributed to the substantial increase in net gains from other economic flows shown in Table 3.1.

The general government sector net result was $3 922 million in 2005-06, a $4 379 million increase from the 2004-05 net result. A detailed discussion of the result for the general government sector is provided in Chapter 2.

The public non-financial corporations sector net result was $561 million in 2005-06, $198 million lower than the 2004-05 outcome of $760 million. This result was driven by the year on year decrease in the net result from transactions, which was partially offset by higher gains from other economic flows due primarily to various movements related to the SECV. These movements included an increase in the value of SECV's investment in Snowy Hydro Ltd. as well as a decrease in the provision for payments by the SECV (and the associated indemnity from the State) in respect of the Electricity Supply Agreements with the aluminium smelters at Point Henry and Portland, in light of higher current and prospective aluminium prices.

The public financial corporations sector net result was $1 625 million in 2005-06, $290 million higher than the result of $1 336 million in 2004-05. This was predominately driven by investment gains (other economic flows) which contributed $1 607 million to the result primarily due to the buoyant financial market affecting the return on investments of the VWA and the TAC.

Detailed figures for each sector are tabulated in Note 2 of Chapter 4.

Net result from transactions by sector

The 2005-06 net result from transactions for the State was $1 056 million. This result is the combined effect of movements within the three sectors making up the State of Victoria. However, due to transactions occurring between the sectors, not all variations within each sector will impact on the overall outcome for the State. The following section summarises the major influences on the net result from transactions for each of the individual sectors.

General government sector

The general government sector net result from transactions was $825 million, $349 million lower than the 2004-05 outcome of $1 174 million. This result reflects growth in income offset by marginally higher growth in expenses. Growth in total income reflects the strength of the Victorian and national economy and continued strength of equity markets, combined with the impact of changes to Victoria's taxation system associated with the Government's commitment to provide a competitive tax system.

The growth in expenses in 2005-06 relative to 2004-05 reflects the impact of additional service delivery announced by the Government in the 2005-06 Budget and subsequent new policy decisions, additional service delivery associated with an increase in own source revenue and the impact of variations to superannuation expense. More detailed discussion of the movements in the general government sector is provided in Chapter 2.

Public non-financial corporations sector

The net result from transactions for the public non-financial corporations sector was $445 million in 2005-06, significantly lower than the 2004-05 outcome of $715 million reflecting primarily the impact of a number of one-off revenue inflows in 2004-05 as well as increased expenditure in 2005-06 associated with the running of the Commonwealth Games.

Apart from an increase of $52 million in the net result from transactions of Melbourne Water, driven mainly by the receipt of drainage boundary expansion assets from Councils as a result of the Victorian Government's *Our Water Our Future* action plan, the main factors contributing to the lower result in 2005-06 include:

- a decrease of $70 million in the net result from transactions of the Director of Housing, driven primarily by a one-off increase in revenue in 2004-05 associated with a forgiveness of an interest free advance by the general government sector;
- a comparative decrease of $145 million in the net result from transactions of V/Line Passenger Corporation due to a one-off increase in revenue of

$137 million in 2004-05 as a result of V/Line acquiring rolling stock following the withdrawal of National Express from its tram and train franchise agreement with the State; and

- an increase in expenditure by the Melbourne 2006 Commonwealth Games Corporation consistent with an increase in operational activities associated with the Commonwealth Games. This contributed to a decrease of $75 million in the net result from transactions of the public non-financial corporations within the Department for Victorian Communities portfolio.

Public financial corporations sector

The net result from transactions for the public financial corporations sector was $19 million in 2005-06, slightly lower than the 2004-05 outcome of $26 million reflecting a small reduction in sales of goods and services (1.6 per cent) combined with marginally higher growth in operating supplies and services (0.8 per cent).

The increase in supplies and services was largely driven by higher expenses within the VMIA of $43 million due to claims incurred from asbestos-related diseases claims (Run-Off Program). This was partly offset by a reduction in net incurred claims for the Public Healthcare Medical Indemnity, General Government Program and the VWA.

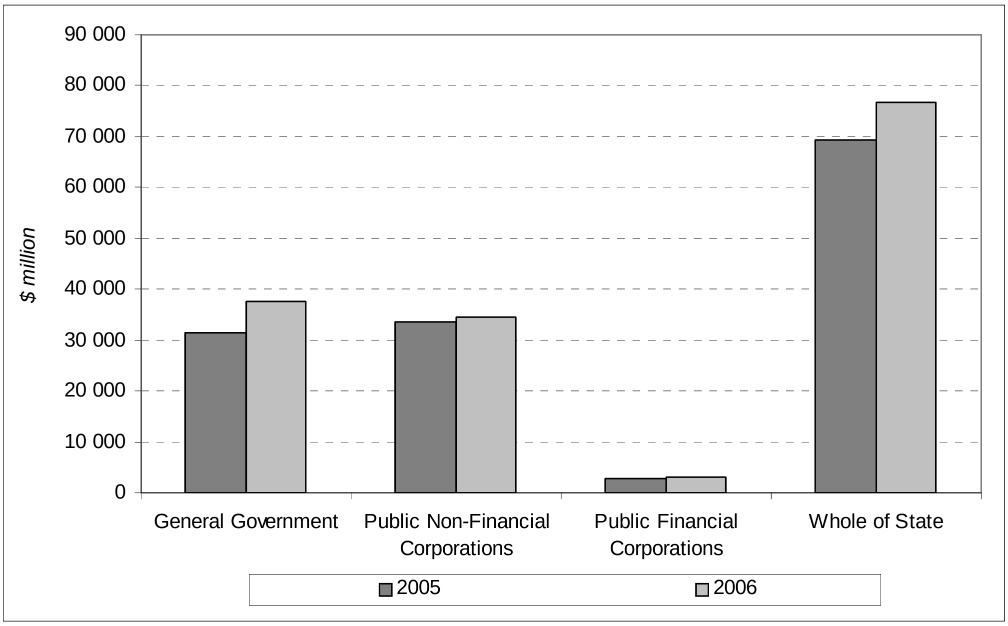
FINANCIAL POSITION

Net assets

The State's consolidated statement of financial position for the 2005-06 financial year shows net assets of the State increased by $7 246 million (or 10.4 per cent) in 2005-06, to $76 724 million, compared to $69 478 million in 2004-05.

Chart 3.5 shows the variation in net assets by sector. A discussion of movements within each of the sectors is provided later in this chapter, following analysis of the State outcome.

Chart 3.5: Net assets by sector as at 30 June



Source: Department of Treasury and Finance

As shown in Chart 3.5 and Table 3.3, the growth in net assets for the State has largely occurred in the general government sector due to the significant growth in capital stock and financial assets, and a decrease in the State's unfunded superannuation liability.

Table 3.3: Summary of Balance Sheet as at 30 June

($ million)

	Actual 2005	Actual 2006	Actual movement
Assets			
Capital stock (a)	90 721.4	95 305.4	4 584.1
Financial assets (b)	27 349.2	30 357.7	3 008.6
Other assets (c)	5 022.0	5 137.5	115.5
Total assets	**123 092.6**	**130 800.7**	**7 708.2**
Liabilities			
Superannuation	15 344.7	12 934.2	(2 410.5)
Borrowings	15 143.3	16 053.9	910.7
Other liabilities	23 126.3	25 088.2	1 961.8
Total liabilities	**53 614.3**	**54 076.3**	**462.1**
Net assets	**69 478.3**	**76 724.4**	**7 246.1**

Notes:

(a) Capital stock includes land and buildings, plant, equipment and infrastructure, roads and earthworks, intangibles, cultural and other asset.

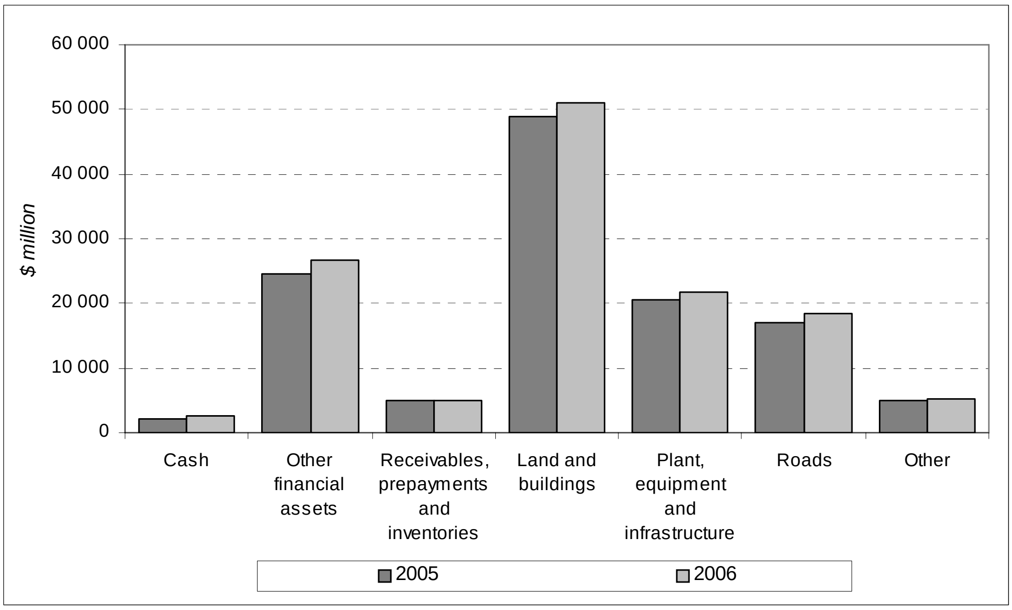
(b) Financial assets include cash assets, investments, loans and placements.

(c) Other assets include receivables, prepayments, inventories and non-current assets held for sale.

Assets

Chart 3.6 shows the movements in each of the asset categories for the State in 2005-06 compared to 2004-05. The section below provides explanation of these changes.

Chart 3.6 State assets by category as at 30 June



Source: Department of Treasury and Finance

Capital stock

As Chart 3.6 shows, capital stock (which includes land and buildings, plant, equipment and infrastructure, roads and other assets) for the State increased by $4 584 million during 2005-06. This significant increase reflects the impact of new asset investment and property revaluations in the general government and public non-financial corporations sectors.

The value of capital stock in the general government sector increased by $3 203 million. This growth largely reflects additional investment in infrastructure, primarily in the areas of health, education and road infrastructure, reflecting the Government's priorities in these areas.

The remainder of capital stock growth is attributable to asset revaluations particularly in regards to roads and buildings, including an upward revaluation of roads by VicRoads of $1 037 million. This level of revaluation is consistent with the annual asset revaluation program employed by the government.

The value of capital stock in the public non-financial corporations sector increased by $1 420 million in 2005-06, largely as a result of new investment in plant, equipment and infrastructure within the water, housing and rail sectors as well as land revaluations.

Financial assets

The State's financial assets have increased by $2 754 million during 2005-06, of which $2 174 million was due to an increase of financial assets within the public financial corporations sector. This is primarily driven by an increase in investment asset values in the State's insurance entities as a result of returns on these investments.

Liabilities

Total liabilities for the State are $462 million higher as at 30 June 2006 compared to 30 June 2005. As shown in Chart 3.7, superannuation liabilities have decreased by $2 411 million, offset by a $911 million increase in borrowings and a $1 093 million increase in other provisions.

The State's total unfunded superannuation liability (predominantly within the general government sector) decreased from $15 345 million as at 30 June 2005 to $12 934 million as at 30 June 2006. This reduction was due primarily to:

- increased investment returns on the assets of the State's superannuation funds ($1 495 million decrease);
- an increase in the discount rate used to value superannuation liabilities ($2 355 million decrease);

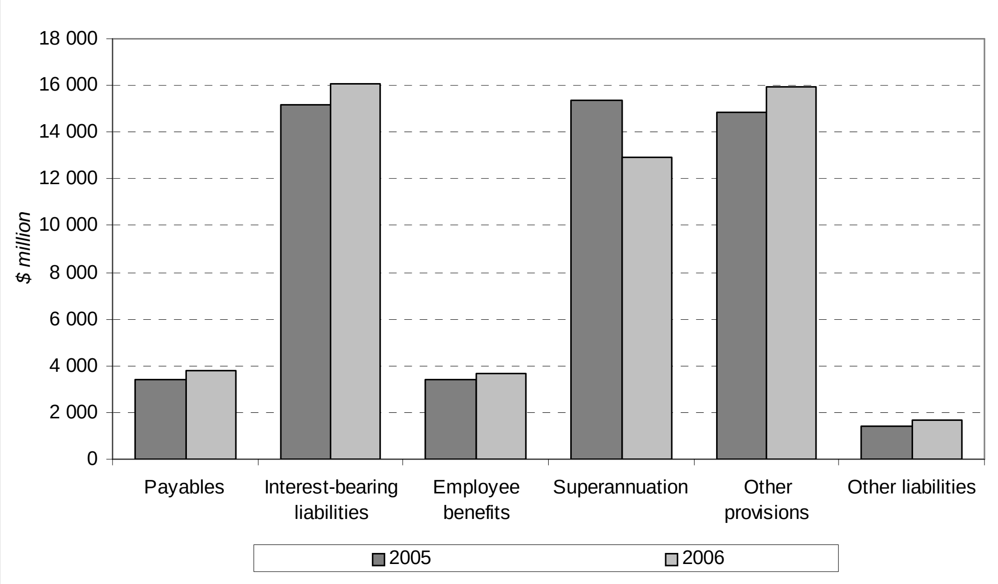
- the triennial actuarial review of the fund which updated the actuarial valuation assumptions based on recent fund experience and economic and demographic factors ($1 429 million increase); and
- additional payments from the general government sector to the State Superannuation Fund ($750 million), now a sub-scheme of the Emergency Services Superannuation Scheme, as a result of payments due in future years being brought forward to 2005-06.

Borrowings have increased primarily due to the following factors:

- an increase in the general government borrowings of $324 million mainly due to the recognition of finance leases for Ravenhall and Lara prison ($209 million) and the transfer of the Mobile Data Network ($39 million) from the Bureau of Emergency Services Telecommunication to the Emergency Services Telecommunication Authority within the Department of Justice;
- an increase in the public non-financial corporations borrowings of $377 million. The increase was mainly due to new borrowings in the water sector to support the capital expenditure program of that sector, offset partially by reductions in borrowings, including finance lease liabilities, in the non-water sector; and
- an increase in borrowings by the Treasury Corporation of Victoria as part of its program management of the State's liabilities.

The increase in other provisions is largely due to an increase in claim liabilities within the State's insurance agencies. This increase has been more than offset by increases in the agencies investment assets.

Chart 3.7: State liabilities by category as at 30 June



Source: Department of Treasury and Finance

Financial position by sector

General government sector

As shown in Chart 3.5, general government sector net assets have increased by $6 017 million compared to 2004-05. This variation mainly reflects growth in capital stock as a result of investment in infrastructure and revaluations of buildings and roads combined with a reduction in total liabilities for the sector resulting from a decrease in the State's unfunded superannuation liability. Chapter 2 provides a detailed explanation of net asset movements for the general government sector in 2005-06.

Public non-financial corporations sector

Public non-financial corporations sector net assets were $34 521 million in 2005-06, an increase of $909 million compared with 2004-05. An increase in total assets of $1 081 million was partly offset by an increase in total liabilities of $172 million.

The key driver of the increase in total assets for the sector was a $1 420 million growth in capital stock, including:

- a $708 million increase in the water sector mainly for network growth, infrastructure upgrade and renewal and environmental and recycling projects;
- a $344 million increase for VicTrack largely associated with the ongoing purchase of rolling stock (trams and trains) and infrastructure assets;

- a $141 million increase for the Director of Housing reflecting increased investment in rental properties and public housing improvements to better match public housing stock to the needs of public housing tenants;
- a $68 million increase for Port of Melbourne Corporation mainly related to landside development and channel infrastructure; and
- a $53 million increase for the public non-financial corporations in the Department for Victorian Communities portfolio. This relates primarily to the transfer of Commonwealth Games-related assets, including the swimming pool, hydrotherapy centre and associated infrastructure assets, from the Department for Victorian Communities to the State Sports Centre Trust.

This increase in capital stock was offset by a decrease in receivables of $656 million predominately associated with a decrease in the value of the indemnity from the State in favour of the SECV reflecting the Electricity Supply Agreements with the aluminium smelters at Point Henry and Portland, in the light of higher aluminium prices.

Total liabilities increased by $172 million. While liabilities increased across a number of public non-financial corporations, the most significant change was an increase in the borrowings, including finance lease liabilities, of the water sector by around $420 million to support the capital investment program of that sector. This was significantly offset by a decrease in other provisions of $319 million mainly as a result of the decrease in the provision for payments by the SECV under the Electricity Supply Agreements.

Public financial corporations sector

The public financial corporations sector consists mainly of capital to support the financial assets and liabilities of the financial corporations which are subject to changes in value due to movements in debt and equity market prices. Consequently the level of net assets can be quite volatile from year to year.

The net asset position of the public financial corporations sector increased by $246 million to $3 074 million as at 30 June 2006.

The rise in net assets reflects an increase of $2 174 million in financial assets, largely in the State’s insurance entities which has been driven by strong investment returns in equity markets.

This increase was partially offset by an increase in outstanding insurance claims to $14 430 million at June 2006, $1 421 million higher than at 30 June 2005. The increase is mainly due to a change in the valuation of the claims liability due to the addition of a prudential risk margin as well as new claims incurred during the year as a result of growth in the insurance schemes.

CASH FLOWS

After removing non-cash impacts such as asset revaluations, the change in operating receipts and payments for the State broadly reflect the same factors underpinning the operating income and expense movements already discussed in this chapter.

The consolidated statement of cash flows for the year ended 30 June 2006, provided in Chapter 4, shows that the cash and deposits for the State were $2 513 million, an increase of $613 million compared to the 30 June 2005 balance of $1 900 million.

NET DEBT AND NET FINANCIAL LIABILITIES

Table 3.4: Non-financial public sector net financial liabilities as at 30 June

($ million)

	2005 A-GAAP	*2005 A-IFRS [(a)]*	*2006 A-IFRS*	*Change*	*% Change*
Assets					
Cash and deposits	2 322.5	2 340.4	3 233.5	893.2	38.2
Advances paid	220.8	263.2	206.6	(56.6)	(21.5)
Investments, loans and placements	3 735.8	3 453.5	3 227.8	(225.7)	(6.5)
Total	**6 279.0**	**6 057.0**	**6 668.0**	**610.9**	**10.1**
Liabilities					
Deposits held	525.6	534.4	604.3	69.9	13.1
Advances received	12.7	19.9	4.9	(15.0)	(75.5)
Borrowings	9 393.4	9 988.3	10 804.8	816.5	8.2
Total	**9 931.7**	**10 542.7**	**11 414.0**	**871.4**	**8.3**
Net debt	**3 652.6**	**4 485.6**	**4 746.1**	**260.4**	5.8
Superannuation liability	10 540.3	15 344.7	12 934.2	(2 410.5)	(15.7)
Net financial liabilities	**14 193.0**	**19 830.3**	**17 680.3**	**(2 150.0)**	**(10.8)**
			(per cent)		
Net financial liabilities to GSP	6.39	8.93	7.61		

Source: Department of Treasury and Finance

Note:

(a) The 2005 data is restated on A-IFRS basis (reflects 1 July 2005 opening balance) for comparative purposes. The major impact of GAAP/A-IFRS transition relates to recognition of operating leases as finance leases and recognition of financial assets at fair value. Refer to Note 33 in Chapter 4 for reconciliation of balance sheet restatement impacts.

As shown in Table 3.4, the non-financial public sector's net debt increased by $260 million from $4 486 million at July 2005 to $4 746 million at June 2006.

The increase in the State's net debt was mainly due an increase in the public non-financial corporations net debt of $305 million. The increase was mainly due to new borrowings in the water sector to support the capital expenditure program of that sector. Capital expenditure in the water sector centred around network growth, infrastructure upgrade and renewal and environmental and recycling projects.

This increase in net debt was partially offset by a decrease in the general government net debt of $42 million, as explained in Chapter 2.

Table 3.5 displays non-financial public sector and general government net debt as a percentage of GSP from 1999 to 2006.

Table 3.5: Net debt as at 30 June

	1999	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006* [(a)]
					$ billion			
Non-financial public sector net debt	6.1	5.2	4.6	3.5	3.6	3.7	3.7	4.7
General government net debt	4.8	3.9	3.3	2.4	2.1	1.6	1.5	1.8
					(per cent)			
Non-financial public sector net debt to GSP [(b)]	4.0	3.2	2.7	1.9	1.8	1.7	1.6	2.0
General government net debt to GSP [(b)]	3.1	2.4	1.9	1.3	1.1	0.8	0.7	0.8

Notes:

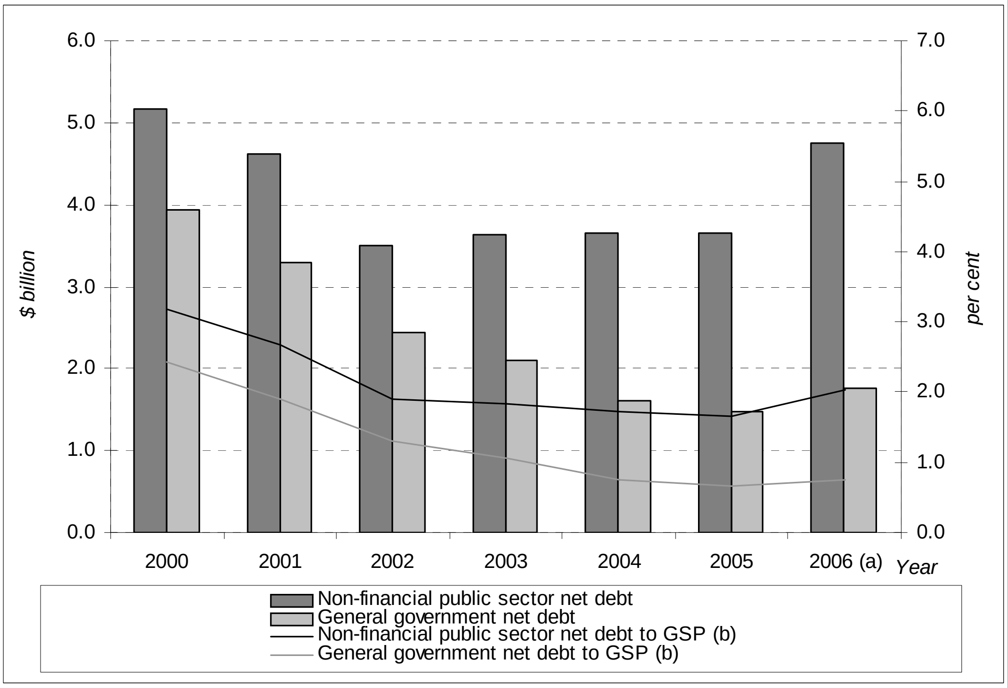
(a) 2006 data has been revised for A-IFRS adjustments.

(b) Historical figures are varied to reflect revisions to ABS estimates of the economy.

Chart 3.8 provides a picture of the net debt trends over the past six years for the non-financial public sector and general government sector.

Net financial liabilities for the non-financial public sector decreased from $19 830 million at June 2005 to $17 680 million at June 2006. The decrease was due to a reduction in the unfunded superannuation liability, driven by strong investment market performance and a rise in the discount rate used to value the liability (see liabilities section of Chapter 3) partially offset by the increase in net debt (as explained earlier).

Chart 3.8: Net debt as at 30 June



Source: Department of Treasury and Finance

Notes:
(a) 2006 data has been revised for A-IFRS adjustments.
(b) Historical figures are varied to reflect revisions to ABS estimates of the economy.

Unfunded superannuation liabilities

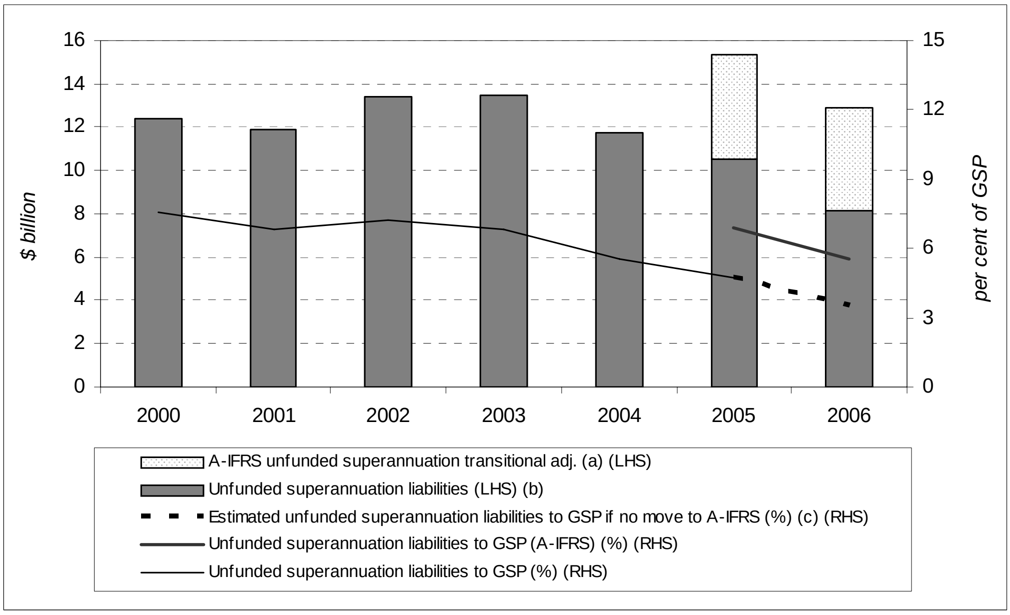
The State's unfunded liabilities in respect of Victoria's public sector defined benefit superannuation schemes represents the present value of future benefits that scheme members have accrued during past service which are not covered by scheme assets. The unfunded liabilities exist because these liabilities were funded on a pay-as-you-go basis until the mid-1990s. Consistent with the funding of public sector superannuation funds in most other jurisdictions, the State only funded superannuation benefits when they were actually paid, rather than as they accrued.

Unfunded superannuation liabilities decreased by $2 411 million during 2005-06 to $12 934 million as shown in Table 3.4. This is attributable to the same factors that contributed to the decrease in the general government sector unfunded liability and expense, as discussed in Chapter 2.

Chart 3.9 shows the State's unfunded superannuation liabilities in 2005-06, along with movements in this liability since 30 June 2000. As a proportion of GSP, the unfunded liability has declined from 7.8 per cent in 2000 to 5.6 per cent in 2006.

It should be noted that over this period, the level of the reported liability has been significantly impacted by the valuation effect of the move to measure the liability on an A-IFRS basis. This lowered the discount rate used to value the liability, significantly increasing the reported level of the liability. However, this does not impact on the cash required to finance this liability. Chart 3.9 highlights the impact of this valuation adjustment and highlights the significant reduction in the underlying liability since 2003.

Chart 3.9: Unfunded superannuation liabilities



Source: Department of Treasury and Finance

Notes:

(a) Unfunded superannuation liabilities between 2000 and 2004 are calculated under the previous Australian accounting standards, whereas in 2005 and 2006 the A-IFRS standard AASB 119 has been applied.

(b) For comparative purposes only, the transitional adjustment applied to unfunded superannuation liabilities in 2004-05 has also been separately identified in 2005 and 2006.

(c) The ratios of unfunded superannuation liabilities to GSP (as calculated under the old Australian accounting standard) for 2005 and 2006 are estimates.

Indicators of financial condition

Key indicators of financial condition for the State of Victoria are shown in Table 3.6.

Financial sustainability

During 2005-06, the State continued a long-term trend of reducing borrowings as a proportion of assets and GSP. The ratio of long-term borrowings to total assets fell from 12.7 per cent as at 30 June 2000 to 8.7 per cent as at 30 June 2006. This fall was driven by strong asset growth, supported by investment in infrastructure assets and upward revaluation of physical assets. The decrease in this borrowings ratio between 2005 (9.4 per cent) and 2006 (8.7 per cent) was due to the reclassification of a portion of TCV’s long-term debt into short-term debt in 2006. Total borrowings to GSP showed a similar trend, falling from 8.7 per cent as at 30 June 2000 to 6.9 per cent as at 30 June 2006, underpinned by the Government’s commitment to sound financial management and a growing Victorian economy.

The ratio of current assets to current liabilities declined marginally from 94.3 per cent at 30 June 2000 to 92.6 per cent at 30 June 2006, following the reclassification of long-term debt into short-term debt.

The ratio of unfunded superannuation liabilities to total assets fell from 13.6 per cent at 30 June 2000 to 9.9 per cent at 30 June 2006. Similarly, unfunded superannuation liabilities as a percentage of GSP fell from 7.8 per cent at 30 June 2000 to 5.6 per cent at 30 June 2006 driven by a combination of strong investment market and government initiatives to fully fund the liability by 2035.

The reduction in the unfunded superannuation liabilities, along with continued growth in infrastructure assets and the revaluation of assets largely influenced the reduction in the ratio of total liabilities to total assets from 54.5 per cent as at 30 June 2000 to 41.3 per cent as at 30 June 2006. Total liabilities as a percentage of GSP fell from 31.0 per cent at 30 June 2000 to 23.3 per cent at 30 June 2006.

Financial flexibility

The ratio of borrowing costs to income from transactions has declined from 3.6 per cent at 30 June 2000 to 2.7 per cent at 30 June 2006. This fall is primarily driven by higher growth in income from transactions compared to borrowing costs. Over the period, income from transactions increased by over 6 per cent per annum, compared to borrowing costs which only increased by 0.6 per cent per annum.

The ratio of superannuation expenses to income from transactions fell from 8.3 per cent at 30 June 2000 to 5.3 per cent at 30 June 2006 due to investment market performance and growth in revenue.

Assets

The Government's continued commitment to infrastructure investment across the State has contributed to non-current physical assets (including land, buildings, roads and cultural assets) growing at over 5 per cent in 2006 compared to 4.3 per cent in 2000. Details of the Government's infrastructure investment program are provided earlier in this chapter and in Chapter 2.

Table 3.6: Indicators of financial condition – State of Victoria

($ million)

	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 [(a)] Actual
				(per cent)			
Financial Sustainability							
Long-term borrowings to total assets	12.7	10.9	11.1	10.1	8.9	9.4	8.7
Total borrowings to total assets	15.5	15.6	13.5	13.6	13.0	11.8	12.3
Superannuation liabilities to total assets	13.6	12.5	13.8	13.2	10.8	8.6	9.9
Total liabilities to total assets	54.5	53.6	49.1	48.3	44.1	39.2	41.3
Long-term borrowings to GSP	7.2	6.0	5.9	5.3	4.7	5.3	4.9
Total borrowings to GSP	8.7	8.7	7.2	7.2	6.9	6.7	6.9
Superannuation liabilities to GSP	7.8	6.9	7.4	7.0	5.7	4.8	5.6
Total liabilities to GSP	31.0	29.8	26.2	25.7	23.5	22.0	23.3
Current assets to current liabilities	94.3	96.3	100.3	100.9	111.5	121.0	92.6
Financial flexibility							
Borrowing costs to income from transactions [(b)]	3.6	4.3	2.8	2.9	2.7	2.8	2.7
Superannuation expenses to income from transactions [(b)]	8.3	5.0	8.6	8.4	1.0	1.8	5.3
Superannuation expenses and borrowing costs to income from transactions [(b)]	11.9	9.2	11.4	11.3	3.7	4.5	8.0
Assets							
Growth in non-current physical assets [(c)]	4.3	4.9	7.6	7.4	9.7	13.9	5.1
Net asset investment to non-current physical assets	3.7	3.4	3.7	4.4	4.2	4.5	4.3

Source: Department of Treasury and Finance

Notes:

(a) 2000-2005 ratios are calculated under A-GAAP. 2006 ratios are calculated under A-IFRS.

(b) Between 2000-2005 under A-GAAP, 'income from transactions' is total revenue and 'superannuation expenses' is total superannuation expense, whereas in 2006 under A-IFRS 'income from transactions' and 'superannuation expense' represent only those transactions that are directly under the Government's control.

(c) 2006 growth ratio incomparable as 2005 assets based on A-GAAP and 2006 assets have been restated on A-IFRS. The impact of A-IFRS on 2006 non-current assets is due to revaluation / reclassification of property plant and equipment balances that has resulted in a higher asset value reflected in the high growth ratio.

CHAPTER 4 – ANNUAL FINANCIAL REPORT

This chapter contains the audited 2005-06 *Financial Report for the State of Victoria* and the Victorian general government sector

REPORT OF THE AUDITOR-GENERAL

AUDITOR GENERAL
VICTORIA

INDEPENDENT AUDIT REPORT

State of Victoria

To the Members of the Parliament of Victoria and the responsible Ministers

Matters Relating to the Electronic Presentation of the Audited Financial Report

This audit report relates to the Annual Financial Report for the State of Victoria and the Victorian General Government Sector for the financial year ended 30 June 2006 included on its web site. The Secretary of the Department of Treasury and Finance is responsible for the integrity of the web site. I have not been engaged to report on the integrity of the web site. The audit report refers only to the statements named below. An opinion is not provided on any other information which may have been hyperlinked to or from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Scope

The Financial Report

The accompanying Annual Financial Report for the State of Victoria and the Victorian General Government Sector for the financial year ended 30 June 2006 consists of the consolidated operating statement, consolidated balance sheet, consolidated statement of recognised income and expense, consolidated cash flow statement, the accompanying notes contained in Chapter 4 of the Annual Financial Report, and the certification by the Department of Treasury and Finance. The Annual Financial Report includes the entities disclosed in note 39 to the financial statements, but excludes local government bodies and universities.

Secretary's Responsibility

The Secretary of the Department of Treasury and Finance is responsible for:

- the preparation and presentation of the Annual Financial Report and the information it contains, including accounting policies and accounting estimates
- the maintenance of adequate accounting records and internal controls that are designed to consolidate the transactions and affairs of the State of Victoria and the Victorian General Government Sector, and to prevent and detect errors.

Audit Approach

As required by the *Audit Act 1994*, an independent audit of the Annual Financial Report has been carried out in order to express an opinion on the financial report. The audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the Annual Financial Report is free of material misstatement.

The audit procedures included:

- examining information on a test basis to provide evidence supporting the amounts and disclosures in the Annual Financial Report
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Secretary

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Auditing in the Public Interest

AUDITOR GENERAL
VICTORIA

Independent Audit Report (continued)

Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. The Auditor-General and his staff comply with all applicable independence requirements of the Australian accounting profession.

Audit Opinion

In my opinion, the Annual Financial Report presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and the financial reporting requirements of the *Financial Management Act 1994*, the financial position of the State of Victoria and the Victorian General Government Sector as at 30 June 2006 and their financial performance and cash flows for the year then ended.

Edward Hay

MELBOURNE
29 September 2006

Edward M. Hay
Acting Auditor-General

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Auditing in the Public Interest

CERTIFICATION BY THE DEPARTMENT OF TREASURY AND FINANCE

The *Financial Report for the State of Victoria* has been prepared by the Department of Treasury and Finance through the consolidation of audited financial information provided by the Victorian public sector reporting entities listed herein.

In our opinion, the Annual Financial Report:

(a) presents fairly the financial performance and the cash flows of the State and the Victorian general government sector for the year ended 30 June 2006 and the financial position of the State and the Victorian general government sector as at 30 June 2006; and

(b) has been prepared in accordance with Australian Accounting Standards (including Australian equivalents to International Financial Reporting Standards, A-IFRS), in particular AAS 31 *Financial Reporting by Governments*, other mandatory professional reporting requirements and the financial reporting requirements contained in Part 5 of the *Financial Management Act 1994.*

At the time of signing, we are not aware of any circumstances which would render any particulars included in the Annual Financial Report to be misleading or inaccurate.

Murray Jones, FCPA, FCIS
Director
Budget & Financial Management

Stein Helgeby
Deputy Secretary
Budget & Financial Management

Grant Hehir
Secretary

Authorised for issue on

27 September 2006

Consolidated operating statement for the year ended 30 June 2006

($ million)	Notes	State of Victoria		General government sector	
		2006	2005	2006	2005
Income from transactions					
Taxation	*3*	10 752.3	10 282.3	10 885.4	10 414.9
Fines and regulatory fees	*4*	736.2	671.5	713.8	652.3
Dividends and income tax equivalent and rate equivalent revenue	*5*	520.5	457.6	1 009.2	948.2
Interest		1 063.6	1 001.2	390.5	337.3
Grants	*6*	14 542.1	13 393.7	14 624.3	13 452.0
Sale of goods and services	*7*	8 244.2	7 882.4	2 526.3	2 366.1
Fair value of assets received free of charge or for nominal consideration	*8*	198.7	187.0	32.0	16.0
Other income	*9*	1 360.5	1 420.4	1 790.4	1 607.3
Total income from transactions		**37 418.1**	**35 296.1**	**31 972.0**	**29 794.1**
Expenses from transactions					
Employee benefits		12 247.3	11 448.7	11 473.5	10 734.2
Superannuation	*10 (a)*	1 985.1	1 699.2	1 917.2	1 636.2
Depreciation and amortisation	*11*	2 135.6	1 946.6	1 279.3	1 165.7
Finance costs	*12*	1 015.8	1 097.5	473.6	474.2
Grants and transfer payments	*13*	4 140.3	3 859.9	5 794.8	5 182.3
Supplies and services	*14*	14 782.5	13 712.0	10 165.4	9 386.2
Other expenses		55.1	53.4	43.7	41.7
Total expenses from transactions	*15*	**36 361.8**	**33 817.3**	**31 147.5**	**28 620.5**
Net result from transactions		**1 056.3**	**1 478.7**	**824.5**	**1 173.6**
Income/(expenses) from other economic flows					
Net gain/(loss) from disposal of physical assets	*16*	(74.0)	(28.0)	(53.3)	(25.4)
Actuarial gains/(losses) of superannuation defined benefit plans	*10 (a)*	2 435.0	(1 541.0)	2 420.9	(1 534.0)
Share of net profits/(losses) of associates and joint venture entities	*17*	148.0	7.0	132.3	(1.8)
Net gains/(losses) on financial assets at fair value		1 893.4	1 326.9	7.0	(11.1)
Other gains/(losses) from other economic flows	*18*	417.8	102.2	590.4	(58.2)
Total other economic flows		**4 820.1**	**(132.9)**	**3 097.2**	**(1 630.5)**
Net result		**5 876.4**	**1 345.8**	**3 921.7**	**(456.9)**

The accompanying notes form part of these financial statements.

