



Getting on with the job

Victorian Budget 17/18

2017-18 Mid-Year Financial Report

(incorporating Quarterly Financial Report No. 2)
March 2018

Presented by Tim Pallas MP
Treasurer of the State of Victoria

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CHAPTER 1 – MID-YEAR RESULTS FOR THE STATE OF VICTORIA, INCLUDING THE GENERAL GOVERNMENT SECTOR

The *2017-18 Mid-Year Financial Report* presents the financial results for the State of Victoria, including the general government sector, for the six months to 31 December 2017. The report has been prepared in accordance with the *Financial Management Act 1994* and applicable accounting standards.

The actual results in this report are compared with the revised budget estimates in the *2017-18 Budget Update*. The likely 2017-18 full year results cannot be extrapolated from the half-year results due to seasonal and other factors impacting on the timing of activity and transactions. In particular, they do not include significant revenue items that are expected to be recognised in the second half of the financial year. For example, land tax revenue is mainly recognised in the March quarter, and certain grant revenue from the Commonwealth Government is expected to be received later in the financial year.

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

The general government sector consists of all government departments and other controlled public sector agencies that are largely financed by State taxes and Commonwealth grants. The general government sector is primarily responsible for delivering government policy as set out in the annual budget.

The PNFC and PFC sectors comprise a wide range of entities that provide goods and services through commercial cost recovery principles via user charges and fees. The largest Victorian PNFCs provide water, housing and transport services. Victorian PFCs can be categorised into two broad types: those that service the general public and businesses (such as the statutory insurers), and those that provide financial services to other areas of government including investing and borrowing functions.

Due to transactions between the different sectors, not all transactions in each sector affect the overall State of Victoria outcome.

For the period to 31 December 2017, the general government sector recorded a positive net result from transactions of \$950 million.

OVERVIEW

Victoria's state final demand grew by 4.7 per cent over the year to the September quarter, the highest annual growth rate among the states. Growth was supported by household consumption, business investment and public investment. In 2017, annual average employment in Victoria increased by 3.4 per cent. Population growth of 2.3 per cent over the year to June was the highest of all the states. Victoria's economic outlook remains positive, underpinned by solid population and employment growth. The risks to the outlook are balanced. The potential for further strength in population growth and the labour market broadly offsets the downside risks from high household debt and weak income growth. Nevertheless, Victoria's balanced economy and the Government's strong financial position leaves the State well placed to deal with unforeseen developments.

The State's net infrastructure investment for the period to 31 December 2017 was \$5.5 billion, mainly in the general government and the PNFC sectors. This investment is funded by cash flows from operating activities and borrowings. Net cash flows from operating activities for the State for the period to 31 December 2017 were \$3.5 billion. This is lower than the previous half year, which included the proceeds from the lease of the Port of Melbourne.

The non-financial public sector (NFPS) represents the general government sector and the PNFC sector after eliminating transactions between the two sectors.

Net debt for the NFPS was \$33.4 billion, or 7.8 per cent of gross state product (GSP), at 31 December 2017 (7.3 per cent as at 30 June 2017) reflecting an increase in borrowings to fund the NFPS capital program.

FINANCIAL PERFORMANCE

For the six months to 31 December 2017, the general government sector recorded a positive net result from transactions of \$950 million. This is lower than the \$1.4 billion net result from transactions for the same period last year, primarily due to the one-off prepayment of port licence fees received in 2016 as part of the lease of the Port of Melbourne.

The net result for the State was a surplus of \$2.1 billion. This was lower than the \$5.6 billion net result for the same period last year, primarily due to lower valuation gains on insurance claims liabilities and relatively modest gains in the valuation of Treasury Corporation of Victoria borrowings, compared to the previous half year.

Table 1.1: Summary comprehensive operating statement for the period ended 31 December ^(a) (\$ million)

	State of Victoria				General government sector			
	2016-17 actual to Dec	2017-18 actual to Dec	2017-18 revised estimate	% ^(b)	2016-17 actual to Dec	2017-18 actual to Dec	2017-18 revised estimate	% ^(b)
Revenue from transactions								
Taxation revenue	10 467	10 524	21 794	48	10 662	10 708	22 175	48
Interest revenue	327	337	797	42	375	415	906	46
Dividends and income tax equivalent and rate equivalent revenue	536	867	1 217	71	438	433	1 269	34
Sales of goods and services	7 063	7 338	15 151	48	3 416	3 637	7 261	50
Grant revenue	13 285	14 119	29 429	48	13 318	14 227	30 221	47
Other revenue	1 646	1 599	3 206	50	1 288	1 170	2 554	46
Total revenue from transactions	33 325	34 783	71 594	49	29 498	30 591	64 386	48
Expenses from transactions								
Employee expenses	10 977	11 875	24 272	49	10 436	11 296	23 094	49
Net superannuation interest expense	349	360	714	50	349	360	714	50
Other superannuation	1 215	1 328	2 641	50	1 148	1 255	2 495	50
Depreciation	2 406	2 478	5 056	49	1 256	1 312	2 734	48
Interest expense	1 373	1 346	2 722	49	1 012	1 009	2 286	44
Grant expense	3 608	3 446	7 505	46	4 924	5 064	10 792	47
Other operating expenses	12 991	13 905	30 203	46	8 987	9 344	20 558	45
Total expenses from transactions	32 919	34 739	73 112	48	28 111	29 642	62 673	47
Net result from transactions – net operating balance	406	44	(1 518)	(3)	1 387	950	1 713	55
Total other economic flows included in net result	5 190	2 026	2 373	85	(161)	(81)	(253)	32
Net result	5 596	2 070	854	242	1 226	868	1 460	59
Total other economic flows – other comprehensive income	3 023	679	5 654	12	3 640	1 360	5 027	27
Comprehensive result – total change in net worth	8 619	2 749	6 508	42	4 866	2 229	6 488	34

Notes:

(a) This is an abbreviated statement. The full consolidated and disaggregated operating statement is reported in Chapter 2.

(b) The percentage represents the 2017-18 actual to December as a percentage of the revised estimate presented in the 2017-18 Budget Update.

GENERAL GOVERNMENT SECTOR

Revenue

Revenue for the six months ended 31 December 2017 was \$30.6 billion. This is 48 per cent of the full year revised budget estimate and an increase of \$1.1 billion from the same period last year.

Taxation revenue was \$10.7 billion, or 48 per cent of the revised budget estimate. Taxation revenue is influenced by seasonal factors, such as land tax revenue recognised in the March quarter and the Fire Services Property Levy recognised in the first quarter of the financial year.

Aside from these timing factors, taxation revenue has slightly increased when compared to the same period last year. This was largely due to an increase in land transfer duty, reflecting higher than anticipated activity in the property market. This increase was partially offset by the one-off prepayment of port license fees associated with entering into a lease over the Port of Melbourne in the 2016-17 comparative period.

