GETTING IT DONE
VICTORIAN BUDGET 16/17

2016-17 FINANCIAL REPORT
(INCORPORATING QUARTERLY FINANCIAL REPORT NO. 4)

Presented by Tim Pallas MP
Treasurer of the State of Victoria

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for the information of Honourable Members

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CHAPTER 1 – FOREWORD

PURPOSE

The *2016-17 Financial Report* presents the consolidated financial outcomes for the State of Victoria, including the general government sector, the public non-financial corporations sector and the public financial corporations sector.

This chapter outlines the economic and fiscal context for the State's financial performance and position, and summarises the 2016-17 results. Chapter 2 analyses the results for the general government sector, comparing them with the actuals in 2015-16 and the revised estimates for the year presented in the *2017-18 Budget*. Chapter 3 presents the 2016-17 results for the State of Victoria.

Chapter 4 contains the audited financial statements as required under the *Financial Management Act 1994*. These are presented in line with applicable Australian accounting standards and pronouncements, in particular AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Chapter 5 provides supplementary information required under the Uniform Presentation Framework, as agreed under the Australian Loan Council arrangements. Appendix A includes the Quarterly Financial Report for the general government sector as required by Section 26 of the *Financial Management Act 1994*.

ECONOMIC CONTEXT

Victoria's economy continued to perform strongly in 2016-17 with activity driven by population and employment growth, low interest rates and increased public infrastructure spending.

Victoria's state final demand grew 3.9 per cent in 2016-17, well above the national average growth.

Economic activity is being supported by population growth and the national economy's transition from mining to non-mining led growth, including in industries where Victoria has a comparative advantage such as services.

In 2016, Victoria's population expanded by 2.4 per cent, the highest growth rate of all the states and the highest recorded in Victoria since 1971. Victoria's high population growth is being driven by natural increase, net interstate and net overseas migration.

The effect of this increased activity was evident in Victoria's household consumption, dwelling investment and labour market outcomes.

Over the year to June 2017, public and private investment grew 20.6 per cent and 2.6 per cent, respectively. Household consumption was 3.0 per cent higher and dwelling investment rose by 5.4 per cent.

Victorian employment grew 3.7 per cent in 2016-17, the highest growth of all the states and the strongest since 1989-90. Victoria's labour force participation rate reached the highest levels on record in 2016-17. Partly reflecting this higher participation rate, Victoria's unemployment rate remained steady at 5.9 per cent in 2016-17, a significant achievement given the size of the increase in the labour force.

Around 250 000 jobs have been created since the Government was elected, with 175 000 of these being full time positions. Inflation and wage growth were subdued in 2016-17, consistent with trends in other states. A number of factors contributed to this, including low inflation expectations, increased labour supply and heightened competitive pressure in some product markets.

The Government's infrastructure investment continues to support economic growth. It has an important and ongoing impact on state productivity and generates significant direct and indirect employment, and wider economic benefits. Victoria's strong economy underpinned the State's robust fiscal position in 2016-17 and continues to support the State's triple-A credit rating.

FISCAL OUTCOMES

The net result from transactions for the general government sector was a surplus of $2.7 billion in 2016-17. Victoria continues to forecast strong surpluses every year over the budget and forward estimates period.

The operating surplus was $1.4 billion higher than the revised estimate in the *2017-18 Budget*, due to lower than expected expenses of $1.2 billion, mainly reflecting differences in the timing of activity across the major departments.

Total revenue from transactions for the general government sector for the year was $60.9 billion, which was within 0.3 per cent of the revised estimate and $4.2 billion higher than the previous year.

State taxation revenue was $22.3 billion in 2016-17, aligned with the revised estimate and $2.4 billion higher compared to 2015-16. This was mainly due to an increase in land transfer duty of $295 million and land tax of $730 million on the back of continued strength in the property market throughout 2016-17. In addition, $783 million was recognised from the prepaid port licence fees associated with entering into the medium-term lease over the operations of the Port of Melbourne.

Dividends, income tax and rate equivalent revenue was $658 million in 2016-17, and $94 million higher than the revised estimate, mainly due to higher dividends received from the public financial corporations sector.

Revenue from sales of goods and services was broadly consistent with the revised budget and $268 million higher than in 2015-16, primarily related to the higher capital asset charge for increased asset holdings by Victorian Rail Track in 2016-17.

Other revenue in 2016-17 was aligned with revised budget expectations. Compared with the previous year, other revenue has decreased by $463 million. This was mainly attributable to the one-off revenue from the High Court of Australia's decision on Tatts Group Limited's (Tatts) 'Gambling Licenses' proceedings, which resulted in additional revenue plus interest recorded for the 2015-16 financial year.

Total general government sector expenses for the year were $1.2 billion lower than the revised budget and $4.2 billion more than in 2015-16.

Employee expenses in 2016-17 were $564 million lower than the revised budget due to lower than expected spending in schools, hospitals and health services. Compared with the previous year, employee expenses were 7.5 per cent higher, mainly attributable to increased service delivery in the health and community safety sectors as well as underlying salary and wage growth.

Other operating expenses for 2016-17 were $636 million lower than the revised budget and $670 million higher than in 2015-16. The increase since 2015-16 is mainly reflecting additional spending in the health, community safety and transport sectors.

Government infrastructure investment, which includes general government net infrastructure investment and estimated cash outflows for Partnership Victoria projects (net of asset sales), was $9.1 billion for 2016-17, $286 million lower than the revised budget.

Net debt for the general government sector was $15.8 billion at 30 June 2017, or 4.0 per cent of gross state product. This was lower than the revised budget estimate, mainly reflecting the stronger than expected operating result.

Victoria maintained its triple-A credit rating in the latest reports of both Moody's and Standard & Poor's. Moody's noted 'Victoria's credit quality reflects ample financial flexibility, healthy operating surpluses and a diverse economic base'. In addition, Standard & Poor's recognised 'the state's very strong financial management and economy, exceptional liquidity and the extremely predictable and supportive institutional framework'.

CHAPTER 2 – GENERAL GOVERNMENT SECTOR OUTCOME

- The Government achieved an operating surplus of $2.7 billion for 2016-17. Victoria continues to forecast strong surpluses every year over the budget and forward estimates period.
- The operating surplus was $1.4 billion higher than the revised estimate. This was due to lower than expected expenses of $1.2 billion, largely reflecting differences in the timing of activity across the major departments.
- The Government infrastructure investment, which includes general government net infrastructure investment and estimated cash outflows for Partnership Victoria projects (net of asset sales), was $9.1 billion for 2016-17. This is $286 million lower than the revised budget.
- Net debt for the general government sector of $15.8 billion (4.0 per cent of gross state product (GSP)) at 30 June 2017 was lower than the $18.1 billion (4.6 per cent of GSP) expected in the revised budget published in the *2017-18 Budget*. Net debt was also lower than the $22.3 billion (6.0 per cent of GSP) in 2015-16, mainly reflecting the positive outcome from the Port of Melbourne lease transaction in 2016-17.
- Standard & Poor's reaffirmed the State of Victoria's triple-A credit rating on 24 August 2017, citing 'the state's very strong financial management and economy, exceptional liquidity and the extremely predictable and supportive institutional framework'. In addition, Moody's has reaffirmed the State's triple-A rating with a stable outlook, citing 'Victoria's credit quality reflects ample financial flexibility, healthy operating surpluses and a diverse economic base'.

FISCAL OBJECTIVES

As part of the *2016-17 Budget,* the Government outlined its fiscal strategy and objectives for the 2016-17 financial year, including:

- general government net debt as a percentage of GSP to be maintained at a sustainable level over the medium term;
- fully fund the unfunded superannuation liability by 2035; and
- achieving a net operating surplus consistent with maintaining general government net debt at a sustainable level over the medium term.

The 2016-17 results were consistent with the Government's fiscal strategy and objectives, with:

- a net operating surplus of $2.7 billion for the 2016-17 financial year;
- net debt to GSP of 4.0 per cent at 30 June 2017, decreasing from 6.0 per cent at 30 June 2016; and
- the government being on track to fully fund the unfunded superannuation liability by 2035 with a contribution of $1.0 billion made to the State Superannuation Fund towards this liability in 2016-17 under section 90(2) of the *State Superannuation Act 1988*.

Fiscal aggregates are useful for assessing the impact of the financial transactions of government and its controlled agencies on the economy. These measures, derived from the audited financial statements in Chapter 4, are shown in Table 2.1.

Table 2.1: Key fiscal aggregates for the general government sector **($ million)**

	2016 actual	*2017 actual*	*2017 revised*
Operating statement aggregates			
Net result from transactions – net operating balance	2 664	2 709	1 344
Net result	1 817	2 559	1 049
Net lending/(borrowing)	1 876	1 055	315
Comprehensive result – total change in net worth	15 303	16 279	8 585
Cash surplus/(deficit)	1 129	(1 467)	(3 798)
Balance sheet aggregates			
Net worth [(a)]	151 798	168 027	160 229
Net financial worth	35 984	44 178	39 993
Net financial liabilities	58 727	48 331	50 716
Net debt	22 309	15 762	18 124
(per cent)			
Net debt to GSP	**6.0**	**4.0**	**4.6**

Source: Department of Treasury and Finance

Note:
(a) June 2016 comparative figures have been restated to reflect an adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets due to the first-time recognition of Renewable Energy Certificates.

The **net result from transactions** surplus of $2.7 billion was broadly consistent with that achieved in the previous year and $1.4 billion higher than the revised 2016-17 estimate, largely reflecting differences in the timing of activity across the major departments.

The **net result** is a further measure of financial performance for the period, including the impact of market movements on the value of assets and liabilities. The 2016-17 net result was $1.5 billion higher than the revised budget primarily due to the same reasons as explained for the net result from transactions.

The **net lending** measure broadly reflects the net impact of the general government sector on the economy and financial markets, including the impact of operating and capital investing transactions. Net lending of $1.1 billion for 2016-17 was $740 million higher than the revised estimate mainly attributable to the flow through impact of the higher net result from transactions compared to the revised estimate.

The 2016-17 **comprehensive result – total change in net worth** was $976 million higher than 2015-16. This primarily reflects the revaluation of the general government sector's assets and liabilities driven by financial market movements which are reflected as other economic flows in the operating statement.

The increase of $7.7 billion from the revised budget reflects the increase in net result from transactions as well as the impact of the revaluation of the land under road assets in the year. It is also attributable to the gain on investments of the general government sector in the public non-financial corporations (PNFC) sector, caused primarily by the increase in the value of net assets of the Director of Housing, Victorian Rail Track and the water corporations.

The **cash deficit** position in 2016-17 reflects the sum of net cash flows from operating and investing activities. The reduction from a surplus position in 2015-16 to a deficit position in 2016-17 was due to higher infrastructure investment in 2016-17, primarily in the transport sector.

Net worth is a measure of economic wealth and is equal to net assets outlined in Table 2.4. The increase from the 2015-16 financial year is primarily due to the revaluation of assets in 2016-17 and a reduction in the superannuation liability, primarily due to an increase in bond yields that underlie the superannuation valuation. The higher balance compared with the revised estimate is mainly due to lower borrowings than expected, and higher than budgeted asset revaluation adjustments of land under roads and the investment of the general government sector in the PNFC sector.

The year on year movement in **net financial worth**, which is equal to total financial assets less total liabilities, was mainly due to the same drivers explaining changes in the net worth.

Net financial liabilities are total liabilities less financial assets (excluding investments in other sector entities). Net financial liabilities were $48.3 billion as at 30 June 2017, $2.4 billion lower than in the revised budget. This decrease is primarily due to lower borrowings and higher cash and investments reflecting differences in the timing of activity across the major departments.

Net debt reflects gross debt less liquid financial assets. Net debt of $15.8 billion at 30 June 2017 was $2.4 billion lower than the revised estimates in the *2017-18 Budget* reflecting differences in the timing of activity across the major departments as explained in the net result from transactions.

FINANCIAL PERFORMANCE

Table 2.2 shows an operating surplus of $2.7 billion in 2016-17 compared with the revised 2016-17 estimate of $1.3 billion.

Table 2.2: Summary of operating statement **($ million)**

	2017 actual	*2017 revised*	*Revised variance*	*% revised variance*	*2016 actual*
Revenue from transactions					
Taxation revenue	22 272	22 189	83	..	19 896
Interest revenue	863	889	(26)	(3)	786
Dividends, income tax equivalent and rate equivalent revenue	658	564	94	17	848
Sales of goods and services	6 939	6 886	53	1	6 671
Grant revenue	27 542	27 526	16	..	25 406
Other revenue	2 645	2 657	(12)	..	3 108
Total revenue from transactions	**60 918**	**60 711**	**208**	**..**	**56 716**
Expenses from transactions					
Employee expenses	21 497	22 060	(564)	(3)	20 002
Net superannuation interest expense	692	692	..	..	878
Other superannuation	2 332	2 343	(11)	..	2 123
Depreciation	2 616	2 671	(55)	(2)	2 504
Interest expense	2 028	2 012	16	1	2 076
Other operating expenses	18 575	19 210	(636)	(3)	17 905
Grant expense	10 471	10 378	93	1	8 564
Total expenses from transactions	**58 210**	**59 367**	**(1 157)**	**(2)**	**54 052**
Net result from transactions – net operating balance	**2 709**	**1 344**	**1 365**	**102**	**2 664**
Total other economic flows included in net result	**(150)**	**(295)**	**145**	**(49)**	**(847)**
Net result	**2 559**	**1 049**	**1 510**	**144**	**1 817**

Revenue

Total revenue from transactions for the year was $60.9 billion, which was within 0.3 per cent of the revised estimate and $4.2 billion (7.4 per cent) higher than the previous year.

Table 2.3 shows that State taxation revenue increased by $2.4 billion compared to 2015-16. This was principally driven by growth in land transfer duty ($295 million) and land tax ($730 million) on the back of continued strength in the Melbourne property market throughout 2016-17. In addition, $783 million was recognised from the prepaid port licence fees associated with entering into the medium-term lease over the operations of the Port of Melbourne.

State taxation revenue in 2016-17 was consistent with the revised estimates.

Table 2.3: Taxation **($ million)**

	2017 actual	*2017 revised*	*Revised variance*	*% revised variance*	*2016 actual*
Taxes on employers' payroll and labour force	**5 689**	**5 727**	**(38)**	**(1)**	**5 365**
Taxes on immovable property					
Land tax	2 501	2 499	2	..	1 771
Fire services property levy	676	669	7	1	674
Congestion levy	119	116	3	3	102
Metropolitan improvement levy	167	166	1	1	160
Total taxes on immovable property	**3 463**	**3 449**	**13**	**..**	**2 707**
Financial and capital transactions					
Land transfer duty	6 134	6 020	114	2	5 839
Metropolitan planning levy	27	27	..	..	20
Financial accommodation levy	135	136	(1)	(1)	147
Growth areas infrastructure contribution	189	166	23	14	149
Total financial and capital transactions	**6 484**	**6 349**	**135**	**2**	**6 155**
Total taxes on property	**9 947**	**9 799**	**148**	**2**	**8 862**
Taxes on the provision of goods and services					
Gambling taxes					
Public lotteries	402	420	(19)	(4)	427
Electronic gaming machines	1 070	1 101	(31)	(3)	1 079
Casino	227	232	(5)	(2)	228
Racing	74	75	(1)	(2)	77
Other	26	26	..	..	23
Total gambling taxes	**1 798**	**1 855**	**(56)**	**(3)**	**1 834**
Levies on statutory corporations	**112**	**112**	**..**	**..**	**112**
Taxes on insurance	**1 218**	**1 216**	**2**	**..**	**1 151**
Total taxes on the provision of goods and services	**3 128**	**3 182**	**(55)**	**(2)**	**3 097**
Taxes on the use of goods and performance of activities					
Motor vehicle taxes					
Vehicle registration fees	1 553	1 539	14	1	1 456
Duty on vehicle registrations and transfers	818	807	11	1	779
Total motor vehicle taxes	**2 371**	**2 346**	**25**	**1**	**2 235**
Liquor licence fees	**23**	**23**	**..**	**..**	**22**
Other	**1 115**	**1 112**	**3**	**..**	**315**
Total taxes on the use of goods and performance of activities	**3 508**	**3 480**	**28**	**1**	**2 572**
Total taxation revenue	**22 272**	**22 189**	**83**	**..**	**19 896**

Dividends, income tax and rate equivalent revenue of $658 million increased by $94 million compared to the revised estimate. The increase is mainly due to higher dividends revenue received from the public financial corporations sector.

Compared to 2015-16, dividends, income tax and rate equivalent revenue decreased by $190 million.

Revenue from the sale of goods and services of $6.9 billion was consistent with the revised budget estimate and $268 million (4.0 per cent) higher than in 2015-16. The year on year increase primarily related to the higher capital asset charge for increased asset holdings of Victorian Rail Track in 2016-17.

Other revenue in 2016-17 was in line with the revised budget estimate. Compared to the same time last year, other revenue decreased by $463 million mainly attributable to the one-off revenue from the High Court of Australia's decision to overturn the Court of Appeal's previous decision relating to Tatts Group Limited's (Tatts) 'Gambling Licenses' proceedings, which resulted in additional revenue plus interest recorded for the 2015-16 financial year.

Expenses

Total general government sector expenses for 2016-17 were $1.2 billion lower than the revised estimate in the *2017-18 Budget*. When compared with the previous year, total expenses increased by $4.2 billion (7.7 per cent).

Employee expenses of $21.5 billion for 2016-17 were $564 million lower than the revised budget, driven by lower than expected spending in schools, hospitals and health services sectors. Employee expenses were 7.5 per cent higher than in 2015-16, mainly attributable to increased service delivery in the health and community safety sectors as well as salary growth in line with wages policy.

Other superannuation expense of $2.3 billion for 2016-17 was in line with the revised budget. This expense was $209 million higher than in 2015-16 primarily due to higher employer contributions to the defined contribution plans.

Other operating expenses for 2016-17 were $18.6 billion, $636 million (3.3 per cent) lower than the revised budget and $670 million higher than in 2015-16. The increase of 3.7 per cent since 2015-16 is mainly reflecting additional spending in the health, community safety and transport sectors.

Grant expense of $10.5 billion was in line with the revised budget and $1.9 billion higher than in 2015-16. The increase is attributed to the transfer of the Australian Synchrotron to the Commonwealth Government, higher grants on-passed to local government as a result of the Commonwealth bringing forward the first two quarters of 2017-18 grants into the 2016-17 financial year and the recognition of a provision for transition assistance grants to taxi licence holders as part of the government's taxi, hire car and ride share industry reforms.

Other economic flows included in the net result

The net result differs from the net result from transactions due to other economic flows, which includes various revaluation gains and losses recognised for the period.

The net result from transactions is the Government's net surplus measure for the purposes of its fiscal strategy.

Other economic flows included in the net result for 2016-17 totalled a net loss of $150 million.

FINANCIAL POSITION

Table 2.4 shows the general government sector net assets increased by $16.2 billion (10.7 per cent) to $168.0 billion in the 2016-17 financial year. This was $7.8 billion (4.9 per cent) higher than expected in the 2016-17 revised budget.

Table 2.4: Summary balance sheet **($ million)**

	2017 actual	*Revised variance*	*2017 revised*	*Actual movement*	*2016 actual*
Assets					
Financial assets	28 120	1 593	26 527	10 300	17 820
Non-financial assets [(a)]	123 849	3 612	120 237	8 034	115 814
Investment in other sector entities					
Public non-financial corporations	89 126	1 853	87 274	(3 107)	92 233
Public financial corporations	3 383	(52)	3 435	906	2 477
Total assets [(a)]	**244 478**	**7 006**	**237 472**	**16 133**	**228 345**
Liabilities					
Superannuation	24 900	(524)	25 424	(4 390)	29 291
Borrowings	28 816	(1 655)	30 471	(4 995)	33 811
Other liabilities	22 735	1 387	21 347	9 289	13 445
Total liabilities	**76 451**	**(792)**	**77 243**	**(96)**	**76 547**
Net assets [(a)]	**168 027**	**7 798**	**160 229**	**16 229**	**151 798**

Note:
(a) June 2016 comparative figures have been restated to reflect an adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets due to the first-time recognition of Renewable Energy Certificates.

Assets

Financial assets in Table 2.4 include cash, investments, loans and placements. The value of financial assets held by the general government sector increased by $10.3 billion during the year. The increase is mainly due to higher advances associated with the arrangements established to invest and ultimately apply the proceeds of the Port of Melbourne lease transaction. The actual outcome was $1.6 billion higher than the revised estimates, reflecting the stronger than expected operating result in the year.

Non-financial assets increased by $8.0 billion during 2016-17, mainly due to the Government's investment in infrastructure, the revaluation of land under roads and the recognition of the Bendigo Hospital and new schools public private partnerships.

General government investments in other sector entities decreased by $2.2 billion in the year. This is mainly due to the reduction of the State's investment in the Port of Melbourne Corporation following the entering into the medium-term lease over its operations. This decrease was partially offset by infrastructure investment in Victorian Rail Track, the revaluation of the Director of Housing's land holdings and the strong investment market performance in the insurance entities investment portfolios.

Liabilities

Total liabilities as at 30 June 2017 were $792 million and $96 million lower than the 2016-17 revised budget and the 2015-16 actual outcome respectively. The decrease compared with the revised budget is mainly attributable to the stronger than expected operating result in the year. The reduction compared to the prior year mainly reflects a reduction in the unfunded superannuation liability due to increased bond yields and a reduction in borrowings reflecting the impact of the Port of Melbourne transaction, net of the progressive application of the proceeds.

CASH FLOWS

Table 2.5 outlines the use of cash resources. It summarises cash generated through the operations of Victorian government departments and other general government sector agencies, and how the cash has been invested in fixed assets.

A detailed cash flow statement is provided in Chapter 4.

Table 2.5: Application of cash resources **($ million)**

	2016 actual	*2017 actual*	*2017 revised*
Net result from transactions – net operating balance	2 664	2 709	1 344
Add back: Non-cash revenues and expenses (net) [(a)]	2 695	2 816	2 300
Net cash flows from operating activities	**5 359**	**5 524**	**3 644**
Less:			
Net investment in fixed assets			
Expenditure on approved projects	4 327	7 144	7 155
Less: Sale of non-financial assets	190	287	392
Net investment in fixed assets	**4 137**	**6 857**	**6 763**
Finance leases	1 050	544	517
Other investment activities (net) [(b)]	153	(8 423)	(7 820)
Decrease/(increase) in net debt	**19**	**6 546**	**4 184**

Source: Department of Treasury and Finance

Notes:

(a) Includes depreciation and movements in liabilities such as superannuation and employee benefits.

(b) The main driver of the variance between 2016 and 2017 actuals reflects the impact of the arrangements established to invest and ultimately apply the proceeds of Port of Melbourne lease transaction.

GOVERNMENT INFRASTRUCTURE INVESTMENT

Infrastructure supports delivery of high quality services to the community. It has a significant and ongoing impact on state and national productivity and has the ability to generate significant direct and indirect employment, and wider economic benefits.

The Government infrastructure investment, which includes general government net infrastructure investment and estimated cash outflows for Partnership Victoria projects (net of asset sales), was $9.1 billion. This is $286 million lower than the revised budget.

For the 2016-17 year, the Government undertook the following major infrastructure projects.

The Government's infrastructure scorecard 2016-17

Major projects completed during the year include:

- New Bendigo Hospital (stage one);
- Box Hill Hospital Redevelopment;
- New Schools PPP project (tranche one);
- Port Capacity (Webb Dock) – substructure; and
- Regional Rolling Stock.

Major projects in progress include:

- Ballarat Line Upgrade;
- Bendigo Hospital (stage two);
- Casey Hospital Expansion;
- CityLink–Tulla widening;
- Chandler Highway Bridge duplication;
- Drysdale Bypass and High Street upgrades;
- Echuca-Moama Bridge;
- Goulburn-Murray Water Connections Project (Northern Victoria Irrigation Renewal Project);
- Goulburn Valley Health redevelopment;
- Joan Kirner Women's and Children's Hospital;
- Level Crossing Removal Program;
- M80 Ring Road Upgrade – Sunshine Avenue to Calder Freeway;
- M80 Ring Road Upgrade – Princes Freeway to Western Highway;
- Melbourne Convention and Exhibition Centre – Stage 2 development;
- Melbourne Park redevelopment – Stage two;
- Melbourne Park redevelopment – Stage three;
- Mernda Rail Extension Project;
- Metro Tunnel;
- Monash Children's Hospital;
- Murray Basin Rail Project;
- New Schools PPP project (tranche two);
- New trains, trams and associated infrastructure for Melbourne commuters;
- New Youth Justice Facility;
- Princes Highway duplication project – Winchelsea to Colac;
- Ravenhall Prison;
- Royal Victorian Eye and Ear Hospital redevelopment;
- Thompsons Road duplication;
- West Gate Tunnel Project;
- Western Highway duplication;
- Western Suburbs Roads Package; and
- Yan Yean Road duplication.

CHAPTER 3 – STATE OF VICTORIA OUTCOME

- The State remains in a strong and sustainable financial position, with net assets of $172 billion at 30 June 2017. The balance sheet was strengthened during 2016-17 due to strong operating cash flow, which lowered borrowing levels and reduced liability balances from market-related revaluations.
- The **net result from transactions** for the State in 2016-17 was a surplus of $754 million, compared with a surplus of $1.6 billion in the previous year.
- The **net result** for the State was a surplus of $6.6 billion in 2016-17 compared with a $1.6 billion deficit in 2015-16. This improvement was mainly driven by mark-to-market gains on borrowings and movements in bond rates, which impacted the valuation of insurance claims and superannuation liabilities, and strong returns on investments used to fund these liabilities.

This chapter sets out the financial results for the State of Victoria for 2016-17.

The State comprises the general government sector, discussed in Chapter 2, the public non-financial corporations (PNFC) sector and the public financial corporations (PFC) sector.

The PFC and PNFC sectors, which are discussed in this chapter, comprise a wide range of entities that generally provide goods and services on a commercial basis, primarily funded from user charges and fees.

When considering the State of Victoria results, it should be noted transactions between the sectors are eliminated in arriving at the consolidated position. These eliminations mean the State of Victoria result is not the sum of results and variations from each individual sector.

The full financial statements for the State of Victoria are provided in Chapter 4.

FINANCIAL PEFORMANCE

Table 3.1 summarises the operating performance for the State of Victoria. This table shows the State recorded a net surplus from transactions of $754 million in 2016-17 compared with a surplus of $1.6 billion in 2015-16. This result reflects:

- a $2.7 billion surplus within the general government sector (discussed in the preceding chapter);
- a $436 million deficit within the PNFC sector; and
- a $2 billion deficit within the PFC sector.

The **net result** for the State is a surplus of $6.6 billion after including other economic flows. These outcomes are explained in Table 3.1.

OPERATING STATEMENT

Table 3.1: 2016-17 summary operating statement – State of Victoria ($ million)

	2016-17 actual	*2016-17 revised*	*Revised variance*	*% revised variance*	*2015-16 actual*
Revenue from transactions					
Taxation revenue	21 892	21 812	80	0.4	19 446
Interest revenue [(a)]	711	720	(10)	(1.4)	724
Dividends and income tax equivalent and rate equivalent revenue	914	1 165	(251)	(21.6)	1 159
Sales of goods and services	14 539	14 470	69	0.5	14 324
Grant revenue	27 350	27 259	91	0.3	25 241
Other revenue	3 406	3 286	120	3.7	3 835
Total revenue from transactions [(a)]	**68 812**	**68 713**	**99**	**0.1**	**64 729**
Expenses from transactions					
Employee expenses	22 617	23 154	(537)	(2.3)	21 066
Superannuation interest expense	693	692	2	0.2	880
Other superannuation	2 475	2 473	2	0.1	2 254
Depreciation	4 869	4 929	(60)	(1.2)	4 706
Interest expense [(a)]	2 729	2 628	101	3.9	2 802
Other operating expenses	27 053	28 005	(952)	(3.4)	25 720
Grant expense	7 624	7 516	108	1.4	5 657
Total expenses from transactions [(a)]	**68 058**	**69 396**	**(1 337)**	**(1.9)**	**63 085**
Net result from transactions – net operating balance	**754**	**(682)**	**1 437**	**(210.5)**	**1 645**
Total other economic flows included in net result	**5 816**	**5 835**	**(19)**	**(0.3)**	**(3 284)**
Net result	**6 570**	**5 152**	**1 417**	**27.5**	**(1 640)**

Source: Department of Treasury and Finance

Note:

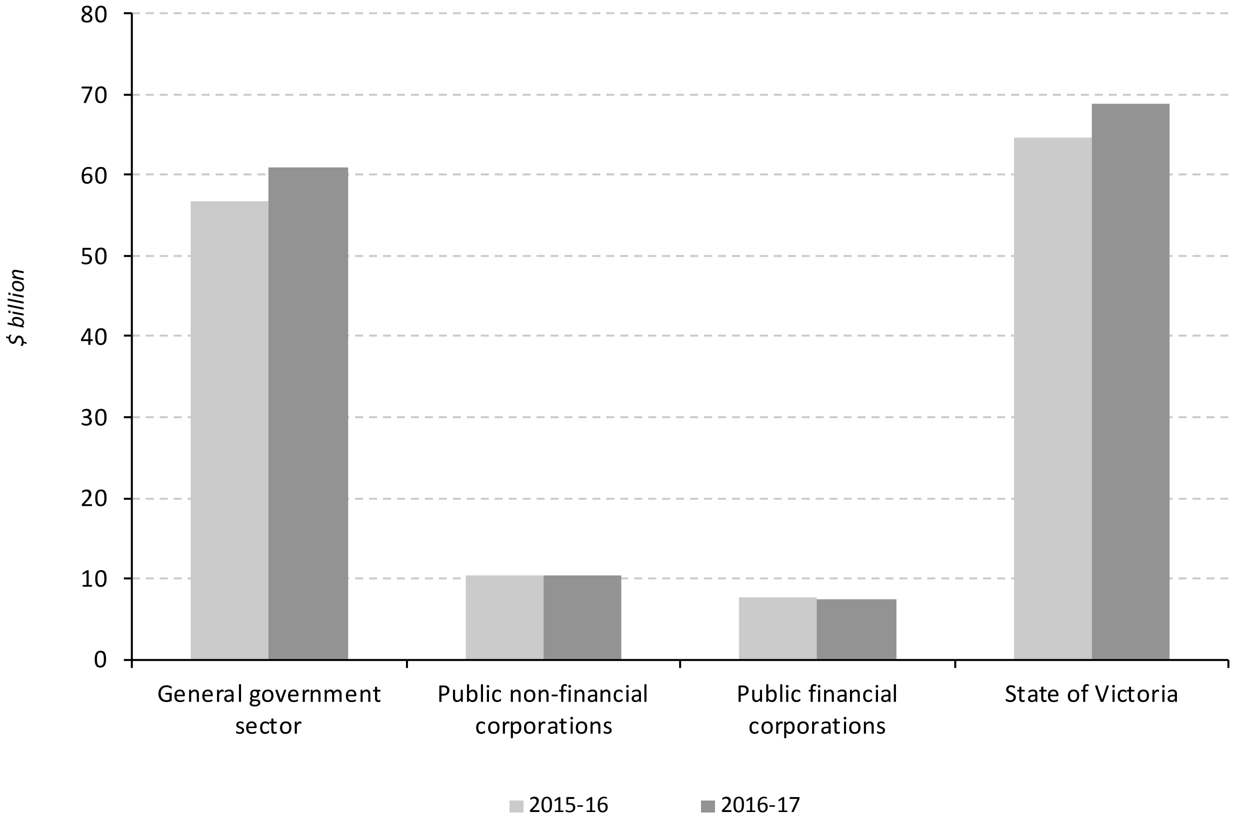
(a) June 2016 comparative figures have been restated to reflect the reclassification of borrowings and investments sold at a premium/discount, from interest expense to interest revenue.

Revenue

Total State revenue increased by 6.3 per cent in 2016-17 to $68.8 billion. This was $99 million higher than the revised estimate reflected in the *2017-18 Budget*. The general government sector accounts for 89 per cent of total State revenue.

Increases in taxation revenue and grant revenue in the general government sector were the main contributors toward the increase in State revenue.

Chart 3.1: Revenue contributions by sector



Source: Department of Treasury and Finance

Note: The State of Victoria will not equal the sum of the general government, PNFC and PFC sectors due to inter-sector eliminations.

Within the PNFC sector, total revenue was relatively unchanged in 2016-17 compared to 2015-16.

In the PFC sector, operating revenue decreased by 1.3 per cent to $7.5 billion during 2016-17 compared to $7.6 billion in 2015-16.

The marginal decline in PFC sector revenue was due to the repayment of Treasury Corporation of Victoria (TCV) debt by the general government sector from the proceeds of the Port of Melbourne lease transaction, resulting in lower interest revenue to TCV.

The PFC sector experienced strong investment returns overall due to favourable conditions in global financial markets, with the Transport Accident Commission (TAC), WorkSafe and Victorian Managed Insurance Authority (VMIA) recording a return of about 11.5 per cent on their investment portfolios, compared with returns of about 3 per cent in 2015-16. The majority of the favourable movements are reported in the net result as part of other economic flows.

Expenses

Total State expenses increased by 7.9 per cent to $68 billion during 2016-17, $1.3 billion lower than forecast in the *2017-18 Budget* and $4.9 billion higher than in 2015-16. Most of these movements reflect the activities of the general government sector.

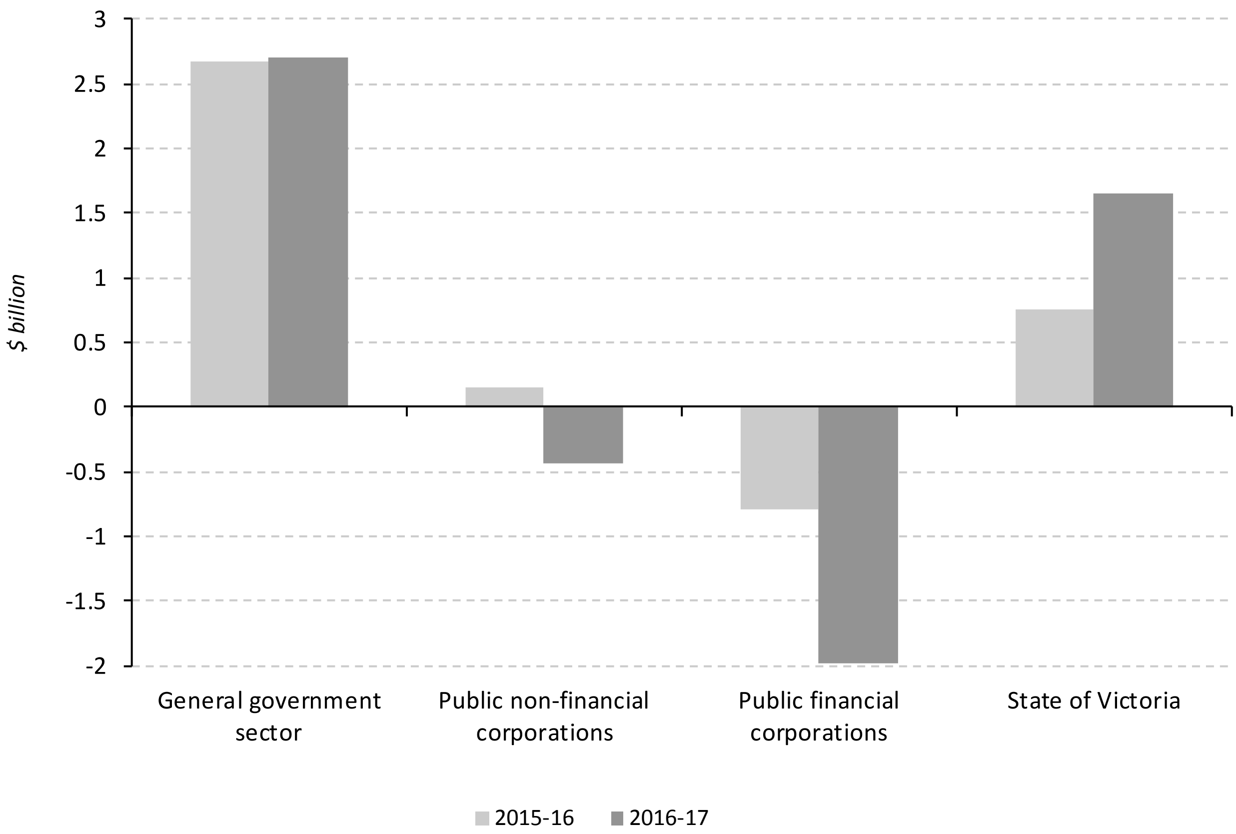
In the PNFC sector, total expenses increased by 5.2 per cent to $10.8 billion, $145 million lower than forecast in the *2017-18 Budget* and $535 million higher than 2015-16. The increase since 2015-16 was mainly due to increases in grant and other operating expenses, driven by additional family violence initiatives and the first stage transfer of the Director of Housing properties to Aboriginal Housing Victoria.

Within the PFC sector, total expenses increased by 12.9 per cent to $9.5 billion in 2016-17 compared to $8.4 billion in 2015-16. This was $67 million lower than forecast in the *2017-18 Budget*. The increase in expenses in 2016-17 was mainly due to an increase in insurance claims costs and higher accrued income tax equivalents.

Net result from transactions

As shown in Chart 3.2, the PNFC sector recorded a $436 million net deficit from transactions in 2016-17 compared to a surplus of $154 million in 2015-16. This decline was mainly driven by deficits in the Director of Housing due to the transfer of housing stock to Aboriginal Housing Victoria free of charge in 2016-17, and the one-off debt forgiveness to the Director of Housing in 2015-16, which positively impacted that year's results. The decline in the profits of some regional water businesses also contributed to this outcome, driven by lower sales of goods and services.

Chart 3.2: Net result from transactions by sector



Source: Department of Treasury and Finance

Note: The State of Victoria will not equal the sum of the general government, PNFC and PFC sectors due to inter-sector eliminations.

The PFC sector recorded a net deficit from transactions of $2 billion in 2016-17 compared to a $800 million deficit in 2015-16. The increased deficit in 2016-17 was driven by higher insurance claims costs and higher income tax equivalents expense.

Net result

At the consolidated State level, the net result for 2016-17 was a surplus of $6.6 billion.

The difference between the net result and the net result from transactions comprises 'other economic flows'. This includes the impact of changes in bond rates used to value the State's insurance and superannuation liabilities and variations in the investment returns on the assets invested to fund the State's insurance and superannuation liabilities.

Other economic flows contributed a surplus of $5.8 billion towards the State's net result. This mainly comprised:

- increased investment returns from the investment portfolios of the State's insurance and superannuation agencies, attributed to the favourable conditions in global financial markets; and
- lower valuation of the State's insurance, superannuation and debt liabilities arising from increased bond rates.

FINANCIAL POSITION

Table 3.2 shows the State's net assets increased by $20 billion to $172 billion at 30 June 2017. This mainly reflects: an increase in infrastructure spending and revaluation gains increasing non-financial assets by $13 billion; an increase in financial assets of $7 billion; a $4 billion decline in superannuation liabilities; and a decline in borrowings by $5 billion offset by a $10 billion increase in other liabilities.

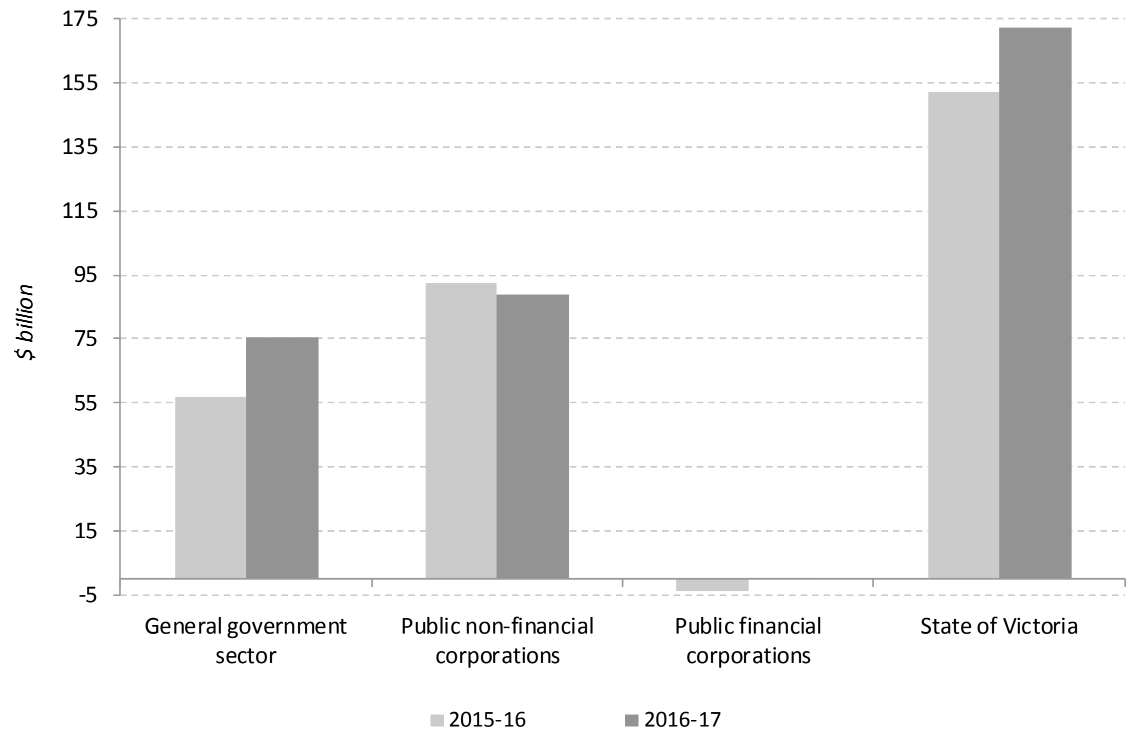
Table 3.2: Summary balance sheet – State of Victoria **($ billion)**

	2016-17 actual	*Revised variance*	*2016-17 revised*	*Actual movement*	*2015-16 actual*
Assets					
Financial assets	59	2	57	7	52
Non-financial assets [(a)]	243	5	238	13	230
Total assets [(a)]	**302**	**7**	**295**	**20**	**282**
Liabilities					
Superannuation	25	(1)	25	(4)	29
Borrowings	49	(3)	51	(5)	54
Other liabilities	56	3	53	10	46
Total liabilities	**130**	**(1)**	**130**	**..**	**130**
Net assets [(a)]	**172**	**8**	**165**	**20**	**152**

Source: Department of Treasury and Finance

Note:
(a) Certain June 2016 comparative figures have been restated.

Chart 3.3: Net assets by sector as at 30 June [(a)]



Source: Department of Treasury and Finance

Note:
(a) General government net assets exclude investments in other sector entities and the State of Victoria will not equal the sum of the general government, PNFC and PFC sectors due to inter-sector eliminations.

Non-financial assets increased by $13 billion during 2016-17. This increase was driven by the increase in general government sector non-financial assets, a revaluation of Director of Housing non-financial assets, an increase in non-financial assets of water corporations due to their capital works program and an increase in non-financial assets of Vic Track reflecting the investment in rail infrastructure.

Chart 3.3 shows the contribution to the change in net assets by sector during 2016-17, which was largely driven by the general government sector and the PNFC sector.

The net asset position of the PNFC sector decreased mainly due to an increase in payables relating to unearned income associated with the Port of Melbourne lease transaction.

The net asset position of the PFC sector improved by $4 billion to $213 million at 30 June 2017. This was primarily due to the impact of mark-to-market gains on TCV borrowings as a result of rate movements decreasing the overall value of the borrowings balance compared to the prior year, increased investment values driven by strong investment returns and the retirement of debt from the Port of Melbourne lease transaction proceeds.

TCV's assets are mostly fixed interest rate loans to Government clients, which are measured at book value rather than market value, whereas its liabilities are reported at market value. This creates a valuation difference between TCV's assets and liabilities when reported in the PFC sector. This difference is eliminated when TCV's loans to Government clients are consolidated in the whole of State accounts. Note that in TCV's own accounts, both assets and liabilities are reported at market value.

CASH FLOWS

After excluding non-cash items and the impact of the Port of Melbourne lease transaction, the change in operating receipts and payments for the State are broadly in line with the same factors that underpinned the income and expense movements discussed earlier in this chapter.

Infrastructure investment

Net cash flows from investments in non-financial assets comprised $7 billion invested by the general government sector (discussed in Chapter 2) and $1.6 billion in the PNFC sector, particularly in the water and transport sectors.

Investment in regional rail infrastructure included:

- upgrading regional rail services on the Ballarat rail corridor; and
- procuring additional VLocity train carriages to meet the demand of the regional network.

Investment in metropolitan rail infrastructure included:

- new trains and trams;
- extending rail services to Mernda in Melbourne's northern suburbs;
- upgrading the Hurstbridge rail corridor; and
- redeveloping Flinders Street Station and the Frankston Station Precinct.

Investment in water-related infrastructure included:

- upgrading and renewal of water and sewer assets by the Melbourne metropolitan water corporations, including an increase in the capacity of the Western Treatment Plant (Melbourne Water Corporation), the Amaroo Main Sewer and Craigieburn Sewer Transfer Hub (Yarra Valley Water), the Peninsula Eco Backlog Sewer Connections (South East Water), and the West Werribee Dual Water Supply Project (City West Water); and
- upgrading and renewal of water and sewer assets in regional Victoria including Goulburn-Murray Water's Connections Project, which will connect irrigators to a modernised main system of irrigation channels, and the modernisation of various irrigation systems by Southern Rural Water.