Consolidated balance sheet as at 30 June 2006

($ million)

	Notes	*State of Victoria*		*General government sector*	
		2006	*2005*	*2006*	*2005*
Current assets					
Cash and cash equivalents	*31*	2 582.8	2 016.2	2 698.2	1 821.1
Receivables	*19*	2 660.4	2 722.3	1 877.3	2 020.8
Prepayments		165.8	156.7	102.6	67.0
Inventories	*20*	700.8	714.6	135.8	125.5
Other financial assets	*21*	7 623.5	7 622.7	1 700.2	2 151.1
		13 733.3	**13 232.6**	**6 514.0**	**6 185.5**
Non-current assets classified as held for sale	*22*	59.4	47.7	59.2	47.7
Total current assets		**13 792.7**	**13 280.3**	**6 573.3**	**6 233.2**
Non-current assets					
Receivables	*19*	1 551.1	1 380.6	391.0	329.8
Investments accounted for using the equity method	*17*	978.7	724.2	602.6	433.0
Other financial assets	*21*	19 172.7	16 986.1	462.0	395.1
Property, plant and equipment	*23*	94 742.4	90 158.6	55 953.8	52 745.8
Intangibles	*24*	298.8	247.0	159.6	141.7
Other assets	*25*	264.3	315.8	237.1	260.1
Total non-current assets		**117 008.0**	**109 812.3**	**57 806.1**	**54 305.5**
Total assets		**130 800.7**	**123 092.6**	**64 379.4**	**60 538.7**
Current liabilities					
Payables		3 637.6	3 173.5	2 415.5	2 125.0
Interest-bearing liabilities	*26*	4 656.1	3 154.1	311.0	323.3
Employee benefits	*27*	2 886.2	2 472.3	2 701.1	2 310.8
Superannuation	*10 (d)*	5.3	43.9	..	38.8
Other provisions	*28*	2 463.5	2 276.2	155.3	193.7
Other liabilities	*29*	1 240.3	1 039.3	413.2	399.9
Total current liabilities		**14 889.0**	**12 159.3**	**5 996.0**	**5 391.6**
Non-current liabilities					
Payables		126.7	247.0	526.6	1 150.4
Interest-bearing liabilities	*26*	11 397.9	11 989.1	5 869.4	5 533.1
Employee benefits	*27*	792.7	966.2	728.1	896.8
Superannuation	*10 (d)*	12 928.9	15 300.8	12 896.5	15 249.0
Other provisions	*28*	13 509.4	12 603.9	580.6	568.9
Other liabilities	*29*	431.8	347.9	257.1	241.2
Total non-current liabilities		**39 187.3**	**41 455.0**	**20 858.3**	**23 639.4**
Total liabilities		**54 076.3**	**53 614.3**	**26 854.3**	**29 031.0**
Net assets		**76 724.4**	**69 478.3**	**37 525.1**	**31 507.7**

Equity			
Reserves	*30*	32 493.4	30 520.3
Accumulated funds	*30*	44 231.0	38 958.0
Total equity		**76 724.4**	**69 478.3**

The accompanying notes form part of these financial statements.

Consolidated statement of recognised income and expense for the year ended 30 June 2006

($ million)	*Notes*	*State of Victoria 2006*	*2005*
Gain on revaluation of property plant and equipment		1 922.0	9 519.9
Revaluation writeback of property plant and equipment		0.4	0.1
Share of revaluation of property, plant and equipment of associates and joint ventures		91.4	..
Available-for-sale investments:			
Gain/(loss) taken to equity		47.7	(3.2)
Transferred to profit or loss for the period		(22.1)	..
Net income recognised directly in equity	*30*	**2 039.3**	**9 516.8**
Net result for the period		**5 876.4**	**1 345.8**
Total recognised income and expense for the period		**7 915.7**	**10 862.6**

The accompanying notes form part of these financial statements.

Consolidated cash flow statement for the year ended 30 June 2006

($ million)

	Notes	State of Victoria		General government sector	
		2006	*2005*	*2006*	*2005*
Cash flows from operating activities					
Receipts					
Taxation		10 841.8	10 188.5	10 974.3	10 318.3
Fines and regulatory fees		576.6	538.2	560.5	532.7
Grants		14 530.8	13 405.9	14 619.7	13 451.6
Sale of goods and services [(a)]		6 260.9	6 211.7	3 240.8	3 172.6
Interest received		35.3	267.5	373.8	343.4
Dividends and income tax equivalent and rate equivalent revenue		26.1	5.0	1 231.9	500.5
Other receipts		1 657	1 380.8	1 796.0	2 027.6
Total receipts		**33 928.5**	**31 997.6**	**32 796.9**	**30 346.7**
Payments					
Employee benefits		(11 820.1)	(11 055.1)	(11 251.9)	(10 522.3)
Superannuation		(1 943.6)	(1 848.8)	(1 887.6)	(1 797.2)
Interest paid		(28.3)	(109.0)	(430.9)	(384.8)
Grants and transfer payments		(4 186.9)	(3 908.1)	(5 918.9)	(5 290.4)
Supplies and services [(a)]		(12 141.6)	(11 456.0)	(10 686.9)	(9 826.4)
Other payments		20.0	(19.6)	20.0	(19.4)
Total payments		**(30 100.4)**	**(28 396.6)**	**(30 156.3)**	**(27 840.5)**
Net cash flows from operating activities	***31 (b)***	**3 828.1**	**3 601.0**	**2 640.6**	**2 506.2**
Cash flows from investing activities					
Purchase of non-financial assets		(4 126.1)	(3 631.2)	(2 301.4)	(1 988.5)
Proceeds from sale of non-financial assets		226.8	198.2	158.8	128.0
Net (purchase)/disposal of investments		590.1	(381.7)	468.7	421.5
Net customer loans (granted)/repaid		54.8	37.6	35.7	12.7
Net contribution to other sectors of government		..	..	51.2	(512.8)
Net cash flows from investing activities		**(3 254.4)**	**(3 777.0)**	**(1 587.1)**	**(1 939.1)**
Cash flows from financing activities					
Net borrowings		21.2	314.7	(175.5)	(45.4)
Net cash flows from financing activities		**21.2**	**314.7**	**(175.5)**	**(45.4)**
Net cash flows from public financial corporations	***31 (c)***	**17.5**	**(602.7)**	**..**	**..**
Net increase/(decrease) in cash and cash equivalents		**612.4**	**(464.0)**	**878.1**	521.7
Cash and cash equivalents at beginning of reporting period		1 900.2	2 363.6	1 816.9	1 295.2
Cash and cash equivalents at end of reporting period	***31 (a)***	**2 512.6**	**1 899.6**	**2 695.0**	**1 816.9**

Note:

(a) These items are inclusive of goods and services tax.

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Statement of significant accounting policies

The Annual Financial Report represents the audited general purpose consolidated financial report of the Government of Victoria (the State) and the Victorian general government sector.

(A) Statement of compliance framework

This financial report is a general purpose financial report which has been prepared in accordance with the *Financial Management Act 1994* (FMA), applicable Accounting Standards, in particular Australian Accounting Standard AAS 31 *Financial Reporting by Governments*, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board and other mandatory professional requirements. Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRS). The financial report has been prepared on a not-for-profit basis, and accordingly, in complying with A-IFRS, the consolidated entity has, where relevant, applied those paragraphs applicable to not-for-profit entities.

This is the first Annual Financial Report prepared based on A-IFRS and comparatives for the year ended 30 June 2005 have been restated accordingly, except for the adoption of AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement.* The State has adopted the exemption under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* from having to apply these standards to the comparative period. Reconciliations of A-IFRS net assets and operating surplus for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to A-IFRS are detailed in Note 33.

(B) Basis of accounting and measurement

This financial report is presented in Australian dollars, which has also been identified as the functional currency of the Victorian Government.

The report has been prepared in accordance with the historical cost convention except for:

- non-current physical assets (excluding plant, equipment and vehicles, and certain infrastructure assets held by water and rail entities, which are valued at historical cost), which subsequent to acquisition are measured at valuation and are reassessed with sufficient regularity to ensure the carrying amount does not materially differ from their fair value;
- investments and productive trees in commercial native forests, which are recognised at their net market value;
- derivative financial instruments and interest bearing liabilities of the State, which are measured at fair value through profit and loss;

- available-for-sale investments, which are measured at fair value with movements reflected in equity until the asset is derecognised; and
- certain liabilities, most notably unfunded superannuation, workers' compensation and transport accident compensation, which are calculated with regard to actuarial assessments.

Cost is based on the fair values of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

In the application of A-IFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of A-IFRS that have significant effects on the financial statements and estimates, with a risk of material adjustments in the next year, are disclosed throughout the notes in the financial statements.

The State changed its accounting policies on 1 July 2005 to comply with A-IFRS. The application of the changed accounting policies to the comparative year is discussed below. The transition to A-IFRS is accounted for in accordance with AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards,* with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the State's balance sheet, operating statement and cash flows is discussed in Note 33.

The State has also elected to apply Amending Accounting Standards AASB 2005-4 relating to financial instruments and AASB 2005-6 Amendments to Accounting Standards relating to business combinations involving entities or businesses under common control, even though these Standards are not required to be applied until annual reporting periods beginning on or after 1 January 2006.

The accounting policies set out below have been applied in preparing the Annual Financial Report for the year ended 30 June 2006, the comparative information presented in this Annual Financial Report for the year ended 30 June 2005, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004, the State's date of transition, except for the accounting policies in respect of financial instruments.

The State has not restated comparative information for financial instruments, including derivatives, as permitted under the first-time adoption transitional provisions. The accounting policies for financial instruments applicable to the comparative information are included in conjunction with the accounting policy applied in the current year, and the impact of the changes in these policies are discussed further in Note 1 (V).

(C) Reporting entity

The State of Victoria reporting entity, referred to in this report as 'the State', includes government departments, public non-financial corporations, public financial corporations and other government-controlled entities. The State and most of its subsidiary entities are not-for-profit entities.

These entities are classified into sectors according to the System of National Accounts. Disaggregated information is presented in Note 2.

System of National Accounts

(i) General government (GG)

The Victorian general government sector includes all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. The general government sector is not a separate entity but represents a sector within the State of Victoria reporting entity.

The primary function of entities within the general government sector is to provide public services (outputs), which are mainly non-market in nature, for the collective consumption of the community, and involve the transfer or redistribution of income and are financed mainly through taxes and other compulsory levies.

(ii) Public non-financial corporations (PNFC)

The primary function of entities within the government public non-financial corporations sector is to provide goods and services within a competitive market that is non-regulatory and non-financial in nature. Such entities are financed mainly through sales to the consumer of these goods and services.

(iii) Public financial corporations (PFC)

The government-controlled public financial corporations sector comprises entities engaged primarily in the provision of financial intermediation services or auxiliary financial services and which have one or more of the following characteristics:

- they perform a central borrowing function;

- they provide insurance services;
- they accept call, term or savings deposits; or
- they have the ability to incur liabilities and acquire financial assets in the market on their own account.

(D) Basis of consolidation

The consolidated financial statements incorporate assets and liabilities of all reporting entities that are controlled by the State as at 30 June 2006 and their income and expenses for the reporting period. For those entities with a reporting period ending other than 30 June, the most recent audited financial year results are used.

Local government authorities, universities and denominational hospitals, do not form part of the State of Victoria economic entity and therefore are not consolidated.

Where control of an entity is obtained during the financial period, its results are included in the consolidated operating statement from the date on which control commenced. Where control ceases during a financial period, the entity's results are included for that part of the period in which control existed. Where dissimilar accounting policies are adopted by entities and their effect is considered material, adjustments are made to ensure consistent policies are adopted in this financial report.

In the process of reporting the State as a single economic entity, all material transactions and balances between government controlled entities are eliminated.

Consistent with the requirements of AAS31, contributions by owners (that is, contributed capital and its repayment) are treated as equity transactions and therefore do not form part of the revenues and expenses of the relevant sectors of Government.

Details of significant entities consolidated by the State are shown in Note 39 in this Annual Financial Report.

(E) Changes to the presentation of the operating statement

In its review of the presentation of the government's financial statements under A-IFRS, the Department of Treasury and Finance has presented additional relevant information in the operating statement to improve understanding of financial performance. This includes the use of subtotals and the functional classification of items into 'transactions' and 'other economic flows'. This style of presentation was first used in the *2005-06 Budget* and is intended to address the needs of all users pending finalisation and introduction of a reporting standard for government that converges the two frameworks used by governments: Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP).

The income and expenses in the operating statement are classified according to whether or not they arise from 'transactions' or 'other economic flows'. Hence, the results on the face of the operating statement are grouped under headings of 'income from transactions', 'expenses from transactions', 'net result from transactions', and 'total other economic flows'.

A 'transaction' is defined under the Government Finance Statistics Manual 2005 published by the International Monetary Fund. Transactions are those economic flows that are considered to arise as a result of policy decisions, usually an interaction between two entities by mutual agreement, and also flows within an entity such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the government and taxpayers. Transactions can be in kind (e.g. assets provided/given free of charge or for nominal consideration) or where the final consideration is cash. In simple terms, transactions arise from the policy decisions of the government.

'Other economic flows' are also defined in the Government Finance Statistics Manual 2005. They include gains and losses from disposals, revaluations and impairments of non-current physical and intangible assets; actuarial gains and losses arising from defined benefit superannuation plans; fair value changes of financial instruments and agricultural assets; and depletion of natural assets (non-produced) from their use or removal. In simple terms, other economic flows are changes arising from market re-measurements.

(F) Income from transactions

Income is recognised to the extent that it is probable that the economic benefits will flow to the entity and the income can be reliably measured.

Taxation

State taxation and fee revenue is recognised upon the earlier of either the receipt by the State of a taxpayer's self assessment or the time the taxpayer's obligation to pay arises, pursuant to the issue of an assessment.

The types of taxation revenue raised by the State include:

- payroll tax;
- land tax;
- duties levied principally on conveyances and land transfers and rental business;
- gambling taxes levied mainly on private lotteries, electronic gaming machines, casino operations and racing;
- insurance duty relating to compulsory third party, life and non-life policies;
- insurance company contributions to fire brigades;
- motor vehicle taxes, including registration fees and duty on registrations and transfers; and
- other taxes, including landfill levies, concession fees payable by Transurban in respect of Melbourne City Link, and licence fees.

In addition, taxation for the general government sector includes levies on statutory corporations (including the environmental levy) which are eliminated on consolidation into the whole of State.

Fines and regulatory fees

Revenue is recognised at the time the fine is issued or the regulatory fee is billed. Drivers licence fees are included in regulatory fees.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Interest revenue

The State has elected to apply the option available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* of adopting AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. Outlined below are the relevant accounting policies for interest income applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for year ending 30 June 2006

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Accounting policies applicable for year ending 30 June 2005

Interest revenue is recognised on an accrual basis.

Grants income

Grants mainly comprise funds provided by the Commonwealth to assist the State in meeting general or specific service delivery obligations, primarily for the purpose of aiding in the financing of the operations of the recipient, capital purposes and/or for on passing to other recipients. Grants also include grants from other jurisdictions. Revenue is recognised when the State obtains control over these funds.

Sale of goods and services

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the revenue can be reliably measured.

Revenue from rendering of services is recognised on a stage of completion basis and is measured by reference to the labour hours or as a percentage of total services to be performed.

Fair value of assets received free of charge or for nominal consideration

Income arising from assets received free of charge or for nominal consideration are measured at the fair value of the contribution and are recognised when the State gains control of the contribution or the right to receive the contribution.

(G) Expenses

Expenses are recognised when they are incurred, and reported in the financial year to which they relate.

Employee benefits

These expenses include all costs related to employment (other than superannuation which is accounted for separately) including wages and salaries, fringe benefits tax, leave entitlements and redundancy payments.

Superannuation

Superannuation expense is determined on the following basis:

- defined contribution plans, the amount recognised as an expense reflects the State's contribution, paid or accrued, in respect of the reporting period; and
- defined benefit plans, the amount recognised under superannuation expense reflects the net movement in the State's net defined benefit superannuation liabilities during the reporting period, excluding the impact of actuarial gains and losses. Actuarial gains and losses are not classified as transactions and therefore are reported separately as superannuation expenses from other economic flows.

Depreciation

All infrastructure assets, buildings, plant and equipment and other non-current physical assets (excluding items under operating leases, assets held for sale and investment properties) that have a limited useful life are depreciated. Depreciation is generally calculated on a straight-line basis, at rates that allocate the asset's value, less any residual value, over its estimated useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following are typical estimated useful lives for the different asset classes for both current and prior years:

Asset class	Useful life
Dwellings	40 to 50 years
Other buildings	30 to 60 years
Road pavement	60 years
Bridges	90 years
Plant, equipment and vehicles	3 to 10 years
Cultural assets	100 years
Water infrastructure – storage facilities	25 to 300 years
Water infrastructure – other	25 to 100 years
Rail infrastructure	2 to 50 years
Other infrastructure	10 to 32 years

Land and earthworks associated with the declared road network, and core cultural assets which are considered to have an indefinite life, are not depreciated. Depreciation is not recognised in respect of these assets as their service potential has not, in any material sense, been consumed during the reporting period.

Finance costs

Finance costs are recognised as expenses in the period in which they are incurred, and include:

- interest on outstanding borrowings;
- amortisation of discounts or premiums relating to borrowings;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
- finance lease charges; and
- the increase in financial liabilities and provisions due to the unwinding of discount to reflect the passage of time.

Grants and transfer payments

Grants and transfer payments to third parties are recognised as an expense in the reporting period in which they are paid or payable. They include transactions such as grants, subsidies and other transfer payments made to local government, non-government schools, community groups and for the general government sector also those to public non-financial corporations and public financial corporations.

Supplies and services

Supplies and services generally represent cost of goods sold and the day-to-day running costs, including maintenance costs, incurred in the normal operation of the State. These items are recognised as an expense in the reporting period in which they are incurred. The carrying amount of any inventories held for distribution are expensed when distributed.

(H) Income and expenses from other economic flows

Other economic flows measure the change in volume or value of assets or liabilities that does not result from a transaction. This includes realised or unrealised gains, and losses from disposals, revaluations and impairment of non-current physical assets and intangible assets; actuarial gains and losses from superannuation defined benefit plans; fair value changes of financial instruments and agricultural assets; foreign exchange gains or losses; and depletion of natural resources.

Net gain/(loss) from disposal of physical assets

Any gain or loss on disposal of physical assets is recognised at the date of disposal and is determined after deducting from the proceeds the carrying value of the asset at that time.

Actuarial gains/(losses) on superannuation defined benefit plans

Actuarial gains or losses on superannuation defined benefit plans represents the impact on the net superannuation defined benefit liability as a result of differences between actual experience and assumptions used in estimating the net superannuation defined benefit liability. Actuarial gains or losses are recognised in the operating statement in the period in which they occur.

(I) Assets

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank, deposits at call and highly liquid investments with short periods to maturity, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Prepayments

Prepayments represent payments in advance of receipt of goods or services or an expenditure made in one accounting period covering a term extending into the next accounting period.

Receivables

Receivables consist predominantly of debtors in relation to goods and services, taxes and fines, accrued investment income, and GST input tax credits recoverable.

The State has elected to apply the option available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* of adopting AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. Outlined below are the relevant accounting policies for trade and other receivables for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for year ending 30 June 2006

Receivables and loans are recorded at amortised cost, using the effective interest method, less any accumulated impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

A provision for doubtful receivables is made when there is objective evidence that the State will not be able to collect the debts. Bad debts are written off when identified.

Accounting policies applicable for year ending 30 June 2005

Receivables for derivative financial instruments and concession notes from Transurban are carried at fair value.

Other receivables are recognised at the nominal amounts due, less any provision for doubtful receivables.

Investments and other financial assets

The State has elected to apply the option available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* of adopting AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. Outlined below are the relevant accounting policies for investments and other financial assets for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for year ending 30 June 2006

Financial assets within the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The State determines the classification of its financial assets at initial recognition and in accordance with the provisions outlined in FRD 114 *Financial Instruments - General Government Entities and Public Non-Financial Corporations* or FRD 116 *Financial Instruments - Public Financial Corporations.* Where permitted and appropriate, designations are re-evaluated at each financial year-end.

Other financial assets measured at fair value through profit or loss

Financial assets classified in this category are either held for trading or designated by the State on initial recognition when the following criteria are met:

- the designation significantly reduces a measurement or recognition inconsistency (sometimes referred to as ‘an accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the entity’s key management personnel, for example the entity’s board of directors and chief executive officer.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets at fair value through profit or loss are recorded in the balance sheet at fair value. Changes in fair value are recognised in profit or loss. Interest and dividends earned whilst holding other financial assets at fair value through profit or loss are recorded as revenue according to the terms of the contract, or when the right of payment has been established.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the State has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method, less provision for impairment. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as ‘Other financial assets at fair value through profit or loss’. After initial recognition, such assets are subsequently remeasured at amortised cost using the effective interest method, less provision for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. They may be sold in response to liquidity needs or changes in market conditions. After initial recognition, available-for sale investments are subsequently measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest earned whilst holding available-for-sale investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale investments are recognised in the operating statement as dividend income when the right of the payment has been established.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

Accounting policies applicable for year ending 30 June 2005

Other financial assets

Other financial assets comprise marketable securities (less provision for diminution) and deposits that are valued at market value. Any discount or premium is amortised over the life of the investments, and gains or losses arising from the investments prior to maturity are recognised in the operating statement.

Impairment of financial assets

The State has elected to apply the option available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* of adopting AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. Outlined below are the relevant accounting policies for impairment of investments and other financial assets for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for year ending 30 June 2006

The State assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss is recognised in profit or loss.

The State first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

Available-for-sale investments

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the operating statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Accounting policies applicable for year ending 30 June 2005

Recoverable amount

For assets in the public non-financial corporations and public financial corporations sectors measured at cost, if the asset's carrying amount exceeds its recoverable amount, the asset's carrying amount is written down to the recoverable amount.

Inventories

Supplies and consumables, work in progress and finished goods are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Inventories held for distribution are valued at the lower of cost and current replacement cost.

Non-current assets classified as held for sale

Assets held for sale include assets for which the carrying amount of the asset will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is expected to be completed within one year from the date of classification. An asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

Property, plant and equipment

Land and buildings are measured initially at cost and subsequently revalued at the amounts for which assets could be exchanged between knowledgeable willing parties in an arm's length transaction (that is, fair value).

National parks, land underlying State forests and other Crown land is measured with regard to the property's highest and best use after due consideration is made for any legal or constructive restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset. Theoretical opportunities that may be available in relation to the asset are not taken into account until it is virtually certain that the restrictions will no longer apply.

Road network assets (including earthworks of the declared road networks but excluding land under roads) are measured at fair value, determined by reference to the asset's depreciated replacement cost. Land under roads is not recognised.

Cultural depreciated assets and collections, heritage assets and other non-current physical assets that the State intends to preserve because of their unique historical, cultural or environmental attributes are measured at the cost of replacing the asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

Plant, equipment, vehicles and water infrastructure assets and rail infrastructure assets are measured at cost.

Biological Assets

Commercial native forests are measured at their fair value less estimated point of sale costs. The fair value is determined as the difference between the net present value of cash flows expected to be generated by the commercial native forests (discounted at a current market determined rate, which reflects the risks associated with the forests and the fair value of the land on which the trees are grown) less the fair value of the land on which the commercial native forests are growing.

Leases

A distinction is made between finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased assets from the lessor to the lessee, and operating leases, where the lessor effectively retains all such risks and benefits.

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance leases are recognised as assets and liabilities at amounts equal to the fair value of the lease property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. The lease asset is depreciated over the shorter of the estimated useful life of the asset or the term of the lease. Minimum lease payments are allocated between the principal component of the lease liability, and the interest expense calculated using the interest rate implicit in the lease, and charged directly to the operating statement. Contingent rentals associated with finance leases are recognised as an expense in the period in which they are incurred.

Operating lease payments, including any contingent rentals, are recognised as an expense in the operating statement on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset.

The aggregate cost (or benefit) associated with operating lease incentives are recognised as a reduction of rental income (or rental expense) on a straight line basis over the lease term.

The cost of leasehold improvements is capitalised as an asset and depreciated over the remaining term of the lease or the estimated useful life of the improvements, whichever is the shorter.

Restrictive nature of cultural and heritage assets, Crown land and infrastructure

Certain agencies in the Victorian general government sector hold cultural assets, heritage assets, Crown land and infrastructure which are deemed worthy of preservation because of the social rather than financial benefits they provide to the community.

Consequently, there are certain limitations and restrictions imposed on their use and/or disposal.

Investments in associated entities and joint ventures

Associates are those entities over which the State exercises significant influence, but not control.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the State's share of the post acquisition profits or losses of associates is recognised in the consolidated operating statement and its share of post acquisition movements in reserves is recognised in consolidated reserves. The cumulative post acquisition movements are adjusted against the cost of the investment.

Joint ventures are contractual arrangements between the State or a subsidiary entity and one or more other parties to undertake an economic activity that is subject to joint control. Joint control only exists when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Interests in jointly controlled operations and jointly controlled assets are accounted for by recognising in the State's financial statements, its share of the assets, liabilities and any revenue and expenses of such joint ventures.

Interests in jointly controlled entities are accounted for in the consolidated financial statements using the equity method. Under this method, the State's share of the post acquisition profits or losses of jointly controlled entities is recognised in the consolidated operating statement and its share of post acquisition movements in reserves is recognised in consolidated reserves. The cumulative post acquisition movements are adjusted against the cost of the jointly controlled entity.

Intangible assets

Intangible assets represent identifiable non-monetary assets without physical substance.

Intangible assets are recognised at cost. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the State.

Amortisation is allocated to intangible assets with finite useful lives on a systematic basis over the asset's useful life. Amortisation commences when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each annual reporting period. In addition, an assessment is made at each reporting date to determine whether there are indicators that the intangible asset concerned is impaired. If so, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount.

Intangible assets with indefinite useful lives are not amortised. The useful lives of intangible assets that are not being amortised are reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. In addition, as previously mentioned, all intangible assets with indefinite useful lives are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired by comparing its recoverable amount with its carrying amount. Any excess of the carrying amount over the recoverable amount is recognised as an impairment loss.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally-generated intangible assets are measured at cost less accumulated amortisation and impairment, and are amortised on a straight-line basis over their useful lives. For capitalised software development costs typical lives range from 3 - 5 years.

Investment property

Investment properties represent properties held to earn rentals or for capital appreciation or both. Investment properties exclude properties held to meet service delivery objectives of the State of Victoria.

Investment properties are initially recognised at cost. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the State.

Subsequent to initial recognition at cost, investment properties are revalued to fair value with changes in the fair value recognised as income or expense in the period that they arise. The properties are not depreciated.

Rental income from the leasing of investment properties is recognised in the operating statement on a straight-line basis over the lease term.

Impairment of assets

Goodwill and intangible assets with indefinite useful lives are tested annually as to whether their carrying value exceeds their recoverable amount. All other assets are assessed annually for indications of impairment, except for:

- inventories;
- assets arising from construction contracts;
- assets arising from employee benefits;
- deferred tax assets;
- financial assets;
- investment property that is measured at fair value;
- certain biological assets related to agricultural activity;
- certain deferred acquisition costs and intangible assets arising from an insurer's contractual rights; and
- non-current assets classified as held for sale.

If there is an indication of possible impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written-off by a charge to the operating statement except to the extent that the write-down can be debited to an asset revaluation reserve amount applicable to that class of asset.

It is deemed that, in the event of the loss of an asset, the future economic benefits arising from the use of the asset will be replaced unless a specific decision to the contrary has been made. The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs to sell. The recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

Revaluations

Assets other than those that are carried at cost are re-valued with sufficient regularity to ensure that the carrying amount of each asset does not differ materially from its fair value. This revaluation process normally occurs every five years. Revaluation increments or decrements arise from differences between an asset's depreciated cost or deemed cost and fair value.

Revaluation increments are credited directly to equity in the revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the net result, the increment is recognised as revenue (other economic flows) in determining the net result.

Revaluation decrements are recognised immediately as expenses (other economic flows) in the net result, except that, to the extent that a credit balance exists in the revaluation reserve in respect of the same class of assets, they are debited to the revaluation reserve.

Revaluation increments and decrements relating to individual assets within a class of property, plant and equipment are offset against one another within the same class of non-current assets but are not offset in respect of assets in different classes.

Revaluation reserves are not normally transferred to accumulated funds on derecognition of the relevant asset.

(J) Liabilities

Payables

The State has elected to apply the option available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* of adopting AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. Outlined below are the relevant accounting policies for payables for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for year ending 30 June 2006

Payables consist predominantly of creditors and other sundry liabilities.

Payables are carried at amortised cost and represent liabilities for goods and services provided to the State prior to the end of the financial year that are unpaid, and arise when the State becomes obliged to make future payments in respect of the purchase of these goods and services.

Accounting policies applicable for year ending 30 June 2005

Creditors and other sundry liabilities are recognised at the nominal amounts to be paid in the future for goods and services received, whether or not billed to the economic entity at the end of each reporting period.

Liabilities for derivative financial instruments are carried at fair value.

Interest-bearing liabilities

The State's interest-bearing liabilities mainly represent funds raised from the following sources:

- the residual amount outstanding for loans raised in previous years by the Commonwealth Government on behalf of the State;
- public borrowings mainly raised through the Treasury Corporation of Victoria; and
- finance leases.

The State has elected to apply the option available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* of adopting AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. Outlined below are the relevant accounting policies for interest-bearing liabilities for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for year ending 30 June 2006

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings held by the State are subsequently measured at fair value with gains and losses recognised in profit or loss.

For the general government sector and the public non-financial corporations sector, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Accounting policies applicable for year ending 30 June 2005

Interest bearing loans and borrowings are initially recognised at fair value. Subsequent to initial recognition, the interest-bearing liabilities are remeasured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits are measured based on their expected settlement. Provisions which are expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the State in respect of services provided by employees up to reporting date.

Regardless of the expected timing of settlement, provisions made in respect of employee benefits are classified as a current liability unless there is an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date, in which case it would be classified as a non-current liability. A non-current liability would include long service leave entitlements accrued for employees with less than seven years of continuous service (refer Note 27).

Superannuation

A liability or asset in respect of defined benefit superannuation is recognised and is measured as the difference between the present value of employees' accrued benefits at the reporting date and the net market value of the superannuation plan's assets at that date. The present value of accrued benefits is based on expected future payments which arise from membership of the plans to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using rates of Commonwealth Bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The amount charged to the operating statement in respect of superannuation represents the contributions made to the superannuation plan, adjusted by the movement in the defined benefit plan liability or surplus.

Insurance claims

The outstanding claims liability is independently assessed by actuaries. It covers claims reported but not yet paid, claims incurred but not yet reported, and the anticipated direct and indirect costs of settling those claims. The actuaries take into account projected inflation and other factors to arrive at expected future payments. These are then discounted at the reporting date using a market determined, risk free discount rate.

Other liabilities

Other liabilities mainly consist of unearned/prepaid income, goods and services tax and fringe benefits tax payables, and are initially recognised at fair value and subsequently remeasured at amortised cost.

Onerous contracts

An onerous contract is considered to exist where the State has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

The major onerous contractual obligation is for the supply of electricity to Victoria's aluminium smelters at Portland and Point Henry. A yearly review of the contract is undertaken to restate the liability taking into account the effects of market changes during the year relating to the National Electricity Market and assumptions including aluminium prices, with reference to electricity prices.

(K) Right to receive assets

The State has entered into a number of concession arrangements with independent private sector entities. These private sector entities typically lease land and sometimes State works, from the State and construct an asset. During the concession period the operator has the right to obtain revenue from services that utilise the asset and has the obligation to supply agreed upon services including maintenance of the asset. At the end of the concession period the land and State works, together with the constructed facilities will be returned to the State. In the literature these are sometimes referred to as Build, Own, Operate, Transfer arrangements.

Significant arrangements include the City Link network which charges tolls to motorists during the concession period which has a nominal term of 33.5 years expiring 15 January 2034 and East Link which will also be a tollway with a nominal term of 35 years expiring 30 November 2043.

There is currently no consistent or authoritative accounting guidance on the recognition or measurement of the right of the State to receive assets in the future from such concession arrangements. This matter is being considered by the accounting profession, in particular the International Financial Reporting Interpretations Committee (IFRIC), which is considering this matter as part of its review of accounting treatment for service concessions. A decision on the appropriate accounting treatment (for Australia) has been deferred until authoritative guidance is available internationally. Accordingly these assets are not recognised pending authoritative guidance or the development of relevant Australian accounting standards.

(L) Derecognition of financial assets and financial liabilities

The State has elected to apply the option available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* of adopting AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. Outlined below are the relevant accounting policies for derivative financial instruments and hedging for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for year ending 30 June 2006

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the State retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- the State has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Accounting policies applicable for year ending 30 June 2005

Financial assets

A financial asset is derecognised when the contractual right to receive or exchange cash no longer exists.

Financial liabilities

A financial liability is derecognised when the contractual obligation to deliver or exchange cash no longer exists.

(M) Accounting for the goods and services tax (GST)

Revenues, expenses and assets are recognised net of GST, except where the amount of GST incurred is not recoverable, in which case it is recognised as part of the cost of acquisition of an asset or part of an item of expense. GST receivable from and payable to the Australian Taxation Office is included in receivables and other liabilities.

The GST inclusive amount of a receipt or payment is recognised on a gross basis in the statement of cash flows in accordance with AASB107 *Statement of Cash Flows*.

(N) Disaggregated information

In Note 2, the State's consolidated financial information has been disaggregated among the following sectors:

- general government (GG);
- public non-financial corporations (PNFC); and
- public financial corporations (PFC).

This information is provided as there is dissimilarity between general government activities and those of the public entities in the public non-financial corporations and the public financial corporations sectors. Disclosure of this information is to assist users of this financial report in determining the effects of differing activities on the financial position of the State. It will also assist users in identifying the resources used in the provision of a range of goods and services, and the extent to which the State has recovered the costs of those resources from revenues attributable to those activities.

(O) Cash flow statement

For the purposes of the cash flow statement, cash comprises cash on hand, cash at bank, bank overdrafts and deposits at call, and highly liquid investments with short periods to maturity that are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

(P) Commitments

Commitments include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources and are stated at their nominal value.

(Q) Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

Contingent assets and contingent liabilities are:

- possible assets or liabilities that arise from past events which will be confirmed only by the occurrence or non-occurrence of future events not wholly within the control of the entity; or
- assets or liabilities which fail either or both of the recognition criteria. These are where the asset or liability is not probable, and the asset or liability cannot be reliably measured.

(R) Foreign currency balances/transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

(S) Derivative financial instruments

The State has elected to apply the option available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* of adopting AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. Outlined below are the relevant accounting policies for derivative financial instruments for years ending 30 June 2006 and 30 June 2005.

Definition

A derivative is a financial instrument whose value changes in response to the change in an underlying variable such as the interest rate, commodity or security price, or index, that requires little or no initial net investment, and that is settled at a future date.

Risk management

Certain state-controlled entities enter into derivative financial instruments to manage the financial risks inherent in the State's financial asset and liability management activities. Those entities principally use interest rate swaps, forward rate agreements, interest rate options and exchange-traded futures contracts to manage the risks relating to the State's interest rate exposures.

Currency swaps and foreign currency forward contracts are also entered into by certain entities controlled by the State to manage the currency risks relating to offshore funding and investment programs and to ensure that there is no material residual currency exposure.

Accounting policies applicable for year ending 30 June 2006

Basis of valuation

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

Accounting policies applicable for year ending 30 June 2005

Basis of valuation

Those derivative instruments used to manage interest rate risk are valued at the amount receivable or payable under each contract at the time of acquisition. Unrealised gains and losses associated with debt related derivatives are not recognised in the operating statement.

Premiums and discounts on interest rate derivatives are included in investments and borrowings and are included in the operating statement in alignment with the underlying transaction which is being managed.

Exchange traded options and futures contracts are entered into by certain public financial corporations to manage price fluctuations in domestic equities. Domestic options and futures contracts are regularly marked to market, using the settlement price from trading on public markets.

Options and futures contracts are also entered into by certain public financial corporations to manage price fluctuations in international equity investments. The contracts are valued using settlement prices at close of trading as per brokers' statements.

Receivables for derivative financial instruments are carried at fair value (and were included in the "Receivables" balance for the 30 June 2005 financial year).

Liabilities for derivative financial instruments are carried at fair value (and were included in the "Payables" balance for the 30 June 2005 financial year).

Recognition of gains and losses

On settlement, the realised gains and losses resulting from derivative instruments, such as futures contracts and forward rate agreements, are recognised in the operating statement. Currency, cross currency swaps and forward rate contracts used to manage currency risk are accounted for as stated in Note 32.

Stock lending

The issue of stock secured by the provision of substitute stock of an Australian Government, or semi-government authority, is accounted for at face value in the balance sheet as a current interest bearing liability and an equivalent amount, being the amount of stock to be paid back, is shown as current other financial assets.

Repurchase agreements

Securities sold or purchased under repurchase agreements are retained in the financial report and a counterparty asset or liability is disclosed under 'other financial assets' or 'interest bearing liabilities'. Interest on the counterparty loan or deposit is credited or charged to revenue or expenses respectively.

(T) Rounding

All amounts in the financial report have been rounded to the nearest hundred thousand dollars unless otherwise stated. Figures in the financial report may not add due to rounding.

(U) Transactions between wholly-owned public sector entities

Consistent with UIG abstract 38, *Contributions by Owners Made to Wholly owned Public Sector Entities*, transactions between wholly-owned public sector entities that satisfy the definition of contributions by owners are treated as contributions and distributions of capital. These transactions are netted out between the sectors in the balance sheet.

(V) Comparative information – financial instruments

The State has elected not to restate comparative information for financial instruments within the scope of AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*, as permitted on the first-time adoption of A-IFRS by AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards.*

Details of the accounting policies applied to financial instruments during the current year (those applicable under A-IFRS) and those during the comparative year (those applicable under previous A-GAAP) were outlined previously within the accounting policy disclosures by account type.

Effect of changing the accounting policies for financial instruments

The effect of changing the accounting policies for financial instruments on the opening balance sheet as at 1 July 2005 is included in Note 33.

The main adjustments necessary that would make the comparative financial statements comply with AASB 132 and AASB 139 include the following (similar adjustments were made at 1 July 2005 to restate the opening financial position of the State to the position under A-IFRS):

(i) the measurement of financial liabilities at amortised cost, rather than at cost in accordance with superseded policies;

(ii) the measurement of financial assets designated as available-for-sale at fair value, with changes in fair value recognised in equity, rather than at cost in accordance with the superseded policy;

(iii) the measurement of financial assets designated at fair value through profit or loss, with changes in fair value recognised in profit or loss, rather than at cost in accordance with the superseded policy; and

(iv) the recognition and measurement of derivative financial instruments in the Balance Sheet at fair value.

(W) Prospective policy changes

Land under roads

Under AASB 1045 *Land Under Roads: Amendments to AAS 27A (Amendments to the Transtional Provisions in AAS 27)*, *AAS 29A (Amendments to the Transtional Provisions in AAS 29) and AAS 31A (Amendments to the Transtional Provisions in AAS 31)* an entity may elect until the end of the first reporting period ending on or after 31 December 2006 not to recognise land under roads as assets. At the date of issuance of this financial report this date has not been extended and consequently land under roads will be required to be reported in 2006-07. However, at this time no valuation principles have been issued by the AASB.

(X) AASB Accounting standards not yet effective

AASB 7 Financial Instruments Disclosures

This Standard has been issued by the AASB but has not been adopted. It will result in a change to accounting policy as follows:

(i) broaden the scope of financial instrument disclosures covered under the Standard to include financial instruments originally covered by AASB 130 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions;*

(ii) enhance balance sheet and operating statement disclosures; and

(iii) prescribe both quantitative and qualitative disclosures about entities' exposures to risks arising from financial instruments, and minimum disclosures about credit risks, liquidity risks and market risks.

The standard is applicable to annual reporting periods beginning on or after 1 January 2007 but adoption is permitted for annual reporting periods beginning on or after 1 January 2005.

It is expected that Victorian reporting entities will adopt this standard for reporting period commencing on or after 1 July 2006.

GAAP/GFS Convergence

In September 2006, the AASB issued Accounting Standard AASB 1049 *Financial Reporting of General Government Sectors by Governments* to converge Australian Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) reporting. This was in response to the Financial Reporting Council's strategic direction for the AASB to address concerns about the current lack of uniformity in the presentation of government consolidated financial statements in Australia. Some Australian jurisdictions, like Victoria, highlight their financial results under GAAP, whilst others highlight their results under the GFS basis. The intent of the convergence is to achieve an Australian accounting standard that will result in a single set of government consolidated reports comparable between all jurisdictions and will include key features of the GFS framework in Australian GAAP. This standard, applying this converged approach to financial reports for the General Government Sector, is applicable from 1 July 2008. Early adoption of the standard is permissible, however Victoria is yet to fully assess the potential impacts of exercising this option.

