



**2015-16 Financial Report**  
(incorporating Quarterly  
Financial Report No. 4)  
Presented by Tim Pallas MP  
Treasurer of the State of Victoria

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# **Financial Report**

**(incorporating Quarterly Financial Report No. 4)**

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## **2015-16**



Presented by

**Tim Pallas MP**

Treasurer of the State of Victoria  
for the information of Honourable Members

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October 2016





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# CHAPTER 1 – FOREWORD

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## Purpose

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The *2015-16 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 2015-16 results. Chapter 2 analyses the results for the general government sector, comparing them with the revised estimates for the year presented in the *2016-17 Budget*. Chapter 3 presents the 2015-16 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*.

The 2015-16 financial statements have also been streamlined consistent with contemporary financial reporting practice. This improves clarity for users and better reflects the State's financial operations, position and performance.

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

## Economic context

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Victoria's economy grew strongly in 2015-16 as the national economy transitioned from the mining investment boom and local activity benefited from a lower exchange rate.

State final demand grew by 4.0 per cent in 2015-16. This strong growth was underpinned by household consumption and dwelling construction.

The growth in demand was assisted by the low interest rate environment as well as rising property prices.

Demand for new housing led to increased construction and rising property prices. Residential building activity remained at elevated levels with continuing strong inner city apartment construction. As a result, dwelling investment rose by 11.2 per cent in 2015-16.

Underlying business investment activity strengthened by 3.9 per cent in 2015-16.

Underlying state and local government investment increased by 3.4 per cent in 2015-16.

Victorian employment rose by 2.4 per cent in 2015-16, slightly above the national average of 2.2 per cent. Full-time job creation accelerated to 2.2 per cent in 2015-16, up from an annual average of 0.3 per cent over the preceding four years. Part-time employment increased by 2.6 per cent. On average, the Victorian unemployment rate was 5.9 per cent in 2015-16, down from an average of 6.4 per cent in 2014-15. Growth in both full-time and total employment was the strongest since 2010-11.

Victoria's population growth rose by 1.9 per cent over the year to March 2016. Net overseas migration was the largest contributor to growth followed by natural increase and net interstate migration. This is the fastest population growth for Victoria since 2009, lifting Victoria's population above 6 million people.

On average, the exchange rate fluctuated in a narrow band and finished the year slightly lower, providing relief to Victorian exporters and import competing industries.

Victoria has maintained its triple-A credit rating from both Moody's and Standard & Poor's. Standard & Poor's recognised the State's strong economy and fiscal position together with its exceptional liquidity. However, Standard & Poor's has placed a negative outlook on Victoria's credit rating reflecting a one in three chance that the Commonwealth of Australia might be downgraded within the next 12 to 24 months.

## Fiscal outcomes

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The net result from transactions for the general government sector was a surplus of \$2.7 billion in 2015-16, \$776 million higher than the revised estimate for the year. Victoria continues to forecast strong surpluses every year over the budget and forward estimates period.

Total revenue from transactions for the general government sector for the year was \$56.7 billion, which was marginally above the revised estimate and \$2.9 billion higher than 2014-15. State taxation revenue was \$19.9 billion in 2015-16, slightly lower than the revised estimate and around \$1.6 billion higher than in 2014-15. This was mainly due to an increase in land transfer duty of \$901 million on the back of continued strength in the property market. In addition, payroll tax collections increased by \$230 million, reflecting growth in aggregate employment and wages over 2015-16.

Grants revenue for the general government sector was \$903 million higher than last year, but consistent with revised budget expectations.

Other revenue in 2015-16 was around \$280 million higher than the revised budget estimate. The variance was mainly from higher revenue than anticipated in hospitals and health services.

Compared to the same time last year, other revenue has increased by \$600 million. This was mainly attributable to the one-off revenue from the High Court of Australia's decision to overturn the Court of Appeal's previous decision relating to Tatts

Group Limited's (Tatts) 'Gambling Licenses' proceedings. This resulted in an additional \$541 million of revenue plus interest recorded for the financial year.

Total expenses for the general government sector for the year were \$54.1 billion, \$530 million less than the revised 2015-16 estimate and \$1.5 billion more than in 2014-15. Total expenses were \$530 million less than the revised 2015-16 estimate primarily due to the unexpected underspend across departments and the rephrasing of the transfer of the Australian Synchrotron to the Commonwealth Government, which is expected to occur in 2016-17.

The increase in total expenses from 2014-15 was mainly attributable to increased service delivery in the health, education and police sectors as well as salary growth consistent with wages policy.

The Government infrastructure investment, which includes general government net infrastructure investment and estimated cash outflows for Partnership Victoria projects (net of asset sales), was \$4.7 billion for 2015-16. This is an increase of \$260 million compared with the revised budget, mainly reflecting higher than expected health sector capital spend.

Net debt for the general government sector was \$22.3 billion, or 5.9 per cent of gross state product at 30 June 2016. This was in line with the revised budget estimate published in the *2016-17 Budget*. It was also lower than the 6.2 per cent held at 30 June 2015.

# CHAPTER 2 – GENERAL GOVERNMENT SECTOR

## OUTCOME

- Net debt for the general government sector of \$22.3 billion (5.9 per cent of gross state product (GSP)) at 30 June 2016 was in line with the revised budget estimate published in the *2016-17 Budget* and lower than the 6.2 per cent held at 30 June 2015.
- The Government achieved an operating surplus of \$2.7 billion for 2015-16. Victoria continues to forecast strong surpluses every year over the budget and forward estimates period.
- The operating surplus was \$776 million higher than revised estimates. It was helped by higher than expected revenue of \$246 million and lower than expected expenses of \$530 million, primarily due to the unexpected underspend across departments and the rephasing of the transfer of the Australian Synchrotron to the Commonwealth Government, which is expected to occur in 2016-17.
- The Government infrastructure investment, which includes general government net infrastructure investment and estimated cash outflows for Partnership Victoria projects (net of asset sales), was \$4.7 billion for 2015-16. This is an increase of \$260 million compared to the revised budget, mainly reflecting higher than expected health sector capital spend.
- Standard and Poor's has reaffirmed the State of Victoria's triple-A credit rating on the 26 August 2016, citing 'the state's very strong financial management and economy, and its exceptional liquidity'. However, it has placed a negative outlook on Victoria's credit rating reflecting a one in three chance that the Commonwealth of Australia might be downgraded within the next 12 to 24 months.

### Fiscal objectives

As part of the *2015-16 Budget*, the Government outlined its fiscal strategy and objectives for the 2015-16 financial year, including:

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

The 2015-16 results were consistent with the Government's fiscal objectives and strategy, with:

- a net operating surplus of \$2.7 billion for the 2015-16 financial year;
- net debt to GSP of 5.9 per cent at 30 June 2016, decreasing from 6.2 per cent at 30 June 2015; and
- the general government being on track to fully fund the unfunded superannuation liability by 2035 with an additional contribution of \$1.0 billion being made to the State Superannuation Fund in 2015-16 under section 90(2) of the *State Superannuation Act*.

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

**Table 2.1: Key fiscal aggregates for the general government sector**

(\$ million)

	2015 actual	2016 actual	2016 revised
<b>Operating statement aggregates</b>			
Net result from transactions – net operating balance	1 214	2 664	1 888
Net result	749	1 817	1 638
Net lending/(borrowing)	937	1 876	1 303
Comprehensive result – total change in net worth	7 839	15 303	1 824
Cash surplus/(deficit)	(152)	1 129	871
<b>Balance sheet aggregates</b>			
Net worth	136 391	151 695	138 084
Net financial worth	27 471	35 984	28 150
Net financial liabilities	54 791	58 727	57 197
Net debt	22 327	22 309	22 493
<i>(per cent)</i>			
Net debt to GSP	6.2	5.9	5.9

Source: Department of Treasury and Finance

The **net result from transactions** surplus of \$2.7 billion was \$776 million higher than the revised 2015-16 estimate, mainly due to higher than expected revenue and lower expenses, primarily due to the unexpected underspend across departments and the rephasing of the transfer of the Australian Synchrotron to the Commonwealth Government, which is expected to occur in 2016-17.

The increase of \$1.5 billion in net result from transactions when compared to the previous year was mainly due to higher taxation revenue from land transfer duties, higher revenue from goods and services tax (GST) and also the one-off revenue from the High Court of Australia's decision to overturn the Court of Appeal's previous decision relating to Tatts Group Limited's (Tatts) 'Gambling Licenses' proceedings, which resulted in an additional \$541 million of revenue plus interest recorded for the financial year. The increases in revenue were partly offset by an increase in employee expenses mainly attributable to increased service delivery in the health, education and police sectors as well as salary growth consistent with wages policy compared to last year.

The **net result** is a further measure of financial performance for the period, including the impact of financial market movements on the value of assets and liabilities. The 2015-16 net result was \$179 million higher than the revised budget due to the same reasons as explained for the net result from transactions offset by an increase in losses from other economic flows.

The **net lending** measure broadly reflects the net impact of the general government sector on the economy and financial markets, including the impact of operating and capital investing transactions. The net lending of \$1.9 billion for 2015-16 was \$573 million higher than the revised estimate mainly attributable to a higher net result from transactions compared to revised estimate.

The 2015-16 **comprehensive result – total change in net worth** was \$7.5 billion higher than 2014-15. The increase is mainly due to the gain on investments of the general government sector in the public non-financial corporations (PNFC) sector, caused primarily by the increase in the net worth of Port of Melbourne Corporation. It is also attributable to the same drivers that increased the net result from transactions relative to 2014-15.

The increase from the revised budget reflects the impact of the revaluation of the land and buildings for the Department of Education and Training and the Department of Environment, Land, Water and Planning. It is also attributable to the gain on investments of the general government sector in the public non-financial corporations (PNFC) sector, caused primarily by the increase in the net worth of Port of Melbourne Corporation, Director of Housing and the Water Corporations.

The **cash surplus** position in 2015-16 reflects the sum of net cash flows from operating and capital investing activities. The improvement from a deficit position in 2014-15 actual outcome to a surplus position in 2015-16 was due to higher grants and taxation revenue.

**Net worth** is a measure of economic wealth and is equal to net assets outlined in Table 2.4. The increase from both the previous year and revised budget is primarily due to the revaluation of the land and buildings of the Department of Education and Training and the Department of Environment, Land, Water and Planning. It is also due to the increase in the investment of the general government in other sectors, primarily reflecting the increase in net worth of the Port of Melbourne Corporation, Director of Housing and the Water Corporations attributable to the revaluation of their non-financial assets during the year.

The year on year movement in **net financial worth**, which is equal to total financial assets less total liabilities, was also mainly due to the increase in the investment of the general government in other sectors.

**Net financial liabilities** are total liabilities less financial assets (excluding investments in other sector entities). Net financial liabilities were \$58.7 billion as at 30 June 2016, \$1.5 billion higher than in the revised budget. This increase is primarily due to a reduction in the bond yields that were used to value the superannuation liability.

**Net debt** reflects gross debt less liquid financial assets. Net debt of \$22.3 billion at 30 June 2016 was in line with the revised estimates in the *2016-17 Budget*.

## FINANCIAL PERFORMANCE

Table 2.2 shows an operating surplus of \$2.7 billion in 2015-16 compared with the revised 2015-16 estimate of \$1.9 billion.

**Table 2.2: Summary of operating statement**

(\$ million)

	2016 actual	2016 revised	Revised variance	% revised variance	2015 actual
<b>Revenue from transactions</b>					
Taxation revenue	19 896	20 079	(183)	(1)	18 339
Interest revenue	786	795	(8)	(1)	827
Dividends and income tax equivalent and rate equivalent revenue	848	762	86	11	1 113
Sales of goods and services	6 671	6 643	29	..	6 482
Grant revenue	25 406	25 364	43	..	24 503
Other revenue	3 108	2 828	280	10	2 508
<b>Total revenue from transactions</b>	<b>56 716</b>	<b>56 470</b>	<b>246</b>	<b>..</b>	<b>53 772</b>
<b>Expenses from transactions</b>					
Employee expenses	20 002	20 057	(55)	..	18 834
Net superannuation interest expense	878	878	..	..	1 038
Other superannuation	2 123	2 130	(7)	..	1 978
Depreciation	2 504	2 506	(2)	..	2 425
Interest expense	2 076	2 134	(58)	(3)	2 102
Other operating expenses	17 905	18 331	(426)	(2)	17 651
Grant expense	8 564	8 547	17	..	8 529
<b>Total expenses from transactions</b>	<b>54 052</b>	<b>54 582</b>	<b>(530)</b>	<b>(1)</b>	<b>52 558</b>
<b>Net result from transactions – net operating balance</b>	<b>2 664</b>	<b>1 888</b>	<b>776</b>	<b>41</b>	<b>1 214</b>
<b>Total other economic flows included in net result</b>	<b>(847)</b>	<b>(250)</b>	<b>(596)</b>	<b>238</b>	<b>(465)</b>
<b>Net result</b>	<b>1 817</b>	<b>1 638</b>	<b>180</b>	<b>11</b>	<b>749</b>

### Revenue

Total revenue from transactions for the year was \$56.7 billion, which was within 0.4 per cent of the revised estimate and \$2.9 billion (5.5 per cent) higher than the previous year.

Table 2.3 shows that State taxation revenue increased by \$1.6 billion compared to 2014-15. This was mainly due to increases in land transfer duty (\$901 million) on the back of continued strength in the property market throughout 2015-16. In addition, payroll tax collections have increased by \$230 million, reflecting growth in aggregate employment and wages over 2015-16.

State taxation revenue in 2015-16 was slightly lower than the revised estimates. The lower variance to the revised estimates was due to lower than expected collections of land transfer duty as a result of lower volume of property transactions in the second half of the 2015-16 financial year.



Table 2.3: Taxation

(\$ million)

	2016 actual	2016 revised	Revised variance	% revised variance	2015 actual
<b>Taxes on employers' payroll and labour force</b>	<b>5 365</b>	<b>5 386</b>	<b>(20)</b>	<b>..</b>	<b>5 135</b>
<b>Taxes on immovable property</b>					
Land tax	1 771	1 734	37	2	1 753
Fire Services Property Levy	674	661	13	2	588
Congestion levy	102	112	(10)	(9)	111
Metropolitan improvement levy	160	159	1	..	153
<b>Total taxes on immovable property</b>	<b>2 707</b>	<b>2 666</b>	<b>40</b>	<b>2</b>	<b>2 604</b>
<b>Financial and capital transactions</b>					
Land transfer duty	5 839	6 064	(225)	(4)	4 938
Other property duties	..	2	(2)	(100)	2
Metropolitan planning levy	20	17	3	18	..
Financial accommodation levy	147	127	19	15	105
Growth areas infrastructure contribution	149	138	11	8	129
<b>Total financial and capital transactions</b>	<b>6 155</b>	<b>6 349</b>	<b>(194)</b>	<b>(3)</b>	<b>5 174</b>
<b>Total taxes on property</b>	<b>8 862</b>	<b>9 015</b>	<b>(153)</b>	<b>(2)</b>	<b>7 778</b>
<b>Taxes on the provision of goods and services</b>					
<b>Gambling taxes</b>					
Public lotteries	427	437	(10)	(2)	401
Electronic gaming machines	1 079	1 080	(1)	..	1 059
Casino	228	240	(12)	(5)	217
Racing	77	79	(2)	(3)	82
Other	23	24	(1)	(4)	22
<b>Total gambling taxes</b>	<b>1 834</b>	<b>1 860</b>	<b>(26)</b>	<b>(1)</b>	<b>1 781</b>
<b>Levies on statutory corporations</b>	<b>112</b>	<b>112</b>	<b>..</b>	<b>..</b>	<b>112</b>
<b>Taxes on insurance</b>	<b>1 151</b>	<b>1 148</b>	<b>3</b>	<b>..</b>	<b>1 088</b>
<b>Total taxes on the provision of goods and services</b>	<b>3 097</b>	<b>3 120</b>	<b>(23)</b>	<b>(1)</b>	<b>2 980</b>
<b>Taxes on the use of goods and performance of activities</b>					
<b>Motor vehicle taxes</b>					
Vehicle registration fees	1 456	1 456	..	..	1 396
Duty on vehicle registrations and transfers	779	775	4	1	720
<b>Total motor vehicle taxes</b>	<b>2 235</b>	<b>2 231</b>	<b>4</b>	<b>..</b>	<b>2 117</b>
<b>Liquor licence fees</b>	<b>22</b>	<b>22</b>	<b>..</b>	<b>..</b>	<b>23</b>
<b>Other</b>	<b>315</b>	<b>305</b>	<b>10</b>	<b>3</b>	<b>306</b>
<b>Total taxes on the use of goods and performance of activities</b>	<b>2 572</b>	<b>2 558</b>	<b>14</b>	<b>1</b>	<b>2 445</b>
<b>Total taxation revenue</b>	<b>19 896</b>	<b>20 079</b>	<b>(183)</b>	<b>(1)</b>	<b>18 339</b>

Dividends, income tax and rate equivalent revenue of \$848 million, increased by \$86 million compared to the revised estimate. The increase in income tax equivalent revenue is mainly due to higher than expected profit by the metropolitan water sector and Port of Melbourne Corporation.

Compared to the same time last year, dividends, income tax and rate equivalent revenue decreased by \$265 million. This was mainly due to the Government's commitment not to take dividends from WorkSafe Victoria across the budget and forward estimates.

Revenue from sales of goods and services of \$6.7 billion was consistent with the revised budget estimate and \$189 million (2.9 per cent) higher than in 2014-15. The year on year increase primarily

related to the higher capital asset charge for increased capital asset holdings in Victorian Rail Track in 2015-16.

Other revenue in 2015-16 was \$280 million higher than the revised budget estimate, with the variance mainly from higher revenue than anticipated in hospitals and health services.

Compared to the same time last year, other revenue increased by \$600 million mainly attributable to the one-off revenue from the High Court of Australia's decision to overturn the Court of Appeal's previous decision relating to Tatts Group Limited's (Tatts) 'Gambling Licenses' proceedings, which resulted in an additional \$541 million of revenue plus interest recorded for the financial year.

## Expenses

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Total general government sector expenses for 2015-16 were \$530 million lower than the revised estimate in the *2016-17 Budget*. When compared with the previous year, total expenses increased by \$1.5 billion (2.8 per cent).

Employee expenses of \$20 billion for 2015-16 were in line with the revised budget and 6.2 per cent higher than in 2014-15. Compared to the previous year, this was mainly attributable to increased service delivery in the health, education and police sectors as well as salary growth consistent with wages policy.

Other superannuation expense of \$2.1 billion for 2015-16 was in line with the revised budget. This expense was \$145 million higher than in 2014-15 due to a combination of higher employer contributions to defined contribution plans along with higher service costs on defined benefit plans as a result of the fall in bond yields.

Other operating expenses for 2015-16 were \$17.9 billion, \$426 million (2.3 per cent) lower than the revised budget and \$254 million (1.4 per cent) higher than in 2014-15. The reason for the decrease from the revised budget was due to the unexpected underspend across departments. The increase since 2014-15 reflects additional spending on service delivery in the health services sector.

Grants and other transfer expense of \$8.6 billion is in line with revised budget and consistent with last year's grants expense.

## Other economic flows included in the net result

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

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

Other economic flows included in the net result for 2015-16 totalled a net loss of \$847 million.

## FINANCIAL POSITION

Table 2.4 shows the general government sector net assets increased by \$15.3 billion (11.2 per cent) to \$151.7 billion in the 2015-16 financial year. This was \$13.6 billion (9.9 per cent) higher than expected in the 2015-16 revised budget. The main drivers are outlined below.

**Table 2.4: Summary balance sheet**

(\$ million)

	2016 actual	Revised variance	2016 revised	Actual movement	2015 actual
<b>Assets</b>					
Financial assets	17 820	209	17 612	(39)	17 859
Non-financial assets	115 711	5 776	109 935	6 791	108 920
<b>Investment in other sector entities</b>					
Public non-financial corporations	92 233	9 792	82 441	13 181	79 052
Public financial corporations	2 477	(429)	2 906	(732)	3 210
<b>Total assets</b>	<b>228 242</b>	<b>15 349</b>	<b>212 893</b>	<b>19 200</b>	<b>209 041</b>
<b>Liabilities</b>					
Superannuation	29 291	1 403	27 888	3 344	25 947
Borrowings	33 811	(575)	34 386	(258)	34 069
Other liabilities	13 445	910	12 535	811	12 635
<b>Total liabilities</b>	<b>76 547</b>	<b>1 738</b>	<b>74 809</b>	<b>3 897</b>	<b>72 650</b>
<b>Net assets</b>	<b>151 695</b>	<b>13 610</b>	<b>138 084</b>	<b>15 304</b>	<b>136 391</b>

### Assets

Financial assets in Table 2.4 include cash, investments, loans and placements. The value of financial assets held by the general government sector was relatively constant at \$17.8 billion during the financial year. The actual outcome was also in line with revised estimates.

Non-financial assets increased by \$6.8 billion during the 2015-16 financial year, which is mainly due to the Government's investment in the infrastructure program, the revaluation of land and buildings and the recognition of the Victorian Comprehensive Cancer Centre during the year.

General government investments in other sector entities increased by \$12.4 billion in the year. This mainly reflects the revaluation of Port of Melbourne Corporation's non-financial assets to reflect the expected lease transaction price and also the revaluation of the Director of Housing and the Water Corporations non-financial assets, in line with the relevant financial reporting requirements.

### Liabilities

Total liabilities as at 30 June 2016 were \$1.7 billion and \$3.9 billion higher than the 2015-16 revised budget and 2014-15 actual outcome respectively. These increases were largely attributable to a reduction in bond yields which resulted in the value of the superannuation liability increasing.

## CASH FLOWS

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

A detailed cash flow statement is provided in Chapter 4.

**Table 2.5: Application of cash resources**

(\$ million)

	2016 actual	2016 revised
Net result from transactions – net operating balance	2 664	1 888
Add back: Non-cash revenues and expenses (net) <sup>(a)</sup>	2 695	2 885
<b>Net cash flows from operating activities</b>	<b>5 359</b>	<b>4 773</b>
Less:		
<b>Net investment in fixed assets</b>		
Expenditure on approved projects	4 327	4 022
Less: Sale of non-financial assets	190	174
<b>Net investment in fixed assets</b>	<b>4 137</b>	<b>3 848</b>
Finance leases	1 050	1 056
Other investment activities (net)	153	35
<b>Decrease/(increase) in net debt</b>	<b>19</b>	<b>(166)</b>

Source: Department of Treasury and Finance

Note:

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

## GOVERNMENT INFRASTRUCTURE INVESTMENT

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

The Government infrastructure investment program in 2015-16, which includes general government net infrastructure investment and estimated cash outflows for Partnership Victoria projects (net of asset sales), was \$4.7 billion. This is a \$260 million increase compared to the revised budget, mainly reflecting higher than expected health sector capital spend.

For the 2015-16 year, the Government undertook the following major infrastructure projects.

*The Government's infrastructure scorecard 2015-16*

Major projects completed during the year include:

- Dingley Bypass;
- Melbourne Wholesale Market Redevelopment; and
- Victorian Comprehensive Cancer Centre.

Major projects in progress include:

- Bendigo Hospital project;
- Box Hill Hospital redevelopment;
- CityLink-Tulla widening;
- Goulburn-Murray Water Connections Project (Northern Victoria Irrigation Renewal Project);
- Joan Kirner Women's and Children's Hospital;
- Level Crossing Removal Program;
- Melbourne Convention and Exhibition Centre Stage 2 development;
- Metro Tunnel – Early Works Package;
- Monash Children's Hospital;
- Murray Basin Rail Project;
- New Schools (PPP) project;
- New trains, trams and associated infrastructure for Melbourne commuters;
- Port capacity;
- Princes Highway duplication project – Winchelsea to Colac;
- Princes Highway East – Traralgon to Sale duplication;
- Ravenhall Prison;
- Redevelopment of Melbourne Park;
- Regional rolling stock;
- Royal Victorian Eye and Ear Hospital; and
- Western Highway duplication – Ballarat to Stawell.

Major projects that commenced procurement in 2015-16 include:

- Casey Hospital Expansion;
- Chandler Highway Upgrade;
- M80 Upgrade – Sunshine Avenue to Calder Freeway;
- Mernda Rail Extension Project;
- Metro Tunnel – Rail Systems Package;
- Metro Tunnel – Tunnel and Stations Package; and
- Western Distributor market-led proposal.



## CHAPTER 3 – STATE OF VICTORIA OUTCOME

- The State is in a strong and sustainable financial position, with net assets of \$152 billion at 30 June 2016. The balance sheet was strengthened during 2015-16 by a \$7.9 billion operating cash flow surplus.
- The **net result from transactions** for the State in 2015-16 was a surplus of \$1.6 billion, an increase on the previous year's deficit of \$736 million. The difference was predominantly due to increased taxation and grants revenue in 2015-16.
- The **net result** for the State for 2015-16 was a deficit of \$1.6 billion. This included significant reductions in the value of the State's financial assets, which were mainly caused by decreased bond yields impacting financial liability values and other unfavourable conditions in financial markets.

### FINANCIAL PERFORMANCE

Table 3.1 summarises the operating performance for the State of Victoria. This table shows that the State recorded a net surplus from transactions of \$1.6 billion in 2015-16 compared to a deficit of \$736 million in 2014-15. This result reflects:

- a \$2.7 billion surplus within the general government sector (discussed in the preceding chapter);
- a \$154 million surplus within the PNFC sector; and
- a \$797 million deficit within the PFC sector.

The **net result** for the State is a deficit of \$1.6 billion after including other economic flows. These outcomes are explained in Table 3.1.

This chapter sets out the financial results for the State of Victoria for 2015-16.

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

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

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

The full financial statements for the State of Victoria are provided in Chapter 4. Sector contributions to the State's outcome are also shown below.

## OPERATING STATEMENT

**Table 3.1: 2015-16 summary operating statement – State of Victoria**

(\$ million)

	2016 actual	2016 revised	Revised variance	% Revised variance	2015 actual
<b>Revenue from transactions</b>					
Taxation revenue	19 446	19 644	(198)	(1)	17 936
Interest revenue	651	583	68	12	855
Dividends and income tax equivalent and rate equivalent revenue <sup>(a)</sup>	1 159	1 303	(144)	(11)	768
Sales of goods and services	14 324	14 192	132	1	13 906
Grant revenue	25 241	25 244	(3)	..	24 377
Other revenue	3 835	3 471	364	10	3 088
<b>Total revenue from transactions<sup>(a)</sup></b>	<b>64 657</b>	<b>64 438</b>	<b>219</b>	<b>..</b>	<b>60 929</b>
<b>Expenses from transactions</b>					
Employee expenses	21 066	21 124	(58)	..	19 834
Net superannuation interest expense <sup>(a)</sup>	880	878	2	..	1 041
Other superannuation <sup>(a)</sup>	2 254	2 250	4	..	2 103
Depreciation <sup>(a)</sup>	4 706	4 665	41	1	4 454
Interest expense	2 730	2 757	(28)	(1)	2 867
Grant expense	5 657	5 532	124	2	5 822
Other operating expenses	25 720	26 425	(705)	(3)	25 544
<b>Total expenses from transactions<sup>(a)</sup></b>	<b>63 012</b>	<b>63 631</b>	<b>(619)</b>	<b>(1)</b>	<b>61 665</b>
<b>Net result from transactions – net operating balance<sup>(a)</sup></b>	<b>1 645</b>	<b>807</b>	<b>838</b>	<b>104</b>	<b>(736)</b>
<b>Total other economic flows included in net result<sup>(a)</sup></b>	<b>(3 284)</b>	<b>249</b>	<b>(3 533)</b>	<b>n.a.</b>	<b>786</b>
<b>Net result<sup>(a)</sup></b>	<b>(1 640)</b>	<b>1 056</b>	<b>(2 696)</b>	<b>n.a.</b>	<b>51</b>

Source: Department of Treasury and Finance

Note:

(a) Certain June 2015 comparative figures have been restated.

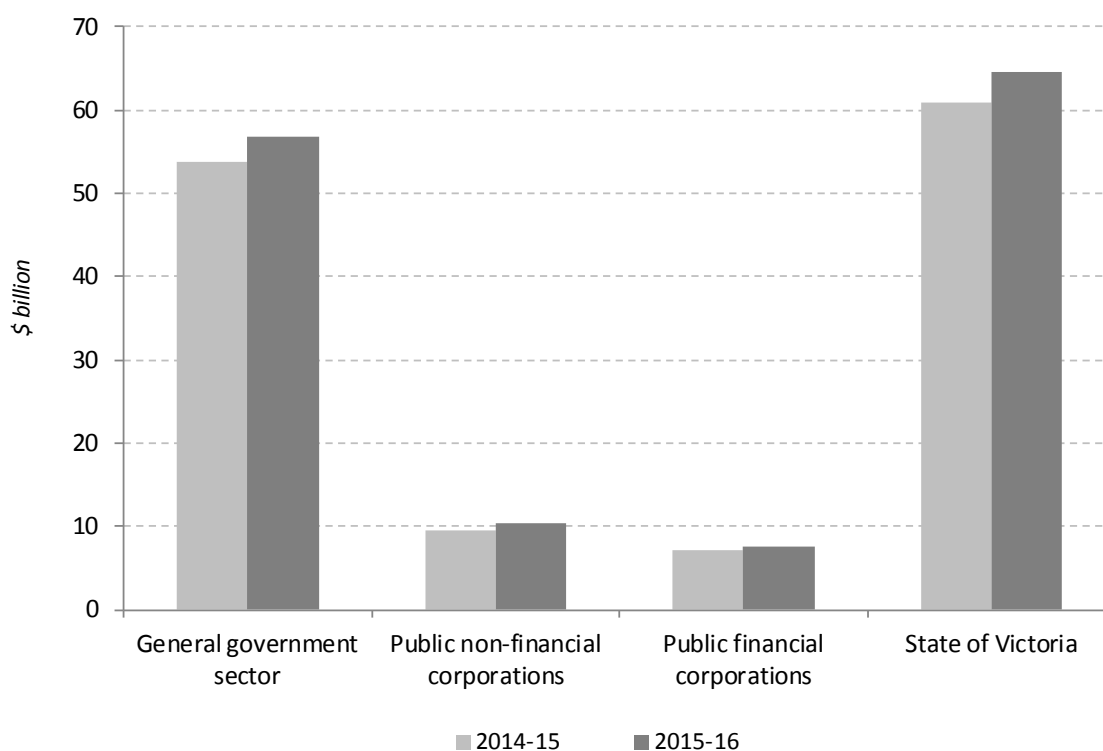
### Revenue

Total State revenue increased by 6.1 per cent during 2015-16 to \$64.7 billion. This was \$219 million higher than the revised estimate reflected in the 2016-17 Budget. The general government sector accounts for 88 per cent of total State revenue.

The increase in taxation receipts, grants and other revenue in the general government sector was the main contributor towards increased State revenue. The performance of the general government sector is discussed in Chapter 2.



**Chart 3.1: Revenue contributions by sector**



Source: Department of Treasury and Finance

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

Within the PNFC sector, total revenue increased by 9.4 per cent to \$10.4 billion during 2015-16, \$101 million more than estimated in the *2016-17 Budget* and a \$888 million increase from 2014-15. The increase since 2014-15 largely reflects:

- high water consumption and increases in developer revenue for the metropolitan water sector; and
- the government's decision to forgive the outstanding balance of the loan to the Director of Housing. This decision was made to simplify the financial arrangements between the Director of Housing and the Treasurer.

In the PFC sector, operating revenue increased by 4.7 per cent to \$7.5 billion during 2015-16, a \$337 million increase from 2014-15. The increase since 2014-15 is mainly related to steady growth in premium revenue for both the Transport Accident Commission (TAC) and Victorian WorkCover Authority (WorkSafe) reflecting a combination of factors, including scheduled increases in premium rates, growth in the number of vehicles (affecting TAC) and statewide remuneration (affecting WorkSafe).

The PFC sector experienced weak investment returns overall due to unfavourable conditions in global financial markets, with TAC, WorkSafe and Victorian Managed Insurance Authority (VMIA) recording a return of approximately 3 per cent on their investment portfolios, compared with returns of approximately 12 per cent in 2014-15. However, these unfavourable movements are reported below the line in the net result.

### Expenses

Total State expenses increased by 2.2 per cent during 2015-16 to \$63 billion, \$619 million lower than forecast in the *2016-17 Budget* and \$1.3 billion higher than in 2014-15.

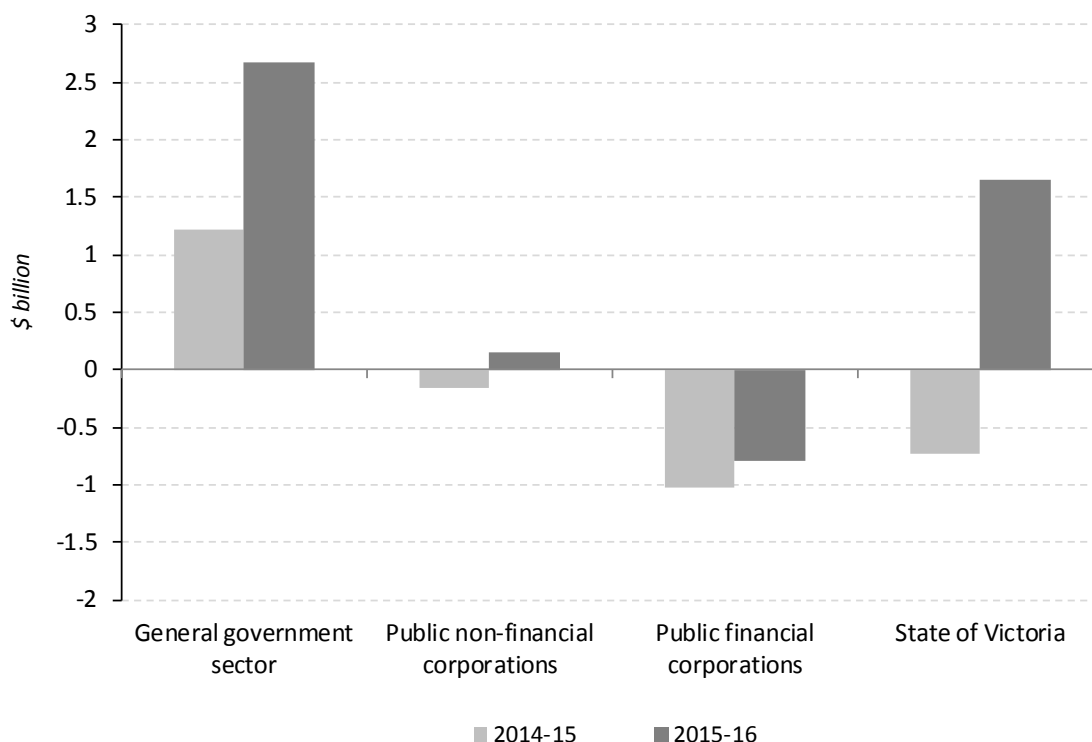
In the PNFC sector, total expenses increased by 5.9 per cent to \$10.2 billion, \$9 million lower than forecast in the *2016-17 Budget* and \$572 million higher than 2014-15. The increase since 2014-15 was mainly from income tax expenses and depreciation expenses.

Within the PFC sector, total expenses increased by 1.4 per cent to \$8.3 billion, \$31 million higher than forecast in the *2016-17 Budget*, and was \$116 million higher than in 2014-15. The increase in expenses since 2014-15 was mainly from an increase in other operating expenses.

### Net result from transactions

As shown in Chart 3.2, the PNFC sector recorded a \$154 million net surplus from transactions in 2015-16, improving on the \$162 million deficit in 2014-15. This reflects improved performance from the metropolitan water businesses and the one-off effect of forgiving Director of Housing debt repayment obligations.

**Chart 3.2: Net result from transactions by sector**



Source: Department of Treasury and Finance

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

The PFC sector recorded a net deficit from transactions of \$797 million in 2015-16 compared to a \$1 billion deficit in 2014-15. Care needs to be taken in interpreting this result as it excludes gains in the value of investment portfolios of the insurance agencies which will be used to fund their claims liabilities. These are included in the net result which is discussed in the next section.

financial assets and liabilities including investments used to fund the State's insurance and superannuation liabilities. As a result, the net result is considered a more meaningful measure of the underlying sustainable operating position of the State.

### Net result

At the consolidated State level, the net result for 2015-16 was a deficit of \$1.6 billion.

The difference between the net result and the net result from transactions comprises 'other economic flows' and includes the impact of valuation movements and actuarial assumptions on the State's

Other economic flows contributed a deficit of \$3.3 billion towards the State's net result. These mainly comprised:

- subdued investment returns for the State's insurance agencies, attributed to the unfavourable conditions in global financial markets; and
- valuation changes on the State's insurance liabilities arising from falling bond rates.

## FINANCIAL POSITION

Table 3.2 shows the State's net assets increased during 2015-16 by \$12 billion to \$152 billion at 30 June 2016. This mainly reflects revaluation gains in non-financial assets driven by the general government and PNFC sectors.

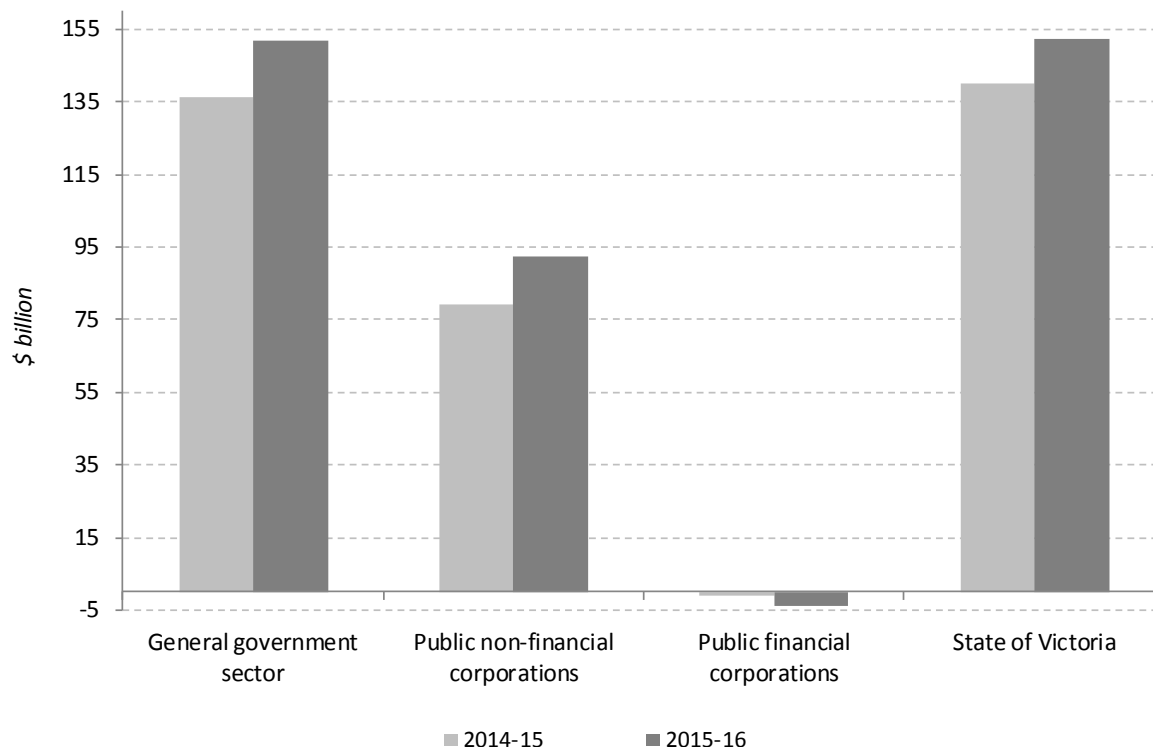
**Table 3.2: Summary balance sheet – State of Victoria**

(\$ billion)

	2016 actual	Revised variance	2016 revised	Actual movement	2015 actual
<b>Assets</b>					
Financial assets	52	2	50	2	50
Non-financial assets	230	15	215	20	210
<b>Total assets</b>	<b>282</b>	<b>17</b>	<b>265</b>	<b>22</b>	<b>260</b>
<b>Liabilities</b>					
Superannuation	29	1	28	3	26
Borrowings	54	2	52	2	52
Other liabilities	47	3	44	5	42
<b>Total liabilities</b>	<b>130</b>	<b>6</b>	<b>123</b>	<b>10</b>	<b>120</b>
<b>Net assets</b>	<b>152</b>	<b>11</b>	<b>142</b>	<b>12</b>	<b>140</b>

Source: Department of Treasury and Finance

**Chart 3.3: Net assets by sector as at 30 June <sup>(a)</sup>**



Source: Department of Treasury and Finance

Note:

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

Chart 3.3 shows net assets have increased by \$12 billion during 2015-16 driven largely in the general government sector and the PNFC sector. The general government sector is discussed in Chapter 2.

Non-financial assets increased by \$20 billion during 2015-16. This increase mainly reflects the revaluation of Port of Melbourne Corporation's non-financial assets to reflect the expected lease transaction price and also the revaluation of the Director of Housing and the Water Corporations non-financial assets, in line with the relevant financial reporting requirements.

The net asset position of the PFC sector declined by \$3 billion to a negative \$3.8 billion at 30 June 2016. This is primarily due to the impact of lower interest and bond rates impacting on the value of financial liabilities of the Treasury Corporation of Victoria (TCV) and the State's insurance agencies.

The valuation impact on TCV's liabilities arises because the majority of TCV's assets are fixed interest rate loans to Government clients which are measured at book value rather than market value, whereas its liabilities are reported at market value. This creates a valuation difference between TCV's assets and liabilities when reported in the PFC sector. This difference is ultimately eliminated when TCV's loans to Government clients are eliminated on consolidation of the whole of State accounts. This negative net asset position is not reflected in TCV's accounts where both assets and liabilities are reported at market value.

## **CASH FLOWS**

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After excluding non-cash items such as asset revaluations and depreciation, the change in operating receipts and payments for the State are broadly in line with the same factors that underpinned the income and expense movements discussed earlier in this chapter.

## **Infrastructure investment**

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Net cash flows from investment activities comprised of \$4.2 billion invested by the general government sector (discussed in Chapter 2) and \$2.1 billion by the PNFC sector, particularly in the water and transport sectors.

Key projects in the PNFC sector included the following. Upgrading regional rail services on the Ballarat rail corridor and procuring additional rolling stock with a further 27 VLocity train carriages to meet the demand of the regional network. Additional regional rolling stock investments including life-extension works to V/Line trains and carriages. Investment in metropolitan rail infrastructure including extending rail services to Mernda in Melbourne's northern suburbs, upgrading the Hurstbridge rail corridor and redeveloping the Frankston Station Precinct. Upgrading and renewal of water and sewer assets, including Goulburn-Murray Water's Connections Project, which will connect irrigators to a modernised main system of irrigation channels.

## **FINANCIAL SUSTAINABILITY (NON-FINANCIAL PUBLIC SECTOR)**

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

Table 3.3 shows NFPS net debt of \$36.6 billion is largely unchanged compared with the previous year, and \$700 million lower than the revised estimate of \$37.3 billion. The ratio of net NFPS debt to gross state product (GSP) has fallen to 9.7 per cent from 10.1 per cent in 2014-15.

**Table 3.3: Non-financial public sector net debt and net financial liabilities as at 30 June**

(\$ million)

	2016 actual	Revised variance	2016 revised	Actual movement	2015 actual
<b>Assets</b>					
Cash and deposits	5 574	485	5 089	200	5 374
Advances paid	153	72	81	64	89
Investments, loans and placements	3 906	(591)	4 497	(489)	4 395
<b>Total</b>	<b>9 633</b>	<b>(34)</b>	<b>9 667</b>	<b>(225)</b>	<b>9 858</b>
<b>Liabilities</b>					
Deposits held and advances received	802	162	640	165	637
Borrowings	45 409	(896)	46 305	(360)	45 769
<b>Total</b>	<b>46 211</b>	<b>(734)</b>	<b>46 945</b>	<b>(195)</b>	<b>46 406</b>
<b>Net debt</b>	<b>36 578</b>	<b>(700)</b>	<b>37 278</b>	<b>30</b>	<b>36 548</b>
Superannuation	29 354	1 424	27 930	3 366	25 988
<b>Net debt plus superannuation liabilities</b>	<b>65 932</b>	<b>724</b>	<b>65 208</b>	<b>3 396</b>	<b>62 536</b>
Other liabilities (net)	6 133	756	5 377	522	5 612
<b>Net financial liabilities</b>	<b>72 066</b>	<b>1 480</b>	<b>70 586</b>	<b>3 918</b>	<b>68 148</b>
	<i>(per cent)</i>				
<b>Net debt to GSP</b>	9.7		9.8		10.1
<b>Net debt plus superannuation liabilities to GSP</b>	17.4		17.2		17.2
<b>Net financial liabilities to GSP</b>	19.0		18.6		18.7

Source: Department of Treasury and Finance

### Indicators of financial condition

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

The operating cash flow surplus to revenue ratio has increased in 2015-16 compared to 2014-15, predominantly due to an increase in cash receipts from an increase in taxes received.

Gross debt to revenue has fallen since 2012-13 while interest expense to revenue has stabilised since 2012-13 and declined to 4.4 per cent in 2015-16 partly due to declining interest rates.