Grant revenue was \$14.2 billion, or 47 per cent of the revised full year budget estimate. This is slightly below pro rata, primarily due to the timing of grants from the Commonwealth. These are expected in the second half of the year as key milestones are met, including for road and rail projects under the Commonwealth Infrastructure Investment Program.

Compared to the same period last year, grant revenue increased by \$909 million. This was mainly due to growth in GST grants from the Commonwealth Government, resulting from Victoria's increased share of the population, and an increase in grants relating to the National Health Reform Agreement.

Dividends and income tax equivalent revenue for the half year was 34 per cent of the revised full year budget estimate, which primarily reflects the timing of dividends and income tax equivalent revenue from the PFC sector.

Revenue from the sale of goods and services for the half year was \$3.6 billion, or 50 per cent of the revised full year budget estimate, in line with expectations.

The other sources of general government revenue represent a relatively small component of total revenue. The decrease from the same time last year is partially a result of the transfer of GMHBA Stadium (formerly Simonds Stadium) to the State from the Geelong City Council free of charge, which occurred in 2016-17.

Expenses

Total expenses were \$29.6 billion, or 47 per cent of the revised full year budget estimate.

Employee expenses were slightly under pro rata for the first half of the year at \$11.3 billion, or 49 per cent of the revised full year budget estimate.

Compared to the same period last year, employee expenses were \$860 million higher, mainly due to increased service delivery in the health, education and community safety sectors, and salary growth in line with wages policy.

Grant expense for the first half of the year was \$5.1 billion, or 47 per cent of the revised full year budget estimate. This is slightly under pro rata mainly due to the timing of certain grant payments.

Compared to the same period last year, grant expense increased by \$140 million, primarily driven by the ongoing transition to the National Disability Insurance Scheme in 2017-18. This was partially offset by the transfer of the Australian Synchrotron to the Commonwealth Government free of charge in the first half of 2016-17.

Other operating expenses was \$9.3 billion, or 45 per cent of the revised full year budget estimate. This is lower than pro rata due to the timing of the purchase of services and supplies and consumables, where the majority of these operating expenses are expected in the second half of the year.

All other categories of general government operating expenses were generally in line with the pro rata revised full year budget estimates.

STATE OF VICTORIA

Revenue

Total revenue for the State was \$34.8 billion, of which \$30.6 billion was in the general government sector. The balance is explained below, noting that not all transactions in the PNFC and PFC sectors will affect the overall State outcome.

Total revenue for the State was 4.4 per cent higher compared to the same period in 2016-17. PNFC sector revenue increased by 6.8 per cent to \$5.3 billion. This was mainly due to an increase in grants revenue for V/Line for additional train services and an increase in revenue from the sale of goods and services, driven by higher income from water, sewerage and recycling services.

The PFC sector revenue increased 6 per cent or \$233 million to \$4.1 billion compared to the same period in 2016-17, mainly due to an increase in investment revenue from higher dividends.

Expenses

Total expenses for the State increased by 5.5 per cent to \$34.7 billion compared to the same period last year. Of this, \$29.6 billion was incurred by the general government sector as previously highlighted.

Compared to the same period in 2016-17, total expenses in the PNFC sector increased by 4 per cent to \$5.5 billion. This was mainly due to an

increase in other operating expenses including increased expenses at V/Line due to higher project, fuel and maintenance costs, an increase in the capital asset charge for VicTrack due to an increase in its asset base, and higher operating and maintenance costs of metropolitan and regional water entities.

Within the PFC sector, total expenses decreased by 5.3 per cent to \$4.9 billion compared to the same period in 2016-17. The decrease in expenses was mainly driven by a decrease in taxes payable by the Transport Accident Commission due to lower profits compared to the same period last year.

Other economic flows and net result

In addition to the net result from transactions, there are a number of other economic flows included in the net result of the State, which comprise accounting and actuarial revaluations that impact the valuation of assets and liabilities, including:

- general government sector other economic flows (negative \$81 million), primarily reflecting movements in provisions for doubtful receivables; and
- whole of State other economic flows of \$2 billion, primarily reflecting a decrease in the valuation of financial liabilities due to an increase in bond rates and strong investment performance in equity markets.

FINANCIAL POSITION

Table 1.2: Summary balance sheet as at 31 December ^(a) (\$ million)

	State of Victoria			General government sector		
	Jun 2017	Dec 2017	Actual movement	Jun 2017	Dec 2017	Actual movement
Assets						
Non-financial assets	242 637	246 185	3 547	123 849	125 700	1 852
Financial assets	59 180	58 139	(1 042)	120 630	121 290	660
Total assets	301 818	304 323	2 506	244 478	246 990	2 512
Liabilities						
Superannuation	24 938	24 472	(466)	24 900	24 438	(462)
Borrowings	48 847	48 453	(394)	28 816	30 995	2 179
Other liabilities	55 799	56 416	617	22 735	21 301	(1 433)
Total liabilities	129 584	129 341	(243)	76 451	76 734	283
Net assets	172 234	174 983	2 749	168 027	170 256	2 229

Note:

(a) This is an abbreviated balance sheet. The full consolidated and disaggregated balance sheet is reported in Chapter 2.

STATE OF VICTORIA

During the period to 31 December 2017, the net assets for the State of Victoria increased by \$2.7 billion. The total assets of the State increased by \$2.5 billion mainly driven by the significant investment in the State's capital program, offset by a slight decline in financial assets in the PNFC sector.

Total liabilities for the State decreased by \$243 million to \$129.3 billion. This decline was mainly due to a decrease in superannuation liabilities and borrowings partially offset by an increase in other liabilities. The decrease in superannuation liabilities is primarily attributable to higher than expected investment returns on superannuation

assets. The increase in other liabilities is due to an increase in unearned premium income for the insurers.

CASH FLOW

Table 1.3 outlines the use of cash resources. It summarises cash generated through the operations of government departments and other general government sector agencies, and how the cash has been invested in fixed assets.

A detailed cash flow statement is provided in Chapter 2.

Table 1.3: Application of cash resources for the general government sector ^(a) (\$ million)

	2017-18 actual to Dec	2017-18 revised estimate
Net result from transactions – net operating balance	950	1 713
Add back: Non-cash revenues and expenses (net) ^(b)	786	2 180
Net cash flows from operating activities	1 736	3 893
Less:		
Net investment in fixed assets		
Purchases of non-financial assets	4 570	9 289
Net cash flows from investments in financial assets for policy purposes ^(c)	(718)	(2 593)
Sales of non-financial assets	(96)	(532)
Net investment in fixed assets	3 756	6 165
Finance leases ^(d)	463	647
Other investment activities (net)	864	2 954
Decrease/(increase) in net debt	(3 347)	(5 872)

Notes:

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

(b) Includes depreciation, movements in the unfunded superannuation liability and liability of employee benefits.

(c) Includes net advances to public non-financial corporations for policy purposes of \$979 million for the six months ended 31 December.

