Getting on with the job

Victorian Budget 17/18

2017-18 Financial Report

(incorporating Quarterly Financial Report No. 4)
Presented by Tim Pallas MP
Treasurer of the State of Victoria

VICTORIA State Government

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for the information of Honourable Members

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CHAPTER 1 – FOREWORD

PURPOSE

The *2017-18 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 2017-18 results. Chapter 2 analyses the results for the general government sector, comparing them with the actuals in 2016-17 and the revised estimates for the year as presented in the *2018-19 Budget*. Chapter 3 presents the 2017-18 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. Appendix A includes the Quarterly Financial Report for the general government sector as required by Section 26 of the *Financial Management Act 1994*. Appendix B presents a compliance index providing a linkage between the relevant legislative provisions relating to the preparation of this report and the disclosure provided therein.

ECONOMIC CONTEXT

Victoria's economy continued to perform strongly in 2017-18, leading to significant jobs growth of 86 500. This was supported by high population growth, low interest rates, a robust global economy and increased public infrastructure spending.

Victoria's state final demand grew by 5.0 per cent in 2017-18, well above the national average increase (3.5 per cent) and representing the fastest rate of growth in 8 years. Gross state product is forecast to expand by 3.0 per cent in 2017-18.

Key drivers of the growth in demand were household consumption expenditure, public demand and private business investment, which rose 3.8, 7.3 and 9.7 per cent, respectively, in 2017-18. Dwelling investment growth eased after an extended period of strong growth.

The increase in public demand in part reflects the Government's significant infrastructure program. This has also supported private business investment, including engineering construction with transport projects growing strongly in 2017-18. This is consistent with surveys that indicate ongoing strength in business conditions.

Strong population growth has continued to support increased economic activity in Victoria. Victoria's population expanded by 2.3 per cent over the year to December 2017, well above the rate of growth for the rest of Australia (1.3 per cent). All components contributed to this growth: natural increase, net interstate migration and net overseas migration.

Ongoing strength in the economy also continued to be reflected in improved labour market conditions. Employment in Victoria grew by 2.7 per cent in 2017-18, with full-time employment rising by 3.0 per cent and part-time employment by 2.2 per cent. This took the unemployment rate down to a six-year low of 5.6 per cent over 2017-18, despite the participation rate marking a new record high of 65.9 per cent over 2017-18. By the end of June 2018, 345 000 jobs had been created in the Victorian economy since the Government was elected in 2014, including 42 600 in regional Victoria.

Inflation and wage growth picked up in 2017-18, although the latter remained subdued. Modest wage growth and strong competitive pressures, particularly in the retail sector, continued to constrain aggregate inflation.

Victoria's strong economy underpinned the State's robust fiscal position in 2017-18 and continues to support the State's triple-A credit rating.

FISCAL OUTCOMES

The Government achieved a general government sector operating surplus of $2.3 billion for 2017-18. Victoria continues to forecast strong surpluses every year over the budget and forward estimates period.

The operating surplus was $270 million higher than the revised budget estimate in the *2018-19 Budget*, reflecting higher than expected revenue partially offset by higher than estimated expenses.

Total revenue from transactions for the general government sector was $64.6 billion. This was $584 million above the revised budget estimate and $3.7 billion higher than the previous year.

State taxation revenue was $22.9 billion, $483 million above the revised budget estimate, and $657 million higher than in 2016-17. This was primarily driven by higher land transfer duty resulting from increased activity in the commercial property sector.

The increase in State taxation revenue compared to 2016-17 was moderated by the impact of the large one-off prepayment in the prior 2016-17 revenues of the port licence fees associated with the medium-term lease of the Port of Melbourne ($783 million).

Dividends, income tax and rate equivalent revenue was $781 million, $44 million above the revised budget estimate and $123 million higher than in 2016-17. The increase in 2017-18 was mainly due to higher dividends received from the public non-financial corporation sector.

Revenue from the sale of goods and services of $7.3 billion was $252 million above the revised budget estimate and $400 million higher than in 2016-17. This higher than anticipated sales of goods and services was primarily driven by increased activity in the health sector and increased activity in the property market.

Grant revenue of $29.9 billion was $2.4 billion higher than in 2016-17, but slightly below ($414 million) the revised budget estimate. The increase in 2017-18 was largely driven by higher GST grants from the Commonwealth resulting from strong population growth in Victoria. The below budget estimate outcome is primarily due to a rephasing of grants.

Total expenses for the general government sector were $62.3 billion for 2017-18, $314 million higher than the revised budget estimate in the *2018-19 Budget* and $4.1 billion more than the previous year.

Employee expenses of $23.3 billion were $282 million above the revised budget and $1.8 billion higher than 2016-17. Compared to the previous year, this was mainly attributable to increased service delivery in the public health sector to meet the demand for hospital services, investments in initiatives to end family violence, increase in staffing levels including police, custodial officers and community correction practitioners to deliver on the Government's community safety agenda and additional staff in schools to deliver the Government's Education State commitment. The increase in employee expenses also reflects increases in average remuneration levels consistent with enterprise bargaining agreements, including government schools, police and public health sector agreements.

Other operating expenses for 2017-18 were $19.8 billion, $562 million below the revised budget and $1.2 billion higher than the previous year. Lower than expected expenses compared to the revised budget largely reflected differences in the timing of activity across the major departments. The increase in expenses over the year mainly reflected additional spending in the health, community safety, family violence, and transport sectors.

Government infrastructure investment, which includes general government net infrastructure investment and estimated construction related cash outflows for Partnership Victoria projects (net of asset sales), was $12 billion for 2017-18. This was $346 million above the revised budget.

Net debt for the general government sector was $20.0 billion as at 30 June 2018, 4.7 per cent of estimated gross state product, and in line with the revised budget estimate. The increase from $15.8 billion in the previous year reflects the additional borrowings required to finance the Government's significant infrastructure program. Net debt as a proportion of the economy as at 30 June 2018 is lower than the level in the previous government's final year in office.

Victoria continues to maintain its triple-A credit rating in the latest Moody's report and Standard & Poor's report. Moody's noted 'Victoria's triple-A rating is well placed when compared to most Australian states and territories with healthy economic growth, positive fiscal results, with strong revenue growth and a manageable debt burden'. 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 $2.3 billion for 2017-18. Victoria continues to forecast strong surpluses every year over the budget and forward estimates period.
- The operating surplus was $270 million higher than the revised estimate. This was due to higher than expected revenue of $584 million, partially offset by higher than expected expenses of $314 million.
- The level of Government infrastructure investment, which includes general government net infrastructure investment and estimated construction related cash outflows for Partnership Victoria projects (net of asset sales), was $12 billion for 2017-18. This is $346 million higher than the revised budget.
- Net debt for the general government sector of $20.0 billion (4.7 per cent of gross state product (GSP)) at 30 June 2018 was in line with the $19.6 billion (4.6 per cent of GSP) expected in the revised budget published in the *2018-19 Budget*.
- Victoria continues to maintain its triple-A credit rating in the latest Moody's report and Standard & Poor's report. Moody's noted 'Victoria's triple-A rating is well placed when compared to most Australian states and territories with healthy economic growth, positive fiscal results, with strong revenue growth and a manageable debt burden'. Standard & Poor's recognised 'the state's very strong financial management and economy, exceptional liquidity and the extremely predictable and supportive institutional framework'.

FISCAL OBJECTIVES

As part of the *2017-18 Budget,* the Government outlined its fiscal strategy and objectives for the 2017-18 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 2017-18 results were consistent with the Government's fiscal strategy and objectives, with:

- a net operating surplus of $2.3 billion for the 2017-18 financial year;
- net debt to GSP increasing from 3.9 per cent at 30 June 2017 to 4.7 per cent at 30 June 2018; 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 2017-18 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)**

	2017 actual	*2018 actual*	*2018 revised*
Operating statement aggregates			
Net result from transactions – net operating balance	2 709	2 313	2 042
Net result	2 559	1 486	1 349
Net lending/(borrowing)	1 055	(910)	(106)
Comprehensive result – total change in net worth	16 279	16 089	3 594
Cash surplus/(deficit)	(1 467)	(5 327)	(5 005)
Balance sheet aggregates			
Net worth	168 027	184 116	171 621
Net financial worth	44 178	47 540	44 898
Net financial liabilities	48 331	53 713	51 848
Net debt	15 762	20 003	19 625
			(per cent)
Net debt to GSP [(a)]	**3.9**	**4.7**	**4.6**

Source: Department of Treasury and Finance

Note:
(a) The ratios to GSP may vary from publications year to year due to revisions to the Australian Bureau of Statistics (ABS) data.

The **net result from transactions** surplus of $2.3 billion was $270 million higher than the revised 2017-18 estimate, largely reflecting higher than anticipated taxation revenue, which was primarily driven by higher land transfer duty resulting from increased activity in the commercial property sector.

The decrease of $396 million compared to the 2016-17 result was mainly due to increased service delivery in the health, education, community safety, family violence, and transport sectors, and the upfront recognition in the prior year of prepaid port licence fees associated with entering into the medium-term lease over the operations of the Port of Melbourne. This was partially offset by additional GST grants from the Commonwealth resulting from strong population growth in Victoria.

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 2017-18 net result was $137 million higher than the revised budget and $1.1 billion lower compared to 2016-17. The decrease from the prior year was primarily due to the same reasons as explained for the net result from transactions, as well as increased losses from other economic flows in 2017-18.

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 borrowings of $910 million for 2017-18 was $804 million higher than the revised estimate, mainly attributable to the Government's investment in infrastructure, partially offset by the higher net result from transactions compared to the revised estimate.

The 2017-18 **comprehensive result – total change in net worth** was $190 million lower than 2016-17. This primarily reflects the revaluation of the general government sector's assets and liabilities, which are reflected as other economic flows in the operating statement.

The increase of $12.5 billion from the revised budget reflects the impact of the revaluation of land and buildings in the year. It is also attributable to the gain on investments of the general government sector in other sector entities, primarily due to a revaluation of land held by the Director of Housing, and the strong operating results of statutory insurance and metropolitan water entities.

The **cash deficit** position in 2017-18 reflects the sum of net cash flows from operating and investing activities. The increased deficit position in 2017-18 compared to 2016-17 was primarily due to the Government's investment in infrastructure, partially offset by the proceeds from the sale of the State's share in Snowy Hydro Limited.

Net worth is a measure of economic wealth and is equal to net assets outlined in Table 2.4. The increase from both the previous year and revised budget is primarily due to additional infrastructure investment, the revaluation of land and buildings, and general government investments in other sector entities, primarily reflecting a revaluation of land held by the Director of Housing, and the strong operating results of statutory insurance and metropolitan water entities.

The year-on-year movement in **net financial worth**, which is equal to total financial assets less total liabilities, was mainly due to an increase in the general government investments in other sector entities discussed above.

Net financial liabilities are total liabilities less financial assets (excluding investments in other sector entities). Net financial liabilities were $53.7 billion as at 30 June 2018, $1.9 billion higher than in the revised budget. This increase is primarily due to higher payables primarily related to a growth in the Government's investment in infrastructure, and an increased superannuation liability reflecting a reduction in bond yields during 2017-18 and changes in actuarial assumptions.

Net debt reflects gross debt less liquid financial assets. Net debt of $20 billion at 30 June 2018 was in line with the revised estimates in the *2018-19 Budget*. The year-on-year increase in net debt largely reflects the additional borrowings required to finance the Government's significant infrastructure program. Net debt as a proportion of the economy as at 30 June 2018 is lower than the level in the previous government's final year in office.

FINANCIAL PERFORMANCE

Table 2.2 shows an operating surplus of $2.3 billion in 2017-18 compared with the revised 2017-18 estimate of $2.0 billion.

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

	2018 actual	*2018 revised*	*Revised variance*	*% revised variance*	*2017 actual*
Revenue from transactions					
Taxation revenue	22 929	22 446	483	2	22 272
Interest revenue	845	901	(56)	(6)	863
Dividends, income tax equivalent and rate equivalent revenue	781	737	44	6	658
Sales of goods and services	7 339	7 087	252	4	6 939
Grant revenue	29 928	30 342	(414)	(1)	27 542
Other revenue	2 767	2 492	275	11	2 645
Total revenue from transactions	**64 589**	**64 005**	**584**	**1**	**60 918**
Expenses from transactions					
Employee expenses	23 271	22 989	282	1	21 497
Net superannuation interest expense	714	714	..	..	692
Other superannuation	2 535	2 536	..	..	2 332
Depreciation	2 745	2 764	(19)	(1)	2 616
Interest expense	2 092	2 102	(10)	..	2 028
Other operating expenses	19 789	20 352	(562)	(3)	18 575
Grant expense	11 130	10 506	623	6	10 471
Total expenses from transactions	**62 276**	**61 963**	**314**	**1**	**58 210**
Net result from transactions – net operating balance	**2 313**	**2 042**	**270**	**13**	**2 709**
Total other economic flows included in net result	**(827)**	**(694)**	**(133)**	**19**	**(150)**
Net result	**1 486**	**1 349**	**137**	**10**	**2 559**

Revenue

Total revenue from transactions for the year was $64.6 billion, which was 0.9 per cent higher than the revised estimate. This was $3.7 billion, or 6.0 per cent, higher than the previous year.

Table 2.3 shows that State taxation revenue increased by $483 million when compared to the revised estimate, and $657 million higher than in 2016-17. This was primarily driven by higher land transfer duty resulting from increased activity in the commercial property sector.

The increase compared to 2016-17 was moderated by the impact of the large one-off prepayment in the prior 2016-17 revenues of the port licence fees associated with the medium-term lease of the Port of Melbourne ($783 million).

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

	2018 actual	2018 revised	Revised variance	% revised variance	2017 actual
Taxes on employers' payroll and labour force	**5 964**	**5 951**	**13**	**..**	**5 689**
Taxes on immovable property					
Land tax	2 586	2 514	72	3	2 501
Fire services property levy [(a)]	694	682	12	2	676
Congestion levy	103	115	(12)	(10)	119
Metropolitan improvement levy	183	176	7	4	167
Financial and capital transactions					
Land transfer duty	6 933	6 808	125	2	6 134
Metropolitan planning levy	23	26	(3)	(11)	27
Financial accommodation levy	146	149	(3)	(2)	135
Growth areas infrastructure contribution	265	208	57	27	189
Total taxes on property	**10 934**	**10 677**	**256**	**2**	**9 947**
Gambling taxes					
Public lotteries	415	415	..	..	402
Electronic gaming machines	1 115	1 099	16	1	1 070
Casino	222	227	(5)	(2)	227
Racing	72	71	..	1	74
Other	28	29	(1)	(4)	26
Levies on statutory corporations	**112**	**112**	**..**	**..**	**112**
Taxes on insurance	**1 299**	**1 265**	**34**	**3**	**1 218**
Total taxes on the provision of goods and services	**3 262**	**3 218**	**44**	**1**	**3 128**
Motor vehicle taxes					
Vehicle registration fees	1 560	1 411	149	11	1 553
Duty on vehicle registrations and transfers	920	916	3	..	818
Liquor licence fees	**24**	**23**	**1**	**3**	**23**
Other	**267**	**249**	**17**	**7**	**1 115**
Total taxes on the use of goods and performance of activities	**2 770**	**2 600**	**170**	**7**	**3 508**
Total taxation revenue	**22 929**	**22 446**	**483**	**2**	**22 272**

Note:
(a) The Government committed in May 2017 to cap the fire services property levy collection for 2017-18 and 2018-19 at the amount collected in 2016-17 ($662 million). In the 2018-19 Budget*, the Government decided to return the 2017-18 over-collection through reduced rates for the 2018-19 levy year.*

Dividends, income tax and rate equivalent revenue of $781 million increased by $123 million when compared to the previous year. The increase is mainly due to higher dividends revenue received from the public non-financial corporation sector.

Dividends, income tax and rate equivalent revenue in 2017-18 was $44 million above the revised estimate.

Revenue from the sale of goods and services of $7.3 billion was $252 million higher than the revised budget estimate, and $400 million higher than 2016-17. The higher than anticipated sales of goods and services was primarily driven by increased activity in the health sector and the property market.

Grant revenue of $29.9 billion was $2.4 billion higher compared to 2016-17. The increase was largely driven by higher GST grants from the Commonwealth resulting from strong population growth in Victoria.

Grant revenue was $414 million below the revised budget estimate, primarily due to rephasing of grants.

Expenses

Total general government sector expenses for 2017-18 were $314 million higher than the revised estimate in the *2018-19 Budget*. When compared with the previous year, total expenses increased by $4.1 billion (7.0 per cent).

Employee expenses of $23.3 billion for 2017-18 were 1.2 per cent higher than the revised budget and 8.3 per cent higher than 2016-17. Compared to the previous year, this was mainly attributable to increased service delivery in the public health sector to meet the demand for hospital services, investments in initiatives to end family violence, increase in staffing levels including police, custodial officers and community correction practitioners to deliver on the Government's community safety agenda and additional staff in schools to deliver the Government's Education State commitment. The increase in employee expenses also reflects increases in average remuneration levels consistent with enterprise bargaining agreements, including government schools, police and public health sector agreements.

Other superannuation expense of $2.5 billion for 2017-18 was in line with the revised budget. This expense was $203 million higher than in 2016-17 primarily due to higher employer contributions to the defined contribution plans and an increase in defined benefit service costs due to revised actuarial estimates.

Other operating expenses for 2017-18 were $19.8 billion, $562 million (2.8 per cent) lower than the revised budget and $1.2 billion higher than in 2016-17. The lower than expected expenses compared to the revised budget largely reflects differences in the timing of activity across the major departments.

The increase of 6.5 per cent since 2016-17 mainly reflects additional spending in the health, community safety and transport sectors.

Grant expense of $11.1 billion was $623 million higher than the revised budget and $659 million higher than in 2016-17. The reason for the increase from the revised budget was primarily due to higher grants on-passed to local government as a result of the Commonwealth bringing forward 2018-19 grants to 2017-18.

The increase compared to 2016-17 is mainly driven by the growth in Commonwealth non-government school grants and additional payments to the National Disability Insurance Agency as the National Disability Insurance Scheme roll-out continues.

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 2017-18 totalled a net loss of $827 million, primarily reflecting the de-recognition of tax assets relating to the sale of the State's share in Snowy Hydro Limited.

FINANCIAL POSITION

Table 2.4 shows the general government sector net assets increased by $16.1 billion (9.6 per cent) to $184.1 billion in 2017-18. This was $12.5 billion (7.3 per cent) higher than expected in the 2017-18 revised budget.

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

	2018 actual	*Revised variance*	*2018 revised*	*Actual movement*	*2017 actual*
Assets					
Financial assets (excluding investment in other sector entities)	26 464	2 639	23 825	(1 656)	28 120
Investment in other sector entities:					
Public non-financial corporations	97 212	4 218	92 995	8 086	89 126
Public financial corporations	4 040	288	3 752	658	3 383
Non-financial assets	136 577	9 854	126 722	12 728	123 849
Total assets	**264 294**	**16 999**	**247 295**	**19 816**	**244 478**
Liabilities					
Superannuation	25 205	969	24 235	304	24 900
Borrowings	33 506	1 867	31 640	4 690	28 816
Other liabilities	21 467	1 668	19 799	(1 268)	22 735
Total liabilities	**80 178**	**4 504**	**75 674**	**3 726**	**76 451**
Net assets	**184 116**	**12 495**	**171 621**	**16 089**	**168 027**

Assets

Financial assets in Table 2.4 include cash, investments, loans and placements. The value of financial assets held by the general government sector decreased by $1.7 billion during the year. The decrease is mainly due to higher advances in 2016-17 associated with the arrangements established to invest and ultimately apply the proceeds of the Port of Melbourne lease transaction. This was partially offset by higher investments in term deposits largely attributable to the State's receipt of the proceeds from the sale of its share in Snowy Hydro Limited.

General government investments in other sector entities increased by $8.7 billion in the year. This is mainly due to a revaluation of land held by the Director of Housing, and the strong operating results of statutory insurance and metropolitan water entities.

Non-financial assets increased by $12.7 billion during 2017-18, mainly due to the Government's investment in infrastructure, the revaluation of land and buildings, and the recognition of the Melbourne Exhibition Centre – Stage 2 development, the New Schools PPP project – Tranche 2, and the Ravenhall Correction Centre.

Liabilities

Total liabilities as at 30 June 2018 were $4.5 billion and $3.7 billion higher than the 2017-18 revised budget and the 2016-17 actual outcome respectively. The increase compared with the revised budget and the prior year mainly reflects an increase in borrowings reflecting the Government's investment in infrastructure. The increase is also due to higher payables primarily related to growth in the Government's investment in infrastructure, and an increased superannuation liability reflecting a reduction in bond yields during 2017-18 and changes in actuarial assumptions.

CASH FLOWS

Table 2.5 outlines the use of cash resources. It summarises cash generated through the operations of 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)**

	2017 actual	*2018 actual*	*2018 revised*
Net result from transactions – net operating balance	2 709	2 313	2 042
Add back: Non-cash revenues and expenses (net) [(a)]	2 816	1 782	2 045
Net cash flows from operating activities	**5 524**	**4 094**	**4 087**
Less: Total net investment in fixed assets [(b)]	**6 857**	**4 863**	**4 277**
Finance leases	544	610	648
Other investment activities (net) [(c)]	(8 423)	2 862	3 025
Decrease/(increase) in net debt	**6 546**	**(4 241)**	**(3 863)**

Source: Department of Treasury and Finance

Notes:

(a) Includes depreciation, prepayments and movements in the unfunded superannuation liability and liability for employee benefits, as well as operating cash flows not required to be recognised in the operating statement for the respective year.

(b) Includes total purchases of plant, property and equipment, and net capital contributions to other sectors of government net of proceeds from asset recycling

(c) The main driver of the variance between 2017 and 2018 actuals reflects the impact of the arrangements established to invest and apply the proceeds of the 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 generates significant direct and indirect employment, and wider economic benefits.

The level of Government infrastructure investment, which includes general government net infrastructure investment and estimated construction related cash outflows for Partnership Victoria projects (net of asset sales), was $12 billion. This is $346 million above the revised budget.

The Government's infrastructure scorecard 2017-18

Major projects completed during the year include:

- Bendigo Hospital redevelopment – Stage 2;
- CityLink–Tulla widening project – CityLink Tunnel to Melbourne Airport;
- Melbourne Exhibition Centre – Stage 2 development;
- Monash Children's Hospital;
- New Schools PPP project – Tranche 2; and
- Ravenhall Prison.

Major projects under procurement or in progress include:

- Ballarat Base Hospital expansion and redevelopment;
- Casey Hospital expansion;
- Caulfield to Dandenong conventional signalling and power infrastructure upgrade;
- Chandler Highway upgrade;
- City Loop fire and safety upgrade (Stage 2) and intruder alarm;
- Community Safety Statement (Police Assistance Line/Online reporting);
- Courts case management system;
- Cranbourne-Pakenham and Sunbury line upgrade;
- Drysdale Bypass;
- Echuca-Moama Bridge;
- Electronic medical records in Parkville;
- Family violence information sharing system reform (Central Information Point);
- Frankston line stabling;
- Goulburn-Murray Water Connections Project;
- Goulburn Valley Health redevelopment;
- High Capacity Metro Trains (HCMT) Project;
- Hurstbridge rail line upgrade;
- Joan Kirner Women's and Children's Hospital;
- Lara Prison precinct expansion;
- Level Crossing Removal Program;
- M80 Ring Road upgrade:
  - Sunshine Avenue to Calder Freeway;
  - Princes Freeway to Western Highway;
  - Sydney Road to Edgars Road;
  - Plenty Road to Greensborough Highway;
- Melbourne Park Redevelopment – Stages 2 and 3;
- Mernda Rail Extension Project;
- Metro Tunnel;
- Metropolitan Network Modernisation program;
- Modernising the Digital Train Radio System;
- Mordialloc Freeway;
- More E-Class trams and infrastructure;
- Murray Basin Rail Project;

The Government's infrastructure scorecard 2017-18 ***(continued)***

- New E-Class trams;
- New youth justice facility;
- Non-urban train radio renewal;
- Northern Hospital inpatient expansion – Stage 2;
- Princes Highway West duplication project – Winchelsea to Colac;
- Public housing renewal program;
- Public Safety – Police Response (Intelligence capability);
- Public Safety – Police Response (Mobile technology solution);
- Regional rail infrastructure and new regional trains;
- Regional Rail Revival;
- Royal Victorian Eye and Ear Hospital redevelopment;
- Shepparton Line Upgrade – Stage 2;
- Suburban Roads Upgrade;
- The new Footscray Hospital;
- Thompsons Road duplication;
- Tram procurement and supporting infrastructure;
- Victorian Heart Hospital;
- Victorian Infringement Enforcement and Warrant System;
- West Gate Tunnel Project;
- Western Highway duplication – Ballarat to Stawell;
- Western Roads Upgrade; 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 $188 billion at 30 June 2018 compared to $172 billion in the previous year. The balance sheet was strengthened during 2017-18 due to strong operating cash flow and increased non-financial assets due to investments in infrastructure and asset revaluations.
- The **net result from transactions** for the State in 2017-18 was a deficit of $10 million, compared with a surplus of $754 million in the previous year.
- The **net result** for the State was a surplus of $2.1 billion in 2017-18 compared with a $6.6 billion surplus in 2016-17. This reduction was driven by lower mark to market gains on borrowings due to changes in interest rates impacting the fair value of liabilities. This was also impacted by lower investment returns and higher claims liabilities valuations for the insurers.

This chapter sets out the financial results for the State of Victoria for 2017-18.

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 these 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 deficit from transactions of $10 million in 2017-18 compared with a surplus of $754 million in 2016-17.

The **net result** for the State is a surplus of $2.1 billion after including other economic flows. This compares with a $6.6 billion surplus in 2016-17. These outcomes are explained in Table 3.1.

OPERATING STATEMENT

Table 3.1: 2017-18 summary operating statement – State of Victoria ($ million)

	2017-18 actual	*2017-18 revised*	*Revised variance*	*% revised variance*	*2016-17 actual*
Revenue from transactions					
Taxation revenue	22 559	22 071	488	2.2	21 892
Interest revenue	667	551	116	21.0	711
Dividends, income tax equivalent and rate equivalent revenue	1 339	1 456	(117)	(8.0)	914
Sales of goods and services	15 136	14 815	320	2.2	14 539
Grant revenue	29 590	29 763	(173)	(0.6)	27 350
Other revenue	3 632	3 271	361	11.0	3 406
Total revenue from transactions	**72 923**	**71 928**	**995**	**1.4**	**68 812**
Expenses from transactions					
Employee expenses	24 483	24 176	308	1.3	22 617
Net superannuation interest expense	716	719	(3)	(0.4)	693
Other superannuation	2 687	2 681	5	0.2	2 475
Depreciation	5 041	5 059	(19)	(0.4)	4 869
Interest expense	2 770	2 518	252	10.0	2 729
Grant expense	7 639	7 129	509	7.1	7 624
Other operating expenses	29 598	29 980	(382)	(1.3)	27 053
Total expenses from transactions	**72 933**	**72 262**	**671**	**0.9**	**68 058**
Net result from transactions – net operating balance	**(10)**	**(334)**	**324**	**(97.0)**	**754**
Total other economic flows included in net result	**2 080**	**2 187**	**(107)**	**n.a.**	**5 816**
Net result	**2 070**	**1 853**	**217**	**11.7**	**6 570**

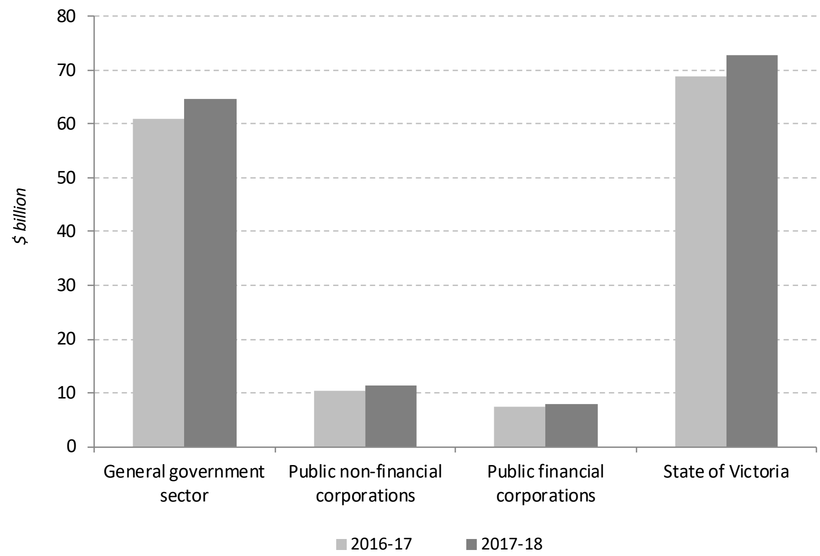
Source: Department of Treasury and Finance

Revenue

Total State revenue increased by 6 per cent in 2017-18 to $72.9 billion, $1 billion higher than the revised forecast in the *2018-19 Budget* and $4.1 billion higher than in 2016-17. The general government sector accounts for 89 per cent of total State revenue.