**Table 3.4: Indicators of financial condition for NFPS**

(per cent)

	2010	2011	2012	2013	2014	2015	2016
Operating cash flow surplus to revenue	9.8	8.6	7.6	4.9	10.0	9.1	11.7
Gross debt to revenue <sup>(a)</sup>	48.6	57.2	66.5	86.5	81.5	81.0	76.8
Interest expense to revenue	2.9	3.3	3.8	4.8	5.0	4.9	4.4

Source: Department of Treasury and Finance

Note:

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



# CHAPTER 4 – ANNUAL FINANCIAL REPORT

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## REPORT STRUCTURE

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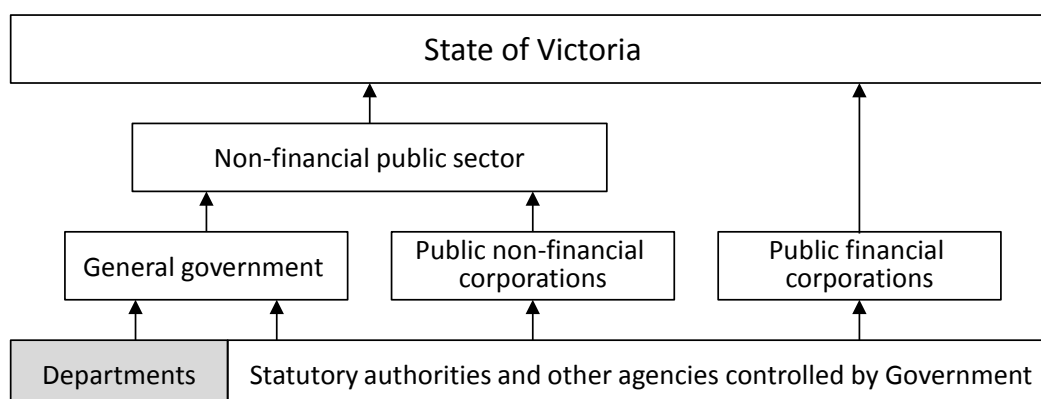
The Treasurer of Victoria presents the Annual Financial Report of the State of Victoria (“State”) for the financial year ended 30 June 2016, as follows:

<b>Report Certifications</b>	Report of the Auditor-General	Page 25
	Certification by the Treasurer and the Department of Treasury and Finance	Page 27
<b>Financial statements</b>	Consolidated comprehensive operating statement	Page 28
	Consolidated balance sheet	Page 29
	Consolidated cash flow statement	Page 30
	Consolidated statement of changes in equity	Page 32
<b>Notes to the financial statements</b>	<b>1. About this report</b>	Page 33
	<i>Basis of preparation</i>	
	<i>Compliance information</i>	
	<b>2. How funds are raised</b>	Page 36
	<i>Revenue recognised from taxes, grants, sales of goods and services and other sources</i>	
	<b>3. How funds are spent</b>	Page 41
	<i>Operating expenses of the State and capital spending on infrastructure and other assets</i>	
	<b>4. Major assets and investments</b>	Page 49
	<i>Land, buildings, infrastructure, plant and equipment, other non-financial assets, and investments held in associates and joint arrangements</i>	
<b>5. Financing State operations</b>	Page 61	
<i>Borrowings and cash flow information, investments held and public private partnership (service concession) arrangements and commitments at 30 June</i>		
<b>6. Other assets and liabilities</b>	Page 70	
<i>Other key asset and liability balances</i>		
<b>7. Risks, contingencies and valuation judgements</b>	Page 81	
<i>Financial instruments, contingent assets and liabilities, and fair value determination disclosures</i>		
<b>8. Comparison against budget and the public account</b>	Page 112	
<i>Explanations of material variances between budget and actual outcomes, and public account disclosures</i>		
<b>9. Other disclosures</b>	Page 135	

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## PUBLIC SECTOR TERMS EXPLAINED

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



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

Term	Explanation
General government sector (GGS)	The Victorian general government sector includes all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. The general government sector is not a separate entity but represents a sector within the State of Victoria reporting entity, and is reported in accordance with AASB 1049 <i>Whole of Government and General Government Sector Financial Reporting</i> . The primary function of entities within the general government sector is to provide public services (outputs), which are mainly non-market in nature for the collective consumption of the community, and involve the transfer or redistribution of revenue which is financed mainly through taxes and other compulsory levies.
Public non-financial corporations (PNFC) sector	The primary function of entities in the PNFC sector is to provide goods and services in a competitive market that is non-regulatory and non-financial in nature. Such entities are financed mainly through sales to the consumer of these goods and services.
Public financial corporations (PFC) sector	The PFC sector comprises entities engaged primarily in providing financial intermediation services or auxiliary financial services and which have one or more of the following characteristics: <ul style="list-style-type: none"> <li>• they perform a central borrowing function;</li> <li>• they provide insurance services;</li> <li>• they accept call, term or savings deposits; or</li> <li>• they have the ability to incur liabilities and acquire financial assets in the market on their own account.</li> </ul>
Non-financial public sector (NFPS)	The NFPS sector represents the consolidation of the GG and PNFC sectors.

Note 9.1 disaggregates information about these sectors. Disclosing this information assists users of the financial statements to determine the effects of differing activities on the financial performance and position of the State. It also assists users to identify the resources used in a range of goods and services, and the extent to which the State has recovered the costs of those resources from revenues attributable to those activities.

The logo for the Victorian Auditor-General's Office (VAGO) consists of the letters 'VAGO' in a bold, blue, sans-serif font. A thin horizontal line is positioned below the letters.

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## INDEPENDENT AUDITOR'S REPORT

### To the Treasurer

#### *The Financial Report*

I have audited the accompanying financial report of the State of Victoria (the State) and the Victorian General Government Sector, which comprises the consolidated comprehensive operating statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, notes comprising a summary of significant accounting policies and other explanatory information, and the certification by the Treasurer and the Department of Treasury and Finance. The financial report includes the consolidated financial statements of the State and the entities it controlled at the year's end or from time to time during the financial year as disclosed in Note 9.7 to the consolidated financial statements.

The original General Government Sector budget estimates disclosed in Note 8 were reviewed by my office as required by Section 16B of the *Audit Act 1994*, with an unqualified review conclusion issued on 1 May 2015.

#### *The Treasurer's Responsibility*

The Treasurer of Victoria is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and in the manner and form determined by the Treasurer of Victoria as required by the *Financial Management Act 1994*, and for such internal control as the Treasurer of Victoria determines is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Treasurer of Victoria, as well as evaluating the overall presentation of the financial report.

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

### Independent Auditor's Report (continued)

#### *Independence*

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, my staff, delegates and I have complied with the applicable independence requirements of the Australian Auditing Standards and relevant ethical pronouncements.

#### *Basis for Qualified Opinion*

Last year, a qualified audit opinion was issued on the State's 2014–15 Annual Financial Report as the State did not recognise a liability in the consolidated balance sheet or an expense in the consolidated comprehensive operating statement for \$1 500 million to account for the requirement to return the funding associated with the East West Link project. This was a departure from AASB 1004 *Contributions*, and consequently also a departure from AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

As set out in Note 1, during August 2016 the State provided the Commonwealth with a proposal that broadly confirmed acceptance of the Commonwealth's earlier conditional offer for the State to retain and reallocate the East West Link funding to other Victorian infrastructure projects. Consequently there is no longer a requirement for the recognition of a liability for the East West Link project funding.

However, as the State did not recognise a liability and expense in 2014–15 to account for the requirement at that time to return the funding associated with the East West Link project, readers of the 2015–16 Annual Financial Report are unable to compare the relevant current period's amounts, which are fairly stated, and the prior year's amounts for the following 'general government sector' financial statement line items which are impacted by the prior year qualification:

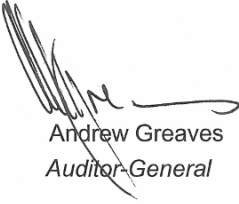
- other provisions (\$807 million in 2014–15)
- expenses from transactions (\$52 558 million in 2014–15)
- net result from transactions (\$1 214 million in 2014–15).

My opinion on the current period's financial report is only modified in respect of these 2014–15 comparative amounts.

#### *Qualified Opinion*

In my opinion, except for the effect on the financial report of the matters described in the Basis for Qualified Opinion paragraphs above, the financial report presents fairly, in all material respects, the consolidated financial positions of the State of Victoria and the General Government Sector as at 30 June 2016 and their consolidated financial performance and consolidated cash flows for the year then ended in accordance with applicable Australian Accounting Standards, and in the manner and form determined by the Treasurer of Victoria in accordance with the *Financial Management Act 1994*.

MELBOURNE  
11 October 2016



Andrew Greaves  
Auditor-General

2

*Auditing in the Public Interest*

## CERTIFICATION BY THE TREASURER AND THE DEPARTMENT OF TREASURY AND FINANCE

---

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

In our opinion, the *Annual Financial Report*, which comprises the consolidated comprehensive operating statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, and notes to the financial statements of the State and the Victorian general government sector as at 30 June 2016:

- (a) presents fairly the State's and the Victorian general government sector's financial positions as at 30 June 2016 and their financial performance and cash flows for the financial year ended on that date; and
- (b) has been prepared in accordance with Australian Accounting Standards and pronouncements, in particular AASB 1049 *Whole of Government and General Government Sector Financial Reporting* and the financial reporting requirements contained in Part 5 of the *Financial Management Act 1994*.

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

Tim Pallas MP  
**Treasurer**

David Martine  
**Secretary**

Authorised for issue on:  
10 October 2016



## CONSOLIDATED COMPREHENSIVE OPERATING STATEMENT

For the financial year ended 30 June

(\$ million)

	Notes	State of Victoria		General government sector	
		2016	2015	2016	2015
<b>Revenue from transactions</b>					
Taxation revenue	2.1	19 446	17 936	19 896	18 339
Interest revenue <sup>(a)</sup>	2.2	651	855	786	827
Dividends and income tax equivalent and rate equivalent revenue	2.3	1 159	768	848	1 113
Sales of goods and services	2.4	14 324	13 906	6 671	6 482
Grant revenue	2.5	25 241	24 377	25 406	24 503
Other revenue	2.6	3 835	3 088	3 108	2 508
<b>Total revenue from transactions <sup>(a)</sup></b>		<b>64 657</b>	<b>60 929</b>	<b>56 716</b>	<b>53 772</b>
<b>Expenses from transactions</b>					
Employee expenses	3.1	21 066	19 834	20 002	18 834
Net superannuation interest expense	3.2	880	1 041	878	1 038
Other superannuation	3.2	2 254	2 103	2 123	1 978
Depreciation	4.1.2	4 706	4 454	2 504	2 425
Interest expense	5.5	2 730	2 867	2 076	2 102
Grant expense <sup>(b)</sup>	3.3	5 657	5 822	8 564	8 529
Other operating expenses	3.4	25 720	25 544	17 905	17 651
<b>Total expenses from transactions</b>	3.5, 3.6	<b>63 012</b>	<b>61 665</b>	<b>54 052</b>	<b>52 558</b>
<b>Net result from transactions – net operating balance <sup>(a)</sup></b>		<b>1 645</b>	<b>(736)</b>	<b>2 664</b>	<b>1 214</b>
<b>Other economic flows included in net result</b>					
Net gain/(loss) on disposal of non-financial assets	4.1.3	(148)	9	(145)	32
Net gain/(loss) on financial assets or liabilities at fair value <sup>(a)</sup>		(1 468)	1 354	(10)	53
Share of net profit/(loss) from associates/joint venture entities		(73)	(30)	(4)	(3)
Other gains/(losses) from other economic flows	9.3	(1 596)	(547)	(688)	(548)
<b>Total other economic flows included in net result <sup>(a)</sup></b>		<b>(3 284)</b>	<b>786</b>	<b>(847)</b>	<b>(465)</b>
<b>Net result</b>		<b>(1 640)</b>	<b>51</b>	<b>1 817</b>	<b>749</b>
<b>Other economic flows – other comprehensive income</b>					
<b>Items that will not be reclassified to net result</b>					
Changes in non-financial assets revaluation surplus		17 514	7 404	6 236	2 524
Remeasurement of superannuation defined benefits plans	3.2	(3 246)	556	(3 220)	551
Other movements in equity <sup>(b)(c)</sup>		(193)	(194)	23	(173)
<b>Items that may be reclassified subsequently to net result</b>					
Net gain/(loss) on financial assets at fair value		(110)	(10)	(85)	(45)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets <sup>(b)</sup>	6.1	..	..	10 533	4 231
<b>Total other economic flows – other comprehensive income <sup>(b)(c)</sup></b>		<b>13 965</b>	<b>7 757</b>	<b>13 486</b>	<b>7 090</b>
<b>Comprehensive result – total change in net worth <sup>(b)(c)</sup></b>		<b>12 325</b>	<b>7 807</b>	<b>15 303</b>	<b>7 839</b>
<b>KEY FISCAL AGGREGATES</b>					
<b>Net operating balance <sup>(a)</sup></b>		<b>1 645</b>	<b>(736)</b>	<b>2 664</b>	<b>1 214</b>
Less: Net acquisition of non-financial assets from transactions <sup>(c)</sup>	9.1	2 912	1 791	788	277
<b>Net lending/(borrowing) <sup>(a)(c)</sup></b>		<b>(1 267)</b>	<b>(2 527)</b>	<b>1 876</b>	<b>937</b>

The accompanying notes form part of these financial statements.

Notes:

- (a) June 2015 comparative figures have been restated to more consistently reflect the classification of insurance entities' investment income between years.
- (b) June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.
- (c) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.

## CONSOLIDATED BALANCE SHEET

As at 30 June

(\$ million)

	Notes	State of Victoria		General government sector	
		2016	2015	2016	2015
<b>Assets</b>					
<b>Financial assets</b>					
Cash and deposits	5.3	6 676	6 521	4 772	4 282
Advances paid	5.4	153	121	4 582	4 572
Receivables <sup>(a)</sup>	6.3	7 793	6 870	5 566	5 555
Investments, loans and placements	5.4	35 534	34 317	2 853	3 406
Investments accounted for using the equity method	4.4.2	1 918	2 021	46	45
Investments in other sector entities <sup>(a)</sup>	6.1	..	..	94 710	82 262
<b>Total financial assets <sup>(a)</sup></b>		<b>52 074</b>	<b>49 851</b>	<b>112 531</b>	<b>100 121</b>
<b>Non-financial assets</b>					
Inventories	6.2	709	710	188	144
Non-financial assets held for sale	4.3	200	205	188	175
Land, buildings, infrastructure, plant and equipment <sup>(b)</sup>	4.1.1	226 557	206 949	114 254	107 562
Other non-financial assets	4.2	2 363	2 127	1 081	1 038
<b>Total non-financial assets <sup>(b)</sup></b>		<b>229 829</b>	<b>209 991</b>	<b>115 711</b>	<b>108 920</b>
<b>Total assets <sup>(a)(b)</sup></b>	3.6	<b>281 903</b>	<b>259 841</b>	<b>228 242</b>	<b>209 041</b>
<b>Liabilities</b>					
Deposits held and advances received	5.2	2 628	2 320	706	518
Payables	6.4	7 937	7 591	5 773	5 704
Borrowings	5.1	53 959	51 688	33 811	34 069
Employee benefits	3.1	6 647	6 076	6 137	5 605
Superannuation	6.5	29 354	25 988	29 291	25 947
Other provisions	6.6	29 085	26 213	829	807
<b>Total liabilities</b>		<b>129 611</b>	<b>119 876</b>	<b>76 547</b>	<b>72 650</b>
<b>Net assets <sup>(a)(b)</sup></b>		<b>152 291</b>	<b>139 966</b>	<b>151 695</b>	<b>136 391</b>
Accumulated surplus/(deficit) <sup>(a)(b)</sup>		56 234	61 285	44 454	45 764
Reserves <sup>(a)</sup>		96 008	78 630	107 191	90 577
Non-controlling interest		50	50	50	50
<b>Net worth <sup>(a)(b)</sup></b>		<b>152 291</b>	<b>139 966</b>	<b>151 695</b>	<b>136 391</b>
<b>FISCAL AGGREGATES</b>					
Net financial worth <sup>(a)(b)</sup>		(77 538)	(70 025)	35 984	27 471
Net financial liabilities <sup>(a)(b)</sup>		77 538	70 025	58 727	54 791
Net debt		14 224	13 048	22 309	22 327

The accompanying notes form part of these financial statements.

Notes:

- (a) June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.
- (b) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.

## CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 30 June

(\$ million)

	Notes	State of Victoria		General government sector	
		2016	2015	2016	2015
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Taxes received		19 325	18 013	19 775	18 416
Grants		25 203	24 363	25 375	24 499
Sales of goods and services <sup>(a)</sup>		15 892	15 325	7 253	7 002
Interest received <sup>(b)</sup>		557	741	786	812
Dividends and income tax equivalent and rate equivalent receipts		1 158	768	802	1 015
Other receipts <sup>(c)</sup>		2 627	2 331	2 436	1 984
<b>Total receipts <sup>(b)(c)</sup></b>		<b>64 763</b>	<b>61 541</b>	<b>56 428</b>	<b>53 728</b>
<b>Payments</b>					
Payments for employees		(20 645)	(19 593)	(19 621)	(18 619)
Superannuation		(3 014)	(2 900)	(2 877)	(2 771)
Interest paid		(2 711)	(2 882)	(2 040)	(2 062)
Grants and subsidies		(5 623)	(5 747)	(8 538)	(8 564)
Goods and services <sup>(a)</sup>		(24 365)	(23 835)	(17 257)	(16 835)
Other payments		(468)	(1 062)	(736)	(1 057)
<b>Total payments</b>		<b>(56 826)</b>	<b>(56 019)</b>	<b>(51 069)</b>	<b>(49 908)</b>
<b>Net cash flows from operating activities <sup>(b)(c)</sup></b>	5.3	<b>7 936</b>	<b>5 522</b>	<b>5 359</b>	<b>3 819</b>
<b>Cash flows from investing activities</b>					
<b>Cash flows from investments in non-financial assets</b>					
Purchases of non-financial assets <sup>(d)</sup>	3.5, 3.6	(6 836)	(6 591)	(4 420)	(4 369)
Sales of non-financial assets		454	595	190	398
<b>Net cash flows from investments in non-financial assets <sup>(d)</sup></b>		<b>(6 382)</b>	<b>(5 996)</b>	<b>(4 230)</b>	<b>(3 972)</b>
<b>Cash flows from investments in financial assets for policy purposes <sup>(c)(d)</sup></b>					
Cash inflows		189	2 144	564	361
Cash outflows <sup>(c)(d)</sup>		(179)	(567)	(471)	(1 243)
<b>Net cash flows from investments in financial assets for policy purposes</b>		<b>11</b>	<b>1 576</b>	<b>93</b>	<b>(883)</b>
<b>Cash flows from investments in financial assets for liquidity management purposes <sup>(b)(e)(f)</sup></b>					
Cash inflows <sup>(b)</sup>		11 625	22 783	2 384	891
Cash outflows		(12 945)	(25 102)	(1 848)	(1 261)
<b>Net cash flows from investments in financial assets for liquidity management purposes</b>		<b>(1 320)</b>	<b>(2 319)</b>	<b>535</b>	<b>(370)</b>
<b>Net cash flows from investing activities <sup>(b)(c)(d)</sup></b>		<b>(7 692)</b>	<b>(6 739)</b>	<b>(3 602)</b>	<b>(5 224)</b>
<b>Cash flows from financing activities</b>					
Advances received		172	45	..	..
Advances repaid		(123)	(5)	..	..
Advances received (net) <sup>(e)</sup>		48	39	..	..
Borrowings received		39	263	291	1 306
Borrowings repaid		(425)	(1 066)	(1 623)	(293)
Net borrowings <sup>(e)</sup>		(386)	(803)	(1 332)	1 013
Deposits received		1 088	668	799	431
Deposits repaid		(828)	(458)	(734)	(340)
Deposits received (net) <sup>(e)</sup>		259	210	65	91
<b>Net cash flows from financing activities</b>		<b>(79)</b>	<b>(554)</b>	<b>(1 267)</b>	<b>1 105</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>166</b>	<b>(1 771)</b>	<b>490</b>	<b>(300)</b>
Cash and cash equivalents at beginning of the financial year		6 510	8 281	4 282	4 582
<b>Cash and cash equivalents at end of the financial year <sup>(g)</sup></b>	5.3	<b>6 676</b>	<b>6 510</b>	<b>4 772</b>	<b>4 282</b>
<b>FISCAL AGGREGATES</b>					
Net cash flows from operating activities <sup>(b)(c)</sup>		7 936	5 522	5 359	3 819
Net cash flows from investments in non-financial assets <sup>(d)</sup>		(6 382)	(5 996)	(4 230)	(3 972)
<b>Cash surplus/(deficit) <sup>(b)(c)(d)</sup></b>		<b>1 554</b>	<b>(474)</b>	<b>1 129</b>	<b>(152)</b>

The accompanying notes form part of these financial statements.



## Notes:

- (a) *These items include goods and services tax.*
- (b) *June 2015 comparative figures have been restated to more consistently reflect the classification of insurance entities' investment income between years.*
- (c) *June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.*
- (d) *June 2015 comparative figures have been restated to correct contributed capital and accumulated fund balances from the prior year machinery of government changes.*
- (e) *In accordance with AASB 107, Treasury Corporation of Victoria (TCV) is not required to gross up their cash flow information for whole of government consolidation purposes. The net cash movements for TCV have been added to cash inflows or outflows for both financial years ended 30 June 2016 and 30 June 2015.*
- (f) *The June 2015 cash flows resulting from the schools investments in financial assets for liquidity management purposes are reported on a net basis, with the net cash movement added to cash inflows or outflows. This is because the Department of Education and Training did not have information available from each school to determine these gross cash flows. In 2015-16, this item is represented on a gross basis as the information for the current year is available from schools.*
- (g) *Cash and cash equivalents at the end of the reporting period does not equal cash and deposits on the balance sheet. This is due to overdrafts being included in the cash flow statement balances. See Note 5.3.*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June

(\$ million)

<i>State of Victoria</i>	<i>Accumulated surplus/(deficit)</i>	<i>Non-controlling interest</i>	<i>Non-financial assets revaluation surplus <sup>(a)</sup></i>	<i>Other reserves</i>	<i>Total</i>
<b>2016</b>					
Balance at 1 July 2015 <sup>(b)(c)</sup>	61 285	50	77 429	1 201	139 966
Net result for the year	(1 640)	..	..	..	(1 640)
Other comprehensive income for the year	(3 390)	..	17 514	(158)	13 965
Dividends paid	..	..	..	..	..
Transfer to/(from) accumulated surplus	(22)	..	22	..	..
Transactions with owners in their capacity as owners	..	..	..	..	..
<b>Total equity as at 30 June 2016</b>	<b>56 234</b>	<b>50</b>	<b>94 965</b>	<b>1 042</b>	<b>152 291</b>
<b>2015</b>					
Balance at 1 July 2014 <sup>(b)</sup>	45 511	50	85 437	1 161	132 158
Net result for the year	51	..	..	..	51
Other comprehensive income for the year <sup>(b)(c)</sup>	312	..	7 404	40	7 757
Dividends paid	..	..	..	..	..
Transfer to/(from) accumulated surplus <sup>(c)</sup>	15 412	..	(15 412)	..	..
Transactions with owners in their capacity as owners	..	..	..	..	..
<b>Total equity as at 30 June 2015 <sup>(b)(c)</sup></b>	<b>61 285</b>	<b>50</b>	<b>77 429</b>	<b>1 201</b>	<b>139 966</b>

<i>General government sector</i>	<i>Accumulated surplus/(deficit)</i>	<i>Non-controlling interest</i>	<i>Non-financial assets revaluation surplus <sup>(a)</sup></i>	<i>Investment in other sector entities revaluation surplus</i>	<i>Other reserves</i>	<i>Total</i>
<b>2016</b>						
Balance at 1 July 2015 <sup>(b)(c)</sup>	45 764	50	43 355	46 494	728	136 391
Net result for the year	1 817	..	..	..	..	1 817
Other comprehensive income for the year	(3 106)	..	6 236	10 533	(177)	13 486
Transfer to/(from) accumulated surplus	(22)	..	22	..	..	..
Transactions with owners in their capacity as owners	..	..	..	..	..	..
<b>Total equity as at 30 June 2016</b>	<b>44 454</b>	<b>50</b>	<b>49 613</b>	<b>57 027</b>	<b>551</b>	<b>151 695</b>
<b>2015</b>						
Balance at 1 July 2014 <sup>(b)</sup>	43 635	50	41 965	42 262	640	128 553
Net result for the year	749	..	..	..	..	749
Other comprehensive income for the year <sup>(b)(c)</sup>	246	..	2 524	4 231	88	7 090
Transfer to/(from) accumulated surplus	1 135	..	(1 135)	..	..	..
Transactions with owners in their capacity as owners	..	..	..	..	..	..
<b>Total equity as at 30 June 2015 <sup>(b)(c)</sup></b>	<b>45 764</b>	<b>50</b>	<b>43 355</b>	<b>46 494</b>	<b>728</b>	<b>136 391</b>

The accompanying notes form part of these financial statements.

Notes:

- (a) Non-financial assets revaluation surplus relates to revaluation of land, buildings, infrastructure, plant and equipment.
- (b) June 2015 comparative figures and 1 July 2015 opening balances have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.
- (c) June 2015 comparative figures and 1 July 2015 opening balances have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.

# 1 ABOUT THIS REPORT

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## 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 2016. This report informs users about the Government's stewardship of the resources entrusted to it.

Accounting policies selected and applied ensure that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

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

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

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

Judgements, estimates and assumptions are required to be made about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in applying Australian Accounting Standards that have significant effects on the financial statements and estimates relate to:

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

All amounts in the financial statements have been rounded to the nearest \$1 000 000 except in the Public Account disclosure in Note 8.2 which is rounded to the nearest \$1 000.

Figures in the *2015-16 Financial Report* may not add due to rounding.

## 1. ABOUT THIS REPORT

### Basis for consolidation

The **consolidated financial statements** of the State incorporate assets and liabilities of all reporting entities it controlled as at 30 June 2016 and the revenue and expenses of controlled entities for the part of the reporting period in which control existed (Note 9.7).

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

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

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

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

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

Consistent with the requirements of AASB 1004 *Contributions*, **contributions by owners** (that is, contributed capital and its repayment) are treated as equity transactions and, therefore, do not form part of the revenues and expenses of the relevant sectors of government.

### Compliance

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

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

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

### Other material transactions

#### *Accounting for the East West Link project funding*

In 2013-14 the State received \$1.5 billion from the Commonwealth Government as a contribution towards the former East West Link project. This was recorded as income in the year. Following the state election in November 2014, the Victorian Government confirmed that the East West Link project would not proceed and that it would not return the \$1.5 billion to the Commonwealth Government. The State subsequently sought independent legal and accounting advice on the appropriate accounting treatment for this transaction. The advice concluded that the State was not required to recognise a liability under Australian Accounting Standards AASB 1004 *Contributions* and AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* as there is no present obligation on the State to return the funding previously received for the project.

In April 2016, the Victorian Government accepted an offer from the Commonwealth to retain the funding for new road and rail infrastructure projects, and confirmed that the State will work with the Commonwealth over coming months to finalise project selection, relative contributions, and to progress necessary planning and implementation arrangements. On 30 August 2016, the State forwarded a comprehensive proposal to the Commonwealth broadly consistent with the earlier communicated proposal, with discussions continuing towards finalisation of an agreement. On this basis, no liability or expense has been recognised by the State in relation to this transaction.

### *Port of Melbourne lease transaction*

On 21 March 2016, the Victorian Government commenced the formal transaction process for the 50-year lease of the Port of Melbourne and disposal of other assets of Port of Melbourne Corporation (the Port Package).

The impact of this transaction on the *2015-16 Financial Report* is outlined in Note 9.5.

### *Property, plant and equipment at the Department of Education and Training*

In the previous year, the *2014-15 Financial Report* was qualified as the Acting Auditor-General considered sufficient audit evidence was not provided by the Department of Education and Training to support its property, plant and equipment balances.

During 2015-16, extensive work was performed by the Department of Education and Training as part of a comprehensive reform program to strengthen the Department's governance, leadership and culture. The Department also undertook a full revaluation of its assets.

This has resulted in the Auditor-General removing this audit qualification.

## 2 HOW FUNDS ARE RAISED

### Introduction

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

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

### Structure

2.1	Taxation revenue .....	36
2.2	Interest revenue .....	37
2.3	Dividends and income tax equivalent and rate equivalent revenue.....	37
2.4	Sales of goods and services.....	38
2.5	Grant revenue .....	39
2.6	Other revenue .....	40

### 2.1 Taxation revenue

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
<b>Taxes on employers' payroll and labour force</b>	<b>5 293</b>	<b>5 070</b>	<b>5 365</b>	<b>5 135</b>
<b>Taxes on immovable property</b>				
Land tax	1 734	1 712	1 771	1 753
Fire Services Property Levy	674	588	674	588
Congestion levy	102	111	102	111
Metropolitan improvement levy	160	153	160	153
<b>Financial and capital transactions</b>				
Land transfer duty	5 839	4 938	5 839	4 938
Other property duties	..	2	..	2
Metropolitan planning levy	20	..	20	..
Financial accommodation levy	..	..	147	105
Growth areas infrastructure contribution	149	129	149	129
<b>Total taxes on property</b>	<b>8 678</b>	<b>7 633</b>	<b>8 862</b>	<b>7 778</b>
<b>Gambling taxes</b>				
Public lotteries	427	401	427	401
Electronic gaming machines	1 079	1 059	1 079	1 059
Casino	228	217	228	217
Racing	77	82	77	82
Other	23	22	23	22
<b>Levies on statutory corporations</b>	..	..	<b>112</b>	<b>112</b>
<b>Taxes on insurance</b>	<b>1 151</b>	<b>1 088</b>	<b>1 151</b>	<b>1 088</b>
<b>Total taxes on the provision of goods and services</b>	<b>2 985</b>	<b>2 868</b>	<b>3 097</b>	<b>2 980</b>
<b>Motor vehicle taxes</b>				
Vehicle registration fees	1 454	1 395	1 456	1 396
Duty on vehicle registrations and transfers	779	720	779	720
<b>Liquor licence fees</b>	<b>22</b>	<b>23</b>	<b>22</b>	<b>23</b>
<b>Other</b>	<b>234</b>	<b>228</b>	<b>315</b>	<b>306</b>
<b>Total taxes on the use of goods and performance of activities</b>	<b>2 490</b>	<b>2 365</b>	<b>2 572</b>	<b>2 445</b>
<b>Total taxation revenue</b>	<b>19 446</b>	<b>17 936</b>	<b>19 896</b>	<b>18 339</b>

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

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

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

## 2.2 Interest revenue

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

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

## 2.3 Dividends and income tax equivalent and rate equivalent revenue

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
Dividends from PFC sector	..	..	239	566
Dividends from PNFC sector	..	..	149	256
Dividends from non-public sector	1 159	768	25	19
<b>Dividends</b>	<b>1 159</b>	<b>768</b>	<b>412</b>	<b>841</b>
Income tax equivalent revenue from PFC sector	..	..	15	139
Income tax equivalent revenue from PNFC sector	..	..	417	132
<b>Income tax equivalent revenue</b>	<b>..</b>	<b>..</b>	<b>431</b>	<b>270</b>
Local government rate equivalent revenue	..	..	5	1
<b>Total dividends and income tax equivalent and rate equivalent revenue</b>	<b>1 159</b>	<b>768</b>	<b>848</b>	<b>1 113</b>

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

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

While most government departments and agencies are exempt from federal income tax, certain larger PNFC and PFC entities are subject to income tax equivalents payable to the general government

sector in accordance with the National Tax Equivalent Regime (NTER). The primary objective of the NTER is to promote competitive neutrality, through uniformly applying income tax laws, between NTER entities and their privately held counterparts.

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

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

## 2. HOW FUNDS ARE RAISED

### Dividends by entity

(\$ million)

	General government sector	
	2016	2015
<b>Public financial corporations</b>		
WorkSafe Victoria	..	242
Victorian Managed Insurance Authority	73	..
Transport Accident Commission	132	253
Treasury Corporation of Victoria	32	51
Rural Finance Corporation of Victoria	..	17
State Trustees Ltd	1	2
Victorian Funds Management Corporation	2	2
<b>Dividends from PFC sector</b>	<b>239</b>	<b>566</b>
<b>Public non-financial corporations</b>		
Melbourne Water Corporation	..	22
City West Water Corporation	10	16
South East Water Corporation	26	52
Yarra Valley Water Corporation	24	32
Port of Melbourne Corporation	30	33
State Electricity Commission of Victoria	50	100
Others	9	2
<b>Dividends from PNFC sector</b>	<b>149</b>	<b>256</b>

### 2.4 Sales of goods and services

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
Motor vehicle regulatory fees	251	238	251	238
Other regulatory fees	528	523	515	507
Sale of goods	568	576	87	82
Provision of services	12 734	12 277	3 993	3 944
Rental	97	90	70	64
Refunds and reimbursements	147	202	22	66
Inter-sector capital asset charge	..	..	1 734	1 582
<b>Total sales of goods and services</b>	<b>14 324</b>	<b>13 906</b>	<b>6 671</b>	<b>6 482</b>

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

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

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

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

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



**Regulatory fees** are recognised at the time of billing.

**Capital asset charge** is a levy on controlled non-current physical assets of State government departments and some public non-financial

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

## 2.5 Grant revenue

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
General purpose grants	12 960	11 984	12 960	11 984
Specific purpose grants for on-passing	3 097	3 492	3 097	3 492
Specific purpose grants	9 176	8 895	9 169	8 890
<b>Total</b>	<b>25 234</b>	<b>24 371</b>	<b>25 226</b>	<b>24 367</b>
Other contributions and grants	8	5	180	136
<b>Total grant revenue</b>	<b>25 241</b>	<b>24 377</b>	<b>25 406</b>	<b>24 503</b>

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

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

a claim to receive benefits directly of approximately equal value.

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

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

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

## 2. HOW FUNDS ARE RAISED

### 2.6 Other revenue

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
Fair value of assets received free of charge or for nominal consideration	362	277	143	118
Fines	781	718	776	715
Royalties	58	52	49	44
Donations and gifts	343	317	281	266
Other non-property rental	95	92	29	28
Other miscellaneous revenue	2 197	1 632	1 830	1 338
<b>Total other revenue</b>	<b>3 835</b>	<b>3 088</b>	<b>3 108</b>	<b>2 508</b>

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

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

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

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

The majority of the **other miscellaneous revenue** relates to:

- Schools revenue comprising locally raised funds from school fetes, fundraising events, and voluntary contributions made by parents, recognised on a cash basis;
- research funding from non-government organisations and non-salary cost recovery from external organisations in the health sector; and
- the one-off revenue from Tatts in 2015-16 following the decision by the High Court of Australia to overturn the Court of Appeal's decision relating to Tatts' 'Gambling Licences' proceedings.

### 3 HOW FUNDS ARE SPENT

#### Introduction

This section accounts for the major components of expenditure incurred by the State towards the operating activities (expenses from transactions) and on capital or infrastructure projects during the year, as well as any related obligations outstanding as at 30 June 2016.

#### Structure

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### 3.1 Employee expenses and provision for outstanding employee benefits

#### Employee expenses (operating statement)

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

#### Employee benefits (balance sheet)

As part of annual operations, the State provides for benefits accruing to employees but payable in future periods in respect of wages and salaries, annual leave and long service leave, and related on-costs for services rendered to the reporting date. 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	
	2016	2015	2016	2015
<b>Current</b>				
Accrued salaries and wages	411	318	376	288
Other employee benefits	50	46	24	26
<b>Annual leave</b>				
Unconditional and expected to settle within 12 months	1 112	1 072	1 011	986
Unconditional and expected to settle after 12 months	208	182	189	153
<b>Long service leave</b>				
Unconditional and expected to settle within 12 months	781	801	693	723
Unconditional and expected to settle after 12 months	2 535	2 260	2 414	2 135
<b>On-costs</b>				
Unconditional and expected to settle within 12 months	286	233	266	216
Unconditional and expected to settle after 12 months	403	386	374	366
<b>Total current employee benefits and on-costs</b>	<b>5 786</b>	<b>5 297</b>	<b>5 347</b>	<b>4 893</b>
<b>Non-current</b>				
Long service leave	753	680	694	623
On-costs	108	99	97	88
<b>Total non-current employee benefits and on-costs</b>	<b>861</b>	<b>779</b>	<b>791</b>	<b>712</b>
<b>Total employee benefits and on-costs</b>	<b>6 647</b>	<b>6 076</b>	<b>6 137</b>	<b>5 605</b>

### 3. HOW FUNDS ARE SPENT

#### Wages and salaries, annual leave and sick leave

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

#### Long service leave

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

The components of this current LSL liability are measured at:

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

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

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

#### On-costs

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

#### Movements in provisions of on-costs

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
Opening balance	717	683	670	635
Additional provisions recognised	174	211	155	200
Additions due to acquisitions	..	1	..	..
Reductions arising from payments/other sacrifices of future economic benefits	(110)	(169)	(102)	(164)
Reductions resulting from re-measurement or settlement without cost	(5)	(9)	(6)	(3)
Unwind of discount and effect of changes in the discount rate	21	1	19	2
<b>Closing balance</b>	<b>798</b>	<b>717</b>	<b>736</b>	<b>670</b>
<b>Represented by:</b>				
Current	689	618	640	582
Non-current	108	99	97	88

### 3.2 Superannuation interest expense and other superannuation expenses

#### Superannuation expense recognised in the operating statement

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

- in relation to defined contribution (i.e. accumulation) superannuation plans, the associated expense is simply the employer contributions that are paid or payable in respect

of employees who are members of these plans during the reporting period; and

- for defined benefit plans, the superannuation expense reflects the employer financed component of defined benefits that are expected to accrue over the reporting period (i.e. service cost), along with the net superannuation interest expense.

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

- actuarial gains and losses which reflect the change in the defined obligation that has arisen due to differences between actual outcomes and the assumptions used to calculate the superannuation expense from transactions;

- the return on plan assets, excluding amounts included in the net superannuation interest expense; and
- the effect of any change in actuarial assumptions during the period.

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

### Superannuation expense recognised in the operating statement

(\$ million)

	State of Victoria	
	2016	2015
<b>Defined benefit plans</b>		
Net superannuation interest expense	880	1 041
Current service cost	778	735
Remeasurements:		
Expected return on superannuation assets excluding interest income	(787)	(630)
Other actuarial (gain)/loss on superannuation assets	1 166	(497)
Actuarial and other adjustments to unfunded superannuation liability	2 867	571
<b>Total expense recognised in respect of defined benefit plans</b>	<b>4 904</b>	<b>1 220</b>
<b>Defined contribution plans</b>		
Employer contributions to defined contribution plans	1 386	1 293
Other (including pensions)	90	74
<b>Total expense recognised in respect of defined contribution plans</b>	<b>1 476</b>	<b>1 368</b>
<b>Total superannuation (gain)/expense recognised in operating statement</b>	<b>6 380</b>	<b>2 587</b>
<b>Represented by:</b>		
Net superannuation interest expense	880	1 041
Other superannuation	2 254	2 103
<b>Superannuation expense from transactions</b>	<b>3 134</b>	<b>3 144</b>
<b>Remeasurement recognised in other comprehensive income</b>	<b>3 246</b>	<b>(556)</b>
<b>Total superannuation costs recognised in operating statement</b>	<b>6 380</b>	<b>2 587</b>

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

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

### 3. HOW FUNDS ARE SPENT

#### 3.3 Grant expense

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
<b>Current grant expense</b>				
Commonwealth Government	279	224	278	223
Local government (including grants for on-passing)	597	1 103	597	1 103
Private sector and not-for-profit on-passing	2 790	2 644	2 790	2 644
Other private sector and not-for-profit	1 596	1 568	1 551	1 534
Grants within the Victorian Government	..	..	3 006	2 772
Grants to other state governments	42	44	42	44
<b>Total current grant expense</b>	<b>5 303</b>	<b>5 583</b>	<b>8 263</b>	<b>8 319</b>
<b>Capital grant expense</b>				
Local government (including grants for on-passing)	..	15	..	15
Private sector and not-for-profit on-passing	192	142	191	138
Other private sector and not-for-profit	..	..	..	..
Grants within the Victorian Government	..	..	2	10
Other grants	161	81	109	46
<b>Total capital grant expense</b>	<b>353</b>	<b>238</b>	<b>301</b>	<b>210</b>
<b>Total grant expense</b>	<b>5 657</b>	<b>5 822</b>	<b>8 564</b>	<b>8 529</b>

Grants and other transfers to third parties are recognised as an expense in the reporting period in which they are paid or payable.

They include transactions such as grants, subsidies, personal benefit payments made in cash to individuals, other transfer payments made to local

government, non-government schools and community groups.

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

#### 3.4 Other operating expenses

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
Purchase of supplies and consumables <sup>(a)(b)</sup>	7 299	7 383	6 176	6 097
Cost of goods sold	185	352	27	126
Finance expenses and fees	448	457	36	30
Purchase of services <sup>(a)(b)</sup>	10 404	9 713	9 338	8 948
Insurance claims expense	4 899	4 621	183	119
Maintenance	1 301	1 285	737	698
Operating lease payments	406	399	338	327
Other	779	1 335	1 068	1 306
<b>Total other operating expenses</b>	<b>25 720</b>	<b>25 544</b>	<b>17 905</b>	<b>17 651</b>

Notes:

(a) Further disclosure on purchase of supplies and consumables and purchase of services by department is available on the Department of Treasury and Finance's website ([dtf.vic.gov.au](http://dtf.vic.gov.au)). This further disclosure is not subject to audit by the Victorian Auditor-General's Office.

(b) June 2015 comparatives have been reclassified between the purchase of supplies and consumables and purchase of services line items to better reflect the nature of the expenditure items.

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

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

**Audit fees** of \$383 500 (\$374 000 in 2015) were paid or payable to the Victorian Auditor-General's Office for the audit of the Annual Financial Report of the State of Victoria. The Victorian Auditor-General's Office provided no other services to the State other than the review of the Estimated Financial Statements and the financial audits of departments and agencies.

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

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

### 3. HOW FUNDS ARE SPENT

#### 3.5 Total operating expenses and purchases of non-financial assets by department <sup>(a)</sup>

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)

State of Victoria	Expenses from transactions		Purchases of non-financial assets	
	2016	2015	2016	2015
Economic Development, Jobs, Transport and Resources	12 485	7 012	2 895	1 486
Education and Training	15 066	14 563	399	363
Environment, Land, Water and Planning	8 565	8 265	1 501	1 354
Health and Human Services	22 819	18 878	1 307	1 071
Justice and Regulation	5 881	5 551	462	638
Premier and Cabinet	393	556	10	25
Treasury and Finance	15 070	15 311	63	102
Parliament	174	167	19	22
Courts	495	484	23	19
Human Services <sup>(d)</sup>	..	2 433	..	125
Transport, Planning and Local Infrastructure	..	5 212	..	1 309
Regulatory bodies and other part budget funded agencies <sup>(b)</sup>	2 107	1 966	108	200
<b>Total</b>	<b>83 055</b>	<b>80 398</b>	<b>6 788</b>	<b>6 714</b>
<i>Less eliminations and adjustments <sup>(c)(d)</sup></i>	<i>(20 042)</i>	<i>(18 733)</i>	<i>48</i>	<i>(123)</i>
<b>Total</b>	<b>63 012</b>	<b>61 665</b>	<b>6 836</b>	<b>6 591</b>
<b>General government sector</b>				
Economic Development, Jobs, Transport and Resources	8 142	4 723	2 256	1 175
Education and Training	15 066	14 563	399	363
Environment, Land, Water and Planning	2 628	2 734	75	144
Health and Human Services	21 672	18 234	1 016	949
Justice and Regulation	5 712	5 388	459	637
Premier and Cabinet	374	538	9	23
Treasury and Finance	6 680	7 036	28	31
Parliament	174	167	19	22
Courts	495	484	23	19
Human Services	..	1 923	..	19
Transport, Planning and Local Infrastructure	..	3 457	..	893
Regulatory bodies and other part budget funded agencies <sup>(b)</sup>	2 107	1 966	108	200
<b>Total</b>	<b>63 051</b>	<b>61 214</b>	<b>4 393</b>	<b>4 474</b>
<i>Less eliminations and adjustments <sup>(c)(d)</sup></i>	<i>(8 999)</i>	<i>(8 656)</i>	<i>26</i>	<i>(105)</i>
<b>Total</b>	<b>54 052</b>	<b>52 558</b>	<b>4 420</b>	<b>4 369</b>

Notes:

(a) Effective 1 January 2015 several departments were renamed or abolished due to machinery of government changes:

- the Department of Education and Early Childhood Development was renamed the Department of Education and Training;
- the Department of Environment and Primary Industries was renamed the Department of Environment, Land, Water and Planning;
- the Department of Health was renamed the Department of Health and Human Services;
- the Department of Justice was renamed the Department of Justice and Regulation;
- the Department of State Development, Business and Innovation was renamed the Department of Economic Development, Jobs, Transport and Resources;
- the Department of Human Services was abolished; and
- the Department of Transport, Planning and Local Infrastructure was abolished.

The two abolished departments had their functions and operations transferred to other Victorian government departments. Accordingly, care needs to be taken in interpreting the figures in this table. Functions and operations of the Department of Human Services were transferred to the Department of Health and Human Services and to the Department of Premier and Cabinet. Functions and operations of the Department of Transport, Planning and Local Infrastructure were transferred to the Department of Environment, Land, Water and Planning, the Department of Health and Human Services and to the Department of Economic Development, Jobs, Transport and Resources. Certain functions and operations of continuing Victorian government departments were also transferred among departments as part of the machinery of government changes. Controlled entities which have been transferred as part of the machinery of government changes are listed under their new portfolio departments.