(d) The 2017-18 estimate relates to the Ravenhall Prison project, the new Bendigo Hospital project (stage 2) and the New Schools PPP project (tranche 2).

Infrastructure investment

The State's infrastructure program supports growing community needs and ongoing productivity improvement. For the six months to 31 December 2017, net investment in fixed assets by the State totalled \$5.5 billion.

The Government's infrastructure scorecard as at 31 December 2017

Major projects in progress include:

- Ballarat Line Upgrade;
- Bendigo Hospital – Stage 2;
- Casey Hospital Expansion;
- CityLink–Tulla widening;
- Chandler Highway Upgrade;
- Drysdale Bypass and High Street upgrades;
- Echuca-Moama Bridge;
- Frankston line stabling;
- Goulburn–Murray Water Connections Project (Northern Victoria Irrigation Renewal Project);
- Goulburn Valley Health redevelopment;
- Hurstbridge Corridor Upgrade – Stage 1;
- Joan Kirner Women's and Children's Hospital;
- Level Crossing Removal Program;
- M80 Ring Road upgrade:
 - Sunshine Avenue to Calder Freeway;
 - Princes Freeway to Western Highway;
 - Sydney Road to Edgars Road; and
 - Plenty Road to Greensborough Highway.
- Melbourne Convention and Exhibition Centre development – Stage 2;
- Melbourne Park redevelopment – Stages 2 and 3;
- Melbourne Underground Rail Loop – Fire and Safety Upgrade;
- Mernda Rail Extension;
- Metro Tunnel;
- Monash Children's Hospital;
- Mordialloc Bypass;
- Murray Basin Rail Project;
- New Schools PPP project – Tranche 2;
- New trains, trams and associated infrastructure for Melbourne commuters;
- New youth justice facility;
- Northern Hospital inpatient expansion – Stage 2;
- Princes Highway duplication project – Winchelsea to Colac;
- Regional Rail Revival;
- Royal Victorian Eye and Ear Hospital redevelopment;
- Thompsons Road duplication;
- West Gate Tunnel Project;
- Western Highway duplication;
- Western Roads Upgrade; and
- Yan Yean Road duplication.

FINANCIAL SUSTAINABILITY

General government sector

Table 1.4 shows general government sector net debt increased by \$3.3 billion to \$19.1 billion as at 31 December 2017. This is consistent with expectations, and reflects the Government's significant infrastructure program. Consequently, the ratio on net debt to GSP has increased from 3.9 per cent to 4.5 per cent.

Overall, net financial liabilities increased during the period due to the increase in net debt, partially offset by the \$462 million reduction in the superannuation liability. The reduced superannuation liability is primarily due to higher than expected investment returns on superannuation assets for the period. The ratio of net financial liabilities to GSP remained at 11.9 per cent at the end of the period.

Table 1.4: General government sector net debt and net financial liabilities as at 31 December (\$ million)

	Opening 1 July 2017	Closing 31 Dec 2017	Actual movement	% change
Assets				
Cash and deposits	5 530	3 992	(1 537)	(28)
Advances paid	12 939	11 986	(953)	(7)
Investment, loans and placements	3 673	4 159	487	13
Total	22 141	20 138	(2 004)	(9)
Liabilities				
Deposits held and advances received	9 088	8 252	(836)	(9)
Borrowings	28 816	30 995	2 179	8
Total	37 904	39 247	1 343	4
Net debt ^(a)	15 762	19 109	3 347	21
Superannuation liability	24 900	24 438	(462)	(2)
Net debt plus superannuation liabilities	40 663	43 547	2 885	7
Other liabilities ^(b)	7 668	7 195	(473)	(6)
Net financial liabilities ^(c)	48 331	50 742	2 411	5
(per cent)				
Net debt to GSP ^(d)	3.9	4.5		
Net debt plus superannuation liability to GSP ^(d)	10.0	10.2		
Net financial liabilities to GSP ^(d)	11.9	11.9		

Notes:

(a) The sum of borrowings, deposits held and advances received less the sum of cash and deposits, advances paid, and investments, loans and placements.

(b) Includes other employee entitlements, provisions and other liabilities, less receivables and investments accounted for using the equity method.

(c) Total liabilities less financial assets (excluding investments in other sector entities).

(d) Ratios to GSP may vary from publications year-to-year due to revisions to the ABS GSP data. The ratios as at 31 December 2017 reflect the 2017-18 GSP forecast growth rate for the full year.

Non-financial public sector

Table 1.5 includes several key indicators to assess financial sustainability of the NFPS (comprising the general government and the PNFC sectors), which is significant to the State's credit rating.

Table 1.5: Non-financial public sector net debt and net financial liabilities as at 31 December (\$ million)

	Opening 1 July 2017	Closing 31 Dec 2017	Actual movement	% change
Assets				
Cash and deposits	6 684	5 254	(1 430)	(21)
Advances paid	280	334	54	19
Investment, loans and placements	4 791	5 417	625	13
Total	11 755	11 005	(750)	(6)
Liabilities				
Deposits held and advances received	997	1 173	177	18
Borrowings	40 607	43 232	2 625	6
Total	41 604	44 406	2 802	7
Net debt ^(a)	29 849	33 401	3 552	12
Superannuation liability	24 938	24 472	(466)	(2)
Net debt plus superannuation liabilities	54 787	57 873	3 086	6
Other liabilities ^(b)	14 994	14 241	(753)	(5)
Net financial liabilities ^(c)	69 781	72 114	2 333	3
(per cent)				
Net debt to GSP ^(d)	7.3	7.8		
Net debt plus superannuation liability to GSP ^(d)	13.5	13.5		
Net financial liabilities to GSP ^(d)	17.2	16.9		

Notes:

(a) The sum of borrowings, deposits held and advances received less the sum of cash and deposits, advances paid, and investments, loans and placements.

(b) Includes other employee entitlements, provisions and other liabilities, less receivables and investments accounted for using the equity method.

(c) Total liabilities less financial assets (excluding investments in other sector entities).

(d) Ratios to GSP may vary from publications year-to-year due to revisions to the ABS GSP data. The ratios as at 31 December 2017 reflect the 2017-18 GSP forecast growth rate for the full year.

For the six months to 31 December 2017, net debt increased by \$3.6 billion. This increase was mainly due to an increase in borrowings to fund the State's capital program and was offset by decreases in the value of superannuation and other liabilities.

The ratio of net financial liabilities to GSP has decreased from 17.2 percent to 16.9 per cent at the end of the period. The ratio of net debt to GSP has increased from 7.3 per cent to 7.8 per cent.