Increases in taxation and grant revenue in 2017-18 compared to 2016-17 in the general government sector were the main contributors toward these changes.

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, operating revenue increased by 9.3 per cent to $11.3 billion in 2017-18 compared to 2016-17. This was due to an increase in revenue for water corporations driven by higher water consumption and developer revenue and increased funding for the Murray Basin Rail project for V/Line.

In the PFC sector, operating revenue increased by 5.6 per cent to $7.9 billion in 2017-18 compared to $7.5 billion in 2016-17 mainly due to an increase in dividends received from investments and increased insurance premium revenue.

The PFC sector experienced strong investment returns overall due to favourable conditions in global equity markets, with the Transport Accident Commission (TAC), WorkSafe and Victorian Managed Insurance Authority (VMIA) recording an average return of 9.9 per cent on their investment portfolios for the financial year. The majority of the favourable movements are reported in the net result as part of other economic flows.

Expenses

Total State expenses increased by 7.2 per cent to $72.9 billion during 2017-18, $671 million higher than the revised forecast in the *2018-19 Budget* and $4.9 billion higher than in 2016-17. Most of these movements reflect the activities of the general government sector discussed in the previous chapter.

In the PNFC sector, total expenses increased during the year by 5.3 per cent or $565 million to $11.3 billion, $213 million lower than forecast in the *2018-19 Budget*.

The annual increase was mainly due to increases in employee expenses and other operating expenses, driven mainly by higher expenses by V/Line due to expenses for the Murray Basin Rail Project.

Within the PFC sector, total expenses increased by 5.1 per cent to $10 billion in 2017-18. This is mainly driven by an increase in claims expenses of the insurers.

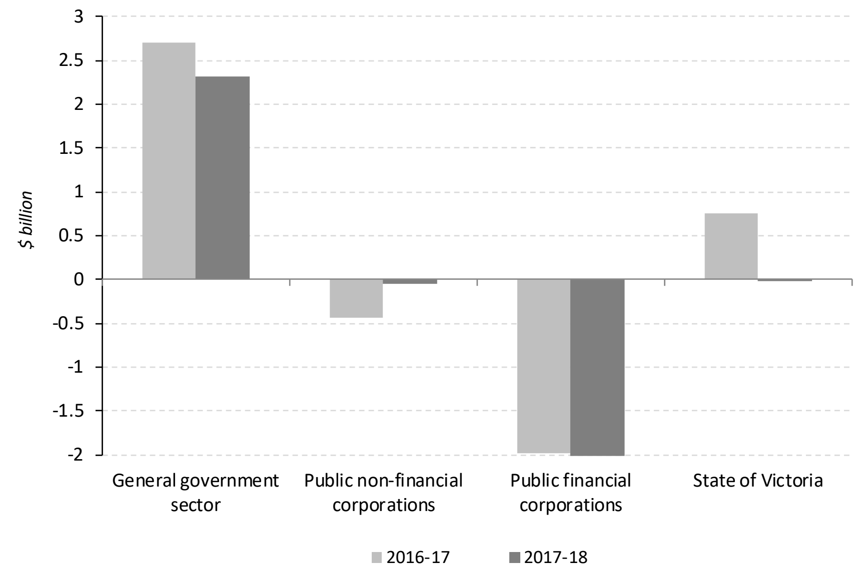
Net result from transactions

The State's net result from transactions in 2017-18 was a deficit of $10 million, compared with a surplus of $754 million in the previous year. This result reflects:

- a $2.3 billion surplus within the general government sector (discussed in the preceding chapter);
- a $46 million deficit within the PNFC sector; and
- a $2.0 billion deficit within the PFC sector.

As shown in Chart 3.2, the PNFC sector recorded a $46 million net deficit from transactions in 2017-18 compared to a deficit of $436 million in 2016-17. This improvement was mainly driven by a decreased deficit by the Director of Housing due to a lower number of dwellings transferred to Aboriginal Housing Victoria free of charge in 2017-18 compared to 2016-17, and an increase in the profitability of metropolitan water entities due to an increase in water consumption and stronger developer activity during the year.

Chart 3.2: Net result from transactions by sector [(a)]



Source: Department of Treasury and Finance

Note:
(a) 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 2017-18. This is consistent with 2016-17.

Net result

At the consolidated State level, the net result for 2017-18 was a surplus of $2.1 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. Consequently the net result provides a more comprehensive picture of the operating position of the State.

Other economic flows contributed $2.1 billion towards the State's net result. This mainly comprised the favourable returns from the investment portfolios of the State's insurance agencies and mark to market gains on borrowings due to changes in interest rates impacting the fair value of liabilities.

FINANCIAL POSITION

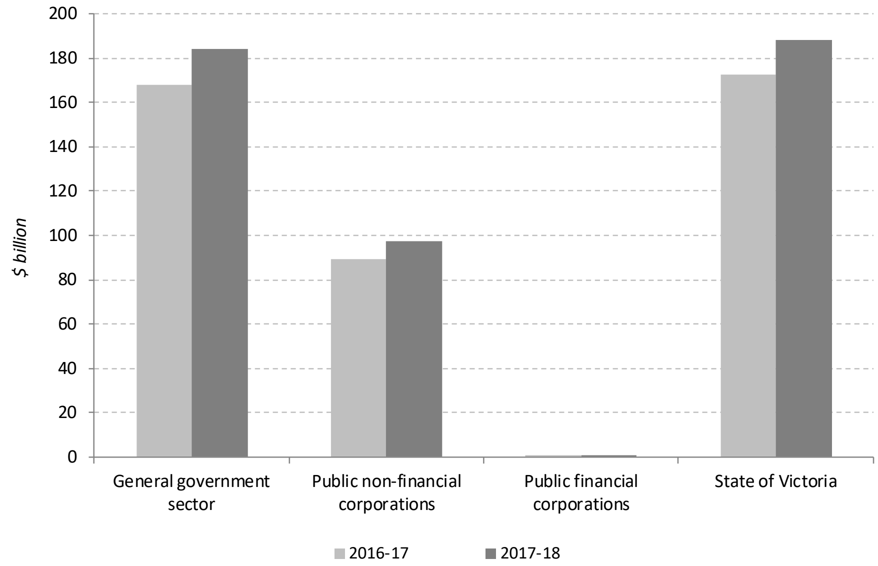
Table 3.2 shows the State's net assets increased by $16 billion to $188 billion at 30 June 2018. This mainly reflects an increase in non-financial assets of $22 billion as a result of investment in infrastructure and revaluation gains.

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

	2017-18 actual	*Revised variance*	*2017-18 revised*	*Actual movement*	*2016-17 actual*
Assets					
Financial assets	58	3	55	(1)	59
Non-financial assets	265	14	252	22	243
Total assets	**323**	**17**	**307**	**21**	**302**
Liabilities					
Superannuation	25	1	24	..	25
Borrowings	50	..	50	1	49
Other liabilities	60	3	57	4	56
Total liabilities	**135**	**5**	**131**	**6**	**130**
Net assets	**188**	**12**	**176**	**16**	**172**

Source: Department of Treasury and Finance

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.

The increase in net assets was driven by the increase in the general government sector net assets by $16.1 billion and $8.1 billion in the PNFC sector. The main areas of increase in the PNFC sector were a revaluation of land held by the Director of Housing, an increase in the non-financial assets of the water corporations due to their capital works program and an increase in the 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 2017-18 by sector.

The net asset position of the PFC sector improved by $539 million to $751 million at 30 June 2018. This was primarily due to an increase in cash and deposits attributable to the sale of the State's share in Snowy Hydro and an increase in loans to the non-financial public sector offset by increased claims liabilities of the State's insurance agencies.

The reported net asset position of the PFC sector is impacted by the accounting convention adopted for Treasury Corporation of Victoria (TCV) whereby their fixed interest rate loans to Government clients are measured at book value, whereas its liabilities are reported at market value. This valuation of TCV's loans is designed to enable consolidation with the borrowings of the general government and the PNFC sector clients. 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 sale of the State's investment in Snowy Hydro, 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 $9.4 billion invested by the general government sector and $2.4 billion in the PNFC sector, particularly in the water and rail infrastructure 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 the Western Treatment Plant Capacity Increase (Melbourne Water Corporation), Craigieburn Sewer Transfer Hub and Epping Main Sewer (Yarra Valley Water), Peninsula Eco Backlog Sewer Connections (South East Water); and Spencer Street Sewer Augmentation (City West Water); and
- upgrading and renewal of water and sewer assets in regional Victoria including Goulburn-Murray Water's Connections Project.

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 $34.2 billion as at June 2018, compared to $29.8 billion the previous year, and $404 million lower than the revised June 2018 estimate of $34.6 billion. The ratio of NFPS net debt to gross state product (GSP) has increased to 8.0 per cent from 7.3 per cent in 2016-17 mainly due to an increase in borrowings during 2017-18.

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

	2017-18 actual	*Revised variance*	*2017-18 revised*	*Actual movement*	*2016-17 actual*
Assets					
Cash and deposits	7 676	2 055	5 621	992	6 684
Advances paid	378	57	320	98	280
Investments, loans and placements	5 208	236	4 973	417	4 791
Total	**13 262**	**2 348**	**10 914**	**1 506**	**11 755**
Liabilities					
Deposits held and advances received	1 570	382	1 188	574	997
Borrowings	45 878	1 562	44 316	5 270	40 607
Total	**47 448**	**1 944**	**45 504**	**5 844**	**41 604**
Net debt	**34 187**	**(404)**	**34 591**	**4 338**	**29 849**
Superannuation	25 233	961	24 272	295	24 938
Net debt plus superannuation liabilities	**59 420**	**557**	**58 863**	**4 633**	**54 787**
Other liabilities (net)	17 551	730	16 820	2 557	14 994
Net financial liabilities	**76 971**	**1 287**	**75 684**	**7 190**	**69 781**
					(per cent)
Net debt to GSP[(a)]	8.0		8.1		7.3
Net debt plus superannuation liabilities to GSP	13.9		13.8		13.5
Net financial liabilities to GSP[(a)]	**18.0**		**17.7**		**17.2**

Source: Department of Treasury and Finance

Note:

(a) The ratios to GSP may vary from publications year to year due to revisions to the Australian Bureau of Statistics (ABS) data.

Indicators of financial condition

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

The operating cash flow surplus to revenue ratio has decreased in 2017-18 compared to 2016-17. This is mainly due to the proceeds from the medium-term lease of the operations of the Port of Melbourne in 2016-17 which significantly increased the cash receipts in that year.

Interest expense to revenue has steadily declined since 2013-14 to 3.7 per cent in 2017-18. This is due to declining debt portfolio interest costs and increased revenue. The gross debt to revenue ratio has fallen steadily since 2012-13 from 86.5 per cent to 69.8 per cent as at June 2018. The large fall in 2016-17 was due to the reduction in borrowings that was financed 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*	*2018*
Operating cash flow surplus to revenue	8.6	7.6	4.9	10.0	9.1	11.7	24.4	8.6
Gross debt to revenue [(a)]	57.2	66.5	86.5	81.5	81.0	76.8	64.7	69.8
Interest expense to revenue	3.3	3.8	4.8	5.0	4.9	4.4	3.9	3.7

Source: Department of Treasury and Finance

Note:

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

CHAPTER 4 – ANNUAL FINANCIAL REPORT

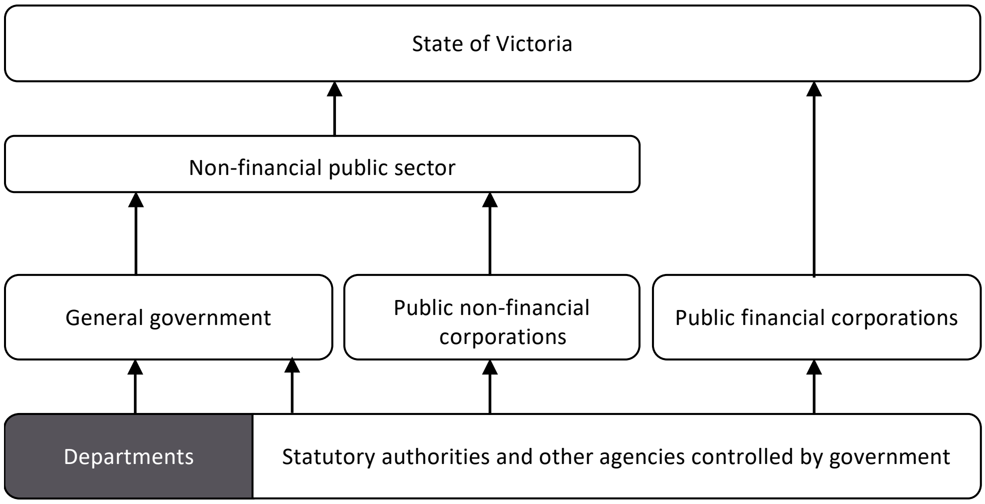
REPORT STRUCTURE

The Treasurer of Victoria presents the Annual Financial Report of the State of Victoria ("State") for the financial year ended 30 June 2018, as follows:

Report Certifications	Report of the Auditor-General	Page 23
	Certification by the Treasurer and the Department of Treasury and Finance	Page 28
Financial statements	Consolidated comprehensive operating statement	Page 29
	Consolidated balance sheet	Page 30
	Consolidated cash flow statement	Page 31
	Consolidated statement of changes in equity	Page 32
Notes to the financial statements	**1. About this report**	Page 33
	Basis of preparation *Compliance information*	
	2. How funds are raised	Page 35
	Revenue recognised from taxes, grants, sales of goods and services and other sources	
	3. How funds are spent	Page 40
	Operating expenses of the State and capital spending on infrastructure and other assets	
	4. Major assets and investments	Page 48
	Land, buildings, infrastructure, plant and equipment, other non-financial assets, and investments held in associates and joint arrangements	
	5. Financing State operations	Page 59
	Borrowings and cash flow information, investments held and public private partnership (service concession) arrangements and commitments at 30 June	
	6. Other assets and liabilities	Page 68
	Other key asset and liability balances	
	7. Risks, contingencies and valuation judgements	Page 79
	Financial instruments, contingent assets and liabilities, and fair value determination disclosures	
	8. Comparison against budget and the public account	Page 107
	Explanations of material variances between budget and actual outcomes, and public account disclosures	
	9. Other disclosures	Page 129

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 several 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 providing 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.

Independent Auditor's Report

VAGO
Victorian Auditor-General's Office

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 2018 • 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 2018 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
Accuracy and completeness of financial report disclosures for two new significant uncommissioned Public Private Partnership projects *Refer to Notes 5.6 and 7.2 of the financial report*	

The State has entered into long term contracts with private sector providers to design, construct, operate and maintain assets that will deliver public services. These types of contracts are referred to as public private partnerships (PPPs). The State's future obligation to make payments and other contributions for PPPs are shown as commitments in Note 5.6 of the financial report.
Two new significant PPPs were entered in 2017-18:
• Melbourne Metro Tunnel and Stations ($10.5 billion nominal value).
• West Gate Tunnel Project ($1.9 billion nominal value)
The West Gate Tunnel Project contract is complex. It includes possible additional state commitments, the timing and amount of which are dependent on a number of future events. These possible additional commitments are disclosed in Note 7.2 of the financial report. Payments of $80 million made under the contract to 30 June 2018 have been recorded as a prepayment.
I considered this to be a key audit matter because:
• the PPP commitments are financially significant
• the underlying models used to value the commitments (the models) are complex
• a significant degree of management judgement is required to determine key assumptions used in valuing the commitments
• the accounting for, and disclosures of, PPPs are inherently complex with limited authoritative accounting guidance available
• significant exercise of judgement is required to apply the requirements of applicable accounting standards to determine the correct commitments values for financial report disclosures.
	I relied on the work completed within my audit of the Department of Economic Development, Jobs, Transport and Resources.
	My key procedures performed in this work included:
	• reviewing all contracts, supporting schedules and professional accounting advice received by the State
	• engaging a subject matter expert to:
	    o review all contracts, supporting schedules and professional accounting advice received by the State
	    o assess the appropriateness of the financial models
	    o identify all contractual financial obligations and ensure they were accurately captured in the financial models
	    o challenge the reasonableness of key assumptions used in the models and check whether they were consistent with the contract terms and conditions
	    o verify the completeness and accuracy of the reported commitments values.
	• reviewing the amount, treatment and classification of the prepayment for the West Gate Tunnel Project recorded in the financial report
	• reviewing the classification of financial report disclosures
	• assessing the adequacy of financial report disclosures against the requirements of applicable Australian Accounting Standards.

Valuation of defined benefit superannuation liability *Refer to Note 6.5 of the financial report*	
Defined benefit superannuation liability - $25.2 billion ($1.1 billion current, $24.1 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 (the model) is complex • a significant degree of management judgement is required to determine key assumptions used in valuing the liability • a small adjustment to a key assumption may have a significant effect on the total value of the liability. Management engaged an actuary to value the liability as at 30 April 2018, then adjusted the value of the liability to 30 June 2018 to account for actual market performance and movements in key assumptions since April.	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 employee membership data used in the model • verifying 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 - $31.0 billion ($4.1 billon current, $26.9 billion non-current). I considered this to be a key audit matter because: • the provision for insurance claims is financially significant • the underlying models used to value the provision (the models) are complex • a significant degree of management judgement is required to determine key assumptions used in valuing the provision • a small adjustment to a key assumption may have a significant effect on the total value of the provision.	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 models • engaging an appropriately qualified actuary to: o assess the appropriateness of the models 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.

3

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 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 2018

Andrew Greaves
Auditor-General

5

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 2018:

(a) presents fairly the State's and the Victorian general government sector's financial positions as at 30 June 2018 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:

17 September 2018

CONSOLIDATED COMPREHENSIVE OPERATING STATEMENT

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

		State of Victoria		General government sector	
	Notes	*2018*	*2017*	*2018*	*2017*
Revenue from transactions					
Taxation revenue	2.1	22 559	21 892	22 929	22 272
Interest revenue	2.2	667	711	845	863
Dividends, income tax equivalent and rate equivalent revenue	2.3	1 339	914	781	658
Sales of goods and services	2.4	15 136	14 539	7 339	6 939
Grant revenue	2.5	29 590	27 350	29 928	27 542
Other revenue	2.6	3 632	3 406	2 767	2 645
Total revenue from transactions		**72 923**	**68 812**	**64 589**	**60 918**
Expenses from transactions					
Employee expenses	3.1	24 483	22 617	23 271	21 497
Net superannuation interest expense	3.2	716	693	714	692
Other superannuation	3.2	2 687	2 475	2 535	2 332
Depreciation	4.1.2	5 041	4 869	2 745	2 616
Interest Expense	5.5	2 770	2 729	2 092	2 028
Grant expense	3.3	7 639	7 624	11 130	10 471
Other operating expenses	3.4	29 598	27 053	19 789	18 575
Total expenses from transactions	3.5, 3.6	**72 933**	**68 058**	**62 276**	**58 210**
Net result from transactions – net operating balance		**(10)**	**754**	**2 313**	**2 709**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets		39	16	59	51
Net gain/(loss) on financial assets or liabilities at fair value		2 384	4 144	53	24
Share of net profit/(loss) from associates/joint venture entities		(55)	50	(5)	1
Other gains/(losses) from other economic flows	9.3	(288)	1 605	(933)	(226)
Total other economic flows included in net result		**2 080**	**5 816**	**(827)**	**(150)**
Net result		**2 070**	**6 570**	**1 486**	**2 559**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus		14 003	8 792	8 764	6 090
Remeasurement of superannuation defined benefits plans	3.2	(247)	4 389	(258)	4 367
Other movements in equity		(133)	107	(103)	89
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value		14	31	(2)	53
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	6.1	..	..	6 202	3 122
Total other economic flows – other comprehensive income		**13 637**	**13 319**	**14 603**	**13 720**
Comprehensive result – total change in net worth		**15 707**	**19 889**	**16 089**	**16 279**
KEY FISCAL AGGREGATES					
Net operating balance		**(10)**	**754**	**2 313**	**2 709**
Less: Net acquisition of non-financial assets from transactions	9.1	7 774	4 190	3 223	1 653
Net lending/(borrowing)		**(7 784)**	**(3 436)**	**(910)**	**1 055**

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET

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

		State of Victoria		General government sector	
	Notes	*2018*	*2017*	*2018*	*2017*
Assets					
Financial assets					
Cash and deposits	5.3	6 494	5 869	6 257	5 530
Advances paid	5.4	378	280	10 019	12 939
Receivables	6.3	8 764	8 038	6 208	5 931
Investments, loans and placements	5.4	42 336	42 806	3 928	3 673
Investments accounted for using the equity method	4.3.2	53	2 187	53	47
Investments in other sector entities	6.1	..	..	101 253	92 509
Total financial assets		**58 024**	**59 180**	**127 717**	**120 630**
Non-financial assets					
Inventories	6.2	1 050	671	175	173
Non-financial assets held for sale		462	432	389	405
Land, buildings, infrastructure, plant and equipment	4.1.1	260 578	238 886	134 141	121 776
Other non-financial assets	4.2	3 001	2 648	1 872	1 494
Total non-financial assets		**265 090**	**242 637**	**136 577**	**123 849**
Total assets	3.6	**323 114**	**301 818**	**264 294**	**244 478**
Liabilities					
Deposits held and advances received	5.2	2 331	1 940	6 700	9 088
Payables	6.4	18 243	17 233	6 713	5 815
Borrowings	5.1	49 771	48 847	33 506	28 816
Employee benefits	3.1	7 570	7 034	7 020	6 506
Superannuation	6.5	25 233	24 938	25 205	24 900
Other provisions	6.6	32 025	29 592	1 034	1 326
Total liabilities		**135 173**	**129 584**	**80 178**	**76 451**
Net assets		**187 941**	**172 234**	**184 116**	**168 027**
Accumulated surplus/(deficit) [(a)]		78 125	75 141	52 574	51 464
Reserves [(a)]		109 816	97 092	131 543	116 563
Net worth		**187 941**	**172 234**	**184 116**	**168 027**
FISCAL AGGREGATES					
Net financial worth		(77 149)	(70 404)	47 540	44 178
Net financial liabilities		77 149	70 404	53 713	48 331
Net debt		2 894	1 833	20 003	15 762

The accompanying notes form part of these financial statements.

Note:
(a) June 2017 comparative figures have been updated to reflect more current information.

CONSOLIDATED CASH FLOW STATEMENT

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

	Notes	State of Victoria 2018	State of Victoria 2017	General government sector 2018	General government sector 2017
Cash flows from operating activities					
Receipts					
Taxes received		22 072	21 406	22 442	21 786
Grants		29 654	27 351	29 992	27 542
Sales of goods and services [(a)]		16 571	25 201	8 018	7 737
Interest received		442	517	843	862
Dividends, income tax equivalent and rate equivalent receipts		1 339	915	774	743
Other receipts		2 784	2 447	1 937	1 735
Total receipts		**72 861**	**77 837**	**64 007**	**60 405**
Payments					
Payments for employees		(23 943)	(22 067)	(22 753)	(20 965)
Superannuation		(3 357)	(3 195)	(3 203)	(3 047)
Interest paid		(2 731)	(2 718)	(2 053)	(1 998)
Grants and subsidies		(7 816)	(6 772)	(11 415)	(10 203)
Goods and services [(a)]		(27 597)	(25 280)	(19 731)	(18 048)
Other payments		(753)	(767)	(757)	(620)
Total payments		**(66 197)**	**(60 798)**	**(59 912)**	**(54 880)**
Net cash flows from operating activities	5.3	**6 665**	**17 039**	**4 094**	**5 524**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	3.5, 3.6	(12 397)	(9 086)	(9 804)	(7 278)
Sales of non-financial assets		541	476	383	287
Net cash flows from investments in non-financial assets		**(11 855)**	**(8 610)**	**(9 421)**	**(6 991)**
Cash flows from investments in financial assets for policy purposes					
Cash inflows		2 524	152	5 432	11 255
Cash outflows		(539)	(214)	(874)	(11 121)
Net cash flows from investments in financial assets for policy purposes [(b)]		**1 985**	**(62)**	**4 559**	**134**
Cash flows from investments in financial assets for liquidity management purposes [(c)]					
Cash inflows		10 293	6 643	2 426	2 360
Cash outflows		(7 418)	(11 569)	(2 662)	(3 111)
Net cash flows from investments in financial assets for liquidity management purposes		**2 875**	**(4 926)**	**(235)**	**(751)**
Net cash flows from investing activities		**(6 995)**	**(13 597)**	**(5 098)**	**(7 608)**
Cash flows from financing activities					
Advances received		371	232	370	9 929
Advances repaid		(62)	(122)	(3 029)	(1 551)
Advances received (net) [(c)]		309	110	(2 659)	8 378
Borrowings received		1 477	421	4 700	296
Borrowings repaid		(911)	(3 985)	(580)	(5 836)
Net borrowings [(c)]		566	(3 563)	4 119	(5 541)
Deposits received		2 298	695	2 224	564
Deposits repaid		(2 216)	(1 492)	(1 952)	(560)
Deposits received (net) [(c)]		82	(797)	272	4
Net cash flows from financing activities		**956**	**(4 250)**	**1 731**	**2 841**
Net increase/(decrease) in cash and cash equivalents		**625**	**(808)**	**727**	**758**
Cash and cash equivalents at beginning of the reporting period		5 868	6 676	5 530	4 772
Cash and cash equivalents at end of the reporting period [(d)]	5.3	**6 494**	**5 868**	**6 257**	**5 530**
FISCAL AGGREGATES					
Net cash flows from operating activities		6 665	17 039	4 094	5 524
Net cash flows from investments in non-financial assets		(11 855)	(8 610)	(9 421)	(6 991)
Cash surplus/(deficit)		**(5 191)**	**8 430**	**(5 327)**	**(1 467)**

The accompanying notes form part of these financial statements.

Notes:

(a) These items include goods and services tax.

(b) Includes net advances to public non-financial corporations for policy purposes of $2 697 million in 2017-18.

(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 2018 and 30 June 2017.

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

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*
2018					
Balance at 1 July 2017 [a][b]	75 141	..	95 472	1 620	172 234
Net result for the year	2 070	..	..	..	2 070
Other comprehensive income for the year	(410)	..	14 003	44	13 637
Transfer to/(from) accumulated surplus	1 323	..	(1 353)	30	..
Transactions with owners in their capacity as owners	..	..	..	..	..
Total equity as at 30 June 2018	**78 125**	**..**	**108 122**	**1 694**	**187 941**
2017					
Balance at 1 July 2016 [a]	56 337	50	94 583	1 425	152 395
Net result for the year	6 570	..	..	..	6 570
Other comprehensive income for the year [b]	4 374	..	8 792	153	13 319
Transfer to/(from) accumulated surplus [a]	7 861	..	(7 903)	43	..
Transactions with owners in their capacity as owners	..	(50)	..	..	(50)
Total equity as at 30 June 2017 [a][b]	**75 141**	**..**	**95 472**	**1 620**	**172 234**

General government sector	*Accumulated surplus/(deficit)*	*Non-controlling Interest*	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
2018						
Balance at 1 July 2017 [a]	51 464	..	55 320	60 149	1 094	168 027
Net result for the year	1 486	..	..	..	..	1 486
Other comprehensive income for the year	(347)	..	8 764	6 202	(16)	14 603
Transfer to/(from) accumulated surplus	(30)	..	..	..	30	..
Transactions with owners in their capacity as owners	..	..	..	..	..	..
Total equity as at 30 June 2018	**52 574**	**..**	**64 084**	**66 351**	**1 108**	**184 116**
2017						
Balance at 1 July 2016 [a]	44 557	50	49 230	57 027	934	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 [a]	(43)	..	..	..	43	..
Transactions with owners in their capacity as owners	..	(50)	..	..	..	(50)
Total equity as at 30 June 2017 [a]	**51 464**	**..**	**55 320**	**60 149**	**1 094**	**168 027**

The accompanying notes form part of these financial statements.

Notes:

(a) The 1 July 2016 and 30 June 2017 comparative figures have been restated to reflect the reclassification of $383 million and $425 million respectively from the non-financial assets revaluation surplus to other reserves relating to accumulated revenue dedicated to the purchase of assets in the National Gallery of Victoria.

(b) June 2017 comparative figures have been updated to reflect more current information.

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 2018. 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 the 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 *2017-18 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 2018 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 the 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 the 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 the 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.