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

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

(d) June 2015 comparative figures for purchases of non-financial assets have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.



### 3.6 Government purpose classification disclosure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 3. HOW FUNDS ARE SPENT

#### Total operating expenses, purchases of non-financial assets and total assets by government purpose classification <sup>(a)(b)</sup>

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

(\$ million)

<i>State of Victoria</i>	<i>Expenses from transactions</i>		<i>Purchases of non-financial assets</i>		<i>Total assets</i>	
	2016	2015	2016	2015	2016	2015
General public services	8 967	9 078	86	185	3 310	2 313
Public order and safety	6 155	5 666	677	642	9 191	8 606
Education	13 359	12 909	355	406	22 013	19 041
Health	15 212	14 259	920	931	13 831	12 477
Social security and welfare	4 508	4 226	75	79	2 014	1 839
Housing and community amenities	5 879	6 261	1 725	1 549	76 627	70 559
Recreation and culture	1 600	1 399	235	248	14 317	13 072
Fuel and energy	131	133	15	11	21	19
Agriculture, forestry, fishing and hunting	513	453	12	31	670	768
Transport and communications	5 673	5 595	2 561	2 689	88 952	82 058
Other economic affairs	762	1 021	129	83	738	626
Other purposes	1 961	2 089	1	1	6	6
Not allocated by purpose <sup>(c)(d)</sup>	(1 709)	(1 424)	44	(266)	50 213	48 458
<b>Total</b>	<b>63 012</b>	<b>61 665</b>	<b>6 836</b>	<b>6 591</b>	<b>281 903</b>	<b>259 841</b>

<i>General government sector</i>						
General public services	2 662	3 005	52	111	1 592	1 202
Public order and safety	6 269	5 769	677	642	9 191	8 606
Education	13 424	12 972	355	406	22 013	19 041
Health	15 331	14 361	919	931	13 810	12 457
Social security and welfare	4 539	4 254	75	79	2 014	1 839
Housing and community amenities	2 611	2 948	44	142	8 222	7 160
Recreation and culture	800	682	78	114	8 900	8 328
Fuel and energy	128	130	15	5	21	11
Agriculture, forestry, fishing and hunting	414	360	6	25	603	701
Transport and communications	6 245	6 103	2 046	2 063	48 791	49 150
Other economic affairs	857	1 109	129	83	738	626
Other purposes	1 350	1 376	..	..	1	2
Not allocated by purpose <sup>(c)(d)</sup>	(579)	(513)	22	(234)	112 345	99 920
<b>Total</b>	<b>54 052</b>	<b>52 558</b>	<b>4 420</b>	<b>4 369</b>	<b>228 242</b>	<b>209 041</b>

Notes:

(a) June 2015 comparative figures have been reclassified to reflect more current information.

(b) June 2015 comparative figures have been restated, consistent with the changes identified in the balance sheet and cash flow statement.

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

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

## 4 MAJOR ASSETS AND INVESTMENTS

### Introduction

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

### Structure

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### 4.1 Land, buildings, infrastructure, plant and equipment

#### 4.1.1 Total land, buildings, infrastructure, plant and equipment

(\$ million)

2016	State of Victoria			General government sector		
	Gross carrying amount	Accumulated depreciation	Carrying amount	Gross carrying amount	Accumulated depreciation	Carrying amount
Buildings	47 244	(2 574)	44 669	29 437	(1 825)	27 612
Land and national parks	70 423	..	70 423	44 724	..	44 724
Leased buildings	4 940	(515)	4 425	4 467	(465)	4 002
Infrastructure systems	63 120	(2 510)	60 610	1 775	(455)	1 320
Leased infrastructure systems	4 810	(281)	4 529	..	..	..
Plant, equipment and vehicles	11 148	(4 550)	6 598	5 884	(3 558)	2 326
Leased plant, equipment and vehicles	1 331	(271)	1 060	396	(238)	158
Roads and road infrastructure	38 790	(18 690)	20 100	38 705	(18 673)	20 031
Leased roads and road infrastructure	584	(9)	575	584	(9)	575
Earthworks	7 913	..	7 913	7 913	..	7 913
Cultural assets	5 877	(222)	5 655	5 814	(222)	5 592
<b>Total land, buildings, infrastructure, plant and equipment</b>	<b>256 180</b>	<b>(29 623)</b>	<b>226 557</b>	<b>139 701</b>	<b>(25 446)</b>	<b>114 254</b>
<b>2015</b>						
Buildings	45 800	(2 758)	43 041	28 236	(2 260)	25 976
Land and national parks	62 508	..	62 508	40 699	..	40 699
Leased buildings	3 068	(535)	2 532	2 967	(491)	2 476
Infrastructure systems	56 072	(4 090)	51 981	1 747	(448)	1 299
Leased infrastructure systems	4 802	(246)	4 556	..	..	..
Plant, equipment and vehicles <sup>(a)</sup>	10 710	(4 275)	6 435	5 949	(3 674)	2 275
Leased plant, equipment and vehicles	1 307	(207)	1 100	373	(207)	166
Roads and road infrastructure	39 060	(18 098)	20 962	38 984	(18 084)	20 901
Leased roads and road infrastructure	584	..	584	584	..	584
Earthworks	7 694	..	7 694	7 690	..	7 690
Cultural assets	5 690	(137)	5 554	5 633	(137)	5 496
<b>Total land, buildings, infrastructure, plant and equipment <sup>(a)</sup></b>	<b>237 295</b>	<b>(30 346)</b>	<b>206 949</b>	<b>132 862</b>	<b>(25 300)</b>	<b>107 562</b>

Note:

(a) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.

## 4. MAJOR ASSETS AND INVESTMENTS

### Recognition and measurement

#### Initial recognition

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

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

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

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

#### Subsequent measurement

All non-financial physical assets are subsequently measured at fair value less accumulated depreciation and impairment. Non-financial physical assets are measured at fair value with regard to the asset's highest and best use after due consideration is made for any legal or physical restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset.

Theoretical opportunities that may be available in relation to the asset are not taken into account until it is virtually certain that the restrictions will no longer apply. Therefore, unless otherwise disclosed, the current use of these non-financial physical assets will be their highest and best use.

#### Impairment

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

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

- inventories (refer note 6.2);
- non-financial physical assets held for sale (refer note 4.3);
- certain biological assets related to agricultural activity (refer note 4.2);
- investment properties that are measured at fair value (refer note 4.2); and
- assets arising from construction contracts (refer note 4.1).

If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off as an 'other economic flow', except to the extent that the write down can be debited to an asset revaluation surplus amount applicable to that class of asset.

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

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

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

## 4.1.2 Depreciation

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
Buildings	1 441	1 354	1 031	984
Leased buildings	127	117	120	111
Infrastructure systems	1 359	1 247	44	40
Leased infrastructure systems	81	81	..	..
Plant, equipment and vehicles	822	792	518	518
Leased plant, equipment and vehicles	45	33	45	33
Roads and road infrastructure	599	593	596	590
Leased roads and road infrastructure	9	..	9	..
Cultural assets	14	20	14	20
Intangible produced assets	207	217	125	129
<b>Total depreciation</b>	<b>4 706</b>	<b>4 454</b>	<b>2 504</b>	<b>2 425</b>

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

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

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

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

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

**Indefinite life assets**

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

**Intangible assets**

Intangible produced assets with finite useful lives are depreciated as an expense from transactions on a systematic (typically straight line) basis over the asset's useful life. Depreciation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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

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

Intangible produced assets have useful lives of between three and five years.

**Other non-financial assets**

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

## 4. MAJOR ASSETS AND INVESTMENTS

### 4.1.3 Net gain/(loss) on disposal of non-financial assets <sup>(a)</sup>

(\$ million)

	<i>State of Victoria</i>		<i>General government sector</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
Proceeds from disposal of physical assets	453	595	189	398
Written down value of assets sold/(disposed)	(601)	(586)	(333)	(366)
<b>Net gain/(loss) on disposal of non-financial assets</b>	<b>(148)</b>	<b>9</b>	<b>(145)</b>	<b>32</b>

*Note:*

(a) Any gain or loss on the disposal of non-financial assets is recognised at the date of disposal.

#### 4.1.4 Reconciliation of movements in carrying values during the financial period

(\$ million)

State of Victoria	Land and buildings		Plant, equipment vehicle and infrastructure system		Roads, road infrastructure and earthworks		Cultural assets		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Opening balance</b>	<b>108 081</b>	<b>100 939</b>	<b>64 073</b>	<b>62 150</b>	<b>29 241</b>	<b>29 858</b>	<b>5 554</b>	<b>5 545</b>	<b>206 949</b>	<b>198 492</b>
Acquisitions <sup>(a)</sup>	2 658	2 212	4 464	3 387	173	1 183	28	18	7 323	6 800
Reclassification <sup>(a)</sup>	(32)	961	(134)	(760)	..	(532)	43	(3)	(123)	(334)
Revaluation	10 724	5 731	6 743	1 602	(199)	(674)	45	5	17 314	6 664
Disposals	(401)	(350)	(181)	(134)	(2)	(2)	..	..	(584)	(486)
Assets recognised for the first time	132	103	139	22	32	..	..	9	303	134
Impairment	(75)	(43)	(1)	(41)	(48)	..	(1)	..	(126)	(85)
Depreciation	(1 569)	(1 471)	(2 307)	(2 153)	(609)	(593)	(14)	(20)	(4 499)	(4 237)
<b>Closing balance</b>	<b>119 518</b>	<b>108 081</b>	<b>72 796</b>	<b>64 073</b>	<b>28 588</b>	<b>29 241</b>	<b>5 655</b>	<b>5 554</b>	<b>226 557</b>	<b>206 949</b>
<b>General government sector</b>										
<b>Opening balance</b>	<b>69 151</b>	<b>65 877</b>	<b>3 740</b>	<b>3 843</b>	<b>29 175</b>	<b>29 789</b>	<b>5 496</b>	<b>5 489</b>	<b>107 562</b>	<b>104 999</b>
Acquisitions <sup>(a)</sup>	2 199	1 507	773	325	171	1 181	28	16	3 172	3 029
Reclassification <sup>(a)</sup>	(125)	84	(98)	181	(1)	(530)	43	(3)	(180)	(267)
Revaluation	6 507	2 928	74	63	(203)	(674)	40	4	6 418	2 321
Disposals	(235)	(189)	(92)	(85)	(1)	(2)	..	..	(329)	(275)
Assets recognised for the first time	54	80	15	10	32	..	..	9	101	100
Impairment	(61)	(42)	(1)	(6)	(48)	..	(1)	..	(111)	(48)
Depreciation	(1 152)	(1 095)	(607)	(591)	(606)	(590)	(14)	(20)	(2 379)	(2 296)
<b>Closing balance</b>	<b>76 339</b>	<b>69 151</b>	<b>3 804</b>	<b>3 740</b>	<b>28 519</b>	<b>29 175</b>	<b>5 592</b>	<b>5 496</b>	<b>114 254</b>	<b>107 562</b>

Note:

(a) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.

#### 4.1.5 Total land, buildings, infrastructure, plant and equipment by government purpose

(\$ million)

State of Victoria 2016	Public administration	Education	Health and Welfare	Community Housing	Transportation and Communication	Public Safety and Environment	Total
Buildings	2 314	11 579	8 968	8 632	5 852	7 324	44 669
Land and national parks	1 325	9 873	2 574	14 295	26 970	15 386	70 423
Leased buildings	87	165	2 656	3	37	1 476	4 425
Infrastructure systems	44	..	..	..	23 257	37 308	60 610
Leased infrastructure systems	..	..	..	..	..	4 529	4 529
Plant, equipment and vehicles	538	188	1 062	2	3 709	1 099	6 598
Leased plant, equipment and vehicles	..	3	61	..	989	7	1 060
Roads and road infrastructure	22	..	..	..	19 150	928	20 100
Leased roads and road infrastructure	..	..	..	..	575	..	575
Earthworks	..	..	..	..	7 913	..	7 913
Cultural assets	532	3	4	..	2	5 114	5 655
<b>Total land, buildings, infrastructure, plant and equipment</b>	<b>4 863</b>	<b>21 812</b>	<b>15 325</b>	<b>22 932</b>	<b>88 454</b>	<b>73 171</b>	<b>226 557</b>
<b>2015</b>							
Buildings	1 671	9 956	9 202	8 696	5 875	7 642	43 041
Land and national parks	1 488	8 367	2 279	12 003	25 834	12 536	62 508
Leased buildings	87	208	1 387	3	40	807	2 532
Infrastructure systems	58	..	..	..	17 219	34 704	51 981
Leased infrastructure systems	..	..	..	..	3	4 554	4 556
Plant, equipment and vehicles <sup>(a)</sup>	526	265	1 029	..	3 582	1 033	6 435
Leased plant, equipment and vehicles	..	4	49	..	1 027	21	1 100
Roads and road infrastructure	17	..	..	..	19 802	1 143	20 962
Leased roads and road infrastructure	..	..	..	..	584	..	584
Earthworks	4	..	..	..	7 690	..	7 694
Cultural assets	315	4	57	..	2	5 175	5 554
<b>Total land, buildings, infrastructure, plant and equipment <sup>(a)</sup></b>	<b>4 167</b>	<b>18 803</b>	<b>14 003</b>	<b>20 703</b>	<b>81 658</b>	<b>67 615</b>	<b>206 949</b>

Note:

(a) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.



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

(\$ million)

<i>General government sector</i>	<i>Public</i>	<i>Health</i>	<i>Community</i>	<i>Transportation</i>	<i>Public Safety</i>		
<b>2016</b>	<b>administration</b>	<b>Education</b>	<b>and Welfare</b>	<b>Housing</b>	<b>and Communication</b>	<b>and Environment</b>	<b>Total</b>
Buildings	647	11 579	8 954	..	607	5 826	27 612
Land and national parks	1 195	9 873	2 568	..	19 828	11 261	44 724
Leased buildings	46	165	2 656	..	37	1 097	4 002
Infrastructure systems	39	..	..	..	355	927	1 320
Plant, equipment and vehicles	199	188	1 062	..	27	850	2 326
Leased plant, equipment and vehicles	..	3	61	..	87	7	158
Roads and road infrastructure	..	..	..	..	19 150	882	20 031
Leased roads and road infrastructure	..	..	..	..	575	..	575
Earthworks	..	..	..	..	7 913	..	7 913
Cultural assets	532	3	4	..	2	5 051	5 592
<b>Total land, buildings, infrastructure, plant and equipment</b>	<b>2 658</b>	<b>21 812</b>	<b>15 304</b>	<b>..</b>	<b>48 581</b>	<b>25 900</b>	<b>114 254</b>
<b>2015</b>							
Buildings	598	9 956	9 187	..	616	5 619	25 976
Land and national parks	998	8 367	2 274	..	19 767	9 293	40 699
Leased buildings	44	208	1 387	..	40	798	2 476
Infrastructure systems	39	..	..	..	411	849	1 299
Plant, equipment and vehicles <sup>(a)</sup>	231	265	1 029	..	25	725	2 275
Leased plant, equipment and vehicles	..	4	49	..	93	21	166
Roads and road infrastructure	..	..	..	..	19 802	1 098	20 901
Leased roads and road infrastructure	..	..	..	..	584	..	584
Earthworks	..	..	..	..	7 690	..	7 690
Cultural assets	315	4	1	..	2	5 174	5 496
<b>Total land, buildings, infrastructure, plant and equipment <sup>(a)</sup></b>	<b>2 225</b>	<b>18 803</b>	<b>13 927</b>	<b>..</b>	<b>49 030</b>	<b>23 577</b>	<b>107 562</b>

Note:

(a) June 2015 comparative figures have been restated to correct contributed capital and accumulated funds balances from the prior year machinery of government changes.

## 4. MAJOR ASSETS AND INVESTMENTS

### 4.2 Other non-financial assets

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
Intangible produced assets	2 475	2 294	1 421	1 287
Accumulated depreciation	(1 291)	(1 149)	(786)	(701)
Intangible non-produced assets	831	853	109	154
Accumulated amortisation	(211)	(211)	(36)	(69)
<b>Total intangibles</b>	<b>1 804</b>	<b>1 788</b>	<b>708</b>	<b>670</b>
Investment properties	158	76	151	69
Biological assets <sup>(a)</sup>	61	64	2	4
Other assets	340	200	220	295
<b>Total other non-financial assets</b>	<b>2 363</b>	<b>2 127</b>	<b>1 081</b>	<b>1 038</b>

Notes:

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

### Reconciliation of movement in intangibles, investment properties and biological assets <sup>(a)</sup>

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
Opening balance	1 927	2 119	743	914
Acquisitions	266	246	167	136
Reclassification	77	(50)	67	(50)
Revaluation	15	15	19	17
Disposals	(16)	(98)	(7)	(88)
Assets recognised for the first time	14	11	15	10
Impairment	(16)	(65)	(15)	(62)
Amortisation and depreciation <sup>(b)</sup>	(244)	(250)	(128)	(133)
<b>Closing balance</b>	<b>2 023</b>	<b>1 927</b>	<b>861</b>	<b>743</b>

Notes:

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

(b) For produced and non-produced intangible assets.

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

**Investment properties** represent properties held to earn rentals or for capital appreciation, or both. Investment properties exclude properties held to meet service delivery objectives of the State. Investment properties are initially recognised at cost. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the State. Subsequent to initial recognition at cost,

investment properties are revalued to fair value, with changes in the fair value recognised as other economic flows in the comprehensive operating statement in the period that they arise.

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

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

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

**4.3 Non-financial assets held for sale**

Non-financial physical assets (including disposal group assets) are treated as current and classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use.

This condition is regarded as met only when:

- the asset is available for immediate use in the current condition; and
- the sale is highly probable and the asset’s sale is expected to be completed within 12 months from the date of classification.

These non-financial physical assets, related liabilities and financial assets are measured at the lower of carrying amount and fair value less costs to sell, and are not subject to depreciation or amortisation.

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
Land	173	191	163	165
Other	27	15	25	10
<b>Total non-financial assets held for sale</b>	<b>200</b>	<b>205</b>	<b>188</b>	<b>175</b>

**4.4 Investments accounted for using the equity method and other joint operations**

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

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

Joint arrangements are contractual arrangements between the State (or a subsidiary entity) and one or more other parties to undertake an economic activity that is subject to joint control.

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

**4.4.1 Investments accounted for using the equity method**

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

**Associates**

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

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the State’s share of the post-acquisition profits or losses of associates is recognised in the net result as other economic flows. The share of post-acquisition movements in revaluation surpluses and any other reserves is recognised in both the comprehensive operating statement and the statement of changes in equity. The cumulative post acquisition movements are adjusted against the cost of the investment.

**Joint ventures**

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

## 4. MAJOR ASSETS AND INVESTMENTS

### 4.4.2 Investments accounted for using the equity method

(\$ million)

	2016	2015
The Australian Regenerative Medicine Institute	35	35
Property Exchange Australia Limited	11	10
<b>Total general government sector</b>	<b>46</b>	<b>45</b>
Snowy Hydro Limited	1 872	1 976
<b>Total investments</b>	<b>1 918</b>	<b>2 021</b>

### Movement in carrying amounts for investments accounted for using the equity method

(\$ million)

	The Australian Regenerative Medicine Institute		Property Exchange Australia Limited		Snowy Hydro Limited		Total	
	2016	2015	2016	2015 <sup>(a)</sup>	2016	2015	2016	2015 <sup>(a)</sup>
<b>Opening balance</b>	<b>35</b>	<b>35</b>	<b>10</b>	<b>9</b>	<b>1 976</b>	<b>1 511</b>	<b>2 021</b>	<b>1 555</b>
Share of profit/(loss) after income tax	..	..	(4)	(4)	(78)	(30)	(82)	(34)
Dividends received/receivable	..	..	..	..	(52)	(45)	(52)	(45)
Share of increment on revaluation of property, plant and equipment	..	..	..	..	25	540	25	540
Other	..	..	6	5	..	..	6	5
<b>Closing balance</b>	<b>35</b>	<b>35</b>	<b>11</b>	<b>10</b>	<b>1 872</b>	<b>1 976</b>	<b>1 918</b>	<b>2 021</b>

Note:

(a) June 2015 comparative figures have been restated to reflect more current information.

#### The Australia Regenerative Medicine Institute

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

The Victorian Government's ownership interest of ARMI at 30 June 2016 was 20.1 per cent (20.1 per cent in 2015).

#### Property Exchange Australia Limited

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

The Victorian Government's ownership interest of PEXA at 30 June 2016 was 9.0 per cent (11.6 per cent in 2015).

#### Snowy Hydro Limited

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

The Victorian Government's ownership interest of Snowy Hydro Limited, which is held by the State Electricity Corporation of Victoria, was 29.0 per cent at 30 June 2016 (29.0 per cent in 2015).

A summary of the State's share of commitments is shown below.

#### Share of commitments in Snowy Hydro Limited

(\$ million)

Commitments	2016	2015
Capital expenditure commitments	24	6
Operating lease commitments	58	86
Other commitments	8	44
<b>Total commitments</b>	<b>90</b>	<b>136</b>

## Summarised information for investments accounted for using the equity method

(\$ million)

Summarised balance sheet as at 30 June	The Australian Regenerative Medicine Institute		Property Exchange Australia Limited		Snowy Hydro Limited		Total	
	2016	2015	2016	2015 <sup>(a)</sup>	2016	2015 <sup>(a)</sup>	2016	2015 <sup>(a)</sup>
<b>Current assets</b>								
Cash and cash equivalent	..	..	7	2	3	3	10	5
Other current assets (excluding cash)	..	..	1	1	253	286	253	287
<b>Total current assets</b>	..	..	<b>7</b>	<b>3</b>	<b>256</b>	<b>288</b>	<b>264</b>	<b>292</b>
<b>Non-current assets</b>	<b>35</b>	<b>35</b>	<b>5</b>	<b>8</b>	<b>2 078</b>	<b>2 159</b>	<b>2 118</b>	<b>2 202</b>
<b>Total assets</b>	<b>35</b>	<b>35</b>	<b>12</b>	<b>11</b>	<b>2 334</b>	<b>2 448</b>	<b>2 381</b>	<b>2 494</b>
<b>Current liabilities</b>								
Financial liabilities (excluding payables, provisions)	..	..	1	1	161	79	162	79
Other non-financial liabilities (including payables, provisions)	..	..	..	..	..	8	..	8
<b>Total current liabilities</b>	..	..	<b>1</b>	<b>1</b>	<b>161</b>	<b>86</b>	<b>162</b>	<b>87</b>
<b>Non-current liabilities</b>								
Financial liabilities (excluding payables, provisions)	..	..	..	..	9	377	9	377
Other non-financial liabilities (including payables, provisions)	..	..	..	1	293	8	293	9
<b>Total non-current liabilities</b>	..	..	..	<b>1</b>	<b>301</b>	<b>386</b>	<b>301</b>	<b>386</b>
<b>Total liabilities</b>	..	..	<b>1</b>	<b>2</b>	<b>462</b>	<b>472</b>	<b>463</b>	<b>473</b>
<b>Net assets</b>	<b>35</b>	<b>35</b>	<b>11</b>	<b>10</b>	<b>1 872</b>	<b>1 976</b>	<b>1 918</b>	<b>2 021</b>

## Summarised operating statement for the financial year ended 30 June

Revenue from transactions	..	..	1	1	..	..	1	1
<b>Net result from transactions</b>	..	..	<b>(4)</b>	<b>(4)</b>	<b>(78)</b>	<b>(30)</b>	<b>(82)</b>	<b>(34)</b>
Net result from continuing operation	..	..	(4)	(4)	(78)	(30)	(82)	(34)
Net result from discontinuing operation	..	..	..	..	..	..	..	..
<b>Net result</b>	..	..	<b>(4)</b>	<b>(4)</b>	<b>(78)</b>	<b>(30)</b>	<b>(82)</b>	<b>(34)</b>
Other economic flows – other comprehensive income	..	..	6	5	25	540	31	545
Dividends received from associate during the year	..	..	..	..	(52)	(45)	(52)	(45)
<b>Total comprehensive income</b>	..	..	<b>2</b>	<b>1</b>	<b>(104)</b>	<b>465</b>	<b>(103)</b>	<b>466</b>

Note:

(a) June 2015 comparative figures have been restated to reflect more current information.

## 4.4.3 Joint operations

The State recognises, in its financial statements:

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

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

## Royal Melbourne Showgrounds

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

The State of Victoria's interest in the unincorporated joint venture at 30 June 2016 was 50.0 per cent (50.0 per cent in 2015).

## 4. MAJOR ASSETS AND INVESTMENTS

### AgriBio Project

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

The State of Victoria's interest in the unincorporated joint venture at 30 June 2016 was 75.0 per cent (75.0 per cent in 2015).

### Murray Darling Basin Authority

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

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

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

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

## 5 FINANCING STATE OPERATIONS

### Introduction

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

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

### Structure

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### 5.1 Borrowings

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
<b>Current borrowings</b>				
Domestic borrowings	5 095	4 462	3 132	3 861
Foreign currency borrowings	83	14	..	..
Finance lease liabilities <sup>(a)</sup>	207	209	137	138
Derivative financial instruments	258	250	19	..
<b>Total current borrowings</b>	<b>5 642</b>	<b>4 935</b>	<b>3 288</b>	<b>3 999</b>
<b>Non-current borrowings</b>				
Domestic borrowings	37 778	37 498	21 520	22 099
Foreign currency borrowings	159	105	..	..
Finance lease liabilities <sup>(a)</sup>	9 433	8 552	8 872	7 920
Derivative financial instruments	947	598	131	50
<b>Total non-current borrowings</b>	<b>48 317</b>	<b>46 752</b>	<b>30 522</b>	<b>30 070</b>
<b>Total borrowings</b>	<b>53 959</b>	<b>51 688</b>	<b>33 811</b>	<b>34 069</b>

Note:

(a) The accounting treatment of the finance lease liability is explained and disclosed in note 9.6.1.

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

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

Borrowings are classified as financial instruments (Note 7.1). All interest bearing liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The measurement basis subsequent to initial recognition depends on whether the State has

categorised its interest bearing liabilities as either 'financial liabilities designated at fair value through profit or loss', or financial liabilities at 'amortised cost'. The classification depends on the nature and purpose of the interest bearing liabilities. The State determines the classification of its interest bearing liabilities at initial recognition.

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

## 5. FINANCING STATE OPERATIONS

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

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

### 5.2 Deposits held and advances received

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

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

### 5.3 Cash flow information and balances

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

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

#### Reconciliation of cash and cash equivalents

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
Cash	1 552	1 569	1 174	1 203
Deposits at call	5 124	4 952	3 598	3 079
<b>Cash and cash equivalents</b>	<b>6 676</b>	<b>6 521</b>	<b>4 772</b>	<b>4 282</b>
Bank overdraft	..	(11)	..	..
<b>Balances as per cash flow statement</b>	<b>6 676</b>	<b>6 510</b>	<b>4 772</b>	<b>4 282</b>



## Reconciliation of net result to net cash flows from operating activities

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
<b>Net result</b>	<b>(1 640)</b>	<b>51</b>	<b>1 817</b>	<b>749</b>
<b>Non-cash movements</b>				
Depreciation and amortisation	4 743	4 487	2 507	2 429
Revaluation of investments	451	(728)	33	(21)
Assets (received)/provided free of charge	(151)	(142)	47	13
Assets not previously/no longer recognised	(17)	(29)	(17)	(29)
Revaluation of assets	227	220	185	216
Discount/premium on other financial assets/borrowings	(110)	(141)	4	3
Bad/doubtful debts	..	..	..	..
Foreign currency dealings	1	..	1	..
Unrealised (gains)/losses on borrowings	1 174	749	..	..
Discounting of assets and liabilities	..	..	..	..
<b>Movements included in investing and financing activities</b>				
Net gain/loss from sale of investments <sup>(a)</sup>	(132)	(1 382)	(37)	(20)
Net gain/loss from sale of plant and equipment	148	(12)	145	(32)
Realised gains/losses on borrowings	41	54	..	..
<b>Movements in assets and liabilities</b>				
Increase/(decrease) in provision for doubtful debts	22	(12)	22	(7)
Increase/(decrease) in payables	401	489	66	376
Increase/(decrease) in employee benefits	571	368	532	339
Increase/(decrease) in superannuation	120	244	124	245
Increase/(decrease) in other provisions	2 806	1 584	(44)	168
(Increase)/decrease in receivables <sup>(b)</sup>	(703)	(420)	(70)	(608)
(Increase)/decrease in other non-financial assets	(17)	143	43	(3)
<b>Net cash flows from operating activities</b> <sup>(a)(b)</sup>	<b>7 936</b>	<b>5 522</b>	<b>5 359</b>	<b>3 819</b>

## Notes:

- (a) June 2015 comparative figures have been restated to more consistently reflect the classification of insurance entities' investment income between years.
- (b) June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.

## 5. FINANCING STATE OPERATIONS

### 5.4 Advances paid and investments, loans and placements

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
<b>Current advances paid and investments, loans and placements</b>				
Loans and advances paid	20	30	53	60
Equities and managed investment schemes	1 541	1 320	1 028	962
Australian dollar term deposits	232	390	933	1 932
Debt securities	5 547	4 706	3	7
Derivative financial instruments	326	106	1	..
<b>Total current advances paid and investments, loans and placements</b>	<b>7 666</b>	<b>6 552</b>	<b>2 019</b>	<b>2 960</b>
<b>Non-current advances paid and investments, loans and placements</b>				
Loans and advances paid	132	92	4 529	4 512
Equities and managed investment schemes	22 875	22 876	279	273
Australian dollar term deposits	280	159	528	198
Debt securities	3 937	4 211	64	34
Derivative financial instruments	797	549	17	..
<b>Total non-current advances paid and investments, loans and placements</b>	<b>28 021</b>	<b>27 886</b>	<b>5 417</b>	<b>5 018</b>
<b>Total advances paid and investments, loans and placements</b>	<b>35 687</b>	<b>34 438</b>	<b>7 436</b>	<b>7 978</b>
<b>Represented by:</b>				
Advances paid	153	121	4 582	4 572
Investments, loans and placements	35 534	34 317	2 853	3 406

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

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

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

### 5.5 Interest expense

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
Interest on interest-bearing liabilities	1 882	2 019	1 272	1 300
Finance charges on finance leases	828	833	766	764
Discount interest on payables	20	15	38	38
<b>Total interest expense</b>	<b>2 730</b>	<b>2 867</b>	<b>2 076</b>	<b>2 102</b>

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

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

### 5.6 Public private partnership (service concession arrangements)

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

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

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

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

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

There is currently no authoritative accounting guidance applicable to grantors (the State) on the recognition and measurement of the right of the State to receive assets from such concession arrangements. Due to the lack of such guidance, there has been no change to existing policy and those assets are not currently recognised.

Public private partnership commitments <sup>(a)(b)</sup>

(\$ million)

	State of Victoria 2016		General government sector 2016		State of Victoria 2015		General government sector 2015	
	Other commitments		Other commitments		Other commitments		Other commitments	
	Present value	Nominal value	Present value	Nominal value	Present value	Nominal value	Present value	Nominal value
<b>Commissioned public private partnerships other commitments</b>								
AgriBio Project	121	298	121	298	120	311	120	311
Barwon Water	66	110	..	..	65	112	..	..
Casey Hospital	62	112	62	112	62	118	62	118
Central Highlands Water	59	73	..	..	60	71	..	..
Coliban Water	84	132	..	..	99	157	..	..
County Court	68	83	68	83	79	97	79	97
Emergency Service Telecommunications	65	65	65	65	57	59	57	59
Melbourne Convention Centre	237	464	237	464	221	485	221	485
Peninsula Link	186	461	186	461	201	473	201	473
Partnerships Victoria in Schools <sup>(c)</sup>	174	389	174	389	171	398	171	398
Prisons <sup>(c)</sup>	1 467	1 819	1 467	1 819	1 368	1 887	1 368	1 887
Royal Children's Hospital	339	803	339	803	337	835	337	835
Royal Melbourne Showgrounds	44	66	44	66	46	74	46	74
Royal Women's Hospital	193	399	193	399	194	414	194	414
Southern Cross Station	262	595	262	595	242	572	242	572
Victorian Comprehensive Cancer Centre (VCCC)	848	1 830	848	1 830	..	..	..	..
Victorian Desalination Plant	1 587	4 762	1 587	4 762	1 562	4 960	1 562	4 960
<b>Sub-total</b>	<b>5 859</b>	<b>12 459</b>	<b>5 650</b>	<b>12 145</b>	<b>4 884</b>	<b>11 021</b>	<b>4 660</b>	<b>10 681</b>

## Public private partnership commitments (continued)

(\$ million)

	State of Victoria			General government sector			State of Victoria			General government sector		
	2016			2016			2015			2015		
	Minimum lease payments	Other commitments	Total commitments	Minimum lease payments	Other commitments	Total commitments	Minimum lease payments	Other commitments	Total commitments	Minimum lease payments	Other commitments	Total commitments
	Discounted value	Present value	Nominal value	Discounted value	Present value	Nominal value	Discounted value	Present value	Nominal value	Discounted value	Present value	Nominal value
<b>Uncommissioned public private partnerships total commitments</b>												
Bendigo Hospital – stage one <sup>(d)</sup>	274	1 221	2 862	274	1 221	2 862	279	1 178	2 862	279	1 178	2 862
Bendigo Hospital – stage two <sup>(d)</sup>	14	48	100	14	48	100	18	47	100	18	47	100
New Schools PPP	394	176	1 088	394	176	1 088	..	..	..	..	..	..
Victorian Comprehensive Cancer Centre (VCCC)	..	..	..	..	..	..	1 050	383	3 200	1 050	383	3 200
Ravenhall Prison <sup>(c)</sup>	792	2 799	7 460	792	2 799	7 460	792	2 652	7 460	792	2 652	7 460
Melbourne Convention Centre – stage two	38	36	160	38	36	160	..	..	..	..	..	..
<b>Sub-total</b>	<b>1 511</b>	<b>4 280</b>	<b>11 669</b>	<b>1 511</b>	<b>4 280</b>	<b>11 669</b>	<b>2 139</b>	<b>4 261</b>	<b>13 621</b>	<b>2 139</b>	<b>4 261</b>	<b>13 621</b>
<b>Total commitments for public private partnerships</b>		<b>10 139</b>	<b>24 128</b>		<b>9 930</b>	<b>23 814</b>		<b>9 145</b>	<b>24 642</b>		<b>8 921</b>	<b>24 302</b>
<b>Total commitments (inclusive of GST) <sup>(e)</sup></b>			<b>48 598</b>			<b>46 601</b>			<b>42 853</b>			<b>41 033</b>
Less GST recoverable from the Australian Tax Office			4 418			4 236			3 896			3 730
<b>Total commitments (exclusive of GST)</b>			<b>44 180</b>			<b>42 365</b>			<b>38 957</b>			<b>37 303</b>

## Notes:

- (a) The minimum lease payments of commissioned public private partnerships (PPP) are recognised on the balance sheet and are not disclosed as a commitment.
- (b) The discounted value of the 'minimum lease payments' is at the expected date of commissioning and the present value of 'other commitments' is at 30 June of the respective financial years. After adjusting for GST, the discounted value of minimum lease payments reflects the expected impact on the balance sheet when the PPP is commissioned.
- (c) June 2015 comparative figures have been restated to reflect more current information.
- (d) The liabilities for Bendigo Hospital are required to be split for reporting purposes due to the contracted staged commissioning (Commercial Acceptance to occur in 2016-17 and 2017-18 for Stages 1 and 2 respectively).
- (e) Total commitments (inclusive of GST) include commitments of both PPPs and non PPPs.

## 5. FINANCING STATE OPERATIONS

### 5.7 Other commitments

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

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

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

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

#### Non-public private partnership commitments <sup>(a)</sup>

(\$ million)

	State of Victoria 2016 Nominal value	General government sector 2016 Nominal value	State of Victoria 2015 Nominal value	General government sector 2015 Nominal value
<b>Capital expenditure commitments</b>				
Land and buildings	872	731	653	498
Plant, equipment and vehicles	246	200	204	158
Infrastructure systems	3 715	3 347	727	288
Road networks and earthworks	1 082	1 082	1 113	1 113
Other	1 560	1 543	1 010	991
<b>Total capital expenditure commitments</b>	<b>7 474</b>	<b>6 904</b>	<b>3 707</b>	<b>3 048</b>
<b>Operating and lease commitments</b>				
Rail services	2 165	2 165	3 384	3 384
Bus services	3 117	3 116	4 105	4 104
Other <sup>(b)</sup>	2 616	1 769	2 329	1 652
<b>Total operating and lease commitments <sup>(b)</sup></b>	<b>7 897</b>	<b>7 050</b>	<b>9 818</b>	<b>9 140</b>
<b>Other commitments</b>				
Building occupancy services	..	65	..	72
Capital investment commitments	239	..	126	..
Commercial contracts	220	119	193	52
Debt collection services (Traffic camera office)	35	35	96	96
Emergency Alert System	18	18	31	31
Goulburn-Murray Water Connections Project	65	577	115	725
Hopkins Correctional Centre	468	468	435	435
Information technology	53	47	32	27
New ticketing solution ( <i>myki</i> ) <sup>(c)</sup>	69	69	178	178
Outsourcing of services	430	248	373	192
Policing services	11	11	27	27
Port Phillip Prison	3 644	3 644	..	..
Traffic camera services (Traffic camera office)	81	81	91	91
Transport Accident Commission funded medical research	13	..	23	..
Other <sup>(b)</sup>	3 754	3 453	2 968	2 619
<b>Total other commitments <sup>(b)</sup></b>	<b>9 099</b>	<b>8 834</b>	<b>4 686</b>	<b>4 543</b>
<b>Total commitments</b>	<b>24 469</b>	<b>22 787</b>	<b>18 211</b>	<b>16 731</b>

Notes:

(a) The figures presented are inclusive of GST.

(b) June 2015 comparative figures have been restated to reflect more current information.

(c) The Victorian Government announced on 5 July 2016 that it had awarded a new contract for the operation of the *myki* ticketing system. The new contract will begin on 1 January 2017 with a term of seven years.

## Commitment payables

(\$ million)

	State of Victoria	General	State of Victoria	General
	2016	2016	2015	2015
	Nominal value	Nominal value	Nominal value	Nominal value
<b>Capital expenditure commitments payable</b>				
Less than 1 year	4 354	3 752	2 562	1 862
1 year but less than 5 years	3 073	3 106	1 143	1 184
5 years or more	47	47	2	2
<b>Total capital expenditure commitments</b>	<b>7 474</b>	<b>6 904</b>	<b>3 707</b>	<b>3 048</b>
<b>Operating and lease commitments payable</b>				
Less than 1 year <sup>(a)</sup>	3 157	3 050	3 222	3 114
1 year but less than 5 years <sup>(a)</sup>	3 911	3 656	5 873	5 627
5 years or more <sup>(a)</sup>	830	344	724	399
<b>Total operating and lease commitments</b>	<b>7 897</b>	<b>7 050</b>	<b>9 818</b>	<b>9 140</b>
<b>Public private partnership commitments</b>				
Less than 1 year <sup>(a)</sup>	1 166	1 144	489	464
1 year but less than 5 years <sup>(a)</sup>	3 679	3 583	4 105	4 011
5 years or more <sup>(a)</sup>	19 283	19 087	20 049	19 826
<b>Total public private partnership commitments <sup>(a)</sup></b>	<b>24 128</b>	<b>23 814</b>	<b>24 642</b>	<b>24 302</b>
<b>Total other commitments payable</b>				
Less than 1 year <sup>(a)</sup>	2 441	2 364	2 061	2 045
1 year but less than 5 years	2 901	2 794	1 917	1 883
5 years or more	3 757	3 676	706	614
<b>Total other commitments <sup>(a)</sup></b>	<b>9 099</b>	<b>8 834</b>	<b>4 685</b>	<b>4 542</b>
<b>Total commitments (inclusive of GST) <sup>(a)</sup></b>	<b>48 598</b>	<b>46 601</b>	<b>42 852</b>	<b>41 032</b>

Note:

(a) June 2015 comparative figures have been restated to reflect more current information.

## 6 OTHER ASSETS AND LIABILITIES

### Introduction

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

### Structure

#### Assets

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#### Liabilities

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### 6.1 Investment in other sector entities

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

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

### Investments in other sector entities (\$ million)

	2016	2015
Balance of investment in PNFC and PFC sectors at beginning of period <sup>(a)</sup>	82 262	75 944
Net contributions to other sectors by owner	1 916	2 086
Revaluation gain/(loss) for period <sup>(a)</sup>	10 533	4 232
<b>Total investments in other sector entities <sup>(a)</sup></b>	<b>94 710</b>	<b>82 262</b>

Note:

(a) The June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC attributable to a change in valuation policy in 2015-16.

### 6.2 Inventories

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
<b>At cost</b>				
Raw materials	5	5	4	5
Work in progress	29	29	2	2
Finished goods	50	47	3	3
Consumable stores	202	168	163	131
Land and other assets held as inventory	414	451	16	3
<b>At net realisable value</b>				
Finished goods	5	5	..	..
Consumable stores	5	5	..	..
<b>Total inventories</b>	<b>709</b>	<b>710</b>	<b>188</b>	<b>144</b>

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 for sale, 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 for sale (undeveloped, under development and developed) and to other high value, low volume inventory items on a specific identification of cost basis. Cost for all other inventory is measured on the basis of weighted average cost.

Bases used in assessing loss of service potential for inventories held for distribution include current

replacement cost and technical or functional obsolescence. Technical obsolescence occurs when an item still functions for some or all of the tasks it was originally acquired to do, but no longer matches existing technologies. Functional obsolescence occurs when an item no longer functions the way it did when it was first acquired.

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

6.3 Receivables

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
<b>Contractual</b>				
Sales of goods and services	1 267	1 178	739	675
Accrued investment income	67	73	18	17
Other receivables <sup>(a)</sup>	1 887	1 280	1 021	1 262
Provision for doubtful contractual receivables	(157)	(136)	(90)	(69)
<b>Statutory</b>				
Sales of goods and services	4	5	5	2
Taxes receivables	2 293	2 338	2 491	2 492
Fines and regulatory fees	1 896	1 761	1 896	1 761
GST input tax credits recoverable	963	806	324	255
Provision for doubtful statutory receivables	(839)	(838)	(839)	(838)
<b>Other</b>				
Actuarially determined	413	403	..	..
<b>Total receivables <sup>(a)</sup></b>	<b>7 793</b>	<b>6 870</b>	<b>5 566</b>	<b>5 555</b>
<b>Represented by:</b>				
Current receivables <sup>(a)</sup>	6 555	5 596	4 828	4 447
Non-current receivables	1 237	1 274	738	1 109

Note:

(a) June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC attributable to a change in valuation policy in 2015-16.

Receivables consist of:

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

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

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

Other statutory receivables include GST input tax credits recoverable.

## 6. OTHER ASSETS AND LIABILITIES

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

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

### Ageing analysis of contractual receivables

(\$ million)

State of Victoria	Not past due and not impaired	Past due and not impaired				Impaired	Total
		Less than 1 month	1-3 months	3 months- 1 year	More than 1 year		
<b>2016</b>							
Sale of goods and services	756	157	133	119	95	7	1 267
Accrued investment income	67	..	..	..	..	..	67
Other receivables	1 633	50	43	115	45	1	1 887
	<b>2 455</b>	<b>207</b>	<b>176</b>	<b>234</b>	<b>141</b>	<b>8</b>	<b>3 220</b>
<b>2015</b>							
Sale of goods and services	662	233	81	121	76	5	1 178
Accrued investment income	62	10	..	..	..	..	73
Other receivables <sup>(a)</sup>	1 042	59	22	73	85	..	1 280
	<b>1 766</b>	<b>303</b>	<b>102</b>	<b>193</b>	<b>161</b>	<b>5</b>	<b>2 532</b>

Note:

(a) June 2015 comparative figures have been restated following the correction in accounting for Coliban Water's deferred tax liability balances in the PNFC sector.

General government sector	Not past due and not impaired	Past due and not impaired				Impaired	Total
		Less than 1 month	1-3 months	3 months- 1 year	More than 1 year		
<b>2016</b>							
Sale of goods and services	393	75	106	76	84	4	739
Accrued investment income	18	..	..	..	..	..	18
Other receivables	873	27	20	99	2	1	1 021
	<b>1 284</b>	<b>102</b>	<b>126</b>	<b>175</b>	<b>86</b>	<b>6</b>	<b>1 778</b>
<b>2015</b>							
Sale of goods and services	373	88	48	92	69	4	675
Accrued investment income	13	4	..	..	..	..	17
Other receivables	1 086	30	29	88	28	..	1 262
	<b>1 472</b>	<b>123</b>	<b>77</b>	<b>180</b>	<b>98</b>	<b>4</b>	<b>1 953</b>

### Movement in provision for doubtful contractual receivables

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
Opening balance	(136)	(144)	(69)	(72)
Reversal of unused provision recognised in the net results	5	20	6	20
Increase in provision recognised in the net results	(66)	(23)	(57)	(19)
Reversal of provision of receivables written off during the year as uncollectible	40	12	30	3
<b>Closing balance</b>	<b>(157)</b>	<b>(136)</b>	<b>(90)</b>	<b>(69)</b>

## 6.4 Payables

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
<b>Contractual</b>				
Accounts payable	2 166	2 013	1 290	1 158
Accrued expenses	2 298	2 258	2 187	2 172
Unearned income	3 368	3 222	2 258	2 332
<b>Statutory</b>				
Accrued taxes payable	105	98	38	43
<b>Total payables</b>	<b>7 937</b>	<b>7 591</b>	<b>5 773</b>	<b>5 704</b>
<b>Represented by:</b>				
Current payables	6 084	5 587	4 053	3 776
Non-current payables	1 854	2 004	1 720	1 928

Payables consist of:

- contractual payables, such as accounts payable, and unearned revenue liability (including deferred revenue from concession notes); and
- statutory payables (accrued taxes payable), such as GST and fringe benefits tax payables.