Note 2. Disaggregated information

Disaggregated operating statement for the year ended 30 June 2006

($ million)

	General government sector		*Public non-financial corporations*	
	2006	*2005*	*2006*	*2005*
Income from transactions				
Taxation	10 885.4	10 414.9	..	..
Fines and regulatory fees	713.8	652.3	16.1	11.4
Dividends and income tax equivalent and rate equivalent revenue	1 009.2	948.2	25.3	33.6
Interest	390.5	337.3	129.1	142.1
Grants	14 624.3	13 452.0	1 691.0	1 307.6
Sale of goods and services	2 526.3	2 366.1	3 309.8	3 029.2
Fair value of assets received free of charge or for nominal consideration	32.0	16.0	186.7	191.0
Other income	1 790.4	1 607.3	342.7	570.8
Total income from transactions	**31 972.0**	**29 794.1**	**5 700.6**	**5 285.8**
Expenses from transactions				
Employee benefits	11 473.5	10 734.2	621.4	575.5
Superannuation	1 917.2	1 636.2	50.8	47.4
Depreciation and amortisation	1 279.3	1 165.7	841.6	769.1
Finance costs	473.6	474.2	368.3	355.5
Capital assets charge	..	..	777.6	599.2
Grants and transfer payments	5 794.8	5 182.3	108.9	29.6
Supplies and services	10 165.4	9 386.2	2 475.6	2 182.1
Other expenses	43.7	41.7	11.4	11.9
Total expenses from transactions	**31 147.5**	**28 620.5**	**5 255.7**	**4 570.5**
Net result from transactions	**824.5**	**1 173.6**	**445.0**	**715.4**
Income/(expenses) from other economic flows				
Net gain/(loss) from disposal of physical assets	(53.3)	(25.4)	(20.4)	(2.6)
Actuarial gains/(losses) of superannuation defined benefit plans	2 420.9	(1 534.0)	14.1	(7.0)
Share of net profits of associates and joint venture entities	132.3	(1.8)	15.8	8.8
Net gains/(losses) on financial assets at fair value	7.0	(11.1)	236.3	6.0
Other gains/(losses) from other economic flows	590.4	(58.2)	(129.3)	39.2
Total other economic flows	**3 097.2**	**(1 630.5)**	**116.4**	**44.4**
Net result [(a)]	**3 921.7**	**(456.9)**	**561.4**	**759.8**

Note:

(a) Consistent with relevant accounting standards, revenues and expenses within each sector do not include contributions by owners. During 2005-06, general government sector redeemed $600 million of contributed capital held by the Transport Accident Commission (an entity within the public financial corporations sector). This transaction and other contributed capital transfers have been reflected in the asset and equity balances of these two sectors at 30 June 2006 and are also reflected in the general government sector cash flow statement as net contributions to other sectors.

Note 2. Disaggregated information (continued)

Disaggregated operating statement for the year ended 30 June 2006

($ million)

Public financial corporations		*Inter-sector eliminations*		*Consolidated*	
2006	*2005*	*2006*	*2005*	*2006*	*2005*
..	..	(133.1)	(132.6)	10 752.3	10 282.3
6.2	7.8	..	..	736.2	671.5
494.5	421.1	(1 008.6)	(945.3)	520.5	457.6
1 278.1	1 256.4	(734.1)	(734.6)	1 063.6	1 001.2
5.7	5.1	(1 778.8)	(1 371.1)	14 542.1	13 393.7
2 937.4	2 985.3	(529.4)	(498.2)	8 244.2	7 882.4
..	..	(20.0)	(20.0)	198.7	187.0
26.8	32.7	(799.4)	(790.5)	1 360.5	1 420.4
4 748.8	**4 708.4**	**(5 003.3)**	**(4 492.3)**	**37 418.1**	**35 296.1**
193.4	175.3	(41.0)	(36.3)	12 247.3	11 448.7
17.1	15.6	..	..	1 985.1	1 699.2
14.7	11.8	..	..	2 135.6	1 946.6
946.3	950.9	(772.4)	(683.2)	1 015.8	1 097.5
..	..	(777.6)	(599.2)	..	..
7.1	6.6	(1 770.5)	(1 358.6)	4 140.3	3 859.9
3 551.6	3 522.2	(1 410.1)	(1 378.5)	14 782.5	13 712.0
..	(0.2)	..	..	55.1	53.4
4 730.2	**4 682.2**	**(4 771.6)**	**(4 055.7)**	**36 361.8**	**33 817.3**
18.6	**26.2**	**(231.8)**	**(436.5)**	**1 056.3**	**1 478.7**
(0.3)	..	..	..	(74.0)	(28.0)
..	..	..	..	2 435.0	(1 541.0)
..	..	..	..	148.0	7.0
1 650.1	1 332.0	..	..	1 893.4	1 326.9
(43.3)	(22.8)	..	143.9	417.8	102.2
1 606.5	**1 309.3**	**..**	**143.9**	**4 820.1**	**(132.9)**
1 625.1	**1 335.5**	**(231.8)**	**(292.6)**	**5 876.4**	**1 345.8**

Note 2. Disaggregated information (continued)

Disaggregated balance sheet as at 30 June 2006

($ million)

	General government sector		*Public non-financial corporations*	
	2006	*2005*	*2006*	*2005*
Current assets				
Cash and cash equivalents	2 698.2	1 821.1	532.3	518.7
Receivables	1 877.3	2 020.8	532.2	660.1
Prepayments	102.6	67.0	34.9	36.8
Inventories	135.8	125.5	565.1	589.1
Other financial assets	1 700.2	2 151.1	707.9	735.6
	6 514.0	**6 185.5**	**2 372.3**	**2 540.4**
Non-current assets classified as held for sale	59.2	47.7	0.2	..
Total current assets	**6 573.3**	**6 233.2**	**2 372.5**	**2 540.4**
Non-current assets				
Receivables	391.0	329.8	526.1	1 054.5
Investments accounted for using the equity method	602.6	433.0	376.2	291.2
Other financial assets	462.0	395.1	357.8	85.4
Property, plant and equipment	55 953.8	52 745.8	38 748.3	37 375.4
Intangibles	159.6	141.7	127.0	94.9
Other assets	237.1	260.1	106.4	91.7
Total non-current assets	**57 806.1**	**54 305.5**	**40 241.8**	**38 993.1**
Total assets	**64 379.4**	**60 538.7**	**42 614.3**	**41 533.5**
Current liabilities				
Payables	2 415.5	2 125.0	641.1	616.9
Interest-bearing liabilities	311.0	323.3	439.8	361.5
Employee benefits	2 701.1	2 310.8	139.4	139.0
Superannuation	..	38.8	5.3	5.1
Other provisions	155.3	193.7	200.4	180.8
Other liabilities	413.2	399.9	67.5	170.5
Total current liabilities	**5 996.0**	**5 391.6**	**1 493.5**	**1 473.8**
Non-current liabilities				
Payables	526.6	1 150.4	12.2	19.3
Interest-bearing liabilities	5 869.4	5 533.1	4 106.2	3 807.7
Employee benefits	728.1	896.8	58.8	47.0
Superannuation	12 896.5	15 249.0	32.4	51.8
Other provisions	580.6	568.9	606.3	944.4
Other liabilities	257.1	241.2	1 784.3	1 577.8
Total non-current liabilities	**20 858.3**	**23 639.4**	**6 600.3**	**6 448.0**
Total liabilities	**26 854.3**	**29 031.0**	**8 093.7**	**7 921.8**
Net assets	**37 525.1**	**31 507.7**	**34 520.6**	**33 611.7**
Equity				
Reserves	22 540.4	20 465.4	9 810.1	9 933.7
Accumulated funds	14 984.7	11 042.3	24 710.5	23 678.0
Total equity	**37 525.1**	**31 507.7**	**34 520.6**	**33 611.7**

Note 2. Disaggregated information (continued)

Disaggregated balance sheet as at 30 June 2006

($ million)

Public financial corporations		*Inter-sector eliminations*		*Consolidated*	
2006	*2005*	*2006*	*2005*	*2006*	*2005*
1 025.5	617.6	(1 673.1)	(941.2)	2 582.8	2 016.2
1 386.6	1 355.9	(1 135.7)	(1 314.5)	2 660.4	2 722.3
28.2	52.9	..	..	165.8	156.7
..	..	..	..	700.8	714.6
6 390.9	6 460.0	(1 175.4)	(1 724.0)	7 623.5	7 622.7
8 831.2	**8 486.4**	**(3 984.3)**	**(3 979.6)**	**13 733.3**	**13 232.6**
..	..	..	..	59.4	47.7
8 831.2	**8 486.4**	**(3 984.3)**	**(3 979.6)**	**13 792.7**	**13 280.3**
8 627.9	8 268.3	(7 993.9)	(8 272.0)	1 551.1	1 380.6
..	..	..	..	978.7	724.2
18 365.0	16 529.6	(12.2)	(24.0)	19 172.7	16 986.1
43.6	36.6	(3.3)	0.8	94 742.4	90 158.6
12.2	10.5	..	..	298.8	247.0
454.7	428.3	(534.0)	(464.4)	264.3	315.8
27 503.4	**25 273.2**	**(8 543.3)**	**(8 759.6)**	**117 008.0**	**109 812.3**
36 334.6	**33 759.6**	**(12 527.6)**	**(12 739.2)**	**130 800.7**	**123 092.6**
686.3	651.2	(105.3)	(219.6)	3 637.6	3 173.5
7 273.6	5 621.8	(3 368.3)	(3 152.5)	4 656.1	3 154.1
45.8	22.4	..	..	2 886.2	2 472.3
..	..	..	..	5.3	43.9
2 107.9	1 901.6	..	..	2 463.5	2 276.2
850.8	724.9	(91.3)	(256.0)	1 240.3	1 039.3
10 964.4	**8 921.8**	**(3 564.8)**	**(3 628.0)**	**14 889.0**	**12 159.3**
0.2	0.3	(412.3)	(923.0)	126.7	247.0
9 430.2	10 400.4	(8 008.0)	(7 752.1)	11 397.9	11 989.1
5.8	22.4	..	..	792.7	966.2
..	..	..	..	12 928.9	15 300.8
12 322.5	11 107.7	..	(17.0)	13 509.4	12 603.9
537.7	478.9	(2 147.4)	(1 949.9)	431.8	347.9
22 296.4	**22 009.7**	**(10 567.6)**	**(10 642.0)**	**39 187.3**	**41 455.0**
33 260.8	**30 931.5**	**(14 132.5)**	**(14 270.0)**	**54 076.3**	**53 614.3**
3 073.8	**2 828.1**	**1 604.9**	**1 530.8**	**76 724.4**	**69 478.3**
142.9	121.2	..	..	32 493.4	30 520.3
2 930.9	2 706.9	1 604.9	1 530.8	44 231.0	38 958.0
3 073.8	**2 828.1**	**1 604.9**	**1 530.8**	**76 724.4**	**69 478.3**

Note 3. Taxation

($ million)	State of Victoria		General government sector	
	2006	*2005*	*2006*	*2005*
Payroll tax	**3 260.5**	**3 008.7**	**3 301.5**	**3 045.0**
Taxes on immovable property				
Land tax	762.3	807.9	780.1	847.8
Congestion levy	19.1	..	19.1	..
Metropolitan improvement levy	93.8	89.8	93.8	89.8
Property owner contributions to fire brigades	38.4	36.2	38.4	36.2
Total taxes on immovable property	**913.6**	**933.8**	**931.4**	**973.8**
Financial and capital transactions				
Land transfer duty	2 671.2	2 337.2	2 671.2	2 337.2
Rental business duty	56.9	54.7	56.9	54.7
Mortgage duty	..	13.5	..	13.5
Other property duties	8.0	8.4	8.0	8.4
Debits tax [(a)]	22.3	265.9	22.3	265.9
Financial accommodation levy	..	..	13.1	10.9
Total financial and capital transactions	**2 758.4**	**2 679.7**	**2 771.4**	**2 690.6**
Levies on statutory corporations	**..**	**..**	**60.2**	**44.6**
Gambling taxes				
Private lotteries	316.2	304.1	316.2	304.1
Electronic gaming machines	911.1	840.9	911.1	840.9
Casino	113.7	107.1	113.7	107.1
Racing	114.0	113.2	114.0	113.2
Other	5.0	3.7	5.0	3.7
Total gambling taxes	**1 459.9**	**1 369.0**	**1 459.9**	**1 369.0**
Taxes on insurance	**1 048.3**	**996.7**	**1 048.3**	**996.7**
Motor vehicle taxes				
Vehicle registration fees	693.8	665.1	694.8	666.0
Duty on vehicle registrations and transfers	546.9	555.6	546.9	555.6
Total motor vehicle taxes	**1 240.7**	**1 220.7**	**1 241.8**	**1 221.6**
Other taxes	**70.9**	**73.7**	**70.9**	**73.7**
Total taxation	**10 752.3**	**10 282.3**	**10 885.4**	**10 414.9**

Note:

(a) Debits tax was abolished on 1 July 2005. Revenue in 2006 represents carryover amounts from the previous year.

Note 4. Fines and regulatory fees

($ million)	State of Victoria		General government sector	
	2006	*2005*	*2006*	*2005*
Fines	386.2	337.5	383.3	333.8
Motor vehicle regulatory fees	118.9	112.5	118.9	112.5
Other regulatory fees	231.1	221.5	211.6	206.0
Total fines and regulatory fees	**736.2**	**671.5**	**713.8**	**652.3**

Note 5. Dividends and income tax equivalent and rate equivalent revenue

($ million)

	State of Victoria		General government sector	
	2006	2005	2006	2005
Dividends	520.5	457.6	593.2	499.9
Income tax equivalent and rate equivalent revenue	..	..	416.0	448.2
Total dividends and income tax equivalent and rate equivalent revenue	**520.5**	**457.6**	**1 009.2**	**948.2**

Dividends and income tax equivalents of the general government sector are sourced from government business enterprises.

Note 6. Grants

($ million)

	State of Victoria		General government sector	
	2006	2005	2006	2005
Operating grants				
General purpose grants	8 120.3	7 533.9	8 120.3	7 533.9
Specific purpose grants for on-passing	1 662.6	1 597.5	1 662.6	1 597.5
Other specific purpose grants	4 127.7	3 714.7	4 136.8	3 737.7
Total operating grants	**13 910.6**	**12 846.1**	**13 919.7**	**12 869.1**
Capital grants				
Specific purpose grants for on-passing	159.9	126.7	159.9	126.7
Other specific purpose grants	471.7	420.8	544.8	456.2
Total capital grants	**631.5**	**547.6**	**704.6**	**582.9**
Total grants	**14 542.1**	**13 393.7**	**14 624.3**	**13 452.0**

Specific purpose grants for on-passing represent grants made by the Commonwealth Government to State Governments that are then passed on to third parties, such as non-government schools and local governments.

Note 7. Sale of goods and services

($ million)

	State of Victoria		General government sector	
	2006	2005	2006	2005
Sale of goods	321.2	300.3	30.0	32.6
Provision of services	7 923.0	7 582.0	2 496.3	2 333.5
Total sale of goods and services	**8 244.2**	**7 882.4**	**2 526.3**	**2 366.1**

Note 8. Fair value of assets received free of charge or for nominal consideration

($ million)

	State of Victoria		General government sector	
	2006	2005	2006	2005
Plant and equipment	1.0	1.0	2.2	1.0
Land and buildings	11.5	9.6	19.2	4.4
Other	186.1	176.4	10.7	10.6
Total fair value of assets received free of charge or for nominal consideration	**198.7**	**187.0**	**32.0**	**16.0**

Note 9. Other income from transactions

($ million)

	State of Victoria		General government sector	
	2006	2005	2006	2005
Inter-sector capital asset charge	..	..	777.4	599.0
Royalties	32.7	31.7	30.5	28.8
Rents	65.3	60.5	17.1	16.7
Donations and gifts	195.6	172.5	181.0	155.1
Other non-property rental	3.1	4.7	2.1	2.7
Other miscellaneous income [(a)]	1 063.8	1 151.0	782.2	805.0
Total other income	**1 360.5**	**1 420.4**	**1 790.4**	**1 607.3**

Note:

(a) Other miscellaneous income mainly comprises:

- *$782.2 million sourced from the general government sector, represented by locally raised funds to schools, hospitals and art institutions, unclaimed monies and refunds received by various departments (2005: $805 million);*
- *$251.3 million sourced from the public non-financial corporations sector, represented by contributions from developers to water authorities (2005: $208.3 million); and*
- *within the public financial corporations sector, revenue of $18.1 million recovered from self insurers by the Victorian WorkCover Authority (2005: $24.0 million).*

Note 10. Superannuation

Superannuation expense

Superannuation expense includes employer contributions to defined contribution superannuation schemes for the benefit of existing employees, and the actuarially determined expense for defined benefit superannuation schemes.

Superannuation liability

The liability for employee superannuation entitlements is the responsibility of the State's public sector superannuation schemes. These schemes are not consolidated in the Financial Report for the State of Victoria, as they are not 'controlled' by the State. However, the major proportion of the unfunded superannuation liability is the responsibility of the State and is recognised accordingly.

Each year, an actuarial valuation of members' accrued benefits is undertaken as at the reporting date. Accrued benefits are measured as the net present value of estimated future benefit payments to members arising from their membership of the scheme up to the reporting date. The deficit of accrued benefits over the net market value of scheme assets (i.e. the unfunded liability) has been recognised as a liability in the balance sheet.

Of the $12.9 billion in unfunded superannuation liabilities recognised on the State's balance sheet, more than 99 per cent is recorded in the general government sector.

Unfunded liabilities of agencies for which the State is not responsible, such as universities, are not reflected in the balance sheet.

(a) Superannuation expense recognised in the operating statement

($ million)

	State of Victoria	
	2006	*2005*
Defined benefit plans		
Current service cost [(a)]	658.2	588.7
Recognition of past service cost [(a)]	179.4	..
Interest cost [(a)]	1 525.4	1 455.6
Expected return on plan assets (net of expenses) [(a)]	(1 043.5)	(831.3)
Amortisation of past service cost [(a)]	(14.5)	(198.4)
Actuarial (gains)/losses [(b)]	(2 435.0)	1 541.0
Total expense recognised in respect of defined benefit plans	**(1 129.9)**	**2 555.7**
Defined contribution plans		
Employer contributions to defined contribution plans [(a)]	640.4	646.4
Other (including pensions) [(a)]	39.7	38.2
Total expense recognised in respect of defined contribution plans	**680.1**	**684.6**
Total superannuation expense recognised in operating statement	**(449.8)**	**3 240.2**

Notes:

(a) *Superannuation expense from transactions.*

(b) *Superannuation expense from other economic flows.*

(b) Reconciliation of the present value of the defined benefit obligation

($ million)

	State of Victoria	
	2006	*2005*
Opening balance of defined benefit obligation	**30 185.4**	**27 032.7**
Current service cost	658.2	588.7
Interest cost	1 525.4	1 455.6
Recognition of past service cost	222.2	(198.4)
Contributions by plan participants	245.6	222.6
Actuarial (gains)/losses	(940.2)	2 474.3
Benefits paid	(1 544.2)	(1 390.2)
Closing balance of defined benefit obligation	**30 352.3**	**30 185.4**

(c) Reconciliation of the fair value of superannuation plan assets

($ million)

	State of Victoria	
	2006	*2005*
Opening balance of plan assets	**14 908.9**	**13 016.7**
Expected return on plan assets	1 043.5	831.3
Recognition of past service cost	42.7	..
Actuarial gains/(losses)	1 494.7	933.3
Employer contributions	1 280.8	1 295.3
Contributions by plan participants	245.6	222.6
Benefits paid (including tax paid)	(1 544.2)	(1 390.2)
Closing balance of plan assets	**17 471.9**	**14 909.0**

(d) Reconciliation of the superannuation liabilities

($ million)

	State of Victoria	
	2006	*2005*
ESSS (including SSF)		
Defined benefit obligation	27 790.3	27 493.0
Tax liability [(a)]	818.0	985.4
Plan assets	(16 200.4)	(13 760.0)
Unrecognised past service cost [(b)]	53.7	68.2
Net liability/(asset)	**12 461.6**	**14 786.6**
Other funds [(c)]		
Defined benefit obligation	1 728.7	1 704.0
Tax liability [(a)]	15.3	3.0
Plan assets	(1 271.5)	(1 148.8)
Unrecognised past service cost [(b)]	..	..
Net liability/(asset)	**472.5**	**558.2**
Total unfunded superannuation		
Defined benefit obligation	29 519.0	29 197.0
Tax liability [(a)]	833.3	988.4
Plan assets	(17 471.9)	(14 908.9)
Unrecognised past service cost [(b)]	53.7	68.2
Unfunded superannuation liability	**12 934.1**	**15 344.7**
Represented by:		
Current liability	5.3	43.9
Non-current liability	12 928.9	15 300.8

Notes:

(a) The tax liability represents the present value of expected future tax payments, relating to both investment tax and contributions tax.

(b) Past service cost arises due to a change in benefits payable. This cost is recognised as an expense over the period until the benefits become vested.

(c) Other funds include constitutionally protected schemes, the Parliamentary Contributory Superannuation Fund and the State's share of liabilities of the Defined Benefit Scheme of the Health Super Fund.

The above table shows the financial position of the State's share of liabilities in defined benefits schemes for which it is responsible.

Superannuation assumptions for 2005

Victorian statutory superannuation funds	*Actuary*	*Financial assumptions*	*Not later than 1 year*	*Later than 1 year*
			Per cent	*Per cent*
State Superannuation Fund	Mercer [(a)]	Expected return on assets [(b)]	7.5	7.5
		Discount rate	5.22	5.22
		Wages growth [(c)]	4	4
		Inflation rate	2.5	2.5
Emergency Services Superannuation Scheme	Mercer [(a)]	Expected return on assets [(b)]	7.5	7.5
		Discount rate	5.22	5.22
		Wages growth [(c)]	4	4
		Inflation rate	2.5	2.5
Constitutionally Protected Schemes		Discount rate	7	7
		Wages growth [(c)]	4	4
		Inflation rate	n/a	n/a
Parliamentary Contributory Superannuation Scheme [(d)]	Mercer [(a)]	Expected return on assets [(b)]	8	8
		Discount rate	5.22	5.22
		Wages growth [(c)]	4	4
		Inflation rate	4	4
Health Super Fund	Mercer [(a)]	Expected return on assets [(b)]	6.5	6.5
		Discount rate	5.22	5.22
		Wages growth [(c)]	4.5	4
		Inflation rate	2.5	2.5

Notes:

(a) Mercer Human Resource Consulting Pty Ltd.

(b) This rate is stated gross of tax. Allowance for tax is made in the calculation process to reflect the taxes expected to be payable by each scheme.

(c) Wages growth in this table are actuarial assumptions and do not reflect the Government's wages policy.

(d) Parliamentary salaries are determined by reference to equivalent salaries in the Commonwealth Parliament.

Superannuation assumptions for 2006

Victorian statutory superannuation funds	*Actuary*	*Financial assumptions*	*Per cent per annum*
Emergency Services Superannuation Scheme (incorporating the former State Superannuation Fund)	Mercer [(a)]	Expected return on assets [(b)]	8.00
		Discount rate [(c)]	5.88
		Wages growth [(d)]	4.00
		Inflation rate	2.50
Constitutionally Protected Schemes		Discount rate [(c)]	5.88
		Wages growth [(d)]	4.00
		Inflation rate	n/a
Parliamentary Contributory Superannuation Fund [(e)]	Mercer [(a)]	Expected return on assets [(b)]	8.00
		Discount rate [(c)]	5.88
		Wages growth [(d)]	4.00
		Inflation rate	n/a
Health Super Fund	Mercer [(a)]	Expected return on assets [(b)]	6.00
		Discount rate [(c)]	5.88
		Wages growth [(d)]	4.00
		Inflation rate	2.50

Notes:
(a) Mercer Human Resource Consulting Pty Ltd.
(b) The expected return on assets stated is gross of tax. This rate is adjusted in the calculation process to reflect the assumed rate of tax payable by each scheme.
(c) In accordance with accounting standards, the discount rate is based on a long term Commonwealth bond rate. The rate stated above is an annual effective rate, gross of tax.
(d) Wages growth in this table are actuarial assumptions and do not reflect the Government's wages policy.
(e) Parliamentary salaries are determined by reference to equivalent salaries in the Commonwealth Parliament.

The expected return on assets, as shown above, is determined by weighting the expected long-term return for each asset class (as depicted in the table below) by the target allocation of assets to each class.

Asset class	*Per cent*
Domestic equity	33.7
International equity	26.0
Domestic debt assets	12.6
International debt assets	3.7
Property	6.5
Cash	8.7
Other (inc. private equity, hedge funds and infrastructure)	8.8
Total	**100.0**

Note 11. Depreciation and amortisation

($ million)

	State of Victoria		*General government sector*	
	2006	*2005*	*2006*	*2005*
Depreciation				
Buildings	585.4	511.6	360.0	304.7
Plant, equipment and infrastructure systems	993.3	961.8	437.2	450.5
Road networks	300.4	286.8	297.3	282.5
Other assets	50.3	35.3	49.8	30.4
Total depreciation	**1 929.4**	**1 795.5**	**1 144.3**	**1 068.1**
Amortisation				
Leased plant and equipment	82.9	72.3	46.0	42.5
Leasehold improvements	47.1	38.9	42.8	37.6
Intangible produced assets	76.2	40.0	46.2	17.5
Total amortisation	**206.2**	**151.1**	**135.0**	**97.6**
Total depreciation and amortisation	**2 135.6**	**1 946.6**	**1 279.3**	**1 165.7**

Note 12. Finance costs

($ million)

	State of Victoria		*General government sector*	
	2006	*2005*	*2006*	*2005*
Interest on long-term interest-bearing liabilities	693.8	715.2	331.5	402.0
Interest on short-term interest-bearing liabilities	81.2	96.1	10.2	8.2
Finance charges on finance leases	137.5	121.4	43.8	39.5
Discount interest on payables	53.3	73.3	59.6	0.2
Fees and other finance costs	50.0	91.5	28.5	24.3
Total finance costs	**1 015.8**	**1 097.5**	**473.6**	**474.2**

Note 13. Grants and transfer payments

($ million)

	State of Victoria		*General government sector*	
	2006	*2005*	*2006*	*2005*
Commonwealth Government	67.4	58.1	67.2	58.0
Local Government	552.3	519.3	552.3	519.3
Private sector	3 502.9	3 260.5	3 429.6	3 231.3
Grants within the Victorian Government	..	..	1 727.9	1 351.8
Other	17.8	22.0	17.8	22.0
Total grants and transfer payments	**4 140.3**	**3 859.9**	**5 794.8**	**5 182.3**

Note 14. Supplies and services

($ million)

	State of Victoria		General government sector	
	2006	*2005*	*2006*	*2005*
Purchase of supplies and consumables	8 976.9	8 367.6	5 419.9	4 761.3
Purchase of services	4 597.3	3 963.9	3 926.2	3 606.8
Maintenance	874.5	784.1	535.4	472.2
Operating lease payments	296.0	240.4	239.6	190.1
Assets and other resources provided free of charge	26.8	327.5	33.4	344.7
Other	10.9	28.4	10.9	11.0
Total supplies and services	**14 782.5**	**13 712.0**	**10 165.4**	**9 386.2**

Supplies and services represent the day-to-day running costs incurred in the normal operation of controlled entities.

Audit fees charged by the Victorian Auditor General's Office for the financial audit of Victorian public sector entities amounted to $16.9 million. (2005: $14.3 million).

Note 15. Total expenses from transactions by sector

($ million)

	2006	*2005*
Expenses from transactions		
Parliament	105.7	116.0
Education and Training	9 044.4	8 562.0
Human Services	11 594.7	10 745.0
Infrastructure	3 636.2	3 412.3
Innovation, Industry and Regional Development	413.2	342.1
Justice	2 925.5	2 529.5
Premier and Cabinet	510.9	461.7
Primary Industries	412.0	350.5
Sustainability and Environment	1 053.8	974.0
Treasury and Finance	2 186.1	1 945.6
Victorian Communities	1 047.7	862.3
Regulatory bodies and other part budget funded agencies	1 140.9	1 023.0
Eliminations within general government (a)	*(2 923.7)*	*(2 703.6)*
Total general government sector	**31 147.5**	**28 620.5**
Public non-financial corporations	5 255.7	4 570.5
Public financial corporations	4 730.2	4 682.2
Eliminations for whole of government (a)	*(4 771.6)*	*(4 055.7)*
Total expenses from transactions	**36 361.8**	**33 817.3**

Note:

(a) Mainly comprises payroll tax, capital asset charge and inter-departmental and inter-agency transfers.

Note 16. Net gain/(loss) from disposal of physical assets

($ million)

	State of Victoria		General government sector	
	2006	2005	2006	2005
Proceeds from disposal of physical assets	199.7	244.6	130.9	175.1
Written down value of assets sold/(disposed)	(273.7)	(272.6)	(184.2)	(200.5)
Net gain/(loss) from disposal of physical assets	**(74.0)**	**(28.0)**	**(53.3)**	**(25.4)**

Note 17. Investments accounted for using the equity method

(a) Shares in associates

Snowy Hydro Ltd is incorporated and listed in Australia. Snowy Hydro Ltd is a public company, which owns and operates the Snowy Mountain Hydro-Electric Scheme as an independent electricity generator within the National Electricity Market.

(i) Carrying amounts

($ million)

Name of company	*Ownership interest %*		*State of Victoria $ million*	
	2006	*2005*	*2006*	*2005*
Snowy Hydro Ltd	29.0	29.0	376.1	360.3
			376.1	**360.3**

(ii) Movements in carrying amounts

($ million)

	State of Victoria	
	2006	*2005*
Carrying amount at the beginning of the period	360.3	351.5
Share of profits after income tax	36.1	40.7
Dividends received / receivable	(20.3)	(31.9)
Carrying amount at the end of the period	**376.1**	**360.3**

(b) Interest in joint venture partnerships

(i) Carrying amounts

($ million)

Name of company	*Ownership interest %*		*State of Victoria $ million*	
	2006	*2005*	*2006*	*2005*
Murray-Darling Basin Commission	26.7	26.7	587.6	363.9
The Australian Regenerative Medicine Institute	50.0	..	15.0	..
			602.6	**363.9**

(ii) Movements in carrying amounts

($ million)

	State of Victoria	
	2006	*2005*
Carrying amount at the beginning of the period	363.9	365.7
Joint venture undertaken during the year	15.0	..
Share of profits after income tax	132.2	(1.8)
Share of increment on revaluation of property, plant and equipment	91.4	..
Carrying amount at the end of the period	**602.6**	**363.9**

The State's share of the capital commitments, contingent liabilities and other expenditure commitments of its associates and joint venture arrangements are disclosed in Notes 34 and 35 respectively.

Note 18. Other gains/(losses) from other economic flows

($ million)

	State of Victoria		*General government sector*	
	2006	*2005*	*2006*	*2005*
Net gain/(loss) from revaluation of biological assets	0.7	(95.9)	2.7	(98.2)
Net (increase)/decrease in provision for doubtful receivables	(19.8)	(36.2)	(17.7)	(163.8)
Amortisation of intangible non-produced assets	(6.9)	(0.6)	(3.1)	..
Other gains/(losses)	443.8	234.9	608.5	203.9
Total other gains/(losses) from other economic flows	**417.8**	**102.2**	**590.4**	**(58.2)**

Note 19. Receivables

($ million)	State of Victoria		General government sector	
	2006	*2005*	*2006*	*2005*
Current receivables				
Sale of goods and services	905.1	927.7	448.2	410.5
Taxes receivable	532.9	666.7	536.4	669.6
Fines and regulatory fees	732.8	631.4	732.8	631.4
Accrued investment income	183.3	183.0	102.7	254.8
Loans	117.3	146.4	12.0	29.5
Other receivables	328.1	382.1	165.7	200.1
GST input tax credits recoverable	294.4	245.1	252.6	208.9
Provision for doubtful receivables	*(433.6)*	*(460.1)*	*(373.2)*	*(383.8)*
Total current receivables	**2 660.4**	**2 722.3**	**1 877.3**	**2 020.8**
Non-current receivables				
Sale of goods and services	64.5	87.1	15.7	32.9
Taxes receivable [(a)]	219.6	166.8	219.6	166.8
Loans	884.3	823.8	57.6	75.7
Other receivables	393.4	321.6	105.7	63.8
Provision for doubtful receivables	*(10.7)*	*(18.6)*	*(7.6)*	*(9.3)*
Total non-current receivables	**1 551.1**	**1 380.6**	**391.0**	**329.8**
Total receivables	**4 211.5**	**4 102.9**	**2 268.3**	**2 350.6**

Note:

(a) *Non-current taxes receivable represent the concession fees payable by Transurban City Link Limited to the State. Valuation of these fees in 2004-05 is based on non-deductibility for income tax purposes. An appeal to the High Court of Australia in 2005-06 determined that the fees would be now deductible. The value of the fees would have increased by $23.7 million to $190.5 million if the basis of the deductibility had applied to 2004-05.*

Note 20. Inventories

($ million)	State of Victoria		General government sector	
	2006	*2005*	*2006*	*2005*
Current inventories (at cost)				
Raw materials	13.6	17.1	7.3	10.5
Work in progress	12.2	16.4	2.7	1.3
Finished goods	40.3	30.3	15.1	8.2
Consumable stores	89.8	84.6	78.2	73.8
Land and other assets held as inventory	510.3	531.5	27.6	24.9
Current inventories (net realisable value)				
Raw materials	5.7	5.6	..	0.1
Finished goods	20.5	19.3	0.1	..
Consumable stores	7.8	8.3	4.8	6.6
Land and other assets held as inventory	0.6	1.6	..	..
Total current inventories	**700.8**	**714.6**	**135.8**	**125.5**

Reconciliation of movements in land and other assets held as inventory

($ million)

	State of Victoria 2006	*2005*
Opening balance	533.1	550.8
Acquisitions	0.1	102.8
Assets transferred	3.3	(18.5)
Revaluations	(24.3)	0.6
Disposals	(1.3)	(102.7)
Closing balance	**510.8**	**533.1**

Note 21. Other financial assets

($ million)

	State of Victoria		*General government sector*	
	2006	*2005* [(a)]	*2006*	*2005* [(a)]
Current other financial assets				
Shares	52.3	36.6	39.2	26.9
Australian dollar term deposits	883.5	1 193.8	1 347.9	1 823.3
Foreign currency term deposits	51.6	63.4	..	..
Debt securities and other placements	6 210.2	6 329.0	313.1	300.9
Derivative financial instruments	425.9	..	..	..
Provision for diminution	..	..	..	..
Total current other financial assets	**7 623.5**	**7 622.7**	**1 700.2**	**2 151.1**
Non-current other financial assets				
Shares	10 143.0	9 381.5	38.4	24.4
Australian dollar term deposits	73.1	71.3	66.3	66.8
Foreign currency term deposits	..	..	..	..
Debt securities and other placements	8 684.5	7 470.3	357.2	304.0
Derivative financial instruments	272.1	63.1	..	..
Provision for diminution	..	..	..	..
Total non-current other financial assets	**19 172.7**	**16 986.1**	**462.0**	**395.1**
Total other financial assets	**26 796.2**	**24 608.8**	**2 162.1**	**2 546.2**

Represented by:		
Assets at fair value through profit and loss	24 479.7	..
Assets loans and receivable (at amortised cost)	1 605.1	..
Available-for-sale financial assets	711.4	..
Held-to-maturity financial assets	..	..
Total other financial assets	**26 796.2**	**..**

Note:
(a) The State has elected to adopt the exemption in AASB 1 and not apply the financial instruments standards AASB 132 and 139 to financial instrument for the period ending 30 June 2005.

Note 22. Non-current assets classified as held for sale

($ million)

	State of Victoria		General government sector	
	2006	*2005*	*2006*	*2005*
Land	31.5	..	31.5	..
Buildings	25.5	47.7	25.5	47.7
Infrastructure, plant, equipment and vehicles	2.4	..	2.2	..
Total non-current assets classified as held for sale	**59.4**	**47.7**	**59.2**	**47.7**

Note 23. Property, plant and equipment

(a) Total property, plant and equipment

($ million)

	State of Victoria		General government sector	
	2006	*2005*	*2006*	*2005*
Buildings (written down value)	22 665.7	21 060.5	13 924.2	12 530.2
Land and national parks	28 357.8	27 876.9	17 942.5	17 638.1
Infrastructure systems (written down value)	17 558.4	16 588.8	155.6	136.1
Plant, equipment and vehicles (written down value)	4 224.4	4 028.5	2 072.4	1 916.5
Roads (written down value)	14 019.0	12 465.4	13 962.7	12 410.8
Earthworks	4 426.2	4 589.8	4 426.2	4 589.8
Cultural assets (written down value)	3 490.9	3 548.7	3 470.3	3 524.3
Total property, plant and equipment	**94 742.4**	**90 158.6**	**55 953.8**	**52 745.8**

(b) Land and buildings

($ million)

	State of Victoria		General government sector	
	2006	*2005*	*2006*	*2005*
Buildings	24 174.1	22 210.9	15 037.6	13 334.5
Accumulated depreciation	*(1 508.4)*	*(1 150.4)*	*(1 113.4)*	*(804.4)*
Buildings (written down value)	**22 665.7**	**21 060.5**	**13 924.2**	**12 530.2**
Land	26 380.4	26 169.7	15 965.0	15 930.9
National parks and other 'land only' holdings	1 977.5	1 707.2	1 977.5	1 707.2
Land and national parks	**28 357.8**	**27 876.9**	**17 942.5**	**17 638.1**
Total land and buildings	**51 023.5**	**48 937.4**	**31 866.8**	**30 168.3**

Reconciliation of movements in land and buildings

($million)

	State of Victoria	
	2006	*2005*
Opening balance	48 937.4	40 101.2
Acquisitions	1 722.5	1 722.3
Reclassification [(a)]	379.1	25.2
Revaluation	806.1	8 074.5
Disposals	(233.0)	(436.6)
Assets recognised for the first time	90.8	22.3
Impairment	(46.7)	(21.1)
Depreciation and amortisation	(632.5)	(550.4)
Closing balance	**51 023.6**	**48 937.4**

Note:

(a) Reclassification occurs within both property, plant and equipment and with other asset classes.

(c) Plant, equipment and infrastructure systems

($ million)

	State of Victoria		General government sector	
	2006	*2005*	*2006*	*2005*
Infrastructure systems	22 496.9	21 296.9	164.4	141.2
Accumulated depreciation	*(5 069.2)*	*(4 723.6)*	*(8.9)*	*(5.1)*
Leased infrastructure systems	154.3	23.3	..	..
Accumulated depreciation	*(23.6)*	*(7.8)*	*..*	*..*
Infrastructure systems (written down value)	**17 558.4**	**16 588.8**	**155.6**	**136.1**
Plant, equipment and vehicles	6 353.7	5 955.0	4 407.4	4 168.8
Accumulated depreciation	*(3 200.6)*	*(2 908.9)*	*(2 564.5)*	*(2 366.6)*
Leased plant, equipment and vehicles	1 281.7	1 157.6	376.5	257.0
Accumulated depreciation	*(210.4)*	*(175.2)*	*(147.0)*	*(142.7)*
Plant, equipment and vehicles (written down value)	**4 224.4**	**4 028.5**	**2 072.4**	**1 916.5**
Total plant, equipment and infrastructure systems	**21 782.8**	**20 617.3**	**2 228.0**	**2 052.6**

Reconciliation of movements in plant, equipment and other infrastructure systems

($ million)

	State of Victoria 2006	State of Victoria 2005
Opening balance	20 617.3	19 767.5
Acquisitions	2 318.6	1 798.7
Reclassification [(a)]	289.1	420.1
Revaluations	(60.2)	(143.4)
Disposals	(173.3)	(125.9)
Decrease in leased motor vehicles	(114.1)	(57.4)
Assets recognised for the first time	1.4	0.7
Impairment	(19.7)	(9.0)
Depreciation and amortisation	(1 076.3)	(1 034.0)
Closing balance	**21 782.8**	**20 617.2**

Note:
(a) Reclassification occurs within both property, plant and equipment and with other asset classes.