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

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2.2 Interest revenue 36

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2.4 Sales of goods and services 37

2.5 Grant revenue 38

2.6 Other revenue 39

2.1 Taxation revenue

($ million)

	State of Victoria		*General government sector*	
	2018	*2017*	*2018*	*2017*
Taxes on employers' payroll and labour force	**5 885**	**5 612**	**5 964**	**5 689**
Taxes on immovable property				
Land tax	2 555	2 474	2 586	2 501
Fire services property levy [(a)]	694	676	694	676
Congestion levy	103	119	103	119
Metropolitan improvement levy	183	167	183	167
Financial and capital transactions				
Land transfer duty	6 933	6 134	6 933	6 134
Metropolitan planning levy	23	27	23	27
Financial accommodation levy	..	..	146	135
Growth areas infrastructure contribution	265	189	265	189
Total taxes on property	**10 756**	**9 785**	**10 934**	**9 947**
Gambling taxes				
Public lotteries	415	402	415	402
Electronic gaming machines	1 115	1 070	1 115	1 070
Casino	222	227	222	227
Racing	72	74	72	74
Other	28	26	28	26
Levies on statutory corporations	**..**	**..**	**112**	**112**
Taxes on insurance	**1 299**	**1 218**	**1 299**	**1 218**
Total taxes on the provision of goods and services	**3 150**	**3 016**	**3 262**	**3 128**
Motor vehicle taxes				
Vehicle registration fees	1 558	1 552	1 560	1 553
Duty on vehicle registrations and transfers	920	818	920	818
Liquor licence fees	**24**	**23**	**24**	**23**
Other [(b)]	**267**	**1 088**	**267**	**1 115**
Total taxes on the use of goods and performance of activities	**2 768**	**3 480**	**2 770**	**3 508**
Total taxation revenue	**22 559**	**21 892**	**22 929**	**22 272**

Notes:

(a) *The Government committed in May 2017 to cap the fire services property levy collection for 2017-18 and 2018-19 at the amount collected in 2016-17 ($662 million). In the* 2018-19 Budget*, the Government decided to return the 2017-18 over-collection through reduced rates for the 2018-19 levy year.*

(b) *The 2017 balance 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*	
	2018	*2017*	*2018*	*2017*
Dividends from PFC sector	..	..	94	246
Dividends from PNFC sector	..	..	330	123
Dividends from non-public sector	1 339	914	58	34
Dividends	**1 339**	**914**	**483**	**403**
Income tax equivalent revenue from PFC sector	..	..	10	12
Income tax equivalent revenue from PNFC sector	..	..	283	238
Income tax equivalent revenue	**..**	**..**	**294**	**250**
Local government rate equivalent revenue	..	..	5	4
Total dividends, income tax equivalent and rate equivalent revenue	**1 339**	**914**	**781**	**658**

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	
	2018	2017
Public financial corporations		
Victorian Managed Insurance Authority	..	162
Transport Accident Commission	..	80
Treasury Corporation of Victoria	83	..
State Trustees Ltd	5	2
Victorian Funds Management Corporation	7	4
Dividends from PFC sector	**94**	**246**
Public non-financial corporations		
Melbourne Water Corporation	77	28
City West Water Corporation	63	13
South East Water Corporation	107	47
Yarra Valley Water Corporation	42	23
Development Victoria	40	10
Others	2	2
Dividends from PNFC sector	**330**	**123**

2.4 Sales of goods and services

($ million)

	State of Victoria		General government sector	
	2018	2017	2018	2017
Motor vehicle regulatory fees	224	230	224	230
Other regulatory fees	630	602	615	588
Sale of goods	609	640	87	99
Provision of services [(a)]	13 185	12 613	4 258	3 986
Rental	288	217	77	72
Refunds and reimbursements	201	236	35	58
Inter-sector capital asset charge	..	..	2 044	1 905
Total sales of goods and services	**15 136**	**14 539**	**7 339**	**6 939**

Note:
(a) Further disclosure on provision of services is available on the Department of Treasury and Finance's website (www.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 the 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, the capital asset charge is levied on the PNFC entities.

2.5 Grant revenue

($ million)

	State of Victoria		*General government sector*	
	2018	*2017*	*2018*	*2017*
General purpose grants	15 595	13 619	15 595	13 619
Specific purpose grants for on-passing	3 828	3 853	3 828	3 853
Specific purpose grants	10 150	9 873	10 149	9 871
Total	**29 573**	**27 345**	**29 571**	**27 343**
Other contributions and grants	18	5	357	198
Total grant revenue	**29 590**	**27 350**	**29 928**	**27 542**

Grants mainly comprise contributions from the Commonwealth to assist the State in meeting its 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 the 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	
	2018	*2017*	*2018*	*2017*
Fair value of assets received free of charge or for nominal consideration	386	470	95	246
Fines	823	733	822	730
Royalties	118	94	102	86
Donations and gifts	396	392	318	317
Other non-property rental	99	98	28	28
Other revenue – Education	633	603	633	603
Other revenue – Health	64	44	64	44
Other miscellaneous revenue	1 112	972	706	591
Total other revenue	**3 632**	**3 406**	**2 767**	**2 645**

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.

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 2018.

Structure

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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*	
	2018	*2017*	*2018*	*2017*
Current				
Accrued salaries and wages	**633**	**552**	**592**	**503**
Other employee benefits	**113**	**82**	**87**	**66**
Annual leave				
Unconditional and expected to settle within 12 months	1 268	1 181	1 157	1 078
Unconditional and expected to settle after 12 months	258	228	219	193
Long service leave				
Unconditional and expected to settle within 12 months	658	667	596	604
Unconditional and expected to settle after 12 months	2 982	2 786	2 830	2 638
On-costs				
Unconditional and expected to settle within 12 months	269	263	246	241
Unconditional and expected to settle after 12 months	488	422	454	390
Total current employee benefits and on-costs	**6 669**	**6 180**	**6 182**	**5 715**
Non-current				
Long service leave	793	761	734	703
On-costs	108	93	104	88
Total non-current employee benefits and on-costs	**901**	**854**	**837**	**791**
Total employee benefits and on-costs	**7 570**	**7 034**	**7 020**	**6 506**

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*	
	2018	*2017*	*2018*	*2017*
Opening balance	778	798	720	736
Additional provisions recognised	229	162	213	145
Additions due to acquisitions	2	..	2	..
Reductions arising from payments/other sacrifices of future economic benefits	(142)	(161)	(130)	(148)
Reductions resulting from remeasurement or settlement without cost	(4)	(18)	(2)	(10)
Unwind of discount and effect of changes in the discount rate	1	(3)	1	(3)
Closing balance	**865**	**778**	**804**	**720**
Represented by:				
Current	757	685	700	632
Non-current	108	93	104	88

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	
	2018	*2017*
Defined benefit plans		
Net superannuation interest expense	716	693
Current service cost	928	848
Remeasurements:		
Expected return on superannuation assets excluding interest income	(954)	(1 006)
Other actuarial (gain)/loss on superannuation assets	(13)	(527)
Actuarial and other adjustments to unfunded superannuation liability	1 214	(2 855)
Total expense recognised in respect of defined benefit plans	**1 891**	**(2 848)**
Defined contribution plans		
Employer contributions to defined contribution plans	1 676	1 545
Other (including pensions)	83	82
Total expense recognised in respect of defined contribution plans	**1 758**	**1 627**
Total superannuation (gain)/expense recognised in operating statement	**3 649**	**(1 221)**
Represented by:		
Net superannuation interest expense	716	693
Other superannuation	2 687	2 475
Superannuation expense from transactions	**3 402**	**3 168**
Remeasurement recognised in other comprehensive income	**247**	**(4 389)**
Total superannuation costs recognised in operating statement	**3 649**	**(1 221)**

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	
	2018	2017	2018	2017
Current grant expense				
Commonwealth Government	826	541	825	540
Local government (including grants for on-passing)	1 080	1 193	1 080	1 193
Private sector and not-for-profit on-passing	3 196	2 990	3 196	2 990
Other private sector and not-for-profit	2 177	2 148	2 130	2 103
Grants within the Victorian Government	..	..	3 668	3 249
Grants to other state governments	29	39	29	39
Total current grant expense	**7 309**	**6 912**	**10 928**	**10 114**
Capital grant expense				
Local government (including grants for on-passing)	17	1	17	1
Private sector and not-for-profit on-passing	155	197	126	99
Grants within the Victorian Government	..	..	20	3
Other grants	158	514	39	255
Total capital grant expense	**330**	**711**	**201**	**357**
Total grant expense	**7 639**	**7 624**	**11 130**	**10 471**

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	
	2018	2017	2018	2017
Purchase of supplies and consumables (a)	5 320	5 184	4 159	4 163
Cost of goods sold	266	207	30	30
Finance expenses and fees	508	464	41	165
Purchase of services (a)	14 701	13 455	13 255	12 089
Insurance claims expense	6 073	5 188	262	232
Maintenance	1 407	1 308	828	754
Operating lease payments	450	414	379	348
Other	873	832	835	795
Total other operating expenses	**29 598**	**27 053**	**19 789**	**18 575**

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

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 $402 900 ($393 100 in 2017) 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*	
	2018	*2017*	*2018*	*2017*
Medicinal pharmacy and medical supplies [(a)]	1 493	1 499	1 493	1 499
Office supplies and consumables	235	271	223	242
Specialised operational supplies and consumables	223	211	152	154
Other purchase of supplies and consumables [(a)]	3 369	3 203	2 291	2 269
Total purchase of supplies and consumables	**5 320**	**5 184**	**4 159**	**4 163**

Note:
(a) The 2016-17 comparative figures have been reclassified to more correctly reflect the nature of the transactions.

Purchase of services **($ million)**

	State of Victoria		*General government sector*	
	2018	*2017*	*2018*	*2017*
Service contracts	7 845	7 184	7 448	6 830
Accommodation/occupancy	983	897	828	743
Medical and client care services	344	317	344	317
Staff related expenses (non-labour related)	316	272	281	247
Other purchase of services	5 213	4 784	4 355	3 953
Total purchases of services	**14 701**	**13 455**	**13 255**	**12 089**

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	*2018*	*2017*	*2018*	*2017*
Economic Development, Jobs, Transport and Resources	14 950	13 839	6 739	4 735
Education and Training	16 981	16 071	1 217	686
Environment, Land, Water and Planning	9 051	8 887	1 724	1 155
Health and Human Services	26 542	24 668	1 506	1 856
Justice and Regulation	7 226	6 433	740	305
Premier and Cabinet	602	524	44	18
Treasury and Finance	17 010	16 260	99	90
Parliament	201	192	43	35
Courts	581	538	70	41
Regulatory bodies and other part budget funded agencies [(a)]	2 401	2 278	191	123
Total	**95 545**	**89 689**	**12 373**	**9 043**
Less eliminations and adjustments [(b)]	(22 612)	(21 631)	24	42
Grand total	**72 933**	**68 058**	**12 397**	**9 086**

General government sector				
Economic Development, Jobs, Transport and Resources	9 828	9 207	6 267	4 492
Education and Training	16 981	16 071	1 217	686
Environment, Land, Water and Planning	3 226	3 241	93	72
Health and Human Services	25 055	23 063	1 057	1 384
Justice and Regulation	7 038	6 249	738	304
Premier and Cabinet	580	502	43	18
Treasury and Finance	7 086	6 796	32	43
Parliament	201	192	43	35
Courts	581	538	70	41
Regulatory bodies and other part budget funded agencies [(a)]	2 401	2 278	191	123
Total	**72 977**	**68 137**	**9 752**	**7 197**
Less eliminations and adjustments [(b)]	(10 701)	(9 927)	52	81
Grand total	**62 276**	**58 210**	**9 804**	**7 278**

Notes:
(a) Other general government sector agencies, which receive less than 50 per cent of their revenue from appropriations and therefore are not allocated to departments.
(b) Mainly comprising 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 the general government sector in terms of their purposes.

This information is presented to facilitate improved inter-jurisdictional comparisons 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.

3. HOW FUNDS ARE SPENT

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-service personnel 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.

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

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

($ million)

State of Victoria	*Expenses from transactions* 2018	*Expenses from transactions* 2017	*Purchases of non-financial assets* 2018	*Purchases of non-financial assets* 2017	*Total assets* 2018	*Total assets* 2017
General public services	10 685	10 199	153	130	3 242	3 067
Public order and safety [(a)]	7 447	6 631	993	502	9 451	8 307
Education	14 922	14 116	1 217	688	27 238	22 667
Health	18 168	16 799	989	1 222	15 421	14 649
Social security and welfare [(a)]	4 632	4 201	72	86	2 400	2 123
Housing and community amenities	6 940	7 077	2 344	1 707	86 772	80 252
Recreation and culture	1 752	1 606	300	270	16 158	15 643
Fuel and energy	212	182	7	10	17	23
Agriculture, forestry, fishing and hunting	491	484	41	42	780	651
Transport and communications	6 988	6 281	6 120	4 305	104 452	96 026
Other economic affairs	974	1 097	78	71	554	437
Other purposes	1 893	1 906	2	6	9	9
Not allocated by purpose [(b)(c)]	(2 171)	(2 520)	82	48	56 620	57 963
Total	**72 933**	**68 058**	**12 397**	**9 086**	**323 114**	**301 818**

General government sector						
General public services	2 602	2 615	87	85	2 252	2 195
Public order and safety [(a)]	7 567	6 740	993	502	9 451	8 307
Education	14 991	14 185	1 217	688	27 238	22 667
Health	18 337	16 932	989	1 223	15 392	14 627
Social security and welfare [(a)]	4 683	4 242	72	86	2 400	2 123
Housing and community amenities	3 331	3 346	68	61	11 105	9 747
Recreation and culture	877	778	123	140	10 004	9 537
Fuel and energy	212	180	7	8	17	23
Agriculture, forestry, fishing and hunting	385	387	31	38	716	591
Transport and communications	7 687	7 008	6 088	4 339	57 659	53 787
Other economic affairs	1 097	1 205	78	71	554	437
Other purposes	1 121	1 141	..	6	6	6
Not allocated by purpose [(b)(c)]	(613)	(551)	52	31	127 501	120 431
Total	**62 276**	**58 210**	**9 804**	**7 278**	**264 294**	**244 478**

Notes:

(a) June 2017 comparative figures have been reclassified to reflect more correct classification of the transactions.

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

(c) 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

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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*		
2018	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*
Buildings	54 340	(3 778)	50 562	32 525	(2 293)	30 232
Leased buildings	6 416	(728)	5 688	6 242	(643)	5 600
Land and national parks	91 486	..	91 486	58 442	..	58 442
Infrastructure systems	68 500	(4 360)	64 140	1 840	(487)	1 353
Leased infrastructure systems	4 801	(436)	4 366	..	..	..
Plant, equipment and vehicles	13 259	(5 533)	7 726	6 561	(4 024)	2 538
Leased plant, equipment and vehicles	1 048	(335)	714	519	(279)	240
Roads and road infrastructure	41 732	(20 140)	21 592	41 627	(20 132)	21 496
Leased roads and road infrastructure	584	(28)	556	584	(28)	556
Earthworks	8 039	..	8 039	8 039	..	8 039
Cultural assets	5 882	(172)	5 709	5 818	(172)	5 646
Total land, buildings, infrastructure, plant and equipment	**296 087**	**(35 510)**	**260 578**	**162 198**	**(28 058)**	**134 141**
2017						
Buildings	49 482	(3 771)	45 710	30 762	(2 723)	28 039
Leased buildings	5 799	(666)	5 133	5 319	(609)	4 711
Land and national parks	78 504	..	78 504	50 554	..	50 554
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**

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	
	2018	2017	2018	2017
Buildings	1 638	1 563	1 145	1 127
Leased buildings	206	176	195	168
Infrastructure systems	1 353	1 379	45	44
Leased infrastructure systems	82	82	..	..
Plant, equipment and vehicles	845	813	528	504
Leased plant, equipment and vehicles	34	30	34	30
Roads and road infrastructure	620	610	617	607
Leased roads and road infrastructure	9	9	9	9
Cultural assets	19	15	19	15
Intangible produced assets	234	191	154	110
Total depreciation	**5 041**	**4 869**	**2 745**	**2 616**

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 2018	Land and buildings 2017	Plant, equipment vehicle and infrastructure system 2018	Plant, equipment vehicle and infrastructure system 2017	Roads, road infrastructure and earthworks 2018	Roads, road infrastructure and earthworks 2017	Cultural assets 2018	Cultural assets 2017	Total 2018	Total 2017
Opening balance	**129 348**	**119 518**	**74 808**	**72 796**	**29 050**	**28 588**	**5 680**	**5 655**	**238 886**	**226 557**
Acquisitions	3 862	2 964	7 107	5 740	1 929	967	46	39	12 943	9 710
Reclassification	2 468	410	(2 634)	(912)	(5)	193	(3)	(3)	(174)	(312)
Revaluation	14 115	8 671	146	(189)	18	(56)	..	4	14 279	8 431
Disposals	(394)	(603)	(170)	(259)	(2)	(35)	..	..	(566)	(898)
Assets recognised for the first time	188	151	125	71	..	14	6	..	318	236
Impairment	(6)	(24)	(122)	(136)	(174)	..	..	..	(301)	(160)
Depreciation	(1 844)	(1 738)	(2 314)	(2 304)	(630)	(620)	(19)	(15)	(4 807)	(4 678)
Closing balance	**147 736**	**129 348**	**76 945**	**74 808**	**30 188**	**29 050**	**5 709**	**5 680**	**260 578**	**238 886**
General government sector										
Opening balance	**83 303**	**76 339**	**3 889**	**3 804**	**28 967**	**28 519**	**5 617**	**5 592**	**121 776**	**114 254**
Acquisitions	3 512	2 581	5 091	4 237	1 938	962	46	39	10 586	7 818
Reclassification	(115)	(197)	(1)	(233)	..	189	(3)	(3)	(118)	(244)
Revaluation	8 957	6 135	46	2	..	(65)	..	4	9 003	6 076
Disposals	(225)	(243)	(67)	(203)	(2)	(35)	..	..	(293)	(481)
Assets recognised for the first time	175	136	1	5	..	14	5	..	181	155
Assets transferred between Government entities	9	(154)	(4 198)	(3 132)	(13)	..	..	..	(4 202)	(3 286)
Impairment	(4)	2	(24)	(13)	(174)	..	..	..	(201)	(11)
Depreciation	(1 340)	(1 295)	(607)	(579)	(626)	(617)	(19)	(15)	(2 591)	(2 506)
Closing balance	**94 273**	**83 303**	**4 131**	**3 889**	**30 091**	**28 967**	**5 646**	**5 617**	**134 141**	**121 776**

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

($ million)

State of Victoria 2018	*Public administration*	*Education*	*Health and welfare*	*Community housing*	*Transportation and communication*	*Public safety and environment*	*Total*
Buildings	3 215	13 364	9 142	8 491	8 555	7 795	50 562
Leased buildings	115	558	3 419	3	46	1 547	5 688
Land and national parks	2 927	12 854	3 281	19 646	35 012	17 766	91 486
Infrastructure systems	47	..	..	..	25 521	38 572	64 140
Leased infrastructure systems	..	..	..	..	..	4 366	4 366
Plant, equipment and vehicles	431	186	1 248	1	4 732	1 129	7 726
Leased plant, equipment and vehicles	..	21	67	..	551	75	714
Roads and road infrastructure	33	..	..	..	20 641	919	21 592
Leased roads and road infrastructure	..	..	..	..	556	..	556
Earthworks	..	..	..	..	8 039	..	8 039
Cultural assets	621	2	1	..	2	5 082	5 709
Total land, buildings, infrastructure, plant and equipment	**7 389**	**26 984**	**17 158**	**28 140**	**103 656**	**77 250**	**260 578**
2017							
Buildings	2 742	11 813	8 732	8 506	6 114	7 804	45 710
Leased buildings	95	406	3 376	3	75	1 178	5 133
Land and national parks	2 842	10 006	2 789	15 977	31 437	15 452	78 504
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**

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

($ million)

General government sector 2018	*Public administration*	*Education*	*Health and welfare*	*Community housing*	*Transportation and communication*	*Public safety and environment*	*Total*
Buildings	983	13 364	9 141	..	516	6 228	30 232
Leased buildings	51	558	3 419	..	42	1 529	5 600
Land and national parks	1 832	12 854	3 281	..	26 804	13 671	58 442
Infrastructure systems	39	..		..	356	958	1 353
Plant, equipment and vehicles	89	186	1 248	..	123	892	2 538
Leased plant, equipment and vehicles	..	21	67	..	78	75	240
Roads and road infrastructure	..	..	..	..	20 641	855	21 496
Leased roads and road infrastructure	..	..	..	..	556	..	556
Earthworks	..	..	..	..	8 039	..	8 039
Cultural assets	621	2	1	..	2	5 019	5 646
Total land, buildings, infrastructure, plant and equipment	**3 615**	**26 984**	**17 157**	**..**	**57 156**	**29 228**	**134 141**
2017							
Buildings	780	11 813	8 717	..	517	6 211	28 039
Leased buildings	57	406	3 376	..	71	800	4 711
Land and national parks	1 761	10 006	2 781	..	24 255	11 750	50 554
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**

4.2 Other non-financial assets

($ million)

	State of Victoria 2018	State of Victoria 2017	General government sector 2018	General government sector 2017
Intangible produced assets	3 143	2 826	1 946	1 685
Accumulated depreciation	(1 700)	(1 479)	(1 010)	(872)
Intangible non-produced assets	901	865	118	117
Accumulated amortisation	(276)	(237)	(39)	(32)
Total intangibles	**2 070**	**1 975**	**1 015**	**898**
Investment properties	194	187	186	179
Biological assets [(a)]	58	56	2	3
Other assets	679	429	669	414
Total other non-financial assets	**3 001**	**2 648**	**1 872**	**1 494**

Note:
(a) The majority of biological assets are commercial forests and also includes any living animal, plant or agricultural produce that is the harvested product of biological assets.

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

	State of Victoria 2018	State of Victoria 2017	General government sector 2018	General government sector 2017
Opening balance	2 219	2 127	1 080	964
Acquisitions	410	251	294	142
Reclassification	25	69	16	52
Revaluation	24	5	21	11
Disposals	(60)	(10)	(60)	(8)
Assets recognised for the first time	17	31	16	32
Impairment	(34)	(24)	(3)	2
Amortisation and depreciation [(b)]	(279)	(231)	(160)	(116)
Closing balance	**2 322**	**2 219**	**1 203**	**1 080**

Notes:
(a) Reconciliation does not include movements in other assets.
(b) 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)

	2018	*2017*
The Australian Regenerative Medicine Institute	35	35
Property Exchange Australia Limited	7	12
Australian Sustainable Hardwoods	11	..
Total general government sector	**53**	**47**
Snowy Hydro Limited	..	2 139
Total investments	**53**	**2 187**

4. MAJOR ASSETS AND INVESTMENTS

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	
	2018	*2017*
Opening balance	**2 139**	**1 872**
Share of profit/(loss) after income tax	(58)	49
Dividends received/receivable	(77)	(66)
Share of increment on revaluation of property, plant and equipment	..	285
Disposals	(2 005)	..
Closing balance	**..**	**2 139**

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 2018 was 20 per cent (20 per cent in 2017).

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 2018 was 7.5 per cent (7.7 per cent in 2017).

The Australian Sustainable Hardwood Proprietary Limited

Australian Sustainable Hardwood Proprietary Limited (ASH) owns and operates a hardwood sawmill business in Heyfield, Victoria. On 15 September 2017, ASH was acquired by a shareholder group made up of members of ASH's management team and the Victorian Government. The Victorian Government's ownership interest of ASH at 30 June 2018 was 49 per cent.

Snowy Hydro Limited

Snowy Hydro Limited is a company that owns and operates the Snowy Mountains Hydro Electric Scheme as an independent electricity generator in the National Electricity Market.

On 29 June 2018, the Commonwealth Government acquired the Victoria Government's 29 per cent shareholding in Snowy Hydro Limited.

Transaction proceeds of $2.1 billion, at the sole discretion of the Victorian Government, have been committed to be spent on infrastructure initiatives across Victoria to enhance the productive capacity of the State. More than half of these proceeds have been committed to be spent on regional infrastructure initiatives including roads, public transport and hospitals.

The Victorian Government's ownership interest of Snowy Hydro Limited, which was held by the State Electricity Corporation of Victoria, was 29 per cent at 30 June 2017. A summary of the State's share of commitments is shown below.

Share of commitments in Snowy Hydro Limited

($ million)

Commitments	*2018*	*2017*
Capital expenditure commitments	..	9
Operating lease commitments	..	41
Other commitments	..	27
Total commitments	**..**	**77**

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

	Snowy Hydro Limited	
Summarised balance sheet as at 30 June	*2018*	*2017*
Current assets		
Cash and cash equivalent	..	10
Other current assets (excluding cash)	..	232
Total current assets	..	242
Non-current assets	..	2 260
Total assets	**..**	**2 501**
Current liabilities		
Financial liabilities (excluding payables, provisions)	..	135
Other non-financial liabilities (including payables, provisions)	..	32
Total current liabilities	..	167
Non-current liabilities		
Financial liabilities (excluding payables, provisions)	..	178
Other non-financial liabilities (including payables, provisions)	..	16
Total non-current liabilities	**..**	**194**
Total liabilities	**..**	**362**
Net assets	**..**	**2 139**

Summarised operating statement for the financial year ended 30 June		
Revenue from transactions	..	..
Net result from transactions	**(58)**	**49**
Net result from continuing operation	(58)	49
Net result from discontinuing operation	..	..
Net result	**(58)**	**49**
Other economic flows – other comprehensive income	..	285
Dividends received from associate during the year	(77)	(66)
Total comprehensive income	**(135)**	**268**

4.3.3 Joint operations

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

For these arrangements, 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.

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 2018 was 50 per cent (50 per cent in 2017).

4. MAJOR ASSETS AND INVESTMENTS

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 2018 was 75 per cent (75 per cent in 2017).

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 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 presents the financing of the State and general government sector's operations, including material commitments recorded by the State.

Structure

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5.1 Borrowings

($ million)

	State of Victoria		*General government sector*	
	2018	*2017*	*2018*	*2017*
Current borrowings				
Domestic borrowings	4 932	3 491	3 613	752
Finance lease liabilities [(a)]	469	361	285	232
Derivative financial instruments	337	119	9	5
Total current borrowings	**5 738**	**3 971**	**3 907**	**989**
Non-current borrowings				
Domestic borrowings	33 807	34 795	20 002	18 574
Foreign currency borrowings	133	126	..	..
Finance lease liabilities [(a)]	9 736	9 585	9 490	9 153
Derivative financial instruments	356	369	107	99
Total non-current borrowings	**44 032**	**44 876**	**29 599**	**27 827**
Total borrowings	**49 771**	**48 847**	**33 506**	**28 816**

Note:
(a) The accounting treatment of finance lease liabilities 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*	
	2018	*2017*	*2018*	*2017*
Cash	2 330	1 607	1 519	1 211
Deposits at call	4 163	4 262	4 738	4 318
Cash and cash equivalents	**6 494**	**5 869**	**6 257**	**5 530**
Bank overdraft	..	(1)	..	..
Balances as per cash flow statement	**6 494**	**5 868**	**6 257**	**5 530**

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

	State of Victoria		*General government sector*	
	2018	*2017*	*2018*	*2017*
Net result	**2 070**	**6 570**	**1 486**	**2 559**
Non-cash movements				
Depreciation and amortisation	5 085	4 909	2 752	2 622
Revaluation of investments	(1 210)	(1 580)	(39)	(17)
Assets (received)/provided free of charge	(191)	93	3	83
Assets not previously/no longer recognised	(225)	(33)	(224)	(33)
Revaluation of assets	35	164	548	(53)
Discount/premium on other financial assets/borrowings	(219)	(186)	3	3
Unrealised (gains)/losses on borrowings	(424)	(1 797)	..	..
Discounting of assets and liabilities	(2)	..	(2)	..
Movements included in investing and financing activities				
Net gain/loss from sale of investments	(750)	(873)	(5)	(17)
Net gain/loss from sale of plant and equipment	(39)	(16)	(59)	(51)
Realised gains/losses on borrowings	6	54	(8)	..
Movements in assets and liabilities				
Increase/(decrease) in provision for doubtful debts	344	3	342	6
Increase/(decrease) in payables	392	9 178	320	(90)
Increase/(decrease) in employee benefits	537	387	513	369
Increase/(decrease) in superannuation	45	(28)	46	(24)
Increase/(decrease) in other provisions	2 515	618	(221)	608
(Increase)/decrease in receivables	(1 032)	(337)	(1 096)	(257)
(Increase)/decrease in other non-financial assets	(277)	(88)	(265)	(183)
Net cash flows from operating activities	**6 664**	**17 039**	**4 094**	**5 524**

Changes in liabilities arising from financing activities **($ million)**

State of Victoria			*Non-cash changes*			
2018	*Opening balance*	*Cash flows*	*New finance leases*	*Fair value changes*	*Other changes*	*Closing balance*
Borrowings and derivative instruments	38 901	886	..	(223)	..	39 565
Lease liabilities	9 946	(321)	610	..	(29)	10 206
Advances and deposits received	1 940	390	..	..	..	2 331

General government sector			*Non-cash changes*			
2018	*Opening balance*	*Cash flows*	*New finance leases*	*Fair value changes*	*Other changes*	*Closing balance*
Borrowings and derivative instruments	19 431	4 310	..	(5)	(4)	23 732
Lease liabilities	9 385	(191)	610	..	(29)	9 774
Advances and deposits received	9 088	(2 388)	..	..	..	6 700

5.4 Advances paid and investments, loans and placements

($ million)

	State of Victoria		General government sector	
	2018	2017	2018	2017
Current advances paid and investments, loans and placements				
Loans and advances paid	29	19	1 875	2 709
Equities and managed investment schemes	1 796	1 539	1 180	1 085
Australian dollar term deposits	1 361	5 140	1 243	1 400
Debt securities	5 007	3 860	2	1
Derivative financial instruments	442	540	9	5
Total current advances paid and investments, loans and placements	**8 635**	**11 099**	**4 309**	**5 201**
Non-current advances paid and investments, loans and placements				
Loans and advances paid	349	261	8 144	10 230
Equities and managed investment schemes	30 843	27 294	798	332
Australian dollar term deposits	292	1 334	663	814
Debt securities	2 327	2 577	29	24
Derivative financial instruments	267	521	3	11
Total non-current advances paid and investments, loans and placements	**34 078**	**31 987**	**9 637**	**11 411**
Total advances paid and investments, loans and placements	**42 713**	**43 086**	**13 947**	**16 612**
Represented by:				
Advances paid	378	280	10 019	12 939
Investments, loans and placements	42 336	42 806	3 928	3 673

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	
	2018	2017	2018	2017
Interest on interest-bearing liabilities	1 779	1 799	1 163	1 161
Finance charges on finance leases	939	887	892	832
Discount interest on payables	51	43	38	35
Total interest expense	**2 770**	**2 729**	**2 092**	**2 028**

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 the 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 the 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 2017-18 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.