FINANCIAL SUSTAINABILITY (NON-FINANCIAL PUBLIC SECTOR)

The sustainability of the non-financial public sector (NFPS) is significant for the State's credit rating. The NFPS comprises the general government sector and the PNFC sector. The credit rating agencies consider the level of net debt, net financial liabilities and the State's capacity to service these liabilities.

Table 3.3 shows NFPS net debt of $29.8 billion as at June 2017, which is $6.7 billion lower compared to the previous year, and $3 billion lower than the revised estimate of $32.9 billion. The ratio of NFPS net debt to gross state product (GSP) has fallen to 7.6 per cent from 9.8 per cent in 2015-16.

Table 3.3: Non-financial public sector net debt and net financial liabilities as at 30 June ($ million)

	2017 actual	*Revised variance*	*2017 revised*	*Actual movement*	*2016 actual*
Assets					
Cash and deposits	6 684	(486)	5 869	(191)	5 574
Advances paid	280	117	163	127	153
Investments, loans and placements	4 791	1 541	4 550	2 186	3 906
Total	**11 755**	**1 173**	**10 583**	**2 122**	**9 633**
Liabilities					
Deposits held and advances received	997	196	801	194	802
Borrowings	40 607	(2 075)	42 683	(4 801)	45 409
Total	**41 604**	**(1 880)**	**43 484**	**(4 607)**	**46 211**
Net debt	**29 849**	**(3 052)**	**32 901**	**(6 729)**	**36 578**
Superannuation	24 938	(547)	25 485	(4 416)	29 354
Net debt plus superannuation liabilities	**54 787**	**(3 599)**	**58 386**	**(11 145)**	**65 932**
Other liabilities (net)	**14 994**	526	14 468	8 860	6 134
Net financial liabilities	**69 781**	**(3 074)**	**72 854**	**(2 285)**	**72 066**
(per cent)					
Net debt to GSP	7.6		8.4		9.8
Net debt plus superannuation liabilities to GSP	14.0		14.9		17.6
Net financial liabilities to GSP	**17.8**		**18.6**		**19.2**

Source: Department of Treasury and Finance

Indicators of financial condition

Table 3.4 shows key financial indicators for the NFPS and are important benchmarks of the NFPS sustainability.

The operating cash flow surplus to revenue ratio has increased in 2016-17 compared to 2015-16, predominantly due to the proceeds from the medium-term lease over the operations of the Port of Melbourne in 2016-17.

Interest expense to revenue has steadily declined since 2013-14 to 3.9 per cent in 2016-17. This was due to declining interest rates, lower borrowings and increase in revenue. The gross debt to revenue has fallen since 2012-13, with a large fall in 2016-17 due to the reduction in borrowings from the proceeds of the Port of Melbourne lease transaction.

Table 3.4: Indicators of financial condition for NFPS (per cent)

	2011	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*
Operating cash flow surplus to revenue	8.6	7.6	4.9	10.0	9.1	11.7	24.4
Gross debt to revenue [(a)]	57.2	66.5	86.5	81.5	81.0	76.8	64.7
Interest expense to revenue	3.3	3.8	4.8	5.0	4.9	4.4	3.9

Source: Department of Treasury and Finance

Note:
(a) Gross debt comprises borrowings and deposits held and advances received.

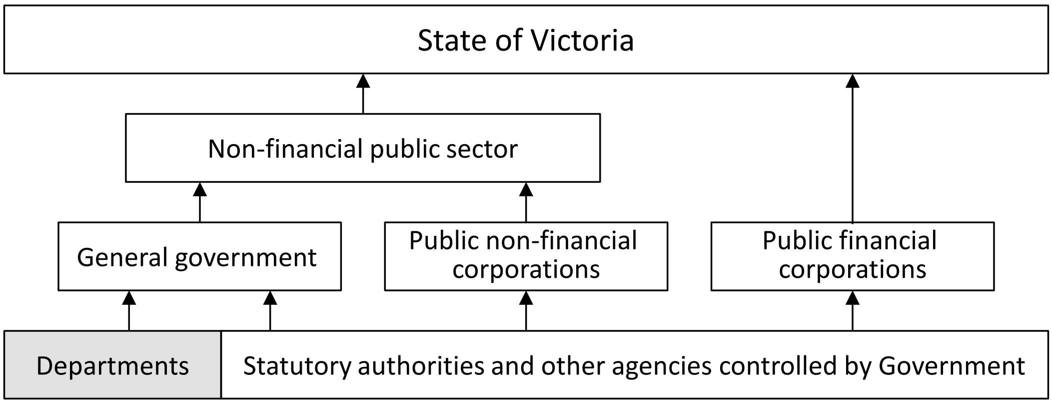
CHAPTER 4 – ANNUAL FINANCIAL REPORT

REPORT STRUCTURE

The Treasurer of Victoria presents the Annual Financial Report of the State of Victoria ("State") for the financial year ended 30 June 2017, as follows:

PUBLIC SECTOR TERMS EXPLAINED

The State of Victoria reporting entity includes government departments, public non-financial corporations (PNFCs), public financial corporations (PFCs) and other government controlled entities. The State and most of its subsidiary entities are not-for-profit entities.



The State controlled entities are classified into various sectors according to the System of National Accounts, as follows:

Term	*Explanation*
General government sector (GGS)	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, and is reported in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. 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 revenue which is financed mainly through taxes and other compulsory levies.
Public non-financial corporations (PNFC) sector	The primary function of entities in the PNFC sector is to provide goods and services in 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.
Public financial corporations (PFC) sector	The PFC sector comprises entities engaged primarily in providing 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.
Non-financial public sector (NFPS)	The NFPS sector represents the consolidation of the general government and PNFC sectors.

Note 9.1 disaggregates information about these sectors. Disclosing this information assists users of the financial statements to determine the effects of differing activities on the financial performance and position of the State. It also assists users to identify the resources used in 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.

VAGO
Victorian Auditor-General's Office

Independent Auditor's Report

To the Treasurer of the State of Victoria

Opinion

I have audited the consolidated financial report of the State of Victoria (State) and the Victorian General Government Sector (General Government Sector), which comprises the:

- consolidated State and General Government Sector balance sheets as at 30 June 2017
- consolidated State and General Government Sector comprehensive operating statements for the year then ended
- consolidated State and General Government Sector statements of changes in equity for the year then ended
- consolidated State and General Government Sector cash flow statements for the year then ended
- notes to the financial statements, including significant accounting policies
- certification by the Treasurer and the Department of Treasury and Finance.

In my opinion, the consolidated financial report presents fairly, in all material respects, the financial positions of the State and the General Government Sector as at 30 June 2017 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Section 24 of the *Financial Management Act 1994* and applicable Australian Accounting Standards.

Basis for opinion

I have conducted my audit in accordance with the *Audit Act 1994*, which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

My independence is established by the *Constitution Act 1975*. My staff and I are independent of the State and the General Government Sector in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

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Key audit matter	How I addressed the matter
Valuation of defined benefit superannuation liability Refer to Note 6.5 of the financial report	

Defined benefit superannuation liability - $24.9 billion ($1.0 billion current, $23.9 billion non-current).
I considered this to be a key audit matter because:
• the defined benefit superannuation liability is financially significant
• the underlying model used to value the liability is complex
• a significant degree of management judgement is required to determine key assumptions used in valuing the liability
• a small adjustment to an assumption may have a significant effect on the total value of the liability.
 	
Management engage an actuary to value the liability as at 30 April, then adjust the value of the liability to 30 June to account for actual market performance and movements in key assumptions since that date.
Refer to Note 6.5 of the financial report for management's key assumptions and a sensitivity analysis.
	I relied on the work completed within my audits of the Emergency Services Superannuation Scheme (ESSS) and the Department of Treasury and Finance.
	My key procedures performed in this work included:
	• assessing and testing the operating effectiveness of the key controls we identified supporting the membership data used in the liability valuation model (the model)
	• assessing the completeness and accuracy of the membership data used in the model by reconciling this data to underlying membership data in the ESSS system
	• obtaining management's actuarial report and year-end adjustments, and engaging an appropriately qualified actuary to:
	    o assess the appropriateness of the model
	    o challenge the reasonableness of key assumptions by comparing against accepted industry benchmarks
	    o assess the reasonableness of the reported liability value.
	• assessing the adequacy of financial report disclosures against the requirements of applicable Australian accounting standards.

Valuation of provision for insurance claims Refer to Note 6.6 of the financial report	

Provision for insurance claims - $28.1 billion ($3.5 billon current, $24.6 billion non-current).
I considered this to be a key audit matter because:
• the provision for insurance claims is financially significant
• the underlying model used to value the provision is complex
• a significant degree of management judgement is required to determine key assumptions used in valuing the provision
• a small adjustment to an assumption may have a significant effect on the total value of the provision.
 	
Refer to Note 6.6.1 of the financial report for management's key assumptions.
	I relied on the work completed within my audits of the Victorian WorkCover Authority, Transport Accident Commission and Victorian Managed Insurance Authority.
	My key procedures performed in this work included:
	• testing the operating effectiveness of the key controls we identified supporting the underlying claims data used in the provision valuation model (the model)
	• engaging an appropriately qualified actuary to:
	    o assess the appropriateness of the model
	    o challenge the reasonableness of key assumptions by comparing against claims history and accepted industry benchmarks
	    o assess the reasonableness of the reported provision value.
	• assessing the adequacy of financial report disclosures against the requirements of applicable Australian accounting standards.

2

Treasurer's responsibilities for the financial report	The Treasurer of Victoria is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Financial Management Act 1994*, and for such internal control as the Treasurer determines is necessary to enable the preparation of a consolidated financial report that is free from material misstatement, whether due to fraud or error. In preparing the financial report, the Treasurer is responsible for assessing the State and the General Government Sector's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.
Auditor's responsibilities for the audit of the financial report	As required by the *Audit Act 1994*, my responsibility is to express an opinion on the consolidated financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the consolidated financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report. As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also: • identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. • obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State and the General Government Sector's internal control • evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Treasurer • conclude on the appropriateness of the Treasurer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the State and the General Government Sector's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the State and the General Government Sector to cease to continue as a going concern.

Auditor's responsibilities for the audit of the financial report (continued)	• evaluate the overall presentation, structure and content of the consolidated financial report, including the disclosures, and whether the consolidated financial report represents the underlying transactions and events in a manner that achieves fair presentation • obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the State and the General Government Sector to express an opinion on the consolidated financial report. I remain responsible for the direction, supervision and performance of the audit of the consolidated financial report. I remain solely responsible for my audit opinion. I communicate with the Treasurer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit. From the matters communicated with the Treasurer, I determine those matters that were of most significance in the audit of the consolidated financial report of the current period and are therefore the key audit matters. I describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

MELBOURNE
18 September 2017

Andrew Greaves
Auditor-General

4

CERTIFICATION BY THE TREASURER AND THE DEPARTMENT OF TREASURY AND FINANCE

The Department of Treasury and Finance has prepared the *Annual Financial Report* through consolidating the financial information provided by the Victorian public sector reporting entities listed herein.

In our opinion, the *Annual Financial Report*, which comprises the consolidated comprehensive operating statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, and notes to the financial statements of the State and the Victorian general government sector as at 30 June 2017:

(a) presents fairly the State's and the Victorian general government sector's financial positions as at 30 June 2017 and their financial performance and cash flows for the financial year ended on that date; and

(b) has been prepared in accordance with Australian Accounting Standards and pronouncements, in particular AASB 1049 *Whole of Government and General Government Sector Financial Reporting* 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.

Tim Pallas MP
Treasurer

David Martine
Secretary

Authorised for issue on:

18 September 2017

CONSOLIDATED COMPREHENSIVE OPERATING STATEMENT

For the financial year ended 30 June **($ million)**

		State of Victoria		General government sector	
	Notes	*2017*	*2016*	*2017*	*2016*
Revenue from transactions					
Taxation revenue	2.1	21 892	19 446	22 272	19 896
Interest revenue [(a)]	2.2	711	724	863	786
Dividends, income tax equivalent and rate equivalent revenue	2.3	914	1 159	658	848
Sales of goods and services	2.4	14 539	14 324	6 939	6 671
Grant revenue	2.5	27 350	25 241	27 542	25 406
Other revenue	2.6	3 406	3 835	2 645	3 108
Total revenue from transactions [(a)]		**68 812**	**64 729**	**60 918**	**56 716**
Expenses from transactions					
Employee expenses	3.1	22 617	21 066	21 497	20 002
Net superannuation interest expense	3.2	693	880	692	878
Other superannuation	3.2	2 475	2 254	2 332	2 123
Depreciation	4.1.2	4 869	4 706	2 616	2 504
Interest expense [(a)]	5.5	2 729	2 802	2 028	2 076
Grant expense	3.3	7 624	5 657	10 471	8 564
Other operating expenses	3.4	27 053	25 720	18 575	17 905
Total expenses from transactions [(a)]	3.5, 3.6	**68 058**	**63 085**	**58 210**	**54 052**
Net result from transactions – net operating balance		**754**	**1 645**	**2 709**	**2 664**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets		16	(148)	51	(145)
Net gain/(loss) on financial assets or liabilities at fair value		4 144	(1 468)	24	(10)
Share of net profit/(loss) from associates/joint venture entities		50	(73)	1	(4)
Other gains/(losses) from other economic flows	9.3	1 605	(1 596)	(226)	(688)
Total other economic flows included in net result		**5 816**	**(3 284)**	**(150)**	**(847)**
Net result		**6 570**	**(1 640)**	**2 559**	**1 817**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus		8 792	17 514	6 090	6 236
Remeasurement of superannuation defined benefits plans	3.2	4 389	(3 246)	4 367	(3 220)
Other movements in equity		107	(193)	89	23
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value		31	(110)	53	(85)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	6.1	..	..	3 122	10 533
Total other economic flows – other comprehensive income		**13 319**	**13 965**	**13 720**	**13 486**
Comprehensive result – total change in net worth		**19 889**	**12 325**	**16 279**	**15 303**
KEY FISCAL AGGREGATES					
Net operating balance		**754**	**1 645**	**2 709**	**2 664**
Less: Net acquisition of non-financial assets from transactions	9.1	4 190	2 912	1 653	788
Net lending/(borrowing)		**(3 436)**	**(1 267)**	**1 055**	**1 876**

The accompanying notes form part of these financial statements.

Note:

(a) June 2016 comparative figures have been restated to reflect the reclassification of borrowings and investments sold at a premium / discount, from interest expense to interest revenue.

CONSOLIDATED BALANCE SHEET

As at 30 June **($ million)**

		State of Victoria		General government sector	
	Notes	2017	2016	2017	2016
Assets					
Financial assets					
Cash and deposits	5.3	5 869	6 676	5 530	4 772
Advances paid	5.4	280	153	12 939	4 582
Receivables	6.3	8 038	7 793	5 931	5 566
Investments, loans and placements	5.4	42 806	35 534	3 673	2 853
Investments accounted for using the equity method	4.3.2	2 187	1 918	47	46
Investments in other sector entities	6.1	..	..	92 509	94 710
Total financial assets		**59 180**	**52 074**	**120 630**	**112 531**
Non-financial assets					
Inventories	6.2	671	709	173	188
Non-financial assets held for sale		432	200	405	188
Land, buildings, infrastructure, plant and equipment	4.1.1	238 886	226 557	121 776	114 254
Other non-financial assets [(a)]	4.2	2 648	2 466	1 494	1 184
Total non-financial assets [(a)]		**242 637**	**229 932**	**123 849**	**115 814**
Total assets [(a)]	3.6	**301 818**	**282 006**	**244 478**	**228 345**
Liabilities					
Deposits held and advances received	5.2	1 940	2 628	9 088	706
Payables	6.4	17 233	7 937	5 815	5 773
Borrowings	5.1	48 847	53 959	28 816	33 811
Employee benefits	3.1	7 034	6 647	6 506	6 137
Superannuation	6.5	24 938	29 354	24 900	29 291
Other provisions	6.6	29 592	29 085	1 326	829
Total liabilities		**129 584**	**129 611**	**76 451**	**76 547**
Net assets [(a)]		**172 234**	**152 395**	**168 027**	**151 798**
Accumulated surplus/(deficit) [(a)]		75 137	56 337	51 464	44 557
Reserves		97 096	96 008	116 563	107 191
Non-controlling interest		..	50	..	50
Net worth [(a)]		**172 234**	**152 395**	**168 027**	**151 798**
FISCAL AGGREGATES					
Net financial worth		(70 404)	(77 538)	44 178	35 984
Net financial liabilities		70 404	77 538	48 331	58 727
Net debt		1 833	14 224	15 762	22 309

The accompanying notes form part of these financial statements.

Note:

(a) June 2016 comparative figures have been restated to reflect an adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets and opening accumulated surplus / (deficit) balances due to the first-time recognition of Renewable Energy Certificates.

CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 30 June **($ million)**

		State of Victoria		General government sector	
	Notes	*2017*	*2016*	*2017*	*2016*
Cash flows from operating activities					
Receipts					
Taxes received		21 406	19 325	21 786	19 775
Grants		27 351	25 203	27 542	25 375
Sales of goods and services [(a)]		25 201	15 892	7 737	7 253
Interest received		517	557	862	786
Dividends, income tax equivalent and rate equivalent receipts		915	1 158	743	802
Other receipts		2 447	2 627	1 735	2 436
Total receipts		**77 837**	**64 763**	**60 405**	**56 428**
Payments					
Payments for employees		(22 067)	(20 645)	(20 965)	(19 621)
Superannuation		(3 195)	(3 014)	(3 047)	(2 877)
Interest paid		(2 718)	(2 711)	(1 998)	(2 040)
Grants and subsidies		(6 772)	(5 623)	(10 203)	(8 538)
Goods and services [(a)]		(25 280)	(24 365)	(18 048)	(17 257)
Other payments		(767)	(468)	(620)	(736)
Total payments		**(60 798)**	**(56 826)**	**(54 880)**	**(51 069)**
Net cash flows from operating activities	5.3	**17 039**	**7 936**	**5 524**	**5 359**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	3.5, 3.6	(9 086)	(6 836)	(7 278)	(4 420)
Sales of non-financial assets		476	454	287	190
Net cash flows from investments in non-financial assets		**(8 610)**	**(6 382)**	**(6 991)**	**(4 230)**
Cash flows from investments in financial assets for policy purposes					
Cash inflows		152	189	11 255	564
Cash outflows		(214)	(179)	(11 121)	(471)
Net cash flows from investments in financial assets for policy purposes		**(62)**	**11**	**134**	**93**
Cash flows from investments in financial assets for liquidity management purposes [(b)]					
Cash inflows [(c)]		6 643	11 625	2 360	2 384
Cash outflows		(11 569)	(12 873)	(3 111)	(1 848)
Net cash flows from investments in financial assets for liquidity management purposes [(c)]		**(4 926)**	**(1 248)**	**(751)**	**535**
Net cash flows from investing activities		**(13 597)**	**(7 619)**	**(7 608)**	**(3 602)**
Cash flows from financing activities					
Advances received		232	172	9 929	..
Advances repaid		(122)	(123)	(1 551)	..
Advances received (net) [(b)]		110	48	8 378	..
Borrowings received		421	39	296	291
Borrowings repaid [(c)]		(3 985)	(498)	(5 836)	(1 623)
Net borrowings [(b)(c)]		(3 563)	(459)	(5 541)	(1 332)
Deposits received		695	1 088	564	799
Deposits repaid		(1 492)	(828)	(560)	(734)
Deposits received (net) [(b)]		(797)	259	4	65
Net cash flows from financing activities		**(4 250)**	**(151)**	**2 841**	**(1 267)**
Net increase/(decrease) in cash and cash equivalents		**(808)**	**166**	**758**	**490**
Cash and cash equivalents at beginning of the reporting period		6 676	6 510	4 772	4 282
Cash and cash equivalents at end of the reporting period [(d)]	5.3	**5 868**	**6 676**	**5 530**	**4 772**
FISCAL AGGREGATES					
Net cash flows from operating activities		17 039	7 936	5 524	5 359
Net cash flows from investments in non-financial assets		(8 610)	(6 382)	(6 991)	(4 230)
Cash surplus/(deficit)		**8 430**	**1 554**	**(1 467)**	**1 129**

The accompanying notes form part of these financial statements.

Notes:

(a) *These items include goods and services tax.*

(b) *In accordance with AASB 107, Treasury Corporation of Victoria (TCV) is not required to gross up their cash flow information for whole of government consolidation purposes. The net cash movements for TCV have been added to cash inflows or outflows for both financial years ended 30 June 2017 and 30 June 2016.*

(c) *June 2016 comparative figures have been restated to reflect the reclassification of borrowings sold at a premium.*

(d) *Cash and cash equivalents at the end of the reporting period does not equal cash and deposits on the balance sheet. This is due to overdrafts being included in the cash flow statement balances. See Note 5.3.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June **($ million)**

State of Victoria	*Accumulated surplus/(deficit)*	*Non-controlling interest*	*Non-financial assets revaluation surplus*	*Other reserves*	*Total*
2017					
Balance at 1 July 2016 [(a)]	56 337	50	94 965	1 042	152 395
Net result for the year	6 570	..	..	..	6 570
Other comprehensive income for the year	4 370	..	8 792	157	13 319
Transfer to/(from) accumulated surplus	7 861	..	(7 861)	..	..
Transactions with owners in their capacity as owners	..	(50)	..	..	(50)
Total equity as at 30 June 2017	**75 137**	**..**	**95 897**	**1 199**	**172 234**
2016					
Balance at 1 July 2015 [(a)]	61 389	50	77 429	1 201	140 069
Net result for the year	(1 640)	..	..	..	(1 640)
Other comprehensive income for the year	(3 390)	..	17 514	(158)	13 965
Transfer to/(from) accumulated surplus	(22)	..	22	..	..
Total equity as at 30 June 2016 [(a)]	**56 337**	**50**	**94 965**	**1 042**	**152 395**

General government sector	*Accumulated surplus/(deficit)*	*Non-controlling Interest*	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
2017						
Balance at 1 July 2016 [(a)]	44 557	50	49 613	57 027	551	151 798
Net result for the year	2 559	..	..	..	..	2 559
Other comprehensive income for the year	4 391	..	6 090	3 122	117	13 720
Transfer to/(from) accumulated surplus	(43)	..	43	..	..	..
Transactions with owners in their capacity as owners	..	(50)	..	..	..	(50)
Total equity as at 30 June 2017	**51 464**	**..**	**55 745**	**60 149**	**669**	**168 027**
2016						
Balance at 1 July 2015 [(a)]	45 867	50	43 355	46 494	728	136 494
Net result for the year	1 817	..	..	..	..	1 817
Other comprehensive income for the year	(3 106)	..	6 236	10 533	(177)	13 486
Transfer to/(from) accumulated surplus	(22)	..	22	..	..	..
Total equity as at 30 June 2016 [(a)]	**44 557**	**50**	**49 613**	**57 027**	**551**	**151 798**

The accompanying notes form part of these financial statements.

Note:

(a) The 1 July 2015 and 30 June 2016 comparative figures have been restated to reflect an adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets and opening accumulated surplus / (deficit) balances due to the first-time recognition of Renewable Energy Certificates.

1. ABOUT THIS REPORT

Basis of preparation

This *Annual Financial Report* presents the audited general purpose consolidated financial statements of the State and the Victorian general government sector for the year ended 30 June 2017. This report informs users about the Government's stewardship of the resources entrusted to it.

Accounting policies selected and applied ensure 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.

The accrual basis of accounting has been applied, where assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

These financial statements are in Australian dollars and the historical cost convention is used except for:

- the general government sector investments in other sector entities which are measured at net asset value;
- non-financial physical assets which, subsequent to acquisition, are measured at a revalued amount being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amounts do not materially differ from their fair value;
- productive trees in commercial native forests, which are measured at their fair value less estimated costs to sell;
- derivative financial instruments, managed investment schemes, certain debt securities and investment properties after initial recognition, which are measured at fair value with changes reflected in the consolidated comprehensive operating statement (fair value through profit and loss);
- certain liabilities, most notably unfunded superannuation and insurance claim provisions, which are subject to an actuarial assessment; and
- available for sale investments which are measured at fair value, with movements reflected in 'Other economic flows – other comprehensive income'.

Judgements, estimates and assumptions are required to be made 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. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in applying Australian Accounting Standards that have significant effects on the financial statements and estimates relate to:

- the fair value of land, buildings, infrastructure, plant and equipment (Note 7.5);
- superannuation expense and liability (Notes 3.2 and 6.5);
- actuarial assumptions for employee benefit provisions based on likely tenure of existing staff, patterns of leave claims, future salary movements and future discount rates (Note 3.1);
- provisions for outstanding insurance claims (Note 6.6.1); and
- equities and managed investment schemes classified at Level 3 of the fair value hierarchy (Note 7.4).

All amounts in the financial statements have been rounded to the nearest $1 000 000 except in the *Public Account disclosure* in Note 8.2 and the *Related party transactions disclosure* in Note 9.5 which are rounded to the nearest $1 000.

Figures in the *2016-17 Financial Report* may not add due to rounding.

Basis for consolidation

The consolidated financial statements of the State incorporate assets and liabilities of all reporting entities it controlled as at 30 June 2017 and the revenue and expenses of controlled entities for the part of the reporting period in which control existed (Note 9.8).

The consolidated financial statements of the Victorian general government sector incorporate assets and liabilities, revenue and expenses of entities classified as general government. Entities in the PNFC and PFC sectors are not consolidated into the financial statements of the general government sector, but are accounted for as equity investments measured at the Government's proportional share of the carrying amount of net assets of the PNFC and PFC sector entities before consolidation eliminations. Where the carrying amount of the entity's net assets before consolidation eliminations of an entity within the sectors is less than zero, the amount is not included at the general government sector, but the net liabilities will be consolidated at the State level. Any change in the carrying amount of the investment from period to period is accounted for as if the change in carrying amount is a change in fair value and accounted for in a manner consistent with AASB *139 Financial Instruments: Recognition and Measurement*.

Entities which are not controlled by the State, including local government authorities, universities and denominated hospitals, are not consolidated into the financial statements for the State.

Where entities adopt dissimilar accounting policies and their effect is considered material, adjustments are made to ensure consistent policies are adopted in these financial statements.

In preparing consolidated financial statements for reporting the State and the Victorian general government sector, all material transactions and balances between consolidated government controlled entities are eliminated.

Although certain entities prepare their audited financial statements on a calendar year basis, their information on transactions and balances supplied for consolidation purposes reflect adjusted audited figures that relate to the following financial year ending 30 June.

Consistent with the requirements of AASB 1004 *Contributions*, 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.

Compliance

These general purpose financial statements have been prepared in the manner and form as determined by the Treasurer, in accordance with the *Financial Management Act 1994* and applicable Australian Accounting Standards (AASs) which include Interpretations, issued by the Australian Accounting Standards Board (AASB). In particular, they are presented consistent with the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

Where appropriate, those AASs paragraphs applicable to not-for-profit entities have been applied.

The Government Finance Statistics (GFS) information included in this report is based on the GFS manual (the Australian Bureau of Statistics (ABS) publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005* as updated from time to time). Note 9.4 reconciles the differences between AAS and the requirements contained in the GFS Manual.

2. HOW FUNDS ARE RAISED

Introduction

This section presents the sources and amounts of revenue raised by the State and the general government sector.

Revenue from transactions is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured at fair value.

Structure

2.1 Taxation revenue

($ million)

	State of Victoria		*General government sector*	
	2017	*2016*	*2017*	*2016*
Taxes on employers' payroll and labour force	**5 612**	**5 293**	**5 689**	**5 365**
Taxes on immovable property				
Land tax	2 474	1 734	2 501	1 771
Fire services property levy	676	674	676	674
Congestion levy	119	102	119	102
Metropolitan improvement levy	167	160	167	160
Financial and capital transactions				
Land transfer duty	6 134	5 839	6 134	5 839
Metropolitan planning levy	27	20	27	20
Financial accommodation levy	..	..	135	147
Growth areas infrastructure contribution	189	149	189	149
Total taxes on property	**9 785**	**8 678**	**9 947**	**8 862**
Gambling taxes				
Public lotteries	402	427	402	427
Electronic gaming machines	1 070	1 079	1 070	1 079
Casino	227	228	227	228
Racing	74	77	74	77
Other	26	23	26	23
Levies on statutory corporations	**..**	**..**	**112**	**112**
Taxes on insurance	**1 218**	**1 151**	**1 218**	**1 151**
Total taxes on the provision of goods and services	**3 016**	**2 985**	**3 128**	**3 097**
Motor vehicle taxes				
Vehicle registration fees	1 552	1 454	1 553	1 456
Duty on vehicle registrations and transfers	818	779	818	779
Liquor licence fees	**23**	**22**	**23**	**22**
Other [(a)]	**1 088**	**234**	**1 115**	**315**
Total taxes on the use of goods and performance of activities	**3 480**	**2 490**	**3 508**	**2 572**
Total taxation revenue	**21 892**	**19 446**	**22 272**	**19 896**

Note:
(a) Includes prepaid port licence fees.

Taxation revenue represents revenue earned from the State's taxpayers.

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

Upfront concession fees, such as those for toll roads and gambling licence fees, are recognised progressively over the term of the applicable concession.

2.2 Interest revenue

Interest revenue includes interest earned on bank term deposits and other investments, and the unwinding over time of the discount on financial assets. Interest revenue is recognised using the effective interest method, which allocates the interest over the relevant period.

Net realised and unrealised gains and losses on the revaluation of investments do not form part of revenue from transactions, but are reported either as part of revenue from other economic flows in the net result or as unrealised gains or losses taken direct to equity, forming part of the total change in net worth in the comprehensive result.

2.3 Dividends, income tax equivalent and rate equivalent revenue

($ million)

	State of Victoria		*General government sector*	
	2017	*2016*	*2017*	*2016*
Dividends from PFC sector	..	..	246	239
Dividends from PNFC sector	..	..	123	149
Dividends from non-public sector	914	1 159	34	25
Dividends	**914**	**1 159**	**403**	**412**
Income tax equivalent revenue from PFC sector	..	..	12	15
Income tax equivalent revenue from PNFC sector	..	..	238	417
Income tax equivalent revenue	**..**	**..**	**250**	**431**
Local government rate equivalent revenue	..	..	4	5
Total dividends, income tax equivalent and rate equivalent revenue	**914**	**1 159**	**658**	**848**

General government sector dividends, income tax equivalent and rate equivalent revenue, represents revenue earned from other sectors of government. Such revenue for the general government sector is recognised when the right to receive the payment is established.

Dividends and income tax equivalent revenue are mainly from the PNFC and PFC sectors. These revenues are based on established dividend policy and the profitability of the PNFCs and PFCs.

While most government departments and agencies are exempt from federal income tax, certain larger PNFC and PFC entities are subject to income tax equivalents payable to the general government sector in accordance with the National Tax Equivalent Regime (NTER). The primary objective of the NTER is to promote competitive neutrality, through uniformly applying income tax laws, between NTER entities and their privately held counterparts.

Dividends and income tax equivalents from the PNFC and PFC sectors are eliminated on consolidation into the financial statements of the State.

Dividends earned from the non-public sector are also reflected in the financial statements, as noted in the above table.

Dividends by entity **($ million)**

	General government sector	
	2017	2016
Public financial corporations		
Victorian Managed Insurance Authority	162	73
Transport Accident Commission	80	132
Treasury Corporation of Victoria	..	32
State Trustees Ltd	2	1
Victorian Funds Management Corporation	4	2
Dividends from PFC sector	**246**	**239**
Public non-financial corporations		
Melbourne Water Corporation	28	..
City West Water Corporation	13	10
South East Water Corporation	47	26
Yarra Valley Water Corporation	23	24
Victorian Ports Corporation (Melbourne)	..	30
State Electricity Commission of Victoria	..	50
Places Victoria	10	5
Others	2	3
Dividends from PNFC sector	**123**	**149**

2.4 Sales of goods and services

($ million)

	State of Victoria		General government sector	
	2017	2016	2017	2016
Motor vehicle regulatory fees	230	251	230	251
Other regulatory fees	602	528	588	515
Sale of goods	640	568	99	87
Provision of services [(a)]	12 613	12 734	3 986	3 993
Rental	217	97	72	70
Refunds and reimbursements	236	147	58	22
Inter-sector capital asset charge	..	..	1 905	1 734
Total sales of goods and services	**14 539**	**14 324**	**6 939**	**6 671**

Note:

(a) Further disclosure on provision of services is available on the Department of Treasury and Finance's website (dtf.vic.gov.au). This further disclosure is not subject to audit by the Victorian Auditor-General's Office.

Revenue from the **provision of services** is recognised by reference to the stage of completion of the services being performed. The revenue is recognised when:

- the amount of the revenue, stage of completion and transaction costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the entity.

Under this method, revenue is recognised with reference to labour hours supplied or to labour hours supplied as a percentage of total services to be performed in each annual reporting period.

Revenue from the **sale of goods** is recognised when:

- the State no longer has any of the significant risks and rewards of ownership of the goods transferred to the buyer;
- the State no longer has continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- the amount of revenue, and the costs incurred or to be incurred in respect of the transactions, can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the State.

Regulatory fees are recognised at the time of billing.

Capital asset charge is a levy on controlled non-current physical assets of State government departments and some public non-financial corporations. This represents the opportunity cost of capital used in service delivery. The charge is calculated on the budgeted carrying amount of applicable non-financial physical assets. At a general government level, capital asset charge is levied on the PNFC entities.

2.5 Grant revenue

($ million)

	State of Victoria		*General government sector*	
	2017	*2016*	*2017*	*2016*
General purpose grants	13 619	12 960	13 619	12 960
Specific purpose grants for on-passing	3 853	3 097	3 853	3 097
Specific purpose grants	9 873	9 176	9 871	9 169
Total	**27 345**	**25 234**	**27 343**	**25 226**
Other contributions and grants	5	8	198	180
Total grant revenue	**27 350**	**25 241**	**27 542**	**25 406**

Grants mainly comprise contributions from 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 from grants is recognised when the State obtains control over the contribution. This is generally when the cash is received.

Grant revenue arises from transactions in which a party provides goods, services or labour, assets (or extinguishes a liability) to the State or general government sector without receiving approximately equal value in return. While grants to governments may provide some goods or services to the transferor, generally they do not give the transferor a claim to receive benefits directly of approximately equal value.

For this reason, grants are referred to by the AAS as 'involuntary transfers' and are termed 'non reciprocal' transfers.

Grants can be paid as **general purpose grants**, which refers to grants that are not subject to conditions regarding their specific use. Alternatively, they may be paid as **specific purpose grants**, which are paid for a particular purpose and/or have conditions attached regarding their use.

Grants for on-passing are grants paid to one institutional sector (e.g. a state based general government entity) to be passed on to another institutional sector (e.g. local government or a private non-profit institution).

2.6 Other revenue

($ million)

	State of Victoria		General government sector	
	2017	2016	2017	2016
Fair value of assets received free of charge or for nominal consideration	470	362	246	143
Fines	733	781	730	776
Royalties	94	58	86	49
Donations and gifts	392	343	317	281
Other non-property rental	98	95	28	29
Other revenue – Education	603	553	603	553
Other revenue – Health	44	36	44	36
Other miscellaneous revenue	972	1 607	591	1 241
Total other revenue	**3 406**	**3 835**	**2 645**	**3 108**

Other revenues come from a variety of miscellaneous sources, as the above table summarises.

Resources received free of charge or for nominal consideration are recognised at fair value when the State obtains control over them, irrespective of whether these contributions are subject to restrictions or conditions over their use.

Contributions in the form of services are only recognised when a fair value can be reliably determined and the services would have been purchased if not received as a donation.

Fines are collected from road safety cameras, toll road evasions, police on the spot, court and other (non-traffic) statutory infringements. Revenue is recognised at the time the notice of the fine is issued.

Other education revenue mainly comprises locally raised funds from school fetes, fundraising events, and voluntary contributions made by parents, recognised on a cash basis.

Other health revenue mainly comprises research funding from non-government organisations and non-salary cost recovery from external organisations in the health sector.

Other miscellaneous revenue includes all other revenue from various sources which are not able to be classified elsewhere. This includes the one-off revenue from Tatts in 2015-16, following the decision by the High Court of Australia to overturn the Court of Appeal's decision relating to Tatts' 'Gambling Licences' proceedings.

3. HOW FUNDS ARE SPENT

Introduction

This section accounts for the major components of expenditure incurred by the State towards the operating activities (expenses from transactions) and on capital or infrastructure projects during the year, as well as any related obligations outstanding as at 30 June 2017.

Structure

3.1 Employee expenses and provision for outstanding employee benefits

Employee expenses (operating statement)

Employee expenses in the operating statement are a major component of operating costs and include all costs related to employment, including wages and salaries, fringe benefits tax, leave entitlements and redundancy payments. The majority of employee expenses in the operating statement are wages and salaries.

Employee benefits (balance sheet)

As part of annual operations, the State provides for benefits accruing to employees but payable in future periods in respect of wages and salaries, annual leave and long service leave, and related on-costs for services rendered to the reporting date. In measuring employee benefits, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted to reflect the estimated timing and amount of benefit payment. The table below shows the key components of this provision at 30 June.

Total provision for employee benefits and on-costs at 30 June **($ million)**

	State of Victoria		*General government sector*	
	2017	*2016*	*2017*	*2016*
Current				
Accrued salaries and wages	**552**	**411**	**503**	**376**
Other employee benefits	**82**	**50**	**66**	**24**
Annual leave				
Unconditional and expected to settle within 12 months	1 181	1 112	1 078	1 011
Unconditional and expected to settle after 12 months	228	208	193	189
Long service leave				
Unconditional and expected to settle within 12 months	667	781	604	693
Unconditional and expected to settle after 12 months	2 786	2 535	2 638	2 414
On-costs				
Unconditional and expected to settle within 12 months	263	286	241	266
Unconditional and expected to settle after 12 months	422	403	390	374
Total current employee benefits and on-costs	**6 180**	**5 786**	**5 715**	**5 347**
Non-current				
Long service leave	761	753	703	694
On-costs	93	108	88	97
Total non-current employee benefits and on-costs	**854**	**861**	**791**	**791**
Total employee benefits and on-costs	**7 034**	**6 647**	**6 506**	**6 137**

Wages and salaries, annual leave and sick leave

Liabilities for employee benefits are recognised in the provision for employee benefits and classified as current liabilities where the State does not have an unconditional right to defer settlement of these liabilities.

Long service leave

Consistent with the above policy, unconditional long service leave (LSL) is disclosed as a current liability; even where the State does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of this current LSL liability are measured at:

- undiscounted value – if the State expects to wholly settle within 12 months; or
- present value – if the State does not expect to wholly settle within 12 months.

Conditional LSL is disclosed as a non-current liability as there is a right to defer the settlement of the entitlement until the employee has completed the requisite years of service. This non-current LSL liability is measured at present value.

Any gain or loss following revaluation of the present value of non-current LSL liability is recognised as a transaction, except to the extent that a gain or loss arises due to changes in bond interest rates for which it is then recognised as an 'other economic flow' in the net result.

On-costs

Employee benefits on-costs such as payroll tax, workers compensation and superannuation are recognised separately as a component of the provision for employee benefits.

Movements in provisions of on-costs **($ million)**

	State of Victoria		*General government sector*	
	2017	*2016*	*2017*	*2016*
Opening balance	798	717	736	670
Additional provisions recognised	162	174	145	155
Reductions arising from payments/other sacrifices of future economic benefits	(161)	(110)	(148)	(102)
Reductions resulting from remeasurement or settlement without cost	(18)	(5)	(10)	(6)
Unwind of discount and effect of changes in the discount rate	(3)	21	(3)	19
Closing balance	**778**	**798**	**720**	**736**
Represented by:				
Current	685	689	632	640
Non-current	93	108	88	97

3.2 Superannuation interest expense and other superannuation expenses

Superannuation expense recognised in the operating statement

The State recognises the net superannuation expense from transactions on the following basis:

- in relation to defined contribution (i.e. accumulation) superannuation plans, the associated expense is simply the employer contributions that are paid or payable in respect of employees who are members of these plans during the reporting period; and
- for defined benefit plans, the superannuation expense reflects the employer financed component of defined benefits that are expected to accrue over the reporting period (i.e. service cost), along with the net superannuation interest expense.

The remeasurements of the net superannuation liability are recognised under 'Other economic flows – other comprehensive income' and consist of:

- actuarial gains and losses which reflect the change in the defined benefit obligation that have arisen due to differences between actual outcomes and the assumptions used to calculate the superannuation expense from transactions;
- the return on plan assets, excluding amounts included in the net superannuation interest expense; and
- the effect of any change in actuarial assumptions during the period.

These remeasurements are fully recognised as other comprehensive income in the period in which they occur. For more details on the superannuation liabilities, please refer to Note 6.5 *Superannuation*.

Superannuation expense recognised in the operating statement **($ million)**

	State of Victoria 2017	2016
Defined benefit plans		
Net superannuation interest expense	693	880
Current service cost	848	778
Remeasurements:		
Expected return on superannuation assets excluding interest income	(1 006)	(787)
Other actuarial (gain)/loss on superannuation assets	(527)	1 166
Actuarial and other adjustments to unfunded superannuation liability	(2 855)	2 867
Total expense recognised in respect of defined benefit plans	**(2 848)**	**4 904**
Defined contribution plans		
Employer contributions to defined contribution plans	1 545	1 386
Other (including pensions)	82	90
Total expense recognised in respect of defined contribution plans	**1 627**	**1 476**
Total superannuation (gain)/expense recognised in operating statement	**(1 221)**	**6 380**
Represented by:		
Net superannuation interest expense	693	880
Other superannuation	2 475	2 254
Superannuation expense from transactions	**3 168**	**3 134**
Remeasurement recognised in other comprehensive income	**(4 389)**	**3 246**
Total superannuation costs recognised in operating statement	**(1 221)**	**6 380**

Net superannuation interest expense is the change during the period in the net defined benefit liability that arises from the passage of time. This is effectively calculated by applying the discount rate (a long-term Government bond yield) to the net superannuation liability without reference to the expected rate of investment return on plan assets.

Other superannuation includes all superannuation expenses from transactions except the net superannuation interest expense. It includes current service cost, which is the increase in entitlements associated with the employment services provided in the current period, and employer contributions to defined contribution plans.

3.3 Grant expense

($ million)

	State of Victoria		General government sector	
	2017	*2016*	*2017*	*2016*
Current grant expense				
Commonwealth Government	541	279	540	278
Local government (including grants for on-passing)	1 193	597	1 193	597
Private sector and not-for-profit on-passing	2 990	2 790	2 990	2 790
Other private sector and not-for-profit	2 148	1 596	2 103	1 551
Grants within the Victorian Government	..	..	3 249	3 006
Grants to other state governments	39	42	39	42
Total current grant expense	**6 912**	**5 303**	**10 114**	**8 263**
Capital grant expense				
Local government (including grants for on-passing)	1	..	1	..
Private sector and not-for-profit on-passing	197	192	99	191
Grants within the Victorian Government	..	..	3	2
Other grants	514	161	255	109
Total capital grant expense	**711**	**353**	**357**	**301**
Total grant expense	**7 624**	**5 657**	**10 471**	**8 564**

Grants and other transfers 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, personal benefit payments made in cash to individuals, other transfer payments made to local government, non-government schools and community groups.

For the general government sector, these include grants and transfer payments to PNFCs and PFCs.

3.4 Other operating expenses

($ million)

	State of Victoria		General government sector	
	2017	*2016*	*2017*	*2016*
Purchase of supplies and consumables [(a)(b)]	5 184	5 097	4 163	3 975
Cost of goods sold	207	185	30	27
Finance expenses and fees	464	448	165	36
Purchase of services [(a)(b)]	13 455	12 605	12 089	11 540
Insurance claims expense	5 188	4 899	232	183
Maintenance	1 308	1 301	754	737
Operating lease payments	414	406	348	338
Other	832	779	795	1 068
Total other operating expenses	**27 053**	**25 720**	**18 575**	**17 905**

Notes:

(a) A breakdown of purchase of supplies and consumables and purchase of services is provided in the following two tables.

(b) June 2016 comparatives have been reclassified between the purchase of supplies and consumables and purchase of services line items to better reflect the nature of the expenditure items.

Other operating expenses generally represent the day-to-day running costs incurred in normal operations and includes:

- supplies and services costs, which are recognised as an expense in the reporting period in which they are incurred. The carrying amounts of any inventories held for distribution are expensed when distributed; and
- bad and doubtful debts.

Audit fees of $393 100 ($383 500 in 2016) were paid or payable to the Victorian Auditor-General's Office for the audit of the Annual Financial Report of the State of Victoria. The Victorian Auditor-General's Office provided no other services to the State other than the review of the Estimated Financial Statements and the financial audits of departments and agencies.

Operating lease payments (including contingent rentals) are recognised on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset. The leased asset is not recognised in the balance sheet.

Insurance claims expense includes claims incurred during the financial year and any costs associated with processing and resolving claims, net of reinsurance recoveries.

Purchase of supplies and consumables **($ million)**

	State of Victoria		*General government sector*	
	2017	*2016*	*2017*	*2016*
Medicinal pharmacy and medical supplies	1 159	1 048	1 159	1 048
Office supplies and consumables	271	228	242	222
Specialised operational supplies and consumables	211	140	154	125
Other purchase of supplies and consumables	3 543	3 681	2 609	2 579
Total purchase of supplies and consumables	**5 184**	**5 097**	**4 163**	**3 975**

Purchase of services **($ million)**

	State of Victoria		*General government sector*	
	2017	*2016*	*2017*	*2016*
Service contracts	7 184	6 955	6 830	6 916
Accommodation/occupancy	897	808	743	783
Medical and client care services	317	300	317	300
Staff related expenses (non-labour related)	272	214	247	197
Other purchase of services	4 784	4 328	3 953	3 344
Total purchases of services	**13 455**	**12 605**	**12 089**	**11 540**

3.5 Total operating expenses and purchases of non-financial assets by department

The following table discloses the funds spent by each portfolio department, including operating expenditure and capital expenditure, as part of the department's normal activities.