Infrastructure systems provide essential services used in the delivery of final services or products. They are generally a complex interconnected network of individual assets and mainly include sewerage systems, water storage and supply systems and public transport assets owned by the State.

(d) Road networks and earthworks

($ million)

	State of Victoria		General government sector	
	2006	2005	2006	2005
Roads	16 152.7	14 466.8	16 108.8	14 415.3
Accumulated depreciation	*(6 034.5)*	*(5 238.1)*	*(6 030.0)*	*(5 231.4)*
Road infrastructure	5 845.5	4 896.3	5 824.8	4 884.7
Accumulated depreciation	*(1 944.8)*	*(1 659.6)*	*(1 940.9)*	*(1 657.7)*
Roads (written down value)	**14 019.0**	**12 465.4**	**13 962.7**	**12 410.8**
Earthworks	**4 426.2**	**4 589.8**	**4 426.2**	**4 589.8**
Total road networks and earthworks	**18 445.1**	**17 055.2**	**18 388.8**	**17 000.6**

Reconciliation of movements in road networks and earthworks

($ million)

	State of Victoria	
	2006	*2005*
Opening balance	17 055.1	16 352.0
Acquisitions	456.3	181.8
Reclassification [(a)]	0.3	(0.9)
Revaluation	1 255.3	889.2
Disposals	(5.2)	(72.6)
Road infrastructure recognised for the first time	..	..
Impairment	(16.3)	(7.6)
Depreciation	(300.4)	(286.8)
Closing balance	**18 445.1**	**17 055.1**

Note:

(a) Reclassification occurs within both property, plant and equipment and with other asset classes.

The roads component of the above table represents the existing road pavement and road works in progress. Land under roads and on road reserves are not recognised as assets in the balance sheet, consistent with the transitional provisions of Accounting Standard AASB 1045 *Land under roads.* Road infrastructure mainly includes sound barriers, bridges and traffic signal control systems. Also refer to the relevant sections of Note 1 for additional information.

(e) Cultural assets

($ million)

	State of Victoria		General government sector	
	2006	*2005*	*2006*	*2005*
Cultural assets	3 581.3	3 627.4	3 560.2	3 602.5
Accumulated depreciation	*(90.4)*	*(78.6)*	*(90.0)*	*(78.2)*
Total cultural assets (written down value)	**3 490.9**	**3 548.7**	**3 470.3**	**3 524.3**

Reconciliation of movements in cultural assets

($ million)

	State of Victoria	
	2006	*2005*
Opening balance	3 548.7	2 848.0
Acquisitions	30.6	6.8
Reclassification [(a)]	37.3	(71.9)
Revaluations	(76.8)	801.2
Disposals	(0.1)	(0.1)
Assets recognised for the first time	1.4	..
Impairment	..	..
Depreciation	(50.3)	(35.3)
Closing balance	**3 490.9**	**3 548.7**

Note:

(a) Reclassification occurs within both property, plant and equipment and with other asset classes.

Cultural assets are non-current physical assets that the State intends to preserve because of their unique historical, cultural or environmental attributes. These assets include items such as the Royal Botanical Gardens Herbarium, State Library, Government House, Parliament House, historic houses, monuments, certain museum exhibits, art collections, archival collections and other items of cultural significance.

Note 24. Intangibles

($ million)

	State of Victoria		*General government sector*	
	2006	*2005*	*2006*	*2005*
Intangibles produced assets	450.6	385.7	283.1	215.5
Accumulated amortisation	*(177.7)*	*(150.1)*	*(127.8)*	*(75.6)*
Intangibles non-produced assets	56.3	26.8	14.4	3.4
Accumulated amortisation	*(30.4)*	*(15.3)*	*(10.1)*	*(1.6)*
Intangibles (written down value)	**298.8**	**247.0**	**159.6**	**141.7**

Reconciliation of movements in intangibles

($ million)

	State of Victoria	
	2006	*2005*
Opening balance	247.0	176.5
Acquisitions	125.3	93.0
Reclassification [(a)]	12.2	124.8
Revaluations	(9.1)	(107.3)
Disposals	(0.5)	..
Assets recognised for the first time	..	..
Impairment	..	..
Amortisation	(76.2)	(40.0)
Closing balance	**298.8**	**247.0**

Note:

(a) Reclassification occurs within both property, plant and equipment and with other asset classes.

Intangible assets comprise identifiable non-monetary assets without physical substance, including software, patents, copyrights and exclusive rights.

Note 25. Other assets

($ million)

	State of Victoria		General government sector	
	2006	*2005*	*2006*	*2005*
Non-current other assets				
Investment properties	33.6	46.8	13.4	29.7
Biological assets	88.0	91.1	81.0	78.9
Other assets	142.7	177.9	142.7	151.5
Total non-current other assets	**264.3**	**315.8**	**237.1**	**260.1**

Reconciliation of movements in investment properties, and biological assets

($ million)

	State of Victoria	
	2006	*2005*
Opening balance	137.9	164.9
Acquisitions	0.6	..
Reclassification [(a)]	(17.1)	(15.0)
Revaluations	0.3	..
Disposals	(0.2)	(12.0)
Assets recognised for the first time	..	..
Impairment	..	..
Depreciation and amortisation	..	..
Closing balance	**121.5**	**137.9**

Note:

(a) Reclassification occurs within both intangibles and with other asset classes.

Note 26. Interest-bearing liabilities

($ million)

	State of Victoria		General government sector	
	2006	*2005*	*2006*	*2005*
Current interest-bearing liabilities				
Domestic borrowings	4 332.2	2 818.8	213.2	136.3
Foreign currency borrowings	167.6	104.3	..	..
Finance lease liabilities	156.2	231.0	97.7	187.0
Total current interest-bearing liabilities	**4 656.1**	**3 154.1**	**311.0**	**323.3**
Non-current interest-bearing liabilities				
Domestic borrowings	9 794.2	10 748.8	5 190.3	5 122.7
Finance lease liabilities	1 603.6	1 240.4	679.1	410.4
Total non-current interest-bearing liabilities	**11 397.9**	**11 989.1**	**5 869.4**	**5 533.1**
Total interest-bearing liabilities	**16 053.9**	**15 143.3**	**6 180.4**	**5 856.4**

Domestic and foreign currency borrowings are payable as follows:

($ million)

	State of Victoria	
	2006	*2005*
Not later than 1 year	4 499.9	2 923.1
Later than 1 year and not later than 5 years	3 685.4	4 117.3
Later than 5 years	6 108.9	6 631.5
Total domestic and foreign currency borrowings	**14 294.1**	**13 671.9**

Finance lease liabilities are payable as follows:

($ million)

	State of Victoria	
	2006	*2005*
Not later than 1 year	284.1	231.0
Later than 1 year and not later than 5 years	800.3	583.5
Later than 5 years	2 115.9	1 712.2
Minimum lease payments	**3 200.4**	**2 526.7**
Future finance charges	(1 440.5)	(1 055.3)
Total finance lease liabilities	**1 759.8**	**1 471.4**

Note 27. Employee benefits

($ million)

	State of Victoria		General government sector	
	2006	*2005*	*2006*	*2005*
Current employee benefits				
Accrued salaries and wages [(a)]	1 056.0	809.7	971.7	738.7
Long service leave	1 830.2	1 662.6	1 729.3	1 572.1
Total current employee benefits	**2 886.2**	**2 472.3**	**2 701.1**	**2 310.8**
Non-current employee benefits				
Accrued salaries and wages [(a)]	39.5	162.1	20.0	140.1
Long service leave	753.3	804.1	708.1	756.7
Total non-current employee benefits	**792.7**	**966.2**	**728.1**	**896.8**
Total employee benefits	**3 678.9**	**3 438.5**	**3 429.2**	**3 207.6**

Note:
(a) Includes accrued annual leave, payroll tax and other similar on-costs.

Current employee benefits are defined in AASB 101 *Presentation of Financial Statements*, as the amount for which the State of Victoria does not have an unconditional right to defer settlement beyond 12 months, mostly in relation to long service leave.

Of the total current liability, $1 319.5 million is expected to be paid within the next 12 months *(2005: $1 167.5 million)*. The amount which relates to the general government sector is $1 215.7 million *(2005: $1 074.6 million).*

Note 28. Other provisions

($ million)

	State of Victoria		General government sector	
	2006	*2005*	*2006*	*2005*
Current provision for insurance claims				
Victorian WorkCover Authority	1 390.8	1 172.5	..	..
Transport Accident Commission	680.3	703.8	..	..
Victorian Managed Insurance Authority	61.2	47.1	..	..
Other agencies	34.5	38.0	60.9	59.2
Current provision for insurance claims	**2 166.7**	**1 961.5**	**60.9**	**59.2**
Onerous contracts - aluminium smelters	119.9	101.4	..	..
Other provisions	176.9	213.3	94.3	134.5
Total current other provisions	**2 463.5**	**2 276.2**	**155.3**	**193.7**
Non-current provision for insurance claims				
Victorian WorkCover Authority	6 823.7	6 261.0	..	..
Transport Accident Commission	5 046.7	4 536.4	..	..
Victorian Managed Insurance Authority	605.2	468.1	..	..
Other agencies	166.7	168.5	323.0	330.2
Non-current provision for insurance claims	**12 642.3**	**11 434.0**	**323.0**	**330.2**
Onerous contracts - aluminium smelters	603.0	934.6	..	..
Other provisions	264.1	235.3	257.6	238.7
Total non-current other provisions	**13 509.4**	**12 603.9**	**580.6**	**568.9**
Total other provisions	**15 972.9**	**14 880.1**	**735.9**	**762.6**

The provisions for insurance claims, which are independently assessed by actuaries, represent the estimated amounts payable as at 30 June in respect of claims reported but not yet paid, claims incurred but not reported and the anticipated direct and indirect costs of settling those claims.

Reconciliation of movements in insurance claims

($ million)

	State of Victoria 2006
Opening balance	13 395.5
A-IFRS adjustment 1 July 2005	804.5
Effect of changes in assumptions and claims experience	(447.4)
Cost of prior year claims (unwinding of discount)	468.9
Increase in claims incurred [(a)]	2 414.7
Claim payments during the year [(a)]	(1 835.9)
Other	8.7
Closing balance	**14 809.0**

Note:
(a) Claim payments and claims incurred during the year are net of recoveries.

Reconciliation of movements in onerous contracts provision

($ million)

	State of Victoria	
	2006	*2005*
Opening balance	1 036.0	1 232.4
A-IFRS adjustment 1 July 2005	71.7	..
Receipts	253.0	209.9
Payments	(311.0)	(291.8)
Discount interest [(a)]	58.7	73.1
(Gain)/loss on restatement of the asset and liability	(385.5)	(187.6)
Closing balance	**722.9**	**1 036.0**

Note:
(a) The net change in the present value of assets and liabilities between reporting periods has been recognised as discount interest.

Insurance claims assumptions

The provision for insurance claims as at 30 June for the State's insurance and risk management entities have been adopted by the respective Boards of these entities, after appropriate consideration of the actuarial advice provided by the independent actuaries. A summary of the assumptions used to derive these estimates is shown below:

Entity	*Actuary*	*Weighted average expected term to settlement*	*Financial assumptions used (not later than 1 year)*	*Financial assumptions used (later than 1* year)	*Prudential margin*
Victorian WorkCover Authority	Pricewaterhouse Coopers	5.2 years	inflation rate 4 per cent discount rate 5.8 - 6 per cent	inflation rate 4 per cent discount rate 5.8 - 6 per cent	8.5 per cent
Transport Accident Commission	Pricewaterhouse Coopers	12.6 years	inflation rate 4.7 per cent discount rate 5.9 per cent	inflation rate 4.6 per cent discount rate 5.9 per cent	7.5 per cent
Victorian Managed Insurance Authority	Ernst & Young Actuarial Business Consultants Pty Ltd (Public insurance program)	4.4 years	weighted average inflation rate = 8.3 per cent weighted average discount rate = 5.9 per cent	weighted average inflation rate = 8.3 per cent weighted average discount rate = 5.9 per cent	22.5 per cent of the net outstanding claims liability and claims handling expense
Victorian Managed Insurance Authority	Ernst & Young Actuarial Business Consultants Pty Ltd (General insurance program)	3.5 years	weighted average inflation rate = 4.5 per cent weighted average discount rate = 5.9 per cent	weighted average inflation rate = 4.5 per cent weighted average discount rate = 5.9 per cent	25 per cent of the net outstanding claims liability and claims handling expense
Victorian Managed Insurance Authority	am actuaries Pty Ltd (Run-off program)	13.4 years	Weighted average inflation rate = 6.8 per cent Weighted average discount rate = 5.9 per cent	Weighted average inflation rate = 6.8 per cent Weighted average discount rate = 5.9 per cent	25 per cent of the net outstanding claims liability and claims handling expense

Note 29. Other liabilities

($ million)

	State of Victoria		General government sector	
	2006	2005	2006	2005
Current other liabilities				
Accrued taxes payable [(a)]	110.9	105.0	87.5	71.5
Unearned income	871.3	934.2	325.7	328.4
Derivative financial instruments	258.1	0.1	..	..
Total current other liabilities	**1 240.3**	**1 039.3**	**413.2**	**399.9**
Non-current other liabilities				
Unearned income	323.7	287.3	257.1	241.2
Derivative financial instruments	108.1	60.7	..	..
Total non-current other liabilities	**431.8**	**347.9**	**257.1**	**241.2**
Total other liabilities	**1 672.0**	**1 387.2**	**670.3**	**641.1**

Note:

(a) Current accrued taxes payable represent goods and services taxes payable to the Australian Taxation Office.

Note 30. Reserves and accumulated funds

(a) Reserves

($ million)

	State of Victoria	
	2006	2005
Property, plant and equipment revaluation reserve	**30 925.8**	**29 036.8**
Available-for-sale investments	26.6	1.0
Other reserves	1 541.0	1 482.4
Total reserves	**32 493.4**	**30 520.3**

Movements in reserves

Property, plant and equipment revaluation reserve

($ million)

	State of Victoria	
	2006	2005
Balance at beginning of reporting period	29 036.8	19 609.5
Revaluation - associate	..	..
Revaluation - joint venture	91.4	..
Transfers (to)/from accumulated funds	(124.9)	(92.5)
Revaluation - other	1 922.4	9 519.9
Balance at the end of the reporting period	**30 925.8**	**29 036.8**

Available-for-sale investments revaluation reserve

($ million)

	State of Victoria 2006	State of Victoria 2005
Balance at beginning of reporting period	1.1	4.3
Revaluation	21.5	(3.7)
Other	4.0	0.5
Balance at the end of the reporting period	**26.6**	**1.1**

Other reserves

($ million)

	State of Victoria 2006	State of Victoria 2005
Balance at beginning of reporting period	1 482.4	1 417.1
Transfers to/(from) accumulated funds	58.5	65.4
Balance at the end of the reporting period	**1 541.0**	**1 482.4**

(b) Accumulated funds

($ million)

	State of Victoria 2006	State of Victoria 2005
Movements in accumulated funds were as follows:		
Balance at beginning of reporting period	38 958.0	36 158.2
A-IFRS opening balance adjustments [(a)]	(669.7)	(1 189.1)
Net result for the period	5 876.4	3 961.7
Other transfers to/(from) reserves	66.3	27.2
Balance at the end of the reporting period	**44 231.0**	**38 958.0**

Note:

(a) Refer to reconciliations in Note 33 for information relating to restated balances at the beginning of the year and adjustments pertaining to the adoption of AASB 132 and AASB 139.

Note 31. Cash flow information

(a) Reconciliation of cash and cash equivalents

($ million)

	State of Victoria		General government sector	
	2006	2005	2006	2005
Cash				
Public financial corporations	50.0	61.9	..	..
Other sectors	876.9	762.1	730.1	600.9
Deposits at call				
Public financial corporations	975.5	555.6	..	..
Other sectors	680.4	636.5	1 968.0	1 220.2
Cash and cash equivalents	**2 582.8**	**2 016.2**	**2 698.2**	**1 821.1**
Bank overdraft	(70.3)	(116.5)	(3.2)	(4.2)
Balances as per cash flow statement	**2 512.6**	**1 899.6**	**2 695.0**	**1 816.9**

(b) Reconciliation of net cash flows from operating activities to net result (excluding public financial corporations)

($ million)

	State of Victoria (excl. Public Financial Corporations)		General government sector	
	2006	2005	2006	2005
Net result	**4 251.3**	**10.3**	**3 921.7**	**(456.9)**
Non-cash movements				
Depreciation and amortisation	2 127.8	1 935.5	1 282.4	1 165.7
Revaluation of investments	(990.9)	454.3	(128.8)	12.1
Assets received/(provided) free of charge	160.5	141.8	10.0	334.4
Assets not previously recognised	(82.1)	(20.3)	(82.1)	(18.7)
Revaluation of other assets	85.7	133.8	62.7	126.2
Discount/(premium) on other financial assets/interest-bearing liabilities	6.5	5.5	6.5	5.6
Bad and doubtful debts from customer loans	..	..	..	129.3
Movements included in investing and financing activities				
Net revenue from sale of property, plant and equipment	73.4	28.0	53.0	25.4
Net revenue from sale of investments	(93.8)	(3.4)	(7.5)	0.9
Realised (gains)/losses on interest-bearing liabilities	..	3.8	..	3.8
Movements in assets and liabilities				
Increase/(decrease) in provision of doubtful debts	(15.6)	(7.6)	(11.1)	(14.7)
Increase/(decrease) in payables	246.4	252.3	(403.0)	(10.2)
Increase/(decrease) in employee benefits	233.7	241.1	221.5	223.9
Increase/(decrease) in superannuation	(2 410.5)	1 391.4	(2 391.3)	1 373.7
Increase/(decrease) in other provisions	(391.7)	(190.5)	(12.5)	(8.9)
Increase/(decrease) in other liabilities	(28.6)	(737.9)	29.2	26.7
(Increase)/decrease in receivables	623.5	(67.2)	121.8	(388.3)
(Increase)/decrease in other assets	32.5	30.2	(32.2)	(23.8)
Net cash flows from operating activities	**3 828.1**	**3 601.0**	**2 640.6**	**2 506.2**

(c) Net cash flows from public financial corporations

($ million)	2006	2005
Cash flows from operating activities		
Interest and bill discounts received	992.7	494.3
Reinsurance recoveries received	(2.9)	(14.1)
Interest and other costs of finance paid	(818.5)	(716.5)
Dividends received	486.3	409.2
Fees and commissions received	2 440.0	2 909.6
Cash paid to suppliers and employees	(3 233.0)	(2 401.8)
Net cash flows from operating activities	**(135.5)**	**680.8**
Cash flows from investing activities		
Proceeds from the sale of investments	20 279.3	19 936.4
Payments for investments	(19 926.4)	(20 767.5)
Customer loans granted	(347.3)	(345.6)
Customer loans repaid	260.9	273.8
Proceeds from sale of non-financial assets	0.9	1.0
Purchase of non-financial assets	(16.0)	(32.1)
Net cash flows from investing activities	**251.4**	**(934.0)**
Cash flows from financing activities		
Net increase/(decrease) in interest-bearing liabilities	(108.8)	(349.5)
Dividends paid	10.4	..
Net cash flows from financing activities	**(98.4)**	**(349.5)**
Net cash flows from public financial corporations	**17.5**	**(602.7)**

Note 32. Financial instruments

Financial risk management objectives and policies

The State's principal financial instruments, other than derivatives, comprise loans, domestic and foreign currency long term liabilities, finance leases, cash, Australian and foreign currency term deposits and debt securities and other placements.

The main purpose of these financial instruments is to raise finance for the State's operations and to effectively manage the State's funds. The State has various other financial assets and liabilities such as receivables and payables, which arise directly from its operations. Certain State-controlled entities also enter into derivative transactions – which are outlined below.

It is not the State's policy to enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The main risks arising from the State's financial instruments are fair value and cash flow interest rate risks, liquidity risk, foreign currency risk and credit risk. Each of these risks are reviewed and managed, as summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

Presentation of comparative information

The State has elected not to restate comparative information for financial instruments within the scope of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement,* as permitted on the first-time adoption of A-IFRS by AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards.*

Details of the accounting policies applied to financial instruments during the current year (those applicable under A-IFRS) and those during the comparative year (those applicable under previous A-GAAP) have been outlined previously within Note 1 for the accounting policy disclosures by account type.

Consequently it should be noted that the comparative disclosures provided below are those required under previous A-GAAP, and are therefore not consistent with the current year disclosures as prepared in accordance with AASB 132 and AASB 139.

(A) Derivative financial instruments

A number of public financial corporations (mainly the Treasury Corporation of Victoria (TCV), Transport Accident Commission (TAC), and the Victorian WorkCover Authority (VWA)) enter into derivative financial instruments in the normal course of business in order to hedge exposure to movements in interest and foreign currency exchange rates.

These instruments, including exchange traded futures and options, swaps, forward rate agreements, forward foreign exchange contracts, interest rate and foreign exchange options, are used to manage the risks inherent in borrowing and financial asset management. Derivatives are not used to add leverage to the State's financial position or for speculative purposes. There are no material derivative financial instruments used by the State as cash flow hedges.

These entities actively use bank bill futures, bond futures contracts and interest rate swaps to add value through market timing and to produce liquid and cost effective adjustments to the maturity profiles of debt and investment portfolios for likely movements in interest rates.

As derivative financial instruments held by general government sector agencies after consolidation are not material in amount, this note presents financial instruments information on a whole of government basis only.

As at 30 June 2006, the table below shows the notional principal amounts and periods of expiry of the State's derivative financial instruments. The fair value amount of derivatives on the State's balance sheet (assets and liabilities) is shown in Table 4.2 Interest rate risk.

It should be noted that the comparative disclosures provided below are the notional values representing the contract, or face values, and are those required under previous A-GAAP. Therefore, they may not consistent with the current year disclosures as prepared in accordance with AASB 132 and AASB 139.

Details of the types of derivatives used by the State are as follows:

Forwards and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures that fix a forward rate of interest on a notional loan for an agreed period of time starting on a specified future date.

Swaps

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, fixed or floating interest payments as well as notional amounts are exchanged in different currencies.

Options

Options are contractual agreements that convey the right, but not the obligation for the purchaser, either to buy or sell a specified amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. Refer below for details.

Table 4.1: Derivative financial instruments

($ million)

2006	*Held for trading*		*Fair value hedges*	
Maturities	*Interest rate swaps*	*Exchange traded futures contracts*	*Interest rate swaps*	*Exchange traded futures contracts*
Less than 1 year	4 184.1	3 342.5	..	..
1 to 2 years	366.7	..	..	..
2 to 3 years	1 573.0	..	..	..
3 to 4 years	..	..	..	..
4 to 5 years	206.6	..	..	..
Over 5 years	457.5	..	..	..
Total	**6 787.9**	**3 342.5**	**..**	**..**

($ million)

2005 Maturities	*Interest rate swaps*	*Forward rate agreements*	*Exchange traded options contracts traded*	*Exchange traded futures contracts traded*
Less than 1 year	915.4	..	..	2 406.8
1 to 2 years	3 685.1	..	..	(26.5)
2 to 3 years	581.0	..	..	122.3
3 to 4 years	1 303.0	..	..	..
4 to 5 years	71.2	..	..	..
Over 5 years	614.4	..	..	..
Total	**7 170.0**	**..**	**..**	**2 502.6**

(B) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The majority of the State's exposure to interest rate risk arises from fair value interest rate risk (refer below) – only a small portion of the State's financial instruments are exposed to cash flow interest risk. Such risk arises from financial assets and financial liabilities with floating interest rates.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The majority of the State's exposure to interest rate risk arises from fair value interest rate risk. Exposure to such risk relates primarily to the State's long-term debt obligations with fixed interest rates.

The State's policy for the management of interest rate risk on general government and public non-financial corporations' borrowings is to achieve relative certainty of interest cost while seeking to minimise net borrowing costs within portfolio risk management guidelines. Generally, this is achieved by undertaking fixed rate borrowings with relatively even maturity profiles.

The State's borrowings are mainly managed by TCV, the State's central borrowing authority. Interest rate risk inherent in the State's borrowings is monitored on a regular basis.

Interest rate risk inherent in TCV's asset and liability management activities is monitored on a daily basis against Board approved limits using the Value at Risk methodology. Value at Risk is a measure of the estimated loss faced by TCV within a certain level of confidence over a given holding period under normal market conditions.

Public financial corporations, in particular TAC and VWA, also use derivative financial instruments to manage the interest rate risk on their investment portfolio. Derivative instruments such as interest rate swaps and forward rate agreements are used to either change the interest rate between fixed and floating rates of interest or between different floating rates of interest. These swaps are designated to hedge underlying debt obligations. Refer below to Hedging activities for details of the hedging relationships put in place to manage the interest rate risk.

At 30 June 2006, after taking into account the effect of interest rate swaps, approximately 98.6 per cent of the State's borrowings are at a fixed rate of interest.

The State's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out in Table 4.2.

Table 4.2: Interest rate risk

2006	*Weighted average effective interest rate %*	*Floating $ million*
Financial assets		
Cash and cash equivalents	5.18	2 328.5
Receivables	7.28	114.9
Deposits	4.69	264.4
Derivative financial instruments	6.05	..
Traded investments	5.28	507.5
Non-traded investments	5.25	394.4
Total financial assets		**3 609.7**
Financial liabilities		
Payables and advances	4.48	94.2
Derivative financial instruments	6.05	..
Interest-bearing liabilities	6.09	84.1
Total financial liabilities		**178.4**

2005	*Weighted average effective interest rate %*	*Floating $ million*
Financial assets		
Cash and cash equivalents	4.72	1 743.7
Receivables	1.15	197.8
Deposits	5.06	446.9
Derivative financial instruments	6.00	..
Traded investments	5.20	305.8
Non-traded investments	3.52	411.7
Total financial assets		**3 105.8**
Financial liabilities		
Payables	4.67	612.9
Derivative financial instruments	6.00	..
Interest-bearing liabilities	5.42	117.5
Total financial liabilities		**730.4**

Table 4.2: Interest rate risk (continued)

Interest Rate, Fixed Maturities: 1 year or less $ million	1 to 5 years $ million	Over 5 years $ million	Non-interest bearing $ million	Total $ million
249.1	..	..	5.3	2 582.8
83.9	242.5	514.5	3 700.0	4 655.8
715.0	12.7	5.1	11.1	1 008.2
257.3	10.6	30.4	399.7	697.9
5 906.7	3 661.2	3 036.3	11 411.1	24 522.8
39.9	3.1	2.9	126.9	567.2
7 251.8	**3 930.2**	**3 589.1**	**15 654.1**	**34 034.8**
58.9	10.6	..	3 600.5	3 764.3
253.6	13.4	3.5	95.6	366.2
4 078.3	4 221.9	7 539.4	130.1	16 053.9
4 390.9	**4 246.0**	**7 543.0**	**3 826.3**	**20 184.5**

Interest Rate, Fixed Maturities: 1 year or less $ million	1 to 5 years $ million	Over 5 years $ million	Non-interest bearing $ million	Total $ million
188.2	..	..	84.3	2 016.2
201.4	318.1	450.2	3 414.2	4 581.7
865.2	33.3	2.2	(19.0)	1 328.4
..	63.1	..	..	63.1
6 465.5	2 439.6	3 459.0	10 079.7	22 749.7
1.2	2.4	4.0	48.4	467.6
7 721.5	**2 856.4**	**3 915.3**	**13 607.6**	**31 206.7**
180.1	84.8	2.0	2 540.8	3 420.5
..	60.7	..	..	60.7
2 570.3	4 381.5	7 327.2	746.8	15 143.3
2 750.4	**4 527.0**	**7 329.2**	**3 287.6**	**18 624.5**

(C) Credit risk

Credit risk arises due to the potential for a counterparty to default under the terms of a derivative contract.

The State's maximum exposure to credit risk at the reporting date, in relation to each class of recognised financial asset, is the carrying amount of those assets as recognised in the Balance Sheet.

The State controls credit risk arising under derivative contracts through credit rating limits for counterparties and monitoring procedures consistent with the approved policy of each public financial corporation. Collateral or other security may be required to support financial instruments.

Most derivative financial instruments are transacted by Victorian public financial corporations, where the liabilities are guaranteed by the Treasurer of Victoria. The State has a concentration of credit risk with these corporations as the State's principal borrowing and investing authorities. These corporations manage credit risks by avoiding concentration of exposures to any one counterparty and having a wide range of approved counterparties.

With respect to credit risk arising from other financial assets of the State, which comprise cash and cash equivalents, available-for-sale assets and receivables, the State's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

(D) Liquidity risk

Liquidity risk arises from being unable to meet financial obligations as they fall due. The State manages liquidity through rigorous cash flow and maturities planning and monitoring and through holding high quality liquid assets and dealing in highly liquid markets.

(E) Foreign exchange risk

Certain interest bearing liabilities and financial assets are denominated in foreign currencies. The currency risk arising from the State's offshore funding program is managed using currency swaps, forward foreign exchange contracts and foreign exchange options. It is the State's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness. Refer to "Hedging activities" below for details of the hedging relationships put in place to manage the foreign exchange risk.

At 30 June 2006, the State had hedged its total foreign denominated interest bearing liabilities and 35 per cent of its foreign denominated financial assets which existed at the balance sheet date.

(F) Hedging activities

Cash flow hedges

Interest rate swaps are not used by State controlled entities responsible for managing the financing risk of the State, as cash flow hedges.

Fair value hedges

Fair value hedges are used by the State-controlled entities responsible for managing the financing risks of the State to protect it against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates. These entities use forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. Interest rate swaps and forward rate agreements are used to either change the interest rate between fixed and floating rates of interest or between different floating rates of interest on their investment portfolio.

(G) Cross currency swap contracts

Cross currency swap contracts include cash flows on a quarterly, semi annual or annual basis. The maturity of these swaps range from less than six months to greater than five years. Currency swaps have been entered into on underlying interest bearing liabilities in foreign currency to Australian dollar cash flows and have been designated as fair value hedges**.** As at 30 June, the table below sets out the fair value amounts and periods of expiry of cross currency swaps outstanding.

It should be noted that the comparative disclosures provided below are those required under previous A-GAAP, and are therefore not consistent with the current year disclosures as prepared in accordance with AASB 132 and AASB 139.

Table 4.3: Cross currency swaps designated as fair value hedges

($ million)

	2006
Maturity	
Less than 1 year	63.7
1 to 2 years	..
2 to 3 years	..
3 to 4 years	..
4 to 5 years	..
Over 5 years	..
Total	**63.7**

Table 4.4: Cross currency swaps

($ million)	2005
Maturity	
Less than 1 year	..
1 to 2 years	63.1
2 to 3 years	..
3 to 4 years	..
4 to 5 years	..
Over 5 years	..
Total	**63.1**

(H) Forward foreign exchange contracts

The objective of forward foreign exchange contracts is to partially hedge the currency exposure of financial assets and interest bearing liabilities denominated in foreign currencies. These contracts have been designated as fair value hedges**.** Details of foreign exchange contracts by maturity and currency outstanding at balance date (Australian dollar equivalents) are as follows:

Table 4.5: Foreign exchange contracts designated as fair value hedges

2006	*Buy Australian Dollars ($ million)*	*Weighted average contract rate*	*Sell Australian Dollars ($ million)*	*Weighted average contract rate*
US Dollars				
Less than 1 year	217.7	0.7356	1 310.2	0.7455
1-2 Years	..	..	..	..
2-5 Years	..	..	..	..
Canadian Dollars				
Less than 1 year	8.3	0.8291	49.8	0.8341
1-2 Years	..	..	..	..
2-5 Years	..	..	..	..
Japanese Yen				
Less than 1 year	39.1	84.0024	287.7	83.8460
1-2 Years	..	..	..	..
2-5 Years	..	..	..	..
Swiss Francs				
Less than 1 year	9.7	0.9118	57.3	0.9142
1-2 Years	..	..	..	..
2-5 Years	..	..	..	..
Euro				
Less than 1 year	37.2	0.5796	292.8	0.5894
1-2 Years	..	..	..	..
2-5 Years	..	..	..	..
British Pounds				
Less than 1 year	24.1	0.4005	154.3	0.4069
1-2 Years	..	..	..	..
2-5 Years	..	..	..	..
Other Currencies				
Less than 1 year	22.3	1.21	352.4	1.19
1-2 Years	..	..	..	..
2-5 Years	..	..	..	..
Total	**358.3**	**..**	**2 504.4**	**..**

It should be noted that the comparative disclosures provided below are those required under previous A-GAAP, and are therefore not consistent with the current year disclosures as prepared in accordance with AASB 132 and AASB 139.

Table 4.6: Foreign exchange contracts

2005	*Buy Australian Dollars ($ million)*	*Weighted average contract rate*	*Sell Australian Dollars ($ million)*	*Weighted average contract rate*
US Dollars				
Less than 1 year	1 137.4	0.7619	1 085.4	0.7619
1-2 Years	2.2	0.5115	2.2	0.5125
2-5 Years	..	..	..	..
Canadian Dollars				
Less than 1 year	46.1	0.9339	50.8	0.9339
1-2 Years	..	..	..	..
2-5 Years	..	..	..	..
Japanese Yen				
Less than 1 year	168.1	84.4620	154.8	84.4617
1-2 Years	..	..	..	..
2-5 Years	..	..	..	..
Swiss Francs				
Less than 1 year	60.6	0.9790	66.5	0.9703
1-2 Years	..	..	..	..
2-5 Years	..	..	..	..
Euro				
Less than 1 year	309.8	0.6297	401.2	0.6296
1-2 Years	..	..	..	..
2-5 Years	..	..	..	..
British Pounds				
Less than 1 year	192.0	0.4284	186.6	0.4283
1-2 Years	..	..	..	..
2-5 Years	..	..	..	..
Other Currencies				
Less than 1 year	89.4	1.0955	85.6	1.1815
1-2 Years	..	..	..	..
2-5 Years	..	..	..	..
Total	**2 005.5**	**..**	**2 033.1**	**..**

(I) Foreign exchange options

There are no foreign exchange options by maturity outstanding at balance date.

(J) Fair values

Methods of valuing financial instruments

The following methods and assumptions are used to determine the fair values of the State's financial assets and liabilities.

(i) financial instruments traded in an organised financial market (traded securities) – current quoted market bid price for an asset or offer price for a liability adjusted for any transaction costs necessary to realise the asset or settle the liability. Quoted market prices are available for listed shares, options, debentures and other equity and debt securities; and

(ii) financial instruments not readily traded in an organised financial market – the present value of contractual future cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield having regard to the timing of the cash flows. The carrying amounts of bank term deposits, accounts receivable, accounts payable and dividends payable approximate net fair value.

Fair values of financial instruments are determined on the following basis:

- cash, deposit investments, cash equivalents and non-interest bearing financial assets and liabilities (trade debtors, other receivables, payables and advances) are valued at cost, which approximates net market value;
- interest bearing liabilities are valued at the net present value of expected future cash flows discounted at current market interest rates;
- interest rate swaps are valued at the difference between the net values of the future cash flows receivable and payable, discounted at current market interest rates;
- interest rate options are valued at prices obtained from the Treasury Corporation of Victoria to close out the existing positions; and
- foreign exchange contracts and futures contracts are valued at market prices as at 30 June.

As at reporting date, the book values of the State's financial assets and liabilities equate to the fair value of such financial assets and liabilities, as depicted in the balance sheet.

Note 33. Impacts of adoption of Australian equivalents to International Financial Reporting Standards

For the 2004-05 financial year the Victorian Government prepared its consolidated statements under generally accepted accounting principles (GAAP). With effect from 1 July 2005, the Victorian Government has been required to prepare its consolidated financial statements in accordance with Australian Equivalents to International Financial Reporting Standards (A-IFRS). In accordance with *AASB 1 (First-time Adoption of Australian Equivalents to International Financial Reporting Standards)*, one year of comparative data is required to be provided for the year ended 30 June 2005. Consequently, the date of transition to A-IFRS for the Victorian Government is 1 July 2004, being the first day of the comparative period. The effective adoption date for financial instruments is 1 July 2005. Subsequently, no comparative financial data based on A-IFRS for 2004-05 is presented.

A-IFRS adoption has primarily impacted the valuation, recognition and classification of a range of classes of assets and liabilities in the general government sector. These include property, plant and equipment, receivables (current and non-current), inventories, payables, employee benefits (current and non-current), interest-bearing liabilities, and other liabilities.

Reclassifications under A-IFRS adoption have had their greatest impact on employee related liabilities, including the recognition of vested long service leave as a current liability under employee benefits and changes to actuarial assumptions for superannuation liabilities. Although the former has resulted in a $1.2 billion shift between non-current and current liabilities for the general government sector, there has been no impact on total liabilities. In contrast, changes to actuarial assumptions and the incorporation of a long-term bond rate under *AASB 119 (Employee Benefits),* has resulted in a $4.8 billion increase in superannuation liability, which primarily impacts the general government sector.

Property, plant and equipment balances have been impacted due to the adoption of deemed cost revaluation of assets, transfer of certain assets to assets held for sale, changes to recognition criteria for operating and financing leases, and impairment of assets.

The Department of Education and Training has experienced the most material adjustment resulting from A-IFRS adoption, with an $816 million impairment of assets. Changes to the recognition criteria for finance and operating leases has increased current and non-current interest-bearing liabilities by approximately $248 million and increased property, plant and equipment by a similar magnitude following the recognition of finance leases for two private prisons and for the County Court by the Department of Justice. In addition, the election by government to immediately expense borrowing costs relating to inventory has had the dual effect of decreasing inventory as well as increasing finance costs.

(a) Reconciliation at transition date to A-IFRS: 1 July 2004

($ million)

	Notes	State of Victoria A-GAAP [(a)]	Impact [(b)]	A-IFRS
Current assets				
Cash and cash equivalents		2 391.3	3.4	2 394.8
Receivables	*1*	2 307.8	(108.2)	2 199.6
Prepayments		158.1	8.1	166.2
Inventories	*2*	345.3	365.6	710.8
Other financial assets		8 434.5	0.3	8 434.7
		13 636.9	**269.1**	**13 906.1**
Non-current assets classified as held for sale		..	18.7	18.7
Total current assets		**13 636.9**	**287.8**	**13 924.7**
Non-current assets				
Receivables		1 277.4	(9.9)	1 267.5
Inventories	*3*	304.6	(304.6)	..
Investments accounted for using the equity method				
Adoption of A-IFRS		360.3	..	360.3
Impact of corrections	*4*	..	365.7	365.7
Other financial assets		14 058.8	..	14 058.7
Property, plant and equipment	*5*	79 038.8	397.6	79 436.4
Intangibles		170.7	5.8	176.5
Other assets	*6*	267.0	47.7	314.7
Total non-current assets		**95 477.5**	**502.3**	**95 979.8**
Total assets		**109 114.4**	**790.2**	**109 904.6**
Current liabilities				
Payables		2 777.1	2.7	2 779.8
Interest-bearing liabilities	*7*	4 498.9	71.3	4 570.2
Employee benefits	*8*	1 094.3	1 326.9	2 421.1
Superannuation		158.6	47.2	205.8
Other provisions		2 051.2	0.4	2 051.7
Other liabilities		1 650.3	(10.9)	1 639.4
Total current liabilities		**12 230.4**	**1 437.6**	**13 668.0**
Non-current liabilities				
Payables		6.2	(0.2)	6.0
Interest-bearing liabilities	*7*	9 726.9	508.9	10 235.7
Employee benefits	*8*	2 090.0	(1 320.8)	769.2
Superannuation	*9*	11 601.4	2 162.8	13 764.2
Other provisions		12 067.1	15.2	12 082.3
Other liabilities		447.1	(1.1)	445.9
Total non-current liabilities		**35 938.6**	**1 364.7**	**37 303.3**
Total liabilities		**48 169.0**	**2 802.3**	**50 971.3**
Net assets		**60 945.4**	**(2 012.1)**	**58 933.2**
Equity				
Reserves	*10*	24 787.2	(3 756.4)	21 030.8
Accumulated funds				
Adoption of A-IFRS	*11*	36 158.2	1 378.6	37 536.7
Impact of corrections	*4*	..	365.7	365.7
Total equity		**60 945.4**	**(2 012.1)**	**58 933.2**

Notes:

(a) Certain items within the A-GAAP balance sheet have been reclassified to allow for comparison with new or changed categories under A-IFRS.