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

	State of Victoria 2018 Other commitments		*General government sector 2018 Other commitments*		*State of Victoria 2017 Other commitments*		*General government sector 2017 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	126	282	126	282	120	297	120	297
Bendigo Hospital [(c)]	606	1 347	606	1 347	601	1 388	601	1 388
Barwon Water	62	97	..	..	64	104	..	..
Casey Hospital	68	102	68	102	66	107	66	107
Central Highlands Water	47	58	..	..	53	59	..	..
Coliban Water	76	85	..	..	81	96	..	..
County Court	46	56	46	56	57	70	57	70
Emergency Services Telecommunications	13	13	13	13	58	58	58	58
Melbourne Convention Centre	257	454	257	454	213	402	213	402
New Schools PPP	167	349	167	349	114	224	114	224
Peninsula Link	210	435	210	435	208	450	208	450
Partnerships Victoria in Schools	168	379	168	379	183	390	183	390
Prisons [(d)]	6 537	11 357	6 537	11 357	3 426	5 600	3 426	5 600
Royal Children's Hospital [(c)]	844	1 764	844	1 764	848	1 837	848	1 837
Royal Melbourne Showgrounds	20	37	20	37	12	20	12	20
Royal Women's Hospital [(c)]	254	449	254	449	259	469	259	469
Southern Cross Station	258	545	258	545	263	575	263	575
Victorian Comprehensive Cancer Centre (VCCC) [(c)]	366	949	366	949	361	971	361	971
Victorian Desalination Plant	1 577	4 342	1 577	4 342	1 568	4 520	1 568	4 520
Sub-total [(c)(d)]	**11 703**	**23 100**	**11 518**	**22 860**	**8 555**	**17 635**	**8 357**	**17 377**

Uncommissioned public private partnership commitments **($ million)**

	State of Victoria 2018			*General government sector 2018*			*State of Victoria 2017*			*General government sector 2017*		
	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 (e)	*Present value*	*Nominal value*	*Discounted value* (e)	*Present value*	*Nominal value*	*Discounted value* (e)	*Present value*	*Nominal value*	*Discounted value* (e)	*Present value*	*Nominal value*
Uncommissioned public private partnerships total commitments												
Bendigo Hospital – stage two (f)	..	..	..	..	..	..	17	5	50	17	5	50
Casey Hospital Expansion	81	40	154	81	40	154	..	..	..	..	..	..
Emergency Services Telecommunications	46	171	261	46	171	261	..	..	..	..	..	..
High Capacity Metro Trains	1 861	932	6 135	1 861	932	6 135	1 861	932	6 135	1 861	932	6 135
Melbourne Convention Centre – stage two (f)	..	..	..	..	..	..	37	35	74	37	35	74
Metro Tunnel - tunnel and stations	6 610	510	10 457	6 610	510	10 457	..	..	..	..	..	..
New Schools PPP – Tranche two (f)	..	..	..	..	..	..	152	67	409	152	67	409
Ravenhall Prison (f)	..	..	..	..	..	..	792	2 955	7 460	792	2 955	7 460
West Gate Tunnel Project (g)	..	1 639	1 871	..	1 639	1 871	..	..	..	..	..	..
Western Roads Upgrade	762	682	2 079	762	682	2 079	..	..	..	..	..	..
Sub-total (c)(d)	**9 360**	**3 974**	**20 958**	**9 360**	**3 974**	**20 958**	**2 858**	**3 994**	**14 128**	**2 858**	**3 994**	**14 128**
Total commitments for public private partnerships (c)(d)		**15 677**	**44 058**		**15 492**	**43 818**		**12 548**	**31 764**		**12 351**	**31 505**
Total commitments (inclusive of GST) (c)(d)(h)			**81 313**			**78 496**			**53 291**			**50 874**
Less GST recoverable from the Australian Tax Office			7 392			7 136			4 845			4 625
Total commitments (exclusive of GST) (c)(d)(h)			**73 921**			**71 360**			**48 446**			**46 249**

Notes:

(a) The minimum lease payments of commissioned PPPs 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' has been discounted to 30 June of the respective financial years.

(c) The 2016-17 comparatives have been restated on the basis of available updated information for the Bendigo Hospital, Royal Children's Hospital, Royal Women's Hospital and Victorian Comprehensive Cancer Centre (VCCC) PPPs. The comparatives have been restated due to a $72 million nominal value ($40 million Net Present Value (NPV)) understatement for the Bendigo Hospital, $1 060 million nominal value ($472 million NPV) understatement for the Royal Children's Hospital, $94 million nominal value ($52 million NPV) understatement for the Royal Women's Hospital and $848 million nominal value ($612 million NPV) overstatement for the VCCC.

(d) The 2016-17 comparatives have been restated to reflect the reclassification of two prisons from other commitments to commissioned PPP commitments.

(e) The minimum lease payments include the expected future finance lease liability to be recognised on the balance sheet as well as State capital contributions to the projects.

(f) The commitment at June 2018 is disclosed within the commissioned public private partnership commitments table above as the project was commissioned during the 2017-18 financial year.

(g) Refer to the West Gate Tunnel disclosure in section 7.2 for further information on contingent liabilities associated with the West Gate Tunnel Project.

(h) 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 2018 Nominal value	*General government sector 2018 Nominal value*	*State of Victoria 2017 Nominal value*	*General government sector 2017 Nominal value*
Capital expenditure commitments				
Land and buildings	1 921	1 798	919	809
Plant, equipment and vehicles	354	248	255	216
Infrastructure systems [(b)]	5 886	5 093	4 576	4 024
Road networks and earthworks	1 031	1 031	1 149	1 149
Other [(b)]	192	135	344	263
Total capital expenditure commitments	**9 383**	**8 305**	**7 242**	**6 462**
Operating and lease commitments				
Rail services [(c)]	11 666	11 633	971	965
Bus services	3 199	3 199	1 973	1 964
Other	5 254	4 410	4 975	3 976
Total operating and lease commitments	**20 118**	**19 241**	**7 920**	**6 905**
Other commitments				
Building occupancy services	6	63	..	59
Capital investment commitments	202	..	189	..
Commercial contracts	116	5	248	165
Debt collection services (Traffic camera office)	65	65	26	26
Emergency Alert System	56	56	3	3
Goulburn-Murray Water Connections Project	206	243	32	281
Information technology	266	229	188	184
New ticketing solution (myki)	651	651	728	728
Outsourcing of services	317	198	321	180
Policing services	39	39	29	29
Provision for Health Services [(d)(e)]	2 366	2 366	1 972	1 972
Traffic camera services (Traffic camera office)	254	254	75	75
Transport Accident Commission funded medical research	2	..	7	..
Other [(d)]	3 207	2 963	2 547	2 299
Total other commitments [(e)(f)]	**7 753**	**7 131**	**6 365**	**6 002**
Total commitments [(e)(f)]	**37 255**	**34 678**	**21 527**	**19 369**

Notes:

(a) The figures presented are inclusive of GST.

(b) The 2016-17 comparatives have been restated to reflect the reclassification of $594 million from other to infrastructure systems capital expenditure commitments to reflect the underlying nature of the assets being constructed from the capital commitments.

(c) In 2017-18, the Victorian Government entered 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 commenced on 30 November 2017.

(d) The 2016-17 comparatives have been restated to reflect the reclassification of health service commitments.

(e) The 2016-17 comparatives have been restated due to a $463 million commitment within Ambulance Victoria being inadvertently omitted from the 2016-17 other commitment disclosure.

(f) The 2016-17 comparatives have been restated to reflect the reclassification of two prisons from other commitments to commissioned PPP commitments.

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

Nominal values	*State of Victoria 2018*	*General government sector 2018*	*State of Victoria 2017*	*General government sector 2017*
Capital expenditure commitments payable				
Less than 1 year	5 634	4 913	5 436	4 782
1 year but less than 5 years	3 354	2 988	1 768	1 643
5 years or more	395	404	38	37
Total capital expenditure commitments	**9 383**	**8 305**	**7 242**	**6 462**
Operating and lease commitments payable				
Less than 1 year	3 525	3 391	2 361	2 220
1 year but less than 5 years	10 601	10 290	2 256	1 899
5 years or more	5 992	5 560	3 303	2 786
Total operating and lease commitments	**20 118**	**19 241**	**7 920**	**6 905**
Public private partnership commitments [(b)(c)]				
Less than 1 year	1 226	1 209	1 120	1 103
1 year but less than 5 years	8 790	8 714	3 800	3 720
5 years or more	34 041	33 895	26 844	26 682
Total public private partnership commitments [(b)(c)]	**44 058**	**43 818**	**31 764**	**31 505**
Total other commitments payable [(b)(d)]				
Less than 1 year	3 322	3 174	2 878	2 820
1 year but less than 5 years	3 784	3 403	2 850	2 618
5 years or more	648	554	637	563
Total other commitments [(b)(d)]	**7 753**	**7 131**	**6 365**	**6 001**
Total commitments (inclusive of GST)	**81 313**	**78 496**	**53 291**	**50 874**

Notes:

(a) The figures presented are inclusive of GST.

(b) The 2016-17 comparatives have been restated to reflect the reclassification of two prisons from other commitments to commissioned PPP commitments.

(c) The 2016-17 comparatives have been restated on the basis of available updated information for the Bendigo Hospital, the Royal Children's Hospital, the Royal Women's Hospital and the Victorian Comprehensive Cancer Centre (VCCC) PPPs. The comparatives have been restated due to a $72 million understatement for the Bendigo Hospital, $1 060 million understatement for the Royal Children's Hospital, $94 million understatement for the Royal Women's Hospital and $848 million overstatement for the VCCC.

(d) The 2016-17 comparatives have been restated due to a $463 million commitment within Ambulance Victoria being inadvertently omitted from the 2016-17 other commitment disclosure.

6. OTHER ASSETS AND LIABILITIES

Introduction

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

Structure

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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 the proportional share of the carrying amount of net assets/(liabilities) and 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

	2018	*2017*
Balance of investment in PNFC and PFC sectors at beginning of period	92 509	94 710
Net contributions/(returns) to other sectors by owner	2 542	(5 323)
Revaluation gain/(loss) for period	6 202	3 122
Total investments in other sector entities	**101 253**	**92 509**

6.2 Inventories

($ million)

	State of Victoria		*General government sector*	
	2018	*2017*	*2018*	*2017*
At cost				
Raw materials	8	7	7	6
Work in progress	19	9	1	1
Finished goods	70	60	3	3
Consumable stores	214	199	149	152
Land and other assets held as inventory	728	387	14	12
At net realisable value				
Finished goods	5	4	..	..
Consumable stores	5	5	..	..
Total inventories	**1 050**	**671**	**175**	**173**

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*	
	2018	*2017*	*2018*	*2017*
Contractual				
Sales of goods and services	1 307	1 202	682	598
Accrued investment income	50	63	19	19
Other receivables	1 569	1 756	675	1 169
Provision for doubtful contractual receivables	(174)	(161)	(108)	(97)
Statutory				
Sales of goods and services	5	7	3	1
Taxes receivable	3 031	2 560	3 153	2 676
Fines and regulatory fees	2 510	2 052	2 510	2 052
GST input tax credits recoverable	1 197	976	443	352
Other receivables	22	15	..	..
Provision for doubtful statutory receivables	(1 169)	(838)	(1 169)	(838)
Other				
Actuarially determined	415	406	..	..
Total receivables	**8 764**	**8 038**	**6 208**	**5 931**
Represented by:				
Current receivables	7 552	6 875	5 890	5 103
Non-current receivables	1 212	1 163	318	828

Receivables consist of:

- contractual receivables, 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.

6. OTHER ASSETS AND LIABILITIES

Ageing analysis of contractual receivables ($ million)

State of Victoria *2018*	*Not past due and not impaired*	*Past due 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	819	186	98	101	86	16	1 307
Accrued investment income	50	..	..	..	..	..	50
Other receivables	1 405	38	17	34	73	2	1 569
Total contractual receivables	**2 274**	**224**	**115**	**135**	**159**	**19**	**2 926**

2017							
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
Total contractual receivables	**2 301**	**207**	**146**	**159**	**195**	**14**	**3 021**

General government sector *2018*	*Not past due and not impaired*	*Past due 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	420	76	42	56	72	15	682
Accrued investment income	19	..	..	..	..	..	19
Other receivables	595	28	8	20	25	..	675
Total contractual receivables	**1 034**	**104**	**50**	**76**	**97**	**15**	**1 376**

2017							
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
Total contractual receivables	**1 379**	**87**	**58**	**91**	**162**	**9**	**1 786**

6.4 Payables

($ million)

	State of Victoria 2018	State of Victoria 2017	General government sector 2018	General government sector 2017
Contractual				
Accounts payable	2 674	2 439	1 542	1 402
Accrued expenses	3 308	2 618	2 814	2 239
Unearned income	12 170	12 128	2 298	2 130
Statutory				
Accrued taxes payable	92	48	60	44
Total payables	**18 243**	**17 233**	**6 713**	**5 815**
Represented by:				
Current payables	7 825	6 868	4 856	4 134
Non-current payables	10 418	10 365	1 856	1 681

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 $25.2 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 is recognised in respect of defined benefit superannuation obligations. 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 plans' 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 is recognised in respect of defined benefit superannuation obligations.

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.

6. OTHER ASSETS AND LIABILITIES

Net superannuation liability ($ million)

	State of Victoria 2018	2017
Emergency Services and State Super		
Defined benefit obligation	43 464	41 824
Tax liability [(a)]	2 536	2 634
Plan assets	(21 963)	(20 655)
Net liability/(asset)	**24 037**	**23 803**
Other funds [(b)]		
Defined benefit obligation	2 741	2 661
Tax liability [(a)]	..	..
Plan assets	(1 545)	(1 526)
Net liability/(asset)	**1 197**	**1 135**
Total superannuation		
Defined benefit obligation	46 205	44 485
Tax liability [(a)]	2 536	2 634
Plan assets	(23 508)	(22 181)
Superannuation liability	**25 233**	**24 938**
Represented by:		
Current liability	1 080	1 040
Non-current liability	24 153	23 897
Total superannuation liability	**25 233**	**24 938**

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 2018	2017
Opening balance of defined benefit obligation	**47 119**	**49 882**
Current service cost	928	848
Interest cost	1 338	1 155
Contributions by plan participants	229	221
Remeasurements:		
Actuarial (gain)/loss arising from change in financial assumptions	1 010	(1 872)
Actuarial (gain)/loss arising from change in demographic assumptions	657	
Actuarial (gain)/loss due to other experience	(453)	(983)
Benefits paid	(2 087)	(2 132)
Closing balance of defined benefit obligation	**48 741**	**47 119**

Reconciliation of the fair value of plan assets

($ million)

	State of Victoria	
	2018	2017
Opening balance of plan assets	**22 181**	**20 528**
Interest income	622	462
Remeasurements:		
Expected return on plan assets excluding interest income	954	1 006
Actuarial gain/(loss) relative to expected return	1	529
Employer contributions	1 607	1 566
Contributions by plan participants	229	221
Benefits paid (including tax paid)	(2 087)	(2 132)
Closing balance of plan assets	**23 508**	**22 181**

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, 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.

6. OTHER ASSETS AND LIABILITIES

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 2018*	*2017*
Emergency Services and State Super	PricewaterhouseCoopers (PwC) [(a)]	Expected return on assets [(b)]	8	8
		Discount rate [(c)]	2.8	3
		Wages growth [(d)]	3.4	3.4
		Inflation rate	1.9	1.9
Constitutionally Protected Pensions	PwC [(a)]	Discount rate [(c)]	2.8	3
		Wages growth [(d)]	3.4	3.4
		Inflation rate	n/a	n.a.
Health Super Fund	Mercer [(e)]	Expected return on assets [(b)]	5	5.7
		Discount rate [(c)]	2.8	3
		Wages growth [(d)]	3.4	3.4
		Inflation rate	1.9	1.9

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)	2.8	3.8	2.8	2.8
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**	**(5 297)**	**963**	**3 371**

Target asset allocation

Asset class	*2018*	*2017*
Domestic equity	27.6	27.7
International equity	27.6	27.7
Domestic debt assets	17.8	17.6
Property	7.5	7.6
Cash	4.1	4.1
Other (including private equity, hedge funds and infrastructure)	15.4	15.3
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 2018, the plans held investments with Treasury Corporation Victoria (TCV) worth $365 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 2018-19 financial year, employer contributions of $1.6 billion, in total, are expected to be paid to the defined benefit plans. Of this, $1.1 billion relates to the funding of the SSF's past service liability.

The weighted average duration of the defined benefit obligation is approximately 12 years.

6.6 Other provisions

($ million)

	State of Victoria		General government sector	
	2018	2017	2018	2017
Provision for insurance claims				
WorkSafe Victoria	2 245	1 941	..	..
Transport Accident Commission	1 448	1 251	..	..
Victorian Managed Insurance Authority	370	321	..	..
Other agencies	36	23	32	19
Current provision for insurance claims	**4 099**	**3 536**	**32**	**19**
Onerous contracts				
Other provisions	395	865	305	745
Total current other provisions	**4 493**	**4 401**	**337**	**764**
Non-current provision for insurance claims				
WorkSafe Victoria	11 452	11 040	..	..
Transport Accident Commission	13 852	12 134	..	..
Victorian Managed Insurance Authority	1 520	1 426	..	..
Other agencies	53	30	52	29
Non-current provision for insurance claims	**26 878**	**24 629**	**52**	**29**
Onerous contracts				
Other provisions	654	562	644	532
Total non-current other provisions	**27 532**	**25 191**	**697**	**561**
Total other provisions	**32 025**	**29 592**	**1 034**	**1 326**

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 to a level of 75 per cent.

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.

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

	State of Victoria	
	2018	*2017*
Opening balance	28 165	28 088
Effect of changes in assumptions and claims experience	1 015	(1 435)
Cost of prior year claims (unwinding of discount)	724	598
Increase in claims incurred [b]	5 326	4 986
Claim payments during the year [b]	(3 705)	(3 363)
Other	(549)	(708)
Closing balance	**30 977**	**28 165**

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)]				*Prudential margin used (%)*	
				Weighted average inflation rate (%)[(d)]		*Weighted average discount rate (%)*			
Entity	*Actuary*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*
Victorian WorkCover Authority (WorkSafe Victoria)	PwC Actuarial Ltd	6.50	6.10	AWE [(e)] inflation 0 to 20 years = 2.96 21+ years = 3.27 CPI inflation 0 to 20 years = 2.17 21+ years = 2.01	AWE inflation 0 to 20 years = 3.43 21+ years = 3.29 CPI inflation 0 to 20 years = 2.12 21+ years = 2.03	0 to 20 years = 2.68 21+ years = 3.87	0 to 20 years = 2.73 21+ years = 4.58	8.00	8.00
Transport Accident Commission	PwC Actuarial Ltd	16.34	15.40	AWE inflation 0 to 20 years = 3.06 21+ years = 3.31 CPI inflation 0 to 20 years = 2.12 21+ years = 2.08	AWE inflation 0 to 20 years = 3.38 [(f)] 21+ years = 3.36 CPI inflation 0 to 20 years = 2.09 21+ years = 2.12	0 to 20 years = 2.56 21+ years = 3.43	0 to 20 years = 3.12 21+ years = 4.71	10.00	10.00
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd (Medical Indemnity)	4.00	4.00	6.30	6.20	2.40	2.30	Risk margin = 20.00 CHE [(g)] = 2.50	Risk margin = 20.00 CHE = 2.50
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd (Liability)	3.20	3.50	2.80	3.00	2.30	2.20	Risk margin = 31.70 CHE = 6.60	Risk margin = 31.70 CHE = 7.90
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd (Property)	1.10	1.10	2.80	3.00	2.30	2.20	Risk margin = 17.50 CHE = 6.50	Risk margin = 17.50 CHE = 8.00
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd (Other)	2.50	2.50	2.80	3.00	2.30	2.20	Risk margin = 30.10 CHE = 6.00	Risk margin = 30.30 CHE = 7.50
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd (Dust Diseases and Workers' Compensation)	11.70	12.00	5.40	5.40	3.00	3.20	Risk margin = 30.90 CHE = 7.00	Risk margin = 31.50 CHE = 7.00
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd (Domestic Building Insurance)	3.40	3.60	3.00	3.00	2.30	2.30	Risk margin =23.50 CHE = 5.00	Risk margin =23.50 CHE = 5.00

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) *The June 2017 comparative for the Transport Accident Commission AWE inflation has been restated to reflect more current information.*

(g) *Refers to 'Claims Handling Expenses'. Claims handling expenses is an allowance made for the direct 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

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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*	
	2018	*2017*	*2018*	*2017*
Financial assets				
Cash and deposits	6 494	5 869	6 257	5 530
Designated at fair value through the operating statement [(a)]	40 315	41 128	1 172	1 107
Held-for-trading at fair value through the operating statement	293	307	12	17
Loans and receivables [(a)]	3 078	3 298	11 836	15 129
Available-for-sale	1 101	552	811	328
Held-to-maturity	678	662	1 383	1 720
Total financial assets [(b)]	**51 959**	**51 816**	**21 471**	**23 830**
Financial liabilities				
Designated at fair value through the operating statement	40 098	39 463	223	122
Held-for-trading at fair value through the operating statement	361	372	117	105
At amortised cost	17 593	15 975	44 222	41 318
Total financial liabilities [(c)]	**58 052**	**55 810**	**44 562**	**41 544**

Notes:

(a) The 2016-17 comparatives have been restated to reflect a reclassification of $5 661 million from loans and receivables to designated at fair value through the operating statement relating to TCV term deposits at 30 June 2017.

(b) The State's total financial assets in this table exclude statutory and other receivables of $6 012 million ($5 178 million in 2017) while the general government's total financial assets exclude statutory receivables of $4 940 million ($4 243 million in 2017).

(c) The State's total financial liabilities exclude statutory taxes payable, unearned income and advance premiums of $12 265 million ($12 210 million in 2017) while the general government's total financial liabilities exclude statutory taxes payable and unearned income of $2 357 million ($2 174 million in 2017).

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

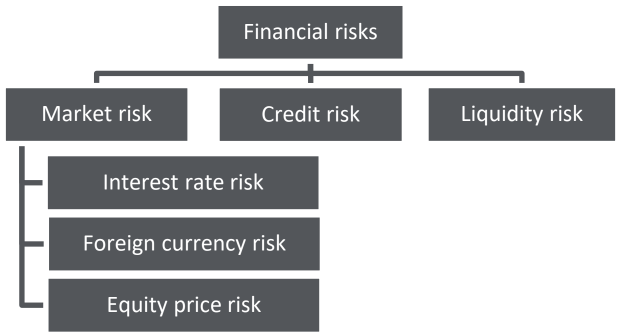
Subsequent to initial recognition and under rare circumstances, non-derivative financial instruments assets that have been designated at fair value through profit or loss upon recognition, may be reclassified out of the fair value through profit or loss category, if they are no longer held for the purpose 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 are responsible for setting their own financial risk policy and objectives in accordance with the Standing Directions of the Minister for Finance 2016. All entities are responsible for the day-to-day operational management of their financial instruments and associated risks in accordance with the Standing Directions.

The Standing Directions cover areas such as financial management objectives, responsibility structure and delegation, and policies and guidance on interest rate risk, foreign exchange risk, counterparty risk, commodity price risk, investment risk, credit risk, liquidity risk and operational risk. The Accountable Officer of each of the State's entities is responsible for advising its board, the responsible Minister and for Portfolio Agencies, the Accountable Officer of their Portfolio Department, and DTF of any material compliance deficiency, and of planned and completed remedial actions, as soon as practicable.

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*			
2018	*Floating rate*	*Fixed rate*	*Non-interest bearing*	*Total*	*Floating rate*	*Fixed rate*	*Non-interest bearing*	*Total*
Financial assets								
Cash and deposits	6 096	234	164	6 494	5 490	607	160	6 257
Receivables	261	42	2 449	2 752	8	2	1 258	1 268
Advances paid	259	60	59	378	5 550	4 413	56	10 019
Term deposits	28	1 625	..	1 653	83	1 823	..	1 906
Derivative financial instruments	..	261	449	710	..	..	12	12
Equities and managed investment schemes	714	350	31 576	32 639	428	339	1 212	1 978
Debt securities	628	6 706	..	7 334	31	..	..	31
Total financial assets	**7 986**	**9 277**	**34 697**	**51 959**	**11 591**	**7 183**	**2 698**	**21 471**
Financial liabilities								..
Payables, deposits held and advances received	935	384	6 963	8 282	5 663	28	5 365	11 056
Derivative financial instruments	..	343	350	693	..	..	117	117
Interest-bearing liabilities	6	38 866	..	38 872	..	23 615	..	23 615
Finance lease liabilities	..	10 206	..	10 206	..	9 774	..	9 774
Total financial liabilities	**941**	**49 798**	**7 313**	**58 052**	**5 663**	**33 417**	**5 482**	**44 562**
2017								
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**	**6 050**	**55 810**	**8 391**	**28 743**	**4 410**	**41 544**

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 2018, approximately 94 per cent (94 per cent in 2017) 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 2017).

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 2018 is a $1.7 billion increase/$1.9 billion decrease ($1.6 billion increase/$1.7 billion decrease in 2017).

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 the 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 $3.7 billion ($3.2 billion in 2017) of equities and managed investment schemes and $133 million ($126 million in 2017) 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 2017).

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 2018 is $218 million decrease/$289 million increase ($322 million decrease/$435 million increase in 2017).

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 2017).

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 2018 is $2 million increase/$3 million decrease ($1 million increase/$1 million decrease in 2017) and from unlisted equities is $1.6 billion increase/$1.6 billion decrease ($2.8 billion increase/$2.8 billion decrease in 2017).

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 2017-18.

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 *2018*	*(triple-A credit rating)*	*Other (min triple-B credit rating)*	*Other (not rated)*	*Total*
Financial assets				
Cash and deposits	595	5 409	490	6 494
Receivables	47	637	1 590	2 274
Advances paid	268	..	110	378
Term deposits	86	1 562	5	1 653
Debt securities	1 293	6 041	..	7 334
Total financial assets	**2 289**	**13 648**	**2 195**	**18 132**
2017				
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**

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

General government sector *2018*	*Government agencies (triple-A credit rating)*	*(triple-A credit rating)*	*Other (min triple-B credit rating)*	*(not rated)*	*Total*
Financial assets					
Cash and deposits	3 979	263	1 871	144	6 257
Receivables	119	4	45	867	1 034
Advances paid	9 680	268	..	71	10 019
Term deposits	1 369	30	502	5	1 906
Debt securities	..	..	31	..	31
Total financial assets	**15 147**	**564**	**2 448**	**1 088**	**19 247**
2017					
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**

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 2018, the whole of Victorian government liquidity ratio stood at 115 per cent against a limit of 80 per cent (103 per cent against a limit of 80 per cent in 2017).