**Contractual payables** are classified as financial instruments (Note 7.1) and measured at amortised cost. Accounts payable represent liabilities for goods and services provided to the State prior to the end of the financial year that are unpaid, and arise when the State becomes obliged to make future payments in respect of the purchase of those goods and services.

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

## 6.5 Superannuation

The disclosure in this note is for the consolidated State of Victoria only, as more than 99 per cent of the \$29 billion superannuation liability is recorded in the general government sector.

**Net superannuation liability**

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

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

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

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

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

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

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

## 6. OTHER ASSETS AND LIABILITIES

### Net superannuation liability

(\$ million)

	State of Victoria	
	2016	2015
<b>Emergency Services and State Super</b>		
Defined benefit obligation	44 421	41 331
Tax liability <sup>(a)</sup>	2 923	2 660
Plan assets	(19 046)	(19 023)
<b>Net liability/(asset)</b>	<b>28 298</b>	<b>24 968</b>
<b>Other funds<sup>(b)</sup></b>		
Defined benefit obligation	2 538	2 544
Tax liability <sup>(a)</sup>	..	..
Plan assets	(1 482)	(1 523)
<b>Net liability/(asset)</b>	<b>1 056</b>	<b>1 021</b>
<b>Total superannuation</b>		
Defined benefit obligation	46 959	43 875
Tax liability <sup>(a)</sup>	2 923	2 660
Plan assets	(20 528)	(20 546)
<b>Superannuation liability</b>	<b>29 354</b>	<b>25 988</b>
<b>Represented by:</b>		
Current liability	1 059	1 210
Non-current liability	28 295	24 778
<b>Total superannuation liability</b>	<b>29 354</b>	<b>25 988</b>

Notes:

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

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

### Reconciliation of the defined benefit obligation

(\$ million)

	State of Victoria	
	2016	2015
<b>Opening balance of defined benefit obligation</b>	<b>46 535</b>	<b>45 457</b>
Current service cost	778	735
Interest cost	1 567	1 781
Contributions by plan participants	219	211
Remeasurements:		
Actuarial (gain)/loss arising from change in financial assumptions	2 811	1 861
Actuarial (gain)/loss arising from change in demographic assumptions	..	(708)
Actuarial (gain)/loss due to other experience	56	(582)
Benefits paid	(2 083)	(2 221)
<b>Closing balance of defined benefit obligation</b>	<b>49 882</b>	<b>46 535</b>

**Reconciliation of the fair value of plan assets**

(\$ million)

	State of Victoria	
	2016	2015
<b>Opening balance of plan assets</b>	<b>20 546</b>	<b>19 156</b>
Interest income	686	740
Remeasurements:		
Expected return on plan assets excluding interest income	787	630
Actuarial gain/(loss) relative to expected return	(1 166)	497
Employer contributions	1 538	1 532
Contributions by plan participants	219	211
Benefits paid (including tax paid)	(2 083)	(2 221)
<b>Closing balance of plan assets</b>	<b>20 528</b>	<b>20 546</b>

**The State's defined benefit superannuation plans**

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

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

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

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

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

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

The Emergency Services Superannuation Board (ESSB) is responsible for the governance of the SSF and ESSS DB and acts as paying agent for constitutionally protected pensions. The ESSB has the following roles:

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

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

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

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

**Superannuation assumptions**

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

## 6. OTHER ASSETS AND LIABILITIES

Victorian statutory superannuation funds	Actuary	Financial assumptions	Per cent per annum	
			2016	2015
Emergency Services and State Super	PricewaterhouseCoopers (PwC) <sup>(a)</sup>	Expected return on assets <sup>(b)</sup>	8.0	8.0
		Discount rate <sup>(c)</sup>	2.4	3.5
		Wages growth <sup>(d)</sup>	3.1	3.7
		Inflation rate	1.6	2.2
Constitutionally Protected Pensions	PwC <sup>(a)</sup>	Discount rate <sup>(c)</sup>	2.4	3.5
		Wages growth <sup>(d)</sup>	3.1	3.7
		Inflation rate	n/a	n/a
Health Super Fund	Mercer <sup>(e)</sup>	Expected return on assets <sup>(b)</sup>	5.8	5.8
		Discount rate <sup>(c)</sup>	2.4	3.5
		Wages growth <sup>(d)</sup>	3.1	3.7
		Inflation rate	1.6	2.2

### Notes:

(a) PricewaterhouseCoopers Securities Ltd.

(b) The expected return on assets stated is gross of tax. This rate is adjusted in the calculation process to reflect the assumed rate of tax payable by each scheme.

(c) In accordance with accounting standards, the discount rate is based on a long-term Commonwealth bond rate. The rate stated above is an annual effective rate, gross of tax.

(d) The wages growth assumption is derived from the yields on Commonwealth government bonds.

(e) Mercer (Australia) Pty Ltd.

### Sensitivity analysis

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

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

- longevity risk – the risk that pensioners will live longer than expected, thereby increasing defined benefit pension payments and requiring additional employer contributions.

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

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

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

	Base case	Discount rate plus 1 per cent	Wage growth plus 1 per cent	Inflation rate plus 1 per cent
Discount rate (per cent a year)	2.4	3.4	2.4	2.4
Salary growth (per cent a year)	3.1	3.1	4.1	3.1
Inflation rate (per cent a year)	1.6	1.6	1.6	2.6
<b>Estimated impact (per cent)</b>	<b>n.a</b>	<b>(11)</b>	<b>2</b>	<b>8</b>
<b>Estimated change in defined benefit obligation (\$ million)</b>	<b>n.a</b>	<b>(5 487)</b>	<b>998</b>	<b>3 991</b>

## Target asset allocation

(per cent)

Asset class	2016	2015
Domestic equity	26.7	26.8
International equity	26.7	26.8
Domestic debt assets	17.5	17.4
Property	7.6	7.6
Cash	4.2	4.2
Other (including private equity, hedge funds and infrastructure)	17.3	17.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

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 2016, the plans held investments with Treasury Corporation Victoria (TCV) worth \$493 million.

## Funding arrangements

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

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

ESSS DB – a funded scheme, with a funding target of 110 per cent to 120 per cent of vested benefits.

The board's shortfall limit is 95 per cent of vested benefits.

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

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

In the 2016-17 financial year, employer contributions of \$1 534 million, in total, are expected to be paid to the defined benefit plans. Of this, \$1 033 million relates to the funding of the SSF's past service liability.

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

## 6.6 Other provisions

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
<b>Provision for insurance claims</b>				
WorkSafe Victoria	1 839	1 995	..	..
Transport Accident Commission	1 180	1 138	..	..
Victorian Managed Insurance Authority	292	299	..	..
Other agencies	22	18	18	14
<b>Current provision for insurance claims</b>	<b>3 333</b>	<b>3 451</b>	<b>18</b>	<b>14</b>
Onerous contracts	49	47	..	..
Other provisions	346	365	207	234
<b>Total current other provisions</b>	<b>3 728</b>	<b>3 863</b>	<b>225</b>	<b>249</b>
<b>Non-current provision for insurance claims</b>				
WorkSafe Victoria	10 501	9 366	..	..
Transport Accident Commission	12 721	10 896	..	..
Victorian Managed Insurance Authority	1 499	1 462	..	..
Other agencies	34	31	33	30
<b>Non-current provision for insurance claims</b>	<b>24 754</b>	<b>21 755</b>	<b>33</b>	<b>30</b>
Onerous contracts	..	26	..	..
Other provisions	603	569	571	529
<b>Total non-current other provisions</b>	<b>25 358</b>	<b>22 350</b>	<b>604</b>	<b>559</b>
<b>Total other provisions</b>	<b>29 085</b>	<b>26 213</b>	<b>829</b>	<b>807</b>



## 6. OTHER ASSETS AND LIABILITIES

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

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

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

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

### 6.6.1 Insurance claims

#### Assumptions used in measurement of liability for outstanding insurance claims

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

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

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

#### Reconciliation of movements in insurance claims

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
Opening balance	25 206	23 689	44	38
Effect of changes in assumptions and claims experience	1 410	302	..	..
Cost of prior year claims (unwinding of discount)	823	898	(3)	(1)
Increase in claims incurred <sup>(a)</sup>	4 457	4 085	30	23
Claim payments during the year <sup>(a)</sup>	(3 195)	(3 347)	(14)	(13)
Other	(613)	(422)	(7)	(2)
<b>Closing balance</b>	<b>28 088</b>	<b>25 206</b>	<b>51</b>	<b>44</b>

Note:

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



## Insurance claims assumptions

Entity	Actuary	Weighted average expected term to settlement (years)		Financial assumptions used (%) <sup>(a)(b)(c)</sup>				Prudential margin used (%)					
		2016	2015	Weighted average inflation rate (%) <sup>(d)</sup>		Weighted average discount rate (%)		2016	2015 <sup>(e)</sup>				
				2016	2015 <sup>(e)</sup>	2016	2015 <sup>(e)</sup>						
Victorian WorkCover Authority (WorkSafe Victoria)	PwC Actuarial Ltd	6.20	5.90	AWE <sup>(f)</sup> inflation = 3.46 CPI inflation = 2.50	AWE inflation = 3.70 CPI inflation = 2.50			2.15	3.05	8.00	8.00		
Transport Accident Commission	PwC Actuarial Ltd	16.30	15.30	AWE inflation 0 to 20 years = 3.48 21+ years = 3.75  CPI inflation All years = 2.50	AWE inflation 0 to 20 years = 3.50 21+ years = 3.75  CPI inflation All years = 2.50	0 to 20 years = 2.49 21+ years = 5.50	0 to 20 years = 3.51 21+ years = 5.50			10.00	10.00		
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd (Medical Indemnity)	4.30	4.80					6.00	7.00	1.80	2.80	Risk margin = 20.00 CHE <sup>(g)</sup> = 3.00	Risk margin = 21.10 CHE = 3.00
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd (Liability)	4.10	3.80					3.00	3.50	1.80	2.50	Risk margin = 31.70 CHE = 7.10	Risk margin = 32.50 CHE = 6.70
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd (Property)	1.10	0.90					3.00	3.50	1.80	2.50	Risk margin = 17.50 CHE = 6.30	Risk margin = 18.00 CHE = 5.30
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd (Other)	2.50	3.30					3.00	3.50	1.80	2.50	Risk margin = 29.40 CHE = 7.50	Risk margin = 30.70 CHE = 8.00
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd (Dust Diseases and Workers' Compensation)	12.10	11.70					5.40	5.50	2.60	3.70	Risk margin = 28.50 CHE = 7.00	Risk margin = 29.30 CHE = 8.00
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd (Domestic Building Insurance)	3.90	4.20					3.00	3.50	1.80	2.50	Risk margin = 23.50 CHE = 6.00	Risk margin = 24.10 CHE = 7.00

- Notes:
- (a) The inflation rate assumptions are based on the anticipated rise in costs relevant to a particular entity.
  - (b) Financial assumptions used for provisions not later than 1 year and later than 1 year are the same unless otherwise specified.
  - (c) Data in financial assumptions used columns are weighted average unless otherwise specified.
  - (d) The inflation rates used by Transport Accident Commission are not weighted -average for 21+ years.
  - (e) The disclosures of 2014-15 weighted average inflation rate and weighted average discount rate for TAC have been amended to reflect the simpler claims assumptions adopted in 2015-16, and hence comparability between the financial years.
  - (f) AWE = Victorian Average Weekly Earnings.
  - (g) Refers to 'Claims Handling Expenses'. Claims handling expenses is an allowance made for the director expenses to be incurred in settling claims.

## 6. OTHER ASSETS AND LIABILITIES

### Reconciliation of movements in onerous contracts

An onerous contract is considered to exist when the unavoidable cost of meeting the contractual obligations exceeds the estimated economic benefits to be received.

Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the estimated economic benefits to be received.

The State's major onerous contractual obligation is for the supply of electricity to the aluminium smelter at Portland until expiry on 31 October 2016. An annual review of the contract is undertaken to remeasure the liability, taking into account the effects of market changes during the year relating to the National Electricity Market and assumptions including aluminium prices, with reference to electricity prices.

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
<b>Opening balance</b>	<b>73</b>	<b>114</b>	..	..
Receipts	157	164	..	..
Payments	(270)	(194)	..	..
Discount interest <sup>(a)</sup>	1	2	..	..
(Gain)/loss on restatement of the liability	89	(13)	..	..
<b>Closing balance</b>	<b>49</b>	<b>73</b>	..	..

Note:

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

## 7 RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### Introduction

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

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

### Structure

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### 7.1 Financial instruments

#### Introduction

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

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

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

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

#### Categories of financial instruments

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
<b>Financial assets</b>				
Cash and deposits	6 676	6 521	4 772	4 282
Designated at fair value through the operating statement	33 975	32 672	1 063	975
Held-for-trading at fair value through the operating statement	533	358	18	..
Loans and receivables <sup>(a)</sup>	3 513	2 461	6 779	7 415
Available-for-sale	509	722	303	308
Held-to-maturity	220	621	961	1 164
<b>Total financial assets<sup>(a)(b)</sup></b>	<b>45 426</b>	<b>43 355</b>	<b>13 896</b>	<b>14 143</b>
<b>Financial liabilities</b>				
Designated at fair value through the operating statement	45 079	43 831	436	453
Held-for-trading at fair value through the operating statement	1 033	641	150	50
At amortised cost	14 907	13 775	37 408	37 413
<b>Total financial liabilities<sup>(c)</sup></b>	<b>61 019</b>	<b>58 246</b>	<b>37 993</b>	<b>37 917</b>

Notes:

(a) June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.

(b) The State's total financial assets in this table exclude statutory and other receivables of \$4 730 million (\$4 475 million in 2015) while the general government's total financial assets exclude statutory receivables of \$3 879 million (\$3 671 million in 2015).

(c) The State's total financial liabilities exclude statutory taxes payable, unearned income and advance premiums of \$3 505 million (\$3 353 million in 2015) while the general government's total financial liabilities exclude statutory taxes payable and unearned income of \$2 297 million (\$2 374 million in 2015).

## 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### Categories of financial instruments

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

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

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

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

performance evaluated in accordance with documented risk management and investment strategies.

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

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

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

### Derecognition of financial assets and liabilities

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

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

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

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised as an ‘Other economic flow’ in the consolidated comprehensive operating statement.

**Impairment of financial assets**

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

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

**Reclassification of financial instruments**

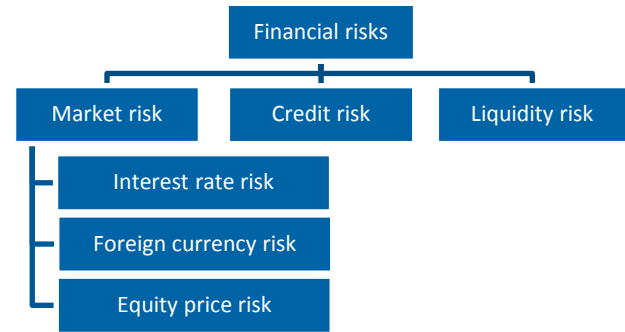
Subsequent to initial recognition and under rare circumstances, non-derivative financial instruments assets that have been designated at fair value through profit or loss upon recognition, may be reclassified out of the fair value through profit or loss category, if they are no longer held for the purpose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

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

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

**Financial risk management**

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



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

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

- the Treasurer is responsible for approving and establishing the prudential framework containing policies and guidelines on financial risk management;
- the Senior Executive Group of DTF is responsible for advising the Government on the management of the State’s financial risks;
- DTF’s Balance Sheet Management Committee provides oversight of the State’s key financial balance sheet and financial market risks. These risks relate to the State’s investments, borrowings, superannuation and insurance claims liabilities, as well as exposures to interest rate, foreign exchange and commodity price volatility and liquidity position;

## 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

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

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

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

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

### 7.1.1 Interest rate risk

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

- Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. It relates to financial instruments with fixed interest rates, measured at fair value and represents the most significant interest rate risk for the State.
- 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)

2016	State of Victoria				General government sector			
	Floating rate	Fixed rate	Non-interest bearing	Total	Floating rate	Fixed rate	Non-interest bearing	Total
<b>Financial assets</b>								
Cash and deposits	3 631	2 919	126	6 676	3 715	919	138	4 772
Receivables	151	116	2 797	3 063	133	50	1 504	1 688
Advances paid	62	29	62	153	59	4 467	57	4 582
Term deposits	10	502	..	512	66	1 396	..	1 462
Derivative financial instruments	427	459	236	1 122	..	18	..	18
Equities and managed investment schemes	859	412	23 146	24 416	644	409	254	1 307
Debt securities	1 238	8 246	..	9 484	66	1	..	67
<b>Total financial assets</b>	<b>6 378</b>	<b>12 682</b>	<b>26 367</b>	<b>45 426</b>	<b>4 683</b>	<b>7 260</b>	<b>1 953</b>	<b>13 896</b>
<b>Financial liabilities</b>								
Payables, deposits held and advances received	1 995	404	4 660	7 059	26	485	3 672	4 183
Derivative financial instruments	62	893	250	1 205	..	19	131	150
Interest-bearing liabilities	..	43 114	..	43 115	..	24 651	..	24 652
Finance lease liabilities	..	9 638	2	9 640	..	9 007	2	9 009
<b>Total financial liabilities</b>	<b>2 057</b>	<b>54 049</b>	<b>4 912</b>	<b>61 019</b>	<b>26</b>	<b>34 162</b>	<b>3 805</b>	<b>37 993</b>
<b>2015</b>								
<b>Financial assets</b>								
Cash and deposits	3 613	2 805	103	6 521	3 341	835	105	4 282
Receivables <sup>(a)</sup>	177	387	1 832	2 396	154	451	1 278	1 884
Advances paid	22	48	52	121	1	4 519	51	4 572
Term deposits	18	531	..	549	17	2 113	..	2 130
Derivative financial instruments	237	317	101	655	..	..	..	..
Equities and managed investment schemes	530	204	23 463	24 196	446	202	587	1 235
Debt securities	1 518	7 397	2	8 917	38	2	..	41
<b>Total financial assets <sup>(a)</sup></b>	<b>6 114</b>	<b>11 689</b>	<b>25 553</b>	<b>43 355</b>	<b>3 998</b>	<b>8 122</b>	<b>2 022</b>	<b>14 143</b>
<b>Financial liabilities</b>								
Payables, deposits held and advances received	2 567	418	3 574	6 559	912	175	2 760	3 848
Derivative financial instruments	77	543	228	848	..	..	50	50
Interest-bearing liabilities	1	42 079	..	42 080	1	25 959	..	25 960
Finance lease liabilities	..	8 751	9	8 760	..	8 049	9	8 059
<b>Total financial liabilities</b>	<b>2 645</b>	<b>51 790</b>	<b>3 811</b>	<b>58 246</b>	<b>913</b>	<b>34 183</b>	<b>2 820</b>	<b>37 917</b>

Note:

(a) June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.



## 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### Interest rate risk management

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

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

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

At 30 June 2016, approximately 97 per cent (96 per cent in 2015) of the State's borrowings are at fixed rates of interest. There has been no change in the State's exposure to interest rate risk or the manner in which it manages and measures the risk from the previous reporting period.

### Interest rate sensitivity analysis

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

- the exposure to interest rates for both derivative and non-derivative instruments at the reporting date, and the stipulated change taking place at the beginning of the financial year, are held constant throughout the reporting period; and
- based on historic movements, and in particular, management's knowledge and experience of the recent volatility in global financial markets, the State has assessed that it may be exposed to a reasonably possible increase or decrease of 100 basis points in interest rates (100 basis points in 2015).

With all other variables held constant, the impact of a 100 basis point increase or decrease on the net result and net assets at 30 June 2016 is a \$1 654 million increase/\$1 805 million decrease (\$1 789 million increase/\$1 939 million decrease in 2015).

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

### 7.1.2 Foreign currency risk

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

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

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



The carrying amount of the State's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

**Australian dollar equivalent of foreign currency denominated monetary assets and liabilities** (\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
<b>Monetary assets</b>				
Cash and deposits	14	11	..	..
Debt securities	20	19	..	..
<b>Total monetary assets<sup>(a)</sup></b>	<b>33</b>	<b>31</b>	<b>..</b>	<b>..</b>
<b>Monetary liabilities</b>				
Borrowings	242	119	..	..
<b>Total monetary liabilities</b>	<b>242</b>	<b>119</b>	<b>..</b>	<b>..</b>

Note:

(a) In addition, the State held \$2 608 million (\$2 745 million in 2015) of equities and managed investment schemes denominated in foreign currencies.

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

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

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

### Foreign currency sensitivity analysis

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

- exposure to the pool of foreign currencies for both derivative and non-derivative instruments at the reporting date, and the stipulated change taking place at the beginning of the financial year are held constant throughout the reporting period; and

- based on historic movements, future expectations and management's knowledge and experience of the foreign currency markets, the State has assessed that it may be exposed to an increase or decrease of 15 per cent against the Australian dollar (15 per cent in 2015).

With all other variables held constant, the impact of a 15 per cent increase or decrease in exchange rates on economic flows and net assets at 30 June 2016 is \$302 million decrease/\$408 million increase (\$267 million decrease/\$361 million increase in 2015).

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

### 7.1.3 Equity price risk

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

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

## 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### Equity price sensitivity analysis

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

- exposure to equity securities for both derivative and non-derivative instruments at the reporting date, and the stipulated change taking place at the beginning of the financial year are held constant throughout the reporting period; and
- based on historic movements, future expectations and management's knowledge and experience of the volatility of the equity markets, the State has assessed that it may be exposed to a reasonably possible increase or decrease of 15 per cent to equity prices (increase or decrease of 15 per cent in 2015).

With all other variables held constant, the impact of a 15 per cent increase or decrease in listed equities prices on economic flows and net assets at 30 June 2016 is \$83 million increase/\$83 million decrease (\$46 million increase/\$31 million decrease in 2015) and from unlisted equities is \$2 288 million increase/\$2 288 million decrease (\$2 351 million increase/\$2 351 million decrease in 2015).

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

### 7.1.4 Credit risk

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

The State does not have any significant credit risk exposure to any single counterparty or to any group of counterparties having similar characteristics.

The State's maximum exposure to credit risk, without taking account of the value of any collateral obtained at the reporting date, in relation to each class of recognised financial asset, is the carrying amount of those assets as recognised in the balance sheet.

There has been no material change to the State's credit risk profile in 2015-16.

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

### Credit quality of financial assets that are neither past due nor impaired

(\$ million)

State of Victoria				
2016	(triple-A credit rating)	Other (min triple-B credit rating)	Other (not rated)	Total
<b>Financial assets</b>				
Cash and deposits	229	5 885	562	6 676
Receivables	44	506	1 906	2 455
Advances paid	27	5	121	153
Term deposits	100	406	7	512
Debt securities	1 533	7 784	166	9 484
<b>Total financial assets</b>	<b>1 932</b>	<b>14 585</b>	<b>2 762</b>	<b>19 279</b>
<b>2015</b>				
<b>Financial assets</b>				
Cash and deposits	254	5 748	519	6 521
Receivables <sup>(a)</sup>	55	197	1 514	1 766
Advances paid	41	..	80	121
Term deposits	139	369	41	549
Debt securities	1 585	7 309	22	8 917
<b>Total financial assets <sup>(a)</sup></b>	<b>2 075</b>	<b>13 624</b>	<b>2 177</b>	<b>17 875</b>

Note:

(a) June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.

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

(\$ million)

General government sector	Government agencies		Other		Total
	(triple-A credit rating)	(triple-A credit rating)	(min triple-B credit rating)	Other (not rated)	
<b>2016</b>					
<b>Financial assets</b>					
Cash and deposits	2 720	122	1 572	358	4 772
Receivables	508	2	171	603	1 284
Advances paid	4 476	27	5	75	4 582
Term deposits	1 017	46	394	5	1 462
Debt securities	..	..	25	42	67
<b>Total financial assets</b>	<b>8 721</b>	<b>197</b>	<b>2 168</b>	<b>1 082</b>	<b>12 167</b>
<b>2015</b>					
<b>Financial assets</b>					
Cash and deposits	2 155	142	1 679	305	4 282
Receivables	785	22	34	632	1 472
Advances paid	4 532	9	..	31	4 572
Term deposits	1 665	79	349	36	2 130
Debt securities	..	..	41	..	41
<b>Total financial assets</b>	<b>9 137</b>	<b>252</b>	<b>2 103</b>	<b>1 004</b>	<b>12 497</b>

**7.1.5 Liquidity risk**

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

*Short-term liquidity management and control*

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

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

The policy also measures the daily 'going concern' net and cumulative cash flow limits to manage short-term liquidity exposures during normal

operating liquidity conditions and the monitoring of 'going concern' and 'liquidity stress' scenario cash flows out to 12 months.

As at 30 June 2016, the whole of Victorian government liquidity ratio stood at 114 per cent against a limit of 80 per cent (125 per cent against a limit of 80 per cent in 2015).

*Long-term liquidity management monitoring*

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

*Managing a liquidity crisis*

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

**Maturity analysis of financial liabilities**

Disclosed are details of the State's maturity analysis for its derivative and non-derivative financial liabilities. The table includes both interest and principal cash flows, and has been based on the undiscounted cash flows of financial liabilities based on the earliest date on which the State may be required to pay.

## 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### Undiscounted maturity analysis of financial liabilities

(\$ million)

<i>State of Victoria</i>		<i>Contractual maturity</i>					
<i>2016</i>	<i>Carrying amount</i>	<i>Nominal amount<sup>(a)</sup></i>	<i>3 months-</i>				
			<i>0-3 months</i>	<i>1 year</i>	<i>1-2 years</i>	<i>2-5 years</i>	<i>5+ years</i>
Payables, deposits held and advances received	7 059	7 075	6 422	459	47	7	140
<b>Interest-bearing liabilities:</b>							
Domestic borrowings	42 873	47 696	1 750	5 112	4 820	14 893	21 120
Foreign currency borrowings	242	243	15	70	3	8	147
Finance lease liabilities	9 640	20 837	81	465	648	1 886	17 758
Derivative financial liabilities	1 205	1 152	274	132	112	287	347
<b>Total</b>	<b>61 019</b>	<b>77 004</b>	<b>8 542</b>	<b>6 239</b>	<b>5 630</b>	<b>17 081</b>	<b>39 513</b>

<i>2015</i>		<i>Contractual maturity</i>					
	<i>Carrying amount</i>	<i>Nominal amount<sup>(a)</sup></i>	<i>3 months-</i>				
			<i>0-3 months</i>	<i>1 year</i>	<i>1-2 years</i>	<i>2-5 years</i>	<i>5+ years</i>
Payables, deposits held and advances received	6 559	6 150	5 611	338	42	84	75
<b>Interest-bearing liabilities:</b>							
Domestic borrowings	41 960	48 779	1 886	4 379	4 763	18 391	19 359
Foreign currency borrowings	119	146	15	2	2	7	121
Finance lease liabilities	8 760	20 477	224	717	930	3 042	15 563
Derivative financial liabilities	848	826	179	142	105	170	231
<b>Total</b>	<b>58 246</b>	<b>76 378</b>	<b>7 914</b>	<b>5 578</b>	<b>5 843</b>	<b>21 693</b>	<b>35 349</b>

<i>General government sector</i>		<i>Contractual maturity</i>					
<i>2016</i>	<i>Carrying amount</i>	<i>Nominal amount<sup>(a)</sup></i>	<i>3 months-</i>				
			<i>0-3 months</i>	<i>1 year</i>	<i>1-2 years</i>	<i>2-5 years</i>	<i>5+ years</i>
Payables, deposits held and advances received	4 183	4 533	3 656	696	46	7	128
<b>Interest-bearing liabilities:</b>							
Domestic borrowings	24 652	24 651	1 383	1 754	1 972	6 234	13 308
Foreign currency borrowings	..	..	..	..	..	..	..
Finance lease liabilities	9 009	20 206	64	412	518	1 586	17 627
Derivative financial liabilities	150	150	131	..	1	..	17
<b>Total</b>	<b>37 993</b>	<b>49 540</b>	<b>5 235</b>	<b>2 862</b>	<b>2 538</b>	<b>7 826</b>	<b>31 079</b>

<i>2015</i>		<i>Contractual maturity</i>					
	<i>Carrying amount</i>	<i>Nominal amount<sup>(a)</sup></i>	<i>3 months-</i>				
			<i>0-3 months</i>	<i>1 year</i>	<i>1-2 years</i>	<i>2-5 years</i>	<i>5+ years</i>
Payables, deposits held and advances received	3 848	3 810	3 127	545	78	8	53
<b>Interest-bearing liabilities:</b>							
Domestic borrowings	25 960	25 901	5	8 162	6	4 013	13 715
Foreign currency borrowings	..	..	..	..	..	..	..
Finance lease liabilities	8 059	19 775	207	664	860	2 617	15 427
Derivative financial liabilities	50	50	..	..	..	..	50
<b>Total</b>	<b>37 917</b>	<b>49 537</b>	<b>3 339</b>	<b>9 370</b>	<b>944</b>	<b>6 638</b>	<b>29 245</b>

Note:

(a) Represents undiscounted nominal amount.

## Finance lease liabilities payable

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
Less than 1 year	546	942	476	871
1 year but less than 5 years	2 533	3 972	2 103	3 477
5 years or more	17 758	15 563	17 627	15 427
<b>Minimum lease payments</b>	<b>20 837</b>	<b>20 477</b>	<b>20 206</b>	<b>19 775</b>
Future finance charges	11 197	11 717	11 197	11 717
<b>Total finance lease liabilities</b>	<b>9 640</b>	<b>8 760</b>	<b>9 009</b>	<b>8 059</b>

## 7.1.6 Other matters

## Offsetting financial instruments

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

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

Some master netting arrangements do not result in an offset of balance sheet assets and liabilities. Where the State does not have a legally enforceable right to offset recognised amounts, because the

right to offset is enforceable only on the occurrence of future events such as default, insolvency or bankruptcy, they are reported on a gross basis.

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

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

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

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

## 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### Master netting or similar arrangements

(\$ million)

<i>State of Victoria</i>		<i>Effects of offsetting on the balance sheet</i>			
<i>2016</i>	<i>Gross amounts</i>	<i>Gross amounts set off in the consolidated balance sheet</i>	<i>Net amounts presented in the consolidated balance sheet</i>	<i>Related amounts not offset</i>	<i>Net amount</i>
<b>Financial assets</b>					
Derivative financial instruments	2 689	(1 567)	1 122	(648)	474
<b>Financial liabilities</b>					
Derivative financial instruments	2 772	(1 567)	1 205	(978)	226
<b>2015</b>					
<b>Financial assets</b>					
Derivative financial instruments	2 742	(2 087)	655	(439)	216
<b>Financial liabilities</b>					
Derivative financial instruments	2 935	(2 087)	848	(582)	265

### Net gain or loss by category of financial instruments

The net gains or losses on financial assets and liabilities held at 30 June 2016 are determined as follows:

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

### Net gain or loss by category of financial instruments

(\$ million)

	<i>State of Victoria</i>		<i>General government sector</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
<b>Financial assets</b>				
Cash and deposits <sup>(a)</sup>	(63)	271	445	790
Designated at fair value through the operating statement <sup>(a)</sup>	(108)	1 714	(9)	53
Held-for-trading at fair value through the operating statement	3	4	5	..
Loans and receivables	(10)	(10)	1	(3)
Available-for-sale	..	..	..	..
<b>Total</b>	<b>(178)</b>	<b>1 978</b>	<b>442</b>	<b>840</b>
<b>Financial liabilities</b>				
Designated at fair value through the operating statement	1 226	821	..	..
Held-for-trading at fair value through the operating statement	68	(31)	..	..
At amortised cost	..	..	..	..
<b>Total</b>	<b>1 293</b>	<b>790</b>	<b>..</b>	<b>..</b>

Note:

(a) June 2015 comparative figures have been restated to more consistently reflect the classification of insurance entities' investment income between years.

## 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### Breakdown of interest revenue <sup>(a)</sup>

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
Interest revenue from financial assets not at fair value through the operating statement <sup>(b)</sup>	366	424	786	827
Interest revenue from financial assets at fair value through the operating statement	471	732	..	..
Interest revenue from impaired financial assets	..	..	..	..
<b>Total <sup>(b)</sup></b>	<b>837</b>	<b>1 156</b>	<b>786</b>	<b>827</b>

Notes:

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

(b) June 2015 comparative figures have been restated to more consistently reflect the classification of insurance entities' investment income between years.

### Breakdown of interest and fee expense items <sup>(a)</sup>

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
Interest expense from financial liabilities not at fair value through the operating statement	828	836	2 042	2 067
Interest expense from financial liabilities at fair value through the operating statement	2 060	2 164	..	..
Fee expenses from financial liabilities not at fair value through the operating statement	39	25	36	30
Fee expenses from financial liabilities at fair value through the operating statement	415	433	..	..
<b>Total</b>	<b>3 341</b>	<b>3 458</b>	<b>2 079</b>	<b>2 097</b>

Note:

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

## 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 2016 (arising from outside of government).

### Quantifiable contingent assets <sup>(a)</sup>

(\$ million)

	State of Victoria	
	2016	2015
General government <sup>(b)</sup>	115	113
Public non-financial corporations	238	192
Public financial corporations	..	..
<b>Total contingent assets – State of Victoria</b>	<b>353</b>	<b>305</b>
Guarantees, indemnities and warranties	100	93
Legal proceedings and disputes	18	11
Other <sup>(b)</sup>	235	201
<b>Total contingent assets – State of Victoria</b>	<b>353</b>	<b>305</b>

Notes:

(a) Figures reflect contingent assets that arise from outside of government.

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



## 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### Non-quantifiable contingent assets

#### CityLink compensable enhancement claims

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

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

#### Peninsula Link compensable enhancement claim

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

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

### Contingent liabilities

Contingent liabilities are:

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

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

The table below contains quantifiable contingent liabilities as at 30 June 2016.

### Quantifiable contingent liabilities (\$ million)

	State of Victoria	
	2016	2015
General government	11 426	11 551
Public non-financial corporations	186	217
Public financial corporations	11	..
<i>Eliminations</i> <sup>(a)</sup>	(10 905)	(10 869)
<b>Total contingent liabilities – State of Victoria</b>	<b>718</b>	<b>900</b>
Guarantees, indemnities and warranties	301	347
Legal proceedings and disputes	179	264
Other	238	288
<b>Total contingent liabilities – State of Victoria</b>	<b>718</b>	<b>900</b>

Note:

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

### Non-quantifiable contingent liabilities

A number of potential obligations are non-quantifiable at this time arising from:

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

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

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

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



### **Department of Education and Training**

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

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

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

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

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

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

### **Public transport rail partnership agreements**

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

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

### **Level Crossing Removal Program**

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

## 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### ***Fiskville independent investigation and closure of training college***

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

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

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

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

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

### ***Public lottery licence litigation***

On 27 August 2014, Intralot Australia Pty Ltd (Intralot) served a Writ and Statement of Claim on the State seeking damages of \$63.4 million and costs. Intralot alleges Tattersall's Sweeps Pty Ltd were granted favourable treatment with respect to the awarding of public lottery licenses on 24 October 2007. The State has lodged its defence and the Court has ordered mediation take place before the matter is listed for a directions hearing towards the end of 2016.

### ***Compulsory property acquisitions***

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

### ***Land remediation – environmental concerns***

In addition to properties for which remediation costs have been provided in the State's financial statements, certain other properties have been identified as potentially contaminated sites. The State does not admit any liability in respect of these sites. However, remedial expenditure may be incurred to restore the sites to an acceptable environmental standard in the event that a contamination risk is identified.

### ***Native Title***

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

### ***Melbourne Park redevelopment***

In 2010, the State entered into a capital works agreement with Tennis Australia and the Melbourne and Olympic Park Trust for the Australian Open to remain at Melbourne Park until 2036. The agreement contains a number of conditions including that the State will invest in further improvements to Melbourne Park in three stages or (if an agreed investment threshold is reached) pay a rights fee to retain the Australian Open at Melbourne Park until 2036.

In the *2010-11 Budget*, Stage 1 of the Melbourne Park redevelopment with a total estimated investment of \$363 million was announced. In January 2014, a further \$338 million of total estimated investment was announced by the State for Stage 2 of the redevelopment.

### **Royal Melbourne Showgrounds redevelopment**

Under the State's commitment to the Royal Agriculture Society of Victoria (RASV), the State has agreed to support certain obligations of RASV which may arise out of the joint venture agreement. 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, which is 25 years after the commencement of the operation term under the development and operation agreement, RASV will be obliged to satisfy and discharge each such outstanding loan amount. This may take the form of a transfer to the State, of the whole of the RASV participating interest in the joint venture.

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

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

### **Victorian Managed Insurance Authority – insurance cover**

The Victorian Managed Insurance Authority (VMIA) was established in 1996 as an insurer for state government departments, participating bodies and other entities as defined under the *Victorian Managed Insurance Authority Act 1996*. The VMIA provides its clients with a range of insurance cover, including for property, public and products liability, professional indemnity and contract works. The VMIA reinsures in the private market for losses above \$50 million arising out of any one occurrence, up to a maximum of \$1 billion for public and products liability, and for losses above \$50 million arising out of any one event, up to a maximum of \$3.3 billion for property. The risk of losses above these reinsured levels is borne by the State.

With effect from 28 August 2015, VMIA purchased additional reinsurance cover for property and public liability losses to better cover the State's potential liabilities.

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

### **December 2015 bushfires**

On 19 and 25 December 2015, Victoria experienced significant loss and damage to homes, community properties, roads and infrastructure as a result of several large bushfires in widespread parts of Victoria including the Wye River, Separation Creek, Barnawartha and Scotsburn areas.

In order to minimise the environmental, social and economic impact of the bushfires, the State developed a comprehensive project plan with a single contractor (Grocon) for a coordinated clean-up of residential properties which home owners could opt into.

Given the safety concerns and complexities involved in the removal of bushfire waste in the affected areas, the Victorian Government is contributing towards the cost of the clean-up. The costs of the clean-up will be jointly shared with the insurers and the Commonwealth Government (under Category A of the Commonwealth-State Natural Disaster Relief and Recovery Arrangements (NDRRA)).

Any assistance for individuals and households, and local councils is provided jointly under the NDRRA by the Victorian and Commonwealth Governments.

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

## 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### 7.3 Fair value determination

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

Fair values are determined for the following assets and liabilities:

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

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

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

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

#### Fair value hierarchy

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

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

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

### Fair value disclosure

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

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

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

### 7.4 Fair value determination of financial assets and liabilities

#### How fair values are determined

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

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

## 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### Carrying amounts, fair values and fair value hierarchy

(\$ million)

<i>State of Victoria</i>	2016		2015	
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>
<b>Financial assets</b>				
Non-current receivables	142	142	174	174
<b>Financial liabilities</b>				
Finance lease liabilities	9 640	9 614	8 760	8 724
<b>General government sector</b>				
<b>Financial assets</b>				
Non-current receivables	478	478	753	753
<b>Financial liabilities</b>				
Finance lease liabilities	9 009	9 009	8 059	8 058

### Financial assets and liabilities measured at fair value<sup>(a)</sup>

(\$ million)

<i>State of Victoria</i>	<i>Carrying amount as at 30 June</i>	<i>Fair value measurement at end of reporting period using:</i>		
		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
<b>2016</b>				
<b>Financial assets</b>				
Cash	6 676	6 676	..	..
Receivables held in investment schemes	..	..	..	..
Derivative assets	1 122	74	1 048	..
Equities and managed investment schemes	24 416	2 216	16 860	5 340
Debt securities at fair value	9 484	2 138	7 132	214
<b>Total financial assets</b>	<b>41 698</b>	<b>11 104</b>	<b>25 040</b>	<b>5 554</b>
<b>Financial liabilities</b>				
Domestic borrowings	42 715	34 956	7 759	..
Foreign currency borrowings	242	..	242	..
Derivative financial liabilities	1 073	13	1 060	..
<b>Total financial liabilities</b>	<b>44 030</b>	<b>34 969</b>	<b>9 061</b>	<b>..</b>
<b>2015</b>				
<b>Financial assets</b>				
Cash	6 521	6 521	..	..
Receivables held in investment schemes	..	..	..	..
Derivative assets	655	50	605	..
Equities and managed investment schemes	24 196	1 870	17 255	5 071
Debt securities at fair value	8 917	1 777	6 913	227
<b>Total financial assets</b>	<b>40 289</b>	<b>10 218</b>	<b>24 773</b>	<b>5 298</b>
<b>Financial liabilities</b>				
Domestic borrowings	41 757	35 183	6 574	..
Foreign currency borrowings	119	..	119	..
Derivative financial liabilities	752	6	746	..
<b>Total financial liabilities</b>	<b>42 628</b>	<b>35 189</b>	<b>7 439</b>	<b>..</b>

## 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### Financial assets and liabilities measured at fair value (continued)

(\$ million)

General Government Sector 2016	Carrying amount as at 30 June	Fair value measurement at end of reporting period using:		
		Level 1	Level 2	Level 3
<b>Financial assets</b>				
Cash	4 772	4 772	..	..
Derivative assets	18	18	..	..
Equities and managed investment schemes	1 307	701	483	123
Debt securities at fair value	67	67	..	..
<b>Total financial assets</b>	<b>6 164</b>	<b>5 558</b>	<b>483</b>	<b>123</b>

### 2015

<b>Financial assets</b>				
Cash	4 282	4 282	..	..
Derivative assets	..	..	..	..
Equities and managed investment schemes	1 235	673	562	..
Debt securities at fair value	41	41	..	..
<b>Total financial assets</b>	<b>5 558</b>	<b>4 995</b>	<b>562</b>	<b>..</b>

#### Note:

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

### Reconciliation of Level 3 fair value movements

(\$ million)

State of Victoria	Derivative assets		Equities and managed investment schemes		Debt securities at fair value	
	2016	2015	2016	2015	2016	2015
<b>Opening balance</b>	..	..	5 071	4 386	227	243
Total gains and losses recognised in:						
Net result	..	..	(6)	98	..	(1)
Other comprehensive income	..	..	25	..	..	..
Purchase	..	..	828	1 181	..	45
Sales	..	..	(685)	(553)	..	..
Settlements	..	..	(15)	(33)	(13)	(60)
Transfers from other levels	..	..	123	..	..	..
Transfers out of Level 3	..	..	..	(8)	..	..
<b>Closing balance</b>	<b>..</b>	<b>..</b>	<b>5 340</b>	<b>5 071</b>	<b>214</b>	<b>227</b>

### General government sector

<b>Opening balance</b>	..	..	..	7	..	1
Total gains and losses recognised in:						
Net result	..	..	..	..	..	..
Other comprehensive income	..	..	..	..	..	..
Purchases	..	..	..	..	..	..
Sales	..	..	..	..	..	..
Settlements	..	..	..	..	..	(1)
Transfers from other levels	..	..	123	..	..	..
Transfers out of Level 3	..	..	..	(7)	..	..
<b>Closing balance</b>	<b>..</b>	<b>..</b>	<b>123</b>	<b>..</b>	<b>..</b>	<b>..</b>



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

The majority of the State's Level 3 financial assets relate to private equities and managed investment schemes that are managed by VFMC on behalf of the State's insurance entities.

The disclosure that follows includes details of the inputs and assumptions used in the current valuation models. Given that a significant majority of these investments are held via third party pooled investment vehicles, and the State is not privy to the detailed inputs and assumptions used to value the underlying investment assets, the State is not in a position to provide the sensitivity analysis pertaining to the fair value measurement due to changes in unobservable inputs.

#### ***Private Equities***

The valuations of Australian equities are based on the last trading price of the securities. In contrast, private equity investment valuations are based primarily on multiples of earnings, discounted cash flow, market equivalents and other market accepted methodologies. Key inputs and assumptions which are subject to estimation uncertainty include the identification of appropriate comparables, estimated future profits, risk free discount rate, risk premium, estimated future cash flows and future economic and regulatory conditions.

#### ***Managed investment schemes***

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

#### ***Infrastructure***

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

#### ***Non-traditional strategies***

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

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

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

#### ***Property investments***

Property investments comprise externally managed unlisted property trusts with exposure to 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. Assumptions which may be subject to estimation uncertainty would include the identification of appropriate comparables, estimated future profits, risk free rate, risk premium, estimated future cash flows and future economic and regulatory conditions.

## 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### 7.5 Fair value determination of non-financial assets

#### Revaluations of non-financial physical assets

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

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

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

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

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

**Biological assets** are measured at fair value less costs to sell and are revalued at 30 June each year. For breeding livestock, fair value is based on the

amount that could be expected to be received from the disposal of livestock with similar attributes.

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

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

The fair value of **cultural assets** and collections, **heritage assets** and other non-financial physical assets (including Crown land and infrastructure assets) that the State intends to preserve because of their unique historical, cultural or environmental attributes, is measured at the replacement cost of the asset less, where applicable, accumulated depreciation (calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset) and any accumulated impairment. These policies and any legislative limitations and restrictions imposed on their use and/or disposal may impact their fair value.