(b) Represents the impact of adoption of A-IFRS and corrections.

Notes (continued):
As part of the restatement of the balance sheet to A-IFRS, a number of items have been reclassified. The major changes include the reclassification of cultural assets other assets to property, plant and equipment and recognition of investments accounted for using the equity method as a separate item (previously included in other financial assets). In addition, other financial assets and other liabilities include derivative financial instruments (previously included as receivables and payables).

The following notes provide explanations of material restatements:

(1) Impact is due to the reversal of land sale debtors as a result of AASB 118 (Revenue) requirements to recognise $108.6 million revenue when the risks and rewards of ownership have transferred to the buyer.

(2) $346.9 million inventories that were previously classified as non-current are now classified as current assets held for sale and have been revalued in accordance with AASB 102 (Inventories).

(3) Major impacts on non-current inventories were due to:
- *the transfer of $10 million property, plant and equipment to assets held for sale under AASB 5 (Non-current Assets Held for Sale and Discontinued Operations);*
- *the election to expense all borrowing costs as they are incurred for qualifying assets resulting in a reduction in the carrying values of qualifying assets under AASB 123 (Borrowing Costs); and*
- *the transfer of land held for sale $273 million to inventory under AASB 102 as noted in (2) above.*

(4) In the 2004-05 financial report it was reported that the State was not in a position to recognise its interest in the assets of Murray Darling Basin Commission (MDBC) as at the end of the reporting period. Subsequently, it has been discovered that the MDBC has published audited accounts for that year and the shares of the contributing states and territories in these assets can be determined. In light of this, the comparative balance sheet and operating statement have now been adjusted to incorporate the impact of the State's on-going interest, determined to be 26.6 per cent of the net assets of the MDBC. See further comments under Note 33(c). Prior period corrections are adjusted directly against accumulated funds (AASB 108).

(5) Impact on property, plant and equipment due to new requirements under:
- *the deemed cost revaluation of assets as a result of AASB 1 (First time Adoption of Australian equivalents to International Financial Reporting Standards);*
- *the transfer of property, plant and equipment to non-current assets held for sale as a result of AASB 5 (Non-current Assets Held for Sale and Discontinued Operations); and*
- *the de-recognition of minor finance lease assets now deemed operating leases and the recognition of finance lease assets previously deemed operating leases (notably the County Court building, certain rail rolling stock and two private prisons) as a result of AASB 117 (Leases) for $264 million.*

(6) Impact is largely due to revaluation of investment properties.

(7) The impact on interest-bearing liabilities is due to the reclassification of some operating leases for $551 million as finance leases under AASB 117 (Leases) as noted in (5) above.

(8) Certain employee benefits of $1.3 billion that were previously classified as non-current liabilities are now classified as current liabilities under AASB 101 (Presentation of Financial Statement).

(9) Impact on superannuation is principally due to the use of the long term bond rate as the discount rate for $2.2 billion, as required under AASB 119 (Employee Benefits).

(10) Adjustments to reserves are allowed following the first time adoption provisions under AASB 1 (First time Adoption of Australian equivalents to International Financial Reporting Standards) to transfer asset revaluation reserve to retained earnings.

(11) Under the first time adoption provisions under AASB 1, the net impact of all balance sheet adjustments as at 1 July 2004 have been taken to accumulated funds. This is offset by the A-IFRS impacts by the adjustment referred to in (10) above.

(b) Operating statement for the year ended 30 June 2005

($ million)

	Notes	State of Victoria		
		A-GAAP [(a)]	Impact [(b)]	A-IFRS
Income from transactions				
Taxation		10 282.3	..	10 282.3
Fines and regulatory fees		671.0	0.5	671.5
Dividends and income tax equivalent and rate equivalent revenue		458.2	(0.6)	457.6
Interest		1 003.8	(2.6)	1 001.2
Grants income		13 417.0	(23.3)	13 393.7
Sales of goods and services		7 901.7	(19.3)	7 882.4
Fair value of assets received free of charge or for nominal consideration		187.0	..	187.0
Other income		1 430.0	(9.6)	1 420.4
Total income from transactions		**35 350.9**	**(54.9)**	**35 296.1**
Expenses from transactions				
Employee benefits		11 462.8	(14.1)	11 448.7
Superannuation	*1*	1 969.3	(270.1)	1 699.2
Depreciation and amortisation	*2*	1 908.9	37.7	1 946.6
Finance costs	*2*	985.5	111.9	1 097.5
Grants and transfer payments		3 864.2	(4.3)	3 859.9
Supplies and services	*2*	13 863.0	(151.0)	13 712.0
Other expenses		53.4	..	53.4
Total expenses from transactions		**34 107.1**	**(289.8)**	**33 817.3**
Net result from transactions		**1 243.8**	**234.9**	**1 478.7**
Income/(expenses) from other economic flows				
Net gain/(loss) from disposal of physical assets		(35.2)	7.2	(28.0)
Actuarial gains/(losses) on superannuation defined benefit plans	*1*	1 324.6	(2 865.6)	(1 541.0)
Share of net profits of associates and joint venture entities				
Adoption of A-IFRS		..	..	..
Impact of corrections		..	7.0	7.0
Net gains/(losses) on financial assets at fair value		1 327.4	(0.5)	1 326.9
Other gains/(losses) from other economic flows		101.1	1.1	102.2
Total other economic flows		**2 717.9**	**(2 850.8)**	**(132.9)**
Net result		**3 961.7**	**(2 615.9)**	**1 345.8**

Notes:

(a) Certain items within the A-GAAP operating statement have been reclassified to allow for comparison with new or changed categories under A-IFRS.

(b) Represents impact of adoption of A-IFRS and corrections.

The table above reconciles the operating statement for the year ended 30 June 2005, restated on an A-IFRS basis.

The following notes provide explanation of material restatements.

(1) Impact on superannuation expense is due to the new liability valuation methodology required under AASB 119 (Employee Benefits).

(2) Adjustments are due to the increase in finance lease interest following recognition of finance lease assets previously deemed operating leases as a result of AASB 117 (Leases) and the addition of previously capitalised financing costs now being expensed when incurred.

(c) At end of annual reporting period 30 June 2005

($ million)

	Notes	State of Victoria A-GAAP [(a)]	Impact [(b)]	A-IFRS
Current assets				
Cash and cash equivalents		2 016.7	(0.6)	2 016.2
Receivables	*1*	2 865.8	(143.5)	2 722.3
Prepayments		144.9	11.8	156.7
Inventories	*2*	372.6	342.0	714.6
Other financial assets		7 617.8	4.9	7 622.7
		13 017.8	**214.7**	**13 232.6**
Non-current assets classified as held for sale		..	47.7	47.7
Total current assets		**13 017.8**	**262.5**	**13 280.3**
Non-current assets				
Receivables		1 400.3	(1.1)	1 399.2
Inventories	*2*	277.9	(277.9)	..
Investments accounted for using the equity method			..	
Adoption of A-IFRS		360.3	..	360.3
Impact of corrections [(c)]	*3*	..	363.9	363.9
Other financial assets		16 905.2	62.3	16 967.5
Property, plant and equipment - Adoption of A-IFRS	*4*	90 315.6	(259.8)	90 158.6
- Impact of corrections [(d)]		..	102.8	..
Intangibles		211.1	36.0	247.0
Other assets	*5*	242.6	73.1	315.8
Total non-current assets		**109 713.0**	**99.3**	**109 812.3**
Total assets		**122 730.8**	**361.8**	**123 092.6**
Current liabilities				
Payables		3 179.4	(5.9)	3 173.5
Interest-bearing liabilities	*6*	3 087.6	66.5	3 154.1
Employee benefits	*7*	1 167.5	1 304.8	2 472.3
Superannuation	*8*	45.8	(1.9)	43.9
Other provisions		2 273.2	2.9	2 276.2
Other liabilities		1 040.4	(1.1)	1 039.3
Total current liabilities		**10 793.9**	**1 365.3**	**12 159.3**
Non-current liabilities				
Payables		168.3	(6.7)	161.6
Interest-bearing liabilities	*6*	11 502.9	486.2	11 989.1
Employee benefits	*7*	2 265.1	(1 298.9)	966.2
Superannuation	*8*	10 494.6	4 806.2	15 300.8
Other provisions		12 586.1	17.8	12 603.9
Other liabilities		358.8	74.6	433.3
Total non-current liabilities		**37 375.8**	**4 079.2**	**41 455.0**
Total liabilities		**48 169.7**	**5 444.6**	**53 614.3**
Net assets		**74 561.1**	**(5 082.8)**	**69 478.3**
Equity				
Reserves - Adoption of A-IFRS	*9*	34 414.0	(3 996.5)	30 417.5
- Impact of corrections [(d)]		..	102.8	102.8
Accumulated funds				
Adoption of A-IFRS	*10*	40 147.1	(1 553.0)	38 594.1
Impact of corrections [(c)]	*4*	..	363.9	363.9
Total equity		**74 561.1**	**(5 082.8)**	**69 478.3**

Notes:

(a) Certain items within the A-GAAP balance sheet have been reclassified to allow for comparison with new or changed categories under A-IFRS.

(b) Represents the impact of adoption of A-IFRS and corrections.

Notes (continued):

(c) The cumulative effect of recognising the Murray Darling Basin Commission is that minority interests in joint ventures were understated by $363.9 million; and accumulated funds, representing the share of profits in the joint venture, were understated by $363.9 million.

(d) During 2004-05 as part of the revaluation cycle of property, plant and equipment, infrastructure assets in the Department of Sustainability and Environment were undervalued by $342.6 million due to the use of an incorrect methodology, offset by an overstatement of the revaluation of land assets by $239.8 million due to a calculation error. The impact of the net understatement of $102.8 million in property, plant and equipment has now been corrected against this item and against Reserves. There was no impact on the operating result for 2004-05.

The following notes provide explanations of material restatements:

(1) Impact is due to the reversal of land sale debtors as a result of AASB 118 (Revenue) requirements to recognise $114.8 million revenue when the risks and rewards of ownership have transferred to the buyer.

(2) Certain inventories that were previously classified as non-current are now classified as current assets held for sale and have been revalued in accordance with AASB 102 (Inventories).

(3) In the 2004-05 financial report it was stated that the State was not in a position to recognise its interest in the assets of Murray Darling Basin Commission (MDBC) as at the end of the reporting period. Subsequently, it has been discovered that the MDBC has published audited accounts for that year and the shares of the contributing states and territories in these assets can be determined. In light of this, the comparative balance sheet and operating statement have now been adjusted to incorporate the impact of the State's on-going interest, determined to be 26.6 per cent of the net assets of the MDBC. See further comments under Note 33(c). Prior period corrections are adjusted directly against accumulated funds AASB 108 (Accounting Policies, Changes in Accounting Estimates and Errors).

(4) Impact on property, plant and equipment due to the impairment of assets $140.2 million as a result of AASB 136 (Impairment of Assets).

(5) Impact largely due to revaluation of investment properties.

(6) The impact on interest-bearing liabilities is due to the reclassification of some operating leases for $549 million as finance leases under AASB 117 as noted in (4) above.

(7) Under A-IFRS, certain employee benefits of $1.3 billion that were previously classified as current liabilities are now classified as non-current liabilities.

(8) Impact on superannuation is principally due to the use of the long term bond rate as the discount rate for $4.8 billion, as required under AASB 119 (Employee Benefits).

(9) Adjustments to reserves is allowed following the first time adoption provisions under AASB 1 to transfer asset revaluation reserve to retained earnings.

(10) Under the first time adoption provisions under AASB 1, the net impact of all balance sheet adjustments as at 1 July 2004 have been taken to accumulated funds. This is offset by the A-IFRS impacts by the adjustment referred to in (10) above.

(d) Restatement of Balance sheet on adoption of AASB 132 and AASB 139 as at 1 July 2005

($ million)	*Notes*		*State of Victoria*	
		30 June 2005 (A-IFRS)	*Transition effect*	*1 July 2005 (A-IFRS)*
Current assets				
Cash and cash equivalents		2 016.2	0.6	2 016.7
Receivables		2 722.3	14.3	2 736.6
Prepayments		156.7	..	156.7
Inventories		714.6	..	714.6
Other financial assets		7 622.7	19.2	7 642.0
		13 232.6	**34.1**	**13 266.7**
Non-current assets classified as held for sale		47.7	..	47.7
Total current assets		**13 280.3**	**34.1**	**13 314.4**
Non-current assets				
Receivables		1 399.2	(25.5)	1 373.8
Inventories		..	..	..
Investments accounted for using the equity method		724.2	..	724.2
Other financial assets		16 967.5	143.0	17 110.5
Property, plant and equipment		90 158.6	..	90 158.6
Intangibles		247.0	..	247.0
Other assets		315.8	191.7	507.4
Total non-current assets		**109 812.3**	**309.2**	**110 121.5**
Total assets		**123 092.6**	**343.3**	**123 435.9**
Current liabilities				
Payables		3 173.5	(1.2)	3 172.3
Interest-bearing liabilities		3 154.1	..	3 154.1
Employee benefits		2 472.3	..	2 472.3
Superannuation		43.9	..	43.9
Other provisions		2 276.2	112.6	2 388.8
Other liabilities		1 039.3	0.5	1 039.8
Total current liabilities		**12 159.3**	**111.9**	**12 271.1**
Non-current liabilities			..	
Payables		161.6	105.2	266.8
Interest-bearing liabilities		11 989.1	19.6	12 008.8
Employee benefits		966.2	..	966.2
Superannuation		15 300.8	..	15 300.8
Other provisions		12 603.9	758.1	13 362.1
Other liabilities		433.3	(80.4)	352.9
Total non-current liabilities		**41 455.0**	**802.6**	**42 257.6**
Total liabilities		**53 614.3**	**914.4**	**54 528.7**
Net assets		**69 478.3**	**(571.1)**	**68 907.2**
Equity				
Reserves		30 520.3	98.6	30 618.9
Accumulated funds		38 958.0	(669.7)	38 288.3
Total equity		**69 478.3**	**(571.1)**	**68 907.2**

Note:

The State has elected to apply the exemption from restatement of comparatives for AASB 132 Financial Instruments: Disclosure and presentation and AASB 139 Financial Instruments: Recognition and measurement to the year ending 30 June 2005. The adjustments required for differences resulting from the adoption of AASB 132 and AASB 139 have been recognised at 1 July 2005 as shown in the re-stated balance sheet above. For further information on the State's policies in regard to the adoption of AASB 132 and AASB 138 refer to Notes 1(A), 1(I), 1(J), 1(L), 1(S), 1(V) and 1(X).

(e) Consolidated cash flow statement

During the transition to A-IFRS, there were no material restatements requiring explanation in the cash flow statement.

Note 34. Commitments

($ million)

	State of Victoria 2006	*2005*
Capital expenditure commitments		
Land and buildings	796.6	874.9
Plant, equipment and vehicles	242.2	360.9
Infrastructure systems and road networks	1 480.4	789.0
Total capital expenditure commitments	**2 519.2**	**2 024.9**
Operating and lease commitments		
Rail services	2 544.9	2 760.0
Bus services	1 106.1	1 546.2
Other	2 335.9	2 893.3
Total operating and lease commitments	**5 986.9**	**7 199.5**
Public private partnerships		
Health Services - Mildura Hospital	56.9	65.3
Melbourne Convention Centre Development	1 685.6	..
Debt collection services (Traffic Camera Office)	133.8	149.8
Southern Cross Station Authority (formerly Spencer Street Station Authority)	1 798.1	1 840.1
Royal Women's Hospital	1 073.2	1 073.2
Total public private partnerships	**4 747.6**	**3 128.4**
Other commitments		
IT Services (Vic Police)	136.3	21.7
Road safety infrastructure program	800.0	191.1
Victorian Neurotrauma Initiative program	60.0	60.0
Snowy Joint Government Enterprise	75.4	120.0
Major sporting events	148.1	244.2
New Ticketing Solution (Smartcard)	513.6	317.1
Private Prisons	120.0	61.6
New County Court	57.0	59.7
Emergency Alerting System	..	154.5
Mobile data network services	..	122.8
Metropolitan data network services	..	187.5
Other	686.1	948.1
Total other commitments	**2 596.5**	**2 488.3**
Total commitments	**15 850.2**	**14 841.2**

Certain arrangements previously classified and disclosed as operating commitments in 2005, have been reclassified as finance leases following the adoption of A-IFRS. Information on finances leases are included under Note 26.

All commitments shown above are measured at their total nominal value, as described in Note 1.

Other commitments refer to service level agreements and commitments that do not fall within the above three categories.

(a) Commitments are payable as follows:

($ million)

	State of Victoria	
	2006	*2005*
Capital expenditure commitments payable		
Not later than 1 year	1 819.3	1 407.7
Later than 1 year and not later than 5 years	697.7	613.7
Later than 5 years	2.2	3.5
Total capital expenditure commitments	**2 519.2**	**2 024.9**
Operating and lease commitments payable		
Not later than 1 year	1 944.3	1 537.0
Later than 1 year and not later than 5 years	3 820.7	3 433.3
Later than 5 years	1 441.3	2 229.3
Total operating and lease commitments	**7 206.3**	**7 199.5**
Total other commitments payable		
Not later than 1 year	737.2	893.0
Later than 1 year and not later than 5 years	1 590.4	1 318.7
Later than 5 years	3 797.2	3 405.0
Total other commitments	**6 124.7**	**5 616.7**
Total commitments	**15 850.2**	**14 841.2**

Note 35. Contingent assets and contingent liabilities

Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

These can be classified into either quantifiable, where the potential economic benefit is known, or non-quantifiable.

Quantifiable contingent assets

($ million)

	State of Victoria	
	2006	*2005*
General government	208.7	237.0
Public non-financial corporations	67.6	54.0
Public financial corporations	..	..
Total contingent assets	**276.3**	**291.0**
Guarantees, indemnities and warranties	29.3	1.4
Potential extension/early termination of contractual arrangements [(a)]	100.0	100.0
Legal proceedings and disputes	6.1	1.4
Other [(b)]	140.9	188.2
Total contingent assets	**276.3**	**291.0**

Notes:

(a) Included under 'potential early termination of contractual arrangements' are any additional costs arising to the Director of Public Transport on early termination of the public transport partnership agreements. The operator must, to the extent of the performance bonds, indemnify the Director for any losses, damages or costs incurred by him as a result of early termination. If the operator does not do so, the Director has the right to draw on the operator's performance bonds for the amount of losses, damages or costs. The nominal value of these bonds is $115 million.

(b) 'Other' includes the EastLink project of $92 million (as per below) and $17 million relating to Water Authorities. The remaining amounts in 'Other' relate to smaller individual contingencies.

EastLink

On 14 October 2004, the State entered into a concession deed with ConnectEast to design, construct, finance and operate EastLink. Various performance bonds provided under the concession deed can be drawn by the State in circumstances where the concessionaire (ConnectEast) or one of its contractors fails to meet its obligations. These bonds include a construction bond ($87 million) and an operation phase bond ($5 million). In the event of certain default events, there is potential for the $5 million to increase to $20 million.

Non-quantifiable contingent assets

Public transport partnership agreements

On 19 February 2004, the Director of Public Transport, on behalf of the Crown, entered into contractual arrangements with Connex and Yarra Trams to operate rail transport services in the State. The following paragraphs summarise the major contingent assets arising from those arrangements.

Profit sharing: The Director is entitled to receive payment from Connex and Yarra Trams should Franchisee profits exceed defined thresholds.

Access charge adjustment: Should the access charge regime for train rail access be reset, then the Director may receive income in respect of any increased rate as a result of the reset. The Director is also required to reimburse the operator's reasonable costs incurred in renegotiating the access charges.

Compensable enhancement claim for improving the flow on the Westgate Freeway

The Melbourne City Link Concession Deed contains compensable enhancement provisions that enable the Victorian Government to claim 50 per cent of additional revenue derived by City Melbourne Link Limited as a result of certain events that particularly benefit City Link, including changes to the adjoining road network.

On 20 May 2005, the Victorian Government lodged a compensable enhancement claim relating to works to improve the traffic flow on the West Gate Freeway between Lorimer and Montague Streets.

EastLink

As indicated above, on 14 October 2004, the State entered into a concession deed with ConnectEast to design, construct, finance and operate EastLink. In addition to the quantifiable contingent assets listed above, there is an un-quantifiable contingent asset relating to the following:

Hand over bond: ConnectEast has an obligation to the State to provide a bond to cover project rectification costs, in certain limited circumstances, to the end of the concession period in 2043.

Contingent liabilities

A contingent liability is:

- a possible obligation that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - the amount of the obligation cannot be measured with sufficient reliability.

As with contingent assets, contingent liabilities are also classified as either quantifiable or non-quantifiable.

Quantifiable contingent liabilities

($ million)

	State of Victoria 2006	2005
General government	1 260.6	1 344.6
Public non-financial corporations	299.5	296.8
Public financial corporations	301.7	307.4
Total contingent liabilities	**1 861.8**	**1 948.8**
Guarantees, indemnities and warranties	797.3	809.7
Potential extension/early termination of contractual arrangements [(a)]	579.5	633.7
Legal proceedings and disputes	388.3	413.8
Other [(b)]	96.8	91.6
Total contingent liabilities	**1 861.8**	**1 948.8**

Notes:

(a) Under 'potential early termination of contractual arrangements' is a contractual agreement of $579.5 million ($633.7 million for 2005) relating to the cost of correctional services beyond the current contract period. The State has the option to re-tender for the provision of correctional services every three years, after the initial five year period for each contract.

(b) Included is a contingent liability of $29.8 million for Melbourne Water Corporation ($48.8 million for 2005) for possible environment compliance and decommissioning cost in respect of surplus sites. The remaining amounts in 'Other' relate to smaller individual contingencies.

Non-quantifiable contingent liabilities

A number of potential obligations, which are non-quantifiable at this time, have been recognised by the Government arising from:

- indemnities provided in relation to transactions, including financial arrangements and consultancy services, as well as for directors and administrators;
- performance guarantees, warranties, letters of comfort, and the like;
- deeds in respect of certain obligations; and
- unclaimed moneys, which may be subject to future claims by the general public against the State.

Asset sales

Potential exposures are associated with the sale of a number of assets and services where the purchaser was provided with various indemnities and warranties.

Royal Melbourne Showgrounds

A contingent liability exists relative to any claims which may be made against the Showgrounds Nominees Pty Ltd arising from joint venture dealings as outlined in the Development and Operations Agreement for the Royal Melbourne Showgrounds.

An undertaking has been given by the joint venture parties to meet the unindexed service fees payable to the Concessionaire (Developer) under the Development and Operations Agreement as and when they fall due.

Under the State Support Deed – Core Land, the State undertakes to ensure the performance of the payment obligations in favour of the Concessionaire and the performance of the joint venture financial obligations in favour of the security trustee.

Under the State Commitment to the Royal Agricultural Society (RAS), the State has agreed to support certain obligations of the RAS which may arise out of the Joint Venture Agreement. In accordance with the terms in the State Commitment to the RAS, the State will pay (in the form of a loan), the amount requested by the RAS. If any outstanding loan amount remains unpaid at the date, which is 25 years after the commencement of the operation term under the Development and Operation Agreement, the RAS will be obliged to satisfy and discharge each such outstanding loan amount. This may take the form of the transfer to the State of the whole of the RAS' participating interest in the joint venture.

Public transport rail partnership agreements

The Director of Public Transport, on behalf of the Crown, entered into new partnership contractual arrangements with franchisees to operate rail transport services in the State, operative from 18 April 2004. The following summarises the major contingent liabilities arising from those arrangements.

Contingent liabilities arising during the agreement period

There are a number of contingent liabilities arising from the new Partnership Agreements between the Director of Public Transport and Connex and Yarra Trams, which were signed on 19 February 2004.

These potential liabilities refer to payments to be made by the Director of Public Transport to Connex and Yarra Trams should certain events occur:

Farebox risk sharing: The Director is obliged to make payments should farebox receipts fall below defined thresholds.

New ticketing revenue guarantee payment: Franchisees have an option to elect to permanently move to a revenue guarantee payment regime should implementation matters or new ticket fare structures associated with the introduction of the new ticketing system cause a real reduction in the farebox.

The revenue guarantee payment will be based on the prior period's farebox including an estimate for patronage growth and inflation. Under the above arrangement, the Director is liable for the difference between actual farebox received and the guaranteed revenue amount.

New ticketing system start up: The State is obliged to pay any additional labour costs associated with training and deployment of staff in relation to the establishment of the new ticketing system.

Access charge adjustment: Should the access charge regime for train rail access be reset, the Director is obliged to make payment to the franchisee in respect of any increased cost as a result of the reset. The Director is also required to reimburse the franchisee's reasonable costs incurred in renegotiating the access charges.

Regional Fast Rail: The Director is required to meet the incremental costs incurred by Connex associated with the introduction of Regional Fast Rail.

Connex and Mainco indemnity

The Department has indemnified Connex and Mainco (including agents and contractors) against any loss caused by Regional Rail Link whilst undertaking Regional Fast Rail within the Connex network.

VicTrack and Southern Cross Station Authority indemnity: The Director indemnifies VicTrack and the Southern Cross Station Authority from any claim brought by the franchisees under the Infrastructure Lease.

Contingent liabilities on early termination or expiry of franchise agreement

Franchise assets: To maintain continuity of services the Director at early termination or expiry of the franchise agreement will:

- for new rolling stock – either acquire the new rolling stock at predetermined values or have the lease payment obligations transferred to the Director or a successor franchise; and
- for franchise assets – either purchase the assets or have the assets transferred to the successor.

Unfunded superannuation: At the early termination or expiry of the contract, the Director will assume any unfunded superannuation amounts (apart from contributions the franchisee is required to pay over the contract term) to the extent that the State becomes the successor operator.

Contingent liabilities arising from potential changes to existing conditions

Change in Victorian law: Franchisees may make a claim against the Director for any net losses incurred as a result of a change in Victorian law which directly relates to the franchise business.

Latent Defects: The Director is responsible for leased infrastructure defects above a threshold amount.

Pre existing contamination: The Director is responsible for all costs associated with pre existing contamination clean up. The Director also indemnifies the franchisee from and against all losses, damages, actions suits, claims, demands, costs and expenses associated with pre existing contamination.

Native Title: The Director is liable for payments of any valid compensation claim to Native Title holders made under any Native Title law in respect of the land defined in the infrastructure leases entered into with franchisees.

National Express receivership

In December 2002, the Government appointed receivers and managers to the National Express train and tram franchises, in order to protect Government interest, ensure continuation of services up to the commencement of new franchise agreements, and deal with any subsequent termination issues.

The Treasurer, under the Receivership Deed of Indemnity, has agreed to indemnify the receivers for debts properly incurred by them in the course of receivership. The Treasurer has also agreed to remunerate the receivers in accordance with the rates set out in the deed.

Country Train Safety System

Country Train Safety Systems is the project under which the Train Protection and Warning System is being installed. The Director of Public Transport undertakes to reimburse Pacific National (Victoria) Limited (previously Freight Victoria Limited) reasonable costs and expenses related to the installation, testing and rectification and repair of the Train Protection Warning System and will indemnity Pacific National (Victoria) Limited for any loss, or cost, or liability it suffers arising from the Director's installation.

Melbourne City Link

An outstanding claim exists from Transurban City Link Limited, pursuant to the Melbourne City Link Concession Deed, relating to an alleged Material Adverse Effect in respect of the construction of Wurundjeri Way. Expert determination found in favour of the State; however, the claim has now been appealed to arbitration, which is yet to proceed. VicRoads is defending this claim and is unable to assess the likelihood of success at this time.

EastLink

On 14 October 2004, the State entered into a Concession Deed with ConnectEast to design, construct, finance and operate EastLink. The major non-quantifiable contingent liability arising from the concession deed relates to the Key Risk Management Regime. The Regime relates to the occurrence of certain circumstances that may have a detrimental impact on the concessionaire's ability to achieve its forecast returns. It identifies the areas that enable the concessionaire to claim redress from the State. These may include acts of prevention, failure to support a principal road interface, changes in state law, Native Title and the environmental effects statement.

Native Title

A number of claims have been filed with the Federal Court under the *Native Title Act 1993* that affect Victoria. While many such claims are being processed through the legal system, the Government has committed itself to resolving claims through mediation, where possible. It is not feasible at this time to quantify any future liability.

HIH Insurance

The State's quantifiable direct exposures arising from the collapse of the HIH Insurance Group are included in the liabilities shown in the financial statements of the agencies directly responsible for them (such as the Victorian WorkCover Authority and the Victorian Managed Insurance Authority (VMIA)), and are consolidated in the financial statements of the State.

The State's obligations in respect of its builders' warranty insurance rescue package are direct liabilities of the State itself. They do not form part of the liabilities of the VMIA which manages claims on behalf of the State, this responsibility having been transferred to VMIA from the Housing Guarantee Fund Limited, under the *House Contracts Guarantee (Amendment) Act 2005.*

The State also retains some unquantifiable contingent exposures arising from the collapse of the HIH Insurance Group. These contingent exposures arise primarily through the possibility that the State may be involved in litigation in which it would be entitled to recover damages from third parties. If these third parties were insured by HIH, recovery in full may not be possible.

Land remediation – environmental concerns

A number of Victorian government properties have been identified as potentially contaminated sites. The State does not admit any liability in respect of these sites. However, remedial expenditure may be incurred to restore the sites to an acceptable environmental standard in the event of future developments taking place.

Victorian Managed Insurance Authority – property and public liability

The VMIA was established in 1996 as a captive insurer for departments and participating bodies, predominantly in the general government sector. VMIA provides its client bodies with a range of insurance cover, including for property, public and products liability, professional indemnity and contract works. VMIA reinsures in the private market for losses above $50 million arising out of any one event, up to a maximum for each type of cover (e.g. $1 500 million for property and $750 million for public liability). The risk of losses above these reinsured levels and below $50 million is borne by the State.

Victorian Managed Insurance Authority – public healthcare insurances

VMIA insures the public healthcare system for a range of insurances, including medical indemnity risks. The Government has indemnified VMIA for losses on its public sector medical indemnity portfolio that exceed 120 per cent of claims estimates to be incurred in any one policy year.

Gambling licences

In 1994, the State sold a wagering licence and a gaming licence to TABCORP Holdings Limited (TABCORP) for $597 million. The *Gambling Regulation Act 2003* requires the State to provide a refund to TABCORP in 2012 of an amount equal to the licence value of the former licences or the premium payment paid by the new licensee, whichever is the lesser. While this creates an obligation on the State to refund the licence value to TABCORP, it will be offset by the premium payment from the issue of any new licences. In 1992, a gaming operator's licence was issued to the Trustees of the Will and Estate of the late George Adams (the licensee). The *Gambling Regulation Act 2003* entitles the licensee to be paid, at the end of its current licence period in 2012, an amount equal to the value of its current licence or the premium payment paid by the new licensee, whichever is the lesser. This entitlement is contingent on the licensee not being granted a new licence.

The Government is currently reviewing gambling licences and a public submission and consultation process is being conducted for the review of the electronic gaming machine, Club Keno and wagering licences and funding arrangements for the racing industry post-2012. The Government has provisionally indicated an announcement on the post-2012 licence structures, funding arrangements and the timing and approach to the awarding of licences will be made in 2007.

Builders' warranty

The builders' warranty insurance market, like other insurance markets, was affected by the 11 September 2001 terrorist attacks in the United States and adverse claims experience. In mid-April 2002, the State agreed to provide temporary (to 30 June 2002) reinsurance support to builders' warranty insurance provider Dexta Corporation, following the withdrawal of some of its commercial reinsurance support. This support was subsequently extended to 30 September 2002. The Government determined that there would be no further extension.

The State received reinsurance premiums for this participation and is required to contribute to payment of reinsured claims, as well as paying management fees. The precise timing and value of claims related payments is uncertain, as claims may be made by home owners for up to six and a half years after the arrangement ceased.

Based on Dexta's previous levels of activity, the central estimate of the State's gross exposure (i.e. before premium receipts) is not more than $6 million. While the State expects, along with the commercial re-insurers who are party to the agreement, to at least break even on these arrangements, the State retains a non-quantifiable contingent liability that claims may exceed the central estimate.

On 13 March 2002, Victoria and New South Wales jointly announced a series of reforms to builders' warranty insurance arrangements. This announcement included a commitment to provide a catastrophe fund capable of supporting claims above $10 million. Since builders' warranty insurance commenced, there have been no losses exceeding this amount by an insurer to any one builder. To meet this commitment, the two States offered reinsurance arrangements to all builders' warranty insurers covering claims in respect of any one builder exceeding $10 million, with each of the two States reinsuring claims relating to properties in that State. A reinsurance agreement giving effect to these arrangements was concluded in December 2002 (effective from 1 January 2003) with one insurer. South Australia became a party to this agreement with effect from 31 December 2004. This agreement requires the insurer to pay reinsurance premiums to the three States that are estimated to be sufficient for the States to at least break even on these arrangements. However, the State retains a non-quantifiable contingent liability for additional claims. The State has executed a further reinsurance agreement in the same terms with another insurer.

To improve its supervision of builders' warranty insurance, the Government determined in its April 2006 response to the Victorian Competition and Efficiency Commission's Final Report *(Housing Regulation in Victoria): Building Better Outcomes*, that it will finalise and implement guidelines for the provision of information by builders' warranty insurers.

Note 36. Funds under management

($ million)

	State of Victoria	
	2006	*2005*
Investments, real estate, personal and other assets	706.1	636.4
Cash and investments in common and premium funds	681.3	614.1
Residential tenancies bond money	354.4	323.3
Funds under management by the Senior Master of the Supreme Court	703.4	670.0
Other funds held [(a)]	(7.9)	..
Total funds under management	**2 437.3**	**2 243.7**

Note:

(a) The Australian Securities and Investments Commission, under Class Order 98/105, is no longer giving relief to Trustee Companies. Therefore, State Trustees Limited has to report both the assets and liabilities managed for clients in the financial statements. The negative value represents the client liabilities under management.

These funds are held in trust for certain controlled entities' clients and are therefore not included in the balance sheet.

Note 37. Subsequent events

Melbourne City Link

Deductibility of concession fees

On 20 July 2006, the High Court of Australia determined a dispute between City Link Melbourne Limited (CML) and the Australian Tax Office in respect of deductibility for taxation purposes of concession fees payable by CML to the Victorian Government.

The High Court confirmed the 2004 ruling handed down by the full bench of the Federal Court that the concession fees are tax deductible as an ongoing cost of operating the City Link. The impact of this decision has been incorporated into the valuation methodology used to estimate the present value of concession notes held as at 30 June 2006.

Assignment of concession notes

On 26 July 2006, CML, Transurban Infrastructure Management Limited (TIML) and the Victorian Government entered into an agreement to assign all concession notes held by, and due to be issued to, the Victorian Government to CML and TIML for a defined payment stream totalling $614.3 million. This payment stream recognises the deductibility of the concession notes for taxation purposes.

The impact of this agreement on the operating statement and the balance sheet for 2006-07 are yet to be fully assessed.

Legislative amendments to the Melbourne City Link Act 1995

Negotiations are taking place between the State, CML and TIML to amend existing documentation, including legislation, relating to the *Melbourne City Link Act* 1995, as well as provide for the delivery of upgrade works to the Southern Link so that these upgrade works can occur in the same legislative environment that prevailed in the original design and construction phase of the Link.