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	
	2018	2017	2018	2017
Carrying amount	38 738	38 287	23 615	19 326
Nominal amount [(a)]	44 279	43 568	23 615	19 326
Contractual maturity				
0 to 3 months	1 056	337	1 502	497
3 months to 1 year	5 553	4 896	2 111	126
1 to 2 years	8 128	6 175	2 035	1 134
2 to 5 years	10 604	10 449	6 138	6 217
5 years or more	18 937	21 712	11 829	11 353

Note:
(a) Represents undiscounted nominal amount.

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

	State of Victoria		General government sector	
	2018	2017	2018	2017
Less than 1 year	1 209	662	1 024	491
1 year but less than 5 years	4 159	2 464	4 012	2 082
5 years or more	15 700	18 004	15 601	17 847
Minimum lease payments	**21 067**	**21 129**	**20 636**	**20 420**
Future finance charges	10 862	11 183	10 862	11 035
Total finance lease liabilities	**10 206**	**9 947**	**9 774**	**9 385**

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*				
2018	*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	1 767	(1 057)	710	(477)	233
Financial liabilities					
Derivative financial instruments	1 750	(1 057)	693	(402)	290
2017					
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)

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 2018 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*	
	2018	*2017*	*2018*	*2017*
Financial assets				
Cash and deposits	235	219	830	847
Designated at fair value through the operating statement	1 949	2 384	37	12
Held-for-trading at fair value through the operating statement	3	4	5	7
Loans and receivables	(21)	(31)	(22)	(9)
Total	**2 166**	**2 575**	**851**	**856**
Financial liabilities				
Designated at fair value through the operating statement	(432)	(1 744)	(8)	..
Held-for-trading at fair value through the operating statement	21	(10)	..	..
Total	**(411)**	**(1 754)**	**(8)**	**..**

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

	State of Victoria		General government sector	
	2018	2017	2018	2017
Interest revenue from financial assets not at fair value through the operating statement	229	425	845	863
Interest revenue from financial assets at fair value through the operating statement	587	425	..	..
Total	**816**	**850**	**845**	**863**

Note:
(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.

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

	State of Victoria		General government sector	
	2018	2017	2018	2017
Interest expense from financial liabilities not at fair value through the operating statement	953	914	2 054	1 996
Interest expense from financial liabilities at fair value through the operating statement	1 914	1 932	3	..
Fee expenses from financial liabilities not at fair value through the operating statement	36	29	39	165
Fee expenses from financial liabilities at fair value through the operating statement	472	435	1	..
Total	**3 375**	**3 310**	**2 099**	**2 160**

Note:
(a) These items do not include amounts that relate to discount interest on financial liabilities. Therefore, figures in this table cannot be reconciled to the primary financial statements.

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 2018 (arising from outside of government).

Quantifiable contingent assets [(a)] **($ million)**

	State of Victoria	
	2018	2017
General government [(b)(c)]	146	144
Public non-financial corporations	408	258
Public financial corporations	..	..
Eliminations [(c)]	(22)	(15)
Total contingent assets – State of Victoria	**533**	**387**
Guarantees, indemnities and warranties	73	52
Legal proceedings and disputes	14	20
Other [(b)]	446	315
Total contingent assets – State of Victoria	**533**	**387**

Notes:
(a) Figures reflect contingent assets that arise from outside of government.
(b) 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.
(c) The 2016-17 comparatives have been restated to correctly reflect the nature of the balances.

Non-quantifiable contingent assets

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 2018.

Quantifiable contingent liabilities **($ million)**

	State of Victoria	
	2018	*2017*
General government	12 287	11 610
Public non-financial corporations	186	131
Public financial corporations	..	..
Eliminations [(a)]	(11 873)	(11 137)
Total contingent liabilities – State of Victoria	**600**	**604**
Guarantees, indemnities and warranties	206	259
Legal proceedings and disputes	209	124
Other	185	221
Total contingent liabilities – State of Victoria	**600**	**604**

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 backed by the State of Victoria under 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 under 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;
- 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;

- members of school councils: the *Education and Training Reform Act 2006* requires the Department to indemnify individual members of school councils for any legal liability, whether in contract, negligence or defamation, if they acted in good faith and in the course of their duties; and
- school councils: the Department may decide to indemnify school councils (which are separate entities to the Department), in claims of common law negligence, and often 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.

National redress scheme – sexual abuse of children in institutions

On 13 June 2018, the *National Redress Scheme for Institutional Child Sexual Abuse (Commonwealth Powers) Act 2018 (Vic)* commenced. The Act refers powers to the Commonwealth Parliament to ensure that Victorian institutions can participate in the National Redress Scheme. The National Redress Scheme commenced on 1 July 2018 and will run for 10 years. The Scheme will deliver a financial payment of up to $150 000, access to psychological counselling and an apology from the responsible institution to eligible survivors of institutional child abuse. This implements a recommendation of the Victorian Parliamentary Inquiry Betrayal of Trust report and the Royal Commission into Institutional Responses to Child Sexual Abuse.

The Government has set aside funding in the budget estimates over the next ten years for redress. Due to the historical nature of the abuse in question, the precise number of eligible survivors of abuse is difficult to estimate. Consequently, the exact financial implications for Victoria remain uncertain.

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 contractual arrangements with franchisees to operate metropolitan rail transport services across the State, from 30 November 2017 until 30 November 2024. 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.

West Gate Tunnel Project

The State and the Transurban Group entered into a public private partnership contract for the Transurban Group to build, operate and maintain the West Gate Tunnel project. The total estimated project cost is $6.7 billion (nominal).

Government policy is to fund the capital cost of the project from a State contribution of $2.7 billion (nominal), with the remainder of $4 billion (nominal) and ongoing operation and maintenance costs to be funded by Transurban from changes to tolling on the existing CityLink toll road and tolls on the West Gate Tunnel. This policy depends on obtaining the legislative support outlined in the contractual documents for implementing these toll changes.

Should legislative support for any of the proposed toll revenue streams not be forthcoming in the agreed form and timeframe, the contractual documents specify additional State funding to replace funding from the relevant toll revenue streams plus a rate of return on finances raised by Transurban. Several variables may influence the value of any additional State funding which will depend on:

- the extent and form of legislation that is obtained in relation to tolling the West Gate Tunnel;
- the extent and form of amendments to the current CityLink Concession Deed (including those that give effect to changes to the current tolling arrangements) that are approved by Parliament;
- the timing of the above legislation and parliamentary approval;
- the date construction completion is achieved (and whether any completion delays are due to the State's or Project Co's risks);
- the costs of the West Gate Tunnel Project that have been financed by the Transurban Group up to the point the legislative support is obtained; and
- the impacts on expected traffic and toll revenue on CityLink and West Gate Tunnel resulting from the form of legislative support after the West Gate Tunnel is open to traffic.

The State and the Transurban Group will therefore be required to negotiate the applicable financial or commercial adjustments when the additional State funding is due to be paid. Due to the significant number of variables and the high level of uncertainty, it is not feasible to reliably quantify an estimate of the likely additional State funding support at the date of this report.

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 Training College (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. 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).

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 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 the EPA, any regulatory infringements that may be imposed by the 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.

At this stage it is impractical to quantify the financial effects of these contingent liabilities.

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 in 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 between RASV and the State. 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 25 years after the operation term has commenced, 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 Victorian 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. Further, the VMIA reinsures in the private market for losses above $10 million arising out of any one event, up to a limit of $1.5 billion for terrorism. 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.

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)**

State of Victoria	*2018*		*2017*	
	Carrying amount	*Fair value*	*Carrying amount*	*Fair value*
Financial assets				
Non-current receivables	111	111	130	124
Financial liabilities				
Finance lease liabilities	10 206	10 207	9 946	9 599
General government sector				
Financial assets				
Non-current receivables	88	89	589	583
Financial liabilities				
Finance lease liabilities	9 774	9 775	9 385	9 180

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

State of Victoria	*Carrying*	*Fair value measurement at*		
	amount as at	*end of reporting period using:*		
2018	*30 June*	*Level 1*	*Level 2*	*Level 3*
Financial assets				
Cash	6 494	6 494	..	..
Derivative assets	710	27	682	..
Term Deposits	1 059	7	1 052	..
Equities and managed investment schemes	32 639	2 638	22 908	7 093
Debt securities at fair value	7 334	1 365	5 968	..
Total financial assets	**48 235**	**10 532**	**30 610**	**7 093**
Financial liabilities				
Domestic borrowings	38 738	31 202	7 536	..
Foreign currency borrowings	133	..	133	..
Derivative financial liabilities	693	24	669	..
Total financial liabilities	**39 565**	**31 226**	**8 339**	**..**

2017				
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**	**..**

General Government Sector [(a)]	*Carrying*	*Fair value measurement at*		
	amount as at	*end of reporting period using:*		
2018	*30 June*	*Level 1*	*Level 2*	*Level 3*
Financial assets				
Cash	6 257	6 257	..	..
Derivative assets	12	12	..	..
Equities and managed investment schemes	1 978	1 342	636	..
Debt securities at fair value	31	25	6	..
Total financial assets	**8 279**	**7 637**	**642**	**..**

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**	**..**

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)**

State of Victoria	*Equities and managed investment schemes*		*Debt securities at fair value*	
	2018	*2017*	*2018*	*2017*
Opening balance	**6 318**	**5 340**	**3**	**214**
Total gains and losses recognised in:				
Net result	294	233	..	..
Other comprehensive income	..	7	..	..
Purchase	819	1 334	..	..
Sales	(337)	(509)	..	..
Settlements	..	..	(3)	(10)
Transfers from other levels	..	36	..	..
Transfers out of Level 3	(1)	(123)	..	(200)
Closing balance	**7 093**	**6 318**	**..**	**3**

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 one third of the funds under management by VFMC are directly managed internally while two-thirds are funds selected by VFMC but managed externally by other fund managers.

The disclosure below provides details of the inputs and assumptions used in the valuation models for various asset classes. 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, non-traditional strategies, property and private equity.

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 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 is 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, the 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 United States 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.

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 accepted methodologies. Key inputs and assumptions, which are subject to estimation uncertainty, include the estimated future profits and cash flows, the risk-free discount rate, the 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. This led to assets within the Education government purpose classification group being formally revalued in 2017-18. However, a revaluation may occur more frequently if fair value assessments indicate material changes in values. This resulted in managerial valuations on land held by the Director of Housing, crown land held by the Department of Environment, Land, Water, and Planning, land and buildings in the health sector, and land under roads held by VicRoads in 2017-18. 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 the 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)**

State of Victoria	*Carrying amount*	*Fair value measurement at the end of the 2018 reporting period using:*			*Carrying amount*	*Fair value measurement at the end of the 2017 reporting period using:*		
	2018	*Level 1*	*Level 2*	*Level 3*	*2017*	*Level 1*	*Level 2*	*Level 3*
Buildings	**47 886**	**..**	**9 217**	**38 669**	**44 130**	**..**	**9 459**	**34 671**
Non-specialised buildings	11 051	..	8 879	2 172	11 683	..	8 968	2 715
Specialised buildings	36 002	..	328	35 674	31 602	..	491	31 111
Heritage buildings	832	..	9	823	845	..	..	845
Land and national parks	**91 486**	**..**	**25 155**	**66 331**	**78 504**	**..**	**21 416**	**57 088**
Non-specialised land	26 729	..	24 268	2 461	19 624	..	17 269	2 355
Specialised land	39 192	..	887	38 305	35 794	..	4 147	31 647
Land under roads	24 332	..	..	24 332	22 036	..	..	22 036
National parks and other 'land only' holdings	1 233	..	..	1 233	1 050	..	..	1 050
Plant, equipment, vehicles and infrastructure systems [(a)]	**62 709**	**..**	**1 245**	**61 464**	**60 821**	**..**	**1 319**	**59 502**
Infrastructure systems [(a)]	56 139	..	1 165	54 975	55 101	..	1 205	53 897
Rolling stock	3 101	..	..	3 101	2 440	..	..	2 440
Plant, equipment and vehicles	3 469	..	80	3 389	3 279	..	114	3 165
Roads, road infrastructure and earthworks	**26 754**	**..**	**..**	**26 754**	**26 832**	**..**	**..**	**26 832**
Cultural assets	**5 709**	**..**	**1 960**	**3 749**	**5 680**	**..**	**1 923**	**3 757**
Total land, buildings, infrastructure, plant and equipment [(a)(b)]	**234 545**	**..**	**37 577**	**196 968**	**215 967**	**..**	**34 118**	**181 850**

Notes:

(a) The 2017 comparatives have been restated by $1.2 billion reflecting a reclassification of certain infrastructure systems from level 3 to level 2 fair value.

(b) The State's total land, buildings, 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 $26 033 million (2017: $22 919 million).

General government sector	*Carrying amount*	*Fair value measurement at the end of the 2018 reporting period using:*			*Carrying amount*	*Fair value measurement at the end of the 2017 reporting period using:*		
	2018	*Level 1*	*Level 2*	*Level 3*	*2017*	*Level 1*	*Level 2*	*Level 3*
Buildings	**27 988**	**..**	**741**	**27 247**	**26 691**	**..**	**779**	**25 913**
Non-specialised buildings	2 159	..	594	1 565	1 899	..	383	1 516
Specialised buildings	25 021	..	146	24 875	23 962	..	396	23 566
Heritage buildings	808	..	1	807	831	..	..	831
Land and national parks	**58 442**	**..**	**2 105**	**56 336**	**50 554**	**..**	**1 689**	**48 865**
Non-specialised land	3 689	..	1 298	2 391	3 393	..	1 117	2 276
Specialised land	29 188	..	807	28 381	24 075	..	573	23 503
Land under roads	24 332	..	..	24 332	22 036	..	..	22 036
National parks and other 'land only' holdings	1 233	..	..	1 233	1 050	..	..	1 050
Plant, equipment, vehicles and infrastructure systems	**3 117**	**..**	**29**	**3 089**	**3 051**	**..**	**30**	**3 021**
Infrastructure systems	1 204	..	..	1 204	1 187	..	..	1 187
Plant, equipment and vehicles	1 914	..	29	1 885	1 864	..	30	1 834
Roads, road infrastructure and earthworks	**26 658**	**..**	**..**	**26 658**	**26 749**	**..**	**..**	**26 749**
Cultural assets	**5 646**	**..**	**1 897**	**3 749**	**5 617**	**..**	**1 860**	**3 757**
Total land, buildings, infrastructure, plant and equipment [(a)]	**121 851**	**..**	**4 772**	**117 079**	**112 663**	**..**	**4 359**	**108 304**

Note:

(a) The general government sector's total land, buildings, 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 $12 289 million (2017: $9 113 million).

Reconciliation of Level 3 fair value movements

($ million)

State of Victoria 2018	*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	**34 671**	**(1 481)**	**(7)**	**8**	**1 260**	**583**	**3 397**	**(24)**	**262**	**38 669**
Non-specialised buildings	2 715	(120)	..	6	..	166	..	1	(596)	2 172
Specialised buildings	31 111	(1 338)	(7)	2	1 253	428	3 397	(24)	852	35 674
Heritage buildings	845	(23)	..	..	7	(11)	..	(1)	5	823
Land and national parks	**57 088**	**..**	**43**	**173**	**8 506**	**153**	**36**	**338**	**(5)**	**66 331**
Non-specialised land	2 355	..	..	..	248	(15)	..	..	(128)	2 461
Specialised land	31 647	..	43	168	5 818	190	36	338	66	38 305
Land under roads	22 036	..	..	..	2 268	(29)	..	..	56	24 332
National parks and other ‘land only’ holdings	1 050	..	..	5	172	7	..	..	..	1 233
Plant, equipment, vehicles and infrastructure systems	**59 502**	**(2 181)**	**(61)**	**38**	**139**	**1 186**	**2 657**	**180**	**4**	**61 464**
Infrastructure systems	53 897	(1 386)	(42)	19	134	707	1 655	..	(10)	54 975
Rolling stock	2 440	(161)	..	..	..	..	821	..	..	3 101
Plant, equipment and vehicles	3 165	(634)	(19)	19	6	478	181	180	14	3 389
Roads, road infrastructure and earthworks	**26 832**	**(620)**	**(174)**	**..**	**18**	**17**	**691**	**..**	**(10)**	**26 754**
Cultural assets	**3 757**	**(19)**	**..**	**5**	**..**	**19**	**..**	**(10)**	**(3)**	**3 749**
Total	**181 850**	**(4 302)**	**(199)**	**224**	**9 923**	**1 957**	**6 782**	**484**	**248**	**196 968**

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 [(a)]	**60 363**	**(2 212)**	**(68)**	**38**	**(295)**	**885**	**2 074**	**(1 144)**	**(139)**	**59 502**
Infrastructure systems [(a)]	54 747	(1 387)	(56)	22	(284)	381	1 641	(1 154)	(13)	53 897
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 [(a)]	**176 014**	**(4 287)**	**(81)**	**107**	**6 234**	**1 491**	**3 689**	**(1 346)**	**29**	**181 850**

Note:

(a) The 2017 comparatives have been restated by $1.2 billion reflecting a reclassification of certain infrastructure systems from level 3 to level 2 fair value classification.

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

($ million)

General government sector 2018	*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	**25 913**	**(1 203)**	**(7)**	**6**	**1 269**	**547**	**794**	**8**	**3**	**(83)**	**27 247**
Non-specialised buildings	1 516	(99)	..	4	..	162	..	..	1	(19)	1 565
Specialised buildings	23 566	(1 081)	(7)	2	1 264	396	794	8	3	(70)	24 875
Heritage buildings	831	(23)	..	..	5	(11)	..	..	(1)	5	807
Land and national parks	**48 865**	**..**	**..**	**173**	**7 190**	**57**	**7**	**6**	**40**	**..**	**56 336**
Non-specialised land	2 276	..	..	..	248	1	..	(9)	..	(126)	2 391
Specialised land	23 503	..	..	168	4 502	50	7	42	40	70	28 381
Land under roads	22 036	..	..	..	2 268	5	..	(34)	..	56	24 332
National parks and other ‘land only’ holdings	1 050	..	..	5	172	..	..	7	..	..	1 233
Plant, equipment, vehicles and infrastructure systems	**3 021**	**(521)**	**(23)**	**2**	**42**	**417**	**122**	**(10)**	**..**	**38**	**3 089**
Infrastructure systems	1 187	(56)	(4)	..	41	24	13	..	..	(1)	1 204
Plant, equipment and vehicles	1 834	(465)	(19)	2	2	393	108	(10)	..	39	1 885
Roads, road infrastructure and earthworks	**26 749**	**(617)**	**(174)**	**..**	**..**	**8**	**691**	**..**	**..**	**..**	**26 658**
Cultural assets	**3 757**	**(19)**	**..**	**5**	**..**	**19**	**..**	**..**	**(10)**	**(3)**	**3 749**
Total	**108 304**	**(2 359)**	**(203)**	**186**	**8 502**	**1 047**	**1 614**	**3**	**33**	**(48)**	**117 079**

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**

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 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
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	Statistical valuation	Market price Statistically verified random sample Professional judgement

Note:
(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.

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	Direct cost per square metre	$16 to $8 400
		Useful life	1–150 years
Land			
Metropolitan water corporations	Market approach	CSO adjustment [(a)]	1–92%
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)]	5.0–6.0%
		Inflation rate [(b)]	3.00%
		Terminal value growth rate	3.0-4.0%
		Useful life	2–200 years
Plant, equipment and vehicles			
Plant, equipment and vehicles	Depreciated replacement cost	Useful life	1–50 years
		Cost per unit	$1 to $2 700 000

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 the 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 107

8.2 Public Account disclosures 115

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 2018-19 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 $50 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*	*2018 actual*	*Budget variance*	*%*	*Revised budget variance*	*%*
Revenue from transactions								
Taxation revenue	(a)	21 827	22 446	22 929	1 102	5	483	2
Interest revenue	(b)	899	901	845	(53)	(6)	(56)	(6)
Dividends, income tax equivalent and rate equivalent revenue	(c)	1 171	737	781	(391)	(33)	44	6
Sales of goods and services	(d)	7 187	7 087	7 339	152	2	252	4
Grant revenue	(e)	29 818	30 342	29 928	110	..	(414)	(1)
Other revenue	(f)	2 502	2 492	2 767	264	11	275	11
Total revenue from transactions		**63 405**	**64 005**	**64 589**	**1 184**	**2**	**584**	**1**
Expenses from transactions								
Employee expenses	(g)	23 011	22 989	23 271	260	1	282	1
Net superannuation interest expense		761	714	714	(47)	(6)	..	..
Other superannuation	(h)	2 347	2 536	2 535	188	8	..	..
Depreciation		2 788	2 764	2 745	(43)	(2)	(19)	(1)
Interest expense	(i)	2 181	2 102	2 092	(89)	(4)	(10)	..
Grant expense	(j)	11 333	10 506	11 130	(203)	(2)	623	6
Other operating expenses		19 830	20 352	19 789	(40)	..	(562)	(3)
Total expenses from transactions		**62 252**	**61 963**	**62 276**	**25**	**..**	**314**	**1**
Net result from transactions – net operating balance		**1 153**	**2 042**	**2 313**	**1 160**	**101**	**270**	**13**
Other economic flows included in net result								
Net gain/(loss) on disposal of non-financial assets		82	100	59	(23)	(28)	(40)	(40)
Net gain/(loss) on financial assets or liabilities at fair value		22	27	53	31	140	26	95
Share of net profit/(loss) from associates/joint venture entities, excluding dividends		..	..	(5)	(5)	..	(5)	..
Other gains/(losses) from other economic flows		(370)	(820)	(933)	(564)	152	(113)	14
Total other economic flows included in net result		**(266)**	**(694)**	**(827)**	**(561)**	**211**	**(133)**	**19**
Net result		**887**	**1 349**	**1 486**	**599**	**67**	**137**	**10**
Other economic flows – other comprehensive income								
Items that will not be reclassified to net result								
Changes in non-financial assets revaluation surplus		3 660	621	8 764	5 104	139	8 143	..
Remeasurement of superannuation defined benefits plans		915	733	(258)	(1 173)	(128)	(991)	(135)
Other movements in equity		7	(31)	(103)	(110)	..	(71)	228
Items that may be reclassified subsequently to net result								
Net gain/(loss) on financial assets at fair value		1	1	(2)	(3)	(208)	(3)	(209)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets		(966)	921	6 202	7 168	(742)	5 281	574
Total other economic flows – other comprehensive income		**3 617**	**2 245**	**14 603**	**10 986**	**304**	**12 358**	**550**
Comprehensive result – total change in net worth		**4 504**	**3 594**	**16 089**	**11 585**	**257**	**12 496**	**348**

Revenue from transactions

Revenue from transactions was $64.6 billion for the year to 30 June 2018. This was 1.9 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 $1.1 billion higher than the original published estimate. This was largely driven by higher land transfer duty of $768 million and higher land tax collections of $220 million due to continued strength in the property market.

b) Interest revenue was $53 million lower than the original published estimate. This was mainly due to the timing of larger deposits occurring later in the financial year.

c) Dividends, income tax equivalent and rate equivalent revenue was lower than the original published budget by $391 million. This was largely due to rephasing of dividends from the Victorian Managed Insurance Authority (VMIA).

d) Revenue from the sales of goods and services was higher by $152 million. This was mainly due to higher than expected regulatory fees revenue within the Department of Justice and Regulation.

e) Grant revenue was $110 million higher than the original published budget due to higher than expected GST grants due to population growth in Victoria and stronger national consumption growth offset by the rephasing of other grants.

f) Other revenue was $264 million higher than originally budgeted. This was partly due to higher than expected fines and donations revenue. Fines revenue increased resulting from fines reform that commenced on 1 January 2018 which has enabled some court-related fine revenue to be recognised earlier than under previous arrangements.

Expenses from transactions

Expenses from transactions were $62.3 billion for the year to 30 June 2018. This is consistent with the estimate in the original budget. Movements in expense items from the original budget are discussed below.

g) Employee expenses were $260 million higher than originally estimated. This was mainly due to increased service delivery in the health sector to address higher than expected demand for health services.

h) Other superannuation expenses were $188 million higher than originally estimated. This was primarily due to the impact of movements in bond yields on the defined benefit service cost.

i) Interest expense was lower than originally published by $89 million. This was primarily due to lower than expected borrowings.

j) Grant expenses were $203 million lower than the published budget. Major variations relate to:
   - lower grants to private businesses and not for profit organisations of $273 million; and
   - lower than expected grants to the Commonwealth of $216 million for the National Disability Insurance Scheme. This was largely due to a slower than expected rollout of the scheme.

   These decreases were partially offset by:
   - higher than expected grants for Skills First; and
   - a provision of $95 million of additional payments to local governments for Natural Disaster Relief and Recovery Arrangements to complete necessary recovery works.

Other economic flows included in net result

Total other economic flows included in the net result have decreased by $561 million since estimates in the published budget. This decrease is primarily due to the derecognition of tax assets relating to the State's divestment of its interest in Snowy Hydro Limited.

8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

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

General government sector	*Published budget*	*Revised budget*	*2018 actual*	*Budget variance*	*%*	*Revised budget variance*	*%*
Assets							
Financial assets							
Cash and deposits	5 293	4 565	6 257	964	18	1 692	37
Advances paid	9 683	9 871	10 019	336	3	148	1
Receivables	5 701	5 484	6 208	507	9	725	13
Investments, loans and placements	2 813	3 858	3 928	1 115	40	70	2
Investments accounted for using the equity method	46	47	53	6	14	5	11
Investments in other sector entities	94 402	96 747	101 253	6 851	7	4 506	5
Total financial assets	**117 939**	**120 572**	**127 717**	**9 778**	**8**	**7 145**	**6**
Non-financial assets							
Inventories	192	175	175	(17)	(9)	..	..
Non-financial assets held-for-sale	175	295	389	214	122	94	32
Land, buildings, infrastructure, plant and equipment	124 266	124 602	134 141	9 874	8	9 539	8
Other non-financial assets	1 276	1 650	1 872	596	47	222	13
Total non-financial assets	**125 909**	**126 722**	**136 577**	**10 667**	**8**	**9 854**	**8**
Total assets	**243 848**	**247 295**	**264 294**	**20 446**	**8**	**16 999**	**7**
Liabilities							
Deposits held and advances received	5 879	6 279	6 700	821	14	421	7
Payables	5 452	5 782	6 713	1 261	23	931	16
Borrowings	35 707	31 640	33 506	(2 201)	(6)	1 867	6
Employee benefits	6 789	6 788	7 020	230	3	232	3
Superannuation	24 511	24 235	25 205	693	3	969	4
Other provisions	776	949	1 034	258	33	85	9
Total liabilities	**79 114**	**75 674**	**80 178**	**1 063**	**1**	**4 504**	**6**
Net assets	**164 734**	**171 621**	**184 116**	**19 382**	**12**	**12 495**	**7**
Accumulated surplus/(deficit)	51 407	53 509	52 574	1 167	2	(935)	(2)
Reserves	113 327	118 112	131 543	18 216	16	13 431	11
Net worth	**164 734**	**171 621**	**184 116**	**19 382**	**12**	**12 495**	**7**
FISCAL AGGREGATES							
Net financial worth	38 825	44 898	47 540	8 715	22	2 641	6
Net financial liabilities	55 577	51 848	53 713	(1 864)	(3)	1 865	4
Net debt	23 797	19 625	20 003	(3 794)	(16)	378	2

Net financial worth

Net financial worth is total financial assets minus total liabilities. Net financial worth was $8.7 billion higher than originally published. This was due to higher financial assets of $9.8 billion when compared to the published budget.

The increase in financial assets is driven mainly by an increase in investment in the public non-financial corporations (PNFC) sector. This was partially driven by a $3.7 billion revaluation of land held by the Director of Housing.

Net financial worth also increased as a result of higher cash and deposits largely attributable to proceeds from the divestment of Snowy Hydro Limited.

Net financial liabilities

Net financial liabilities are total liabilities less all financial assets (excluding investments in other sectors). Net financial liabilities were $1.9 billion lower than original budget. A key driver is a reduction in required borrowings partly driven by the receipt of proceeds from the Snowy Hydro divestment.

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 was $3.8 billion lower compared with the original budget. This is due to the State's receipt of proceeds from the sale of its share in Snowy Hydro Limited as well as lower borrowings than expected.

Non-financial assets

Non-financial assets were $9.9 billion higher than originally budgeted. This is primarily driven by an $8.7 billion increase in valuation of land under roads and school land, and the State's capital program.

