Creating Jobs, Caring for Victorians

Victorian Budget 2021/22
2021/22 Financial Report

(incorporating Quarterly Financial Report No. 4)

Presented by Tim Pallas MP
Treasurer of the State of Victoria

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for the information of Honourable Members

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CHAPTER 1 – FOREWORD

PURPOSE

The *2021-22 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 2021-22 results.

Chapter 2 analyses the results for the general government sector, comparing them with actual outcomes in 2020-21 and the revised estimates for the year as presented in the *2022-23 Budget*. Chapter 3 presents the 2021-22 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

The Victorian economy recovered strongly from the effects of the COVID-19 pandemic by the end of 2021-22, after a renewed outbreak early in the year. State final demand and employment ended the year above pre-pandemic levels, and the unemployment rate was at a multi-decade low.

The Victorian economy proved resilient and flexible across 2021-22, notwithstanding the impacts of the necessary public health restrictions responding to the Delta and Omicron variants of COVID-19. A strong rebound in economic activity and employment as vaccination rates rose and restrictions eased followed short-term declines that were far less severe than those experienced in 2020.

High vaccination rates have allowed the economy to remain open despite subsequent waves of COVID-19. While elevated inflation and rising interest rates present challenges for the national and Victorian economy, households continue to be supported by accumulated savings and a strong labour market.

For 2021-22 as a whole, state final demand increased by 7.4 per cent. The recovery was broad based, with every major component contributing to growth. The rebound in consumer spending, which grew strongly by 6.8 per cent, made the largest contribution to the overall increase. Growth was strengthened by the Government's support for businesses and households, as well as continued spending on infrastructure projects. Public investment (which rose by 10.1 per cent) and public consumption (which rose by 7.4 per cent) both contributed to growth.

In annual terms for 2021-22, employment grew by 3.9 per cent. This increase was largely driven by full-time employment, which increased by 4.9 per cent, while part-time employment increased by 1.7 per cent.

The strong employment rebound meant that by June 2022, employment was 347 100 persons above its trough in September 2020, far above the *Jobs Plan* interim target of 200 000 jobs being created by 2022 and well on track to meet the overall target of 400 000 jobs by 2025.

With the labour market recovering over most of 2021-22, Victoria's unemployment rate ended at 3.2 per cent in June 2022, lower than the 4.5 per cent in June 2021 and the lowest rate since 1974.

The economic rebound has been accompanied by strong demand for goods and services among Victorian consumers and businesses. Global supply constraints due to COVID-19 related disruptions, and the Russian invasion of Ukraine – particularly its effects on global oil prices – have driven elevated inflation globally, including in Victoria. Melbourne inflation increased to 4.0 per cent in year-average terms in 2021-22. Amid the recovery in the labour market, wages growth increased to 2.4 per cent in 2021-22, up from 1.4 per cent in 2020-21.

The Victorian population rose by 0.6 per cent over the year to March 2022 (reflecting the latest available data). This was a significant change from the five years to March 2020 when annual population growth averaged 2.0 per cent and was the highest of the states.

FISCAL OUTCOMES

The Government recorded a general government sector operating deficit of $13.8 billion for 2021-22.

The 2021-22 operating result was an improvement of $3.8 billion compared with the revised estimate in the *2022-23 Budget*, in part due to lower than expected expenses. This includes lower than expected consumption of rapid antigen tests (RATs) and personal protective equipment (PPE) and lower than forecast demand for some health services, including COVID-19 testing. Higher than expected taxation revenue due to elevated economic activity in the latter part of 2021-22, and higher income tax equivalent income also drove the improved result.

Total revenue from transactions for the year was $83 billion, which was $1.2 billion higher than the revised estimate. This was $10.4 billion, or 14.3 per cent, higher compared with the previous year, partly reflecting a recovery in revenue and the tapering of tax relief measures related to the COVID-19 pandemic.

State taxation revenue increased by $483 million compared with the revised estimate. This was primarily driven by higher than expected land transfer duty, and higher payroll tax due to a stronger than expected labour market in the second half of 2021-22.

The increase of $6.9 billion in taxation revenue compared with 2020-21 is largely attributable to an increase in land transfer duty resulting from the strength of the Victorian property market in 2021-22, including both higher transaction volumes and increased property prices. Land tax also contributed to an increase in taxation revenue, mainly reflecting the tapering of land tax relief measures implemented in 2020-21, increased land tax rates for high-value landholdings, and an increase in land valuations.

Dividends, income tax and rate equivalent income of $885 million increased by $297 million compared with the revised budget, mainly due to higher than expected income tax equivalent income from the Transport Accident Commission.

Revenue from the sale of goods and services was $2.3 billion lower compared with the previous year, primarily due to the discontinuation of the capital assets charge policy from 2021-22, which is associated with a matching decrease in reported expenditure.

Grants of $41.8 billion were $4.8 billion higher compared with 2020-21. The increase was primarily due to an increase in grants from the Commonwealth relating to support for COVID-19 impacted businesses and the COVID-19 health response.

Other revenue and income for 2021-22 was $671 million higher than the 2020-21 outcome. The increase was primarily due to a recovery in fines revenue and schools third party revenue due to the easing of COVID-19 public health restrictions, and the initial recognition of the fair value of the Bulgana Green Power Hub following commencement of commercial operations in December 2021.

Total general government sector expenses increased to $96.8 billion in 2021-22, an increase of $9.6 billion (11 per cent) compared with the previous year. This increase primarily includes measures to support businesses and to deliver the public health response. Total expenses were $2.7 billion lower than the revised estimate in the *2022-23 Budget*.

Employee expenses of $32.2 billion for 2021-22 were $939 million (2.8 per cent) lower than the revised budget and $2.2 billion (7.3 per cent) higher than 2020-21. Compared with the previous year, this increase includes additional resources in the health sector for the COVID-19 response. The increase in employee expenses also reflects increases in remuneration levels in enterprise bargaining agreements.

Other operating expenses in 2021-22 were $27.9 billion, $1.9 billion lower than the revised budget and $3.4 billion higher than the previous year. The decrease from the revised budget primarily reflects lower than expected consumption of RATs and PPE and lower than forecast demand for some health services, including COVID-19 testing.

Grant expenses of $25.1 billion were slightly higher than the revised budget and $3 billion higher than 2020-21. The increase compared with the previous year was primarily due to the impact of measures as part of the Government's response to COVID-19 primarily to support businesses, grants to Homes Victoria as part of the Big Housing Build, and increased payments to the National Disability Insurance Agency reflecting the continued roll-out of the National Disability Insurance Scheme.

Government infrastructure investment (GII), which includes general government net infrastructure investment (net of asset sales) and estimated construction related cash outflows for Partnerships Victoria projects, was $18.7 billion for 2021-22. This was close to the revised budget of $18.9 billion published in the *2022-23 Budget*. Compared with the previous year, GII increased by $3.8 billion, largely due to extensive capital infrastructure investment in the transport, justice, community safety, and education sectors.

Net debt for the general government sector was $100 billion (19.4 per cent of estimated gross state product) at 30 June 2022 and $2 billion lower than the revised budget estimate. The increase in net debt in 2021-22 reflects additional borrowings required to finance an increase in service delivery, including the Government's response to the COVID-19 pandemic, and additional borrowings to fund the Government's infrastructure program.

The net cash flows from operating activities deficit of $8.9 billion was an improvement of $2.9 billion compared with the $11.8 billion deficit forecast in the *2022-23 Budget*. The improvement from the revised budget was primarily driven by the better than expected net result from transactions discussed above and an increase in payables, partially offset by a higher than expected increase in receivables.

CHAPTER 2 – GENERAL GOVERNMENT SECTOR OUTCOME

- The Government recorded a general government sector operating deficit of $13.8 billion in 2021-22.
- The 2021-22 operating result was an improvement of $3.8 billion compared with the revised estimate in the *2022-23 Budget*. Revenue was $1.2 billion higher and expenses were $2.7 billion lower than expected.
- The level of government infrastructure investment was $18.7 billion in 2021-22. This was close to the revised budget of $18.9 billion published in the *2022-23 Budget*.
- Net debt for the general government sector was $100 billion (19.4 per cent of gross state product (GSP)) at 30 June 2022 compared with $101.9 billion (19.8 per cent of GSP) published in the *2022-23 Budget*. This improved result reflects lower than expected borrowings following the better than anticipated net cashflows from operating activities.
- Victoria is rated AA by Standard & Poor's (S&P) with a stable outlook and Aa2 by Moody's Investors Service (Moody's) also with a stable outlook. The stable outlook reflects Moody's expectation that Victoria's large and diverse economy will remain resilient, and the underlying strength of the Victorian economy will continue to underpin the State's capacity to service its growing debt burden over the next four to five years. S&P in its latest report note that economic growth is recovering and that the State's economy remains structurally wealthy and diverse.

FISCAL OBJECTIVES

As part of the *2021-22 Budget,* the Government outlined its fiscal strategy and objectives for the 2021-22 financial year, including:

- general government net debt as a percentage of GSP to stabilise in the medium term
- general government interest expense as a percentage of revenue to stabilise in the medium term
- fully fund the unfunded superannuation liability by 2035
- a net operating cash surplus consistent with maintaining general government net debt at a sustainable level after the economy has recovered from the COVID-19 pandemic.

The 2021-22 financial results were heavily impacted by COVID-19. In response to this challenging environment, the Government used its strong fiscal position and balance sheet to protect the community and to minimise the impact on the Victorian economy. This resulted in:

- net debt to GSP increasing from 15.3 per cent at 30 June 2021 to 19.4 per cent at 30 June 2022, but lower than the revised estimate of 19.8 per cent
- interest expense as a percentage of revenue of 3.5 per cent for the 2021-22 financial year, which was consistent compared with the previous year
- a net operating cash deficit of $8.9 billion, an improvement of $4.1 billion compared with the previous year.

The Government remains on track to fully fund the unfunded superannuation liability by 2035, with a contribution of $1 billion made to the State Superannuation Fund, under section 90(2) of the *State Superannuation Act 1988*, to fund this liability in 2021-22.

Fiscal aggregates are useful for assessing the impact of the financial transactions of the Government and its controlled entities 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)**

	2021 actual	*2022 actual*	*2022 revised*
Operating statement aggregates			
Net result from transactions – net operating balance	(14 558)	(13 791)	(17 631)
Net result	(13 797)	(13 501)	(17 878)
Net lending/(borrowing)	(28 766)	(24 539)	(28 213)
Comprehensive result – total change in net worth	(2 293)	24 729	(13 123)
Balance sheet aggregates			
Net worth	153 799	178 528	140 676
Net financial worth	(46 239)	(51 988)	(71 173)
Net financial liabilities	119 364	141 149	147 795
Net debt	72 734	99 978	101 943
Cash flow statement aggregates			
Net cash flows from operating activities	(12 958)	(8 857)	(11 763)
Cash surplus/(deficit)	(24 772)	(23 749)	(25 009)
			(per cent)
Net debt to GSP [(a)]	**15.3**	**19.4**	**19.8**
Interest expense to revenue	**3.5**	**3.5**	**3.7**

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

The **net result from transactions** deficit of $13.8 billion improved by $3.8 billion compared with the $17.6 billion deficit forecast in the *2022-23 Budget*. The improved result was primarily due to lower than expected expenses. This includes lower than expected consumption of rapid antigen tests (RATs) and personal protective equipment (PPE) and lower than forecast demand for some health services, including COVID-19 testing. Higher than expected revenue also drove the improved result.

The $767 million lower deficit compared with the 2020-21 result was due to an increase in revenue mainly relating to an increase in land transfer duty resulting from the strength of the Victorian property market in 2021-22, including both higher transaction volumes and increased property prices. Land tax revenue also increased, mainly reflecting the tapering of land tax relief measures implemented in the 2020-21 financial year, increased land tax rates for high-value landholdings, and an increase in land valuations.

The increase in revenue was partially offset by increased expenses. The increased expenses were mainly due to an increase in service delivery, including the Government's response to COVID-19. This included measures to support businesses and to deliver the public health response.

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 2021-22 net result was an improvement of $4.4 billion compared with the revised budget and an improvement of $296 million compared with the 2020-21 outcome. The improvement compared with the revised estimate was due to the same reasons as explained for the net result from transactions, as well as higher than expected gains from other economic flows in 2021-22 due to market movements impacting on the valuation of financial assets and liabilities.

The **net lending/(borrowing)** 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 borrowing of $24.5 billion for 2021-22 was $3.7 billion lower than the revised estimate, mainly due to an improvement in the net result from transactions compared with expectations.

The 2021-22 **comprehensive result – total change in net worth** significantly improved compared with the revised estimate. The increase of $37.9 billion from the revised budget is attributable to the revaluation of assets in the transport, education and environment sectors, and a valuation gain on investments of the general government sector in other sector entities, primarily due to a revaluation gain on the Treasury Corporation of Victoria's (TCV) liabilities due to an increase in interest rates, along with the revaluation of land held by Homes Victoria. There was also a remeasurement gain on the State's defined benefit superannuation liability that primarily arose due to an increase in the bond yields that underlie the key superannuation valuation assumptions, partially offset by lower than expected investment returns on superannuation assets. Also driving the improvement was the change in the net result from transactions as previously explained.

Net worth is a measure of economic wealth and is equal to net assets outlined in Table 2.4. The $37.9 billion increase compared with the revised budget is due to the drivers as explained in the comprehensive result – total change in net worth above. Also driving the increase compared with the revised budget were lower borrowings as a result of the better than expected net cashflows from operating activities.

The year-on-year movement in **net financial worth**, which is equal to total financial assets less total liabilities, was mainly due to increased net debt, as explained in the next column, partially offset by a decrease in the State's defined benefit superannuation liability.

Net financial liabilities are total liabilities less financial assets (excluding investments in other sector entities). Net financial liabilities were $141.1 billion at 30 June 2022, $6.6 billion lower than the revised budget. This decrease was primarily due to lower borrowings, and a decrease in the State's defined benefit superannuation liability. The decrease was partially offset by lower than expected cash holdings.

Net debt represents gross debt less liquid financial assets. Net debt of $100 billion at 30 June 2022 was $2 billion lower than the revised estimate in the *2022-23 Budget*. This improved result reflects lower than expected borrowings following the better than anticipated net cashflows from operating activities. This improvement was partially offset by lower than expected cash holdings.

The increase in net debt in 2021-22 reflects additional borrowings required to finance an increase in service delivery, including the Government's response to the COVID-19 pandemic, and additional borrowings to fund the Government's infrastructure program.

The **net cash flows from operating activities** deficit of $8.9 billion was an improvement of $2.9 billion compared with the $11.8 billion deficit forecast in the *2022-23 Budget*. The improvement from the revised budget was primarily driven by the better than expected net result from transactions discussed above, and an increase in payables, partially offset by a higher than expected increase in receivables.

The **cash deficit** position in 2021-22 reflects the sum of net cash flows from operating and investing activities. The deficit position in 2021-22 was a slight improvement when compared with the 2020-21 result.

FINANCIAL PERFORMANCE

Table 2.2 shows an operating deficit of $13.8 billion in 2021-22 compared with the revised 2021-22 estimate of a deficit of $17.6 billion.

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

	2022 actual	*2022 revised*	*Revised variance*	*% revised variance*	*2021 actual*
Revenue and income from transactions					
Taxation	30 546	30 063	483	2	23 613
Interest income	557	602	(44)	(7)	594
Dividends, income tax equivalent and rate equivalent income	885	587	297	51	620
Sales of goods and services	5 645	5 491	153	3	7 949
Grants	41 805	41 869	(65)	..	36 958
Other revenue and income	3 586	3 257	328	10	2 915
Total revenue and income from transactions	**83 023**	**81 870**	**1 153**	**1**	**72 649**
Expenses from transactions					
Employee expenses	32 239	33 178	(939)	(3)	30 044
Net superannuation interest expense	481	481	..	..	305
Other superannuation	3 912	3 704	208	6	3 426
Depreciation	4 308	4 411	(103)	(2)	4 165
Interest expense	2 869	3 042	(173)	(6)	2 614
Grant expense	25 063	24 865	198	1	22 086
Other operating expenses	27 943	29 820	(1 878)	(6)	24 568
Total expenses from transactions	**96 814**	**99 501**	**(2 687)**	**(3)**	**87 207**
Net result from transactions – net operating balance	**(13 791)**	**(17 631)**	**3 840**	**(22)**	**(14 558)**
Total other economic flows included in net result	**290**	**(247)**	**537**	**(217)**	**761**
Net result	**(13 501)**	**(17 878)**	**4 377**	**(24)**	**(13 797)**

Revenue

Total revenue from transactions for the year was $83 billion, which was $1.2 billion higher than the revised estimate. This was $10.4 billion, or 14.3 per cent, higher compared with the previous year, partly reflecting a recovery in revenue and the tapering of tax relief measures related to the COVID-19 pandemic.

Table 2.3 shows that state taxation revenue increased by $483 million compared with the revised estimate. This was primarily driven by higher land transfer duty of $167 million due to a higher than expected number of transactions recorded in the last quarter of 2021-22, and higher payroll tax due to a stronger than expected labour market in the second half of 2021-22. Growth areas infrastructure contribution revenue was also $121 million higher due to a higher than expected number of property transactions in the growth areas.

The increase of $6.9 billion in taxation revenue compared with 2020-21 is attributable to an increase in land transfer duty resulting from the strength of the Victorian property market in 2021-22, including both higher transaction volumes and increased property prices. Land tax also contributed to an increase in taxation revenue, mainly reflecting the tapering of land tax relief measures implemented in 2020-21, increased land tax rates for high-value landholdings, and an increase in land valuations.

Also driving the increase was the introduction of the Mental Health and Wellbeing Levy, which came into effect on 1 January 2022, and an increase in payroll tax due to the strong labour market. The easing of public health restrictions on in-person gambling venues also contributed to an increase in gambling taxes from electronic gaming machines.

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

	2022 actual	*2022 revised*	*Revised variance*	*% revised variance*	*2021 actual*
Taxes on employers' payroll and labour force					
Payroll tax	6 618	6 518	101	2	6 181
Mental Health and Wellbeing Levy	349	328	21	6	..
Total taxes on employers' payroll and labour force	**6 967**	**6 846**	**121**	**2**	**6 181**
Taxes on immovable property					
Land tax	4 135	4 171	(36)	(1)	3 234
Fire Services Property Levy	759	759	..	..	729
Congestion levy	109	108	2	2	77
Metropolitan improvement levy	200	206	(6)	(3)	191
Total taxes on property	**5 203**	**5 244**	**(41)**	**(1)**	**4 231**
Taxes on the provision of goods and services					
Gambling taxes					
Public lotteries [(a)]	638	663	(24)	(4)	586
Electronic gaming machines [(a)]	940	868	72	8	665
Casino [(a)(b)]	142	137	5	4	146
Racing and other sports betting [(a)]	292	284	8	3	221
Other [(a)]	10	10	1	9	9
Financial and capital transactions					
Land transfer duty	10 361	10 195	167	2	6 424
Metropolitan planning levy	22	20	2	10	19
Financial accommodation levy	152	165	(13)	(8)	153
Growth areas infrastructure contribution	361	240	121	51	197
Levies on statutory corporations	**173**	**173**	**..**	**..**	**173**
Taxes on insurance	**1 724**	**1 713**	**11**	**1**	**1 540**
Total taxes on the provision of goods and services	**14 816**	**14 467**	**349**	**2**	**10 134**
Taxes on the use of goods and performance of activities					
Motor vehicle taxes					
Vehicle registration fees	1 870	1 881	(11)	(1)	1 754
Duty on vehicle registrations and transfers	1 097	1 055	43	4	933
Liquor licence fees	**26**	**25**	**1**	**4**	**4**
Other	**566**	**546**	**20**	**4**	**376**
Total taxes on the use of goods and performance of activities	**3 559**	**3 506**	**53**	**2**	**3 067**
Total taxation revenue	**30 546**	**30 063**	**483**	**2**	**23 613**

Notes:
(a) *The public lotteries, electronic gaming machines, casino, racing and other sports betting and other gambling taxes balances include gambling licence revenue to 30 June 2022 of $157 million (30 June 2021: $157 million) recognised under AASB 15* Revenue from Contracts with Customers. *The balance of these items is recognised under AASB 1058* Income of Not-for-Profit Entities.
(b) *The Victorian Royal Commission into the Casino Operator and Licence alleged that Matchplay and other loyalty benefits provided to members should be included in the calculation of tax payable by Crown. The State has engaged legal counsel following the delivery of the Royal Commission's final report in relation to this matter. As the State is still in the process of investigating whether further payments are owing based on the findings of the final report, no further amounts have been recognised as at the compliance date for the 2021-22 Financial Report.*

Dividends, income tax and rate equivalent income of $885 million was $297 million higher than the revised budget and $264 million higher when compared with the previous year. The increase is mainly due to higher than expected income tax equivalent income from the Transport Accident Commission.

Revenue from the sale of goods and services was $2.3 billion lower compared with the previous year, primarily due to the discontinuation of the capital assets charge policy from 2021-22, which is associated with a matching decrease in reported expenditure.

Grants of $41.8 billion were $4.8 billion higher compared with 2020-21. The increase was primarily due to an increase in grants from the Commonwealth relating to support for COVID-19 impacted businesses and the COVID-19 health response, and grants for non-government and government schools. This was partially offset by a decrease in GST revenue primarily relating to a decrease in Victoria's GST relativity.

Grants were consistent with the revised budget estimate.

Other revenue and income for 2021-22 was $671 million higher than the 2020-21 outcome. The increase was primarily due to a recovery in fines revenue and schools third party revenue due to the easing of COVID-19 public health restrictions, and the initial recognition of the fair value of the Bulgana Green Power Hub following commencement of commercial operations in December 2021.

Other revenue and income was $328 million higher than the revised budget, primarily due to a better than expected recovery in fines revenue following the easing of COVID-19 public health restrictions, and higher than expected revenue in the health sector.

Expenses

Total general government sector expenses increased to $96.8 billion in 2021-22, an increase of $9.6 billion (11 per cent) compared with the previous year. Total expenses were $2.7 billion lower than the revised estimate in the *2022-23 Budget*. The increase in total expenses compared with the previous year mainly reflects an increase in service delivery, including the Government's response to the COVID-19 pandemic. This increase primarily includes measures to support businesses and to deliver the public health response.

Employee expenses of $32.2 billion for 2021-22 were $939 million (2.8 per cent) lower than the revised budget and $2.2 billion (7.3 per cent) higher than 2020-21. Compared with the previous year, this increase includes additional resources in the health sector for the COVID-19 response. The increase in employee expenses also reflects increases in remuneration levels in enterprise bargaining agreements.

The lower employee expenses for 2021-22 than the revised budget were primarily due to lower than forecast demand for COVID-19 related services in the health sector, and lower expenses in the education sector primarily driven by a decrease in the employee long service leave provision.

Other superannuation expenses of $3.9 billion for 2021-22 were $208 million higher than the revised budget and $486 million higher than in 2020-21. The increase compared with the previous year is primarily due to higher employer contributions to defined contribution superannuation plans. This increase is in line with the increase in employee expenses as explained above.

Depreciation expenses increased by $144 million from the previous year to $4.3 billion. This increase was primarily due to an increase in non-financial assets mainly due to the Government's investment in infrastructure.

Interest expenses of $2.9 billion for 2021-22 were $173 million lower than the revised budget. The decrease is largely due to lower borrowings as a result of the better than expected net cashflows from operating activities.

Compared with the previous year, interest expenses increased by $255 million. This was mainly due to additional borrowings to finance the Government's response to the COVID-19 pandemic, and to fund the Government's infrastructure investment program.

Other operating expenses in 2021-22 were $27.9 billion, $1.9 billion lower than the revised budget. The decrease from the revised budget reflects lower than expected consumption of RATs and PPE and lower than forecast demand for some health services, including COVID-19 testing.

Compared with the previous year, other operating expenses increased by $3.4 billion. This was primarily driven by a year-on-year increase in expenditure across the health sector in response to the COVID-19 pandemic and costs associated with COVID-19 Quarantine Victoria. The increase is also driven by the upfront recognition of National Redress Schemes.

Grant expenses of $25.1 billion were slightly higher than the revised budget and $3 billion higher than in 2020-21. The increase compared with the previous year was primarily due to the impact of measures as part of the Government's response to COVID-19 primarily to support businesses, grants to Homes Victoria as part of the Big Housing Build, and increased payments to the National Disability Insurance Agency reflecting the continued roll-out of the National Disability Insurance Scheme.

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 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 2021-22 totalled a net revaluation gain of $290 million.

FINANCIAL POSITION

Table 2.4 shows the general government sector net assets increased by $24.7 billion to $178.5 billion in 2021-22. This was $37.9 billion (26.9 per cent) higher than expected in the 2021-22 revised budget.

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

	2022 actual	*Revised variance*	*2022 revised*	*Actual movement*	*2021 actual*
Assets					
Financial assets (excluding investment in other sector entities)	27 690	(2 728)	30 417	(3 563)	31 253
Investment in other sector entities:					
Public non-financial corporations	77 724	7 082	70 642	4 771	72 953
Public financial corporations	11 438	5 458	5 980	11 266	172
Non-financial assets	230 516	18 666	211 849	30 478	200 038
Total assets	**347 367**	**28 479**	**318 888**	**42 952**	**304 415**
Liabilities					
Superannuation	19 756	(4 311)	24 067	(7 462)	27 217
Borrowings	117 420	(6 045)	123 465	24 436	92 985
Other liabilities	31 663	982	30 680	1 248	30 415
Total liabilities	**168 839**	**(9 373)**	**178 212**	**18 222**	**150 617**
Net assets	**178 528**	**37 852**	**140 676**	**24 729**	**153 799**

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 $3.6 billion during the year. The decrease is mainly due to lower cash balances in 2021-22 largely reflecting the Government's cash requirements.

General government investments in other sector entities increased by $16 billion in the year. This was mainly due to an increase in interest rates which positively impacted the valuation of the liabilities held by TCV, and a revaluation of land held by Homes Victoria.

Non-financial assets increased by $30.5 billion during 2021-22, mainly due to the Government's investment in infrastructure, and the revaluation of assets, primarily in the transport, education and environment sectors.

Liabilities

Total liabilities as at 30 June 2022 were $168.8 billion, $18.2 billion higher than the 2020-21 outcome but $9.4 billion lower than the revised budget. The decrease compared with the revised budget mainly reflects lower borrowings as a result of the better than expected net cashflows from operating activities, and a decrease in the State's defined benefit superannuation liability due to an increase in the bond yields that underlie the key superannuation valuation assumptions, partially offset by lower than expected investment returns on superannuation assets.

Total liabilities increased when compared with the 2020-21 outcome, mainly due to additional borrowings to finance an increase in service delivery, including the Government's response to the COVID-19 pandemic, and to fund the Government's infrastructure investment program. This was partially offset by a decrease in the State's defined benefit superannuation liability, as explained above.

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.

The net cash flows from operating activities deficit of $8.9 billion was an improvement of $2.9 billion compared with the $11.8 billion deficit forecast in the *2022-23 Budget*. This improvement was primarily driven by the better than expected net result from transactions discussed above and an increase in payables. This was partially offset by an increase in receivables.

Compared with the previous year, the net cash flows from operating activities deficit improved by $4.1 billion. This was primarily driven by an increase in receivables in 2020-21 largely driven by deferred payroll tax and land tax as part of the Government's COVID-19 response to support cashflows of businesses and landowners, and a GST grants underpayment in 2020-21 which was received in 2021-22. Also driving the improvement in net cash flows from operating activities was the year-on-year improvement in net result from transactions.

A detailed cash flow statement is provided in Chapter 4.

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

	2021 actual	*2022 actual*	*2022 revised*
Net result from transactions – net operating balance	(14 558)	(13 791)	(17 631)
Add back: non-cash revenues and expenses (net) [(a)]	1 601	4 934	5 868
Net cash flows from operating activities	**(12 958)**	**(8 857)**	**(11 763)**
Less:			
Net investment in fixed assets			
Purchases of non-financial assets	11 948	15 168	13 546
Net cash flows from investments in financial assets for policy purposes	(263)	(47)	635
Sales of non-financial assets	(133)	(275)	(301)
Net investment in fixed assets	**11 551**	**14 845**	**13 881**
Leases and service concession arrangements	2 987	2 447	2 588
Other movements	927	1 094	977
Decrease/(increase) in net debt	**(28 423)**	**(27 244)**	**(29 208)**

Note:

(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.

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.

Government infrastructure investment (GII), which includes general government net infrastructure investment (net of asset sales) and estimated construction related cash outflows for Partnerships Victoria projects, was $18.7 billion in 2021-22. This was close to the revised budget of $18.9 billion published in the *2022-23 Budget*. Compared with the previous year, GII increased by $3.8 billion, largely due to extensive capital infrastructure investment in the transport, justice, community safety, and education sectors.

The Government's infrastructure scorecard 2021-22

Major projects completed during the year include:

- Child Link
- Mordialloc Freeway
- Western Roads Upgrade

Major projects under procurement or in progress include:

- A Pathway to More Acute Mental Health Beds
- Additional Acute Mental Health Beds in Regional Victoria
- Additional VLocity trains
- Ballarat Health Services expansion and redevelopment
- Barwon Heads Road Upgrade
- Barwon Women's and Children's Hospital
- Big Housing Build
- Building a World-Class Geelong Performing Arts Centre
- City Loop fire and safety upgrade (Stage 2) and intruder alarm
- Courts case management system
- Cranbourne line duplication
- E-Class Tram Infrastructure Program
- Echuca-Moama Bridge
- Enrolment growth and new schools (land acquisition for new schools, new schools construction, relocatable buildings program, school upgrades: growth)
- Expanding and improving bed-based forensic mental health services: Thomas Embling Hospital
- Frankston Hospital Redevelopment
- Frankston line stabling
- Geelong Convention and Exhibition Centre
- Geelong Fast Rail
- Goulburn Valley Health redevelopment
- Gippsland Line Upgrade Stage 1
- High Capacity Metro Trains Project
- Homes Victoria Ground Lease Model Project 1
- Hurstbridge Line upgrade – Stage 2
- Kardinia Park Stadium Stage 5 redevelopment
- Level Crossing Removal Project: 85 by 2025
- M80 Ring Road upgrade

The Government's infrastructure scorecard 2021-22 *(continued)*

- Melbourne Arts Precinct Transformation – Phase 1
- Melbourne Airport Rail
- Melbourne Park redevelopment – Stage 3
- Men's prison system capacity
- Metro Tunnel
- Metropolitan Network Modernisation program
- Monash Freeway Upgrade – Stage 2
- Murray Basin Rail Project
- New Footscray Hospital
- New Melton Hospital
- New metropolitan trains
- New trains for Sunbury
- New Wyndham Law Court
- New youth justice facility
- Next Generation Trams
- North East Link – Primary Package (Tunnels)
- North East Link – State and Freeway Packages
- Northern Hospital inpatient expansion – Stage 2
- Princes Highway East Stage 3
- Public housing renewal program
- Public transport ticketing asset renewal
- Redevelopment of the Thomas Embling Hospital – Stage 2
- Royal Victorian Eye and Ear Hospital redevelopment
- Shepparton Corridor Upgrade – Stages 2 and 3
- South Dynon train maintenance facility
- Suburban Rail Loop
- Suburban Roads Upgrade
- Technology and resources to support Victoria's fines system
- Ten new community hospitals
- Tram infrastructure upgrades
- Victorian Heart Hospital
- Warrnambool Base Hospital Redevelopment
- Waurn Ponds Track Duplication – Stage 2
- West Gate Tunnel Project
- Western Highway duplication – Ballarat to Stawell
- Western Plains Correctional Centre
- Western Rail Plan
- Women's prison system capacity

CHAPTER 3 – STATE OF VICTORIA OUTCOME

- The State's net assets increased by $31.6 billion, to $219.8 billion, at 30 June 2022.
- The net result from transactions for the State in 2021-22 was a deficit of $15.3 billion, compared with a deficit of $18.3 billion in the previous year. This result was mainly driven by a deficit of $13.8 billion in the general government sector and a deficit of $1.5 billion in the public financial corporation (PFC) sector, partly offset by a surplus of $714 million in the public non-financial corporation (PNFC) sector.
- The net result for the State was a surplus of $568 million in 2021-22 compared with a deficit of $11.3 billion in the previous year. This increase is mainly due to financial asset and liability revaluation gains in the PFC sector.

This chapter sets out the financial results for the State of Victoria for 2021-22.

The State comprises the general government sector, which is discussed in Chapter 2, and the PNFC and PFC sectors, which are discussed in this chapter.

The PFC and PNFC sectors 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 that transactions between these sectors are eliminated to arrive at the consolidated position. These eliminations mean that the result for the State of Victoria is not simply the sum of the results and variations for 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 and shows the State recorded a net deficit from transactions of $15.3 billion in 2021-22 compared with a deficit of $18.3 billion in 2020-21.

The net result for the State was a surplus of $568 million. This compares with a $11.3 billion deficit in 2020-21. The revenue and expense items that underlie these results are detailed in Table 3.1.

OPERATING STATEMENT

Table 3.1: 2021-22 summary operating statement – State of Victoria [(a)] **($ million)**

	2022 actual	*2022 revised*	*Revised variance*	*% revised variance*	*2021 actual*
Revenue and income from transactions					
Taxation	30 080	29 589	490	2	23 167
Interest income	610	254	357	141	659
Dividends	3 144	1 809	1 334	74	1 705
Sales of goods and services	16 462	16 262	200	1	15 787
Grants	41 224	41 244	(20)	..	36 739
Other revenue and income	4 417	3 902	514	13	3 723
Total revenue and income from transactions	**95 936**	**93 061**	**2 876**	**3**	**81 778**
Expenses from transactions					
Employee expenses	33 638	34 655	(1 017)	(3)	31 338
Net superannuation interest expense	482	485	(3)	(1)	305
Other superannuation	4 107	3 887	220	6	3 602
Depreciation	7 203	7 190	13	..	6 941
Interest expense	3 712	3 390	322	10	3 437
Grant expense	21 952	22 815	(863)	(4)	16 442
Other operating expenses	40 097	43 479	(3 382)	(8)	37 985
Total expenses from transactions	**111 192**	**115 901**	**(4 710)**	**(4)**	**100 049**
Net result from transactions – net operating balance	**(15 255)**	**(22 840)**	**7 585**	**(33)**	**(18 271)**
Total other economic flows included in net result	15 823	9 244	6 579	71	6 950
Net result	**568**	**(13 596)**	**14 164**	**(104)**	**(11 321)**

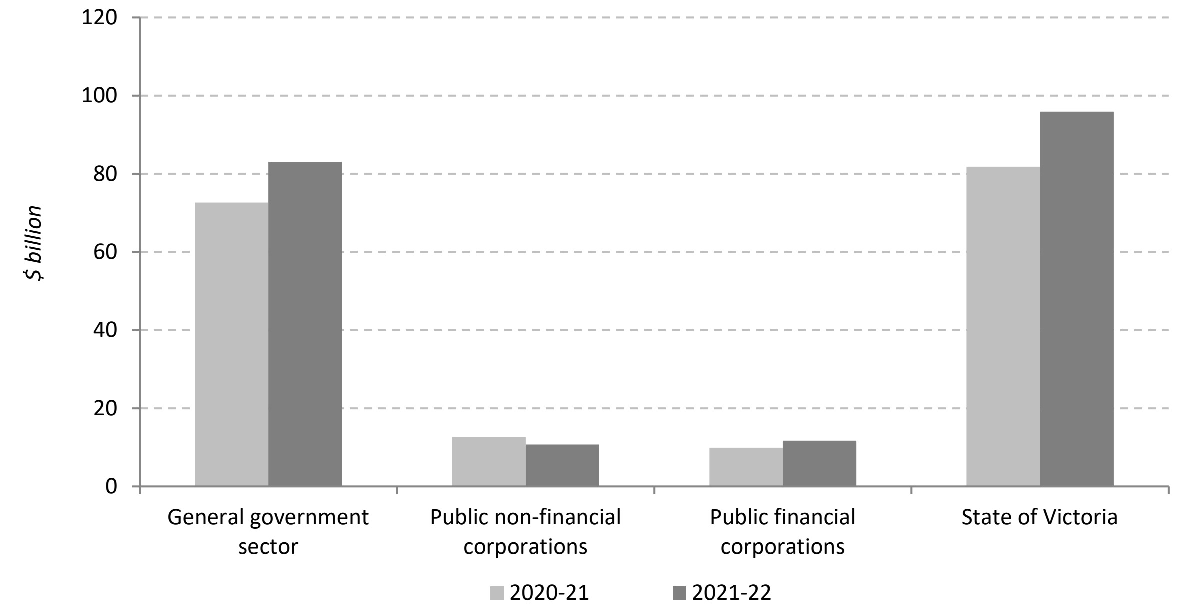
Note:
(a) Figures in this table are subject to rounding to the nearest million and may not add up to the totals.

Revenue

Total state revenue increased by 17.3 per cent, or $14.2 billion, in 2021-22 to $95.9 billion and was $2.9 billion higher than the revised forecast in the *2022-23 Budget*.

The general government sector accounts for 86.5 per cent of total state revenue and is discussed in the previous chapter.

Chart 3.1: Revenue contributions by sector [(a)]



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

Relative to 2020-21, PNFC sector total revenue from transactions decreased by 15.1 per cent, to $10.7 billion in 2021-22. This was mainly due to the discontinuation of the capital asset charge policy in 2021-22, which led to the cessation of the $2 billion capital asset charge grant to VicTrack.

Total revenue from transactions for the PFC sector was $11.7 billion in 2021-22. This represents a 18.9 per cent increase relative to total revenue of $9.9 billion in 2020-21. This increase in revenue was largely due to higher dividend income and trust distributions from investments across the three insurance agencies and increased interest income for the Treasury Corporation of Victoria (TCV).

Expenses

Total state expenses increased by 11.1 per cent, or $11.1 billion, to $111.2 billion in 2021-22 but were $4.7 billion lower than the revised forecast in the *2022-23 Budget*. Most of the increase relative to the previous year, and reduction relative to the revised estimate, reflect the activities of the general government sector and are discussed in Chapter 2.

Total expenses for the PNFC sector were $10 billion in 2021-22, $1.9 billion lower than in the previous year. The decrease was mainly due to a reduction in operating expenses as a result of the discontinuation of the capital asset charge policy and the consequent cessation of the capital asset charge that was previously paid by VicTrack.

Total expenses from transactions for the PFC sector were $13.2 billion in 2021-22 and were largely in line with total expenses from transactions of $13.2 billion in 2020-21.

Net result from transactions

Allowing for inter-sector eliminations, the State's net result from transactions in 2021-22 was a deficit of $15.3 billion, compared with a deficit of $18.3 billion in the previous year. This outcome reflects:

- a $13.8 billion deficit within the general government sector (discussed in the previous chapter)
- a $1.5 billion deficit within the PFC sector
- a $714 million surplus within the PNFC sector.

The PNFC sector's net surplus from transactions was relatively stable, with surpluses of $714 million and $721 million in 2021-22 and 2020-21 respectively.

Higher revenue resulted in the PFC sector's net result from transactions increasing from a deficit of $3.3 billion in 2020-21 to a deficit of $1.5 billion in 2021-22.

Net result

At the consolidated state level, the net result for 2021-22 was a surplus of $568 million compared with a $11.3 billion deficit in 2020-21.

The difference between the net result and the net result from transactions is due to other economic flows. These other economic flows include the impact of changes in the bond rates that are used to value the State's insurance liabilities and TCV borrowings, as well as variations in the investment returns on the assets invested to fund the State's insurance liabilities.

In 2021-22, other economic flows contributed a gain of $15.8 billion to the State's net result. This largely related to a net revaluation gain that arose due to the combined impact of increases in the discount rates (positive) and inflation rates (negative) that are used to value TCV borrowings and the liabilities of the State's insurance agencies.

This gain was partially offset by unrealised capital losses on the investments held by the State's insurance agencies. These losses arose due to unfavourable equity market conditions, which resulted in the three insurance agencies recording an average return of negative 2 per cent in 2021-22 compared to a return of 16 per cent in 2020-21.

FINANCIAL POSITION

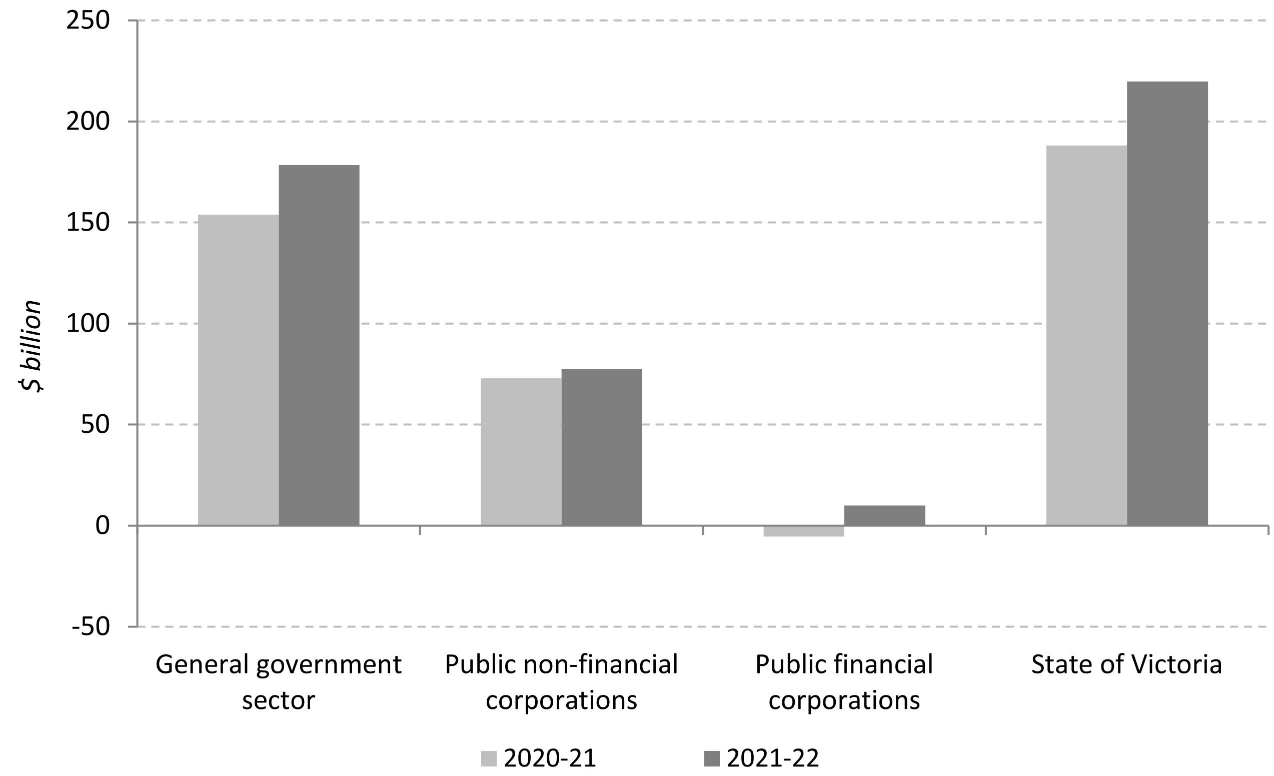
Table 3.2 shows the State's net assets increased by $31.6 billion, to $219.8 billion at 30 June 2022. This reflects an increase in total assets since the start of the year of $43.2 billion, which was mainly due to the State's significant capital program and revaluation gains during the year. This was partly offset by an $11.6 billion increase in total liabilities, due mainly to an increase in borrowings of $20.2 billion partially offset by a $7.5 billion decrease in the State's superannuation liabilities.