Enforceability of this agreement is dependent upon all outstanding matters being finalised and the passing by Parliament of amendments to the *Melbourne City Link Act 1995.*

Note 38. Public Account disclosure

Table 4.7: Consolidated Fund receipts and payments for the year ended 30 June

($ thousands)

	2006	*2005*
Receipts		
Taxation	10 896 512	10 084 175
Fines and regulatory fees	401 587	391 495
Grants received	12 212 826	11 220 343
Sales of goods and services	651 069	654 559
Interest received	87 868	83 770
Public authority income	1 162 253	876 513
Other receipts	2 727 075	2 455 916
Total cash inflows from operating activities	**28 139 191**	**25 766 772**
Total cash inflows from investing and financing activities	**650 730**	**174 928**
Total consolidated fund receipts	**28 789 921**	**25 941 700**
Payments		
Special appropriations		
Special appropriations (excl. Financial Management Act, No.18 of 1994 Section 33)	2 371 337	2 211 708
Section 33, Financial Management Act No. 18 of 1994	152 100	60 718
Total special appropriations	**2 523 438**	**2 272 426**
Annual appropriations		
Provision of outputs	21 964 151	20 016 249
Section 32 Financial Management Act No 18 of 1994 (prior year unspent appropriations brought forward)	338 227	248 052
Section 29 Financial Management Act No 18 of 1994 (appropriation of annotated receipts)	1 641 763	1 476 879
Advance to Treasurer to be sanctioned	239 979	418 123
Section 35 Financial Management Act No 18 of 1994 (temporary advances)	54 402	24 900
Total provision of outputs	**24 238 522**	**22 184 203**
Additions to net asset base	761 075	719 570
Section 32 Financial Management Act No 18 of 1994 (prior year unspent appropriations brought forward)	172 172	107 575
Section 29 Financial Management Act No 18 of 1994 (appropriation of annotated receipts)	137 634	119 083
Advance to Treasurer to be sanctioned	..	789
Section 35 Financial Management Act No 18 of 1994 (temporary advances)	69 985	57 141
Total additions to net asset base	**1 140 866**	**1 004 158**

Note 38. Public Account disclosure (continued)

Table 4.7: Consolidated Fund receipts and payments for the year ended 30 June (continued)

($ thousands)

	2006	*2005*
Payments made on behalf of the State	**1 145 210**	**1 149 055**
Section 32 Financial Management Act No 18 of 1994 (prior year unspent appropriations brought forward)	..	..
Advance to Treasurer to be sanctioned	32 171	45 424
Section 35 Financial Management Act No 18 of 1994 (temporary advances)	..	11 000
Total payments made on behalf of State	**1 177 381**	**1 205 479**
Other		
Cemeteries-Grant towards maintenance and improvement pursuant to the *Cemeteries Act 1958*	..	30
Contribution by the State under agreements pursuant to Section 25 of the *Murray-Darling Basin Act 1993*	24 614	25 820
Victorian Law Reform Commission - pursuant to Section 17 (b) of the *Victorian Law Reform Commission Act 2000*	1 003	997
Payment to Regional Infrastructure Development Fund pursuant to Section 4 of the *Regional Infrastructure Development Fund Act 1999*	35 000	25 000
Total annual appropriations	**26 617 386**	**24 445 688**
Applied appropriations remaining unspent relating to the 2005-06 appropriations	(335 967)	(334 404)
Total payments	**28 804 856**	**26 383 711**
Consolidated fund balance 1 July	**594 497**	**1 036 507**
Add total receipts for year	**28 789 921**	**25 941 700**
Less total payments for year	**(28 804 856)**	**(26 383 711)**
Consolidated fund balance 30 June	**579 562**	**594 497**

Notes:

Reconciliation of unspent appropriations:

Applied appropriations unspent at end of year	*2 235 298*	*2 051 430*
add payments made during the year under the Financial Management Act, No. 18 of 1994, Section 33	*152 100*	*60 718*
add payments made during the year under the Financial Management Act, No. 18 of 1994, Section 10	*..*	*..*
Subtotal	***2 387 398***	***2 112 148***
less applied appropriations unspent at beginning of year	*(2 051 430)*	*(1 777 745)*
Current year appropriations remaining unspent as at 30 June	*335 967*	*334 404*

Note 38. Public Account disclosure (continued)

Table 4.8: Consolidated Fund gross receipts for the year ended 30 June

($ thousands)

	Estimate 2006	*Actual 2006*	*Actual 2005*
Operating activities			
Taxation			
Payroll tax	3 554 140	3 698 164	3 390 556
Land tax [(a)]	824 260	738 134	782 417
Congestion levy [(b)]	19 400	9 415	..
Stamp duty			
Land transfer duty	2 074 616	2 659 597	2 160 640
Stamp duties	63 600	59 853	114 952
Financial accommodation levy	10 196	12 413	9 848
Financial transaction taxes	21 500	22 250	265 877
Levies on statutory corporations	60 400	60 236	44 600
Gambling			
Private lotteries	360 500	362 674	346 002
Electronic gaming machines	931 000	907 257	838 778
Casino taxes	113 500	116 020	105 900
Racing	116 470	113 296	112 972
Other gambling	3 340	5 358	3 735
Insurance	724 000	704 743	682 049
Motor Vehicle			
Road Safety Act (registration fees)	703 300	697 253	663 120
Stamp duty on vehicle transfers	594 900	546 903	555 416
Franchise fees			
Liquor	7 200	7 660	7 313
Other taxes	114 000	175 287	..
Total taxation	**10 296 322**	**10 896 512**	**10 084 175**
Fines and regulatory fees	**501 707**	**401 587**	**391 495**
Grants received			
Education and Training	570 302	591 667	535 893
Human Services	2 867 727	2 894 539	2759 834
Infrastructure	234 110	299 969	253 106
Innovation, Industry and Regional Development	5 120	177	253
Justice	45 053	51 700	49 227
Primary Industries	19 400	39 413	14 609
Premier and Cabinet	..	478	..
Sustainability and Environment	55 790	82 195	55 420
Treasury and Finance	8 085 330	8 179 435	7551 760
Victorian Communities	62 323	73 254	242
Parliament	..	..	..
Total grants received	**11 945 155**	**12 212 826**	**11 220 343**

Note 38. Public Account disclosure (continued)

Table 4.8: Consolidated Fund gross receipts for the year ended 30 June (continued)

($ thousands)

	Estimate 2006	*Actual 2006*	*Actual 2005*
Sales of goods and services	**641 474**	**651 069**	**654 559**
Interest received	**150 384**	**87 868**	**83 770**
Public authority receipts			
Public authority dividends	699 562	592 600	497 099
Income tax equivalent receipts	343 785	567 231	376 881
Local government tax equivalent receipts	3 182	2 422	2 533
Total public authority receipts	**1 046 529**	**1 162 253**	**876 513**
Other receipts			
Land rent received	14 864	16 426	16 684
Royalties received	55 411	30 178	28 339
Capital assets charge	2 444 824	2 441 782	2 114 302
Other	117 253	238 689	296 591
Total other receipts	**2 632 352**	**2 727 075**	**2 455 916**
Total cash inflows from operating activities	**27 213 923**	**28 139 191**	**25 766 772**
Cash inflows from investing and financing activities			
Loans to government agencies	..	..	139 311
Proceeds from investments	..	673 626	126 273
Other loans	594	1 040	(128 813)
Other	34 075	(23 936)	38 156
Total cash inflows from investing and financing activities	**34 669**	**650 730**	**174 928**
Total consolidated fund receipts	**27 248 592**	**28 789 921**	**25 941 700**

Notes:

(a) Renamed as "Land Tax", formerly named "Property Tax".

(b) Long stay car parks levy has been renamed as Congestion levy.

Note 38. Public Account disclosure (continued)

Table 4.9: The Trust Fund cash flow statement for the year ended 30 June

($ thousands)

	2006	*2005*
Cash flows from operating activities		
Receipts		
Taxation	131 976	127 051
Regulatory fees and fines	53 616	45 970
Grants received	2 461 261	2 252 857
Sale of goods and services	264 316	174 633
Interest received	101 999	92 576
Net transfers from the consolidated fund	8 085 771	6 339 857
Other receipts	181 395	868 288
Payments		
Employee entitlements	(88 818)	(70 443)
Superannuation	(6 649)	(5 419)
Interest paid	(24 870)	(5 337)
Grants paid	(8 725 358)	(7715 121)
Supplies and consumables	(2 285 244)	(1984 517)
Other payments	(211)	..
Net cash flows from operating activities	**149 182**	**120 395**
Cash flows from investing activities		
Net proceeds from customer loans	(794)	157
Proceeds from sale of property, plant and equipment	22 736	5 019
Purchases of property, plant and equipment	(12 397)	(57 282)
Other investing activities	(76 432)	7 390
Net cash flows from investing activities	**(66 887)**	**(44 716)**
Cash flows from financing activities		
Net repayments of borrowings	63 652	57 545
Net cash flows from financing activities	**63 652**	**57 545**
Net increase in trust fund cash and deposits	**145 948**	**133 225**

Note 38. Public Account disclosure (continued)

Table 4.10 Trust Fund reconciliation of cash flows to balances held

($ thousands)

	Balances held at 30 June 2006	*Net movement for year*	*Balances held at 30 June 2005*
Cash and deposits			
Cash balances outside the Public Account	2 994	2 364	630
Deposits held with the Public Account - specific trusts	17 808	(12 528)	30 336
Deposits held with the Public Account - general trusts	1 289	..	1 288
Other balances held in the Public Account on behalf of trust accounts	1 259 798	156 112	1 103 686
Total cash and deposits	**1 281 889**	**145 948**	**1 135 941**
Investments			
Investments held with the Public Account - specific trusts	571 300	(2 753)	574 053
Total investments	**571 300**	**(2 753)**	**574 053**
Total trust fund balances	**1 853 189**	**143 195**	**1 709 994**
Less funds held outside the Public Account			
Cash	2 994	2 364	630
Total trust fund balances held outside the Public Account	**2 994**	**2 364**	**630**
Total trust funds held within the Public Account [(a)]	**1 850 195**	**140 831**	**1 709 364**

Note:

(a) See Table 4.12 for details of securities and investments held with the Public Account on behalf of trust accounts.

Note 38. Public Account disclosure (continued)

Table 4.11: Trust Fund summary for the year ended 30 June

($ thousands)

	Balances held 2006	*Balances held 2005*
State Government funds		
Accounts established to receive levies imposed by Parliament and record the expenditure thereof	106 047	88 260
Accounts established to receive moneys provided in the annual budget and record the expenditure thereof	950 999	775 413
Specific purpose operating accounts established for various authorities etc.	95 885	134 295
Suspense and clearing accounts to facilitate accounting procedures	2 024	1 897
Treasury trust fund	120 459	105 435
Agency and deposit accounts	398 623	386 195
Total State Government funds	**1 674 037**	**1 491 496**
Joint Commonwealth and State funds	**95 387**	**139 042**
Commonwealth Government funds		
Commonwealth Grants passed on to individuals and organisations	4 905	5 281
Total Commonwealth Government funds	**4 905**	**5 281**
Prizes, scholarships, research and private donations	**75 866**	**73 545**
Total trust fund	**1 850 195**	**1 709 364**

Note 38. Public Account disclosure (continued)

Table 4.12: Details of securities held and Included in the balances at 30 June

($ thousands)

	2006	*2005*
Funds held at 30 June		
Trust accounts		
Amounts invested on behalf of specific trust accounts	589 069	604 388
Amounts invested on behalf of general trust accounts	1 288	1 288
General trust accounts	1 259 838	1 103 687
Total trust accounts	**1 850 195**	**1 709 364**
General consolidated fund account balance	**579 562**	**594 497**
Total funds held	**2 429 757**	**2 303 861**
Represented by:		
Stocks and securities held with / in -		
Australian Consolidated Inscribed Stock and Victorian Government Bonds	1 288	1 288
Managed Investments	104 146	117 327
Treasury Corporation of Victoria	484 923	487 073
	590 357	**605 689**
Cash and investments held with / in -		
Treasury Corporation of Victoria	1 505 000	1 372 000
Managed investments	..	..
Cash at bank balances held in Australia	20 563	41 005
	1 525 563	**1 413 005**
Total stock, securities, cash and investments	**2 115 919**	**2 018 694**
Add cash advanced pursuant to Sections 36 and 37 of the *Financial* Management Act 1994	313 838	285 167
Total funds held	**2 429 757**	**2 303 861**

Table 4.13: Amounts paid into working accounts pursuant to Section 23 of the *Financial Management Act 1994* for the year ended 30 June

($ thousands)

	2006	*2005*
Appropriation transfer equivalent to consolidated fund receipts	11 154	23 575
Interest received on credit balances	628	921
State subsidy contribution	5 747	3 505
Other income	75	1 423
Total amounts paid into working accounts	**17 604**	**29 424**

Note 38. Public Account disclosure (continued)

Table 4.14: Allocations and transfers pursuant to Sections 28, 30 and 31 of the *Financial Management Act 1994* for the year ended 30 June

($ thousands)

	Decrease	Increase
Section 28 allocations		
(Borrowing against future appropriations)		
Total Section 28 allocations	..	..
Section 30 Transfers		
(transfers between items of departmental appropriations)		
Department of Human Services		
Provision of outputs (Section 29 of the Financial Management Act 1994 applies)	7 500	
Additions to the net asset base (Section 29 of the Financial Management Act 1994 applies)		7 500
Department of Infrastructure		
Provision of outputs (Section 29 of the Financial Management Act 1994 applies)	6 106	
Additions to the net asset base		6 106
Department of Innovation, Industry and Regional Development		
Provision of outputs (Section 29 of the Financial Management Act 1994 applies)		5 273
Additions to the net asset base	5 273	
Department of Justice		
Provision of outputs (Section 29 of the Financial Management Act 1994 applies)		11 166
Additions to the net asset base (Section 29 of the Financial Management Act 1994 applies)	11 166	
Department of Premier and Cabinet		
Provision of outputs (Section 29 of the Financial Management Act 1994 applies)	8 384	
Additions to the net asset base		8 384
Department of Primary Industries		
Provision of outputs (Section 29 of the Financial Management Act 1994 applies)		22 856
Additions to the net asset base	22 856	
Department of Sustainability and Environment		
Provision of outputs (Section 29 of the Financial Management Act 1994 applies)	15 455	
Additions to the net asset base (Section 29 of the *Financial Management Act 1994* applies)		6 167
Provision of outputs pursuant to Section 15 of the *Environment Protection Act 1970*		940
Provision of outputs - Victorian Water Trust (Section 29 of the *Financial Management Act 1994* applies)		88
Addition to the net asset base - Victorian Water Trust (Section 29 of the *Financial Management Act 1994* applies)		8 235
Additions to the net asset base-POBOS - Murray Darling Basin Commission		24
Department for Victorian Communities		
Provision of outputs (Section 29 of the *Financial Management Act 1994* applies)	30 786	
Additions to the net asset base		30 786
Payments made on behalf of the State		
Total Section 30 transfers	**107 526**	**107 526**

Note 38. Public Account disclosure (continued)

Table 4.15: Amounts received pursuant to Section 29 of the *Financial Management Act 1994* for the year ended 30 June

($ thousands)

Department	*Outputs*	*Receipt source Commonwealth*	*Other*	*Total*
Education and Training	1 249	195 269	11 435	207 953
Human Services	262 785	841 879	3 183	1 107 847
Infrastructure	791	299 969	..	300 760
Innovation, Industry and Regional Development	..	177	..	177
Justice	93 264	815	4 410	98 489
Premier and Cabinet	478	..	..	478
Primary Industries	97 518	..	..	97 518
Sustainability and Environment	30 069	76 438	..	106 507
Treasury and Finance	3 125	..	..	3 125
Victorian Communities	5 243	..	..	5 243
Parliament	16 855	..	..	16 855
Total appropriation	**511 377**	**1 414 547**	**19 028**	**1 944 952**

Table 4.16: Section 32 Carryovers - *Financial Management Act 1994* for the year ended 30 June

(a) Amounts approved for carryover from 2005 pursuant to Section 32 of the *Financial Management Act 2004*

($ thousands)

Department	*Provision of outputs*	*Additions to net assets*	*Payments made on behalf of State*	*Other*	*Total carryover*
Education and Training	41 546	4 001	..	..	**45 547**
Human Services	94 169	72 923	..	..	**167 092**
Infrastructure	70 027	56 610	..	..	**126 637**
Innovation, Industry and Regional Development	43 460	7 726	..	..	**51 186**
Justice	32 267	7 604	..	..	**39 871**
Premier and Cabinet	2 855	12 302	..	..	**15 157**
Primary Industries	36 320	5 500	..	..	**41 820**
Sustainability and Environment	2 881	..	..	..	**2 881**
Treasury and Finance	475	..	..	..	**475**
Victorian Communities	21 490	27 737	..	..	**49 227**
Parliament	2 344	3 800	..	..	**6 144**
Total carryovers by department	**347 834**	**198 203**	**..**	**..**	**546 037**

Note 38. Public Account disclosure (continued)

(b) Amounts applied against carryover of appropriations in 2006 pursuant to Section 32 of the *Financial Management Act 2004*

($ thousands)

Department	*Provision of outputs*	*Additions to net assets*	*Payments made on behalf of State*	*Other*	*Total carryover*
Education and Training	41 546	4 001	..	..	**45 547**
Human Services	86 031	72 923	..	..	**158 954**
Infrastructure	69 267	51 207	..	..	**120 474**
Innovation, Industry and Regional Development	43 460	7 726	..	..	**51 186**
Justice	32 267	..	..	..	**32 267**
Premier and Cabinet	2 855	3 678	..	..	**6 533**
Primary Industries	36 320	1 100	..	..	**37 420**
Sustainability and Environment	2 881	..	..	..	**2 881**
Treasury and Finance	311	..	..	..	**311**
Victorian Communities	20 945	27 737	..	..	**48 682**
Parliament	2 344	3 800	..	..	**6 144**
Total expenditure by department	**338 227**	**172 172**	**..**	**..**	**510 399**

(c) Amounts approved for carryover to 2007 pursuant to Section 32 of the *Financial Management Act 2004*

($ thousands)

Department	*Provision of outputs*	*Additions to net assets*	*Payments made on behalf of State*	*Other*	*Total carryover*
Education and Training	9 366	..	..	..	**9 366**
Human Services	44 114	89 540	..	..	**133 654**
Infrastructure	139 308	172 343	..	..	**311 651**
Innovation, Industry and Regional Development	7 970	7 180	..	..	**15 150**
Justice	740	333	..	..	**1 073**
Premier and Cabinet	8 300	11 267	..	..	**19 567**
Primary Industries	31 081	3 131	..	..	**34 212**
Sustainability and Environment	28 528	..	..	..	**28 528**
Treasury and Finance	200	..	..	..	**200**
Victorian Communities	59 799	23 932	..	..	**83 731**
Parliament	2 212	3 800	..	..	**6 012**
Total carryovers by department	**331 618**	**311 526**	**..**	**..**	**643 144**

Note 38. Public Account disclosure (continued)

Table 4.17: Payments from Advance to the Treasurer for the year ended 30 June

($ thousands)

Department	*Purpose*	*2006*
Education and Training	School Start Bonus	19 760
	Depreciation Supplementation	5 960
	Drought Assistance Allowance	200
	Services for Students with Disabilities	15 600
	School Maintenance	20 000
		61 520
Human Services	Extension of Lease Commitments	1 883
		1 883
Infrastructure	*World Class Victoria* Infrastructure Campaign	2 932
		2 932
Innovation, Industry and Regional Development	Smelter Expansion Project	300
	Austin - Burnet-Super Institute	12 000
	Australian Centre for Neuroscience	10 000
	Bushfire Recovery	1 550
	World Class Victoria business investment campaign	2 991
	Creating a new Provincial Victoria Growth Fund	1 300
	Federation Square	3 000
	Employee Entitlements Funding	350
	Investment Support Program	21 397
	Latrobe Lignite Developments	1 000
	New Victorian Government Office in Bangalore	590
	Renewing the Regional Infrastructure Development Fund	25 000
	Walter and Eliza Hall Institute (WEHI) Expansion	23 200
	Workplace Rights Advocate	2 058
		104 736
Justice	Crime Prevention Victoria	2 000
	Work Cover Payment	500
	Implementation of Hoon Legislation	630
	IT Projects and Operational System Upgrade	4 000
	Major Crime Resourcing Needs	3 500
	Mobile Data Network Project	2 000
	Partnerships Victoria Prison Contract	5 100
	Vehicle Leases	3 070
	Victoria Police Information Technology	615
		21 415
Premier and Cabinet	Ministerial and Parliamentary Services	1 212
	Ballarat Paddle Steamer	100
	Modernising the Arts Centre	2 000
	Office of Police Integrity	3 244
	St Paul's Cathedral Restoration Fund	2 000
	Establishment of the State Architect	370
	Arts Access All Areas - continuation	170
		9 096

Note 38. Public Account disclosure (continued)

Table 4.17: Payments from Advance to the Treasurer for the year ended 30 June (continued)

($ thousands)

Department	*Purpose*	*2006*
Primary Industries	Plague - Locusts Control	3 000
		3 000
Sustainability and Environment	Alpine Resorts	3 000
	Bushfire Recovery	2 054
	Bushfire Suppression	12 179
	Growth Areas Authority	1 000
	Legal Costs - Planning and Land Valuations	3 238
	Legal Costs - St Kilda Triangle	1 000
	Sustainability Victoria - Funding	5 000
	Victorian Gas Target and Support Scheme	760
		28 231
Treasury and Finance	First Home Bonus	32 171
		32 171
Victorian Communities	National Sports Museum and Concourse Upgrade (MCG)	7 041
		7 041
Parliament	Parliamentary Services	53
	Recruitment of the Auditor-General	71
		124
	Total Payments from Advance to Treasurer	**272 149**

Note 38. Public Account disclosure (continued)

Table 4.18 : Payments from Advances pursuant to Section 35 of the *Financial Management Act 1994* for the year ended 30 June

($ thousands)

Department	*Purpose*	*2006*
Infrastructure	Additional Public Transport to Mildura	1 000
	Bayside (Beacon Cove Development)	104
	Bonegilla Migrant Reception Centre Redevelopment	93
	Corio Independent Goods Line	574
	Creating New Bus and Transport Connection	1 300
	Healthy Futures - e-research	1 000
	Major Projects Stakeholder Program	900
	New Ticketing Solution	17 237
	Regional Fast Rail [(a)]	33 273
	Southern Cross Station - Ongoing Management	19 747
	Station Pier	7 880
	Telcommunications Purchasing and Management Strategy	237
	TravelSmart	1 101
	Tullamarine-Calder Interchange	200
	Upgrade Central Pier	3 550
	Vehicle Impoundment	415
	World Class Victoria Infrastructure Campaign	68
	World Congress (Trade) Centre	12
		88 691
Innovation, Industry and Regional Development	Australian Regenerative Medicine Institute	15 000
		15 000
Justice	Victoria Police IT	300
	Road Safety Camera	13 500
		13 800
Premier and Cabinet	Office of Police Integrity - Capital Component	2 078
	Office of the Ombudsman - Information Technology Upgrade	175
	State Architect	22
		2 274
Sustainability and Environment	Keeping the Port of Lake Entrance Open	3 000
		3 000
Victorian Communities	Public Record Office of Victoria - Digital Archive	861
	Sport and Recreation Victoria - Camps Upgrade	400
	Sport and Recreation Victoria - Howman's Gap Camp - Emergency Upgrade Works	361
		1 622
	Total Payments from Advance Pursuant to Section 35	**124 387**

Note:
(a) Due to revised cash flow.

Note 38. Public Account disclosure (continued)

Table 4.19: Unused advances carried forward to 2005-06 pursuant to Section 35(4) of the *Financial Management Act 1994*

There have been no amounts carried forward to 2005-06 under Section 35(4) of the *Financial Management Act 1994.*

Table 4.20: Parliamentary authority – Parliament

($ thousands)

	Parliamentary authority 2006	*Amounts applied 2006*	*Amounts applied 2005*
Legislative Council			
Special appropriations			
Audit Act, No. 2 of 1994 - Audit of the Office of the Auditor-General	12	12	12
Constitution Act, No. 8750 - Legislative Council	200	200	100
Parliamentary Salaries and Superannuation Act, No. 7723 - Salaries and Allowances	5 850	5 850	5 637
Parliamentary Salaries and Superannuation Act, No. 7723, Section 13 (1)(c) - Contributions	..	..	5 167
Total special appropriations	**6 062**	**6 062**	**10 915**
Annual appropriations			
Provision of outputs			
Provision of outputs - net application	2 578	2 567	2 711
Section 32 *Financial Management Act 1994*	..	..	100
Advance to Treasurer	..	..	54
Total provision of outputs - gross application	**2 578**	**2 567**	**2 865**
Additions to the net asset base			
Additions to the net asset base - net application	..	..	..
Advance to Treasurer	..	..	..
Section 32 *Financial Management Act 1994*	..	..	..
Total additions to the net asset base - gross application	**..**	**..**	**..**
Total annual appropriations gross application	**2 578**	**2 567**	**2 865**
Total Parliamentary authority	**8 640**	**8 629**	**13 779**

Note 38. Public Account disclosure (continued)

Table 4.20: Parliamentary authority - Parliament (continued)

($ thousands)

	Parliamentary authority 2006	*Amounts applied 2006*	*Amounts applied 2005*
Legislative Assembly			
Special appropriations			
Audit Act, No. 2 of 1994 - Audit of the Office of the Auditor-General	12	12	12
Constitution Act, No. 8750 - Clerk of the Parliaments	2	2	1
Constitution Act, No. 8750 - Legislative Assembly	550	550	275
Parliamentary Salaries and Superannuation Act, No. 7723 - Salaries and Allowances	11 062	11 062	10 664
Parliamentary Salaries and Superannuation Act, No. 7723 - Section 13(1)(c) Contributions	..	..	10 333
Total special appropriations	**11 626**	**11 626**	**21 284**
Annual appropriations			
Provision of outputs			
Provision of outputs - net application	3 976	3 957	4 292
Section 32 *Financial Management Act 1994*	..	..	200
Advance to Treasurer	..	..	70
Total provision of outputs - gross application	**3 976**	**3 957**	**4 562**
Additions to the net asset base			
Additions to the net asset base - net application	..	..	..
Section 32 *Financial Management Act 1994*	..	..	..
Total additions to the net asset base - gross application	**..**	**..**	**..**
Total annual appropriations - gross application	**3 976**	**3 957**	**4 562**
Total Parliamentary authority	**15 602**	**15 583**	**25 847**

Note 38. Public Account disclosure (continued)

Table 4.20: Parliamentary authority - Parliament (continued)

($ thousands)

	Parliamentary authority 2006	*Amounts applied 2006*	*Amounts applied 2005*
Parliamentary Investigatory Committees			
Annual appropriations			
Provision of outputs			
Provision of outputs - net application	5 490	5 485	5 321
Section 32 *Financial Management Act 1994*	..	..	200
Advance to Treasurer	71	71	37
Total provision of outputs - gross application	**5 561**	**5 557**	**5 558**
Total annual appropriations - gross application	**5 561**	**5 557**	**5 558**
Total Parliamentary authority	**5 561**	**5 557**	**5 558**

Note 38. Public Account disclosure (continued)

Table 4.20: Parliamentary authority - Parliament (continued)

($ thousands)

	Parliamentary authority 2006	*Amounts applied 2006*	*Amounts applied 2005*
Parliamentary Services			
Annual appropriations			
Provision of outputs			
Provision of outputs - net application	50 847	49 388	45 475
Section 32 *Financial Management Act 1994*	1 584	1 584	1 300
Advance to Treasurer	53	53	681
Total provision of outputs - gross application	**52 484**	**51 025**	**47 456**
Additions to the net asset base			
Additions to the net asset base - net application	4 100	300	250
Section 32 *Financial Management Act 1994*	3 800	3 800	..
Total additions to net asset base - gross application	**7 900**	**4 100**	**250**
Total annual appropriations - gross application	**60 384**	**55 125**	**47 706**
Total Parliamentary authority (excl. FMA Section 33)	**60 384**	**55 125**	**47 706**
Amounts issued under the authority of the Financial Management Act, No. 18 of 1994, Section 33 (Special Appropriation) relating to prior year appropriations	**368**	**368**	**..**
Total Parliamentary authority	**60 752**	**55 493**	**47 706**

Note 38. Public Account disclosure (continued)

Table 4.20: Parliamentary authority - Parliament (continued)

($ thousands)

	Parliamentary authority 2006	Amounts applied 2006	Amounts applied 2005
Auditor-General			
Special appropriations			
Constitution Act No. 8750 - Auditor General's salary	321	321	276
Total special appropriations (excl. FMA Section 33)	**321**	**321**	**276**
Annual appropriations			
Provision of outputs			
Provision of outputs - net application	10 801	10 472	10 083
Section 29 *Financial Management Act 1994*	16 855	14 996	14 268
Section 32 *Financial Management Act 1994*	760	760	296
Advance to Treasurer	..	..	..
Total provision of outputs - gross application	**28 416**	**26 228**	**24 647**
Total annual appropriations - gross application	**28 416**	**26 228**	**24 647**
Total parliamentary authority (excl. FMA Section 33)	**28 737**	**26 549**	**24 923**
Amounts issued under the authority of the Financial Management Act, No. 18 of 1994, Section 33 (Special Appropriation) relating to prior year appropriations	**..**	**..**	**..**
Total Parliamentary authority	**28 737**	**26 549**	**24 923**

Note 38. Public Account disclosure (continued)

Table 4.21: Parliamentary authority – Education and Training

($ thousands)

	Parliamentary authority 2006	*Amounts applied 2006*	*Amounts applied 2005*
Special appropriations			
Education Act, No. 6240, Section 34 - Volunteer Workers Compensation	250	250	483
Total special appropriations (excl. FMA Section 33)	**250**	**250**	**483**
Annual appropriations			
Provision of outputs			
Provision of outputs - net application	6 417 384	6 403 214	5 961 266
Section 29 *Financial Management Act 1994*	93 988	93 988	81 920
Section 32 *Financial Management Act 1994*	41 546	41 546	27 213
Advance to Treasurer	61 520	61 520	135 048
Total provision of outputs - gross application	**6 614 438**	**6 600 269**	**6 205 448**
Additions to the net asset base			
Additions to the net asset base - net application	105 025	..	..
Section 29 *Financial Management Act 1994*	113 965	113 965	70 674
Section 32 *Financial Management Act 1994*	4 001	4 001	**..**
Section 35 Financial Management Act No 18 of 1994 (temporary advances)	..	..	3 000
Total additions to the net asset base - gross application	**222 991**	**117 966**	**73 674**
Total annual appropriations - gross application	**6 837 429**	**6 718 234**	**6 279 122**
Total parliamentary authority (excl. FMA Section 33)	**6 837 679**	**6 718 484**	**6 279 605**
Amounts issued under the authority of the Financial Management Act, No. 18 of 1994, Section 33 (Special Appropriation) relating to prior year appropriations	**24 829**	**24 829**	**..**
Total Parliamentary authority	**6 862 508**	**6 743 313**	**6 279 605**

Note 38. Public Account disclosure (continued)

Table 4.22: Parliamentary authority – Human Services

($ thousands)

	Parliamentary authority 2006	*Amounts applied 2006*	*Amounts applied 2005*
Special appropriations			
Casino Control Act No. 47 of 1991, Sections 114 and 114 (b)	17 812	17,812	13 138
Financial Management Act, No.18 of 1994, Section 10	6 416	6,416	2 510
Gambling Regulation Act No 114 of 2003 Section 3.6.4 Contributions - Hospitals and Charities Fund	82 221	82,221	41 602
Gambling Regulation Act No 114 of 2003 Section 3.6.11 Contributions - Hospitals and Charities Fund/Mental Hospitals Fund	602 745	602,745	578 516
Gambling Regulation Act No 114 of 2003 Sections 4.4.11 and 4.6.8 Contributions - Hospitals and Charities Fund	116 596	116 596	114 724
Gambling Regulation Act No 114 of 2003 Section 5.4.6 Contributions - Hospitals and Charities Fund/Mental Hospitals Fund	314 255	314 255	304 541
Gambling Regulation Act No 114 of 2003 Section 6.3.3 Contributions - Hospitals and Charities Fund/Mental Hospitals Fund	1 529	1 529	1 588
Total special appropriations (excl. FMA Section 33)	**1 141 574**	**1 141 574**	**1 056 619**
Annual appropriations			
Provision of outputs			
Provision of outputs - net application	7 911 031	7 895 000	7 336 759
Section 29 *Financial Management Act 1994*	1 089 254	1 061 271	953 724
Section 32 *Financial Management Act 1994*	94 169	86 031	38 900
Section 35 Temporary Advances	..	..	10 000
Advance to Treasurer	1 883	1 883	154 283
Total provision of outputs - gross application	**9 096 337**	**9 044 185**	**8 493 666**
Additions to the net asset base			
Additions to the net asset base - net application	428 816	290 433	231 328
Section 29 *Financial Management Act 1994*	18 593	15 484	47 039
Section 32 *Financial Management Act 1994*	72 923	72 923	7 930
Section 35 Financial Management Act No 18 of 1994 (temporary advances)	..	..	7 600
Total additions to the net asset base - gross application	**520 332**	**378 840**	**293 897**

Table 4.22: Parliamentary authority – Human Services (continued)

($ thousands)

	Parliamentary authority 2006	*Amounts applied 2006*	*Amounts applied 2005*
Other			
Cemeteries - Grants towards maintenance and improvement pursuant to the *Cemeteries Act 1958* [(a)]	..	..	30
Total Annual Appropriations Gross Application	**9 616 670**	**9 423 026**	**8 787 592**
Total parliamentary authority (excl. FMA Section 33)	**10 758 243**	**10 564 600**	**9 844 212**
Amounts issued under the authority of the Financial Management Act, No. 18 of 1994, Section 33 (Special Appropriation) relating to prior year appropriations	**17 498**	**17 498**	**7 600**
Total Parliamentary authority	**10 775 742**	**10 582 098**	**9 851 812**

Note:

(a) Cemeteries Act 1958 *has now been repealed.*

Note 38. Public Account disclosure (continued)

Table 4.23: Parliamentary authority – Infrastructure

($ thousands)

	Parliamentary authority 2006	*Amounts applied 2006*	*Amounts applied 2005*
Special appropriations			
Transport Act No. 9921 of 1983, Section 213 (a)	1 570	1 570	1 114
Total special appropriations	**1 570**	**1 570**	**1 114**
Annual appropriations			
Provision of outputs			
Provision of outputs - net application	3 048 521	2 986 315	2 548 439
Section 29 *Financial Management Act 1994*	300 760	201 654	206 247
Section 32 *Financial Management Act 1994*	70 027	69 267	46 056
Advance to Treasurer	2 932	2 932	..
Section 35 Financial Management Act No 18 of 1994 (temporary advances)	51 402	51 402	..
Total provision of outputs - gross application	**3 473 642**	**3 311 571**	**2 800 742**
Additions to the net asset base			
Additions to the net asset base - net application	355 759	180 054	262 825
Section 29 *Financial Management Act 1994*	..	..	..
Section 32 *Financial Management Act 1994*	56 610	51 207	28 746
Section 35 Financial Management Act No 18 of 1994 (temporary advances)	37 289	37 289	28 451
Total additions to the net asset base - gross application	**449 658**	**268 550**	**320 022**
Payments made on behalf of the State			
Payments made on behalf of the State - net application	35 900	35 900	9 000
Advance to Treasurer			
Total for payments made on behalf of the State - gross application	**35 900**	**35 900**	**9 000**
Total annual appropriations - gross application	**3 959 199**	**3 616 020**	**3 129 764**
Total parliamentary authority (excl. FMA Section 33)	**3 960 769**	**3 617 590**	**3 130 878**
Amounts issued under the authority of the Financial Management Act, No. 18 of 1994, Section 33 (Special Appropriation) relating to prior year appropriations	**50 000**	**50 000**	**5 100**
Total Parliamentary authority	**4 010 769**	**3 667 590**	**3 135 978**

Note 38. Public Account disclosure (continued)

Table 4.24: Parliamentary authority – Innovation, Industry and Regional Development

($ thousands)

	Parliamentary authority 2006	*Amounts applied 2006*	*Amounts applied 2005*
Annual appropriations			
Provision of outputs			
Provision of outputs - net application	244 358	236 365	204 273
Section 29 *Financial Management Act 1994*	177	177	253
Section 32 Financial *Management Act 1994*	43 460	43 460	50 633
Advance to Treasurer	104 736	104 736	48 584
Total provision of outputs - gross application	**392 732**	**384 739**	**303 743**
Additions to the net asset base			
Additions to the net asset base - net application	135 464	37 883	65 789
Section 32 *Financial Management Act 1994*	7 726	7 726	3 649
Section 35 Financial Management Act No 18 of 1994 (temporary advances)	15 000	15 000	..
Total additions to the net asset base - gross application	**158 190**	**60 609**	**69 438**
Other			
Payment to Regional Infrastructure Development Fund pursuant to Section 4 of the *Regional Infrastructure Development Fund Act 1999*	35 000	35 000	25 000
Total other	**35 000**	**35 000**	**25 000**
Total annual appropriations - gross application	**585 922**	**480 348**	**398 181**
Total Parliamentary authority (excl. FMA Section 33)	**585 922**	**480 348**	**398 181**
Amounts issued under the authority of the Financial Management Act, No. 18 of 1994, Section 33 (Special Appropriation) relating to prior year appropriations	**..**	**..**	**3 000**
Total Parliamentary authority	**585 922**	**480 348**	**401 181**

Note 38. Public Account disclosure (continued)

Table 4.25: Parliamentary authority – Justice

($ thousands)

	Parliamentary authority 2006	*Amounts applied 2006*	*Amounts applied 2005*
Special appropriations			
Constitution Act, No. 8750 - Chief Justice	413	413	324
Constitution Act, No. 8750 - Judges of the Court of Appeal	3 529	3 529	3 212
Constitution Act, No. 8750 - President, Court of Appeal	540	540	304
Constitution Act, No. 8750 - Judges Supreme Court	9 304	9 304	7 678
County Court Act, No. 6230 - Judges	15 722	15 722	14 832
Crown Proceedings Act, No. 6232	1 885	1 885	1 310
Discharged Servicemen's Preference Act, No. 4989	..	..	1
Electoral Act, No. 23 of 2002, Sections 181 and 215	24 135	24 135	17 652
Financial Management Act, No. 18 of 1994, Section 10	2 683	2 683	843
Magistrates Court Act, No. 51 of 1989	24 500	24 500	22 234
Melbourne City Link Act, No. 107 of 1995, Section 14 (4)	1 369	1 369	2 936
Victims of Crime Assistance Act, No. 81 of 1996 - Tribunal	1 665	1 665	1 678
Victims of Crime Assistance Act, No. 81 of 1996 - Criminal Injuries Compensation	28 507	28 507	27 000
Victorian State Emergency Services Volunteer Workers Compensation - Act No. 57 of 1987	239	239	53
Victorian State Emergency Services Volunteer Workers Compensation - Act No. 51 of 2005	568	568	..
Total special appropriations (excl. FMA Section 33)	**115 061**	**115 061**	**100 058**
Annual appropriations			
Provision of outputs			
Provision of outputs - net application	2 387 632	2 381 904	2 155 255
Section 29 *Financial Management Act 1994*	94 079	94 079	87 882
Section 32 *Financial Management Act 1994*	32 267	32 267	7 603
Advance to Treasurer	21 415	21 415	8 930
Total provision of outputs - gross application	**2 535 393**	**2 529 665**	**2 259 670**

Note 38. Public Account disclosure (continued)

Table 4.25: Parliamentary authority – Justice (continued)

($ thousands)

	Parliamentary authority 2006	*Amounts applied 2006*	*Amounts applied 2005*
Additions to the net asset base			
Additions to the net asset base - net application	93 618	90 921	73 410
Section 29 *Financial Management Act 1994*	4 410	4 410	1 371
Section 32 *Financial Management Act 1994*	7 604	..	140
Section 35 Financial Management Act No 18 of 1994 (temporary advances)	13 800	13 800	..
Total additions to the net asset base - gross application	**119 432**	**109 130**	**74 921**
Payments made on behalf of the State			
Payments made on behalf of the State - net application	53 300	51 894	45 800
Advance to Treasurer	..	..	15 424
Total for payments made on behalf of the State - gross application	**53 300**	**51 894**	**61 225**
Other			
Victorian Law Reform Commission - pursuant to Section 17 (b) of the *Victorian Law Reform Commission* Act *2000*	1 010	1 003	997
Total Other	**1 010**	**1 003**	**997**
Total annual appropriations gross application	**2 709 135**	**2 691 692**	**2 396 813**
Total parliamentary authority (excl. FMA Section 33)	**2 824 196**	**2 806 753**	**2 496 871**
Amounts issued under the authority of the Financial Management Act, No. 18 of 1994, Section 33 (Special Appropriation) relating to prior year appropriations	**37 785**	**37 785**	**13 990**
Total Parliamentary authority	**2 861 981**	**2 844 538**	**2 510 861**

Note 38. Public Account disclosure (continued)

Table 4.26: Parliamentary authority – Premier and Cabinet

($ thousands)

	Parliamentary authority 2006	*Amounts applied 2006*	*Amounts applied 2005*
Special appropriations			
Constitution Act, No. 8750 - Executive Council	50	50	50
Constitution Act, No. 8750 - Governor's Salary	186	186	140
Ombudsman Act, No. 8414	320	320	259
Parliamentary Salaries and Superannuation Act, No. 7723	4 977	4 977	4 800
Total special appropriations (excl. FMA Section 33)	**5 533**	**5 533**	**5 248**
Annual appropriations			
Provision of outputs			
Provision of outputs - net application	421 729	408 329	374 372
Section 29 *Financial Management Act 1994*	478	478	9
Section 32 *Financial Management Act 1994*	2 855	2 855	5 365
Advance to Treasurer	9 096	9 096	17 660
Total provision of outputs - gross application	**434 158**	**420 758**	**397 406**
Additions to the net asset base			
Additions to the net asset base - net application	79 557	21 274	6 200
Section 32 *Financial Management Act 1994*	12 302	3 678	..
Section 35 Financial Management Act No 18 of 1994 (temporary advances)	2 274	2 274	..
Total additions to the net asset base - gross application	**94 133**	**27 226**	**6 200**
Payments made on behalf of the State			
Payments made on behalf of the State - net application	..	..	..
Total payments made on behalf of the State - gross application	**..**	**..**	**..**
Total annual appropriations - gross application	**528 292**	**447 984**	**403 606**
Total Parliamentary authority (excl. FMA Section 33)	**533 824**	**453 517**	**408 854**
Amounts issued under the authority of the Financial Management Act, No. 18 of 1994, Section 33 (Special Appropriation) relating to prior year appropriations	**8 366**	**8 366**	**..**
Total Parliamentary authority	**542 190**	**461 883**	**408 854**

Note 38. Public Account disclosure (continued)

Table 4.27: Parliamentary authority – Primary Industries

($ thousands)