8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

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

General government sector	*Published budget*	*Revised budget*	*2018 actual*	*Budget variance*	*%*	*Revised budget variance*	*%*
Cash flows from operating activities							
Receipts							
Taxes received	21 688	22 214	22 442	754	3	228	1
Grants	29 817	30 420	29 992	175	1	(428)	(1)
Sales of goods and services	8 076	7 822	8 018	(58)	(1)	196	3
Interest received	898	902	843	(55)	(6)	(59)	(7)
Dividends and income tax equivalent and rate equivalent receipts	1 174	739	774	(400)	(34)	35	5
Other receipts	2 001	2 060	1 937	(64)	(3)	(122)	(6)
Total receipts	**63 655**	**64 157**	**64 007**	**351**	**1**	**(150)**	**..**
Payments							
Payments for employees	(22 773)	(22 709)	(22 753)	20	..	(43)	..
Superannuation	(3 107)	(3 182)	(3 203)	(97)	3	(22)	1
Interest paid	(2 144)	(2 065)	(2 053)	91	(4)	12	(1)
Grants and subsidies	(11 294)	(10 690)	(11 415)	(121)	1	(725)	7
Goods and services	(20 005)	(20 692)	(19 731)	274	(1)	961	(5)
Other payments	(732)	(732)	(757)	(25)	3	(25)	3
Total payments	**(60 054)**	**(60 070)**	**(59 912)**	**142**	**..**	**157**	**..**
Net cash flows from operating activities	**3 601**	**4 087**	**4 094**	**493**	**14**	**7**	**..**
Cash flows from investing activities							
Cash flows from investments in non-financial assets							
Purchases of non-financial assets	(8 780)	(9 555)	(9 804)	(1 024)	12	(249)	3
Sales of non-financial assets	503	463	383	(120)	(24)	(80)	(17)
Net cash flows from investments in non-financial assets	**(8 277)**	**(9 093)**	**(9 421)**	**(1 144)**	**14**	**(329)**	**4**
Net cash flows from investments in financial assets for policy purposes	2 348	4 816	4 559	2 211	94	(257)	(5)
Sub-total	**(5 930)**	**(4 277)**	**(4 863)**	**1 067**	**(18)**	**(586)**	**14**
Net cash flows from investments in financial assets for liquidity management purposes	801	(166)	(235)	(1 036)	(129)	(69)	42
Net cash flows from investing activities	**(5 129)**	**(4 443)**	**(5 098)**	**30**	**(1)**	**(655)**	**15**
Cash flows from financing activities							
Advances received (net)	(2 649)	(2 808)	(2 659)	(11)	..	149	(5)
Net borrowings	4 584	2 199	4 119	(465)	(10)	1 920	87
Deposits received (net)	..	..	272	271	..	272	..
Net cash flows from financing activities	**1 935**	**(609)**	**1 731**	**(204)**	**(11)**	**2 340**	**(384)**
Net increase/(decrease) in cash and cash equivalents	**408**	**(965)**	**727**	**320**	**78**	**1 692**	**(175)**
Cash and cash equivalents at beginning of reporting period	4 885	5 530	5 530	644	13	..	..
Cash and cash equivalents at end of reporting period	**5 293**	**4 565**	**6 257**	**964**	**18**	**1 692**	**37**

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 $1.1 billion lower than the original budget. This decrease is primarily driven by the return of capital from the State's receipt of the proceeds from the sale of its share in Snowy Hydro Limited, offset by the State's capital program, especially in the transport sector.

Net cash flows from financing activities

Total net cash inflows from financing activities were $204 million lower than originally budgeted. This is primarily due to lower borrowings than expected in the original budget as a result of increased cash flows from operating activities.

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 a higher than expected revaluation for the Director of Housing. The increase in the superannuation liability reflects a reduction in bond yields and changes in actuarial assumptions.

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
2017-18 original budget						
Balance at 1 July 2017	49 597	..	52 765	57 332	536	160 229
Net result for the year	887	..	..	..	..	887
Other comprehensive income for the year	923	..	3 660	(966)	1	3 617
Transfer to/(from) accumulated surplus	..	..	..	..	..	..
Total equity as at 30 June 2018	**51 407**	**..**	**56 424**	**56 366**	**537**	**164 734**
2017-18 revised budget						
Balance at 1 July 2017	51 464	..	55 745	60 149	669	168 027
Net result for the year	1 349	..	..	..	..	1 349
Other comprehensive income for the year	696	..	621	921	7	2 245
Transfer to/(from) accumulated surplus	..	..	..	..	..	..
Total equity as at 30 June 2018	**53 509**	**..**	**56 366**	**61 070**	**676**	**171 621**
2017-18 actual						
Balance at 1 July 2017 [(a)]	51 464	..	55 320	60 149	1 094	168 027
Net result for the year	1 486	..	..	..	..	1 486
Other comprehensive income for the year	(347)	..	8 764	6 202	(16)	14 603
Transfer to/(from) accumulated surplus	(30)	..	..	..	30	..
Total equity as at 30 June 2018	**52 574**	**..**	**64 084**	**66 351**	**1 108**	**184 116**
Variance to original budget						
Balance at 1 July 2017	1 868	..	2 555	2 817	558	7 798
Net result for the year	599	..	..	..	..	599
Other comprehensive income for the year	(1 270)	..	5 104	7 168	(16)	10 986
Transfer to/(from) accumulated surplus	(30)	..	..	..	30	..
Total equity as at 30 June 2018	**1 167**	**..**	**7 660**	**9 985**	**571**	**19 382**
Variance to revised budget						
Balance at 1 July 2017	..	..	(425)	..	425	..
Net result for the year	137	..	..	..	..	137
Other comprehensive income for the year	(1 043)	..	8 143	5 281	(23)	12 358
Transfer to/(from) accumulated surplus	(30)	..	..	..	30	..
Total equity as at 30 June 2018	**(935)**	**..**	**7 717**	**5 281**	**432**	**12 495**

Note:

(a) The 1 July 2017 comparative figure has been restated to reflect the reclassification of $425 million from the non-financial assets revaluation surplus to other reserves relating to accumulated revenue dedicated to the purchase of assets in the National Gallery of Victoria.

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

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

($ thousand)

	Notes	*2018*	*2017*
Receipts			
Taxation		22 721 228	21 298 506
Fines and regulatory fees		715 318	784 996
Grants received		19 426 037	17 348 663
Sales of goods and services [(a)]		6 781 356	6 514 442
Interest received		458 474	501 673
Dividends, income tax equivalent and rate equivalent receipts		729 667	716 925
Other receipts [(a)]		204 212	275 683
Total cash inflows from operating activities		**51 036 292**	**47 440 888**
Total cash inflows from investing and financing activities [(b)]		**6 744 386**	**9 875 501**
Total consolidated fund receipts [(b)]	8.2.2	**57 780 679**	**57 316 389**
Payments			
Special appropriations			
Special appropriations (excluding Section 33, *Financial Management Act, No. 18 of 1994)*		3 329 283	8 838 856
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*		518 447	463 129
Total special appropriations	8.2.7	**3 847 730**	**9 307 579**
Annual appropriations			
Provision of outputs			
Provision of outputs – net application	8.2.8	41 284 893	37 812 300
Section 29 *Financial Management Act, No. 18 of 1994* (appropriation of annotated receipts)	8.2.12	2 194 040	2 010 503
Section 32 *Financial Management Act, No. 18 of 1994* (prior year unspent appropriations brought forward)	8.2.13	518 842	831 123
Section 35 *Financial Management Act, No. 18 of 1994* (temporary advances)	8.2.15	31 550	129
Advance to Treasurer to be sanctioned	8.2.14	1 452 260	1 102 267
Total provision of outputs		**45 481 585**	**41 756 322**
Additions to net asset base			
Additions to net asset base – net application	8.2.8	2 714 297	1 249 481
Section 29 *Financial Management Act, No. 18 of 1994* (appropriation of annotated receipts)	8.2.12	39 787	90 395
Section 32 *Financial Management Act, No. 18 of 1994* (prior year unspent appropriations brought forward)	8.2.13	320 010	234 286
Section 35 *Financial Management Act, No. 18 of 1994* (temporary advances)	8.2.15	73 940	20 000
Advance to Treasurer to be sanctioned	8.2.14	348 994	418 929
Total additions to net asset base		**3 497 028**	**2 013 090**
Payments made on behalf of the State			
Payments made on behalf of the State	8.2.8	6 133 033	5 192 224
Section 32 *Financial Management Act, No. 18 of 1994* (prior year unspent appropriations brought forward) [(b)]	8.2.13	..	7 602
Advance to Treasurer to be sanctioned	8.2.14	59 996	50 000
Total payments made on behalf of State [(b)]		**6 193 028**	**5 249 826**
Other			
Contribution by the State under agreements pursuant to Section 25 of *the Murray-Darling Basin Act 1993*	8.2.8	26 985	20 124
Section 32 Financial Management Act, No. 18 of 1994 – Section 25 *of the Murray-Darling Basin Act 1993*		..	6 944
Victorian Law Reform Commission – pursuant to Section 17 (b) of the Victorian Law Reform Commission Act 2000	8.2.8	665	694
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		**152 650**	**152 762**

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

($ thousand)

	Notes	2018	2017
Total annual appropriations [(b)]		**55 324 291**	**49 172 000**
Applied appropriations remaining unspent relating to the 2017-18 appropriations		(1 128 871)	(705 557)
Total payments [(b)]		**58 043 151**	**57 774 022**
Consolidated fund balance 1 July		**62 884**	**520 516**
Add total receipts for year [(b)]		**57 780 679**	**57 316 389**
Less total payments for year [(b)]		**(58 043 151)**	**(57 774 022)**
Consolidated fund balance 30 June [(c)]		**(199 588)**	**62 884**
Reconciliation of unspent appropriations:			
Applied appropriations unspent at end of year		7 895 152	7 284 728
add payments made during the year under the Financial Management Act, No. 18 of 1994, Section 33		518 447	463 129
Subtotal		8 413 599	7 747 857
less applied appropriations unspent at beginning of year		(7 284 728)	(7 042 300)
Current year appropriations remaining unspent as at 30 June		1 128 871	705 557

Notes:

(a) June 2017 comparative figures have been reclassified to reflect more correct classification of the transactions.

(b) June 2017 comparative figures have been restated to reflect more current information.

(c) A temporary advance may be arranged if the money in the Consolidated Fund is likely to be insufficient to meet appropriations authorised by any Act. See Note 8.2.6 for further information.

8.2.2 Consolidated fund receipts for the financial year ended 30 June

($ thousand)

	Estimate 2018	*Actual 2018*	*Actual 2017*
Operating activities			
Taxation			
Payroll tax	6 538 821	6 638 272	6 312 891
Land tax	2 366 866	2 542 873	2 458 830
Fire Services Property Levy	674 097	694 091	675 645
Congestion levy	117 960	103 151	119 381
Financial and capital transactions			
Land transfer duty	6 216 635	6 617 493	5 940 034
Other property duties	380	853	421
Metropolitan Planning Levy	27 300	23 025	27 028
Financial accommodation levy	153 797	146 480	135 111
Growth areas infrastructure contribution	99 551	108 546	105 527
Gambling			
Public lotteries	473 818	439 295	426 598
Electronic gaming machines	931 876	969 721	872 230
Casino taxes	235 799	224 253	223 432
Racing	39 521	37 606	40 507
Other gambling	109 503	208 259	94 360
Levies on statutory corporations	111 963	111 943	111 963
Taxes on insurance	1 289 235	1 298 582	1 217 554
Motor vehicle			
Registration fees pursuant to the *Road Safety Act, No. 127 of 1986*	1 605 911	1 569 314	1 561 746
Stamp duty on vehicle transfers	925 388	919 610	818 096
Franchise fees			
Liquor	23 027	23 750	22 657
Other	47 394	44 112	134 495
Total taxation	**21 988 843**	**22 721 228**	**21 298 506**
Fines and regulatory fees			
Fines	402 522	157 881	218 476
Regulatory fees	514 149	557 438	566 520
Total fines and regulatory fees	**916 671**	**715 318**	**784 996**
Grants received			
Department of Economic Development, Jobs, Transport and Resources	2 000	398	992
Department of Education and Training	7 500	8 472	2 636
Department of Environment, Land, Water and Planning	36 238	21 689	24 770
Department of Health and Human Services	43 414	79 409	80 286
Department of Justice and Regulation	582	582	2 597
Department of Premier and Cabinet	..	3 426	..
Department of Treasury and Finance	19 542 652	19 311 561	17 237 357
Parliament	..	500	..
Regulatory bodies and other part budget funded agencies	..	..	25
Total grants received	**19 632 387**	**19 426 037**	**17 348 663**
Sales of goods and services			
Capital asset charge	5 353 872	5 406 374	5 125 834
Other sales of goods and services [(a)]	1 450 144	1 374 982	1 388 608
Total sales of goods and services [(a)]	**6 804 016**	**6 781 356**	**6 514 442**
Interest received	**507 366**	**458 474**	**501 673**
Dividends, income tax equivalent and rate equivalent revenue			
Dividends	932 076	424 913	370 563
Income tax equivalent revenue	203 585	300 245	341 916
Local government tax equivalent revenue	12 274	4 509	4 446
Total dividends, income tax equivalent and rate equivalent revenue	**1 147 935**	**729 667**	**716 925**

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

($ thousand)

	Estimate 2018	*Actual 2018*	*Actual 2017*
Other receipts			
Land rent received	17 931	22 193	21 201
Royalties received	94 673	101 495	84 768
Other [(a)]	252 406	80 524	169 713
Total other receipts [(a)]	**365 010**	**204 212**	**275 683**
Total cash inflows from operating activities	**51 362 229**	**51 036 292**	**47 440 888**
Cash inflows from investing activities			
Proceeds from sale of property, plant and equipment	460 840	279 737	187 175
Other loans	655	2 870	(7 653)
Return of capital – government entities	148 535	2 163 879	29 961
Total cash inflows from investing activities	**610 030**	**2 446 486**	**209 482**
Cash inflows from financing activities			
Borrowings [(b)]	6 426 128	4 297 901	9 666 019
Total cash inflows from financing activities [(b)]	**6 426 128**	**4 297 901**	**9 666 019**
Total cash inflows from investing and financing activities [(b)]	**7 036 157**	**6 744 386**	**9 875 501**
Total consolidated fund receipts [(b)]	**58 398 386**	**57 780 679**	**57 316 389**

Notes:
(a) June 2017 comparative figures have been reclassified to reflect more correct classification of the transactions.
(b) June 2017 comparative figures have been restated to reflect more current information.

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

($ thousand)

	2018	*2017*
Cash flows from operating activities		
Receipts		
Taxation	394 393	1 150 536
Regulatory fees and fines	78 864	64 909
Grants received	15 864 957	14 477 804
Sale of goods and services [(a)]	90 139	67 380
Interest received	203 947	184 056
Dividend received	43 095	23 281
Net transfers from the consolidated fund	3 399 796	2 933 673
Other receipts [(a)]	61 528	179 029
Payments		
Payments for employees	(244 062)	(180 401)
Superannuation	(19 532)	(15 239)
Interest paid	(2 334)	(4 041)
Grants and subsidies	(18 398 349)	(15 640 414)
Goods and services	(1 587 783)	(1 524 629)
Net cash flows from operating activities	**(115 342)**	**1 715 944**
Cash flows from investing activities		
Purchase of non-financial assets	(54 494)	(127 654)
Sales of non-financial assets	61 181	59 428
Net proceeds from customer loans	2 940 122	(8 273 205)
Other investing activities	(2 480 321)	6 821 302
Net cash flows from investing activities	**466 489**	**(1 520 130)**
Cash flows from financing activities		
Net borrowings	418 074	365 671
Net cash flows from financing activities	**418 074**	**365 671**
Net increase/(decrease) in trust fund cash and deposits	**769 222**	**561 485**

Note:
(a) June 2017 comparative figures have been reclassified to reflect more correct classification of the transactions.

8.2.4 Trust fund summary for the financial year ended 30 June

($ thousand)

	Balances held 2018	*Balances held 2017*
State Government funds		
Accounts established to receive levies imposed by Parliament and record the expenditure thereof	812 110	821 737
Accounts established to receive monies provided in the annual budget and record the expenditure thereof	1 526 039	1 972 027
Specific purpose operating accounts established for various authorities	980 651	544 713
Suspense and clearing accounts to facilitate accounting procedures	974 792	496 074
Treasury Trust Fund	262 444	276 914
Agency and deposit accounts	460 434	507 025
Total State Government funds	**5 016 471**	**4 618 490**
Joint Commonwealth and State funds	**211 141**	**146 677**
Commonwealth Government funds		
Commonwealth Grants passed on to individuals and organisations	121 333	132 234
Total Commonwealth Government funds	**121 333**	**132 234**
Prizes, scholarships, research and private donations	**259 430**	**213 194**
Total trust fund	**5 608 375**	**5 110 595**

8.2.5 Reconciliation of cash flows to balances held

($ thousand)

	Balances held at 30 June 2017	*Net movement for year*	*Balances held at 30 June 2018*
Cash and deposits			
Cash balances outside the Public Account	(439)	(154)	(593)
Deposits held with the Public Account – specific trusts	561 059	136 117	697 176
Deposits held with the Public Account – general trusts	13	..	14
Other balances held in the Public Account	3 327 731	(115 867)	3 211 864
Total cash and deposits	**3 888 365**	**20 096**	**3 908 461**
Investments			
Investments held with the Public Account – specific trusts	1 285 115	215 210	1 500 326
Total investments	**1 285 115**	**215 210**	**1 500 326**
Total fund balances	**5 173 480**	**235 306**	**5 408 787**
Less funds held outside the Public Account			
Cash	(439)	(154)	(593)
Total fund balances held outside the Public Account	**(439)**	**(154)**	**(593)**
Total funds held in the Public Account [(a)]	**5 173 919**	**235 461**	**5 409 380**

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)

	2018	*2017*
Funds held at 30 June		
Trust accounts		
Amounts invested on behalf of specific trust accounts	2 197 502	1 846 174
Amounts invested on behalf of general trust accounts	14	13
General account balances	3 411 453	3 264 846
Total trust accounts	**5 608 968**	**5 111 034**
Consolidated fund account balance [(a)]	**(199 588)**	**62 884**
Total funds held in the public account	**5 409 380**	**5 173 919**
Represented by:		
Stocks and securities held with/in –		
Managed Investments	1 009 217	677 092
Treasury Corporation of Victoria	1 188 298	1 169 095
	2 197 515	**1 846 188**
Cash and investments held with/in –		
Treasury Corporation of Victoria	1 330 000	1 770 000
Cash at bank balances held in Australia	102 868	233 530
	1 432 869	**2 003 531**
Total stock, securities, cash and investments	**3 630 384**	**3 849 718**
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* [(a)]	850 000	450 000
Add cash advanced pursuant to Sections 36 and 37 of the *Financial Management Act, No. 18 of 1994*	928 996	874 200
Total funds held in the public account	**5 409 380**	**5 173 919**

Note:
(a) A temporary advance is required if the money in the Consolidated Fund is likely to be insufficient to meet appropriations authorised by any Act.

8.2.7 Consolidated Fund payments: special appropriations

($ thousand)

	2018	*2017*
Economic Development, Jobs, Transport and Resources	262 943	6 916
Education and Training	291 558	200 043
Environment, Land, Water and Planning	112 207	140 512
Health and Human Services	1 533 776	1 604 396
Justice and Regulation	44 589	10 466
Premier and Cabinet	46 457	53 582
Treasury and Finance	1 306 725	7 068 787
Parliament	63 953	52 744
Courts	185 523	170 132
Total special appropriations	**3 847 730**	**9 307 579**

8.2.8 Consolidated Fund payments: annual appropriations

($ thousand)

2018	*Provision of outputs*	*Additions to net asset base*	*Payments made on behalf of the State*	*Total*
Economic Development, Jobs, Transport and Resources	7 141 611	1 596 333	69 743	8 807 687
Education and Training	11 886 734	259 734	..	12 146 468
Environment, Land, Water and Planning	1 157 871	101 626	638 430	1 897 928
Health and Human Services	13 891 523	248 522	60 344	14 200 389
Justice and Regulation	6 251 414	415 710	28 976	6 696 100
Premier and Cabinet	377 026	12 972	..	389 998
Treasury and Finance	276 199	50 000	5 362 524	5 688 723
Parliament	132 309	6 000	..	138 309
Courts	295 871	23 399	..	319 270
Total annual appropriations	**41 410 558**	**2 714 297**	**6 160 018**	**50 284 873**

2017				
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**

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)

	2018	*2017*
Appropriation transfer equivalent to consolidated fund receipts	15 907	14 670
Interest received on credit balances	..	139
Total amounts paid into working accounts	**15 907**	**14 810**

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

($ thousand)

	2018	*2017*
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 2018

($ 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		99 134
Additions to the net asset base	99 134	
Department of Education and Training		
Provision of outputs	41 076	
Additions to the net asset base		41 076
Department of Environment, Land, Water and Planning		
Provision of outputs	925	
Additions to the net asset base	4 260	
Payments made on behalf of the State		5 185
Department of Health and Human Services		
Provision of outputs		36 659
Additions to the net asset base	36 659	
Department of Justice and Regulation		
Provision of outputs		34 707
Additions to the net asset base	34 707	
Premier and Cabinet		
Provision of outputs	9 500	
Additions to the net asset base		9 500
Courts		
Provision of outputs	2 494	
Additions to the net asset base		2 494
Total Section 30 and 31 transfers	**228 756**	**228 756**

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 2018

($ thousand)

		Source		
Department	*Outputs*	*Commonwealth*	*Other*	*Total*
Economic Development, Jobs, Transport and Resources	48 309	401 369	..	449 677
Education and Training	70 994	511 695	8 472	591 161
Environment, Land, Water and Planning	145 458	46 158	9 260	200 876
Health and Human Services	338 058	304 979	2 397	645 434
Justice and Regulation	162 678	75 078	324	238 081
Premier and Cabinet	763	735	..	1 498
Treasury and Finance	8 353	..	..	8 353
Parliament	28 215	..	..	28 215
Courts	70 533	..	..	70 533
Total appropriation	**873 361**	**1 340 013**	**20 453**	**2 233 827**

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

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**

Amounts applied against carryover of appropriations in 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	59 402	159 097	..	**218 499**
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	92 055	..	**165 353**
Premier and Cabinet	60 449	2 380	..	**62 829**
Treasury and Finance	3 822	..	..	**3 822**
Parliament	4 157	..	..	**4 157**
Courts	6 126	10 342	..	**16 468**
Total carryovers by department	**518 842**	**320 010**	**..**	**838 852**

Amounts approved for carryover to 2018-19 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	41 039	135 689	..	**176 728**
Education and Training	63 370	89 223	..	**152 593**
Environment, Land, Water and Planning	8 073	..	..	**8 073**
Health and Human Services	54 381	..	..	**54 381**
Justice and Regulation	96 321	176 840	..	**273 161**
Premier and Cabinet	1 792	3 373	..	**5 165**
Treasury and Finance	2 333	..	..	**2 333**
Parliament	5 527	..	..	**5 527**
Courts	11 177	2 451	..	**13 628**
Total carryovers by department	**284 013**	**407 576**	**..**	**691 589**

8.2.14 Payments from advance to the Treasurer for the financial year ended 30 June

($ thousand)

Department	*Purpose*	*2017-18*
Economic Development, Jobs, Transport and Resources	Payments relating to the new franchise agreements for metropolitan trains and trams	307 094
	Rolling stock lease payments	62 980
	Heyfield Mill acquisition	61 457
	Taxi Fairness Fund	43 200
	West Gate Tunnel	41 886
	Mernda Rail Extension	40 811
	Repowering and cash advance facility	28 636
	More E-Class trams and infrastructure	18 990
	Frankston Line Stabling – Kananook	18 372
	V/Line wheel wear management	15 192
	Acquisition of 77 Southbank Boulevard	11 420
	Frankston Station precinct development	11 252
	Modernising the Digital Train Radio System	9 000
	North East Link	8 658
	Footscray Road upgrade	6 580
	Life extension for Comeng trains	5 937
	Victorian Ports Corporation	5 000
	Hydrogen energy supply chain pilot project	5 000
	Australian Music Vault	4 900
	Mernda stabling and Broadmeadows government land purchase	4 350
	Ticketing Systems Services Agreement	2 666
	Carpark and bus interchange works	2 577
	Rideshare implementation costs	2 533
	Commercial Passenger Vehicle Reform, including IT Infrastructure	2 175
	Doncaster Area Rapid Transit	1 815
	Pioneer Road Duplication	1 727
	Fishermans Bend urban renewal	1 633
	Royal Melbourne Showgrounds Redevelopment	1 558
	Cultural institutions and further exhibitions	1 500
	Regional Tourism Campaign	1 500
	Marine Distress Emergency Monitoring System	1 325
	More train, tram and bus services	1 242
	Implementation of Transport Information Management System	1 196
	Development of future network capacity projects	1 089
	Melbourne Port Lessor operating costs	1 000
	General Motors Holden site purchase in Fishermans Bend	1 000
	Dairy Recovery Concessional Loans	860
	Geelong Fast Rail with Airport Rail planning	819
	Transport Solutions	769
	National biosecurity cost-sharing agreements	758
	Compensation for Commercial Fishing License Buyback	586
	Melbourne Exhibition Centre – Stage 2 development	547
	Short Term Vehicle Registration	500
	Network Transition Program	500
	Portable Long Service Leave and Labour hire inquiry outcomes, including Labour Hire Licencing Scheme	410
	Taxi Services Reform	400
	Adshel Maintenance	307
	Metropolitan Train Control Reliability	304
	Dairy Support Package	287
	Advanced Lignite Demonstration Program	209
	Australian Centre for the Moving Image redevelopment	202
	Taxi Safety Ranks (Reform Initiative)	196
	40 New Trains for Melbourne Commuters – Stage 1	103
	Network Development – Planning for Our Future	84
	Preserve W-Class trams	78
	Western Interstate Freight Terminal	57
	New Trains for Melbourne Commuters	25
	Eastern Freeway complementary public transport works	14
		745 269

8.2.14 Payments from advance to the Treasurer for the financial year ended 30 June *(continued)*

($ thousand)

Department	*Purpose*	*2017-18*
Education and Training	School enrolment based funding	137 934
	Additional resources for schools education	72 712
		210 646
Environment, Land, Water and Planning	Fire suppression	42 000
	Additional aviation resources	12 920
	Building a Safer Victoria	7 210
	Planning for Growth	4 800
	Community Managed Places – Organised Sporting Reserves initiative	2 500
	Victoria's contribution to the Murray-Darling Basin Authority	1 700
	Plan Melbourne Priority Actions	1 500
	Streamlining for Growth	1 450
	Annual land valuations	1 000
	Increased Group Personal Accident Insurance cover for Victorian Public Sector employees engaged in forest fire management activities on public land	400
		75 480
Health and Human Services	Additional resources for health services	180 709
	Supplementation for the hospital and charities fund	44 742
	Meeting demand for health services	27 500
	Funding for asset replacement for health sector	25 377
	Response Time Rescue fund	17 600
	Responding better to people's end of life care preferences	15 520
	Tackling drugs in our community	13 578
	Civil claims for historical institutional child abuse	11 731
	Community sports projects	11 125
	Specialist case workers and navigators	8 479
	Establish a central information point as part of the family violence information sharing system reform	5 475
	Fixated Threat Assessment Centre	5 469
	Family violence and service delivery projects transferred to DHHS	3 160
	Fire suppression	2 119
	2018 Gold Coast Commonwealth Games	450
	Support Youth Engagement and respond to youth offending	390
	Youth Space for Morwell	200
		373 622
Justice and Regulation	Community Safety Statement	96 391
	Corrections capacity building	54 057
	Support for police operations	31 100
	Resource funding for Metropolitan Fire Brigade and Country Fire Authority	26 198
	Strengthening Youth Justice	17 956
	Fire Services Statement	13 996
	Youth Justice Review and Strategy	13 127
	Fire suppression	12 234
	Youth Justice capacity building	12 123
	Response to Bourke Street incident	9 486
	Implementation of the new Victorian Infringements, Enforcement and Warrants system	8 000
	Victorian Government Solicitor's Office funding	6 000
	Melbourne CBD security measures	5 473
	Police Prosecutors	4 714
	Victorian Institute of Forensic Medicine funding	4 000
	Summer Fire Information campaign	3 974
	Access to Justice Review	3 960
	Victorian State Emergency Services capital works	3 011
	Establishment of Emergency Services Infrastructure Authority	2 996
	Youth Justice secure bed expansion	2 824
	Victorian Government Solicitor's Office – First Law Officer	2 814
	Volunteer marine search and rescue	2 672
	State Emergency Communication Centre	2 620
	Establishment of a Victoria Fixated Threat Assessment Centre	2 580

8.2.14 Payments from advance to the Treasurer for the financial year ended 30 June *(continued)*

($ thousand)

Department	*Purpose*	*2017-18*
Justice and Regulation	Victorian Commission for Gambling and Liquor Regulation funding	2 500
(continued)	Bail and Remand Court	1 585
	Construction of on-course stabling at Geelong Racecourse funding	1 519
	Native Title Unit Implementation Team	1 503
	Gambling Licensing program review	1 000
	Sixth regular casino review	1 000
	Public water safety	700
	Targeting youth offending	635
	Ex-gratia payment to a deceased firefighter's family	500
	Additional Aviation Resources	500
	Residential Tenancies Act reforms	496
	Implementing counter-terrorism reform in the justice system	454
	Sentencing Advisory Council	300
	Targeting Youth Offending	300
	Gunditj Mirring traditional owners Aboriginal Corporation funding	260
		355 557
Premier and Cabinet	Latrobe Valley Authority (including Funding Actions Framework)	26 763
	Family violence programs	4 634
	Strengthening the Centre	4 000
	Cyber security strategy	3 000
	Pride Centre	2 250
	Multicultural Policy Statement	1 424
	Establishment of an independent Remuneration Tribunal	1 083
	Multicultural community infrastructure program	1 050
	Latrobe Valley GovHub	1 000
	Bourke Street State memorial services	793
	Commercialising Victoria's biomedical research into local jobs and industry	762
	VPS cost mapping	700
	Pick my project	700
	Funding to the Ombudsman's Office	614
	Enhancing public sector capability	437
	Securing Victorians' data	389
	Application Program Interface Capability	300
	Targeting youth offending	250
	Residential Tenancies Act reforms	100
		50 249
Treasury and Finance	First Home Owner Grant	24 800
	Incentive Fund for regulatory burden reduction	5 991
	Commercialisation of Land Titles Registry Function	5 300
	GST administrative costs	2 371
	Administration of Commercial Passenger Vehicle Levy	1 800
	Essential Services Commission Enhanced Regulatory Services	1 704
	Western Roads Upgrade	1 388
	2017-18 Homes for Victorians Package	1 228
		44 582
Courts	Bourke Street Incident Response	3 863
	Courts Innovation and Transformation Projects	1 865
	Courts Integrated Services Program – Community Safety	66
	Additional Judicial Resources for the Court of Appeal	50
		5 844
Total Payments from Advance to the Treasurer		**1 861 250**

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*	*2017-18*
Economic Development, Jobs, Transport and Resources	Additional X'Trapolis Metropolitan Trains	28 079
	Metro Tunnel	21 169
	Additional X'Trapolis trains	6 236
	Narrow Seal Roads	4 837
		60 321
Environment, Land, Water and Planning	Flood Recovery	6 500
	Alpine Resorts	5 500
	Smart Planning Program	5 500
	Biodiversity protections	4 510
		22 010
Justice and Regulation	Working with Children Check	15 040
	Implementation of the new Victorian Infringements, Enforcement and Warrants system	7 900
		22 940
Parliament	Parliamentary Budget Officer – office fitout	219
		219
Total payments from advances pursuant to Section 35 (4) of the *Financial Management Act 1994*		**105 490**

8.2.16 Unused advances carried forward to 2017-18 pursuant to Section 35(4) of the *Financial Management Act 1994*

There have been no amounts carried forward to 2017-18 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 2017-18 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 2017-18 in respect of any guarantee payments.