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

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

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

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



## 7.5.1 Land, buildings, infrastructure, plant and equipment

## Carry amounts, fair values and fair value hierarchy

(\$ million)

State of Victoria	Carrying amount 2016	Fair value measurement at the end of the 2016 reporting period using:			Carrying amount 2015	Fair value measurement at the end of the 2015 reporting period using:		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>Buildings</b>	<b>43 222</b>	..	<b>9 535</b>	<b>33 687</b>	<b>40 918</b>	..	<b>9 532</b>	<b>31 386</b>
Non-specialised buildings	11 534	..	9 396	2 138	12 112	..	9 291	2 821
Specialised buildings	30 511	..	138	30 372	27 903	..	241	27 662
Heritage buildings	1 177	..	..	1 177	902	..	..	902
<b>Land and national parks</b>	<b>70 423</b>	..	<b>19 266</b>	<b>51 157</b>	<b>62 508</b>	..	<b>13 980</b>	<b>48 528</b>
Non-specialised land	17 348	..	15 601	1 746	15 264	..	13 266	1 998
Specialised land	34 228	..	3 665	30 563	28 381	..	714	27 667
Land under roads	17 811	..	..	17 811	17 801	..	..	17 801
National parks and other 'land only' holdings	1 036	..	..	1 036	1 062	..	..	1 062
<b>Plant, equipment, vehicles and infrastructure systems<sup>(a)</sup></b>	<b>60 584</b>	..	<b>222</b>	<b>60 363</b>	<b>53 826</b>	..	<b>292</b>	<b>53 534</b>
Infrastructure systems	54 788	..	41	54 747	47 780	..	53	47 727
Rolling stock	2 267	..	..	2 267	2 126	..	..	2 126
Plant, equipment and vehicles <sup>(a)</sup>	3 529	..	181	3 348	3 920	..	239	3 681
<b>Roads, road infrastructure and earthworks</b>	<b>27 175</b>	..	..	<b>27 175</b>	<b>27 218</b>	..	<b>354</b>	<b>26 864</b>
<b>Cultural assets</b>	<b>5 655</b>	..	<b>2 023</b>	<b>3 632</b>	<b>5 554</b>	..	<b>3 432</b>	<b>2 122</b>
<b>Total land, buildings, infrastructure, plant and equipment<sup>(a)(b)</sup></b>	<b>207 059</b>	..	<b>31 045</b>	<b>176 014</b>	<b>190 023</b>	..	<b>27 589</b>	<b>162 433</b>

## Notes:

- (a) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.
- (b) The State's total land, building, infrastructure, plant and equipment in this table excludes leased and construction in progress assets, which are valued at cost. The total of excluded assets is \$19 498 million (2015: \$16 926 million).

General government sector								
<b>Buildings</b>	<b>26 344</b>	..	<b>872</b>	<b>25 471</b>	<b>23 953</b>	..	<b>833</b>	<b>23 120</b>
Non-specialised buildings	2 086	..	752	1 334	2 783	..	602	2 181
Specialised buildings	23 095	..	120	22 975	20 282	..	231	20 051
Heritage buildings	1 162	..	..	1 162	888	..	..	888
<b>Land and national parks</b>	<b>44 724</b>	..	<b>1 307</b>	<b>43 417</b>	<b>40 699</b>	..	<b>1 252</b>	<b>39 447</b>
Non-specialised land	2 874	..	1 250	1 624	2 578	..	685	1 893
Specialised land	23 002	..	58	22 945	19 258	..	567	18 691
Land under roads	17 811	..	..	17 811	17 801	..	..	17 801
National parks and other 'land only' holdings	1 036	..	..	1 036	1 062	..	..	1 062
<b>Plant, equipment, vehicles and infrastructure systems<sup>(a)</sup></b>	<b>3 067</b>	..	<b>114</b>	<b>2 953</b>	<b>3 292</b>	..	<b>169</b>	<b>3 123</b>
Infrastructure systems	1 209	..	23	1 186	1 129	..	35	1 094
Plant, equipment and vehicles <sup>(a)</sup>	1 857	..	91	1 766	2 163	..	134	2 029
<b>Roads, road infrastructure and earthworks</b>	<b>27 106</b>	..	..	<b>27 106</b>	<b>27 152</b>	..	<b>354</b>	<b>26 798</b>
<b>Cultural assets</b>	<b>5 592</b>	..	<b>1 961</b>	<b>3 632</b>	<b>5 496</b>	..	<b>3 374</b>	<b>2 122</b>
<b>Total land, buildings, infrastructure, plant and equipment<sup>(a)(b)</sup></b>	<b>106 833</b>	..	<b>4 254</b>	<b>102 579</b>	<b>100 592</b>	..	<b>5 983</b>	<b>94 610</b>

## Notes:

- (a) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.
- (b) The general government sector's total land, building, infrastructure, plant and equipment in this table excludes leased and construction in progress assets, which are valued at cost. The total of excluded assets is \$7 421 million (2015: \$6 970 million).

## Reconciliation of Level 3 fair value movements

(\$ million)

State of Victoria 2016	Opening balance	Depreciation	Impairment	Assets recognised for the first time	Revaluation	Acquisitions/ (Disposals)	Transfers in/out of Level 3	Reclassification	Closing balance
<b>Buildings</b>	<b>31 386</b>	<b>(1 170)</b>	<b>..</b>	<b>67</b>	<b>2 380</b>	<b>653</b>	<b>72</b>	<b>300</b>	<b>33 687</b>
Non-specialised buildings	2 821	(84)	..	52	91	(751)	19	(11)	2 138
Specialised buildings	27 662	(1 055)	..	15	2 043	1 380	14	314	30 372
Heritage buildings	902	(31)	..	..	245	25	39	(3)	1 177
<b>Land and national parks</b>	<b>48 528</b>	<b>..</b>	<b>(54)</b>	<b>53</b>	<b>4 692</b>	<b>(113)</b>	<b>(1 935)</b>	<b>(12)</b>	<b>51 157</b>
Non-specialised land	1 998	..	..	2	56	(293)	..	(17)	1 746
Specialised land	27 667	..	(54)	51	4 664	176	(1 935)	(5)	30 563
Land under roads	17 801	..	..	..	..	..	..	10	17 811
National parks and other 'land only' holdings	1 062	..	..	..	(29)	4	..	..	1 036
<b>Plant, equipment, vehicles and infrastructure systems</b>	<b>53 534</b>	<b>(2 032)</b>	<b>(2)</b>	<b>142</b>	<b>6 495</b>	<b>2 243</b>	<b>47</b>	<b>(64)</b>	<b>60 363</b>
Infrastructure systems	47 727	(1 294)	(2)	87	6 498	1 714	27	(10)	54 747
Rolling stock	2 126	(159)	..	..	..	300	..	..	2 267
Plant, equipment and vehicles	3 681	(579)	..	55	(3)	229	20	(54)	3 348
<b>Roads, road infrastructure and earthworks</b>	<b>26 864</b>	<b>(608)</b>	<b>(48)</b>	<b>..</b>	<b>(201)</b>	<b>386</b>	<b>..</b>	<b>782</b>	<b>27 175</b>
<b>Cultural assets</b>	<b>2 122</b>	<b>(12)</b>	<b>..</b>	<b>..</b>	<b>(86)</b>	<b>2</b>	<b>1 557</b>	<b>48</b>	<b>3 632</b>
<b>Total</b>	<b>162 433</b>	<b>(3 821)</b>	<b>(105)</b>	<b>262</b>	<b>13 279</b>	<b>3 172</b>	<b>(260)</b>	<b>1 055</b>	<b>176 014</b>
<b>2015</b>									
<b>Buildings</b>	<b>27 766</b>	<b>(1 029)</b>	<b>(15)</b>	<b>100</b>	<b>409</b>	<b>2 725</b>	<b>628</b>	<b>802</b>	<b>31 386</b>
Non-specialised buildings	2 871	(166)	..	..	6	94	..	17	2 821
Specialised buildings	23 677	(826)	(15)	98	403	2 613	929	784	27 662
Heritage buildings	1 218	(36)	..	1	..	19	(301)	1	902
<b>Land and national parks</b>	<b>42 156</b>	<b>..</b>	<b>..</b>	<b>32</b>	<b>5 333</b>	<b>(156)</b>	<b>1 175</b>	<b>(13)</b>	<b>48 528</b>
Non-specialised land	1 949	..	..	..	79	16	(11)	(36)	1 998
Specialised land	22 628	..	..	32	3 410	(218)	1 186	629	27 667
Land under roads	15 893	..	..	..	1 844	46	..	19	17 801
National parks and other 'land only' holdings	1 685	..	..	..	..	..	..	(624)	1 062
<b>Plant, equipment, vehicles and infrastructure systems<sup>(a)</sup></b>	<b>48 772</b>	<b>(1 945)</b>	<b>(6)</b>	<b>174</b>	<b>1 577</b>	<b>4 424</b>	<b>61</b>	<b>476</b>	<b>53 534</b>
Infrastructure systems	43 489	(1 100)	(3)	68	1 464	3 853	6	(51)	47 727
Rolling stock	2 556	(137)	..	..	68	(350)	..	(10)	2 126
Plant, equipment and vehicles <sup>(a)</sup>	2 727	(708)	(2)	106	45	921	55	538	3 681
<b>Roads, road infrastructure and earthworks</b>	<b>28 271</b>	<b>(539)</b>	<b>..</b>	<b>6</b>	<b>(504)</b>	<b>(165)</b>	<b>381</b>	<b>(586)</b>	<b>26 864</b>
<b>Cultural assets</b>	<b>2 146</b>	<b>(17)</b>	<b>..</b>	<b>11</b>	<b>2</b>	<b>(15)</b>	<b>(1)</b>	<b>(3)</b>	<b>2 122</b>
<b>Total<sup>(a)</sup></b>	<b>149 111</b>	<b>(3 530)</b>	<b>(21)</b>	<b>323</b>	<b>6 817</b>	<b>6 814</b>	<b>2 244</b>	<b>676</b>	<b>162 433</b>

Note:

(a) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.

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

(\$ million)

<i>General government sector</i> <b>2016</b>	<i>Opening balance</i>	<i>Depreciation</i>	<i>Impairment</i>	<i>Assets recognised for the first time</i>	<i>Revaluation</i>	<i>Acquisitions/ (Disposals)</i>	<i>Transfers in/out of Level 3</i>	<i>Reclassification</i>	<i>Closing balance</i>
<b>Buildings</b>	<b>23 120</b>	<b>(990)</b>	<b>..</b>	<b>8</b>	<b>2 199</b>	<b>824</b>	<b>17</b>	<b>293</b>	<b>25 471</b>
Non-specialised buildings	2 181	(80)	..	..	..	(757)	..	(11)	1 334
Specialised buildings	20 051	(879)	..	8	1 953	1 556	(22)	307	22 975
Heritage buildings	888	(31)	..	..	245	25	39	(3)	1 162
<b>Land and national parks</b>	<b>39 447</b>	<b>..</b>	<b>(51)</b>	<b>51</b>	<b>3 906</b>	<b>(127)</b>	<b>200</b>	<b>(9)</b>	<b>43 417</b>
Non-specialised land	1 893	..	..	..	49	(300)	..	(17)	1 624
Specialised land	18 691	..	(51)	51	3 886	169	200	(2)	22 945
Land under roads	17 801	..	..	..	..	..	..	10	17 811
National parks and other 'land only' holdings	1 062	..	..	..	(29)	4	..	..	1 036
<b>Plant, equipment, vehicles and infrastructure systems</b>	<b>3 123</b>	<b>(451)</b>	<b>..</b>	<b>19</b>	<b>45</b>	<b>196</b>	<b>68</b>	<b>(46)</b>	<b>2 953</b>
Infrastructure systems	1 094	(53)	..	..	58	56	26	4	1 186
Plant, equipment and vehicles	2 029	(398)	..	19	(13)	139	42	(50)	1 766
<b>Roads, road infrastructure and earthworks</b>	<b>26 798</b>	<b>(606)</b>	<b>(48)</b>	<b>..</b>	<b>(203)</b>	<b>383</b>	<b>..</b>	<b>782</b>	<b>27 106</b>
<b>Cultural assets</b>	<b>2 122</b>	<b>(12)</b>	<b>..</b>	<b>..</b>	<b>(86)</b>	<b>2</b>	<b>1 557</b>	<b>48</b>	<b>3 632</b>
<b>Total</b>	<b>94 610</b>	<b>(2 058)</b>	<b>(99)</b>	<b>77</b>	<b>5 861</b>	<b>1 278</b>	<b>1 843</b>	<b>1 068</b>	<b>102 579</b>
<b>2015</b>									
<b>Buildings</b>	<b>21 341</b>	<b>(863)</b>	<b>(13)</b>	<b>94</b>	<b>53</b>	<b>1 373</b>	<b>908</b>	<b>227</b>	<b>23 120</b>
Non-specialised buildings	2 243	(146)	..	..	6	81	..	(3)	2 181
Specialised buildings	17 880	(681)	(13)	92	47	1 273	868	585	20 051
Heritage buildings	1 218	(36)	..	1	..	19	40	(355)	888
<b>Land and national parks</b>	<b>36 327</b>	<b>..</b>	<b>..</b>	<b>5</b>	<b>2 919</b>	<b>(154)</b>	<b>357</b>	<b>(6)</b>	<b>39 447</b>
Non-specialised land	1 829	..	..	..	79	17	(11)	(20)	1 893
Specialised land	16 920	..	..	5	996	(217)	383	604	18 691
Land under roads	15 893	..	..	..	1 844	46	..	19	17 801
National parks and other 'land only' holdings	1 685	..	..	..	..	..	(15)	(608)	1 062
<b>Plant, equipment, vehicles and infrastructure systems<sup>(a)</sup></b>	<b>2 755</b>	<b>(478)</b>	<b>(2)</b>	<b>81</b>	<b>35</b>	<b>218</b>	<b>51</b>	<b>463</b>	<b>3 123</b>
Infrastructure systems	1 125	(12)	..	..	34	10	..	(64)	1 094
Plant, equipment and vehicles <sup>(a)</sup>	1 630	(466)	(2)	81	1	208	51	527	2 029
<b>Roads, road infrastructure and earthworks</b>	<b>28 207</b>	<b>(532)</b>	<b>..</b>	<b>5</b>	<b>(504)</b>	<b>(170)</b>	<b>376</b>	<b>(584)</b>	<b>26 798</b>
<b>Cultural assets</b>	<b>2 146</b>	<b>(17)</b>	<b>..</b>	<b>11</b>	<b>2</b>	<b>(15)</b>	<b>(1)</b>	<b>(3)</b>	<b>2 122</b>
<b>Total<sup>(a)</sup></b>	<b>90 776</b>	<b>(1 890)</b>	<b>(15)</b>	<b>196</b>	<b>2 505</b>	<b>1 252</b>	<b>1 691</b>	<b>96</b>	<b>94 610</b>

Note:

(a) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.

## 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

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

---

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

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

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

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

## Fair value disclosure for assets held primarily for service potential

<i>Asset class</i>	<i>Valuation technique</i>	<i>Significant unobservable input</i>
<b>Buildings</b>		
Non-specialised buildings	Depreciated replacement cost	Direct cost per square metre Useful life
Specialised buildings	Depreciated replacement cost	Direct cost per square metre Useful life
Heritage buildings	Depreciated replacement cost	Community service obligation (CSO) adjustment (a) Direct cost per square metre Useful life
<b>Land and national parks</b>		
Non-specialised land	Market approach	CSO adjustment <sup>(a)</sup>
Specialised land	Market approach	CSO adjustment <sup>(a)</sup>
Land under roads	Market approach	CSO adjustment <sup>(a)</sup> Direct cost per hectare
National parks	Market approach	CSO adjustment <sup>(a)</sup>
<b>Plant, equipment, vehicles and infrastructure systems</b>		
Infrastructure systems and rolling stock	Depreciated replacement cost	Cost: per square metre per unit per asset Useful life Qualitative attractiveness <sup>(b)</sup>
Plant, equipment and vehicles	Depreciated replacement cost	Cost per unit Useful life
<b>Roads and roads infrastructure</b>		
Roads and roads infrastructure	Depreciated replacement cost	Cost: per square metre per kilometre lane per unit Useful life
Earthworks	Depreciated replacement cost	Cost per kilometre
<b>Cultural assets</b>		
Cultural assets	Depreciated replacement cost	Useful life per item Direct cost per unit Sales/auction value per item

## Notes:

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

## 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

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

<i>Asset class</i>	<i>Valuation technique</i>	<i>Significant unobservable input</i>	<i>Range</i>
<b>Buildings</b>			
Metropolitan water corporations	Depreciated replacement cost	Useful life Direct cost per square metre	25–150 years \$25 to \$4 200
<b>Land</b>			
Metropolitan water corporations	Market approach	CSO adjustment <sup>(a)</sup>	20–70%
<b>Channels</b>			
Ports	Discounted cash flow method (income approach)	Discount rates <sup>(b)</sup>	8.60%
<b>Infrastructure</b>			
Ports	Depreciated replacement cost	Cost per unit	\$33 700 to \$4 831 000
Metropolitan water corporations	Discounted cash flow method (income approach)	Discount rates <sup>(b)</sup>	5.6–6.20%
		Inflation rate <sup>(b)</sup>	2.5–3.25%
		Terminal value growth rate	2.50%
		Useful life	3–200 years
<b>Plant, equipment and vehicles</b>			
Plant, equipment and vehicles	Depreciated replacement cost	Useful life Cost per unit	1–41 years \$3 600 to \$134 300

*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.*

#### Port of Melbourne non-financial assets

On 19 September 2016, the Victorian Government announced that the Lonsdale consortium was the successful bidder for the Port Package, as outlined in Note 9.5: *Subsequent events*.

As at 30 June 2016, the Port assets (land, channels, other infrastructure and property, plant and equipment) have been revalued to reflect the expected lease transaction price.

The valuation approach is based on market driven data where possible, including management assumptions around future cash flows at the end of the lease period of the Port of Melbourne.

Given the relevant assets of the Port are being offered to Lonsdale Consortium for a fixed period of 50 years and the handback provisions in the Port

Concession Deed require the consortium to maintain the land, infrastructure and channel assets in their functional form at the time of the expiration of the lease, a residual value (in addition to the expected transaction price) has been calculated by independent advisers and is included in the total fair value of the Port's non-financial assets at 30 June 2016.

The new valuation inputs have resulted in a change in the fair value hierarchy for the land assets, from level 3 to level 2.

See the table above for the fair value disclosures relating to the non-financial asset valuations attributable to the level 3 hierarchy.

## 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### 7.5.2 Fair value measurement of non-financial assets held for sale

#### Carry amounts, fair values and fair value hierarchy

(\$ million)

<i>State of Victoria</i>	<i>Carrying amount</i>	<i>Fair value measurement at the end of the 2016 reporting period using:</i>			<i>Carrying amount</i>	<i>Fair value measurement at the end of the 2015 reporting period using:</i>		
		<i>2016</i>	<i>Level 1</i>	<i>Level 2</i>		<i>Level 3</i>	<i>2015</i>	<i>Level 1</i>
Land	173	..	54	118	191	..	57	134
Other	27	..	7	20	15	..	12	3
<b>Closing balance</b>	<b>200</b>	<b>..</b>	<b>61</b>	<b>138</b>	<b>205</b>	<b>..</b>	<b>69</b>	<b>136</b>

<i>General government sector</i>								
Land	163	..	47	116	165	..	32	134
Other	25	..	5	20	10	..	8	3
<b>Closing balance</b>	<b>188</b>	<b>..</b>	<b>52</b>	<b>136</b>	<b>175</b>	<b>..</b>	<b>39</b>	<b>136</b>

## 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### Description of the valuation techniques and unobservable inputs to level 3 in the fair value

The description of the significant unobservable inputs to Level 3 assets measured at fair value can be seen below. The disclosure is based on the description associated with the significant asset balances within each of the different Level 3 asset classes as per non-financial assets held for sale fair value hierarchy table in this note. These assets are measured at the end of the reporting period using inputs not based on observable market data. The sensitivity of the unobservable input to fair value has been assessed and a significant increase or decrease in the significant unobservable input will result in significant higher or lower valuation of the underlying asset.

Asset class	Valuation technique	Significant unobservable input
Land	Market approach	CSO adjustment <sup>(a)</sup> Discount rate
Buildings	Depreciated replacement cost	Cost per square metre

Note:

(a) The community service obligation (CSO) adjustment reflects the specialised nature of the asset being valued through the 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.

### 7.5.3 Fair value measurement of other non-financial assets

#### Carry amounts, fair values and fair value hierarchy

(\$ million)

State of Victoria	Carrying amount	Fair value measurement at the end of the 2016 reporting period using:			Carrying amount	Fair value measurement at the end of the 2015 reporting period using:				
		2016	Level 1	Level 2		Level 3	2015	Level 1	Level 2	Level 3
		Investment properties	158	..		158	..	76	..	70
Biological assets	61	..	13	48	64	..	15	49		
<b>Total investment properties and biological assets</b>	<b>219</b>	<b>..</b>	<b>171</b>	<b>48</b>	<b>139</b>	<b>..</b>	<b>85</b>	<b>54</b>		

General government sector								
	Carrying amount	Fair value measurement at the end of the 2016 reporting period using:			Carrying amount	Fair value measurement at the end of the 2015 reporting period using:		
		2016	Level 1	Level 2		Level 3	2015	Level 1
Investment properties	151	..	151	..	69	..	64	5
Biological assets	2	..	..	2	4	..	4	..
<b>Total investment properties and biological assets</b>	<b>153</b>	<b>..</b>	<b>151</b>	<b>2</b>	<b>73</b>	<b>..</b>	<b>68</b>	<b>5</b>

#### Reconciliation of Level 3 fair value movements

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
Opening balance	54	68	5	68
Assets reclassified/(sales)	..	(62)	..	(62)
Transfers in (out) of Level 3	(2)	49	(1)	..
Revaluation	(3)	..	..	..
Reclassification	(2)	(1)	(2)	..
<b>Closing balance</b>	<b>48</b>	<b>54</b>	<b>2</b>	<b>5</b>



**Description of significant unobservable inputs to Level 3 valuations**

The description of the significant unobservable inputs to Level 3 assets measured at fair value can be seen below. The disclosure is based on the description associated with the significant asset balances within each of the different Level 3 asset classes as per other non-financial assets fair value hierarchy table in this note. These assets are measured at the end of the reporting period using inputs not based on observable market data. The sensitivity of the unobservable input to fair value has been assessed and a significant increase or decrease in the significant unobservable input will result in significant higher or lower valuation of the underlying asset.

<i>Asset class</i>	<i>Valuation technique</i>	<i>Significant unobservable input</i>
Biological assets	Market approach	CSO adjustment <sup>(a)</sup>

Note:

(a) *The community service obligation (CSO) adjustment reflects the specialised nature of the asset being valued through the 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.*

## 8 COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

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### Introduction

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

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

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### Structure

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### 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 2015-16 Budget Paper No. 5 *Statement of Finances* and actual outcomes.

The tables also include the revised budget estimates as published in *Appendix B* of 2016-17 Budget Paper No. 5 *Statement of Finances*.

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

For the general government sector comprehensive operating statement, variances are considered to be material where the variance exceeds the greater of 10 per cent of the original budget estimates or \$15 million. In regard to the other statements, high level explanations of major variances in the key aggregates, where material, have been provided.

## 8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

### Consolidated comprehensive operating statement for the financial year ending 30 June

(\$ million)

<i>General government sector</i>								
Notes	Published budget	Revised budget	2016 actual	Budget variance	%	Revised budget variance	%	
<b>Revenue from transactions</b>								
Taxation revenue	(a)	19 024	20 079	19 896	871	5	(183)	(1)
Interest revenue	(b)	831	795	786	(45)	(5)	(8)	(1)
Dividends and income tax equivalent and rate equivalent revenue	(c)	1 144	762	848	(296)	(26)	86	11
Sales of goods and services	(d)	6 779	6 643	6 671	(108)	(2)	29	..
Grant revenue	(e)	25 579	25 364	25 406	(173)	(1)	43	..
Other revenue	(f)	2 171	2 828	3 108	937	43	280	10
<b>Total revenue from transactions</b>		<b>55 529</b>	<b>56 470</b>	<b>56 716</b>	<b>1 187</b>	<b>2</b>	<b>246</b>	<b>..</b>
<b>Expenses from transactions</b>								
Employee expenses	(g)	19 903	20 057	20 002	99	..	(55)	..
Net superannuation interest expense		886	878	878	(8)	(1)	..	..
Other superannuation	(h)	2 102	2 130	2 123	21	1	(7)	..
Depreciation	(i)	2 577	2 506	2 504	(73)	(3)	(2)	..
Interest expense	(j)	2 096	2 134	2 076	(20)	(1)	(58)	(3)
Grant expense	(k)	8 687	8 547	8 564	(123)	(1)	17	..
Other operating expenses	(l)	18 058	18 331	17 905	(153)	(1)	(426)	(2)
<b>Total expenses from transactions</b>		<b>54 310</b>	<b>54 582</b>	<b>54 052</b>	<b>(258)</b>	<b>..</b>	<b>(530)</b>	<b>(1)</b>
<b>Net result from transactions – net operating balance</b>		<b>1 219</b>	<b>1 888</b>	<b>2 664</b>	<b>1 445</b>	<b>119</b>	<b>776</b>	<b>41</b>
<b>Other economic flows included in net result</b>								
Net gain/(loss) on disposal of non-financial assets		64	55	(145)	(208)	n.a.	(200)	n.a.
Net gain/(loss) on financial assets or liabilities at fair value		5 402	(2)	(10)	(5 412)	n.a.	(8)	n.a.
Share of net profit/(loss) from associates/joint venture entities, excluding dividends		..	..	(4)	(4)	n.a.	(4)	n.a.
Other gains/(losses) from other economic flows		(318)	(304)	(688)	(369)	n.a.	(384)	n.a.
<b>Total other economic flows included in net result</b>		<b>5 147</b>	<b>(250)</b>	<b>(847)</b>	<b>(5 994)</b>	<b>n.a.</b>	<b>(596)</b>	<b>n.a.</b>
<b>Net result</b>		<b>6 366</b>	<b>1 638</b>	<b>1 817</b>	<b>(4 549)</b>	<b>n.a.</b>	<b>180</b>	<b>n.a.</b>
<b>Other economic flows – other comprehensive income</b>								
<b>Items that will not be reclassified to net result</b>								
Changes in non-financial assets revaluation surplus		756	472	6 236	5 480	n.a.	5 764	n.a.
Remeasurement of superannuation defined benefits plans		962	(1 791)	(3 220)	(4 183)	n.a.	(1 429)	n.a.
Other movements in equity		6	34	23	17	n.a.	(11)	n.a.
<b>Items that may be reclassified subsequently to net result</b>								
Net gain/(loss) on financial assets at fair value		1	1	(85)	(86)	n.a.	(86)	n.a.
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets		1	1 471	10 533	10 531	n.a.	9 062	n.a.
<b>Total other economic flows – other comprehensive income</b>		<b>1 727</b>	<b>187</b>	<b>13 486</b>	<b>11 760</b>	<b>n.a.</b>	<b>13 300</b>	<b>n.a.</b>
<b>Comprehensive result – total change in net worth</b>		<b>8 093</b>	<b>1 824</b>	<b>15 303</b>	<b>7 211</b>	<b>n.a.</b>	<b>13 479</b>	<b>n.a.</b>

## 8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

### Revenue from transactions

Revenue from transactions was \$56.7 billion for the year to 30 June 2016. This was 2 per cent higher than estimated in the original budget. The movements in revenue items from the original budget are discussed below.

- a) Taxation revenue was \$871 million (5 per cent) higher than the original published estimate, largely from higher land transfer duty revenue of \$811 million due to the continued strength in the Melbourne property market.
- b) Interest revenue was \$45 million lower than original budget, mainly reflecting lower than expected returns on funds held.
- c) Dividends, income tax and rate equivalent revenue was \$296 million lower than originally budgeted. This was largely due to lower dividends revenue from Transport Accident Commission.
- d) Revenue from sales of good and services was \$108 million lower than original budget, primarily reflecting lower than budgeted provision of services revenue of \$170 million for health and hospital services. The lower than expected outcome was partially offset by higher than expected land title fee receipts of \$68 million due to a stronger than expected property market.
- e) Grant revenue was \$173 million lower than originally budgeted. This was due to a \$300 million reduction in capital grants received from the Commonwealth for road and rail infrastructure investments. Also contributing to the variance is lower than expected Commonwealth grants of \$198 million on-passed to local government. This was due to the advance payment of 2015-16 grants in the 2014-15 year. In aggregate, the reduction in grants revenue was offset by an increase in current grants received from the Commonwealth in relation to health and hospital services; including the pharmaceutical benefit scheme and higher hospital activity.

- f) Other revenue was \$937 million (43 per cent) higher than original budget. Major variations relate to the following:

- one-off revenue of \$541 million plus interest associated with the High Court of Australia's decision in favour of the State in the Tattersalls' 'Gambling Licences' proceedings;
- the recognition of assets received free of charge of \$35 million, largely from roads provided to VicRoads from local council; and
- higher than expected miscellaneous income received from health and hospital services of \$161 million. Miscellaneous income in health and hospital services is largely from own source revenue.

### Expenses from transactions

Expenses from transactions was \$54 billion for the year to 30 June 2016. This was marginally lower than the original budget. The main movements are outlined below.

- g) Employee expenses were \$99 million higher than originally estimated. This was due to higher actual salaries in hospitals to meet higher than expected demand, offset by departmental underspends compared to the original budget.
- h) Other superannuation expenses were \$21 million higher than the original budget. This is due to increases in employer contributions to superannuation in line with increased employee expenses. This increase was partially offset by defined benefit service costs being lower than the original budget due to a higher bond yield rates associated with reductions in interest rates.
- i) The decrease in depreciation expense of \$73 million compared to the original budget largely reflects lower depreciation expense for roads and roads infrastructure following a revaluation of road assets during the 2014-15 financial year.
- j) Interest expense was \$20 million lower than original budget, mainly associated with a decrease in interest rates since the published budget.

- k) Grant expense was \$123 million lower than original budget, mainly from lower than expected Commonwealth grants to local government. The reduction of Commonwealth grants on-passed to local government was due to the advance payment of 2015-16 grants in the 2014-15 year.
- l) Other operating expenses were \$153 million lower than the original budget. This was primarily due to unexpected underspend across departments. The lower than expected outcome was partially offset by the government's decision to forgive the outstanding balance of the loan to the Director of Housing. This decision was made to simplify the financial arrangements between the Director of Housing and the Treasurer.

### **Other economic flows included in net result**

Total other economic flows included in the net result have decreased by \$6.0 billion compared to estimates in the original budget. This decrease primarily arises as a result of the revised timing from entering into a medium-term lease over the operations of the Port of Melbourne from 2015-16 to 2016-17.

## 8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

Consolidated balance sheet as at 30 June

(\$ million)

<i>General government sector</i>							
	<i>Published budget</i>	<i>Revised budget</i>	<i>2016 actual</i>	<i>Budget variance</i>	<i>%</i>	<i>Revised budget variance</i>	<i>%</i>
<b>Assets</b>							
<b>Financial assets</b>							
Cash and deposits	5 110	4 338	4 772	(338)	(7)	434	10
Advances paid	4 521	4 521	4 582	62	1	61	1
Receivables	4 858	5 157	5 566	708	15	409	8
Investments, loans and placements	3 146	3 552	2 853	(293)	(9)	(698)	(20)
Investments accounted for using the equity method	44	45	46	2	5	2	4
Investments in other sector entities	80 697	85 347	94 710	14 013	17	9 364	11
<b>Total financial assets</b>	<b>98 376</b>	<b>102 958</b>	<b>112 531</b>	<b>14 154</b>	<b>14</b>	<b>9 572</b>	<b>9</b>
<b>Non-financial assets</b>							
Inventories	158	148	188	29	19	40	27
Non-financial assets held-for-sale	128	162	188	60	46	26	16
Land, buildings, infrastructure, plant and equipment	111 781	108 600	114 254	2 474	2	5 654	5
Other non-financial assets	1 147	1 024	1 081	(67)	(6)	56	5
<b>Total non-financial assets</b>	<b>113 215</b>	<b>109 935</b>	<b>115 711</b>	<b>2 496</b>	<b>2</b>	<b>5 776</b>	<b>5</b>
<b>Total assets</b>	<b>211 591</b>	<b>212 893</b>	<b>228 242</b>	<b>16 650</b>	<b>8</b>	<b>15 349</b>	<b>7</b>
<b>Liabilities</b>							
Deposits held and advances received	426	518	706	280	66	188	36
Payables	5 594	5 267	5 773	179	3	506	10
Borrowings	29 249	34 386	33 811	4 562	16	(575)	(2)
Employee benefits	5 767	5 860	6 137	370	6	278	5
Superannuation	29 809	27 888	29 291	(518)	(2)	1 403	5
Other provisions	665	891	829	164	25	(62)	(7)
<b>Total liabilities</b>	<b>71 510</b>	<b>74 809</b>	<b>76 547</b>	<b>5 037</b>	<b>7</b>	<b>1 738</b>	<b>2</b>
<b>Net assets</b>	<b>140 082</b>	<b>138 084</b>	<b>151 695</b>	<b>11 613</b>	<b>8</b>	<b>13 610</b>	<b>10</b>
Accumulated surplus/(deficit)	47 152	45 682	44 454	(2 698)	(6)	(1 229)	(3)
Reserves	92 880	92 402	107 191	14 311	15	14 789	16
Non-controlling interest	50	..	50	..	..	50	
<b>Net worth</b>	<b>140 082</b>	<b>138 084</b>	<b>151 695</b>	<b>11 613</b>	<b>8</b>	<b>13 610</b>	<b>10</b>
<b>FISCAL AGGREGATES</b>							
Net financial worth	26 867	28 150	35 984	9 117	34	7 834	28
Net financial liabilities	53 831	57 197	58 727	4 896	9	1 530	3
Net debt	16 898	22 493	22 309	5 411	32	(185)	(1)

### Net financial worth

Net financial worth is total financial assets less total liabilities. Net financial worth was \$9.1 billion (34 per cent) higher than the original budget. This was due to higher financial assets of \$14.2 billion partially offset with higher liabilities of \$5 billion when compared to the original budget.

The increase in total financial assets was due to higher investments in the public non-financial corporations (PNFC) sector. This was primarily a result of the revised timing from entering into a medium-term lease over the operations of the Port of Melbourne from 2015-16 to 2016-17.

Also contributing to higher than expected investments in the PNFC sector include:

- the revaluation of Port of Melbourne Corporation's non-financial assets to reflect the expected lease transaction price;
- the revaluation of the Director of Housing and the Water Corporations non-financial assets, in line with the relevant financial reporting requirements; and
- an increase in rail infrastructure investment, mainly the Level Crossing Removal Program.

The increase in total liabilities was largely attributed to higher borrowings balance due to lower than originally budgeted debt retirement associated with the revised timing from entering into a medium-term lease over the operations of the Port of Melbourne from 2015-16 to 2016-17.

### Net financial liabilities

Net financial liabilities are total liabilities less all financial assets (excluding investments in other sectors). Net financial liabilities were \$5.0 billion higher than original budget. The drivers for the variance are consistent with the explanation in net financial worth.

### Net debt

Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowings less the sum of cash and deposits, advances paid and investments, loans and placements. Net debt is \$5.4 billion higher when compared to the original budget. This is primarily due to lower than originally budgeted debt retirement associated with the revised timing from entering into a medium-term lease over the operations of the Port of Melbourne from 2015-16 to 2016-17.

## 8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

### Consolidated cash flow statement for the year ended 30 June

(\$ million)

<i>General government sector</i>							
	<i>Published budget</i>	<i>Revised budget</i>	<i>2016 actual</i>	<i>Budget variance</i>	<i>%</i>	<i>Revised budget variance</i>	<i>%</i>
<b>Cash flows from operating activities</b>							
<b>Receipts</b>							
Taxes received	19 007	20 020	19 775	768	4	(245)	(1)
Grants	25 668	25 414	25 375	(293)	(1)	(39)	..
Sales of goods and services	7 531	7 372	7 253	(278)	(4)	(119)	(2)
Interest received	812	794	786	(25)	(3)	(8)	(1)
Dividends and income tax equivalent and rate equivalent receipts	1 143	761	802	(342)	(30)	40	5
Other receipts	1 741	2 365	2 436	695	40	72	3
<b>Total receipts</b>	<b>55 904</b>	<b>56 728</b>	<b>56 428</b>	<b>524</b>	<b>1</b>	<b>(300)</b>	<b>(1)</b>
<b>Payments</b>							
Payments for employees	(19 657)	(19 795)	(19 621)	36	..	174	(1)
Superannuation	(2 969)	(2 858)	(2 877)	92	(3)	(19)	1
Interest paid	(2 059)	(2 096)	(2 040)	18	(1)	56	(3)
Grants and subsidies	(8 748)	(8 674)	(8 538)	210	(2)	137	(2)
Goods and services	(18 056)	(17 865)	(17 257)	798	(4)	608	(3)
Other payments	(661)	(665)	(736)	(75)	11	(70)	11
<b>Total payments</b>	<b>(52 149)</b>	<b>(51 954)</b>	<b>(51 069)</b>	<b>1 080</b>	<b>(2)</b>	<b>885</b>	<b>(2)</b>
<b>Net cash flows from operating activities</b>	<b>3 755</b>	<b>4 773</b>	<b>5 359</b>	<b>1 604</b>	<b>43</b>	<b>586</b>	<b>12</b>
<b>Cash flows from investing activities</b>							
Purchase of non-financial assets	(4 552)	(4 065)	(4 420)	132	(3)	(354)	9
Sales of non-financial assets	322	174	190	(132)	(41)	16	9
Net cash flows from investments in non-financial assets	(4 230)	(3 891)	(4 230)	..	..	(339)	9
Net cash flows from investments in financial assets for policy purposes	6 511	54	93	(6 418)	(99)	38	70
<b>Subtotal</b>	<b>2 281</b>	<b>(3 837)</b>	<b>(4 137)</b>	<b>(6 418)</b>	<b>(281)</b>	<b>(300)</b>	<b>8</b>
Net cash flows from investment in financial assets for liquidity management purposes	(83)	(136)	535	618	(748)	671	(495)
<b>Net cash flows from investing activities</b>	<b>2 199</b>	<b>(3 972)</b>	<b>(3 602)</b>	<b>(5 800)</b>	<b>(264)</b>	<b>371</b>	<b>(9)</b>
<b>Cash flows from financing activities</b>							
Net borrowings	(5 756)	(745)	(1 332)	4 423	(77)	(588)	79
Deposits received (net)	..	..	65	65	n.a.	65	n.a.
<b>Net cash flows from financing activities</b>	<b>(5 756)</b>	<b>(745)</b>	<b>(1 267)</b>	<b>4 489</b>	<b>(78)</b>	<b>(522)</b>	<b>70</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>198</b>	<b>56</b>	<b>490</b>	<b>293</b>	<b>148</b>	<b>434</b>	<b>775</b>
Cash and cash equivalents at beginning of reporting period	4 913	4 282	4 282	(631)	(13)	..	..
<b>Cash and cash equivalents at end of reporting period</b>	<b>5 110</b>	<b>4 338</b>	<b>4 772</b>	<b>(338)</b>	<b>(7)</b>	<b>434</b>	<b>10</b>

#### Net cash flows from operating activities

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

In summary, cash flows from operating activities were \$1.6 billion (43 per cent) higher than original published budget. This can largely be explained by the variances contributing to the higher net result from transactions of \$1.4 billion relative to published budget.



### Net cash flows from investing activities

Total net investment activities in fixed assets and investments in other sectors was \$6.4 billion lower than the original budget. This decrease is primarily due to the revised timing from entering into a medium-term lease over the operations of the Port of Melbourne from 2015-16 to 2016-17.

### Net cash flows from financing activities

Total net cash outflows from financing activities were \$4.5 billion lower than the original budget. This is primarily due to lower than originally budgeted debt retirement associated with the revised timing from entering into a medium-term lease over the operations of the Port of Melbourne from 2015-16 to 2016-17.

### Consolidated statement of changes in equity

The major variations between actual outcomes and the original published budget for the statement of changes in equity are largely addressed in the explanations provided previously. The increase in other sectors revaluation was due to higher than originally budgeted investments in the PNFC sector. This was primarily a result of the revised timing from entering into a medium-term lease over the operations of the Port of Melbourne from 2015-16 to 2016-17.

Also contributing to higher than expected investments in the PNFC sector include:

- the revaluation of Port of Melbourne Corporation's non-financial assets to reflect the expected lease transaction price;
- the revaluation of the Director of Housing and the Water Corporations non-financial assets, in line with the relevant financial reporting requirements; and
- an increase in rail infrastructure investment, mainly the Level Crossing Removal Program.

## Consolidated statement of changes in equity

(\$ million)

<i>General government sector</i>	<i>Accumulated surplus/(deficit)</i>	<i>Non-controlling interest</i>	<i>Non-financial assets revaluation surplus <sup>(a)</sup></i>	<i>Investment in other sector entities revaluation surplus</i>	<i>Other reserves</i>	<i>Total</i>
<b>2015-16 published budget</b>						
Balance at 1 July 2015	39 829	50	46 843	44 625	641	131 989
Net result for the year	6 366	..	..	..	..	6 366
Other comprehensive income for the year	957	..	756	1	12	1 727
Transfer to/(from) accumulated surplus	..	..	..	..	..	..
<b>Total equity at end of period</b>	<b>47 152</b>	<b>50</b>	<b>47 599</b>	<b>44 627</b>	<b>653</b>	<b>140 082</b>
<b>2015-16 revised budget</b>						
Balance at 1 July 2015	45 764	50	43 355	46 413	728	136 310
Net result for the year	1 638	..	..	..	..	1 638
Other comprehensive income for the year	(1 719)	..	471	1 471	(36)	187
Transfer to/(from) accumulated surplus	(1)	..	1	..	..	..
Transactions with owners in their capacity as owners	..	(50)	..	..	..	(50)
<b>Total equity at end of period</b>	<b>45 682</b>	<b>..</b>	<b>43 826</b>	<b>47 884</b>	<b>692</b>	<b>138 084</b>
<b>2015-16 actual</b>						
Balance at 1 July 2015 <sup>(b)(c)</sup>	45 764	50	43 355	46 494	728	136 391
Net result for the year	1 817	..	..	..	..	1 817
Other comprehensive income for the year	(3 106)	..	6 236	10 533	(177)	13 486
Transfer to/(from) accumulated surplus	(22)	..	22	..	..	..
Transactions with owners in their capacity as owners	..	..	..	..	..	..
<b>Total equity as at 30 June 2016</b>	<b>44 454</b>	<b>50</b>	<b>49 613</b>	<b>57 027</b>	<b>551</b>	<b>151 695</b>
<b>Variance to published budget</b>						
Balance at 1 July 2015	5 935	..	(3 489)	1 869	87	4 402
Net result for the year	(4 549)	..	..	..	..	(4 549)
Other comprehensive income for the year	(4 063)	..	5 480	10 531	(189)	11 760
Transfer to/(from) accumulated surplus	(22)	..	22	..	..	..
<b>Total equity at end of the year</b>	<b>(2 698)</b>	<b>..</b>	<b>2 014</b>	<b>12 400</b>	<b>(102)</b>	<b>11 613</b>
<b>Variance to revised budget</b>						
Balance at 1 July 2015	..	..	..	81	..	81
Net result for the year	180	..	..	..	..	180
Other comprehensive income for the year	(1 387)	..	5 765	9 062	(140)	13 300
Transfer to/(from) accumulated surplus	(21)	..	22	..	..	..
Transactions with owners in their capacity as owners	..	50	..	..	..	50
<b>Total equity at end of the year</b>	<b>(1 229)</b>	<b>50</b>	<b>5 787</b>	<b>9 143</b>	<b>(140)</b>	<b>13 610</b>

## Notes:

(a) Non-financial assets revaluation surplus relates to revaluation of land, buildings, infrastructure, plant and equipment.

(b) 1 July 2015 opening balances have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.

(c) 1 July 2015 opening balances have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.