($ million)

	Expenses from transactions		*Purchases of non-financial assets*	
State of Victoria	*2017*	*2016*	*2017*	*2016*
Economic Development, Jobs, Transport and Resources	13 839	12 485	4 735	2 895
Education and Training	16 071	15 066	686	399
Environment, Land, Water and Planning	8 887	8 565	1 155	1 501
Health and Human Services	24 668	22 819	1 856	1 307
Justice and Regulation	6 433	5 881	305	462
Premier and Cabinet	524	393	18	10
Treasury and Finance	16 260	15 070	90	63
Parliament	192	174	35	19
Courts	538	495	41	23
Regulatory bodies and other part budget funded agencies [(a)]	2 278	2 107	123	108
Total	**89 689**	**83 055**	**9 043**	**6 788**
Less eliminations and adjustments [(b)(c)]	(21 631)	(19 970)	42	48
Grand total [(b)]	**68 058**	**63 085**	**9 086**	**6 836**
General government sector				
Economic Development, Jobs, Transport and Resources	9 207	8 142	4 492	2 256
Education and Training	16 071	15 066	686	399
Environment, Land, Water and Planning	3 241	2 628	72	75
Health and Human Services	23 063	21 672	1 384	1 016
Justice and Regulation	6 249	5 712	304	459
Premier and Cabinet	502	374	18	9
Treasury and Finance	6 796	6 680	43	28
Parliament	192	174	35	19
Courts	538	495	41	23
Regulatory bodies and other part budget funded agencies [(a)]	2 278	2 107	123	108
Total	**68 137**	**63 051**	**7 197**	**4 393**
Less eliminations and adjustments [(c)]	(9 927)	(8 999)	81	26
Grand total	**58 210**	**54 052**	**7 278**	**4 420**

Notes:

(a) Other general government sector agencies not allocated to departmental portfolios.

(b) June 2016 comparative figures have been restated to reflect the reclassification of borrowings and investments sold at a premium / discount from interest expense to interest revenue.

(c) Mainly comprising of payroll tax, capital asset charge and inter-departmental transfers.

3.6 Government purpose classification disclosure

The Government purpose classification (**GPC**) framework disclosures required under AASB 1049 classify expenses, acquisition of non-financial assets of the public sector and total assets of the State and general government sector in terms of their purposes.

This information is presented to facilitate improved inter-jurisdictional comparison of the financial operations of public sector jurisdictions.

The major groups reflect the broad objectives of government and the groups and subgroups detail the means by which these broad objectives are achieved.

General public services: Includes legislative and executive affairs, financial and fiscal affairs, external affairs, foreign economic aid, general research, general economic and social services, general statistical services and government superannuation benefits.

Public order and safety: Includes police and fire protection services, law courts and legal services, prisons and corrective services and control of domestic animals and livestock.

Education: Includes primary and secondary education, university and other higher education, technical and further education, preschool and special education and transportation of students.

Health: Includes general hospitals, repatriation hospitals, mental health institutions, nursing homes, special hospitals, hospital benefits, medical clinics and practitioners, dental clinics and practitioners, maternal and infant health, ambulance services, medical benefits, school and other public health services, pharmaceuticals, medical aids and appliances and health research.

Social security and welfare: Includes sickness benefits, benefits to ex-servicemen and their dependants, invalid and other permanent disablement benefits, old-age benefits, widows, deserted wives, divorcee and orphan benefits, unemployment benefits, family and child benefits, sole parent benefits, family and child welfare and aged and handicapped welfare.

Housing and community amenities: Includes housing and community development, water supply, household garbage and other sanitation, sewerage, urban stormwater drainage, protection of the environment and street lighting.

Recreation and culture: Includes public halls and civic centres, swimming pools and beaches, national parks and wildlife, libraries, creative and performing arts, museums, art galleries, broadcasting and film production.

Fuel and energy: Includes coal, petroleum, gas, nuclear affairs and electricity.

Agriculture, forestry, fishing and hunting: Includes agricultural land management, agricultural water resources management, agricultural support schemes, agricultural research and extension services, forestry, fishing and hunting.

Transport and communications: Includes road construction, road maintenance, parking, water transport, rail transport, air transport, pipelines, multi-mode urban transit systems and communications.

Other economic affairs: Includes storage, saleyards, markets, tourism and area promotion and labour and employment affairs.

Other purposes: Includes public debt transactions, general purpose inter government transactions and natural disaster relief.

3. HOW FUNDS ARE SPENT

Total operating expenses, purchases of non-financial assets and total assets by government purpose classification

The following table presents operating and capital expenditure and total assets held by government purpose classification.

($ million)

	Expenses from transactions		*Purchases of non-financial assets*		*Total assets*	
State of Victoria	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
General public services	10 199	8 967	130	86	3 067	3 310
Public order and safety	6 631	6 155	502	677	8 301	9 191
Education	14 116	13 359	688	355	22 667	22 013
Health (a)	16 799	15 378	1 222	936	14 649	13 831
Social security and welfare (a)	4 201	4 342	86	59	2 129	2 014
Housing and community amenities (b)	7 077	5 879	1 707	1 725	80 252	76 730
Recreation and culture (a)	1 606	1 602	270	235	15 643	14 317
Fuel and energy	182	131	10	15	23	21
Agriculture, forestry, fishing and hunting	484	513	42	12	651	670
Transport and communications	6 281	5 673	4 305	2 561	96 026	88 952
Other economic affairs	1 097	762	71	129	437	738
Other purposes (c)	1 906	2 034	6	1	9	6
Not allocated by purpose (d)(e)	(2 520)	(1 709)	48	44	57 963	50 213
Total	**68 058**	**63 085**	**9 086**	**6 836**	**301 818**	**282 006**
General government sector						
General public services	2 615	2 662	85	52	2 195	1 592
Public order and safety	6 740	6 269	502	677	8 301	9 191
Education	14 185	13 424	688	355	22 667	22 013
Health (a)	16 932	15 498	1 223	935	14 627	13 810
Social security and welfare (a)	4 242	4 372	86	59	2 129	2 014
Housing and community amenities (b)	3 346	2 610	61	44	9 747	8 326
Recreation and culture (a)	778	802	140	78	9 537	8 900
Fuel and energy	180	128	8	15	23	21
Agriculture, forestry, fishing and hunting	387	414	38	6	591	603
Transport and communications	7 008	6 245	4 339	2 046	53 787	48 791
Other economic affairs	1 205	857	71	129	437	738
Other purposes	1 141	1 350	6	..	6	1
Not allocated by purpose (d)(e)	(551)	(579)	31	22	120 431	112 345
Total	**58 210**	**54 052**	**7 278**	**4 420**	**244 478**	**228 345**

Notes:

(a) June 2016 comparative figures have been restated to reflect more current information.

(b) June 2016 comparative figures for total assets have been restated to reflect an adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets due to the first-time recognition of Renewable Energy Certificates.

(c) June 2016 comparative figures for the State of Victoria have been restated to reflect the reclassification of borrowings and investments sold at a premium / discount, from interest expense to interest revenue.

(d) Not allocated by purpose for expenses and purchases of non-financial assets represents eliminations and adjustments.

(e) Not allocated by purpose for total assets represents eliminations and adjustments, and financial assets which are not able to be allocated by purpose.

4. MAJOR ASSETS AND INVESTMENTS

Introduction

This section outlines those assets that the State controls, reflecting investing activities in the current and prior years.

Structure

4.1 Land, buildings, infrastructure, plant and equipment

4.1.1 Total land, buildings, infrastructure, plant and equipment ($ million)

	State of Victoria			*General government sector*		
2017	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*
Buildings	49 482	(3 771)	45 710	30 762	(2 723)	28 039
Land and national parks	78 504	..	78 504	50 554	..	50 554
Leased buildings	5 799	(666)	5 133	5 319	(609)	4 711
Infrastructure systems	65 908	(3 202)	62 706	1 834	(492)	1 343
Leased infrastructure systems	4 805	(358)	4 447	..	..	..
Plant, equipment and vehicles	11 598	(4 996)	6 602	6 126	(3 764)	2 362
Leased plant, equipment and vehicles	1 375	(322)	1 053	441	(257)	184
Roads and road infrastructure	39 870	(19 346)	20 524	39 781	(19 341)	20 440
Leased roads and road infrastructure	584	(19)	565	584	(19)	565
Earthworks	7 961	..	7 961	7 961	..	7 961
Cultural assets	5 834	(154)	5 680	5 770	(154)	5 617
Total land, buildings, infrastructure, plant and equipment	**271 721**	**(32 834)**	**238 886**	**149 133**	**(27 358)**	**121 776**

2016						
Buildings	47 244	(2 574)	44 669	29 437	(1 825)	27 612
Land and national parks	70 423	..	70 423	44 724	..	44 724
Leased buildings	4 940	(515)	4 425	4 467	(465)	4 002
Infrastructure systems	63 120	(2 510)	60 610	1 775	(455)	1 320
Leased infrastructure systems	4 810	(281)	4 529	..	..	..
Plant, equipment and vehicles	11 148	(4 550)	6 598	5 884	(3 558)	2 326
Leased plant, equipment and vehicles	1 331	(271)	1 060	396	(238)	158
Roads and road infrastructure	38 790	(18 690)	20 100	38 705	(18 673)	20 031
Leased roads and road infrastructure	584	(9)	575	584	(9)	575
Earthworks	7 913	..	7 913	7 913	..	7 913
Cultural assets	5 877	(222)	5 655	5 814	(222)	5 592
Total land, buildings, infrastructure, plant and equipment	**256 180**	**(29 623)**	**226 557**	**139 701**	**(25 446)**	**114 254**

Recognition and measurement

Initial recognition

All non-financial physical assets are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition.

The cost of constructed non-financial physical assets includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads. The cost of leasehold improvements is capitalised when incurred.

The initial cost for non-financial physical assets under a finance lease is measured at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

Certain assets are acquired under finance leases, which may form part of a service concession arrangement (refer Note 5.6).

Subsequent measurement

All non-financial physical assets are subsequently measured at fair value less accumulated depreciation and impairment. Non-financial physical assets are measured at fair value with regard to the asset's highest and best use after due consideration is made for any legal or physical 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. Therefore, unless otherwise disclosed, the current use of these non-financial physical assets will be their highest and best use.

Impairment

Goodwill and intangible assets with indefinite useful lives (and intangible assets not yet available for use) are tested annually for impairment (as described in the next column) and whenever there is an indication that the asset may be impaired.

All other assets are assessed annually for indications of impairment, except for:

- inventories (refer note 6.2);
- non-financial physical assets held for sale;
- certain biological assets related to agricultural activity (refer note 4.2);
- investment properties that are measured at fair value (refer note 4.2); and
- assets arising from construction contracts (refer note 4.1).

If there is an indication of 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 as an 'other economic flow', except to the extent that the write down can be debited to an asset revaluation surplus amount applicable to that class of asset.

If there is an indication that there has been a change in the estimate of an asset's recoverable amount since the last impairment loss was recognised, the carrying amount would be increased to its recoverable amount. This reversal of the impairment loss occurs only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

It is deemed that, in the event of the loss or destruction 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. 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.

Note 7.5 describes the fair value determination of non-financial assets.

4.1.2 Depreciation

($ million)

	State of Victoria		General government sector	
	2017	*2016*	*2017*	*2016*
Buildings	1 563	1 441	1 127	1 031
Leased buildings	176	127	168	120
Infrastructure systems	1 379	1 359	44	44
Leased infrastructure systems	82	81	..	..
Plant, equipment and vehicles	813	822	504	518
Leased plant, equipment and vehicles	30	45	30	45
Roads and road infrastructure	610	599	607	596
Leased roads and road infrastructure	9	9	9	9
Cultural assets	15	14	15	14
Intangible produced assets	191	207	110	125
Total depreciation	**4 869**	**4 706**	**2 616**	**2 504**

All infrastructure assets, buildings, plant and equipment and other non-financial physical assets (excluding items under operating leases, assets held for sale, land and investment properties) that have finite useful lives are depreciated. Depreciation is generally calculated on a straight line basis, at rates that allocate the asset's value, less any estimated residual value, over its estimated useful life.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, and adjustments made where appropriate.

Leasehold improvements are depreciated over the shorter of the lease term and useful lives.

Typical estimated useful lives for the different asset classes for current and prior years are included in the table below:

Asset	*Useful life*
Buildings	20 to 100 years
Leasehold buildings	2 to 60 years
Infrastructure systems:	
water infrastructure – storage facilities	25 to 300 years
water infrastructure – other	25 to 100 years
rail infrastructure	50 to 100 years
other infrastructure	10 to 32 years
Plant, equipment and vehicle (including leased assets)	3 to 10 years
Road and road infrastructure (including bridges)	60 to 90 years
Cultural assets (with finite useful lives)	100 years
Intangible produced assets	3 to 5 years

Indefinite life assets

Land, earthworks, land under declared roads, Port of Melbourne channels and core cultural assets, which are considered to have an indefinite life, are not depreciated. Depreciation is not recognised in respect of these assets because their service potential has not, in any material sense, been consumed during the reporting period.

Intangible assets

Intangible produced assets with finite useful lives are depreciated as an expense from transactions on a systematic (typically straight line) basis over the asset's useful life. Depreciation begins 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.

All intangible assets are tested for impairment whenever there is an indication that the asset may be impaired.

The consumption of intangible non produced assets with finite useful lives is not classified as a transaction, but as amortisation and included in the net result as an 'other economic flow'.

Other non-financial assets

See Note 4.2 *Other non-financial assets* for further information on intangible assets.

Reconciliation of movements in carrying values during the financial period

($ million)

State of Victoria	Land and buildings 2017	Land and buildings 2016	Plant, equipment vehicle and infrastructure system 2017	Plant, equipment vehicle and infrastructure system 2016	Roads, road infrastructure and earthworks 2017	Roads, road infrastructure and earthworks 2016	Cultural assets 2017	Cultural assets 2016	Total 2017	Total 2016
Opening balance	**119 518**	**108 081**	**72 796**	**64 073**	**28 588**	**29 241**	**5 655**	**5 554**	**226 557**	**206 949**
Acquisitions	2 964	2 658	5 740	4 464	967	173	39	28	9 710	7 323
Reclassification	410	(32)	(912)	(134)	193	..	(3)	43	(312)	(123)
Revaluation	8 671	10 724	(189)	6 743	(56)	(199)	4	45	8 431	17 314
Disposals	(603)	(401)	(259)	(181)	(35)	(2)	..	..	(898)	(584)
Assets recognised for the first time	151	132	71	139	14	32	..	..	236	303
Impairment	(24)	(75)	(136)	(1)	..	(48)	..	(1)	(160)	(126)
Depreciation	(1 738)	(1 569)	(2 304)	(2 307)	(620)	(609)	(15)	(14)	(4 678)	(4 499)
Closing balance	**129 348**	**119 518**	**74 808**	**72 796**	**29 050**	**28 588**	**5 680**	**5 655**	**238 886**	**226 557**
General government sector										
Opening balance	**76 339**	**69 151**	**3 804**	**3 740**	**28 519**	**29 175**	**5 592**	**5 496**	**114 254**	**107 562**
Acquisitions [(a)]	2 581	2 199	4 237	2 781	962	171	39	28	7 818	5 180
Reclassification	(197)	(125)	(233)	(98)	189	(1)	(3)	43	(244)	(180)
Revaluation	6 135	6 507	2	74	(65)	(203)	4	40	6 076	6 418
Disposals	(243)	(235)	(203)	(92)	(35)	(1)	..	..	(481)	(329)
Assets recognised for the first time	136	54	5	15	14	32	..	..	155	101
Assets transferred between Government entities [(a)]	(154)	..	(3 132)	(2 008)	..	..	..	..	(3 286)	(2 008)
Impairment	2	(61)	(13)	(1)	..	(48)	..	(1)	(11)	(111)
Depreciation	(1 295)	(1 152)	(579)	(607)	(617)	(606)	(15)	(14)	(2 506)	(2 379)
Closing balance	**83 303**	**76 339**	**3 889**	**3 804**	**28 967**	**28 519**	**5 617**	**5 592**	**121 776**	**114 254**

Note:

(a) June 2016 comparative figures have been restated to more accurately reflect the nature of the movements in carrying values of property, plant and equipment.

4.1.3 Total land, buildings, infrastructure, plant and equipment by government purpose

($ million)

State of Victoria 2017	*Public administration*	*Education*	*Health and Welfare*	*Community Housing*	*Transportation and Communication*	*Public Safety and Environment*	*Total*
Buildings	2 742	11 813	8 732	8 506	6 114	7 804	45 710
Land and national parks	2 842	10 006	2 789	15 977	31 437	15 452	78 504
Leased buildings	95	406	3 376	3	75	1 178	5 133
Infrastructure systems	53	..	..	..	24 839	37 814	62 706
Leased infrastructure systems	..	..	..	..	..	4 447	4 447
Plant, equipment and vehicles	251	195	1 214	2	3 876	1 065	6 602
Leased plant, equipment and vehicles	..	14	76	..	952	12	1 053
Roads and road infrastructure	36	..	..	..	19 572	915	20 524
Leased roads and road infrastructure	..	..	..	..	565	..	565
Earthworks	..	..	..	..	7 961	..	7 961
Cultural assets	625	2	..	..	2	5 049	5 680
Total land, buildings, infrastructure, plant and equipment	**6 646**	**22 437**	**16 187**	**24 488**	**95 392**	**73 736**	**238 886**

2016							
Buildings	2 314	11 579	8 968	8 632	5 852	7 324	44 669
Land and national parks	1 325	9 873	2 574	14 295	26 970	15 386	70 423
Leased buildings	87	165	2 656	3	37	1 476	4 425
Infrastructure systems	44	..	..	..	23 257	37 308	60 610
Leased infrastructure systems	..	..	..	..	..	4 529	4 529
Plant, equipment and vehicles	538	188	1 062	2	3 709	1 099	6 598
Leased plant, equipment and vehicles	..	3	61	..	989	7	1 060
Roads and road infrastructure	22	..	..	..	19 150	928	20 100
Leased roads and road infrastructure	..	..	..	..	575	..	575
Earthworks	..	..	..	..	7 913	..	7 913
Cultural assets	532	3	4	..	2	5 114	5 655
Total land, buildings, infrastructure, plant and equipment	**4 863**	**21 812**	**15 325**	**22 932**	**88 454**	**73 171**	**226 557**

4.1.3 Total land, buildings, infrastructure, plant and equipment by government purpose *(continued)*

($ million)

General government sector 2017	*Public administration*	*Education*	*Health and Welfare*	*Community Housing*	*Transportation and Communication*	*Public Safety and Environment*	*Total*
Buildings	780	11 813	8 717	..	517	6 211	28 039
Land and national parks	1 761	10 006	2 781	..	24 255	11 750	50 554
Leased buildings	57	406	3 376	..	71	800	4 711
Infrastructure systems	38	..	..	..	351	954	1 343
Plant, equipment and vehicles	78	195	1 214	..	33	842	2 362
Leased plant, equipment and vehicles	..	14	76	..	83	12	184
Roads and road infrastructure	..	..	..	..	19 572	869	20 440
Leased roads and road infrastructure	..	..	..	..	565	..	565
Earthworks	..	..	..	..	7 961	..	7 961
Cultural assets	625	2	..	..	2	4 986	5 617
Total land, buildings, infrastructure, plant and equipment	**3 340**	**22 437**	**16 164**	**..**	**53 411**	**26 424**	**121 776**

2016							
Buildings	647	11 579	8 954	..	607	5 826	27 612
Land and national parks	1 195	9 873	2 568	..	19 828	11 261	44 724
Leased buildings	46	165	2 656	..	37	1 097	4 002
Infrastructure systems	39	..	..	..	355	927	1 320
Plant, equipment and vehicles	199	188	1 062	..	27	850	2 326
Leased plant, equipment and vehicles	..	3	61	..	87	7	158
Roads and road infrastructure	..	..	..	..	19 150	882	20 031
Leased roads and road infrastructure	..	..	..	..	575	..	575
Earthworks	..	..	..	..	7 913	..	7 913
Cultural assets	532	3	4	..	2	5 051	5 592
Total land, buildings, infrastructure, plant and equipment	**2 658**	**21 812**	**15 304**	**..**	**48 581**	**25 900**	**114 254**

4.2 Other non-financial assets

($ million)

	State of Victoria		General government sector	
	2017	*2016*	*2017*	*2016*
Intangible produced assets [(a)]	2 826	2 578	1 685	1 525
Accumulated depreciation	(1 479)	(1 291)	(872)	(786)
Intangible non-produced assets	865	831	117	109
Accumulated amortisation	(237)	(211)	(32)	(36)
Total intangibles [(a)]	**1 975**	**1 907**	**898**	**811**
Investment properties	187	158	179	151
Biological assets [(b)]	56	61	3	2
Other assets	429	340	414	220
Total other non-financial assets [(a)]	**2 648**	**2 466**	**1 494**	**1 184**

Notes:
(a) June 2016 comparative figures have been restated to reflect an adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets due to the first-time recognition of Renewable Energy Certificates.
(b) The majority of biological assets are commercial forests and also includes any living animal, plant or agricultural produce which is the harvested product of biological assets.

Reconciliation of movement in intangibles, investment properties and biological assets [(a)]

($ million)

	State of Victoria		General government sector	
	2017	*2016*	*2017*	*2016*
Opening balance [(b)]	2 127	2 030	964	847
Acquisitions	251	266	142	167
Reclassification	69	77	52	67
Revaluation	5	15	11	19
Disposals	(10)	(16)	(8)	(7)
Assets recognised for the first time	31	14	32	15
Impairment	(24)	(16)	2	(15)
Amortisation and depreciation [(c)]	(231)	(244)	(116)	(128)
Closing balance	**2 219**	**2 127**	**1 080**	**964**

Notes:
(a) Reconciliation does not include movements in other assets.
(b) June 2016 comparative figures have been restated to reflect an adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets due to the first-time recognition of Renewable Energy Certificates.
(c) For produced and non-produced intangible assets.

Purchased **intangible assets** are initially recognised at cost. When the recognition criteria in *AASB 138 Intangible Assets* is met, internally generated intangible assets are recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

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. 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 other economic flows in the comprehensive operating statement in the period that they arise.

Fair values are determined based on a market comparable approach that reflects recent transaction prices for similar properties.

Biological assets comprise productive trees in commercial native forests and any living animal (or breeding stock), plant or agricultural produce that is the harvested product of biological assets. These biological assets are measured at fair value less costs to sell and are revalued at 30 June each year. An increase or decrease in the fair value of these biological assets is recognised in the consolidated comprehensive operating statement as an 'Other economic flow'.

Other non-financial assets include prepayments which represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

4.3 Investments accounted for using the equity method and other joint operations

Investments are classified as either **associates or joint arrangements** (joint ventures or joint operations).

The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Joint arrangements 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.

The investments accounted for using the equity method (associates and joint ventures) and other joint operations are disclosed below.

4.3.1 Investments accounted for using the equity method

Associates and joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated balance sheet.

Associates

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 net result as other economic flows. The share of post-acquisition movements in revaluation surpluses and any other reserves is recognised in both the comprehensive operating statement and the statement of changes in equity. The cumulative post acquisition movements are adjusted against the cost of the investment.

Joint ventures

Joint ventures are joint arrangements whereby the State or a subsidiary entity and one or more other parties that have joint control of the arrangements have rights to the net assets of the arrangements. Joint control only exists when decisions about the relevant activity require the unanimous consent of the parties sharing control (the venturers).

4.3.2 Investments accounted for using the equity method

($ million)

	2017	*2016*
The Australian Regenerative Medicine Institute	35	35
Property Exchange Australia Limited	12	11
Total general government sector	**47**	**46**
Snowy Hydro Limited	2 139	1 872
Total investments	**2 187**	**1 918**

The table below discloses further information on the material investment in Snowy Hydro Limited.

Movement in carrying amounts for investments accounted for using the equity method **($ million)**

	Snowy Hydro Limited	
	2017	*2016*
Opening balance	**1 872**	**1 976**
Share of profit/(loss) after income tax	49	(78)
Dividends received/receivable	(66)	(52)
Share of increment on revaluation of property, plant and equipment	285	25
Closing balance	**2 139**	**1 872**

The Australian Regenerative Medicine Institute

The Department of Health and Human Services has a joint venture interest with Monash University in the Australian Regenerative Medicine Institute (ARMI). ARMI was established to construct and operate a facility, which will promote Victoria as a global leader in regenerative medical research, foster and develop existing research collaboration on both domestic and overseas projects, and provide a major site for both undergraduate and post-graduate training programs.

The Victorian Government's ownership interest of ARMI at 30 June 2017 was 20.0 per cent (20.0 per cent in 2016).

Property Exchange Australia Limited

The Department of Treasury and Finance has an investment in an associate entity, Property Exchange Australia Limited (PEXA). PEXA was established in January 2010 to develop a single national electronic conveyancing system for settling property transactions.

The Victorian Government's ownership interest of PEXA at 30 June 2017 was 7.7 per cent (9.0 per cent in 2016).

Snowy Hydro Limited

Snowy Hydro Limited is a company jointly owned by the Commonwealth (13 per cent), New South Wales (58 per cent) and Victoria (29 per cent), which owns and operates the Snowy Mountains Hydro Electric Scheme as an independent electricity generator in the National Electricity Market.

The Victorian Government's ownership interest of Snowy Hydro Limited, which is held by the State Electricity Corporation of Victoria, was 29.0 per cent at 30 June 2017 (29.0 per cent in 2016). A summary of the State's share of commitments is shown below.

Share of commitments in Snowy Hydro Limited

($ million)

Commitments	*2017*	*2016*
Capital expenditure commitments	9	24
Operating lease commitments	41	58
Other commitments	27	8
Total commitments	**77**	**90**

4. MAJOR ASSETS AND INVESTMENTS

Summarised information for investments accounted for using the equity method **($ million)**

	Snowy Hydro Limited	
Summarised balance sheet as at 30 June	*2017*	*2016*
Current assets		
Cash and cash equivalent	10	3
Other current assets (excluding cash)	232	253
Total current assets	242	256
Non-current assets	2 260	2 078
Total assets	**2 501**	**2 334**
Current liabilities		
Financial liabilities (excluding payables, provisions)	135	161
Other non-financial liabilities (including payables, provisions)	32	..
Total current liabilities	167	161
Non-current liabilities		
Financial liabilities (excluding payables, provisions)	178	9
Other non-financial liabilities (including payables, provisions)	16	293
Total non-current liabilities	**194**	**301**
Total liabilities	**362**	**462**
Net assets	**2 139**	**1 872**

Summarised operating statement for the financial year ended 30 June		
Revenue from transactions	..	..
Net result from transactions	**49**	**(78)**
Net result from continuing operation	49	(78)
Net result	**49**	**(78)**
Other economic flows – other comprehensive income	285	25
Dividends received from associate during the year	(66)	(52)
Total comprehensive income	**268**	**(104)**

4.3.3 Joint operations

The State recognises, in its financial statements:

- its direct right to the assets, liabilities, revenues and expenses; and
- its share of any jointly held or incurred assets, liabilities, revenues and expenses.

The State has classified the following arrangements as joint operations, based on the rights and obligations of each investor to the arrangement.

Royal Melbourne Showgrounds

The State entered into a joint venture agreement with the Royal Agricultural Society of Victoria in October 2003 to redevelop the Royal Melbourne Showgrounds.

The State of Victoria's interest in the unincorporated joint venture at 30 June 2017 was 50.0 per cent (50.0 per cent in 2016).

AgriBio Project

In April 2008, the State entered into a joint venture agreement with La Trobe University to establish a world class research facility on the university's campus in Bundoora.

The State of Victoria's interest in the unincorporated joint venture at 30 June 2017 was 75.0 per cent (75.0 per cent in 2016).

Murray Darling Basin Authority

The Commonwealth and the basin states – New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory – entered into the intergovernmental agreement for the Murray Darling Basin Reform. The Murray Darling Basin Authority (MDBA) was created by the *Water Act 2007* (Cth) and was established on 3 July 2008, and the participants have a joint interest in the infrastructure assets and water rights.

The MDBA undertakes activities that support the sustainable and integrated management of the water resources of the Murray-Darling Basin in a way that best meets the social, economic and environmental needs of the Basin and its communities.

The share in the individually controlled assets was transferred at transition in the original proportions of the share of the entity held by the individual jurisdictions as follows:

- New South Wales: 26.7 per cent;
- South Australia: 26.7 per cent;
- Victoria: 26.7 per cent; and
- the Commonwealth government: 20.0 per cent.

5. FINANCING STATE OPERATIONS

Introduction

State operations are financed through a variety of means. Recurrent operations are generally financed from cash flows from operating activities (see consolidated cash flow statement). Asset investment operations are generally financed from a combination of surplus cash flows from operating activities, asset sales, advances and borrowings.

This section provides information on the balances related to the financing of the State and general government sector's operations, including financial commitments at year-end.

Structure

5.1 Borrowings

($ million)

	State of Victoria		*General government sector*	
	2017	*2016*	*2017*	*2016*
Current borrowings				
Domestic borrowings	3 491	5 095	752	3 132
Foreign currency borrowings	..	83	..	..
Finance lease liabilities [(a)]	361	207	232	137
Derivative financial instruments	119	258	5	19
Total current borrowings	**3 971**	**5 642**	**989**	**3 288**
Non-current borrowings				
Domestic borrowings	34 795	37 778	18 574	21 520
Foreign currency borrowings	126	159	..	..
Finance lease liabilities [(a)]	9 585	9 433	9 153	8 872
Derivative financial instruments	369	947	99	131
Total non-current borrowings	**44 876**	**48 317**	**27 827**	**30 522**
Total borrowings	**48 847**	**53 959**	**28 816**	**33 811**

Note:
(a) The accounting treatment of the finance lease liability is explained and disclosed in Note 9.7.1.

Borrowings refer to interest bearing liabilities mainly raised from public borrowings raised through the Treasury Corporation of Victoria (TCV) and finance leases and other interest bearing arrangements.

Borrowings exclude liabilities raised from other government entities, which are classified as 'deposits held and advances received'.

Borrowings are classified as financial instruments (Note 7.1). All interest bearing liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The measurement basis subsequent to initial recognition depends on whether the State has categorised its interest bearing liabilities as either 'financial liabilities designated at fair value through profit or loss', or financial liabilities at 'amortised cost'. The classification depends on the nature and purpose of the interest bearing liabilities. The State determines the classification of its interest bearing liabilities at initial recognition.

The State's public borrowings are designated at fair value through profit or loss on trade date on the basis that the financial liability forms a group of financial liabilities which are managed on a fair value basis in accordance with documented risk strategies.

Derivative financial instruments are classified as held for trading financial assets and liabilities, except for derivatives held by insurance entities which are designated at fair value.

They are initially recognised at fair value on the date on which a derivative contract is entered into. Any gains or losses arising from changes in the fair value of derivatives after initial recognition, are recognised in the consolidated comprehensive operating statement as an 'other economic flow' included in the net result.

5.2 Deposits held and advances received

Deposits held include deposits, security deposits, and trust fund balances held on behalf of public or private sector bodies. Advances received include loans and other repayable funds from public sector bodies for policy purposes.

Deposits held and advances received are categorised as financial liabilities at amortised cost.

5.3 Cash flow information and balances

Cash and deposits, including cash equivalents, comprise cash on hand and cash at bank, deposits at call and those highly liquid investments with an original maturity of three months or less, which are held for the purpose of meeting short-term cash commitments rather than for investment purposes, and which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

For cash flow statement presentation purposes, cash and cash equivalents include bank overdrafts, which are included as current borrowings on the balance sheet.

Reconciliation of cash and cash equivalents **($ million)**

	State of Victoria		*General government sector*	
	2017	*2016*	*2017*	*2016*
Cash	1 607	1 552	1 211	1 174
Deposits at call	4 262	5 124	4 318	3 598
Cash and cash equivalents	**5 869**	**6 676**	**5 530**	**4 772**
Bank overdraft	(1)	..	..	..
Balances as per cash flow statement	**5 868**	**6 676**	**5 530**	**4 772**

5. FINANCING STATE OPERATIONS

Reconciliation of net result to net cash flows from operating activities **($ million)**

	State of Victoria		*General government sector*	
	2017	*2016*	*2017*	*2016*
Net result	**6 570**	**(1 640)**	**2 559**	**1 817**
Non-cash movements				
Depreciation and amortisation	4 909	4 743	2 622	2 507
Revaluation of investments	(1 580)	451	(17)	33
Assets (received)/provided free of charge	93	(151)	83	47
Assets not previously/no longer recognised	(33)	(17)	(33)	(17)
Revaluation of assets	164	227	(53)	185
Discount/premium on other financial assets/borrowings	(186)	(110)	3	4
Foreign currency dealings	..	1	..	1
Unrealised (gains)/losses on borrowings	(1 797)	1 174	..	..
Movements included in investing and financing activities				
Net gain/loss from sale of investments	(873)	(132)	(17)	(37)
Net gain/loss from sale of plant and equipment	(16)	148	(51)	145
Realised gains/losses on borrowings	54	41	..	..
Movements in assets and liabilities				
Increase/(decrease) in provision for doubtful debts	3	22	6	22
Increase/(decrease) in payables	9 178	401	(90)	66
Increase/(decrease) in employee benefits	387	571	369	532
Increase/(decrease) in superannuation	(28)	120	(24)	124
Increase/(decrease) in other provisions	618	2 806	608	(44)
(Increase)/decrease in receivables	(337)	(703)	(257)	(70)
(Increase)/decrease in other non-financial assets	(88)	(17)	(183)	43
Net cash flows from operating activities	**17 039**	**7 936**	**5 524**	**5 359**

5.4 Advances paid and investments, loans and placements

($ million)

	State of Victoria		General government sector	
	2017	2016	2017	2016
Current advances paid and investments, loans and placements				
Loans and advances paid	19	20	2 709	53
Equities and managed investment schemes	1 539	1 541	1 085	1 028
Australian dollar term deposits	5 140	232	1 400	933
Debt securities	3 860	5 547	1	3
Derivative financial instruments	540	326	5	1
Total current advances paid and investments, loans and placements	**11 099**	**7 666**	**5 201**	**2 019**
Non-current advances paid and investments, loans and placements				
Loans and advances paid	261	132	10 230	4 529
Equities and managed investment schemes	27 294	22 875	332	279
Australian dollar term deposits	1 334	280	814	528
Debt securities	2 577	3 937	24	64
Derivative financial instruments	521	797	11	17
Total non-current advances paid and investments, loans and placements	**31 987**	**28 021**	**11 411**	**5 417**
Total advances paid and investments, loans and placements	**43 086**	**35 687**	**16 612**	**7 436**
Represented by:				
Advances paid	280	153	12 939	4 582
Investments, loans and placements	42 806	35 534	3 673	2 853

The items in the table above are financial instruments (Note 7.1) that have been classified into financial instrument categories, depending on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

Any dividend or interest earned on these financial assets is recognised in the consolidated comprehensive operating statement as a revenue transaction.

Advances paid include long and short term loans, non-marketable debentures and long and short term promissory agreements (bonds and bills) mainly issued to the PNFC and PFC sectors, for policy rather than liquidity management purposes. Advances are initially measured at fair value and subsequently measured at amortised cost. They exclude equity contributions and are eliminated on consolidation of the State's position.

5.5 Interest expense

($ million)

	State of Victoria		General government sector	
	2017	2016	2017	2016
Interest on interest-bearing liabilities	1 799	1 882	1 161	1 272
Finance charges on finance leases	887	828	832	766
Discount interest on payables [(a)]	43	92	35	38
Total interest expense [(a)]	**2 729**	**2 802**	**2 028**	**2 076**

Note:

(a) June 2016 comparative figures have been restated to reflect the reclassification of borrowings and investments sold at a premium/discount from interest expense to interest revenue.

Interest expense represents costs incurred in relation to borrowings. It includes interest on advances, loans, overdrafts, bonds and bills, deposits, interest components of finance lease repayments, and amortisation of discounts or premiums in relation to borrowings.

The State recognises borrowing costs immediately as an expense, even where they are directly attributable to the acquisition, construction or production of a qualifying asset.

5.6 Public private partnership (service concession arrangements)

The State from time to time enters into certain arrangements with private sector participants to design and construct or upgrade assets used to provide public services. These arrangements usually include the provision of operational and maintenance services for a specified period of time.

These arrangements are often referred to as either public private partnerships (PPPs) or service concession arrangements (SCAs).

These SCAs usually take one of two main forms. In the more common form, the State pays the operator over the arrangement period, subject to specified performance criteria being met. At the date of commitment to the principal provisions of the arrangement, these estimated periodic payments are allocated between a component related to the design and construction or upgrading of the asset and components related to the ongoing operation and maintenance of the asset. The former component is accounted for as a lease payment in accordance with the leases accounting policy.

The remaining components are accounted for as commitments for operating costs which are expensed in the comprehensive operating statement as they are incurred.

The other, less common form of SCA, is one in which the State grants to an operator, for a specified period of time, the right to collect fees from users of the SCA asset, in return for which the operator constructs the asset and has the obligation to supply agreed upon services, including maintenance of the asset for the period of the concession. These private sector entities typically lease land, and sometimes State works, from the State and construct infrastructure. At the end of the concession period, the land and state works, together with the constructed facilities, will be returned to the State.

The Australian Accounting Standards Board has recently issued AASB 1059 *Service Concession Arrangements: Grantors*, operative for reporting periods commencing 1 January 2019. For the 2016-17 reporting period, the State has not early adopted AASB 1059, and has continued its existing accounting policy to not recognise the right to receive assets from such concession arrangements on its balance sheet. Refer to note 9.7.3 for further details.

Public private partnership commitments [(a)(b)] **($ million)**

	State of Victoria 2017 Other commitments		*General government sector 2017 Other commitments*		*State of Victoria 2016 Other commitments*		*General government sector 2016 Other commitments*	
	Present value	*Nominal value*	*Present value*	*Nominal value*	*Present value*	*Nominal value*	*Present value*	*Nominal value*
Commissioned public private partnerships other commitments								
AgriBio Project	120	297	120	297	121	298	121	298
Bendigo Hospital – stage one [(c)]	562	1 316	562	1 316	..	..	..	..
Barwon Water	64	104	..	..	66	110	..	..
Casey Hospital [(c)]	66	107	66	107	68	112	68	112
Central Highlands Water	53	59	..	..	59	73	..	..
Coliban Water	81	96	..	..	84	132	..	..
County Court	57	70	57	70	68	83	68	83
Emergency Service Telecommunications	58	58	58	58	65	65	65	65
Melbourne Convention Centre – stage one	213	402	213	402	237	464	237	464
New Schools PPP – tranche one	114	224	114	224	..	..	..	..
Peninsula Link	208	450	208	450	186	461	186	461
Partnerships Victoria in Schools	183	390	183	390	174	389	174	389
Prisons	1 471	1 911	1 471	1 911	1 467	1 819	1 467	1 819
Royal Children's Hospital [(c)]	375	777	375	777	373	803	373	803
Royal Melbourne Showgrounds [(c)]	12	20	12	20	12	20	12	20
Royal Women's Hospital [(c)]	207	376	207	376	213	399	213	399
Southern Cross Station	263	575	263	575	262	595	262	595
Victorian Comprehensive Cancer Centre (VCCC) [(c)]	973	1 819	973	1 819	932	1 830	932	1 830
Victorian Desalination Plant	1 568	4 520	1 568	4 520	1 587	4 762	1 587	4 762
Sub-total [(c)]	**6 648**	**13 570**	**6 450**	**13 311**	**5 971**	**12 413**	**5 763**	**12 099**

Public private partnership commitments *(continued)* **($ million)**

	State of Victoria 2017			*General government sector 2017*			*State of Victoria 2016*			*General government sector 2016*		
	Minimum lease payments	*Other commitments*	*Total commitments*	*Minimum lease payments*	*Other commitments*	*Total commitments*	*Minimum lease payments*	*Other commitments*	*Total commitments*	*Minimum lease payments*	*Other commitments*	*Total commitments*
	Discounted value	*Present value*	*Nominal value*	*Discounted value*	*Present value*	*Nominal value*	*Discounted value*	*Present value*	*Nominal value*	*Discounted value*	*Present value*	*Nominal value*
Uncommissioned public private partnerships total commitments												
Bendigo Hospital – stage one	..	..	..	..	..	..	274	1 221	2 862	274	1 221	2 862
Bendigo Hospital – stage two	17	5	50	17	5	50	14	48	100	14	48	100
New Schools PPP – tranche two	152	67	409	152	67	409	394	176	1 088	394	176	1 088
High Capacity Trains	1 861	932	6 135	1 861	932	6 135	..	..	..	..	..	..
Ravenhall Prison	792	2 955	7 460	792	2 955	7 460	792	2 799	7 460	792	2 799	7 460
Melbourne Convention Centre – stage two [(c)]	37	35	74	37	35	74	38	36	145	38	36	74
Sub-total [(c)]	**2 858**	**3 994**	**14 128**	**2 858**	**3 994**	**14 128**	**1 511**	**4 280**	**11 654**	**1 511**	**4 280**	**11 583**
Total commitments for public private partnerships [(c)]		**10 642**	**27 698**		**10 444**	**27 439**		**10 251**	**24 067**		**10 043**	**23 681**
Total commitments (inclusive of GST) [(c)(d)]			**52 451**			**50 034**			**48 537**			**46 469**
Less GST recoverable from the Australian Tax Office [(c)]			4 768			4 549			4 412			4 224
Total commitments (exclusive of GST) [(c)(d)]			**47 683**			**45 486**			**44 124**			**42 245**

Notes:

(a) The minimum lease payments of commissioned public private partnerships (PPP) are recognised on the balance sheet and are not disclosed as a commitment.

(b) The discounted value of the 'minimum lease payments' has been discounted to the expected date of commissioning and the present value of 'other commitments' have been discounted to 30 June of the respective financial years. After adjusting for GST, the discounted value of minimum lease payments reflects the expected impact on the balance sheet when the PPP is commissioned.

(c) June 2016 comparative figures have been restated to reflect more current information.

(d) Total commitments include commitments of both PPPs and non PPPs.

5.7 Other commitments

Commitments for future expenditure include operating and capital commitments arising from contracts.

These commitments are disclosed at their nominal value and inclusive of the GST payable.

In addition, where it is considered appropriate and provides additional relevant information to users, the net present values of significant individual projects are stated.

These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the consolidated balance sheet.

Non-public private partnership commitments [(a)] **($ million)**

	State of Victoria 2017 Nominal value	*General government sector 2017 Nominal value*	*State of Victoria 2016 Nominal value*	*General government sector 2016 Nominal value*
Capital expenditure commitments				
Land and buildings	919	809	872	731
Plant, equipment and vehicles	255	216	246	200
Infrastructure systems	3 981	3 430	3 715	3 347
Road networks and earthworks	1 149	1 149	1 082	1 082
Other	938	858	1 560	1 543
Total capital expenditure commitments	**7 242**	**6 462**	**7 474**	**6 904**
Operating and lease commitments				
Rail services [(b)]	971	965	2 165	2 165
Bus services	1 973	1 964	3 117	3 116
Other	4 975	3 976	2 616	1 769
Total operating and lease commitments	**7 920**	**6 905**	**7 897**	**7 050**
Other commitments				
Building occupancy services	..	59	..	65
Capital investment commitments	189	..	239	..
Commercial contracts	248	165	220	119
Debt collection services (Traffic camera office)	26	26	35	35
Emergency Alert System	3	3	18	18
Goulburn-Murray Water Connections Project	32	281	65	577
Hopkins Correctional Centre	453	453	468	468
Information technology	188	184	53	47
New ticketing solution (*myki*)	728	728	69	69
Outsourcing of services	321	180	430	248
Policing services	29	29	11	11
Port Phillip Prison	3 236	3 236	3 644	3 644
Traffic camera services (Traffic camera office)	75	75	81	81
Transport Accident Commission funded medical research	7	..	13	..
Other	4 056	3 809	3 754	3 453
Total other commitments	**9 591**	**9 228**	**9 099**	**8 834**
Total commitments	**24 753**	**22 595**	**24 469**	**22 787**

Notes:

(a) The figures presented are inclusive of GST.

(b) On 12 September 2017, the Victorian Government announced its intention to enter into new contracts with Metro Trains Melbourne and Keolis Downer to operate Melbourne's train and tram networks for the next seven years. The new franchise term is due to commence on 30 November 2017.

5. FINANCING STATE OPERATIONS

Commitment payables [(a)] **($ million)**

Nominal values	*State of Victoria 2017*	*General government sector 2017*	*State of Victoria 2016*	*General government sector 2016*
Capital expenditure commitments payable				
Less than 1 year	5 436	4 782	4 354	3 752
1 year but less than 5 years	1 768	1 643	3 073	3 106
5 years or more	38	37	47	47
Total capital expenditure commitments	**7 242**	**6 462**	**7 474**	**6 904**
Operating and lease commitments payable				
Less than 1 year	2 361	2 220	3 157	3 050
1 year but less than 5 years	2 256	1 899	3 911	3 656
5 years or more	3 303	2 786	830	344
Total operating and lease commitments	**7 920**	**6 905**	**7 897**	**7 050**
Public private partnership commitments [(b)]				
Less than 1 year	1 045	1 028	1 166	1 144
1 year but less than 5 years	3 447	3 368	3 633	3 536
5 years or more	23 206	23 044	19 268	19 001
Total public private partnership commitments	**27 698**	**27 439**	**24 067**	**23 681**
Total other commitments payable				
Less than 1 year	2 941	2 883	2 441	2 364
1 year but less than 5 years	3 179	2 948	2 901	2 794
5 years or more	3 471	3 397	3 757	3 676
Total other commitments	**9 591**	**9 227**	**9 099**	**8 834**
Total commitments (inclusive of GST) [(b)]	**52 451**	**50 033**	**48 537**	**46 469**

Notes:
(a) The figures presented are inclusive of GST.
(b) June 2016 comparative figures have been restated to reflect more current information.