CHAPTER 2 – MID-YEAR FINANCIAL REPORT

CONSOLIDATED COMPREHENSIVE OPERATING STATEMENT

For the six months ended 31 December

(\$ million)

	Notes	State of Victoria		General government sector	
		2017	2016	2017	2016
Revenue from transactions					
Taxation revenue	2.1	10 524	10 467	10 708	10 662
Interest revenue		337	327	415	375
Dividends, income tax equivalent and rate equivalent revenue	2.2	867	536	433	438
Sales of goods and services	2.3	7 338	7 063	3 637	3 416
Grant revenue	2.4	14 119	13 285	14 227	13 318
Other revenue	2.5	1 599	1 646	1 170	1 288
Total revenue from transactions		34 783	33 325	30 591	29 498
Expenses from transactions					
Employee expenses		11 875	10 977	11 296	10 436
Net superannuation interest expense	3.2	360	349	360	349
Other superannuation	3.2	1 328	1 215	1 255	1 148
Depreciation	4.2	2 478	2 406	1 312	1 256
Interest expense	5.4	1 346	1 373	1 009	1 012
Grant expense	3.3	3 446	3 608	5 064	4 924
Other operating expenses	3.4	13 905	12 991	9 344	8 987
Total expenses from transactions	3.5, 3.6	34 739	32 919	29 642	28 111
Net result from transactions – net operating balance		44	406	950	1 387
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets		34	3	21	15
Net gain/(loss) on financial assets or liabilities at fair value		1 583	2 782	39	14
Share of net profit/(loss) from associates/joint venture entities		38	26	..	(3)
Other gains/(losses) from other economic flows	9.2	371	2 380	(141)	(187)
Total other economic flows included in net result		2 026	5 190	(81)	(161)
Net result		2 070	5 596	868	1 226
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus		27	(80)	(2)	(89)
Remeasurement of superannuation defined benefits plans	3.2	763	2 979	759	2 984
Other movements in equity		(161)	99	(107)	83
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value		49	25	25	18
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets		..	..	686	644
Total other economic flows – other comprehensive income		679	3 023	1 360	3 640
Comprehensive result – total change in net worth		2 749	8 619	2 229	4 866
KEY FISCAL AGGREGATES					
Net operating balance		44	406	950	1 387
Less: Net acquisition of non-financial assets from transactions	9.1	3 484	1 254	1 751	171
Net lending/(borrowing)		(3 439)	(848)	(801)	1 216

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December

(\$ million)

	Notes	State of Victoria		General government sector	
		Dec 2017	Jun 2017	Dec 2017	Jun 2017
Assets					
Financial assets					
Cash and deposits	5.2	5 835	5 869	3 992	5 530
Advances paid	5.3	309	280	11 986	12 939
Receivables	6.2	8 432	8 038	5 807	5 931
Investments, loans and placements	5.3	41 375	42 806	4 159	3 673
Investments accounted for using the equity method	4.5	2 187	2 187	47	47
Investments in other sector entities		..	..	95 297	92 509
Total financial assets		58 139	59 180	121 290	120 630
Non-financial assets					
Inventories	6.1	817	671	176	173
Non-financial assets held for sale		455	432	438	405
Land, buildings, infrastructure, plant and equipment	4.1	241 994	238 886	123 323	121 776
Other non-financial assets	4.4	2 917	2 648	1 763	1 494
Total non-financial assets		246 185	242 637	125 700	123 849
Total assets	3.6	304 323	301 818	246 990	244 478
Liabilities					
Deposits held and advances received		1 542	1 940	8 252	9 088
Payables	6.3	17 996	17 233	5 542	5 815
Borrowings	5.1	48 453	48 847	30 995	28 816
Employee benefits	3.1	7 076	7 034	6 555	6 506
Superannuation	6.4	24 472	24 938	24 438	24 900
Other provisions	6.5	29 802	29 592	953	1 326
Total liabilities		129 341	129 584	76 734	76 451
Net assets		174 983	172 234	170 256	168 027
Accumulated surplus/(deficit)		77 806	75 137	52 965	51 464
Reserves		97 176	97 096	117 290	116 563
Net worth		174 983	172 234	170 256	168 027
FISCAL AGGREGATES					
Net financial worth		(71 202)	(70 404)	44 555	44 178
Net financial liabilities		71 202	70 404	50 742	48 331
Net debt		2 475	1 833	19 109	15 762

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December

(\$ million)

	Notes	State of Victoria		General government sector	
		2017	2016	2017	2016
Cash flows from operating activities					
Receipts					
Taxes received		10 815	10 688	10 999	10 883
Grants		14 118	13 288	14 226	13 320
Sales of goods and services ^(a)		9 058	17 833	4 077	3 781
Interest received		231	240	416	377
Dividends, income tax equivalent and rate equivalent receipts		867	536	477	523
Other receipts		1 225	1 306	909	833
Total receipts		36 314	43 891	31 104	29 715
Payments					
Payments for employees		(11 813)	(10 855)	(11 228)	(10 286)
Superannuation		(1 394)	(1 313)	(1 318)	(1 237)
Interest paid		(1 334)	(1 416)	(990)	(1 022)
Grants and subsidies		(3 712)	(3 243)	(5 455)	(5 087)
Goods and services ^(a)		(14 172)	(12 318)	(9 984)	(9 480)
Other payments		(393)	(404)	(393)	(373)
Total payments		(32 818)	(29 549)	(29 368)	(27 485)
Net cash flows from operating activities		3 497	14 342	1 736	2 230
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	3.5, 3.6	(5 625)	(3 938)	(4 570)	(3 121)
Sales of non-financial assets		164	116	96	65
Net cash flows from investments in non-financial assets		(5 462)	(3 821)	(4 473)	(3 056)
Net cash flows from investments in financial assets for policy purposes ^(b)		(17)	(5)	718	(850)
Sub-total		(5 478)	(3 826)	(3 756)	(3 906)
Net cash flows from investments in financial assets for liquidity management purposes		2 772	(5 624)	(426)	(2 638)
Net cash flows from investing activities		(2 707)	(9 450)	(4 181)	(6 544)
Cash flows from financing activities					
Advances received (net)		25	22	(937)	9 579
Net borrowings		(424)	(4 092)	1 744	(5 827)
Deposits received (net)		(424)	(932)	101	109
Net cash flows from financing activities		(823)	(5 001)	908	3 860
Net increase/(decrease) in cash and cash equivalents		(33)	(109)	(1 537)	(453)
Cash and cash equivalents at beginning of reporting period ^(c)		5 868	6 676	5 530	4 772
Cash and cash equivalents at end of the reporting period	5.2	5 835	6 567	3 992	4 319
FISCAL AGGREGATES					
Net cash flows from operating activities		3 497	14 342	1 736	2 230
Net cash flows from investments in non-financial assets		(5 462)	(3 821)	(4 473)	(3 056)
Cash surplus/(deficit)		(1 965)	10 521	(2 738)	(825)

The accompanying notes form part of these financial statements.