	Parliamentary authority 2006	*Amounts applied 2006*	*Amounts applied 2005*
Special appropriations			
Financial Management Act, No. 18 of 1994, Section 10	..	..	326
Total special appropriations (excl. FMA Section 33)	**..**	**..**	**326**
Annual appropriations			
Provision of outputs			
Provision of outputs - net application	258 467	250 136	206 154
Section 29 *Financial Management Act 1994*	97 518	74 133	58 116
Section 32 *Financial Management Act 1994*	36 320	36 320	31 241
Section 35 Advance to the Treasurer	..	..	14 900
Advance to Treasurer	3 000	3 000	491
Total provision of outputs - gross application	**395 305**	**363 588**	**310 902**
Additions to the net asset base			
Additions to the net asset base - net application	49 453	4 889	..
Section 32 *Financial Management Act 1994*	5 500	1 100	8 920
Total additions to the net asset base - gross application	**54 953**	**5 989**	**8 920**
Total annual appropriations - gross application	**450 258**	**369 577**	**319 822**
Total parliamentary authority (excl. FMA Section 33)	**450 258**	**369 577**	**320 147**
Amounts issued under the authority of the Financial Management Act, No. 18 of 1994, Section 33 (Special Appropriation) relating to prior year appropriations	**2 492**	**2 492**	**..**
Total Parliamentary authority	**452 750**	**372 069**	**320 147**

Note 38. Public Account disclosure (continued)

Table 4.28: Parliamentary authority – Sustainability and Environment

($ thousands)

	Parliamentary authority 2006	*Amounts applied 2006*	*Amounts applied 2005*
Special appropriations			
Financial Management Act, No. 18 of 1994, Section 10	5 510	5 510	..
Total special appropriations (excl. FMA Section 33)	**5 510**	**5 510**	**..**
Annual appropriations			
Provision of outputs			
Provision of outputs - net application	660 778	639 996	610 094
Section 29 *Financial Management Act 1994*	95 932	85 841	62 073
Section 32 *Financial Management Act 1994*	2 756	2 756	19 824
Advance to Treasurer	28 231	28 231	52 284
Section 35 Financial Management Act No 18 of 1994 (temporary advances)	3 000	3 000	..
Victorian Water Trust - net application	13 189	12 938	13 992
Section 32 *Financial Management Act 1994*	125	125	..
Pursuant to Section 15 of the *Environment Protection Act* 1970 - net application	29 355	29 343	29 140
Section 29 *Financial Management Act 1994*	6 799	6 799	4 245
Total provision of outputs - gross application	**840 165**	**809 029**	**791 651**
Additions to the net asset base			
Additions to the net asset base - net application	48 082	47 528	16 191
Section 29 *Financial Management Act 1994*	3 776	3 775	..
Section 32 *Financial Management Act 1994*	..	..	17 545
Section 32 *Financial Management Act 1994* - Victorian Water Trust	..	..	6 494
Victorian Water Trust - net application	37 735	37 735	11 740
Advance to the Treasurer	..	..	789
Section 35 Financial Management Act No 18 of 1994 (temporary advances)	..	..	18 090
Total additions to the net asset base - gross application	**89 594**	**89 039**	**70 849**
Payments made on behalf of the State			
Payments made on behalf of the State - net application	1 100	..	1 100
Total for payments made on behalf of the State - gross application	**1 100**	**..**	**1 100**

Note 38. Public Account disclosure (continued)

Table 4.28: Parliamentary authority – Sustainability and Environment (continued)

($ thousands)

	Parliamentary authority 2006	*Amounts applied 2006*	*Amounts applied 2005*
Other			
Contribution by the State under agreements pursuant to Section 25 of the *Murray-Darling Basin Act 1993*	24 614	24 614	25 820
Advance to Treasurer	..		..
Total Other	**24 614**	**24 614**	**25 820**
Total annual appropriations - gross application	**955 473**	**922 682**	**889 420**
Total parliamentary authority (excl. FMA Section 33)	**960 983**	**928 192**	**889 420**
Amounts issued under the authority of the Financial Management Act, No. 18 of 1994, Section 33 (Special Appropriation) relating to prior year appropriations	**..**	**..**	**11 000**
Total Parliamentary authority	**960 983**	**928 192**	**900 420**

Note 38. Public Account disclosure (continued)

Table 4.29: Parliamentary authority – Treasury and Finance

($ thousands)

	Parliamentary authority 2006	*Amounts applied 2006*	*Amounts applied 2005*
Special appropriations			
Business Franchise Fees (Petroleum Products) Act, No. 9272 of 1979 Section 17 (2)	35 034	35 034	35 326
Constitution Act, No. 8750, Governor's Pension	565	565	512
Constitution Act, No. 8750 - Supreme Court Judges	4 941	4 941	3 936
County Court Act, No. 6230 - Judges	6 344	6 344	5 646
Financial Management Act, No.18 of 1994, Section 10	26 187	26 187	26 300
Financial Management Act, No.18 of 1994, Section 39 - Interest on Advances	105	105	3 342
Liquor Control Reform Act, No. 94 of 1988, Section 177 (2)	2 340	2 340	4 617
Mint Act, No. 6323, Section 3	..	..	53
State Electricity Commission Act 1958, Section 85B(2) - Indemnity	125 000	125 000	120 000
State Superannuation Act, No. 50 of 1988, Section 90 (2) - Contributions	777 371	777 371	724 084
State Owned Enterprises Act, No. 94 of 1994, Section 88 - State equivalent taxation payments	..	..	3 372
Taxation (Interest on Overpayments) Act, No. 35 of 1986, Section 11	1 000	1 000	1 360
Treasury Corporation of Victoria Act No. 80 of 1992, Section 38 - Debt Retirement	606	606	587
Total special appropriations (excl. FMA Section 33)	**979 492**	**979 492**	**929 136**
Annual appropriations			
Provision of outputs			
Provision of outputs - net application	179 223	178 988	179 784
Section 29 *Financial Management Act 1994*	3 125	3 125	3 415
Section 32 *Financial Management Act 1994*	475	311	380
Total provision of outputs - gross application	**182 824**	**182 425**	**183 579**

Note 38. Public Account disclosure (continued)

Table 4.29: Parliamentary authority – Treasury and Finance (continued)

($ thousands)

	Parliamentary authority 2006	*Amounts applied 2006*	*Amounts applied 2005*
Additions to the net asset base			
Additions to the net asset base - net application	22 960	19 300	19 500
Section 29 *Financial Management Act 1994*	..	..	..
Section 32 *Financial Management Act 1994*	..	..	..
Advance to Treasurer	..	..	..
Total additions to the net asset base - gross application	**22 960**	**19 300**	**19 500**
Payments made on behalf of the State			
Payments made on behalf of the State - net application	1 040 125	1 040 125	1 074 713
Section 32 *Financial Management Act 1994*	..	..	..
Section 35 Advance to the Treasurer	..	..	11 000
Advance to the Treasurer	32 171	32 171	30 000
Total for payments made on behalf of the State - gross application	**1 072 296**	**1 072 296**	**1 115 713**
Advance to Treasurer to meet urgent claims that may arise before Parliamentary sanction is obtained, which will afterwards be submitted for Parliamentary authority	281 203	272 149	474 228
Payments approved under Advance to Treasurer and brought to account under the relevant Departments	(281 203)	(272 149)	(474 228)
Total annual appropriations gross application	**1 278 079**	**1 274 020**	**1 318 792**
Total Parliamentary authority (excl. FMA Section 33)	**2 257 571**	**2 253 512**	**2 247 928**
Amounts issued under the authority of the Financial Management Act, No. 18 of 1994, Section 33 (Special Appropriation) relating to prior year appropriations	**9 161**	**9 161**	**20 028**
Total Parliamentary authority	**2 266 732**	**2 262 673**	**2 267 956**

Note 38. Public Account disclosure (continued)

Table 4.30: Parliamentary authority – Victorian Communities

($ thousands)

	Parliamentary authority 2006	*Amounts applied 2006*	*Amounts applied 2005*
Special appropriations			
Discharged Servicemen's Preference Act No.4989, Section 14	22	22	..
Financial Management Act, No.18 of 1994, Section 10	13 366	13 366	133
Gambling Regulation Act No 114 of 2003, Section 3.6.12 Contribution to Community Support Fund	90 951	90 951	86 116
Total special appropriations	**104 339**	**104 339**	**86 249**
Annual appropriations			
Provision of outputs			
Provision of outputs - net application	533 930	469 753	328 841
Section 29 *Financial Management Act 1994*	5 243	5 222	4 729
Section 32 *Financial Management Act 1994*	21 490	20 945	18 741
Advance to Treasurer	7 041	7 041	..
Total provision of outputs - gross application	**567 704**	**502 961**	**352 310**
Additions to the net assets base			
Additions to the net asset base - net application	54 691	30 759	32 337
Section 32 *Financial Management Act 1994*	27 737	27 737	34 151
Section 35 Financial Management Act No 18 of 1994 (temporary advances)	1 622	1 622	..
Advance to Treasurer	..	..	..
Total additions to the net asset base - gross application	**84 050**	**60 118**	**66 488**
Payments made on behalf of the State			
Payments made on behalf of the State - net application	17 995	17 291	18 442
Total for payments made on behalf of the State - gross application	**17 995**	**17 291**	**18 442**
Total annual appropriations - gross application	**669 749**	**580 369**	**437 240**
Total Parliamentary authority (excl. FMA Section 33)	**774 088**	**684 708**	**523 489**
Amounts issued under the authority of the Financial Management Act, No. 18 of 1994, Section 33 (Special Appropriation) relating to prior year appropriations	**1 600**	**1 600**	**..**
Total Parliamentary authority	**775 688**	**686 308**	**523 489**

Note 38. Public Account disclosure (continued)

Table 4.31: Government guarantee

Details of payments made in fulfilment of any guarantee by the Government

The payment of $528.48 was made during 2005-06 to the Bourke No. 8 Co-operative Housing Society Ltd, pursuant to a government guarantee, to meet a shortfall between the amount received from the sale of a property and the amount owned by the borrower.

Money received or recovered in respect of any guarantee payments

Since the orginal indemnity claims by the Foundation No. 2 Co-operative Housing Society Ltd and Bourke No. 8 Co-operative Housing Society Ltd, two amounts totalling $7 531.62 have been recovered from the borrowers in the 2005-06 Financial Year.

Note 39. Controlled entities

The following is a list of significant controlled entities which have been consolidated for the purposes of the Annual Financial Report. Minor wholly owned subsidiaries of these controlled entities are not separately disclosed in the listing below.

For further details on consolidation policy, refer to Note 1(D) '*Basis of consolidation'* in the statement of significant accounting policies.

Controlled Entities	General government	Public non-financial corporations	Public financial corporations
Department of Education and Training	*****		
Adult Community and Further Education Board	*		
Adult Multicultural Education Services	*		
Centre for Adult Education	*		
TAFEs including:	*		
Bendigo Regional Institute of TAFE	*		
Box Hill Institute of TAFE	*		
Central Gippsland Institute of TAFE	*		
Chisholm Institute of TAFE	*		
Driver Education Centre of Australia Ltd	*		
East Gippsland Institute of TAFE	*		
Gordon Institute of TAFE	*		
Goulburn Ovens Institute of TAFE	*		
Holmesglen Institute of TAFE	*		
International Fibre Centre Limited	*		
Kangan Batman Institute of TAFE	*		
Northern Melbourne Institute of TAFE	*		
Royal Melbourne Institute of Technology (TAFE Division)	*		
South West Institute of TAFE	*		
Sunraysia Institute of TAFE	*		
Swinburne University of Technology (TAFE Division)	*		
University of Ballarat (TAFE Division)	*		
Victoria University of Technology (TAFE Division)	*		
William Angliss Institute of TAFE	*		
Wodonga Institute of TAFE	*		
Victorian Curriculum and Assessment Authority	*		
Victorian Institute of Teaching	*		
Victorian Learning and Employment Skills Commission	*		
Victorian Qualifications Authority	*		

Controlled Entities	General government	Public non-financial corporations	Public financial corporations
Department of Human Services	*		
Health Purchasing Victoria	*		
Infertility Treatment Authority	*		
Hospitals and Ambulance Services including:			
Alexandra District Ambulance Service	*		
Alexandra District Hospital	*		
Alpine Health	*		
Ambulance Service Victoria Metropolitan Region	*		
Austin Health	*		
Bairnsdale Regional Health Service	*		
Ballarat Health Services	*		
Barwon Health	*		
Bass Coast Regional Health	*		
Bayside Health	*		
Beaufort and Skipton Health Service	*		
Beechworth Health Service	*		
Benalla and District Memorial Hospital	*		
Bendigo Health Care Group	*		
Boort District Hospital	*		
Casterton Memorial Hospital	*		
Central Gippsland Health Service	*		
Cobram District Hospital	*		
Cohuna District Hospital	*		
Colac Area Health	*		
Dental Health Services Victoria	*		
Djerriwarrh Health Services	*		
Dunmunkle Health Services	*		
East Grampians Health Service	*		
East Wimmera Health Service	*		
Eastern Health	*		
Echuca Regional Health	*		
Edenhope and District Memorial Hospital	*		
Gippsland Southern Health Service	*		
Goulburn Valley Health	*		
Hepburn Health Service	*		
Hesse Rural Health Service	*		
Heywood Rural Health	*		
Inglewood and District Health Service	*		
Kerang and District Hospital	*		
Kooweerup Regional Health Service	*		
Kyabram and District Health Services	*		
Kyneton District Health Service	*		

Controlled Entities	General government	Public non-financial corporations	Public financial corporations
Latrobe Regional Hospital	*		
Lorne Community Hospital	*		
Maldon Hospital	*		
Mallee Track Health and Community Services	*		
Manangatang and District Hospital	*		
Mansfield District Hospital	*		
Maryborough District Health Service	*		
McIvor Health and Community Services	*		
Melbourne Health	*		
Moyne Health Services	*		
Mt Alexander Hospital	*		
Nathalia District Hospital	*		
Northeast Health Wangaratta	*		
Northern Health	*		
Numurkah District Health Service	*		
Omeo District Health	*		
Orbost Regional Health	*		
Otway Health and Community Services	*		
Peninsula Health	*		
Peter MacCallum Cancer Institute	*		
Portland District Health	*		
Robinvale District Health Services	*		
Rochester and Elmore District Health Service	*		
Rural Ambulance Victoria	*		
Rural Northwest Health	*		
Seymour District Memorial Hospital	*		
South Gippsland Hospital	*		
South West Healthcare	*		
Southern Health	*		
Stawell Regional Health	*		
Swan Hill District Hospital	*		
Tallangatta Health Service	*		
Terang and Mortlake Health Service	*		
The Kilmore and District Hospital	*		
The Queen Elizabeth Centre	*		
The Royal Children's Hospital	*		
The Royal Victorian Eye and Ear Hospital	*		
The Royal Women's Hospital	*		
Timboon and District Health Care Service	*		
Tweddle Child and Family Health Service	*		

Controlled Entities	General government	Public non-financial corporations	Public financial corporations
Upper Murray Health and Community Services	*		
Victorian Institute of Forensic Mental Health	*		
West Gippsland Health Care Group	*		
West Wimmera Health Service	*		
Western District Health Service (amalgamation of Western District Health Service and Coleraine and District Health Services) #	*		
Western Health	*		
Wimmera Health Care Group	*		
Wodonga Regional Health Service	*		
Yarram and District Health Service	*		
Yarrawonga District Health Service	*		
Yea and District Memorial Hospital	*		
Mental Health Review Board	*		
Psychosurgery Review Board	*		
Registration Boards including:			
Chinese Medicine Registration Board of Victoria	*		
Chiropractors Registration Board of Victoria	*		
Dental Practice Board of Victoria	*		
Medical Practitioners Board of Victoria	*		
Nurses Board of Victoria	*		
Optometrists Registration Board of Victoria	*		
Osteopaths Registration Board of Victoria	*		
Pharmacy Board of Victoria	*		
Physiotherapists Registration Board of Victoria	*		
Podiatrists Registration Board of Victoria	*		
Psychologists Registration Board of Victoria	*		
Victorian Health Promotion Foundation	*		
Victorian Relief Committee	*		
Cemeteries including:			
Anderson's Creek Cemetery Trust		†	
Ballarat General Cemeteries Trust		†	
Bendigo Cemeteries Trust		†	
Keilor Cemetery Trust		†	
Necropolis Springvale, Trustees of the		†	
Preston Cemetery Trust		†	

Controlled Entities	General government	Public non-financial corporations	Public financial corporations
Templestowe Cemetery Trust		†	
The Cheltenham and Regional Cemeteries Trust		†	
The Lilydale Cemeteries Trust		†	
The Mildura Cemetery Trust		†	
The Trustee of the Altona Memorial Park		†	
Trustees of the Fawkner Crematorium and Memorial Park		†	
Trustees of the Geelong Cemeteries Trust		†	
Wyndham Cemeteries Trust		†	
Director of Housing		†	
Department of Infrastructure	*		
Energy Safe Victoria (formerly Office of Gas Safety and Office of the Chief Electrical Inspector) [#]	*		
Roads Corporation	*		
Southern and Eastern Integrated Transport Authority	*		
Southern Cross Station Authority (formerly Spencer Street Station Authority)	*		
Port of Hastings Corporation		†	
Port of Melbourne Corporation		†	
Public Transport Ticketing Body		†	
V/Line Passenger Corporation		†	
Victorian Energy Networks Corporation (VENCorp)		†	
Victorian Rail Track		†	
Victorian Regional Channels Authority		†	
Victorian Urban Development Authority (VicUrban)		†	
Department of Innovation Industry and Regional Development	*		
Prince Henry's Institute of Medical Research	*		
Tourism Victoria	*		
Australian Grand Prix Corporation		†	
Emerald Tourist Railway Board		†	
Fed Square Pty Ltd		†	
Melbourne Convention and Exhibition Trust		†	

Controlled Entities	General government	Public non-financial corporations	Public financial corporations
Department of Justice	*		
Country Fire Authority	*		
Domestic Building (HIH) Indemnity Fund	*		
Emergency Services Telecommunications Authority (formerly Emergency Communications Victoria) #	*		
Equal Opportunity Commission	*		
Judicial College of Victoria	*		
Legal Services Board (formerly Legal Practice Board) #	*		
Legal Services Commissioner (formerly Office of the Legal Ombudsman) #	*		
Metropolitan Fire and Emergency Services Board	*		
Office of Public Prosecutions	*		
Office of the Public Advocate	*		
Office of the Victorian Privacy Commissioner	*		
Sentencing Advisory Council	*		
Victoria Legal Aid	*		
Victoria Police (Office of the Chief Commissioner of Police)	*		
Victoria State Emergency Service Authority #	*		
Victorian Commission for Gambling Regulation	*		
Victorian Electoral Commission	*		
Victorian Institute of Forensic Medicine	*		
Victorian Law Reform Commission	*		
Greyhound Racing Victoria		†	
Harness Racing Victoria		†	
Victorian Professional Standards Council #		†	
Department of Premier and Cabinet	*		
Australian Centre for the Moving Image	*		
Film Victoria	*		
Library Board of Victoria	*		
Museums Board of Victoria	*		
National Gallery of Victoria, Council of Trustees	*		
Office of Police Integrity	*		
Office of the Ombudsman	*		
State Services Authority	*		
Geelong Performing Arts Centre Trust		†	
Victorian Arts Centre Trust		†	

Controlled Entities	General government	Public non-financial corporations	Public financial corporations
Victorian Major Events Company Limited		†	
Department of Primary Industries	*		
Veterinary Practitioners Registration Board of Victoria	*		
Agriculture Victoria Services Pty Ltd		†	
Dairy Food Safety Victoria		†	
Melbourne Market Authority		†	
Murray Valley Citrus Board		†	
Murray Valley Wine Grape Industry Development Committee		†	
Northern Victorian Fresh Tomato Industry Development Committee		†	
PrimeSafe		†	
Victorian Strawberry Industry Development Committee		†	
Department of Sustainability and Environment	*		
Architects Registration Board of Victoria	*		
Building Commission	*		
Catchment Management Authorities including:			
Corangamite Catchment Management Authority	*		
East Gippsland Catchment Management Authority	*		
Glenelg Hopkins Catchment Management Authority	*		
Goulburn Broken Catchment Management Authority	*		
Mallee Catchment Management Authority	*		
North Central Catchment Management Authority	*		
North East Catchment Management Authority	*		
Port Phillip and Westernport Catchment Management Authority	*		
West Gippsland Catchment Management Authority	*		
Wimmera Catchment Management Authority	*		
Environment Protection Authority	*		
Heritage Council	*		

Controlled Entities	General government	Public non-financial corporations	Public financial corporations
Office of the Commissioner for Environmental Sustainability	*		
Parks Victoria	*		
Plumbing Industry Commission	*		
Royal Botanic Gardens Board	*		
Surveyors Registration Board of Victoria	*		
Sustainability Victoria (successor for the Sustainability Energy Authority and Eco Recycle Victoria) [#]	*		
Trust for Nature (Victoria)	*		
Alpine Resort Management Board including:			
Alpine Resorts Co-ordinating Council		†	
Falls Creek Alpine Resort Management Board		†	
Lake Mountain Alpine Resort Management Board		†	
Mount Baw Baw Alpine Resort Management Board		†	
Mount Buller and Mount Stirling Alpine Resort Management Board		†	
Mount Hotham Alpine Resort Management Board		†	
Phillip Island Nature Park Board of Management Inc.		†	
Waste Management Groups including:			
Barwon Regional Waste Management Group		†	
Calder Regional Waste Management Group		†	
Central Murray Regional Waste Management Group		†	
Desert Fringe Regional Waste Management Group		†	
Eastern Regional Waste Management Group		†	
Gippsland Regional Waste Management Group		†	
Goulburn Valley Regional Waste Management Group		†	
Grampians Regional Waste Management Group		†	
Highlands Regional Waste Management Group		†	
Mildura Regional Waste Management Group		†	

Controlled Entities	General government	Public non-financial corporations	Public financial corporations
Mornington Peninsula Regional Waste Management Group		†	
Northern East Victorian Regional Waste Management Group		†	
Northern Regional Waste Management Group		†	
South Eastern Regional Waste Management Group		†	
South Western Regional Waste Management Group		†	
Western Regional Waste Management Group		†	
Water Authorities including:			
Barwon Region Water Authority		†	
Central Gippsland Region Water Authority		†	
Central Highlands Region Water Authority		†	
Coliban Region Water Authority		†	
East Gippsland Region Water Authority		†	
First Mildura Irrigation Trust		†	
Gippsland and Southern Rural Water Authority		†	
Goulburn-Murray Rural Water Authority		†	
Goulburn Valley Region Water Authority		†	
Grampians Wimmera-Mallee Water Authority		†	
Lower Murray Urban and Rural Water Authority		†	
Melbourne Water Corporation		†	
North East Region Water Authority		†	
South Gippsland Region Water Authority		†	
Wannon Region Water Authority (Formerly South West Water Authority, Portland Coast Region Water Authority and Glenelg Region Water Authority) #		†	
Western Region Water Authority		†	
Westernport Region Water Authority		†	
Yarra Bend Park Trust		†	
Zoological Parks and Gardens Board of Victoria		†	
Department of Treasury and Finance	*****		
Essential Services Commission	*		
Victorian Competition and Efficiency Commission	*		
City West Water Limited		†	

Controlled Entities	**General government**	**Public non-financial corporations**	**Public financial corporations**
South East Water Limited		†	
State Electricity Commission of Victoria (shell)		†	
VicFleet Pty Ltd		†	
VicForests		†	
Victorian Plantations Corporation (shell)		†	
Yarra Valley Water Limited		†	
Rural Finance Corporation of Victoria			Δ
State Trustees Limited			Δ
Transport Accident Commission			Δ
Treasury Corporation of Victoria			Δ
Tricontinental Holdings Ltd and Controlled Entities			Δ
Victorian Funds Management Corporation			Δ
Victorian Managed Insurance Authority			Δ
Victorian WorkCover Authority			Δ
Department for Victorian Communities	*****		
2007 World Swimming Championships Corporation	*		
Shrine of Remembrance Trustees	*		
Victorian Institute of Sport Limited	*		
Victorian Institute of Sport Trust	*		
Melbourne 2006 Commonwealth Games Corporation		†	
Melbourne and Olympic Parks Trust		†	
Queen Victoria Women’s Centre Trust		†	
State Sport Centres Trust		†	
VITS Languagelink		†	
Victorian Veteran’s Council		†	
Parliament of Victoria	*****		
Victorian Auditor-General's Office	*		

Notes:

\# *Entities commenced operation during 2005-06.*

Entities ceased operations during 2005-06 include:

- *Coleraine and District Health Services (DHS) as of 1 July 2005*
- *Office of Gas Safety as of 10 August 2005*
- *Office of Chief Electrical Inspector as of 10 August 2005*
- *Victorian Rail Services Pty Ltd as of August 2005*
- *Emergency Communications Victoria as of 1 July 2005*
- *Melbourne International Festival of the Arts Ltd as of 1 July 2005*
- *EcoRecycle Victoria as of 29 September 2005*
- *Glenelg Region Water Authority as of 1 July 2005*
- *Portland Coast Region Water Authority as of 1 July 2005*
- *South West Water Authority as of 1 July 2005*
- *Sustainable Energy Authority Victoria as of 29 September 2005*

CHAPTER 5 – UNIFORM PRESENTATION FRAMEWORK OF GOVERNMENT FINANCE STATISTICS

THE ACCRUAL GFS PRESENTATION

The Government Finance Statistics (GFS) system employed by the Australian Bureau of Statistics (ABS) is designed to provide statistics relating to all Australian public sector entities. The statistics show consolidated transactions of the various institutional sectors of government from an economic viewpoint, providing details of the revenue, expenses, payments, receipts, assets and liabilities. It includes only those transactions over which a government exercises control under its legislative or policy framework and excludes from the calculation of net operating balance both revaluations (holding gains or losses) arising from a change in market prices, and other changes in the volume of assets that result from discoveries, depletion and destruction of assets.

In the tables the 2005-06 Revised is as published in the 2006-07 Budget.

GAAP/GFS harmonisation

In September 2006, the Australian Accounting Standards Board (AASB) issued a new standard for Financial Reporting of General Government Sectors by Governments, applicable from 1 July 2008. Early adoption of the standard is permitted. The objective as set out by the Financial Reporting Council in December 2002 is "to achieve an Australian accounting standard for a single set of government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements".

This new standard for reporting the general government sector implements the first of three stages of the strategy to create a single standard for general government sector entities, the general government sector itself, and for all other government entities.

For the first time, an accounting standard will require that, in addition to complying with all other relevant accounting standards, the report for the general government sector must also include key fiscal aggregates determined in a manner consistent with the ABS GFS Manual. Any differences between 'pure' GFS and the amounts presented under GAAP must also be reconciled.

Victoria is still considering whether or not it will early adopt the new standard. However, major components of the standard such as the recognition of 'transactions' and 'other economic flows' in the operating statement on a GFS basis, have already been incorporated into the 2005-06 audited financial statements in Chapter 4 and in the financial statements for the general government sector included in the 2006-07 Budget Papers.

Difference between GFS and A-IFRS accounts

The 2004-05 Uniform Reporting Framework tables have not been restated for A-IFRS adjustments to opening balances. Note 33 (c) in Chapter 4 provides details of the restatement for the State of Victoria as at 30 June 2005. For the non-financial public sector, superannuation liability for 2005 is $10.5 billion, some $4.8 billion lower than the $15.3 billion in the adjusted A-IFRS accounts. Borrowings of $9.4 billion exclude the restatement of approximately $0.6 billion mainly due to the inclusion of additional finance leases. This latter amount also impacts property, plant and equipment (non-financial assets), along with revaluations and impairments to these assets.

Operating statement

The operating statement, also referred to as a Statement of Financial Performance, is designed to capture the composition of GFS revenues and GFS expenses and the net cost of a government's activities within a financial year. It shows the full cost of resources consumed by government in achieving its objectives, and how these costs are met from various revenue sources.

Unlike a standard accounting operating statement, the GFS operating statement reports two major fiscal measures: the GFS net operating balance and GFS net lending. The GFS net operating balance is calculated as GFS revenue minus GFS expenses. GFS net lending, or fiscal balance, includes net capital expenditure but excludes depreciation, thereby giving a measure of a jurisdiction's call on financial markets.

Balance sheet

The balance sheet records a government's stocks of financial and non-financial assets and liabilities. This statement, also referred to as a Statement of Financial Position, discloses the resources over which a government maintains control.

The GFS balance sheet differs from the standard accounting presentation in that it provides information on financial and non-financial assets, and does not distinguish between current and non-current assets and liabilities.

Cash flow statement

The cash flow statement records a government's cash receipts and payments and shows how a government obtains and expends cash.

The GFS cash flow statement reports two major fiscal measures: the net increase in cash held and the cash surplus. Net increase in cash held is the sum of net cash flows from all operating, investing and financing activities. The GFS cash flow statement measures the cash surplus/deficit excluding finance leases and similar arrangements consistent with the International Monetary Fund definition. However, the Australian GFS measure continues to adjust for non-cash finance leased capital formation. This is a follow on from the old GFS cash series which ended in 1998-99. In the Australian context, this presentation of non-cash items in the cash flow statement is being reviewed as part of the GAAP/GFS harmonisation process.

INSTITUTIONAL SECTORS

General government sector

The general government sector comprises all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. General government services include those which are mainly non-market in nature, those which are largely for collective consumption by the community, and those which involve the transfer or redistribution of income. These services are financed mainly through taxes, other compulsory levies and user charges.

Public non-financial corporations sector

The public non-financial corporations sector was formerly known as the public trading enterprises sector. It comprises bodies mainly engaged in the production of goods and services (of a non-financial nature) for sale in the market place at prices that aim to recover most of the costs involved (e.g. water and port authorities). In general, public non-financial corporations are legally distinguishable from the governments which own them.

Non-financial public sector

The non-financial public sector represents the consolidated transactions and assets and liabilities of the general government and public non-financial corporations sectors. In compiling statistics for the non-financial public sector, transactions and debtor-creditor relationships between sub-sectors are eliminated to avoid double counting.

Public financial corporations

Public financial corporations are bodies primarily engaged in the provision of financial intermediation services or auxiliary financial services. They are able to incur financial liabilities on their own account (e.g. taking deposits, issuing securities or providing insurance services). The public financial corporations sector includes the Treasury Corporation of Victoria and the Transport Accident Commission. Estimates are not published for the public financial corporations sector.

Operating statement by institutional sector

Table 5.1: General government sector operating statement

($ million)

	2004-05 *Actual*	2005-06 *Revised*	2005-06 *Actual*
GFS revenue			
Taxation revenue	10 415	10 770	10 885
Current grants and subsidies	12 879	13 757	13 920
Capital grants	584	625	705
Sales of goods and services	3 380	3 712	3 731
Interest income	340	318	390
Other	2 229	2 017	2 340
Total revenue	**29 825**	**31 199**	**31 972**
GFS expenses			
Employee expenses	12 061	12 888	13 128
Depreciation	1 139	1 244	1 279
Other operating expenses	9 080	9 734	9 983
Nominal superannuation interest expense	820	479	480
Other interest expense	426	459	452
Other property expenses	..	..	..
Current transfers	4 848	5 490	5 484
Capital transfers	657	454	342
Total expenses	**29 030**	**30 749**	**31 148**
GFS net operating balance	**795**	**450**	**825**
Less: Net acquisition of non-financial assets			
Purchases of non-financial assets	1 966	2 373	2 297
Sales of non-financial assets	- 128	- 148	- 159
Less: Depreciation	1 139	1 244	1 279
Plus: Change in inventories	6	..	7
Plus: Other movements in non-financial assets	- 247	637	357
Total net acquisition of non-financial assets	**458**	**1 618**	**1 222**
GFS net lending (+) / borrowing (-) [(a)]	**337**	**-1 168**	**- 398**

Source: Department of Treasury and Finance

Note:
(a) GFS net lending also equals net transactions in financial assets less net transactions in liabilities.

Table 5.2: Public non-financial corporations operating statement

($ million)

	2004-05 *Actual*	2005-06 *Revised*	2005-06 *Actual*
GFS revenue			
Sales of goods and services	3 075	3 298	3 351
Current grants and subsidies	1 108	1 408	1 515
Capital grants	212	265	176
Interest income	142	124	129
Other	782	470	529
Total revenue	**5 320**	**5 565**	**5 701**
GFS expenses			
Employee expenses	599	651	649
Depreciation	758	825	842
Other operating expenses	2 648	3 186	3 081
Property expenses	674	841	844
Current transfers	76	91	127
Capital transfers	14	59	48
Total expenses	**4 768**	**5 654**	**5 591**
GFS net operating balance	**552**	**- 89**	**110**
Less: Net acquisition of non-financial assets			
Purchases of non-financial assets	1 636	1 935	1 826
Sales of non-financial assets	- 68	- 62	- 68
Less: Depreciation	758	825	842
Plus: Change in inventories	19	1	2
Plus: Other movements in non-financial assets	190	191	313
Total net acquisition of non-financial assets	**1 018**	**1 240**	**1 231**
GFS net lending (+) / borrowing (-) [(a)]	**- 466**	**-1 328**	**-1 121**

Source: Department of Treasury and Finance

Note:

(a) GFS net lending also equals net transactions in financial assets less net transactions in liabilities.

Table 5.3: Non-financial public sector operating statement

($ million)

	2004-05 *Actual*	2005-06 *Revised*	2005-06 *Actual*
GFS revenue			
Taxation revenue	10 291	10 632	10 762
Current grants and subsidies	12 870	13 758	13 911
Capital grants	584	625	704
Sales of goods and services	5 819	6 204	6 250
Interest income	415	393	466
Other	2 547	1 998	2 412
Total revenue	**32 526**	**33 610**	**34 505**
GFS expenses			
Employee expenses	12 667	13 539	13 777
Depreciation	1 897	2 070	2 121
Other operating expenses	10 826	12 005	12 221
Nominal superannuation interest expense	820	479	482
Other interest expense	690	753	749
Other property expenses	..	..	..
Current transfers	3 542	3 890	3 822
Capital transfers	653	491	355
Total expenses	**31 095**	**33 227**	**33 527**
GFS net operating balance	**1 431**	**383**	**978**
Less: Net acquisition of non-financial assets			
Purchases of non-financial assets	3 599	4 282	4 125
Sales of non-financial assets	- 196	- 210	- 227
Less: Depreciation	1 897	2 070	2 121
Plus: Change in inventories	25	1	8
Plus: Other movements in non-financial assets	- 60	828	377
Total net acquisition of non-financial assets	**1 471**	**2 831**	**2 163**
GFS net lending (+) / borrowing (-) [(a)]	**- 39**	**-2 448**	**-1 184**

Source: Department of Treasury and Finance

Note:
(a) GFS net lending also equals net transactions in financial assets less net transactions in liabilities.

Table 5.4: Public financial corporations (public financial enterprises) operating statement

($ million)

	2004-05 Actual	*2005-06 Actual*
GFS revenue		
Current grants and subsidies	5	6
Capital grants	..	..
Sales of goods and services	2 998	2 949
Interest income	991	1 278
Other	449	516
Total revenue	**4 443**	**4 749**
GFS expenses		
Employee expenses	179	201
Depreciation	12	15
Other operating expenses	2 768	2 932
Nominal superannuation interest expense	..	..
Other interest expense	684	945
Other property expenses	790	887
Current transfers	7	7
Capital transfers	..	..
Total expenses	**4 440**	**4 986**
GFS net operating balance	**3**	**- 237**
Less: Net acquisition of non-financial assets		
Purchases of new non-financial assets	69	39
Sales of non-financial assets	- 1	- 1
Less: Depreciation	12	15
Plus: Change in inventories	..	..
Plus: Other movements in non-financial assets	..	..
Total net acquisition of non-financial assets	**56**	**23**
GFS net lending (+) / borrowing (-) [(a)]	**- 53**	**- 260**

Source: Department of Treasury and Finance

Note:

(a) GFS net lending also equals net transactions in financial assets less net transactions in liabilities.

Table 5.5: General government sector balance sheet

($ million)			
as at 30 June	*2005 [(a)] Actual*	*2006 [(a)] Revised*	*2006 Actual*
Assets			
Financial assets			
Cash and deposits	1 803	1 774	2 698
Advances paid	63	95	70
Investments, loans and placements	2 625	2 729	2 162
Other non-equity assets	2 525	2 791	2 579
Equity	36 833	37 180	37 658
Total financial assets	**43 849**	**44 569**	**45 167**
Non-financial assets			
Land and fixed assets	51 852	55 003	54 185
Other non-financial assets	2 144	2 237	2 463
Total non-financial assets	**53 996**	**57 240**	**56 648**
Total assets	**97 845**	**101 809**	**101 816**
Liabilities			
Deposits held	443	456	520
Advances received	5	9	4
Borrowing	5 524	6 117	6 175
Superannuation liability	10 493	12 525	12 896
Other employee entitlements and provisions	3 958	4 232	4 170
Other non-equity liabilities	3 351	2 907	3 088
Total liabilities	**23 774**	**26 246**	**26 854**
Net worth	**74 071**	**75 563**	**74 961**
Net financial worth [(b)]	**20 075**	**18 323**	**18 313**
Net debt [(c)]	**1 481**	**1 984**	**1 769**

Source: Department of Treasury and Finance

Notes:

(a) 2005 actual data has not been revised for A-IFRS adjustments, 2006 revised is as published in the 2006-07 Budget.

(b) Net financial worth equals total financial assets minus total liabilities.

(c) Net debt equals the sum of deposits held, advances received and borrowings, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table 5.6: Public non–financial corporations balance sheet

($ million)

as at 30 June	*2005 [(a)] Actual*	*2006 [(a)] Revised*	*2006 Actual*
Assets			
Financial assets			
Cash and deposits	519	422	532
Advances paid	159	132	137
Investments, loans and placements	820	601	1 066
Other non-equity assets	1 713	992	940
Equity	291	291	376
Total financial assets	**3 503**	**2 438**	**3 051**
Non-financial assets			
Land and fixed assets	37 359	39 276	39 334
Other non-financial assets	145	215	248
Total non-financial assets	**37 505**	**39 491**	**39 582**
Total assets	**41 007**	**41 930**	**42 633**
Liabilities			
Deposits held	84	78	84
Advances received	8	8	1
Borrowing	3 871	4 545	4 631
Superannuation liability	47	57	38
Other employee entitlements and provisions	2 316	2 305	2 654
Other non-equity liabilities	746	626	685
Total liabilities	**7 073**	**7 618**	**8 094**
Shares and other contributed capital	**33 934**	**34 311**	**34 539**
Net worth	**..**	**..**	**..**
Net financial worth [(b)]	**-37 505**	**-39 491**	**-39 582**
Net debt [(c)]	**2 465**	**3 476**	**2 982**

Source: Department of Treasury and Finance

Notes:

(a) 2005 actual data has not been revised for A-IFRS adjustments, 2006 revised is as published in the 2006-07 Budget

(b) Net financial worth equals total financial assets minus total liabilities, and shares and other contributed capital.