9. OTHER DISCLOSURES

Introduction to this section

This section includes several additional disclosures that assist the understanding of this financial report.

Structure

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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*	
	2018	*2017*	*2018*	*2017*
Revenue from transactions				
Taxation revenue	22 929	22 272	..	..
Interest revenue	845	863	153	127
Dividends, income tax equivalent and rate equivalent revenue	781	658	32	23
Sales of goods and services	7 339	6 939	6 533	6 117
Grant revenue	29 928	27 542	3 654	3 253
Other revenue	2 767	2 645	901	799
Total revenue from transactions	**64 589**	**60 918**	**11 272**	**10 318**
Expenses from transactions				
Employee expenses	23 271	21 497	1 303	1 208
Net superannuation interest expense	714	692	2	2
Other superannuation	2 535	2 332	123	117
Depreciation	2 745	2 616	2 251	2 208
Interest expense	2 092	2 028	1 091	1 106
Grant expense	11 130	10 471	363	603
Other operating expenses	19 789	18 575	5 884	5 273
Other property expenses	..	..	302	238
Total expenses from transactions	**62 276**	**58 210**	**11 319**	**10 754**
Net result from transactions – net operating balance	**2 313**	**2 709**	**(46)**	**(436)**
Other economic flows included in net result				
Net gain/(loss) on disposal of non-financial assets	59	51	(21)	(35)
Net gain/(loss) on financial assets or liabilities at fair value	53	24	4	(13)
Share of net profit/(loss) from associates/joint venture entities	(5)	1	(50)	21
Other gains/(losses) from other economic flows	(933)	(226)	772	116
Total other economic flows included in net result	**(827)**	**(150)**	**706**	**89**
Net result	**1 486**	**2 559**	**660**	**(347)**
Other economic flows – other comprehensive income				
Items that will not be reclassified to net result				
Changes in non-financial assets revaluation surplus	8 764	6 090	5 219	2 669
Remeasurement of superannuation defined benefits plans	(258)	4 367	11	22
Other movements in equity	(103)	89	(30)	17
Items that may be reclassified subsequently to net result				
Net gain/(loss) on financial assets at fair value	(2)	53	16	(22)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	6 202	3 122	..	..
Total other economic flows – other comprehensive income	**14 603**	**13 720**	**5 215**	**2 686**
Comprehensive result – total change in net worth	**16 089**	**16 279**	**5 875**	**2 339**
FISCAL AGGREGATES				
Net operating balance	**2 313**	**2 709**	**(46)**	**(436)**
Net acquisition of non-financial assets from transactions				
Purchases of non-financial assets (including change in inventories)	9 802	7 267	2 564	1 827
Less: Sales of non-financial assets	(383)	(287)	(158)	(187)
Less: Depreciation and amortisation	(2 745)	(2 616)	(2 251)	(2 208)
Plus/(less): Other movements in non-financial assets	(3 451)	(2 710)	4 341	3 107
Less: Net acquisition of non-financial assets from transactions	**3 223**	**1 653**	**4 495**	**2 538**
Net lending/(borrowing)	**(910)**	**1 055**	**(4 541)**	**(2 974)**

Public financial corporations		*Inter-sector eliminations*		*State of Victoria*	
2018	*2017*	*2018*	*2017*	*2018*	*2017*
..	..	(370)	(380)	22 559	21 892
1 935	2 012	(2 266)	(2 292)	667	711
1 249	857	(723)	(623)	1 339	914
4 718	4 480	(3 455)	(2 997)	15 136	14 539
..	..	(3 992)	(3 444)	29 590	27 350
20	150	(55)	(187)	3 632	3 406
7 922	**7 499**	**(10 861)**	**(9 923)**	**72 923**	**68 812**
354	325	(444)	(413)	24 483	22 617
..	..	..	..	716	693
28	26	..	..	2 687	2 475
45	44	..	..	5 041	4 869
1 853	1 887	(2 266)	(2 292)	2 770	2 729
304	188	(4 158)	(3 639)	7 639	7 624
7 194	6 161	(3 269)	(2 956)	29 598	27 053
187	847	(489)	(1 085)	..	..
9 964	**9 479**	**(10 626)**	**(10 384)**	**72 933**	**68 058**
(2 042)	**(1 980)**	**(234)**	**461**	**(10)**	**754**
..	..	..	..	39	16
2 328	4 134	..	..	2 384	4 144
..	..	..	28	(55)	50
347	2 082	(474)	(367)	(288)	1 605
2 675	**6 216**	**(474)**	**(339)**	**2 080**	**5 816**
633	**4 236**	**(708)**	**123**	**2 070**	**6 570**
..	..	20	33	14 003	8 792
..	..	..	..	(247)	4 389
..	1	..	..	(133)	107
..	..	..	..	14	31
..	..	(6 202)	(3 122)	..	..
..	**2**	**(6 182)**	**(3 089)**	**13 637**	**13 319**
633	**4 237**	**(6 890)**	**(2 967)**	**15 707**	**19 889**
(2 042)	**(1 980)**	**(234)**	**461**	**(10)**	**754**
68	45	(22)	(55)	12 412	9 084
(1)	(1)	1	(1)	(541)	(476)
(45)	(44)	..	..	(5 041)	(4 869)
..	..	55	55	944	451
22	**(1)**	**34**	**(1)**	**7 774**	**4 190**
(2 064)	**(1 979)**	**(269)**	**462**	**(7 784)**	**(3 436)**

9. OTHER DISCLOSURES

Disaggregated balance sheet as at 30 June

($ million)

	General government sector		*Public non-financial corporations*	
	2018	*2017*	*2018*	*2017*
Assets				
Financial assets				
Cash and deposits	6 257	5 530	1 419	1 154
Advances paid	10 019	12 939	5 345	8 323
Receivables	6 208	5 931	1 827	1 688
Investments, loans and placements	3 928	3 673	1 281	1 119
Loans receivable from non-financial public sector (a)	..	..	..	..
Investments accounted for using equity method	53	47	..	1 651
Investments in other sector entities	101 253	92 509	..	..
Total financial assets	**127 717**	**120 630**	**9 872**	**13 934**
Non-financial assets				
Inventories	175	173	875	498
Non-financial assets held for sale	389	405	72	27
Land, buildings, infrastructure, plant and equipment	134 141	121 776	126 329	117 030
Other non-financial assets	1 872	1 494	1 393	1 354
Total non-financial assets	**136 577**	**123 849**	**128 670**	**118 909**
Total assets	**264 294**	**244 478**	**138 542**	**132 843**
Liabilities				
Deposits held and advances received	6 700	9 088	5 787	8 760
Payables	6 713	5 815	10 417	10 158
Borrowings	33 506	28 816	16 444	15 925
Employee benefits	7 020	6 506	442	421
Superannuation	25 205	24 900	28	37
Other provisions	1 034	1 326	8 212	8 415
Total liabilities	**80 178**	**76 451**	**41 330**	**43 717**
Net assets (b)	**184 116**	**168 027**	**97 212**	**89 126**
Accumulated surplus/(deficit) (c)	52 574	51 464	3 333	3 751
Reserves (c)	131 543	116 563	93 879	85 375
Net worth (b)	**184 116**	**168 027**	**97 212**	**89 126**
FISCAL AGGREGATES				
Net financial worth	47 540	44 178	(31 458)	(29 783)
Net financial liabilities	53 713	48 331	31 458	29 783
Net debt	20 003	15 762	14 187	14 090

Notes:

(a) Loans receivable from the non-financial public sector are reported at amortised cost.

(b) 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, are reported at amortised cost. This mismatch has contributed to the negative net asset position of the sector.

(c) June 2017 comparative figures have been updated to reflect more current information.

Public financial corporations 2018	*2017*	*Inter-sector eliminations 2018*	*2017*	*State of Victoria 2018*	*2017*
5 554	4 229	(6 736)	(5 043)	6 494	5 869
18	17	(15 005)	(20 999)	378	280
1 455	1 516	(726)	(1 097)	8 764	8 038
39 279	40 182	(2 151)	(2 168)	42 336	42 806
33 524	29 695	(33 524)	(29 695)	..	..
..	..	..	488	53	2 187
..	..	(101 253)	(92 509)	..	..
79 829	**75 640**	**(159 394)**	**(151 023)**	**58 024**	**59 180**
..	..	..	..	1 050	671
..	..	..	..	462	432
108	80	..	..	260 578	238 886
885	780	(1 149)	(980)	3 001	2 648
993	**860**	**(1 149)**	**(980)**	**265 090**	**242 637**
80 822	**76 499**	**(160 544)**	**(152 004)**	**323 114**	**301 818**
7 644	7 363	(17 800)	(23 270)	2 331	1 940
1 951	1 920	(837)	(659)	18 243	17 233
39 472	38 776	(39 652)	(34 670)	49 771	48 847
109	106	..	..	7 570	7 034
..	..	..	..	25 233	24 938
30 895	28 122	(8 115)	(8 271)	32 025	29 592
80 070	**76 287**	**(66 404)**	**(66 871)**	**135 173**	**129 584**
751	**213**	**(94 139)**	**(85 133)**	**187 941**	**172 234**
684	143	21 534	19 783	78 125	75 141
67	70	(115 673)	(104 915)	109 816	97 092
751	**213**	**(94 139)**	**(85 133)**	**187 941**	**172 234**
(241)	(647)	(92 990)	(84 152)	(77 149)	(70 404)
241	647	(8 262)	(8 357)	77 149	70 404
(31 259)	(27 985)	(36)	(35)	2 894	1 833

9. OTHER DISCLOSURES

Disaggregated cash flow statement for the financial year ended 30 June ($ million)

	General government sector 2018	General government sector 2017	Public non-financial corporations 2018	Public non-financial corporations 2017
Cash flows from operating activities				
Receipts				
Taxes received	22 442	21 786	..	..
Grants	29 992	27 542	3 644	3 312
Sales of goods and services [(a)]	8 018	7 737	7 045	15 458
Interest received	843	862	141	117
Dividends, income tax equivalent and rate equivalent receipts	774	743	32	23
Other receipts	1 937	1 735	505	515
Total receipts	**64 007**	**60 405**	**11 367**	**19 424**
Payments				
Payments for employees	(22 753)	(20 965)	(1 283)	(1 200)
Superannuation	(3 203)	(3 047)	(126)	(122)
Interest paid	(2 053)	(1 998)	(1 085)	(1 097)
Grants and subsidies	(11 415)	(10 203)	(78)	(186)
Goods and services [(a)]	(19 731)	(18 048)	(4 188)	(4 019)
Other payments	(757)	(620)	(2 460)	(2 412)
Total payments	**(59 912)**	**(54 880)**	**(9 221)**	**(9 034)**
Net cash flows from operating activities	**4 094**	**5 524**	**2 147**	**10 390**
Cash flows from investing activities				
Cash flows from investments in non-financial assets				
Purchases of non-financial assets	(9 804)	(7 278)	(2 546)	(1 818)
Sales of non-financial assets	383	287	158	187
Net cash flows from investments in non-financial assets	**(9 421)**	**(6 991)**	**(2 388)**	**(1 630)**
Cash flows from investments in financial assets for policy purposes				
Cash inflows	5 432	11 255	5 147	1 507
Cash outflows	(874)	(11 121)	(49)	(9 706)
Net cash flows from investments in financial assets for policy purposes	**4 559**	**134**	**5 099**	**(8 199)**
Sub-total	**(4 863)**	**(6 857)**	**2 711**	**(9 829)**
Cash flows from investments in financial assets for liquidity management purposes [(b)]				
Cash inflows	2 426	2 360	92	327
Cash outflows	(2 662)	(3 111)	(239)	(495)
Net cash flows from investments in financial assets for liquidity management purposes	(235)	(751)	(147)	(168)
Net cash flows from investing activities	**(5 098)**	**(7 608)**	**2 563**	**(9 997)**
Cash flows from financing activities				
Advances received	370	9 929	6	9 703
Advances repaid	(3 029)	(1 551)	(2 968)	(1 431)
Advances received (net) [(b)]	(2 659)	8 378	(2 962)	8 273
Borrowings received	4 700	296	1 926	814
Borrowings repaid	(580)	(5 836)	(1 406)	(601)
Net borrowings [(b)]	4 119	(5 541)	520	213
Deposits received	2 224	564	75	132
Deposits repaid	(1 952)	(560)	(86)	(41)
Deposits received (net) [(b)]	272	4	(11)	91
Other financing inflows	..	..	499	426
Other financing outflows	..	..	(2 490)	(9 045)
Other financing (net) [(b)]	..	..	(1 991)	(8 619)
Net cash flows from financing activities	**1 731**	**2 841**	**(4 444)**	**(42)**
Net increase/(decrease) in cash and cash equivalents	**727**	**758**	**266**	**351**
Cash and cash equivalents at beginning of the reporting period	5 530	4 772	1 153	802
Cash and cash equivalents at end of the reporting period [(c)]	**6 257**	**5 530**	**1 419**	**1 153**
FISCAL AGGREGATES				
Net cash flows from operating activities	4 094	5 524	2 147	10 390
Dividends paid	..	..	(330)	(123)
Net cash flows from investments in non-financial assets	(9 421)	(6 991)	(2 388)	(1 630)
Cash surplus/(deficit)	**(5 327)**	**(1 467)**	**(572)**	**8 637**

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 2018 and 30 June 2017.

(c) 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		*Inter-sector eliminations*		*State of Victoria*	
2018	*2017*	*2018*	*2017*	*2018*	*2017*
..	..	(370)	(380)	22 072	21 406
..	302	(3 982)	(3 804)	29 654	27 351
5 036	5 084	(3 529)	(3 078)	16 571	25 201
1 710	1 836	(2 252)	(2 298)	442	517
1 249	857	(717)	(708)	1 339	915
243	200	98	(3)	2 784	2 447
8 239	**8 279**	**(10 752)**	**(10 270)**	**72 861**	**77 837**
(351)	(316)	444	413	(23 943)	(22 067)
(28)	(26)	..	..	(3 357)	(3 195)
(1 841)	(1 921)	2 248	2 298	(2 731)	(2 718)
(304)	(188)	3 982	3 805	(7 816)	(6 772)
(4 831)	(4 245)	1 153	1 032	(27 597)	(25 280)
(15)	(3)	2 480	2 268	(753)	(767)
(7 371)	**(6 699)**	**10 307**	**9 816**	**(66 197)**	**(60 798)**
868	**1 579**	**(444)**	**(455)**	**6 665**	**17 039**
(68)	(45)	22	55	(12 397)	(9 086)
1	1	(1)	1	541	476
(67)	**(44)**	**21**	**56**	**(11 855)**	**(8 610)**
..	..	(8 055)	(12 610)	2 524	152
(1)	(3)	384	20 616	(539)	(214)
(1)	**(3)**	**(7 671)**	**8 006**	**1 985**	**(62)**
(68)	**(47)**	**(7 650)**	**8 062**	**(9 870)**	**(8 672)**
9 923	11 187	(2 148)	(7 231)	10 293	6 643
(10 479)	(10 264)	5 961	2 302	(7 418)	(11 569)
(556)	922	3 814	(4 929)	2 875	(4 926)
(624)	**876**	**(3 836)**	**3 133**	**(6 995)**	**(13 597)**
38	35	(42)	(19 435)	371	232
(35)	(28)	5 970	2 888	(62)	(122)
2	6	5 928	(16 547)	309	110
1 098	65	(6 246)	(753)	1 477	421
(203)	(3 414)	1 278	5 866	(911)	(3 985)
895	(3 349)	(4 968)	5 113	566	(3 563)
478	1 598	(478)	(1 599)	2 298	695
(200)	(889)	21	(3)	(2 216)	(1 492)
278	709	(457)	(1 602)	82	(797)
4	(2)	(503)	(425)	..	..
(99)	(245)	2 589	9 290	..	..
(94)	(246)	2 086	8 865	..	..
1 081	**(2 880)**	**2 588**	**(4 170)**	**956**	**(4 250)**
1 325	**(425)**	**(1 693)**	**(1 492)**	**625**	**(808)**
4 229	4 654	(5 043)	(3 552)	5 868	6 676
5 554	**4 229**	**(6 736)**	**(5 043)**	**6 494**	**5 868**
868	1 579	(444)	(455)	6 665	17 039
(94)	(246)	425	369	..	..
(67)	(44)	21	56	(11 855)	(8 610)
707	**1 289**	**2**	**(29)**	**(5 191)**	**8 430**

Disaggregated statement of changes in equity for the financial year ended 30 June ($ million)

2018	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 2017 [(a)]	51 464	..	..	55 320	60 149	1 094	168 027
Net result for the year	1 486	..	..	..	..	..	1 486
Other comprehensive income for the year	(347)	..	..	8 764	6 202	(16)	14 603
Transfer to/(from) accumulated surplus	(30)	..	..	..	..	30	..
Transactions with owners in their capacity as owners	..	..	..	..	..	..	..
Total equity as at 30 June 2018	**52 574**	**..**	**..**	**64 084**	**66 351**	**1 108**	**184 116**
PNFC sector							
Balance at 1 July 2017 [(b)]	3 751	54 902	..	29 985	..	488	89 126
Net result for the year	660	..	..	..	..	..	660
Other comprehensive income for the year	(65)	..	..	5 219	..	62	5 215
Transfer to/(from) accumulated surplus	(682)	2 034	..	(1 353)	..	..	..
Dividends paid	(330)	..	..	..	..	..	(330)
Transactions with owners in their capacity as owners	..	2 542	..	..	..	..	2 542
Total equity as at 30 June 2018	**3 333**	**59 478**	**..**	**33 851**	**..**	**549**	**97 212**
PFC sector							
Balance at 1 July 2017	143	29	..	2	..	39	213
Net result for the year	633	..	..	..	..	..	633
Other comprehensive income for the year	2	..	..	..	..	(2)	..
Transfer to/(from) accumulated surplus	..	..	..	..	..	..	..
Dividends paid	(94)	..	..	..	..	..	(94)
Transactions with owners in their capacity as owners	..	..	..	..	..	..	..
Total equity as at 30 June 2018	**684**	**29**	**..**	**2**	**..**	**36**	**751**
Eliminations	21 534	(59 507)	..	10 184	(66 351)	..	(94 139)
Total State of Victoria	**78 125**	**..**	**..**	**108 122**	**..**	**1 694**	**187 941**

Notes:

(a) The 1 July 2016 and 30 June 2017 comparative figures have been restated to reflect the reclassification of $383 million and $425 million respectively from the non-financial assets revaluation surplus to other reserves relating to accumulated revenue dedicated to the purchase of assets in the National Gallery of Victoria.

(b) June 2017 comparative figures have been updated to reflect more current information.

Disaggregated statement of changes in equity for the financial year ended 30 June *(continued)* ($ 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	49 230	57 027	934	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 [(a)]	(43)	..	..	..	..	43	..
Transactions with owners in their capacity as owners	..	..	(50)	..	..	..	(50)
Total equity as at 30 June 2017 [(a)]	**51 464**	**..**	**..**	**55 320**	**60 149**	**1 094**	**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 [(b)]	(20)	..	..	2 669	..	37	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 [(b)]	**3 751**	**54 902**	**..**	**29 985**	**..**	**488**	**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
Transfer to/(from) accumulated surplus	..	..	..	..	..	..	..
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 [(a)(b)]	**75 141**	**..**	**..**	**95 472**	**..**	**1 620**	**172 234**

Notes:
(a) The 1 July 2016 and 30 June 2017 comparative figures have been restated to reflect the reclassification of $383 million and $425 million respectively from the non-financial assets revaluation surplus to other reserves relating to accumulated revenue dedicated to the purchase of assets in the National Gallery of Victoria.
(b) June 2017 comparative figures have been updated to reflect more current information.

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*	
	2018	*2017*	*2018*	*2017*
Investments, real estate, personal and other assets	3 673	3 272	..	..
Cash and investments in common and premium funds	1 212	1 068	113	6
Residential tenancies bond money	1 128	1 041	1 128	1 041
Funds under management by the Senior Master of the Supreme Court	1 855	1 716	1 855	1 716
Funds under management by Legal Services Board	954	905	954	905
Funds under management for the Victorian Bushfire Appeal Fund	1	3	1	3
Other funds held	32	35	10	10
Total funds under management	**8 856**	**8 040**	**4 062**	**3 681**

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*	
	2018	*2017*	*2018*	*2017*
Net (increase)/decrease in provision for doubtful receivables	(503)	(222)	(498)	(221)
Amortisation of intangible non-produced assets	(45)	(40)	(7)	(6)
Net swap interest revenue/(expense)	18	(10)	..	..
Bad debts written off	(134)	(261)	(123)	(244)
Other gains/(losses)	376	2 137	(305)	246
Total other gains/(losses) from other economic flows	**(288)**	**1 605**	**(933)**	**(226)**

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*	
	2018	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*
Net result from transactions – net operating balance	**2 313**	**2 709**	**(46)**	**(436)**	**(2 042)**	**(1 980)**	**(234)**	**461**	**(10)**	**754**
Convergence differences:										
PNFC/PFC dividends [(b)]	..	..	(330)	(123)	(94)	(246)	425	369	..	..
Port Licence Fee treatment [(c)]	52	(783)	..	..	..	..	..	..	52	(783)
Port of Melbourne lease transaction [(d)]	..	14	(147)	(105)	..	..	1	1	(146)	(90)
Total convergence difference:	*52*	*(769)*	*(477)*	*(228)*	*(94)*	*(246)*	*426*	*370*	*(93)*	*(873)*
GFS net operating balance	**2 365**	**1 940**	**(524)**	**(664)**	**(2 136)**	**(2 226)**	**192**	**831**	**(104)**	**(119)**

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*	
	2018	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*
Net lending/(borrowing)	**(910)**	**1 055**	**(4 541)**	**(2 974)**	**(2 064)**	**(1 979)**	**(269)**	**462**	**(7 784)**	**(3 436)**
Convergence differences:										
PNFC/PFC dividends [(b)]	..	..	(330)	(123)	(94)	(246)	425	369	..	..
Port Licence Fee treatment [(c)]	52	(783)	..	..	..	..	..	..	52	(783)
Port of Melbourne lease transaction [(d)]	..	14	(147)	(105)	..	..	1	1	(146)	(90)
Total convergence difference:	*52*	*(769)*	*(477)*	*(228)*	*(94)*	*(246)*	*426*	*370*	*(93)*	*(873)*
GFS net lending/(borrowing)	**(858)**	**286**	**(5 019)**	**(3 202)**	**(2 159)**	**(2 226)**	**157**	**832**	**(7 878)**	**(4 309)**

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*	
	2018	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*
Comprehensive result – total change in net worth	**16 089**	**16 279**	**5 875**	**2 339**	**633**	**4 237**	**(6 890)**	**(2 967)**	**15 707**	**19 889**
Convergence differences:										
Relating to net operating balance	53	(769)	(477)	(228)	(94)	(246)	426	370	(93)	(873)
Relating to other economic flows:										
Port of Melbourne lease transaction [(b)]	(136)	(853)	9	(749)	..	..	137	853	10	(749)
Contribution by non-controlling interest	..	50	..	..	..	..	..	..	..	50
Doubtful receivables of the general government sector [(c)]	342	6	..	..	..	..	..	..	342	6
Doubtful receivables of the PNFC/PFC sector [(c)]	..	..	..	(3)	2	..	..	..	2	(3)
Future tax benefits of the PNFC/PFC sector	..	..	(60)	12	(91)	837	150	(849)	..	..
Deferred tax liability of the PNFC/PFC sector	..	..	(156)	(321)	..	..	156	321	..	..
Net gain on equity investments in other sector entities measured at proportional share of the carrying amount of net assets/(liabilities) [(d)(e)]	(304)	525	..	..	..	..	304	(525)	..	..
Change in shares and other contributed capital	..	..	(5 190)	(1 051)	(450)	(4 828)	5 640	5 878	..	..
Total convergence difference:	*(46)*	*(1 041)*	*(5 875)*	*(2 339)*	*(633)*	*(4 237)*	*6 814*	*6 049*	260	(1 569)
GFS total change in net worth	**16 043**	**15 238**	**..**	**..**	**..**	**..**	**(76)**	**3 082**	**15 967**	**18 320**

Notes:

(a) Determined in accordance with the ABS GFS manual.

(b) 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.

(c) 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.

(d) 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.