## 8.2 Public Account disclosures

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

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

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

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

### Consolidated Fund

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

### Trust Fund

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

### Structure of Public Account disclosure

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## 8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

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

(\$ thousand)

	Notes	2016	2015
<b>Receipts</b>			
Taxation		20 060 946	18 657 330
Fines and regulatory fees		829 655	835 262
Grants received <sup>(a)</sup>		16 924 616	15 897 920
Sales of goods and services		5 775 563	5 446 707
Interest received		501 351	517 718
Dividends and income tax equivalent and rate equivalent receipts		798 983	1 004 217
Other receipts		1 004 668	422 732
<b>Total cash inflows from operating activities <sup>(a)</sup></b>		<b>45 895 781</b>	<b>42 781 885</b>
<b>Total cash inflows from investing and financing activities <sup>(a)</sup></b>		<b>584 824</b>	<b>1 387 815</b>
<b>Total consolidated fund receipts <sup>(a)</sup></b>	8.2.2	<b>46 480 605</b>	<b>44 169 700</b>
<b>Payments</b>			
<b>Special appropriations</b>			
Special appropriations (excluding Section 33, <i>Financial Management Act, No. 18 of 1994</i> )		3 886 531	3 005 907
Section 28 <i>Financial Management Act, No. 18 of 1994 (Appropriation for borrowing against future appropriations)</i>	8.2.10	..	..
Section 33 <i>Financial Management Act, No. 18 of 1994 <sup>(a)</sup></i>		359 183	175 679
<b>Total special appropriations <sup>(a)</sup></b>	8.2.7	<b>4 245 714</b>	<b>3 181 586</b>
<b>Annual appropriations</b>			
<b>Provision of outputs</b>			
Provision of outputs – net application	8.2.8	34 852 019	33 502 578
Section 29 <i>Financial Management Act, No. 18 of 1994 (appropriation of annotated receipts)</i>	8.2.12	2 118 374	2 060 871
Section 32 <i>Financial Management Act, No. 18 of 1994 (prior year unspent appropriations brought forward)</i>	8.2.13	808 281	756 702
Section 35 <i>Financial Management Act, No. 18 of 1994 (temporary advances)</i>	8.2.15	27 973	10 837
Advance to Treasurer to be sanctioned	8.2.14	596 422	291 490
<b>Total provision of outputs</b>		<b>38 403 070</b>	<b>36 622 478</b>
<b>Additions to net asset base</b>			
Additions to net asset base – net application	8.2.8	1 669 334	1 825 471
Section 29 <i>Financial Management Act, No. 18 of 1994 (appropriation of annotated receipts)</i>	8.2.12	125 268	459 364
Section 32 <i>Financial Management Act, No. 18 of 1994 (prior year unspent appropriations brought forward)</i>	8.2.13	192 926	661 571
Section 35 <i>Financial Management Act, No. 18 of 1994 (temporary advances)</i>	8.2.15	156 562	..
Advance to Treasurer to be sanctioned	8.2.14	296 394	34 012
<b>Total additions to net asset base</b>		<b>2 440 485</b>	<b>2 980 418</b>
<b>Payments made on behalf of the State</b>			
Payments made on behalf of the State	8.2.8	2 444 003	2 442 402
Section 32 <i>Financial Management Act, No. 18 of 1994 (prior year unspent appropriations brought forward)</i>	8.2.13	11 991	6 545
Section 35 <i>Financial Management Act, No. 18 of 1994 (temporary advances)</i>	8.2.15	..	..
Advance to Treasurer to be sanctioned	8.2.14	..	..
<b>Total payments made on behalf of State</b>		<b>2 455 994</b>	<b>2 448 946</b>
<b>Other</b>			
Contribution by the State under agreements pursuant to Section 25 of the <i>Murray-Darling Basin Act 1993</i>		14 856	18 000
Section 32 <i>Financial Management Act, No. 18 of 1994 – Section 25 of the Murray-Darling Basin Act 1993</i>		8 712	..
Victorian Law Reform Commission - pursuant to Section 17(b) of the <i>Victorian Law Reform Commission Act 2000</i>		706	720
Payment to Regional Growth Fund pursuant to Section 4 of the <i>Regional Growth Fund Act No. 8 of 2011</i>		125 000	121 377
<b>Total other</b>		<b>149 274</b>	<b>140 097</b>

## 8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

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

*(continued)*

(\$ thousand)

	<i>Notes</i>	<i>2016</i>	<i>2015</i>
<b>Total annual appropriations</b>		43 448 823	42 191 940
Applied appropriations remaining unspent relating to the 2015-16 appropriations <sup>(a)</sup>		(1 095 338)	(1 395 354)
<b>Total payments <sup>(a)</sup></b>		<b>46 599 199</b>	<b>43 978 173</b>
<b>Consolidated fund balance 1 July</b>		<b>639 110</b>	<b>447 582</b>
<b>Add total receipts for year <sup>(a)</sup></b>		<b>46 480 605</b>	<b>44 169 700</b>
<b>Less total payments for year <sup>(a)</sup></b>		<b>(46 599 199)</b>	<b>(43 978 173)</b>
<b>Consolidated fund balance 30 June <sup>(a)</sup></b>		<b>520 516</b>	<b>639 110</b>
<i>Reconciliation of unspent appropriations:</i>			
Applied appropriations unspent at end of year <sup>(a)</sup>		7 042 300	6 306 145
add payments made during the year under the Financial Management Act, No. 18 of 1994, Section 33 <sup>(a)</sup>		359 183	175 679
<b>Subtotal <sup>(a)</sup></b>		<b>7 401 483</b>	<b>6 481 824</b>
less applied appropriations unspent at beginning of year		(6 306 145)	(5 086 470)
Current year appropriations remaining unspent as at 30 June <sup>(a)</sup>		1 095 338	1 395 354

Note:

(a) June 2015 comparative figures have been restated to reflect more current information.

## 8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

### 8.2.2 Consolidated fund receipts for the financial year ended 30 June

(\$ thousand)

	Estimate 2016	Actual 2016	Actual 2015
<b>Operating activities</b>			
<b>Taxation</b>			
Payroll tax	5 984 518	5 948 733	5 681 309
Land tax	1 769 720	1 786 066	1 737 950
Fire Services Property Levy	627 904	674 063	588 478
Congestion levy	120 234	102 053	110 603
<b>Duties from financial and capital transactions</b>			
Land transfer duty	5 195 757	5 873 586	4 986 897
Other property duties	1 829	1 831	2 825
Financial accommodation levy	151 367	146 742	104 512
Growth areas infrastructure contribution	75 305	87 170	40 373
Levies on statutory corporations	111 963	111 963	111 946
<b>Gambling</b>			
Public lotteries	475 171	455 144	422 574
Electronic gaming machines	893 322	884 378	785 162
Casino taxes	240 297	227 005	175 981
Racing	48 600	42 759	45 641
Other gambling <sup>(a)</sup>	110 210	89 799	362 432
Insurance	1 156 247	1 151 337	1 085 533
<b>Motor vehicle</b>			
Registration fees pursuant to the <i>Road Safety Act, No. 127 of 1986</i>	1 468 561	1 464 912	1 405 080
Stamp duty on vehicle transfers	743 287	779 262	720 118
<b>Franchise fees</b>			
Liquor	21 936	22 026	22 544
<b>Other taxes <sup>(a)</sup></b>	<b>127 288</b>	<b>212 118</b>	<b>267 371</b>
<b>Total taxation</b>	<b>19 323 516</b>	<b>20 060 946</b>	<b>18 657 330</b>
<b>Fines and regulatory fees</b>			
Fines	349 056	297 931	306 547
Regulatory fees	538 171	531 724	528 715
<b>Total fines and regulatory fees</b>	<b>887 227</b>	<b>829 655</b>	<b>835 262</b>
<b>Grants received</b>			
Department of Economic Development, Jobs, Transport and Resources	..	488	..
Department of Environment, Land, Water and Planning	34 373	26 686	36 035
Department of Health and Human Services	39 698	42 080	43 003
Department of Human Services <sup>(b)</sup>	..	..	1 001
Department of Justice and Regulation	3 214	2 408	2 100
Department of Premier and Cabinet	..	4 818	2 727
Department of Treasury and Finance	17 051 030	16 848 135	15 813 053
<b>Total grants received <sup>(b)</sup></b>	<b>17 128 314</b>	<b>16 924 616</b>	<b>15 897 920</b>
<b>Sales of goods and services</b>			
Capital asset charge	4 665 478	4 647 788	4 382 633
Other sales of goods and services	1 055 329	1 127 774	1 064 074
<b>Total sales of goods and services</b>	<b>5 720 807</b>	<b>5 775 563</b>	<b>5 446 707</b>
<b>Interest received</b>	<b>536 242</b>	<b>501 351</b>	<b>517 718</b>
<b>Dividends and income tax equivalent and rate equivalent revenue</b>			
Dividends	835 129	385 540	822 267
Income tax equivalent revenue	286 368	408 921	180 715
Local government tax equivalent revenue	7 516	4 522	1 234
<b>Total dividends and income tax equivalent and rate equivalent revenue</b>	<b>1 129 012</b>	<b>798 983</b>	<b>1 004 217</b>
<b>Other receipts</b>			
Land rent received	18 327	21 296	21 027
Royalties received	50 806	49 184	44 215
Other	237 012	934 188	357 489
<b>Total other receipts</b>	<b>306 146</b>	<b>1 004 668</b>	<b>422 732</b>
<b>Total cash inflows from operating activities <sup>(b)</sup></b>	<b>45 031 265</b>	<b>45 895 781</b>	<b>42 781 885</b>
<b>Total cash inflows from investing and financing activities <sup>(b)</sup></b>	<b>3 166 369</b>	<b>584 824</b>	<b>1 387 815</b>
<b>Total consolidated fund receipts <sup>(b)</sup></b>	<b>48 197 634</b>	<b>46 480 605</b>	<b>44 169 700</b>

Notes:

(a) June 2015 comparative figures have been restated to reclassify casino license fees from 'Other taxes' to 'Other gambling taxes'.

(b) June 2015 comparative figures have been restated to reflect more current information.

## 8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

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

(\$ thousand)

	2016	2015
<b>Cash flows from operating activities</b>		
<b>Receipts</b>		
Taxation	260 612	341 909
Regulatory fees and fines	53 607	56 540
Grants received <sup>(a)</sup>	12 522 509	12 551 197
Sale of goods and services	200 847	365 814
Interest received	99 402	96 642
Dividend received	11 023	10 059
Net transfers from the consolidated fund	7 458 930	8 248 209
Other receipts	164 571	189 662
<b>Payments</b>		
Payments for employees	(153 625)	(148 022)
Superannuation	(13 343)	(13 257)
Interest paid	(4 721)	(5 655)
Grants and subsidies <sup>(a)</sup>	(18 332 824)	(19 146 090)
Goods and services	(1 933 455)	(1 831 764)
Other payments	(18)	(29)
<b>Net cash flows from operating activities</b>	<b>333 515</b>	<b>715 215</b>
<b>Cash flows from investing activities</b>		
Purchase of non-financial assets	(12 030)	(8 275)
Sales of non-financial assets	65 973	80 682
Net proceeds from customer loans	(6 163)	(5 372)
Other investing activities	(195 989)	(129 116)
<b>Net cash flows from investing activities</b>	<b>(148 209)</b>	<b>(62 081)</b>
<b>Cash flows from financing activities</b>		
Net borrowings	(469 464)	318 238
<b>Net cash flows from financing activities</b>	<b>(469 464)</b>	<b>318 238</b>
<b>Net increase/(decrease) in trust fund cash and deposits</b>	<b>(284 158)</b>	<b>971 373</b>

Note:

(a) June 2015 comparative figures have been restated to reflect more current information.

## 8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

### 8.2.4 Trust fund summary for the financial year ended 30 June

(\$ thousand)

	Balances held 2016	Balances held 2015
<b>State Government funds</b>		
Accounts established to receive levies imposed by Parliament and record the expenditure thereof <sup>(a)</sup>	705 608	569 398
Accounts established to receive monies provided in the annual budget and record the expenditure thereof	1 524 848	1 401 157
Specific purpose operating accounts established for various authorities <sup>(a)</sup>	358 204	343 515
Suspense and clearing accounts to facilitate accounting procedures <sup>(a)</sup>	9 230	461 578
Treasury Trust Fund	329 772	278 213
Agency and deposit accounts	641 150	572 499
<b>Total State Government funds <sup>(a)</sup></b>	<b>3 568 811</b>	<b>3 626 360</b>
<b>Joint Commonwealth and State funds <sup>(a)</sup></b>	<b>321 412</b>	<b>399 332</b>
<b>Commonwealth Government funds</b>		
Commonwealth Grants passed on to individuals and organisations	115 306	61 871
<b>Total Commonwealth Government funds</b>	<b>115 306</b>	<b>61 871</b>
<b>Prizes, scholarships, research and private donations <sup>(a)</sup></b>	<b>172 049</b>	<b>196 848</b>
<b>Total trust fund <sup>(a)</sup></b>	<b>4 177 577</b>	<b>4 284 411</b>

Note:

(a) June 2015 comparative figures have been restated to reflect more current information.

### 8.2.5 Reconciliation of cash flows to balances held

(\$ thousand)

	Balances held at 30 June 2015	Net movement for year	Balances held at 30 June 2016
<b>Cash and deposits</b>			
Cash balances outside the Public Account	691	(1 069)	(377)
Deposits held with the Public Account – specific trusts	806 048	(30 181)	775 866
Deposits held with the Public Account – general trusts	13	..	13
Other balances held in the Public Account	3 397 389	(377 986)	3 019 403
<b>Total cash and deposits</b>	<b>4 204 141</b>	<b>(409 236)</b>	<b>3 794 905</b>
<b>Investments</b>			
Investments held with the Public Account – specific trusts <sup>(a)</sup>	719 380	183 807	903 188
<b>Total investments <sup>(a)</sup></b>	<b>719 380</b>	<b>183 807</b>	<b>903 188</b>
<b>Total fund balances</b>	<b>4 923 521</b>	<b>(225 429)</b>	<b>4 698 093</b>
<b>Less funds held outside the Public Account</b>			
Cash	691	(1 069)	(377)
<b>Total fund balances held outside the Public Account</b>	<b>691</b>	<b>(1 069)</b>	<b>(377)</b>
<b>Total funds held in the Public Account <sup>(a)(b)</sup></b>	<b>4 922 830</b>	<b>(224 360)</b>	<b>4 698 470</b>

Notes:

(a) June 2015 comparative 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 on behalf of trust accounts.



## 8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

### 8.2.6 Details of securities held and included in the balances at 30 June<sup>(a)</sup>

(\$ thousand)

	2016	2015
<b>Funds held at 30 June</b>		
<b>Trust accounts</b>		
Amounts invested on behalf of specific trust accounts	1 679 054	1 525 428
Amounts invested on behalf of general trust accounts	13	13
General account balances	2 498 887	2 758 279
<b>Total trust accounts</b>	<b>4 177 954</b>	<b>4 283 720</b>
<b>Consolidated fund account balance</b>	<b>520 516</b>	<b>639 110</b>
<b>Total funds held in the public account</b>	<b>4 698 470</b>	<b>4 922 830</b>
<b>Represented by:</b>		
<b>Stocks and securities held with/in –</b>		
Managed Investments	775 394	617 574
Treasury Corporation of Victoria	903 673	907 867
	<b>1 679 067</b>	<b>1 525 441</b>
<b>Cash and investments held with/in –</b>		
Treasury Corporation of Victoria	1 415 000	1 915 820
Cash at bank balances held in Australia	256 735	171 431
	<b>1 671 735</b>	<b>2 087 251</b>
<b>Total stock, securities, cash and investments</b>	<b>3 350 802</b>	<b>3 612 692</b>
Add cash advanced pursuant to Sections 36 and 37 of the <i>Financial Management Act, No. 18 of 1994</i>	1 347 668	1 310 138
<b>Total funds held in the public account</b>	<b>4 698 470</b>	<b>4 922 830</b>

Note:

(a) June 2015 comparative figures have been restated to reflect more current information.

## 8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

### 8.2.7 Consolidated Fund payments: special appropriations<sup>(a)</sup>

(\$ thousand)

	2016	2015
Economic Development, Jobs, Transport and Resources	155 337	9 123
Education and Training	59 658	173
Environment, Land, Water and Planning	131 700	116 822
Health and Human Services	1 434 529	1 404 504
Justice and Regulation	21 929	98 481
Premier and Cabinet	52 742	39 369
Parliament	33 554	33 746
Courts	164 636	155 886
Treasury and Finance	2 191 629	1 281 704
Human Services	..	31 968
Transport, Planning, Land and Infrastructure	..	9 809
<b>Total special appropriations</b>	<b>4 245 714</b>	<b>3 181 586</b>

Note:

(a) Effective 1 January 2015 several departments were renamed or abolished due to machinery of government changes:

- the Department of Education and Early Childhood Development was renamed the Department of Education and Training;
- the Department of Environment and Primary Industries was renamed the Department of Environment, Land, Water and Planning;
- the Department of Health was renamed the Department of Health and Human Services;
- the Department of Justice was renamed the Department of Justice and Regulation;
- the Department of State Development, Business and Innovation was renamed the Department of Economic Development, Jobs, Transport and Resources;
- the Department of Human Services was abolished; and
- the Department of Transport, Planning and Local Infrastructure was abolished.

The two abolished departments had their functions and operations transferred to other Victorian government departments. Accordingly, care needs to be taken in interpreting the figures in this table. Functions and operations of the Department of Human Services were transferred to the Department of Health and Human Services and to the Department of Premier and Cabinet. Functions and operations of the Department of Transport, Planning and Local Infrastructure were transferred to the Department of Environment, Land, Water and Planning, the Department of Health and Human Services and to the Department of Economic Development, Jobs, Transport and Resources. Certain functions and operations of continuing Victorian government departments were also transferred among departments as part of the machinery of government changes. Controlled entities which have been transferred as part of the machinery of government changes are listed under their new portfolio departments.

## 8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

### 8.2.8 Consolidated Fund payments: annual appropriations<sup>(a)</sup>

(\$ thousand)

2016	Provision of outputs	Additions to net asset base	Payments made on behalf of the State	Total
Economic Development, Jobs, Transport and Resources	6 087 982	1 618 492	63 091	7 769 565
Education and Training	10 198 541	..	..	10 198 541
Environment, Land, Water and Planning	892 171	25 187	613 345	1 530 703
Health and Human Services	11 789 172	20 989	..	11 810 161
Justice and Regulation	5 028 943	3 566	28 905	5 061 414
Premier and Cabinet	274 270	1 100	..	275 370
Treasury and Finance	229 677	..	1 738 662	1 968 339
Parliament	113 891	..	..	113 891
Courts	237 372	..	..	237 372
<b>Total annual appropriations</b>	<b>34 852 019</b>	<b>1 669 334</b>	<b>2 444 003</b>	<b>38 965 357</b>

2015	Provision of outputs	Additions to net asset base	Payments made on behalf of the State	Total
Economic Development, Jobs, Transport and Resources	3 243 409	720 828	61 143	4 025 380
Education and Training	9 857 218	..	..	9 857 218
Environment, Land, Water and Planning	927 496	18 954	606 786	1 553 236
Health and Human Services	9 028 140	41 402	..	9 069 542
Justice and Regulation	4 785 262	455 435	28 871	5 269 569
Premier and Cabinet	413 794	2 902	1 634	418 330
Treasury and Finance	219 382	5 000	1 743 968	1 968 350
Parliament	112 865	..	..	112 865
Courts	226 627	..	..	226 627
Human Services	1 942 494	2 700	..	1 945 194
Transport, Planning, Land and Infrastructure	2 745 892	578 249	..	3 324 141
<b>Total annual appropriations</b>	<b>33 502 578</b>	<b>1 825 471</b>	<b>2 442 402</b>	<b>37 770 451</b>

Note:

(a) Effective 1 January 2015 several departments were renamed or abolished due to machinery of government changes:

- the Department of Education and Early Childhood Development was renamed the Department of Education and Training;
- the Department of Environment and Primary Industries was renamed the Department of Environment, Land, Water and Planning;
- the Department of Health was renamed the Department of Health and Human Services;
- the Department of Justice was renamed the Department of Justice and Regulation;
- the Department of State Development, Business and Innovation was renamed the Department of Economic Development, Jobs, Transport and Resources;
- the Department of Human Services was abolished; and
- the Department of Transport, Planning and Local Infrastructure was abolished.

The two abolished departments had their functions and operations transferred to other Victorian government departments. Accordingly, care needs to be taken in interpreting the figures in this table. Functions and operations of the Department of Human Services were transferred to the Department of Health and Human Services and to the Department of Premier and Cabinet. Functions and operations of the Department of Transport, Planning and Local Infrastructure were transferred to the Department of Environment, Land, Water and Planning, the Department of Health and Human Services and to the Department of Economic Development, Jobs, Transport and Resources. Certain functions and operations of continuing Victorian government departments were also transferred among departments as part of the machinery of government changes. Controlled entities which have been transferred as part of the machinery of government changes are listed under their new portfolio departments.

### 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)

	2016	2015
Appropriation transfer equivalent to consolidated fund receipts	12 423	11 456
Interest received on credit balances	143	160
<b>Total amounts paid into working accounts</b>	<b>12 566</b>	<b>11 615</b>

## 8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

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

There have been no amounts drawn down in 2015-16 and 2014-15 under Section 28 of the *Financial Management Act, No. 1994*.

### 8.2.11 Transfers pursuant to Sections 30 and 31 of the *Financial Management Act 1994* for the financial year ended 30 June 2016 (\$ thousand)

	Decrease	Increase
<b>Section 30 and 31 transfers</b>		
<b>(Transfers between items of departmental appropriations)</b>		
<b>Department of Economic Development, Jobs, Transport and Resources</b>		
Provision of outputs	18 574	
Additions to the net asset base		18 574
<b>Department of Education and Training</b>		
Provision of outputs		4 017
Additions to the net asset base	4 017	
<b>Department of Environment, Land, Water and Planning</b>		
Provision of outputs	15 223	
Additions to the net asset base		15 223
<b>Department of Health and Human Services</b>		
Provision of outputs		105 250
Additions to the net asset base	105 250	
<b>Department of Justice and Regulation</b>		
Provision of outputs		62 729
Additions to the net asset base	62 729	
<b>Department of Premier and Cabinet</b>		
Provision of outputs		2 428
Additions to the net asset base	2 428	
<b>Courts</b>		
Provision of outputs	420	
Additions to the net asset base		420
<b>Total Section 30 and 31 transfers</b>	<b>208 641</b>	<b>208 641</b>

### 8.2.12 Appropriation of revenue and asset sale proceeds pursuant to Section 29 of the *Financial Management Act 1994* for the financial year ended 30 June 2016 (\$ thousand)

Department	Outputs	Source		Total
		Commonwealth	Other	
Economic Development, Jobs, Transport and Resources	47 208	295 918	..	343 127
Education and Training	1 138	489 632	599	491 368
Environment, Land, Water and Planning	62 880	54 845	..	117 725
Health and Human Services	320 769	637 338	1 444	959 551
Justice and Regulation	167 008	63 570	1 491	232 069
Premier and Cabinet	599	..	..	599
Treasury and Finance	7 793	..	..	7 793
Parliament	24 974	..	..	24 974
Courts	66 437	..	..	66 437
<b>Total appropriation</b>	<b>698 806</b>	<b>1 541 302</b>	<b>3 534</b>	<b>2 243 642</b>

## 8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

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

#### Amounts approved for carryover to 2015-16 pursuant to Section 32 of the *Financial Management Act 1994* (\$ thousand)

<i>Department</i>	<i>Provision of outputs</i>	<i>Additions to net assets</i>	<i>Payments made on behalf of State</i>	<i>Total carryover</i>
Economic Development, Jobs, Transport and Resources	134 122	84 200	2 736	<b>221 058</b>
Education and Training	325 064	..	..	<b>325 064</b>
Environment, Land, Water and Planning	78 990	27 189	8 712	<b>114 890</b>
Health and Human Services	158 918	3 000	..	<b>161 918</b>
Justice and Regulation	99 468	119 608	..	<b>219 076</b>
Premier and Cabinet	22 502	..	..	<b>22 502</b>
Treasury and Finance	2 202	398	9 255	<b>11 855</b>
Parliament	2 872	..	..	<b>2 872</b>
Courts	4 803	5 235	..	<b>10 038</b>
<b>Total carryovers by department</b>	<b>828 941</b>	<b>239 629</b>	<b>20 703</b>	<b>1 089 273</b>

#### Amounts applied against carryover of appropriations in 2015-16 pursuant to Section 32 of the *Financial Management Act 1994* (\$ thousand)

<i>Department</i>	<i>Provision of outputs</i>	<i>Additions to net assets</i>	<i>Payments made on behalf of State</i>	<i>Total carryover</i>
Economic Development, Jobs, Transport and Resources	130 572	42 467	2 736	<b>175 775</b>
Education and Training	307 956	..	..	<b>307 956</b>
Environment, Land, Water and Planning	78 990	25 806	..	<b>104 795</b>
Health and Human Services	158 918	65	..	<b>158 983</b>
Justice and Regulation	99 468	119 607	..	<b>219 075</b>
Premier and Cabinet	22 502	..	..	<b>22 502</b>
Treasury and Finance	2 202	..	9 255	<b>11 457</b>
Parliament	2 870	..	..	<b>2 870</b>
Courts	4 803	4 981	..	<b>9 784</b>
<b>Total carryovers by department</b>	<b>808 281</b>	<b>192 926</b>	<b>11 991</b>	<b>1 013 198</b>

#### Amounts approved for carryover to 2016-17 pursuant to Section 32 of the *Financial Management Act 1994* (\$ thousand)

<i>Department</i>	<i>Provision of outputs</i>	<i>Additions to net assets</i>	<i>Payments made on behalf of State</i>	<i>Total carryover</i>
Economic Development, Jobs, Transport and Resources	110 757	94 595	947	<b>206 299</b>
Education and Training	246 047	17 995	..	<b>264 042</b>
Environment, Land, Water and Planning	98 325	22 500	13 599	<b>134 424</b>
Health and Human Services	198 496	..	..	<b>198 496</b>
Justice and Regulation	144 707	205 607	..	<b>350 314</b>
Premier and Cabinet	31 322	407	..	<b>31 729</b>
Treasury and Finance	3 914	..	..	<b>3 914</b>
Parliament	3 527	..	..	<b>3 527</b>
Courts	9 840	18 196	..	<b>28 036</b>
<b>Total carryovers by department</b>	<b>846 935</b>	<b>359 300</b>	<b>14 546</b>	<b>1 220 781</b>

## 8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

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

(\$ thousand)

<i>Department</i>	<i>Purpose</i>	<i>2015-16</i>
Economic Development, Jobs, Transport and Resources	Level crossing removals	258 200
	Investment in the regional train network and operation	60 168
	Delivering the Government's commitments to recreational fishers	15 297
	Gippsland Lakes Ocean Access	4 093
	Investment in roads	3 907
	Victorian Industry Participation Policy (VIPPP)	2 577
	National Biosecurity Cost Sharing commitment	2 380
	Drought response funding	2 030
	Melbourne Convention and Exhibition Centre Expansion	1 988
	Station upgrades	1 857
	Creative Victoria – Australian Centre for the Moving Image and National Gallery of Victoria	1 378
	Bushfire response funding	1 144
	Investment in the metropolitan train network	1 000
	Bus network improvements	944
	National Heavy Vehicle Regulator – System analysis	554
	Geelong Performing Arts Centre Redevelopment Project	351
	Digital Government – Staff transfer from Department of Premier and Cabinet (DPC)	245
	Western Intermodal Freight Terminal	166
		<b>358 279</b>
Education and Training	Education State in Schools initiatives	97 018
	School enrolment based funding	56 602
	Kindergarten enrolment based funding	10 869
	Improved educator to child ratio in kindergartens	9 636
	Kindergarten Fee Subsidy and Early Start Kindergarten	2 037
	National Occasional Care	1 410
	<b>177 572</b>	
Environment, Land, Water and Planning	Additional resources for 2015-16 bushfire season	66 293
	Additional aviation resources for firefighting	10 411
	Small Alpine Resorts – Mt Baw Baw and Lake Mountain	5 500
	Land Victoria - Land compensation and litigation costs	5 100
	Junction Oval Redevelopment	2 000
	Environment Protection Authority Victoria - Litigation costs	1 000
	Drought Support Fund	672
	Supporting Colac and the Otways	400
	Regional Planners	339
	Blue-Green Algae outbreak	270
	Transfer of staff from Department of Economic Development, Jobs, Transport and Resources	227
	Smoke detection infrastructure	211
	Planning for Melbourne and Regional Victoria	200
Integrated Predictive Model	105	
	<b>92 728</b>	
Health and Human Services	Improving access to elective surgery and meeting hospital services demand	50 000
	Improving emergency ambulance response	4 729
	Very Special Kids	2 750
	Release of funding for family violence	4 383
	Vision Australia Mobility and Training Centre	500
	Hazelwood Mine Fire Inquiry – Healthy and Strong Latrobe	260
	Redesign and renovation of Out of Home Care properties	171
	Foodbank	80
	<b>62 873</b>	

## 8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

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

(\$ thousand)

<i>Department</i>	<i>Purpose</i>	<i>2015-16</i>
Justice and Regulation	Victoria Police additional resources	62 769
	Emergency Services Telecommunications Authority Sustainability	25 000
	Night Network – Transport security	23 095
	Bushfire Season 2015-16	15 567
	Strengthening Victoria Police’s Counter-Terrorism Capacity and Capability	9 634
	Country Fire Authority Recruitment Course – Additional funding	5 000
	Country Fire Authority capital projects (station modifications, vehicles and equipment)	3 612
	Summer Fire Information Campaign	3 000
	Family Violence Fund	1 129
	Hazelwood Mine Fire Inquiry	1 122
	Emergency Medical Response Project	969
	Intralot litigation legal costs	714
		<b>151 611</b>
Premier and Cabinet	Family violence – Reaching all Victorians where they live, work and play	5 092
	Victorian Ombudsman accommodation	5 000
	Social cohesion and community resilience	2 800
	Transfer of various government functions to DPC	2 362
	Back to work scheme	920
	Getting ready for the National Disability Insurance Scheme	240
	Implementation of re-opened Hazelwood Inquiry reports	140
	<b>16 553</b>	
Treasury and Finance	Western Distributor project development	11 553
	Back to Work Scheme	10 812
	Completion of the Port of Melbourne lease transaction	2 406
	New activity for the Essential Services Commission	1 332
	State Revenue Office Land Tax Compliance Program	429
	<b>26 532</b>	
Parliament	Supplementation of Parliament’s annual appropriation	1 926
	Auditor General’s Investigations	500
	Parliamentary Advisors	451
	<b>2 877</b>	
Courts	Heidelberg Court Remediation	1 600
	Ending violence against women and children (Safe waiting areas)	1 500
	County Court Land Tax	691
	<b>3 791</b>	
<b>Total Payments from Advance to the Treasurer</b>		<b>892 816</b>

## 8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

### 8.2.15 Payments from advances pursuant to Section 35 of the *Financial Management Act 1994* for the financial year ended 30 June (\$ thousand)

<i>Department</i>	<i>Purpose</i>	<i>2015-16</i>
Economic Development,	Level crossing removals	91 090
Jobs, Transport and	Investment in roads	52 250
Resources	Investment in the regional train network	34 341
	Investment in the metropolitan train network	5 803
	Investment in the tram network	1 051
		<b>184 535</b>
<b>Total payments from advances pursuant to Section 35 (4) of the <i>Financial Management Act 1994</i></b>		<b>184 535</b>

### 8.2.16 Unused advances carried forward to 2015-16 pursuant to Section 35(4) of the *Financial Management Act 1994*

There have been no amounts carried forward to 2015-16 under Section 35(4) of the *Financial Management Act, No. 18 of 1994*.

### 8.2.17 Government guarantees

#### Details of payments made in fulfilment of any guarantee by the Government

There have been no payments made during 2015-16 in fulfilment of any guarantee by the Government.

#### Money received or recovered in respect of any guarantee payments

There has been no money recovered during 2015-16 in respect of any guarantee payments.



## 9 OTHER DISCLOSURES

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### Introduction to this section

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This section includes those additional disclosures required by accounting standards or otherwise, that are material, for the understanding of this financial report.

### Structure

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## 9. OTHER DISCLOSURES

### 9.1 Disaggregated information

#### Disaggregated operating statement for the financial year ended 30 June

(\$ million)

	General government sector		Public non-financial corporations	
	2016	2015	2016	2015
<b>Revenue from transactions</b>				
Taxation revenue	19 896	18 339	..	..
Interest revenue <sup>(a)</sup>	786	827	38	46
Dividends and income tax equivalent and rate equivalent revenue	848	1 113	23	25
Sales of goods and services	6 671	6 482	6 225	6 018
Grant revenue	25 406	24 503	3 011	2 784
Other revenue	3 108	2 508	1 076	612
<b>Total revenue from transactions</b>	<b>56 716</b>	<b>53 772</b>	<b>10 373</b>	<b>9 485</b>
<b>Expenses from transactions</b>				
Employee expenses	20 002	18 834	1 156	1 077
Net superannuation interest expense	878	1 038	2	3
Other superannuation	2 123	1 978	107	102
Depreciation	2 504	2 425	2 154	1 978
Interest expense	2 076	2 102	1 047	1 176
Grant expense	8 564	8 529	290	270
Other operating expenses	17 905	17 651	5 031	4 904
Other property expenses	..	..	432	137
<b>Total expenses from transactions</b>	<b>54 052</b>	<b>52 558</b>	<b>10 219</b>	<b>9 647</b>
<b>Net result from transactions – net operating balance <sup>(a)</sup></b>	<b>2 664</b>	<b>1 214</b>	<b>154</b>	<b>(162)</b>
<b>Other economic flows included in net result</b>				
Net gain/(loss) on disposal of non-financial assets	(145)	32	(3)	(24)
Net gain/(loss) on financial assets or liabilities at fair value <sup>(a)</sup>	(10)	53	96	28
Share of net profit/(loss) from associates/joint venture entities	(4)	(3)	(26)	(8)
Other gains/(losses) from other economic flows	(688)	(548)	94	116
<b>Total other economic flows included in net result <sup>(a)</sup></b>	<b>(847)</b>	<b>(465)</b>	<b>160</b>	<b>112</b>
<b>Net result</b>	<b>1 817</b>	<b>749</b>	<b>314</b>	<b>(50)</b>
<b>Other economic flows – other comprehensive income</b>				
<b>Items that will not be reclassified to net result</b>				
Changes in non-financial assets revaluation surplus	6 236	2 524	11 057	3 862
Remeasurement of superannuation defined benefits plans	(3 220)	551	(25)	5
Other movements in equity <sup>(c)(d)</sup>	23	(173)	(216)	(1)
<b>Items that may be reclassified subsequently to net result</b>				
Net gain/(loss) on financial assets at fair value	(85)	(45)	(25)	35
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets <sup>(c)</sup>	10 533	4 231	..	..
<b>Total other economic flows – other comprehensive income <sup>(c)(d)</sup></b>	<b>13 486</b>	<b>7 090</b>	<b>10 791</b>	<b>3 901</b>
<b>Comprehensive result – total change in net worth <sup>(c)(d)</sup></b>	<b>15 303</b>	<b>7 839</b>	<b>11 106</b>	<b>3 851</b>
<b>FISCAL AGGREGATES</b>				
<b>Net operating balance <sup>(a)</sup></b>	<b>2 664</b>	<b>1 214</b>	<b>154</b>	<b>(162)</b>
<b>Net acquisition of non-financial assets from transactions</b>				
Purchases of non-financial assets (including change in inventories) <sup>(c)(d)</sup>	4 452	4 379	2 383	2 209
Less: Sales of non-financial assets	(190)	(398)	(263)	(196)
Less: Depreciation and amortisation	(2 504)	(2 425)	(2 154)	(1 978)
Plus: Other movements in non-financial assets	(970)	(1 278)	2 172	1 519
<b>Less: Net acquisition of non-financial assets from transactions <sup>(c)(d)</sup></b>	<b>788</b>	<b>277</b>	<b>2 138</b>	<b>1 554</b>
<b>Net lending/(borrowing) <sup>(a)(c)(d)</sup></b>	<b>1 876</b>	<b>937</b>	<b>(1 984)</b>	<b>(1 716)</b>

#### Notes:

- (a) June 2015 comparative figures have been restated to more consistently reflect the classification of insurance entities' investment income between years.
- (b) On 28 July 2016, the Director of Housing transferred, from the PNFC sector, title of approximately 500 Director owned properties valued at approximately \$202m to Aboriginal Housing Victoria. The transfer of property titles at zero cash consideration is underpinned by the principle of self-determination. This will assist Aboriginal Housing Victoria to provide culturally appropriate social housing for Aboriginal Victorians and to develop innovative solutions to promote socioeconomic independence among Aboriginal Victorians.
- (c) June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.
- (d) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.

## 9. OTHER DISCLOSURES

<i>Public financial corporations</i>		<i>Inter-sector eliminations</i>		<i>State of Victoria</i>	
2016	2015	2016	2015	2016	2015
..	..	(450)	(403)	19 446	17 936
2 170	2 425	(2 342)	(2 443)	651	855
1 111	724	(823)	(1 094)	1 159	768
4 224	4 020	(2 796)	(2 614)	14 324	13 906
..	..	(3 176)	(2 911)	25 241	24 377
22	21	(370)	(53)	3 835	3 088
<b>7 526</b>	<b>7 189</b>	<b>(9 958)</b>	<b>(9 517)</b>	<b>64 657</b>	<b>60 929</b>
291	277	(384)	(354)	21 066	19 834
..	..	..	..	880	1 041
24	23	..	..	2 254	2 103
48	50	..	..	4 706	4 454
1 950	2 032	(2 342)	(2 443)	2 730	2 867
89	..	(3 286)	(2 977)	5 657	5 822
5 907	5 639	(3 123)	(2 649)	25 720	25 544
15	187	(447)	(323)	..	..
<b>8 323</b>	<b>8 207</b>	<b>(9 581)</b>	<b>(8 747)</b>	<b>63 012</b>	<b>61 665</b>
<b>(797)</b>	<b>(1 017)</b>	<b>(376)</b>	<b>(770)</b>	<b>1 645</b>	<b>(736)</b>
..	..	..	..	(148)	9
(1 554)	1 273	..	..	(1 468)	1 354
..	..	(42)	(20)	(73)	(30)
(87)	173	(915)	(288)	(1 596)	(547)
<b>(1 641)</b>	<b>1 447</b>	<b>(957)</b>	<b>(307)</b>	<b>(3 284)</b>	<b>786</b>
<b>(2 438)</b>	<b>430</b>	<b>(1 334)</b>	<b>(1 078)</b>	<b>(1 640)</b>	<b>51</b>
..	..	220	1 018	17 514	7 404
..	..	..	..	(3 246)	556
..	(345)	..	325	(193)	(194)
..	..	..	..	(110)	(10)
..	..	(10 533)	(4 231)	..	..
..	<b>(345)</b>	<b>(10 312)</b>	<b>(2 889)</b>	<b>13 965</b>	<b>7 757</b>
<b>(2 438)</b>	<b>85</b>	<b>(11 646)</b>	<b>(3 967)</b>	<b>12 325</b>	<b>7 807</b>
<b>(797)</b>	<b>(1 017)</b>	<b>(376)</b>	<b>(770)</b>	<b>1 645</b>	<b>(736)</b>
34	32	..	(21)	6 870	6 599
(1)	(1)	..	..	(454)	(595)
(48)	(50)	..	..	(4 706)	(4 454)
..	..	..	..	1 202	241
(14)	<b>(20)</b>	..	<b>(21)</b>	<b>2 912</b>	<b>1 791</b>
<b>(783)</b>	<b>(998)</b>	<b>(377)</b>	<b>(750)</b>	<b>(1 267)</b>	<b>(2 527)</b>

## 9. OTHER DISCLOSURES

### Disaggregated balance sheet as at 30 June

(\$ million)

	General government sector		Public non-financial corporations	
	2016	2015	2016	2015
<b>Assets</b>				
<b>Financial assets</b>				
Cash and deposits	4 772	4 282	802	1 092
Advances paid	4 582	4 572	47	54
Receivables <sup>(a)</sup>	5 566	5 555	1 644	1 442
Investments, loans and placements	2 853	3 406	1 052	989
Loans receivable from non-financial public sector <sup>(b)</sup>	..	..	..	..
Investments accounted for using equity method	46	45	1 498	1 565
Investments in other sector entities <sup>(a)</sup>	94 710	82 262	..	..
<b>Total financial assets <sup>(a)</sup></b>	<b>112 531</b>	<b>100 121</b>	<b>5 043</b>	<b>5 143</b>
<b>Non-financial assets</b>				
Inventories	188	144	522	565
Non-financial assets held for sale	188	175	12	30
Land, buildings, infrastructure, plant and equipment <sup>(c)(d)</sup>	114 254	107 562	112 227	99 307
Other non-financial assets	1 081	1 038	1 352	1 325
<b>Total non-financial assets <sup>(c)</sup></b>	<b>115 711</b>	<b>108 920</b>	<b>114 112</b>	<b>101 227</b>
<b>Total assets <sup>(a)(c)</sup></b>	<b>228 242</b>	<b>209 041</b>	<b>119 155</b>	<b>106 370</b>
<b>Liabilities</b>				
Deposits held and advances received	706	518	396	425
Payables	5 773	5 704	1 460	1 663
Borrowings	33 811	34 069	15 778	15 934
Employee benefits	6 137	5 605	414	379
Superannuation	29 291	25 947	63	42
Other provisions	829	807	8 811	8 874
<b>Total liabilities</b>	<b>76 547</b>	<b>72 650</b>	<b>26 922</b>	<b>27 317</b>
<b>Net assets <sup>(a)(e)</sup></b>	<b>151 695</b>	<b>136 391</b>	<b>92 233</b>	<b>79 052</b>
Accumulated surplus/(deficit) <sup>(a)</sup>	44 454	45 764	4 397	4 511
Reserves <sup>(b)</sup>	107 191	90 577	87 836	74 542
Non-controlling interest	50	50	..	..
<b>Net worth <sup>(e)</sup></b>	<b>151 695</b>	<b>136 391</b>	<b>92 233</b>	<b>79 052</b>
<b>FISCAL AGGREGATES</b>				
Net financial worth <sup>(a)</sup>	35 984	27 471	(21 879)	(22 175)
Net financial liabilities <sup>(a)</sup>	58 727	54 791	21 879	22 175
Net debt	22 309	22 327	14 272	14 223

*Notes:*

- (a) June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.
- (b) Loans receivable from the non-financial public sector are reported at amortised cost.
- (c) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.
- (d) On 28 July 2016, the Director of Housing transferred, from the PNFC sector, title of approximately 500 Director owned properties valued at approximately \$202m to Aboriginal Housing Victoria. The transfer of property titles at zero cash consideration is underpinned by the principle of self-determination. This will assist Aboriginal Housing Victoria to provide culturally appropriate social housing for Aboriginal Victorians and to develop innovative solutions to promote socioeconomic independence among Aboriginal Victorians.
- (e) The net assets and net worth of the public financial corporations sector incorporates the impact of Treasury Corporation of Victoria's external loan liabilities being reported at market value while the corresponding assets, that is lending to the non-financial public sector, being reported at amortised cost. This mismatch has contributed to the negative net asset position of the sector.