6. OTHER ASSETS AND LIABILITIES

Introduction

This section sets out other assets and liabilities that arise from the State's operations.

Structure

Assets

Liabilities

6.1 Investment in other sector entities

The general government sector investments in other sector entities are measured at net asset value.

The net gain/(loss) on equity investments in other sector entities is measured at proportional share of the carrying amount of net assets/(liabilities) represents the net gain or loss relating to the equity held by the general government sector in other sector entities. It arises from a change in the carrying amount of net assets of the subsidiaries. The net gains are measured based on the proportional share of the subsidiary's carrying amount of net assets/(liabilities) before elimination of inter-sector balances.

Investments in other sector entities

	2017	*2016*
Balance of investment in PNFC and PFC sectors at beginning of period	94 710	82 262
Net contributions/(returns) to other sectors by owner	(5 323)	1 916
Revaluation gain/(loss) for period	3 122	10 533
Total investments in other sector entities	**92 509**	**94 710**

6.2 Inventories

($ million)

	State of Victoria		*General government sector*	
	2017	*2016*	*2017*	*2016*
At cost				
Raw materials	7	5	6	4
Work in progress	9	29	1	2
Finished goods	60	50	3	3
Consumable stores	199	202	152	163
Land and other assets held as inventory	387	414	12	16
At net realisable value				
Finished goods	4	5	..	..
Consumable stores	5	5	..	..
Total inventories	**671**	**709**	**173**	**188**

Inventories include goods and other property held either for sale, or for distribution at zero or nominal cost, or for consumption in the ordinary course of business operations.

Inventories held for distribution are measured at cost, adjusted for any loss of service potential. All other inventories, including land held as inventory, are measured at the lower of cost and net realisable value.

Where inventories are acquired for no cost or nominal consideration, they are measured at current replacement cost at the date of acquisition.

Cost includes an appropriate portion of fixed and variable overhead expenses. Cost is assigned to land held as inventory (undeveloped, under development and developed) and to other high value, low volume inventory items on a specific identification of cost basis. Cost for all other inventory is measured on the basis of weighted average cost.

Bases used in assessing loss of service potential for inventories held for distribution include current replacement cost and technical or functional obsolescence. Technical obsolescence occurs when an item still functions for some or all of the tasks it was originally acquired to do, but no longer matches existing technologies. Functional obsolescence occurs when an item no longer functions the way it did when it was first acquired.

Other inventories include raw materials, work in progress, finished goods and consumable stores and are measured at weighted average cost.

6.3 Receivables

($ million)

	State of Victoria		General government sector	
	2017	2016	2017	2016
Contractual				
Sales of goods and services	1 202	1 267	598	739
Accrued investment income	63	67	19	18
Other receivables	1 756	1 887	1 169	1 021
Provision for doubtful contractual receivables	(161)	(157)	(97)	(90)
Statutory				
Sales of goods and services	7	4	1	5
Taxes receivable	2 560	2 293	2 676	2 491
Fines and regulatory fees	2 052	1 896	2 052	1 896
GST input tax credits recoverable	976	963	352	324
Other receivables	15	..	..	..
Provision for doubtful statutory receivables	(838)	(839)	(838)	(839)
Other				
Actuarially determined	406	413	..	..
Total receivables	**8 038**	**7 793**	**5 931**	**5 566**
Represented by:				
Current receivables	6 875	6 555	5 103	4 828
Non-current receivables	1 163	1 237	828	738

Receivables consist of:

- contractual receivables, are classified as financial instruments and categorised as loans and receivables;
- statutory receivables that do not arise from contracts; and
- other actuarially determined receivables.

Contractual receivables are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Contractual receivables are classified as financial instruments (Note 7.1).

Statutory receivables are recognised and measured similarly to contractual receivables (except for impairment), but are not classified as financial instruments because they do not arise from contracts.

Other statutory receivables include GST input tax credits recoverable.

Doubtful debts: Receivables are assessed for bad and doubtful debts on a regular basis. A provision for doubtful receivables is recognised when there is objective evidence that the debts may not be collected and bad debts are written off when identified.

Those bad debts considered as written off by mutual consent are classified as a transaction expense. Bad debts not written off by mutual consent and the allowance for doubtful receivables are classified as other economic flows in the net result.

Ageing analysis of contractual receivables **($ million)**

State of Victoria	Not past due	Past due and not impaired					
2017	and not impaired	Less than 1 month	1 month-3 months	3 months-1 year	More than 1 year	Impaired	Total
Sale of goods and services	716	150	114	127	85	10	1 202
Accrued investment income	63	..	..	..	..	..	63
Other receivables	1 521	57	32	32	110	4	1 756
	2 301	**207**	**146**	**159**	**195**	**14**	**3 021**
2016							
Sale of goods and services	756	157	133	119	95	7	1 267
Accrued investment income	67	..	..	..	..	..	67
Other receivables [(a)]	1 633	50	43	115	45	1	1 887
	2 455	**207**	**176**	**234**	**141**	**8**	**3 220**

General government sector	Not past due	Past due and not impaired					
2017	and not impaired	Less than 1 month	1 month-3 months	3 months-1 year	More than 1 year	Impaired	Total
Sale of goods and services	337	52	49	76	74	9	598
Accrued investment income	18	..	..	..	..	..	19
Other receivables	1 024	34	8	15	88	..	1 169
	1 379	**87**	**58**	**91**	**162**	**9**	**1 786**
2016							
Sale of goods and services	393	75	106	76	84	4	739
Accrued investment income	18	..	..	..	..	..	18
Other receivables	873	27	20	99	2	1	1 021
	1 284	**102**	**126**	**175**	**86**	**6**	**1 778**

Movement in provision for doubtful contractual receivables **($ million)**

	State of Victoria		General government sector	
	2017	2016	2017	2016
Opening balance	(157)	(136)	(90)	(69)
Reversal of unused provision recognised in the net results	15	5	10	6
Increase in provision recognised in the net results	(64)	(66)	(51)	(57)
Reversal of provision of receivables written off during the year as uncollectible	44	40	34	30
Closing balance	**(161)**	**(157)**	**(97)**	**(90)**

6.4 Payables

($ million)

	State of Victoria		General government sector	
	2017	2016	2017	2016
Contractual				
Accounts payable	2 439	2 166	1 402	1 290
Accrued expenses	2 618	2 298	2 239	2 187
Unearned income	12 128	3 368	2 130	2 258
Statutory				
Accrued taxes payable	48	105	44	38
Total payables	**17 233**	**7 937**	**5 815**	**5 773**
Represented by:				
Current payables	6 868	6 084	4 134	4 053
Non-current payables	10 365	1 854	1 681	1 720

Payables consist of:

- contractual payables, such as accounts payable, and unearned revenue liability (including deferred revenue from concession notes and the medium-term lease over the operations of the Port of Melbourne); and
- statutory payables (accrued taxes payable), such as GST and fringe benefits tax payables.

Contractual payables are classified as financial instruments (Note 7.1) and measured at amortised cost. Accounts payable 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 those goods and services.

Statutory payables are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from contracts.

6.5 Superannuation

The disclosure in this note is for the consolidated State of Victoria only, as more than 99 per cent of the $24.9 billion superannuation liability is recorded in the general government sector.

Net superannuation liability

The State's public sector defined benefit superannuation plans are responsible for the liability for employee superannuation entitlements. These plans are not consolidated in the Annual Financial Report as they are not controlled by the State. However, the majority of the superannuation liability is the responsibility of the State and is recognised accordingly.

At each reporting date, a liability or asset in respect of defined benefit superannuation obligations is recognised. This is measured as the difference between the present value of the defined benefit obligations at the reporting date and the net market value of the superannuation plan's assets.

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

Defined benefit plans: These provide benefits based on years of service and final average salary. At each reporting date, a liability or asset in respect of defined benefit superannuation obligations is recognised.

The present value of defined benefit obligations is based upon future payments, which are expected to arise due to membership of the superannuation plan to date, taking into account the taxes payable by the plan.

Consideration is given to expected future salary levels and employee departures. Expected future payments are discounted to present values using yields applying to long-term Commonwealth Government Bonds. Furthermore, the inflation assumption is based upon the relationship between nominal and index linked bond yields of similar duration. This approach ensures that the inflation assumption reflects market expectations and is compatible with the market-based discount rate that is used to value the outstanding liability.

Defined contribution plans: The State has no obligation to fund any shortfall in these funds and is only responsible for meeting agreed and/or legislated contribution requirements.

Net superannuation liability ($ million)

	State of Victoria 2017	2016
Emergency Services and State Super		
Defined benefit obligation	41 824	44 421
Tax liability [(a)]	2 634	2 923
Plan assets	(20 655)	(19 046)
Net liability/(asset)	**23 803**	**28 298**
Other funds [(b)]		
Defined benefit obligation	2 661	2 538
Tax liability [(a)]	..	..
Plan assets	(1 526)	(1 482)
Net liability/(asset)	**1 135**	**1 056**
Total superannuation		
Defined benefit obligation	44 485	46 959
Tax liability [(a)]	2 634	2 923
Plan assets	(22 181)	(20 528)
Superannuation liability	**24 938**	**29 354**
Represented by:		
Current liability	1 040	1 059
Non-current liability	23 897	28 295
Total superannuation liability	**24 938**	**29 354**

Notes:

(a) Tax liability represents the present value of tax payments on contributions that are expected to be required to fund accrued benefits.

(b) Other funds include constitutionally protected schemes and the State's share of liabilities of the defined benefit scheme of the Health Super Fund.

Reconciliation of the defined benefit obligation ($ million)

	State of Victoria 2017	2016
Opening balance of defined benefit obligation	**49 882**	**46 535**
Current service cost	848	778
Interest cost	1 155	1 567
Contributions by plan participants	221	219
Remeasurements:		
Actuarial (gain)/loss arising from change in financial assumptions	(1 872)	2 811
Actuarial (gain)/loss arising from change in demographic assumptions	..	..
Actuarial (gain)/loss due to other experience	(983)	56
Benefits paid	(2 132)	(2 083)
Closing balance of defined benefit obligation	**47 119**	**49 882**

6. OTHER ASSETS AND LIABILITIES

Reconciliation of the fair value of plan assets

($ million)

	State of Victoria	
	2017	*2016*
Opening balance of plan assets	**20 528**	**20 546**
Interest income	462	686
Remeasurements:		
Expected return on plan assets excluding interest income	1 006	787
Actuarial gain/(loss) relative to expected return	529	(1 166)
Employer contributions	1 566	1 538
Contributions by plan participants	221	219
Benefits paid (including tax paid)	(2 132)	(2 083)
Closing balance of plan assets	**22 181**	**20 528**

The State's defined benefit superannuation plans

The State's defined benefit superannuation plans provide benefits based on years of service and final average salary. These are:

State Super Funds (SSF), a collection of defined benefit schemes providing both lump sum and pension benefits (Revised Scheme, New Scheme, State Employees Retirement Benefits Scheme, Transport Scheme, Melbourne Water Corporation Employees Superannuation Scheme, Port of Melbourne Authority Superannuation Scheme and Parliamentary Contributory Superannuation Fund). All schemes are now closed to new members.

Emergency Services Superannuation Scheme Defined Benefit (ESSS DB), a defined benefit lump sum scheme which remains open to new members. It also has a number of pensioners remaining from prior schemes.

Constitutionally Protected Pension Schemes, defined benefit pensions that continue to be provided to new office holders.

Health Super Division of First State Super (Health Super), a defined benefit scheme that provides both lump sum and pension benefits. This scheme is closed to new members.

The SSF, ESSS DB and Constitutionally Protected Pension Schemes are exempt public sector superannuation schemes. The schemes comply with national superannuation standards under a Heads of Government Agreement and are treated as complying for concessional tax and superannuation guarantee purposes.

The Emergency Services Superannuation Board (ESSB) is responsible for the governance of the

SSF and ESSS DB and acts as paying agent for constitutionally protected pensions. The ESSB has the following roles:

- administration of the schemes, including payment of benefits to beneficiaries in accordance with the governing rules of the schemes;
- management and investment of the assets of the schemes, the responsibility for which is outsourced to the Victorian Funds Management Corporation; and
- compliance with superannuation law and other applicable regulations in accordance with the Heads of Government Agreement.

However, please note that constitutionally protected pensions are governed by Victorian Acts for which the Attorney-General is responsible.

First State Super is a regulated public offer superannuation fund. The FSS Trustee Corporation (FSSTC) is responsible for the governance of First State Super and therefore Health Super. As trustee, the FSSTC has the following roles:

- administration of Health Super, including payment of benefits to beneficiaries in accordance with the governing rules;
- management and investment of the assets of Health Super; and
- compliance with superannuation law and other applicable regulations.

Superannuation assumptions

The significant actuarial assumptions used for superannuation reporting purposes are the discount rate, future rates of wages growth and the inflation rate that is used to index pensions, as detailed below.

Victorian statutory superannuation funds	*Actuary*	*Financial assumptions*	*Per cent per annum 2017*	*2016*
Emergency Services and State Super	PricewaterhouseCoopers (PwC) [(a)]	Expected return on assets [(b)]	8	8
		Discount rate [(c)]	3	2.4
		Wages growth [(d)]	3.4	3.1
		Inflation rate	1.9	1.6
Constitutionally Protected Pensions	PwC [(a)]	Discount rate [(c)]	3	2.4
		Wages growth [(d)]	3.4	3.1
		Inflation rate	n.a.	n.a.
Health Super Fund	Mercer [(e)]	Expected return on assets [(b)]	5.7	5.8
		Discount rate [(c)]	3	2.4
		Wages growth [(d)]	3.4	3.1
		Inflation rate	**1.9**	**1.6**

Notes:
(a) PricewaterhouseCoopers Securities 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) The wages growth assumption is derived from the yields on Commonwealth government bonds.
(e) Mercer (Australia) Pty Ltd.

Sensitivity analysis

The key risks associated with the State's defined benefit superannuation plans are:

- investment risk – the risk that investment returns will be lower than assumed and that State contributions will need to increase to offset the shortfall;
- wages growth risk – the risk that wages or salaries (on which future benefits are based) will rise more rapidly than assumed, thereby increasing defined benefits and requiring additional employer contributions;
- pension growth risk – the risk that CPI and therefore pension increases will be higher than assumed, thereby increasing defined benefit pension payments and requiring additional employer contributions; and
- longevity risk – the risk that pensioners will live longer than expected, thereby increasing defined benefit pension payments and requiring additional employer contributions.

To illustrate the impact that movements in these assumptions can have on the State's superannuation liability, the defined benefit obligation has been remeasured under the scenarios below.

The assumptions below have been adjusted while maintaining all other assumptions. There have been no changes to the methods and assumptions used to prepare this sensitivity analysis since the prior period.

These scenarios are expected to have the following impact on the State's defined benefit obligation:

		Base case	*Discount rate plus 1 per cent*	*Wage growth plus 1 per cent*	*Inflation rate plus 1 per cent*
Discount rate	(per cent a year)	3	4	3	3
Salary growth	(per cent a year)	3.4	3.4	4.4	3.4
Inflation rate	(per cent a year)	1.9	1.9	1.9	2.9
Estimated impact	**(per cent)**	**n.a.**	**(11)**	**2**	**7**
Estimated change in defined benefit obligation	**($ million)**	**n.a.**	**(5 120)**	**931**	**3 258**

6. OTHER ASSETS AND LIABILITIES

Target asset allocation **(per cent)**

Asset class	*2017*	*2016*
Domestic equity	27.7	26.7
International equity	27.7	26.7
Domestic debt assets	17.6	17.5
Property	7.6	7.6
Cash	4.1	4.2
Other (including private equity, hedge funds and infrastructure)	15.3	17.3
Total	**100**	**100**

The assets are invested in the asset classes shown above. The chosen assets are not designed to match the liabilities exactly. However, the nature of the liabilities is considered in setting the investment strategy.

At 30 June 2017, the plans held investments with Treasury Corporation Victoria (TCV) worth $511 million.

Funding arrangements

The funding of the defined benefit plans varies by plan as follows:

SSF – the scheme is partially funded, with participating employers generally contributing the cost of service as it accrues while the State meets the cost of past service.

ESSS DB – a funded scheme, with a funding target of 110 per cent to 120 per cent of vested benefits. The board's shortfall limit is 95 per cent of vested benefits.

Constitutionally Protected Pension Schemes – unfunded schemes (i.e. there are no assets) and benefits are paid from the Consolidated Fund as they fall due.

Health Super – a funded scheme where employers contribute in accordance with the actuary's recommendations which are designed to achieve a target asset level of 107 per cent of the scheme's vested benefits.

In the 2017-18 financial year, employer contributions of $1 525 million, in total, are expected to be paid to the defined benefit plans. Of this, $1 036 million relates to the funding of the SSF's past service liability.

The weighted average duration of the defined benefit obligation is approximately 13 years.

6.6 Other provisions

($ million)

	State of Victoria		General government sector	
	2017	2016	2017	2016
Provision for insurance claims				
WorkSafe Victoria	1 941	1 839	..	..
Transport Accident Commission	1 251	1 180	..	..
Victorian Managed Insurance Authority	321	292	..	..
Other agencies	23	22	19	18
Current provision for insurance claims	**3 536**	**3 333**	**19**	**18**
Onerous contracts	..	49	..	..
Other provisions	865	346	745	207
Total current other provisions	**4 401**	**3 728**	**764**	**225**
Non-current provision for insurance claims				
WorkSafe Victoria	11 040	10 501	..	..
Transport Accident Commission	12 134	12 721	..	..
Victorian Managed Insurance Authority	1 426	1 499	..	..
Other agencies	30	34	29	33
Non-current provision for insurance claims	**24 629**	**24 754**	**29**	**33**
Other provisions	562	603	532	571
Total non-current other provisions	**25 191**	**25 358**	**561**	**604**
Total other provisions	**29 592**	**29 085**	**1 326**	**829**

Other provisions are recognised when the State has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be received from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

6.6.1 Insurance claims

Assumptions used in measurement of liability for outstanding insurance claims

The liability for outstanding insurance claims is independently assessed by actuaries. It covers claims reported but not yet paid, claims incurred but not yet reported, and the anticipated costs of settling those claims. Due to the inherent uncertainty in the estimate of the outstanding insurance claims, a risk margin is included. The risk margin is set to increase the probability that the liability estimate will be sufficient.

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.

The disclosed assumptions are used in the measurement of the liability for outstanding insurance claims on the basis of actuarially estimated costs of future claims payments, which are discounted to a present value at balance sheet date.

6. OTHER ASSETS AND LIABILITIES

Reconciliation of movements in insurance claims [(a)] **($ million)**

	State of Victoria	
	2017	*2016*
Opening balance	28 088	25 206
Effect of changes in assumptions and claims experience	(1 435)	1 410
Cost of prior year claims (unwinding of discount)	598	823
Increase in claims incurred [(b)]	4 986	4 457
Claim payments during the year [(b)]	(3 363)	(3 195)
Other	(708)	(613)
Closing balance	**28 165**	**28 088**

Notes:

(a) Reconciliation of movements in insurance claims is only disclosed for the whole of State as they are only material for the State's insurance entities in the public financial corporations sector.

(b) Claim payments and claims incurred during the year are net of recoveries.

Insurance claims assumptions

		Weighted average expected term to settlement (years)		Financial assumptions used (%) [(a)(b)(c)] Weighted average inflation rate (%) [(d)]		Weighted average discount rate (%)		Prudential margin used (%)	
Entity	*Actuary*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
Victorian WorkCover Authority (WorkSafe Victoria)	PwC Actuarial Ltd	6.10	6.20	AWE [(e)] inflation 0 to 20 years = 3.43 21+ years = 3.29 CPI inflation 0 to 20 years = 2.12 21+ years = 2.03	AWE inflation 0 to 20 years = 3.46 21+ years = 3.75 CPI inflation 0 to 20 years = 2.50 21+ years = 2.50	0 to 20 years = 2.73 21+ years = 4.58	0 to 20 years = 2.15 21+ years = 5.50	8.00	8.00
Transport Accident Commission	PwC Actuarial Ltd	15.40	16.30	AWE inflation 0 to 20 years = 2.12 21+ years = 3.36 CPI inflation 0 to 20 years = 2.09 21+ years = 2.12	AWE inflation 0 to 20 years = 3.48 21+ years = 3.75 CPI inflation All years = 2.50	0 to 20 years = 3.12 21+ years = 4.71	0 to 20 years = 2.49 21+ years = 5.50	10.00	10.00
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd (Medical Indemnity)	4.00	4.30	6.20	6.00	2.30	1.80	Risk margin = 20.00 CHE [(f)] = 2.50	Risk margin = 20.00 CHE [(f)] = 3.00
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd (Liability)	3.50	4.10	3.00	3.00	2.20	1.80	Risk margin = 31.70 CHE = 7.90	Risk margin = 31.70 CHE = 7.10
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd (Property)	1.10	1.10	3.00	3.00	2.20	1.80	Risk margin = 17.50 CHE = 8.00	Risk margin = 17.50 CHE = 6.30
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd (Other)	2.50	2.50	3.00	3.00	2.20	1.80	Risk margin = 30.30 CHE = 7.50	Risk margin = 29.40 CHE = 7.50
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd (Dust Diseases and Workers' Compensation)	12.00	12.10	5.40	5.40	3.20	2.60	Risk margin = 31.50 CHE = 7.00	Risk margin = 28.50 CHE = 7.00
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd (Domestic Building Insurance)	3.60	3.90	3.00	3.00	2.30	1.80	Risk margin = 23.50 CHE = 5.00	Risk margin = 23.50 CHE = 6.00

Notes:
(a) The inflation rate assumptions are based on the anticipated rise in costs relevant to a particular entity.
(b) Financial assumptions used for provisions not later than 1 year and later than 1 year are the same unless otherwise specified.
(c) Data in financial assumptions used columns are weighted average unless otherwise specified.
(d) The inflation rates used by Transport Accident Commission are not weighted average for 21+ years.
(e) AWE = Victorian Average Weekly Earnings.
(f) Refers to 'Claims Handling Expenses'. Claims handling expenses is an allowance made for the director expenses to be incurred in settling claims.

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Introduction

The State is exposed to risks from both its activities and outside factors. In addition, it is often necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements.

This section presents information on financial instruments, contingent assets and liabilities, and fair value determinations on the States' assets and liabilities.

Structure

7.1 Financial instruments

Introduction

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of the State's activities, certain financial assets and financial liabilities arise under statute rather than a contract (for example, taxes, fines and penalties). Such assets and liabilities do not meet the definition of financial instruments in AASB 132 *Financial Instruments: Presentation*.

Guarantees issued on behalf of the State are financial instruments because although authorised under statute, the terms and conditions for each financial guarantee may vary and are subject to an agreement.

The main purposes for the State to hold financial instruments are:

- for liquidity management purposes;
- to manage financial risk;
- to fund the State's capital expenditure program; and
- to meet long-term insurance and superannuation liabilities.

Categories of financial instruments **($ million)**

	State of Victoria		*General government sector*	
	2017	*2016*	*2017*	*2016*
Financial assets				
Cash and deposits	5 869	6 676	5 530	4 772
Designated at fair value through the operating statement	35 467	33 975	1 107	1 063
Held-for-trading at fair value through the operating statement	307	533	17	18
Loans and receivables	8 959	3 513	15 129	6 779
Available-for-sale	552	509	328	303
Held-to-maturity	662	220	1 720	961
Total financial assets [(a)]	**51 815**	**45 426**	**23 830**	**13 896**
Financial liabilities				
Designated at fair value through the operating statement	39 463	45 079	122	436
Held-for-trading at fair value through the operating statement	372	1 033	105	150
At amortised cost	15 975	14 907	41 318	37 408
Total financial liabilities [(b)]	**55 810**	**61 019**	**41 544**	**37 993**

Notes:

(a) The State's total financial assets in this table exclude statutory and other receivables of $5 178 million ($4 729 million in 2016) while the general government's total financial assets exclude statutory receivables of $4 243 million ($3 879 million in 2016).

(b) The State's total financial liabilities exclude statutory taxes payable, unearned income and advance premiums of $12 210 million ($3 505 million in 2016) while the general government's total financial liabilities exclude statutory taxes payable and unearned income of $2 174 million ($2 297 million in 2016).

Categories of financial instruments

Loans and receivables are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest method (and for assets, less any impairment).

Available-for-sale financial instrument assets are those designated as available-for-sale or not classified in any other category of financial instrument asset. Such assets are initially recognised at fair value. Subsequent to initial recognition, they are measured at fair value with gains and losses arising from changes in fair value, recognised in 'Other economic flows – other comprehensive income' until the investment is disposed. Movements resulting from impairment and foreign currency changes are recognised in the net result as other economic flows. On disposal, the cumulative gain or loss previously recognised in 'Other economic flows – other comprehensive income' is transferred to other economic flows in the net result.

Held to maturity financial assets: If the State has the positive intent and ability to hold nominated investments to maturity, then such financial assets may be classified as held to maturity. Held to maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. The State makes limited use of this classification because any sale or reclassification of more than an insignificant amount of held to maturity investments not close to their maturity, would result in the whole category being reclassified as available-for-sale. The held to maturity category includes certain term deposits and debt securities for which the State intends to hold to maturity.

Financial assets and liabilities at fair value through the operating statement are categorised as such at trade date, or if they are classified as held for trading or designated as such upon initial recognition. Financial instrument assets are designated at fair value through profit or loss on the basis that the financial assets form part of a group of financial assets that are managed by the State based on their fair values, and have their performance evaluated in accordance with documented risk management and investment strategies.

Financial instruments at fair value through the operating statement are initially measured at fair value and attributable transaction costs are expensed as incurred. Subsequently, any changes in fair value are recognised in the net result as other economic flows.

Financial liabilities at amortised cost are initially recognised on the date they are originated. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the interest bearing liability, using the effective interest rate method (refer to Borrowings Note 5.1).

Financial instrument liabilities measured at amortised cost include all of the State's payables, deposits held and advances received, and interest bearing arrangements other than those designated at fair value through profit or loss.

Derecognition of financial assets and liabilities

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:
  - has transferred substantially all the risks and rewards of the asset; or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the State has retained substantially all the risks and rewards and not transferred control, the asset is recognised to the extent of the State's continuing involvement in the asset.

A financial liability is derecognised when the obligation under the liability is discharged, 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. The difference in the respective carrying amounts is recognised as an 'Other economic flow' in the consolidated comprehensive operating statement.

Impairment of financial assets

At the end of each reporting period, the State assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. All financial instrument assets, except those measured at fair value through profit or loss, are subject to annual review for impairment.

The amount of the allowance is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. In assessing impairment of statutory (non-contractual) financial assets, which are not financial instruments, professional judgement is applied in assessing materiality using estimates, averages and other computational methods in accordance with AASB 136 *Impairment of Assets*.

Reclassification of financial instruments

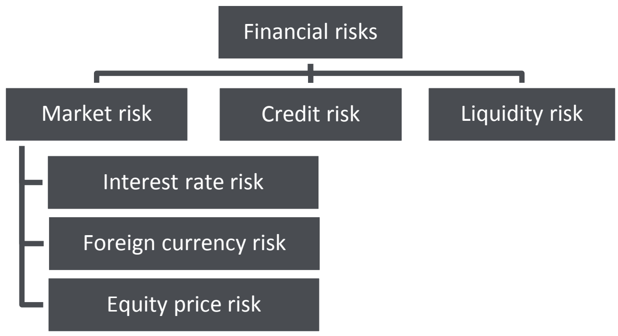
Subsequent to initial recognition and under rare circumstances, non-derivative financial instruments assets that have been designated at fair value through profit or loss upon recognition, may be reclassified out of the fair value through profit or loss category, if they are no longer held for the purpose of selling or repurchasing in the near term.

Financial instrument assets that meet the definition of loans and receivables may be reclassified out of the fair value through profit and loss category into the loans and receivables category, where they would have met the definition of loans and receivables had they not been required to be classified as fair value through profit and loss. In these cases, the financial instrument assets may be reclassified out of the fair value through profit and loss category, if there is the intention and ability to hold them for the foreseeable future or until maturity.

Available for sale financial instrument assets that meet the definition of loans and receivables may be reclassified into the loans and receivables category if there is the intention and ability to hold them for the foreseeable future or until maturity.

Financial risk management

The State is exposed to a number of financial risks, including:



As a whole, the State's financial risk management program seeks to manage these risks and the associated volatility on its financial performance.

Responsible and prudent financial risk management is carried out individually by the State's entities, in accordance with the State's risk management framework, developed by the Department of Treasury and Finance (DTF) and established by the Treasurer. The State's risk management framework comprises the following key components:

- the Treasurer is responsible for approving and establishing the prudential framework containing policies and guidelines on financial risk management;
- the Senior Executive Group of DTF is responsible for advising the Government on the management of the State's financial risks;
- DTF's Balance Sheet Management Committee provides oversight of the State's key financial balance sheet and financial market risks. These risks relate to the State's investments, borrowings, superannuation and insurance claims liabilities, as well as exposures to interest rate, foreign exchange and commodity price volatility and liquidity position;
- the TCV is the State's central borrowing authority and financing advisor. An independent prudential supervisor is appointed by the Treasurer to monitor TCV's compliance with its prudential framework;

- the Victorian Funds Management Corporation (VFMC) acts as the State's central investment fund manager providing expertise in developing investment strategy and providing funds management services in accordance with each entity's investment objectives. An independent prudential supervisor is appointed by the Treasurer to monitor VFMC's compliance with its prudential framework; and
- the State's entities with gross debt or investments equal to or greater than $20 million, are responsible for setting their own financial risk policy and objectives in accordance with the Treasurer's prudential framework. All entities are responsible for the day-to-day operational management of their financial instruments and associated risks in accordance with the treasury management guidelines.

The prudential framework covers areas such as financial management objectives, responsibility structure and delegation, and policies and guidance on market risk, credit risk, liquidity risk and operational risk. The Chief Executive Officers and executives of the State's entities are responsible for advising their boards, who in turn notify DTF and other stakeholders of any breach by the entities of the prudential standards set by the Treasurer or policies set by their respective boards, including the strategy to remediate the breach.

A number of the State's entities enter into derivative financial instruments in accordance with the Treasurer's prudential and financial management framework, in order to manage their exposure to movements in interest rates, foreign currency exchange rates and commodity related exposures.

These derivative financial instruments, which include interest rate swaps, futures and forward foreign exchange contracts, are used to manage the risks inherent in either borrowings, financial asset investments or cash flow denominated in foreign currency. Derivative financial instruments are not used to add leverage to the State's financial position.

7.1.1 Interest rate risk

The State is exposed to interest rate risk through borrowings and investments in interest bearing financial assets, such as deposits and debt securities. Interest rate risk could be in the form of fair value risk or cash flow risk:

- fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. It relates to financial instruments with fixed interest rates, measured at fair value and represents the most significant interest rate risk for the State; and
- 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. Only a small portion of the State's financial instruments are exposed to cash flow interest rate risk and these arise from financial assets and financial liabilities with floating interest rates, which are measured at amortised cost.

The interest rate exposure table provides details of the carrying amounts of financial assets and liabilities that expose the State to either interest rate fair value risk or interest rate cash flow risk.

Interest rate exposure as at 30 June **($ million)**

	State of Victoria				General government sector			
2017	*Floating rate*	*Fixed rate*	*Non-interest bearing*	*Total*	*Floating rate*	*Fixed rate*	*Non-interest bearing*	*Total*
Financial assets								
Cash and deposits	5 655	142	72	5 869	4 962	485	83	5 530
Receivables	110	41	2 709	2 860	45	4	1 640	1 688
Advances paid	201	18	61	280	8 455	4 425	59	12 939
Term deposits	154	6 320	..	6 475	240	1 974	..	2 214
Derivative financial instruments	..	273	788	1 061	..	..	17	17
Equities and managed investment schemes	651	175	28 007	28 833	401	172	844	1 417
Debt securities	645	5 792	..	6 437	24	1	..	25
Total financial assets	**7 417**	**12 761**	**31 636**	**51 815**	**14 126**	**7 061**	**2 643**	**23 830**
Financial liabilities								..
Payables, deposits held and advances received	868	186	5 908	6 963	8 390	17	4 321	12 729
Derivative financial instruments	..	348	140	488	..	17	88	105
Interest-bearing liabilities	1	38 412	..	38 413	..	19 326	..	19 326
Finance lease liabilities	..	9 945	1	9 946	..	9 384	1	9 385
Total financial liabilities	**870**	**48 891**	**6 049**	**55 810**	**8 391**	**28 743**	**4 410**	**41 544**
2016								
Financial assets								
Cash and deposits	3 631	2 919	126	6 676	3 715	919	138	4 772
Receivables	151	116	2 797	3 063	133	50	1 504	1 688
Advances paid	62	29	62	153	59	4 467	57	4 582
Term deposits	10	502	..	512	66	1 396	..	1 462
Derivative financial instruments	427	459	236	1 122	..	18	..	18
Equities and managed investment schemes	859	412	23 146	24 416	644	409	254	1 307
Debt securities	1 238	8 246	..	9 484	66	1	..	67
Total financial assets	**6 378**	**12 682**	**26 367**	**45 426**	**4 683**	**7 260**	**1 953**	**13 896**
Financial liabilities								..
Payables, deposits held and advances received	1 995	404	4 660	7 059	26	485	3 672	4 183
Derivative financial instruments	62	893	250	1 205	..	19	131	150
Interest-bearing liabilities	..	43 114	..	43 115	..	24 651	..	24 652
Finance lease liabilities	..	9 638	2	9 640	..	9 007	2	9 009
Total financial liabilities	**2 057**	**54 049**	**4 912**	**61 019**	**26**	**34 162**	**3 805**	**37 993**

Interest rate risk management

The State's policy for managing interest rate risk on borrowings is to achieve relative certainty of cash interest cost while seeking to minimise net borrowing cost within portfolio risk management guidelines. Generally, this is achieved by undertaking fixed rate borrowings across a range of maturity profiles.

TCV manages the State's interest risk exposure from borrowings through daily quantification of the risk, which assesses the potential loss that the State might incur under various market scenarios. Interest rate risk is managed within an approved limit structure in accordance with TCV's prudential policy and risk management framework, which requires consistency with the Australian Prudential Regulation Authority prudential statements for banks.

Derivative instruments such as interest rate swaps and futures contracts are used to either change the interest rate between fixed and floating rates of interest or between different floating rates of interest.

At 30 June 2017, approximately 94 per cent (97 per cent in 2016) of the State's borrowings are at fixed rates of interest. There has been no change in the State's exposure to interest rate risk or the manner in which it manages and measures the risk from the previous reporting period.

Interest rate sensitivity analysis

The State has analysed the possible effects of feasible changes in interest rates on its financial position and result using the following assumptions:

- the exposure to interest rates for both derivative and non-derivative instruments at the reporting date, and the stipulated change taking place at the beginning of the financial year, are held constant throughout the reporting period; and
- based on historic movements, and in particular, management's knowledge and experience of the recent volatility in global financial markets, the State has assessed that it may be exposed to a reasonably possible increase or decrease of 100 basis points in interest rates (100 basis points in 2016).

With all other variables held constant, the impact of a 100 basis point increase or decrease on the net result and net assets at 30 June 2017 is a $1.6 billion increase/$1.7 billion decrease ($1.7 billion increase/$1.8 billion decrease in 2016).

The State's sensitivity to interest rates is mainly attributable to the revaluation of fixed interest borrowings at fair value and the revaluation of the insurance and superannuation liabilities, however this does not impact on the net result from transactions.

7.1.2 Foreign currency risk

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 existing at the end of the reporting period are translated at the closing rate at the date of the end of the reporting period. Non-monetary assets carried at fair value that are denominated in foreign currencies are translated to the functional currency at the rates prevailing at the date when the fair value was determined.

Foreign currency translation differences are recognised in other economic flows in the consolidated comprehensive operating statement and accumulated in a separate component of equity, in the period in which they arise.

The State is also exposed to foreign currency risk through investments in foreign currency denominated financial assets, primarily international equities. This exposure is mainly via the major currencies such as United States dollar, Canadian dollar, Japanese yen, Swiss franc, the euro, British pound and the New Zealand dollar.

The carrying amount of the State's foreign currency denominated monetary assets and monetary liabilities at the reporting date is $2.8 billion ($2.6 billion in 2016) of equities and managed investment schemes and $126 million ($242 million in 2016) of foreign currency borrowings.

The VFMC, the State's fund manager, applies a consolidated approach in managing the foreign currency exposure in accordance with investment risk management plans as approved by the Treasurer. VFMC's approach is to hedge approximately 50 per cent of the foreign currency exposure arising from international equities, and to fully hedge foreign currency exposures arising from other offshore assets such as infrastructure, property and hedge funds.

TCV is the State's central borrowing authority and part of its funding program is comprised of foreign currency borrowings. The State's policy is to hedge any material foreign currency exposures arising from borrowings. TCV uses foreign exchange options, spot and forward foreign exchange rate contracts in the management of offshore borrowings.

There has been no material change in the State's exposure to foreign currency risk or the manner in which it manages and measures the risk from the previous reporting period.

Foreign currency sensitivity analysis

The State has analysed the possible effects of feasible change in exchange rates against the Australian dollar on its financial position and result using the following assumptions:

- exposure to the pool of foreign currencies for both derivative and non-derivative instruments at the reporting date, and the stipulated change taking place at the beginning of the financial year are held constant throughout the reporting period; and
- based on historic movements, future expectations and management's knowledge and experience of the foreign currency markets, the State has assessed that it may be exposed to an increase or decrease of 15 per cent against the Australian dollar (15 per cent in 2016).

With all other variables held constant, the impact of a 15 per cent increase or decrease in exchange rates on economic flows and net assets at 30 June 2017 is $322 million decrease/$435 million increase ($302 million decrease/$408 million increase in 2016).

The State's exposure to foreign currency risk has no direct impact on the net result from transactions.

7.1.3 Equity price risk

The State is exposed to equity price risk from Australian and international investments in equities directly and indirectly via managed investment schemes or funds. These investments are selected as part of a diversified portfolio to match investment objectives appropriate to the State's liabilities. The State limits its equity price risk through diversifying its investment portfolio. This is determined by VFMC and reflected in the Investment Risk Management Plan approved by the Treasurer, and in accordance with the *Borrowing and Investments Powers Act 1987* (BIP Act) and the prudential supervisory policies and framework of the State.

There has been no material change in the State's exposure to equity price risk or the manner in which it manages and measures the risk from the previous reporting period.

Equity price sensitivity analysis

The State has analysed the possible effects of feasible changes in equity prices on its financial position and result using the following assumptions:

- exposure to equity securities for both derivative and non-derivative instruments at the reporting date, and the stipulated change taking place at the beginning of the financial year are held constant throughout the reporting period; and
- based on historic movements, future expectations and management's knowledge and experience of the volatility of the equity markets, the State has assessed that it may be exposed to a reasonably possible increase or decrease of 15 per cent to equity prices (increase or decrease of 15 per cent in 2016).

With all other variables held constant, the impact of a 15 per cent increase or decrease in listed equities prices on economic flows and net assets at 30 June 2017 is $1 million increase/$1 million decrease ($83 million increase/$83 million decrease in 2016) and from unlisted equities is $2.8 billion increase/$2.8 billion decrease ($2.3 billion increase/$2.3 billion decrease in 2016).

The State's exposure to equity price sensitivity has no direct impact on the net result from transactions.

7.1.4 Credit risk

Credit risk refers to the possibility that a borrower will default on its financial obligations as and when they fall due. The State's exposure to credit risk mainly arises through its investments in fixed interest instruments and contractual loans and receivables. Most of the State's investments and derivatives are centrally managed by TCV and VFMC. Limits are set both in terms of the quality and amount of credit exposure in accordance with the *Borrowings and Investment Powers Act 1987* and the prudential supervisory policies and framework of the State.

The State has a material credit risk exposure resulting from the level of investments and derivative transactions with the four major Australian banks which is managed by reference to the credit quality and exposure policies that have been established.

The State's maximum exposure to credit risk, without taking account of the value of any collateral obtained 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.

There has been no material change to the State's credit risk profile in 2016-17.

The table below provides information on the credit quality of the State's financial assets that are neither past due, nor impaired. Note 6.3 sets out the ageing of contractual receivables.

Credit quality of financial assets that are neither past due nor impaired **($ million)**

State of Victoria *2017*	*(triple-A credit rating)*	*Other (min triple-B credit rating)*	*Other (not rated)*	*Total*
Financial assets				
Cash and deposits	485	4 957	427	5 869
Receivables	46	388	1 867	2 301
Advances paid	26	..	254	280
Term deposits	115	6 356	4	6 475
Debt securities	1 008	5 423	6	6 437
Total financial assets	**1 679**	**17 124**	**2 558**	**21 362**
2016				
Financial assets				
Cash and deposits	229	5 885	562	6 676
Receivables	44	506	1 906	2 455
Advances paid	27	5	121	153
Term deposits	100	406	7	512
Debt securities	1 533	7 784	166	9 484
Total financial assets	**1 932**	**14 585**	**2 762**	**19 279**

Credit quality of financial assets that are neither past due nor impaired *(continued)* **($ million)**

General government sector *2017*	*Government agencies* *(triple-A credit rating)*	*(triple-A credit rating)*	*Other* *(min triple-B credit rating)*	*(not rated)*	*Total*
Financial assets					
Cash and deposits	3 505	363	1 536	127	5 530
Receivables	594	28	92	664	1 379
Advances paid	12 702	26	..	211	12 939
Term deposits	1 485	50	675	4	2 214
Debt securities	..	..	25	..	25
Total financial assets	**18 286**	**466**	**2 328**	**1 007**	**22 087**

2016					
Financial assets					
Cash and deposits	2 720	122	1 572	358	4 772
Receivables	508	2	171	603	1 284
Advances paid	4 476	27	5	75	4 582
Term deposits	1 017	46	394	5	1 462
Debt securities	..	..	25	42	67
Total financial assets	**8 721**	**197**	**2 168**	**1 082**	**12 167**

7.1.5 Liquidity risk

Liquidity risk arises from being unable to meet financial obligations as they fall due. The State is exposed to liquidity risk mainly through the maturity of its external borrowings raised by TCV and the requirement to fund cash deficits. Liquidity management policy has three main components as follows.

Short term liquidity management and control

The State's central treasury, TCV, is responsible for ensuring that the State's liquidity requirements can be met at all times.

TCV has an enhanced liquidity policy to assist the Government to manage the whole of Victorian government liquidity strategy and improve TCV's operational and medium to long term liquidity management. The policy introduced daily measurement of the whole of Victorian government liquidity ratio, which measures TCV's liquid assets (after discounting to reflect potential loss of value in the event of a quick sale) versus 12 months of debt and interest obligations.

The policy also measures the daily 'going concern' net and cumulative cash flow limits to manage short-term liquidity exposures during normal operating liquidity conditions and the monitoring of 'going concern' and 'liquidity stress' scenario cash flows out to 12 months.

As at 30 June 2017, the whole of Victorian government liquidity ratio stood at 103 per cent against a limit of 80 per cent (114 per cent against a limit of 80 per cent in 2016).

Long term liquidity management monitoring

The State's policy on long term management of liquidity primarily focuses on the diversification of funding sources and maturities.

Managing a liquidity crisis

In the event of a liquidity crisis, the State has in place liquidity crisis management plans to manage liquidity conditions. The liquidity crisis management plans are a set of protocols established to respond to specific conditions during a crisis.

Maturity analysis of financial liabilities

Disclosed are details of the State's maturity analysis for its domestic borrowings and finance lease liabilities. The maturity analysis for the remainder of the State's financial liabilities are immaterial to the financial report.

Domestic borrowings **($ million)**

	State of Victoria		General government sector	
	2017	2016	2017	2016
Carrying amount	38 287	42 873	19 326	24 652
Nominal amount [(a)]	43 568	47 696	19 326	24 651
Contractual maturity				
0 to 3 months	337	1 750	497	1 383
3 months to 1 year	4 896	5 112	126	1 754
1 to 2 years	6 175	4 820	1 134	1 972
2 to 5 years	10 449	14 893	6 217	6 234
5 years or more	21 712	21 120	11 353	13 308

Note:
(a) Represents undiscounted nominal amount.

Finance lease liabilities payable **($ million)**

	State of Victoria		General government sector	
	2017	2016	2017	2016
Less than 1 year	662	546	491	476
1 year but less than 5 years	2 464	2 533	2 082	2 103
5 years or more	18 004	17 758	17 847	17 627
Minimum lease payments	**21 129**	**20 837**	**20 420**	**20 206**
Future finance charges	11 183	11 197	11 035	11 197
Total finance lease liabilities	**9 947**	**9 640**	**9 385**	**9 009**

7.1.6 Other matters

Offsetting financial instruments

A master netting arrangement or similar arrangement can be set up with counterparties where required by general market practice. To the extent that these arrangements meet the criteria for offsetting in the consolidated balance sheet, they are reported on a net basis.

Financial instrument assets and liabilities are offset, with the net amount reported in the consolidated balance sheet only where there is a currently legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Some master netting arrangements do not result in an offset of balance sheet assets and liabilities. Where the State does not have a legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as default, insolvency or bankruptcy, they are reported on a gross basis.