(e) 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 2018	2017	Public non-financial corporations 2018	2017	Public financial corporations 2018	2017	Eliminations 2018	2017	State of Victoria 2018	2017
Net worth	**184 116**	**168 027**	**97 212**	**89 126**	**751**	**213**	**(94 139)**	**(85 133)**	**187 941**	**172 234**
Convergence differences:										
Relating to net operating balance:										
PNFC/PFC dividends	..	..	(330)	(123)	(94)	(246)	425	369	..	..
Port Licence Fee treatment [b]	(731)	(783)	..	..	..	..	..	..	(731)	(783)
Port of Melbourne lease transaction [c]	..	14	(147)	(105)	..	..	1	1	(146)	(90)
Relating to other economic flows:										
Port of Melbourne lease transaction [c]	(1 067)	(853)	(923)	(748)	..	..	1 068	853	(921)	(748)
Doubtful receivables of the general government sector [d]	1 277	935	..	..	..	..	..	..	1 277	935
Doubtful receivables of the PNFC/PFC sector [d]	..	..	18	18	48	46	..	..	66	64
Future tax benefits of the PNFC/PFC sector	..	..	(284)	(225)	(727)	(636)	1 012	861	..	..
Deferred tax liability of the PNFC/PFC sector	..	..	8 113	8 270	2	2	(8 115)	(8 271)	..	..
Investments in other sector entities [e][f]	7 170	7 474	..	..	..	..	(7 170)	(7 474)	..	..
Shares and other contributed capital	..	..	(103 659)	(96 213)	21	623	103 639	95 591	..	..
Total convergence difference:	*6 649*	*6 788*	*(97 212)*	*(89 126)*	*(751)*	*(213)*	*90 860*	*81 929*	(455)	(622)
GFS net worth	**190 766**	**174 815**	**..**	**..**	**..**	**..**	**(3 280)**	**(3 204)**	**187 486**	**171 611**

Notes:
(a) Determined in accordance with the ABS GFS manual.
(b) 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.
(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 in accounts receivable arises because GFS does not recognise doubtful receivables, whereas a provision for doubtful receivables is recognised in the balance sheet.
(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) 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*	
	2018	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*
Cash surplus/(deficit)	**(5 327)**	**(1 467)**	**(572)**	**8 637**	**707**	**1 289**	**2**	**(29)**	**(5 191)**	**8 430**
Convergence differences:										
Acquisitions under finance leases and similar arrangements [(b)]	(610)	(544)	..	..	..	..	..	..	(610)	(544)
Port of Melbourne lease transaction [(c)]	..	14	(11)	(8 961)	..	..	1	1	(10)	(8 946)
Total convergence difference:	*(610)*	*(530)*	*(11)*	*(8 961)*	..	..	*1*	*1*	*(620)*	*(9 490)*
GFS cash surplus/(deficit)	**(5 937)**	**(1 997)**	**(583)**	**(324)**	**707**	**1 289**	**3**	**(29)**	**(5 811)**	**(1 060)**

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 2017-18. 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
	Mr Martin Foley
	Mr Steve Herbert [(a)]
	Hon Jill Hennessy
	Hon Natalie Hutchins
	Mr Gavin Jennings
	Ms Marlene Kairouz
	Ms Jenny Mikakos
	Hon Lisa Neville
	Mr Wade Noonan [(b)]
	Mr Ben Carroll [(b)]
	Hon Martin Pakula
	Mr Tim Pallas
	Hon Jaala Pulford
	Hon Fiona Richardson (dec.)
	Mr Robin Scott
	Ms Gayle Tierney [(a)]
	Hon Richard Wynne

Notes:
(a) Mr Steve Herbert was Minister for Corrections and Minister for Training and Skills from 1 July 2016 to 9 November 2016. Ms Gayle Tierney was appointed Minister for Corrections and Minister for Training and Skills from 9 November 2016.
(b) Mr Wade Noonan was Minister for Industry and Employment until 16 October 2017. Mr Ben Carroll was appointed Minister for Industry and Employment from 16 October 2017.

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 $8.0 million in 2018 ($8.1 million in 2017).

($ thousand)

State of Victoria *Compensation for key management personnel*	*2018*	*2017*
Salaries and short-term employee benefits	7717	7 691
Post-employment benefits	281	369
Other long-term benefits	..	..
Termination benefits	..	..
Share based payments	n.a.	n.a.
Total	**7 998**	**8 060**

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.

Other than the matter below, 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.

Land Use Victoria commercialisation

On 26 August 2018, the State of Victoria successfully granted a concession to operate the land titles and registry functions of Land Use Victoria for $2.86 billion.

Victorian Land Registry Services, owned by First State Superannuation Scheme, will be responsible for part of the State's land titles and registry functions for a term of 40 years, after which the functions will be returned to public hands.

The State will retain full control over prices for statutory land registry services throughout the 40-year term, and price increases will be capped at CPI for non-statutory services. The State will also retain ownership of essential services, including the Subdivisions, Application & Survey, Valuer-General Victoria, Land Information and Spatial Services, Government Land Advice and Coordination, and the Victorian Government Land Monitor.

The Registrar of Titles will remain under State control, retaining an oversight role over the private operator.

The proceeds will be received upfront by the State and, consistent with accounting standards, will be progressively recognised as revenue over the 40-year term. The private operator will receive service payments from the State over the 40-year term.

Transaction completion is scheduled for 27 September 2018.

Metropolitan Bus Services Contracts

The Metropolitan Bus Services Contracts (MBSCs) expired on 30 June 2018. New contracts were signed with three of the operators of metropolitan buses prior to 30 June 2018. The remaining MBSCs have been signed by 31 July 2018. The commitments for expenditure in section 5.7 include contracts signed by 30 June 2018. The commitment for contracts signed after 30 June 2018 is estimated at $1.7 billion.

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 2017-18 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. 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.

  In September 2018, AASB 2018-4 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-profit Sector Licensors* (AASB 2018-4) was released, providing guidance on the application of AASB 15 to the issuing of licences by public sector entities.
- 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.
- 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.

9. OTHER DISCLOSURES

- 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.
- AASB 17 *Insurance Contracts*, operative for reporting periods commencing 1 January 2021. This new standard eliminates inconsistencies and weaknesses in existing practices by providing a single principles based framework to account for all types of insurance contracts. It should be noted this standard does not apply to the not-for-profit public sector entities. There will be no significant impact expected for the for-profit entities within State.

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.

Implementation of the new GFS manual will result in the Government Purpose Classification (GPC) being replaced by an Australian version of the international Classification of the Functions of Government (COFOG). The change from GPC to COFOG will result in a number of classifications being renamed and/or redefined.

The new manual will also result in taxes on financial and capital transaction being reclassified from ‘taxes on property’ to ‘taxes on the provision of goods and services’.

9.8 Controlled entities

The table below contains a list of the 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 22). Further, Note 3.6 Government purpose classification reflects the broad objectives of these controlled entities.

General government

Department of Education and Training [(a)]

Adult Community and Further Education Board
Adult Multicultural Education Services
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
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
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 [(b)]
- 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 and 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

9. OTHER DISCLOSURES

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
- Western District Health Service
- Western Health
- Wimmera Health Care Group
- Yarram and District Health Service
- Yarrawonga Health
- Yea and District Memorial Hospital

Melbourne Cricket Ground Trust
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
Professional Standards Council of Victoria
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 and Commissioner
Victorian Responsible Gambling Foundation

Department of Premier and Cabinet

Independent Broad based Anti-corruption Commission (IBAC)
Infrastructure Victoria
Ombudsman Victoria
Shrine of Remembrance Trustees
Victorian Aboriginal Heritage Council
Victorian Electoral Commission
Victorian Information Commissioner [(c)]
Victorian Inspectorate
Victorian Multicultural Commission
Victorian Public Sector Commission
Victorian Veterans Council

Department of Economic Development, Jobs, Transport and Resources

Australian Centre for the Moving Image
Docklands Studios Melbourne Pty Ltd
Film Victoria
Game Management Authority
Library Board of Victoria
Melbourne Recital Centre Limited
Museums Board of Victoria
National Gallery of Victoria, Council of Trustees
Public Transport Development Authority
Roads Corporation
Rural Assistance Commissioner
Taxi Services Commission
Tourism Victoria [(d)]
Veterinary Practitioners Registration Board of Victoria
Victorian Fisheries Authority [(e)]
Visit Victoria

Department of Treasury and Finance

CenItex
Essential Services Commission

Courts

Judicial College of Victoria
Judicial Commission of Victoria [(f)]

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

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
Melbourne and Olympic Parks Trust
Queen Victoria Women's Centre Trust [(g)]
State Sport Centres Trust

Public non-financial corporation (continued)

Department of Justice and Regulation

Greyhound Racing Victoria

Harness Racing Victoria

Department of Premier and Cabinet

VITS Languagelink

Department of Economic Development, Jobs, Transport and Resources

Agriculture Victoria Services Pty Ltd

Australian Grand Prix Corporation

Dairy Food Safety Victoria

Development Victoria

Emerald Tourist Railway Board

Fed Square Pty Ltd

Geelong Performing Arts Centre Trust

Greater Sunraysia Pest Free Area Industry Development Committee

Launch Vic Ltd

Melbourne Convention and Exhibition Trust

Melbourne Market Authority

Melbourne Port Lessor Pty Ltd

Murray Valley Wine Grape Industry Development Committee

Port of Hastings Development Authority

PrimeSafe

V/Line Corporation

VicForests

Victorian Arts Centre Trust

Victorian Ports Corporation (Melbourne)

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 23 February 2018, International Fibre Centre Limited ceased to exist.*

(b) *Effective from 4 July 2017, Upper Murray Health and Community Services changed its name to Corryong Health.*

(c) *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.*

(d) *Effective from 1 June 2018, Tourism Victoria ceased to exist.*

(e) *Effective from 1 July 2017, the Victorian Fisheries Authority was established to manage Victoria's fisheries resources.*

(f) *Effective from 1 July 2017, the Judicial Commission of Victoria commenced operations under the* Judicial Commission of Victoria Act 2016.

(g) *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 the Department of Health and Human Services.*

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.

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.

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'.

9. OTHER DISCLOSURES

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)

	2018	*2017*
Revenue from transactions		
Taxation revenue	22 575	21 908
Interest	315	337
Dividends and income tax equivalent and rate equivalent revenue	194	316
Sales of goods and services	11 317	10 880
Grant revenue	29 917	27 525
Other revenue	3 613	3 388
Total revenue from transactions	**67 930**	**64 352**
Expenses from transactions		
Employee expenses	24 510	22 643
Net superannuation interest expense	716	693
Other superannuation	2 659	2 449
Depreciation	4 996	4 824
Interest expense	2 499	2 479
Grant expense	7 661	7 611
Other operating expenses	22 939	21 507
Total expenses from transactions	**65 980**	**62 207**
Net result from transactions – net operating balance	**1 950**	**2 146**
Other economic flows included in net result		
Net gain/(loss) on disposal of non-financial assets	39	16
Net gain/(loss) on financial assets or liabilities at fair value	56	11
Share of net profit/(loss) from associates/joint venture entities	(55)	50
Other gains/(losses) from other economic flows	(401)	(476)
Total other economic flows included in net result	**(360)**	**(399)**
Net result	**1 590**	**1 747**
Other economic flows – other comprehensive income		
Items that will not be reclassified to net result		
Changes in non-financial assets revaluation surplus	14 003	8 792
Remeasurement of superannuation defined benefits plans	(247)	4 389
Other movements in equity	(133)	106
Items that may be reclassified subsequently to net result		
Net gain/(loss) on financial assets at fair value	14	31
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	658	906
Total other economic flows – other comprehensive income	**14 294**	**14 223**
Comprehensive result – total change in net worth	**15 884**	**15 970**
FISCAL AGGREGRATES		
Net operating balance	**1 950**	**2 146**
Net acquisition of non-financial assets from transactions		
Purchases of non-financial assets (including change in inventories)	12 344	9 039
Less: sales of non-financial assets	(540)	(475)
Less: depreciation	(4 996)	(4 824)
Plus: other movements in non-financial assets	944	451
Less: net acquisition of non-financial assets from transactions	**7 752**	**4 191**
Net lending/(borrowing)	**(5 802)**	**(2 045)**

Source: Department of Treasury and Finance

Table 5.2: Non-financial public sector balance sheet for the financial year ended 30 June ($ million)

	2018	*2017*
Assets		
Financial assets		
Cash and deposits	7 676	6 684
Advances paid	378	280
Receivables	7 620	6 803
Investments, loans and placements	5 208	4 791
Investments accounted for using the equity method	53	2 187
Investments in other sector entities	4 044	3 386
Total financial assets	**24 979**	**24 131**
Non-financial assets		
Inventories	1 050	671
Non-financial assets held for sale	462	432
Land, buildings, infrastructure, plant and equipment	260 470	238 806
Other non-financial assets	2 848	2 504
Total non-financial assets	**264 830**	**242 414**
Total assets	**289 808**	**266 545**
Liabilities		
Deposits held and advances received	1 570	997
Payables	16 631	15 584
Borrowings	45 878	40 607
Employee benefits	7 461	6 928
Superannuation	25 233	24 938
Other provisions	1 132	1 471
Total liabilities	**97 905**	**90 525**
Net assets	**191 903**	**176 019**
Accumulated surplus/(deficit) [(a)]	77 744	75 243
Reserves [(a)]	114 159	100 776
Net worth	**191 903**	**176 019**
FISCAL AGGREGATES		
Net financial worth	(72 927)	(66 395)
Net financial liabilities	76 971	69 781
Net debt	34 187	29 849

Source: Department of Treasury and Finance

Note:
(a) June 2017 comparative figures have been restated to reflect more current information.

Table 5.3: Non-financial public sector cash flow statement for the financial year ended 30 June ($ million)

	2018	2017
Cash flows from operating activities		
Receipts		
Taxes received	22 088	21 421
Grants	29 980	27 525
Sales of goods and services [(a)]	12 426	20 951
Interest received	308	336
Dividends, income tax equivalent and rate equivalent receipts	199	307
Other receipts	2 540	2 368
Total receipts	**67 541**	**72 908**
Payments		
Payments for employees	(23 973)	(22 103)
Superannuation	(3 329)	(3 169)
Interest paid	(2 465)	(2 452)
Grants and subsidies	(7 838)	(7 060)
Goods and services [(a)]	(23 293)	(21 651)
Other payments	(753)	(739)
Total payments	**(61 651)**	**(57 174)**
Net cash flows from operating activities	**5 890**	**15 734**
Cash flows from investing activities		
Cash flows from investments in non-financial assets		
Purchases of non-financial assets	(12 329)	(9 041)
Sales of non-financial assets	540	475
Net cash flows from investments in non-financial assets	**(11 789)**	**(8 566)**
Net cash flows from investments in financial assets for policy purposes	1 985	(62)
Sub-total	**(9 804)**	**(8 628)**
Net cash flows from investments in financial assets for liquidity management purposes	(367)	(911)
Net cash flows from investing activities	**(10 170)**	**(9 539)**
Cash flows from financing activities		
Advances received (net)	308	107
Net borrowings	4 700	(5 281)
Deposits received (net)	266	87
Other financing (net)	..	..
Net cash flows from financing activities	**5 273**	**(5 087)**
Net increase/(decrease) in cash and cash equivalents	**993**	**1 108**
Cash and cash equivalents at beginning of the reporting period	6 683	5 574
Cash and cash equivalents at end of the reporting period [(b)]	**7 676**	**6 683**
FISCAL AGGREGATES		
Net cash flows from operating activities	5 890	15 734
Net cash flows from investments in non-financial assets	(11 789)	(8 566)
Cash surplus/(deficit)	**(5 899)**	**7 168**

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*
2018						
Balance at 1 July 2017 [a][b]	75 243	..	95 470	3 725	1 581	176 019
Net result for the year	1 590	..	..	..	..	1 590
Other comprehensive income for the year	(412)	..	14 003	658	46	14 294
Transfer to/(from) accumulated surplus	1 323	..	(1 353)	..	30	..
Transactions with owners in their capacity as owners						
Total equity as at 30 June 2018	**77 744**	**..**	**108 120**	**4 382**	**1 657**	**191 903**
2017						
Balance at 1 July 2016 [a]	61 264	50	94 581	2 819	1 385	160 099
Net result for the year	1 747	..	..	..	..	1 747
Other comprehensive income for the year [b]	4 371	..	8 792	906	154	14 223
Transfer to/(from) accumulated surplus [a]	7 861	..	(7 903)	..	43	..
Transactions with owners in their capacity as owners	..	(50)	..	..	..	(50)
Total equity as at 30 June 2017 [a][b]	**75 243**	**..**	**95 470**	**3 725**	**1 581**	**176 019**

Source: Department of Treasury and Finance

Notes:

(a) The 1 July 2016 and 30 June 2017 comparative figures have been restated to reflect the reclassification of $383 million and $425 million respectively from the non-financial assets revaluation surplus to other reserves relating to accumulated revenue dedicated to the purchase of assets in the National Gallery of Victoria.

(b) June 2017 comparative figures have been restated to reflect more current information.

Table 5.5: Derivation of non-financial public sector GFS cash surplus/(deficit) ($ million)

	2018	*2017*
Cash surplus/(deficit)	**(5 899)**	**7 168**
Acquisitions under finance leases and similar arrangements	(610)	(544)
Port of Melbourne lease transaction [a]	..	(8 946)
Total convergence difference:	*(610)*	*(9 490)*
GFS cash surplus/(deficit) [b]	**(6 509)**	**(2 322)**

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)	*2018*	*2017*
General public services	**2 602**	**2 615**
Other general public services	2 602	2 615
Public order and safety	**7 567**	**6 740**
Police and fire protection services	4 899	4 450
Police services	3 524	3 197
Fire protection services	1 375	1 253
Law courts and legal services	767	703
Prisons and corrective services	1 518	1 228
Other public order and safety	383	358
Education	**14 991**	**14 185**
Primary and secondary education	11 664	10 876
Primary education	6 175	5 554
Secondary education	5 440	5 282
Primary and secondary education NEC [(b)]	48	39
Tertiary education	1 934	2 046
Technical and further education	1 934	2 046
Pre-school education and education not definable by level	1 283	1 149
Pre-school education	442	389
Special education	841	759
Transportation of students	111	115
Transportation of non-urban school children	79	82
Transportation of other students	32	33
Health	**18 337**	**16 932**
Acute care institutions	14 563	13 219
Admitted patient services in acute care institutions	12 826	11 557
Non-admitted patient services in acute care institutions	1 737	1 662
Mental health institutions	..	..
Nursing homes for the aged	84	254
Community health services	3 287	3 088
Community health services (excluding community mental health)	803	772
Community mental health	1 430	1 371
Patient transport	1 053	945
Public health services	338	322
Pharmaceuticals, medical aids and appliances	1	1
Health research	63	48
Social security and welfare	**4 683**	**4 242**
Welfare services	4 683	4 242
Family and child services	1 534	1 247
Welfare services for the aged	493	481
Welfare services for people with a disability	2 099	1 974
Welfare services NEC [(b)]	557	540
Housing and community amenities	**3 331**	**3 346**
Housing and community development	2 702	2 767
Housing	738	606
Aboriginal community development	36	25
Other community development	1 929	2 136
Water supply	126	138
Sanitation and protection of the environment	493	432
Other community amenities	**9**	**10**

Table 5.6: General government sector detailed expenses by function *(continued)* **($ million)**

Output description (general purpose classification)	*2018*	*2017*
Recreation and culture	**877**	**778**
Recreation facilities and services	362	325
National parks and wildlife	98	87
Recreation facilities and services NEC [(b)]	264	238
Cultural facilities and services	515	453
Fuel and energy	**212**	**180**
Electricity and other energy	212	180
Electricity	36	34
Fuel and energy NEC [(b)]	176	147
Agriculture, forestry, fishing and hunting	**385**	**387**
Agriculture	321	312
Forestry, fishing and hunting	63	76
Transport and communications	**7 687**	**7 008**
Road transport	2 122	2 082
Road maintenance	619	436
Road construction	1 031	944
Road transport NEC [(b)]	472	702
Rail transport	5 282	4 732
Urban rail transport services	5 282	4 732
Non-urban rail transport passenger services	..	..
Other transport	283	193
Other transport NEC [(b)]	283	193
Other economic affairs	**1 097**	**1 205**
Tourism and area promotion	296	247
Labour and employment affairs	163	168
Other labour and employment affairs	163	168
Other economic affairs	638	790
Other purposes	**1 121**	**1 141**
Public debt transactions	1 079	1 096
Other purposes NEC [(b)]	41	46
Not allocated by purpose [(c)]	**(613)**	**(551)**
Total	**62 276**	**58 210**

Notes:
(a) Chapter 4, Note 3.6 provides definitions and descriptions of government purpose classifications.
(b) NEC: Not elsewhere classified.
(c) Not allocated by purpose represents eliminations and adjustments.

APPENDIX A – GENERAL GOVERNMENT SECTOR QUARTERLY FINANCIAL REPORT

Table A.1: Operating statement for the past five quarters **($ million)**

	2016-17		*2017-18*		
	Jun	*Sep*	*Dec*	*Mar*	*Jun*
Revenue from transactions					
Taxation revenue	4 730	5 722	4 986	6 980	5 241
Interest revenue	258	210	206	202	228
Dividends, income tax equivalent and rate equivalent revenue	164	57	376	85	263
Sales of goods and services	1 786	1 766	1 871	1 801	1 901
Grant revenue	6 667	6 899	7 328	8 162	7 538
Other revenue	786	544	626	566	1 031
Total revenue from transactions	**14 391**	**15 198**	**15 393**	**17 796**	**16 202**
Expenses from transactions					
Employee expenses	5 812	5 581	5 715	5 698	6 276
Net superannuation interest expense	172	192	168	176	178
Other superannuation	603	598	657	631	649
Depreciation	722	655	657	666	767
Interest expense	517	454	555	513	570
Grant expense	2 541	2 559	2 505	3 346	2 719
Other operating expenses	5 274	4 604	4 741	4 709	5 736
Total expenses from transactions	**15 643**	**14 643**	**14 998**	**15 739**	**16 896**
Net result from transactions – net operating balance	**(1 251)**	**555**	**395**	**2 057**	**(694)**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	18	(1)	22	63	(25)
Net gain/(loss) on financial assets or liabilities at fair value	(12)	(2)	41	(5)	19
Share of net profit/(loss) from associates/joint venture entities, excluding dividends	4	..	..	(4)	(2)
Other gains/(losses) from other economic flows	42	(56)	(86)	(78)	(714)
Total other economic flows included in net result	**52**	**(58)**	**(23)**	**(23)**	**(722)**
Net result	**(1 199)**	**497**	**371**	**2 035**	**(1 417)**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	6 154	(22)	20	66	8 700
Remeasurement of superannuation defined benefits plans	765	1 259	(500)	(263)	(754)
Other movements in equity	6	(65)	(43)	2	2
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	(7)	(6)	31	(16)	(10)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	2 478	..	686	..	5 515
Total other economic flows – other comprehensive income	**9 396**	**1 165**	**195**	**(210)**	**13 453**
Comprehensive result – total change in net worth	**8 197**	**1 662**	**567**	**1 825**	**12 036**
KEY FISCAL AGGREGATES					
Net operating balance	**(1 251)**	**555**	**395**	**2 057**	**(694)**
Less: Net acquisition of non-financial assets from transactions	527	283	1 468	235	1 237
Net lending/(borrowing)	**(1 778)**	**272**	**(1 073)**	**1 823**	**(1 932)**

Table A.2: Balance sheet as at the end of the past five quarters **($ million)**

	2016-17		2017-18		
	Jun	*Sep*	*Dec*	*Mar*	*Jun*
Assets					
Financial assets					
Cash and deposits	5 530	4 146	3 992	3 900	6 257
Advances paid	12 939	12 179	11 986	11 095	10 019
Receivables	5 931	6 281	5 807	7 756	6 208
Investments, loans and placements	3 673	3 895	4 159	4 163	3 928
Investments accounted for using the equity method	47	48	47	44	53
Investments in other sector entities	92 509	93 484	95 297	96 575	101 253
Total financial assets	**120 630**	**120 033**	**121 290**	**123 533**	**127 717**
Non-financial assets					
Inventories	173	173	176	176	175
Non-financial assets held for sale	405	405	438	355	389
Land, buildings, infrastructure, plant and equipment	121 776	122 018	123 323	123 897	134 141
Other non-financial assets	1 494	1 944	1 763	1 756	1 872
Total non-financial assets	**123 849**	**124 539**	**125 700**	**126 184**	**136 577**
Total assets	**244 478**	**244 573**	**246 990**	**249 718**	**264 294**
Liabilities					
Deposits held and advances received	9 088	8 403	8 252	7 781	6 700
Payables	5 815	5 722	5 542	5 902	6 713
Borrowings	28 816	29 485	30 995	31 902	33 506
Employee benefits	6 506	6 329	6 555	6 458	7 020
Superannuation	24 900	23 903	24 438	24 714	25 205
Other provisions	1 326	1 043	953	880	1 034
Total liabilities	**76 451**	**74 884**	**76 734**	**77 637**	**80 178**
Net assets	**168 027**	**169 689**	**170 256**	**172 080**	**184 116**
Accumulated surplus/(deficit)	51 464	53 145	52 965	54 751	52 574
Reserves	116 563	116 544	117 290	117 329	131 543
Net worth	**168 027**	**169 689**	**170 256**	**172 080**	**184 116**
FISCAL AGGREGATES					
Net financial worth	44 178	45 150	44 555	45 896	47 540
Net financial liabilities	48 331	48 335	50 742	50 679	53 713
Net debt	15 762	17 667	19 109	20 524	20 003

Table A.3: Statement of cash flows for the past five quarters ($ million)

	2016-17	2017-18			
	Jun	Sep	Dec	Mar	Jun
Cash flows from operating activities					
Receipts					
Taxes received	5 782	5 491	5 508	5 317	6 126
Grants	6 670	6 902	7 325	8 160	7 606
Sales of goods and services [(a)]	1 926	1 984	2 092	1 937	2 004
Interest received	257	210	205	203	224
Dividends, income tax equivalent and rate equivalent receipts	163	57	420	85	213
Other receipts	543	469	440	240	788
Total receipts	**15 341**	**15 114**	**15 990**	**15 942**	**16 960**
Payments					
Payments for employees	(5 288)	(5 748)	(5 480)	(5 796)	(5 729)
Superannuation	(1 054)	(529)	(790)	(794)	(1 091)
Interest paid	(477)	(476)	(515)	(529)	(534)
Grants and subsidies	(2 103)	(2 947)	(2 508)	(3 466)	(2 494)
Goods and services [(a)]	(4 462)	(5 179)	(4 805)	(4 544)	(5 203)
Other payments	(80)	(207)	(185)	(165)	(199)
Total payments	**(13 463)**	**(15 086)**	**(14 282)**	**(15 294)**	**(15 250)**
Net cash flows from operating activities	**1 878**	**28**	**1 708**	**649**	**1 710**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(2 195)	(1 881)	(2 689)	(1 949)	(3 286)
Sales of non-financial assets	173	45	51	121	166
Net cash flows from investments in non-financial assets	**(2 022)**	**(1 835)**	**(2 638)**	**(1 828)**	**(3 120)**
Net cash flows from investments in financial assets for policy purposes	499	672	45	825	3 016
Sub-total	**(1 523)**	**(1 163)**	**(2 593)**	**(1 003)**	**(104)**
Net cash flows from investments in financial assets for liquidity management purposes	2 029	(232)	(193)	(34)	224
Net cash flows from investing activities	**506**	**(1 395)**	**(2 786)**	**(1 037)**	**120**
Cash flows from financing activities					
Advances received (net)	(718)	(707)	(230)	(648)	(1 075)
Net borrowings	72	669	1 075	768	1 607
Deposits received (net)	(108)	22	79	177	(6)
Net cash flows from financing activities	**(754)**	**(16)**	**924**	**296**	**526**
Net increase/(decrease) in cash and cash equivalents	**1 630**	**(1 384)**	**(153)**	**(92)**	**2 356**
Cash and cash equivalents at beginning of the reporting period	3 900	5 530	4 146	3 992	3 900
Cash and cash equivalents at end of the reporting period	**5 530**	**4 146**	**3 992**	**3 900**	**6 257**
FISCAL AGGREGATES					
Net cash flows from operating activities	1 878	28	1 708	649	1 710
Net cash flows from investments in non-financial assets	(2 022)	(1 835)	(2 638)	(1 828)	(3 120)
Cash surplus/(deficit)	**(144)**	**(1 808)**	**(930)**	**(1 180)**	**(1 410)**

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 30
	(i) the transactions on the Public Account;	Refer Chapter 4, Note 8.2, pages 115-128
	(ii) the transactions of the Victorian general government sector; and	Refer Chapter 4, consolidated comprehensive operating statement page 29, consolidated cash flow statement page 31 and selected notes
	(iii) other financial transactions of the State;	Refer Chapter 4, consolidated comprehensive operating statement page 29, consolidated cash flow statement page 31 and Notes 1-8, pages 33-128

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 122
	(d) must include details of amounts allocated to departments during the financial year under section 28;	Refer Chapter 4, Note 8.2.10, page 122
	(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 123
	(f) must include particulars of amounts transferred in accordance with determinations under section 30 or 31;	Refer Chapter 4, Note 8.2.11, page 123
	(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 124
	(ii) the application during the financial year of amounts referred to in subparagraph (i); and	Refer Chapter 4, Note 8.2.13, page 124
	(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 124
	(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 125-127

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 90-94, Note 3.2 page 42 and consolidated balance sheet page 30
	(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 23-27
Section 26(1)	The Minister must prepare a quarterly financial report for each quarter of each financial year.	Refer Appendix A, pages 161-163
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 161
	(b) a statement of financial position of the Victorian general government sector at the end of the quarter;	Refer Appendix A, page 162
	(c) a statement of cash flows of the Victorian general government sector for the quarter; and	Refer Appendix A, page 163
	(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 161-163
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 29, consolidated balance sheet page 30, consolidated cash flow statement page 31 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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