## 9. OTHER DISCLOSURES

<i>Public financial corporations</i>		<i>Inter-sector eliminations</i>		<i>State of Victoria</i>	
2016	2015	2016	2015	2016	2015
4 654	4 719	(3 552)	(3 572)	6 676	6 521
14	46	(4 491)	(4 550)	153	121
1 943	1 601	(1 361)	(1 728)	7 793	6 870
33 317	32 122	(1 689)	(2 200)	35 534	34 317
35 169	36 048	(35 169)	(36 048)	..	..
..	..	374	411	1 918	2 021
..	..	(94 710)	(82 262)	..	..
<b>75 097</b>	<b>74 535</b>	<b>(140 597)</b>	<b>(129 949)</b>	<b>52 074</b>	<b>49 851</b>
..	..	..	..	709	710
..	..	..	..	200	205
76	80	..	..	226 557	206 949
1 645	1 036	(1 715)	(1 272)	2 363	2 127
<b>1 721</b>	<b>1 116</b>	<b>(1 715)</b>	<b>(1 272)</b>	<b>229 829</b>	<b>209 991</b>
<b>76 818</b>	<b>75 651</b>	<b>(142 312)</b>	<b>(131 221)</b>	<b>281 903</b>	<b>259 841</b>
6 647	6 745	(5 122)	(5 368)	2 628	2 320
1 629	1 719	(925)	(1 496)	7 937	7 591
44 184	42 721	(39 813)	(41 036)	53 959	51 688
96	91	..	..	6 647	6 076
..	..	..	..	29 354	25 988
28 040	25 169	(8 594)	(8 637)	29 085	26 213
<b>80 596</b>	<b>76 445</b>	<b>(54 454)</b>	<b>(56 537)</b>	<b>129 611</b>	<b>119 876</b>
<b>(3 778)</b>	<b>(794)</b>	<b>(87 858)</b>	<b>(74 684)</b>	<b>152 291</b>	<b>139 966</b>
(3 849)	(1 009)	11 232	12 019	56 234	61 285
71	215	(99 090)	(86 703)	96 008	78 630
..	..	..	..	50	50
<b>(3 778)</b>	<b>(794)</b>	<b>(87 858)</b>	<b>(74 684)</b>	<b>152 291</b>	<b>139 966</b>
(5 499)	(1 910)	(86 143)	(73 412)	(77 538)	(70 025)
5 499	1 910	(8 567)	(8 850)	77 538	70 025
(22 322)	(23 469)	(35)	(34)	14 224	13 048

## 9. OTHER DISCLOSURES

### Disaggregated cash flow statement for the financial year ended 30 June

(\$ million)

	General government sector		Public non-financial corporations	
	2016	2015	2016	2015
<b>Cash flows from operating activities</b>				
<b>Receipts</b>				
Taxes received	19 775	18 416	..	..
Grants	25 375	24 499	3 072	2 870
Sales of goods and services <sup>(a)</sup>	7 253	7 002	6 788	6 736
Interest received <sup>(b)</sup>	786	812	41	37
Dividends and income tax equivalent and rate equivalent receipts	802	1 015	23	25
Other receipts <sup>(c)</sup>	2 436	1 984	166	290
<b>Total receipts <sup>(b)(c)</sup></b>	<b>56 428</b>	<b>53 728</b>	<b>10 091</b>	<b>9 959</b>
<b>Payments</b>				
Payments for employees	(19 621)	(18 619)	(1 121)	(1 054)
Superannuation	(2 877)	(2 771)	(113)	(106)
Interest paid	(2 040)	(2 062)	(1 048)	(1 158)
Grants and subsidies	(8 538)	(8 564)	(162)	(69)
Goods and services <sup>(a)</sup>	(17 257)	(16 835)	(3 822)	(3 954)
Other payments	(736)	(1 057)	(1 986)	(1 968)
<b>Total payments</b>	<b>(51 069)</b>	<b>(49 908)</b>	<b>(8 253)</b>	<b>(8 309)</b>
<b>Net cash flows from operating activities <sup>(b)(c)</sup></b>	<b>5 359</b>	<b>3 819</b>	<b>1 838</b>	<b>1 650</b>
<b>Cash flows from investing activities</b>				
Purchases of non-financial assets <sup>(d)</sup>	(4 420)	(4 369)	(2 381)	(2 211)
Sales of non-financial assets	190	398	263	196
<b>Cash flows from investments in non-financial assets <sup>(d)</sup></b>	<b>(4 230)</b>	<b>(3 972)</b>	<b>(2 118)</b>	<b>(2 015)</b>
<b>Cash flows from investments in financial assets for policy purposes <sup>(c)(d)</sup></b>				
Cash inflows	564	361	74	62
Cash outflows <sup>(c)(d)</sup>	(471)	(1 243)	(5)	(23)
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>93</b>	<b>(883)</b>	<b>69</b>	<b>39</b>
<b>Cash flows from investments in financial assets for liquidity management purposes <sup>(b)(e)(f)</sup></b>				
Cash inflows <sup>(b)</sup>	2 384	891	307	242
Cash outflows	(1 848)	(1 261)	(281)	(145)
<b>Net cash flows from investments in financial assets for liquidity management purposes</b>	<b>535</b>	<b>(370)</b>	<b>25</b>	<b>97</b>
<b>Net cash flows from investing activities <sup>(b)(c)(d)</sup></b>	<b>(3 602)</b>	<b>(5 224)</b>	<b>(2 024)</b>	<b>(1 878)</b>
<b>Cash flows from financing activities <sup>(c)(d)</sup></b>				
Advances received	..	..	2	16
Advances repaid	..	..	(4)	(2)
Advances received (net) <sup>(e)</sup>	..	..	(2)	15
Borrowings received	291	1 306	461	736
Borrowings repaid	(1 623)	(293)	(639)	(1 212)
Net borrowings <sup>(e)</sup>	(1 332)	1 013	(178)	(475)
Deposits received	799	431	72	60
Deposits repaid	(734)	(340)	(99)	(52)
Deposits received (net) <sup>(e)</sup>	65	91	(27)	9
Other financing inflows <sup>(c)</sup>	..	..	454	1 004
Other financing outflows <sup>(d)</sup>	..	..	(350)	(216)
Other financing (net) <sup>(c)(d)(e)</sup>	..	..	103	788
<b>Net cash flows from financing activities</b>	<b>(1 267)</b>	<b>1 105</b>	<b>(104)</b>	<b>337</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>490</b>	<b>(301)</b>	<b>(290)</b>	<b>108</b>
Cash and cash equivalents at beginning of the financial year	4 282	4 582	1 092	984
<b>Cash and cash equivalents at end of the financial year <sup>(g)</sup></b>	<b>4 772</b>	<b>4 282</b>	<b>802</b>	<b>1 092</b>
<b>FISCAL AGGREGATES</b>				
Net cash flows from operating activities <sup>(b)(c)</sup>	5 359	3 819	1 838	1 650
Dividends paid	..	..	(149)	(255)
Net cash flows from investments in non-financial assets <sup>(d)</sup>	(4 230)	(3 972)	(2 118)	(2 015)
<b>Cash surplus/(deficit) <sup>(b)(c)(d)</sup></b>	<b>1 129</b>	<b>(152)</b>	<b>(429)</b>	<b>(621)</b>

Notes:

- (a) These items include goods and services tax.
- (b) June 2015 comparative figures have been restated to more consistently reflect the classification of insurance entities' investment income between years.
- (c) June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.
- (d) June 2015 comparative figures have been restated to correct contributed capital and accumulated fund balances from the prior year machinery of government changes.
- (e) In accordance with AASB 107, Treasury Corporation of Victoria (TCV) is not required to gross up their cash flow information for whole of government consolidation purposes. The net cash movements for TCV have been added to cash inflows or outflows for both financial years ended 30 June 2016 and 30 June 2015.
- (f) The June 2015 cash flows resulting from the schools investments in financial assets for liquidity management purposes are reported on a net basis, with the net cash movement added to cash inflows or outflows.
- (g) Cash and cash equivalents at the end of the reporting period does not equal cash and deposits on the balance sheet. This is due to overdrafts being included in the cash flow statement balances. See Note 5.3.

## 9. OTHER DISCLOSURES

<i>Public financial corporations</i>		<i>Inter-sector eliminations</i>		<i>State of Victoria</i>	
2016	2015	2016	2015	2016	2015
..	..	(450)	(403)	19 325	18 013
..	..	(3 244)	(3 007)	25 203	24 363
4 582	4 442	(2 732)	(2 855)	15 892	15 325
2 078	2 341	(2 348)	(2 450)	557	741
1 111	724	(777)	(996)	1 158	768
58	52	(33)	6	2 627	2 331
<b>7 829</b>	<b>7 558</b>	<b>(9 585)</b>	<b>(9 704)</b>	<b>64 763</b>	<b>61 541</b>
(287)	(274)	384	354	(20 645)	(19 593)
(24)	(23)	..	..	(3 014)	(2 900)
(1 971)	(2 111)	2 348	2 450	(2 711)	(2 882)
(89)	..	3 165	2 886	(5 623)	(5 747)
(4 199)	(4 257)	914	1 211	(24 365)	(23 835)
(138)	(23)	2 391	1 986	(468)	(1 062)
<b>(6 707)</b>	<b>(6 687)</b>	<b>9 202</b>	<b>8 886</b>	<b>(56 826)</b>	<b>(56 019)</b>
<b>1 121</b>	<b>871</b>	<b>(382)</b>	<b>(818)</b>	<b>7 936</b>	<b>5 522</b>
(34)	(32)	..	21	(6 836)	(6 591)
1	1	..	..	454	595
<b>(33)</b>	<b>(30)</b>	<b>..</b>	<b>21</b>	<b>(6 382)</b>	<b>(5 996)</b>
..	1 768	(449)	(47)	189	2 144
(27)	(423)	325	1 122	(179)	(567)
<b>(27)</b>	<b>1 344</b>	<b>(124)</b>	<b>1 075</b>	<b>11</b>	<b>1 576</b>
11 203	22 130	(2 269)	(480)	11 625	22 783
(11 624)	(25 056)	808	1 360	(12 945)	(25 102)
<b>(421)</b>	<b>(2 926)</b>	<b>(1 460)</b>	<b>879</b>	<b>(1 320)</b>	<b>(2 319)</b>
<b>(482)</b>	<b>(1 612)</b>	<b>(1 585)</b>	<b>1 975</b>	<b>(7 692)</b>	<b>(6 739)</b>
196	64	(26)	(36)	172	45
(147)	(30)	28	27	(123)	(5)
49	34	2	(9)	48	39
(86)	78	(627)	(1 859)	39	263
(88)	(649)	1 925	1 088	(425)	(1 066)
(173)	(571)	1 298	(770)	(386)	(803)
245	935	(28)	(758)	1 088	668
(267)	(151)	272	84	(828)	(458)
(23)	784	244	(674)	259	210
3	..	(457)	(1 004)	..	..
(550)	(489)	900	705	..	..
(547)	(489)	443	(299)	..	..
<b>(695)</b>	<b>(242)</b>	<b>1 987</b>	<b>(1 753)</b>	<b>(79)</b>	<b>(554)</b>
<b>(55)</b>	<b>(983)</b>	<b>20</b>	<b>(595)</b>	<b>166</b>	<b>(1 771)</b>
4 708	5 691	(3 572)	(2 976)	6 510	8 281
<b>4 654</b>	<b>4 708</b>	<b>(3 552)</b>	<b>(3 572)</b>	<b>6 676</b>	<b>6 510</b>
1 121	871	(382)	(818)	7 936	5 522
(239)	(566)	387	822	..	..
(33)	(30)	..	21	(6 382)	(5 996)
<b>849</b>	<b>274</b>	<b>4</b>	<b>25</b>	<b>1 554</b>	<b>(474)</b>

## Disaggregated statement of changes in equity for the financial year ended 30 June

(\$ million)

2016	Accumulated surplus/(deficit)	Contribution by owners	Non-controlling Interest	Non-financial assets revaluation surplus <sup>(a)</sup>	Investment in other sector entities revaluation surplus	Other reserves	Total
<b>General government sector</b>							
Balance at 1 July 2015 <sup>(b)(c)</sup>	45 764	..	50	43 355	46 494	728	136 391
Net result for the year	1 817	..	..	..	..	..	1 817
Other comprehensive income for the year	(3 106)	..	..	6 236	10 533	(177)	13 486
Transfer to/(from) accumulated surplus	(22)	..	..	22	..	..	..
Transactions with owners in their capacity as owners	..	..	..	..	..	..	..
<b>Total equity as at 30 June 2016</b>	<b>44 454</b>	<b>..</b>	<b>50</b>	<b>49 613</b>	<b>57 027</b>	<b>551</b>	<b>151 695</b>
<b>PNFC sector</b>							
Balance at 1 July 2015 <sup>(b)</sup>	4 511	49 943	..	24 161	..	437	79 052
Net result for the year	314	..	..	..	..	..	314
Other comprehensive income for the year	(280)	..	..	11 057	..	14	10 791
Transfer to/(from) accumulated surplus	..	..	..	..	..	..	..
Dividends paid	(149)	..	..	..	..	..	(149)
Transactions with owners in their capacity as owners	..	2 224	..	..	..	..	2 224
<b>Total equity as at 30 June 2016</b>	<b>4 397</b>	<b>52 166</b>	<b>..</b>	<b>35 219</b>	<b>..</b>	<b>451</b>	<b>92 233</b>
<b>PFC sector</b>							
Balance at 1 July 2015	(1 009)	177	..	2	..	35	(794)
Net result for the year	(2 438)	..	..	..	..	..	(2 438)
Other comprehensive income for the year	(5)	..	..	..	..	5	..
Transfer to/(from) accumulated surplus	(159)	159	..	..	..	..	..
Dividends paid	(239)	..	..	..	..	..	(239)
Transactions with owners in their capacity as owners	..	(308)	..	..	..	..	(308)
<b>Total equity as at 30 June 2016</b>	<b>(3 849)</b>	<b>29</b>	<b>..</b>	<b>2</b>	<b>..</b>	<b>40</b>	<b>(3 778)</b>
Eliminations	11 232	(52 195)	..	10 131	(57 027)	..	(87 858)
<b>Total State of Victoria</b>	<b>56 234</b>	<b>..</b>	<b>50</b>	<b>94 965</b>	<b>..</b>	<b>1 042</b>	<b>152 291</b>

## Notes:

(a) Non-financial assets revaluation surplus relates to revaluation of land, buildings, infrastructure, plant and equipment.

(b) 1 July 2015 opening balances have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.

(c) 1 July 2015 opening balances have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes



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

(\$ million)

2015	Accumulated surplus/(deficit)	Contribution by owners	Non-controlling Interest	Non-financial assets revaluation surplus <sup>(a)</sup>	Investment in other sector entities revaluation surplus	Other reserves	Total
<b>General government sector</b>							
Balance at 1 July 2014 <sup>(b)</sup>	43 635	..	50	41 965	42 262	640	128 553
Net result for the year	749	..	..	..	..	..	749
Other comprehensive income for the year <sup>(b)(c)</sup>	246	..	..	2 524	4 231	88	7 090
Transfer to/(from) accumulated surplus	1 135	..	..	(1 135)	..	..	..
Transactions with owners in their capacity as owners	..	..	..	..	..	..	..
<b>Total equity as at 30 June 2015<sup>(b)(c)</sup></b>	<b>45 764</b>	<b>..</b>	<b>50</b>	<b>43 355</b>	<b>46 494</b>	<b>728</b>	<b>136 391</b>
<b>PNFC sector</b>							
Balance at 1 July 2014 <sup>(b)</sup>	5 170	32 963	..	34 576	..	340	73 048
Net result for the year	(50)	..	..	..	..	..	(50)
Other comprehensive income for the year <sup>(b)</sup>	(59)	..	..	3 862	..	98	3 901
Transfer to/(from) accumulated surplus <sup>(c)</sup>	(295)	14 571	..	(14 277)	..	..	..
Dividends paid	(255)	..	..	..	..	..	(255)
Transactions with owners in their capacity as owners	..	2 409	..	..	..	..	2 409
<b>Total equity as at 30 June 2015<sup>(b)(c)</sup></b>	<b>4 511</b>	<b>49 943</b>	<b>..</b>	<b>24 161</b>	<b>..</b>	<b>437</b>	<b>79 052</b>
<b>PFC sector</b>							
Balance at 1 July 2014	(749)	254	..	2	..	181	(312)
Net result for the year	430	..	..	..	..	..	430
Other comprehensive income for the year <sup>(c)</sup>	(200)	..	..	..	..	(145)	(345)
Transfer to/(from) accumulated surplus <sup>(c)</sup>	77	(77)	..	..	..	..	..
Dividends paid	(566)	..	..	..	..	..	(566)
Transactions with owners in their capacity as owners	..	..	..	..	..	..	..
<b>Total equity as at 30 June 2015<sup>(c)</sup></b>	<b>(1 009)</b>	<b>177</b>	<b>..</b>	<b>2</b>	<b>..</b>	<b>35</b>	<b>(794)</b>
Eliminations <sup>(b)(c)</sup>	12 019	(50 120)	..	9 911	(46 494)	..	(74 684)
<b>Total State of Victoria<sup>(b)(c)</sup></b>	<b>61 285</b>	<b>..</b>	<b>50</b>	<b>77 429</b>	<b>..</b>	<b>1 201</b>	<b>139 966</b>

Notes:

- (a) Non-financial assets revaluation surplus relates to revaluation of land, buildings, infrastructure, plant and equipment.
- (b) June 2015 comparative figures and 1 July 2015 opening balances have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.
- (c) June 2015 comparative figures and 1 July 2015 opening balances have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.

## 9. OTHER DISCLOSURES

### 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	
	2016	2015	2016	2015
Investments, real estate, personal and other assets	2 904	2 593	..	..
Cash and investments in common and premium funds	1 005	979	..	..
Residential tenancies bond money	951	874	951	874
Funds under management by the Senior Master of the Supreme Court <sup>(a)</sup>	1 618	1 597	1 618	1 597
Funds under management by Legal Services Board	813	825	813	825
Funds under management for the Victorian Bushfire Appeal Fund <sup>(b)</sup>	3	6	3	6
Other funds held	36	31	11	5
<b>Total funds under management</b>	<b>7 330</b>	<b>6 906</b>	<b>3 395</b>	<b>3 308</b>

Note:

(a) June 2015 comparative figures have been restated to reflect current information.

(b) The Victorian Government has collected appeal proceeds on behalf of the Red Cross Victorian Bushfire Appeal Fund. The purpose of the trust is for the receipt of donations and other contributions, and their disbursement for assistance to individuals and communities in towns, suburbs and rural areas affected by the 2009 Victorian bushfires. Contributions will, inter alia, include funds provided by the Victorian, Commonwealth and other jurisdictions, as well as the general public, for the above purpose.

### 9.3 Other gains/(losses) from other economic flows

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions.

#### Total other gains/(losses) from other economic flows

(\$ million)

	State of Victoria		General government sector	
	2016	2015	2016	2015
Net (increase)/decrease in provision for doubtful receivables	(226)	(207)	(224)	(204)
Amortisation of intangible non-produced assets	(37)	(34)	(3)	(4)
Net swap interest revenue/(expense)	(12)	(9)	..	..
Bad debts written off	(204)	(172)	(188)	(157)
Other gains/(losses)	(1 116)	(126)	(273)	(183)
<b>Total other gains/(losses) from other economic flows</b>	<b>(1 596)</b>	<b>(547)</b>	<b>(688)</b>	<b>(548)</b>

### 9.4 Reconciliation between Government Finance Statistics and Australian Accounting Standards

This note identifies and reconciles unconverged differences between the Australian Accounting Standards reporting (upon which this report is based) and the Government Finance Statistics (GFS) reporting. All GFS balances are calculated in accordance with the Australian Bureau of Statistics GFS manual *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005*.

GFS information enable policymakers and analysts to study developments in the financial operations, financial position and liquidity situation of the Government based on consistent economic reporting rules and definitions.

#### 9.4.1 Reconciliation to GFS net operating balance<sup>(a)</sup>

(\$ million)

	General government sector		Public non-financial corporations		Public financial corporations		Eliminations		State of Victoria	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Net result from transactions – net operating balance<sup>(b)</sup></b>	2 664	1 214	154	(162)	(797)	(1 017)	(376)	(770)	1 645	(736)
<i>Convergence differences:<sup>(c)</sup></i>										
PNFC/PFC dividends	..	..	149	255	239	566	(387)	(822)	..	..
	..	..	(149)	(255)	(239)	(566)	387	822	..	..
<b>GFS net operating balance<sup>(b)</sup></b>	<b>2 664</b>	<b>1 214</b>	<b>6</b>	<b>(417)</b>	<b>(1 035)</b>	<b>(1 584)</b>	<b>11</b>	<b>51</b>	<b>1 645</b>	<b>(736)</b>

Notes:

- (a) Determined in accordance with the ABS GFS Manual.  
(b) June 2015 comparative figures have been restated to more consistently reflect the classification of insurance entities' investment income between years.  
(c) The convergence difference arises between GFS recognised dividends paid/payable as an expense from transactions on the operating statement whereas, under accounting standards, dividends are classified as after-profit distributions to owners.

#### 9.4.2 Reconciliation to GFS net lending/(borrowing)<sup>(a)</sup>

(\$ million)

	General government sector		Public non-financial corporations		Public financial corporations		Eliminations		State of Victoria	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Net lending/(borrowing)<sup>(b)(c)(d)</sup></b>	<b>1 876</b>	<b>937</b>	<b>(1 984)</b>	<b>(1 716)</b>	<b>(783)</b>	<b>(998)</b>	<b>(377)</b>	<b>(750)</b>	<b>(1 267)</b>	<b>(2 527)</b>
<i>Convergence differences:<sup>(e)</sup></i>										
Relating to net operating balance – PNFC/PFC dividends	..	..	149	255	239	566	(387)	(822)	..	..
<i>plus total convergence difference:</i>	..	..	(149)	(255)	(239)	(566)	387	822	..	..
<b>GFS net lending/(borrowing)<sup>(b)(c)(d)</sup></b>	<b>1 876</b>	<b>937</b>	<b>(2 132)</b>	<b>(1 971)</b>	<b>(1 021)</b>	<b>(1 564)</b>	<b>10</b>	<b>72</b>	<b>(1 267)</b>	<b>(2 527)</b>

Notes:

- (a) Determined in accordance with the ABS GFS manual.  
(b) June 2015 comparative figures have been restated to more consistently reflect the classification of insurance entities' investment income between years.  
(c) June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.  
(d) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.  
(e) The convergence difference arises between GFS recognised dividends paid/payable as an expense from transactions on the operating statement whereas, under accounting standards, dividends are classified as after-profit distributions to owners.

9.4.3 Reconciliation to GFS total change in net worth<sup>(a)</sup>

(\$ million)

	General government sector		Public non-financial corporations		Public financial corporations		Eliminations		State of Victoria	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Comprehensive result – total change in net worth</b> <sup>(b)(c)</sup>	<b>15 303</b>	<b>7 839</b>	<b>11 106</b>	<b>3 851</b>	<b>(2 438)</b>	<b>85</b>	<b>(11 646)</b>	<b>(3 967)</b>	<b>12 325</b>	<b>7 807</b>
<i>Convergence differences:</i> <sup>(d)(e)</sup>										
Relating to net operating balance – PNFC/PFC dividends	..	..	149	255	239	566	(387)	(822)	..	..
Relating to other economic flows: <sup>(f)</sup>										
<b>Contribution by non-controlling interest</b>										
Doubtful receivables of the general government sector	22	(7)	..	..	..	..	..	..	22	(7)
Doubtful receivables of the PNFC/PFC sector	..	..	..	..	..	(5)	..	..	..	(5)
Future tax benefits of the PNFC/PFC sector	..	..	(44)	(17)	(632)	58	676	(42)	..	..
Deferred tax liability of the PNFC/PFC sector	..	..	(39)	703	(5)	1	45	(703)	..	..
Net gain on equity investments in other sector entities measured at proportional share of the carrying amount of net assets/(liabilities) <sup>(g)</sup>	(720)	740	..	..	..	..	720	(740)	..	..
Change in shares and other contributed capital	..	..	(11 170)	(4 792)	2 836	(705)	8 335	5 497	..	..
<i>plus total convergence differences</i>	(699)	732	(11 106)	(3 851)	2 438	(85)	9 389	3 191	22	(13)
<b>GFS total change in net worth</b> <sup>(b)(c)</sup>	<b>14 605</b>	<b>8 571</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>(2 257)</b>	<b>(776)</b>	<b>12 347</b>	<b>7 795</b>

## Notes:

- (a) Determined in accordance with the ABS GFS manual.
- (b) June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.
- (c) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.
- (d) The convergence difference arises because GFS does not recognise doubtful receivables, whereas the operating statement recognises it and classifies doubtful receivables as other economic flows.
- (e) The convergence difference arises because the amount of net assets (and therefore the change in carrying amount of net assets) of other sector entities determined under GFS principles and rules differs from the carrying amount of net assets.
- (f) Excludes transactions with owners as owner, therefore excluding non-controlling interest.
- (g) Net gain on equity investments in other sector entities includes doubtful receivables, future tax benefits and deferred tax liability of the PNFC and PFC sectors.

#### 9.4.4 Reconciliation to GFS net worth<sup>(a)</sup>

(\$ million)

	General government sector		Public non-financial corporations		Public financial corporations		Eliminations		State of Victoria	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Net worth</b> <sup>(b)(c)</sup>	<b>151 695</b>	<b>136 391</b>	<b>92 233</b>	<b>79 052</b>	<b>(3 778)</b>	<b>(794)</b>	<b>(87 858)</b>	<b>(74 684)</b>	<b>152 291</b>	<b>139 966</b>
<i>Convergence differences:</i> <sup>(d)(e)</sup>										
Relating to net operating balance – PNFC/PFC dividends	..	..	149	255	239	566	(387)	(822)	..	..
Non-controlling interest	(50)	(50)	..	..	..	..	..	..	(50)	(50)
Doubtful receivables of the general government sector	930	908	..	..	..	..	..	..	930	908
Doubtful receivables of the PNFC/PFC sector	..	..	21	21	46	45	..	..	67	66
Future tax benefits of the PNFC/PFC sector	..	..	(237)	(193)	(1 473)	(841)	1 710	1 034	..	..
Deferred tax liability of the PNFC/PFC sector	..	..	8 591	8 630	2	7	(8 593)	(8 637)	..	..
Investments in other sector entities <sup>(f)</sup>	6 949	7 670	..	..	..	..	(6 949)	(7 670)	..	..
Shares and other contributed capital <sup>(b)</sup>	..	..	(100 757)	(87 767)	4 965	1 017	95 791	86 750	..	..
<b>plus total convergence difference:</b> <sup>(b)</sup>	<b>7 829</b>	<b>8 528</b>	<b>(92 233)</b>	<b>(79 052)</b>	<b>3 778</b>	<b>794</b>	<b>81 572</b>	<b>70 655</b>	<b>946</b>	<b>924</b>
<b>GFS net worth</b> <sup>(b)(c)</sup>	<b>159 524</b>	<b>144 919</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>(6 286)</b>	<b>(4 029)</b>	<b>153 238</b>	<b>140 890</b>

Notes:

- (a) Determined in accordance with the ABS GFS manual.
- (b) June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.
- (c) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.
- (d) The convergence difference in accounts receivable arises because GFS does not recognise doubtful receivables, whereas a provision for doubtful receivables is recognised in the balance sheet.
- (e) The convergence difference arises because the amount of net assets (and therefore the change in carrying amount of net assets) of other sector entities determined under GFS principles and rules differs from the carrying amount of net assets.
- (f) Investments in other sector entities for general government sector includes doubtful receivables, future tax benefits and deferred tax liability of the PNFC and PFC sectors.

#### 9.4.5 Reconciliation to GFS cash surplus/(deficit)<sup>(a)</sup>

(\$ million)

	General government sector		Public non-financial corporations		Public financial corporations		Eliminations		State of Victoria	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Cash surplus/(deficit)</b> <sup>(b)(c)(d)</sup>	<b>1 129</b>	<b>(152)</b>	<b>(429)</b>	<b>(621)</b>	<b>849</b>	<b>274</b>	<b>4</b>	<b>25</b>	<b>1 554</b>	<b>(474)</b>
<i>Convergence differences:</i> <sup>(e)(f)</sup>										
Less: Acquisitions under finance leases and similar arrangements	(1 050)	(99)	..	..	..	..	..	..	(1 050)	(99)
<b>GFS cash surplus/(deficit)</b> <sup>(b)(c)(d)</sup>	<b>79</b>	<b>(251)</b>	<b>(429)</b>	<b>(621)</b>	<b>849</b>	<b>274</b>	<b>4</b>	<b>25</b>	<b>504</b>	<b>(573)</b>

Notes:

- (a) Determined in accordance with the ABS GFS manual.
- (b) June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.
- (c) June 2015 comparative figures have been restated to more consistently reflect the classification of insurance entities' investment income between years.
- (d) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.
- (e) The convergence difference arises because GFS does not recognise acquisitions under finance leases, whereas finance leases is recognised in the cash surplus aggregate of the cash flow statement.

## 9. OTHER DISCLOSURES

### 9.5 Subsequent events

Assets, liabilities, revenues or expenses arise from past transactions or other past events. Adjustments are made to amounts recognised in the financial statements for events, which occur after the reporting period and before the date the statements are authorised for issue, where those events provide information about conditions which existed at the reporting date. If required, note disclosure is made about events that occur between the end of the reporting period and the date the statements are authorised for issue where the events relate to conditions which arose after the reporting period that are considered to be of material interest.

Other than the matters below, there are no events that have arisen since 30 June that have significantly affected or may significantly affect the operations, or results, or state of affairs of the State.

#### Port of Melbourne lease transaction

On 10 March 2016, the *Delivering Victorian Infrastructure (Port of Melbourne Lease Transaction) Bill 2015* was passed by the Victorian Parliament. This legislation authorises and facilitates the leasing of the land, channels and other infrastructure assets, and the disposal of other assets of the Port of Melbourne Corporation (PoMC) to a private sector entity via a newly created PoMC subsidiary, Port Manager, and to amend existing legislation to provide for an appropriate regulatory regime for the Port of Melbourne.

On 21 March 2016, the Victorian Government commenced the formal transaction process for the 50-year lease of Port of Melbourne assets (comprising land, channels and other infrastructure) and disposal of other minor assets of the former Port of Melbourne Corporation (the Port Package).

On 19 September 2016, the Victorian Government announced that the Lonsdale consortium was the successful bidder for the Port Package. The Lonsdale consortium will pay upfront a consideration of \$9.7 billion for the Port Package. This consideration will consist of a 50 year lease of the land, channels and other infrastructure assets, the purchase of a company holding the commercial operations of the Port of Melbourne and plant and equipment, and an upfront payment of the port licence fee for the first 15 years (as determined by the Treasurer). The transaction's expected completion date is 31 October 2016.

As at 30 June 2016, the Port of Melbourne assets (land, channels, other infrastructure and property, plant and equipment) have been revalued to reflect the expected lease transaction price plus estimated residual values. The allocation of the lease transaction price to the land and infrastructure assets has been determined based on market driven data where possible and other relevant management assumptions, with the remaining value allocated to the channel assets. Property, plant and equipment values have been allocated based on the assessed depreciated replacement cost for these assets.

The valuation of the channels and the residual values struck for land, channels and other infrastructure assets at the end of the lease term include management judgements and assumptions that are inherently subject to estimation uncertainty and are based on professional judgement and other factors that are believed to be reasonable under the circumstances. Key assumptions and inputs used in those valuations are:

- discount rates
- projected cash flows after the lease term
- asset useful lives

Further information on the valuation of non-financial assets is outlined in note 7.5.

#### Recent Victorian floods

In September 2016, significant rain caused flooding across parts of Victoria. As at the date of this report, the full financial impact of this event on the State of Victoria is yet to be determined as the flood event is still unfolding.

## 9.6 Other accounting policies

### 9.6.1 How leases are accounted for

A lease is a right to use an asset for an agreed period of time in exchange for payment. Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership. Leases of infrastructure, property, plant and equipment are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership from the lessor to the lessee. All other leases are classified as operating leases.

#### State as lessor in finance leases

Amounts due from lessees under finance leases are recorded as receivables. Finance lease receivables are initially recorded at amounts equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease receipts are apportioned between periodic interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

#### State as lessee under finance leases

At the commencement of the lease term, finance leases are initially recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. The leased asset is accounted for as a non-financial physical asset and depreciated over the shorter of the estimated useful life of the asset or the term of the lease. Minimum finance lease payments are apportioned between the reduction of the outstanding lease liability and the periodic finance expense, which is calculated using the interest rate implicit in the lease and charged directly to the consolidated comprehensive operating statement.

Contingent rentals associated with finance leases are recognised as an expense in the period in which they are incurred.

#### State as lessor under operating leases

Rental revenue from operating leases is recognised on a straight line basis over the term of the relevant lease.

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments. In the event that lease incentives are given to the lessee, the aggregate cost of incentives are recognised as a reduction of rental revenue over the lease term on a straight line basis, unless another systematic basis is more representative of the time pattern over which the economic benefit of the leased asset is diminished.

#### State as lessee under operating leases

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments. In the event that lease incentives are received to enter into operating leases, the aggregate benefit of incentives are recognised as a reduction of rental expense over the lease term on a straight line basis, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### 9.6.2 Accounting for the goods and services tax

Revenues, expenses and assets are recognised net of the amount of associated GST, except where the GST incurred is not recoverable from the taxation authority. In this case the GST payable is recognised as part of the cost of acquisition of an asset or part of an item of expense.

Receivables and payables are stated inclusive of GST receivable or payable. Cash flows are presented on a gross basis. The GST components of cash flows from investing or financing activities are presented as an operating cash flow. Commitments and contingent assets and liabilities are also stated inclusive of GST.



## 9. OTHER DISCLOSURES

### 9.6.3 Prospective accounting and reporting changes

Certain new and revised accounting standards have been published but are not effective for the 2015-16 reporting period. They include:

- AASB 124 *Related Party Disclosures*, operative for reporting periods commencing 1 July 2016. This standard extends the scope of related party disclosures to not-for-profit public sector entities, which will result in more disclosures in relation to the key management personnel and related party transactions at the entity and State level.
- AASB 9 *Financial Instruments*, operative for reporting periods commencing 1 January 2018 as revised by AASB 2014-1 *Amendments to Australian Accounting Standards (Part E Financial Instruments)*. The key changes introduced by AASB 9 include the simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment loss model to recognise impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred. The State is reviewing its existing policies to make changes as required.
- AASB 15 *Revenue from Contracts with Customers*, operative for reporting periods commencing 1 January 2019. The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. The State is reviewing its existing revenue recognition policy to assess the potential implications arising from AASB 15.
- AASB 16 *Leases*, operative for reporting periods beginning from 1 January 2019. The key changes introduced by AASB 16 include the recognition of most operating leases on balance sheet. The State is reviewing its existing policy to assess the potential implications arising from AASB 16.
- Amendments to AASB 136 *Impairment of Assets* are operative for reporting periods commencing 1 January 2017. The key change removes references to depreciated replacement cost (DRC) as a measure of value in use for not-for-profit entities. The State has assessed and determined the impact to be minimal, as the current replacement cost method used for public sector assets, under AASB 13 *Fair Value Measurement*, is the same as DRC.

Several other amending standards and AASB interpretations have been issued that apply to future reporting periods, but are considered to have limited impact on public sector reporting.

There is no intention to early adopt the above accounting standards.

The Australian Bureau of Statistics (ABS) recently released a new manual, *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015* on 23 December 2015. For the purpose of financial reporting under AASB 1049, the new manual will apply for reporting periods beginning from 1 July 2018. The State will assess the potential reporting implications of the amendments.



## 9.7 Controlled entities

The table below contains a list of significant controlled entities which have been consolidated for the purposes of the financial report. Unless otherwise noted below, all such entities are wholly-owned. The entities below may include additional consolidated entities, for which only the parent entity has been listed.

The principal activities of the controlled entities reflect the three sectors of government they are within as set out in the reporting structure under Public sector terms explained (refer to page 24). Further, Note 3.6 Government purpose classification reflects the broad objectives of these controlled entities.

<b>General government</b>		
<b>Department of Education and Training</b>	Environment Protection Authority	– Eastern Health
Adult Community and Further Education Board	Gunaikurnai Traditional Owner Land Management	– Echuca Regional Health
Adult Multicultural Education Services	Heritage Council of Victoria	– Edenhope and District Memorial Hospital
International Fibre Centre Limited	Metropolitan Planning Authority	– Gippsland Southern Health Service
TAFEs including:	Office of the Commissioner for Environmental Sustainability	– Goulburn Valley Health
– Bendigo Kangan Institute	Parks Victoria	– Heathcote Health
– Box Hill Institute <sup>(a)</sup>	Royal Botanic Gardens Board Victoria	– Hepburn Health Service
– Chisholm Institute <sup>(a)</sup>	Surveyors Registration Board of Victoria	– Hesse Rural Health Service
– Federation Training	Sustainability Victoria	– Heywood Rural Health
– Gordon Institute of TAFE	Trust for Nature (Victoria)	– Inglewood and Districts Health Service
– Goulburn Ovens Institute of TAFE	Victorian Building Authority	– Kerang District Health
– Holmesglen Institute <sup>(a)</sup>	Victorian Environmental Water Holder	– Kooweerup Regional Health Service
– Melbourne Polytechnic	Yorta Yorta Traditional Owner Land Management Board	– Kyabram and District Health Services
– South West Institute of TAFE		– Kyneton District Health Service
– Sunraysia Institute of TAFE	<b>Department of Health and Human Services</b>	– Latrobe Regional Hospital
– William Angliss Institute of TAFE	Commission for Children and Young People	– Lorne Community Hospital
– Wodonga Institute of TAFE	Health Purchasing Victoria	– Maldon Hospital
Victorian Curriculum and Assessment Authority	Hospitals, Health and Ambulance Services including:	– Mallee Track Health and Community Service
Victorian Institute of Teaching	– Albury Wodonga Health	– Mansfield District Hospital
Victorian Registration and Qualifications Authority	– Alexandra District Health <sup>(b)</sup>	– Maryborough District Health Service
<b>Department of Environment, Land, Water and Planning</b>	– Alfred Health	– Melbourne Health
Architects Registration Board of Victoria	– Alpine Health	– Monash Health
Catchment Management Authorities including:	– Ambulance Victoria	– Moyne Health Services
– Corangamite Catchment Management Authority	– Austin Health	– Nathalia District Hospital
– East Gippsland Catchment Management Authority	– Bairnsdale Regional Health Service	– Northeast Health Wangaratta
– Glenelg Hopkins Catchment Management Authority	– Ballarat Health Services	– Northern Health
– Goulburn Broken Catchment Management Authority	– Barwon Health	– Numurkah District Health Service
– Mallee Catchment Management Authority	– Bass Coast Health	– Omeo District Health
– North Central Catchment Management Authority	– Beaufort and Sipton Health Service	– Orbost Regional Health
– North East Catchment Management Authority	– Beechworth Health Service	– Otway Health
– Port Phillip and Westernport Catchment Management Authority	– Benalla Health	– Peninsula Health
– West Gippsland Catchment Management Authority	– Bendigo Health Care Group	– Peter MacCallum Cancer Institute
– Wimmera Catchment Management Authority	– Boort District Health	– Portland District Health
Dhelkunya Dja Land Management Board	– Casterton Memorial Hospital	– Robinvale District Health Services
	– Castlemaine Health	– Rochester and Elmore District Health Service
	– Central Gippsland Health Service	– Rural Northwest Health
	– Cobram District Health	– Seymour Health
	– Cohuna District Hospital	– South Gippsland Hospital
	– Colac Area Health	– South West Healthcare
	– Dental Health Services Victoria	– Stawell Regional Health
	– Djerriwarrh Health Services	– Swan Hill District Health
	– Dunmunkle Health Services <sup>(c)</sup>	–
	– East Grampians Health Service	
	– East Wimmera Health Service	

## 9. OTHER DISCLOSURES

### General government (continued)

– Tallangatta Health Service	Victoria Legal Aid	Docklands Studios Melbourne Pty Ltd
– Terang and Mortlake Health Service	Victoria Police (Office of the Chief Commissioner of Police)	Energy Safe Victoria <sup>(g)</sup>
– The Kilmore and District Health	Victoria State Emergency Service Authority	Film Victoria
– The Royal Children’s Hospital	Victorian Commission for Gambling and Liquor Regulation	Game Management Authority
– The Royal Victorian Eye and Ear Hospital	Victorian Equal Opportunity and Human Rights Commission	Library Board of Victoria
– The Royal Women’s Hospital	Victorian Institute of Forensic Medicine	Linking Melbourne Authority
– Timboon and District Healthcare Service	Victorian Law Reform Commission	Major Projects Victoria
– Upper Murray Health and Community Services	Victorian Legal Services Board	Melbourne Cricket Ground Trust
– Victorian Assisted Reproductive Treatment Authority	Victorian Legal Services Commissioner	Melbourne Recital Centre Limited
– Victorian Institute of Forensic Mental Health	Victorian Professional Standards Council	Museums Board of Victoria
– West Gippsland Healthcare Group	Victorian Responsible Gambling Foundation	National Gallery of Victoria, Council of Trustees
– West Wimmera Health Service <sup>(c)</sup>	<b>Department of Premier and Cabinet <sup>(d)</sup></b>	Public Transport Development Authority
– Western District Health Service	Freedom of Information Commissioner	Regional Development Victoria
– Western Health	Independent Broad-based Anti-corruption Commission (IBAC)	Roads Corporation
– Wimmera Health Care Group	Infrastructure Victoria <sup>(e)</sup>	Rural Assistance Commissioner <sup>(h)</sup>
– Yarram and District Health Service	Office of the Commissioner for Privacy and Data Protection	Taxi Services Commission
– Yarrawonga District Health Service	Ombudsman Victoria	Tourism Victoria <sup>(i)</sup>
– Yea and District Memorial Hospital	Shrine of Remembrance Trustees	Veterinary Practitioners Registration Board of Victoria
The Queen Elizabeth Centre	Victorian Aboriginal Heritage Council	Victorian Trade and Investment Office
Tweddle Child and Family Health Service	Victorian Electoral Commission	Visit Victoria <sup>(i)</sup>
Victorian Health Promotion Foundation	Victorian Inspectorate	<b>Department of Treasury and Finance <sup>(d)</sup></b>
Victorian Institute of Sport Limited	Victorian Multicultural Commission	CenITex
Victorian Institute of Sport Trust	Victorian Public Sector Commission	Essential Services Commission
Victorian Pharmacy Authority	Victorian Veterans Council	<b>Courts</b>
<b>Department of Justice and Regulation</b>	<b>Department of Economic Development, Jobs, Transport and Resources</b>	Judicial College of Victoria
Country Fire Authority	Australian Centre for the Moving Image	<b>Parliament of Victoria</b>
Emergency Services	Australian Synchrotron Holding Company <sup>(f)</sup>	<b>Victorian Auditor General’s Office</b>
Telecommunications Authority		
Metropolitan Fire and Emergency Services Board		
Office of Public Prosecutions		
Residential Tenancies Bond Authority		
Sentencing Advisory Council		

### Public non-financial corporation

<b>Department of Environment, Land, Water and Planning</b>	– Gippsland Waste and Resource Recovery Group	– Gippsland and Southern Rural Water Corporation
Alpine Resorts Management Board including:	– Goulburn Valley Waste and Resource Recovery Group	– Goulburn Murray Rural Water Corporation
– Alpine Resorts Co-ordinating Council	– Grampians Central Waste and Resource Recovery Group	– Goulburn Valley Region Water Corporation
– Falls Creek Alpine Resort Management Board	– Metropolitan Waste and Resource Recovery Group	– Grampians Wimmera Mallee Water Corporation
– Lake Mountain Alpine Resort Management Board	– Loddon Mallee Waste and Resource Recovery Group	– Lower Murray Urban and Rural Water Corporation
– Mount Baw Baw Alpine Resort Management Board	– North East Waste and Resource Recovery Group	– Melbourne Water Corporation
– Mount Buller and Mount Stirling Alpine Resort Management Board	Water Authorities including:	– North East Region Water Corporation
– Mount Hotham Alpine Resort Management Board	– Barwon Region Water Corporation	– South East Water Corporation
Phillip Island Nature Parks	– Central Gippsland Region Water Corporation	– South Gippsland Region Water Corporation
Waste and Resource Recovery Groups including:	– Central Highlands Region Water Corporation	– Wannoon Region Water Corporation
– Barwon South West Waste and Resource Recovery Group	– City West Water Corporation	– Western Region Water Corporation
	– Coliban Region Water Corporation	– Westernport Region Water Corporation
	– East Gippsland Region Water Corporation	– Yarra Valley Water Corporation
		– Zoological Parks and Gardens Board

**Public non-financial corporation (continued)****Department of Health and Human Services<sup>(i)</sup>**

Cemeteries including:

- Ballarat General Cemeteries Trust
- Bendigo Cemeteries Trust
- Geelong Cemeteries Trust
- Greater Metropolitan Cemeteries Trust
- Southern Metropolitan Cemeteries Trust
- Mildura Cemetery Trust

Director of Housing

State Sport Centres Trust

**Department of Justice and Regulation**

Greyhound Racing Victoria

Harness Racing Victoria

**Department of Premier and Cabinet**

Queen Victoria Women's Centre Trust

VITS Languagelink

**Department of Economic Development, Jobs, Transport and Resources**

Agriculture Victoria Services Pty Ltd  
 Australian Grand Prix Corporation  
 Dairy Food Safety Victoria  
 Emerald Tourist Railway Board  
 Fed Square Pty Ltd  
 Geelong Performing Arts Centre Trust  
 Launch Vic<sup>(k)</sup>  
 Melbourne and Olympic Parks Trust  
 Melbourne Convention and Exhibition Trust  
 Melbourne Market Authority  
 Melbourne Port Lessor Pty Ltd<sup>(l)</sup>  
 Murray Valley Wine Grape Industry Development Committee  
 Northern Victorian Fresh Tomato Industry Development Committee  
 Port of Hastings Development Authority  
 Port of Melbourne Corporation  
 Port of Melbourne Operations Pty Ltd<sup>(m)</sup>  
 PrimeSafe

Urban Renewal Authority Victoria (Places Victoria)<sup>(n)</sup>

V/Line Corporation

VicForests

Victorian Arts Centre Trust

Victorian Major Events Company Limited<sup>(i)</sup>

Victorian Rail Track

Victorian Regional Channels Authority

Victorian Strawberry Industry Development Committee

**Department of Treasury and Finance**

Accident Compensation Conciliation Service

State Electricity Commission of Victoria

Victorian Plantations Corporation (shell)

**Public financial corporation****Department of Treasury and Finance**Rural Finance Corporation of Victoria<sup>(h)</sup>

State Trustees Limited

Transport Accident Commission

Treasury Corporation of Victoria

Victorian Funds Management Corporation

Victorian Managed Insurance Authority

Victorian WorkCover Authority (WorkSafe Victoria)

**Notes:**

- (a) Box Hill Institute of TAFE, Chisholm Institute of TAFE and Holmesglen Institute of TAFE have been renamed to Box Hill Institute, Chisholm Institute and Holmesglen Institute respectively.
- (b) Alexandra District Hospital was renamed to Alexandra District Health from 18 June 2015.
- (c) On 1 July 2016, by order of the Governor-in-Council, Dunmunkle Health Service and West Wimmera Health Service were amalgamated to form a new registered funded agency named West Wimmera Health Service.
- (d) Effective from 22 September 2015, the Victorian Competition and Efficiency Commission ceased to exist and operations were transferred to the Commissioner for Better Regulation, established as a function of the Department of Treasury and Finance portfolio.
- (e) Effective from 1 October 2015, Infrastructure Victoria was established by the Infrastructure Victoria Act 2015.
- (f) The Australian Synchrotron was transferred from the State of Victoria to the Australian Nuclear Science and Technology Organisation (ANSTO) on 1 July 2016.
- (g) Effective from 1 July 2016, Energy Safe Victoria was transferred from the Department of Economic Development, Jobs, Transport and Resources to the Department of Environment, Land, Water and Planning.
- (h) The Rural Assistance Schemes Act 2016 established the Rural Assistance Commissioner on 28 June 2016. Effective from 30 June 2016, the Rural Finance Corporation ceased to exist.
- (i) Effective 1 July 2016, the Visit Victoria commenced operations and took over the responsibilities of Tourism Victoria and the Victorian Major Events Company Limited. Tourism Victoria ceased to operate but will remain in existence until its legislation is repealed. Effective from 1 July 2016, Victorian Major Events Company ceased to exist.
- (j) The Kardinia Park Stadium Act 2016 established the Kardinia Park Stadium Trust as a statutory public sector body to administer the Kardinia Park Trust Land and other land and facilities for the purposes of sports, recreation, entertainment and related social and other activities. The Act commenced on 16 March 2016, with the Trust assuming financial responsibility from 1 July 2016.
- (k) On 27 November 2015, LaunchVic was launched by the Minister for Small Business, Innovation and Trade to support the ecosystem for local start-up businesses and the rapidly growing start-up sector in Victoria.
- (l) Melbourne Port Lessor Pty Ltd (Port Lessor) was established as a Corporations Act entity on 21 March 2016. Effective from 1 July 2016, Port Lessor commenced operations.
- (m) Port of Melbourne Operations Pty Ltd (PortCo) was established as a Corporations Act entity on 21 March 2016. Effective from 1 July 2016, PortCo commenced operations.
- (n) Effective from 1 June 2016, Urban Renewal Authority (Places Victoria) was transferred from the Department of Environment, Land, Water and Planning to the Department of Economic Development, Jobs, Transport and Resources.