The following tables provide information on the impact of offsetting on the balance sheet, as well as the financial impact of netting for instruments subject to an enforceable master netting arrangement, as well as available cash and financial instrument collateral.

The State of Victoria has entered into arrangements that do not meet criteria for offsetting in a normal course of business, but allow for the relevant amounts to be set off in certain circumstances, such as bankruptcy, default or insolvency.

The effect of these arrangements is reflected in the column 'related amounts not offset'.

The column 'Net amount' shows the impact on State of Victoria balance sheet if all existing rights of offset were exercised.

Master netting or similar arrangements [(a)] **($ million)**

State of Victoria		*Effects of offsetting on the balance sheet*			
2017	*Gross amounts*	*Gross amounts set off in the consolidated balance sheet*	*Net amounts presented in the consolidated balance sheet*	*Related amounts not offset*	*Net amount*
Financial assets					
Derivative financial instruments	2 267	(1 206)	1 061	(691)	370
Financial liabilities					
Derivative financial instruments	1 695	(1 206)	488	(501)	(13)
2016					
Financial assets					
Derivative financial instruments	2 689	(1 567)	1 122	(648)	474
Financial liabilities					
Derivative financial instruments	2 772	(1 567)	1 205	(978)	226

Note:
(a) Master netting or similar arrangements is only disclosed for the whole of State as they are only material for the State's insurance entities in the public financial corporations sector.

Net gain or loss by category of financial instruments

The net gains or losses on financial assets and liabilities held at 30 June 2017 are determined as follows:

- for loans and receivables and available for sale investments, the net gain or loss is calculated by taking the interest revenue, plus or minus foreign exchange gains or losses arising from revaluation of the financial assets, and minus any impairment recognised in the net result;
- for financial liabilities measured at amortised cost, the net gain or loss is calculated by taking the interest expense, plus or minus foreign exchange gains or losses arising from the revaluation of financial liabilities measured at amortised cost; and
- for financial assets and liabilities that are held for trading or designated at fair value through profit or loss, the net gain or loss is calculated by taking the movement in the fair value of the financial asset or liability.

Net gain or loss by category of financial instruments **($ million)**

	State of Victoria		*General government sector*	
	2017	*2016*	*2017*	*2016*
Financial assets				
Cash and deposits	219	(63)	847	445
Designated at fair value through the operating statement	2 384	(108)	12	(9)
Held-for-trading at fair value through the operating statement	4	3	7	5
Loans and receivables	(31)	(10)	(9)	1
Available-for-sale	..	..	..	..
Total	**2 575**	**(178)**	**856**	**442**
Financial liabilities				
Designated at fair value through the operating statement	(1 744)	1 226	..	..
Held-for-trading at fair value through the operating statement	(10)	68	..	..
At amortised cost	..	..	..	..
Total	**(1 754)**	**1 293**	**..**	**..**

Breakdown of interest revenue [(a)] **($ million)**

	State of Victoria		*General government sector*	
	2017	*2016*	*2017*	*2016*
Interest revenue from financial assets not at fair value through the operating statement [(b)]	425	439	863	786
Interest revenue from financial assets at fair value through the operating statement	425	471	..	..
Interest revenue from impaired financial assets	..	..	..	..
Total [(b)]	**850**	**910**	**863**	**786**

Notes:
(a) These items include amounts that relate to discount interest on financial assets. Therefore, figures in this table cannot be reconciled to the primary financial statements.
(b) June 2016 comparative figures have been restated to reflect the reclassification of borrowings and investments sold at a premium / discount from interest expense to interest revenue.

Breakdown of interest and fee expense items [(a)] **($ million)**

	State of Victoria		*General government sector*	
	2017	*2016*	*2017*	*2016*
Interest expense from financial liabilities not at fair value through the operating statement [(b)]	914	900	1 996	2 042
Interest expense from financial liabilities at fair value through the operating statement	1 932	2 060	..	..
Fee expenses from financial liabilities not at fair value through the operating statement	29	39	165	36
Fee expenses from financial liabilities at fair value through the operating statement	435	415	..	..
Total [(b)]	**3 310**	**3 414**	**2 160**	**2 079**

Notes:
(a) These items do not include amounts that relate to discount interest on non-financial liabilities. Therefore, figures in this table cannot be reconciled to the primary financial statements.
(b) June 2016 comparative figures have been restated to reflect the reclassification of borrowings and investments sold at a premium / discount from interest expense to interest revenue.

7.2 Contingent assets and contingent liabilities (State of Victoria)

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

Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

Contingent assets

Contingent assets are possible assets that arise from past events, 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 are classified as either quantifiable, where the potential economic benefit is known, or non-quantifiable.

The table below contains quantifiable contingent assets as at 30 June 2017 (arising from outside of government).

Quantifiable contingent assets [(a)]

	State of Victoria	
	2017	*2016*
General government [(b)]	129	115
Public non-financial corporations	258	238
Public financial corporations	..	..
Total contingent assets – State of Victoria	**387**	**353**
Guarantees, indemnities and warranties	52	100
Legal proceedings and disputes	20	18
Other [(b)]	315	235
Total contingent assets – State of Victoria	**387**	**353**

Notes:
(a) Figures reflect contingent assets that arise from outside of government.
(b) Other contingent assets in the general government sector mainly consists of $100 million relating to a contingent payment for Crown Melbourne licence amendments that may be payable in calendar year 2022.

Non quantifiable contingent assets

CityLink compensable enhancement claims

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

Compensable enhancement claims have previously been lodged in respect to works for improving traffic flows on the West Gate Freeway (between Lorimer and Montague streets), and in the vicinity of the intersection of the Bulla Road and the Tullamarine Freeway. The claims were lodged on 20 May 2005 and 29 September 2006 respectively, and are still outstanding.

Peninsula Link compensable enhancement claim

The EastLink Concession Deed contains compensable enhancement provisions that enable the State to claim 50 per cent of any additional revenue derived by ConnectEast Pty Ltd (ConnectEast) as a result of certain events that particularly benefit EastLink, including changes to the adjoining road network.

On 2 January 2014, the State lodged a compensable enhancement claim as a result of opening Peninsula Link. The claim remains outstanding.

Contingent liabilities

Contingent liabilities are:

- possible obligations that arise from past events, 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
- present obligations that arise from past events but are not recognised because:
  – it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations; or
  – the amount of the obligations cannot be measured with sufficient reliability.

Contingent liabilities are also classified as either quantifiable or non-quantifiable.

The table below contains quantifiable contingent liabilities as at 30 June 2017.

Quantifiable contingent liabilities

	State of Victoria	
	2017	*2016*
General government	11 610	11 426
Public non-financial corporations	131	186
Public financial corporations	..	11
Eliminations [(a)]	(11 137)	(10 905)
Total contingent liabilities – State of Victoria	**604**	**718**
Guarantees, indemnities and warranties	259	301
Legal proceedings and disputes	124	179
Other	221	238
Total contingent liabilities – State of Victoria	**604**	**718**

Note:
(a) Mainly represents the guarantee of borrowings provided by the Treasurer for the public sector borrowings portfolio.

Non-quantifiable contingent liabilities

A number of potential obligations are non-quantifiable at this time 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 monies, which may be subject to future claims by the general public against the State.

An overview of the more significant non-quantifiable liabilities follows:

AgriBio Centre for AgriBioscience (formerly known as The Biosciences Research Centre)

The quarterly service fee payment obligations of the AgriBio Centre for AgriBioscience on behalf of the joint venture participants (Department of Economic Development, Jobs, Transport and Resources, and La Trobe University) are supported by the State of Victoria via a State Support Deed. Under this Deed, the State ensures that the joint venture participants have severally the financial capacity to meet their payment obligations to Biosciences Research Centre Pty Ltd (BRC), thereby enabling BRC to meet its obligations to pay the service fee to the concessionaire pursuant to the project agreement. The State underwrites the risk of any default by BRC.

Department of Education and Training

The Department has a number of unquantifiable contingent liabilities, arising from indemnities provided by it, as follows:

- Volunteer school workers and volunteer student workers: the *Education and Training Reform Act 2006* provides a specific indemnity for personal injuries suffered by volunteer school workers and volunteer student workers arising out of or in the course of engaging in school work or community work respectively.
- Members of school councils: the *Education and Training Reform Act 2006* provides an indemnity to members of school councils for any legal liability, whether in contract, negligence or defamation.
- Teachers: if a teacher is named as a defendant in a student personal injury claim, any costs and damages will generally be paid by the Department provided the teacher was not under the influence of illicit drugs or alcohol or engaging in a criminal offence and the behaviour was not outrageous and was related to their employment.
- School councils: the Department will usually indemnify school councils in claims of common law negligence, and will often indemnify in relation to employment disputes, for the cost of settlement and legal representation. The Department will take into account the impact of payment upon the school's educational program and any insurance cover for the school council, and will likely indemnify if the Department is satisfied that:
  - the school council acted in good faith and according to issued guidelines and directions; and
  - the school council has insufficient funds to pay the claim.

Public acquisition overlays for the future development of rail and road infrastructure

Public acquisition overlays are in place to reserve certain areas of land for future development of rail and road infrastructure. Under Section 98 of the *Planning and Environment Act 1987*, the State has a legislative responsibility to compensate eligible land and property owners who face either:

- loss on sale – an eligible landowner is entitled to compensation for the incremental loss on sale when a property affected by a public acquisition overlay is sold for less than its market value; or
- financial loss – the entitlement to financial loss compensation is triggered when a development permit is refused because the property is required for a public purpose.

Compensation and purchase claims occur as a result of claims by land owners. The future liability depends on factors including the number of claims received and the prevailing value of land at the time the claim is made, which cannot be reliably quantified.

Public transport rail partnership agreements

Public Transport Victoria (PTV) is party to partnership contractual arrangements with franchisees to operate metropolitan rail transport services in the State, from 30 November 2009 until 30 November 2017. The major contingent liabilities arising in the event of early termination or expiry of the contract are:

- partnership assets – to maintain continuity of services, at early termination or expiry of the franchise contract, assets will revert to PTV or a successor. In the case of some assets, a reversion back to PTV would entail those assets being purchased; and
- unfunded superannuation – at the early termination or expiry of the contract, PTV will assume any unfunded superannuation amounts (apart from contributions the operator is required to pay over the contract term) to the extent that the State becomes the successor operator.

Level Crossing Removal Program

The State has introduced a voluntary purchase scheme for residential properties directly affected by the Caulfield-Dandenong level crossing removal project. The scheme commenced on 29 March 2016. The Level Crossing Removal Authority is anticipating future claims by property owners for either outright purchase and associated costs or costs related to landscaping if property owners choose to stay. Due to the uncertainty of the take-up of the offer, it is not feasible to quantify the value of the liability at this stage.

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Fiskville independent investigation and closure of training college

An independent investigation was undertaken into the historical use of chemicals for live firefighting training at Fiskville between 1971 and 1999. The report of the independent investigation has been released and the Country Fire Authority (CFA) has accepted all of the facts, recommendations and conclusions and is committed to implementing all recommendations.

In August 2012, the CFA established a program office to manage the implementation of the report's recommendations and an additional 11 management initiatives to which the CFA Board committed in its response to the report.

On 26 March 2015, the Government announced the permanent closure of Fiskville Training College ("Fiskville"). Fiskville and Victorian Emergency Management Training Centre training grounds owned by CFA at the Penshurst, Bangholme, West Sale, Wangaratta, Huntly, and Longerenong have been the subject of notices issued by the Environment Protection Agency (EPA).

CFA has a number of contingent liabilities arising from the closure of Fiskville and the notices issued by EPA. These relate to any further notices that may be issued by EPA, any regulatory infringements that may be imposed by EPA, compensation that may be sought, any legal claims that may be made, recommendations made by the Victorian Parliamentary Inquiry into the CFA Training College at Fiskville and the costs of relocating the Firefighters' Memorial previously located at Fiskville.

The Government response to the Fiskville Inquiry was tabled in Parliament on 24 November 2016. The response supports all of the 31 recommendations of the Inquiry, either in full, in principle or in part.

The exact financial implications of the Government's response are yet to be quantified.

Compulsory property acquisitions

The State has compulsorily acquired a number of properties (residential and commercial) through the *Land Acquisition and Compensation Act 1986* to facilitate delivery of various projects. Possible future claims for compensation arising from the compulsory acquisition of these properties cannot be quantified at this stage.

Land remediation – environmental concerns

In addition to properties for which remediation costs have been provided in the State's financial statements, certain other 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 that a contamination risk is identified.

Native Title

A number of claims have been filed with the Federal Court under the Commonwealth *Native Title Act 1993* that affect Victoria. It is not feasible at this time to quantify any future liability.

Royal Melbourne Showgrounds redevelopment

Under the State's commitment to the Royal Agriculture Society of Victoria (RASV), the State backs certain obligations of RASV that may arise out of the joint venture agreement. Under the State's commitment to RASV, the State will pay (in the form of a loan) the amount requested by RASV. If any outstanding loan amount remains unpaid at the date, which is 25 years after the commencement of the operation term, RASV will be obliged to satisfy the outstanding loan amount. This may take the form of a transfer to the State, of the whole of the RASV participating interest in the joint venture.

Under the State Support Deed – Core Land, the State has undertaken 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.

The State has also entered into an agreement through the State Support Deed – Non Core Land with Showgrounds Retail Developments Pty Ltd and the RASV, whereby the State agrees to support certain payment obligations of the RASV that may arise under the non-core development agreement.

Victorian Managed Insurance Authority – insurance cover

The Victorian Managed Insurance Authority (VMIA) was established in 1996 as an insurer for state government departments, participating bodies and other entities as defined under the *Victorian Managed Insurance Authority Act 1996*. The VMIA provides its clients with a range of insurance cover, including for property, public and products liability, professional indemnity and contract works. The VMIA reinsures in the private market for losses above $50 million arising out of any one occurrence, up to a maximum of $1 billion for public and products liability, and for losses above $50 million arising out of any one event, up to a maximum of $3.6 billion for property. The risk of losses above these reinsured levels is borne by the State.

The VMIA also insures the Department of Health and Human Services for all public sector medical indemnity claims incurred in each policy year from 1 July 2003, regardless of when claims are finally settled. Under the indemnity deed to provide stop loss protection for the VMIA, DTF has agreed to reimburse the VMIA if the ultimate claims payouts exceed by more than 20 per cent of the initial estimate on which the risk premium was based.

2016 flood and storm events

In September 2016 a severe flood and storm event impacted 51 local government areas across Victoria. The State of Victoria formally activated the Commonwealth Government-State Natural Disaster Relief and Recovery Arrangements (NDRRA) following this event. Local councils have commenced the restoration of damaged essential assets. To date the estimated cost of damage is $163 million Financial assistance is provided jointly by the Victorian and Commonwealth governments under the NDRRA. It is not possible to quantify the cost to the State until all claims have been received.

The State also activated NDRRA for a number of storm and flood events from July 2016 up to April 2017. However, the financial impact of these events is still being assessed and are not expected to be as significant as the September 2016 events.

Other commitments

Alcoa contribution and advance facility

The State has entered into a funding agreement effective 2017-18 that may require provision of financial support to a Victorian Smelter.

7.3 Fair value determination

This section sets out information on how the State determines fair value for financial reporting purposes. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair values are determined for the following assets and liabilities:

- financial assets and liabilities at fair value through operating result;
- available-for-sale financial assets;
- land, buildings, infrastructure, plant and equipment;
- investment properties; and
- biological assets.

In addition, the fair values of other assets and liabilities are determined for disclosure purposes (financial assets and liabilities carried at amortised cost).

The State determines the policies and procedures for determining fair values for both financial and non-financial assets and liabilities as required.

For the purpose of fair value disclosures, the State has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability.

Fair value hierarchy

In determining fair values a number of inputs are used. To increase consistency and comparability in the financial statements, these inputs are categorised into three levels, also known as the fair value hierarchy. The levels are as follows:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The State determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair value disclosure

For those assets and liabilities for which fair value determination is applied, the following disclosures are provided:

- carrying amount and the fair value (which would be the same for those assets measured at fair value);
- which level of the fair value hierarchy was used to determine the fair value;
- in respect of those assets and liabilities subject to fair value determination using Level 3 inputs:
  - a reconciliation of the movements in fair values from the beginning of the year to the end; and
  - details of significant unobservable inputs used in the fair value determination.

This section is divided between financial instruments and non-financial physical assets.

7.4 Fair value determination of financial assets and liabilities

How fair values are determined

The fair values of the State's financial assets and liabilities are determined as follows:

- Level 1 – the financial instruments with standard terms and conditions and traded in an active liquid market are determined with reference to quoted market prices;
- Level 2 – the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices from observable current market transactions; and
- Level 3 – the fair value of derivative instruments, such as interest rate futures contracts, are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instrument for non-optional derivatives, and option pricing models for optional derivatives.

Fair value of financial instruments measured at amortised cost **($ million)**

	2017		2016	
State of Victoria	*Carrying amount*	*Fair value*	*Carrying amount*	*Fair value*
Financial assets				
Non-current receivables	130	124	142	142
Financial liabilities				
Finance lease liabilities	9 946	9 599	9 640	9 614

General government sector				
Financial assets				
Non-current receivables	589	583	478	478
Financial liabilities				
Finance lease liabilities	9 385	9 180	9 009	9 009

Financial assets and liabilities measured at fair value **($ million)**

State of Victoria *2017*	*Carrying amount as at 30 June*	*Fair value measurement at end of reporting period using:* *Level 1*	*Level 2*	*Level 3*
Financial assets				
Cash	5 869	5 869	..	..
Derivative assets	1 061	34	1 027	..
Term Deposits	5 661	..	5 661	..
Equities and managed investment schemes	28 833	2 411	20 104	6 318
Debt securities at fair value	6 437	1 740	4 694	3
Total financial assets	**47 862**	**10 054**	**31 487**	**6 321**
Financial liabilities				
Domestic borrowings	38 287	31 906	6 381	..
Foreign currency borrowings	126	..	126	..
Derivative financial liabilities	491	1	489	..
Total financial liabilities	**38 904**	**31 907**	**6 996**	**..**
2016				
Financial assets				
Cash	6 676	6 676	..	..
Derivative assets	1 122	74	1 048	..
Equities and managed investment schemes	24 416	2 216	16 860	5 340
Debt securities at fair value	9 484	2 138	7 132	214
Total financial assets	**41 698**	**11 104**	**25 040**	**5 554**
Financial liabilities				
Domestic borrowings	42 715	34 956	7 759	..
Foreign currency borrowings	242	..	242	..
Derivative financial liabilities	1 073	13	1 060	..
Total financial liabilities	**44 030**	**34 969**	**9 061**	**..**

General government sector (a) *2017*				
Financial assets				
Cash	5 530	5 530	..	..
Derivative assets	17	17	..	..
Equities and managed investment schemes	1 417	794	623	..
Debt securities at fair value	25	25	..	..
Total financial assets	**6 989**	**6 366**	**623**	**..**
2016				
Financial assets				
Cash	4 772	4 772	..	..
Derivative assets	18	18	..	..
Equities and managed investment schemes	1 307	701	483	123
Debt securities at fair value	67	67	..	..
Total financial assets	**6 164**	**5 558**	**483**	**123**

Note:
(a) The general government sector's financial liabilities are measured at amortised cost and therefore not required to be disclosed in the above table for financial assets and liabilities measured at fair value in accordance with Australian Accounting Standards.

Reconciliation of Level 3 fair value movements [(a)] **($ million)**

	Equities and managed investment schemes		*Debt securities at fair value*	
State of Victoria	*2017*	*2016*	*2017*	*2016*
Opening balance	**5 340**	**5 071**	**214**	**227**
Total gains and losses recognised in:				
Net result	233	(6)	..	..
Other comprehensive income	7	25	..	..
Purchase	1 334	828	..	..
Sales	(509)	(685)	..	..
Settlements	..	(15)	(10)	(13)
Transfers from other levels	36	123	..	..
Transfers out of Level 3	(123)	..	(200)	..
Closing balance	**6 318**	**5 340**	**3**	**214**

Note:

(a) Reconciliation of Level 3 fair value movements is only disclosed for the whole of State as they are only material for the State's insurance entities in the public financial corporations sector.

Description of Level 3 valuation techniques used and key inputs to valuation

The majority of the State's Level 3 financial assets relate to investment funds/trusts managed by VFMC on behalf of the State's insurance entities. Approximately a third of the funds are directly managed internally by VFMC while two thirds are investment funds selected by VFMC but managed externally by other fund managers.

The disclosure below provides details of the inputs and assumptions used in the various asset valuation models. Further detailed information has been provided where available. The State is not privy to the detailed inputs and assumptions used by external fund managers to value the underlying investment assets and not in a position to provide a sensitivity analysis.

The unlisted investment fund/trust assets include the following asset classes; infrastructure, private equity, non-traditional strategies and property.

Private equities

VFMC's holdings of private equity investments are small and being phased out. Private equity investments are valued primarily on multiples of earnings, discounted cash flow, market equivalents and other market accepted methodologies. Key inputs and assumptions which are subject to estimation uncertainty include the estimated future profits and cash flows, risk free discount rate, risk premium, and future economic and regulatory conditions.

Managed investment schemes

The State's managed investment schemes include level 3 assets such as fixed interest investments, infrastructure, non-traditional strategies and property investments.

Infrastructure

Infrastructure investments comprise both domestic and international exposures to transport, social, energy and other infrastructure assets through unlisted funds and trusts. The valuations of unlisted infrastructure investments are based primarily on the discounted cash flow methodology. Key inputs and assumptions which are subject to estimation uncertainty include the choice of risk free discount rates, risk premium, asset utilisation rates, capital expenditure and operating cost forecasts and other estimated future cash flows dependent on the longer term general economic forecasts and the forecast performance of applicable underlying assets.

Non-traditional strategies

Non-traditional strategies comprise investments in hedge funds and other non-traditional investments such as insurance investments. These are assets that do not fit within the definition of other asset classes but which provide diversification benefits to the total portfolio. Investments are made through externally managed unlisted pooled vehicles.

The valuation of hedge fund investments are based primarily on the underlying assets, which may be quoted on an exchange or traded in a dealer market. For less liquid securities, valuation methodologies are set out by each fund manager. Depending on the investment, the methodologies applied include discounted cash flow, amortised cost, direct comparison and other market accepted methodologies. The fund manager may choose to appoint independent valuation agents to seek independent price verification. Key inputs and assumptions, which are subject to estimation uncertainty, include the appropriate credit spread and other risk premium, risk free discount rate, future cash flows, and future economic and regulatory conditions.

The insurance investments include an unlisted trust with exposure to a portfolio of US life insurance policies. The valuation of insurance investments is based on the discounted cash flow methodology, with key assumptions of insureds' mortality and premium payments on the valuation date. Other assumptions and interdependencies include the weighted average discount rate, life expectancy estimates obtained from qualified providers and expected premium payments based on the back solving premiums optimisation method.

Property investments

Property investments comprise externally managed unlisted property trusts with exposure to the domestic and international commercial, industrial, retail and development property market.

The valuations of unlisted property investments are primarily based on discounted cash flow, capitalisation and direct comparison methodologies. The assumptions, which may be subject to estimation uncertainty include the estimated future profits and cash flows, risk free rate, risk premium, and future economic and regulatory conditions.

7.5 Fair value determination of non-financial assets

Revaluations of non-financial physical assets

Non-financial physical assets are measured on a cyclical basis in accordance with the Financial Reporting Directions (FRDs) issued by the Minister for Finance. A full revaluation normally occurs every five years, based upon the asset's government purpose classification, but may occur more frequently if fair value assessments indicate material changes in values. Independent valuers are generally used to conduct these scheduled revaluations. Certain infrastructure assets are revalued using specialised advisors. Any interim revaluations are determined in accordance with the requirements of the FRDs.

Revaluation increases or decreases arise from differences between an asset's carrying value and fair value.

Net revaluation increases (where the carrying amount of a class of assets is increased) are recognised in 'Other economic flows – other comprehensive income' and accumulated in equity under the asset revaluation surplus. However, the net revaluation increase is recognised in the net result to the extent that it reverses a net revaluation decrease in respect of the same class of non-financial asset previously recognised as an expense (other economic flows) in the net result.

Net revaluation decreases are recognised in 'Other economic flows – other comprehensive income' to the extent that a credit balance exists in the asset revaluation surplus in respect of the same class of non-financial asset. Otherwise, the net revaluation decreases are recognised immediately as other economic flows in the net result. The net revaluation decrease recognised in 'Other economic flows – other comprehensive income' reduces the amount accumulated in equity under the asset revaluation surplus.

Revaluation increases and decreases relating to individual assets within a class of non-financial asset, are offset against one another within that class but are not offset in respect of assets in different classes. Any asset revaluation surplus is not normally transferred to accumulated funds on derecognition of the relevant asset.

Biological assets are measured at fair value less costs to sell and are revalued at 30 June each year. For breeding livestock, fair value is based on the amount that could be expected to be received from the disposal of livestock with similar attributes.

For productive trees, revaluation to fair value is determined using a discounted cash flow method based on expected net future cash flows, discounted by a current market determined rate. After harvest, productive trees are treated as inventories.

An increase or decrease in the fair value of these biological assets is recognised in the consolidated comprehensive operating statement as an 'Other economic flow'.

The fair value of **cultural assets** and collections, **heritage assets** and other non-financial physical assets (including Crown land and infrastructure assets) that the State intends to preserve because of their unique historical, cultural or environmental attributes, is measured at the replacement cost of 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) and any accumulated impairment. These policies and any legislative limitations and restrictions imposed on their use and/or disposal may impact their fair value.

Road network assets (including earthworks of the declared road networks) are measured at fair value, determined by reference to the asset's depreciated replacement cost.

Land under declared roads acquired prior to 1 July 2008 is measured at fair value. Land under declared roads acquired on or after 1 July 2008 is measured initially at cost of acquisition and subsequently at fair value. The fair value methodology applied by the Valuer-General Victoria is based on discounted site values for relevant municipal areas applied to land area under the arterial road network, including related reservations.

Infrastructure assets of water, rail and port authorities within the PNFC sector are measured at fair value. The fair value of infrastructure systems and plant, equipment and vehicles, is normally determined by reference to the asset's depreciated replacement cost, or where the infrastructure is held by a for profit entity, the fair value may be derived from estimates of the present value of future cash flows.

Note 4.1.1 describes the recognition and measurement of land, buildings, infrastructure, plant and equipment.

7.5.1 Land, buildings, infrastructure, plant and equipment

Carry amounts, fair values and fair value hierarchy **($ million)**

	Carrying amount	*Fair value measurement at the end of the 2017 reporting period using:*			*Carrying amount*	*Fair value measurement at the end of the 2016 reporting period using:*		
State of Victoria	*2017*	*Level 1*	*Level 2*	*Level 3*	*2016*	*Level 1*	*Level 2*	*Level 3*
Buildings	**44 130**	**..**	**9 459**	**34 671**	**43 222**	**..**	**9 535**	**33 687**
Non-specialised buildings	11 683	..	8 968	2 715	11 534	..	9 396	2 138
Specialised buildings	31 602	..	491	31 111	30 511	..	138	30 372
Heritage buildings	845	..	..	845	1 177	..	..	1 177
Land and national parks	**78 504**	**..**	**21 416**	**57 088**	**70 423**	**..**	**19 266**	**51 157**
Non-specialised land	19 624	..	17 269	2 355	17 348	..	15 601	1 746
Specialised land	35 794	..	4 147	31 647	34 228	..	3 665	30 563
Land under roads	22 036	..	..	22 036	17 811	..	..	17 811
National parks and other 'land only' holdings	1 050	..	..	1 050	1 036	..	..	1 036
Plant, equipment, vehicles and infrastructure systems	**60 821**	**..**	**142**	**60 679**	**60 584**	**..**	**222**	**60 363**
Infrastructure systems	55 101	..	27	55 074	54 788	..	41	54 747
Rolling stock	2 440	..	..	2 440	2 267	..	..	2 267
Plant, equipment and vehicles	3 279	..	114	3 165	3 529	..	181	3 348
Roads, road infrastructure and earthworks	**26 832**	**..**	**..**	**26 832**	**27 175**	**..**	**..**	**27 175**
Cultural assets	**5 680**	**..**	**1 923**	**3 757**	**5 655**	**..**	**2 023**	**3 632**
Total land, buildings, infrastructure, plant and equipment [(a)]	**215 967**	**..**	**32 940**	**183 027**	**207 059**	**..**	**31 045**	**176 014**

Note:
(a) The State's total land, building, infrastructure, plant and equipment in this table excludes leased and construction in progress assets, which are valued at cost. The total of excluded assets is $22 919 million (2016: $19 498 million).

General government sector								
Buildings	**26 691**	**..**	**779**	**25 913**	**26 344**	**..**	**872**	**25 471**
Non-specialised buildings	1 899	..	383	1 516	2 086	..	752	1 334
Specialised buildings	23 962	..	396	23 566	23 095	..	120	22 975
Heritage buildings	831	..	..	831	1 162	..	..	1 162
Land and national parks	**50 554**	**..**	**1 689**	**48 865**	**44 724**	**..**	**1 307**	**43 417**
Non-specialised land	3 393	..	1 117	2 276	2 874	..	1 250	1 624
Specialised land	24 075	..	573	23 503	23 002	..	58	22 945
Land under roads	22 036	..	..	22 036	17 811	..	..	17 811
National parks and other 'land only' holdings	1 050	..	..	1 050	1 036	..	..	1 036
Plant, equipment, vehicles and infrastructure systems	**3 051**	**..**	**30**	**3 021**	**3 067**	**..**	**114**	**2 953**
Infrastructure systems	1 187	..	..	1 187	1 209	..	23	1 186
Plant, equipment and vehicles	1 864	..	30	1 834	1 857	..	91	1 766
Roads, road infrastructure and earthworks	**26 749**	**..**	**..**	**26 749**	**27 106**	**..**	**..**	**27 106**
Cultural assets	**5 617**	**..**	**1 860**	**3 757**	**5 592**	**..**	**1 961**	**3 632**
Total land, buildings, infrastructure, plant and equipment [(a)]	**112 663**	**..**	**4 359**	**108 304**	**106 833**	**..**	**4 254**	**102 579**

Note:
(a) The general government sector's total land, building, infrastructure, plant and equipment in this table excludes leased and construction in progress assets, which are valued at cost. The total of excluded assets is $9 113 million (2016: $7 421 million).

Reconciliation of Level 3 fair value movements

($ million)

State of Victoria 2017	Opening balance	Depreciation	Impairment	Assets recognised for the first time	Revaluation	Acquisitions/ (Disposals)	Capitalisation of work-in-progress	Transfers in/out of Level 3	Reclassification	Closing balance
Buildings	**33 687**	**(1 449)**	**(14)**	**33**	**234**	**536**	**1 246**	**(10)**	**408**	**34 671**
Non-specialised buildings	2 138	(130)	..	22	35	267	3	2	378	2 715
Specialised buildings	30 372	(1 294)	(14)	11	84	257	1 243	(12)	464	31 111
Heritage buildings	1 177	(24)	..	..	115	12	..	..	(434)	845
Land and national parks	**51 157**	**..**	**..**	**1**	**6 243**	**84**	**43**	**(192)**	**(249)**	**57 088**
Non-specialised land	1 746	..	..	..	437	18	..	174	(20)	2 355
Specialised land	30 563	..	..	1	1 585	53	43	(366)	(233)	31 647
Land under roads	17 811	..	..	..	4 221	..	..	..	4	22 036
National parks and other 'land only' holdings	1 036	..	..	..	..	13	..	..	..	1 050
Plant, equipment, vehicles and infrastructure systems	**60 363**	**(2 212)**	**(68)**	**38**	**(295)**	**885**	**2 074**	**34**	**(139)**	**60 679**
Infrastructure systems	54 747	(1 387)	(56)	22	(284)	381	1 641	23	(13)	55 074
Rolling stock	2 267	(131)	..	..	(5)	..	310	..	..	2 440
Plant, equipment and vehicles	3 348	(694)	(13)	16	(5)	504	124	11	(126)	3 165
Roads, road infrastructure and earthworks	**27 175**	**(610)**	**..**	**36**	**(57)**	**(38)**	**326**	**..**	**..**	**26 832**
Cultural assets	**3 632**	**(15)**	**..**	**..**	**109**	**22**	**..**	**..**	**9**	**3 757**
Total	**176 014**	**(4 287)**	**(81)**	**107**	**6 234**	**1 491**	**3 689**	**(169)**	**29**	**183 027**

2016	Opening balance	Depreciation	Impairment	Assets recognised for the first time [(a)]	Revaluation	Acquisitions/ (Disposals) [(a)]	Capitalisation of work-in-progress [(a)]	Transfers in/out of Level 3	Reclassification [(a)]	Closing balance
Buildings	**31 386**	**(1 170)**	**..**	**67**	**2 380**	**(94)**	**1 021**	**72**	**27**	**33 687**
Non-specialised buildings	2 821	(84)	..	52	91	(751)	..	19	(11)	2 138
Specialised buildings	27 662	(1 055)	..	15	2 043	632	1 021	14	40	30 372
Heritage buildings	902	(31)	..	..	245	25	..	39	(3)	1 177
Land and national parks	**48 528**	**..**	**(54)**	**53**	**4 692**	**(144)**	**31**	**(1 935)**	**(12)**	**51 157**
Non-specialised land	1 998	..	..	2	56	(293)	..	..	(17)	1 746
Specialised land	27 667	..	(54)	51	4 664	145	31	(1 935)	(5)	30 563
Land under roads	17 801	..	..	..	..	..	..	..	10	17 811
National parks and other 'land only' holdings	1 062	..	..	..	(29)	4	..	..	..	1 036
Plant, equipment, vehicles and infrastructure systems	**53 534**	**(2 032)**	**(2)**	**57**	**6 495**	**414**	**1 916**	**47**	**(66)**	**60 363**
Infrastructure systems	47 727	(1 294)	(2)	3	6 498	300	1 498	27	(10)	54 747
Rolling stock	2 126	(159)	..	..	..	..	300	..	..	2 267
Plant, equipment and vehicles	3 681	(579)	..	54	(3)	114	118	20	(56)	3 348
Roads, road infrastructure and earthworks	**26 864**	**(608)**	**(48)**	**..**	**(201)**	**386**	**782**	**..**	**..**	**27 175**
Cultural assets	**2 122**	**(12)**	**..**	**..**	**(86)**	**2**	**..**	**1 557**	**48**	**3 632**
Total	**162 433**	**(3 821)**	**(105)**	**176**	**13 279**	**564**	**3 750**	**(260)**	**(3)**	**176 014**

Note:

(a) June 2016 comparative figures have been restated to more accurately reflect the nature of transactions.

Reconciliation of Level 3 fair value movements *(continued)*

($ million)

General government sector *2017*	*Opening balance*	*Depreciation*	*Impairment*	*Assets recognised for the first time*	*Revaluation*	*Acquisitions/ (Disposals)*	*Capitalisation of work-in-progress*	*Assets transferred between Government entities*	*Transfers in/out of Level 3*	*Reclassification*	*Closing balance*
Buildings	**25 471**	**(1 223)**	**..**	**1**	**218**	**490**	**696**	**7**	**36**	**217**	**25 913**
Non-specialised buildings	1 334	(97)	..	1	2	267	2	..	2	6	1 516
Specialised buildings	22 975	(1 101)	..	..	102	212	694	7	34	645	23 566
Heritage buildings	1 162	(24)	..	..	115	12	..	..	..	(434)	831
Land and national parks	**43 417**	**..**	**..**	**1**	**5 791**	**114**	**24**	**(32)**	**(212)**	**(239)**	**48 865**
Non-specialised land	1 624	..	..	..	445	53	..	(35)	204	(16)	2 276
Specialised land	22 945	..	..	1	1 125	61	24	(10)	(416)	(226)	23 503
Land under roads	17 811	..	..	..	4 221	..	..	..	..	4	22 036
National parks and other 'land only' holdings	1 036	..	..	..	..	..	..	13	..	..	1 050
Plant, equipment, vehicles and infrastructure systems	**2 953**	**(585)**	**(13)**	**7**	**..**	**482**	**77**	**16**	**34**	**50**	**3 021**
Infrastructure systems	1 186	(53)	..	..	..	32	3	..	23	(5)	1 187
Plant, equipment and vehicles	1 766	(532)	(13)	7	..	450	74	16	11	55	1 834
Roads, road infrastructure and earthworks	**27 106**	**(607)**	**..**	**10**	**(65)**	**(21)**	**326**	**..**	**..**	**..**	**26 749**
Cultural assets	**3 632**	**(15)**	**..**	**..**	**109**	**22**	**..**	**..**	**..**	**9**	**3 757**
Total	**102 579**	**(2 430)**	**(13)**	**19**	**6 053**	**1 086**	**1 123**	**(9)**	**(142)**	**38**	**108 304**

General government sector *2016*	*Opening balance*	*Depreciation*	*Impairment*	*Assets recognised for the first time*	*Revaluation*	*Acquisitions/ (Disposals)* [(a)]	*Capitalisation of work-in - progress*[(a)]	*Assets transferred between Government entities* [(a)]	*Transfers in/out of Level 3*	*Reclassification* [(a)]	*Closing balance*
Buildings	**23 120**	**(990)**	**..**	**8**	**2 199**	**172**	**925**	**..**	**17**	**20**	**25 471**
Non-specialised buildings	2 181	(80)	..	..	..	(757)	..	..	..	(11)	1 334
Specialised buildings	20 051	(879)	..	8	1 953	904	925	..	(22)	34	22 975
Heritage buildings	888	(31)	..	..	245	25	..	..	39	(3)	1 162
Land and national parks	**39 447**	**..**	**(51)**	**51**	**3 906**	**(147)**	**20**	**..**	**200**	**(9)**	**43 417**
Non-specialised land	1 893	..	..	..	49	(300)	..	..	..	(17)	1 624
Specialised land	18 691	..	(51)	51	3 886	149	20	..	200	(2)	22 945
Land under roads	17 801	..	..	..	..	..	..	..	..	10	17 811
National parks and other 'land only' holdings	1 062	..	..	..	(29)	4	..	..	..	..	1 036
Plant, equipment, vehicles and infrastructure systems	**3 123**	**(451)**	**..**	**19**	**45**	**121**	**76**	**..**	**68**	**(48)**	**2 953**
Infrastructure systems	1 094	(53)	..	..	58	56	..	..	26	4	1 186
Plant, equipment and vehicles	2 029	(398)	..	19	(13)	65	76	..	42	(53)	1 766
Roads, road infrastructure and earthworks	**26 798**	**(606)**	**(48)**	**..**	**(203)**	**383**	**782**	**..**	**..**	**..**	**27 106**
Cultural assets	**2 122**	**(12)**	**..**	**..**	**(86)**	**2**	**..**	**..**	**1 557**	**48**	**3 632**
Total	**94 611**	**(2 058)**	**(99)**	**77**	**5 861**	**532**	**1 803**	**..**	**1 843**	**10**	**102 579**

Note:

(a) June 2016 comparative figures have been restated to more accurately reflect the nature of transactions.

Description of valuation techniques and significant unobservable inputs to Level 3 fair value measurements

The State measures all non-financial physical assets initially at cost and subsequently revalues the assets at fair value less accumulated depreciation and impairment. The disclosure below provides additional information about the Level 3 measurements (fair value measurements using significant unobservable inputs).

The Victorian not-for-profit public sector entities hold their recurring non-financial assets measured at Level 3 primarily for service potential rather than their ability to generate net cash inflows, which is the case with the Victorian not-for-profit public sector entities.

The Government's designated entities as for profit in accordance with FRD 108C *Classification of entities as for profit*, are considered to be primarily held to generate future net cash flows.

See below the respective fair value disclosures for not-for-profit and for profit public sector entities. The disclosures refer to the significant asset balances within each of the different Level 3 asset classes. These assets are measured at the end of the reporting period using inputs not based on observable market data. The sensitivity of the unobservable input to fair value has been assessed and a significant increase or decrease in the significant unobservable input will result in significant higher or lower valuation of the underlying asset.

Fair value disclosure for assets held primarily for service potential

Asset class	*Valuation technique*	*Significant unobservable input*
Buildings		
Non-specialised buildings	Depreciated replacement cost	Direct cost per square metre Useful life
Specialised buildings	Depreciated replacement cost	Direct cost per square metre Useful life
Heritage buildings	Depreciated replacement cost	Community service obligation (CSO) adjustment [(a)] Direct cost per square metre Useful life
Land and national parks		
Non-specialised land	Market approach	CSO adjustment [(a)]
Specialised land	Market approach	CSO adjustment [(a)]
Land under roads	Market approach	CSO adjustment [(a)]
National parks	Market approach	CSO adjustment [(a)]
Plant, equipment, vehicles and infrastructure systems		
Infrastructure systems and rolling stock	Depreciated replacement cost	Cost: per square metre per unit Useful life Qualitative attractiveness [(b)]
Plant, equipment and vehicles	Depreciated replacement cost	Cost per unit Useful life
Roads and roads infrastructure		
Roads and roads infrastructure	Depreciated replacement cost	Cost per kilometre lane Useful life
Earthworks	Depreciated replacement cost	Cost per kilometre
Cultural assets		
Cultural assets	Depreciated replacement cost	Market price Useful life Direct cost per unit Professional judgement

Notes:

(a) The CSO adjustment reflects the specialised nature of the asset being valued through a market approach. The CSO adjustment is a reflection of the valuer's assessment of the impact of restrictions associated with an asset to the extent that is also equally applicable to market participants. This approach takes into account the highest and best use consideration for fair value measurement, and considers the use of the asset that is physically possible, legally permissible, and financially feasible.

(b) Applicable to the valuation of rolling stock.

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Fair value disclosure for assets held primarily for generating net cash inflows

Asset class	*Valuation technique*	*Significant unobservable input*	*Range*
Buildings			
Metropolitan water corporations	Depreciated replacement cost	Useful life	5–150 years
		Direct cost per square metre	\$20 to \$4 200
Land			
Metropolitan water corporations	Market approach	CSO adjustment [(a)]	7–70%
Channels			
Ports	Discounted cash flow method (income approach)	Discount rates [(b)]	8.60%
Infrastructure			
Ports	Depreciated replacement cost	Cost per unit	\$33 700 to \$4 831 000
Metropolitan water corporations	Discounted cash flow method (income approach)	Discount rates [(b)]	5.3–6.0%
		Inflation rate [(b)]	2.5–3.5%
		Terminal value growth rate	2.5-4.0%
		Useful life	3–200 years
Plant, equipment and vehicles			
Plant, equipment and vehicles	Depreciated replacement cost	Useful life	1–50 years
		Cost per unit	\$100 to \$1,200,000

Notes:
(a) The CSO adjustment reflects the specialised nature of the asset being valued through a market approach.
The CSO adjustment is a reflection of the valuer's assessment of the impact of restrictions associated with an asset to the extent that is also equally applicable to market participants. This approach takes into account the highest and best use consideration for fair value measurement, and considers the use of the asset that is physically possible, legally permissible, and financially feasible.
(b) Applicable to the valuation using the income approach.

8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

Introduction

This section presents a summary of the original and revised published budget estimates for the Victorian general government sector and explains material variances between the estimates and actual outcomes as presented in these financial statements.

It also provides disclosure of information in respect of the Public Account, in accordance with the requirement of the *Financial Management Act, No. 18 of 1994* (FMA).

Structure

8.1 Explanations of material variances between budget and actual outcomes

The tables and notes that follow explain material variances between the general government sector original budget as published in Chapter 1 of 2017-18 Budget Paper No. 5 *Statement of Finances* and actual outcomes.

The tables also include the revised budget estimates as published in Appendix B of 2017-18 Budget Paper No. 5 *Statement of Finances*.

The original budget data is sourced from the estimated financial statements, which were reviewed by the Auditor-General, but not subject to an audit.

For the general government sector comprehensive operating statement, variances are considered to be material where the variance exceeds the greater of 10 per cent of the original budget estimates or $20 million. In regard to the other statements, high level explanations of major variances in the key aggregates, where material, have been provided.