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

	2022 actual	*Revised variance*	*2022 revised*	*Actual movement*	*2021 actual*
Assets					
Financial assets	84.5	3.9	80.6	4.7	79.8
Non-financial assets	380.5	24.3	356.2	38.5	341.9
Total assets	**464.9**	**28.2**	**436.7**	**43.2**	**421.7**
Liabilities					
Superannuation	19.8	(4.3)	24.1	(7.5)	27.2
Borrowings	136.5	(3.5)	140.0	20.2	116.3
Other liabilities	88.9	(5.1)	94.1	(1.1)	90.0
Total liabilities	**245.2**	**(12.9)**	**258.1**	**11.6**	**233.6**
Net assets	**219.8**	**41.1**	**178.6**	**31.6**	**188.1**

Note:
(a) Figures in this table are subject to rounding to the nearest billion and may not add up to the totals.

Chart 3.2: Net assets by sector as at 30 June [(a)]



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.

Chart 3.2 shows each sector's contribution to the State's net assets in 2020-21 and 2021-22.

The net asset position reported by the PFC sector is impacted by accounting conventions under which TCV reports its fixed interest rate loans to government clients at book value while its borrowings are reported at market value.

This approach enables TCV's loans to be consolidated with the borrowings of the general government and PNFC sectors but, for the PFC sector in isolation, creates a mismatch between the value of TCV's assets (which are at book value) and its liabilities (which are at market value). This difference is eliminated when TCV's loans to government clients are consolidated in the whole of state accounts. In TCV's own accounts both assets and liabilities are reported at market value.

The PFC sector's net asset position is also sensitive to changes in Commonwealth Government bond yields which, in accordance with Australian accounting standards, underlie the discount rates used to value the insurance agencies' outstanding claims liabilities. Higher bond yields at 30 June 2022 compared with 30 June 2021 led to a decrease in the value of claims liabilities.

CASH FLOWS

After excluding non-cash items, such as depreciation, the change in the State's total receipts and payments from operating activities were broadly due to the same factors as those underpinning the movements in the State's income and expense from transactions, as discussed earlier in this chapter.

Infrastructure investment

Net cash flows from investments in non-financial assets included $14.9 billion invested by the general government sector and $3.2 billion in the PNFC sector, primarily in the water sector.

Infrastructure investment in the PNFC sector included the following water-related infrastructure:

- the upgrade and renewal of water and sewer assets by the Melbourne metropolitan water corporations. This included the Melbourne Water Corporation's duplication of the Yarra River Crossing for the Hobsons Bay Main Sewer and construction of a 30 GWh/y Solar Farm at the Eastern Treatment Plant, Yarra Valley Water's upgrade of the Lockerbie Main and Doreen to Diamond Creek sewers to cater for the rapidly growing Northern Growth corridor, Southeast Water's Water Main Renewal Program and Pressure Sewer Connections, and Greater Western Water's CBD Stage 3 – Elizabeth St Sewer Augmentation
- the upgrade and renewal of water and sewer assets in regional Victoria.

In addition, infrastructure investment in the PNFC sector for transport infrastructure primarily related to the North East Link State Tolling Corporation's investment in the North East Link – Primary Package (Tunnels), following contract award in October 2021.

FINANCIAL SUSTAINABILITY (NON-FINANCIAL PUBLIC SECTOR)

The non-financial public sector (NFPS) comprises the general government sector and the PNFC sector.

The sustainability of the NFPS is an important consideration for credit rating agencies, in particular, 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 $116.4 billion at June 2022, up from $88.4 billion the previous year but lower than the revised estimate of $119.4 billion in the *2022-23 Budget*.

The ratio of NFPS net debt to gross state product (GSP) was 22.6 per cent at 30 June 2022 compared with 18.7 per cent at 30 June 2021. The increase in NFPS net debt is predominately due to additional borrowings to fund the Government's infrastructure program and increased funding for the general government sector as discussed in the previous chapter.

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

	2022 actual	*Revised variance*	*2022 revised*	*Actual movement*	*2021 actual*
Assets					
Cash and deposits	12 817	(2 977)	15 795	(3 649)	16 466
Advances paid	632	(48)	680	93	538
Investments, loans and placements	4 182	(175)	4 357	468	3 714
Total	**17 631**	**(3 200)**	**20 832**	**(3 087)**	**20 719**
Liabilities					
Deposits held and advances received	1 602	(55)	1 657	(109)	1 712
Borrowings	132 459	(6 076)	138 535	25 013	107 446
Total	**134 061**	**(6 131)**	**140 192**	**24 904**	**109 157**
Net debt	**116 430**	**(2 931)**	**119 361**	**27 991**	**88 439**
Superannuation	19 756	(4 337)	24 093	(7 489)	27 245
Net debt plus superannuation liabilities	**136 186**	**(7 269)**	**143 454**	**20 501**	**115 684**
Other liabilities (net)	30 720	(57)	30 778	1 939	28 781
Net financial liabilities	**166 906**	**(7 326)**	**174 232**	**22 440**	**144 465**
Net debt to GSP [b]	**22.6**		**23.1**		**18.7**
Net debt plus superannuation liabilities to GSP [b]	**26.4**		**27.8**		**24.4**
Net financial liabilities to GSP [b]	**32.4**		**33.8**		**30.5**

Notes:
(a) Figures in this table are subject to rounding to the nearest million and may not add up to the totals.
(b) The ratios to GSP may vary from publications year to year due to revisions to the Australian Bureau of Statistics data.

Indicators of financial condition

Table 3.4 shows the key indicators of financial sustainability for the NFPS.

The operating cash flow surplus to revenue ratio is an indication of the extent to which the cash generated from operations can be used to fund infrastructure. This ratio increased from negative 13.9 per cent in 2020-21 to negative 7.8 per cent in 2021-22 largely due to a $3.6 billion increase in net cash flows from operating activities. This increase was largely driven by the general government sector which is discussed in the previous chapter.

The gross debt to revenue ratio, which indicates the overall debt burden, has continued to increase and was 150.6 per cent as at 30 June 2022.

The increase in the gross debt to revenue ratio reflects the increase in borrowings in 2020-21 and 2021-22 to fund the Government's response to the COVID-19 pandemic and the State's infrastructure program.

While the overall debt burden for the NFPS has increased, the interest expense to revenue ratio, a measure of the State's debt servicing cost, has remained stable at an average of 3.8 per cent from 2017-18 to 2021-22.

The stable interest expense to revenue ratio is partially due to fixed interest loans that were issued at historically higher interest rates being refinanced at lower interest rates. A significant increase in NFPS revenue in 2021-22, relative to 2020-21, also helped to reduce this ratio in 2021-22.

Table 3.4: Indicators of financial condition for NFPS[(a)] **(per cent)**

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Operating cash flow surplus to revenue	10.0	9.1	11.7	24.4	8.7	12.4	(2.2)	(13.9)	(7.8)
Gross debt to revenue [(a)]	81.5	81.0	76.8	64.7	69.8	75.5	110.1	144.1	150.6
Interest expense to revenue	5.0	4.9	4.4	3.9	3.7	3.7	3.9	4.0	3.7

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

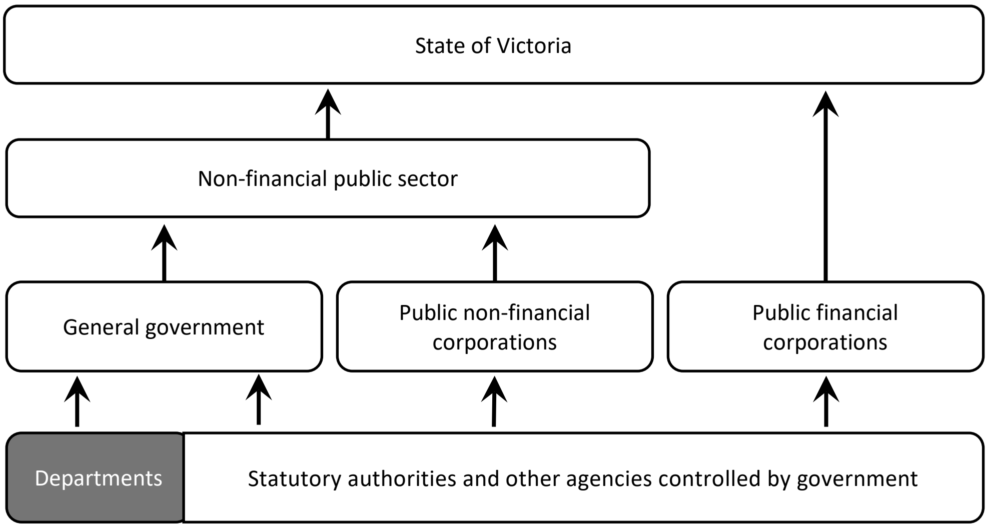
CHAPTER 4 – ANNUAL FINANCIAL REPORT

REPORT STRUCTURE

The Treasurer of Victoria presents the *Annual Financial Report* of the State of Victoria (the State) for the financial year ended 30 June 2022 as follows:

PUBLIC SECTOR TERMS EXPLAINED

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



The State controlled entities are classified into several sectors according to the System of National Accounts (refer to Note 9.9), as follows:

Sector	*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 GGS is to provide general government services that are mainly non-market in nature and are largely for collective consumption by the community, or that involve the transfer or redistribution of income. These services are financed mainly through taxes, other compulsory levies and user charges.
Public non-financial corporations (PNFC) sector	The primary function of entities in the PNFC sector is to produce goods and services (of a non-financial nature) for sale in the market place at economically significant prices.
Public financial corporations (PFC) sector	The primary function of entities in the PFC sector is to provide financial intermediation services or auxiliary financial services and 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 • 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.

VAGO
Victorian Auditor-General's Office

Independent Auditor's Report

To the Treasurer of the State of Victoria

Opinion

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

- consolidated State and General Government Sector balance sheets as at 30 June 2022
- 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 2022 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 consolidated 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 consolidated financial report of the current period. These matters were addressed in the context of my audit of the consolidated 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
Significant COVID-19 grant programs Refer to Note 3.3 *Grant expense*	
Grant expense – $22.0 billion Several grant programs were delivered this financial year to support Victorian individuals and businesses in response to the ongoing economic impact of the coronavirus (COVID-19) pandemic. The Department of Jobs, Precincts and Regions (DJPR) processed $7.6 billion in COVID-19 support grants in 2021–22. Due to DJPR continuing the design of controls over COVID-19 grant programs, there were not sufficient controls on which I could place reliance for financial reporting purposes. I considered COVID-19 grant programs and the resultant expenditure to be a key audit matter because: • a significant volume of grant applications and payments were processed and distributed in short time frames • programs varied in eligibility criteria and conditions increasing the potential for error • there was increased pressure associated with managing and distributing funds during a pandemic • grant payments are susceptible to fraud.	My key procedures included: • gaining an understanding of the COVID-19 grant programs, their eligibility criteria and conditions, and the control environment supporting them, including IT systems and monitoring controls • placing reliance on internal audit • detailed testing of grant payments through extended sample sizes. Testing included external confirmations on eligibility criteria, reperforming dataset matching using external data, and verifying bank payments.

Key audit matter	How I addressed the matter
Recognition and measurement of transport assets Refer to Note 4.1 *Land, buildings, infrastructure, plant and equipment* and Note 7.5 *Fair value determination of non-financial assets*	

Significant spending on capital projects in the transport sector results in large additions to the State's asset base each year.
The State is ultimately responsible for ensuring proper accounts and records are maintained to sufficiently explain the financial impact of these assets on the financial operations and financial position of the State.
I considered this to be a key audit matter because:
• transport assets are financially significant
• capital projects in the transport sector are complex, and each project results in multiple assets being constructed
• a significant degree of management judgement is required to:
  o determine individual assets within a project
  o determine which expenses should be capitalised
  o allocate capital expenses to individual assets
  o determine the fair value of individual assets.
• multiple agencies are involved in the management and delivery of capital projects in the transport sector which makes the timely recognition and derecognition of assets challenging
• Victorian Rail Track (VicTrack) is the custodial owner of a large portion of the State's transport assets. Significant asset accounting issues are being addressed at VicTrack.
	My key procedures included:
	• assessing management's process to identify individual assets within a project, and the costs directly attributable to those assets
	• assessing the results of the work undertaken by management to review work in progress balances and capitalise completed projects
	• reviewing management's assessment of the existence of assets, and the completeness and accuracy of asset records
	• reviewing the accounting treatment for asset additions, disposals and replacements against the requirements of Australian Accounting standards
	• assessing the results of fair value assessments, challenging assumptions contained within, and investigating significant variances
	• assessing the potential impact of identified issues on the financial statements.

Key audit matter	How I addressed the matter

Recognition and measurement of service concession assets, liabilities and commitments

Refer to Note 4.1 *Land, buildings, infrastructure, plant and equipment*, Note 4.2 *Other non-financial assets,* Note 5.1 *Borrowings*, Note 5.3 *Service concession arrangements,* Note 5.4 *Public private partnerships* and Note 6.4 *Payables and contract liabilities*

Service concession assets – $33.9 billion

Service concession financial liabilities – $6.9 billion

Service concession financial liability commitments – $49.3 billion (nominal value)

Service concession grant of a right to the operator (GORTO) liabilities – $10.3 billion

Service concession hybrid arrangements commitments – $2.4 billion (nominal value)

There are three types of service concession arrangements:

- arrangements where the State has contractual obligations to make payments and other contributions to the operators for the construction and operation of the assets
- arrangements where the State has granted the operators the right to charge the public directly for the use of the assets
- hybrid arrangements where the State has granted the operators the right to charge the public for use of the asset and the State makes contractual payments and other contributions to the operator.

I considered this to be a key audit matter because:

- service concession assets, liabilities and commitments are financially significant
- the requirements of AASB 1059 *Service Concession Arrangements: Grantors* are complex, and their application requires significant management estimation and judgement
- service concession arrangements and the financial models used to value the assets, liabilities and commitments are complex
- a significant degree of management judgement is required to determine the key assumptions used in valuing the assets, liabilities and commitments
- extensive disclosures are required by Australian Accounting Standards which are critical to the users understanding of service concession assets, liabilities and commitments.

My key procedures included:

- reviewing all contracts, supporting schedules, financial models and professional accounting advice received by the State, where applicable
- engaging appropriately qualified independent subject matter experts to review certain valuation methodologies and financial models and assess the:
  - appropriateness of fair value methodologies
  - reasonableness and consistency of assumptions
  - reasonableness of inputs against underlying data and supporting documentation
  - accuracy of models
- reviewing all other financial models and confirming the judgements applied by management to independent expert reports
- assessing the completeness and accuracy of service concession assets, liabilities and commitments against the contracts and underlying financial models for each project
- comparing the reasonableness of asset amounts against actual costs incurred
- assessing the accounting treatment against the requirements of AASB 1059, and the reasonableness of management judgements made in the application of the standard
- assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.

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

Defined benefit superannuation liability – $19.8 billion
The Emergency Services and State Super funds account for $18.6 billion (93.9 per cent) of the State's defined benefit superannuation liability (the liability). The Emergency Services Superannuation Board (ESSB) manage these funds.
I considered this to be a key audit matter because:
• the liability is financially significant
• the underlying model used to value the liability is complex
• a significant degree of management judgement is required to determine the method, the model and key assumptions used in valuing the liability
• a small adjustment to an assumption may have a significant effect on the total value of the liability
• during the year ESSB transitioned core member administration and fund accounting to an outsourced service provider. An independent assurance auditor was engaged by ESSB to report on the design, implementation and operating effectiveness of controls at the service provider
• extensive disclosures are required by Australian Accounting Standards which are critical to the users understanding of the valuation of the liability.
Management engaged an actuary to value the liability as at 30 April, then adjust the value of the liability to account for actual market performance and movements in key assumptions up to 30 June.
	My key procedures included:
	• gaining an understanding of the design and implementation of key controls over the outsourced arrangement, and then testing their operating effectiveness, including those:
	  ○ supporting the completeness and accuracy of membership data pre and post migration
	  ○ assisting with the management and oversight of the arrangement
	• obtaining the independent assurance auditors report over the outsourced service provider's controls and:
	  ○ assessing the adequacy of the scope of work agreed between management and the assurance auditor
	  ○ assessing the professional competence and independence of the assurance auditor
	  ○ considering the relevance of the stated control objectives and controls covered by the assurance report
	  ○ assessing the testing performed by the assurance auditor and the results of the tests
	  ○ assessing the sufficiency and appropriateness of the audit evidence provided by the assurance report
	• assessing the professional competence and independence of the actuary
	• obtaining the actuarial report and year-end adjustments, and engaging an appropriately qualified independent actuary to assist in obtaining sufficient appropriate audit evidence for the liability and disclosures, including to:
	  ○ assess the appropriateness of the model used to value the liability
	  ○ review the reasonableness of membership data in the model by comparing it to the data in the service provider's system
	  ○ assess the appropriateness of management's selection and application of the method, significant assumptions and data used to value the liability
	  ○ challenge the reasonableness of key assumptions by comparing against accepted industry benchmarks
	  ○ assess the reasonableness of the reported liability value
	• assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.

Key audit matter	How I addressed the matter
Valuation of provision for insurance claims Refer to Note 6.6 *Other provisions*	

Provision for insurance claims – $44.6 billion
I considered this to be a key audit matter because:
• the provision for insurance claims is financially significant
• there are several insurance claim categories at the Victorian WorkCover Authority, Transport Accident Commission and Victorian Managed Insurance Authority which make up the provision and must be valued
• the underlying models used to value the provision are complex
• the valuation of the provision is subject to significant management assumptions and estimation uncertainty
• a small adjustment to an assumption may have a significant effect on the total value of the provision
• extensive disclosures are required by Australian Accounting Standards which are critical to the users understanding of the valuation of the provision.
Management engaged actuaries to value the provision as at 30 June.
	My key procedures included:
	• testing the operating effectiveness of key controls supporting the underlying claims data used in the models
	• reconciling claims data in the models to the data in the Victorian WorkCover Authority, Transport Accident Commission and Victorian Managed Insurance Authority systems
	• assessing the professional competence and independence of management's actuaries
	• obtaining management's actuarial reports, and engaging an appropriately qualified independent actuary to:
	  ○ assess the appropriateness of management's selection and application of the methods, significant assumptions and data used to value the provision
	  ○ evaluate the appropriateness of the models used to value the provision
	  ○ challenge the reasonableness of key assumptions by comparing against claims history and accepted industry benchmarks
	  ○ assess the reasonableness of the reported provision value.
	• assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.

Other information	The Treasurer of Victoria is responsible for the Other Information, which comprises the information in chapters 1–3 and 5 of the 2021–22 Financial Report but does not include the consolidated financial report in chapter 4 and my auditor's report thereon. My opinion on the consolidated financial report does not cover the Other Information and accordingly, I do not express any form of assurance conclusion on the Other Information. However, in connection with my audit of the consolidated financial report, my responsibility is to read the Other Information and in doing so, consider whether it is materially inconsistent with the consolidated financial report or the knowledge I obtained during the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude there is a material misstatement of the Other Information, I am required to report that fact. I have nothing to report in this regard.
Treasurer's responsibilities for the consolidated financial report	The Treasurer of Victoria is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 consolidated 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this consolidated 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 consolidated 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 • 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
3 October 2022

Andrew Greaves
Auditor-General

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 in Note 9.8.

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 2022:

(a) presents fairly the State's and the Victorian general government sector's financial positions as at 30 June 2022 and their financial performance and cash flows for the financial year ended on that date

(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:

29 September 2022

CONSOLIDATED COMPREHENSIVE OPERATING STATEMENT

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

		State of Victoria		*General government sector*	
	Notes	*2022*	*2021*	*2022*	*2021*
Revenue and income from transactions					
Taxation	2.1	30 080	23 167	30 546	23 613
Interest income	2.2	610	659	557	594
Dividends, income tax equivalent and rate equivalent income	2.3	3 144	1 705	885	620
Sales of goods and services [(a)]	2.4	16 462	15 787	5 645	7 949
Grants	2.5	41 224	36 739	41 805	36 958
Other revenue and income	2.6	4 417	3 723	3 586	2 915
Total revenue and income from transactions		**95 936**	**81 778**	**83 023**	**72 649**
Expenses from transactions					
Employee expenses	3.1	33 638	31 338	32 239	30 044
Net superannuation interest expense	3.2	482	305	481	305
Other superannuation	3.2	4 107	3 602	3 912	3 426
Depreciation	4.1.2	7 203	6 941	4 308	4 165
Interest expense	5.8	3 712	3 437	2 869	2 614
Grant expense [(a)]	3.3	21 952	16 442	25 063	22 086
Other operating expenses	3.4	40 097	37 985	27 943	24 568
Total expenses from transactions	3.5, 3.6	**111 192**	**100 049**	**96 814**	**87 207**
Net result from transactions – net operating balance		**(15 255)**	**(18 271)**	**(13 791)**	**(14 558)**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets		3	(50)	15	(27)
Net gain/(loss) on financial assets or liabilities at fair value		10 492	6 943	155	122
Share of net profit/(loss) from associates/joint venture entities		5	3	5	3
Other gains/(losses) from other economic flows	9.3	5 323	53	115	662
Total other economic flows included in net result		**15 823**	**6 950**	**290**	**761**
Net result		**568**	**(11 321)**	**(13 501)**	**(13 797)**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus		23 335	15 747	18 702	6 957
Remeasurement of superannuation defined benefits plans	3.2	7 821	3 960	7 791	3 937
Other movements in equity		(84)	38	(53)	39
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value		(5)	214	(45)	229
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	6.1	..	..	11 834	342
Total other economic flows – other comprehensive income		**31 067**	**19 960**	**38 230**	**11 504**
Comprehensive result – total change in net worth		**31 634**	**8 639**	**24 729**	**(2 293)**
KEY FISCAL AGGREGATES					
Net operating balance		**(15 255)**	**(18 271)**	**(13 791)**	**(14 558)**
Less: Net acquisition of non-financial assets from transactions	9.1	15 149	12 285	10 748	14 208
Net lending/(borrowing)		**(30 404)**	**(30 556)**	**(24 539)**	**(28 766)**

The accompanying notes form part of these financial statements.

Note:

(a) *As highlighted in the 2021-22 Budget Paper No. 3, Chapter 2* Department Performance Statements*, the capital assets charge (CAC) policy is discontinued from 2021-22. The removal of the CAC reduces the general government sector sales of goods and services and grant expenses by equal amounts.*

CONSOLIDATED BALANCE SHEET

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

		State of Victoria		*General government sector*	
	Notes	*2022*	*2021*	*2022*	*2021*
Assets					
Financial assets					
Cash and deposits	5.6	17 258	21 933	10 974	14 609
Advances paid	5.7	632	538	4 929	5 473
Receivables and contract assets	6.3	10 955	11 194	8 406	8 201
Investments, loans and placements	5.7	55 623	46 094	3 370	2 960
Investments accounted for using the equity method		10	10	10	10
Investments in other sector entities	6.1	..	..	89 162	73 125
Total financial assets		**84 479**	**79 770**	**116 851**	**104 377**
Non-financial assets					
Inventories	6.2	2 452	2 010	1 262	908
Non-financial assets held for sale		212	243	171	182
Land, buildings, infrastructure, plant and equipment	4.1.1	372 959	334 932	225 770	195 592
Other non-financial assets	4.2	4 842	4 757	3 313	3 357
Total non-financial assets		**380 466**	**341 943**	**230 516**	**200 038**
Total assets	3.6	**464 945**	**421 712**	**347 367**	**304 415**
Liabilities					
Deposits held and advances received	5.5	1 724	1 784	1 831	2 791
Payables	6.4	29 303	28 372	17 551	16 404
Contract liabilities	6.4	596	438	342	239
Borrowings	5.1	136 486	116 298	117 420	92 985
Employee benefits	3.1	10 519	10 036	9 857	9 384
Superannuation	6.5	19 756	27 245	19 756	27 217
Other provisions [(a)]	6.6	46 795	49 409	2 082	1 597
Total liabilities		**245 180**	**233 583**	**168 839**	**150 617**
Net assets		**219 765**	**188 130**	**178 528**	**153 799**
Accumulated surplus/(deficit)		84 968	76 257	52 824	58 642
Reserves		134 797	111 873	125 704	95 157
Net worth		**219 765**	**188 130**	**178 528**	**153 799**
FISCAL AGGREGATES					
Net financial worth		(160 702)	(153 813)	(51 988)	(46 239)
Net financial liabilities		160 702	153 813	141 149	119 364
Net debt		64 697	49 516	99 978	72 734

The accompanying notes form part of these financial statements.

Note:

(a) *The increase in the other provisions line item in the general government sector includes the recognition of upfront provisions in 2021-22 for redress schemes as required by AASB 137* Provisions, Contingent Liabilities and Contingent Assets.

CONSOLIDATED CASH FLOW STATEMENT

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

	Notes	*State of Victoria* 2022	2021	*General government sector* 2022	2021
Cash flows from operating activities					
Receipts					
Taxes received		29 822	22 282	30 288	22 729
Grants		42 127	34 621	42 720	34 877
Sales of goods and services [(a)]		18 383	17 637	6 281	8 771
Interest received		204	228	548	585
Dividends, income tax equivalent and rate equivalent receipts		3 130	1 705	549	619
Other receipts		2 488	2 300	1 906	1 528
Total receipts		**96 153**	**78 773**	**82 293**	**69 109**
Payments					
Payments for employees		(32 711)	(30 602)	(31 334)	(29 333)
Superannuation		(4 258)	(3 995)	(4 062)	(3 804)
Interest paid		(3 360)	(3 079)	(2 591)	(2 332)
Grants and subsidies		(21 500)	(15 908)	(24 619)	(21 578)
Goods and services [(a)]		(38 065)	(33 408)	(27 524)	(24 040)
Other payments		(1 025)	(1 058)	(1 019)	(979)
Total payments		**(100 919)**	**(88 050)**	**(91 150)**	**(82 066)**
Net cash flows from operating activities	5.6	**(4 766)**	**(9 277)**	**(8 857)**	**(12 958)**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	3.5, 3.6	(18 717)	(15 430)	(15 168)	(11 948)
Sales of non-financial assets		458	275	275	133
Net cash flows from investments in non-financial assets		**(18 259)**	**(15 156)**	**(14 893)**	**(11 814)**
Cash flows from investments in financial assets for policy purposes					
Cash inflows		515	400	1 597	1 378
Cash outflows		(675)	(484)	(1 550)	(1 116)
Net cash flows from investments in financial assets for policy purposes		**(160)**	**(84)**	**47**	**263**
Cash flows from investments in financial assets for liquidity management purposes					
Cash inflows		6 482	2 817	657	827
Cash outflows		(18 502)	(4 197)	(985)	(959)
Net cash flows from investments in financial assets for liquidity management purposes [(b)]		**(12 021)**	**(1 380)**	**(328)**	**(132)**
Net cash flows from investing activities		**(30 440)**	**(16 620)**	**(15 173)**	**(11 683)**
Cash flows from financing activities					
Advances received		59	16	28	14
Advances repaid		(185)	(49)	(958)	(979)
Advances received (net) [(b)]		(126)	(33)	(930)	(965)
Borrowings received		33 979	32 541	24 642	32 294
Borrowings repaid		(3 389)	(3 981)	(3 287)	(5 186)
Net borrowings [(b)]		30 590	28 559	21 355	27 108
Deposits received		5 446	4 333	5 250	4 202
Deposits repaid		(5 380)	(4 215)	(5 280)	(4 133)
Deposits received (net) [(b)]		66	118	(30)	69
Net cash flows from financing activities		**30 531**	**28 644**	**20 395**	**26 212**
Net increase/(decrease) in cash and cash equivalents		**(4 674)**	**2 748**	**(3 634)**	**1 572**
Cash and cash equivalents at beginning of reporting period		21 933	19 185	14 609	13 037
Cash and cash equivalents at end of the reporting period	5.6	**17 258**	**21 933**	**10 974**	**14 609**
FISCAL AGGREGATES					
Net cash flows from operating activities		(4 766)	(9 277)	(8 857)	(12 958)
Net cash flows from investments in non-financial assets		(18 259)	(15 156)	(14 893)	(11 814)
Cash surplus/(deficit)		**(23 025)**	**(24 433)**	**(23 749)**	**(24 772)**

The accompanying notes form part of these financial statements.

Notes:

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

(b) *In accordance with AASB 107* Statement of Cash Flows*, the Treasury Corporation of Victoria (TCV) is not required to gross up its 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 2022 and 30 June 2021.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

State of Victoria	*Accumulated surplus/(deficit)*	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
2022					
Balance at 1 July 2021	**76 257**	**110 065**	**..**	**1 808**	**188 130**
Opening balance adjustment [(a)]	275	(275)	..	..	..
Restated balance at 1 July 2021	**76 532**	**109 790**	**..**	**1 808**	**188 130**
Net result for the year	568	..	..	..	568
Other comprehensive income for the year	7 654	23 335	..	78	31 067
Transfer to/(from) accumulated surplus	214	(213)	..	..	..
Balance at 30 June 2022	**84 968**	**132 911**	**..**	**1 886**	**219 765**
2021					
Balance at 1 July 2020	**76 661**	**101 305**	**..**	**1 524**	**179 491**
Net result for the year	(11 321)	..	..	..	(11 321)
Other comprehensive income for the year	3 929	15 747	..	284	19 960
Transfer to/(from) accumulated surplus	6 987	(6 987)	..	..	..
Balance at 30 June 2021	**76 257**	**110 065**	**..**	**1 808**	**188 130**

General government sector					
2022					
Balance at 1 July 2021	**58 642**	**61 017**	**32 981**	**1 159**	**153 799**
Net result for the year	(13 501)	..	..	..	(13 501)
Other comprehensive income for the year	7 683	18 702	11 834	11	38 230
Transfer to/(from) accumulated surplus	..	..	..	..	..
Balance at 30 June 2022	**52 824**	**79 719**	**44 815**	**1 170**	**178 528**
2021					
Balance at 1 July 2020	**68 166**	**54 379**	**32 639**	**908**	**156 092**
Net result for the year	(13 797)	..	..	..	(13 797)
Other comprehensive income for the year	3 954	6 957	342	251	11 504
Transfer to/(from) accumulated surplus	319	(319)	..	..	..
Balance at 30 June 2021	**58 642**	**61 017**	**32 981**	**1 159**	**153 799**

The accompanying notes form part of these financial statements.

Note:

(a) The 1 July 2021 opening balance does not equal the 30 June closing balance, reflecting movements between Accumulated surplus/(deficit) and Non-financial assets revaluation surplus resulting from the mergers of Western Water and City West Water to form Greater Western Water.

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 2022. 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 including service concession arrangement assets and right-of-use assets which, subsequent to initial recognition, are measured at a revalued amount being their fair value at the reporting date 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 values
- productive trees in commercial native forests, which are measured at their fair value less estimated costs to sell
- certain liabilities, most notably unfunded superannuation and insurance claim provisions, which are subject to actuarial assessments
- financial assets classified at fair value through other comprehensive income, which are measured at fair value with movements reflected in other economic flows – other comprehensive income
- financial assets classified at fair value through profit and loss, which are measured at fair value with movements reflected in other economic flows included in net result.

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:

- revenue/income recognition – determination of GST income based on the State's entitlement (Note 2.5)
- provision for employee benefits – use of assumptions in the measurement of employee benefit provisions (Note 3.1)
- superannuation expenses and liabilities - use of actuarial assumptions in measuring liabilities (Note 3.2 and Note 6.5)
- service concession arrangements – whether and how AASB 1059 *Service Concession Arrangements: Grantor* applies (Note 5.3).
- fair value measurement - Level 3 valuation inputs used in measuring fair values of financial and non-financial physical assets and liabilities in accordance with AASB 13 *Fair Value Measurement* (Note 7.4 and Note 7.5)

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 *2021-22 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 2022 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 public non-financial corporation (PNFC) and public financial corporation (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 is less than zero (before consolidation), the amount is not included in 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 9 *Financial Instruments*.

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 different financial year end basis, their information on transactions and balances supplied for consolidation purposes reflect adjusted audited figures.

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*.

Where appropriate, those AAS 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 2015* as updated from time to time). Note 9.4 describes the significant differences between Australian Accounting Standards and the requirements contained in the GFS Manual.

Material events impacting on this report

The COVID-19 pandemic introduced significant economic and fiscal uncertainties from early 2020, which persisted through 2021-22. The Commonwealth Government enacted national border restrictions between March 2020 and February 2022, consumer and business confidence fell, and the Victorian Government, in its public health response, put in place public health restrictions on individuals and businesses to contain the spread of several outbreaks of COVID-19. This resulted in the limiting of economic activity in early 2021-22, which significantly impacted the State's revenue base, especially taxation revenue and GST grants, prior to the easing of public health restrictions.

Later in 2021-22, rising inflation, exacerbated by the Russian invasion of Ukraine, also affected the State's revenues. The State's comprehensive operating statement and balance sheet were also impacted by significant expenditure incurred as part of the Victorian Government response to COVID-19 primarily to support businesses and to deliver the public health response, coupled with the impact of financial market volatility and bond yield movements on the investment returns of the superannuation funds and State insurance entities and the valuation of net superannuation liabilities and insurance claims provisions respectively.

Details of these COVID-19 support measures, including revenue initiatives, can be found as part of the online data set at www.dtf.vic.gov.au. This further disclosure is not subject to audit by the Victorian Auditor-General's Office.

Further market related impacts have also been considered and, where deemed appropriate, specifically included in relevant disclosures throughout the *2021-22 Financial Report* to reflect the material management judgements, estimates and assumptions in the valuation of key balances within the financial report:

- Note 6.5: Superannuation
- Note 6.6: Other provisions
- Note 7.5: Fair value determination of non-financial assets.

2. HOW FUNDS ARE RAISED

Introduction

This section presents the sources and amounts of revenue and income raised by the State.

Revenue and income recognition are determined by the State based on the substance of the relevant arrangement in accordance with the requirements of AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for Profit Entities*.

Structure

2.1 Taxation

($ million)

	State of Victoria		*General government sector*	
	2022	*2021*	*2022*	*2021*
Taxes on employers' payroll and labour force				
Payroll tax	6 526	6 097	6 618	6 181
Mental Health and Wellbeing Levy	349	..	349	..
Total taxes on employers' payroll and labour force	**6 875**	**6 097**	**6 967**	**6 181**
Taxes on immovable property				
Land tax	4 088	3 200	4 135	3 234
Fire Services Property Levy	759	729	759	729
Congestion levy	109	77	109	77
Metropolitan improvement levy	200	191	200	191
Total taxes on property	**5 156**	**4 197**	**5 203**	**4 231**
Taxes on the provision of goods and services				
Gambling taxes				
Public lotteries [(a)]	638	586	638	586
Electronic gaming machines [(a)]	940	665	940	665
Casino [(a)(b)]	142	146	142	146
Racing and other sports betting [(a)]	292	221	292	221
Other [(a)]	10	9	10	9
Financial and capital transactions				
Land transfer duty	10 361	6 424	10 361	6 424
Metropolitan planning levy	22	19	22	19
Financial accommodation levy	..	..	152	153
Growth areas infrastructure contribution	361	197	361	197
Levies on statutory corporations	**..**	**..**	**173**	**173**
Taxes on insurance	**1 724**	**1 540**	**1 724**	**1 540**
Total taxes on the provision of goods and services	**14 491**	**9 808**	**14 816**	**10 134**
Taxes on the use of goods and performance of activities				
Motor vehicle taxes				
Vehicle registration fees	1 868	1 752	1 870	1 754
Duty on vehicle registrations and transfers	1 097	933	1 097	933
Liquor licence fees	**26**	**4**	**26**	**4**
Other	**566**	**376**	**566**	**376**
Total taxes on the use of goods and performance of activities	**3 557**	**3 065**	**3 559**	**3 067**
Total taxation	**30 080**	**23 167**	**30 546**	**23 613**

Notes:

(a) *The public lotteries, electronic gaming machines, casino, racing and other sports betting and other gambling taxes balances include gambling licence revenue to 30 June 2022 of $157 million (30 June 2021: $157 million) recognised under AASB 15* Revenue from Contracts with Customers. *The balance of these items is recognised under AASB 1058* Income of Not-for-Profit Entities.

(b) *The Victorian Royal Commission into the Casino Operator and Licence alleged that Matchplay and other loyalty benefits provided to members should be included in the calculation of tax payable by Crown. The State has engaged legal counsel following the delivery of the Royal Commission's final report in relation to this matter. As the State is still in the process of investigating whether further payments are owing based on the findings of the final report, no further amounts have been recognised as at the compliance date for the 2021-22 Financial Report.*

Taxation represents income earned from the State's taxpayers. For taxes (excluding gambling licence revenue), income is recognised under AASB 1058 when the relevant taxable event has occurred.

Gambling licence revenue is accounted for under AASB 15 using the principles noted in Note 2.4.

2.2 Interest income

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

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

2.3 Dividends, income tax equivalent and rate equivalent income

($ million)

	State of Victoria		*General government sector*	
	2022	*2021*	*2022*	*2021*
Dividends from PFC sector	..	..	139	59
Dividends from PNFC sector	..	..	107	169
Dividends from non-public sector	3 144	1 705	41	103
Dividends	**3 144**	**1 705**	**288**	**331**
Income tax equivalent income from PFC sector	..	..	343	7
Income tax equivalent income from PNFC sector	..	..	249	278
Income tax equivalent income	**..**	**..**	**592**	**285**
Local government rate equivalent income	..	..	5	5
Total dividends, income tax equivalent and rate equivalent income	**3 144**	**1 705**	**885**	**620**

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

Dividends and income tax equivalent income are mainly from the public non-financial corporation (PNFC) and public financial corporation (PFC) sectors. This income is 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 primarily relate to distributions from investments held in managed funds.

Dividends by entity [(a)] **($ million)**

	General government sector	
	2022	2021
Public financial corporations		
Victorian Managed Insurance Authority	..	..
Transport Accident Commission	..	..
Treasury Corporation of Victoria	132	52
State Trustees Ltd	..	..
Victorian Funds Management Corporation	8	7
Dividends from PFC sector	**139**	**59**
Public non-financial corporations		
Greater Western Water	6	21
Melbourne Water Corporation	7	63
South East Water Corporation	42	48
Yarra Valley Water Corporation	35	36
Development Victoria	16	1
Others	..	..
Dividends from PNFC sector	**107**	**169**

Note:

(a) *'Amounts equivalent to dividends' paid by the Transport Accident Commission and the Victorian Managed Insurance Authority are received and reported as contributions forming part of grant revenue, consistent with the requirements of AASB 1023* General Insurance Contracts*. The amounts paid in 2021-22 were $400 million from the Transport Accident Commission (nil in 2020-21) and $50 million from the Victorian Managed Insurance Authority ($36 million in 2020-21).*

2.4 Sales of goods and services

($ million)

	State of Victoria		General government sector	
	2022	2021	2022	2021
Amounts recognised as revenue from contracts with customers (AASB 15)				
Sale of goods	577	597	88	82
Provision of services [(a)]	14 351	13 828	4 511	4 447
Amounts recognised as income of not-for-profit entities (AASB 1058)				
Motor vehicle regulatory fees	278	262	278	262
Other regulatory fees	699	520	679	500
Inter-sector capital asset charge [(b)]	..	..	..	2 567
Refunds and reimbursements	232	271	9	15
Lease income accounted for under AASB 16				
Rental	325	309	80	75
Total sales of goods and services	**16 462**	**15 787**	**5 645**	**7 949**

Notes:

(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.*

(b) *As highlighted in the 2021-22 Budget Paper No. 3, Chapter 2* Department Performance Statements*, the capital assets charge (CAC) policy is discontinued from 2021-22. The removal of the CAC reduces the sales of goods and services.*

The sale of goods and services included in the table above (excluding regulatory fees, refunds and reimbursements and inter-sector capital asset charge, which are recognised under AASB 1058, and rental income, which is recognised under AASB 16 *Leases*), represent transactions that the State has determined to be classified as revenue from contracts with customers in accordance with AASB 15. Revenue is measured based on the consideration specified in the contract with the customer. The State recognises revenue when it transfers control of a good or service to the customer, i.e. when, or as, the performance obligations for the sale of goods and services to the customer are satisfied:

- customers obtain control of the supplies and consumables at a point in time when the goods are delivered to and have been accepted at their premises
- revenue from the rendering of services is recognised at a point in time when the performance obligations are satisfied when the service is completed and over time when the customer simultaneously receives and consumes the services as it is provided.

Consideration received in advance of recognising the associated revenue from the customer is recorded as a contract liability (Note 6.4). Where the performance obligations are satisfied but not yet billed, a contract asset is recorded (Note 6.3).

Regulatory fees are accounted for under AASB 1058 as they represent income arising from statutory requirements, which is recognised when the State has the right to receive payment.

Inter-sector capital asset charge is recognised when the charge is levied on the written-down value of controlled non-current physical assets of Victorian Government departments and some PNFCs. 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. As highlighted in the 2021-22 Budget Paper No. 3, Chapter 2 *Department Performance Statements*, the capital assets charge (CAC) policy was discontinued from 2021-22.

2.5 Grants [(a)]

($ million)

	State of Victoria		General government sector	
	2022	2021	2022	2021
General purpose grants	17 620	18 050	17 620	18 050
Specific purpose grants for on-passing	5 124	4 528	5 124	4 528
Specific purpose grants	18 394	14 144	18 361	14 108
Total	**41 137**	**36 722**	**41 105**	**36 686**
Other contributions and grants	87	17	700	272
Total grants	**41 224**	**36 739**	**41 805**	**36 958**

Note:
(a) Grants predominantly relate to grants from the Commonwealth Government, which are recognised under AASB 1058 Income of Not-for-Profit Entities.

Grants income mainly comprises 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.

On initial recognition of the assets granted, the State recognises any related contributions by owners, increases in liabilities, decreases in assets and revenue (related amounts) in accordance with other Australian Accounting Standards. Related amounts may take the form of either:

a) contributions by owners, in accordance with AASB 1004
b) revenue or a contract liability arising from a contract with a customer, in accordance with AASB 15
c) a lease liability, in accordance with AASB 16
d) a financial instrument, in accordance with AASB 9
e) a provision, in accordance with AASB 137.

Grants that are enforceable and contain sufficiently specific performance obligations are recognised under AASB 15. Revenue from grants under AASB 15 is recognised when the State satisfies the performance obligation as described in Note 2.4. The State has not recognised any material grant revenue under AASB 15 in the current or previous year.

Income from grants without any sufficiently specific performance obligations, or that are not enforceable, is recognised using AASB 1058, when the State has an unconditional right to receive cash which usually coincides with receipt of cash.

Income from grants to construct capital assets that are controlled by the State is recognised progressively as the assets are constructed.

The progressive percentage costs incurred are used to recognise income because this most closely reflects the progress to completion.

In applying AASB 1058, a portion of the grant income may need to be deferred. The portion is recognised in the deferred grant income liability (Note 6.4).

The goods and services tax (GST) is collected by the Commonwealth and paid to states and territories in the form of general purpose grants. Funds are typically remitted by the Commonwealth monthly throughout the financial year based on estimates of each state's relative share of the GST pool for that financial year. The Commonwealth subsequently updates each state's share of the national GST pool when the final aggregate GST pool is known, and adjusts any over or under payment during the year through the remittance of funds in the subsequent year. The State has made the significant judgement that the legislation, operation and objectives of the GST arrangements are such that its entitlement to the annual GST pool forms the basis for GST income recognition, rather than the funding progressively received from the Commonwealth across the financial year. As a result, the State monitors and tracks its share of the GST pool progressively to determine if a receivable or payable needs to be recognised at the end of each reporting period.

2.6 Other revenue and income

($ million)

	State of Victoria		General government sector	
	2022	*2021*	*2022*	*2021*
Amounts recognised as revenue from contracts with customers (AASB 15)				
Royalties	151	146	140	137
Other revenue – health	270	209	270	209
Other miscellaneous revenue	1 253	949	923	759
Amounts recognised as income of not-for-profit entities (AASB 1058)				
Fair value of assets received free of charge or for nominal consideration [(a)]	829	908	482	440
Fines	896	618	893	608
Donations and gifts [(b)]	284	282	195	192
Other income – education	368	308	368	308
Lease income accounted for under AASB 16				
Other non-property rental	77	76	26	33
Revenue items accounted for under AASB 1059				
Revenue related to economic service concession arrangements	288	228	288	228
Total other revenue and income	**4 417**	**3 723**	**3 586**	**2 915**

Notes:

(a) The 2021-22 figure includes $434 million (2020-21 $403 million) relating to the progressive recognition of the contribution made by Cross Yarra Partnerships consortium (assets free of charge) to the Metro Tunnel settlement.