## 9. OTHER DISCLOSURES

### 9.8 Glossary of technical terms

The following is a summary of the major technical terms used in this report as sourced from the *Uniform Presentation Framework (2008)*. Technical terms that have been discussed elsewhere in this chapter are excluded from the list below.

**ABS GFS manual** represents the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005* as updated from time to time.

**Capital grants** are transactions in which the ownership of an asset (other than cash and inventories) is transferred from one institutional unit to another, to enable the recipient to acquire another asset or in which the funds realised by the disposal of another asset are transferred, for which no economic benefits of equal value are receivable or payable in return.

**Cash surplus/deficit** represents the net cash flows from operating activities plus net cash flows from investments in non-financial assets (less dividends paid for the PNFC and PFC sectors).

**Cash surplus/deficit – ABS GFS version** is equal to the cash surplus deficit (above) less the value of assets acquired under finance leases and similar arrangements.

**Change in net worth** (comprehensive result) is revenue from transactions less expenses from transactions plus other economic flows and measures the variation in a government's accumulated assets and liabilities.

**Comprehensive result** is the amount included in the operating statement representing total change in net worth other than transactions with owners as owners.

**Current grants** are amounts payable or paid for current purposes for which no economic benefits of equal value are receivable or payable in return.

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

**Fiscal aggregates:** Analytical balances that are useful for macroeconomic analysis purposes, including assessing the impact of a government and

its sectors on the economy. Key fiscal aggregates defined under ABS GFS manual are required to be disclosed under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. They are: opening net worth, net operating balance, net lending/(borrowing), change in net worth due to revaluations, change in net worth due to other changes in the volume of assets, total change in net worth, closing net worth, and cash surplus/(deficit). AASB 1049 also allows additional fiscal aggregates to be included such as net financial worth, net financial liabilities and net debt.

**Government Finance Statistics (GFS)** enables policymakers and analysts to study developments in the financial operations, financial position and liquidity situation of the Government. More details about the GFS can be found in the Australian Bureau of Statistics GFS manual *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005*.

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

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

**Key fiscal aggregates** are referred to as analytical balances in the ABS GFS manual, key fiscal aggregates are data identified as useful for macroeconomic analysis purposes, including assessing the impact of a government and its sectors on the economy. They are opening net worth; net operating balance; net lending/(borrowing); change in net worth due to revaluations; change in net worth due to other changes in the volume of assets; total change in net worth; closing net worth; and cash surplus/(deficit).



**Net acquisition of non-financial assets (from transactions)** are purchases (and other acquisitions) of non-financial assets less sales (or disposals) of non-financial assets less depreciation plus changes in inventories and other movements in non-financial assets. Includes only those increases or decreases in non-financial assets resulting from transactions and therefore excludes write offs, impairment write downs and revaluations.

**Net cash flows from investments in financial assets (liquidity management purposes)** are cash receipts from liquidation or repayment of investments in financial assets for liquidity management purposes less cash payments for such investments. Investment for liquidity management purposes means making funds available to others with no policy intent and with the aim of earning a commercial rate of return.

**Net cash flows from investments in financial assets (policy purposes)** represents cash payments made for acquiring financial assets for policy purposes, less cash receipts from the repayment and liquidation of such investments in financial assets.

Acquisition of financial assets for policy purposes is distinguished from investments in financial assets (liquidity management purposes) by the underlying government motivation for acquiring the assets. Acquisition of financial assets for policy purposes includes loans made by government that are motivated by Government policies, such as encouraging the development of certain industries or assisting people affected by natural disaster.

For the general government sector, this item also includes cash flows arising from the acquisition and disposal by government of its investments (contributed capital) in entities in the public non-financial corporations and public financial corporations sectors.

**Net debt** equals sum of deposits held, advances received, government securities, loans and other borrowing less the sum of cash and deposits, advances paid and investments, loans and placements. For the PFC sector, this also includes loans receivable from other sector entities.

**Net financial liabilities** is calculated as liabilities less financial assets, other than equity in PNFCs and PFCs. This measure is broader than net debt as it includes significant liabilities, other than borrowings (e.g. accrued employee liabilities such as superannuation and long service leave entitlements).

For the PNFC and PFC sectors, it is equal to negative net financial worth.

**Net financial worth** is equal to financial assets minus liabilities. It is a broader measure than net debt as it incorporates provisions made (such as superannuation, but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

**Net lending/borrowing** is the financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. It also equals transactions in financial assets less transactions in liabilities. A positive result reflects a net lending position and a negative result reflects a net borrowing position.

**Net operating balance – net result from transactions:** Net result from transactions or net operating balance is a key fiscal aggregate and is revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

**Net result** is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as ‘other non-owner movements in equity’.

**Net worth** is calculated as assets less liabilities, which is an economic measure of wealth.

**Non-financial assets** are all assets that are not financial assets. It includes inventories, land, buildings, infrastructure, road networks, land under roads, plant and equipment, cultural and heritage assets, intangibles and biological assets such as commercial forests.

**Non-financial public sector** represents the consolidated transactions and assets and liabilities of the general government and PNFC sectors. In compiling statistics for the non-financial public sector, transactions and debtor creditor relationships between sub sectors are eliminated to avoid double counting.

## 9. OTHER DISCLOSURES

**Non-produced assets** are assets needed for production that have not themselves been produced. They include land, subsoil assets, and certain intangible assets. Non-produced intangibles are intangible assets needed for production that have not themselves been produced. They include constructs of society such as patents.

**Operating result** is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as ‘other non-owner movements in equity’. Refer also ‘net result’.

**Other economic flows** are changes in the volume or value of an asset or liability that do not result from transactions. In simple terms, other economic flows are changes arising from market remeasurements. They include gains and losses from disposals, revaluations and impairments of non-current physical and intangible assets; actuarial gains and losses arising from defined benefit superannuation plans; fair value changes of financial instruments and agricultural assets; and depletion of natural assets (non-produced) from their use or removal.

**Produced assets** include buildings, plant and equipment, inventories, cultivated assets and certain intangible assets. Intangible produced assets may include computer software, motion picture films and research and development costs (which does not include the start-up costs associated with capital projects).

**Roads** include road pavement and road works in progress. All land under roads is included under the category of ‘land’.

**Road infrastructure** mainly includes sound barriers, bridges and traffic signal control systems.

**Taxation revenue** represents revenue received from the State’s taxpayers and includes: payroll tax, land tax, duties levied principally on conveyances and land transfers, gambling taxes levied mainly on private lotteries, electronic gaming machines, casino operations and racing, insurance duty relating to compulsory third party, life and non-life policies, insurance company contributions to fire brigades, Fire Services Property Levy, motor vehicle taxes, including registration fees and duty on registrations and transfers, levies (including the environmental levy) on statutory corporations in other sectors of government, and other taxes, including landfill levies, licence and concession fees.

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

# CHAPTER 5 – SUPPLEMENTARY UNIFORM PRESENTATION FRAMEWORK TABLES

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## THE ACCRUAL GOVERNMENT FINANCE STATISTICS PRESENTATION

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The Government Finance Statistics (GFS) system employed by the Australian Bureau of Statistics (ABS) is designed to provide statistics relating to the finances of the Australian public sector. The statistics show consolidated transactions of the various institutional sectors of government from an economic viewpoint, providing details of the revenue, expenses, payments, receipts, assets and liabilities. It includes only those transactions 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

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In October 2007, the Australian Accounting Standards Board issued a new standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, applicable from 1 July 2008. The objective as set out by the Financial Reporting Council in December 2002 is ‘to achieve an Australian accounting standard for a single set of government reports which are auditable, comparable between jurisdictions, and in which the outcome statements as directly comparable with the relevant budget statements’. This standard incorporates the major elements of the GFS framework, including the presentation formats and key fiscal aggregates, into a standard based on generally accepted accounting principles (GAAP).

The current Uniform Presentation Framework (UPF) was agreed by the Australian Loan Council in March 2008, based on AASB 1049, and similarly applicable from the reporting period commencing 1 July 2008. In addition to the audited Annual Financial Report presented in Chapter 4, the following statements are also required to be presented under the UPF.

## FINANCIAL STATEMENTS FOR THE NON-FINANCIAL PUBLIC SECTOR

**Table 5.1: Non-financial public sector operating statement for the financial year ended 30 June (\$ million)**

	2016	2015
<b>Revenue from transactions</b>		
Taxation revenue	19 460	17 949
Interest	361	396
Dividends and income tax equivalent and rate equivalent revenue	301	749
Sales of goods and services	10 869	10 596
Grant revenue	25 402	24 500
Other revenue	3 814	3 067
<b>Total revenue from transactions</b>	<b>60 206</b>	<b>57 257</b>
<b>Expenses from transactions</b>		
Employee expenses	21 101	19 859
Net superannuation interest expense	880	1 041
Other superannuation	2 230	2 080
Depreciation	4 658	4 404
Interest expense	2 659	2 801
Grant expense	5 649	5 825
Other operating expenses	20 349	20 448
<b>Total expenses from transactions</b>	<b>57 526</b>	<b>56 457</b>
<b>Net result from transactions – net operating balance</b>	<b>2 680</b>	<b>800</b>
<b>Other economic flows included in net result</b>		
Net gain/(loss) on disposal of non-financial assets	(148)	9
Net gain/(loss) on financial assets or liabilities at fair value	86	81
Share of net profit/(loss) from associates/joint venture entities	(73)	(30)
Other gains/(losses) from other economic flows	(872)	(732)
<b>Total other economic flows included in net result</b>	<b>(1 007)</b>	<b>(672)</b>
<b>Net result</b>	<b>1 673</b>	<b>128</b>
<b>Other economic flows – other comprehensive income</b>		
<b>Items that will not be reclassified to net result</b>		
Changes in non-financial assets revaluation surplus	17 514	7 404
Remeasurement of superannuation defined benefits plans	(3 246)	556
Other movements in equity <sup>(a)</sup>	(193)	(172)
<b>Items that may be reclassified subsequently to net result</b>		
Net gain/(loss) on financial assets at fair value	(110)	(10)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	(421)	636
<b>Total other economic flows – other comprehensive income <sup>(a)</sup></b>	<b>13 544</b>	<b>8 415</b>
<b>Comprehensive result – total change in net worth <sup>(a)</sup></b>	<b>15 218</b>	<b>8 543</b>
<b>FISCAL AGGREGATES</b>		
<b>Net operating balance</b>	<b>2 680</b>	<b>800</b>
<b>Net acquisition of non-financial assets from transactions</b>		
Purchases of non-financial assets (including change in inventories) <sup>(b)</sup>	6 835	6 588
Less: sales of non-financial assets	(453)	(594)
Less: depreciation	(4 658)	(4 404)
Plus: other movements in non-financial assets	1 202	241
<b>Less: net acquisition of non-financial assets from transactions <sup>(b)</sup></b>	<b>2 926</b>	<b>1 831</b>
<b>Net lending/(borrowing)</b>	<b>(246)</b>	<b>(1 031)</b>

Source: Department of Treasury and Finance

Notes:

- (a) June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.
- (b) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.



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

(\$ million)

	2016	2015
<b>Assets</b>		
<b>Financial assets</b>		
Cash and deposits	5 574	5 374
Advances paid	153	89
Receivables <sup>(a)</sup>	6 412	5 884
Investments, loans and placements	3 906	4 395
Investments accounted for using the equity method	1 918	2 021
Investments in other sector entities <sup>(a)</sup>	2 481	3 210
<b>Total financial assets <sup>(a)</sup></b>	<b>20 444</b>	<b>20 972</b>
<b>Non-financial assets</b>		
Inventories	709	710
Non-financial assets held for sale	200	205
Land, buildings, infrastructure, plant and equipment <sup>(b)</sup>	226 481	206 869
Other non-financial assets	2 191	1 932
<b>Total non-financial assets <sup>(b)</sup></b>	<b>229 581</b>	<b>209 716</b>
<b>Total assets <sup>(a)(b)</sup></b>	<b>250 025</b>	<b>230 688</b>
<b>Liabilities</b>		
Deposits held and advances received	802	637
Payables	6 865	6 480
Borrowings	45 409	45 769
Employee benefits	6 551	5 985
Superannuation	29 354	25 988
Other provisions	1 047	1 051
<b>Total liabilities</b>	<b>90 029</b>	<b>85 910</b>
<b>Net assets <sup>(a)(b)</sup></b>	<b>159 996</b>	<b>144 778</b>
Accumulated surplus/(deficit) <sup>(a)(b)</sup>	61 161	62 895
Reserves	98 785	81 833
Non-controlling interest	50	50
<b>Net worth <sup>(a)(b)</sup></b>	<b>159 996</b>	<b>144 778</b>
<b>FISCAL AGGREGATES</b>		
Net financial worth <sup>(a)</sup>	(69 585)	(64 938)
Net financial liabilities <sup>(a)</sup>	72 066	68 148
Net debt	36 578	36 548

Source: Department of Treasury and Finance

Notes:

- (a) June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.
- (b) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.

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

	2016	2015
<b>Cash flows from operating activities</b>		
<b>Receipts</b>		
Taxes received	19 339	18 026
Grants	25 364	24 486
Sales of goods and services <sup>(a)</sup>	12 056	11 598
Interest received	365	372
Dividends and income tax equivalent and rate equivalent receipts	424	633
Other receipts <sup>(b)</sup>	2 567	2 279
<b>Total receipts <sup>(b)</sup></b>	<b>60 115</b>	<b>57 395</b>
<b>Payments</b>		
Payments for employees	(20 684)	(19 621)
Superannuation	(2 990)	(2 878)
Interest paid	(2 625)	(2 743)
Grants and subsidies	(5 616)	(5 749)
Goods and services <sup>(a)</sup>	(20 680)	(20 129)
Other payments	(468)	(1 062)
<b>Total payments</b>	<b>(53 064)</b>	<b>(52 182)</b>
<b>Net cash flows from operating activities <sup>(b)</sup></b>	<b>7 051</b>	<b>5 213</b>
<b>Cash flows from investing activities</b>		
Purchases of non-financial assets <sup>(c)</sup>	(6 801)	(6 580)
Sales of non-financial assets	453	594
<b>Cash flows from investments in non-financial assets <sup>(c)</sup></b>	<b>(6 348)</b>	<b>(5 986)</b>
Net cash flows from investments in financial assets for policy purposes <sup>(b)(c)</sup>	345	181
<b>Sub-total <sup>(b)(c)</sup></b>	<b>(6 003)</b>	<b>(5 806)</b>
Net cash flows from investments in financial assets for liquidity management purposes	567	(270)
<b>Net cash flows from investing activities <sup>(b)(c)</sup></b>	<b>(5 436)</b>	<b>(6 076)</b>
<b>Cash flows from financing activities</b>		
Advances received (net)	..	..
Net borrowings	(1 457)	575
Deposits received (net)	42	95
Other financing (net)	1	..
<b>Net cash flows from financing activities</b>	<b>(1 414)</b>	<b>671</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>201</b>	<b>(192)</b>
Cash and cash equivalents at beginning of reporting period	5 374	5 566
<b>Cash and cash equivalents at end of the financial year</b>	<b>5 574</b>	<b>5 374</b>
<b>FISCAL AGGREGATES</b>		
Net cash flows from operating activities <sup>(b)</sup>	7 051	5 213
Net cash flows from investments in non-financial assets <sup>(c)</sup>	(6 348)	(5 986)
<b>Cash surplus/(deficit) <sup>(b)(c)</sup></b>	<b>702</b>	<b>(773)</b>

Source: Department of Treasury and Finance

Notes:

- (a) These items are inclusive of goods and services tax.
- (b) June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.
- (c) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.

**Table 5.4: Non-financial public sector statement of changes in equity**

(\$ million)

	Accumulated surplus/(deficit)	Non-controlling Interest	Non-financial assets revaluation surplus <sup>(a)</sup>	Investment in other sector entities revaluation surplus	Other reserves	Total
<b>2016</b>						
Balance at 1 July 2015 <sup>(b)(c)</sup>	62 895	50	77 427	3 240	1 166	144 778
Net result for the year	1 673	..	..	..	..	1 673
Other comprehensive income for the year	(3 385)	..	17 514	(421)	(163)	13 544
Transfer to/(from) accumulated surplus	(22)	..	22	..	..	..
Transactions with owners in their capacity as owners	..	..	..	..	..	..
<b>Total equity as at 30 June 2016</b>	<b>61 161</b>	<b>50</b>	<b>94 963</b>	<b>2 819</b>	<b>1 002</b>	<b>159 996</b>
<b>2015</b>						
Balance at 1 July 2014 <sup>(b)</sup>	47 166	50	85 435	2 604	980	136 235
Net result for the year	128	..	..	..	..	128
Other comprehensive income for the year <sup>(b)(c)</sup>	189	..	7 404	636	186	8 415
Transfer to/(from) accumulated surplus <sup>(c)</sup>	15 412	..	(15 412)	..	..	..
Transactions with owners in their capacity as owners	..	..	..	..	..	..
<b>Total equity as at 30 June 2015<sup>(b)(c)</sup></b>	<b>62 895</b>	<b>50</b>	<b>77 427</b>	<b>3 240</b>	<b>1 166</b>	<b>144 778</b>

Source: Department of Treasury and Finance

- Notes:
- (a) Non-financial assets revaluation surplus relates to revaluation of land, buildings, infrastructure, plant and equipment.
- (b) The June 2015 comparative figures and 1 July 2015 opening balances have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.
- (c) The June 2015 comparative figures and 1 July 2015 opening balances have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.

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

(\$ million)

	2016	2015
<b>Cash surplus/(deficit)<sup>(a)(b)</sup></b>	<b>702</b>	<b>(773)</b>
Less: Acquisitions under finance leases and similar arrangements	(1 050)	(99)
<b>GFS cash surplus/(deficit)<sup>(a)(b)(c)</sup></b>	<b>(348)</b>	<b>(872)</b>

Source: Department of Treasury and Finance

- Notes:
- (a) June 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.
- (b) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.
- (c) Determined in accordance with the ABS GFS manual.

**Table 5.6: General government sector detailed expenses by function <sup>(a)</sup>**
**(\$ million)**

<i>Output description (general purpose classification)</i>	<b>2016</b>	<b>2015 <sup>(b)</sup></b>
<b>General public services</b>	<b>2 662</b>	<b>3 005</b>
Other general public services	2 662	3 005
<b>Public order and safety</b>	<b>6 269</b>	<b>5 769</b>
Police and fire protection services	3 902	3 589
Police services	2 694	2 515
Fire protection services	1 208	1 075
Law courts and legal services	889	855
Prisons and corrective services	1 080	962
Other public order and safety	398	363
<b>Education</b>	<b>13 424</b>	<b>12 972</b>
Primary and secondary education	10 274	9 765
Primary education	5 439	4 921
Secondary education	4 810	4 790
Primary and secondary education NEC <sup>(c)</sup>	24	54
Tertiary education	1 980	2 109
Technical and further education	1 980	2 109
Pre-school education and education not definable by level	1 060	970
Pre-school education	351	301
Special education	709	670
Transportation of students	110	128
Transportation of non-urban school children	79	39
Transportation of other students	31	89
Education NEC <sup>(c)</sup>		
<b>Health</b>	<b>15 331</b>	<b>14 361</b>
Acute care institutions	11 445	10 712
Admitted patient services in acute care institutions	9 397	8 813
Non-admitted patient services in acute care institutions	2 047	1 899
Mental health institutions	90	60
Nursing homes for the aged	543	508
Community health services	2 380	2 216
Community health services (excluding community mental health)	869	805
Community mental health	765	716
Patient transport	745	695
Public health services	382	409
Pharmaceuticals, medical aids and appliances	411	383
Health research	68	61
Health administration NEC <sup>(c)</sup>	13	13
<b>Social security and welfare</b>	<b>4 539</b>	<b>4 254</b>
Welfare services	4 539	4 254
Family and child services	1 123	1 044
Welfare services for the aged	1 065	1 016
Welfare services for people with a disability	1 792	1 672
Welfare services NEC <sup>(c)</sup>	558	522
<b>Housing and community amenities</b>	<b>2 611</b>	<b>2 948</b>
Housing and community development	2 016	2 457
Housing	460	425
Aboriginal community development	18	14
Other community development	1 538	2 018
Water supply	120	123
Sanitation and protection of the environment	465	359
Other community amenities	9	8

<i>Output description (general purpose classification)</i>	<b>2016</b>	<b>2015 <sup>(b)</sup></b>
<b>Recreation and culture</b>	<b>800</b>	<b>682</b>
Recreation facilities and services	386	291
National parks and wildlife	88	82
Recreation facilities and services NEC <sup>(c)</sup>	297	209
Cultural facilities and services	415	391
<b>Fuel and energy</b>	<b>128</b>	<b>130</b>
Electricity and other energy	128	130
Electricity	33	31
Fuel and energy NEC <sup>(c)</sup>	95	100
<b>Agriculture, forestry, fishing and hunting</b>	<b>414</b>	<b>360</b>
Agriculture	313	293
Forestry, fishing and hunting	101	67
<b>Transport and communications</b>	<b>6 245</b>	<b>6 103</b>
Road transport	1 661	1 673
Road maintenance	416	480
Road construction	871	926
Road transport NEC <sup>(c)</sup>	373	268
Rail transport	4 473	4 343
Urban rail transport services	3 849	3 832
Non-urban rail transport passenger services	625	511
Other transport	111	87
Other transport NEC <sup>(c)</sup>	111	87
<b>Other economic affairs</b>	<b>857</b>	<b>1 109</b>
Tourism and area promotion	223	239
Labour and employment affairs	135	11
Other labour and employment affairs	135	11
Other economic affairs	499	860
<b>Other purposes</b>	<b>1 350</b>	<b>1 376</b>
Public debt transactions	1 310	1 339
Other purposes NEC <sup>(c)</sup>	40	38
<b>Not allocated by purpose <sup>(d)</sup></b>	<b>(579)</b>	<b>(513)</b>
<b>Total</b>	<b>54 052</b>	<b>52 558</b>

Source: Department of Treasury and Finance

Notes:

- (a) Chapter 4, Note 3.6 provides definitions and descriptions of government purpose classifications.  
(b) June 2015 comparative figures have been reclassified to reflect more current information.  
(c) NEC: Not elsewhere classified.  
(d) Not allocated by purpose represents eliminations and adjustments.

## VICTORIA'S 2015-16 LOAN COUNCIL ALLOCATION

Under the Uniform Presentation Framework (UPF), Victoria is required to publish the Loan Council Allocation (LCA) estimates. The LCA is a measure of each government's net call on financial markets in a given financial year to meet its budget obligations. The method of public release is the

responsibility of each jurisdiction. Victoria discloses its LCA information through the *Financial Report* for the State of Victoria, Budget Paper No. 5 *Statement of Finances* and Budget Update.

Table 5.7 compares the Victorian 2015-16 LCA nomination as published in the *2015-16 Budget* with the 2015-16 outcome.

**Table 5.7: Loan Council Allocation 2015-16**

(\$ million)

	2016 budget	2016 actual
General government cash deficit(+) or surplus (-)	475	(1 129)
Public non-financial corporations sector cash deficit(+) or surplus (-)	(5 858)	429
Non-financial public sector cash deficit(+) or surplus(-) <sup>(a)</sup>	(5 381)	(702)
Acquisitions under finance leases and similar arrangements	1 050	1 050
ABS GFS cash deficit(+) or surplus(-)	(4 331)	348
Less Net cash flows from investments in financial assets for policy purposes <sup>(b)</sup>	(53)	(345)
Plus memorandum items <sup>(c)</sup>	361	286
<b>Loan Council Allocation</b>	<b>(3 917)</b>	<b>979</b>
Tolerance limit (2 per cent of non-financial public sector cash receipts from operating activities) <sup>(d)</sup>	1 190	1 190

Source: Department of Treasury and Finance

### Notes:

- (a) The sum of the deficit of the general government and public non-financial corporation sector does not directly equal the non-financial public sector cash deficit due to inter sectoral transfers, which are netted out in the calculation of the non-financial public sector figure. The non-financial public sector cash deficit excludes finance lease acquisitions.
- (b) The ABS GFS cash deficit is adjusted to include in the LCA the impact of net cash flows from investments in financial assets for policy purposes.
- (c) The ABS GFS cash deficit is adjusted to include in the LCA the impact of memorandum items, which include certain transactions that have many of the characteristics of public sector borrowings but do not constitute formal borrowings (e.g. operating leases). They also include, where appropriate, transactions that the Loan Council has agreed should not be included in the LCA (e.g. the over/under funding of employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities).
- (d) A tolerance limit equal to 2 per cent of total non-financial public sector cash receipt from operating activities applies to the movement between a jurisdiction's LCA budget estimate and LCA outcome (calculated using estimates in the 2015-16 Budget). The tolerance limit applying to the movement between Victoria's 2015-16 LCA budget estimate and its LCA outcome is \$1 190 million (2 per cent of \$59 483 million).

As part of the Loan Council arrangements, the Council has agreed that if at any time a state or territory find that it is likely to exceed its tolerance limit, in either direction, it is required to provide an explanation to the Council and, in line with the emphasis of increased transparency, to make the explanation public. Victoria's 2015-16 LCA outcome (a deficit of \$1 billion) is \$5 billion lower than the budgeted LCA and exceeds the 2015-16 tolerance limit. This is primarily due to the revised timing from entering into a medium-term lease over the operations of the Port of Melbourne from 2015-16 to 2016-17.

## NEW INFRASTRUCTURE PROJECTS WITH PRIVATE SECTOR INVOLVEMENT

In the interest of transparency, the State is required to disclose the details of new infrastructure projects with private sector involvement that are expected to be contracted during the LCA year, and to report the full contingent exposure, if any. Exposure is to be measured by the Government's termination liabilities in a case of private sector default and disclosed as a footnote to, rather than a component of, the LCA. The amount payable will not exceed the fair market value of the project (which is usually calculated by an independent valuer) less any costs incurred by the Government as a result of the default.

Listed below are details of the public private partnership projects that were contracted in the 2015-16 financial year.

## **New Schools PPP project**

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The New Schools PPP project will deliver 15 new schools in growth communities as a public private partnership under the *Partnerships Victoria* framework.

The tender process commenced in October 2014 and the contract was executed on 28 October 2015. The Learning Communities Victoria consortium will design, build, finance and maintain the schools for a term of 25 years, with the State retaining responsibility for educational services. The net present cost of the contract is \$497 million (October 2015).

The new schools are expected to be operational in 2017 and 2018. Once the schools commence operations, the State will begin quarterly payments to the consortium, the value of which will depend on the attainment of key performance indicators related to ongoing service provision.

## **CityLink–Tulla widening**

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The CityLink–Tulla widening project will widen the Western Link section of CityLink (from the West Gate Freeway–Burnley Tunnel to Bulla Road) and Tullamarine Freeway (from Bulla Road to the Melbourne Airport), and introduce a Freeway Management System along this corridor.

The CityLink–Tulla widening is a combination of a market-led proposal from Transurban, the owner and operator of the CityLink toll road concession, and State and Commonwealth Government contributions to upgrade the Tullamarine Freeway. Transurban is responsible for works on CityLink under a public private partnership (PPP) arrangement where Transurban is responsible for the design, construction, funding, financing, maintenance and operation of the road until the end of the concession. The State is also constructing works on the Tullamarine Freeway.

Under the PPP arrangement established in April 2015, Transurban will pay for costs associated with the project through CityLink tolls, namely an expected uplift in traffic and toll revenue post construction, an extension of the CityLink concession by one year, toll prices remaining escalated at an annual rate of 4.5 per cent for an additional year after 2015 and truck tolls increasing to become consistent with national pricing for trucks on other motorway networks. These funding sources are also contributing to fund the costs of the State works for the project.

In addition to the funding sourced from CityLink tolls, the State and Commonwealth Governments are also providing \$272.8 million to fund the State works.

The total estimated capital cost of the project is \$1.28 billion, with the State works on the Tullamarine Freeway estimated to cost \$415 million and Transurban works on CityLink estimated to cost \$867 million.

Transurban and Leighton Contractors (the successful tenderer for the CityLink works) commenced construction on site in October 2015. The State works being undertaken by VicRoads and Lendlease (the successful tenderer for the Tullamarine Freeway works) commenced in May 2016. The project is expected to be completed in 2018.

## **Melbourne Convention and Exhibition Centre – Stage 2 development**

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The Melbourne Convention and Exhibition Centre – Stage 2 development project, established in May 2016, provides for construction of an additional 9 000 square metres of flexible exhibition space including a multi-purpose facility with 900 retractable seats and 200 additional moveable seats. A hub space connecting the existing buildings will be constructed with cafes, bars and informal meeting spaces. The project will also provide meeting rooms and a banquet room seating 450 people. This expansion will provide additional space to attract new business and increase the earning capacity to Melbourne Convention and Exhibition Centre.

The expansion will provide direct and indirect economic benefits over the life of the development including benefits from the construction, and, during operation, benefits from the additional interstate and international delegates visiting Victoria.

The expansion will be delivered as a modification under the existing Melbourne Convention Centre Development public private partnership contract, with Plenary Group responsible for the delivery.

Plenary will also deliver commercial developments in the form of a new multi deck car park and a 3.5 to 4 star hotel next to the expanded facilities.

The funding approval for the Convention Centre expansion is \$205 million, which expected to be completed in early 2018.





# APPENDIX A – GENERAL GOVERNMENT SECTOR

## QUARTERLY FINANCIAL REPORT

Table A.1: Operating statement for the past five quarters

(\$ million)

	2014-15		2015-16		
	Jun	Sep	Dec	Mar	Jun
<b>Revenue from transactions</b>					
Taxation revenue	4 098	5 061	4 615	5 866	4 353
Interest revenue	219	203	190	186	206
Dividends and income tax equivalent and rate equivalent revenue	383	59	392	108	288
Sales of goods and services	1 439	1 661	1 671	1 461	1 879
Grant revenue	6 039	6 010	6 291	6 878	6 227
Other revenue	857	564	1 162	489	892
<b>Total revenue from transactions</b>	<b>13 035</b>	<b>13 559</b>	<b>14 321</b>	<b>14 989</b>	<b>13 847</b>
<b>Expenses from transactions</b>					
Employee expenses	4 887	4 768	4 997	4 870	5 367
Net superannuation interest expense	276	223	218	218	218
Other superannuation	461	554	606	475	488
Depreciation	616	605	595	606	698
Interest expense	543	513	521	520	522
Grant expense	1 753	2 172	2 143	2 672	1 577
Other operating expenses	5 157	4 204	4 253	3 899	5 549
<b>Total expenses from transactions</b>	<b>13 693</b>	<b>13 040</b>	<b>13 333</b>	<b>13 260</b>	<b>14 418</b>
<b>Net result from transactions – net operating balance</b>	<b>(658)</b>	<b>519</b>	<b>988</b>	<b>1 729</b>	<b>(572)</b>
<b>Other economic flows included in net result</b>					
Net gain/(loss) on disposal of non-financial assets	(15)	(13)	24	(14)	(141)
Net gain/(loss) on financial assets or liabilities at fair value	(28)	(29)	9	(11)	21
Share of net profit/(loss) from associates/joint venture entities, excluding dividends	(3)	..	2	..	(6)
Other gains/(losses) from other economic flows	(53)	(124)	(136)	(125)	(303)
<b>Total other economic flows included in net result</b>	<b>(99)</b>	<b>(166)</b>	<b>(101)</b>	<b>(150)</b>	<b>(429)</b>
<b>Net result</b>	<b>(757)</b>	<b>353</b>	<b>887</b>	<b>1 579</b>	<b>(1 001)</b>
<b>Other economic flows – other comprehensive income</b>					
<b>Items that will not be reclassified to net result</b>					
Changes in non-financial assets revaluation surplus	2 601	32	(24)	(30)	6 258
Remeasurement of superannuation defined benefits plans	4 987	(1 934)	1 230	(1 274)	(1 243)
Other movements in equity <sup>(a)</sup>	456	13	(38)	34	13
<b>Items that may be reclassified subsequently to net result</b>					
Net gain/(loss) on financial assets at fair value	2	(3)	(23)	(27)	(31)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets <sup>(b)</sup>	4 229	..	(327)	..	10 860
<b>Total other economic flows – other comprehensive income <sup>(a)(b)</sup></b>	<b>12 274</b>	<b>(1 892)</b>	<b>817</b>	<b>(1 297)</b>	<b>15 857</b>
<b>Comprehensive result – total change in net worth <sup>(a)(b)</sup></b>	<b>11 518</b>	<b>(1 539)</b>	<b>1 704</b>	<b>282</b>	<b>14 856</b>
<b>KEY FISCAL AGGREGATES</b>					
<b>Net operating balance</b>	<b>(658)</b>	<b>519</b>	<b>988</b>	<b>1 729</b>	<b>(572)</b>
Less: Net acquisition of non-financial assets from transactions <sup>(a)</sup>	339	82	280	189	236
<b>Net lending/(borrowing) <sup>(a)</sup></b>	<b>(997)</b>	<b>437</b>	<b>708</b>	<b>1 540</b>	<b>(808)</b>

Notes:

(a) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.

(b) June 2015 and December 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.

Table A.2: Balance sheet as at the end of the past five quarters

(\$ million)

	2014-15		2015-16		
	Jun	Sep	Dec	Mar	Jun
<b>Assets</b>					
<b>Financial assets</b>					
Cash and deposits	4 282	4 061	4 112	4 415	4 772
Advances paid	4 572	4 567	4 550	4 539	4 582
Receivables	5 555	5 897	5 907	6 450	5 566
Investments, loans and placements	3 406	3 440	3 389	3 745	2 853
Investments accounted for using the equity method	45	44	44	44	46
Investments in other sector entities <sup>(a)</sup>	82 262	82 548	82 563	82 818	94 710
<b>Total financial assets <sup>(a)</sup></b>	<b>100 121</b>	<b>100 558</b>	<b>100 566</b>	<b>102 011</b>	<b>112 531</b>
<b>Non-financial assets</b>					
Inventories	144	146	154	175	188
Non-financial assets held for sale	175	169	165	165	188
Land, buildings, infrastructure, plant and equipment <sup>(b)</sup>	107 562	107 503	107 750	107 948	114 254
Other non-financial assets	1 038	1 215	1 195	1 068	1 081
<b>Total non-financial assets <sup>(b)</sup></b>	<b>108 920</b>	<b>109 033</b>	<b>109 265</b>	<b>109 356</b>	<b>115 711</b>
<b>Total assets <sup>(a)(b)</sup></b>	<b>209 041</b>	<b>209 590</b>	<b>209 830</b>	<b>211 368</b>	<b>228 242</b>
<b>Liabilities</b>					
Deposits held and advances received	518	471	485	529	706
Payables	5 704	5 355	5 188	5 413	5 773
Borrowings	34 069	34 597	34 301	34 078	33 811
Employee benefits	5 605	5 675	5 769	5 676	6 137
Superannuation	25 947	27 885	26 722	28 032	29 291
Other provisions	807	754	809	802	829
<b>Total liabilities</b>	<b>72 650</b>	<b>74 738</b>	<b>73 274</b>	<b>74 529</b>	<b>76 547</b>
<b>Net assets <sup>(a)(b)</sup></b>	<b>136 391</b>	<b>134 853</b>	<b>136 556</b>	<b>136 838</b>	<b>151 695</b>
Accumulated surplus/(deficit) <sup>(b)</sup>	45 764	44 213	46 304	46 586	44 454
Reserves <sup>(a)</sup>	90 577	90 590	90 203	90 203	107 191
Non-controlling interest	50	50	50	50	50
<b>Net worth <sup>(a)(b)</sup></b>	<b>136 391</b>	<b>134 853</b>	<b>136 556</b>	<b>136 838</b>	<b>151 695</b>
<b>FISCAL AGGREGATES</b>					
Net financial worth <sup>(a)</sup>	27 471	25 820	27 292	27 482	35 984
Net financial liabilities	54 791	56 728	55 271	55 336	58 727
Net debt	22 327	23 000	22 735	21 908	22 309

**Notes:**

(a) June 2015 and September 2015 comparative figures have been restated to reflect an adjustment to Coliban Water's deferred tax liability balances in the PNFC sector attributable to a change in valuation policy in 2015-16.

(b) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.

Table A.3: Statement of cash flows for the past five quarters

(\$ million)

	2014-15		2015-16		
	Jun	Sep	Dec	Mar	Jun
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Taxes received	4 773	4 887	5 048	4 748	5 092
Grants	6 082	6 008	6 292	6 875	6 200
Sales of goods and services <sup>(a)</sup>	1 591	1 782	1 745	1 667	2 060
Interest received	235	193	179	183	231
Dividends and income tax equivalent and rate equivalent receipts	268	49	556	108	88
Other receipts	816	439	499	942	556
<b>Total receipts</b>	<b>13 764</b>	<b>13 359</b>	<b>14 319</b>	<b>14 523</b>	<b>14 227</b>
<b>Payments</b>					
Payments for employees	(4 908)	(4 730)	(4 892)	(4 972)	(5 026)
Superannuation	(684)	(773)	(757)	(658)	(689)
Interest paid	(529)	(531)	(500)	(519)	(491)
Grants and subsidies	(1 614)	(2 185)	(2 151)	(2 693)	(1 509)
Goods and services <sup>(a)</sup>	(4 370)	(4 666)	(4 301)	(3 644)	(4 646)
Other payments	(581)	(194)	(176)	(161)	(204)
<b>Total payments</b>	<b>(12 686)</b>	<b>(13 078)</b>	<b>(12 778)</b>	<b>(12 647)</b>	<b>(12 566)</b>
<b>Net cash flows from operating activities</b>	<b>1 078</b>	<b>280</b>	<b>1 541</b>	<b>1 877</b>	<b>1 661</b>
<b>Cash flows from investing activities</b>					
Purchases of non-financial assets <sup>(b)</sup>	(1 982)	(960)	(1 077)	(954)	(1 429)
Sales of non-financial assets	213	22	51	30	87
<b>Cash flows from investments in non-financial assets <sup>(b)</sup></b>	<b>(1 769)</b>	<b>(938)</b>	<b>(1 026)</b>	<b>(925)</b>	<b>(1 341)</b>
Net cash flows from investments in financial assets for policy purposes <sup>(b)</sup>	(270)	30	(220)	(77)	359
<b>Sub-total</b>	<b>(2 039)</b>	<b>(908)</b>	<b>(1 245)</b>	<b>(1 001)</b>	<b>(982)</b>
Net cash flows from investments in financial assets for liquidity management purposes	(39)	(74)	40	(392)	961
<b>Net cash flows from investing activities</b>	<b>(2 078)</b>	<b>(982)</b>	<b>(1 205)</b>	<b>(1 393)</b>	<b>(22)</b>
<b>Cash flows from financing activities</b>					
Advances received (net)	(1)	..	..	..	..
Net borrowings	684	528	(299)	(225)	(1 336)
Deposits received (net)	(10)	(47)	14	43	54
<b>Net cash flows from financing activities</b>	<b>673</b>	<b>481</b>	<b>(285)</b>	<b>(181)</b>	<b>(1 282)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(327)</b>	<b>(220)</b>	<b>51</b>	<b>303</b>	<b>357</b>
Cash and cash equivalents at beginning of reporting period	4 609	4 282	4 061	4 112	4 415
<b>Cash and cash equivalents at end of the financial year</b>	<b>4 282</b>	<b>4 061</b>	<b>4 112</b>	<b>4 415</b>	<b>4 772</b>
<b>FISCAL AGGREGATES</b>					
Net cash flows from operating activities	1 078	280	1 541	1 877	1 661
Net cash flows from investments in non-financial assets <sup>(b)</sup>	(1 769)	(938)	(1 026)	(925)	(1 341)
<b>Cash surplus/(deficit) <sup>(b)</sup></b>	<b>(691)</b>	<b>(658)</b>	<b>515</b>	<b>952</b>	<b>320</b>

Notes:

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

(b) June 2015 comparative figures have been restated to finalise the allocation of equity balances between contributed capital and accumulated funds related to prior year machinery of government changes.



## APPENDIX B – FINANCIAL MANAGEMENT

### ACT 1994 – COMPLIANCE INDEX

The *Financial Management Act 1994* 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 *Financial Management Act 1994*.

The *Financial Management Act 1994* also requires the annual financial report to meet certain requirements. The following compliance index explains how these requirements are met, together with appropriate references in this document.

Financial Management		
Act 1994 reference	Requirement	Comments/reference
Section 24(1)	The Minister must prepare an annual financial report for each financial year.	Refer to Chapter 4
Section 24(2)	The annual financial report: <ul style="list-style-type: none"> <li>(a) must be prepared in the manner and form determined by the Minister, having regard to appropriate financial reporting frameworks;</li> <li>(b) must present fairly the financial position of the State and the Victorian general government sector at the end of the financial year; and               <ul style="list-style-type: none"> <li>(i) the transactions of the Public Account;</li> <li>(ii) the transactions on the Victorian general government sector; and</li> </ul> </li> </ul>	<p>Manner is in accordance with Australian Accounting Standards and Ministerial Directions. Form is consolidated comprehensive operating statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity and accompanying notes. Refer to Chapter 4</p> <p>Consolidated balance sheet, page 29</p> <p>Refer Chapter 4, Note 8.2 pages 121-134</p> <p>Refer Chapter 4, consolidated comprehensive operating statement page 28, consolidated cash flow statement page 30 and selected notes</p>

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| (iii) other financial transactions of the State;   | Refer Chapter 4, consolidated comprehensive operating statement page 28, consolidated cash flow statement page 30 and Notes 1-8, pages 33-134 |
| in respect of the financial year;  |   |
| (c) must include details of amounts paid into working accounts under section 23;   | Refer Chapter 4, Note 8.2.9, page 129   |
| (d) must include details of amounts allocated to departments during the financial year under section 28;   | Refer Chapter 4, Note 8.2.10, page 130  |
| (e) must include details of money credited under section 29 to an item in a schedule to an appropriation Act for that financial year;  | Refer Chapter 4, Note 8.2.12, page 130  |
| (f) must include particulars of amounts transferred in accordance with determinations under section 30 or 31;  | Refer Chapter 4, Note 8.2.11, page 130  |
| (g) must include details of;   |   |
| (i) amounts appropriated in respect of the financial year as a result of a determination under section 32 in respect of unused appropriation for the preceding financial year; | Refer Chapter 4, Note 8.2.13, page 131  |
| (ii) the application during the financial year of amounts referred to in subparagraph (i); and   | Refer Chapter 4, Note 8.2.13, page 131  |
| (iii) amounts appropriated in respect of the next financial year as a result of a determination under section 32 in respect of unused appropriation for the financial year;    | Refer Chapter 4, Note 8.2.13, page 131  |
| (h) must include;  |   |
| (i) details of expenses and obligations met from money advanced to the Minister under section 35(1) during the financial year; and   | Refer Chapter 4, Note 8.2.15, page 134  |
| (ii) a statement of the reasons for carrying forward any part of an unused advance to the next financial year under section 35(4);   | Refer Chapter 4, Note 8.2.16, page 134  |

	(i) must include details of payments made during the financial year out of money advanced to the Treasurer in an annual appropriation Act for that year to meet urgent claims;	Refer Chapter 4, Note 8.2.14, pages 132-133
	(j) must include details of;	
	(i) payments made during the financial year in fulfilment of any guarantee by the Government under any Act; and	Refer Chapter 4, Note 8.2.17, page 134
	(ii) money received or recovered by the Minister or Treasurer during the financial year in respect of any guarantee payments;	Refer Chapter 4, Note 8.2.17, page 134
	(k) must include details, as at the end of the financial year, of;	
	(i) the liabilities (including contingent liabilities under guarantees and indemnities or in respect of superannuation payments and all other contingent liabilities) and assets of the State; and	Refer Chapter 4, Note 7.2 pages 93-97, Note 3.2 pages 42-43 and consolidated balance sheet page 29
	(ii) prescribed assets and prescribed liabilities of prescribed bodies;	Refer Chapter 4, Note 9.1 pages 136-143, Refer Chapter 5, Table 5.2 page 159
	(m) must be audited by the Auditor-General.	Refer Chapter 4, Report of the Auditor-General, pages 25-26
Section 26(1)	The Minister must prepare a quarterly financial report for each quarter of each financial year.	Refer Appendix A, pages 167-169
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, pages 167
	(b) a statement of financial position of the Victorian general government sector at the end of the quarter;	Refer Appendix A, page 168
	(c) a statement of cash flows of the Victorian general government sector for the quarter; and	Refer Appendix A, page 169
	(d) a statement of the accounting policies on which the statements required by paragraphs (a), (b) and (c) are based.	Refer Chapter 4

Financial Management		
<i>Act 1994 reference</i>	<i>Requirement</i>	<i>Comments/reference</i>
Section 26(2A)	A quarterly financial report must be prepared in the manner and form determined by the Minister, having regard to appropriate financial reporting frameworks.	Refer to Appendix A for agreed form, pages 167-169
Section 26(3A)	The quarterly financial report for the quarter ending on 30 June in a financial year must include, in addition to the statements referred to in sub-section (2)(a) to (d) for that quarter, those statements for the period of 12 months ending on that 30 June.	Refer to Chapter 4, consolidated comprehensive operating statement page 28, consolidated balance sheet page 29, consolidated cash flow statement page 30 and selected notes



# STYLE CONVENTIONS

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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](http://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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