Notes:

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

(b) Includes net advances to public non-financial corporations for policy purposes of \$979 million for the six months ended 31 December.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December

(\$ million)

<i>State of Victoria</i>	<i>Accumulated surplus/(deficit)</i>	<i>Non-controlling interest</i>	<i>Non-financial assets revaluation surplus</i>	<i>Other reserves</i>	<i>Total</i>
2017					
Balance at 1 July 2017	75 137	..	95 897	1 199	172 234
Net result for the year	2 070	..	..	..	2 070
Other comprehensive income for the year	573	..	27	78	679
Transfer to/(from) accumulated surplus	26	..	(26)	..	..
Total equity as at 31 December 2017	77 806	..	95 899	1 277	174 983
2016					
Balance at 1 July 2016 ^(a)	56 337	50	94 965	1 042	152 395
Net result for the year	5 596	..	..	..	5 596
Other comprehensive income for the year	3 031	..	(89)	71	3 014
Transfer to/(from) accumulated surplus	7 876	..	(7 876)	..	..
Transactions with owners in their capacity as owners	..	(50)	..	..	(50)
Total equity as at 31 December 2016 ^(a)	72 840	..	87 001	1 114	160 955

The accompanying notes form part of these financial statements.

Note:

(a) December 2016 comparative figures have been restated to reflect a subsequent adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets and opening accumulated surplus/(deficit) balances due to the first-time recognition of Renewable Energy Certificates in 2016-17.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

For the six months ended 31 December

(\$ million)

<i>General government sector</i>	<i>Accumulated surplus/(deficit)</i>	<i>Non-controlling Interest</i>	<i>Non-financial assets revaluation surplus</i>	<i>Investment in other sector entities revaluation surplus</i>	<i>Other reserves</i>	<i>Total</i>
2017						
Balance at 1 July 2017	51 464	..	55 745	60 149	669	168 027
Net result for the year	868	..	..	..	..	868
Other comprehensive income for the year	633	..	(2)	686	44	1 360
Total equity as at 31 December 2017	52 965	..	55 743	60 835	712	170 256
2016						
Balance at 1 July 2016 ^(a)	44 557	50	49 613	57 027	551	151 798
Net result for the year	1 226	..	..	..	..	1 226
Other comprehensive income for the year	3 035	..	(89)	644	50	3 640
Transactions with owners in their capacity as owners	..	(50)	..	..	..	(50)
Total equity as at 31 December 2016 ^(a)	48 817	..	49 524	57 671	602	156 614

The accompanying notes form part of these financial statements.

Note:

(a) December 2016 comparative figures have been restated to reflect a subsequent adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets and opening accumulated surplus/(deficit) balances due to the first-time recognition of Renewable Energy Certificates in 2016-17.

1. ABOUT THIS REPORT

Basis of preparation

This Mid-Year Financial Report presents the unaudited general purpose consolidated interim financial statements of the State of Victoria (the State) and the Victorian general government sector. The report also incorporates the quarterly financial report of the general government sector for the quarter ended 31 December 2017.

The accounting policies applied are consistent with those applied for the financial statements published in the *2016-17 Financial Report* for the State. As this interim financial report does not include all the notes normally included with the annual financial report, this report should be read in conjunction with the *2016-17 Financial Report*.

Statement of compliance

These 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) and AASB 134 *Interim Financial Reporting* (AASB 134).

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).

The *2017-18 Mid-Year Financial Report* was authorised for issue by the Treasurer on 15 March 2018.

Basis of accounting and measurement

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 the cash is received or paid.

These financial statements are presented 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 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'.

Reporting entity

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 described below.

General government

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 reporting entity but represents a sector within the State of Victoria reporting entity and is reported in accordance with AASB 1049. 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. Unless otherwise noted, accounting policies applied by the State of Victoria apply equally to the general government sector.

Public non-financial corporations

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

The PFC sector comprises entities engaged primarily in providing financial intermediation services or auxiliary financial services and which have one or more of the following characteristics:

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

Non-financial public sector

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

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

Basis of consolidation

The consolidated financial statements of the State incorporate assets and liabilities of all reporting entities it controlled as at 31 December 2017 and the revenue and expenses of controlled entities for the part of the reporting period in which control existed.

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 sector 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 sector is less than zero, the amount is not included in the general government sector, but the net liabilities will be consolidated at the State level. Any change in the carrying amount of the investment from period to period is accounted for as if the change in carrying amount is a change in fair value, and accounted for in a manner consistent with AASB 139 *Financial Instruments: Recognition and Measurement*.

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

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

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

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 revenue and expenses of the relevant sectors of government.

Details of significant changes to entities consolidated by the State are shown in Note 9.3.

Prospective accounting and reporting changes

Certain new and revised accounting standards have been issued but are not effective for the 2017-18 reporting period. There is no intention to early adopt these accounting standards and they have not been applied to the *Mid-Year Financial Report*.

The State is reviewing its existing policies and assessing the potential implications of these accounting standards which include:

- AASB 9 *Financial Instruments* as revised by AASB 2014-1 *Amendments to Australian Accounting Standards (Part E Financial Instruments)*, operative for reporting periods commencing 1 January 2018. AASB 9 as amended simplifies requirements for the classification and measurement of financial assets, introduces a new hedging accounting model and also a revised impairment loss model to recognise impairment losses earlier, as opposed to the current requirement to recognise impairment only when incurred.
- AASB 15 *Revenue from Contracts with Customers*, operative for reporting periods commencing 1 January 2019 for not-for-profit entities. The core principle of AASB 15 is to require an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. The changes in revenue recognition will result in changes to the timing and amount of revenue recognised.
- AASB 16 *Leases*, operative for reporting periods commencing 1 January 2019. The key changes introduced by AASB 16 include the requirement to recognise most operating leases on the balance sheet, which will result in an increase in net debt.
- AASB 1058 *Income of Not-for-Profit Entities*, operative for reporting periods commencing 1 January 2019. This standard will replace a part of AASB 1004 *Contributions* and establishes revenue recognition principles for transactions where the consideration to acquire an asset is significantly less than fair value to enable not-for-profit entities to further their objectives. Under AASB 1058, revenue from capital grants that are provided under an enforceable agreement that have sufficiently specific obligations, will be deferred and recognised as the performance obligations are satisfied.
- AASB 1059 *Service Concession Arrangements: Grantors*, operative for reporting periods commencing 1 January 2019. This standard prescribes the accounting treatment for public private partnership (PPP) arrangements involving a private sector operator providing public services related to a service concession asset on behalf of the State, for a specified period of time. Note 5.6 of the *2016-17 Financial Report* for the State of Victoria defines the State's two main forms of PPP arrangements. For social infrastructure PPP arrangements, this will result in an earlier recognition of financial liabilities (increase in net debt), progressively over the construction period rather than at completion date. For economic infrastructure PPP arrangements that were previously not on the balance sheet, the standard will require recognition of these arrangements on-balance sheet, but will continue to have no impact to net debt consistent with the current accounting treatment.

Several other amending standards and AASB interpretations have been issued that apply to future reporting periods, but are considered to have limited impact on public sector reporting.