(b) Primarily relates to donations to health services from non-government sources.

Other revenue and income comes 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.

Volunteer 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. Income is recognised at the time the notice of the fine is issued.

Revenue related to economic service concession arrangements reflects the progressive unwinding of the grant of a right to the operator liability (Note 6.4) recognised applying AASB 1059 *Service Concession Arrangements: Grantors*. Refer to Note 5.3 for details on service concession arrangements.

Other income – education mainly comprises locally raised funds from school fetes, fundraising events and voluntary contributions made by parents.

Other revenue – health 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 that are not able to be classified elsewhere.

3. HOW FUNDS ARE SPENT

Introduction

This section presents the major components of expenditure incurred by the State towards the delivery of services and on capital or infrastructure projects during the year, as well as any related obligations outstanding at 30 June 2022.

Structure

3.1 Employee expenses and provision for outstanding employee benefits

Employee expenses (operating statement)

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

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, significant judgement is applied in determining expected future wage and salary levels, experience of employee departures and periods of service. Future payments expected to be made after 12 months 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*	
	2022	*2021*	*2022*	*2021*
Current				
Accrued salaries and wages	**801**	**633**	**772**	**597**
Other employee benefits	**236**	**125**	**209**	**104**
Annual leave				
Unconditional and expected to settle within 12 months	1 998	1 937	1 845	1 788
Unconditional and expected to settle after 12 months	436	358	388	310
Long service leave				
Unconditional and expected to settle within 12 months	876	966	795	883
Unconditional and expected to settle after 12 months	3 899	3 744	3 727	3 573
On-costs				
Unconditional and expected to settle within 12 months	359	338	326	306
Unconditional and expected to settle after 12 months	765	697	722	656
Total current employee benefits and on-costs	**9 372**	**8 798**	**8 783**	**8 217**
Non-current				
Long service leave	1 006	1 091	938	1 024
On-costs	142	148	135	142
Total non-current employee benefits and on-costs	**1 148**	**1 239**	**1 074**	**1 166**
Total employee benefits and on-costs	**10 519**	**10 036**	**9 857**	**9 384**

Wages and salaries and annual 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
- 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 the 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 and the Mental Health and Wellbeing Levy, 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*	
	2022	*2021*	*2022*	*2021*
Opening balance	1 182	1 068	1 104	995
Additional provisions recognised	422	313	388	294
Additions due to acquisitions	6	3	12	2
Reductions arising from payments/other sacrifices of future economic benefits	(256)	(180)	(240)	(165)
Reductions resulting from remeasurement or settlement without cost	(39)	(12)	(39)	(13)
Unwind of discount and effect of changes in the discount rate	(46)	(10)	(39)	(9)
Reduction due to held for sale	(4)	..	(4)	..
Closing balance	**1 265**	**1 182**	**1 183**	**1 104**
Represented by:				
Current	1 124	1 035	1 047	963
Non-current	142	148	135	142

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
- 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
- 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 liability, please refer to Note 6.5.

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

	State of Victoria	
	2022	*2021*
Defined benefit plans		
Net superannuation interest expense	482	305
Current service cost	1 352	1 286
Remeasurements:		
Expected return on superannuation assets excluding interest income	(1 299)	(1 333)
Other actuarial (gain)/loss on superannuation assets	2 859	(2 506)
Actuarial and other adjustments to unfunded superannuation liability	(9 381)	(122)
Total expense recognised in respect of defined benefit plans	**(5 987)**	**(2 369)**
Defined contribution plans		
Employer contributions to defined contribution plans	2 668	2 240
Other (including pensions)	87	76
Total expense recognised in respect of defined contribution plans	**2 755**	**2 316**
Total superannuation (gain)/expense recognised in operating statement	**(3 232)**	**(53)**
Represented by:		
Net superannuation interest expense	482	305
Other superannuation	4 107	3 602
Superannuation expense from transactions	**4 589**	**3 907**
Remeasurement recognised in other comprehensive income	**(7 821)**	**(3 960)**
Total superannuation costs recognised in operating statement	**(3 232)**	**(53)**

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. That is, 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	
	2022	*2021*	*2022*	*2021*
Current grant expense				
Commonwealth Government	3 106	2 348	3 105	2 347
Local government (including grants for on-passing)	1 526	1 795	1 525	1 795
Private sector and not-for-profit on-passing	4 314	3 860	4 314	3 860
Other private sector and not-for-profit [(a)]	12 077	7 871	11 989	7 809
Grants within the Victorian Government [(b)]	..	..	2 819	5 805
Grants to other state governments	197	132	196	132
Total current grant expense	**21 220**	**16 006**	**23 948**	**21 748**
Capital grant expense				
Local government (including grants for on-passing)	104	58	104	58
Private sector and not-for-profit on-passing	551	311	285	238
Other private sector and not-for-profit	16	1	16	1
Grants within the Victorian Government	..	..	678	17
Other grants	62	66	32	23
Total capital grant expense	**733**	**436**	**1 115**	**338**
Total grant expense	**21 952**	**16 442**	**25 063**	**22 086**

Notes:

(a) The increase in other private sector and not-for-profit grants includes payments to support businesses during COVID-19.

(b) As highlighted in the 2021-22 Budget Paper No. 3, Chapter 2 Department Performance Statements*, the capital assets charge (CAC) policy is discontinued from 2021-22. The removal of the CAC reduces the grant expenses for the general government sector.*

Grants expenses 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, and 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 public non-financial corporations and public financial corporations.

3.4 Other operating expenses

($ million)

	State of Victoria		General government sector	
	2022	*2021*	*2022*	*2021*
Purchase of supplies and consumables [(a)]	5 967	6 031	5 011	4 740
Cost of goods sold	313	335	39	24
Finance expenses and fees	572	509	42	52
Purchase of services [(a)]	21 680	19 527	19 292	17 298
Insurance claims expense	7 508	7 923	405	355
Maintenance [(b)]	1 972	2 494	1 078	1 014
Short-term and low value lease expense	124	112	124	111
Other [(c)]	1 961	1 054	1 951	973
Total other operating expenses	**40 097**	**37 985**	**27 943**	**24 568**

Notes:

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

(b) The decrease in this expense item for the State of Victoria in 2021-22 reflects the prior year reassessment and restatement of certain costs, which had been previously capitalised by the PNFC sector, as expenses, to more appropriately reflect their nature.

(c) The increase in this expense item in 2021-22 largely reflects the initial recognition of national redress schemes under AASB 137 as well as the provision of rapid antigen tests (RATs) to school teachers and students as part of the Government's COVID-19 response.

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

Audit fees of $395 000 ($388 400 in 2021) 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, other than the review of the Estimated Financial Statements and the financial audits of departments and agencies.

The following **lease payments** are recognised on a straight-line basis:

- **Short-term leases** – leases with a term less than 12 months
- **Low value leases** – leases where the underlying asset's fair value (when new, regardless of the age of the asset being leased) is no more than $10 000.

Variable lease payments are not included in the measurement of the lease liability i.e. variable lease payments that do not depend on an index or a rate, initially measured using the index or rate as at the commencement date. These payments are recognised in the period in which the event or condition that triggers those payments occur.

All leases, other than those within the above categories, are recognised on the State's balance sheet (refer to Note 5.2 for further details).

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*	
	2022	*2021*	*2022*	*2021*
Medicinal pharmacy and medical supplies	1 959	1 804	1 959	1 804
Office supplies and consumables	221	204	209	193
Specialised operational supplies and consumables	306	277	252	216
Other purchase of supplies and consumables	3 481	3 746	2 592	2 527
Total purchase of supplies and consumables	**5 967**	**6 031**	**5 011**	**4 740**

Purchase of services **($ million)**

	State of Victoria		*General government sector*	
	2022	*2021*	*2022*	*2021*
Service contracts	11 151	10 072	10 493	9 444
Accommodation/occupancy	1 416	1 317	1 192	1 069
Medical and client care services	444	422	444	422
Staff related expenses (non-labour related)	332	294	299	263
Other purchase of services	8 337	7 423	6 863	6 101
Total purchase of services	**21 680**	**19 527**	**19 292**	**17 298**

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	*2022*	*2021*	*2022*	*2021*
Education and Training	19 958	20 456	1 953	1 689
Environment, Land, Water and Planning	10 264	10 137	2 065	2 372
Families, Fairness and Housing [(a)(b)]	10 153	3 599	965	472
Health [(a)]	29 020	32 405	1 362	1 459
Jobs, Precincts and Regions	13 082	8 763	236	363
Justice and Community Safety	17 235	16 610	1 267	959
Premier and Cabinet [(b)]	926	943	46	31
Transport [(c)]	14 150	20 828	10 013	7 613
Treasury and Finance	14 314	11 789	27	132
Parliament	322	308	24	31
Courts	867	756	478	83
Regulatory bodies and other part budget funded agencies [(d)]	3 374	2 997	258	207
Total	**133 664**	**129 591**	**18 694**	**15 410**
(Less)/plus eliminations and adjustments [(e)]	*(22 472)*	*(29 542)*	*23*	*21*
Grand total	**111 192**	**100 049**	**18 717**	**15 430**

General government sector				
Education and Training	19 958	20 456	1 953	1 689
Environment, Land, Water and Planning	3 817	3 866	300	108
Families, Fairness and Housing [(a)(b)]	8 214	2 840	55	61
Health [(a)]	28 856	31 288	1 347	1 207
Jobs, Precincts and Regions	12 014	7 930	54	72
Justice and Community Safety	11 232	10 799	1 109	926
Premier and Cabinet [(b)]	897	929	44	35
Transport [(c)]	7 706	10 345	9 490	7 430
Treasury and Finance	11 220	9 088	18	118
Parliament	322	308	24	31
Courts	867	756	478	83
Regulatory bodies and other part budget funded agencies [(d)]	3 374	2 997	258	207
Total	**108 477**	**101 603**	**15 132**	**11 968**
(Less)/plus eliminations and adjustments [(e)]	*(11 663)*	*(14 396)*	*36*	*(20)*
Grand total	**96 814**	**87 207**	**15 168**	**11 948**

Notes:

(a) Effective from 1 February 2021, the Department of Health and Human Services was renamed the Department of Health, and the new Department of Families, Fairness and Housing was created. As a result, portfolio responsibilities of Child Protection, Prevention of Family Violence, Housing and Disability were transferred from the former Department of Health and Human Services to the Department of Families, Fairness and Housing. Refer to Note 9.8 in the 2020-21 Financial Report *for the State of Victoria for further details.*

(b) Effective from 1 February 2021, portfolio responsibilities for Multicultural Affairs, LGBTIQ+ Equality, Veterans, and the offices for Women and Youth were transferred from the Department of Premier and Cabinet to the Department of Families, Fairness and Housing.

(c) As highlighted in the 2021-22 Budget Paper No. 3, Chapter 2 Department Performance Statements*, the capital assets charge (CAC) policy is discontinued from 2021-22. While impacting reported expenditure for all departments, the removal of the CAC materially reduces Department of Transport expenditure, being the grant from the general government sector to the public non-financial corporations sector.*

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

(e) Mainly comprising payroll tax, capital asset charge (2020-21 only) and inter-departmental transfers.

3.6 Classification of the functions of government disclosure

The classification of the functions of government (COFOG) framework disclosures required under AASB 1049 *Whole of Government and General Government Sector Financial Reporting* classify expenses, acquisition of non-financial assets and total assets in terms of their purposes. This information is presented to facilitate improved inter-jurisdictional comparison of the financial operations of public sector jurisdictions.

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

The major groups are:

- **General public services:** includes legislative and executive organs, financial and fiscal affairs, external affairs, foreign economic aid, general services, basic research, research and development – general public services, public debt transactions.
- **Public order and safety:** includes police services, civil and fire protection services, law courts, prisons, research and development.
- **Economic affairs:** includes general economic, commercial and labour affairs, agriculture, forestry, fishing and hunting, fuel and energy, mining, manufacturing, and construction, communication, other industries, research and development.
- **Environmental protection:** includes waste management, wastewater management, pollution abatement, protection of biodiversity and landscape, research and development.
- **Housing and community amenities:** includes housing and community development, water supply, street lighting, research and development.
- **Health:** includes medical products, appliances, and equipment, outpatient services, hospital services, mental health institutions, community health services, public health services, research and development.
- **Recreation, culture and religion:** includes recreational and sporting services, cultural services, broadcasting and publishing services, religious and other community services, research and development.
- **Education:** includes pre-primary and primary education, secondary education, tertiary education, education not defined by level, subsidiary services to education, research and development.
- **Social protection:** includes sickness and disability, old age, survivors, family and children, unemployment, housing, social exclusion, research and development.
- **Transport:** includes road transport, bus transport, water transport, railway transport, air transport, multi-mode urban transport, pipeline and other transport, research and development.

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

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

($ million)

	Expenses from transactions		*Purchases of non-financial assets*		*Total assets*	
State of Victoria	*2022*	*2021*	*2022*	*2021*	*2022*	*2021*
General public services	15 916	14 819	242	171	8 312	8 172
Public order and safety	11 600	10 518	1 765	1 170	14 924	13 743
Economic affairs	10 445	6 400	122	155	1 485	1 436
Environmental protection	1 212	982	288	48	16 647	14 276
Housing and community amenities	6 360	5 785	1 841	2 277	56 298	55 456
Health	28 052	24 380	1 156	1 157	22 630	21 287
Recreation, culture and religion	2 423	2 035	274	413	16 313	16 098
Education	19 151	17 681	1 948	1 676	38 952	32 139
Social protection	8 601	8 439	1 162	733	37 066	33 280
Transport [(a)]	8 989	10 000	9 897	7 567	172 751	150 244
Not allocated by purpose [(b)(c)]	(1 558)	(992)	23	63	79 567	75 581
Total	**111 192**	**100 049**	**18 717**	**15 430**	**464 945**	**421 712**

General government sector						
General public services	6 295	4 770	58	118	4 432	4 106
Public order and safety	12 310	11 291	1 765	1 170	14 924	13 743
Economic affairs	10 479	6 523	124	149	1 421	1 369
Environmental protection	1 219	1 025	287	48	16 647	14 275
Housing and community amenities	2 801	2 360	10	13	2 368	2 230
Health	28 460	24 770	1 156	1 157	22 630	21 287
Recreation, culture and religion	1 448	1 333	50	63	8 682	8 743
Education	19 281	17 793	1 948	1 676	38 952	32 139
Social protection	8 285	8 181	253	108	2 420	2 237
Transport [(a)]	7 553	10 109	9 480	7 424	118 393	100 294
Not allocated by purpose [(b)(c)]	(1 318)	(948)	36	22	116 499	103 993
Total	**96 814**	**87 207**	**15 168**	**11 948**	**347 367**	**304 415**

Notes:

(a) *As highlighted in the 2021-22 Budget Paper No. 3, Chapter 2* Department Performance Statements, *the capital assets charge (CAC) policy is discontinued from 2021-22. Whilst impacting reported expenditure for various functions, the removal of the CAC materially reduces Transport expenditure, being the grant from the general government sector to the public non-financial corporations sector.*

(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 that are not able to be allocated by purpose.*

4. MAJOR ASSETS AND INVESTMENTS

Introduction

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

Structure

4.1 Land, buildings, infrastructure, plant and equipment

4.1.1 Total land, buildings, infrastructure, plant and equipment [(a)(b)]

($ million)

	State of Victoria			*General government sector*		
2022	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*
Buildings	81 782	(5 134)	76 648	56 665	(4 197)	52 468
Land and national parks	137 377	..	137 377	93 099	..	93 099
Infrastructure systems	95 058	(4 063)	90 995	20 380	(554)	19 826
Plant, equipment and vehicles	19 106	(7 320)	11 786	11 073	(5 713)	5 360
Roads and road infrastructure	41 144	(2 088)	39 056	40 098	(2 080)	38 019
Earthworks	10 231	..	10 231	10 231	..	10 231
Cultural assets	7 052	(184)	6 867	6 952	(184)	6 768
Total land, buildings, infrastructure, plant and equipment	**391 749**	**(18 790)**	**372 959**	**238 499**	**(12 729)**	**225 770**
2021						
Buildings	73 809	(5 494)	68 315	51 277	(4 708)	46 569
Land and national parks	118 687	..	118 687	77 599	..	77 599
Infrastructure systems	89 060	(4 897)	84 163	14 990	(535)	14 455
Plant, equipment and vehicles	18 583	(7 405)	11 178	9 834	(5 254)	4 581
Roads and road infrastructure	37 070	(1 127)	35 943	36 953	(1 113)	35 841
Earthworks	10 023	..	10 023	10 023	..	10 023
Cultural assets	6 772	(149)	6 624	6 673	(149)	6 525
Total land, buildings, infrastructure, plant and equipment	**354 003**	**(19 071)**	**334 932**	**207 349**	**(11 758)**	**195 592**

Notes:

(a) The State of Victoria balances include work in progress of $4.9 billion (2021: $3.8 billion) for buildings, $21.3 billion (2021: $15.8 billion) for infrastructure systems, $1.7 billion (2021: $1.9 billion) for plant, equipment and vehicles and $11.3 billion (2021: $8.1 billion) for roads and road infrastructure, as part of the State's capital program. Work in progress is not subject to depreciation.

(b) The general government sector balances include work in progress of $3.6 billion (2021: $2.7 billion) for buildings, $18.6 billion (2021: $13.3 billion) for infrastructure systems, $1.6 billion (2021: $961 million) for plant, equipment and vehicles and $10.4 billion (2021: $8.1 billion) for roads and road infrastructure, as part of the State's capital program. Work in progress is not subject to depreciation.

The following tables are subsets of total land, buildings, infrastructure, plant and equipment by right-of-use (leased) assets and service concession assets.

Total right-of-use (leased) assets: buildings, infrastructure, plant and equipment **($ million)**

	State of Victoria			*General government sector*		
2022	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*
Buildings	10 939	(1 949)	8 990	10 312	(1 739)	8 573
Infrastructure systems	17	(5)	13	2	(1)	1
Plant, equipment and vehicles	1 166	(534)	632	953	(463)	489
Total right-of-use assets: land, buildings, infrastructure, plant and equipment	**12 122**	**(2 487)**	**9 635**	**11 266**	**(2 204)**	**9 062**
2021						
Buildings	10 509	(1 597)	8 912	9 896	(1 443)	8 453
Infrastructure systems	16	(3)	13	2	(1)	1
Plant, equipment and vehicles	1 091	(409)	682	894	(361)	533
Total right-of-use assets: land, buildings, infrastructure, plant and equipment	**11 616**	**(2 009)**	**9 607**	**10 793**	**(1 805)**	**8 988**

Total service concession assets related land, buildings, infrastructure, plant and equipment [(a)(b)] **($ million)**

	State of Victoria			*General government sector*		
2022	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*
Buildings	2 244	(127)	2 117	2 092	(127)	1 965
Land and national parks	3 353	..	3 353	3 353	..	3 353
Infrastructure systems	11 956	(112)	11 844	6 929	..	6 929
Plant, equipment and vehicles	1 200	(49)	1 151	1 200	(49)	1 151
Roads and road infrastructure	14 432	(397)	14 035	13 526	(397)	13 129
Earthworks	916	..	916	916	..	916
Total service concession land, buildings, infrastructure, plant and equipment assets	**34 101**	**(685)**	**33 416**	**28 016**	**(573)**	**27 444**
2021						
Buildings	2 077	(61)	2 016	2 077	(61)	2 016
Land and national parks	2 876	..	2 876	2 876	..	2 876
Infrastructure systems	9 622	(53)	9 568	5 293	..	5 293
Plant, equipment and vehicles [(c)]	1 050	(40)	1 010	797	(37)	759
Roads and road infrastructure	11 251	(184)	11 066	11 251	(184)	11 066
Earthworks	924	..	924	924	..	924
Total service concession land, buildings, infrastructure, plant and equipment assets [(c)]	**27 800**	**(339)**	**27 461**	**23 218**	**(283)**	**22 935**

Notes:

(a) The State of Victoria balances include work in progress of $166 million (2021: $12 million) for buildings, $6.9 billion (2021: $5.3 billion) for infrastructure systems, $875 million (2021: $562 million) for plant, equipment and vehicles and $7.1 billion (2021: $4.0 billion) for roads and road infrastructure, as part of the State's capital program. Work in progress is not subject to depreciation.

(b) The general government sector balances include work in progress of $14 million (2021: $12 million) for buildings, $6.9 billion (2021: $5.3 billion) for infrastructure systems, $875 million (2021: $562 million) for plant, equipment and vehicles and $6.2 billion (2021: $4.0 billion) for roads and road infrastructure, as part of the State's capital program. Work in progress is not subject to depreciation.

(c) The 30 June 2021 figures have been restated to reflect the classification of the High Capacity Metro Train project as a service concession asset within the PNFC sector.

Recognition and measurement

Initial recognition

All lands, buildings, infrastructure, plant and equipment (herein referred to as non-financial physical assets) are measured initially at cost, except for service concession assets (SCA) which are initially measured at current replacement cost (CRC). 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.

Right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for:

- any lease payments made at or before the commencement date
- any initial direct costs incurred
- any estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received.

SCAs are initially recognised at CRC, calculated in accordance with the cost approach to fair value measurement. The CRC reflects the amount that would be required to currently replace the asset's service capacity.

The CRC for the SCA includes the costs that are directly attributable to the design and construction of the SCA by the operator and includes:

- the purchase price (including costs that the operator seeks to recover from the State)
- costs directly attributable to bringing the asset to its location or condition
- borrowing costs of the operator during the construction phase.

The same principle applies to existing assets owned by the State and transferred to an SCA under a new or an existing service concession arrangement, with any difference between the CRC and the carrying value of the asset being accounted for as a revaluation.

Subsequent measurement

All non-financial physical assets are subsequently measured at fair value less accumulated depreciation and impairment.

Right-of-use assets are adjusted for certain remeasurements of the lease liabilities. Right-of-use assets arising from below market leases are recognised at cost instead of fair value (Note 5.2).

SCAs are measured at fair value with regard to the asset's CRC.

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 and 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.

Refer to Note 7.5 for a summary of revaluation details.

Assets under construction

Assets under construction are measured at cost, except for service concessions assets. For service concession assets, the accumulation of costs incurred during the construction of SCAs results in a progressive build-up of the asset. A corresponding liability (either financial liability or grant of a right to the operator liability, refer to Note 5.3) is also progressively recognised.

The State applies the fair value proxy approach for the SCAs that are under construction. This approach captures the financing cost incurred during the construction of an SCA by the private sector, with an aim of achieving faithful representation of the CRC of SCA construction in progress balances.

The financing cost to the State implied in the service concession arrangement contract during the construction of an SCA is used as a proxy of the financing cost incurred by the private sector constructing the asset. The cost is an indication of an increase in the fair value of the SCA construction in progress that is measured with the CRC method. The increment in the CRC of the SCA construction in progress is recorded as an increase in the asset revaluation surplus.

Impairment

Intangible assets with indefinite useful lives (and intangible assets not yet available for use) are tested annually for impairment 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 to Note 6.2)
- non-financial physical assets held for sale
- certain biological assets related to agricultural activity (refer to Note 4.2)
- investment properties that are measured at fair value (refer to Note 4.2)
- assets arising from construction contracts (refer to 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 current replacement cost and fair value less costs to sell. The recoverable amount for assets held primarily to generate net cash inflows are 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.

The recoverable amount of primarily non-cash-generating assets of not-for-profit entities, which are typically specialised in nature and held for continuing use of their service capacity, is expected to be materially the same as fair value determined under AASB 13, with the consequence that AASB 136 *Impairment of Assets* does not apply to such assets that are regularly revalued.

4.1.2 Depreciation

($ million)

	State of Victoria		*General government sector*	
	2022	*2021*	*2022*	*2021*
Buildings	2 875	2 759	2 228	2 139
Infrastructure systems	1 660	1 634	48	50
Plant, equipment and vehicles	1 292	1 244	796	777
Roads and road infrastructure	956	940	954	936
Cultural assets	20	20	20	20
Intangible produced assets	399	344	261	242
Total depreciation	**7 203**	**6 941**	**4 308**	**4 165**

4. MAJOR ASSETS AND INVESTMENTS

The following two tables are subsets of total depreciation expense.

Depreciation of right-of-use (leased) assets **($ million)**

	State of Victoria		*General government sector*	
	2022	*2021*	*2022*	*2021*
Buildings	745	699	681	637
Infrastructure systems	2	2	1	1
Plant, equipment and vehicles	152	162	118	134
Total depreciation of right-of-use assets	**899**	**864**	**800**	**771**

Depreciation of service concession assets **($ million)**

	State of Victoria		*General government sector*	
	2022	*2021*	*2022*	*2021*
Buildings	66	74	66	74
Infrastructure systems	85	83	..	..
Plant, equipment and vehicles	21	24	21	24
Roads and road infrastructure	204	184	204	184
Total depreciation of service concession assets	**376**	**367**	**291**	**283**

All infrastructure assets, buildings, plant and equipment and other non-financial physical assets (excluding assets held for sale, land and investment properties) that have finite useful lives are depreciated. 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. It 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 are made where appropriate.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term. Where there is ownership of the underlying leased asset, or if the cost of the right-of-use asset reflects the exercise of a purchase option, the right-of-use asset is depreciated over its useful life.

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
Leased assets	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
Service concession assets:	
• roads and bridges	50 to 100 years
• other infrastructure	5 to 100 years
• buildings	3 to 75 years
• plant, equipment and vehicles	1 to 50 years

Indefinite life assets

Land, earthworks, land under declared roads, public records, 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.

If intangible assets, including those recognised under SCAs, have been determined to have an indefinite useful life, they are tested for impairment on an annual basis.

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.

See Note 4.2 for further information on intangible assets.

Reconciliation of movements in carrying values during the financial period [(a)] **($ million)**

State of Victoria	Land and buildings 2022	Land and buildings 2021	Plant, equipment vehicle and infrastructure system 2022	Plant, equipment vehicle and infrastructure system 2021	Roads, road infrastructure and earthworks 2022	Roads, road infrastructure and earthworks 2021	Cultural assets 2022	Cultural assets 2021	Total 2022	Total 2021
Opening balance	**187 002**	**166 864**	**95 341**	**92 514**	**45 965**	**43 932**	**6 624**	**5 756**	**334 932**	**309 065**
Acquisitions of self-owned assets [(b) (c)]	6 042	6 592	9 219	7 186	1 301	2 223	28	28	16 591	16 030
Additions of right-of-use assets	239	1 162	190	211	..	..	..	..	429	1 373
Additions of service concession arrangement assets [(c)]	153	12	2 204	1 852	2 750	887	..	..	5 107	2 751
Reclassification	164	(13)	(182)	9	16	(28)	1	(13)	..	(45)
Revaluation	23 445	14 323	(562)	(1 598)	219	(69)	215	858	23 318	13 513
Disposals	(304)	(183)	(136)	(165)	(5)	..	..	..	(446)	(348)
Assets recognised for the first time	161	1 054	93	147	..	98	18	15	272	1 315
Impairment	(2)	(50)	(433)	(1 937)	(2)	(138)	..	..	(437)	(2 124)
Depreciation	(2 875)	(2 759)	(2 953)	(2 878)	(956)	(940)	(20)	(20)	(6 805)	(6 597)
Closing balance	**214 024**	**187 002**	**102 781**	**95 341**	**49 287**	**45 965**	**6 867**	**6 624**	**372 959**	**334 932**
General government sector										
Opening balance	**124 168**	**114 578**	**19 036**	**9 641**	**45 863**	**43 833**	**6 525**	**5 691**	**195 592**	**173 743**
Acquisitions of self-owned assets [(b) (c)]	4 927	4 082	7 239	5 195	1 303	2 240	28	28	13 498	11 546
Additions of right-of-use assets	232	1 140	166	187	..	..	..	..	398	1 327
Additions of service concession arrangement assets [(c)]	1	12	2 201	1 852	2 078	887	..	..	4 280	2 751
Reclassification	(32)	32	(22)	(124)	16	(30)	1	(13)	(36)	(135)
Revaluation	18 561	5 722	223	227	192	(69)	215	830	19 192	6 710
Disposals	(158)	(90)	(70)	(61)	(5)	..	..	..	(233)	(151)
Assets recognised for the first time	125	837	34	30	..	97	18	8	178	972
Assets transferred between government entities [(d)]	6	12	(2 777)	2 917	(241)	(21)	..	..	(3 012)	2 908
Impairment	(35)	(18)	(1)	(1)	(2)	(138)	..	..	(39)	(156)
Depreciation	(2 229)	(2 139)	(844)	(827)	(954)	(936)	(20)	(20)	(4 047)	(3 922)
Closing balance	**145 567**	**124 168**	**25 186**	**19 036**	**48 250**	**45 863**	**6 768**	**6 525**	**225 770**	**195 592**

Notes:
(a) *The reconciliation of movements comprises land and buildings, infrastructure systems, plant, equipment, vehicles, roads, roads infrastructure and cultural assets, right-of-use assets, service concession assets, and excludes intangible assets, investment properties and other non-financial assets.*
(b) *Represents additions of assets recognised under AASB 116* Property, Plant and Equipment*.*
(c) *The 30 June 2021 figures have been restated to reflect the classification of High Capacity Metro Train project as a service concession asset within the PNFC sector.*
(d) *Represents the transfer of assets to / from the PNFC sector.*

The following two tables are subsets of the total reconciliation of movements in carrying value.

Reconciliation of movements in carrying values of right-of-use assets during the financial period **($ million)**

	State of Victoria		*General government sector*	
	2022	*2021*	*2022*	*2021*
Opening balance	9 607	9 246	8 988	8 614
Additions of right-of-use assets	429	1 373	398	1 327
Revaluation	498	(148)	477	(181)
Depreciation	(899)	(864)	(800)	(771)
Closing balance	**9 635**	**9 607**	**9 062**	**8 988**

Reconciliation of movements in carrying values of service concession arrangement assets during the financial period **($ million)**

	State of Victoria		*General government sector*	
	2022	*2021*	*2022*	*2021*
Opening balance	27 461	24 530	22 935	20 296
Additions of service concession arrangement assets [(a)]	5 107	2 751	4 280	2 751
Revaluation	1 224	547	974	423
Assets transferred between Government entities [(a)]	..	..	(454)	(251)
Depreciation	(376)	(367)	(291)	(283)
Closing balance [(a)]	**33 416**	**27 461**	**27 444**	**22 935**

Note:
(a) The 30 June 2021 figures have been restated to reflect the classification of the High Capacity Metro Train project as a service concession asset within the PNFC sector.

4.2 Other non-financial assets

($ million)

	State of Victoria		*General government sector*	
	2022	*2021*	*2022*	*2021*
Intangible produced assets	4 356	3 924	3 035	2 819
Accumulated depreciation	(2 372)	(2 009)	(1 634)	(1 401)
Service concession assets – intangible produced [(a)]	512	485	512	485
Intangible non-produced assets	968	1 003	78	112
Accumulated amortisation	(385)	(373)	(55)	(52)
Total intangibles	**3 079**	**3 029**	**1 936**	**1 962**
Investment properties	332	315	320	303
Biological assets	56	59	5	2
Other assets	1 376	1 355	1 052	1 089
Total other non-financial assets	**4 842**	**4 757**	**3 313**	**3 357**

Note:
(a) This includes the Land Titling and Registry database.

4. MAJOR ASSETS AND INVESTMENTS

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

	State of Victoria		*General government sector*	
	2022	*2021*	*2022*	*2021*
Opening balance	3 402	3 306	2 268	2 105
Acquisitions of self-owned intangible produced assets	473	437	347	267
Additions of service concession arrangement assets	..	7	..	7
Reclassification	..	(39)	(2)	71
Revaluation	40	2	47	(4)
Disposals	(57)	(28)	(56)	(26)
Assets recognised for the first time	168	112	28	96
Impairment	(122)	(12)	(106)	(1)
Amortisation and depreciation [(b)]	(438)	(384)	(266)	(247)
Closing balance	**3 466**	**3 402**	**2 261**	**2 268**

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 (excluding SCA intangibles) with finite useful lives are carried at cost less accumulated amortisation or depreciation and accumulated impairment losses. Service concession intangible assets recognised by applying AASB 1059 are subsequently measured at fair value (current replacement cost).

Certain intangible assets have indefinite useful lives because the value does not diminish with use and they can be used multiple times over an extended period with no foreseeable limit. As a result, a finite life cannot be determined. For these assets, subsequent measurement is at fair value estimated using such assets' current replacement cost.

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 measured at 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 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 in associates and joint operations

Investments in certain entities 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 controlled entity) and one or more other parties to undertake an economic activity that is subject to joint control.

The investments in joint operations are disclosed below.

4.3.1 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
- 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 (RASV) in 2003 to redevelop the Royal Melbourne Showgrounds. The State of Victoria's interest in the unincorporated joint venture at 30 June 2022 was 50 per cent (50 per cent in 2021), and is recognised as a joint operation for accounting purposes.

Under the agreement, the State has agreed to support certain obligations of RASV that may arise out of the joint operation. In accordance with the terms set out in 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 and discharge any 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 operation.

In May 2020, RASV advised the State that it is unable to meet its share of the quarterly service payments (QSPs) under the Development and Operations Agreement with PPP Solutions (Showgrounds) Nominee Pty Ltd. Accordingly, the State has recognised a financial guarantee liability amounting to $61.1 million in relation to this obligation. As at 30 June 2022, the balance of this liability was $48 million.

Since June 2020, the State has provided RASV with a loan to fulfill its obligation to pay RASV's proportion of QSPs to the concessionaire.

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 2022 was 75 per cent (75 per cent in 2021).

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. Under the *Water Act 2007* (Cth), the Murray-Darling Basin Authority (MDBA) was established by the Commonwealth 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
- the Commonwealth Government: 20 per cent.

5. FINANCING STATE OPERATIONS

Introduction

State operations are financed through a variety of means, including 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, leases and service concession arrangements recorded by the State.

Structure

5.1 Borrowings

($ million)

	State of Victoria		*General government sector*	
	2022	*2021*	*2022*	*2021*
Current borrowings				
Domestic borrowings	15 684	9 942	13 822	11 037
Foreign currency borrowings	216	683	..	..
Lease liabilities	730	672	675	607
Service concession arrangement liabilities	1 339	1 423	1 129	1 414
Derivative financial instruments	833	312	43	1
Total current borrowings	**18 803**	**13 033**	**15 669**	**13 059**
Non-current borrowings				
Domestic borrowings	102 465	88 908	88 752	66 993
Foreign currency borrowings	433	627	..	..
Lease liabilities	8 050	8 000	7 562	7 460
Service concession arrangement liabilities	5 577	5 096	5 149	4 995
Derivative financial instruments	1 158	634	288	478
Total non-current borrowings	**117 683**	**103 265**	**101 752**	**79 925**
Total borrowings	**136 486**	**116 298**	**117 420**	**92 985**

Borrowings refer to interest bearing liabilities mainly raised from domestic borrowings through the Treasury Corporation of Victoria (TCV), lease liabilities, service concession arrangement liabilities and other interest bearing arrangements.

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

All borrowings, except for lease liabilities, are classified as financial instruments (Note 7.1). All borrowings 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 borrowings as either financial liabilities measured at fair value through profit or loss, or financial liabilities at amortised cost.

The classification depends on the nature and purpose of the borrowings. The State determines the classification of its borrowings at initial recognition.

The State's domestic borrowings are measured at fair value through profit or loss on settlement date on the basis that the financial liabilities are managed on a fair value basis in accordance with documented risk strategies.

Derivative financial instruments are recognised 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 another economic flow included in the net result.

5.2 Leases

Recognition and measurement of leases as a lessee

For contracts entered into, the State considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

To apply this definition, the State assesses whether the contract meets three key criteria:

- whether the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the State and for which the supplier does not have substantive substitution rights
- whether the State has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use and has the right to direct the use of the identified asset throughout the period of use
- whether the State has the right to make decisions in respect of how and for what purpose the asset is used throughout the period of use.

Separation of lease and non-lease components

At inception or on reassessment of a contract that contains a lease component, the State separates out and accounts separately for non-lease components within a lease contract, and excludes these amounts when determining the lease liability and right-of-use asset amounts.

Lease liability – initial measurement

The lease liability is initially measured at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily determinable or the State's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments (including in-substance fixed payments)
- variable payments based on an index or rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable under a residual value guarantee
- payments arising from purchase and termination options reasonably certain to be exercised.

Lease liability – subsequent measurement

Subsequent to initial measurement, the liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or comprehensive operating statement if the right-of-use asset is already reduced to zero.

Short-term leases and leases of low-value assets

The State has elected to account for short-term leases and leases of low-value assets using the practical expedients outlined in AASB 16. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense on a straight-line basis over the lease term. Note 3.4 outlines the definition of a short-term and low value lease.

State's leasing activities

Information on the State's leasing activities is presented below.

Office accommodation leases

The State has a number of office accommodation leases which are leased by entities throughout the general government, public non-financial corporation (PNFC) and public financial corporation (PFC) sectors. The majority of these leases, in magnitude and number, are within the general government sector.

The Shared Service Provider group within the Department of Treasury and Finance holds a number of office accommodation leases, which are occupied by agencies in the general government sector and managed through a service arrangement. The lease contracts' terms vary depending on market availability and the Government's location and tenure requirements, with a range of terms from five years to 30 years with options to renew after that date in general. Property leases for government office accommodation are recognised as right-of-use assets with a corresponding lease liability under AASB 16.

Health Sector

Health services lease various land and buildings such as consulting suites, warehouses, carer support units, treatment areas such as dialysis suites, staff accommodation (generally for medical staff on rotation), offices, opportunity shops, ambulance stations and related facilities. They also lease a range of medical and non-medical equipment, IT equipment, network infrastructure, motor vehicles and aircraft for transport services. Most lease contracts are for periods between one and 10 years with options to renew for various lease terms, although some health services have contracts of up to 40 years. Health services also have in place short-term rental agreements that can be terminated with limited notice (often one month).

Emergency management

The State has entered into leases for airport hangars. These assets are leased to assist the State in delivering its fire and emergency management outputs. The assets are leased for a period between one and three years.

Community safety

The State entered into leases for a combination of rotary and winged aircrafts for its Victoria Police operational needs. These aircrafts are leased for a period of up to 10 years.

Buses

The State has entered into leases relating to buses with a lease term of the same duration as the franchise term one and three years with an option to extend for a further three years.

Leases at significantly below-market terms and conditions

The State elected to measure right-of-use assets arising from leases that are significantly below market terms and conditions at cost as per the temporary relief given to not-for-profit entities by AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*.

These right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

Transport Leases between the general government sector (Department of Transport) and the public non-financial corporations sector (Victorian Rail Track)

Victorian Rail Track (VicTrack) is the custodial owner of the State's transport-related land, infrastructure, rolling stock and associated assets, which the State, through the Department of Transport (DoT), is highly dependent on to provide Victorians with a public transport system. DoT leases metropolitan, regional and interstate train and tram assets from VicTrack at nominal cost in order to provide public transport services in Victoria.

VicTrack provides access to its leased assets to assist the State in furthering its objectives.

The general government sector has classified the leases entered into with VicTrack as leases that are significantly below market terms and conditions, and principally enable the State to further its objectives and the right-of-use asset value in the general government sector is recorded at cost (a nominal amount).

These underlying assets subject to the leases are recognised at fair value, at a consolidated whole of government level, after eliminating the inter-sector leases.

Presentation of right-of-use assets and lease liabilities

The State presents right-of-use assets as property, plant and equipment unless they meet the definition of investment property, in which case they are disclosed as investment property on the balance sheet. Lease liabilities are presented as borrowings on the balance sheet.

5.3 Service concession arrangements (SCA)

For arrangements within the scope of AASB 1059, at initial recognition a public sector grantor records the asset(s) used in the service concession arrangement at current replacement cost with a related liability, which could be a financial liability, an accrued revenue liability (referred to as the grant of a right to the operator liability) or a combination of both.

The nature of the liability and subsequent accounting depends on the consideration exchanged in the arrangement between the State and the operator.

A **financial liability** is recognised where the State has a contractual obligation to pay the operator under the service concession arrangement for the provision of service concession assets and/or services. It is recognised as a borrowing (Note 5.1). The liability is increased by interest charges (Note 5.8), based on the interest rate implicit in the arrangement. The liability is reduced by any payments made by the State to the operator as required by the contract.

These payments take the form of state contributions and other periodic payments (referred to as service payments). The state contributions are usually made during the construction phase of the asset. Service payments include both capital and service elements.

The capital elements are associated with the design, construction, and financing of the service concession asset. The service elements included within the service payments compensate the operator for delivery of services such as ongoing operation, maintenance, replacement, and other costs. The service payments may be impacted by key performance indicators (KPIs) not being met and are generally quarterly (QSP), monthly (MSP) or other periodic intervals.

A **grant of a right to the operator (GORTO) liability** is recognised where the State does not have a contractual obligation to pay cash or another financial asset under the SCA but instead grants the right to the operator to earn revenue from the public use of the asset (Note 6.4). It represents unearned revenue and is progressively reduced over the period of the concession (Note 2.6).

Financial liabilities and GORTO liabilities are initially recognised at the same amount as the service concession asset, adjusted by the amount of any other consideration from the State to the operator, or from the operator to the State.

An exception to this principle occurs when an existing asset of the grantor is reclassified as a result of becoming part of an SCA. When this occurs, the asset is revalued to current replacement cost with a corresponding adjustment to the asset revaluation surplus. A liability is not recognised unless additional consideration is provided by the operator. If the assets included in an SCA are upgraded or expanded, the State recognises a corresponding liability (either financial or GORTO) for the amounts the State is liable for on the upgrade/expansion work.

After initial recognition, service concession assets are measured by applying the revaluation model for the State's property, plant and equipment (Note 4.1) and intangible assets (Note 4.2).

The following material SCAs existed at 30 June 2022. Unless noted in the arrangement specific disclosures below, no material changes have occurred during the year.

					Funding of arrangement						
SCA arrangement	*Note*	*Classification of arrangement*	*Operational/ construction in progress (CIP)*	*Managed by*	*Committed state contributions ($ million)* [(a)]	*Periodic payments in operations phase*	*Payments impacted by KPI*	*Carrying amount of liability as at 30 June 2022 ($ million)*	*Carrying amount of asset as at 30 June 2022 ($ million)*	*Carrying amount of liability as at 30 June 2021 ($ million)*	*Carrying amount of asset as at 30 June 2021 ($ million)*
CityLink	5.3.1	GORTO	Operational	DoT	..	None – user pays operator	No	1 966	4 674	2 058	4 614
West Gate Tunnel	5.3.2	Hybrid (GORTO/Financial Liability)	Construction in progress	DoT	1 684	None – user pays operator	No	3 684	6 223	2 754	3 956
EastLink	5.3.3	GORTO	Operational	DoT	..	None – user pays operator	No	2 055	3 664	2 162	3 613
Land Use Victoria	5.3.4	GORTO	Operational	DELWP	..	None – user pays operator	No	2 589	512	2 661	485
Peninsula Link	5.3.5	Financial liability	Operational	DoT	..	QSPs	Yes	626	882	650	816
Southern Cross Station	5.3.6	Financial liability	Operational	DoT	..	QSPs	Yes	349	461	357	475
Desalination Plant	5.3.7	Financial liability	Operational	DELWP	..	Water service payments (WSPs)	Yes	3 226	3 962	3 275	3 994
Fulham Correctional Centre Contract Extension Project	5.3.8	Financial liability	Operational	DJCS	..	QSPs	Yes	..	179	..	184
Port Phillip Prison Contract Extension	5.3.9	Financial liability	Operational	DJCS	..	QSPs	Yes	..	224	..	233
Ravenhall Correction Centre	5.3.10	Financial liability	Operational	DJCS	..	QSPs	Yes	503	658	512	682
High Capacity Metro Trains [(b)]	5.3.11	Financial liability	Construction in progress	DoT	42	Partial service payment (PSP), QSP	Yes	1 004	1 126	1 010	822
Metro Tunnel Project – Tunnel and Stations	5.3.12	Financial liability	Construction in progress	DoT	3 068	QSPs	Yes	2 931	6 929	2 972	5 293
Western Roads Upgrade	5.3.13	Financial liability	Operational	DoT	..	QSPs	Yes	732	1 425	763	1 410
Homes Victoria Ground Lease Model Project 1	5.3.14	Hybrid (GORTO/Financial liability)	Construction in progress	Homes Victoria	36	QSPs and rental charges by the operator	Yes	146	152	..	..
North East Link – Primary Package (Tunnels)	5.3.15	Financial liability	Construction in progress	State Tolling Corporation	8 031	QSPs	Yes	431	906	..	..