8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

Consolidated comprehensive operating statement for the financial year ending 30 June **($ million)**

General government sector	*Notes*	*Published budget*	*Revised budget*	*2017 actual*	*Budget variance*	*%*	*Revised budget variance*	*%*
Revenue from transactions								
Taxation revenue	(a)	21 594	22 189	22 272	678	3	83	..
Interest revenue		881	889	863	(18)	(2)	(26)	(3)
Dividends, income tax equivalent and rate equivalent revenue	(b)	1 059	564	658	(401)	(38)	94	17
Sales of goods and services	(c)	6 843	6 886	6 939	95	1	53	1
Grant revenue	(d)	27 424	27 526	27 542	118	..	16	..
Other revenue	(e)	2 569	2 657	2 645	76	3	(12)	..
Total revenue from transactions		**60 370**	**60 711**	**60 918**	**549**	**1**	**208**	**..**
Expenses from transactions								
Employee expenses	(f)	21 298	22 060	21 497	198	1	(564)	(3)
Net superannuation interest expense	(g)	791	692	692	(100)	(13)	..	..
Other superannuation	(h)	2 239	2 343	2 332	93	4	(11)	..
Depreciation		2 620	2 671	2 616	(4)	..	(55)	(2)
Interest expense	(i)	2 433	2 012	2 028	(405)	(17)	16	1
Grant expense	(j)	9 451	10 378	10 471	1 020	11	93	1
Other operating expenses	(k)	18 669	19 210	18 575	(94)	(1)	(636)	(3)
Total expenses from transactions		**57 501**	**59 367**	**58 210**	**709**	**1**	**(1 157)**	**(2)**
Net result from transactions – net operating balance		**2 869**	**1 344**	**2 709**	**(160)**	**(6)**	**1 365**	**102**
Other economic flows included in net result								
Net gain/(loss) on disposal of non-financial assets		73	72	51	(22)	n.a.	(21)	n.a.
Net gain/(loss) on financial assets or liabilities at fair value		11	22	24	13	n.a.	2	n.a.
Share of net profit/(loss) from associates/joint venture entities, excluding dividends		..	..	1	1	n.a.	1	n.a.
Other gains/(losses) from other economic flows		(318)	(388)	(226)	92	n.a.	163	n.a.
Total other economic flows included in net result		**(234)**	**(295)**	**(150)**	**84**	**n.a.**	**145**	**n.a.**
Net result		**2 635**	**1 049**	**2 559**	**(76)**	**n.a.**	**1 510**	**n.a.**
Other economic flows – other comprehensive income								
Items that will not be reclassified to net result								
Changes in non-financial assets revaluation surplus		109	3 206	6 090	5 981	n.a.	2 883	n.a.
Remeasurement of superannuation defined benefits plans		877	3 852	4 367	3 490	n.a.	514	n.a.
Other movements in equity		(1)	171	89	90	n.a.	(81)	n.a.
Items that may be reclassified subsequently to net result								
Net gain/(loss) on financial assets at fair value		1	1	53	51	n.a.	51	n.a.
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets		2 707	305	3 122	416	n.a.	2 817	n.a.
Total other economic flows – other comprehensive income		**3 693**	**7 535**	**13 720**	**10 027**	**n.a.**	**6 185**	**n.a.**
Comprehensive result – total change in net worth		**6 328**	**8 585**	**16 279**	**9 951**	**n.a.**	**7 694**	**n.a.**

Revenue from transactions

Revenue from transactions was $60.9 billion for the year to 30 June 2017. This was 0.9 per cent higher than estimated in the original budget. The movements in revenue items from the original budget are discussed below.

a) Taxation revenue was $678 million higher than the original published estimate. This was largely driven by higher land transfer duty of $457 million and higher land tax of $276 million due to continued strength in the property market.

b) Dividends, income tax equivalent and rate equivalent revenue was lower than the originally published budget by $401 million. This was largely due to lower dividends from Transport Accident Commission and lower income tax equivalent revenue from Victorian Workcover Authority (VWA).

c) Revenue from the sales of goods and services was higher by $95 million. This was due to higher than expected land titles fees revenue reflecting the continued strength in the Victorian property market. This was partially offset by lower TAFEs revenue due to lower than expected enrolments.

d) Grant revenue was $118 million higher than published due to a number of variations. Major variations are as follows:
   - advance receipt of local government grants from the Commonwealth for on-passing. The Commonwealth provided $283 million of the expected grants for 2017-18 for operations and roads in 2016-17.
   - higher revenue associated with the National Health Reform Agreement of $310 million. This was due to the Commonwealth matching additional state investment in hospital activity.
   - lower GST grants of $265 million due to weaker than expected national consumption growth.
   - lower grants for the Goulburn-Murray Water Connections project than estimated by $224 million. This was due to changes in timing of the project cash flows.

e) Other revenue was $76 million higher than originally budgeted. This was mainly due to higher than expected hospital revenue for research and salary recoveries offset by lower assets received free of charge due to a lower than previously estimated value of the State's receipt of Simonds Stadium from the City of Greater Geelong Council.

Expenses from transactions

Expenses from transactions were $58.2 billion for the year to 30 June 2017. This was 1.2 per cent higher than estimated in the original budget. The movements in expense items from the original budget are discussed below.

f) Employee expenses were $198 million higher than originally estimated. This was mainly due to higher salary expenses in hospitals to meet higher than expected demand.

g) Net superannuation interest expense was $100 million less than originally estimated. This was due to the impact of movements in bond yields.

h) Other superannuation expenses were $93 million higher than originally estimated. This was largely due to the impact of movements in bond yields on the defined benefit service cost.

i) Interest expense was lower than originally published by $405 million. This was primarily due to lower than expected borrowings.

j) Grant expenses were $1.0 billion higher than the published budget. Major variations relate to the following:
   - higher than expected Commonwealth grants for on-passing to local government of $283 million. The increase of Commonwealth grants for on-passing relates to the advance payment of 2017-18 grants in the 2016-17 year.
   - higher than expected grants to the Commonwealth of $310 million. This was largely due to the transfer of responsibilities to the Commonwealth for Specialist Disability Services and associated changes to the financial arrangements of the NDIS rollout which were yet to be finalised at the time of the published budget.
   - the recognition of assets provided free of charge related to the transfer of the Australian Synchrotron to the Commonwealth Government which was budgeted to occur in 2015-16.
   - recognition of $332 million of a provision for transition assistance grants to taxi licence holders as part of the government's taxi, hire car and ride share industry reforms. These reforms were announced after the original budget was published.

k) Other operating expenses were $94 million less than originally estimated. This largely reflects differences in the timing of activity across the major departments.

Other economic flows included in net result

Total other economic flows included in the net result have increased by $84 million since estimates in the published budget. This increase is primarily due to higher bond rates reducing the value of the long service leave liability for the public sector.

Consolidated balance sheet as at 30 June **($ million)**

General government sector	*Published budget*	*Revised budget*	*2017 actual*	*Budget variance*	*%*	*Revised budget variance*	*%*
Assets							
Financial assets							
Cash and deposits	4 766	4 885	5 530	763	16	644	13
Advances paid	10 057	12 392	12 939	2 883	29	547	4
Receivables	5 192	5 606	5 931	739	14	325	6
Investments, loans and placements	3 642	3 597	3 673	31	1	76	2
Investments accounted for using the equity method	45	46	47	3	7	1	2
Investments in other sector entities	85 878	90 708	92 509	6 631	8	1 801	2
Total financial assets	**109 580**	**117 235**	**120 630**	**11 050**	**10**	**3 394**	**3**
Non-financial assets							
Inventories	152	191	173	22	14	(17)	(9)
Non-financial assets held-for-sale	160	179	405	245	153	227	127
Land, buildings, infrastructure, plant and equipment	109 917	118 593	121 776	11 859	11	3 183	3
Other non-financial assets	1 047	1 275	1 494	447	43	219	17
Total non-financial assets	**111 276**	**120 237**	**123 849**	**12 573**	**11**	**3 612**	**3**
Total assets	**220 855**	**237 472**	**244 478**	**23 623**	**11**	**7 006**	**3**
Liabilities							
Deposits held and advances received	6 100	8 528	9 088	2 988	49	560	7
Payables	5 157	5 426	5 815	657	13	389	7
Borrowings	30 966	30 471	28 816	(2 150)	(7)	(1 655)	(5)
Employee benefits	6 257	6 548	6 506	250	4	(42)	(1)
Superannuation	27 049	25 424	24 900	(2 149)	(8)	(524)	(2)
Other provisions	914	845	1 326	412	45	481	57
Total liabilities	**76 443**	**77 243**	**76 451**	**8**	**..**	**(792)**	**(1)**
Net assets	**144 412**	**160 229**	**168 027**	**23 615**	**16**	**7 798**	**5**
Accumulated surplus/(deficit)	49 193	49 597	51 464	2 272	5	1 868	4
Reserves	95 220	110 633	116 563	21 343	22	5 930	5
Non-controlling interest	..	..	..	..	..	..	..
Net worth	**144 412**	**160 229**	**168 027**	**23 615**	**16**	**7 798**	**5**
FISCAL AGGREGATES							
Net financial worth	33 137	39 993	44 178	11 042	33	4 186	10
Net financial liabilities	52 742	50 716	48 331	(4 411)	(8)	(2 385)	(5)
Net debt	18 601	18 124	15 762	(2 839)	(15)	(2 362)	(13)

Net financial worth

Net financial worth is total financial assets minus total liabilities. Net financial worth is $11.0 billion higher than originally published. This was due to higher financial assets of $11.1 billion when compared to the published budget.

The increase in financial assets relates to higher investment in the public non-financial corporation (PNFC) sector. This was primarily driven by higher than expected proceeds from the medium-term lease over the operations of the Port of Melbourne. This also resulted in a revaluation of Port of Melbourne Corporation's non-financial assets to reflect the lease transaction price.

Net financial worth also increased due to a reduction in the superannuation liability. This is largely attributable to an increase in the bond yields that underlie the superannuation valuation, as well as higher than expected investment returns on superannuation assets.

Net financial liabilities

Net financial liabilities are total liabilities less all financial assets (excluding investments in other sectors). Net financial liabilities were $4.4 billion lower than original budget. A key driver is the higher investments in term deposits due to the additional proceeds from entering into a medium-term lease over the operations of the Port of Melbourne. Another key driver was due to a reduction in the superannuation liability due to higher bond yields and favourable investment returns.

Net debt

Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowings less the sum of cash and deposits, advances paid and investments, loans and placements. Net debt is $2.8 billion lower when compared to the original budget. This is primarily due to higher investments in term deposits due to the additional proceeds from entering into a medium-term lease over the operations of the Port of Melbourne.

Consolidated cash flow statement for the year ended 30 June **($ million)**

General government sector	*Published budget*	*Revised budget*	*2017 actual*	*Budget variance*	*%*	*Revised budget variance*	*%*
Cash flows from operating activities							
Receipts							
Taxes received	21 483	22 083	21 786	303	1	(297)	(1)
Grants	27 424	27 526	27 542	118	..	16	..
Sales of goods and services	7 602	7 613	7 737	135	2	124	2
Interest received	881	889	862	(19)	(2)	(27)	(3)
Dividends and income tax equivalent and rate equivalent receipts	1 079	584	743	(336)	(31)	159	27
Other receipts	1 877	2 021	1 735	(142)	(8)	(285)	(14)
Total receipts	**60 345**	**60 716**	**60 405**	**60**	**..**	**(311)**	**(1)**
Payments							
Payments for employees	(20 902)	(21 652)	(20 965)	(63)	..	686	(3)
Superannuation	(2 991)	(3 049)	(3 047)	(56)	2	1	..
Interest paid	(2 396)	(1 975)	(1 998)	398	(17)	(23)	1
Grants and subsidies	(9 501)	(10 465)	(10 203)	(702)	7	262	(3)
Goods and services	(18 729)	(19 203)	(18 048)	681	(4)	1 155	(6)
Other payments	(624)	(729)	(620)	4	(1)	109	(15)
Total payments	**(55 143)**	**(57 072)**	**(54 880)**	**263**	**..**	**2 191**	**(4)**
Net cash flows from operating activities	**5 202**	**3 644**	**5 524**	**323**	**6**	**1 880**	**52**
Cash flows from investing activities							
Purchases of non-financial assets	(7 206)	(7 834)	(7 278)	(72)	1	556	(7)
Sales of non-financial assets	487	392	287	(200)	(41)	(105)	(27)
Net Cash flows from investments in non-financial assets	(6 720)	(7 442)	(6 991)	(272)	4	451	(6)
Net cash flows from investments in financial assets for policy purposes	391	680	134	(257)	(66)	(546)	(80)
Sub-total	**(6 328)**	**(6 763)**	**(6 857)**	**(529)**	**8**	**(95)**	**1**
Net cash flows from investments in financial assets for liquidity management purposes	(84)	(728)	(751)	(667)	789	(23)	3
Net cash flows from investing activities	**(6 413)**	**(7 490)**	**(7 608)**	**(1 195)**	**19**	**(118)**	**2**
Cash flows from financing activities							
Net borrowings	(3 943)	(3 862)	(5 541)	(1 598)	41	(1 678)	43
Deposits received (net)	..	(38)	4	4	n.a.	42	(110)
Advances received (net)	5 583	7 860	8 378	2 796	50	518	7
Net cash flows from financing activities	**1 640**	**3 959**	**2 841**	**1 202**	**73**	**(1 118)**	**(28)**
Net increase/(decrease) in cash and cash equivalents	**429**	**113**	**758**	**329**	**77**	**644**	**569**
Cash and cash equivalents at beginning of reporting period	4 338	4 772	4 772	434	10	..	..
Cash and cash equivalents at end of reporting period	**4 766**	**4 885**	**5 530**	**763**	**16**	**644**	**13**

Net cash flows from operating activities

The major variations between the actual outcomes and the original published budget for net cash flows from operations are largely consistent with the drivers of the movements in the operating statement. A reconciliation of the net result to net cash flows from operating activities is provided at Note 5.3.

Net cash flows from investing activities

Total net investment activities in fixed assets and investments in other sectors was $2.5 billion higher than the original budget. This increase is primarily driven by the investment of the additional proceeds from the medium-term lease over the operations of the Port of Melbourne in term deposits with Treasury Corporation Victoria.

Net cash flows from financing activities

Total net cash inflows from financing activities were $1.2 billion higher than the original budget. This is primarily due to higher than originally estimated advances received from the Port Lessor associated with the proceeds from entering into a medium-term lease over the operations of the Port of Melbourne in 2016-17.

Consolidated statement of changes in equity

The major variations between actual outcomes and the original published budget for the statement of changes in equity are largely addressed in the explanations provided previously.

The increase in the non-financial assets revaluation surplus can be attributed to the higher than expected revaluation of the State's land under roads. The reduction of the superannuation liability is attributable to an increase in bond yields as well as favourable investment returns on superannuation assets.

Consolidated statement of changes in equity

($ million)

General government sector	Accumulated surplus/(deficit)	Non-controlling Interest	Non-financial assets revaluation surplus	Investment in other sector entities revaluation surplus	Other reserves	Total
2016-17 original budget						
Balance at 1 July 2016	45 682	..	43 826	47 884	692	138 084
Net result for the year	2 635	..	..	..	..	2 635
Other comprehensive income for the year	875	..	109	2 707	2	3 693
Total equity as at 30 June 2017	**49 193**	**..**	**43 935**	**50 591**	**694**	**144 412**
2016-17 revised budget						
Balance at 1 July 2016	44 454	50	49 613	57 027	551	151 695
Net result for the year	1 049	..	..	..	..	1 049
Other comprehensive income for the year	4 039	..	3 206	305	(15)	7 535
Transfer to/(from) accumulated surplus	55	..	(55)	..	..	..
Transactions with owners in their capacity as owners	..	(50)	..	..	..	(50)
Total equity as at 30 June 2017	**49 597**	**..**	**52 765**	**57 332**	**536**	**160 229**
2016-17 actual						
Balance at 1 July 2016 [(a)]	44 557	50	49 613	57 027	551	151 798
Net result for the year	2 559	..	..	..	..	2 559
Other comprehensive income for the year	4 391	..	6 090	3 122	117	13 720
Transfer to/(from) accumulated surplus	(43)	..	43	..	..	..
Transactions with owners in their capacity as owners	..	(50)	..	..	..	(50)
Total equity as at 30 June 2017	**51 464**	**..**	**55 745**	**60 149**	**669**	**168 027**
Variance to original budget						
Balance at 1 July 2016 [(a)]	(1 125)	50	5 787	9 143	(140)	13 714
Net result for the year	(76)	..	..	..	..	(76)
Other comprehensive income for the year	3 516	..	5 981	416	115	10 027
Transfer to/(from) accumulated surplus	(43)	..	43	..	..	..
Transactions with owners in their capacity as owners	..	(50)	..	..	..	(50)
Total equity as at 30 June 2017	**2 272**	**..**	**11 810**	**9 558**	**(26)**	**23 615**
Variance to revised budget						
Balance at 1 July 2016 [(a)]	103	..	..	..	..	103
Net result for the year	1 510	..	..	..	..	1 510
Other comprehensive income for the year	352	..	2 883	2 817	132	6 185
Transfer to/(from) accumulated surplus	(97)	..	97	..	..	..
Transactions with owners in their capacity as owners	..	..	..	..	..	..
Total equity as at 30 June 2017	**1 868**	**..**	**2 981**	**2 817**	**132**	**7 798**

Note:

(a) June 2016 comparative figures have been restated to reflect an adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets and opening accumulated surplus/(deficit) balances due to the first-time recognition of Renewable Energy Certificates.

8.2 Public Account disclosures

The *Financial Management Act, No. 18 of 1994* (FMA) requires certain disclosures of information in respect of the transactions and balances of the Public Account.

The Public Account is the Government's official bank account. The Public Account holds the cash balances of the Consolidated Fund and the Trust Fund.

The *Financial Management Act 1994* (FMA), among other things, also provides for:

- temporary advances from the Public Account for a number of purposes related to the needs of the Government;
- investment of the Public Account in trustee securities; and
- temporary borrowings, should the balance in the Consolidated Fund be insufficient to meet commitments during a financial year.

Consolidated Fund

The Consolidated Fund established by the FMA is the Government's primary financial account and receives all consolidated revenue under the *Constitution Act 1975* from which payments, appropriated by Parliament, are made.

Trust Fund

Within the Public Account, the Trust Fund embraces a range of specific purpose accounts established for funds that are not subject to parliamentary appropriation. Examples include accounts to record specific purpose payments from the Commonwealth for on passing by the State to third parties, suspense account balances for accounting purposes, working accounts for commercial and departmental service units, and accounts facilitating the receipt and disbursement of other funds held by the State in trust. Additional accounts may also be established within the Trust Fund by legislation to receive State revenues hypothecated to particular purposes (e.g. lotteries revenue for hospitals and charities).

Structure of Public Account disclosure

8.2.1 Summarised consolidated fund receipts and payments for the financial year ended 30 June

($ thousand)

	Notes	*2017*	*2016*
Receipts			
Taxation		21 298 506	20 060 946
Fines and regulatory fees		784 996	829 655
Grants received		17 348 663	16 924 616
Sales of goods and services		6 414 154	5 775 563
Interest received		501 673	501 351
Dividends, income tax equivalent and rate equivalent receipts		716 925	798 983
Other receipts		375 971	1 004 668
Total cash inflows from operating activities		**47 440 888**	**45 895 781**
Total cash inflows from investing and financing activities		**9 882 445**	**584 824**
Total consolidated fund receipts	8.2.2	**57 323 333**	**46 480 605**
Payments			
Special appropriations			
Special appropriations (excluding Section 33, *Financial Management Act, No. 18 of 1994)*		8 838 856	3 886 531
Section 28 *Financial Management Act, No. 18 of 1994* (appropriation for borrowing against future appropriations)	8.2.10	5 594	..
Section 33 *Financial Management Act, No. 18 of 1994*		463 129	359 183
Total special appropriations	8.2.7	**9 307 579**	**4 245 714**
Annual appropriations			
Provision of outputs			
Provision of outputs – net application	8.2.8	37 812 300	34 852 019
Section 29 *Financial Management Act, No. 18 of 1994* (appropriation of annotated receipts)	8.2.12	2 010 503	2 118 374
Section 32 *Financial Management Act, No. 18 of 1994* (prior year unspent appropriations brought forward)	8.2.13	831 123	808 281
Section 35 *Financial Management Act, No. 18 of 1994* (temporary advances)	8.2.15	129	27 973
Advance to Treasurer to be sanctioned	8.2.14	1 102 267	596 422
Total provision of outputs		**41 756 322**	**38 403 070**
Additions to net asset base			
Additions to net asset base – net application	8.2.8	1 249 481	1 669 334
Section 29 *Financial Management Act, No. 18 of 1994* (appropriation of annotated receipts)	8.2.12	90 395	125 268
Section 32 *Financial Management Act, No. 18 of 1994* (prior year unspent appropriations brought forward)	8.2.13	234 286	192 926
Section 35 *Financial Management Act, No. 18 of 1994* (temporary advances)	8.2.15	20 000	156 562
Advance to Treasurer to be sanctioned	8.2.14	418 929	296 394
Total additions to net asset base		**2 013 090**	**2 440 485**
Payments made on behalf of the State			
Payments made on behalf of the State	8.2.8	5 192 224	2 444 003
Section 32 *Financial Management Act, No. 18 of 1994* (prior year unspent appropriations brought forward)	8.2.13	14 546	11 991
Section 35 *Financial Management Act, No. 18 of 1994* (temporary advances)	8.2.15	..	..
Advance to Treasurer to be sanctioned	8.2.14	50 000	..
Total payments made on behalf of State		**5 256 770**	**2 455 994**
Other			
Contribution by the State under agreements pursuant to Section 25 of the *Murray-Darling Basin Act 1993*	8.2.8	20 124	14 856
Section 32 *Financial Management Act, No. 18 of 1994* – Section 25 *of* the *Murray-Darling Basin Act 1993*		6 944	8 712
Victorian Law Reform Commission – pursuant to Section 17(b) of the *Victorian Law Reform Commission Act 2000*	8.2.8	694	706
Payment to Regional Growth Fund pursuant to Section 4 of the *Regional Growth Fund Act No. 8 of 2011*	8.2.8	125 000	125 000
Total other		**152 762**	**149 274**

8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

8.2.1 Summarised consolidated fund receipts and payments for the financial year ended 30 June *(continued)*

($ thousand)

	Notes	2017	2016
Total annual appropriations		**49 178 944**	**43 448 823**
Applied appropriations remaining unspent relating to the 2016-17 appropriations		(705 557)	(1 095 338)
Total payments		**57 780 966**	**46 599 199**
Consolidated fund balance 1 July		**520 516**	**639 110**
Add total receipts for year		**57 323 333**	**46 480 605**
Less total payments for year		**(57 780 966)**	**(46 599 199)**
Consolidated fund balance 30 June		**62 884**	**520 516**
Reconciliation of unspent appropriations:			
Applied appropriations unspent at end of year		7 284 728	7 042 300
Add payments made during the year under the Financial Management Act, No. 18 of 1994*, Section 33*		463 129	359 183
Subtotal		7 747 857	7 401 483
Less applied appropriations unspent at beginning of year		(7 042 300)	(6 306 145)
Current year appropriations remaining unspent as at 30 June		705 557	1 095 338

8.2.2 Consolidated fund receipts for the financial year ended 30 June [(a)]

($ thousand)

	Estimate 2017	*Actual 2017*	*Actual 2016*
Operating activities			
Taxation			
Payroll tax	6 304 407	6 312 891	5 948 733
Land tax	2 226 318	2 458 830	1 786 066
Fire Services Property Levy	673 600	675 645	674 063
Congestion levy	114 827	119 381	102 053
Duties from financial and capital transactions			
Land transfer duty	5 765 586	5 940 034	5 873 586
Other property duties	2 425	421	1 831
Financial accommodation levy	148 812	135 111	146 742
Growth areas infrastructure contribution	79 352	132 555	87 170
Levies on statutory corporations	112 000	111 963	111 963
Gambling			
Public lotteries	500 581	426 598	455 144
Electronic gaming machines	913 138	872 230	884 378
Casino taxes	250 731	223 432	227 005
Racing	45 117	40 507	42 759
Other gambling	108 049	94 360	89 799
Insurance	1 219 857	1 217 554	1 151 337
Motor vehicle			
Registration fees pursuant to the *Road Safety Act, No. 127 of 1986*	1 542 382	1 561 746	1 464 912
Stamp duty on vehicle transfers	802 371	818 096	779 262
Franchise fees			
Liquor	22 428	22 657	22 026
Other taxes	74 091	134 495	212 118
Total taxation	**20 906 070**	**21 298 506**	**20 060 946**
Fines and regulatory fees			
Fines	371 792	218 476	297 931
Regulatory fees	506 591	566 520	531 724
Total fines and regulatory fees	**878 383**	**784 996**	**829 655**
Grants received			
Department of Economic Development, Jobs, Transport and Resources	2 000	992	488
Department of Education and Training	..	2 636	..
Department of Environment, Land, Water and Planning	30 660	24 770	26 686
Department of Health and Human Services	28 765	80 286	42 080
Department of Justice and Regulation	3 214	2 597	2 408
Department of Premier and Cabinet	..	..	4 818
Department of Treasury and Finance	18 153 382	17 237 357	16 848 135
Regulatory bodies and other part budget funded agencies	..	25	..
Total grants received	**18 218 020**	**17 348 663**	**16 924 616**
Sales of goods and services			
Capital asset charge	4 994 718	5 125 834	4 647 788
Other sales of goods and services	1 131 727	1 288 320	1 127 774
Total sales of goods and services	**6 126 445**	**6 414 154**	**5 775 563**
Interest received	**518 425**	**501 673**	**501 351**
Dividends, income tax equivalent and rate equivalent revenue			
Dividends	776 420	370 563	385 540
Income tax equivalent revenue	263 072	341 916	408 921
Local government tax equivalent revenue	**11 141**	**4 446**	**4 522**

8.2.2 Consolidated fund receipts for the financial year ended 30 June *(continued)*

($ thousand)

	Estimate 2017	*Actual 2017*	*Actual 2016*
Total dividends, income tax equivalent and rate equivalent revenue	**1 050 634**	**716 925**	**798 983**
Other receipts			
Land rent received	19 517	21 201	21 296
Royalties received	84 902	84 768	49 184
Other	437 462	270 001	934 188
Total other receipts	**541 881**	**375 971**	**1 004 668**
Total cash inflows from operating activities	**48 239 858**	**47 440 888**	**45 895 781**
Cash inflows from investing activities			
Proceeds from investing activities	749 066	209 482	565 111
Total cash inflows from investing activities (b)	**749 066**	**209 482**	**565 111**
Cash inflows from financing activities			
Borrowings	11 761 566	9 672 963	19 714
Total cash inflows from financing activities (b)	**11 761 566**	**9 672 963**	**19 714**
Total cash inflows from investing and financing activities	**12 510 631**	**9 882 445**	**584 824**
Total consolidated fund receipts	**60 750 490**	**57 323 333**	**46 480 605**

Notes:

(a) Certain line items have been aggregated in the table above due to commercial sensitivities of balances.

(b) June 2016 comparative figures have been reclassified to reflect more correct classification of the transactions.

8.2.3 Trust fund cash flow statement for the financial year ended 30 June

($ thousand)

	2017	*2016*
Cash flows from operating activities		
Receipts		
Taxation	1 150 536	260 612
Regulatory fees and fines	64 909	53 607
Grants received	14 477 804	12 522 509
Sale of goods and services	164 650	200 847
Interest received	184 056	99 402
Dividend received	23 281	11 023
Net transfers from the consolidated fund	2 933 673	7 458 930
Other receipts	81 759	164 571
Payments		
Payments for employees	(180 401)	(153 625)
Superannuation	(15 239)	(13 343)
Interest paid	(4 041)	(4 721)
Grants and subsidies	(15 640 414)	(18 332 824)
Goods and services	(1 524 629)	(1 933 455)
Other payments	..	(18)
Net cash flows from operating activities	**1 715 944**	**333 515**
Cash flows from investing activities		
Purchase of non-financial assets	(127 654)	(12 030)
Sales of non-financial assets	59 428	65 973
Net proceeds from customer loans	(8 273 205)	(6 163)
Other investing activities	6 821 302	(195 989)
Net cash flows from investing activities	**(1 520 130)**	**(148 209)**
Cash flows from financing activities		
Net borrowings	365 671	(469 464)
Net cash flows from financing activities	**365 671**	**(469 464)**
Net increase/(decrease) in trust fund cash and deposits	**561 485**	**(284 158)**

8.2.4 Trust fund summary for the financial year ended 30 June

($ thousand)

	Balances held 2017	*Balances held 2016*
State Government funds		
Accounts established to receive levies imposed by Parliament and record the expenditure thereof	821 737	705 608
Accounts established to receive monies provided in the annual budget and record the expenditure thereof	1 972 027	1 524 848
Specific purpose operating accounts established for various authorities	544 713	358 204
Suspense and clearing accounts to facilitate accounting procedures	496 074	9 230
Treasury Trust Fund	276 914	329 772
Agency and deposit accounts	507 025	641 150
Total State Government funds	**4 618 490**	**3 568 811**
Joint Commonwealth and State funds	**146 677**	**321 412**
Commonwealth Government funds		
Commonwealth Grants passed on to individuals and organisations	132 234	115 306
Total Commonwealth Government funds	**132 234**	**115 306**
Prizes, scholarships, research and private donations	**213 194**	**172 049**
Total trust fund	**5 110 595**	**4 177 577**

8.2.5 Reconciliation of cash flows to balances held

($ thousand)

	Balances held at 30 June 2016	*Net movement for year*	*Balances held at 30 June 2017*
Cash and deposits			
Cash balances outside the Public Account	(377)	(61)	(439)
Deposits held with the Public Account – specific trusts	775 866	(214 807)	561 059
Deposits held with the Public Account – general trusts	13	..	13
Other balances held in the Public Account	3 019 403	308 328	3 327 731
Total cash and deposits	**3 794 905**	**93 460**	**3 888 365**
Investments			
Investments held with the Public Account – specific trusts	903 188	381 928	1 285 115
Total investments	**903 188**	**381 928**	**1 285 115**
Total fund balances	**4 698 093**	**475 387**	**5 173 480**
Less funds held outside the Public Account			
Cash	(377)	(61)	(439)
Total fund balances held outside the Public Account	**(377)**	**(61)**	**(439)**
Total funds held in the Public Account [(a)]	**4 698 470**	**475 449**	**5 173 919**

Note:
(a) See Note 8.2.6 for details of securities and investments including amounts held in the Public Account on behalf of trust accounts.

8.2.6 Details of securities held and included in the balances at 30 June

($ thousand)

	2017	*2016*
Funds held at 30 June		
Trust accounts		
Amounts invested on behalf of specific trust accounts	1 846 174	1 679 054
Amounts invested on behalf of general trust accounts	13	13
General account balances	3 264 846	2 498 887
Total trust accounts	**5 111 034**	**4 177 954**
Consolidated fund account balance	**62 884**	**520 516**
Total funds held in the public account	**5 173 919**	**4 698 470**
Represented by:		
Stocks and securities held with/in –		
Managed Investments	677 092	775 394
Treasury Corporation of Victoria	1 169 095	903 673
	1 846 188	**1 679 067**
Cash and investments held with/in –		
Treasury Corporation of Victoria	1 770 000	1 415 000
Cash at bank balances held in Australia	233 530	256 735
	2 003 531	**1 671 735**
Total stock, securities, cash and investments	**3 849 718**	**3 350 802**
Temporary Advance from the Treasury Corporation of Victoria to the Consolidated Fund pursuant to *Section 38 of the Financial Management Act, No. 18 of 1994*	450 000	..
Add cash advanced pursuant to Sections 36 and 37 of the *Financial Management Act, No. 18 of 1994*	874 200	1 347 668
Total funds held in the public account	**5 173 919**	**4 698 470**

8.2.7 Consolidated Fund payments: special appropriations

($ thousand)

	2017	*2016*
Economic Development, Jobs, Transport and Resources	6 916	155 337
Education and Training	200 043	59 658
Environment, Land, Water and Planning	140 512	131 700
Health and Human Services	1 604 396	1 434 529
Justice and Regulation	10 466	21 929
Premier and Cabinet	53 582	52 742
Parliament	52 744	33 554
Courts	170 132	164 636
Treasury and Finance	7 068 787	2 191 629
Total special appropriations	**9 307 579**	**4 245 714**

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8.2.8 Consolidated Fund payments: annual appropriations

($ thousand)

2017	*Provision of outputs*	*Additions to net asset base*	*Payments made on behalf of the State*	*Total*
Economic Development, Jobs, Transport and Resources	6 561 459	1 039 356	64 127	7 664 943
Education and Training	11 109 041	..	..	11 109 041
Environment, Land, Water and Planning	1 064 775	37 206	641 201	1 743 182
Health and Human Services	12 622 537	167 971	112	12 790 620
Justice and Regulation	5 559 754	4 209	27 773	5 591 736
Premier and Cabinet	340 666	738	..	341 404
Treasury and Finance	308 521	..	4 479 135	4 787 656
Parliament	122 320	..	..	122 320
Courts	248 921	..	..	248 921
Total annual appropriations	**37 937 994**	**1 249 481**	**5 212 348**	**44 399 823**

2016				
Economic Development, Jobs, Transport and Resources [(a)]	6 212 982	1 618 492	63 091	7 894 565
Education and Training	10 198 541	..	..	10 198 541
Environment, Land, Water and Planning [(a)]	892 171	25 187	628 201	1 545 559
Health and Human Services	11 789 172	20 989	..	11 810 161
Justice and Regulation [(a)]	5 029 650	3 566	28 905	5 062 120
Premier and Cabinet	274 270	1 100	..	275 370
Treasury and Finance	229 677	..	1 738 662	1 968 339
Parliament	113 891	..	..	113 891
Courts	237 372	..	..	237 372
Total annual appropriations	**34 977 726**	**1 669 334**	**2 458 859**	**39 105 919**

Note:
(a) June 2016 comparative figures have been restated to reflect more current information.

8.2.9 Amounts paid into working accounts pursuant to Section 23 of the *Financial Management Act 1994* for the year ended 30 June

($ thousand)

	2017	*2016*
Appropriation transfer equivalent to consolidated fund receipts	14 670	12 423
Interest received on credit balances	139	143
Total amounts paid into working accounts	**14 810**	**12 566**

8.2.10 Allocations pursuant to Section 28 of the *Financial Management Act 1994* for the financial year ended 30 June

($ thousand)

	2017	*2016*
Section 28 allocations		
(Appropriation for borrowing against future appropriation)		
Department of Environment, Land, Water and Planning		
Provision of outputs	2 250	..
Addition to net asset base	3 344	..
Total Section 28 allocations	**5 594**	**..**

8.2.11 Transfers pursuant to Sections 30 and 31 of the *Financial Management Act 1994* for the financial year ended 30 June 2017

($ thousand)

	Decrease	*Increase*
Section 30 and 31 transfers		
(Transfers between items of departmental appropriations)		
Department of Economic Development, Jobs, Transport and Resources		
Provision of outputs		21 324
Additions to the net asset base	21 324	
Department of Education and Training		
Provision of outputs		20 515
Additions to the net asset base	20 515	
Department of Environment, Land, Water and Planning		
Provision of outputs		13 020
Additions to the net asset base	28 799	
Payments made on behalf of the State		15 779
Department of Health and Human Services		
Provision of outputs		15 593
Additions to the net asset base	15 593	
Department of Justice and Regulation		
Provision of outputs		84 219
Additions to the net asset base	84 219	
Premier and Cabinet		
Provision of outputs	6 294	
Additions to the net asset base		6 294
Treasury and Finance		
Provision of outputs		65 000
Payments made on behalf of the State	65 000	
Courts		
Provision of outputs		9 720
Additions to the net asset base	9 720	
Total Section 30 and 31 transfers	**251 463**	**251 463**

8.2.12 Appropriation of revenue and asset sale proceeds pursuant to Section 29 of the *Financial Management Act 1994* for the financial year ended 30 June 2017

($ thousand)

		Source		
Department	*Outputs*	*Commonwealth*	*Other*	*Total*
Economic Development, Jobs, Transport and Resources	40 949	452 642	..	493 591
Education and Training	65 752	493 282	2 536	561 570
Environment, Land, Water and Planning	115 523	48 404	5 631	169 558
Health and Human Services	329 437	204 909	4 474	538 820
Justice and Regulation	157 872	68 816	2 485	229 173
Premier and Cabinet	632	..	..	632
Treasury and Finance	8 996	1 000	..	9 996
Parliament	26 832	..	..	26 832
Courts	70 725	..	..	70 725
Total appropriation	**816 720**	**1 269 053**	**15 126**	**2 100 898**

8.2.13 Section 32 carryovers – *Financial Management Act 1994* for the financial year ended 30 June

Amounts approved for carryover to 2016-17 pursuant to Section 32 of the *Financial Management Act 1994*

($ thousand)

Department	*Provision of outputs*	*Additions to net assets*	*Payments made on behalf of State*	*Total carryover*
Economic Development, Jobs, Transport and Resources	110 757	94 595	947	**206 299**
Education and Training	246 047	17 995	..	**264 042**
Environment, Land, Water and Planning	99 328	21 498	13 599	**134 424**
Health and Human Services	198 496	..	..	**198 496**
Justice and Regulation	144 707	205 607	..	**350 314**
Premier and Cabinet	31 322	407	..	**31 729**
Treasury and Finance	3 914	..	..	**3 914**
Parliament	3 527	..	..	**3 527**
Courts	9 840	18 196	..	**28 036**
Total carryovers by department	**847 938**	**358 298**	**14 546**	**1 220 781**

Amounts applied against carryover of appropriations in 2016-17 pursuant to Section 32 of the *Financial Management Act 1994*

($ thousand)

Department	*Provision of outputs*	*Additions to net assets*	*Payments made on behalf of State*	*Total carryover*
Economic Development, Jobs, Transport and Resources	102 212	57 567	947	**160 726**
Education and Training	239 362	11 194	..	**250 556**
Environment, Land, Water and Planning	99 328	21 498	13 599	**134 424**
Health and Human Services	198 496	..	..	**198 496**
Justice and Regulation	144 707	126 070	..	**270 777**
Premier and Cabinet	29 737	407	..	**30 144**
Treasury and Finance	3 914	..	..	**3 914**
Parliament	3 527	..	..	**3 527**
Courts	9 840	17 551	..	**27 391**
Total carryovers by department	**831 123**	**234 286**	**14 546**	**1 079 954**

Amounts approved for carryover to 2017-18 pursuant to Section 32 of the *Financial Management Act 1994*

($ thousand)

Department	*Provision of outputs*	*Additions to net assets*	*Payments made on behalf of State*	*Total carryover*
Economic Development, Jobs, Transport and Resources	68 504	279 054	..	**347 558**
Education and Training	135 964	52 497	..	**188 461**
Environment, Land, Water and Planning	66 800	3 000	..	**69 800**
Health and Human Services	108 825	639	..	**109 464**
Justice and Regulation	73 298	95 295	..	**168 593**
Premier and Cabinet	81 549	2 380	..	**83 929**
Treasury and Finance	3 822	..	..	**3 822**
Parliament	5 257	..	..	**5 257**
Courts	6 126	10 342	..	**16 468**
Total carryovers by department	**550 145**	**443 207**	**..**	**993 352**

8.2.14 Payments from advance to the Treasurer for the financial year ended 30 June

($ thousand)

Department	*Purpose*	*2016-17*
Economic Development, Jobs, Transport and Resources	Monash Freeway upgrade – EastLink to Clyde Road	127 739
	Mernda Rail Extension Project	91 286
	Additional X'Trapolis trains	83 462
	Agriculture Infrastructure and Jobs Fund	29 776
	High Capacity Metro Trains	26 295
	West Gate Tunnel Project	19 019
	Ongoing delivery of Night Network	17 300
	Hurstbridge Corridor Upgrade	17 284
	Rail Re-franchising – Contract Renegotiations with rail operators	16 765
	Next generation regional train – development funding (regional various)	6 600
	myki ticketing services retender	5 199
	Commercial Passenger Vehicle Reform	3 648
	Back to Work	3 614
	Taxi Services Reform	3 288
	Latrobe Valley package – Gippsland Tourism	3 200
	Compulsory and voluntary property acquisition costs	3 165
	Dairy Support Package	2 996
	National biosecurity cost-sharing agreements	2 816
	Regional Network Development Plan – Major Periodic Maintenance	2 811
	Hardship support for taxi license owners	2 749
	National Broadband Network program	2 620
	VicRoads Registration and Licencing Activities	2 334
	Webb Dock Access Improvement	2 330
	Automotive Supply Chain Transition program	2 001
	Support for Creative Victoria agencies	1 727
	Migration of Traffic Signal Control Communications	1 427
	Victoria's Road Safety Action Plan	1 097
	V/Line Service Upgrades	1 026
	Melbourne Exhibition Centre Expansion Project	1 012
	Portable long service leave and labour hire inquiry outcomes	959
	Support for the State Library Victoria	703
	Drysdale Bypass	662
	Roadside Weeds and Pests program	500
	Fishermans Bend Urban Renewal Area	367
	Ballarat West Link Road	216
	National Heavy Vehicle Regulator – System analysis	158
	Royal Melbourne Showgrounds Redevelopment	142
	Rural Assistance Commissioner	106
	Victorian Gas Supply Program	102
	Network development – Planning our future	66
	Western Interstate Freight Terminal	15
		488 582
Education and Training	Depreciation and Capital Asset Charge update based on asset revaluation	177 749
	School enrolment based funding	58 753
	Loading for Social Disadvantage (Primary and Secondary)	24 808
	Vocational Education and Training in Schools	5 400
	Funding for students to catch up	4 027
	Teaching the new Victorian Curriculum	3 554
	Supporting Victoria's Industry Advisory Bodies	2 100
	Drought Support Fund	477
	Public Private Partnerships alignment	67
		276 935

8.2.14 Payments from advance to the Treasurer for the financial year ended 30 June *(continued)*

($ thousand)

Department	*Purpose*	*2016-17*
Environment, Land, Water and Planning	Additional aviation resources for firefighting	11 100
	2016-17 floods recovery	10 149
	Additional resources for 2016-17 bushfire season	7 000
	Alpine Resorts – Southern Alpine Resort Management Board	6 080
	Recovery of bushfire affected communities	5 790
	Land Use Victoria	3 142
	Fighting Extinction Fund	1 568
	Smarter planning for permits	1 500
	Project 000 Response	1 383
	Speeding up local government planning decisions	1 000
	Latrobe Valley Assistance Package – Support Local Government – Planning the Transition	630
	Inclusionary housing on surplus government land pilot	500
	Inclusionary housing in major developments	272
	Simplifying the Great Ocean Road management arrangements	145
		50 259
Health and Human Services	Additional resources for health services	205 250
	Supplementation for the Hospital and Charities fund	70 712
	Improving ambulance response times	66 531
	Redevelopment of Public Housing Estate Program supplementation	16 250
	Civil claims for historical institutional child abuse	10 831
	Concessions to pensioners and beneficiaries	8 220
	Strengthening workforce response and supplementation for youth justice precincts	4 856
	State Sport Centres Trust supplementation	4 789
	Victorian Comprehensive Cancer Centre lease and quarterly service payment supplementation	3 183
	Social Housing Management – Establishment Costs	3 000
	Albury Brain and Mind Centre	2 978
	Supercare Pharmacies additional supplementation	2 041
	Responses to homelessness	1 733
	Delivering on Victoria’s cancer plan	1 200
	SunSmart	1 108
	Good Money Store Morwell	500
	Hazelwood – Healthy and Strong Latrobe	92
		403 273
Justice and Regulation	Emergency Services Volunteer Sustainability Grants Program	34 999
	Accelerated deployment of police	20 734
	Resource funding for Country Fire Authority	19 025
	Strengthening workforce response and supplementation for youth justice precincts	18 820
	Resource funding for Metropolitan Fire Brigade	16 107
	Response to Bourke Street incident	10 159
	Intralot litigation legal costs	10 000
	Victims' experience of the Justice System	4 034
	Night Network – Transport Security	4 009
	Flemington racecourse grandstand upgrade	4 000
	Summer Fire Information Campaign	3 500
	Major declared events	2 499
	Gambling Licensing program review	2 000
	Community Safety Statement	1 879
	Management of serious offenders	1 500
	Victoria State Emergency Service additional resources	771
	Wye River and Separation Creek bushfire costs	700
	Native Title Settlements	250
	Fast Track Remand Court	195
	Gunditj Mirring traditional owners Aboriginal Corporation funding	132
		155 313

8.2.14 Payments from advance to the Treasurer for the financial year ended 30 June *(continued)*

($ thousand)

Department	*Purpose*	*2016-17*
Premier and Cabinet	Family violence and service delivery	39 722
	Latrobe Valley Authority (including Funding Actions Framework)	6 420
	Multicultural policy statement and communications strategy for social cohesion	4 177
	Social cohesion and community resilience	2 092
	Implementation of the NDIS workforce reform package	1 803
	VPS cost mapping	799
		55 013
Treasury and Finance	Completion of the Port of Melbourne lease transaction	50 000
	Victoria's contribution to the National Disability Insurance Scheme	18 033
	GST administrative costs	17 300
	West Gate Tunnel project development	16 585
	First Home Owner Grant	16 200
	Ex gratia relief payments	6 757
	Western Suburbs Roads project development	5 444
	Public Open Space in Brimbank	4 200
	State taxation compliance projects	2 000
	Establishment of the Office of Projects Victoria	1 865
	Implementation of housing affordability initiatives relating to HomesVic scheme and Buy Assist scheme	588
	Implementation of Residential Property Tax	100
		139 073
Courts	County Court Land Tax Expense	1 700
	Response to Bourke Street Incident	893
	Additional Judicial Resources – County Court	156
		2 749
Total payments from Advance to the Treasurer		**1 571 196**

8.2.15 Payments from advances pursuant to Section 35 of the *Financial Management Act 1994* for the financial year ended 30 June

($ thousand)

Department	*Purpose*	*2016-17*
Education and Training	Building the Education State – Relocatable classrooms	20 000
Courts	Fast Track Remand Court	129
Total payments from advances pursuant to Section 35 (4) of the *Financial Management Act 1994*		**20 129**

8.2.16 Unused advances carried forward to 2016-17 pursuant to Section 35(4) of the *Financial Management Act 1994*

There have been no amounts carried forward to 2016-17 under Section 35(4) of the *Financial Management Act, No. 18 of 1994*.

8.2.17 Government guarantees

Details of payments made in fulfilment of any guarantee by the Government

There have been no payments made during 2016-17 in fulfilment of any guarantee by the Government.

Money received or recovered in respect of any guarantee payments

There has been no money recovered during 2016-17 in respect of any guarantee payments.

9. OTHER DISCLOSURES

Introduction to this section

This section includes those additional disclosures required by accounting standards or otherwise, that are material, for the understanding of this financial report.