The ABS released a new manual, *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015* on 23 December 2015. For the purpose of financial reporting under AASB 1049, the new manual will apply for reporting periods beginning from 1 July 2018. The State will assess the potential reporting implications of the amendments.

Rounding

All amounts in the financial report have been rounded to the nearest \$1 million unless otherwise stated. Figures in this financial report may not add due to rounding.

2. HOW FUNDS ARE RAISED

Introduction

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

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

Structure

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2.1 Taxation revenue

	(\$ million)			
	State of Victoria		General government sector	
	2017	2016	2017	2016
Taxes on employers' payroll and labour force	2 980	2 844	3 018	2 882
Taxes on immovable property				
Land tax	109	54	126	65
Fire Services Property Levy	659	668	659	668
Congestion levy ^(a)	(4)	8	(4)	8
Metropolitan improvement levy	171	162	171	162
Financial and capital transactions				
Land transfer duty	3 484	2 956	3 484	2 956
Metropolitan planning levy	14	16	14	16
Financial accommodation levy	..	..	74	65
Growth areas infrastructure contribution	101	88	101	88
Total taxes on property	4 534	3 952	4 625	4 028
Gambling taxes				
Public lotteries	212	204	212	204
Electronic gaming machines	561	557	561	557
Casino	114	110	114	110
Racing	37	39	37	39
Other	14	13	14	13
Levies on statutory corporations	..	..	53	53
Taxes on insurance	683	636	683	636
Total taxes on the provision of goods and services	1 622	1 560	1 674	1 612
Motor vehicle taxes				
Vehicle registration fees	792	770	793	771
Duty on vehicle registrations and transfers	451	405	451	405
Liquor licence fees	15	14	15	14
Other ^(b)	131	923	131	950
Total taxes on the use of goods and performance of activities	1 389	2 112	1 390	2 140
Total taxation revenue	10 524	10 467	10 708	10 662

Notes:

(a) The negative congestion levy revenue for 2017-18 to date represents a portion of congestion levy revenues accrued in 2016-17 that were written off in 2017-18 due to changes in car park ownership or circumstances of affected taxpayers.

(b) The 2016 balance includes prepaid port licence fees.

2.2 Dividends, income tax equivalent and rate equivalent revenue

(\$ million)

	State of Victoria		General government sector	
	2017	2016	2017	2016
Dividends from PFC sector	..	..	94	157
Dividends from PNFC sector	..	..	228	122
Dividends from non-public sector	867	536	19	24
Dividends	867	536	341	303
Income tax equivalent revenue from PFC sector ^(a)	..	..	(3)	2
Income tax equivalent revenue from PNFC sector	..	..	94	132
Income tax equivalent revenue	..	..	91	134
Local government rate equivalent revenue	..	..	..	..
Total dividends, income tax equivalent and rate equivalent revenue	867	536	433	438

Note:

(a) The negative revenue figure can be attributed to the finalisation of income tax assessments by the Australian Taxation Office, resulting in some revenue that was accrued in 2016-17 being revised in 2017-18.

Dividends by entity

(\$ million)

	General government sector	
	2017	2016
Public financial corporations		
Victorian Managed Insurance Authority	..	153
Transport Accident Commission	..	..
Treasury Corporation of Victoria	83	..
State Trustees Ltd	5	..
Victorian Funds Management Corporation	7	4
Dividends from PFC sector	94	157
Public non-financial corporations		
Melbourne Water Corporation	51	28
City West Water Corporation	48	13
South East Water Corporation	82	47
Yarra Valley Water Corporation	31	23
State Electricity Commission of Victoria	..	..
Development Victoria	15	10
Others	..	1
Dividends from PNFC sector	228	122

2.3 Sales of goods and services

(\$ million)

	State of Victoria		General government sector	
	2017	2016	2017	2016
Motor vehicle regulatory fees	110	123	110	123
Other regulatory fees	308	303	301	297
Sale of goods	313	348	37	43
Provision of services	6 354	6 116	2 130	1 993
Rental	140	76	35	34
Refunds and reimbursements	112	96	2	1
Inter-sector capital asset charge	..	..	1 022	925
Total sales of goods and services	7 338	7 063	3 637	3 416

2.4 Grant revenue

(\$ million)

	<i>State of Victoria</i>		<i>General government sector</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
General purpose grants	7 710	6 930	7 710	6 930
Specific purpose grants for on-passing	1 735	1 745	1 735	1 745
Specific purpose grants	4 672	4 606	4 671	4 602
Total	14 116	13 281	14 116	13 277
Other contributions and grants	3	4	112	42
Total grant revenue	14 119	13 285	14 227	13 318

2.5 Other revenue

(\$ million)

	<i>State of Victoria</i>		<i>General government sector</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
Fair value of assets received free of charge or for nominal consideration	188	304	33	176
Fines	346	390	345	389
Royalties	65	34	50	26
Donations and gifts	162	154	128	124
Other non-property rental	46	44	14	14
Other revenue – Education	329	312	329	312
Other revenue – Health	21	22	21	22
Other miscellaneous revenue	443	386	251	226
Total other revenue	1 599	1 646	1 170	1 288

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 31 December 2017.

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. Increases in employee expenses are mainly attributable to increased service delivery in the health, education, and community safety sectors as well as salary growth in line with wages policy.

Employee expenses (balance sheet)

As part of annual operations, the State provides for benefits accruing to employees but payable in future periods in respect of wages and salaries, annual leave and long service leave, and related on-costs for services rendered to the reporting date. In measuring employee benefits, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted to reflect the estimated timing and amount of benefit payment. The table below shows the key components of this provision at 31 December and 30 June.

Total provision for employee benefits and on-costs at 31 December

(\$ million)

	State of Victoria		General government sector	
	Dec 2017	Jun 2017	Dec 2017	Jun 2017
Current				
Accrued salaries and wages	558	552	514	503
Other employee benefits	88	82	77	66
Annual leave	1 612	1 651	1 460	1 499
Long service leave	3 946	3 882	3 710	3 646
Total current employee benefits and on-costs ^(a)	6 203	6 167	5 761	5 715
Non-current				
Accrued salaries and wages	13	13	..	..
Long service leave	860	854	794	791
Total non-current employee benefits and on-costs ^(a)	873	867	794	791
Total employee benefits and on-costs	7 076	7 034	6 555	6 506

Notes:

(a) June 2017 comparative figures have been reclassified to reflect more current information.