Notes:

(a) State contributions that are contractually committed at 30 June 2022 are included in this column and are made during the construction phase of the service concession asset.

(b) The 30 June 2021 figures have been restated to reflect the classification of the High Capacity Metro Train project as a service concession asset within the PNFC sector.

Details relevant to all arrangements

Unless specified differently in the Arrangement specific details section below, all of the below information is relevant to all arrangements.

The State has entered into an arrangement with the operator which gives the operator the right to provide public services to users for a specified period (concession period).

The operator, based on the terms and conditions specified in the agreement, is:

- responsible for the design, construction, financing, operation and maintenance and replacement of the relevant asset(s) during the concession period
- subject to key performance indicators (KPIs) and/or annual works programs that ensure a level of public service delivery for users. The operator has the opportunity to rectify any performance issues where relevant.

The operator has access to the asset to perform the required services and manages at least some of those services under its own discretion.

The State has control over what services the operator provides with the asset over the concession period, whom to provide them to and at what price. It is responsible for monitoring that contractual obligations are met, and will intervene as required to ensure safety for users of the asset as appropriate and to protect public interest.

At the end of the concession period, the rights and obligations provided to the operator during the concession period cease, and the service concession asset(s) will be returned to the State.

The agreements do not include options for renewal and may be subject to termination.

Arrangement specific details

5.3.1 CityLink

Operator: CityLink Melbourne Limited (CML) Transurban Infrastructure Management Limited (TIML)

Concession period: 45 years

The State and CML entered into the Melbourne City Link Concession Deed in October 1995.

The Concession Deed requires CML to pay to the State specified concession fees at specified intervals during the concession period.

In accordance with the Concession Deed, CML has exercised an option to meet its obligations to pay concession fees by way of issuing concession notes. These notes are non-interest bearing promissory notes payable by CML at the end of the concession period, or earlier in the event of CML achieving certain profitability levels and cash flows.

Between June 2005 and June 2010, the State entered into arrangements with CML and TIML whereby the State received upfront payments in exchange for assigning the right to all existing and future concession notes to TIML.

The value of concession notes due to be received by the State in accordance with the Concession Deed has been disclosed at the present value of concession notes to be issued in future periods by CML. The present value of the concession notes is disclosed as part of the GORTO liability.

The concession period to operate the CityLink road network was extended to January 2045 as a result of the partial funding of the West Gate Tunnel Project.

The Concession Deed provides for CML to lease certain land and road infrastructure from the State during the concession period.

Under the terms of the Concession Deed, there are certain provisions under which the State could be entitled to share in the financial success of the CityLink project:

- additional concession fees where the CML revenue and equity return exceed the benchmarks set out in the original Base Case Financial Model
- variable lease rental expected to commence in 2035
- early end to concession period if specified equity return threshold is reached
- share of revenue based on compensable enhancements events which result in additional revenue for CityLink.

To date, none of the above events have occurred.

5.3.2 West Gate Tunnel

Operator: Transurban Limited (Transurban)

Concession period: 28 years

In December 2017, the State entered into a PPP contract with Transurban to deliver the West Gate Tunnel Project.

The project will be funded through a combination of state contribution, tolls imposed on users of the West Gate Tunnel (until 2045), adjustments to various CityLink tolls during the remaining term of Transurban's existing CityLink Concession (to 2035), and a 10-year extension of the CityLink Concession (from 2035 to 2045).

In March 2022, the State and Transurban Group entered into amending and settlement deeds to formally document the resolution of various commercial issues related to the project. As part of the settlement, the State will contribute $1.9 billion, Transurban Group will contribute $2.2 billion and the Design and Construct Subcontractors will forego revenue and profit margins on the project.

5.3.3 EastLink

Operator: Connect East Pty Ltd (ConnectEast)

Concession period: 35 years

The State and the operator entered into the EastLink Concession Deed in October 2004.

EastLink opened to traffic in June 2008. ConnectEast has a right to operate the EastLink road network for the duration of the concession period which is due to expire on 30 November 2043.

The Concession Deed provides for ConnectEast to lease certain land and road infrastructure from the State during the concession period. These assets will be returned to the State at the end of the concession period.

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 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 arising as a result of opening the Peninsula Link road network. This claim remains outstanding. Refer to Note 7.2 for further details on this claim.

5.3.4 Land Use Victoria

Operator: Secure Electronic Registries Victoria (SERV)

Concession period: 40 years

The Victorian Land Registry Services (VLRS), now known as Secure Electronic Registries Victoria (SERV), commenced in September 2018 (Stage 1) and is responsible for part of Registration, Landata and Systems Branches of Land Use Victoria for a term of 40 years. The services, such as processing title searches, registrations, inquiries and modifications/changes to land registry titles have continued to be delivered to the public and stakeholders, customers and clients in a seamless manner ensuring service delivery requirements are maintained and key performance indicators are met.

The second stage of the transition of services to SERV was in November 2019. The Registrar of Titles has remained with the State and has retained all statutory obligations and powers. The Registrar of Titles is responsible for preserving the integrity and security of the land register and enforcing service standards. The State will continue to own the land registry data and provide the State Guarantee of title.

The arrangement provides SERV with access to the State Material Licence, which includes all State Data, Operating Manual, State Software, and the rights to provide operator and non-statutory services (e.g. certain Title and LANDATA© Search Products and Property Certificates).

The Operating Concession Deed (OCD) required SERV to pay a concession licence fee to the State of $2.8 billion in September 2018. The upfront consideration received from the SERV is recognised as a grant of a right to the operator (GORTO) liability and recognised as revenue proportionally over the service period of 40 years.

The State has recognised intangible assets for the Land Registry Services (LRS) software (the Victorian Online Titles System) ($38 million) and the Titling and Registry database (database) ($474 million). Refer to Note 4.2 for details of the fair value measurement of the service concession intangible assets. Subsequent to the initial recognition, both intangible assets are carried under the revaluation model in line with AASB 138.

5.3.5 Peninsula Link

Operator: Southern Way Pty Ltd (Southern Way)

Concession period: 25 years

The State entered into a Peninsula Link Project Deed with Southern Way on 20 January 2010.

The concession period will end in January 2038. The State compensates Southern Way for delivery of ongoing maintenance services through QSP payments, which are subject to KPI linked abatement.

5.3.6 Southern Cross Station

Operator: Civic Nexus Pty Ltd (CNPL)

Concession period: 30 years

In July 2002, the State entered into a Service and Development Agreement (SDA) with the operator for the redevelopment of Southern Cross Station. The agreement ends in June 2036.

Construction commenced in September 2002 and completed in August 2006.

The State's QSP payments to the operator for the delivery of operating and maintenance services are subject to abatement in accordance with the terms and conditions of the SDA.

5.3.7 Desalination Plant

Operator: AquaSure Pty Ltd (AquaSure)

Concession period: 30 years

The State and AquaSure entered into the public private partnership on 30 July 2009.

The Victorian Desalination Project (VDP) was initiated to design, build, finance and operate a desalination plant, transfer pipeline and 220 kilovolt underground power cable capable of supplying 150 gigalitres of water per annum into the Melbourne network.

Under the arrangement, the State has an obligation to make water security payments provided the plant is maintained to the appropriate standard.

The State will also make water usage payments for any water that is ordered and delivered to the required standard. Water can be ordered annually for flexible amounts from 0 to 150 gigalitres (in set increments).

A Statement of Obligations (SoO) was issued to the Melbourne Water Corporation under section 4I of the *Water Industry Act 1994* that required Melbourne Water Corporation to pay all monies as required by the State under the project deed with Aquasure.

The arrangement was codified through the Water Interface Agreement (WIA) between the State (DELWP) and Melbourne Water Corporation. DELWP does not control any receipt arising from this arrangement and is required to pay the amounts from the Melbourne Water Corporation into the Consolidated Fund.

The State has assessed the agreements between AquaSure, DELWP (on behalf of the State) and Melbourne Water Corporation and concluded that the agreements are connected and should form one single commercial arrangement. Under the combined agreement, Melbourne Water Corporation is considered the ultimate grantor. DELWP, on behalf of the State, administers the arrangement and recognises contractual liability on the capital portion of WSPs to AquaSure and contractual receivable from Melbourne Water Corporation determined in the WIA as financial instruments under AASB 9 (Refer to Note 7.1).

As at 30 June 2022, AquaSure had produced the 125 GL for the 2021-22 water order.

On 1 April 2022, the Minister for Water announced the 2022-23 Supply Notice with a Required Annual Water Volume for 15GL in 2022-23 and non-binding forecasts of 75GL for 2023-24 and 2024-25.

5.3.8 Fulham Correctional Centre

Operator: Australasian Correctional Investment Limited (ACI)

Concession period: 38 years

In October 1995, the State entered into a public private partnership arrangement with the operator. The construction of the prison was completed in 1997 and the operational phase under the original contract was due to end in 2017. However, a contract extension was entered into in April 2015, with the terms of the contract extension coming into effect in July 2016. The contract extension has an initial term of 11 years and subject to ACI's performance, a further term of 8.3 years that would end in October 2035.

5.3.9 Port Philip Prison

Operator: G4S Correctional Services (Australia) Pty Ltd (G4S)

Concession period: 40 years

In July 1996, the State entered into a public private partnership arrangement with the operator. The construction of the prison was completed in 1997 and the operational phase under the original contract was due to end in 2017.

However, a contract extension was entered in December 2015, with the terms of the contract extension coming into effect in September 2017. The contract extension was also novated in September 2017. The contract extension has an initial term of 10 years and subject to G4S' performance, a further term of 10 years that would end in September 2037.

5.3.10 Ravenhall Correction Centre

Operator: GEO Consortium

Concession period: 25 years

In September 2014, the State entered into a public private partnership with the operator. The construction of the prison was completed in November 2017 and the operational phase is due to expire in 2042.

5.3.11 High Capacity Metro Trains

Operator: Evolution Rail Consortium (Evolution Rail)

Concession period: 30 years

In November 2016, the State entered into a project agreement with Evolution Rail.

Under the contract, the operator will design, build, commission and finance a fleet of 65 high capacity trains, a depot at Pakenham East (including a train maintenance facility (TMF) and a stabling yard), a light service facility (LSF) at Calder Park and two simulators.

The stabling yard was returned to the State in July 2020 for ongoing maintenance, while Evolution Rail will be responsible for the maintenance of other constructed assets for a period of 30 years, until 2053.

The State is contracted to make PSP payments (representing pro-rata payments to Project Co during the phased delivery of the HCMTs) commencing on 28 Feb 2021, which is the date the 5th HCMT entered service, until commencement of the QSP at provisional acceptance of all 65 HCMT sets.

In October 2021, a settlement agreement was executed by the State and Evolution Rail to amend the original project agreement. The variation amended the contractual terms of the original Project Deed and released the State from claims made by Evolution Rail.

As part of the agreement, the State has also committed to purchase an additional five train set in preparation for the proposed Melbourne Airport Rail Link project.

5.3.12 Metro Tunnel Project – Tunnel and Stations

Operator: Cross Yarra Partnership (CYP)

Concession period: 25 years

In December 2017, the State entered into an agreement with CYP to deliver the Metro Tunnel – Tunnel and Stations.

Assets to be constructed includes twin nine-kilometre tunnels under the Central Business District, five underground stations, station fit-out, mechanical and electrical systems and certain commercial opportunities at the new stations. CYP will be responsible for providing maintenance and other services until 2048.

CYP will be provided with a lease to operate some commercial tenancies within the constructed asset through the concession period.

On 24 December 2020, the State entered into settlement and amending deeds with CYP to address a range of commercial issues arising during project delivery. The parties agreed to share the increased costs of the project on a 50:50 basis, with each party agreeing to pay $1.37 billion. The project is on track for completion in 2025.

5.3.13 Western Roads Upgrade

Operator: Netflow OSARS (Western) Partnership (Netflow)

Concession period: 20 years

In December 2017, the State signed the Western Roads Upgrade contract with Netflow.

The agreement includes eight road projects and 37 road rehabilitation projects. To facilitate the project, the State has granted the operator access to its existing assets with total carrying amount of $459 million, which has been reclassified to SCAs.

The construction reached provisional acceptance in financial year 2021.

Under the agreement, the State has an option to make a contribution to Netflow two years post the date for commercial acceptance. If the State does not exercise this option, Netflow has the option to call on the State to make the contribution. As at 30 June 2022, the State is in negotiation with Netflow regarding the option. The contribution payment is expected be made during the 2023 financial year.

5.3.14 Homes Victoria Ground Lease Model Project 1

Operator: Building Communities (Vic) Ltd

Concession period: 40 years

In June 2021, Homes Victoria achieved financial close on a housing arrangement whereby it appointed a not-for-profit consortium (Building Communities) to finance, design, construct and operate 619 brand new social housing dwellings, 126 affordable homes and 365 market rental homes, including 52 Specialist Disability Accommodation dwellings.

Three sites are being delivered under a ground lease model on a fully financed, build-to-rent basis. The ground lease will be delivered as a PPP arrangement under the Partnerships Victoria framework. Construction of the assets commenced in 2021 and commercial acceptance is expected in January 2024. The operating period will commence in January 2024.

Homes Victoria is contracted to make quarterly service payments for the 40-year operating term, which will include both a capital and a life cycle component. While operating the dwellings, Building Communities will perform the following functions: asset management, community engagement, maintenance and lifecycle replacement, tenancy management and residential lease management.

Homes Victoria will regulate rental caps for the social and affordable dwellings and will maintain control over tenant sourcing through the Victorian Housing Register (VHR).

5.3.15 North East Link – Primary Package (Tunnels)

Operator: Spark

Concession period: 25 years

In October 2021, the State and the North East Link State Tolling Corporation contracted with the Spark consortium to deliver the Primary Package (Tunnels) of the North East Link.

The $11.1 billion Primary Package (Tunnels) is being delivered as an availability PPP with an Incentivised Target Cost regime that applies in respect of costs incurred during the design and construction phase of the project.

The project is expected to reach commercial acceptance in December 2028.

The Primary Package (Tunnels) scope includes:

- twin, three-lane tunnels
- split interchange at Lower Plenty Road and Manningham Road
- an upgrade on the existing interchange south of Bulleen Road to accommodate the tunnel on-ramp, a new interchange west of Thompsons Road to service the new Bulleen Park & Ride and accommodate the tunnel off- and on-ramps
- new and upgraded green land bridges, development of extensive shared user paths and walking and cycling infrastructure to form a new North East Trail network
- high-quality outcomes in open space, noise walls design and maximising tree canopy replacement.

The other remaining project elements of the North East Link will be delivered under separate packages.

The new link will be tolled, with the State retaining toll revenues initially, while the Eastern Freeway and the M80 Ring Road will remain toll free. A state-owned corporation, the State Tolling Corporation, has been established to collect tolls for the North East Link with toll revenue going towards the cost of building and maintaining the project.

5.4 Public private partnerships

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 public private partnerships (PPPs).

These PPPs 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 either a lease, a service concession arrangement or construction of an item of property, plant and equipment.

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 form of PPP 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 PPP 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.

Prior to 1 July 2019, all PPPs for which the State had to make payment in exchange for the PPP asset were accounted for under AASB 117 *Leases* as finance leases.

After 1 July 2019, AASB 1059 was retrospectively applied to arrangements where an operator provides public services, using a service concession asset, on behalf of the State and importantly, the operator manages at least some of the public service at its own discretion. The State must also control the asset for AASB 1059 to apply. This means that certain PPP arrangements will not be within the scope of AASB 1059 and will continue to be accounted for as either leases or assets being constructed by the State and conversely, certain arrangements that are not PPPs (such as certain external service arrangements) could be captured within the scope of AASB 1059. The State has determined which arrangements should be accounted for under AASB 1059 and details of these are included in Note 5.3.
The following PPP commitments tables comprise the following:

- for commissioned PPPs, only the operating and maintenance commitments of the PPP arrangement are included in the commitments amounts, as the capital component (i.e. the construction of the underlying asset) is recorded as a liability on the State's balance sheet
- for uncommissioned PPPs, the commitments include the capital component not yet recognised on the balance sheet (i.e. the amount relating to the asset which hasn't been constructed as yet), the State's future capital contributions as well as the operating and maintenance commitments for the PPP contract.

For PPPs that are recognised as service concession arrangements under AASB 1059, the amounts recognised on the balance sheet for both commissioned and uncommissioned PPPs are included in Note 5.3.

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

	State of Victoria				General government sector			
	2022		2021		2022		2021	
	Other commitments		Other commitments		Other commitments		Other commitments	
	Present value	Nominal value	Present value	Nominal value	Present value	Nominal value	Present value	Nominal value
Commissioned public private partnerships other commitments								
Leases								
AgriBio Project	128	238	126	247	128	238	126	247
Bendigo Hospital	768	1 470	613	1 219	768	1 470	613	1 219
Casey Hospital	98	123	98	128	98	123	98	128
County Court	..	..	12	14	..	..	12	14
Melbourne Convention Centre [c]	245	353	254	379	245	353	254	379
New Schools PPP	217	377	211	373	217	377	211	373
Partnerships Victoria in Schools	142	241	139	243	142	241	139	243
Royal Children's Hospital	829	1 468	820	1 507	829	1 468	820	1 507
Royal Melbourne Showgrounds	17	27	18	30	17	27	18	30
Royal Women's Hospital	231	349	232	363	231	349	232	363
Victorian Comprehensive Cancer Centre (VCCC)	442	948	401	902	442	948	401	902
Service concession arrangements – Financial liability model								
Barwon Water	74	103	76	110	..	..	..	..
Central Highlands Water	15	26	19	34	..	..	..	..
Coliban Water	46	58	52	68	..	..	..	..
Peninsula Link	240	353	299	361	240	353	299	361
Prisons	5 718	9 243	6 135	10 239	5 718	9 243	6 135	10 239
Southern Cross Station	370	499	384	443	370	499	384	443
Western Roads Upgrade	507	754	689	848	507	754	689	848
Victorian Desalination Plant	1 631	3 749	1 533	3 963	1 631	3 749	1 533	3 963
Sub-total [c]	**11 719**	**20 379**	**12 111**	**21 473**	**11 584**	**20 192**	**11 964**	**21 261**

Notes:
(a) The liability associated with commissioned public private partnerships are recognised on the balance sheet and are not disclosed as a commitment.
(b) The present value of other commitments has been discounted to 30 June of the respective financial years.
(c) The 2020-21 present value for other commitments relating to the Melbourne Convention Centre has been restated to reflect more current information.

Uncommissioned public private partnership commitments [a][b][c] ($ million)

State of Victoria	*2022*				*2021*			
	Liability [b]	*Capital contribution* [e]	*Other commitments*	*Total commitments*	*Liability* [b]	*Capital contribution* [e]	*Other commitments*	*Total commitments*
	Discounted value [d]		*Present value*	*Nominal value*	*Discounted value* [d]		*Present value*	*Nominal value*
PPPs recognised under AASB 116								
Frankston Hospital Redevelopment [f]	1 125	..	937	4 668	..	..	..	..
New Footscray Hospital	1 343	573	1 056	5 709	1 646	573	1 335	6 373
Service concession arrangements – Financial liability model								
High Capacity Metro Trains [g][h]	1 322	42	1 459	6 102	1 403	300	1 678	5 422
Metro Tunnel Project - Tunnel and Stations [g]	2 241	3 068	838	8 282	2 321	4 167	1 203	9 396
North East Link - Primary Package (Tunnels) [g][i]	4 476	8 031	980	20 132	..	..	..	..
Service concession arrangements – Hybrid model (GORTO and financial liability models)								
West Gate Tunnel Project [g][j]	..	1 684	..	1 684	..	885	..	885
Homes Victoria Ground Lease Model Project 1 [g][k]	117	36	38	739	223	50	38	752
Sub-total	**10 624**	**13 434**	**5 307**	**47 315**	**5 593**	**5 974**	**4 254**	**22 827**
Total commitments for public private partnerships			**16 960**	**67 695**			**16 308**	**44 300**

Notes:

(a) The discounted value of the liability 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.

(b) Depending on the arrangement, this liability can relate to a lease, service concession arrangement or the construction of an item of property, plant and equipment.

(c) Values presented in this table may not align with values published in Budget Paper No.4, State Capital Program*. Values include operating and maintenance expenses associated with the concession period. Funding arrangements for the length of the concession period are confirmed at the financial close of a public private partnership.*

(d) The liability payments include the expected future liabilities yet to be recognised on the balance sheet.

(e) The capital contribution is measured at nominal value and represents the State's total unpaid capital contribution for the uncommissioned public private partnership.

(f) In April 2022, the State entered into a public private partnership contract with Exemplar Health to deliver the Frankston Hospital Redevelopment Project. The contract expires in January 2051.

(g) For uncommissioned PPPs, the commitments include the capital component not yet recognised on the balance sheet (i.e. the amount relating to the asset which hasn't been constructed as yet), the State's future capital contributions as well as the operating and maintenance commitments. Refer to Note 5.3 for further details relating to service concession arrangements.

(h) In October 2021, a change in contractual arrangements occurred for the High Capacity Metro Trains project. Refer to Note 5.3 for further details.

(i) In October 2021, the State entered into an arrangement with the Spark consortium to deliver the North East Link - Primary Package (Tunnels) project between an upgraded Eastern Freeway and the M80 Ring Road. The nominal value represents the value of commitments over the construction and full 25 year concession period. Refer to Note 5.3.15 for further details.

(j) In March 2022, the State and Transurban Group entered into amending and settlement deeds to formally document the resolution of various commercial issues related to the project. Refer to Note 5.3 for further detail on the West Gate Tunnel project.

(k) In June 2021, the State reached financial close with a not-for-profit consortium Building Communities to finance, design, construct and operate a number of social housing under a ground lease model. In the 2020-21 prior year, this was referred to in this note as the Public Housing Renewal Project.

General government sector							
2022				*2021*			
Liability [(b)]	*Capital contribution* [(e)]	*Other commitments*	*Total commitments*	*Liability* [(b)]	*Capital contribution* [(e)]	*Other commitments*	*Total commitments*
Discounted value [(d)]		*Present value*	*Nominal value*	*Discounted value* [(d)]		*Present value*	*Nominal value*
1 125	..	937	4 668	..	..	..	..
1 343	573	1 056	5 709	1 646	573	1 335	6 373
1 322	42	1 459	6 102	1 403	300	1 678	5 422
2 241	3 068	838	8 282	2 321	4 167	1 203	9 396
..	..	..	..	..	..	..	..
..	1 684	..	1 684	..	885	..	885
..	..	..	..	..	..	..	..
6 031	**5 367**	**4 290**	**26 445**	**5 370**	**5 924**	**4 216**	**22 075**
		15 807	**46 636**			**16 123**	**43 336**

Public private partnership commitment payables [(a)] **($ million)**

Nominal values	*State of Victoria 2022*	*State of Victoria 2021*	*General government sector 2022*	*General government sector 2021*
Public private partnership commitments				
Less than 1 year	3 222	2 690	2 985	2 651
1 year but less than 5 years	16 181	9 367	9 131	9 189
5 years or more	48 292	32 243	34 520	31 496
Total public private partnership commitments	**67 695**	**44 300**	**46 636**	**43 336**

Note:
(a) The figures presented are inclusive of GST.

5.5 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.

5.6 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, that 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*	
	2022	*2021*	*2022*	*2021*
Cash	3 522	8 567	3 079	7 938
Deposits at call	13 736	13 366	7 896	6 671
Balances as per cash flow statement	**17 258**	**21 933**	**10 974**	**14 609**

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

	State of Victoria		*General government sector*	
	2022	*2021*	*2022*	*2021*
Net result	**568**	**(11 321)**	**(13 501)**	**(13 797)**
Non-cash movements				
Bad/doubtful debts	..	..	..	142
Revenue related to economic service concession arrangements	(288)	(228)	(288)	(228)
Depreciation and amortisation	7 242	6 982	4 313	4 169
Revaluation of investments	4 475	(2 189)	(63)	(114)
Assets (received)/provided free of charge	(762)	(792)	(445)	(409)
Assets not previously/no longer recognised	(109)	(867)	(109)	(867)
Revaluation of assets	1 422	2 646	362	400
Discount/premium on other financial assets/borrowings	(393)	(412)	1	(2)
Foreign currency dealings	1	(1)	1	(1)
Unrealised (gains)/losses on borrowings	(14 091)	(2 633)	(97)	..
Discounting of assets and liabilities	..	(4)	..	(4)
Movements included in investing and financing activities				
Net gain/loss from sale of investments	(603)	(2 362)	(48)	(14)
Net gain/loss from sale of non-financial assets	(5)	37	(17)	14
Realised gains/losses on borrowings	(329)	409	..	200
Movements in assets and liabilities				
Increase/(decrease) in allowance for impairment losses	(162)	(81)	(195)	(73)
Increase/(decrease) in payables and contract liabilities	89	(468)	344	(587)
Increase/(decrease) in employee benefits	483	374	473	355
Increase/(decrease) in superannuation	331	(87)	330	(73)
Increase/(decrease) in other provisions	(2 597)	3 520	465	219
(Increase)/decrease in receivables and contract assets	372	(1 433)	(39)	(1 981)
(Increase)/decrease in other non-financial assets	(413)	(366)	(346)	(306)
Net cash flows from operating activities	**(4 766)**	**(9 277)**	**(8 857)**	**(12 958)**

5. FINANCING STATE OPERATIONS

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

State of Victoria			*Non-cash changes*		
2022	*Opening balance*	*Cash flows*	*Liabilities resulting from the acquisition of new assets* [(a)]	*Fair value changes*	*Closing balance*
Borrowings and derivative instruments	101 107	32 802	1 129	(14 249)	120 789
Lease liabilities	8 672	(776)	885	..	8 781
Service concession arrangements liabilities	6 519	(1 436)	1 833	..	6 916
Advances and deposits received	1 784	(60)	..	..	1 724
2021					
Borrowings and derivative instruments	73 357	30 636	..	(2 886)	101 107
Lease liabilities	8 291	(775)	1 156	..	8 672
Service concession arrangements liabilities	6 130	(1 302)	1 691	..	6 519
Advances and deposits received	1 693	85	..	6	1 784

General government sector			*Non-cash changes*		
2022	*Opening balance*	*Cash flows*	*Liabilities resulting from the acquisition of new assets* [(a)]	*Fair value changes*	*Closing balance*
Borrowings and derivative instruments	78 509	23 455	1 129	(186)	102 906
Lease liabilities	8 067	(673)	843	..	8 237
Service concession arrangements liabilities	6 409	(1 427)	1 294	..	6 277
Advances and deposits received	2 791	(960)	..	..	1 831
2021					
Borrowings and derivative instruments	49 126	29 124	..	258	78 509
Lease liabilities	7 669	(723)	1 121	..	8 067
Service concession arrangements liabilities	6 012	(1 293)	1 691	..	6 409
Advances and deposits received	3 681	(896)	..	6	2 791

Note:
(a) Mainly comprising liabilities resulting from the recognition of new right-of-use assets under lease arrangements, and service concession arrangements, including from public private partnerships.

5.7 Advances paid and investments, loans and placements

($ million)

	State of Victoria		General government sector	
	2022	2021	2022	2021
Current advances paid and investments, loans and placements				
Loans and advances paid	347	231	832	1 283
Equities and managed investment schemes	3 831	3 110	718	917
Australian dollar term deposits	4 342	695	104	107
Foreign currency term deposits	..	56	..	..
Debt securities	6 995	3 608	3	1
Derivative financial instruments	1 109	309	430	79
Total current advances paid and investments, loans and placements	**16 624**	**8 009**	**2 088**	**2 386**
Non-current advances paid and investments, loans and placements				
Loans and advances paid	285	307	4 097	4 190
Equities and managed investment schemes	36 595	36 100	2 054	1 805
Australian dollar term deposits	37	26	37	26
Debt securities	2 475	1 713	22	25
Derivative financial instruments	239	478	1	..
Total non-current advances paid and investments, loans and placements	**39 631**	**38 623**	**6 211**	**6 046**
Total advances paid and investments, loans and placements	**56 255**	**46 633**	**8 299**	**8 432**
Represented by:				
Advances paid	632	538	4 929	5 473
Investments, loans and placements	55 623	46 094	3 370	2 960

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. The State 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 or income 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.

5.8 Interest expense

($ million)

	State of Victoria		General government sector	
	2022	2021	2022	2021
Interest on interest bearing liabilities	2 879	2 553	2 053	1 770
Interest on lease liabilities	396	436	379	419
Interest on service concessions	416	407	407	397
Discount interest on payables	22	41	31	28
Total interest expense	**3 712**	**3 437**	**2 869**	**2 614**

Interest expense represents costs incurred in relation to borrowings. It includes interest on advances, loans, overdrafts, bonds and bills, deposits, interest components of lease repayments, service concession financial liabilities 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.

5.9 Commitments for future expenditure

Commitments for future expenditure include operating and capital commitments arising from contracts. Commitments recognised under PPP arrangements are not included in this section. Please refer to Note 5.4 for further detail on these.

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

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

Commitments for future expenditure [(a)] **($ million)**

	State of Victoria		General government sector	
Nominal values	*2022*	*2021*	*2022*	*2021*
Capital expenditure commitments				
Land and buildings	5 052	3 578	4 350	2 750
Plant, equipment and vehicles	1 014	333	1 002	308
Infrastructure systems	9 742	10 094	8 283	9 170
Road networks and earthworks	2 333	95	2 332	95
Other	220	196	193	160
Total capital expenditure commitments	**18 361**	**14 297**	**16 161**	**12 483**
Service and lease commitments not included in the lease liability				
Rail services [(b)]	4 961	5 270	7 318	6 348
Bus services	5 840	3 991	5 248	3 991
Other	428	510	423	494
Total service and new short-term lease commitments[(b)]	**11 229**	**9 771**	**12 989**	**10 833**
Other commitments				
Capital investment commitments	296	251	..	..
Cladding Safety Victoria	131	249	131	249
COVID-19 Quarantine Victoria	49	337	49	337
Commercial contracts	996	392	785	48
Emergency Alert System	65	16	65	16
Emergency Telecommunication Networks	273	321	273	321
Goulburn-Murray Water Connections Project	..	4	..	..
Grant program commitments	1 761	1 327	1 996	1 540
Information technology	277	304	193	213
New ticketing solution (myki)	148	240	148	240
Outsourcing of services	556	340	214	241
Policing services	18	37	18	37
Provision for Health Services	1 982	1 234	1 982	1 234
Social Housing	618	..	..	..
Traffic camera services (Traffic camera office)	388	490	388	490
Transport Accident Commission funded medical research	8	3	..	..
Other	3 706	4 027	3 263	3 740
Total other commitments	**11 270**	**9 573**	**9 505**	**8 707**
Total commitments[(b)]	**40 859**	**33 641**	**38 654**	**32 023**

Notes:
(a) The figures presented are inclusive of GST.
(b) The 2021 State of Victoria figure has been restated to reflect more current information.

Commitments for future expenditure payables [a] **($ million)**

	State of Victoria		General government sector	
Nominal values	*2022*	*2021*	*2022*	*2021*
Capital expenditure commitments payable				
Less than 1 year	11 544	9 676	10 187	8 460
1 year but less than 5 years	6 493	4 531	5 653	3 937
5 years or more	324	90	320	86
Total capital expenditure commitments	**18 361**	**14 297**	**16 161**	**12 483**
Service and lease commitments not included in the lease liability				
Less than 1 year[b]	2 924	2 459	3 672	3 165
1 year but less than 5 years[b]	5 793	5 666	7 116	6 022
5 years or more	2 511	1 645	2 202	1 645
Total service and new short-term lease commitments[b]	**11 229**	**9 771**	**12 989**	**10 833**
Other commitments payable				
Less than 1 year	6 677	5 661	5 665	5 296
1 year but less than 5 years	4 009	3 612	3 438	3 240
5 years or more	483	300	355	171
Total other commitments	**11 270**	**9 573**	**9 505**	**8 707**
Total commitments[b]	**40 859**	**33 641**	**38 654**	**32 023**

Notes:
(a) The figures presented are inclusive of GST.
(b) Certain 2021 State of Victoria figures have been restated to reflect more current information.

6. OTHER ASSETS AND LIABILITIES

Introduction

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

Structure

Assets

Liabilities

6.1 Investments in other sector entities

The general government sector investments in other sector entities are measured at net asset value. Where the carrying amount is less than zero (before consolidation), the amount is not included in the general government sector, but the net liabilities will be consolidated at the state level.

The net gain/(loss) on equity investments in other sector entities is measured at the proportional share of the carrying amount of net assets 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 before elimination of inter-sector balances.

Investments in other sector entities **($ million)**

	2022	*2021*
Balance of investment in PNFC and PFC sectors at beginning of period	73 125	75 043
Net contributions/(returns) to other sectors by owner [(a)]	4 203	(2 260)
Revaluation gain/(loss) for period [(b)]	11 834	342
Total investments in other sector entities	**89 162**	**73 125**

Notes:

(a) Year-on-year change primarily reflects the transfer of non-financial assets from PNFC sector to the GG sector, mainly in the transport sector, in the prior year.

(b) Year-on-year change mainly relates to a revaluation gain on the Treasury Corporation of Victoria's external loan liabilities due to an increase in interest rates.

6.2 Inventories

($ million)

	State of Victoria		General government sector	
	2022	2021	2022	2021
At cost				
Raw materials	9	9	8	8
Work in progress	134	111	4	3
Finished goods	70	95	6	5
Consumable stores	1 294	903	1 220	838
Land and other assets held as inventory	939	881	24	54
At net realisable value				
Finished goods	2	7	..	..
Consumable stores	5	4	..	..
Total inventories	**2 452**	**2 010**	**1 262**	**908**

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. They are measured at weighted average cost.

6.3 Receivables and contract assets

($ million)

	State of Victoria		General government sector	
	2022	2021	2022	2021
Contractual				
Sales of goods and services	1 426	1 183	733	662
Accrued investment income	72	43	18	13
Other receivables	2 529	2 666	1 725	1 699
Allowance for impairment losses of contractual receivables	(308)	(261)	(202)	(187)
Statutory				
Sales of goods and services	8	8	11	5
Taxes receivable	4 715	4 522	5 156	4 628
Fines and regulatory fees	2 729	2 702	2 728	2 702
GST input tax credits recoverable	1 446	1 595	604	642
Other receivables	3	616	..	614
Allowance for impairment losses of statutory receivables	(2 368)	(2 577)	(2 368)	(2 577)
Other				
Actuarially determined	599	590	..	..
Contract assets	105	106	1	1
Total receivables and contract assets	**10 955**	**11 194**	**8 406**	**8 201**
Represented by:				
Current receivables and contract assets	9 318	9 695	7 892	7 709
Non-current receivables and contract assets	1 637	1 499	514	492

Receivables consist of:

- contractual receivables, classified as financial instruments
- statutory receivables that do not arise from contracts
- other actuarially determined receivables
- contract assets.

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).

Contract assets relate to the State's right to consideration in exchange for goods transferred to customers for works completed, but not yet billed at the reporting date. The contract assets are transferred to receivables when the State issues an invoice to the customer.

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.

Allowance for impairment losses: the State applies the simplified approach under AASB 9 for all contractual receivables to measure expected credit losses using a lifetime expected loss allowance based on the assumptions about risk default and expected loss rates.

The expected loss rate is based on past history, existing market conditions as well as forward-looking estimates at the end of the financial year.

6.4 Payables and contract liabilities

($ million)

	State of Victoria		General government sector	
	2022	2021	2022	2021
Contractual				
Accounts payable	2 261	2 720	828	910
Accrued expenses	5 828	5 123	5 148	4 607
Grant of a right to the operator liability	10 344	9 635	10 305	9 635
Unearned income	10 769	10 818	1 203	1 206
Statutory				
Accrued taxes payable	102	76	67	46
Other				
Contract liabilities	596	438	342	239
Total payables and contract liabilities	**29 899**	**28 810**	**17 893**	**16 643**
Represented by:				
Current payables and contract liabilities	10 898	10 069	7 244	6 681
Non-current payables and contract liabilities	19 001	18 741	10 649	9 962

Payables consist of:

- contractual payables, such as accounts payable and accrued expenses
- grant of right to the operator liability
- statutory payables (accrued taxes payable), such as GST and fringe benefits tax payables
- unearned income
- contract liabilities.

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.

Contract liabilities relate to consideration received in advance from customers in which set performance obligations have not yet been satisfied at the end of the reporting period. The revenue is expected to be recognised future periods as the performance obligations are satisfied.

At 30 June 2022, the liabilities primarily relate to consideration received in advance from international students in the education sector, and developer and customer contributions towards infrastructure works in the water sector.

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.

Unearned income comprises upfront fees received for the medium-term lease over the Port of Melbourne. This unearned income is recognised progressively as revenue over the term of the relevant arrangements.

Grant of a right to the operator liabilities relate to economic service concession arrangements and are recognised applying AASB 1059 (Note 5.3). It represents unearned revenue and is progressively reduced over the period of the arrangement in accordance with its substance (Note 2.6).

6.5 Superannuation

The disclosure in this note is for the consolidated State of Victoria only, as more than 99 per cent of the $19.8 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 net 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.

AASB 119 *Employee Benefits* requires the defined benefit obligation to include an assumed value of contributions tax relating to service before the reporting date or on benefits resulting from that service. The contributions tax component is calculated as the present value of the tax that is estimated to be paid on contributions that are expected to be made to fund the past service liability. These tax payments have been determined based on the deficit (if any) valued using the funding valuation assumptions, which is smaller than the deficit shown in these statements valued using the AASB 119 assumptions. The expected payments are then discounted to the reporting date using the AASB 119 discount rate.

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 liability.

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

Net superannuation liability ($ million)

	State of Victoria 2022	2021
Emergency Services and State Super		
Defined benefit obligation	40 138	49 056
Tax liability [(a)]	1 943	2 026
Plan assets	(23 487)	(25 270)
Net liability/(asset)	**18 594**	**25 813**
Other funds [(b)]		
Defined benefit obligation	2 718	2 997
Tax liability [(a)]	..	..
Plan assets	(1 556)	(1 564)
Net liability/(asset)	**1 161**	**1 433**
Total superannuation		
Defined benefit obligation	42 856	52 053
Tax liability [(a)]	1 943	2 026
Plan assets	(25 043)	(26 834)
Superannuation liability	**19 756**	**27 245**
Represented by:		
Current liability	1 007	1 014
Non-current liability	18 748	26 232
Total superannuation liability	**19 756**	**27 245**

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 (which is now part of Aware Super).

Reconciliation of the defined benefit obligation ($ million)

	State of Victoria 2022	2021
Opening balance of defined benefit obligation	**54 079**	**54 446**
Current service cost	1 352	1 286
Interest cost	928	519
Contributions by plan participants	215	247
Remeasurements:		
Actuarial (gain)/loss arising from change in financial assumptions	(8 884)	(697)
Actuarial (gain)/loss arising from change in demographic assumptions	..	899
Actuarial (gain)/loss due to other experience	(497)	(324)
Benefits paid	(2 395)	(2 297)
Closing balance of defined benefit obligation	**44 799**	**54 079**

Reconciliation of the fair value of plan assets

($ million)

	State of Victoria	
	2022	2021
Opening balance of plan assets	**26 834**	**23 153**
Interest income	447	214
Remeasurements:		
Expected return on plan assets excluding interest income	1 299	1 333
Actuarial gain/(loss) relative to expected return	(2 859)	2 506
Employer contributions	1 502	1 678
Contributions by plan participants	215	247
Benefits paid (including tax paid)	(2 395)	(2 297)
Closing balance of plan assets	**25 043**	**26 834**

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 Aware 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. These 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 primarily outsourced to the Victorian Funds Management Corporation
- compliance with superannuation law and other applicable regulations in accordance with the Heads of Government Agreement.

Constitutionally protected pensions are governed by Victorian acts for which the Attorney-General is responsible.

Aware Super is a regulated public offer superannuation fund. Aware Super Pty Ltd (ASPL) is responsible for the governance of Aware Super and therefore Health Super. As trustee, ASPL 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
- compliance with superannuation law and other applicable regulations.

Superannuation assumptions

The significant actuarial assumptions used for superannuation reporting purposes are the discount rate, future rates of wages growth and the inflation rate that is used to index pensions, (while the expected return on assets is included for completeness), as detailed below.

Victorian statutory superannuation funds	*Actuary*	*Financial assumptions*	*Per cent per annum* 2022	2021
Emergency Services and State Super	PwC Securities Ltd.	Expected return on assets [(a)]	7.6	7.6
		Discount rate [(b)]	3.8	1.8
		Wages growth [(c)]	3.7	3.3
		Inflation rate	2.2	1.8
Constitutionally Protected Pensions	PwC Securities Ltd.	Discount rate [(b)]	3.8	1.8
		Wages growth [(c)]	3.7	3.3
		Inflation rate	n.a.	n.a.
Health Super Fund	Mercer (Australia) Pty. Ltd.	Expected return on assets [(a)]	3.8	3.8
		Discount rate [(b)]	3.8	1.8
		Wages growth [(c)]	3.7	3.3
		Inflation rate	2.2	1.8

Notes:

(a) 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.

(b) 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.

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

Market volatility and bond yield movements

Investment market volatility has been heightened in recent years due to the impact of health measures associated with the COVID-19 pandemic and, more recently, disruptions arising from the Russia/Ukraine conflict and the challenges facing China's economy. As a result, the investment returns on the State's defined benefit superannuation assets for 2021-22 were below expectations and, in fact, negative.

The Commonwealth Government bond yields that underlie the key superannuation valuation assumptions further increased significantly in 2021-22, which reduced the defined benefit superannuation obligation the State is required to report under Australian Accounting Standards.

In combination, the impact that bond yield movements had on the defined benefit obligation more than offset the reduction in assets that arose due to adverse investment returns, such that the State's reported superannuation liability decreased significantly in the year to 30 June 2022.

Changes in the reported superannuation liability that arise solely due to changes in the bond yields that underlie its valuation do not affect the amount of cash required to fund this liability over time. However, superannuation funding requirements will vary over time to reflect any differences between the actual and expected returns on superannuation assets.

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
- 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 0.5 per cent*	*Wage growth plus 0.5 per cent*	*Inflation rate plus 0.5 per cent*
Discount rate	(per cent a year)	3.8	4.3	3.8	3.8
Salary growth	(per cent a year)	3.7	3.7	4.2	3.7
Inflation rate	(per cent a year)	2.2	2.2	2.2	2.7
Estimated increase / (decrease)	**(per cent)**	**n.a**	**(5.3)**	**1.1**	**4.2**
Estimated increase / (decrease) in defined benefit obligation	**($ million)**	**n.a**	**(2 340)**	**486**	**1 854**

Target asset allocation **(per cent)**

Asset class	*2022*	*2021*
Domestic equity	19.2	19.3
International equity	28.9	29.1
Domestic debt assets	17.3	17.2
International debt assets	4.3	4.2
Property	7.4	7.3
Cash	7.7	7.8
Other (including private equity, hedge funds and infrastructure)	15.2	15.1
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 2022, the plans held investments within the central banking system worth $492 million.

Funding arrangements

The funding arrangements for each defined benefit plan are 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 maintain scheme assets in excess of 100 per cent of the scheme's vested benefits.