Structure

9. OTHER DISCLOSURES

9.1 Disaggregated information

Disaggregated operating statement for the financial year ended 30 June **($ million)**

	General government sector		*Public non-financial corporations*	
	2017	*2016*	*2017*	*2016*
Revenue from transactions				
Taxation revenue	22 272	19 896	..	..
Interest revenue [(a)]	863	786	127	38
Dividends, income tax equivalent and rate equivalent revenue	658	848	23	23
Sales of goods and services	6 939	6 671	6 117	6 225
Grant revenue	27 542	25 406	3 253	3 011
Other revenue	2 645	3 108	799	1 076
Total revenue from transactions [(a)]	**60 918**	**56 716**	**10 318**	**10 373**
Expenses from transactions				
Employee expenses	21 497	20 002	1 208	1 156
Net superannuation interest expense	692	878	2	2
Other superannuation	2 332	2 123	117	107
Depreciation	2 616	2 504	2 208	2 154
Interest expense [(a)]	2 028	2 076	1 106	1 047
Grant expense [(b)]	10 471	8 564	603	290
Other operating expenses [(b)]	18 575	17 905	5 273	5 031
Other property expenses	..	..	238	432
Total expenses from transactions [(a)]	**58 210**	**54 052**	**10 754**	**10 219**
Net result from transactions – net operating balance	**2 709**	**2 664**	**(436)**	**154**
Other economic flows included in net result				
Net gain/(loss) on disposal of non-financial assets	51	(145)	(35)	(3)
Net gain/(loss) on financial assets or liabilities at fair value	24	(10)	(13)	96
Share of net profit/(loss) from associates/joint venture entities	1	(4)	21	(26)
Other gains/(losses) from other economic flows	(226)	(688)	116	94
Total other economic flows included in net result	**(150)**	**(847)**	**89**	**160**
Net result	**2 559**	**1 817**	**(347)**	**314**
Other economic flows – other comprehensive income				
Items that will not be reclassified to net result				
Changes in non-financial assets revaluation surplus	6 090	6 236	2 669	11 057
Remeasurement of superannuation defined benefits plans	4 367	(3 220)	22	(25)
Other movements in equity	89	23	17	(216)
Items that may be reclassified subsequently to net result				
Net gain/(loss) on financial assets at fair value	53	(85)	(22)	(25)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	3 122	10 533	..	..
Total other economic flows – other comprehensive income	**13 720**	**13 486**	**2 686**	**10 791**
Comprehensive result – total change in net worth	**16 279**	**15 303**	**2 339**	**11 106**
FISCAL AGGREGRATES				
Net operating balance	**2 709**	**2 664**	**(436)**	**154**
Net acquisition of non-financial assets from transactions				
Purchases of non-financial assets (including change in inventories)	7 267	4 452	1 827	2 383
Less: Sales of non-financial assets	(287)	(190)	(187)	(263)
Less: Depreciation and amortisation	(2 616)	(2 504)	(2 208)	(2 154)
Plus: Other movements in non-financial assets	(2 711)	(970)	3 107	2 172
Less: Net acquisition of non-financial assets from transactions	**1 653**	**788**	**2 538**	**2 138**
Net lending/(borrowing)	**1 055**	**1 876**	**(2 974)**	**(1 984)**

Notes:

(a) June 2016 comparative figures have been restated to reflect the reclassification of borrowings and investments sold at a premium/discount from interest expense to interest revenue.

(b) June 2016 comparative figures have been restated to reclassify the Transport Accident Commission Safer Roads Infrastructure Program expenditure from other operating expenses to grant expense to more correctly reflect the nature of the expenditure.

Public financial corporations 2017	2016	*Inter-sector eliminations* 2017	2016	*State of Victoria* 2017	2016
..	..	(380)	(450)	21 892	19 446
2 012	2 242	(2 292)	(2 342)	711	724
857	1 111	(623)	(823)	914	1 159
4 480	4 224	(2 997)	(2 796)	14 539	14 324
..	..	(3 444)	(3 176)	27 350	25 241
150	22	(187)	(370)	3 406	3 835
7 499	**7 598**	**(9 923)**	**(9 958)**	**68 812**	**64 729**
325	291	(413)	(384)	22 617	21 066
..	..	..	..	693	880
26	24	..	..	2 475	2 254
44	48	..	..	4 869	4 706
1 887	2 022	(2 292)	(2 342)	2 729	2 802
188	142	(3 639)	(3 340)	7 624	5 657
6 161	5 854	(2 956)	(3 070)	27 053	25 720
847	15	(1 085)	(447)	..	..
9 479	**8 395**	**(10 384)**	**(9 581)**	**68 058**	**63 085**
(1 980)	**(797)**	**461**	**(376)**	**754**	**1 645**
..	..	..	..	16	(148)
4 134	(1 554)	..	..	4 144	(1 468)
..	..	28	(42)	50	(73)
2 082	(87)	(367)	(915)	1 605	(1 596)
6 216	**(1 641)**	**(339)**	**(957)**	**5 816**	**(3 284)**
4 236	**(2 438)**	**123**	**(1 334)**	**6 570**	**(1 640)**
..	..	33	220	8 792	17 514
..	..	..	..	4 389	(3 246)
1	..	..	..	107	(193)
..	..	..	..	31	(110)
..	..	(3 122)	(10 533)	..	..
2	**..**	**(3 089)**	**(10 312)**	**13 319**	**13 965**
4 237	**(2 438)**	**(2 967)**	**(11 646)**	**19 889**	**12 325**
(1 980)	**(797)**	**461**	**(376)**	**754**	**1 645**
45	34	(55)	..	9 084	6 870
(1)	(1)	(1)	..	(476)	(454)
(44)	(48)	..	..	(4 869)	(4 706)
..	..	55	..	451	1 202
(1)	**(14)**	**(1)**	**..**	**4 190**	**2 912**
(1 979)	**(783)**	**462**	**(377)**	**(3 436)**	**(1 267)**

9. OTHER DISCLOSURES

Disaggregated balance sheet as at 30 June ($ million)

	General government sector		Public non-financial corporations	
	2017	2016	2017	2016
Assets				
Financial assets				
Cash and deposits	5 530	4 772	1 154	802
Advances paid	12 939	4 582	8 323	47
Receivables	5 931	5 566	1 688	1 644
Investments, loans and placements	3 673	2 853	1 119	1 052
Loans receivable from non-financial public sector [(a)]	..	..	..	..
Investments accounted for using equity method	47	46	1 651	1 498
Investments in other sector entities	92 509	94 710	..	..
Total financial assets	**120 630**	**112 531**	**13 934**	**5 043**
Non-financial assets				
Inventories	173	188	498	522
Non-financial assets held for sale	405	188	27	12
Land, buildings, infrastructure, plant and equipment	121 776	114 254	117 030	112 227
Other non-financial assets [(b)]	1 494	1 184	1 354	1 352
Total non-financial assets [(b)]	**123 849**	**115 814**	**118 909**	**114 112**
Total assets [(b)]	**244 478**	**228 345**	**132 843**	**119 155**
Liabilities				
Deposits held and advances received	9 088	706	8 760	396
Payables	5 815	5 773	10 158	1 460
Borrowings	28 816	33 811	15 925	15 778
Employee benefits	6 506	6 137	421	414
Superannuation	24 900	29 291	37	63
Other provisions	1 326	829	8 415	8 811
Total liabilities	**76 451**	**76 547**	**43 717**	**26 922**
Net assets [(b)(c)]	**168 027**	**151 798**	**89 126**	**92 233**
Accumulated surplus/(deficit) [(b)]	51 464	44 557	3 747	4 397
Reserves	116 563	107 191	85 379	87 836
Non-controlling interest	..	50	..	..
Net worth [(b)(c)]	**168 027**	**151 798**	**89 126**	**92 233**
FISCAL AGGREGATES				
Net financial worth	44 178	35 984	(29 783)	(21 879)
Net financial liabilities	48 331	58 727	29 783	21 879
Net debt	15 762	22 309	14 090	14 272

Notes:

(a) Loans receivable from the non-financial public sector are reported at amortised cost.

(b) June 2016 comparative figures have been restated to reflect an adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets and opening accumulated surplus / (deficit) balances due to the first-time recognition of Renewable Energy Certificates.

(c) The net assets and net worth of the public financial corporations sector incorporates the impact of Treasury Corporation of Victoria's external loan liabilities being reported at market value while the corresponding assets, that is lending to the non-financial public sector, being reported at amortised cost. This mismatch has contributed to the negative net asset position of the sector.

Public financial corporations		*Inter-sector eliminations*		*State of Victoria*	
2017	*2016*	*2017*	*2016*	*2017*	*2016*
4 229	4 654	(5 043)	(3 552)	5 869	6 676
17	14	(20 999)	(4 491)	280	153
1 516	1 943	(1 097)	(1 361)	8 038	7 793
40 182	33 317	(2 168)	(1 689)	42 806	35 534
29 695	35 169	(29 695)	(35 169)	..	..
..	..	488	374	2 187	1 918
..	..	(92 509)	(94 710)	..	..
75 640	**75 097**	**(151 023)**	**(140 597)**	**59 180**	**52 074**
..	..	..	..	671	709
..	..	..	..	432	200
80	76	..	..	238 886	226 557
780	1 645	(980)	(1 715)	2 648	2 466
860	**1 721**	**(980)**	**(1 715)**	**242 637**	**229 932**
76 499	**76 818**	**(152 004)**	**(142 312)**	**301 818**	**282 006**
7 363	6 647	(23 270)	(5 122)	1 940	2 628
1 920	1 629	(659)	(925)	17 233	7 937
38 776	44 184	(34 670)	(39 813)	48 847	53 959
106	96	..	..	7 034	6 647
..	..	..	..	24 938	29 354
28 122	28 040	(8 271)	(8 594)	29 592	29 085
76 287	**80 596**	**(66 871)**	**(54 454)**	**129 584**	**129 611**
213	**(3 778)**	**(85 133)**	**(87 858)**	**172 234**	**152 395**
143	(3 849)	19 783	11 232	75 137	56 337
70	71	(104 915)	(99 090)	97 096	96 008
..	..	..	..	..	50
213	**(3 778)**	**(85 133)**	**(87 858)**	**172 234**	**152 395**
(647)	(5 499)	(84 152)	(86 143)	(70 404)	(77 538)
647	5 499	(8 357)	(8 567)	70 404	77 538
(27 985)	(22 322)	(35)	(35)	1 833	14 224

9. OTHER DISCLOSURES

Disaggregated cash flow statement for the financial year ended 30 June ($ million)

	General government sector		Public non-financial corporations	
	2017	*2016*	*2017*	*2016*
Cash flows from operating activities				
Receipts				
Taxes received	21 786	19 775	..	..
Grants	27 542	25 375	3 312	3 072
Sales of goods and services [(a)]	7 737	7 253	15 458	6 788
Interest received	862	786	117	41
Dividends, income tax equivalent and rate equivalent receipts	743	802	23	23
Other receipts	1 735	2 436	515	166
Total receipts	**60 405**	**56 428**	**19 424**	**10 091**
Payments				
Payments for employees	(20 965)	(19 621)	(1 200)	(1 121)
Superannuation	(3 047)	(2 877)	(122)	(113)
Interest paid	(1 998)	(2 040)	(1 097)	(1 048)
Grants and subsidies [(b)]	(10 203)	(8 538)	(186)	(162)
Goods and services [(a)(b)]	(18 048)	(17 257)	(4 019)	(3 822)
Other payments	(620)	(736)	(2 412)	(1 986)
Total payments	**(54 880)**	**(51 069)**	**(9 034)**	**(8 253)**
Net cash flows from operating activities	**5 524**	**5 359**	**10 390**	**1 838**
Cash flows from investing activities				
Cash flows from investments in non-financial assets				
Purchases of non-financial assets	(7 278)	(4 420)	(1 818)	(2 381)
Sales of non-financial assets	287	190	187	263
Net cash flows from investments in non-financial assets	**(6 991)**	**(4 230)**	**(1 630)**	**(2 118)**
Cash flows from investments in financial assets for policy purposes				
Cash inflows	11 255	564	1 507	74
Cash outflows	(11 121)	(471)	(9 706)	(5)
Net cash flows from investments in financial assets for policy purposes	**134**	**93**	**(8 199)**	**69**
Sub-total	**(6 857)**	**(4 137)**	**(9 829)**	**(2 049)**
Cash flows from investments in financial assets for liquidity management purposes [(c)]				
Cash inflows [(d)]	2 360	2 384	327	307
Cash outflows	(3 111)	(1 848)	(495)	(281)
Net cash flows from investments in financial assets for liquidity management purposes [(d)]	(751)	535	(168)	25
Net cash flows from investing activities	**(7 608)**	**(3 602)**	**(9 997)**	**(2 024)**
Cash flows from financing activities				
Advances received	9 929	..	9 703	2
Advances repaid	(1 551)	..	(1 431)	(4)
Advances received (net) [(c)]	8 378	..	8 273	(2)
Borrowings received	296	291	814	461
Borrowings repaid [(d)]	(5 836)	(1 623)	(601)	(639)
Net borrowings [(c)(d)]	(5 541)	(1 332)	213	(178)
Deposits received	564	799	132	72
Deposits repaid	(560)	(734)	(41)	(99)
Deposits received (net) [(c)]	4	65	91	(27)
Other financing inflows	..	..	426	454
Other financing outflows	..	..	(9 045)	(350)
Other financing (net) [(c)]	..	..	(8 619)	103
Net cash flows from financing activities	**2 841**	**(1 267)**	**(42)**	**(104)**
Net increase/(decrease) in cash and cash equivalents	**758**	**490**	**351**	**(290)**
Cash and cash equivalents at beginning of the reporting period	4 772	4 282	802	1 092
Cash and cash equivalents at end of the reporting period [(e)]	**5 530**	**4 772**	**1 153**	**802**
FISCAL AGGREGATES				
Net cash flows from operating activities	5 524	5 359	10 390	1 838
Dividends paid	..	..	(123)	(149)
Net cash flows from investments in non-financial assets	(6 991)	(4 230)	(1 630)	(2 118)
Cash surplus/(deficit)	**(1 467)**	**1 129**	**8 637**	**(429)**

Notes:

(a) These items include goods and services tax.

(b) The June 2016 comparative figures have been restated to reclassify the Transport Accident Commission Safer Roads Infrastructure Program payment from goods and services to grants and subsidies to more correctly reflect the nature of the payment.

(c) In accordance with AASB 107, Treasury Corporation of Victoria (TCV) is not required to gross up their cash flow information for whole of government consolidation purposes. The net cash movements for TCV have been added to cash inflows or outflows for both financial years ended 30 June 2017 and 30 June 2016.

(d) June 2016 comparative figures have been restated to reflect the reclassification of borrowings sold at a premium.

(e) Cash and cash equivalents at the end of the reporting period does not equal cash and deposits on the balance sheet. This is due to overdrafts being included in the cash flow statement balances. See Note 5.3.

Public financial corporations 2017	2016	*Inter-sector eliminations* 2017	2016	*State of Victoria* 2017	2016
..	..	(380)	(450)	21 406	19 325
302	..	(3 804)	(3 244)	27 351	25 203
5 084	4 582	(3 078)	(2 732)	25 201	15 892
1 836	2 078	(2 298)	(2 348)	517	557
857	1 111	(708)	(777)	915	1 158
200	58	(3)	(33)	2 447	2 627
8 279	**7 829**	**(10 270)**	**(9 585)**	**77 837**	**64 763**
(316)	(287)	413	384	(22 067)	(20 645)
(26)	(24)	..	..	(3 195)	(3 014)
(1 921)	(1 971)	2 298	2 348	(2 718)	(2 711)
(188)	(142)	3 805	3 219	(6 772)	(5 623)
(4 245)	(4 145)	1 032	860	(25 280)	(24 365)
(3)	(138)	2 268	2 391	(767)	(468)
(6 699)	**(6 707)**	**9 816**	**9 202**	**(60 798)**	**(56 826)**
1 579	**1 121**	**(455)**	**(382)**	**17 039**	**7 936**
(45)	(34)	55	..	(9 086)	(6 836)
1	1	1	..	476	454
(44)	**(33)**	**56**	**..**	**(8 610)**	**(6 382)**
..	..	(12 610)	(449)	152	189
(3)	(27)	20 616	325	(214)	(179)
(3)	**(27)**	**8 006**	**(124)**	**(62)**	**11**
(47)	**(61)**	**8 062**	**(124)**	**(8 672)**	**(6 371)**
11 187	11 203	(7 231)	(2 269)	6 643	11 625
(10 264)	(11 551)	2 302	807	(11 569)	(12 873)
922	(348)	(4 929)	(1 460)	(4 926)	(1 248)
876	**(409)**	**3 133**	**(1 585)**	**(13 597)**	**(7 619)**
35	196	(19 435)	(26)	232	172
(28)	(147)	2 888	28	(122)	(123)
6	49	(16 547)	2	110	48
65	(86)	(753)	(627)	421	39
(3 414)	(160)	5 866	1 924	(3 985)	(498)
(3 349)	(246)	5 113	1 298	(3 563)	(459)
1 598	245	(1 599)	(28)	695	1 088
(889)	(267)	(3)	272	(1 492)	(828)
709	(23)	(1 602)	244	(797)	259
(2)	3	(425)	(457)	..	..
(245)	(550)	9 290	900	..	..
(246)	(547)	8 865	443	..	..
(2 880)	**(767)**	**(4 170)**	**1 987**	**(4 250)**	**(151)**
(425)	**(55)**	**(1 492)**	**20**	**(808)**	**166**
4 654	4 708	(3 552)	(3 572)	6 676	6 510
4 229	**4 654**	**(5 043)**	**(3 552)**	**5 868**	**6 676**
1 579	1 121	(455)	(382)	17 039	7 936
(246)	(239)	369	387	..	..
(44)	(33)	56	..	(8 610)	(6 382)
1 289	**849**	**(29)**	**4**	**8 430**	**1 554**

Disaggregated statement of changes in equity for the financial year ended 30 June **($ million)**

2017	*Accumulated surplus/(deficit)*	*Contribution by owners*	*Non-controlling Interest*	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
General government sector							
Balance at 1 July 2016 [(a)]	44 557	..	50	49 613	57 027	551	151 798
Net result for the year	2 559	..	..	..	..	..	2 559
Other comprehensive income for the year	4 391	..	..	6 090	3 122	117	13 720
Transfer to/(from) accumulated surplus	(43)	..	..	43	..	..	..
Transactions with owners in their capacity as owners	..	..	(50)	..	..	..	(50)
Total equity as at 30 June 2017	**51 464**	**..**	**..**	**55 745**	**60 149**	**669**	**168 027**
PNFC sector							
Balance at 1 July 2016	4 397	52 166	..	35 219	..	451	92 233
Net result for the year	(347)	..	..	..	..	..	(347)
Other comprehensive income for the year	(24)	..	..	2 669	..	41	2 686
Transfer to/(from) accumulated surplus	(156)	8 059	..	(7 903)	..	..	..
Dividends paid	(123)	..	..	..	..	..	(123)
Transactions with owners in their capacity as owners	..	(5 323)	..	..	..	..	(5 323)
Total equity as at 30 June 2017	**3 747**	**54 902**	**..**	**29 985**	**..**	**492**	**89 126**
PFC sector							
Balance at 1 July 2016	(3 849)	29	..	2	..	40	(3 778)
Net result for the year	4 236	..	..	..	..	..	4 236
Other comprehensive income for the year	3	..	..	..	..	(1)	2
Dividends paid	(246)	..	..	..	..	..	(246)
Transactions with owners in their capacity as owners	..	..	..	..	..	..	..
Total equity as at 30 June 2017	**143**	**29**	**..**	**2**	**..**	**39**	**213**
Eliminations	19 783	(54 931)	..	10 164	(60 149)	..	(85 133)
Total State of Victoria	**75 137**	**..**	**..**	**95 897**	**..**	**1 199**	**172 234**

Disaggregated statement of changes in equity for the financial year ended 30 June *(continued)* **($ million)**

2016	*Accumulated surplus/(deficit)*	*Contribution by owners*	*Non-controlling Interest*	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
General government sector							
Balance at 1 July 2015 [(a)]	45 867	..	50	43 355	46 494	728	136 494
Net result for the year	1 817	..	..	..	..	..	1 817
Other comprehensive income for the year	(3 106)	..	..	6 236	10 533	(177)	13 486
Transfer to/(from) accumulated surplus	(22)	..	..	22	..	..	..
Total equity as at 30 June 2016 [(a)]	**44 557**	**..**	**50**	**49 613**	**57 027**	**551**	**151 798**
PNFC sector							
Balance at 1 July 2015	4 511	49 943	..	24 161	..	437	79 052
Net result for the year	314	..	..	..	..	..	314
Other comprehensive income for the year	(280)	..	..	11 057	..	14	10 791
Transfer to/(from) accumulated surplus	..	..	..	..	..	..	..
Dividends paid	(149)	..	..	..	..	..	(149)
Transactions with owners in their capacity as owners	..	2 224	..	..	..	..	2 224
Total equity as at 30 June 2016	**4 397**	**52 166**	**..**	**35 219**	**..**	**451**	**92 233**
PFC sector							
Balance at 1 July 2015	(1 009)	177	..	2	..	35	(794)
Net result for the year	(2 438)	..	..	..	..	..	(2 438)
Other comprehensive income for the year	(5)	..	..	..	..	5	..
Transfer to/(from) accumulated surplus	(159)	159	..	..	..	..	..
Dividends paid	(239)	..	..	..	..	..	(239)
Transactions with owners in their capacity as owners	..	(308)	..	..	..	..	(308)
Total equity as at 30 June 2016	**(3 849)**	**29**	**..**	**2**	**..**	**40**	**(3 778)**
Eliminations	11 232	(52 195)	..	10 131	(57 027)	..	(87 858)
Total State of Victoria [(a)]	**56 337**	**..**	**50**	**94 965**	**..**	**1 042**	**152 395**

Note:

(a) The 1 July 2015 and 30 June 2016 comparative figures have been restated to reflect an adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets and opening accumulated surplus/(deficit) balances due to the first-time recognition of Renewable Energy Certificates.

9.2 Funds under management

The State has responsibility for transactions and balances relating to trust funds held on behalf of third parties external to the State. The funds managed on behalf of third parties are not recognised in these financial statements as they are managed on a fiduciary and custodial basis, and therefore are not controlled by the State. Funds under management are reported in the table below.

($ million)

	State of Victoria		*General government sector*	
	2017	*2016*	*2017*	*2016*
Investments, real estate, personal and other assets	3 272	2 904	..	..
Cash and investments in common and premium funds	1 068	1 005	6	..
Residential tenancies bond money	1 041	951	1 041	951
Funds under management by the Senior Master of the Supreme Court	1 716	1 618	1 716	1 618
Funds under management by Legal Services Board	905	813	905	813
Funds under management for the Victorian Bushfire Appeal Fund	3	3	3	3
Other funds held	35	36	10	11
Total funds under management	**8 040**	**7 330**	**3 681**	**3 395**

9.3 Other gains/(losses) from other economic flows

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions.

Total other gains/(losses) from other economic flows **($ million)**

	State of Victoria		*General government sector*	
	2017	*2016*	*2017*	*2016*
Net (increase)/decrease in provision for doubtful receivables	(222)	(226)	(221)	(224)
Amortisation of intangible non-produced assets	(40)	(37)	(6)	(3)
Net swap interest revenue/(expense)	(10)	(12)	..	..
Bad debts written off	(261)	(204)	(244)	(188)
Other gains/(losses)	2 137	(1 116)	246	(273)
Total other gains/(losses) from other economic flows	**1 605**	**(1 596)**	**(226)**	**(688)**

9.4 Reconciliation between Government Finance Statistics and Australian Accounting Standards

This note identifies and reconciles unconverged differences between the Australian Accounting Standards reporting (upon which this report is based) and the Government Finance Statistics (GFS) reporting. All GFS balances are calculated in accordance with the Australian Bureau of Statistics GFS manual *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005*.

GFS information enable policymakers and analysts to study developments in the financial operations, financial position and liquidity situation of the Government based on consistent economic reporting rules and definitions.

9.4.1 Reconciliation to GFS net operating balance [a]

($ million)

	General government sector		*Public non-financial corporations*		*Public financial corporations*		*Eliminations*		*State of Victoria*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
Net result from transactions – net operating balance	**2 709**	**2 664**	**(436)**	**154**	**(1 980)**	**(797)**	**461**	**(376)**	**754**	**1 645**
Convergence differences:										
PNFC/PFC dividends [b]	..	..	(123)	(149)	(246)	(239)	369	387	..	..
Port Licence Fee treatment [c]	(783)	..	..	..	..	..	..	..	(783)	..
Port of Melbourne lease transaction [d]	14	..	(105)	..	..	..	1	..	(90)	..
Total convergence difference:	*(769)*	*..*	*(228)*	*(149)*	*(246)*	*(239)*	*370*	*387*	*(873)*	*..*
GFS net operating balance	**1 940**	**2 664**	**(664)**	**6**	**(2 226)**	**(1 035)**	**831**	**11**	**(119)**	**1 645**

Notes:
(a) Determined in accordance with the ABS GFS Manual.
(b) The convergence difference arises between GFS recognised dividends paid/payable as an expense from transactions on the operating statement whereas, under accounting standards, dividends are classified as after-profit distributions to owners.
(c) The convergence difference arises because the GFS recognises the 15-year prepaid Port Licence Fee from the medium-term lease over the operations of the Port of Melbourne as revenue over the 15-year period.
(d) The convergence difference for the Port of Melbourne lease transaction arises because GFS recognises the transaction as a sale of equity from the general government sector, whereas under Australian Accounting Standards the Port of Melbourne lease transaction has been treated as an operating lease with the leased assets remaining within the public non-financial corporations sector.

9.4.2 Reconciliation to GFS net lending/(borrowing) [a]

($ million)

	General government sector		*Public non-financial corporations*		*Public financial corporations*		*Eliminations*		*State of Victoria*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
Net lending/(borrowing)	**1 055**	**1 876**	**(2 974)**	**(1 984)**	**(1 979)**	**(783)**	**462**	**(377)**	**(3 436)**	**(1 267)**
Convergence differences:										
PNFC/PFC dividends [b]	..	..	(123)	(149)	(246)	(239)	369	387	..	..
Port Licence Fee treatment [c]	(783)	..	..	..	..	..	..	..	(783)	..
Port of Melbourne lease transaction [d]	14	..	(105)	..	..	..	1	..	(90)	..
Total convergence difference:	*(769)*	*..*	*(228)*	*(149)*	*(246)*	*(239)*	*370*	*387*	*(873)*	*..*
GFS net lending/(borrowing)	**286**	**1 876**	**(3 202)**	**(2 132)**	**(2 226)**	**(1 021)**	**832**	**10**	**(4 309)**	**(1 267)**

Notes:
(a) Determined in accordance with the ABS GFS Manual.
(b) The convergence difference arises between GFS recognised dividends paid/payable as an expense from transactions on the operating statement whereas, under accounting standards, dividends are classified as after-profit distributions to owners.
(c) The convergence difference arises because the GFS recognises the 15-year prepaid Port Licence Fee from the medium-term lease over the operations of the Port of Melbourne as revenue over the 15-year period.
(d) The convergence difference for the Port of Melbourne lease transaction arises because GFS recognises the transaction as a sale of equity from the general government sector, whereas under Australian Accounting Standards the Port of Melbourne lease transaction has been treated as an operating lease with the leased assets remaining within the public non-financial corporations sector.

9.4.3 Reconciliation to GFS total change in net worth [(a)]

($ million)

	General government sector		Public non-financial corporations		Public financial corporations		Eliminations		State of Victoria	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
Comprehensive result – total change in net worth	**16 279**	**15 303**	**2 339**	**11 106**	**4 237**	**(2 438)**	**(2 967)**	**(11 646)**	**19 889**	**12 325**
Convergence differences:										
Relating to net operating balance [(b)]	(769)	..	(228)	(149)	(246)	(239)	370	387	(873)	..
Relating to other economic flows:										
Port of Melbourne lease transaction [(c)]	(853)	..	(749)	..	..	..	853	..	(749)	..
Contribution by non-controlling interest	50	..	..	..	..	..	..	..	50	..
Doubtful receivables of the general government sector [(d)]	6	22	..	..	..	..	..	..	6	22
Doubtful receivables of the PNFC/PFC sector [(d)]	..	..	(3)	..	..	..	..	..	(3)	..
Future tax benefits of the PNFC/PFC sector	..	..	12	(44)	837	(632)	(849)	676	..	..
Deferred tax liability of the PNFC/PFC sector	..	..	(321)	(39)	..	(5)	321	45	..	..
Net gain on equity investments in other sector entities measured at proportional share of the carrying amount of net assets/(liabilities) [(e)(f)]	525	(720)	..	..	..	..	(525)	720	..	..
Change in shares and other contributed capital [(b)]	..	..	(1 051)	(10 873)	(4 828)	3 313	5 878	7 560	..	..
Total convergence difference:	*(1 041)*	*(699)*	*(2 339)*	*(11 106)*	*(4 237)*	*2 438*	*6 049*	*9 389*	*(1 569)*	*22*
GFS total change in net worth	**15 238**	**14 605**	**..**	**..**	**..**	**..**	**3 082**	**(2 257)**	**18 320**	**12 347**

Notes:

(a) Determined in accordance with the ABS GFS manual.

(b) June 2016 comparative figures have been restated to reflect more current information.

(c) The convergence difference for the Port of Melbourne lease transaction arises because GFS recognises the transaction as a sale of equity from the general government sector, whereas under Australian Accounting Standards the Port of Melbourne lease transaction has been treated as an operating lease with the leased assets remaining within the public non-financial corporations sector.

(d) The convergence difference arises because GFS does not recognise doubtful receivables, whereas the operating statement recognises it and classifies doubtful receivables as other economic flows.

(e) The convergence difference arises because the amount of net assets (and therefore the change in carrying amount of net assets) of other sector entities determined under GFS principles and rules differs from the carrying amount of net assets.

(f) Net gain on equity investments in other sector entities includes doubtful receivables, future tax benefits and deferred tax liability of the PNFC and PFC sectors.

9.4.4 Reconciliation to GFS net worth [(a)]

($ million)

	General government sector		*Public non-financial corporations*		*Public financial corporations*		*Eliminations*		*State of Victoria*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
Net worth [(b)]	**168 027**	**151 798**	**89 126**	**92 233**	**213**	**(3 778)**	**(85 133)**	**(87 858)**	**172 234**	**152 395**
Convergence differences:										
Relating to net operating balance:										
PNFC/PFC dividends [(c)]	..	..	(123)	(149)	(246)	(239)	369	387	..	..
Port Licence Fee treatment [(d)]	(783)	..	..	..	..	..	..	..	(783)	..
Port of Melbourne lease transaction [(e)]	14	..	(105)	..	..	..	1	..	(90)	..
Relating to other economic flows:										
Port of Melbourne lease transaction [(e)]	(853)	..	(748)	..	..	..	853	..	(748)	..
Non-controlling interest	..	(50)	..	..	..	..	..	..	..	(50)
Doubtful receivables of the general government sector [(f)]	935	930	..	..	..	..	..	..	935	930
Doubtful receivables of the PNFC/PFC sector [(f)]	..	..	18	21	46	46	..	..	64	67
Future tax benefits of the PNFC/PFC sector	..	..	(225)	(237)	(636)	(1 473)	861	1 710	..	..
Deferred tax liability of the PNFC/PFC sector	..	..	8 270	8 591	2	2	(8 271)	(8 593)	..	..
Investments in other sector entities [(g)(h)]	7 474	6 949	..	..	..	..	(7 474)	(6 949)	..	..
Shares and other contributed capital [(c)]	..	..	(96 213)	(100 460)	623	5 442	95 591	95 017	..	..
Total convergence difference:	*6 788*	*7 829*	*(89 126)*	*(92 233)*	*(213)*	*3 778*	*81 929*	*81 572*	*(622)*	*946*
GFS net worth [(b)]	**174 815**	**159 627**	**..**	**..**	**..**	**..**	**(3 204)**	**(6 286)**	**171 611**	**153 341**

Notes:

(a) Determined in accordance with the ABS GFS manual.

(b) June 2016 comparative figures have been restated to reflect an adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets and opening accumulated surplus/(deficit) balances due to the first-time recognition of Renewable Energy Certificates.

(c) June 2016 comparative figures have been restated to reflect more current information.

(d) The convergence difference arises because the GFS recognises the 15-year prepaid Port Licence Fee from the medium-term lease over the operations of the Port of Melbourne as revenue over the 15-year period.

(e) The convergence difference for the Port of Melbourne lease transaction arises because GFS recognises the transaction as a sale of equity from the general government sector, whereas under Australian Accounting Standards the Port of Melbourne lease transaction has been treated as an operating lease with the leased assets remaining within the public non-financial corporations sector.

(f) The convergence difference in accounts receivable arises because GFS does not recognise doubtful receivables, whereas a provision for doubtful receivables is recognised in the balance sheet.

(g) The convergence difference arises because the amount of net assets (and therefore the change in carrying amount of net assets) of other sector entities determined under GFS principles and rules differs from the carrying amount of net assets.

(h) Investments in other sector entities for general government sector includes doubtful receivables, future tax benefits and deferred tax liability of the PNFC and PFC sectors.

9.4.5 Reconciliation to GFS cash surplus/(deficit) [a]

($ million)

	General government sector		*Public non-financial corporations*		*Public financial corporations*		*Eliminations*		*State of Victoria*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
Cash surplus/(deficit)	**(1 467)**	**1 129**	**8 637**	**(429)**	**1 289**	**849**	**(29)**	**4**	**8 430**	**1 554**
Convergence differences:										
Acquisitions under finance leases and similar arrangements [b]	(544)	(1 050)	..	..	..	..	..	..	(544)	(1 050)
Port of Melbourne lease transaction [c]	14	..	(8 961)	..	..	..	1	..	(8 946)	..
Total convergence difference:	*(530)*	*(1 050)*	*(8 961)*	*..*	*..*	*..*	*1*	*..*	*(9 490)*	*(1 050)*
GFS cash surplus/(deficit)	**(1 997)**	**79**	**(324)**	**(429)**	**1 289**	**849**	**(29)**	**4**	**(1 060)**	**504**

Notes:

(a) Determined in accordance with the ABS GFS manual.

(b) The convergence difference arises because GFS does not recognise acquisitions under finance leases, whereas finance leases is recognised in the cash surplus aggregate of the cash flow statement.

(c) The convergence difference for the Port of Melbourne lease transaction arises because GFS recognises the transaction as a sale of equity from the general government sector, whereas under Australian Accounting Standards the Port of Melbourne lease transaction has been treated as an operating lease with the leased assets remaining within the public non-financial corporations sector.

9.5 Related party transactions

The State of Victoria reporting entity includes government departments, public non-financial corporations, public financial corporations and other government-controlled entities.

Key management personnel

All cabinet ministers are considered members of the key management personnel of the State of Victoria reporting entity for 2016-17, they included:

Position title	*Key management personnel*
Premier	Hon Daniel Andrews
Deputy Premier	Hon James Merlino
Ministers of the Crown	Hon Jacinta Allan
	Hon Philip Dalidakis
	Hon Lily D'Ambrosio
	Hon Luke Donnellan
	Hon John Eren
	Hon Martin Foley
	Mr Steve Herbert [(a)]
	Hon Jill Hennessy
	Hon Natalie Hutchins
	Hon Gavin Jennings
	Hon Marlene Kairouz
	Hon Jenny Mikakos
	Hon Lisa Neville
	Hon Wade Noonan
	Hon Martin Pakula
	Mr Tim Pallas
	Hon Jaala Pulford
	Hon Fiona Richardson (dec.)
	Hon Robin Scott
	Ms Gayle Tierney [(a)]
	Hon Richard Wynne

Note:
(a) Mr. Steve Herbert was Minister for Corrections and Minister for Training and Skills from 1 July 2016 to 9 November 2016. The Hon. Gayle Tierney was appointed Minister for Corrections and Minister for Training and Skills from 9 November 2016.

Accordingly, related parties of the State of Victoria reporting entity include:

- all cabinet ministers and their close family members; and
- other arrangements or entities jointly controlled by the ministers or their close family members, or entities that they have significant influence over.

Transactions and balances with key management personnel and other related parties

Given the breadth and depth of State government activities, related parties transact with the Victorian public sector as normal citizens in a manner consistent with other members of the public, involving the receipt of services and benefits, and payment of taxes and other government fees and charges. No transactions have occurred with related parties on terms and conditions more or less favourable than those conducted under standard government policies, procedures and practices.

Outside of normal citizen type transactions, transactions are disclosed only when they are considered necessary to draw attention to the possibility that the State's financial position and profit or loss may have been affected by the existence of related parties, and by transactions and outstanding balances, including commitments, with such parties.

There were no material related party transactions that involved key management personnel, their close family members and their personal business interests. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

Remuneration of key management personnel

The remuneration and allowances of ministers' are set by the *Parliamentary Salaries and Superannuation Act 1968* and the aggregated remuneration for ministers is $8.1 million.

($ thousand)

State of Victoria *Compensation for key management personnel*	*2017* [(a)]
Salaries and short-term employee benefits	7 691
Post-employment benefits	369
Other long-term benefits	..
Termination benefits	..
Share based payments	n.a.
Total	**8 060**

Note:
(a) No comparatives have been reported, in accordance with AASB 124 Related Party Disclosures*. Remuneration of ministers for 2015-16 is disclosed in note 16 of the Department of Premier and Cabinet's Annual Report 2015-16, in line with the basis and definition under FRD 21B* Disclosure of responsible persons, executive officers and other personnel (contractors with significant management responsibilities) in the financial report.

9.6 Subsequent events

Assets, liabilities, revenues or expenses arise from past transactions or other past events. Adjustments are made to amounts recognised in the financial statements for events, which occur after the reporting period and before the date the statements are authorised for issue, where those events provide information about conditions which existed at the reporting date. If required, note disclosure is made about events that occur between the end of the reporting period and the date the statements are authorised for issue where the events relate to conditions which arose after the reporting period that are considered to be of material interest.

There are no events that have arisen since 30 June that have significantly affected or may significantly affect the operations, or results, or state of affairs of the State.

9.7 Other accounting policies

9.7.1 How leases are accounted for

A lease is a right to use an asset for an agreed period of time in exchange for payment. Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership. Leases of infrastructure, property, plant and equipment are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership from the lessor to the lessee. All other leases are classified as operating leases.

State as lessor in finance leases

Amounts due from lessees under finance leases are recorded as receivables. Finance lease receivables are initially recorded at amounts equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease receipts are apportioned between periodic interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

State as lessee under finance leases

At the commencement of the lease term, finance leases are initially recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. The leased asset is accounted for as a non-financial physical asset and depreciated over the shorter of the estimated useful life of the asset or the term of the lease. Minimum finance lease payments are apportioned between the reduction of the outstanding lease liability and the periodic finance expense, which is calculated using the interest rate implicit in the lease and charged directly to the consolidated comprehensive operating statement.

Contingent rentals associated with finance leases are recognised as an expense in the period in which they are incurred.

State as lessor under operating leases

Rental revenue from operating leases is recognised on a straight line basis over the term of the relevant lease.

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments. In the event that lease incentives are given to the lessee, the aggregate cost of incentives are recognised as a reduction of rental revenue over the lease term on a straight line basis, unless another systematic basis is more representative of the time pattern over which the economic benefit of the leased asset is diminished.

State as lessee under operating leases

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments. In the event that lease incentives are received to enter into operating leases, the aggregate benefit of incentives are recognised as a reduction of rental expense over the lease term on a straight line basis, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

9.7.2 Accounting for the goods and services tax

Revenues, expenses and assets are recognised net of the amount of associated GST, except where the GST incurred is not recoverable from the taxation authority. In this case the GST payable is recognised as part of the cost of acquisition of an asset or part of an item of expense.

Receivables and payables are stated inclusive of GST receivable or payable. Cash flows are presented on a gross basis. The GST components of cash flows from investing or financing activities are presented as an operating cash flow. Commitments and contingent assets and liabilities are also stated inclusive of GST.

9.7.3 Prospective accounting and reporting changes

Certain new and revised accounting standards have been issued but are not effective for the 2016-17 reporting period. There is no intention to early adopt these accounting standards and they have not been applied to the *Annual Financial Report*. The State is reviewing its existing policies and assessing the potential implications. These accounting standards include:

- AASB 9 *Financial Instruments*, operative for reporting periods commencing 1 January 2018 as revised by AASB 2014-1 *Amendments to Australian Accounting Standards* (Part E *Financial Instruments*). AASB 9 simplifies the requirements for the classification and measurement of financial assets, introduces a new hedging accounting model and also a revised impairment loss model to recognise impairment losses earlier, as opposed to the current requirement to recognise impairment only when incurred.
- AASB 15 *Revenue from Contracts with Customers*, operative for reporting periods commencing 1 January 2019 for not-for-profit entities. The core principle of AASB 15 is to require an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. The changes in revenue recognition may result in changes to the timing and amount of revenue recognised, but there will be no impact to net debt.
- AASB 16 *Leases*, operative for reporting periods beginning from 1 January 2019. The key changes introduced by AASB 16 include the requirement to recognise most operating leases on the balance sheet, which will result in an increase in net debt.
- Amendments to AASB 136 *Impairment of Assets* are operative for reporting periods commencing 1 January 2017. The key change removes references to depreciated replacement cost (DRC) as a measure of value in use for not-for-profit entities. The State has assessed and determined the impact to be minimal, as the current replacement cost method is used for valuing public sector assets under AASB 13 *Fair Value Measurement*.
- AASB 1058 *Income of Not-for-Profit Entities*, operative for reporting periods commencing 1 January 2019. This standard will replace AASB 1004 *Contributions* and establishes revenue recognition principles for transactions where the consideration to acquire an asset is significantly less than fair value to enable not-for-profit entities to further their objectives. Under AASB 1058, revenue from capital grants that are provided under an enforceable agreement that have sufficiently specific obligations, will now be deferred and recognised as the performance obligations are satisfied.
- AASB 1059 *Service Concession Arrangements: Grantors*, operative for reporting periods commencing 1 January 2019. This standard prescribes the accounting treatment for public private partnership (PPP) arrangements involving a private sector operator providing public services related to a service concession asset on behalf of the State, for a specified period of time. For social infrastructure PPP arrangements, this would result in an earlier recognition of financial liabilities (increase in net debt) progressively over the construction period rather than at completion date. For economic infrastructure PPP arrangements, that were previously not on the balance sheet, the standard will require recognition of these arrangements on-balance sheet, but will continue to have no impact to net debt consistent with the current accounting treatment.

Several other amending standards and AASB interpretations have been issued that apply to future reporting periods, but are considered to have limited impact on public sector reporting.

The Australian Bureau of Statistics (ABS) released a new manual, *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015* on 23 December 2015. For the purpose of financial reporting under AASB 1049, the new manual will apply for reporting periods beginning from 1 July 2018. The State will assess the potential reporting implications of the amendments.

9.8 Controlled entities

The table below contains a list of significant controlled entities which have been consolidated for the purposes of the financial report. Unless otherwise noted below, all such entities are wholly-owned. The entities below may include additional consolidated entities, for which only the parent entity has been listed.

The principal activities of the controlled entities reflect the three sectors of government they are within as set out in the reporting structure under public sector terms explained (refer to page 24). Further, Note 3.6 Government purpose classification reflects the broad objectives of these controlled entities.