3.2 Superannuation expense recognised in the operating statement

(\$ million)

	State of Victoria	
	2017	2016
Defined benefit plans		
Net superannuation interest expense	360	349
Current service cost	471	431
Remeasurements:		
Expected return on superannuation assets excluding interest income	(479)	(507)
Other actuarial (gain)/loss on superannuation assets	(639)	(519)
Actuarial and other adjustments to unfunded superannuation liability	354	(1 953)
Total expense recognised in respect of defined benefit plans	68	(2 200)
Defined contribution plans		
Employer contributions to defined contribution plans	820	744
Other (including pensions)	38	40
Total expense recognised in respect of defined contribution plans	858	784
Total superannuation (gain)/expense recognised in operating statement	925	(1 415)
Represented by:		
Net superannuation interest expense	360	349
Other superannuation	1 328	1 215
Superannuation expense from transactions	1 689	1 564
Remeasurement recognised in other comprehensive income	(763)	(2 979)
Total superannuation costs recognised in operating statement	925	(1 415)

3.3 Grant expense

(\$ million)

	State of Victoria		General government sector	
	2017	2016	2017	2016
Current grant expense				
Commonwealth government	267	192	267	191
Local government (including grants for on-passing)	307	406	307	404
Private sector and not-for-profit on-passing	1 567	1 452	1 567	1 452
Other private sector and not-for-profit	1 103	1 024	1 071	997
Grants within the Victorian government	..	..	1 760	1 594
Grants to other state governments	13	8	13	8
Total current grant expense	3 256	3 082	4 984	4 646
Capital grant expense				
Local government (including grants for on-passing)	7	..	7	..
Private sector and not-for-profit on-passing	69	97	58	59
Grants within the Victorian government	..	..	6	1
Other grants	113	429	8	218
Total capital grant expense	190	526	80	278
Total grant expense	3 446	3 608	5 064	4 924

3.4 Other operating expenses

(\$ million)

	State of Victoria		General government sector	
	2017	2016	2017	2016
Purchase of supplies and consumables ^{(a)(b)}	2 466	2 436	2 007	1 996
Cost of goods sold	141	137	11	15
Finance expenses and fees	241	221	20	147
Purchase of services ^{(a)(b)}	6 885	6 354	6 146	5 762
Insurance claims expense	2 807	2 581	134	113
Maintenance	693	637	406	379
Operating lease payments	216	213	181	176
Other	455	412	440	398
Total other operating expenses	13 905	12 991	9 344	8 987

Notes:

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

(b) December 2016 comparative figures 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.

Purchase of supplies and consumables

(\$ million)

	State of Victoria		General government sector	
	2017	2016	2017	2016
Medicinal pharmacy and medical supplies	586	599	586	599
Office supplies and consumables	129	125	122	121
Specialised operational supplies and consumables	100	75	73	70
Other purchase of supplies and consumables	1 652	1 638	1 225	1 207
Total purchase of supplies and consumables	2 466	2 436	2 007	1 996

Purchase of services

(\$ million)

	State of Victoria		General government sector	
	2017	2016	2017	2016
Service contracts	3 829	3 598	3 642	3 425
Accommodation/occupancy	446	458	390	406
Medical and client care services	167	156	167	156
Staff related expenses (non-labour related)	137	111	121	99
Other purchase of services	2 307	2 031	1 826	1 676
Total purchases of services	6 885	6 354	6 146	5 762

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

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

Total operating expenses and purchases of non-financial assets – by department (\$ million)

	Expenses from transactions		Purchases of non-financial assets	
	Dec 2017	Dec 2016	Dec 2017	Dec 2016
State of Victoria				
Economic Development, Jobs, Transport and Resources	7 044	6 654	3 041	2 234
Education and Training	8 420	7 890	546	269
Environment, Land, Water and Planning	4 234	4 162	761	771
Health and Human Services	12 699	11 964	526	610
Justice and Regulation	3 480	3 134	514	134
Premier and Cabinet	262	239	8	7
Treasury and Finance	8 216	8 559	58	38
Parliament	95	91	23	11
Courts	283	261	33	14
Regulatory bodies and other part budget funded agencies ^(a)	1 140	1 080	84	57
Total	45 873	44 033	5 593	4 144
<i>Less eliminations and adjustments ^(b)</i>	<i>(11 134)</i>	<i>(11 114)</i>	<i>32</i>	<i>(206)</i>
Grand total	34 739	32 919	5 625	3 938

General government sector				
Economic Development, Jobs, Transport and Resources	4 572	4 375	2 838	2 201
Education and Training	8 420	7 890	546	269
Environment, Land, Water and Planning	1 385	1 423	41	21
Health and Human Services	11 954	11 137	418	332
Justice and Regulation	3 387	3 040	513	134
Premier and Cabinet	251	228	8	6
Treasury and Finance	3 346	3 394	21	20
Parliament	95	91	23	11
Courts	283	261	33	14
Regulatory bodies and other part budget funded agencies ^(a)	1 140	1 080	84	57
Total	34 834	32 919	4 525	3 064
<i>Less eliminations and adjustments ^(b)</i>	<i>(5 192)</i>	<i>(4 808)</i>	<i>45</i>	<i>56</i>
Grand total	29 642	28 111	4 570	3 121

Notes:

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

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

3.6 Total operating expenses, purchases of non-financial assets and total assets – by government purpose classification ^(a)

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

Total operating expenses, purchases of non-financial assets and total assets – by GPC (\$ million)

	Expenses from transactions		Purchases of non-financial assets		Total assets	
	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Jun 2017
State of Victoria						
General public services ^(b)	5 312	5 603	85	48	2 793	3 067
Public order and safety	3 535	3 182	631	182	9 223	8 301
Education	7 476	7 057	531	260	22 957	22 667
Health	8 874	7 983	410	303	14 666	14 649
Social security and welfare	2 041	2 125	25	41	2 193	2 129
Housing and community amenities	3 163	3 284	975	699	80 434	80 252
Recreation and culture	775	711	71	1 113	15 722	15 643
Fuel and energy	71	69	7	18	23	23
Agriculture, forestry, fishing and hunting	217	206	12	..	639	651
Transport and communications ^(b)	3 213	2 912	2 837	2 035	98 070	96 026
Other economic affairs ^(b)	409	604	7	88	454	437
Other purposes	940	982	1	1	10	9
Not allocated by purpose ^{(b)(c)(d)}	(1 287)	(1 798)	35	172	57 141	57 963
Total	34 739	32 919	5 625	4 960	304 323	301 818

General government sector						
General public services	1 331	1 393	49	32	2 220	2 195
Public order and safety	3 593	3 235	631	182	9 223	8 301
Education	7 511	7 094	531	260	22 957	22 667
Health	8 945	8 046	410	302	14 643	14 627
Social security and welfare	2 055	2 142	25	41	2 193	2 129
Housing and community amenities	1 323	1 385	25	34	9 725	9 747
Recreation and culture	385	353	46	32	9 604	9 537
Fuel and energy	71	68	7	16	23	23
Agriculture, forestry, fishing and hunting	170	161	12	3	581	591
Transport and communications ^(b)	3 573	3 214	2 782	2 073	54 312	53 787
Other economic affairs ^(b)	501	683	7	88	454	437
Other purposes	542	613	..	1	6	6
Not allocated by purpose ^{(c)(d)}	(360)	(276)	45	56	121 050	120 431
Total	29 642	28 111	4 570	3 121	246 990	244 478

Notes:

(a) Note 3.6 of the 2016-17 Financial Report for the State of Victoria provides definitions and descriptions of government purpose classifications.