(c) Net debt equals the sum of deposits held, advances received and borrowings, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table 5.7: Non–financial public sector balance sheet

($ million) as at 30 June	2005 [(a)] Actual	2006 [(a)] Revised	2006 Actual
Assets			
Financial assets			
Cash and deposits	2 322	2 195	3 234
Advances paid	221	226	207
Investments, loans and placements	3 736	3 618	3 228
Other non-equity assets	3 173	3 075	3 047
Equity	2 899	2 872	3 119
Total financial assets	**12 351**	**11 987**	**12 834**
Non-financial assets			
Land and fixed assets	89 212	94 279	93 517
Other non-financial assets	2 253	2 405	2 632
Total non-financial assets	**91 465**	**96 684**	**96 149**
Total assets	**103 815**	**108 671**	**108 983**
Liabilities			
Deposits held	526	534	604
Advances received	13	16	5
Borrowing	9 393	10 662	10 805
Superannuation liability	10 540	12 582	12 934
Other employee entitlements and provisions	5 253	5 455	5 176
Other non-equity liabilities	3 036	2 896	3 339
Total liabilities	**28 761**	**32 144**	**32 864**
Net worth	**75 054**	**76 527**	**76 120**
Net financial worth [(b)]	**-16 410**	**-20 157**	**-20 030**
Net debt [(c)]	**3 653**	**5 172**	**4 746**

Source: Department of Treasury and Finance

Notes:

(a) 2005 actual data has not been revised for A-IFRS adjustments, 2006 revised is as published in the 2006-07 Budget

(b) Net financial worth equals total financial assets minus total liabilities.

(c) Net debt equals the sum of deposits held, advances received and borrowings, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table 5.8: Public financial corporations balance sheet

($ million)

as at 30 June	*2005 [(a)] Actual*	*2006 Actual*
Assets		
Financial assets		
Cash and deposits	618	1 025
Advances paid	8 301	8 650
Investments, loans and placements	22 991	24 756
Other non-equity assets	1 387	1 410
Equity	..	..
Total financial assets	**33 296**	**35 841**
Non-financial assets		
Land and fixed assets	46	44
Other non-financial assets	481	495
Total non-financial assets	**528**	**539**
Total assets	**33 824**	**36 380**
Liabilities		
Deposits held	62	66
Advances received	2 121	2 274
Borrowing	13 962	14 710
Superannuation liability	..	..
Other employee entitlements and provisions	13 688	15 071
Other non-equity liabilities	1 092	1 139
Total liabilities	**30 925**	**33 261**
Shares and other contributed capital	**2 899**	**3 119**
Net worth	**..**	**..**
Net financial worth [(b)]	**- 528**	**- 539**
Net debt [(c)]	**-15 764**	**-17 380**

Source: Department of Treasury and Finance

Notes:

(a) 2005 actual data has not been revised for A-IFRS adjustments.

(b) Net financial worth equals total financial assets minus total liabilities, and shares and other contributed capital.

(c) Net debt equals the sum of deposits held, advances received and borrowings, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table 5.9: General government sector cash flow statement

($ million)	2004-05 Actual	2005-06 Revised	2005-06 Actual
Cash receipts from operating activities			
Taxes received	10 318	10 821	10 974
Receipts from sales of goods and services	4 154	3 568	4 438
Grants/subsidies received	13 452	14 382	14 620
Other receipts	2 417	2 630	2 835
Total receipts	**30 341**	**31 402**	**32 867**
Cash payments from operating activities			
Payment for goods and services	-22 139	-22 585	-23 831
Grants and subsidies paid	-4 671	-5 351	-5 302
Interest paid	- 366	- 428	- 409
Other payments	- 682	- 693	- 690
Total payments	**-27 858**	**-29 057**	**-30 231**
Net cash flows from operating activities	**2 483**	**2 345**	**2 636**
Net cash flows from investing in non-financial assets			
Sales of non-financial assets	128	148	159
Purchases of non-financial assets	-1 966	-2 373	-2 297
Total cash flows - non-financial assets	**-1 838**	**-2 225**	**-2 138**
Net cash flows from investments in financial assets for policy purposes	**- 500**	**- 520**	**87**
Net cash flows from investments in financial assets for liquidity	**404**	**486**	**469**
Net cash flows from financing activities			
Advances received (net)	..	- 1	- 5
Borrowings (net)	- 45	- 116	- 171
Deposits received (net)	..	..	..
Other financing (net)	..	..	..
Net cash flows from financing activities	**- 45**	**- 116**	**- 175**
Net increase in cash held	**504**	**- 29**	**879**
Surplus (+) /deficit (-) excluding acquisitions under finance leases [(a)]	**646**	**120**	**498**
Acquisitions under finance leases	82	615	367
Surplus (+) /deficit (-) including finance leases	**564**	**- 495**	**131**

Source: Department of Treasury and Finance

Note:

(a) Net cash flows from operating activities less investments in non-financial assets.

Table 5.10: Public non-financial corporations sector cash flow statement

($ million)

	2004-05 Actual	*2005-06 Revised*	*2005-06 Actual*
Cash receipts from operating activities			
Receipts from sales of goods and services	3 247	3 263	3 524
Grants/subsidies received	1 475	1 779	1 821
Other receipts	389	346	405
Total receipts	**5 111**	**5 388**	**5 749**
Cash payments from operating activities			
Payment for goods and services	-2 687	-2 959	-3 093
Grants and subsidies paid	- 122	- 143	- 169
Interest paid	- 251	- 285	- 300
Other payments	- 760	- 959	- 906
Total payments	**-3 820**	**-4 346**	**-4 467**
Net cash flows from operating activities	**1 291**	**1 042**	**1 282**
Net cash flows from investing in non-financial assets			
Sales of non-financial assets	68	62	68
Purchases of non-financial assets	-1 636	-1 935	-1 826
Total cash flows from investing in non-financial assets	**-1 567**	**-1 873**	**-1 758**
Net cash flows from investments in financial assets for policy purposes	**483**	**554**	**564**
Net cash flows from investments in financial assets for liquidity purposes	**33**	**226**	**108**
Net cash flows from financing activities			
Advances received (net)	- 22	- 3	- 12
Borrowings (net)	192	369	245
Deposits received (net)	..	..	..
Distributions paid	- 327	- 415	- 415
Other Financing (net)	..	5	..
Total net cash flows from financing activities	**- 157**	**- 45**	**- 183**
Net increase in cash held	**83**	**- 96**	**14**
Surplus (+) /deficit (-) excluding acquisitions under finance leases [(a)]	- 604	-1 246	- 891
Acquisition of assets under finance leases and similar arrangements	..	..	134
Surplus (+) /deficit (-) including finance leases	**- 604**	**-1 246**	**-1 026**

Source: Department of Treasury and Finance

Note:

(a) Net cash flows from operating activities less investments in non-financial assets and distributions paid.

Table 5.11: Non-financial public sector cash flow statement

($ million)

	2004-05 Actual	*2005-06 Revised*	*2005-06 Actual*
Cash receipts from operating activities			
Taxes received	10 198	10 683	10 852
Receipts from sales of goods and services	6 766	6 025	7 129
Grants/subsidies received	13 443	13 926	14 610
Other receipts	2 409	2 513	2 838
Total receipts	**32 816**	**33 147**	**35 428**
Cash payments from operating activities			
Payment for goods and services	-24 785	-25 529	-26 920
Grants and subsidies paid	-3 287	-3 239	-3 580
Interest paid	- 616	- 713	- 709
Other payments	- 692	- 692	- 682
Total payments	**-29 381**	**-30 174**	**-31 890**
Net cash flows from operating activities	**3 435**	**2 973**	**3 538**
Net cash flows from investing in non-financial assets			
Sales of non-financial assets	196	210	227
Purchases of non-financial assets	-3 599	-4 282	-4 125
Total cash flows from investing in non-financial assets	**-3 402**	**-4 072**	**-3 899**
Net cash flows from investments in financial assets for policy purposes	**- 17**	**8**	**622**
Net cash flows from investments in financial assets for liquidity purposes	**437**	**712**	**577**
Net cash flows from financing activities			
Advances received (net)	- 2	- 4	- 17
Borrowings (net)	137	253	74
Deposits received (net)	..	..	..
Other financing (net)	..	5	..
Total net cash flows from financing activities	**135**	**254**	**57**
Net increase in cash held	**587**	**- 126**	**896**
Surplus (+) /deficit (-) excluding acquisitions under finance leases [(a)]	33	-1 099	- 361
Acquisition of assets under finance leases and similar arrangements	82	615	501
Surplus (+) /deficit (-) including finance leases	**- 49**	**-1 714**	**- 862**

Source: Department of Treasury and Finance

Note:

(a) Net cash flows from operating activities less investments in non-financial assets.

Table 5.12: Public financial corporations sector cash flow statement

($ million)	2004-05 Actual	2005-06 Actual
Cash receipts from operating activities		
Taxes received	..	..
Receipts from sales of goods and services	3 355	3 322
Grants/subsidies received	5	6
Other receipts	1 318	1 729
Total receipts	**4 678**	**5 057**
Cash payments from operating activities		
Payment for goods and services	-2 440	-2 780
Grants and subsidies paid	- 7	- 7
Interest paid	- 865	- 925
Other payments	- 13	13
Total payments	**-3 325**	**-3 700**
Net cash flows from operating activities	**1 353**	**1 357**
Net cash flows from investing in non-financial assets		
Sales of non-financial assets	1	1
Purchases of non-financial assets	- 69	- 39
Total cash flows from investing in non-financial assets	**- 68**	**- 38**
Net cash flows from investments in financial assets for policy purposes	**- 399**	**- 933**
Net cash flows from investments in financial assets for liquidity purposes	**-1 343**	**163**
Net cash flows from financing activities		
Advances received (net)	756	- 396
Borrowings (net)	- 323	966
Deposits received (net)	..	..
Distributions paid	- 549	- 732
Other Financing (Net)	56	20
Total net cash flows from financing activities	**- 60**	**- 141**
Net increase in cash held	**- 517**	**408**
Surplus (+) /deficit (-) excluding acquisitions under finance leases [(a)]	**736**	**587**
Acquisitions under finance leases		
Surplus (+) /deficit (-) including finance leases	**736**	**587**

Source: Department of Treasury and Finance

Note:
(a) Net cash flows from operating activities less investments in non-financial assets and distributions paid.

Table 5.13: General government sector expenses by function

($ million)

	2004-05 Actual	*2005-06 Actual*
General Public Services	761	520
Government superannuation benefits	..	..
Other general public services	761	520
Public Order and Safety	2 889	3 236
Police and fire protection services	1 394	1 998
Police services	873	1 405
Fire protection services	520	593
Law courts and legal services	591	671
Prisons and corrective services	795	408
Other public order and safety	110	159
Education	8 124	8 301
Primary and secondary education	6 063	6 238
Primary education	2 973	2 643
Secondary education	3 067	3 547
Primary and secondary education n.e.c.	23	48
Tertiary education	1 396	1 449
University education	1	2
Technical and further education	1 394	1 446
Tertiary education n.e.c.	..	..
Pre-school education and education not definable by level	450	392
Pre-school education	112	118
Special education	301	274
Other education not definable by level	36	..
Transportation of students	215	223
Transportation of non-urban school children	174	180
Transportation of other students	41	43
Education n.e.c	..	..
Health	7 732	8 366
Acute care institutions	6 029	6 504
Admitted patient services in acute care institutions	4 967	5 384
Non-admitted patient services in acute care institutions	1 062	1 120
Mental health institutions	34	34
Nursing homes for the aged	238	243
Community health services	1 071	1 189
Community health services (excluding community mental health)	346	395
Community mental health	387	409
Patient transport	338	385
Public health services [(a)]	216	234
Pharmaceuticals, medical aids and appliances	75	80
Health research [(a)]	52	58
Health administration n.e.c	18	23

Table 5.13: General government sector expenses by function (continued)

($ million)

	2004-05 Actual	*2005-06 Actual*
Social security	2 298	2 427
Social security	..	..
Welfare services	2 298	2 427
Family and child services	479	523
Welfare services for the aged	524	558
Welfare services for people with a disability	909	943
Welfare services n.e.c	386	404
Social security and welfare n.e.c.	..	..
Housing and Community Amenities	1 519	1 953
Housing and community development	575	1 013
Housing	372	749
Community development	203	264
Water supply	183	165
Sanitation and protection of the environment	257	240
Other community amenities	504	536
Recreation and Culture	706	831
Recreation facilities and services	437	554
National parks and wildlife	27	46
Recreation facilities and services n.e.c.	411	508
Cultural facilities and services	269	277
Broadcasting and film production	..	..
Recreation and culture n.e.c.	..	..
Fuel and Energy	48	63
Fuel affairs and services	5	3
Coal/Petroleum/Nuclear affairs and services n.e.c.	..	..
Gas	5	3
Electricity and other energy	26	14
Fuel and energy n.e.c.	17	47
Agriculture, Forestry, Fishing and Hunting	297	267
Agriculture	258	115
Forestry, fishing and hunting	39	151
Mining and mineral resources other than fuels; manufacturing; and construction	22	91
Mining and mineral resources other than fuels	22	91
Manufacturing	..	..
Construction	..	..
Transport and Communications	3 027	3 161
Road transport	1 649	1 377
Aboriginal community road transport services/Road rehabilitation	..	..
Road maintenance	337	351
Road Rehabilitation	2	..
Road Construction	759	368
Road transport n.e.c.	552	657

Table 5.13: General government sector expenses by function (continued)

($ million)

	2004-05 Actual	*2005-06 Actual*
Water transport	13	12
Other water transport services	..	..
Urban water transport services	13	12
Rail transport	1 283	1 634
Urban rail transport services	1 043	1 175
Non-urban rail transport freight services	5	5
Non-urban rail transport passenger services	235	455
Air transport	..	..
Pipelines	..	..
Other transport	37	89
Multi-mode urban transport	7	8
Other transport n.e.c.	31	81
Communication	45	49
Other Economic Affairs	361	396
Storage, sale yards and markets	..	..
Tourism and area promotion	48	53
Labour and employment affairs	46	50
Vocational training	33	27
Other labour and employment affairs	13	22
Other economic affairs	267	293
Other Purposes	1 246	1 574
Public debt transactions	1 246	1 574
General purpose inter-government transactions	..	..
Natural disaster relief	..	..
Other purposes n.e.c.	..	..
Total	**29 030**	**31 148**

Source: Department of Treasury and Finance

Note:

(a) An amount of $30 million has been reclassified from Public Health to Health Research in 2004-05 to correctly reflect spending by Department of Human Services on medical research.

Table 5.14: General government purchase of non-financial assets by function

($ million)

	2004-05 Actual	2005-06 Actual
General public services	35	41
Defence	..	..
Public order and safety	242	389
Education	463	512
Health	573	611
Social security	68	84
Housing and community amenities	46	- 277
Recreation and culture	119	543
Fuel and energy	1	2
Agriculture, forestry, fishing and hunting	46	34
Mining and mineral resources other than fuels; manufacturing; and construction	5	6
Transport and communications	293	429
Other economic affairs	72	46
Other purposes	3	- 124
Total	**1 966**	**2 297**

Source: Department of Treasury and Finance

Table 5.15: General government sector taxes

($ million)

	2004-05 Actual	2005-06 Revised	2005-06 Actual
Taxes on employers' payroll and labour force	3 045	3 357	3 302
Taxes on property			
Land taxes	848	772	780
Stamp duties on financial and capital transactions	2 425	2 540	2 749
Financial institutions' transaction taxes	266	22	22
Other	126	148	151
Total	**3 664**	**3 482**	**3 703**
Taxes on the provision of goods and services			
Excises and levies	45	60	60
Taxes on gambling	1 369	1 497	1 460
Taxes on insurance	997	1 036	1 048
Total	**2 410**	**2 594**	**2 568**
Taxes on the use of goods and performance of activities			
Motor vehicle taxes	1 222	1 254	1 242
Franchise taxes	7	7	8
Other	66	75	63
Total	**1 295**	**1 337**	**1 313**
Total GFS taxation revenue	**10 415**	**10 770**	**10 885**

Source: Department of Treasury and Finance

Table 5.16: Reconciliation between AAS 31 net result from transactions and GFS cash position

($ million)

	2004-05 Actual	*2005-06 Revised*	*2005-06 Actual*
General government net result from transactions	**795**	**450**	**825**
equals: **General government net operating balance (GFS)**			
Less: Gross fixed capital formation	1 591	2 862	2 495
Plus: Depreciation	1 139	1 244	1 279
Less: Change in inventories	6	..	7
GFS net lending(+)/borrowing(-) [(a)]	**337**	**-1 168**	**- 398**
Plus:			
Superannuation expense (difference between operating statement, including nominal interest, and cash flow statement)	112	234	30
Acquisitions under finance leases	82	615	367
Other non-cash items	33	- 175	132
GFS cash surplus(+)/deficit(-)	**564**	**- 495**	**131**
Less: Net contributions to other sectors of government	500	520	- 87
Other non-cash items	142	- 511	507
Decrease (+)/increase (-) in general government net debt	**- 78**	**- 503**	**- 288**

Source: Department of Treasury and Finance

Note:
(a) GFS net lending also equals net transactions in financial assets less net transactions in liabilities.

VICTORIA'S 2005-06 LOAN COUNCIL ALLOCATION

As required under the Uniform Presentation Framework, Victoria is required to publish the Loan Council Allocation (LCA) outcome. The LCA is a measure of each government's net call on financial markets in a given financial year to meet its budget obligations. The method of public release is the responsibility of each individual jurisdiction. Victoria discloses its LCA information through the Annual Financial Statement, Budget Papers and Budget Update.

Table 5.17 compares Victoria's 2005-06 LCA as published in the 2005-06 Budget with the 2005-06 outcome.

Table 5.17: Loan Council Allocation 2005-06

($ million)

	2005-06 Budget [(a)]	*2005-06 Actual*
General government sector cash (+) deficit / (-) surplus	432	- 131
Public non-financial corporation sector cash (+) deficit / (-) surplus	1 156	1 026
Non-financial public sector cash (+) deficit / (-) surplus [(b)]	1 588	862
Less: Net cash flows from investments in financial assets for policy purposes [(c)]	6	622
Plus: Memorandum items [(d)]	440	- 27
Loan Council Allocation	**2 022**	**213**
Tolerance limit (2 per cent of non-financial public sector cash receipts from operating activities) [(e)]	642	642

Source: Department of Treasury and Finance

Notes:

(a) *2005-06 Budget Paper No.4.*

(b) *The sum of the surplus / deficit of the general government and public non-financial corporation sector does not directly equal the non-financial public sector surplus due to intersector transfers, which are netted out in the calculation of the non-financial public sector figure.*

(c) *The non-financial public sector surplus relating to 2005-06 includes net cash flows from investments in financial assets for policy purposes.*

(d) *Memorandum items are used to adjust the ABS deficit to include in LCAs certain transactions, such as operating leases, that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the ABS deficit certain transactions that Loan Council has agreed should be included in LCAs (e.g. the over/under funding of employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities).*

(e) *A tolerance limit equal to 2 per cent of 'total non-financial public sector cash receipts from operating activities' (2004-05 Budget Update) applies to jurisdictions' LCA nomination and revised LCA at budget time, and between the budget-time LCA and LCA outcome. The tolerance limit applying to Victoria's 2005-06 LCA nomination, revised LCA and LCA outcome is $642 million (2 per cent of $32 094 million – sourced from 2004-05 Budget Update).*

As part of the Loan Council arrangements, Loan Council has agreed that if at any time a jurisdiction finds that it is likely to exceed its tolerance limit, in either direction, it is required to provide an explanation to Loan Council and, in line with the emphasis of the increased transparency, to make the explanation public. Victoria's 2005-06 LCA outcome (deficit of $213 million) exceeded the tolerance limit applied to Victoria's budget time LCA and LCA outcome.

The change of $1 809 million in the LCA between 2005-06 Budget and 2005-06 Actual is mainly due to:

- a $563 million higher than expected cash surplus in the general government sector. This is primarily driven by increased taxation revenue and higher receipts from sales of goods and services driven by the ongoing strength of the economy. Other factors included lower than expected purchases of non-financial assets and lower than anticipated acquisition under finance leases due to the timings of Southern Cross Station;
- a $616 million increase in net cash flows from investments in financial assets for policy purposes due to higher than expected cash flows from equity acquisitions; and
- a $467 million decrease in memorandum items. This is mainly due to timing of new projects by universities, lower than anticipated borrowing of the Local Government sector and restatement of operating leases to finance leases driven by adoption of A-IFRS.

In the interests of transparency, the State is required to disclose the details of infrastructure projects with private sector involvement and to report full contingent exposure, if any. Exposure is to be measured by the government's termination liabilities in a case of private sector default and disclosed as a footnote to, rather than a component, of LCAs. The amount payable will not exceed the fair market value of the net present value of the project (which is usually calculated by an independent valuer) less any costs incurred by government as a result of the default.

Detailed below are the proceedings during the 2005-06 financial year of those *Partnerships Victoria* (PV) projects, which were listed on the Loan Council Allocation as being potentially contracted in 2005-06.

The following PV project was contracted during the 2005-06 financial year:

Melbourne Convention Centre development

This development of a 5000-seat convention centre will be the largest of its kind in Australia. The development will integrate a convention centre with the existing exhibition centre and broader Southbank site.

The private sector will design, construct, finance and maintain the new facilities. The contract was executed with Multiplex / Plenary consortium on 10 March 2006 and financial close was achieved on 24 May 2006. The term of the contract is 25 years from the date of Commercial Acceptance.

There are no other contracts greater than $5 million that involve private finance that were entered into during the 2005-06 financial year, however, a DBO (design, build and operate) contract was entered into for the following *Partnerships Victoria* project.

Ballarat North water reclamation

The project seeks to implement a wastewater treatment re-use project in order to comply with licence conditions set by the EPA for the Ballarat North wastewater treatment plant.

The private sector will design, build and operate the new facility. The contract was executed with United Water International on 22 May 2006. The term of the contract is 15 years post Commercial Acceptance.

APPENDIX A – GENERAL GOVERNMENT SECTOR QUARTERLY FINANCIAL REPORT

QUARTERLY FINANCIAL REPORT FOR THE VICTORIAN GENERAL GOVERNMENT SECTOR

Table A.1: Operating Statement for the last five quarters

($ million)

A-GAAP 2004-05 June		A-IFRS 2005-06 Sept.	Dec.	Mar.	June
	Income from transactions				
2 407.0	Taxation	2 566.2	2 548.2	3 117.0	2 654.1
179.2	Fines and regulatory fees	167.4	163.5	186.3	196.7
360.6	Dividends and income tax equivalent and rate equivalent revenue	75.7	565.3	56.7	311.5
101.0	Interest	82.0	83.5	93.3	131.7
3 662.9	Grants	3 407.6	3 821.7	3 602.1	3 792.9
688.0	Sale of goods and services	572.9	615.6	677.5	660.3
9.8	Fair value of assets received free of charge or for nominal consideration	0.2	11.3	0.1	20.4
519.3	Other income	420.4	470.1	415.7	484.2
7 927.9	**Total income from transactions**	**7 292.4**	**8 279.2**	**8 148.8**	**8 251.7**
	Expenses from transactions				
2 857.4	Employee benefits	2 769.8	2 851.4	2 875.3	2 977.0
489.0	Superannuation	439.9	433.4	441.0	603.0
300.8	Depreciation and amortisation	297.8	294.2	289.2	398.0
112.0	Finance costs	110.6	106.9	114.6	141.5
1 389.0	Grants and transfer payments	1 336.8	1 489.1	1 579.7	1 389.3
2 653.0	Supplies and services	2 248.8	2 379.9	2 664.5	2 872.1
167.7	Other expenses	1.5	1.0	14.5	26.7
7 969.0	**Total expenses from transactions**	**7 205.1**	**7 555.9**	**7 978.9**	**8 407.6**
(41.1)	**Net result from transactions**	**87.3**	**723.3**	**169.8**	**(155.9)**
	Income/(expenses) from other economic flows				
(66.5)	Net gain/(loss) from disposal of physical assets	(8.4)	(15.1)	(9.2)	(20.6)
378.8	Actuarial gains/(losses) of superannuation defined benefit plans	1 284.9	(275.1)	1 987.2	(576.0)
..	Share of net profits of associates and joint venture entities	..	..	..	132.3
(8.5)	Net gains/(losses) on financial assets at fair value	0.6	4.8	0.9	0.7
257.5	Other gains/(losses) from other economic flows	(6.9)	(6.3)	(0.1)	603.7
561.2	**Total other economic flows**	**1 270.2**	**(291.7)**	**1 978.8**	**139.9**
520.2	**Net result**	**1 357.5**	**431.7**	**2 148.7**	**(16.0)**

Table A.2: Balance Sheet as at the end of the quarter

($ million)

A-GAAP 2004-05 June		A-IFRS 2005-06 Sept.	Dec.	Mar.	June
	Current assets				
1 803.2	Cash and cash equivalents	1 844.4	1 335.9	1 298.9	2 698.2
1 934.7	Receivables	1 526.9	1 415.4	2 195.6	1 877.3
65.2	Prepayments	272.4	220.8	490.5	102.6
118.8	Inventories	133.4	139.1	135.4	135.8
2 183.3	Other financial assets	2 198.9	3 329.5	3 330.8	1 700.2
6 105.1		**5 976.0**	**6 440.8**	**7 451.4**	**6 514.0**
..	Non-current assets classified as held for sale	39.2	38.4	39.7	59.2
6 105.1	**Total current assets**	**6 015.3**	**6 479.1**	**7 491.0**	**6 573.3**
	Non-current assets				
260.3	Receivables	269.8	276.9	359.3	391.0
24.5	Inventories	..	..	..	..
69.1	Investments accounted for using the equity method	69.7	69.1	69.4	602.6
376.6	Other financial assets	378.1	384.7	380.7	462.0
53 416.4	Property, plant and equipment	52 631.2	52 912.4	52 952.6	55 953.8
140.8	Intangibles	136.3	142.1	186.8	159.6
230.5	Other assets	276.6	284.3	279.2	237.1
54 518.2	**Total non-current assets**	**53 761.7**	**54 069.5**	**54 227.9**	**57 806.1**
60 623.3	**Total assets**	**59 777.0**	**60 548.7**	**61 718.9**	**64 379.4**
	Current liabilities				
2 083.8	Payables	1 942.8	1 776.0	2 334.8	2 415.5
210.3	Interest-bearing liabilities	238.1	269.9	346.9	311.0
1 074.6	Employee entitlements	867.2	1 015.2	1 006.3	2 701.1
38.8	Superannuation	40.2	38.8	40.2	..
191.6	Other provisions	182.9	176.9	171.7	155.3
401.0	Other liabilities	375.0	509.8	817.2	413.2
4 000.1	**Total current liabilities**	**3 646.3**	**3 786.6**	**4 717.0**	**5 996.0**
	Non-current liabilities				
1 071.7	Payables	1 126.3	1 005.7	1 073.4	526.6
5 320.0	Interest-bearing liabilities	5 300.7	5 278.3	5 237.9	5 869.4
2 126.8	Employee entitlements	2 247.5	2 290.3	2 248.2	728.1
10 454.7	Superannuation	14 126.3	14 557.8	12 729.7	12 896.5
559.6	Other provisions	554.9	543.5	562.6	580.6
241.5	Other liabilities	239.9	238.1	237.1	257.1
19 774.3	**Total non-current liabilities**	**23 595.5**	**23 913.8**	**22 088.9**	**20 858.3**
23 774.3	**Total liabilities**	**27 241.8**	**27 700.4**	**26 805.9**	**26 854.3**
36 848.9	**Net assets**	**32 535.2**	**32 848.3**	**34 913.0**	**37 525.1**

Table A.3: Statement of cash flows for the past five quarters

($ million)

A-GAAP 2004-05 June		A-IFRS 2005-06 Sept.	Dec.	Mar.	June
	Cash flows from operating activities				
	Receipts				
2 893.2	Taxation	2 874.0	2 586.7	2 529.5	2 984.1
175.5	Fines and regulatory fees	78.1	152.0	158.2	172.2
3 353.1	Grants	3 430.9	3 799.2	3 848.2	3 541.3
1 266.9	Sale of goods and services	562.5	931.5	592.2	1 154.7
99.9	Interest received	82.7	82.4	94.1	114.6
163.3	Dividends, income tax and rate equivalent revenue received	116.1	731.7	57.3	326.9
597.5	Other receipts	595.5	533.5	365.2	301.9
8 549.4	**Total receipts**	**7 739.7**	**8 816.9**	**7 644.6**	**8 595.7**
	Payments				
(2 675.3)	Employee benefits	(2 862.6)	(2 660.6)	(2 926.4)	(2 802.3)
(921.3)	Superannuation	(276.3)	(278.4)	(280.4)	(1 052.5)
(84.0)	Interest paid	(110.8)	(75.9)	(143.7)	(100.5)
(1 089.9)	Grants and transfer payments	(1 514.7)	(1 504.5)	(1 933.5)	(966.2)
(2 949.9)	Supplies and services	(2 478.6)	(3 006.3)	(1 900.1)	(3 301.9)
..	Other payments	..	..	..	20.0
(7 720.4)	**Total payments**	**(7 243.0)**	**(7 525.8)**	**(7 184.1)**	**(8 203.4)**
829.0	**Net cash flows from operating activities**	**496.7**	**1 291.1**	**460.5**	**392.3**
	Cash flows from investing activities				
(840.5)	Purchase of non-financial assets	(77.9)	(684.7)	(420.3)	(1 118.6)
53.5	Proceeds from sale of non-financial assets	44.7	22.7	17.2	74.2
262.5	Net (purchase)/disposal of investments	333.2	(1 130.9)	4.1	1 262.3
2.0	Net customer loans (granted)/repaid	33.6	10.5	(0.1)	(8.3)
(280.8)	Net contribution to other sectors of government	(428.1)	(105.4)	(87.5)	672.0
(803.3)	**Net cash flows from investing activities**	**(94.5)**	**(1 887.7)**	**(486.4)**	**881.6**
	Cash flows from financing activities				
(0.8)	Net borrowings	(379.1)	86.4	(11.0)	128.2
(0.8)	**Net cash flows from financing activities**	**(379.1)**	**86.4**	**(11.0)**	**128.2**
24.8	**Net increase/(decrease) in cash and cash equivalents**	**23.2**	**(510.2)**	**(37.0)**	**1 402.1**
1 774.1	Cash and cash equivalents at beginning of reporting period	1 816.9	1 840.0	1 329.8	1 292.8
1 799.0	**Cash and cash equivalents at end of reporting period**	**1 840.0**	**1 329.8**	**1 292.8**	**2 695.0**

APPENDIX B – FINANCIAL MANAGEMENT ACT 1994 – COMPLIANCE INDEX

The *Financial Management Act 1994* requires that the Minister prepare an audited Annual Financial Report for tabling in the Parliament. The Annual Financial Report has been prepared in accordance with applicable Australian Accounting Standards and the *Financial Management Act 1994*.

The *Financial Management Act 1994* requires the Annual Financial Report to meet certain requirements. The following compliance index explains how these requirements are met, together with appropriate references in this document.

Financial Management Act Reference	**Requirement**	**Comments/Reference**
Section 24(1)	The Minister must prepare an annual financial report for each financial year.	Refer to Chapter 4
Section 24(2)	The annual financial report - (a) must be prepared in the manner and form determined by the Minister, having regard to appropriate financial reporting frameworks;	Manner is in accordance with Australian Accounting Standards and Ministerial Directions. Form is Operating Statement, Balance Sheet, Cash Flow Statement, Statement of Recognised Income and Expense and accompanying notes. Refer to Chapter 4
	(b) must present fairly the financial position of the State and the Victorian general government sector at the end of the financial year and –	Balance Sheet, page 60
	(i) the transactions on the Public Account;	Refer Chapter 4, Note 38 pages 157 – 190
	(ii) the transactions of the Victorian general government sector;	Refer Chapter 4, Operating Statement page 59, Cash Flow Statement page 62, Notes 3 – 18 pages 98 – 109, Note 31 pages 124 – 125 and Note 39 pages 191 – 200

Financial Management Act Reference	Requirement	Comments/Reference
	(iii) other financial transactions of the State–	Refer Chapter 4, Operating Statement page 59, Cash Flow Statement page 62 and Notes 2 – 39, pages 94 – 200
	in respect of the financial year;	
	(c) must include details of amounts paid into Working Accounts under Section 23;	Refer Chapter 4, Note 38 Table 4.13, page 164
	(d) must include details of amounts allocated to departments during the financial year under Section 28;	Refer Chapter 4, Note 38 Table 4.14, page165
	(e) must include details of money credited under Section 29 to an item in a Schedule to an appropriation Act for that financial year;	Refer Chapter 4, Note 38 Table 4.7, pages 157 – 158 and Table 4.15, page 166
	(f) must include particulars of amounts transferred in accordance with determinations under Section 30 or 31;	Refer Chapter 4, Note 38 Table 4.14, page 165
	(g) must include details of –	
	(i) amounts appropriated in respect of the financial year as a result of a determination under section 32 in respect of unused appropriation for the preceding financial year;	Refer Chapter 4, Note 38 Table 4.16 (a), page 166
	(ii) the application during the financial year of amounts referred to in sub-paragraph (i);	Refer Chapter 4, Note 38 Table 4.16 (b), page 167
	(iii) amounts appropriated in respect of the next financial year as a result of a determination under section 32 in respect of unused appropriation for the financial year;	Refer Chapter 4, Note 38 Table 4.16 (c), page 167

Financial Management Act Reference	Requirement	Comments/Reference
	(h) must include –	
	(i) details of expenses and obligations met from money advanced to the Minister under Section 35(1) during the financial year;	Refer Chapter 4, Note 38 Table 4.18, page 170
	(ii) a statement of the reasons for carrying forward any part of an unused advance to the next financial year under Section 35(4);	Refer Chapter 4, Note 38 Table 4.19, page 171
	(i) must include details of payments made during the financial year out of money advanced to the Treasurer in an annual appropriation Act for that year to meet urgent claims;	Refer Chapter 4, Note 38 Table 4.17, pages 168 – 169
	(j) must include details of -	
	(i) payments made during the financial year in fulfilment of any guarantee by the Government under any Act;	Refer Chapter 4, Note 38 Table 4.31, page 190
	(ii) money received or recovered by the Minister or Treasurer during the financial year in respect of any guarantee payments;	Refer Chapter 4, Note 38 Table 4.31, page 190
	(k) must include details, as at the end of the financial year, of –	
	(i) the liabilities (including contingent liabilities under guarantees and indemnities or in respect of superannuation payments and all other contingent liabilities) and assets of the State; and	Refer Chapter 4, Note 35 pages 148 – 155, Note 10 pages 100 – 105 and Balance Sheet page 60
	(ii) prescribed assets and prescribed liabilities of prescribed bodies;	Refer Chapter 4, Note 2 pages 94 – 97, Refer Chapter 5, Table 5.5 page 208, Table 5.6 page 209, Table 5.7 page 210 and Table 5.8 page 211

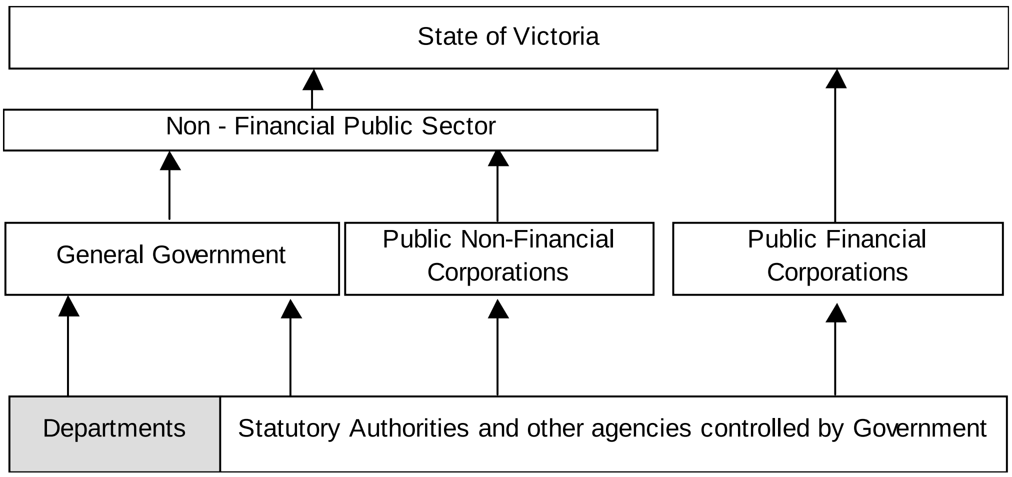
Financial Management Act Reference	Requirement	Comments/Reference
	(m) must be audited by the Auditor-General.	Refer Auditor-General's Opinion, pages 56 – 57
Section 26(1)	The Minister must prepare a quarterly financial report for each quarter of each financial year.	Refer Appendix A, pages 225 – 228
Section 26(2)	A quarterly financial report comprises –	
	(a) a statement of financial performance of the Victorian general government sector for the quarter;	Refer Appendix A, Table A.1 page 226
Section 26(2)	(b) a statement of financial position of the Victorian general government sector at the end of the quarter;	Refer Appendix A, Table A.2 page 227
	(c) a statement of cash flows of the Victorian general government sector for the quarter; and	Refer Appendix A, Table A.3 page 228
	(d) a statement of the accounting policies on which the statements required by paragraphs (a), (b) and (c) are based.	Refer Chapter 4, Note 1 pages 64 – 93
Section 26(2A)	A quarterly financial report must be prepared in the manner and form determined by the Minister, having regard to appropriate financial reporting frameworks.	Manner is a financial report for the general government sector. Form is Operating Statement, Balance Sheet, Cash Flow Statement, Statement of Recognised Income and Expense. Refer to Appendix A
Section 26(3A)	The quarterly financial report for the quarter ending on 30 June in a financial year must include, in addition to the statements referred to in sub-Section (2)(a) to (d) for that quarter, those statements for the period of 12 months ending on that 30 June.	Refer to Chapter 4

APPENDIX C – SCOPE AND STYLE CONVENTIONS

Scope of the Financial Report for the State of Victoria

- The state financial outcome reflects the consolidation of all entities that are controlled by the Victorian State Government. Entities included in the State outcome include all government departments and other organisations which are a legally constituted body that are controlled by the Government.
- The reporting structure for the entities reported in the Annual Financial Report for the State of Victoria is based on that used in the System of National Accounts [1] (SNA), and classifies each entity into either the general government sector, the public non-financial corporations sector or the public financial corporations sector. The chart below provides an overview of this reporting structure as applied in Victoria.
- Further details on entities that make up each of the sectors is provided in Chapter 4 (refer notes 1 and 39).

Chart 1: Entity framework for the State of Victoria



Source: Department of Treasury and Finance

[1] System of National Accounts 1993, was released under the auspices of the Commission of the European Communities, International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations and World Bank.

- The general government sector is the largest of the sectors, accounting for approximately 86 per cent of state expenses in 2005-06, and forms the basis of the Budget published in May each year. As shown in Chart 1, the sector comprises all government departments, offices and other government bodies engaged in providing public services free of charge or at prices significantly below the cost of production. Some of these entities may also earn revenue from commercial activities; however, it represents less than half of their total revenue. A comparison between the actual result for this sector and the revised 2005-06 estimates is discussed in detail in Chapter 2.
- The public non-financial corporations sector provide goods and services (of a non-financial nature) within a competitive market. Some examples of these entities include various water authorities and Victorian Rail Track (VicTrack).
- The public financial corporations sector comprises entities primarily engaged in the provision of financial services including the Treasury Corporation of Victoria and the Transport Accident Commission. The 2005-06 financial outcome for all sectors controlled by the Victorian State Government is discussed in detail in Chapter 3.

Style conventions

Figures in the tables and in the text have been rounded. Discrepancies in tables between totals and sums of components reflect rounding. Percentage variations in all tables are based on the underlying unrounded amounts.

The notation used in the tables is as follows:

n.a.	not available or not applicable
..	zero, or rounded to zero
(xxx.x)	negative numbers
200x	year period (Chapter 4)
200x – 0x	year period (other than in Chapter 4)

The notation used in the text is as follows:

-xxx.x	negative numbers in Appendices (and all references to negative percentages within text)

The Annual Financial Report is based on the style set in the example of a general purpose financial report for a government in the appendix to Australian Accounting Standard 31 *Financial Reporting by Governments.* The styles used in other chapters of this document are generally consistent with those used in other publications relating to the annual Budget Papers.