In the 2022-23 financial year, employer contributions of $1.6 billion, in total, are expected to be paid to the defined benefit plans. Of this, $1 billion relates to the funding of the SSF's past service liability.

The weighted average duration of the defined benefit obligation is approximately 11.5 years.

6.6 Other provisions

($ million)

	State of Victoria		General government sector	
	2022	2021	2022	2021
Provision for insurance claims				
WorkSafe Victoria	3 499	3 172	..	..
Transport Accident Commission	1 609	1 596	..	..
Victorian Managed Insurance Authority	650	540	..	..
Other agencies	63	50	61	47
Current provision for insurance claims	**5 821**	**5 357**	**61**	**47**
Other provisions [(a)]	1 400	1 078	1 109	593
Total current other provisions	**7 222**	**6 435**	**1 169**	**640**
Non-current provision for insurance claims				
WorkSafe Victoria	20 813	21 355	..	..
Transport Accident Commission	15 630	18 466	..	..
Victorian Managed Insurance Authority	2 201	2 179	..	..
Other agencies	97	76	97	75
Non-current provision for insurance claims	**38 741**	**42 075**	**97**	**75**
Other provisions [(a)]	833	899	815	882
Total non-current other provisions	**39 574**	**42 974**	**912**	**957**
Total other provisions	**46 795**	**49 409**	**2 082**	**1 597**

Note:
(a) The other provisions line item includes the recognition of upfront provisions in 2021-22 for redress schemes as required by AASB 137.

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 when recovery is virtually certain 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 75 per cent.

The actuaries take into account projected inflation and other factors to arrive at expected future payments. These are then discounted to the reporting date using a market determined, risk-free discount rate to determine the liability for outstanding insurance claims.

Market volatility and bond yield movements

The State's insurance agencies hold significant assets that are invested to support their claims liabilities. The return on these investments can have a significant impact on an insurer's net asset position. Investment market volatility has been heightened in recent years due to the impact of health measures associated with the COVID-19 pandemic and, more recently, disruptions arising from the Russia/Ukraine conflict and the challenges facing China's economy. As a result, the investment returns on the assets invested by the State's insurance agencies were negative in 2021-22.

The Insurer's net asset position is also sensitive to Commonwealth Government bond yields which, in accordance with Australian Accounting Standards, underlie the discount rates used to value the State insurance agencies' outstanding claims liabilities. In combination, the impact that increased bond yields had on the State's insurance agencies' outstanding claims liabilities in 2021-22 was more than offset by the reduction in assets that arose due to negative investment returns.

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

	State of Victoria	
	2022	*2021*
Opening balance	47 432	44 275
Effect of changes in assumptions and claims experience	(5 973)	(259)
Cost of prior year claims (unwinding of discount)	920	655
Increase in claims incurred [b]	7 443	7 698
Claim payments during the year [b]	(4 685)	(4 398)
Other	(575)	(538)
Closing balance	**44 562**	**47 432**

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

Entity	Actuary	Weighted average expected term to settlement (years) 2022	2021	Financial assumptions used (%) [(a)(b)(c)] Weighted average inflation rate (%) [(d)] 2022	2021	Weighted average discount rate (%) 2022	2021	Prudential margin used (%) [(e)] 2022	2021
Victorian WorkCover Authority (WorkSafe Victoria)	PwC Actuarial Ltd.	7.40	8.00	AWE inflation 0 to 20 years = 3.20 21+ years = 3.37 CPI inflation 0 to 20 years = 2.72 21+ years = 2.37	AWE inflation 0 to 20 years = 2.56 21+ years = 3.01 CPI inflation 0 to 20 years = 1.96 21+ years = 2.01	0 to 20 years = 3.69 21+ years = 4.24	0 to 20 years = 1.67 21+ years = 3.00	10.00	10.00
Transport Accident Commission	PwC Actuarial Ltd.	15.80	17.80	AWE inflation 0 to 20 years = 3.26 21+ years = 3.40 CPI inflation 0 to 20 years = 2.59 21+ years = 2.40	AWE inflation 0 to 20 years = 2.83 21+ years = 3.06 CPI inflation 0 to 20 years = 1.98 21+ years = 2.07	0 to 20 years = 3.82 21+ years = 4.30	0 to 20 years = 1.99 21+ years = 3.36	11.00	11.00
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Medical Indemnity)	3.90	4.00	6.60	5.70	3.40	0.90	Risk margin = 13.50 CHE = 2.00	Risk margin = 18.80 CHE = 2.00
Victorian Managed Insurance Authority [(f)]	Finity Consulting Pty Ltd. (Liability)	2.30	2.40	3.00	2.00	3.00	0.40	Risk margin = 25.80 CHE = 4.00	Risk margin = 39.00 CHE = 4.00
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Property)	1.40	1.30	3.00	2.00	3.00	0.40	Risk margin = 14.00 CHE = 4.00	Risk margin = 17.50 CHE = 4.00
Victorian Managed Insurance Authority [(g)]	Finity Consulting Pty. Ltd. (Other)	1.90	3.30	3.00	2.00	3.00	0.40	Risk margin = 17.50 CHE = 4.00	Risk margin = 17.50 CHE = 4.00
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Dust Diseases and Workers' Compensation)	9.50	10.90	5.25	4.70	3.80	1.90	Risk margin = 28.50 CHE = 3.30	Risk margin = 39.40 CHE = 4.00
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Domestic Building Insurance)	2.70	2.90	3.00	2.10	3.20	0.60	Risk margin = 23.50 CHE = 4.50	Risk margin =23.50 CHE = 4.50
Victorian Managed Insurance Authority [(g)]	Finity Consulting Pty. Ltd. (Construction)	2.80	2.70	3.00	2.00	3.00	0.40	Risk margin = 31.70 CHE = 4.00	Risk margin = 31.70 CHE = 4.00

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 the Financial assumptions used columns are weighted averages unless otherwise specified.

(d) AWE = Victorian Average Weekly Earnings.

(e) CHE refers to claims handling expenses. These are the direct expenses that are expected to be incurred when settling claims.

(f) The 2020-21 comparative figures have been updated to reflect actuarial updates to previously reported insurance claims assumptions.

(g) The 2020-21 comparative figures have been restated due to the construction related insurance assumptions, which were previously included in the 'Other' category, being reported separately from 2021-22.

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 State's assets and liabilities.

Structure

7.1 Financial instruments

Introduction

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of the State's activities, certain assets and liabilities arise under statute rather than a contract (for example, taxes, fines and penalties). Such assets and liabilities (statutory receivables and payables) are initially recognised and measured in the same manner as financial instruments, even though they are not financial instruments. The disclosure requirements associated with financial instruments therefore do not apply.

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
- to meet long-term insurance and superannuation liabilities.

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

2022	*State of Victoria*	*General government sector*
Financial assets		
Cash and deposits	17 258	10 974
Financial assets designated at fair value through profit or loss	52 957	1 002
Financial assets mandatorily measured at fair value through profit or loss	707	431
Financial assets at amortised cost	4 517	7 349
Financial assets measured at fair value through other comprehensive income	17	17
Investment in equity instrument designated at fair value through other comprehensive income	1 775	1 775
Total financial assets [(a)]	**77 233**	**21 548**
Financial liabilities		
Financial liabilities designated at fair value through profit and loss	106 487	2
Financial liabilities mandatorily measured at fair value through profit or loss	851	327
Financial liabilities at amortised cost	38 902	124 899
Total financial liabilities [(b)]	**146 240**	**125 228**

2021	*State of Victoria*	*General government sector*
Financial assets		
Cash and deposits	21 933	14 609
Financial assets designated at fair value through profit or loss	43 828	889
Financial asset mandatorily measured at fair value through profit or loss [(c)]	195	79
Financial assets at amortised cost	4 390	7 801
Financial assets measured at fair value through other comprehensive income	18	17
Investment in equity instrument designated at fair value through other comprehensive income [(c)]	1 834	1 833
Total financial assets [(a)]	**72 197**	**25 228**
Financial liabilities		
Financial liabilities designated at fair value through profit and loss	90 182	1
Financial liabilities mandatorily measured at fair value through profit or loss	578	411
Financial liabilities at amortised cost	35 109	100 880
Total financial liabilities [(b)]	**125 869**	**101 292**

Notes:
(a) The State's total financial assets exclude statutory receivables, contract assets and other receivables of $7 236 million ($7 562 million in 2021) while the general government sector's total financial assets exclude statutory receivables and contract assets of $6 132 million ($6 014 million in 2021).
(b) The State's total financial liabilities exclude statutory taxes payable, unearned income, contract liabilities, grant of right to operate liability and advance premiums of $21 870 million ($21 023 million in 2021) while the general government sector's total financial liabilities exclude statutory taxes payable, contract liabilities, grant of right to operate liability, and unearned income of $11 917 million ($11 127 million in 2021).
(c) The 2021 figures have been reclassified to reflect more current information.

Categories of financial instruments

Financial assets at amortised cost are classified within this category if both of the following criteria are met and the assets are not designated as fair value through profit or loss:

- the assets are held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are initially recognised on the date they originated and initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these assets are measured at amortised cost using the effective interest method (less any impairment).

Financial assets measured at fair value through other comprehensive income

Debt instruments are measured at fair value through other comprehensive income as an irrevocable designation choice if both of the following criteria are met and the assets are not designated as fair value through profit or loss:

- the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments are measured at fair value through other comprehensive income if the assets are not held for trading and the State has irrevocably elected at initial recognition to recognise these equity investments in this category.

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.

Upon disposal of these equity instruments, any related balance in fair value reserve is reclassified to accumulated surplus.

Financial assets at fair value through profit or loss

At initial recognition, an irrevocable designation at fair value through profit or loss is allowed subject to certain criteria. Financial instruments may be designated at fair value through profit or loss, if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or recognising the gains and losses on them on different bases.

Financial instruments at fair value through the profit or loss 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 unless the changes in fair value relate to changes in the State's own credit risk. In this case, the portion of the change attributable to changes in the State's own credit risk is recognised in other comprehensive income, with no subsequent recycling to net result when the financial liability is derecognised. The State recognises some debt securities that are held for trading in this category and designated certain debt securities as fair value through net result in this category.

Financial assets and liabilities at fair value through net result 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 the net result on the basis that the financial assets form part of a group of financial assets that are managed based on their fair values and have their performance evaluated in accordance with documented risk management and investment strategies.

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 or loss over the period of the interest bearing liability, using the effective interest rate method (refer to 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.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivatives after initial recognition are recognised in the consolidated comprehensive operating statement as an other economic flow included in the net result.

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 in any of the following instances:

- the rights to receive cash flows from the asset have expired
- 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
- 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
  - 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.

Upon disposal of debt instruments measured at fair value to other comprehensive income, any related balance in the fair value reserve is reclassified to profit or loss.

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.

Reclassification of financial instruments

Subsequent to initial recognition, reclassification of financial liabilities is not permitted. Financial assets are required to be reclassified between fair value through the net result, fair value through other comprehensive income and amortised cost when and only when the State's business model for managing its financial assets has changed such that its previous classification would no longer apply.

If under rare circumstances an asset is reclassified, the reclassification is applied prospectively from the reclassification date and previously recognised gains, losses or interest should not be restated. If the asset is reclassified to fair value, the fair value should be determined at the reclassification date and any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in the net result.

Impairment of financial assets

The State records the allowance for impairment for the relevant financial instruments consistent with the expected credit loss approach required by AASB 9. Subject to AASB 9, impairment assessments include the State's contractual receivables, statutory receivables and its investment in debt instruments.

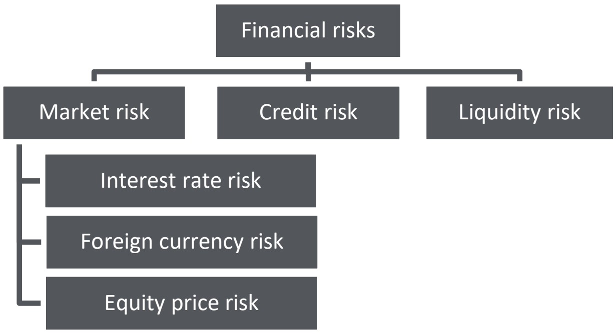
All financial instrument assets, except those measured at fair value through profit or loss, are subject to review at each reporting date.

Recognition of a loss allowance for expected credit losses on a financial asset is required. Under the general approach, if the credit risk for a financial asset has increased significantly, then the loss allowance is measured at an amount equal to the lifetime expected credit losses. If the credit risk has not increased significantly, then the loss allowance is measured at an amount equal to 12 months' expected credit losses. Under the simplified approach that has been applied to trade receivables, the measurement of their loss allowance is at an amount equal to lifetime expected credit losses.

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.

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 Financial Assets and Liabilities Group 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
- DTF administers the State's Central Banking System (CBS). The CBS is a DTF cash management initiative that allows the State to reduce its external borrowings, resulting in interest savings. Savings are achieved through a bank account pooling arrangement of department and agency accounts, utilising surplus funds to reduce the State's funding obligations
- the Treasury Corporation of Victoria (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
- the State's entities are responsible for setting their own financial risk policy and objectives in accordance with the *Standing Directions 2018* (Standing Directions) under the *Financial Management Act 1994*. 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, DTF and, for Portfolio Agencies, the Accountable Officer of their Portfolio Department 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.

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*			
2022	*Floating rate*	*Fixed rate*	*Non-interest bearing*	*Total*	*Floating rate*	*Fixed rate*	*Non-interest bearing*	*Total*
Financial assets								
Cash and deposits	16 422	137	699	17 258	10 346	121	508	10 974
Receivables	126	8	3 585	3 719	34	7	2 234	2 274
Advances paid	150	46	436	632	617	3 588	724	4 929
Term deposits	38	4 341	..	4 380	8	134	..	142
Derivative financial instruments	..	210	1 139	1 348	..	..	431	431
Equities and managed investment schemes	1 205	26	39 195	40 426	1 152	26	1 594	2 773
Debt securities	665	8 797	8	9 470	17	..	8	25
Total financial assets	**18 606**	**13 565**	**45 062**	**77 233**	**12 174**	**3 875**	**5 499**	**21 548**
Financial liabilities								
Payables, deposits held and advances received	834	25	8 895	9 754	1 141	25	6 641	7 807
Derivative financial instruments	..	581	1 411	1 991	80	..	251	331
Interest-bearing liabilities	13 110	105 689	..	118 798	8 633	93 942	..	102 575
Lease liabilities	490	7 871	420	8 781	516	7 484	237	8 237
Service concession arrangement liabilities	..	6 916	..	6 916	..	6 277	..	6 277
Total financial liabilities	**14 434**	**121 081**	**10 725**	**146 240**	**10 370**	**107 728**	**7 129**	**125 227**

2021								
Financial assets								
Cash and deposits	19 641	460	1 832	21 933	12 337	457	1 815	14 609
Receivables	74	19	3 540	3 632	6	5	2 176	2 187
Advances paid	207	43	289	538	1 447	3 606	420	5 473
Term deposits	11	766	..	777	13	120	..	133
Derivative financial instruments	..	89	699	787	..	..	79	79
Equities and managed investment schemes	326	966	37 919	39 210	278	966	1 478	2 722
Debt securities	1 181	4 131	8	5 320	17	..	8	26
Total financial assets	**21 439**	**6 472**	**44 286**	**72 197**	**14 098**	**5 154**	**5 976**	**25 228**
Financial liabilities								
Payables, deposits held and advances received	483	83	9 006	9 571	1 650	77	6 580	8 307
Derivative financial instruments	34	403	510	947	211	55	214	479
Interest-bearing liabilities [(a)]	4 451	95 710	..	100 160	4 453	73 576	..	78 030
Lease liabilities	178	8 120	374	8 672	157	7 713	197	8 067
Service concession arrangement liabilities	..	6 519	..	6 519	..	6 410	..	6 409
Total financial liabilities	**5 145**	**110 834**	**9 890**	**125 869**	**6 471**	**87 830**	**6 991**	**101 292**

Note:
(a) The 2021 figures have been reclassified from fixed to floating interest rate to more correctly reflect the nature of the borrowings.

Interest rate risk management

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

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 2022, approximately 90 per cent (90 per cent in 2021) of the State's domestic borrowings are at fixed rates of interest. There has been no material 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 on total borrowings

The State has analysed the possible effects of changes in interest rates on the total reported value of borrowings and the operating statement using the following assumptions:

- the impact of a movement in interest rates on the market value of total State borrowings for both derivative and non-derivative instruments at the reporting date, and the stipulated change occurs at the beginning of the financial year and is held constant throughout the reporting period
- an increase or decrease of 50 basis points (50 basis points in 2021). 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 a movement of this magnitude is reasonably possible.

With all other variables held constant, the impact of a 50 basis point increase or decrease on market value of total net borrowings of the State is a $2.7 billion increase/$2.8 billion decrease (30 June 2021 $2.6 billion increase/$2.8 billion decrease of a 50 basis point impact). This revaluation impact on total net borrowings is unrealised, and is recognised in the operating statement as other economic flows and impacts the net result.

The sensitivity to interest rates is mainly attributable to the revaluation of fixed interest rate borrowings at fair value, but 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 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 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, Pound sterling 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 $5.4 billion ($3.9 billion in 2021) of equities and managed investment schemes and $649 million ($1.3 billion in 2021) of foreign currency borrowings.

When managing foreign currency, VFMC, the State's fund manager, determines an optimal foreign currency exposure range at the total portfolio level in accordance with the investment risk management plan approved by the Treasurer. In the implementation of this approach, international equities, and a portion of international debt investments, are unhedged, while other investments denominated in foreign currency, such as infrastructure and hedge funds, are hedged back to Australian dollars. In certain circumstances, in accordance with VFMC's governance frameworks, VFMC may deviate from this approach with the aim of improving expected risk-adjusted portfolio outcomes.

TCV is the State's central borrowing authority and part of its funding program consists of foreign currency borrowings. The State's policy is to hedge any material foreign currency exposures arising from borrowings. TCV uses foreign exchange options, and spot and forward foreign exchange rate contracts, to manage 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 this risk, since the previous reporting period.

Foreign currency sensitivity analysis

The State has analysed the possible effects that changes in exchange rates against the Australian dollar may have on its financial position and result based on:

- exposures to the pool of foreign currencies for both derivative and non-derivative instruments at the reporting date
- historic movements, future expectations and management's knowledge and experience of the foreign currency markets
- the stipulated change taking place at the beginning of the financial year and then held constant throughout the reporting period.

On this basis, the State has assessed that it may be exposed to a 15 per cent increase or decrease in exchange rates against the Australian dollar (15 per cent in 2021).

With all other variables held constant, the impact of a 15 per cent increase or decrease in exchange rates at 30 June 2022 is a $455 million increase/ $511 million decrease ($487 million increase/ $623 million decrease in 2021) on economic flows and net assets.

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 by diversifying its investment portfolio. This is determined by VFMC, as reflected in the investment risk management plans approved by the Treasurer, and in accordance with the *Borrowing and Investments Powers Act 1987* 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 since the previous reporting period.

Equity price sensitivity analysis

The State has analysed the possible effects that changes in equity prices may have on its financial position and result based on:

- exposure to equity securities for both derivative and non-derivative instruments at the reporting date
- historic movements, future expectations and management's knowledge and experience of the volatility of the equity markets
- the stipulated change taking place at the beginning of the financial year and then held constant throughout the reporting period.

On this basis, the State has assessed that it may be exposed to a 15 per cent increase or decrease in equity prices (increase or decrease of 15 per cent in 2021).

With all other variables held constant, a 15 per cent increase or decrease in listed equities prices at 30 June 2022 is expected to result in a $2.3 million increase/$2.3 million decrease ($6.3 million increase/$6.3 million decrease in 2021) in other economic flows and net assets. On the same basis, a 15 per cent increase or decrease in unlisted equity prices is expected to result in a $3.7 billion increase/$3.7 billion decrease ($3.7 billion increase/$3.7 billion decrease in 2021) in other economic flows and net assets.

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. In accordance with the *Borrowings and Investment Powers Act 1987* and the prudential supervisory policies and framework of the State, limits are set both in terms of the quality and amount of credit exposure.

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 with reference to established credit quality and exposure policies.

In relation to each class of recognised financial asset, the State's maximum exposure to credit risk, without taking account of the value of any collateral obtained at the reporting date, 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 2021-22.

The table below provides information on the credit quality of the State's financial assets.

Credit quality of financial assets **($ million)**

State of Victoria *2022*	*(Aa2/ AA credit rating)*	*Other* *(min triple-B credit rating)*	*(not rated)*	*Total*
Financial assets				
Financial assets with loss allowance measured at 12 month expected credit loss				
Cash and deposits	2 801	5 516	343	8 660
Advances paid	9	209	111	329
Term deposits	15	28	12	55
Debt securities	..	17	8	25
Financial assets with loss allowance measured at lifetime credit loss (not credit impaired)				
Cash and deposits	7 488	1 089	20	8 598
Receivables applying the simplified approach for impairment	781	337	2 898	4 016
Term deposits	11	55	..	66
Financial assets with loss allowance measured at lifetime credit loss (credit impaired)				
Term deposits	..	35	..	35
Total financial assets	**11 107**	**7 286**	**3 392**	**21 784**

2021	*(Aa1/ AA credit rating)*	*Other* *(min triple-B credit rating)*	*(not rated)*	*Total*
Financial assets				
Financial assets with loss allowance measured at 12 month expected credit loss				
Cash and deposits	2 380	11 302	495	14 177
Advances paid	24	..	109	133
Term deposits	11	102	11	124
Debt securities	..	..	8	9
Financial assets with loss allowance measured at lifetime credit loss (not credit impaired)				
Cash and deposits	4 679	3 058	18	7 755
Receivables applying the simplified approach for impairment	866	323	2 761	3 950
Advances paid	..	82	..	82
Term deposits	..	58	..	58
Financial assets with loss allowance measured at lifetime credit loss (credit impaired)				
Term deposits	..	25	..	25
Debt securities	..	17	..	17
Total financial assets	**7 959**	**14 968**	**3 403**	**26 331**

Credit quality of financial assets *(continued)* **($ million)**

General government sector	*Government agencies*	*Other*			
2022	*(Aa2/ AA credit rating)*	*(Aa2/ AA credit rating)*	*(min triple-B credit rating)*	*(not rated)*	*Total*
Financial assets					
Financial assets with loss allowance measured at 12 month expected credit loss					
Cash and deposits	410	1 034	3 559	208	5 210
Advances paid	4 178	1	209	111	4 498
Term deposits	2	14	24	2	43
Debt securities	..	..	17	8	25
Financial assets with loss allowance measured at lifetime credit loss (not credit impaired)					
Cash and deposits	173	4 986	586	19	5 764
Receivables applying the simplified approach for impairment	162	281	199	1 895	2 537
Advances paid	163	..	..	..	163
Term deposits	..	9	55	..	64
Financial assets with loss allowance measured at lifetime credit loss (credit impaired)					
Term deposits	..	..	35	..	35
Total financial assets	**5 089**	**6 326**	**4 684**	**2 242**	**18 339**

	Government agencies	*Other*			
2021	*(Aa1/ AA credit rating)*	*(Aa1/ AA credit rating)*	*(min triple-B credit rating)*	*(not rated)*	*Total*
Financial assets					
Financial assets with loss allowance measured at 12 month expected credit loss					
Cash and deposits	349	1 334	8 169	334	10 185
Advances paid	4 815	24	..	100	4 938
Term deposits	2	6	41	1	50
Debt securities	..	..	..	8	9
Financial assets with loss allowance measured at lifetime credit loss (not credit impaired)					
Cash and deposits	20	1 786	2 598	18	4 423
Receivables applying the simplified approach for impairment	139	473	20	1 840	2 471
Advances paid	164	..	82	..	247
Term deposits	..	..	58	..	58
Financial assets with loss allowance measured at lifetime credit loss (credit impaired)					
Term deposits	..	..	25	..	25
Debt securities	..	..	17	..	17
Total financial assets	**5 489**	**3 624**	**11 010**	**2 301**	**22 424**

7.1.5 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 has entered into arrangements that do not meet the 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 net amount column shows the impact on the State 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*				
2022	*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	1 431	(82)	1 348	(602)	746
Financial liabilities					
Derivative financial instruments	2 130	(139)	1 991	(532)	1 459
2021					
Financial assets					
Derivative financial instruments	1 032	(245)	787	(406)	381
Financial liabilities					
Derivative financial instruments	1 194	(247)	947	(323)	623

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 2022 are determined as follows:

- for financial assets at amortised cost 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
- for financial assets and liabilities that are 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)**

2022	State of Victoria	General government sector
Financial assets		
Cash and deposits	(12)	(5)
Financial assets designated at fair value through profit or loss	(2 128)	(74)
Financial assets mandatorily measured at fair value through profit or loss	(1 678)	248
Financial assets at amortised cost	(17)	(9)
Financial assets measured at fair value through other comprehensive income	..	(62)
Total financial assets	**(3 835)**	**99**
Financial liabilities		
Financial liabilities designated at fair value through profit and loss	14 594	..
Financial liabilities mandatorily measured at fair value through profit or loss	(41)	..
Total financial liabilities	**14 552**	**..**

2021	State of Victoria	General government sector
Financial assets		
Cash and deposits	(8)	(6)
Financial assets designated at fair value through profit or loss	2 399	43
Financial assets mandatorily measured at fair value through profit or loss	2 080	56
Financial assets at amortised cost	118	(157)
Financial assets measured at fair value through other comprehensive income	1	123
Total financial assets	**4 590**	**58**
Financial liabilities		
Financial liabilities designated at fair value through profit and loss	2 525	..
Financial liabilities mandatorily measured at fair value through profit or loss	(135)	..
Total financial liabilities	**2 389**	**..**

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

	State of Victoria		General government sector	
	2022	2021	2022	2021
Interest income from financial assets not at fair value through profit or loss	153	182	556	594
Interest income from financial assets at fair value through profit or loss	560	566	1	..
Total	**712**	**747**	**557**	**594**

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	
	2022	2021	2022	2021
Interest expense from financial liabilities not at fair value through profit or loss	1 222	1 250	2 839	2 584
Interest expense from financial liabilities at fair value through profit or loss	2 560	2 223	1	..
Fee expenses from financial liabilities not at fair value through profit or loss	35	35	40	50
Fee expenses from financial liabilities at fair value through profit or loss	536	474	2	1
Total	**4 353**	**3 981**	**2 882**	**2 636**

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.

7.1.6 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.

The State's central treasury, TCV, is responsible for ensuring that the State's liquidity requirements can be met at all times. TCV has a liquidity policy to assist the Government to manage the whole of Victorian government liquidity risk.

The liquidity management policy has three main components as follows.

Short-term liquidity management and control

The policy requires 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 refinancing 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 2022, the whole of Victorian government liquidity ratio stood at 178 per cent against a limit of 80 per cent (214 per cent against a limit of 80 per cent in 2021). The high level of liquidity at 30 June 2022 was due to TCV accessing financial markets to pre-position itself ahead of the forecast increase in borrowing requirements. The investment of these additional funds in liquid assets in advance of the timing of expenditure has resulted in a high liquidity ratio.

Long-term liquidity management monitoring

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

Managing a liquidity crisis

In the event of a liquidity crisis, the State has liquidity crisis management plans in place 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, lease liabilities and service concession arrangement 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*	
	2022	*2021*	*2022*	*2021*
Carrying amount	118 149	98 850	102 575	78 030
Nominal amount [(a)]	153 766	110 825	107 313	79 478
Contractual maturity				
0 to 3 months	3 823	2 737	3 324	2 774
3 months to 1 year	14 935	9 538	8 866	8 329
1 to 2 years	11 947	6 938	5 997	2 615
2 to 5 years	33 463	27 547	20 048	15 170
5 years or more	89 597	64 065	69 078	50 590

Note:
(a) Represents undiscounted nominal amount.

Lease liabilities payable

($ million)

	State of Victoria		*General government sector*	
	2022	*2021*	*2022*	*2021*
Less than 1 year	1 041	958	964	865
1 year but less than 5 years	5 934	6 067	5 706	5 824
5 years or more	4 606	4 632	4 357	4 346
Minimum lease payments	**11 580**	**11 657**	**11 027**	**11 035**
Future finance charges	2 799	2 985	2 789	2 967
Total lease liabilities	**8 781**	**8 672**	**8 237**	**8 067**

Service concession arrangement liabilities payable [(a)]

($ million)

	State of Victoria		*General government sector*	
	2022	*2021*	*2022*	*2021*
Less than 1 year	915	1 601	910	1 592
1 year but less than 5 years	2 621	2 496	2 556	2 447
5 years or more	6 374	5 439	5 691	5 387
Minimum liability payments	**9 910**	**9 536**	**9 156**	**9 426**
Future finance charges	2 994	3 017	2 879	3 017
Total service concession arrangement liabilities	**6 916**	**6 519**	**6 277**	**6 409**

Note:
(a) The 2020-21 figures have been restated following the reclassification of minimum liability payments and future finance charges to better reflect the Metro Tunnel service concession arrangements.

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 2022.

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

	State of Victoria	
	2022	*2021*
General government	124	100
Public non-financial corporations	532	471
Public financial corporations	..	..
Eliminations	*(86)*	*(62)*
Total contingent assets – State of Victoria [(b)]	**569**	**509**
Guarantees, indemnities and warranties	156	144
Legal proceedings and disputes	1	6
Other	413	359
Total contingent assets – State of Victoria [(b)]	**569**	**509**

Notes:
(a) Figures reflect contingent assets that arise from outside of government.
(b) As at 30 June 2022, the majority of contingent assets held by the State relate to developer contributions of water and sewerage infrastructure whereby control is transferred to the State's water entities upon completion of various development projects.

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 either:

- 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
- present obligations that arise from past events but are not recognised because of either of the following:
  - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations
  - 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 2022.

Quantifiable contingent liabilities **($ million)**

	State of Victoria	
	2022	*2021*
General government	16 578	16 980
Public non-financial corporations	158	190
Public financial corporations	55	..
Eliminations [(a)]	*(14 523)*	*(15 004)*
Total contingent liabilities – State of Victoria	**2 269**	**2 165**
Guarantees, indemnities and warranties [(b)]	1 309	1 227
Legal proceedings and disputes	391	386
Other	569	553
Total contingent liabilities – State of Victoria	**2 269**	**2 165**

Notes:
(a) Mainly represents the guarantee of borrowings provided by the Treasurer for the public sector borrowings portfolio.
(b) Inclusive of loans provided by TCV to entities other than the State of Victoria and participating authorities, subject to the provision of a guarantee by the Treasurer.

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
- 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.

Biosciences Research Centre (known as AgriBio)

The quarterly service fee payment obligations of Biosciences Research Centre Pty Ltd (BRC Co) on behalf of the joint venture participants (Department of Jobs, Precincts and Regions 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 the financial capacity to meet their payment obligations to BRC Co, thereby enabling BRC Co to meet its obligations to pay the quarterly service fee to the concessionaire under the Project Agreement. The State underwrites the risk of any default by BRC Co.

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.

COVID-19 class action – Victorian businesses

A class action has been filed in the Supreme Court of Victoria against the State of Victoria, the Ministers for Health and Jobs, and the Secretaries of the Department of Health and Human Services (DHHS) and the Department of Jobs, Precincts and Regions (DJPR) relating to economic losses suffered by Victorian businesses under Stage 3 and 4 public health restrictions. The VMIA has been notified of this proceeding. VMIA's Combined Liability Policy will respond.

At this stage, it is impractical to quantify the financial effects of this contingent liability.

COVID-19 class action – public housing towers residents

A class action was filed in the Supreme Court of Victoria against the State of Victoria relating to the decision to declare localised public health restrictions. The VMIA has been notified of this proceeding. VMIA's Combined Liability Policy will respond.

At this stage, it is impractical to quantify the financial effects of this contingent liability.

COVID-19 related claim notifications

The Department of Transport may receive notifications under the contractual agreements by the contractors in relation to the possible impact of the COVID-19 pandemic on a number of projects. Possible future claims cannot be reliably estimated at this stage, as quantifiable claims have not yet been provided under the contract.

Until detailed claims have been submitted and substantiated by the contractors, it is not possible to estimate the financial effect of the claims.

Department of Education and Training

The Department of Education and Training has a number of non-quantifiable 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 indemnity for personal injuries or death (and at the discretion of the Minister, for property damage) 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.
- Teaching service and public service employees: if a department employee is named as a defendant in a civil proceeding (for example, a personal injury, discrimination or employment claim) any costs and damages will generally be paid by the Department provided the employee 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.
- Board members: the *Education and Training Reform Act 2006* requires the State to indemnify a member of a Merit Protection Board or a Disciplinary Appeals Board for anything done or omitted to be done in good faith in the exercise of a power or the discharge of their statutory duties.

- 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 exercise of their powers or functions. The Department may decide to indemnify school councils, which are separate entities to the Department, in claims of common law negligence, employment disputes and other civil claims, for the cost of settlement and/or 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
  - the school council has insufficient funds to pay the claim.

Firefighters' Presumptive Rights Compensation and Fire Services Legislation Amendment (Reform) Act 2019

The *Firefighters' Presumptive Rights Compensation and Fire Services Legislation Amendment (Reform) Act 2019* (Act) was assented to on 2 July 2019.

Part 2 of the Act, which came into operation on 3 July 2019, provides for the establishment and operation of the Firefighters' Presumptive Rights Compensation scheme for both career and volunteer firefighters. At the time of the preparation of this report, it is impractical to quantify any possible contingent liabilities for the State arising from the scheme.

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 the CFA at Penshurst, Bangholme, West Sale, Wangaratta, Huntly, and Longerenong have been the subject of notices issued by the Environment Protection Authority Victoria (EPA). In addition, the CFA has received a clean-up notice to remediate the immediate neighbouring properties located downstream of the formal Fiskville Training College.

The Government's response to the Fiskville Inquiry was tabled in Parliament on 24 November 2016. The response supported all of the 31 recommendations of the Victorian Parliamentary Inquiry into the CFA Training College at Fiskville, 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 the 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, and recommendations made by the inquiry.

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

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 contamination 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.

Planning scheme compensation

Under section 98 of the *Planning and Environment Act 1987*, the owner or occupier of any land may claim compensation from the planning authority for financial loss suffered as the natural, direct and reasonable consequence of the land being reserved, or declared as reserved for a public purpose under a planning scheme.

Any future liability depends on a number of factors and cannot be reliably quantified.

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
- 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

The Department of Transport (DoT) 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 DoT or a successor. In the case of some assets, a reversion back to DoT would entail those assets being purchased
- unfunded superannuation – at the early termination or expiry of the contract, DoT 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.

The Royal Commission into the Management of Police Informants

Since the conclusion of the Royal Commission into the Management of Police Informants (RCMPI), the State of Victoria (Victoria Police) have been served with a number of civil claims. These civil claims and a number of Court of Appeal criminal matters as well as ongoing disclosure work by Victoria Police will likely dictate whether further claims are received.

Given those circumstances it is not possible to reliably quantify any contingent liabilities relating to potential matters arising from the conduct explored by the RCMPI.

Royal Melbourne Showgrounds redevelopment

The State has entered into an agreement with the Royal Agricultural Society of Victoria (RASV) pursuant to which the State agrees to support certain payment obligations of RASV that may arise under the Non-Core Development Agreement subject to the RASV complying with certain obligations as set out in that Deed.

Southern Cross Station Target Capacity Threshold

The State has a possible liability relating to a claim from a contractor responsible for operating and maintaining Southern Cross Station. The claim relates to patronage levels at the station and the contract provides a process to assess whether modifications to the station, compensation to the contractor or changes to the service standards are required. The claim is being considered and the financial effect is yet to be determined.

Victorian Managed Insurance Authority – insurance cover

The Victorian Managed Insurance Authority (VMIA) was established in 1996 as an insurer for state government departments, participating bodies as defined under the *Victorian Managed Insurance Authority Act 1996* and other entities as declared by the Minister. The VMIA insures its clients for property, public and products liability, professional indemnity, medical indemnity, contract works and a range of other insurances. The VMIA also provides domestic building insurance to Victorian residential builders and provides COVID-19 event insurance to qualifying creative, business, sporting and community event organisers.

The VMIA reinsures in the private market based on the likelihood and impact of events as well as the cost and availability of such cover. The risk of losses above what VMIA reinsures in the private market is borne by the State.

The State, under separate deeds of indemnity, has agreed to reimburse VMIA:

- if the costs of public sector medical indemnity claims for a policy year exceed the initial estimate on which the risk premium was based by more than 20 per cent
- for losses above a certain limit that VMIA may incur due to changes in the availability of reinsurance.

Yallourn Power Station safety net

The Government has reached an agreement with EnergyAustralia (EA) to ensure an orderly transition as EA implements the closure of the Yallourn Power Station in June 2028.

The agreement includes, should it be needed, a safety net to avoid an unplanned exit of Yallourn.

As part of this safety net, under certain scenarios, the State agrees to provide partial support to EA in the event of exceptional costs incurred in the operation of the Yallourn Power Station.

This support will help to ensure Yallourn's workers and Victoria's energy system have sufficient time to plan for the plant's closure. The possible liability depends on a number of future events and cannot be reliably and readily quantified.

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
- land, buildings, infrastructure, plant and equipment (including service concession and right-of-use assets)
- investment properties
- 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

A number of inputs are used in determining fair value. 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
- 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
  - 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 fair value of financial instruments with standard terms and conditions 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
- Level 3 – the fair value of derivative instruments, such as interest rate futures contracts for difference, 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 [(a)] **($ million)**

	2022		2021	
State of Victoria	*Carrying amount*	*Fair value*	*Carrying amount*	*Fair value*
Financial assets				
Term deposits	156	156	207	207
Advances paid	626	624	533	534
Equities and managed investment schemes	8	8	10	10
Debt securities	8	8	8	8
Non-current receivables	391	391	377	377
Total financial assets	**1 189**	**1 187**	**1 135**	**1 136**
Financial liabilities				
Payables, deposits held and advances received	9 709	9 709	9 554	9 554
Domestic borrowings	13 551	12 832	10 351	10 629
Service concession arrangement liabilities	6 916	6 916	6 519	6 520
Total financial liabilities	**30 176**	**29 457**	**26 424**	**26 703**

General government sector				
Financial assets				
Term deposits	142	142	133	133
Advances paid	4 924	5 412	5 468	5 775
Equities and managed investment schemes	1	1	3	3
Debt securities	8	8	8	8
Non-current receivables	366	366	353	353
Total financial assets	**5 441**	**5 928**	**5 966**	**6 272**
Financial liabilities				
Payables, deposits held and advances received	7 805	7 805	8 306	8 306
Domestic borrowings	102 210	85 077	77 990	79 957
Service concession arrangement liabilities	6 277	6 277	6 409	6 409
Total financial liabilities	**116 293**	**99 159**	**92 705**	**94 673**

Note:

(a) Additional information on the State's fair value of financial assets and liabilities measured at amortised cost for both the 2022 and 2021 financial years has been provided to align with the State's financial instruments measured at fair value tables on the next page.

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

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

State of Victoria [(a)] *2022*	*Carrying amount as at 30 June*	*Level 1*	*Level 2*	*Level 3*
Financial assets				
Cash	17 258	17 258	..	..
Derivative financial instruments	1 348	45	873	430
Term deposits	4 223	32	4 192	..
Advances paid	6	6	..	..
Equities and managed investment schemes	40 418	5 226	22 128	13 064
Debt securities at fair value	9 462	1 400	8 062	..
Total financial assets	**72 716**	**23 967**	**35 254**	**13 494**
Financial liabilities				
Domestic borrowings	104 597	85 072	19 526	..
Foreign currency borrowings	649	..	649	..
Derivative financial instruments	1 991	13	1 730	247
Total financial liabilities	**107 238**	**85 085**	**21 906**	**247**
2021				
Financial assets				
Cash	21 933	21 933	..	..
Derivative financial instruments	787	4	705	79
Term deposits	570	..	570	..
Advances paid	5	4	1	..
Equities and managed investment schemes	39 200	3 335	26 037	9 828
Debt securities at fair value	5 312	182	5 130	..
Total financial assets	**67 807**	**25 458**	**32 443**	**9 907**
Financial liabilities				
Domestic borrowings	88 499	77 727	10 772	..
Foreign currency borrowings	1 310	..	1 310	..
Derivative financial instruments	947	110	634	203
Total financial liabilities	**90 756**	**77 837**	**12 716**	**203**

General government sector [(b)] *2022*	*Carrying amount as at 30 June*	*Level 1*	*Level 2*	*Level 3*
Financial assets				
Cash	10 974	10 974	..	..
Derivative financial instruments	431	1	..	430
Term deposits	..	..	..	..
Advances paid	5	5	..	..
Equities and managed investment schemes	2 773	2 145	627	..
Debt securities at fair value	17	17	..	..
Total financial assets	**14 200**	**13 142**	**627**	**430**
2021				
Financial assets				
Cash	14 609	14 609	..	..
Derivative financial instruments	79	..	..	79
Term deposits	..	..	..	..
Advances paid	4	4	..	..
Equities and managed investment schemes	2 722	2 037	550	135
Debt securities at fair value	17	17	..	..
Total financial assets	**17 431**	**16 667**	**550**	**214**

Notes:

(a) Certain 2021 figures have been restated to reflect more current information.

(b) 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)**

	Derivative financial instrument assets		Equities and managed investment schemes		Derivative financial instrument liabilities	
State of Victoria	*2022*	*2021*	*2022*	*2021*	*2022*	*2021*
Opening balance	**79**	**189**	**9 828**	**8 531**	**..**	**..**
Total gains and losses recognised in:	..	..	..	..	..	..
Net result	382	..	520	78	..	..
Other comprehensive income	..	(110)	(16)	25	..	..
Purchases	55	..	3 332	2 093	..	..
Sales	(8)	..	(838)	(1 068)	..	..
Settlements	(78)	..	15	26	..	..
Transfers from other levels	..	..	224	144	..	..
Transfers out of Level 3	..	..	(1)	..	..	..
Closing balance	**430**	**79**	**13 064**	**9 828**	**..**	**..**

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 either investment funds/trusts managed by VFMC on behalf of the State's insurance entities or derivative financial instruments in the general government sector. Approximately one third of the funds under management by VFMC are directly managed internally while two-thirds are managed externally by fund managers selected by VFMC.

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 is 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 equities.

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 primarily based on the discounted cash flow methodology. Key inputs and assumptions, which are subject to estimation uncertainty, include the risk-free discount rate, 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.

Derivative financial instruments

The fair value of derivative instruments resulting from the forward sale of large-scale generation certificates (LGCs) are determined by the State with reference to observable market prices of LGCs currently trading in the market as at reporting date. These instruments are categorised as Level 1 for fair value purposes.

In the absence of an active market, the fair value of derivative contracts for difference and the LGCs receivable are valued using unobservable inputs such as future wholesale electricity price forecasts provided by external advisors, comparable risk-free rates of zero coupon government bonds and LGC price forecasts. In addition, assumptions are applied to forecast the renewable energy generation volumes over the life of the instrument. Adjustments are made to the valuations when necessary to recognise differences in the instrument's terms. To the extent that the significant inputs are unobservable, the State categorises these investments as Level 3.

The fair value of derivative financial instruments is based on the discounted cash flow technique. The selection of variables requires significant judgement. As such, there is a range of reasonably possible assumptions in estimating the fair value of derivatives. Significant inputs in applying this technique include wholesale electricity price forecasts, LGC price forecasts, credit value adjustments, growth rates applied for cash flows and discount rates used.

7.5 Fair value determination of non-financial assets

Revaluations of non-financial physical assets

Non-financial physical assets are revalued on a cyclical basis in accordance with the Financial Reporting Directions (FRDs) issued by the Assistant Treasurer. A full revaluation undertaken by the Valuer-General normally occurs every five years, based upon the asset's classification of the functions of government framework. This led to assets within the general public services purpose group being formally revalued in 2021-22. However, a revaluation may occur more frequently if fair value assessments indicate material changes in values. Independent valuers are generally used to conduct these scheduled revaluations.

Certain infrastructure assets are revalued using specialised advisors. Any interim revaluations are determined in accordance with the requirements of the FRDs.