General government

Department of Education and Training

Adult Community and Further Education Board
Adult Multicultural Education Services
International Fibre Centre Limited
TAFEs including:

- Bendigo Kangan Institute
- Box Hill Institute
- Chisholm Institute
- Federation Training
- Gordon Institute of TAFE
- Goulburn Ovens Institute of TAFE
- Holmesglen Institute
- Melbourne Polytechnic
- South West Institute of TAFE
- Sunraysia Institute of TAFE
- William Angliss Institute of TAFE
- Wodonga Institute of TAFE

Victorian Curriculum and Assessment Authority
Victorian Institute of Teaching
Victorian Registration and Qualifications Authority

Department of Environment, Land, Water and Planning

Architects Registration Board of Victoria
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

Dhelkunya Dja Land Management Board
Energy Safe Victoria [(a)]
Environment Protection Authority
Gunaikurnai Traditional Owner Land Management
Heritage Council of Victoria
Office of the Commissioner for Environmental Sustainability
Parks Victoria
Royal Botanic Gardens Board Victoria
Surveyors Registration Board of Victoria
Sustainability Victoria
Trust for Nature (Victoria)
Victorian Building Authority
Victorian Environmental Water Holder
Victorian Planning Authority [(b)]
Yorta Yorta Traditional Owner Land Management Board

Department of Health and Human Services

Commission for Children and Young People
Health Purchasing Victoria
Hospitals, Health and Ambulance Services including:

- Albury Wodonga Health
- Alexandra District Health
- Alfred Health
- Alpine Health
- Ambulance Victoria
- Austin Health
- Bairnsdale Regional Health Service
- Ballarat Health Services
- Barwon Health
- Bass Coast Health
- Beaufort and Skipton Health Service
- Beechworth Health Service
- Benalla Health
- Bendigo Health Care Group
- Boort District Health
- Casterton Memorial Hospital
- Castlemaine Health
- Central Gippsland Health Service
- Cobram District Health
- Cohuna District Hospital
- Colac Area Health
- Corryong Health [(c)]
- Dental Health Services Victoria
- Djerriwarrh 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
- Heathcote Health
- Hepburn Health Service
- Hesse Rural Health Service
- Heywood Rural Health
- Inglewood and Districts Health Service
- Kerang District Health
- Kooweerup Regional Health Service
- Kyabram and District Health Services
- Kyneton District Health Service
- Latrobe Regional Hospital
- Lorne Community Hospital
- Maldon Hospital
- Mallee Track Health and Community Service
- Mansfield District Hospital
- Maryborough District Health Service
- Melbourne Health
- Monash Health
- Moyne Health Services
- Nathalia District Hospital
- Northeast Health Wangaratta
- Northern Health
- Numurkah District Health Service
- Omeo District Health
- Orbost Regional Health
- Otway Health
- Peninsula Health
- Peter MacCallum Cancer Institute
- Portland District Health
- Robinvale District Health Services
- Rochester and Elmore District Health Service
- Rural Northwest Health
- Seymour Health
- South Gippsland Hospital
- South West Healthcare
- Stawell Regional Health
- Swan Hill District Health

General government (continued)

- Tallangatta Health Service
- Terang and Mortlake Health Service
- The Kilmore and District Hospital
- The Royal Children's Hospital
- The Royal Victorian Eye and Ear Hospital
- The Royal Women's Hospital
- Timboon and District Healthcare Service
- Victorian Assisted Reproductive Treatment Authority
- Victorian Institute of Forensic Mental Health
- West Gippsland Healthcare Group
- West Wimmera Health Service [d]
- Western District Health Service
- Western Health
- Wimmera Health Care Group
- Yarram and District Health Service
- Yarrawonga District Health Service
- Yea and District Memorial Hospital

Melbourne Cricket Ground Trust [e]
The Queen Elizabeth Centre
Tweddle Child and Family Health Service
Victorian Health Promotion Foundation
Victorian Institute of Sport Limited
Victorian Institute of Sport Trust
Victorian Pharmacy Authority

Department of Justice and Regulation

Country Fire Authority
Emergency Services Telecommunications Authority
Metropolitan Fire and Emergency Services Board
Office of Public Prosecutions
Residential Tenancies Bond Authority
Sentencing Advisory Council
Victoria Legal Aid
Victoria Police (Office of the Chief Commissioner of Police)
Victoria State Emergency Service Authority
Victorian Commission for Gambling and Liquor Regulation
Victorian Equal Opportunity and Human Rights Commission
Victorian Institute of Forensic Medicine
Victorian Law Reform Commission
Victorian Legal Services Board
Victorian Legal Services Commissioner
Victorian Professional Standards Council
Victorian Responsible Gambling Foundation

Department of Premier and Cabinet

Freedom of Information Commissioner [f]
Independent Broad based Anti-corruption Commission (IBAC)
Infrastructure Victoria
Office of the Commissioner for Privacy and Data Protection [f]
Ombudsman Victoria
Shrine of Remembrance Trustees
Victorian Aboriginal Heritage Council
Victorian Electoral Commission
Victorian Inspectorate
Victorian Multicultural Commission
Victorian Public Sector Commission
Victorian Veterans Council

Department of Economic Development, Jobs, Transport and Resources [g]

Australian Centre for the Moving Image
Docklands Studios Melbourne Pty Ltd
Film Victoria
Game Management Authority
Library Board of Victoria
Linking Melbourne Authority
Melbourne Recital Centre Limited
Museums Board of Victoria
National Gallery of Victoria, Council of Trustees
Public Transport Development Authority
Regional Development Victoria
Roads Corporation
Rural Assistance Commissioner
Taxi Services Commission
Tourism Victoria [h]
Veterinary Practitioners Registration Board of Victoria
Victorian Fisheries Authority [i]
Victorian Trade and Investment Office
Visit Victoria [h]

Department of Treasury and Finance

CenITex
Essential Services Commission

Courts

Judicial College of Victoria

Parliament of Victoria

Victorian Auditor General's Office

Public non-financial corporation

Department of Environment, Land, Water and Planning

Alpine Resorts Management Board including:

- Alpine Resorts Co-ordinating Council
- Falls Creek Alpine Resort Management Board
- Mount Buller and Mount Stirling Alpine Resort Management Board
- Mount Hotham Alpine Resort Management Board
- Southern Alpine Resort Management Board [j]

Phillip Island Nature Parks
Waste and Resource Recovery Groups including:

- Barwon South West Waste and Resource Recovery Group
- Gippsland Waste and Resource Recovery Group
- Goulburn Valley Waste and Resource Recovery Group
- Grampians Central Waste and Resource Recovery Group
- Metropolitan Waste and Resource Recovery Group
- Loddon Mallee Waste and Resource Recovery Group
- North East Waste and Resource Recovery Group

Water Authorities including:

- Barwon Region Water Corporation
- Central Gippsland Region Water Corporation
- Central Highlands Region Water Corporation
- City West Water Corporation
- Coliban Region Water Corporation
- East Gippsland Region Water Corporation
- Gippsland and Southern Rural Water Corporation
- Goulburn Murray Rural Water Corporation
- Goulburn Valley Region Water Corporation
- Grampians Wimmera Mallee Water Corporation
- Lower Murray Urban and Rural Water Corporation
- Melbourne Water Corporation
- North East Region Water Corporation
- South East Water Corporation
- South Gippsland Region Water Corporation
- Wannon Region Water Corporation
- Western Region Water Corporation
- Westernport Region Water Corporation
- Yarra Valley Water Corporation
- Zoological Parks and Gardens Board

Department of Health and Human Services

Cemeteries including:

- Ballarat General Cemeteries Trust
- Bendigo Cemeteries Trust
- Geelong Cemeteries Trust
- Greater Metropolitan Cemeteries Trust
- Southern Metropolitan Cemeteries Trust
- Mildura Cemetery Trust

Director of Housing
Kardinia Park Stadium Trust [k]
Melbourne and Olympic Parks Trust [l]
State Sport Centres Trust

9. OTHER DISCLOSURES

Public non-financial corporation (continued)

Department of Justice and Regulation

Greyhound Racing Victoria

Harness Racing Victoria

Department of Premier and Cabinet

Queen Victoria Women's Centre Trust [(m)]

VITS Languagelink

Department of Economic Development, Jobs, Transport and Resources [(n)]

Agriculture Victoria Services Pty Ltd

Australian Grand Prix Corporation

Dairy Food Safety Victoria

Development Victoria [(o)]

Emerald Tourist Railway Board

Fed Square Pty Ltd

Geelong Performing Arts Centre Trust

Launch Vic

Melbourne Convention and Exhibition Trust

Melbourne Market Authority

Melbourne Port Lessor Pty Ltd [(p)]

Murray Valley Wine Grape Industry Development Committee

Northern Victorian Fresh Tomato Industry Development Committee

Port of Hastings Development Authority

PrimeSafe

V/Line Corporation

VicForests

Victorian Arts Centre Trust

Victorian Ports Corporation (Melbourne) [(q)]

Victorian Rail Track

Victorian Regional Channels Authority

Victorian Strawberry Industry Development Committee

Department of Treasury and Finance

Accident Compensation Conciliation Service

State Electricity Commission of Victoria

Victorian Plantations Corporation (shell)

Public financial corporation

Department of Treasury and Finance

State Trustees Limited

Transport Accident Commission

Treasury Corporation of Victoria

Victorian Funds Management Corporation

Victorian Managed Insurance Authority

Victorian WorkCover Authority (WorkSafe Victoria)

Notes:

(a) *Effective from 1 July 2016, portfolio responsibility for Energy Safe Victoria was transferred from the Department of Economic Development, Jobs, Transport and Resources (DEDJTR) to the Department of Environment, Land, Water and Planning.*

(b) *The Metropolitan Planning Authority has been renamed Victorian Planning Authority under the* Victorian Planning Authority Act 2017.

(c) *On 4 July 2017, Upper Murray Health and Community Services changed its name to Corryong Health.*

(d) *On 1 July 2016, by Order of the Governor in Council, Dunmunkle Health Service and West Wimmera Health Service were amalgamated to form a new registered funded agency named West Wimmera Health Service.*

(e) *Effective from 1 October 2016, portfolio responsibility for the Melbourne Cricket Ground Trust was transferred from DEDJTR to DHHS.*

(f) *Effective from 1 September 2017, the Office of the Victorian Information Commissioner commenced operations and took over the responsibilities of the Freedom of Information Commissioner and the Office of the Commissioner for Privacy and Data Protection.*

(g) *The Australian Synchrotron Holding Company was transferred from the State of Victoria to the Australian Nuclear Science and Technology Organisation (ANSTO) on 1 July 2016.*

(h) *Effective 1 July 2016, Visit Victoria commenced operations and took over portfolio responsibility of Tourism Victoria and the Victorian Major Events Company Limited. Tourism Victoria ceased to operate but will remain in existence until its legislation is repealed.*

(i) *The Victorian Fisheries Authority is an independent statutory authority established on 1 July 2017 to effectively manage Victoria's fisheries resources.*

(j) *Effective from 1 January 2017, the Lake Mountain Alpine Resort Management Board and the Mount Baw Baw Alpine Resort Management Board were amalgamated to form a new entity, the Southern Alpine Resort Management Board under the* Alpine Resorts Legislation Amendment Act 2016.

(k) *The* Kardinia Park Stadium Act 2016 *established the Kardinia Park Stadium Trust as a statutory public sector body to administer the Kardinia Park Trust Land and other land and facilities for the purposes of sports, recreation, entertainment and related social and other activities. The Act commenced on 16 March 2016, with the Trust assuming financial responsibility from 1 July 2016.*

(l) *Effective from 1 October 2016, portfolio responsibility for the Melbourne and Olympic Parks Trust was transferred from DEDJTR to DHHS.*

(m) *Effective from 1 July 2017, portfolio responsibility for the Queen Victoria Women's Centre Trust was transferred from the Department of Premier and Cabinet to DHHS.*

(n) *Port of Melbourne Operations Pty Ltd (PortCo) was established as a Corporations Act entity on 21 March 2016. Effective from 1 November 2016, PortCo was transferred to the Lonsdale consortium as part of the medium-term lease over the operations of the Port of Melbourne.*

(o) *On 1 April 2017, under the* Urban Renewal Authority Victoria Amendment (Development Victoria) Act 2017, *Urban Renewal Authority Victoria (Places Victoria) and Major Projects Victoria merged to form a new public non-financial corporation named Development Victoria.*

(p) *Melbourne Port Lessor Pty Ltd (Port Lessor) was established as a Corporations Act entity on 21 March 2016. Effective from 1 July 2016, Port Lessor commenced operations.*

(q) *Effective from 1 November 2016, the Port of Melbourne Corporation was renamed the Victorian Ports Corporation (Melbourne).*

9.9 Glossary of technical terms

The following is a summary of the major technical terms used in this report as sourced from the *Uniform Presentation Framework (2008)*. Technical terms that have been discussed elsewhere in this chapter are excluded from the list below.

ABS GFS manual represents the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005* as updated from time to time.

Capital grants are transactions in which the ownership of an asset (other than cash and inventories) is transferred from one institutional unit to another, to enable the recipient to acquire another asset or in which the funds realised by the disposal of another asset are transferred, for which no economic benefits of equal value are receivable or payable in return.

Cash surplus/deficit represents the net cash flows from operating activities plus net cash flows from investments in non-financial assets (less dividends paid for the PNFC and PFC sectors).

Cash surplus/deficit – ABS GFS version is equal to the cash surplus deficit (above) less the value of assets acquired under finance leases and similar arrangements.

Change in net worth (comprehensive result) is revenue from transactions less expenses from transactions plus other economic flows and measures the variation in a government's accumulated assets and liabilities.

Comprehensive result is the amount included in the operating statement representing total change in net worth other than transactions with owners as owners.

Current grants are amounts payable or paid for current purposes for which no economic benefits of equal value are receivable or payable in return.

Effective interest method is the method used to calculate 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.

Fiscal aggregates: Analytical balances that are useful for macroeconomic analysis purposes, including assessing the impact of a government and its sectors on the economy. Key fiscal aggregates defined under ABS GFS manual are required to be disclosed under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. They are: opening net worth, net operating balance, net lending/(borrowing), change in net worth due to revaluations, change in net worth due to other changes in the volume of assets, total change in net worth, closing net worth, and cash surplus/(deficit). AASB 1049 also allows additional fiscal aggregates to be included such as net financial worth, net financial liabilities and net debt.

Government Finance Statistics (GFS) enables policymakers and analysts to study developments in the financial operations, financial position and liquidity situation of the Government. More details about the GFS can be found in the Australian Bureau of Statistics GFS manual *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005*.

Infrastructure systems provide essential services used in delivering 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.

Interest expense represents costs incurred in connection with borrowings. It includes interest on advances, loans, overdrafts, bonds and bills, deposits, interest components of finance lease repayments, and amortisation of discounts or premiums in relation to borrowings.

Key fiscal aggregates are referred to as analytical balances in the ABS GFS manual, key fiscal aggregates are data identified as useful for macroeconomic analysis purposes, including assessing the impact of a government and its sectors on the economy. They are opening net worth; net operating balance; net lending/(borrowing); change in net worth due to revaluations; change in net worth due to other changes in the volume of assets; total change in net worth; closing net worth; and cash surplus/(deficit).

Net acquisition of non-financial assets (from transactions) are purchases (and other acquisitions) of non-financial assets less sales (or disposals) of non-financial assets less depreciation plus changes in inventories and other movements in non-financial assets. Includes only those increases or decreases in non-financial assets resulting from transactions and therefore excludes write offs, impairment write downs and revaluations.

9. OTHER DISCLOSURES

Net cash flows from investments in financial assets (liquidity management purposes) are cash receipts from liquidation or repayment of investments in financial assets for liquidity management purposes less cash payments for such investments. Investment for liquidity management purposes means making funds available to others with no policy intent and with the aim of earning a commercial rate of return.

Net cash flows from investments in financial assets (policy purposes) represents cash payments made for acquiring financial assets for policy purposes, less cash receipts from the repayment and liquidation of such investments in financial assets.

Acquisition of financial assets for policy purposes is distinguished from investments in financial assets (liquidity management purposes) by the underlying government motivation for acquiring the assets. Acquisition of financial assets for policy purposes includes loans made by government that are motivated by Government policies, such as encouraging the development of certain industries or assisting people affected by natural disaster.

For the general government sector, this item also includes cash flows arising from the acquisition and disposal by government of its investments (contributed capital) in entities in the public non-financial corporations and public financial corporations sectors.

Net debt equals sum of deposits held, advances received, government securities, loans and other borrowing less the sum of cash and deposits, advances paid and investments, loans and placements. For the PFC sector, this also includes loans receivable from other sector entities.

Net financial liabilities is calculated as liabilities less financial assets, other than equity in PNFCs and PFCs. This measure is broader than net debt as it includes significant liabilities, other than borrowings (e.g. accrued employee liabilities such as superannuation and long service leave entitlements). For the PNFC and PFC sectors, it is equal to negative net financial worth.

Net financial worth is equal to financial assets minus liabilities. It is a broader measure than net debt as it incorporates provisions made (such as superannuation, but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

Net lending/borrowing is the financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. It also equals transactions in financial assets less transactions in liabilities. A positive result reflects a net lending position and a negative result reflects a net borrowing position.

Net operating balance – net result from transactions: Net result from transactions or net operating balance is a key fiscal aggregate and is revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

Net result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner movements in equity'.

Net worth is calculated as assets less liabilities, which is an economic measure of wealth.

Non-financial assets are all assets that are not financial assets. It includes inventories, land, buildings, infrastructure, road networks, land under roads, plant and equipment, cultural and heritage assets, intangibles and biological assets such as commercial forests.

Non-financial public sector represents the consolidated transactions and assets and liabilities of the general government and PNFC sectors. In compiling statistics for the non-financial public sector, transactions and debtor creditor relationships between sub sectors are eliminated to avoid double counting.

Non-produced assets are assets needed for production that have not themselves been produced. They include land, subsoil assets, and certain intangible assets. Non-produced intangibles are intangible assets needed for production that have not themselves been produced. They include constructs of society such as patents.

Operating result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner movements in equity'. Refer also 'net result'.

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions. In simple terms, other economic flows are changes arising from market remeasurements. 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.

Produced assets include buildings, plant and equipment, inventories, cultivated assets and certain intangible assets. Intangible produced assets may include computer software, motion picture films and research and development costs (which does not include the start-up costs associated with capital projects).

Roads include road pavement and road works in progress. All land under roads is included under the category of 'land'.

Road infrastructure mainly includes sound barriers, bridges and traffic signal control systems.

Taxation revenue represents revenue received from the State's taxpayers and includes: payroll tax, land tax, duties levied principally on conveyances and land transfers, 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, Fire Services Property Levy, motor vehicle taxes, including registration fees and duty on registrations and transfers, levies (including the environmental levy) on statutory corporations in other sectors of government, and other taxes, including landfill levies, licence and concession fees.

Transactions are those economic flows that are considered to arise as a result of policy decisions, usually interactions 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 cash or in kind (e.g. assets provided/given free of charge or for nominal consideration). In simple terms, transactions arise from the policy decisions of the Government.

CHAPTER 5 – SUPPLEMENTARY UNIFORM PRESENTATION FRAMEWORK TABLES

THE ACCRUAL GOVERNMENT FINANCE STATISTICS PRESENTATION

The Government Finance Statistics (GFS) system employed by the Australian Bureau of Statistics (ABS) is designed to provide statistics relating to the finances of the Australian public sector. The statistics show the consolidated transactions and balances 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 and balances over which a government exercises control under its legislative or policy framework and excludes from the calculation of net operating balance both revaluations (realised and unrealised 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. These gains and losses are classified as other economic flows.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES/GOVERNMENT FINANCE STATISTICS HARMONISATION

In October 2007, the Australian Accounting Standards Board issued a new standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, applicable from 1 July 2008. 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 as directly comparable with the relevant budget statements'. This standard incorporates the major elements of the GFS framework, including the presentation formats and key fiscal aggregates, into a standard based on generally accepted accounting principles (GAAP).

The current Uniform Presentation Framework (UPF) was agreed by the Australian Loan Council in March 2008, based on AASB 1049, and similarly applicable from the reporting period commencing 1 July 2008. In addition to the audited Annual Financial Report presented in Chapter 4, the following statements are also required to be presented under the UPF.

FINANCIAL STATEMENTS FOR THE NON-FINANCIAL PUBLIC SECTOR

Table 5.1: Non-financial public sector operating statement for the financial year ended 30 June ($ million)

	2017	2016
Revenue from transactions		
Taxation revenue	21 908	19 460
Interest	337	361
Dividends, income tax equivalent and rate equivalent revenue	316	301
Sales of goods and services	10 880	10 869
Grant revenue	27 525	25 402
Other revenue	3 388	3 814
Total revenue from transactions	**64 352**	**60 206**
Expenses from transactions		
Employee expenses	22 643	21 101
Net superannuation interest expense	693	880
Other superannuation	2 449	2 230
Depreciation	4 824	4 658
Interest expense	2 479	2 659
Grant expense	7 611	5 649
Other operating expenses	21 507	20 349
Total expenses from transactions	**62 207**	**57 526**
Net result from transactions – net operating balance	**2 146**	**2 680**
Other economic flows included in net result		
Net gain/(loss) on disposal of non-financial assets	16	(148)
Net gain/(loss) on financial assets or liabilities at fair value	11	86
Share of net profit/(loss) from associates/joint venture entities	50	(73)
Other gains/(losses) from other economic flows	(476)	(872)
Total other economic flows included in net result	**(399)**	**(1 007)**
Net result	**1 747**	**1 673**
Other economic flows – other comprehensive income		
Items that will not be reclassified to net result		
Changes in non-financial assets revaluation surplus	8 792	17 514
Remeasurement of superannuation defined benefits plans	4 389	(3 246)
Other movements in equity	106	(193)
Items that may be reclassified subsequently to net result		
Net gain/(loss) on financial assets at fair value	31	(110)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	906	(421)
Total other economic flows – other comprehensive income	**14 223**	**13 544**
Comprehensive result – total change in net worth	**15 970**	**15 218**
FISCAL AGGREGRATES		
Net operating balance	**2 146**	**2 680**
Net acquisition of non-financial assets from transactions		
Purchases of non-financial assets (including change in inventories)	9 039	6 835
Less: sales of non-financial assets	(475)	(453)
Less: depreciation	(4 824)	(4 658)
Plus: other movements in non-financial assets	451	1 202
Less: net acquisition of non-financial assets from transactions	**4 191**	**2 926**
Net lending/(borrowing)	**(2 045)**	**(246)**

Source: Department of Treasury and Finance

Table 5.2: Non-financial public sector balance sheet for the financial year ended 30 June ($ million)

	2017	*2016*
Assets		
Financial assets		
Cash and deposits	6 684	5 574
Advances paid	280	153
Receivables	6 803	6 412
Investments, loans and placements	4 791	3 906
Investments accounted for using the equity method	2 187	1 918
Investments in other sector entities	3 386	2 481
Total financial assets	**24 131**	**20 444**
Non-financial assets		
Inventories	671	709
Non-financial assets held for sale	432	200
Land, buildings, infrastructure, plant and equipment	238 806	226 481
Other non-financial assets [(a)]	2 504	2 294
Total non-financial assets [(a)]	**242 414**	**229 685**
Total assets [(a)]	**266 545**	**250 128**
Liabilities		
Deposits held and advances received	997	802
Payables	15 584	6 865
Borrowings	40 607	45 409
Employee benefits	6 928	6 551
Superannuation	24 938	29 354
Other provisions	1 471	1 047
Total liabilities	**90 525**	**90 029**
Net assets [(a)]	**176 019**	**160 099**
Accumulated surplus/(deficit) [(a)]	75 239	61 264
Reserves	100 780	98 785
Non-controlling interest	..	50
Net worth [(a)]	**176 019**	**160 099**
FISCAL AGGREGATES		
Net financial worth	(66 395)	(69 585)
Net financial liabilities	69 781	72 066
Net debt	29 849	36 578

Source: Department of Treasury and Finance

Note:

(a) June 2016 comparative figures have been restated to reflect an adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets and opening accumulated surplus/(deficit) balances due to the first-time recognition of Renewable Energy Certificates.

Table 5.3: Non-financial public sector cash flow statement for the financial year ended 30 June ($ million)

	2017	2016
Cash flows from operating activities		
Receipts		
Taxes received	21 421	19 339
Grants	27 525	25 364
Sales of goods and services [(a)]	20 951	12 056
Interest received	336	365
Dividends and income tax equivalent and rate equivalent receipts	307	424
Other receipts	2 368	2 567
Total receipts	**72 908**	**60 115**
Payments		
Payments for employees	(22 103)	(20 684)
Superannuation	(3 169)	(2 990)
Interest paid	(2 452)	(2 625)
Grants and subsidies	(7 060)	(5 616)
Goods and services [(a)]	(21 651)	(20 680)
Other payments	(739)	(468)
Total payments	**(57 174)**	**(53 064)**
Net cash flows from operating activities	**15 734**	**7 051**
Cash flows from investing activities		
Purchases of non-financial assets	(9 041)	(6 801)
Sales of non-financial assets	475	453
Cash flows from investments in non-financial assets	**(8 566)**	**(6 348)**
Net cash flows from investments in financial assets for policy purposes	(62)	345
Sub-total	**(8 628)**	**(6 003)**
Net cash flows from investments in financial assets for liquidity management purposes	(911)	567
Net cash flows from investing activities	**(9 539)**	**(5 436)**
Cash flows from financing activities		
Advances received (net)	107	..
Net borrowings	(5 281)	(1 457)
Deposits received (net)	87	42
Net cash flows from financing activities	**(5 087)**	**(1 414)**
Net increase/(decrease) in cash and cash equivalents	**1 108**	**201**
Cash and cash equivalents at beginning of the reporting period	5 574	5 374
Cash and cash equivalents at end of the reporting period [(b)]	**6 683**	**5 574**
FISCAL AGGREGATES		
Net cash flows from operating activities	15 734	7 051
Net cash flows from investments in non-financial assets	(8 566)	(6 348)
Cash surplus/(deficit)	**7 168**	**702**

Source: Department of Treasury and Finance

Notes:

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

(b) Cash and cash equivalents at the end of the reporting period does not equal cash and deposits on the balance sheet. This is due to overdrafts being included in the cash flow statement balances.

Table 5.4: Non-financial public sector statement of changes in equity ($ million)

	Accumulated surplus/(deficit)	Non-controlling Interest	Non-financial assets revaluation surplus	Investment in other sector entities revaluation surplus	Other reserves	Total
2017						
Balance at 1 July 2016 [(a)]	61 264	50	94 963	2 819	1 002	160 099
Net result for the year	1 747	..	..	..	..	1 747
Other comprehensive income for the year	4 367	..	8 792	906	158	14 223
Transfer to/(from) accumulated surplus	7 861	..	(7 861)	..	..	..
Transactions with owners in their capacity as owners	..	(50)	..	..	..	(50)
Total equity as at 30 June 2017	**75 239**	**..**	**95 895**	**3 725**	**1 160**	**176 019**
2016						
Balance at 1 July 2015 [(a)]	62 998	50	77 427	3 240	1 166	144 882
Net result for the year	1 673	..	..	..	..	1 673
Other comprehensive income for the year	(3 385)	..	17 514	(421)	(163)	13 544
Transfer to/(from) accumulated surplus	(22)	..	22	..	..	..
Total equity as at 30 June 2016 [(a)]	**61 264**	**50**	**94 963**	**2 819**	**1 002**	**160 099**

Source: Department of Treasury and Finance

Note:

(a) The 1 July 2015 and 30 June 2016 comparative figures have been restated to reflect an adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets and opening accumulated surplus/(deficit) balances due to the first-time recognition of the Renewable Energy Certificates.

Table 5.5: Derivation of non-financial public sector GFS cash surplus/(deficit) ($ million)

	2017	2016
Cash surplus/(deficit)	**7 168**	**702**
Acquisitions under finance leases and similar arrangements	(544)	(1 050)
Port of Melbourne lease transaction [(a)]	(8 946)	..
Total convergence difference:	*(9 490)*	*(1 050)*
GFS cash surplus/(deficit) [(b)]	**(2 322)**	**(348)**

Source: Department of Treasury and Finance

Notes:

(a) The convergence difference for the Port of Melbourne lease transaction arises because GFS recognises the transaction as a sale of equity from the general government sector, whereas under Australian Accounting Standards the Port of Melbourne lease transaction has been treated as an operating lease with the leased assets remaining within the public non-financial corporations sector.

(b) Determined in accordance with the ABS GFS manual.

Table 5.6: General government sector detailed expenses by function [(a)] **($ million)**

Output description (general purpose classification)	*2017*	*2016 [(b)]*
General public services	**2 615**	**2 662**
Other general public services	2 615	2 662
Public order and safety	**6 740**	**6 269**
Police and fire protection services	4 450	3 902
Police services	3 197	2 694
Fire protection services	1 253	1 208
Law courts and legal services	703	889
Prisons and corrective services	1 228	1 080
Other public order and safety	358	398
Education	**14 185**	**13 424**
Primary and secondary education	10 876	10 274
Primary education	5 554	5 439
Secondary education	5 282	4 810
Primary and secondary education NEC [(c)]	39	24
Tertiary education	2 046	1 980
Technical and further education	2 046	1 980
Pre-school education and education not definable by level	1 149	1 060
Pre-school education	389	351
Special education	759	709
Transportation of students	115	110
Transportation of non-urban school children	82	79
Transportation of other students	33	31
Health	**16 932**	**15 498**
Acute care institutions	13 219	12 176
Admitted patient services in acute care institutions	11 557	10 580
Non-admitted patient services in acute care institutions	1 662	1 596
Mental health institutions	..	..
Nursing homes for the aged	254	258
Community health services	3 088	2 733
Community health services (excluding community mental health)	772	675
Community mental health	1 371	1 266
Patient transport	945	791
Public health services	322	286
Pharmaceuticals, medical aids and appliances	1	1
Health research	48	43
Social security and welfare	**4 242**	**4 372**
Welfare services	4 242	4 372
Family and child services	1 247	1 123
Welfare services for the aged	481	986
Welfare services for people with a disability	1 974	1 705
Welfare services NEC [(c)]	540	558
Housing and community amenities	**3 346**	**2 610**
Housing and community development	2 767	2 015
Housing	606	460
Aboriginal community development	25	18
Other community development	2 136	1 537
Water supply	138	120
Sanitation and protection of the environment	432	465
Other community amenities	10	9

Table 5.6: General government sector detailed expenses by function *(continued)* **($ million)**

Output description (general purpose classification)	*2017*	*2016* [b]
Recreation and culture	**778**	**802**
Recreation facilities and services	325	387
National parks and wildlife	87	88
Recreation facilities and services NEC [c]	238	298
Cultural facilities and services	453	415
Fuel and energy	**180**	**128**
Electricity and other energy	180	128
Electricity	34	33
Fuel and energy NEC [c]	147	95
Agriculture, forestry, fishing and hunting	**387**	**414**
Agriculture	312	313
Forestry, fishing and hunting	76	101
Transport and communications	**7 008**	**6 245**
Road transport	2 082	1 661
Road maintenance	436	416
Road construction	944	871
Road transport NEC [c]	702	373
Rail transport	4 732	4 473
Urban rail transport services	4 732	4 473
Non-urban rail transport passenger services	..	..
Other transport	193	111
Other transport NEC [c]	193	111
Other economic affairs	**1 205**	**857**
Tourism and area promotion	247	223
Labour and employment affairs	168	135
Other labour and employment affairs	168	135
Other economic affairs	790	499
Other purposes	**1 141**	**1 350**
Public debt transactions	1 096	1 310
Other purposes NEC [c]	46	40
Not allocated by purpose [d]	**(551)**	**(579)**
Total	**58 210**	**54 052**

Notes:
(a) Chapter 4, Note 3.6 provides definitions and descriptions of government purpose classifications.
(b) June 2016 comparative figures have been reclassified to reflect more current information.
(c) NEC: Not elsewhere classified.
(d) Not allocated by purpose represents eliminations and adjustments.

VICTORIA'S 2016-17 LOAN COUNCIL ALLOCATION

Under the UPF, Victoria is required to publish the Loan Council Allocation (LCA) estimates. 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 jurisdiction.

Victoria discloses the LCA information through the *Financial Report* for the State of Victoria, Budget Paper No. 5 *Statement of Finances* and Budget Update.

Table 5.7 compares the Victorian 2016-17 LCA nomination as published in the *2016-17 Budget* with the 2016-17 outcome.

Table 5.7: Loan Council Allocation 2016-17 **($ million)**

	2017 budget	*2017 actual*
General government cash deficit(+) or surplus (-)	1 518	1 467
Public non-financial corporations sector cash deficit(+) or surplus (-)	(4 869)	(8 637)
Non-financial public sector cash deficit(+) or surplus(-) [(a)]	(3 369)	(7 168)
Acquisitions under finance leases and similar arrangements	517	544
ABS GFS cash deficit(+) or surplus(-)	(2 852)	(6 624)
Less Net cash flows from investments in financial assets for policy purposes [(b)]	107	62
Plus memorandum items [(c)]	494	340
Loan Council Allocation	**(2 465)**	**(6 346)**
Tolerance limit (2 per cent of non-financial public sector cash receipts from operating activities) [(d)]	**1 385**	**1 385**

Source: Department of Treasury and Finance

Notes:

(a) *The sum of the deficit of the general government and public non-financial corporation sector does not directly equal the non-financial public sector cash deficit due to inter-sectoral transfers, which are netted out in the calculation of the non-financial public sector figure. The non-financial public sector cash deficit excludes finance lease acquisitions.*

(b) *The ABS GFS cash deficit is adjusted to include in the LCA the impact of net cash flows from investments in financial assets for policy purposes.*

(c) *The ABS GFS cash deficit is adjusted to include in the LCA the impact of memorandum items, which include certain transactions that have many of the characteristics of public sector borrowings but do not constitute formal borrowings (e.g. operating leases). They also include, where appropriate, transactions that the Loan Council has agreed should not be included in the LCA (e.g. the over/under funding of employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities).*

(d) *A tolerance limit equal to 2 per cent of total non-financial public sector cash receipt from operating activities applies to the movement between a jurisdiction's LCA budget estimate and LCA outcome (calculated using estimates in the* 2016-17 Budget*). The tolerance limit applying to the movement between Victoria's 2016-17 LCA budget estimate and its LCA outcome is $1 385 million (2 per cent of $69 243 million).*

As part of the Loan Council arrangements, the Council has agreed that if at any time a state or territory find that it is likely to exceed its tolerance limit, in either direction, it is required to provide an explanation to the Council and, in line with the emphasis of increased transparency, to make the explanation public. Victoria's 2016-17 LCA outcome (a surplus of $6.3 billion) is $3.9 billion higher than the budgeted LCA and exceeds the 2016-17 tolerance limit. This is primarily due to higher than originally forecast proceeds from the medium-term lease over the Port of Melbourne operations.

NEW INFRASTRUCTURE PROJECTS WITH PRIVATE SECTOR INVOLVEMENT

In the interest of transparency, the State is required to disclose the details of new infrastructure projects with private sector involvement that are expected to be contracted during the LCA year, and to report the 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, the LCA. The amount payable will not exceed the fair market value of the project (which is usually calculated by an independent valuer) less any costs incurred by the Government as a result of the default.

Listed below are details of the public private partnership (PPP) projects that were contracted in the 2016-17 financial year.

High Capacity Metro Trains

The High Capacity Metro Trains (HCMT) project was procured as an availability PPP project. The contract with Evolution Rail was executed in November 2016. Under the contract, Evolution Rail is responsible for the design, financing, manufacture and commissioning of 65 new 7-car HCMTs, the Pakenham East Depot (including a train maintenance facility, two simulators and a stabling yard), and the Calder Park Light Service Facility. Evolution Rail will also be responsible for the maintenance activities over the maintenance phase of the contract (from Provisional Acceptance of the first HCMT until 30 years post-Provisional Acceptance of the fleet). The trains will be progressively delivered into service from 2019 until mid-2023, providing a dedicated fleet for the Cranbourne Pakenham line.

Once opened, the trains will service the Metro Tunnel, and run through to Sunbury. The Depot and the Light Service Facility will provide the flexibility to cater for the future rolling stock maintenance needs of the network. Associated infrastructure upgrades on the Cranbourne Pakenham and Sunbury lines will be separately delivered by the State.

There are no other Partnerships Victoria contracts greater than $5 million that were signed during the 2016-17 financial year.

APPENDIX A – GENERAL GOVERNMENT SECTOR QUARTERLY FINANCIAL REPORT

Table A.1: Operating statement for the past five quarters ($ million)

	2015-16	2016-17			
	Jun	*Sep*	*Dec*	*Mar*	*Jun*
Revenue from transactions					
Taxation revenue	4 353	5 265	5 397	6 880	4 730
Interest revenue	206	168	207	230	258
Dividends, income tax equivalent and rate equivalent revenue	288	78	360	57	164
Sales of goods and services	1 879	1 672	1 744	1 736	1 786
Grant revenue	6 227	6 699	6 620	7 556	6 667
Other revenue	892	510	779	570	786
Total revenue from transactions	**13 847**	**14 391**	**15 107**	**17 029**	**14 391**
Expenses from transactions					
Employee expenses	5 367	5 179	5 257	5 249	5 812
Net superannuation interest expense	218	199	149	171	172
Other superannuation	488	552	596	581	603
Depreciation	698	627	629	639	722
Interest expense	522	472	540	498	517
Grant expense	1 577	2 587	2 337	3 006	2 541
Other operating expenses	5 549	4 295	4 692	4 313	5 274
Total expenses from transactions	**14 418**	**13 911**	**14 200**	**14 456**	**15 643**
Net result from transactions – net operating balance	**(572)**	**480**	**907**	**2 573**	**(1 251)**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	(141)	(2)	17	18	18
Net gain/(loss) on financial assets or liabilities at fair value	21	16	(3)	22	(12)
Share of net profit/(loss) from associates/joint venture entities, excluding dividends	(6)	..	(3)	..	4
Other gains/(losses) from other economic flows	(303)	(124)	(63)	(80)	42
Total other economic flows included in net result	**(429)**	**(110)**	**(51)**	**(41)**	**52**
Net result	**(1 001)**	**370**	**856**	**2 532**	**(1 199)**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	6 258	(93)	4	25	6 154
Remeasurement of superannuation defined benefits plans	(1 243)	256	2 729	617	765
Other movements in equity	13	68	14	..	6
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	(31)	6	13	42	(7)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	10 860	..	644	..	2 478
Total other economic flows – other comprehensive income	**15 857**	**236**	**3 404**	**684**	**9 396**
Comprehensive result – total change in net worth	**14 856**	**607**	**4 260**	**3 216**	**8 197**
KEY FISCAL AGGREGATES					
Net operating balance	**(572)**	**480**	**907**	**2 573**	**(1 251)**
Less: Net acquisition of non-financial assets from transactions	236	7	164	955	527
Net lending/(borrowing)	**(808)**	**473**	**744**	**1 617**	**(1 778)**

Table A.2: Balance sheet as at the end of the past five quarters **($ million)**

	2015-16		*2016-17*		
	Jun	*Sep*	*Dec*	*Mar*	*Jun*
Assets					
Financial assets					
Cash and deposits	4 772	4 079	4 319	3 900	5 530
Advances paid	4 582	4 586	14 156	13 648	12 939
Receivables	5 566	5 866	5 469	7 108	5 931
Investments, loans and placements	2 853	3 057	5 516	5 720	3 673
Investments accounted for using the equity method	46	47	44	44	47
Investments in other sector entities	94 710	95 473	88 196	89 043	92 509
Total financial assets	**112 531**	**113 108**	**117 701**	**119 462**	**120 630**
Non-financial assets					
Inventories	188	186	186	187	173
Non-financial assets held for sale	188	183	183	182	405
Land, buildings, infrastructure, plant and equipment	114 254	114 009	114 148	115 219	121 776
Other non-financial assets [(a)]	1 184	1 619	1 535	1 456	1 494
Total non-financial assets [(a)]	**115 814**	**115 998**	**116 052**	**117 044**	**123 849**
Total assets [(a)]	**228 345**	**229 106**	**233 753**	**236 506**	**244 478**
Liabilities					
Deposits held and advances received	706	717	10 393	9 913	9 088
Payables	5 773	5 481	5 084	5 227	5 815
Borrowings	33 811	34 551	27 986	28 684	28 816
Employee benefits	6 137	6 098	6 244	6 050	6 506
Superannuation	29 291	29 044	26 566	25 944	24 900
Other provisions	829	861	866	858	1 326
Total liabilities	**76 547**	**76 751**	**77 139**	**76 676**	**76 451**
Net assets [(a)]	**151 798**	**152 355**	**156 614**	**159 831**	**168 027**
Accumulated surplus/(deficit) [(a)]	44 557	45 286	48 817	51 977	51 464
Reserves	107 191	107 069	107 797	107 853	116 563
Non-controlling interest	50	..	..	..	..
Net worth [(a)]	**151 798**	**152 355**	**156 614**	**159 831**	**168 027**
FISCAL AGGREGATES					
Net financial worth	35 984	36 357	40 562	42 787	44 178
Net financial liabilities	58 727	59 116	47 634	46 256	48 331
Net debt	22 309	23 545	14 387	15 330	15 762

Note:
(a) June 2016 comparative figures have been restated to reflect an adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets and opening accumulated surplus/(deficit) balances due to the first-time recognition of Renewable Energy Certificates.

Table A.3: Statement of cash flows for the past five quarters **($ million)**

	2015-16	2016-17			
	Jun	*Sep*	*Dec*	*Mar*	*Jun*
Cash flows from operating activities					
Receipts					
Taxes received	5 092	5 078	5 805	5 121	5 782
Grants	6 200	6 699	6 621	7 552	6 670
Sales of goods and services [(a)]	2 060	1 891	1 890	2 031	1 926
Interest received	231	169	208	228	257
Dividends and income tax equivalent and rate equivalent receipts	88	106	417	57	163
Other receipts	556	317	515	360	543
Total receipts	**14 227**	**14 260**	**15 456**	**15 348**	**15 341**
Payments					
Payments for employees	(5 026)	(5 227)	(5 060)	(5 391)	(5 288)
Superannuation	(689)	(743)	(495)	(756)	(1 054)
Interest paid	(491)	(493)	(529)	(499)	(477)
Grants and subsidies	(1 509)	(2 670)	(2 417)	(3 013)	(2 103)
Goods and services [(a)]	(4 646)	(4 563)	(4 917)	(4 106)	(4 462)
Other payments	(204)	(194)	(179)	(167)	(80)
Total payments	**(12 566)**	**(13 890)**	**(13 595)**	**(13 932)**	**(13 463)**
Net cash flows from operating activities	**1 661**	**370**	**1 861**	**1 416**	**1 878**
Cash flows from investing activities					
Purchases of non-financial assets	(1 429)	(1 564)	(1 556)	(1 963)	(2 195)
Sales of non-financial assets	87	24	40	49	173
Cash flows from investments in non-financial assets	**(1 341)**	**(1 540)**	**(1 516)**	**(1 914)**	**(2 022)**
Net cash flows from investments in financial assets for policy purposes	359	(90)	(760)	485	499
Sub-total	**(982)**	**(1 630)**	**(2 276)**	**(1 429)**	**(1 523)**
Net cash flows from investments in financial assets for liquidity management purposes	961	(184)	(2 454)	(141)	2 029
Net cash flows from investing activities	**(22)**	**(1 813)**	**(4 730)**	**(1 570)**	**506**
Cash flows from financing activities					
Advances received (net)	..	(13)	9 592	(483)	(718)
Net borrowings	(1 336)	740	(6 566)	214	72
Deposits received (net)	54	23	85	3	(108)
Net cash flows from financing activities	**(1 282)**	**750**	**3 110**	**(265)**	**(754)**
Net increase/(decrease) in cash and cash equivalents	**357**	**(693)**	**240**	**(419)**	**1 630**
Cash and cash equivalents at beginning of the reporting period	4 415	4 772	4 079	4 319	3 900
Cash and cash equivalents at end of the reporting period	**4 772**	**4 079**	**4 319**	**3 900**	**5 530**
FISCAL AGGREGATES					
Net cash flows from operating activities	1 661	370	1 861	1 416	1 878
Net cash flows from investments in non-financial assets	(1 341)	(1 540)	(1 516)	(1 914)	(2 022)
Cash surplus/(deficit)	**320**	**(1 170)**	**345**	**(497)**	**(144)**

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

APPENDIX B – *FINANCIAL MANAGEMENT ACT 1994* – COMPLIANCE INDEX

The *Financial Management Act 1994* (the Act) requires the Minister to prepare an audited annual financial report for tabling in Parliament. This report has been prepared in accordance with applicable Australian Accounting Standards and the Act.

The Act also 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 1994 *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 consolidated comprehensive operating statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity 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	Consolidated balance sheet, page 31
	(i) the transactions on the Public Account;	Refer Chapter 4, Note 8.2, pages 116-128
	(ii) the transactions of the Victorian general government sector; and	Refer Chapter 4, consolidated comprehensive operating statement page 30, consolidated cash flow statement page 32 and selected notes
	(iii) other financial transactions of the State;	Refer Chapter 4, consolidated comprehensive operating statement page 30, consolidated cash flow statement page 32 and Notes 1-8, pages 34-128

Financial Management Act 1994 *reference*	*Requirement*	*Comments/reference*
	in respect of the financial year;	
	(c) must include details of amounts paid into working accounts under section 23;	Refer Chapter 4, Note 8.2.9, page 123
	(d) must include details of amounts allocated to departments during the financial year under section 28;	Refer Chapter 4, Note 8.2.10, page 123
	(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 8.2.12, page 124
	(f) must include particulars of amounts transferred in accordance with determinations under section 30 or 31;	Refer Chapter 4, Note 8.2.11, page 124
	(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 8.2.13, page 125
	(ii) the application during the financial year of amounts referred to in subparagraph (i); and	Refer Chapter 4, Note 8.2.13, page 125
	(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 8.2.13, page 125
	(h) must include;	
	(i) details of expenses and obligations met from money advanced to the Minister under section 35(1) during the financial year; and	Refer Chapter 4, Note 8.2.15, page 128
	(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 8.2.16, page 128
	(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 8.2.14, pages 126-128

Financial Management Act 1994 *reference*	*Requirement*	*Comments/reference*
	(j) must include details of;	
	(i) payments made during the financial year in fulfilment of any guarantee by the Government under any Act; and	Refer Chapter 4, Note 8.2.17, page 128
	(ii) money received or recovered by the Minister or Treasurer during the financial year in respect of any guarantee payments;	Refer Chapter 4, Note 8.2.17, page 128
	(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 7.2 pages 91-95, Note 3.2 page 43 and consolidated balance sheet page 31
	(ii) prescribed assets and prescribed liabilities of prescribed bodies;	Refer Chapter 4, Note 9.1, pages 130-137, and Chapter 5, Table 5.2, page 155
	(l) must be audited by the Auditor-General.	Refer Chapter 4, *Report of the Auditor-General*, pages 25-28
Section 26(1)	The Minister must prepare a quarterly financial report for each quarter of each financial year.	Refer Appendix A, pages 163-165
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, page 163
	(b) a statement of financial position of the Victorian general government sector at the end of the quarter;	Refer Appendix A, page 164
	(c) a statement of cash flows of the Victorian general government sector for the quarter; and	Refer Appendix A, page 165
	(d) a statement of the accounting policies on which the statements required by paragraphs (a), (b) and (c) are based.	Refer Chapter 4

Financial Management Act 1994 *reference*	*Requirement*	*Comments/reference*
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.	Refer to Appendix A for agreed form, pages 163-165
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, consolidated comprehensive operating statement page 30, consolidated balance sheet page 31, consolidated cash flow statement page 32 and selected notes

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
1 billion	1 000 million
1 basis point	0.01 per cent
..	zero, or rounded to zero
(x xxx.x)	negative amount
x xxx.0	rounded amount
201x	financial year

Please refer to the **Treasury and Finance glossary for budget and financial reports** at dtf.vic.gov.au for additional terms and references.

The Annual Financial Report is based on the style set in the example of a general purpose financial report for a government in illustrative example A of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The styles used in other chapters of this document are generally consistent with those used in other publications relating to the annual budget papers.

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