Under FRD 103 *Non-financial physical assets*, where the cumulative impact of relevant indicators is less than 40 per cent but greater than 10 per cent of the carrying value of an asset class, managerial revaluations are performed. During the period, managerial revaluations lead to revaluations being recorded across the State, especially related to land values, with the majority noted in the Education, Transport, Housing and Environmental Protection (within DELWP) purpose groups. These revaluations were undertaken using land and building indices as determined by the Valuer-General Victoria (VGV) and consider facts and circumstances as at the point of calculation, in addition to internal expertise and judgements. Specialised asset revaluations also take into consideration the assets' highest and best use (HBU), which must consider the use of the assets that is physically possible, legally permissible and financially feasible.

Due to the high level of valuation uncertainty inherent within any Level 3 revaluation, which has been heightened since the beginning of the COVID-19 pandemic and more recent market volatilities, current values may change over a relatively short period of time.

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.

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 current 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 the 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 public non-financial corporation 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 current 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. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

7.5.1 Land, buildings, infrastructure, plant and equipment

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

State of Victoria	*Carrying amount 2022*	*Fair value measurement at the end of the 2022 reporting period using: Level 1*	*Level 2*	*Level 3*	*Carrying amount 2021*	*Fair value measurement at the end of the 2021 reporting period using: Level 1*	*Level 2*	*Level 3*
Buildings	**69 939**	**..**	**13 917**	**56 022**	**63 521**	**..**	**13 355**	**50 166**
Non-specialised buildings	14 501	..	11 545	2 956	13 894	..	9 790	4 104
Specialised buildings	54 741	..	2 355	52 385	48 474	..	3 548	44 926
Heritage buildings	697	..	17	680	1 154	..	17	1 136
Land and national parks	**137 377**	**..**	**27 616**	**109 761**	**118 687**	**..**	**25 466**	**93 221**
Non-specialised land	26 139	..	25 412	727	25 085	..	23 730	1 355
Specialised land	66 542	..	2 204	64 338	57 815	..	1 737	56 079
Land under roads	42 687	..	..	42 687	34 120	..	..	34 120
National parks and other land only holdings	2 010	..	..	2 010	1 667	..	..	1 667
Plant, equipment, vehicles and infrastructure systems	**87 404**	**..**	**253**	**87 151**	**83 215**	**..**	**379**	**82 836**
Infrastructure systems	75 950	..	..	75 950	73 565	..	2	73 563
Rolling stock	4 638	..	..	4 638	3 305	..	..	3 305
Plant, equipment and vehicles	6 816	..	253	6 563	6 346	..	377	5 969
Roads, road infrastructure and earthworks	**45 084**	**..**	**..**	**45 084**	**41 843**	**..**	**..**	**41 843**
Cultural assets	**6 867**	**..**	**116**	**6 751**	**6 624**	**..**	**123**	**6 501**
Total land, buildings, infrastructure, plant and equipment [(a)]	**346 670**	**..**	**41 902**	**304 768**	**313 889**	**..**	**39 323**	**274 566**

Note:

(a) The State's total land, building, infrastructure, plant and equipment in this table excludes most construction in progress assets, which are valued at cost. Construction in progress assets arising from service concession arrangements are measured at fair value and included in this disclosure. The total of excluded assets is $26.3 billion (2021: $21 billion).

General government sector	*Carrying amount 2022*	*Fair value measurement at the end of the 2022 reporting period using: Level 1*	*Level 2*	*Level 3*	*Carrying amount 2021*	*Fair value measurement at the end of the 2021 reporting period using: Level 1*	*Level 2*	*Level 3*
Buildings	**46 960**	**..**	**3 078**	**43 882**	**42 892**	**..**	**4 345**	**38 548**
Non-specialised buildings	3 141	..	878	2 262	4 125	..	824	3 302
Specialised buildings	43 139	..	2 200	40 939	37 630	..	3 520	34 110
Heritage buildings	681	..	1	680	1 137	..	1	1 136
Land and national parks	**93 099**	**..**	**3 898**	**89 201**	**77 599**	**..**	**3 300**	**74 299**
Non-specialised land	2 435	..	1 813	622	2 941	..	1 679	1 262
Specialised land	45 968	..	2 085	43 883	38 871	..	1 621	37 251
Land under roads	42 687	..	..	42 687	34 120	..	..	34 120
National parks and other land only holdings	2 010	..	..	2 010	1 667	..	..	1 667
Plant, equipment, vehicles and infrastructure systems	**12 591**	**..**	**156**	**12 434**	**10 508**	**..**	**269**	**10 239**
Infrastructure systems	8 183	..	..	8 183	6 496	..	4	6 492
Plant, equipment and vehicles	4 408	..	156	4 251	4 012	..	265	3 747
Roads, road infrastructure and earthworks	**44 046**	**..**	**..**	**44 046**	**41 740**	**..**	**..**	**41 740**
Cultural assets	**6 768**	**..**	**36**	**6 732**	**6 525**	**..**	**43**	**6 482**
Total land, buildings, infrastructure, plant and equipment [(a)]	**203 464**	**..**	**7 169**	**196 295**	**179 264**	**..**	**7 956**	**171 308**

Note:

(a) The general government's sectors total land, building, infrastructure, plant and equipment in this table excludes most construction in progress assets, which are valued at cost. Construction in progress assets arising from service concession arrangements are measured at fair value and included in this disclosure. The total of excluded assets is $22.3 billion (2021: $16.3 billion).

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

State of Victoria *2022*	*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	**50 166**	**(2 196)**	**(15)**	**154**	**3 240**	**2 223**	**2 462**	**(1)**	**(11)**	**56 022**
Non-specialised buildings	4 104	(246)	..	18	48	32	35	21	(1 055)	2 956
Specialised buildings	44 926	(1 905)	(15)	132	3 413	2 190	2 427	173	1 044	52 385
Heritage buildings	1 136	(44)	..	4	(222)	1	..	(195)	..	680
Land and national parks	**93 221**	**..**	**(17)**	**100**	**15 815**	**347**	**34**	**242**	**20**	**109 761**
Non-specialised land	1 355	..	..	..	45	61	..	(28)	(706)	727
Specialised land	56 079	..	(17)	99	6 860	286	34	270	726	64 338
Land under roads	34 120	..	..	..	8 567	..	..	..	..	42 687
National parks and other land only holdings	1 667	..	..	..	342	..	..	..	..	2 010
Plant, equipment, vehicles and infrastructure systems	**82 836**	**(2 914)**	**(11)**	**268**	**(566)**	**2 906**	**4 459**	**3**	**171**	**87 151**
Infrastructure systems	73 563	(1 660)	(10)	171	(638)	1 931	2 538	..	55	75 950
Rolling stock	3 305	(352)	..	..	..	(29)	1 714	..	..	4 638
Plant, equipment and vehicles	5 969	(903)	(1)	97	71	1 004	207	3	116	6 563
Roads, road infrastructure and earthworks	**41 843**	**(958)**	**(2)**	**..**	**220**	**3 008**	**973**	**..**	**1**	**45 084**
Cultural assets	**6 501**	**(20)**	**..**	**21**	**218**	**25**	**..**	**4**	**2**	**6 751**
Total	**274 566**	**(6 088)**	**(45)**	**542**	**18 925**	**8 508**	**7 928**	**249**	**183**	**304 768**

2021										
Buildings	**46 819**	**(2 381)**	**(79)**	**330**	**(91)**	**1 418**	**3 910**	**12**	**228**	**50 166**
Non-specialised buildings	4 021	(296)	(3)	40	25	125	255	1	(64)	4 104
Specialised buildings	41 637	(2 066)	(76)	290	(96)	1 292	3 655	10	278	44 926
Heritage buildings	1 161	(19)	..	..	(20)	1	..	..	14	1 136
Land and national parks	**79 797**	**..**	**..**	**707**	**9 393**	**569**	**34**	**2 561**	**160**	**93 221**
Non-specialised land	1 280	..	..	2	161	(52)	..	(124)	88	1 355
Specialised land	42 738	..	..	704	8 945	622	34	2 685	351	56 079
Land under roads	34 398	..	..	..	..	..	..	..	(279)	34 120
National parks and other land only holdings	1 380	..	..	1	288	(1)	..	..	..	1 667
Plant, equipment, vehicles and infrastructure systems	**76 857**	**(2 819)**	**(3 885)**	**1 627**	**1 713**	**2 942**	**5 288**	**1 209**	**(96)**	**82 836**
Infrastructure systems	68 598	(1 624)	(2 326)	86	2 089	2 107	3 460	1 219	(48)	73 563
Rolling stock	2 854	(311)	..	..	(391)	7	1 146	..	..	3 305
Plant, equipment and vehicles	5 405	(885)	(1 559)	1 541	15	828	681	(10)	(49)	5 969
Roads, road infrastructure and earthworks	**41 594**	**(940)**	**..**	**98**	**(207)**	**842**	**2**	**..**	**453**	**41 843**
Cultural assets	**5 640**	**(20)**	**..**	**522**	**338**	**23**	**..**	**9**	**(13)**	**6 501**
Total	**250 708**	**(6 160)**	**(3 963)**	**3 285**	**11 147**	**5 794**	**9 233**	**3 791**	**732**	**274 566**

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

General government sector *2022*	*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	**38 548**	**(1 813)**	**(14)**	**127**	**3 221**	**2 164**	**1 669**	**..**	**12**	**(33)**	**43 882**
Non-specialised buildings	3 302	(191)	..	8	49	1	26	..	21	(954)	2 262
Specialised buildings	34 110	(1 579)	(14)	116	3 394	2 162	1 643	..	186	921	40 939
Heritage buildings	1 136	(44)	..	4	(222)	1	..	..	(195)	..	680
Land and national parks	**74 301**	**..**	**(13)**	**99**	**14 237**	**356**	**19**	**6**	**230**	**(36)**	**89 201**
Non-specialised land	1 262	..	..	..	40	61	..	..	..	(741)	622
Specialised land	37 252	..	(13)	99	5 288	295	19	6	230	705	43 883
Land under roads	34 120	..	..	..	8 567	..	..	..	..	..	42 687
National parks and other land only holdings	1 667	..	..	..	342	..	..	..	..	..	2 010
Plant, equipment, vehicles and infrastructure systems	**10 239**	**(816)**	**(3)**	**32**	**227**	**2 564**	**160**	**(9)**	**3**	**39**	**12 434**
Infrastructure systems	6 492	(43)	(3)	..	159	1 580	..	(2)	..	..	8 183
Plant, equipment and vehicles	3 747	(773)	..	32	68	984	159	(7)	3	39	4 251
Roads, road infrastructure and earthworks	**41 740**	**(954)**	**(2)**	**..**	**192**	**2 336**	**972**	**(237)**	**..**	**..**	**44 046**
Cultural assets	**6 482**	**(20)**	**..**	**21**	**218**	**25**	**..**	**..**	**5**	**2**	**6 732**
Total	**171 310**	**(3 604)**	**(32)**	**279**	**18 095**	**7 445**	**2 820**	**(240)**	**250**	**(28)**	**196 295**
2021											
Buildings	**37 004**	**(1 755)**	**(9)**	**256**	**79**	**924**	**1 875**	**(14)**	**(11)**	**199**	**38 548**
Non-specialised buildings	3 275	(243)	..	24	8	84	254	..	(38)	(63)	3 302
Specialised buildings	32 568	(1 493)	(9)	232	90	839	1 621	(14)	27	248	34 110
Heritage buildings	1 161	(19)	..	..	(20)	..	..	..	..	14	1 136
Land and national parks	**67 803**	**..**	**..**	**709**	**5 313**	**587**	**12**	**(20)**	**(94)**	**(10)**	**74 301**
Non-specialised land	1 292	..	..	2	180	(1)	..	..	(121)	(89)	1 262
Specialised land	30 732	..	..	707	4 845	589	12	(19)	28	358	37 252
Land under roads	34 398	..	..	..	..	..	..	..	..	(279)	34 120
National parks and other land only holdings	1 380	..	..	1	288	..	..	(1)	..	..	1 667
Plant, equipment, vehicles and infrastructure systems	**8 400**	**(904)**	**..**	**38**	**240**	**2 393**	**294**	**(24)**	**(11)**	**(189)**	**10 239**
Infrastructure systems	4 857	(98)	..	3	180	1 652	..	(27)	(11)	(64)	6 492
Plant, equipment and vehicles	3 543	(806)	..	36	60	742	294	3	..	(126)	3 747
Roads, road infrastructure and earthworks	**41 495**	**(936)**	**..**	**97**	**(207)**	**856**	**..**	**(19)**	**..**	**453**	**41 740**
Cultural assets	**5 640**	**(20)**	**..**	**516**	**326**	**23**	**..**	**..**	**9**	**(13)**	**6 482**
Total	**160 342**	**(3 615)**	**(9)**	**1 617**	**5 751**	**4 785**	**2 181**	**(76)**	**(106)**	**441**	**171 310**

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.

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

The table below provides the respective fair value disclosures for not-for-profit and for-profit public sector entities. The disclosures reflect 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 significantly 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	Current replacement cost	Direct cost per square metre Useful life
Specialised buildings	Current replacement cost	Direct cost per square metre Useful life
Heritage buildings	Current replacement cost	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	Current replacement cost	Cost: per square metre per unit Useful life
Plant, equipment and vehicles	Current replacement cost	Cost per unit Useful life
Roads and roads infrastructure		
Roads and roads infrastructure	Current replacement cost	Cost per kilometre lane
Earthworks	Current replacement cost	Cost per kilometre
Cultural assets		
Cultural assets	Current replacement cost	Unit of value by comparative basis Statistically verified random samples

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	Current replacement cost	Direct cost per unit	$3 192 to $50 414 185
		Direct cost per square metre	$14 to $9 000
		Useful life	1–150 years
Land			
Metropolitan water corporations	Market approach	CSO adjustment [(a)]	1–92 per cent
Channels			
Ports	Discounted cash flow method (income approach)	Discount rates [(b)]	8.6 per cent
Infrastructure			
Ports	Current 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 per cent
		Regulatory Asset Base exit multiple	1.05–1.25
		Useful life	1–245 years
Plant, equipment and vehicles			
Metropolitan water corporations	Current replacement cost	Useful life	1–25 years
		Cost per unit	$1 to $6 178 281

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 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 1994* (FMA).

Structure

8.1 Explanations of material variances between budget and actual outcomes

The tables and notes that follow explain material variances between the general government sector original budget as published in Chapter 1 of 2021-22 Budget Paper No. 5 *Statement of Finances* and actual outcomes.

The tables also include the revised budget estimates as published in Appendix B of 2022-23 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 were 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 $100 million. In regard to the other statements, high level explanations of 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*	*2022 actual*	*Budget variance*	*%*	*Revised budget variance*	*%*
Revenue and income from transactions								
Taxation	(a)	26 577	30 063	30 546	3 969	15	483	2
Interest income		637	602	557	(80)	(12)	(44)	(7)
Dividends, income tax equivalent and rate equivalent income	(b)	575	587	885	309	54	297	51
Sales of goods and services	(c)	6 405	5 491	5 645	(761)	(12)	153	3
Grants	(d)	36 778	41 869	41 805	5 027	14	(65)	..
Other revenue and income		3 605	3 257	3 586	(19)	(1)	328	10
Total revenue and income from transactions		**74 576**	**81 870**	**83 023**	**8 447**	**11**	**1 153**	**1**
Expenses from transactions								
Employee expenses	(e)	31 725	33 178	32 239	514	2	(939)	(3)
Net superannuation interest expense		565	481	481	(84)	(15)	..	..
Other superannuation	(f)	3 682	3 704	3 912	229	6	208	6
Depreciation		4 399	4 411	4 308	(91)	(2)	(103)	(2)
Interest expense	(g)	3 051	3 042	2 869	(182)	(6)	(173)	(6)
Grant expense	(h)	17 301	24 865	25 063	7 762	45	198	1
Other operating expenses	(i)	25 477	29 820	27 943	2 465	10	(1 878)	(6)
Total expenses from transactions		**86 200**	**99 501**	**96 814**	**10 614**	**12**	**(2 687)**	**(3)**
Net result from transactions – Net operating balance		**(11 624)**	**(17 631)**	**(13 791)**	**(2 167)**	**19**	**3 840**	**(22)**
Other economic flows included in net result								
Net gain/(loss) on disposal of non-financial assets		30	40	15	(15)	(51)	(25)	(62)
Net gain/(loss) on financial assets or liabilities at fair value		20	139	155	136	695	16	12
Share of net profit/(loss) from associates/ joint venture entities, excluding dividends		..	5	5	5		..	1
Other gains/(losses) from other economic flows		(521)	(430)	115	635	(122)	545	(127)
Total other economic flows included in net result	(j)	**(471)**	**(247)**	**290**	**760**	**(162)**	**537**	**(217)**
Net result		**(12 094)**	**(17 878)**	**(13 501)**	**(1 407)**	**12**	**4 377**	**(24)**
Other economic flows – Other comprehensive income								
Items that will not be reclassified to net result								
Changes in non-financial assets revaluation surplus		563	587	18 702	18 139	3 220	18 115	3 084
Remeasurement of superannuation defined benefits plans		1 241	3 396	7 791	6 551	528	4 396	129
Other movements in equity		27	11	(53)	(79)	(298)	(64)	(583)
Items that may be reclassified subsequently to net result								
Net gain/(loss) on financial assets at fair value		3	3	(45)	(47)	(1 710)	(47)	(1 710)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets		(7 403)	759	11 834	19 237	(260)	11 075	1 460
Total other economic flows – Other comprehensive income		**(5 570)**	**4 755**	**38 230**	**43 800**	**(786)**	**33 475**	**704**
Comprehensive result – Total change in net worth		**(17 664)**	**(13 123)**	**24 729**	**42 393**	**(240)**	**37 852**	**(288)**

Revenue and income from transactions

Revenue from transactions was $83 billion for the year to 30 June 2022. This is $8.4 billion (11 per cent) higher than the published budget. Movements in revenue items from the published budget are discussed below.

a) Taxation revenue was $4 billion higher than the published budget. This was primarily driven by higher than budgeted land transfer duty of $3.7 billion due to a stronger than anticipated recovery in the Victorian property market. Payroll tax and the Mental Health and Wellbeing Levy were also $442 million higher than the published budget, driven by a stronger than expected recovery in the Victorian economy and labour market.

b) Dividends, income tax equivalent and rate equivalent income was $309 million higher than the published budget. This was largely driven by income tax equivalent income from the Transport Accident Commission.

c) Revenue from the sales of goods and services was lower than the published budget by $761 million. This was primarily due to lower schools own-source revenue such as from camps, sports and excursions, lower metropolitan transport fares revenue and lower hospital and patient fees as a result of restrictions on elective surgery as a result of the COVID-19 public health response in the first half of the financial year.

d) Grant revenue was $5 billion higher than the published budget, largely driven by an increase of $4.9 billion in support for COVID-19 impacted businesses and the National Partnership on Homebuilder. It is also due to additional GST revenue of $229 million due to a stronger than anticipated recovery in consumption and dwelling investment.

Expenses from transactions

Expenses from transactions were $96.8 billion for the year to 30 June 2022. This is $10.6 billion (12 per cent) higher than the published budget.

Movements in expense items from the published budget are discussed below.

e) Employee expense was $514 million higher than the published budget primarily due to additional resources required for the public health response to COVID-19, as well as higher than expected employee costs in the community safety sector.

f) Other superannuation expense was $229 million higher than the published budget due to an increase in employer contributions to superannuation defined contributions funds.

g) Interest expense was $182 million lower than the published budget primarily due to lower than initially budgeted interest expense relating to PPP arrangements for the health, transport, community safety and water sector. It is also driven by the lower interest expense on borrowings due to lower debt levels than forecast in the original budget.

h) Grants expense was $7.8 billion higher than the published budget primarily due to $7 billion of economic support measures as part of the Government's response to COVID-19 primarily to support businesses.

i) Other operating expenses were $2.5 billion higher than the published budget. This was primarily due to public health related COVID-19 expenditure including COVID-19 testing sites and vaccination program costs as well as pathology expenditure. It is also driven by the expenditure in response to COVID-19 on the transport network as well as the initial recognition of national redress schemes and the provision of rapid antigen tests (RATs).

Other economic flows included in net result

j) Total other economic flows included in the net result have increased by $760 million since the published budget. The increase primarily reflects the gain of $382 million resulting from the fair value assessment of derivative financial instruments associated with the Victorian Renewable Energy Target and Bulgana Green Power Hub projects. There was also a gain on the revaluation of long service leave liabilities of $175 million due to an increase in the Commonwealth Government 10 year bond rate used to value these liabilities.

8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

Consolidated balance sheet as at 30 June ($ million)

	Published budget	*Revised budget*	*2022 actual*	*Budget variance*	*%*	*Revised budget variance*	*%*
Assets							
Financial assets							
Cash and deposits	13 840	14 570	10 974	(2 866)	(21)	(3 595)	(25)
Advances paid	5 508	5 094	4 929	(580)	(11)	(165)	(3)
Receivables and contract assets	6 223	6 968	8 406	2 183	35	1 438	21
Investments, loans and placements	1 434	3 776	3 370	1 936	135	(406)	(11)
Investments accounted for using the equity method	10	10	10	..	(3)	..	(3)
Investments in other sector entities	81 957	76 621	89 162	7 205	9	12 540	16
Total financial assets	**108 973**	**107 039**	**116 851**	**7 878**	**7**	**9 812**	**9**
Non-financial assets							
Inventories	657	588	1 262	605	92	674	115
Non-financial assets held-for-sale	215	194	171	(45)	(21)	(23)	(12)
Land, buildings, infrastructure, plant and equipment	188 874	207 775	225 770	36 896	20	17 995	9
Other non-financial assets	2 899	3 292	3 313	414	14	21	1
Total non-financial assets	**192 646**	**211 849**	**230 516**	**37 870**	**20**	**18 666**	**9**
Total assets	**301 619**	**318 888**	**347 367**	**45 748**	**15**	**28 479**	**9**
Liabilities							
Deposits held and advances received	2 034	1 917	1 831	(203)	(10)	(86)	(4)
Payables	18 627	16 506	17 551	(1 076)	(6)	1 046	6
Contract liabilities	190	273	342	151	80	69	25
Borrowings	120 820	123 465	117 420	(3 399)	(3)	(6 045)	(5)
Employee benefits	9 655	9 711	9 857	202	2	146	1
Superannuation	27 995	24 067	19 756	(8 239)	(29)	(4 311)	(18)
Other provisions	1 608	2 274	2 082	474	29	(192)	(8)
Total liabilities	**180 929**	**178 212**	**168 839**	**(12 090)**	**(7)**	**(9 373)**	**(5)**
Net assets	**120 690**	**140 676**	**178 528**	**57 838**	**48**	**37 852**	**27**
Accumulated surplus/(deficit)	41 528	44 170	52 824	11 296	27	8 654	20
Reserves	79 162	96 506	125 704	46 542	59	29 198	30
Net worth	**120 690**	**140 676**	**178 528**	**57 838**	**48**	**37 852**	**27**
FISCAL AGGREGATES							
Net financial worth	(71 956)	(71 173)	(51 988)	19 968	(28)	19 186	(27)
Net financial liabilities	153 913	147 795	141 149	(12 763)	(8)	(6 646)	(4)
Net debt	102 071	101 943	99 978	(2 093)	(2)	(1 965)	(2)

Net financial worth

Net financial worth is total financial assets minus total liabilities. Net financial worth was $20 billion higher than the published budget. This was due to a decrease in liabilities of $12.1 billion and an increase in financial assets of $7.9 billion.

The lower than expected liabilities were primarily due to a $8.2 billion decrease in the superannuation liability and a $3.4 billion decrease in borrowings as described under net financial liabilities below.

The increase in financial assets was primarily driven by an increase in investments in other sector entities, primarily due to an increase in the reported value of assets in the public financial corporations sector.

Net financial liabilities

Net financial liabilities are total liabilities less all financial assets (excluding investments in other sectors). Net financial liabilities were $12.8 billion lower than the published budget.

The decrease was primarily driven by a decrease in the superannuation liability of $8.2 billion reflecting an increase in the bond yields that underlie the key superannuation valuation assumptions, partially offset by the impact of lower than expected investment returns on superannuation assets during 2021-22. It is also attributable to lower than expected borrowing requirements of $3.4 billion due to a lower than originally forecast capital expenditure as well as a $1.1 billion decease in payables. This decrease in payables was primarily due to the rephasing of the finalisation of the VicRoads Modernisation Project into 2022-23. This payables decrease was partially offset by an increase in the grant of right to operate liability associated with the West Gate Tunnel Project settlement and accrued expenses in the Transport and Treasury and Finance portfolios.

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 $2.1 billion lower than the published budget. This was primarily due to decreased borrowings as explained under the net financial liabilities.

Non-financial assets

Non-financial assets were $37.9 billion higher than the published budget. This was primarily due to the revaluation of land and land under roads assets in the transport sector, revaluation of land and buildings in the education sector and revaluation of land and parks in the environment sector. The timing of asset transfers from the general government sector to other sectors of government was later than forecast, which also contributed to this increase.

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*	*2022 actual*	*Budget variance*	*%*	*Revised budget variance*	*%*
Cash flows from operating activities							
Receipts							
Taxes received	28 575	30 682	30 288	1 713	6	(393)	(1)
Grants	36 859	42 536	42 720	5 862	16	184	..
Sales of goods and services [(a)]	6 949	6 026	6 281	(668)	(10)	255	4
Interest received	620	584	548	(72)	(12)	(36)	(6)
Dividends, income tax equivalent and rate equivalent receipts	570	582	549	(20)	(4)	(33)	(6)
Other receipts	5 432	2 346	1 906	(3 525)	(65)	(440)	(19)
Total receipts	**79 004**	**82 756**	**82 293**	**3 289**	**4**	**(463)**	**(1)**
Payments							
Payments for employees	(31 418)	(32 856)	(31 334)	84	..	1 522	(5)
Superannuation	(3 785)	(3 939)	(4 062)	(277)	7	(123)	3
Interest paid	(2 714)	(2 744)	(2 591)	123	(5)	153	(6)
Grants and subsidies	(17 303)	(25 145)	(24 619)	(7 316)	42	525	(2)
Goods and services [(a)]	(24 559)	(28 373)	(27 524)	(2 965)	12	849	(3)
Other payments	(1 273)	(1 462)	(1 019)	254	(20)	443	(30)
Total payments	**(81 053)**	**(94 519)**	**(91 150)**	**(10 097)**	**12**	**3 369**	**(4)**
Net cash flows from operating activities	**(2 049)**	**(11 763)**	**(8 857)**	**(6 808)**	**332**	**2 906**	**(25)**
Cash flows from investing activities							
Cash flows from investments in non-financial assets							
Purchases of non-financial assets	(19 833)	(13 546)	(15 168)	4 665	(24)	(1 621)	12
Sales of non-financial assets	570	301	275	(295)	(52)	(25)	(8)
Net cash flows from investments in non-financial assets	**(19 263)**	**(13 246)**	**(14 893)**	**4 370**	**(23)**	**(1 647)**	**12**
Net cash flows from investments in financial assets for policy purposes	570	(635)	47	(523)	(92)	683	(107)
Subtotal	**(18 692)**	**(13 881)**	**(14 845)**	**3 847**	**(21)**	**(964)**	**7**
Net cash flows from investments in financial assets for liquidity management purposes	62	(526)	(328)	(390)	(629)	199	(38)
Net cash flows from investing activities	**(18 630)**	**(14 408)**	**(15 173)**	**3 457**	**(19)**	**(765)**	**5**
Cash flows from financing activities							
Advances received (net)	(1 140)	(874)	(930)	210	(18)	(56)	6
Net borrowings	22 103	27 006	21 355	(748)	(3)	(5 651)	(21)
Deposits received (net)	6	..	(30)	(36)	(579)	(30)	..
Net cash flows from financing activities	**20 969**	**26 132**	**20 395**	**(574)**	**(3)**	**(5 736)**	**(22)**
Net increase/(decrease) in cash and cash equivalents	**290**	**(39)**	**(3 634)**	**(3 924)**	**(1 352)**	**(3 595)**	**9 233**
Cash and cash equivalents at beginning of reporting period	13 550	14 609	14 609	1 059	8	..	..
Cash and cash equivalents at end of the reporting period	**13 840**	**14 570**	**10 974**	**(2 866)**	**(21)**	**(3 595)**	**(25)**

Note:
(a) These items include goods and services tax.

Net cash flows from operating activities

Net cash flows from operating activities were $6.8 billion lower than the published budget. This was due to an increase in grants and payment for services in response to COVID-19. This includes economic support measures including business support grants. It is also due to public health related COVID-19 expenditure including COVID-19 testing sites and vaccination program costs as well as pathology expenditure.

A reconciliation of the net result to net cash flows from operating activities is provided at Note 5.6.

Net cash flows from investing activities

Net cash flows from investing activities were $3.5 billion lower than the published budget. This decrease was primarily driven by the variation to the timing of expenditure on the State's capital program, which is now forecast to occur in later financial years.

Net cash flows from financing activities

Net cash inflows from financing activities were $574 million lower than the published budget. This was primarily due to lower borrowings than expected in the published budget primarily as a result of lower than forecast capital expenditure.

Consolidated statement of changes in equity

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

Consolidated statement of changes in equity **($ million)**

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
2021-22 original budget					
Balance at 1 July 2021	52 355	55 429	29 675	895	138 354
Net result for the year	(12 094)	..	..	..	(12 094)
Other comprehensive income for the year	1 267	563	(7 403)	3	(5 570)
Balance at 30 June 2022	**41 528**	**55 992**	**22 272**	**898**	**120 690**
2021-22 revised budget					
Balance at 1 July 2021	58 642	61 017	32 981	1 159	153 799
Net result for the year	(17 878)	..	..	..	(17 878)
Other comprehensive income for the year	3 406	587	759	3	4 755
Balance at 30 June 2022	**44 170**	**61 604**	**33 740**	**1 162**	**140 676**
2021-22 actual					
Balance at 1 July 2021	58 642	61 017	32 981	1 159	153 799
Net result for the year	(13 501)	..	..	..	(13 501)
Other comprehensive income for the year	7 683	18 702	11 834	11	38 230
Balance at 30 June 2022	**52 824**	**79 719**	**44 815**	**1 170**	**178 528**
Variance to original budget					
Balance at 1 July 2021	6 286	5 588	3 306	264	15 445
Net result for the year	(1 407)	..	..	..	(1 407)
Other comprehensive income for the year	6 416	18 139	19 237	8	43 800
Balance at 30 June 2022	**11 296**	**23 727**	**22 543**	**272**	**57 838**
Variance to revised budget					
Balance at 1 July 2021	..	..	..	..	..
Net result for the year	4 377	..	..	..	4 377
Other comprehensive income for the year	4 277	18 115	11 075	8	33 475
Balance at 30 June 2022	**8 654**	**18 115**	**11 075**	**8**	**37 852**

8.2 Public Account disclosures

The *Financial Management Act 1994* (FMA) requires the following 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 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
- 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 includes a range of specific purpose accounts established for funds that are not subject to parliamentary appropriation. Examples include accounts to record specific purpose payments from the Commonwealth for on-passing by the State to third parties, suspense account balances for accounting purposes, working accounts for commercial and departmental service units, and accounts facilitating the receipt and disbursement of other funds held by the State in trust. Additional accounts may also be established within the Trust Fund by legislation to receive State revenues hypothecated to particular purposes (e.g. lotteries revenue for hospitals and charities).

Structure of Public Account disclosure

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

($ thousand)

	Notes	*2022*	*2021*
Receipts			
Taxation		30 739 360	23 061 182
Fines and regulatory fees		904 279	845 217
Grants received		27 742 773	21 722 845
Sales of goods and services [(b)]		1 140 076	8 234 004
Interest received		455 272	472 544
Dividends, income tax equivalent and rate equivalent receipts		511 232	515 368
Other receipts		945 883	726 466
Total cash inflows from operating activities		**62 438 876**	**55 577 626**
Total cash inflows from investing and financing activities [(a)]		**27 330 194**	**31 167 043**
Total consolidated fund receipts [(a)]	8.2.2	**89 769 070**	**86 744 670**
Payments			
Special appropriations			
Special appropriations (excluding Section 33, *Financial Management Act, No. 18 of 1994* appropriation to meet certain obligations)		6 649 340	4 059 609
Section 28 *Financial Management Act, No. 18 of 1994* (appropriation for borrowing against future appropriations)	8.2.17	348 000	..
Section 33 *Financial Management Act, No. 18 of 1994* (appropriation to meet certain obligations)		523 994	130 842
Total special appropriations	8.2.7	**7 521 334**	**4 190 451**
Annual appropriations			
Provision of outputs			
Provision of outputs – net application [(b)]	8.2.8	50 014 454	59 869 476
Section 29 *Financial Management Act, No. 18 of 1994* (appropriation of annotated receipts)	8.2.11	5 474 313	2 745 468
Section 32 *Financial Management Act, No. 18 of 1994* (prior year unspent appropriations brought forward)	8.2.12	489 955	304 988
Advance to Treasurer to be sanctioned	8.2.13, 8.2.14	13 370 599	5 794 495
Total provision of outputs		**69 349 321**	**68 714 427**
Additions to net asset base			
Additions to net asset base – net application	8.2.8	8 929 804	6 141 274
Section 29 *Financial Management Act, No. 18 of 1994* (appropriation of annotated receipts)	8.2.11	1 063 346	796 259
Section 32 *Financial Management Act, No. 18 of 1994* (prior year unspent appropriations brought forward)	8.2.12	351 499	1 067 630
Advance to Treasurer to be sanctioned	8.2.13, 8.2.14	1 777 259	2 262 298
Total additions to net asset base		**12 121 909**	**10 267 460**
Payments made on behalf of the State			
Payments made on behalf of the State	8.2.8	4 870 653	4 927 450
Total payments made on behalf of State		**4 872 009**	**4 927 450**
Other			
Contribution by the State under agreements pursuant to Section 25 of the *Murray-Darling Basin Act 1993*	8.2.8	29 926	21 800
Victorian Law Reform Commission – pursuant to Section 17 (b) of the *Victorian Law Reform Commission Act 2000*	8.2.8	1 226	845
Total other		**31 152**	**22 645**
Total annual appropriations		**86 374 391**	**83 931 982**
Applied appropriations remaining unspent relating to the 2021-22 appropriations		(1 878 951)	(2 664 937)
Total payments		**92 016 774**	**85 457 497**
Consolidated fund balance 1 July		**2 247 704**	**960 532**
Add total receipts for year [(a)]		**89 769 070**	**86 744 670**
Less total payments for year		**(92 016 774)**	**(85 457 497)**
Consolidated fund balance 30 June [(a)]		**..**	**2 247 704**

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

($ thousand)

	Notes	2022	2021
Reconciliation of unspent appropriations:			
Applied appropriations unspent at end of year		13 822 004	12 467 047
add payments made during the year under the Financial Management Act, No. 18 of 1994, *Section 33*		523 994	130 842
Subtotal		**14 345 998**	**12 597 889**
less applied appropriations unspent at beginning of year		(12 467 047)	(9 932 952)
Current year appropriations remaining unspent as at 30 June		**1 878 951**	**2 664 937**

Notes:

(a) The 2020-21 figures have been restated to reflect more current information.

(b) As highlighted in the 2021-22 Budget Paper No. 3, Chapter 2 Department Performance Statements*, the capital assets charge (CAC) policy is discontinued from 2021-22. The removal of the CAC reduces the Sales of goods and service and services and Provision of output by equal amounts.*

8.2.2 Consolidated fund receipts for the financial year ended 30 June ($ thousand)

	Published budget 2022	Actual 2022	Actual 2021
Operating activities			
Taxation			
Payroll tax	9 105 012	7 938 313	7 110 395
Mental Health and Wellbeing Levy	386 700	397 491	..
Land tax [(a)]	4 264 454	3 845 986	3 334 380
Fire Services Property Levy	769 626	758 758	728 982
Congestion levy	106 276	103 942	84 111
Financial and capital transactions			
Land transfer duty	6 717 473	10 375 272	5 573 485
Other property duties	17	71	161
Metropolitan Planning Levy	20 502	22 185	18 880
Financial accommodation levy	165 053	150 963	153 243
Growth areas infrastructure contribution	181 520	194 946	122 038
Gambling			
Public lotteries	629 029	677 966	628 595
Electronic gaming machines	963 559	819 263	538 259
Casino	231 644	218 771	57 792
Racing and other sports betting	237 999	257 748	186 451
Other	79 548	73 047	72 171
Levies on statutory corporations	**172 500**	**173 480**	**173 480**
Taxes on insurance	**1 626 240**	**1 727 756**	**1 540 186**
Motor vehicle			
Registration fees pursuant to the *Road Safety Act, No. 127 of 1986*	1 944 297	1 878 406	1 763 061
Stamp duty on vehicle transfers	979 440	1 097 436	932 576
Franchise fees			
Liquor	23 457	25 842	4 584
Other [(a)]	**116 375**	**1 719**	**38 350**
Total taxation	**28 720 721**	**30 739 360**	**23 061 182**
Fines and regulatory fees			
Fines	464 874	365 154	297 917
Regulatory fees	784 360	539 125	547 300
Total fines and regulatory fees	**1 249 234**	**904 279**	**845 217**
Grants received			
Department of Education and Training	..	25 914	14 863
Department of Environment, Land, Water and Planning	211	1 215	221
Department of Families, Fairness and Housing	1 578	9 534	24 657
Department of Health	81 307	81 189	93 108
Department of Jobs, Precincts and Regions	40	27 898	5 143
Department of Justice and Community Safety	200	625	825
Department of Transport	5 768	6 419	37 774
Department of Treasury and Finance	23 519 801	27 589 979	21 546 255
Total grants received	**23 608 906**	**27 742 773**	**21 722 845**
Sales of goods and services			
Capital asset charge	..	..	6 899 054
Other sales of goods and services	1 396 193	1 140 076	1 334 951
Total sales of goods and services	**1 396 193**	**1 140 076**	**8 234 004**
Interest received	**475 295**	**455 272**	**472 544**
Dividends, income tax equivalent and rate equivalent revenue			
Dividends	202 709	246 989	227 442
Income tax equivalent revenue	239 890	259 619	283 360
Local government tax equivalent revenue	6 520	4 624	4 566
Total dividends, income tax equivalent and rate equivalent revenue	**449 120**	**511 232**	**515 368**

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

	Published budget 2022	*Actual 2022*	*Actual 2021*
Other receipts			
Land rent received	18 746	17 882	22 350
Royalties received	139 141	139 940	137 048
Other	3 943 359	788 061	567 069
Total other receipts	**4 101 246**	**945 883**	**726 466**
Total cash inflows from operating activities	**60 000 715**	**62 438 876**	**55 577 626**
Cash inflows from investing activities			
Proceeds from sale of property, plant and equipment	..	170 993	32 016
Other loans	642	..	..
Return of capital – government entities	432 844	209 394	13 453
Total cash inflows from investing activities	**433 486**	**380 387**	**45 469**
Cash inflows from financing activities			
Loans to government agencies	25 355	19 170	37 452
Borrowings (b)	26 101 570	26 930 637	31 084 123
Total cash inflows from financing activities (b)	**26 126 924**	**26 949 807**	**31 121 574**
Total cash inflows from investing and financing activities (b)	**26 560 410**	**27 330 194**	**31 167 043**
Total consolidated fund receipts (a)	**86 561 125**	**89 769 070**	**86 744 670**

Notes:
(a) The 2020-21 figures and 2021-22 published budget figures have been reclassified to more correctly reflect the nature of the transactions.
(b) The 2020-21 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)

	2022	*2021*
Cash flows from operating activities		
Receipts		
Taxation	416 620	428 274
Regulatory fees and fines	243 502	84 166
Grants received	25 590 211	20 932 858
Sale of goods and services	1 453 891	1 296 189
Interest received	32 853	35 394
Dividend received	17 610	85 571
Net transfers from the consolidated fund	9 513 193	7 836 103
Other receipts	172 577	319 561
Payments		
Payments for employees	(670 495)	(620 611)
Superannuation	(50 407)	(32 669)
Interest paid	(126 255)	(82 231)
Grants and subsidies	(27 134 468)	(22 197 488)
Goods and services	(5 034 123)	(4 076 605)
Net cash flows from operating activities	**4 424 709**	**4 008 513**
Cash flows from investing activities		
Purchase of non-financial assets	(172 654)	(6 695)
Sales of non-financial assets	88 215	71 413
Net proceeds from customer loans	236 882	911 293
Other investing activities	(3 919 963)	(3 757 576)
Net cash flows from investing activities	**(3 767 520)**	**(2 781 566)**
Cash flows from financing activities		
Net borrowings	(83 273)	(140 766)
Net cash flows from financing activities	**(83 273)**	**(140 766)**
Net increase/(decrease) in trust fund cash and deposits	**573 916**	**1 086 182**

8.2.4 Trust fund summary for the financial year ended 30 June ($ thousand)

	Balances held 2022	*Balances held 2021*
State Government funds		
Accounts established to receive levies imposed by Parliament and record the expenditure thereof	288 785	395 933
Accounts established to receive monies provided in the annual budget and record the expenditure thereof	765 804	515 060
Specific purpose operating accounts established for various authorities	3 033 273	3 339 246
Suspense and clearing accounts to facilitate accounting procedures	28 798	402 392
Treasury Trust Fund	299 027	247 023
Agency and deposit accounts	772 295	636 062
Total State Government funds	**5 187 981**	**5 535 715**
Joint Commonwealth and State funds	**173 777**	**229 248**
Commonwealth Government funds		
Commonwealth Grants passed on to individuals and organisations	56 015	118 633
Total Commonwealth Government funds	**56 015**	**118 633**
Prizes, scholarships, research and private donations	**443 318**	**463 230**
Total Trust Fund	**5 861 091**	**6 346 825**

8.2.5 Reconciliation of cash flows to balances held ($ thousand)

	Balances held at 30 June 2021	*Net movement for year*	*Balances held at 30 June 2022*
Cash and deposits			
Cash balances outside the Public Account	(200)	(1 134)	(1 334)
Deposits held with the Public Account – Specific trusts [(a)]	1 027 178	(2 693)	1 024 485
Deposits held with the Public Account – General trusts	15	..	15
Other balances held in the Public Account	6 016 025	(2 663 259)	3 352 767
Total cash and deposits [(a)]	**7 043 018**	**(2 667 085)**	**4 375 933**
Investments			
Investments held with the Public Account – Specific trusts	1 551 512	(66 354)	1 485 158
Total investments	**1 551 512**	**(66 354)**	**1 485 158**
Total fund balances	**8 594 530**	**(2 733 438)**	**5 861 091**
Less funds held outside the Public Account			
Cash	(200)	(1 134)	(1 334)
Total fund balances held outside the Public Account	**(200)**	**(1 134)**	**(1 334)**
Total funds held in the Public Account [(a)(b)]	**8 594 730**	**(2 732 305)**	**5 862 425**

Notes:

(a) The 2020-21 figures have been restated to reflect more current information.

(b) 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 [(a)] ($ thousand)

	2022	2021
Funds held at 30 June		
Trust accounts		
Amounts invested on behalf of specific trusts	2 509 644	2 578 690
Amounts invested on behalf of general trusts	15	15
General account balances	3 352 767	3 768 321
Total trust accounts	**5 862 425**	**6 347 026**
Consolidated fund account balance	**..**	**2 247 704**
Total funds held in the public account	**5 862 425**	**8 594 730**
Represented by:		
Stocks and securities held with/in –		
Managed investments	1 485 174	1 551 527
Treasury Corporation of Victoria	7 060	17 145
	1 492 234	**1 568 672**
Cash and investments held with/in –		
Treasury Corporation of Victoria	..	(1 990 000)
Cash at bank balances held in Australia	3 510 776	8 123 465
	3 510 777	**6 133 465**
Total stock, securities, cash and investments	**5 003 010**	**7 702 137**
Add cash advanced pursuant to Sections 36 and 37 of the *Financial Management Act, No. 18 of 1994*	859 415	892 593
Total funds held in the public account	**5 862 425**	**8 594 730**

Note:
(a) Certain 2020-21 figures have been restated to reflect more current information.

8.2.7 Consolidated Fund payments: special appropriations ($ thousand)

	2022	2021
Education and Training	6 173	5 783
Environment, Land, Water and Planning	202 054	138 145
Families, Fairness and Housing	65 299	62 233
Health	2 306 388	1 088 195
Jobs, Precincts and Regions	1 812	18 888
Justice and Community Safety	334 230	135 841
Premier and Cabinet	69 504	99 203
Transport	1 535 940	796 229
Treasury and Finance	2 687 708	1 546 062
Parliament	50 732	54 770
Courts	261 493	245 104
Total special appropriations	**7 521 334**	**4 190 451**

8.2.8 Consolidated Fund payments: annual appropriations ($ thousand)

2022	*Provision of outputs* [(c)]	*Additions to net asset base*	*Payments made on behalf of the State*	*Total* [(c)]
Education and Training	14 204 687	1 000 501	..	15 205 188
Environment, Land, Water and Planning	1 816 366	195 992	678 100	2 690 457
Families, Fairness and Housing [(a)(b)]	5 903 801	205 618	69 107	6 178 526
Health [(a)]	11 491 080	..	..	11 491 080
Jobs, Precincts and Regions	2 188 919	121 771	80 773	2 391 463
Justice and Community Safety	8 508 661	689 837	52 956	9 251 455
Premier and Cabinet [(b)]	459 502	..	..	459 502
Transport	4 264 746	6 557 532	..	10 822 278
Treasury and Finance	470 349	9 137	4 019 643	4 499 129
Parliament	240 979	8 032	..	249 011
Courts	466 591	141 384	..	607 975
Total annual appropriations	**50 015 681**	**8 929 804**	**4 900 579**	**63 846 064**

2021				
Education and Training	15 444 774	743 368	..	16 188 142
Environment, Land, Water and Planning	2 048 924	120 881	683 122	2 852 927
Families, Fairness and Housing [(a)(b)]	2 162 471	172 722	16 693	2 351 886
Health [(a)]	16 813 031	241 811	50 078	17 104 920
Jobs, Precincts and Regions	5 843 550	149 624	82 876	6 076 050
Justice and Community Safety	8 445 264	603 730	154 500	9 203 494
Premier and Cabinet [(b)]	498 651	..	..	498 651
Transport	7 490 664	3 933 441	..	11 424 105
Treasury and Finance	460 702	117 157	3 961 982	4 539 841
Parliament	234 724	4 165	..	238 889
Courts	427 565	54 376	..	481 941
Total annual appropriations	**59 870 321**	**6 141 274**	**4 949 250**	**70 960 845**

Notes:

(a) *Effective from 1 February 2021, the Department of Health and Human Services was renamed the Department of Health, and the new Department of Families, Fairness and Housing was created. As a result, portfolio responsibilities of Child Protection, Prevention of Family Violence, Housing and Disability were transferred from the former Department of Health and Human Services to the Department of Families, Fairness and Housing. Refer to Note 9.8 in the* 2020-21 Financial Report *for the State of Victoria for further details.*

(b) *Effective from 1 February 2021, portfolio responsibilities for Multicultural Affairs, LGBTIQ+ Equality, Veterans, and the offices for Women and Youth were transferred from the Department of Premier and Cabinet to the Department of Families, Fairness and Housing.*

(c) *As highlighted in the 2021-22 Budget Paper No. 3, Chapter 2* Department Performance Statements*, the capital assets charge (CAC) policy is discontinued from 2021-22. The removal of the CAC reduces the appropriations for provision of output in line with a reduction in CAC expenses.*

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)

	2022	*2021*
Appropriation transfer equivalent to consolidated fund receipts	38 700	38 017
Interest received on credit balances	15	12
Total amounts paid into working accounts	**38 715**	**38 029**

8.2.10 Transfers pursuant to Sections 30 and 31 of the *Financial Management Act 1994* for the financial year ended 30 June 2022 ($ thousand)

	Decrease	*Increase*
Section 30 and 31 transfers		
(Transfers between items of departmental appropriations)		
Education and Training		
Provision of outputs	47 218	
Additions to the net asset base		47 218
Environment, Land, Water and Planning		
Provision of outputs		16 482
Additions to the net asset base	27 150	
Payments made on behalf of the State		10 668
Families, Fairness and Housing		
Provision of outputs	226 138	
Additions to the net asset base		226 138
Health		
Provision of outputs		51 096
Additions to the net asset base	51 096	
Jobs, Precincts and Regions		
Provision of outputs	10 203	
Additions to the net asset base		6 142
Payments made on behalf of the State		4 061
Justice and Community Safety		
Provision of outputs		573 294
Additions to the net asset base	573 294	
Premier and Cabinet		
Provision of outputs		12 816
Additions to the net asset base	12 816	
Transport		
Provision of outputs		59 397
Additions to the net asset base	59 397	
Treasury and Finance		
Provision of outputs	52 000	
Additions to the net asset base	124 100	
Payments made on behalf of the State		176 100
Courts		
Provision of outputs		28 351
Additions to the net asset base	28 351	
Total Section 30 and 31 transfers	**1 211 763**	**1 211 763**

8.2.11 Appropriation of revenue and asset sale proceeds pursuant to Section 29 of the *Financial Management Act 1994* for the financial year ended 30 June 2022 ($ thousand)

		Source		
Department	*Outputs*	*Commonwealth*	*Other*	*Total*
Education and Training	54 008	514 339	25 914	594 261
Environment, Land, Water and Planning	147 292	124 566	..	271 858
Families, Fairness and Housing	33 186	416 535	5 688	455 409
Health	275 502	102 726	1 550	379 778
Jobs, Precincts and Regions	88 896	3 099 382	25 400	3 213 678
Justice and Community Safety	188 463	98 362	1 039	287 864
Premier and Cabinet	810	..	..	810
Transport	129 720	1 099 275	..	1 228 995
Treasury and Finance	..	..	9 732	9 732
Parliament	30 640	..	..	30 640
Courts	64 632	..	..	64 632
Total appropriation	**1 013 150**	**5 455 186**	**69 323**	**6 537 659**

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

Amounts approved for carryover to 2021-22 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*
Education and Training	69 200	21 256	..	90 456
Environment, Land, Water and Planning	50 676	2 446	..	53 122
Families, Fairness and Housing	27 759	13 420	..	41 179
Health	65 848	..	..	65 848
Jobs, Precincts and Regions	22 567	..	..	22 567
Justice and Community Safety	29 395	90 824	..	120 219
Premier and Cabinet	8 580	..	..	8 580
Transport	231 927	274 591	..	506 518
Treasury and Finance	14 411	..	1 356	15 767
Parliament	5 192	109	..	5 301
Courts	4 693	20 557	..	25 250
Total carryovers by department	**530 247**	**423 203**	**1 356**	**954 806**

Amounts applied against carryover of appropriations in 2021-22 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*
Education and Training	61 403	21 256	..	82 659
Environment, Land, Water and Planning	50 676	..	..	50 676
Families, Fairness and Housing	26 761	12 609	..	39 370
Health	65 755	..	..	65 755
Jobs, Precincts and Regions	12 439	..	..	12 439
Justice and Community Safety	29 395	90 824	..	120 219
Premier and Cabinet	8 580	..	..	8 580
Transport	210 900	206 238	..	417 139
Treasury and Finance	14 411	..	1 356	15 767
Parliament	4 942	15	..	4 957
Courts	4 693	20 557	..	25 250
Total carryovers by department	**489 955**	**351 499**	**1 356**	**842 810**

Amounts approved for carryover to 2022-23 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*
Education and Training	106 854	325 524	..	432 378
Environment, Land, Water and Planning	81 958	15 280	..	97 238
Families, Fairness and Housing	22 317	14 462	..	36 779
Health	43 704	..	..	43 704
Jobs, Precincts and Regions	44 721	..	..	44 721
Justice and Community Safety	7 936	50 442	..	58 379
Premier and Cabinet	9 404	..	..	9 404
Transport	59 960	166 097	..	226 056
Treasury and Finance	25 486	..	..	25 486
Parliament	5 506	1 516	..	7 022
Courts	..	15 658	..	15 658
Total carryovers by department	**407 846**	**588 980**	**..**	**996 825**

8.2.13 Payments from advance to the Treasurer exclusive of those attributable to COVID-19 for the financial year ended 30 June

($ thousand)

Department	*Purpose*	*2021-22*
Environment, Land, Water and Planning	2021-22 flood and storm events	69 616
	Aviation resources	14 911
	Workforce Transition	9 452
	Bushfire preparedness 2021-22	4 500
	Guaranteed service level payment	3 100
		101 579
Families, Fairness and Housing	Workforce Transition	42 034
	Supported independent living and short-term accommodation and assistance services to the non-government sector	41 305
	'Jobs that Matter' workforce recruitment campaign	990
	LGBTIQ+ strategy	800
	VITS LanguageLoop review	320
		85 449
Health	Addressing demand for hospital services	323 260
	Additional resources for health services	109 965
	Supplementation for the Hospital and Charities Fund	108 899
	Elective surgery catch-up plan	20 000
	Decriminalising public drunkenness	15 754
	Free dental care for government school students	11 823
	Aikenhead Centre for Medical Discovery	11 000
	Frankston Hospital Redevelopment	10 000
	Modernising Victoria's health system through governance reform	7 877
	Enabling a high-quality, efficient public pathology system	5 275
	Service delivery fund for Aboriginal Community Controlled Organisations and Aboriginal Community Controlled Health Organisations	4 200
	Responding to drug-related harms	3 573
	New local services for adults and older adults in their communities	1 886
	Decriminalisation of sex work in Victoria	1 756
	Responding to community-based healthcare demand	1 668
	Supporting the mental health and wellbeing of rural and regional Victorians	1 000
	Sunbury and Cobaw Community Health Hub expansion	500
		638 436
Jobs, Precincts and Regions	Victoria's Digital Future Now	56 735
	Events Restart Fund	54 000
	La Trobe University Sports Park	50 216
	Melbourne Arts Precinct transformation	35 846
	2026 Victorian Commonwealth Games	35 760
	Visitor economy – recovery and reform package	32 282
	Infrastructure upgrade to support major event delivery	25 150
	Victorian start-up capital fund	20 000
	Industry support and investment	17 359
	Workforce Transition	17 048
	Securing and scaling mRNA vaccine manufacturing capability in Victoria	13 195
	Victorian Sick Pay Guarantee	13 141
	Repowering and cash advance facility	11 593
	Cultural Agencies: Solvency, Recovery and Adaptation	7 774
	Melbourne Exhibition and Convention Centre	8 695
	Suburban revitalisation and growth	8 449
	Whitten Oval master plan stage two	8 200
	Royal Melbourne Showgrounds redevelopment project	7 651
	Medical Research: Generation Victoria and Living Evidence	7 000
	Australian MedTech manufacturing centre	5 919
	Australian Institute of Infectious Disease	5 601

8.2.13 Payments from advance to the Treasurer exclusive of those attributable to COVID-19 for the financial year ended 30 June *(continued)*

($ thousand)

Department	*Purpose*	*2021-22*
Jobs, Precincts and Regions	Research development of treatments and responses	4 577
(continued)	National agreement red imported fire ant eradication program	4 512
	Alice Anderson Fund (previously known as the Women's founders Angel Sidecar Fund)	4 000
	Implementation of the Victorian Forestry Plan	3 400
	Victorian Government Trade and Investment Network	3 100
	State Basketball Centre	2 282
	Biosecurity responses	2 278
	Supporting Victoria's public libraries	1 100
	Municipal emergency resourcing program	1 000
	Supporting our Olympians in Tokyo	775
	Community sports infrastructure loans scheme	623
	Animal welfare support	541
	Defence capture plan	450
	June 2021 flood and storm event – recovery package	360
	Aboriginal economic development: Building opportunity and economic prosperity	350
	Leadership for women in local government	250
	Rural Women's Network	160
	Rural roads support package	150
		471 519
Justice and Community Safety	WorkSafe sustainability measures	450 291
	Supporting Victoria Police's operations and resources	215 022
	Storm and flood clean-up program and recovery initiatives	149 184
	Stolen Generations Reparations Package	123 700
	Emergency Services Telecommunications Authority (ESTA) operations	72 055
	Workforce Transition	50 529
	Initiatives to fast-track Victoria's recovery from the 2019-20 bushfires	36 677
	Additional depreciation equivalent funding following an asset revaluation	27 866
	Hopkins Correctional Centre funding supplementation	26 738
	Mental Health and Wellbeing Levy	17 554
	Victoria Police Restorative Engagement and Redress Scheme funding	17 150
	Royal Commission into the Management of Police Informants	7 755
	Victoria Police system enhancements and resources	4 516
	Emergency service organisations infrastructure	4 435
	Decriminalising public drunkenness	4 052
	Crime prevention initiatives	3 823
	Service delivery transformation program	3 790
	Improving capacity for Traditional Owner Corporations to negotiate Recognition and Settlement Agreements with the State	2 575
	Gambling and Liquor Regulatory Reform	2 429
	Digital future of the Registry of Births, Deaths and Marriages	2 288
	Government response to Inspector-General for Emergency Management Victoria (IGEM) inquiries into the bushfires and emergency management sector	1 955
	Decriminalisation of sex work in Victoria	1 774
	Responding to historical forced adoptions in Victoria	1 168
	Technology and resources to support Victoria's fines system	1 000
	Royal Commission into Aboriginal Deaths	980
	Implementing the Legislated Spent Convictions Scheme	868
	Mental Health led emergency responses for Victorians in crisis	745
	Property market review	447
	Supporting victims of crime	370
	Sick Pay Guarantee	38
		1 231 775

8.2.13 Payments from advance to the Treasurer exclusive of those attributable to COVID-19 for the financial year ended 30 June *(continued)*

($ thousand)

Department	*Purpose*	*2021-22*
Premier and Cabinet	Digital Victoria transition plan	10 000
	Cenitex resiliency activities	3 365
	Hybrid cloud and data centre discovery	2 279
	Donation for flood affected communities	2 000
	Women in construction	1 798
	Workforce transition fund	1 705
	Development of the Digital Victoria marketplace	1 202
	Digital Victoria – common corporate platforms	1 126
	Increased funding for the Office of the Chief Parliamentary Counsel	693
	Delivering a Victorian truth and justice process	529
	Base review initiative implementation	500
	Progressing social services reforms	431
	Legal action support	391
	Public Records Office Victoria asset maintenance and renewal program	247
	Additional security for members of Parliament	180
	Extension to the Administrator of Framlingham Aboriginal Trust	140
	Service Victoria digital driver licences	128
		26 715
Transport	West Gate Tunnel Project	574 419
	North East Link Primary Package	214 011
	Suburban Rail Loop	154 990
	Next Generation Trams	142 394
	Switching on the Big Build	127 347
	Car Parks for Commuters	43 654
	Registration and Licensing Modernisation Program	41 355
	Great Ocean Road Infrastructure and Resilience	38 523
	City Loop Fire and Safety Upgrade (Stage 2) and Intruder Alarm	33 707
	Workforce Transition	27 206
	Metro Tunnel	23 559
	High Capacity Metro Trains	15 829
	Murray Basin Rail Project	13 000
	Dandenong Rationalisation	12 695
	Level Crossing Removal Program	12 169
	Better Boating Fund	11 792
	Shepparton Corridor Upgrade – Stage 3	11 075
	North East Link	10 454
	Western Roads Upgrade	10 000
	Registration and Licensing Service Recovery	7 006
	Metropolitan Road and Intersection Upgrades	6 241
	Caulfield Rationalisation Works	6 152
	St Kilda Pier Redevelopment	5 900
	Metropolitan Bus Franchise Contract	5 500
	Outer Metropolitan Ring Road (OMR) Public Acquisition Overlay	5 041
	Kananook Stabling Yard	4 834
	Ballarat Line Upgrade – Stage 1	4 078
	Additional Train Services	3 957
	V/Line Temporary Facilities (Including Rostering/Payroll System Upgrade)	2 879
	Warrnambool Line Upgrade – Stage 2	1 664
	Waurn Ponds Duplication – Stage 2	1 631
	Target One Million	1 494
	Commercial Passenger Vehicles Victoria (CPVV) – Central Accommodation Management (CAM)	1 236
	Traffic Infringement Camera Trials	1 097

8.2.13 Payments from advance to the Treasurer exclusive of those attributable to COVID-19 for the financial year ended 30 June *(continued)*

($ thousand)

Department	*Purpose*	*2021-22*
Transport	Regional Grass Slashing	488
(continued)	Local Port Projects	487
	Accommodation and Workplace Modernisation Strategy	474
	New Bike Lanes to make St Kilda Road safer for everyone	440
	CityLink Tullamarine Freeway Widening – final completion costs	400
	Metropolitan Intermodal System	360
	Walking and Cycling – Stage 2	356
	Putting Passengers First: Night Network	349
	City Road and Power Street Intersection Safety Improvements	158
	Metropolitan Bus service Improvements	151
	CityLink Tullamarine Freeway Widening – Section 2	61
	Western Interstate Freight Terminal	59
	Metropolitan Level Crossings – Development and Early Works	6
	Western Highway – Ararat Bypass	1
		1 580 677
Treasury and Finance	Social Housing Growth Fund	523 827
	Victorian Homebuyer Fund – shared equity	158 900
	Victorian Homebuyer Fund – operating cost	12 752
	Workforce Transition	4 966
	Venture Growth Fund Financial Governance and Implementation Update	2 461
	Partnerships Addressing Disadvantage (PAD)	1 644
	Energy Brix site rehabilitation	1 279
	Mental Health and Wellbeing Levy	865
	Expansion of regulatory activities of the Essential Services Commission	591
	Windfall Gains Tax implementation	550
		707 835
Parliament	Electorate Office safety and security upgrades	1 544
	Additional funding for Independent Broad-based Anti-corruption Commission	610
	Ombudsman’s Parliamentary Referral Investigation	546
	Ombudsman’s legislative mandate	500
	Electorate office maintenance cost	387
	Parliamentary Budget Office: Funding for 2022 general election costs	350
	Chamber technology upgrade	209
	Parliament House historic restoration works	203
	Performance audit of Victorian Inspectorate by Integrity and Oversight Committee	22
		4 371
Courts	County Court facility project (Melbourne)	228 588
	Replacement accommodation for Court Services Victoria	58 698
	Dandenong Specialist Children’s Court	2 573
		289 859
Total Payments from Advance to the Treasurer exclusive of those attributable to COVID-19		**5 138 215**

8.2.14 Payments from advance to the Treasurer attributable to COVID-19 for the financial year ended 30 June

($ thousand)

Department	*Purpose*	*2021-22*
Families, Fairness and Housing	COVID-19 Emergency Response for Children and Young People (CERCY), High Risk Accommodation Response (HRAR) and alternative outbreak accommodation	35 024
	Continue and boost key pandemic-related supports for Victorian communities	17 310
		52 334
Health	COVID-19 health response	883 547
	Supporting the community and health system through the COVID-19 pandemic	739 001
	Public health and local place-based delivery	571 541
	Rapid antigen tests	394 969
	Securing and maintaining a personal protective equipment (PPE) stockpile	257 400
	Enabling care and meeting demand for hospital services	176 500
	Improving outbreak responses to the COVID-19 Delta variant	172 928
	Immunising Victorians against COVID-19 – booster doses and 5 to 11 year-olds	141 101
	COVID-19 mental health and wellbeing response	4 630
	COVID-19 Capability and Response	1 000
		3 342 618
Jobs, Precincts and Regions	COVID-19 pandemic industry and economic support	4 264 020
	Test isolation payments and reimbursement to the Commonwealth Government for the Pandemic leave disaster payments	482 292
	Creative industries support	65 264
	Supporting Victoria’s creative, live music and events sectors	51 519
	International education resilience fund	49 747
	COVIDSafe Outdoor Activation Program	44 498
	Supporting industries: COVID-19 coordination and recovery	34 064
	Melbourne CBD economic revitalisation package	19 310
	Support for seasonal agricultural workforce	12 445
	Sporting Trusts solvency support	8 286
	Seasonal workforce accommodation program	3 217
		5 034 662
Justice and Community Safety	COVID-19 Quarantine Victoria	387 963
	Victoria Police’s COVID-19 response	118 989
	Responding to COVID-19 in corrections and youth justice	62 268
	Industry engagement and enforcement operation	11 192
		580 412
Premier and Cabinet	Breakthrough Victoria Fund	108 644
	Alternative quarantine accommodation hub	11 986
	Service Victoria digital vaccination certification	9 282
	Service Victoria enhanced fast response team capability to support COVID-19	7 677
	COVID-19 communications campaign	7 406
	VPS workforce hubs	6 343
	Donation to the Good Friday Appeal 2022	2 000
	Service Victoria streamlining and digitising businesses	1 445
	Insights Victoria platform	750
	Establishment of the Recovery Tracking and Analytics branch	487
		156 020
Transport	COVID-19 Impacts on the Transport Network	468 649
	Metro Tunnel – COVID-19 impacts	106 238
		574 887
Treasury and Finance	COVID-19 Disaster Payments	233 419
	Rapid antigen test freight costs	13 124
	Hotel quarantine costs - interstate reimbursement	11 830
	Supporting Victoria’s creative, live music and events sectors	10 000
		268 373
Parliament	COVID-19 pandemic related costs	338
		338
Total Payments from advance to the Treasurer attributable to COVID-19		**10 009 643**

8.2.15 Payments from advances and unused advances carried forward to 2021-22 pursuant to Section 35 and 35(4) of the *Financial Management Act 1994*

There have been no payments from advances or amounts being carried forward to 2021-22 from prior financial year under Section 35 and 35(4) of the *Financial Management Act 1994*.

8.2.16 Government guarantees

Money received or recovered in respect of any guarantee payments

There has been no money received or recovered during 2021-22 in respect of any guarantee payments.

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

	2022	*2021*
Section 28 allocations		
(Appropriation for borrowing against future appropriation)		
Department of Transport		
Addition to net asset base	348 000	..
Total Section 28 allocations	**348 000**	**..**

9. OTHER DISCLOSURES

Introduction to this section

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

Structure

9. OTHER DISCLOSURES

9.1 Disaggregated information

Disaggregated operating statement for the financial year ended 30 June **($ million)**

	General government sector		*Public non-financial corporations*	
	2022	*2021*	*2022*	*2021*
Revenue and income from transactions				
Taxation	30 546	23 613	..	..
Interest income	557	594	10	10
Dividends, income tax equivalent and rate equivalent income	885	620	51	53
Sales of goods and services	5 645	7 949	6 823	6 459
Grants [(a)]	41 805	36 958	3 009	5 306
Other revenue and income	3 586	2 915	810	775
Total revenue and income from transactions	**83 023**	**72 649**	**10 703**	**12 603**
Expenses from transactions				
Employee expenses	32 239	30 044	1 593	1 472
Net superannuation interest expense	481	305	1	..
Other superannuation	3 912	3 426	155	140
Depreciation	4 308	4 165	1 938	1 832
Interest expense	2 869	2 614	804	842
Grant expense	25 063	22 086	527	341
Other operating expenses [(a)]	27 943	24 568	4 739	6 968
Other property expenses	..	..	233	286
Total expenses from transactions	**96 814**	**87 207**	**9 989**	**11 882**
Net result from transactions – net operating balance	**(13 791)**	**(14 558)**	**714**	**721**
Other economic flows included in net result				
Net gain/(loss) on disposal of non-financial assets	15	(27)	(12)	(23)
Net gain/(loss) on financial assets or liabilities at fair value	155	122	(72)	60
Share of net profit/(loss) from associates/joint venture entities	5	3	..	..
Other gains/(losses) from other economic flows	115	662	(2 849)	(9 118)
Total other economic flows included in net result	**290**	**761**	**(2 934)**	**(9 081)**
Net result	**(13 501)**	**(13 797)**	**(2 220)**	**(8 360)**
Other economic flows – other comprehensive income				
Items that will not be reclassified to net result				
Changes in non-financial assets revaluation surplus	18 702	6 957	3 612	8 836
Remeasurement of superannuation defined benefits plans	7 791	3 937	29	23
Other movements in equity	(53)	39	(20)	(1)
Items that may be reclassified subsequently to net result				
Net gain/(loss) on financial assets at fair value	(45)	229	40	(15)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	11 834	342	..	..
Total other economic flows – other comprehensive income	**38 230**	**11 504**	**3 662**	**8 843**
Comprehensive result – total change in net worth	**24 729**	**(2 293)**	**1 442**	**484**
FISCAL AGGREGATES				
Net operating balance	**(13 791)**	**(14 558)**	**714**	**721**
Purchases of non-financial assets (including change in inventories)	15 550	12 200	3 389	3 394
Less: Sales of non-financial assets	(275)	(133)	(182)	(142)
Less: Depreciation and amortisation	(4 308)	(4 165)	(1 938)	(1 832)
Plus: Other movements in non-financial assets	(218)	6 307	3 920	(2 493)
Less: Net acquisition of non-financial assets from transactions	**10 748**	**14 208**	**5 189**	**(1 072)**
Net lending/(borrowing)	**(24 539)**	**(28 766)**	**(4 475)**	**1 793**

Note:

(a) *As highlighted in Budget Paper No. 3, Chapter 2* Department Performance Statements*, the capital assets charge (CAC) policy is discontinued from 2021-22. The removal of CAC reduces the grant revenue and other operating expenses by the same amount*

	Public financial corporations		*Inter-sector eliminations*		*State of Victoria*	
	2022	*2021*	*2022*	*2021*	*2022*	*2021*
	..	..	(466)	(447)	30 080	23 167
	2 473	2 241	(2 430)	(2 187)	610	659
	3 052	1 549	(844)	(517)	3 144	1 705
	5 675	5 497	(1 680)	(4 117)	16 462	15 787
	516	551	(4 106)	(6 077)	41 224	36 739
	21	33	..	..	4 417	3 723
	11 737	**9 871**	**(9 526)**	**(13 345)**	**95 936**	**81 778**
	451	420	(645)	(599)	33 638	31 338
	..	..	..	..	482	305
	41	36	..	..	4 107	3 602
	88	70	869	875	7 203	6 941
	2 469	2 169	(2 431)	(2 188)	3 712	3 437
	641	263	(4 279)	(6 248)	21 952	16 442
	8 746	9 157	(1 330)	(2 709)	40 097	37 985
	780	1 056	(1 013)	(1 343)	..	..
	13 217	**13 172**	**(8 829)**	**(12 212)**	**111 192**	**100 049**
	(1 480)	**(3 301)**	**(697)**	**(1 133)**	**(15 255)**	**(18 271)**
	..	..	..	..	3	(50)
	10 409	6 761	..	..	10 492	6 943
	..	..	..	..	5	3
	6 527	1 293	1 531	7 216	5 323	53
	16 936	**8 054**	**1 531**	**7 216**	**15 823**	**6 950**
	15 456	**4 753**	**833**	**6 083**	**568**	**(11 321)**
	2	4	1 018	(50)	23 335	15 747
	..	..	..	..	7 821	3 960
	(11)	..	..	..	(84)	38
	..	..	..	..	(5)	214
	..	..	(11 834)	(342)	..	..
	(9)	**4**	**(10 816)**	**(392)**	**31 067**	**19 960**
	15 447	**4 757**	**(9 983)**	**5 692**	**31 634**	**8 639**
	(1 480)	**(3 301)**	**(697)**	**(1 133)**	**(15 255)**	**(18 271)**
	187	52	(17)	41	19 108	15 687
	(1)	(1)	..	1	(458)	(275)
	(88)	(70)	(869)	(875)	(7 203)	(6 941)
	..	..	..	..	3 702	3 814
	98	**(19)**	**(886)**	**(832)**	**15 149**	**12 285**
	(1 579)	**(3 282)**	**189**	**(300)**	**(30 404)**	**(30 556)**

9. OTHER DISCLOSURES

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

	General government sector		Public non-financial corporations	
	2022	2021	2022	2021
Assets				
Financial assets				
Cash and deposits	10 974	14 609	1 843	1 857
Advances paid	4 929	5 473	522	1 299
Receivables and contract assets	8 406	8 201	1 679	1 482
Investments, loans and placements	3 370	2 960	812	754
Loans receivable from non-financial public sector [(a)]	..	..	..	..
Investments accounted for using equity method	10	10	..	..
Investments in other sector entities	89 162	73 125	..	..
Total financial assets	**116 851**	**104 377**	**4 856**	**5 393**
Non-financial assets				
Inventories	1 262	908	1 191	1 102
Non-financial assets held for sale	171	182	42	61
Land, buildings, infrastructure, plant and equipment	225 770	195 592	110 087	105 274
Other non-financial assets	3 313	3 357	2 567	1 521
Total non-financial assets	**230 516**	**200 038**	**113 887**	**107 958**
Total assets	**347 367**	**304 415**	**118 742**	**113 351**
Liabilities				
Deposits held and advances received	1 831	2 791	1 188	1 731
Payables	17 551	16 404	9 984	9 945
Contract liabilities	342	239	259	202
Borrowings	117 420	92 985	19 312	18 037
Employee benefits	9 857	9 384	545	532
Superannuation	19 756	27 217	..	28
Other provisions	2 082	1 597	9 730	9 923
Total liabilities	**168 839**	**150 617**	**41 019**	**40 398**
Net assets [(b)]	**178 528**	**153 799**	**77 724**	**72 953**
Accumulated surplus/(deficit)	52 824	58 642	(26 419)	(23 776)
Reserves	125 704	95 157	104 143	96 729
Net worth [(b)]	**178 528**	**153 799**	**77 724**	**72 953**
FISCAL AGGREGATES				
Net financial worth	(51 988)	(46 239)	(36 163)	(35 005)
Net financial liabilities	141 149	119 364	36 163	35 005
Net debt	99 978	72 734	17 324	15 857

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 the 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 contributed to the negative net asset position of the sector in 2021.

Public financial corporations		*Inter-sector eliminations*		*State of Victoria*	
2022	*2021*	*2022*	*2021*	*2022*	*2021*
4 919	7 875	(478)	(2 409)	17 258	21 933
45	14	(4 864)	(6 247)	632	538
1 886	2 158	(1 016)	(647)	10 955	11 194
51 551	42 629	(110)	(249)	55 623	46 094
102 724	79 487	(102 724)	(79 487)	..	..
..	..	..	..	10	10
..	..	(89 162)	(73 125)	..	..
161 125	**132 163**	**(198 353)**	**(162 164)**	**84 479**	**79 770**
..	..	..	..	2 452	2 010
..	..	..	..	212	243
354	383	36 749	33 684	372 959	334 932
3 397	3 563	(4 436)	(3 683)	4 842	4 757
3 751	**3 946**	**32 313**	**30 001**	**380 466**	**341 943**
164 876	**136 109**	**(166 040)**	**(132 163)**	**464 945**	**421 712**
233	306	(1 528)	(3 044)	1 724	1 784
2 724	2 636	(956)	(613)	29 303	28 372
..	..	(5)	(3)	596	438
107 309	90 812	(107 555)	(85 535)	136 486	116 298
118	121	..	..	10 519	10 036
..	..	..	..	19 756	27 245
44 573	47 673	(9 590)	(9 783)	46 795	49 409
154 956	**141 547**	**(119 634)**	**(98 979)**	**245 180**	**233 583**
9 919	**(5 438)**	**(46 406)**	**(33 184)**	**219 765**	**188 130**
9 796	(5 505)	48 767	46 896	84 968	76 257
123	67	(95 174)	(80 080)	134 797	111 873
9 919	**(5 438)**	**(46 406)**	**(33 184)**	**219 765**	**188 130**
6 168	(9 384)	(78 719)	(63 185)	(160 702)	(153 813)
(6 168)	9 384	(10 442)	(9 940)	160 702	153 813
(51 697)	(38 888)	(908)	(187)	64 697	49 516

9. OTHER DISCLOSURES

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

	General government sector		*Public non-financial corporations*	
	2022	*2021*	*2022*	*2021*
Cash flows from operating activities				
Receipts				
Taxes received	30 288	22 729	..	..
Grants	42 720	34 877	2 990	5 289
Sales of goods and services [(a)]	6 281	8 771	7 378	6 972
Interest received	548	585	22	3
Dividends, income tax equivalent and rate equivalent receipts	549	619	37	53
Other receipts	1 906	1 528	304	469
Total receipts	**82 293**	**69 109**	**10 732**	**12 787**
Payments				
Payments for employees	(31 334)	(29 333)	(1 572)	(1 453)
Superannuation	(4 062)	(3 804)	(154)	(155)
Interest paid	(2 591)	(2 332)	(809)	(851)
Grants and subsidies	(24 619)	(21 578)	(324)	(127)
Goods and services [(a)]	(27 524)	(24 040)	(5 335)	(4 804)
Other payments	(1 019)	(979)	(475)	(2 837)
Total payments	**(91 150)**	**(82 066)**	**(8 670)**	**(10 226)**
Net cash flows from operating activities	**(8 857)**	**(12 958)**	**2 061**	**2 561**
Cash flows from investing activities				
Cash flows from investments in non-financial assets				
Purchases of non-financial assets	(15 168)	(11 948)	(3 379)	(3 390)
Sales of non-financial assets	275	133	182	142
Net cash flows from investments in non-financial assets	**(14 893)**	**(11 814)**	**(3 197)**	**(3 248)**
Cash flows from investments in financial assets for policy purposes				
Cash inflows	1 597	1 378	787	957
Cash outflows	(1 550)	(1 116)	(33)	(37)
Net cash flows from investments in financial assets for policy purposes	**47**	**263**	**754**	**921**
Sub-total	**(14 845)**	**(11 551)**	**(2 443)**	**(2 328)**
Cash flows from investments in financial assets for liquidity management purposes [(b)]				
Cash inflows	657	827	143	84
Cash outflows	(985)	(959)	(201)	(160)
Net cash flows from investments in financial assets for liquidity management purposes	**(328)**	**(132)**	**(58)**	**(77)**
Net cash flows from investing activities	**(15 173)**	**(11 683)**	**(2 501)**	**(2 404)**
Cash flows from financing activities				
Advances received	28	14	164	3
Advances repaid	(958)	(979)	(780)	(955)
Advances received (net) [(b)]	(930)	(965)	(616)	(952)
Borrowings received	24 642	32 294	2 592	2 898
Borrowings repaid	(3 287)	(5 186)	(1 930)	(2 287)
Net borrowings [(b)]	21 355	27 108	662	611
Deposits received	5 250	4 202	177	97
Deposits repaid	(5 280)	(4 133)	(104)	(82)
Deposits received (net) [(b)]	(30)	69	73	15
Other financing inflows	..	..	616	666
Other financing outflows	..	..	(310)	(171)
Other financing (net) [(b)]	..	..	306	495
Net cash flows from financing activities	**20 395**	**26 212**	**425**	**169**
Net increase/(decrease) in cash and cash equivalents	**(3 634)**	**1 572**	**(14)**	**326**
Cash and cash equivalents at beginning of reporting period	14 609	13 037	1 857	1 532
Cash and cash equivalents at end of the reporting period [(c)]	**10 974**	**14 609**	**1 843**	**1 857**
FISCAL AGGREGATES				
Net cash flows from operating activities	(8 857)	(12 958)	2 061	2 561
Dividends paid	..	..	(107)	(169)
Net cash flows from investments in non-financial assets	(14 893)	(11 814)	(3 197)	(3 248)
Cash surplus/(deficit)	**(23 749)**	**(24 772)**	**(1 243)**	**(856)**

Notes:

(a) *As highlighted in the 2021-22 Budget Paper No. 3, Chapter 2* Department Performance Statements*, the capital assets charge (CAC) policy is discontinued from 2021-22. The removal of the CAC reduces the grants and other payments by equal amounts.*

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

(c) *In accordance with AASB 107* Statement of Cash Flows*, the Treasury Corporation of Victoria (TCV) is not required to gross up its 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 2022 and 30 June 2021.*

Public financial corporations		*Inter-sector eliminations*		*State of Victoria*	
2022	*2021*	*2022*	*2021*	*2022*	*2021*
..	..	(466)	(447)	29 822	22 282
517	550	(4 100)	(6 096)	42 127	34 621
6 497	5 903	(1 773)	(4 010)	18 383	17 637
2 042	1 824	(2 408)	(2 184)	204	228
3 052	1 549	(508)	(515)	3 130	1 705
192	47	85	256	2 488	2 300
12 300	**9 873**	**(9 171)**	**(12 995)**	**96 153**	**78 773**
(450)	(415)	645	599	(32 711)	(30 602)
(41)	(36)	..	..	(4 258)	(3 995)
(2 369)	(2 082)	2 409	2 185	(3 360)	(3 079)
(656)	(300)	4 100	6 096	(21 500)	(15 908)
(6 480)	(5 728)	1 274	1 165	(38 065)	(33 408)
(13)	(4)	483	2 762	(1 025)	(1 058)
(10 011)	**(8 564)**	**8 912**	**12 806**	**(100 919)**	**(88 050)**
2 289	**1 309**	**(259)**	**(189)**	**(4 766)**	**(9 277)**
(187)	(52)	17	(41)	(18 717)	(15 430)
1	1	..	(1)	458	275
(186)	**(51)**	**17**	**(42)**	**(18 259)**	**(15 156)**
..	..	(1 870)	(1 936)	515	400
(42)	(3)	951	671	(675)	(484)
(42)	**(2)**	**(920)**	**(1 265)**	**(160)**	**(84)**
(228)	**(53)**	**(903)**	**(1 307)**	**(18 419)**	**(15 240)**
5 681	1 909	..	(3)	6 482	2 817
(40 558)	(33 660)	23 241	30 582	(18 502)	(4 197)
(34 876)	**(31 751)**	**23 241**	**30 579**	**(12 021)**	**(1 380)**
(35 104)	**(31 804)**	**22 338**	**29 272**	**(30 440)**	**(16 620)**
118	49	(251)	(50)	59	16
(56)	(45)	1 610	1 930	(185)	(49)
62	4	1 359	1 880	(126)	(33)
30 469	30 696	(23 725)	(33 348)	33 979	32 541
(448)	(370)	2 276	3 861	(3 389)	(3 981)
30 021	30 326	(21 448)	(29 486)	30 590	28 559
31	42	(12)	(9)	5 446	4 333
(165)	..	169	1	(5 380)	(4 215)
(134)	42	157	(8)	66	118
53	..	(668)	(666)	..	..
(142)	(72)	452	243	..	..
(89)	(72)	(217)	(423)	..	..
29 859	**30 301**	**(20 149)**	**(28 038)**	**30 531**	**28 644**
(2 956)	**(194)**	**1 930**	**1 045**	**(4 674)**	**2 748**
7 875	8 069	(2 409)	(3 453)	21 933	19 185
4 919	**7 875**	**(478)**	**(2 409)**	**17 258**	**21 933**
2 289	1 309	(259)	(189)	(4 766)	(9 277)
(139)	(59)	247	227	..	..
(186)	(51)	17	(42)	(18 259)	(15 156)
1 963	**1 199**	**5**	**(4)**	**(23 025)**	**(24 433)**

9. OTHER DISCLOSURES

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

	Accumulated surplus/(deficit)	*Contributions by owners*	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
General government sector						
Balance at 1 July 2021	**58 642**	**..**	**61 017**	**32 981**	**1 159**	**153 799**
Net result for the year	(13 501)	..	..	..	..	(13 501)
Other comprehensive income for the year	7 683	..	18 702	11 834	11	38 230
Balance at 30 June 2022	**52 824**	**..**	**79 719**	**44 815**	**1 170**	**178 528**
PNFC sector						
Balance at 1 July 2021	**(23 776)**	**70 911**	**25 214**	**..**	**604**	**72 953**
Opening balance adjustment [(a)]	(416)	691	(275)	..	..	..
Restated balance at 1 July 2021	**(24 192)**	**71 602**	**24 939**	**..**	**604**	**72 953**
Net result for the year	(2 220)	..	..	..	..	(2 220)
Other comprehensive income for the year	(14)	..	3 612	..	63	3 662
Transfer to/(from) accumulated surplus	114	99	(213)	..	..	..
Dividends paid	(107)	..	..	..	..	(107)
Transactions with owners in their capacity as owners	..	3 437	..	..	..	3 437
Balance at 30 June 2022	**(26 419)**	**75 138**	**28 337**	**..**	**667**	**77 724**
PFC sector						
Balance at 1 July 2021	**(5 505)**	**15**	**7**	**..**	**45**	**(5 438)**
Net result for the year	15 456	..	..	..	..	15 456
Other comprehensive income for the year	(15)	..	2	..	4	(9)
Dividends paid	(139)	..	..	..	..	(139)
Transactions with owners in their capacity as owners	..	50	..	..	..	50
Balance at 30 June 2022	**9 796**	**65**	**10**	**..**	**49**	**9 919**
Eliminations	48 767	(75 203)	24 845	(44 815)	..	(46 406)
Total State of Victoria	**84 968**	**..**	**132 911**	**..**	**1 886**	**219 765**

Note:

(a) The 1 July 2021 opening balance does not equal the 30 June closing balance reflecting movements between Accumulated surplus/(deficit), Contributions by owners and Non-financial assets revaluation surplus resulting from the mergers of Western Water and City West Water to form Greater Western Water.

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

	Accumulated surplus/(deficit)	*Contributions by owners*	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
General government sector						
Balance at 1 July 2020	68 166	..	54 379	32 639	908	156 092
Net result for the year	(13 797)	..	..	..	..	(13 797)
Other comprehensive income for the year	3 954	..	6 957	342	251	11 504
Transfer to/(from) accumulated surplus	319	..	(319)	..	..	..
Total equity as at 30 June 2021	**58 642**	**..**	**61 017**	**32 981**	**1 159**	**153 799**
PNFC sector						
Balance at 1 July 2020	(15 963)	67 225	23 046	..	575	74 884
Net result for the year	(8 360)	..	..	..	..	(8 360)
Other comprehensive income for the year	(21)	..	8 836	..	29	8 843
Transfer to/(from) accumulated surplus	737	5 932	(6 668)	..		..
Dividends paid	(169)	..	..	..		(169)
Transactions with owners in their capacity as owners	..	(2 246)	..	..	..	(2 246)
Total equity as at 30 June 2021	**(23 776)**	**70 911**	**25 214**	..	**604**	**72 953**
PFC sector						
Balance at 1 July 2020	(10 196)	29	4	..	41	(10 122)
Net result for the year	4 753	..	..	..		4 753
Other comprehensive income for the year	(3)	..	4	..	3	4
Dividends paid	(59)	..	..	..		(59)
Transactions with owners in their capacity as owners	..	(14)	..	..	..	(14)
Total equity as at 30 June 2021	**(5 505)**	**15**	**7**	..	**45**	**(5 438)**
Eliminations	46 896	(70 925)	23 827	(32 981)		(33 184)
Total State of Victoria	**76 257**	**..**	**110 065**	**..**	**1 808**	**188 130**

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*	
	2022	*2021*	*2022*	*2021*
Cash and investments in common and premium funds	1 280	1 295	161	113
Funds under management by Legal Services Board	3 860	2 675	3 860	2 675
Funds under management by the Senior Master of the Supreme Court	2 079	2 131	2 079	2 131
Investments, real estate, personal and other assets	5 201	5 000	5	33
Other funds held	22	22	22	22
Residential tenancies bonds money	1 268	1 244	1 268	1 244
Total funds under management	**13 711**	**12 367**	**7 396**	**6 218**

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. This includes remeasurements of certain liabilities for variables such as movements in discount rates used to value these liabilities.

Total other gains/(losses) from other economic flows **($ million)**

	State of Victoria		*General government sector*	
	2022	*2021*	*2022*	*2021*
Net (increase)/decrease in allowances for credit losses	162	7	170	14
Amortisation of intangible non-produced assets	(39)	(41)	(5)	(5)
Net swap interest revenue/(expense)	3	23	..	..
Bad debts written off	(497)	(377)	(487)	(509)
Other gains/(losses)	5 694	440	436	1 162
Total other gains/(losses) from other economic flows	**5 323**	**53**	**115**	**662**

9.4 Reconciliation between Government Finance Statistics and Australian Accounting Standards

This note identifies the convergence differences between the Australian Accounting Standards reporting (upon which this report is based) and the Government Finance Statistics (GFS) reporting.

GFS information enables 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.

In December 2019, AASB 2019-7 *Amendments to Australian Accounting Standards – Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP/GFS Reconciliations* was issued to modify AASB 1049 *Whole of Government and General Government Sector Financial Reporting* requirements by providing optional relief from the disclosure of key fiscal aggregates measured in accordance with the GFS where they differ from the key fiscal aggregates provided pursuant this Accounting Standard.

If the optional relief is adopted, AASB 2019-7 requires an explanation of how each of the key fiscal aggregates required per AASB 1049 is calculated and how it differs from the corresponding key fiscal aggregate measured in accordance with the ABS GFS. The State has elected to apply this optional relief.

The key fiscal aggregates below, as defined by AASB 1049, have convergence differences with the GFS:

- **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 public non-financial corporation (PNFC) and public financial corporation (PFC) sectors)
- **Comprehensive result – total change in net worth** is the amount included in the operating statement representing total change in net worth other than transactions with owners as owners
- **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 result from transactions – net operating balance** 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 worth** is calculated as assets less liabilities, which is an economic measure of wealth.

The convergence differences between AASB 1049 and the GFS and their expected impacts applying GFS methodology are outlined in the following table.

9. OTHER DISCLOSURES

Convergence difference	*AASB 1049 Treatment*	*ABS GFS Treatment*	*Fiscal aggregate impact*
AASB 16 *Leases*			
	Operating leases are recognised on the balance sheet under AASB 16 *Leases* unless the lease is shorter than 12 months or where the underlying assets are worth less than $10 000.	Operating leases are not recognised on the balance sheet.	• Cash surplus/ deficit • Comprehensive result – total change in net worth • Net lending/ borrowing • Net result from transactions – net operating balance • Net worth
AASB 1059 *Service concession arrangements*			
	Economic service concession arrangements, such as toll roads, are recognised on the State's balance sheet under AASB 1059 *Service Concession Arrangements: Grantors*.	Economic service concession arrangements, such as toll roads, are not recognised on the balance sheet.	• Cash surplus/ deficit • Comprehensive result – total change in net worth • Net lending/ borrowing • Net result from transactions – net operating balance • Net worth
AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*			
	Deferral of revenue recognition, such as where performance obligations have not been met, or for capital grants from the Commonwealth Government, is a requirement under AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*.	Deferral of revenue recognition, such as where performance obligations have not been satisfied, or for capital grants from the Commonwealth Government, is not recognised. This timing difference is expected to impact all the key fiscal aggregates. While it is expected that there will not be a net change to the fiscal aggregates over time, there will be convergence differences in any given year.	• Cash surplus/ deficit • Comprehensive result – total change in net worth • Net lending/ borrowing • Net result from transactions – net operating balance • Net worth
Port of Melbourne lease transaction			
Port Licence Fee	The 15-year prepaid Port Licence Fee from the medium-term lease of the Port of Melbourne is recognised upfront upon receipt.	The 15-year prepaid Port Licence Fee from the medium-term lease of the Port of Melbourne is recognised as revenue over the 15-year period.	• Comprehensive result – total change in net worth • Net lending/ borrowing • Net result from transactions – net operating balance • Net worth
Port of Melbourne lease transaction	The Port of Melbourne lease transaction is treated as an operating lease with the leased assets remaining with the PNFC sector.	The Port of Melbourne lease transaction is recognised as a sale of equity from the general government sector.	• Cash surplus/ deficit • Comprehensive result – total change in net worth • Net lending/ borrowing • Net result from transactions – net operating balance • Net worth

Convergence difference	*AASB 1049 Treatment*	*ABS GFS Treatment*	*Fiscal aggregate impact*
PNFC/PFC dividends			
	Dividends are classified as after-profit distributions to owners.	Under GFS, dividends paid/payable are recognised as an expense from transactions on the operating statement.	• Comprehensive result – total change in net worth • Net lending/ borrowing • Net result from transactions – net operating balance • Net worth
Doubtful receivables			
	Provisions for expected credit loss are included on the balance sheet as a reduction to assets.	The act of creating provisions is not considered an economic event and is therefore not included on the balance sheet.	• Comprehensive result – total change in net worth • Net worth
Future tax benefits / deferred tax liabilities			
	Tax effect accounting is adopted, whereby differences between tax and accounting bases are deferred as either future income tax benefit assets or provisions for deferred liabilities.	Under GFS, deferred tax is not recognised.	• Comprehensive result – total change in net worth • Net worth
Investment in other sector entities			
	The net worth of investments in other sector entities for the general government sector includes doubtful receivables, future tax benefits and deferred tax liabilities of the PNFC and PFC sectors.	The determination of net worth is exclusive of this.	• Comprehensive result – total change in net worth • Net worth
PNFC/PFC net worth			
	The PNFC/PFC sectors report net worth as assets less liabilities.	Under GFS, the PNFC/PFC sectors report zero net worth, as the ownership interest is recognised as a liability.	• Comprehensive result – total change in net worth • Net worth

9.5 Related party transactions

The State of Victoria reporting entity includes government departments, PNFC, PFC 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 2021-22. They are listed below.

Position title	*Key management personnel*
Premier	Hon Daniel Andrews
Deputy Premier	Hon James Merlino [(a)]
	Hon Jacinta Allan [(b)]
Ministers of the Crown	Hon Lizzie Blandthorn [(c)]
	Hon Colin Brooks [(c)]
	Hon Anthony Carbines [(d)]
	Hon Ben Carroll
	Hon Lily D’Ambrosio
	Mr Steve Dimopoulos [(c)]
	Hon Luke Donnellan [(e)]
	Hon Martin Foley [(a)]
	Hon Melissa Horne
	Hon Natalie Hutchins
	Hon Shaun Leane
	Hon Lisa Neville [(a)]
	Hon Martin Pakula [(a)]
	Mr Tim Pallas
	Mr Danny Pearson
	Hon Jaala Pulford
	Hon Harriet Shing [(c)]
	Hon Ros Spence
	Ms Ingrid Stitt
	Hon Jaclyn Symes
	Hon Mary-Anne Thomas
	Hon Gayle Tierney
	Hon Gabrielle Williams
	Hon Richard Wynne [(a)]

Notes:
(a) Held Ministry until 24 June 2022.
(b) Appointed as Deputy Premier on 27 June 2022.
(c) Appointed to Ministry on 27 June 2022.
(d) Appointed to Ministry on 5 December 2021.
(e) Held Ministry until 11 October 2021.

Related parties of the State of Victoria reporting entity include:

- all cabinet ministers and their close family members
- 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 $10.6 million in 2022 ($10 million in 2021).

($ thousand)

State of Victoria	*2022*	*2021*
Salaries and short-term employee benefits	9 782	9 230
Post-employment benefits	846	735
Total	**10 628**	**9 965**

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 that occur after the reporting period and before the date the statements are authorised for issue, where those events provide information about conditions that 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 that arose after the reporting period that are considered to be of material interest.

VicRoads Modernisation

On 1 July 2022, the Victorian Government agreed to enter into a joint venture (JV) partnership with a consortium of Aware Super, Australian Retirement Trust and Macquarie Asset Management to deliver a modernised Registration & Licensing (R&L) and Custom Plates (CP) service following an extensive and robust market engagement process.

The partnership will be delivered through a 40-year concession to the JV between the State and the consortium. The State received upfront proceeds of $7.9 billion from granting the concession, which will be used to establish the Victorian Future Fund.

Under the concession arrangements, the State will continue to receive the revenue for all existing arrangements in relation to the R&L functions, with the JV to receive service fee payments from the State over the 40-year term. The State will also continue to maintain responsibility for key regulatory and policy functions, retaining ownership and regulation of data, and continuing to fully control motorists pricing, privacy, road access and safety.

The State retains a minority interest in the JV, which will be recognised on the State's balance sheet, and is entitled to a share of dividends from the JV for this interest. The State will also receive a 10 per cent royalty from revenue relating to new products developed by the JV.

Transaction completion for the above arrangements occurred on 15 August 2022.

There are no other events that have arisen since 30 June that have significantly affected or may significantly affect the operations, or results, or state of affairs of the State.

9.7 Other accounting policies

9.7.1 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.

9.7.2 Prospective accounting and reporting changes

Certain new and revised accounting standards have been issued but are not effective for the 2021-22 reporting period. These accounting standards have not been applied to the *Annual Financial Report*.

The State is reviewing its existing policies and assessing the potential implications of these accounting standards which includes the following:

AASB 17 Insurance Contracts

It is proposed in Exposure Draft 319 *Insurance Contracts in the Public Sector* that public sector entities would apply AASB 17 to annual periods beginning on or after 1 July 2025, with earlier application permitted. This is later than the application date of AASB 17 to entities that are not public sector entities, which is annual periods beginning on or after 1 January 2023. AASB 17 will supersede AASB 4 *Insurance Contracts* and AASB 1023 *General Insurance Contracts* and seeks to eliminate inconsistencies and weaknesses in existing practices by providing a single principle-based framework to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard also provides requirements for presentation and disclosure to enhance comparability between entities.

Several other amending standards and AASB interpretations have been issued that apply to future reporting periods but are considered to have limited impact on the State's reporting.

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 earlier in this chapter. Further, Note 3.6 reflects the broad objectives of these controlled entities.

General government

Department of Education and Training

Adult Community and Further Education Board
Adult Multicultural Education Services
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 Academy of Teaching and Leadership [(a)]
Victorian Curriculum and Assessment Authority
Victorian Institute of Teaching
Victorian Registration and Qualifications Authority

Department of Environment, Land, Water and Planning [(b)]

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
- West Gippsland Catchment Management Authority
- Wimmera Catchment Management Authority

Caulfield Racecourse Reserve Trust
Cladding Safety Victoria
Dhelkunya Dja Land Management Board
Environment Protection Authority
Gunaikurnai Traditional Owner Land Management Board
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 Energy Safety Commission
Victorian Environmental Water Holder
Victorian Planning Authority
Yorta Yorta Traditional Owner Land Management Board

Department of Families, Fairness and Housing

Commission for Children and Young People
Family Violence Prevention Agency
Shrine of Remembrance Trustees
Victorian Disability Workers Commission
Victorian Multicultural Commission
Victorian Veterans Council

Department of Health

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
- Barwon Health
- Bass Coast Health
- Beaufort and Skipton Health Service
- Beechworth Health Service
- Benalla Health
- Bendigo Health
- Boort District Health
- Casterton Memorial Hospital
- Central Gippsland Health Service
- Central Highlands Rural Health
- Cohuna District Hospital
- Colac Area Health
- Corryong Health
- Dental Health Services Victoria
- Dhelkaya Health [(c)]
- East Grampians Health Service
- East Wimmera Health Service
- Eastern Health
- Echuca Regional Health
- Great Ocean Road Health
- Gippsland Southern Health Service
- Goulburn Valley Health
- Grampians Health [(d)]
- Heathcote Health
- Hesse Rural Health Service
- Heywood Rural Health
- Inglewood and Districts Health Service
- Kerang District Health
- The Kilmore and District Hospital
- Kooweerup Regional Health Service
- Kyabram District Health Service
- Latrobe Regional Hospital
- Mallee Track Health and Community Service
- Mansfield District Hospital
- Maryborough District Health Service
- Melbourne Health
- Mildura Base Public Hospital
- Monash Health
- Moyne Health Services
- NCN Health
- Northeast Health Wangaratta
- Northern Health
- Omeo District Health
- Orbost Regional Health
- Peninsula Health
- Peter MacCallum Cancer Institute
- Portland District Health
- Robinvale District Health Services
- Rochester and Elmore District Health Service
- The Royal Children's Hospital
- The Royal Victorian Eye and Ear Hospital
- The Royal Women's Hospital
- Rural Northwest Health
- Seymour Health
- South Gippsland Hospital
- South West Healthcare
- Swan Hill District Health
- Tallangatta Health Service
- Terang and Mortlake Health Service
- Timboon and District Healthcare Service

General government (continued)

Department of Health *(continued)*

- 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 [(e)]
- Yarram and District Health Service
- Yarrawonga Health
- Yea and District Memorial Hospital

The Queen Elizabeth Centre
Tweddle Child and Family Health Service
Victorian Health Promotion Foundation
Victorian Pharmacy Authority

Department of Jobs, Precincts and Regions

Australian Centre for the Moving Image
Dockland Studios Melbourne Pty Ltd
Film Victoria
Game Management Authority
Library Board of Victoria
Melbourne Cricket Ground Trust
Melbourne Recital Centre Limited
Mine Land Rehabilitation Authority
Museums Board of Victoria
National Gallery of Victoria, Council of Trustees
Secretary, Project Development
Rural Assistance Commissioner
Veterinary Practitioners Registration Board of Victoria
Victorian Institute of Sport Limited
Victorian Institute of Sport Trust
Victorian Racing Integrity Board
Victorian Racing Commissioner
Victorian Racing Tribunal
Visit Victoria

Department of Justice and Community Safety

Country Fire Authority
Emergency Services Telecommunications Authority
Fire Rescue Victoria
Office of Public Prosecutions
Office of the Special Investigator [(f)]
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 Equal Opportunity and Human Rights Commission
Victorian Gambling and Casino Control Commission [(g)]
Victorian Information Commissioner
Victorian Institute of Forensic Medicine
Victorian Law Reform Commission
Victorian Legal Services Board and Commissioner
Victorian Responsible Gambling Foundation

Department of Premier and Cabinet

Cenitex
Labour Hire Licensing Authority
Portable Long Service Authority
Victorian Aboriginal Heritage Council
Victorian Electoral Commission
Victorian Public Sector Commission
Victorian Independent Remuneration Tribunal
Wage Inspectorate Victoria [(h)]

Department of Transport

Commercial Passenger Vehicles Victoria [(i)]
Head, Transport for Victoria
VicRoads Modernisation including: [(j)]

- CP Services Victoria Pty Ltd
- R&L Services Victoria Pty Ltd
- Victorian R&L Services Trust
- Victoria CP Services Trust

Suburban Rail Loop Authority [(k)]
VicHoldCo
Victorian Fisheries Authority

Department of Treasury and Finance

Essential Services Commission
Infrastructure Victoria

Courts

Judicial College of Victoria
Judicial Commission of Victoria

Parliament of Victoria

Independent Broad-based Anti-corruption Commission (IBAC)
Ombudsman Victoria
Parliamentary Budget Office (PBO)
Victorian Inspectorate

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

Great Ocean Road Coast and Parks Authority
Phillip Island Nature Parks
Waste Resource Recovery Groups including: [(b)]

- 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
- 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
- Greater Western Water [(l)]
- Lower Murray Urban and Rural Water Corporation
- Melbourne Water Corporation [(m)]
- Grampians Wimmera Mallee Water Corporation
- North East Region Water Corporation
- South East Water Corporation
- South Gippsland Region Water Corporation
- Wannon Region Water Corporation
- Westernport Region Water Corporation
- Yarra Valley Water Corporation

Zoological Parks and Gardens Board

9. OTHER DISCLOSURES

Public non-financial corporation (continued)

Department of Families, Fairness and Housing

Director of Housing

Queen Victoria Women's Centre Trust

VITS Language Loop

Department of Health

Cemeteries including:

- Ballarat General Cemeteries Trust
- Geelong Cemeteries Trust
- The Greater Metropolitan Cemeteries Trust
- Southern Metropolitan Cemeteries Trust
- The Mildura Cemetery Trust
- Remembrance Parks Central Victoria

Department of Jobs, Precincts and Regions

Agriculture Victoria Services Pty Ltd

Australian Grand Prix Corporation

Dairy Food Safety Victoria

Emerald Tourist Railway Board

Geelong Performing Arts Centre Trust

Greyhound Racing Victoria

Harness Racing Victoria

Kardinia Park Stadium Trust

Launch Victoria Ltd

Melbourne and Olympic Parks Trust

Melbourne Arts Precinct Corporation [(n)]

Melbourne Convention and Exhibition Trust

Melbourne Market Authority

Murray Valley Wine Grape Industry Development Committee

Primesafe

State Sport Centres Trust

VicForests

Victorian Arts Centre Trust

Victorian Strawberry Industry Development Committee

Department of Justice and Community Safety

Accident Compensation Conciliation Service

Department of Transport

Development Victoria

North East Link State Tolling Corporation

Melbourne Port Lessor Pty Ltd

Port of Hastings Development Authority

Ports Victoria [(o)]

V/Line Corporation

Victorian Rail Track

Department of Treasury and Finance

State Electricity Commission of Victoria

Victorian Plantations Corporation (shell)

Public financial corporation

Department of Justice and Community Safety

Victorian WorkCover Authority

Department of Premier and Cabinet

Breakthrough Victoria Pty Ltd

Department of Transport

Transport Accident Commission

Department of Treasury and Finance

State Trustees Limited

Treasury Corporation of Victoria

Victorian Funds Management Corporation

Victorian Managed Insurance Authority

Notes:

(a) Effective from 1 January 2022, the Victorian Academy of Teaching and Leadership was established through the Education and Training Reform Amendment (Victorian Academy of Teaching and Leadership) Act 2021 *to deliver teaching excellence programs for teachers in government, Catholic and independent schools.*

(b) On 1 July 2022, the seven Waste and Resource Recovery Groups were abolished and amalgamated into the Department of Environment, Land, Water and Planning (DELWP) to form a business unit within DELWP, Recycling Victoria.

(c) Effective from 1 March 2022, Castlemaine Health and Maldon Hospital were voluntarily amalgamated into Dhelkaya Health.

(d) Effective from 1 November 2021, Ballarat Health Services, Edenhope and District Memorial Hospital, Stawell Regional Health and Wimmera Health Care Group were voluntarily amalgamated into Grampians Health.

(e) Effective from 1 July 2021, Djerriwarrh Health Services and Western Health were voluntarily amalgamated to form a new registered funded agency named Western Health.

(f) In December 2021, the Office of the Special Investigator was established as an independent statutory body to administer the Special Investigator Act 2021 *in response to recommendations of the Royal Commission into the Management of Police Informants.*

(g) On 1 January 2022, the Victorian Commission for Gambling and Liquor Regulation became the Victorian Gambling and Casino Control Commission, with liquor regulation functions to be transferred to the Department of Justice and Community Safety on 1 July 2022.

(h) Effective from 1 July 2021, the Wage Inspectorate Victoria was established by the Wage Theft Act 2020 *to promote, monitor, and enforce a range of Victorian workplace laws to ensure workers and businesses are treated fairly.*

(i) On 1 July 2022, Commercial Passenger Vehicles Victoria and Transport Safety Victoria came together as a new entity, Safe Transport Victoria (STV), to create a new regulator to manage safety, compliance, accreditation and registration for commercial passenger vehicles, buses, and the marine sector.

(j) On 23 March 2022, the VicRoads Modernisation entities and corporate trustees were established as proprietary companies under the Corporations Act 2001 *and holds the Special Purpose Trusts. The VicRoads registration and licensing and custom plates functions were transferred to the Special Purpose Trusts on 30 June 2022. The majority interest in the entities and the trusts were transferred to the joint venture partner on 15 August 2022 as part of financial close of the VicRoads Modernisation process. Effective 30 June 2022, the Roads Corporation has been abolished.*

(k) Effective 1 December 2021, Suburban Rail Loop Authority was established under the Suburban Rail Loop Act 2021 *to facilitate the delivery of the Suburban Rail Loop Project.*

(l) Effective 1 July 2021, City West Water Corporation and Western Region Water Corporation integrated to form a new water corporation called Greater Western Water.

(m) Effective from 1 January 2022, the Port Phillip Westernport Catchment Management Authority has been integrated into Melbourne Water Corporation.

(n) Effective from 29 March 2022, the Melbourne Arts Precinct Corporation (MAP Co.) was established as a state business corporation under the State Owned Enterprises Act 1992 *to deliver the Melbourne Arts Precinct Transformation project and operate and maintain Federation Square and other MAP Co. managed sites. As at 30 June 2022, Fed Square Pty Ltd transferred its operations to MAP Co.*

(o) Effective from 1 July 2021, the Victorian Ports Corporation (Melbourne) and Victorian Regional Channels Authority merged and created a new entity called Ports Victoria. Ports Victoria will lead the strategic management and operation of Victorian commercial ports and waterways.

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 (2019)*. 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 2015* 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 agreements meeting the definition of material finance leases prior to the application of AASB 16 *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 are 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. 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 2015*.

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 lease repayments, service concession financial liabilities and amortisation of discounts or premiums in relation to borrowings.

Leases are rights conveyed in a contract, or part of a contract, to use an asset (the underlying asset) for a period of time in exchange for consideration.

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.

9. OTHER DISCLOSURES

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 the 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 the Government of its investments (contributed capital) in entities in the PNFC and PFC 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 the 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 or **net result from transactions** 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 to net result.

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions. In simple terms, other economic flows are changes arising from market remeasurements. They include gains and losses from disposals, revaluations and impairments of non-current physical and intangible assets; actuarial gains and losses arising from defined benefit superannuation plans; fair value changes of financial instruments and agricultural assets; and depletion of natural assets (non-produced) from their use or removal.

Produced assets include buildings, plant and equipment, inventories, cultivated assets and certain intangible assets. Intangible produced assets may include computer software, motion picture films and research and development costs (which does not include the start-up costs associated with capital projects).

Roads include road pavement and road works in progress. All land under roads is included under the category of 'land'.

Road infrastructure mainly includes sound barriers, bridges and traffic signal control systems.

Service concession arrangement is a contract effective during the reporting period between a grantor and an operator in which:

a) the operator has the right of access to the service concession asset (or assets) to provide public services on behalf of the grantor for a specified period of time
b) the operator is responsible for at least some of the management of the public services provided through the asset and does not act merely as an agent on behalf of the grantor
c) the operator is compensated for its services over the period of the service concession arrangement.

System of National Accounts explain how the Australian economy operates and how it evolves over time by measuring, classifying, and aggregating these transactions. It includes a full set of flow accounts for each sector of the economy (income, capital and financial), input-output tables, supply and use tables, satellite accounts, state-based estimates, balance sheets and reconciliation accounts, and productivity estimates.

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 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 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 was 'to achieve an Australian accounting standard for a single set of government reports which are auditable, are comparable between jurisdictions, and in which the outcome statements are 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.

The current Uniform Presentation Framework (UPF) was agreed by the Council of Federal Financial Relations in February 2019, based on the 2015 update to the Australian System of Government Finance Statistics (GFS) Framework, AASB 1049, and is applicable from the reporting period commencing 1 July 2018. 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)

	2022	*2021*
Revenue from transactions		
Taxation	30 099	23 184
Interest income	153	184
Dividends and income tax equivalent and rate equivalent income	575	222
Sales of goods and services	11 976	11 477
Grants	41 818	36 977
Other revenue and income	4 396	3 690
Total revenue and income from transactions	**89 018**	**75 733**
Expenses from transactions		
Employee expenses	33 759	31 449
Net superannuation interest expense	482	305
Other superannuation	4 066	3 566
Depreciation	7 116	6 872
Interest expense	3 259	3 034
Grant expense	22 421	16 968
Other operating expenses	31 987	29 500
Total expenses from transactions	**103 091**	**91 695**
Net result from transactions – net operating balance	**(14 073)**	**(15 961)**
Other economic flows included in net result		
Net gain/(loss) on disposal of non-financial assets	3	(50)
Net gain/(loss) on financial assets or liabilities at fair value	83	182
Share of net profit/(loss) from associates/joint venture entities	5	3
Other gains/(losses) from other economic flows	(993)	(759)
Total other economic flows included in net result	**(903)**	**(623)**
Net result	**(14 976)**	**(16 585)**
Other economic flows – other comprehensive income		
Items that will not be reclassified to net result		
Changes in non-financial assets revaluation surplus	23 332	15 743
Remeasurement of superannuation defined benefits plans	7 821	3 960
Other movements in equity	(73)	38
Items that may be reclassified subsequently to net result		
Net gain/(loss) on financial assets at fair value	(5)	214
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	11 216	28
Total other economic flows – other comprehensive income	**42 291**	**19 983**
Comprehensive result – total change in net worth	**27 316**	**3 399**
FISCAL AGGREGATES		
Net operating balance	**(14 073)**	**(15 961)**
Net acquisition of non-financial assets from transactions		
Purchases of non-financial assets (including change in inventories)	18 923	15 635
Less: Sales of non-financial assets	(457)	(274)
Less: Depreciation and amortisation	(7 116)	(6 872)
Plus/(less): Other movements in non-financial assets	3 702	3 814
Less: Net acquisition of non-financial assets from transactions	**15 052**	**12 304**
Net lending/(borrowing)	**(29 125)**	**(28 265)**

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

	2022	2021
Assets		
Financial assets		
Cash and deposits	12 817	16 466
Advances paid	632	538
Receivables and contract assets	9 676	9 296
Investments, loans and placements	4 182	3 714
Investments accounted for using the equity method	10	10
Investments in other sector entities	11 441	176
Total financial assets	**38 758**	**30 201**
Non-financial assets		
Inventories	2 452	2 010
Non-financial assets held for sale	212	243
Land, buildings, infrastructure, plant and equipment	372 608	334 551
Other non-financial assets	4 573	4 551
Total non-financial assets	**379 846**	**341 355**
Total assets	**418 604**	**371 556**
Liabilities		
Deposits held and advances received	1 602	1 712
Payables	27 187	25 999
Contract liabilities	596	438
Borrowings	132 459	107 446
Employee benefits	10 402	9 916
Superannuation	19 756	27 245
Other provisions	2 221	1 736
Total liabilities	**194 223**	**174 490**
Net assets	**224 381**	**197 065**
Accumulated surplus/(deficit)	77 899	84 716
Reserves	146 482	112 349
Net worth	**224 381**	**197 065**
FISCAL AGGREGATES		
Net financial worth	(155 464)	(144 290)
Net financial liabilities	166 906	144 465
Net debt	116 430	88 439

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

	2022	2021
Cash flows from operating activities		
Receipts		
Taxes received	29 842	22 300
Grants	42 735	34 897
Sales of goods and services [(a)]	13 092	12 868
Interest received	158	167
Dividends, income tax equivalent and rate equivalent receipts	231	219
Other receipts	2 268	2 297
Total receipts	**88 325**	**72 747**
Payments		
Payments for employees	(32 833)	(30 719)
Superannuation	(4 217)	(3 959)
Interest paid	(2 987)	(2 761)
Grants and subsidies	(21 968)	(16 435)
Goods and services [(a)]	(32 209)	(28 343)
Other payments	(1 025)	(1 058)
Total payments	**(95 240)**	**(83 274)**
Net cash flows from operating activities	**(6 915)**	**(10 527)**
Cash flows from investing activities		
Cash flows from investments in non-financial assets		
Purchases of non-financial assets	(18 532)	(15 379)
Sales of non-financial assets	457	274
Net cash flows from investments in non-financial assets	**(18 074)**	**(15 105)**
Net cash flows from investments in financial assets for policy purposes	(199)	(70)
Sub-total	**(18 274)**	**(15 175)**
Net cash flows from investments in financial assets for liquidity management purposes	(386)	(208)
Net cash flows from investing activities	**(18 659)**	**(15 383)**
Cash flows from financing activities		
Advances received (net)	(157)	(35)
Net borrowings	22 035	27 762
Deposits received (net)	47	81
Net cash flows from financing activities	**21 926**	**27 808**
Net increase/(decrease) in cash and cash equivalents	**(3 649)**	**1 897**
Cash and cash equivalents at beginning of the reporting period	16 466	14 569
Cash and cash equivalents at end of the reporting period	**12 817**	**16 466**
FISCAL AGGREGATES		
Net cash flows from operating activities	(6 915)	(10 527)
Net cash flows from investments in non-financial assets	(18 074)	(15 105)
Cash surplus/(deficit)	**(24 989)**	**(25 632)**

Note:
(a) These items include goods and services tax.

Table 5.4: Non-financial public sector statement of changes in equity ($ million)

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
2022					
Balance at 1 July 2021	**84 716**	**110 058**	**528**	**1 763**	**197 065**
Opening balance adjustment [(a)]	275	(275)	..	..	..
Restated balance at 1 July 2021	**84 992**	**109 782**	**528**	**1 763**	**197 065**
Net result for the year	(14 976)	..	..	..	(14 976)
Other comprehensive income for the year	7 669	23 332	11 216	74	42 291
Transfer to/(from) accumulated surplus	214	(213)	..	..	..
Total equity as at 30 June 2022	**77 899**	**132 901**	**11 744**	**1 837**	**224 381**
2021					
Balance at 1 July 2020	**90 381**	**101 302**	**501**	**1 483**	**193 667**
Net result for the year	(16 585)	..	..	..	(16 585)
Other comprehensive income for the year	3 933	15 743	28	280	19 983
Transfer to/(from) accumulated surplus	6 987	(6 987)	..	..	..
Total equity as at 30 June 2021	**84 716**	**110 058**	**528**	**1 763**	**197 065**

Note:

(a) The 1 July 2021 opening balance does not equal the 30 June closing balance reflecting movements between Accumulated surplus/(deficit) and Non-financial assets revaluation surplus resulting from the mergers of Western Water and City West Water to form Greater Western Water.

Table 5.5: General government sector detailed expenses by function [(a)] ($ million)

	2022	2021
General public services	**6 295**	**4 770**
Executive and legislative organs, financial and fiscal affairs, external affairs	3 059	1 927
General services	785	688
Public debt transactions	2 029	1 753
General public services NEC [(b)]	422	401
Public order and safety	**12 310**	**11 291**
Police services	3 999	3 859
Civil and fire protection services	3 349	3 007
Law courts	1 346	1 134
Prisons	1 991	1 970
Public order and safety NEC [(b)]	1 625	1 321
Economic affairs	**10 479**	**6 523**
General economic, commercial and labour affairs	8 611	4 202
Agriculture, forestry, fishing and hunting	576	593
Fuel and energy	598	759
Other industries	438	500
Economic affairs NEC [(b)]	255	469
Environmental protection	**1 219**	**1 025**
Protection of biodiversity and landscape	665	541
Environmental protection NEC [(b)]	555	484
Housing and community amenities	**2 801**	**2 360**
Housing development	..	..
Community development	2 688	2 243
Water supply	112	118
Housing and communities amenities NEC [(b)]	..	..
Health	**28 460**	**24 770**
Medical products, appliances and equipment	..	..
Outpatient services	2 000	2 372
Hospital services	21 063	18 507
Mental health institutions	..	..
Community health services	2 794	2 270
Public health services	2 493	1 451
Health NEC [(b)]	109	170
Recreation, culture and religion	**1 448**	**1 333**
Recreational and sporting services	845	769
Cultural services	602	563
Education	**19 281**	**17 793**
Pre-primary and primary education	8 722	7 912
Secondary education	6 983	6 459
Tertiary education	2 171	2 173
Education not definable by level	71	77
Subsidiary services to education	126	122
Education NEC [(b)]	1 208	1 051
Social protection	**8 285**	**8 181**
Sickness and disability	3 024	2 945
Old age	289	450
Family and children	2 448	2 136
Housing	1 837	2 012
Social protection NEC [(b)]	687	637
Transport	**7 553**	**10 109**
Road transport	2 695	2 924
Bus transport	1 272	833
Water transport	55	49
Railway transport [(c)]	2 827	5 453
Multi-mode urban transport	704	850
Transport NEC [(b)]	..	..
Not allocated by purpose [(d)]	(1 318)	(948)
Total expenses	**96 814**	**87 207**

Notes:

(a) Chapter 4, Note 3.6 provides definitions and descriptions of the classification of the functions of government.

(b) NEC: not elsewhere classified.

(c) As highlighted in the 2021-22 Budget Paper No. 3, Chapter 2 Department Performance Statements, *the capital assets charge (CAC) policy is discontinued from 2021-22. While reducing reported expenditure for various functions, the removal of the CAC materially reduces the railway transport expenditure, being the grant from the general government sector to the public non-financial corporations sector.*

(d) 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)**

	2020-21	*2021-22*			
	Jun	*Sep*	*Dec*	*Mar*	*Jun*
Revenue and income from transactions					
Taxation	5 876	7 018	5 936	9 994	7 599
Interest income	188	133	132	130	162
Dividends, income tax equivalent and rate equivalent income	177	94	296	64	430
Sales of goods and services	2 287	1 283	1 274	1 394	1 694
Grants	11 564	8 698	12 224	10 604	10 279
Other revenue and income	1 081	690	988	856	1 053
Total revenue and income from transactions	**21 173**	**17 915**	**20 850**	**23 042**	**21 216**
Expenses from transactions					
Employee expenses	8 011	7 882	8 226	7 740	8 391
Net superannuation interest expense	76	142	100	119	120
Other superannuation	860	969	923	952	1 068
Depreciation	1 117	1 048	1 079	1 063	1 118
Interest expense	675	639	747	658	826
Grant expense	6 460	7 950	6 677	4 955	5 481
Other operating expenses	7 867	5 763	6 600	6 967	8 612
Total expenses from transactions	**25 067**	**24 393**	**24 352**	**22 454**	**25 615**
Net result from transactions – net operating balance	**(3 894)**	**(6 477)**	**(3 502)**	**588**	**(4 399)**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	(48)	27	9	10	(31)
Net gain/(loss) on financial assets or liabilities at fair value	11	(33)	15	52	121
Share of net profit/(loss) from associates/joint venture entities	5	..	..	..	5
Other gains/(losses) from other economic flows	468	113	(164)	60	105
Total other economic flows included in net result	**436**	**108**	**(141)**	**123**	**200**
Net result	**(3 457)**	**(6 369)**	**(3 643)**	**710**	**(4 200)**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	6 668	258	95	110	18 240
Remeasurement of superannuation defined benefits plans	1 869	690	(854)	3 233	4 723
Other movements in equity	2	(34)	21	(6)	(33)
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	79	18	(37)	(59)	34
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	501	..	(1 193)	48	12 980
Total other economic flows – other comprehensive income	**9 120**	**931**	**(1 969)**	**3 326**	**35 943**
Comprehensive result – total change in net worth	**5 662**	**(5 439)**	**(5 612)**	**4 036**	**31 743**
KEY FISCAL AGGREGATES					
Net operating balance	**(3 894)**	**(6 477)**	**(3 502)**	**588**	**(4 399)**
Less: Net acquisition of non-financial assets from transactions	6 329	2 483	3 707	2 976	1 583
Net lending/(borrowing)	**(10 223)**	**(8 960)**	**(7 209)**	**(2 388)**	**(5 982)**

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

	2020-21	*2021-22*			
	Jun	*Sep*	*Dec*	*Mar*	*Jun*
Assets					
Financial assets					
Cash and deposits	14 609	15 786	13 119	13 573	10 974
Advances paid	5 473	5 284	4 931	4 695	4 929
Receivables and contract assets	8 201	8 142	6 721	9 470	8 406
Investments, loans and placements	2 960	3 017	5 108	3 374	3 370
Investments accounted for using the equity method	10	10	10	10	10
Investments in other sector entities	73 125	73 288	73 292	73 576	89 162
Total financial assets	**104 377**	**105 527**	**103 181**	**104 697**	**116 851**
Non-financial assets					
Inventories	908	849	879	1 154	1 262
Non-financial assets held for sale	182	183	181	171	171
Land, buildings, infrastructure, plant and equipment	195 592	198 442	202 492	206 017	225 770
Other non-financial assets	3 357	3 860	4 002	3 494	3 313
Total non-financial assets	**200 038**	**203 333**	**207 555**	**210 836**	**230 516**
Total assets	**304 415**	**308 860**	**310 736**	**315 533**	**347 367**
Liabilities					
Deposits held and advances received	2 791	2 366	2 036	1 916	1 831
Payables	16 404	15 731	15 791	16 192	17 551
Contract liabilities	239	381	375	323	342
Borrowings	92 985	103 944	110 693	114 353	117 420
Employee benefits	9 384	9 642	9 873	9 942	9 857
Superannuation	27 217	26 894	27 749	24 566	19 756
Other provisions	1 597	1 542	1 470	1 457	2 082
Total liabilities	**150 617**	**160 500**	**167 987**	**168 749**	**168 839**
Net assets	**153 799**	**148 360**	**142 749**	**146 784**	**178 528**
Accumulated surplus/(deficit)	58 642	52 746	48 331	52 271	52 824
Reserves	95 157	95 614	94 417	94 514	125 704
Net worth	**153 799**	**148 360**	**142 749**	**146 784**	**178 528**
FISCAL AGGREGATES					
Net financial worth	(46 239)	(54 973)	(64 806)	(64 052)	(51 988)
Net financial liabilities	119 364	128 262	138 098	137 628	141 149
Net debt	72 734	82 224	89 571	94 627	99 978

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

	2020-21 Jun	2021-22 Sep	Dec	Mar	Jun
Cash flows from operating activities					
Receipts					
Taxes received	6 999	6 932	6 771	7 614	8 970
Grants	10 234	8 758	12 937	10 653	10 373
Sales of goods and services [(a)]	2 558	1 709	1 230	1 412	1 930
Interest received	181	130	131	130	157
Dividends, income tax equivalent and rate equivalent receipts	175	94	288	72	96
Other receipts	895	483	634	396	393
Total receipts	**21 043**	**18 106**	**21 992**	**20 276**	**21 919**
Payments					
Payments for employees	(7 618)	(7 618)	(8 043)	(7 540)	(8 133)
Superannuation	(1 238)	(746)	(1 022)	(1 020)	(1 275)
Interest paid	(656)	(578)	(665)	(620)	(728)
Grants and subsidies	(5 826)	(8 280)	(6 654)	(4 957)	(4 729)
Goods and services [(a) (b)]	(7 079)	(6 547)	(6 786)	(7 082)	(7 110)
Other payments[(b)]	158	(236)	(282)	(182)	(320)
Total payments	**(22 259)**	**(24 004)**	**(23 451)**	**(21 401)**	**(22 294)**
Net cash flows from operating activities	**(1 216)**	**(5 898)**	**(1 459)**	**(1 124)**	**(376)**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(3 811)	(3 041)	(3 728)	(3 304)	(5 095)
Sales of non-financial assets	39	44	45	58	128
Net cash flows from investments in non-financial assets	**(3 772)**	**(2 996)**	**(3 683)**	**(3 246)**	**(4 967)**
Net cash flows from investments in financial assets for policy purposes	100	78	(52)	(7)	28
Sub-total	**(3 672)**	**(2 918)**	**(3 735)**	**(3 253)**	**(4 939)**
Net cash flows from investments in financial assets for liquidity management purposes	(204)	(69)	(2 117)	1 891	(33)
Net cash flows from investing activities	**(3 876)**	**(2 987)**	**(5 852)**	**(1 361)**	**(4 972)**
Cash flows from financing activities					
Advances received (net)	(335)	(499)	(403)	(260)	232
Net borrowings	5 193	10 486	4 975	3 060	2 834
Deposits received (net)	20	74	72	140	(317)
Net cash flows from financing activities	**4 877**	**10 062**	**4 644**	**2 939**	**2 750**
Net increase/(decrease) in cash and cash equivalents	**(215)**	**1 177**	**(2 667)**	**454**	**(2 598)**
Cash and cash equivalents at beginning of the reporting period	14 823	14 609	15 786	13 119	13 573
Cash and cash equivalents at end of the reporting period	**14 609**	**15 786**	**13 119**	**13 573**	**10 974**
FISCAL AGGREGATES					
Net cash flows from operating activities	(1 216)	(5 898)	(1 459)	(1 124)	(376)
Net cash flows from investments in non-financial assets	(3 772)	(2 996)	(3 683)	(3 246)	(4 967)
Cash surplus/(deficit)	**(4 988)**	**(8 894)**	**(5 142)**	**(4 371)**	**(5 343)**

Notes:

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

(b) The 31 March 2022 comparative figures have been reclassified between these two line items to more correctly reflect the nature of the items.

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 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 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 as well as:	Refer Chapter 4, consolidated balance sheet
	(i) the transactions on the Public Account	Refer Chapter, 4 Note 8.2 Public Account disclosures
	(ii) the transactions of the Victorian general government sector	Refer Chapter 4, consolidated comprehensive operating statement, consolidated cash flow statement and selected notes
	(iii) other financial transactions of the State.	Refer Chapter 4, consolidated comprehensive operating statement, consolidated cash flow statement and selected notes

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 Amounts paid into working accounts pursuant to Section 23 of the *Financial Management Act 1994* for the year ended 30 June
	(d) must include details of amounts allocated to departments during the financial year under section 28	Refer Chapter 4, Note 8.2.17 Allocations pursuant to Section 28 of the *Financial Management Act 1994* for the financial year ended 30 June
	(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 8.2.11 Appropriation of revenue and asset sale proceeds pursuant to Section 29 of the *Financial Management Act 1994* for the financial year ended 30 June 2022
	(f) must include particulars of amounts transferred in accordance with determinations under section 30 or 31	Refer Chapter 4, Note 8.2.10 Transfers pursuant to Sections 30 and 31 of the *Financial Management Act 1994* for the financial year ended 30 June 2022
	(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 8.2.12 Section 32 carryovers – *Financial Management Act 1994* for the financial year ended 30 June
	(ii) the application during the financial year of amounts referred to in subparagraph (i)	Refer Chapter 4, Note 8.2.12 Section 32 carryovers – *Financial Management Act 1994* for the financial year ended 30 June
	(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 8.2.12 Section 32 carryovers – *Financial Management Act 1994* for the financial year ended 30 June
	(h) must include:	
	(i) details of expenses and obligations met from money advanced to the Minister under section 35(1) during the financial year	Refer Chapter 4, Note 8.2.15 Payments from advances and unused advances carried forward to 2021-22 pursuant to Section 35 and 35(4) of the *Financial Management Act 1994*
	(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 8.2.15 Payments from advances and unused advances carried forward to 2021-22 pursuant to Section 35 and 35(4) of the *Financial Management Act 1994*

Financial Management Act 1994 *reference*	*Requirement*	*Comments/reference*
	(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 8.2.13 Payments from advance to the Treasurer exclusive of those attributable to COVID-19 for the financial year ended 30 June, and Note 8.2.14 Payments from advance to the Treasurer attributable to COVID-19 for the financial year ended 30 June
	(j) must include details of:	
	(i) payments made during the financial year in fulfilment of any guarantee by the Government under any Act	Refer Chapter 4, Note 8.2.16 Government guarantees
	(ii) money received or recovered by the Minister or Treasurer during the financial year in respect of any guarantee payments.	Refer Chapter 4, Note 8.2.16 Government guarantees
	(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	Refer Chapter 4, consolidated balance sheet Refer Chapter 4, Note 7.2 Contingent assets and contingent liabilities (State of Victoria) Refer Chapter 4, Note 3.2 Superannuation interest expense and other superannuation expenses and Note 6.5 Superannuation
	(ii) prescribed assets and prescribed liabilities of prescribed bodies.	Refer Chapter 4, Note 9.1 Disaggregated information, and Chapter 5, Table 5.2 Non-financial public sector balance sheet for the financial year ended 30 June
	(l) must be audited by the Auditor-General.	Refer Chapter 4, *Report of the Auditor-General*
Section 26(1)	The Minister must prepare a quarterly financial report for each quarter of each financial year.	Refer Appendix A
Section 26(2)	A quarterly financial report comprises:	
	(a) a statement of financial performance of the Victorian general government sector for the quarter	Refer Appendix A, Table A.1 Operating statement for the past five quarters
	(b) a statement of financial position of the Victorian general government sector at the end of the quarter	Refer Appendix A, Table A.2 Balance sheet as at the end of the past five quarters
	(c) a statement of cash flows of the Victorian general government sector for the quarter	Refer Appendix A, Table A.3 Statement of cash flows for the past five quarters

Financial Management Act 1994 *reference*	*Requirement*	*Comments/reference*
	(d) a statement of the accounting policies on which the statements required by paragraphs (a), (b) and (c) are based.	Refer Chapter 4
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
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, consolidated balance sheet, consolidated cash flow statement 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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