(b) December 2016 comparative figures have been restated to reflect more current information.

(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 the assets that the State controls, reflecting investing activities in the current and prior years.

Structure

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4.1 Total land, buildings, infrastructure, plant and equipment

(\$ million)

Dec 2017	State of Victoria			General government sector		
	Gross carrying amount	Accumulated depreciation	Carrying amount	Gross carrying amount	Accumulated depreciation	Carrying amount
Buildings	50 392	(4 502)	45 890	31 639	(3 233)	28 406
Land and national parks	78 507	..	78 507	50 598	..	50 598
Leased buildings	6 584	(777)	5 807	6 046	(686)	5 360
Infrastructure systems	68 749	(4 238)	64 510	1 889	(509)	1 380
Leased infrastructure systems	4 803	(397)	4 406	..	..	..
Plant, equipment and vehicles	11 880	(5 203)	6 677	6 229	(3 849)	2 380
Leased plant, equipment and vehicles	1 372	(349)	1 023	438	(267)	171
Roads and road infrastructure	40 615	(19 652)	20 963	40 531	(19 646)	20 886
Leased roads and road infrastructure	584	(24)	561	584	(24)	561
Earthworks	7 961	..	7 961	7 961	..	7 961
Cultural assets	5 852	(163)	5 689	5 782	(163)	5 620
Total land, buildings, infrastructure, plant and equipment	277 300	(35 305)	241 994	151 698	(28 375)	123 323

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

4.2 Depreciation

(\$ million)

	<i>State of Victoria</i>		<i>General government sector</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
Buildings	822	774	576	549
Leased buildings	70	52	67	49
Infrastructure systems	671	661	17	18
Leased infrastructure systems	41	41	..	..
Plant, equipment and vehicles	436	431	256	252
Leased plant, equipment and vehicles	14	35	14	35
Roads and road infrastructure	306	308	305	307
Leased roads and road infrastructure	5	..	5	..
Cultural assets	10	7	10	7
Intangible produced assets	103	96	63	39
Total depreciation	2 478	2 406	1 312	1 256

4.3 Total land, buildings, infrastructure, plant and equipment – by government purpose

(\$ million)

<i>State of Victoria Dec 2017</i>	<i>Public administration</i>	<i>Education</i>	<i>Health and Welfare</i>	<i>Community Housing</i>	<i>Transportation and Communication</i>	<i>Public Safety and Environment</i>	<i>Total</i>
Buildings	2 804	12 070	8 711	8 427	6 072	7 806	45 890
Land and national parks	2 858	10 027	2 765	15 928	31 433	15 496	78 507
Leased buildings	118	403	3 300	3	46	1 937	5 807
Infrastructure systems	46	..	..	..	26 378	38 086	64 510
Leased infrastructure systems	..	..	..	..	..	4 406	4 406
Plant, equipment and vehicles	247	201	1 212	1	3 965	1 051	6 677
Leased plant, equipment and vehicles	..	13	69	..	931	11	1 023
Roads and road infrastructure	31	..	..	..	20 024	907	20 963
Leased roads and road infrastructure	..	..	..	..	561	..	561
Earthworks	..	..	..	..	7 961	..	7 961
Cultural assets	615	2	1	..	2	5 069	5 689
Total land, buildings, infrastructure, plant and equipment	6 719	22 718	16 057	24 359	97 373	74 768	241 994

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

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

(\$ million)

<i>General government sector Dec 2017</i>	<i>Public administration</i>	<i>Education</i>	<i>Health and Welfare</i>	<i>Community Housing</i>	<i>Transportation and Communication</i>	<i>Public Safety and Environment</i>	<i>Total</i>
Buildings	871	12 070	8 696	..	538	6 230	28 406
Land and national parks	1 777	10 027	2 757	..	24 251	11 785	50 598
Leased buildings	52	403	3 300	..	44	1 560	5 360
Infrastructure systems	38	..	..	..	386	957	1 380
Plant, equipment and vehicles	76	201	1 212	..	30	861	2 380
Leased plant, equipment and vehicles	..	13	69	..	78	11	171
Roads and road infrastructure	..	..	..	..	20 024	862	20 886
Leased roads and road infrastructure	..	..	..	..	561	..	561
Earthworks	..	..	..	..	7 961	..	7 961
Cultural assets	615	2	1	..	2	4 999	5 620
Total land, buildings, infrastructure, plant and equipment	3 430	22 718	16 035	..	53 876	27 264	123 323

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

4.4 Other non-financial assets

(\$ million)

	State of Victoria		General government sector	
	Dec	Jun	Dec	Jun
	2017	2017	2017	2017
Intangible produced assets	2 924	2 826	1 758	1 685
Accumulated depreciation	(1 586)	(1 479)	(938)	(872)
Intangible non-produced assets	874	865	117	117
Accumulated amortisation	(255)	(237)	(35)	(32)
Total intangibles	1 958	1 975	903	898
Investment properties	172	187	164	179
Biological assets ^(a)	56	56	3	3
Other assets	731	429	694	414
Total other non-financial assets	2 917	2 648	1 763	1 494

Note:

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

4.5 Investments accounted for using the equity method

	Ownership interest (%)		State of Victoria (\$ million)		General government sector (\$ million)	
	Dec	Jun	Dec	Jun	Dec	Jun
	2017	2017	2017	2017	2017	2017
The Australian Regenerative Medicine Institute	20.0	20.0	35	35	35	35
Property Exchange Australia Limited	7.5	7.7	12	12	12	12
Snowy Hydro Limited	29.0	29.0	2 139	2 139	..	..
Total investments accounted for using the equity method	..	..	2 187	2 187	47	47

5. FINANCING STATE OPERATIONS

Introduction

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

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

Structure

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5.1 Borrowings

(\$ million)

	<i>State of Victoria</i>		<i>General government sector</i>	
	<i>Dec</i>	<i>Jun</i>	<i>Dec</i>	<i>Jun</i>
	<i>2017</i>	<i>2017</i>	<i>2017</i>	<i>2017</i>
Current borrowings				
Domestic borrowings	5 740	3 491	1 703	752
Finance lease liabilities	302	361	233	232
Derivative financial instruments	120	119	5	5
Total current borrowings	6 162	3 971	1 941	989
Non-current borrowings				
Domestic borrowings	31 918	34 795	19 504	18 574
Foreign currency borrowings	123	126	..	..
Finance lease liabilities	9 883	9 585	9 456	9 153
Derivative financial instruments	367	369	94	99
Total non-current borrowings	42 291	44 876	29 054	27 827
Total borrowings	48 453	48 847	30 995	28 816

5.2 Cash flow information and balances

Reconciliation of cash and cash equivalents

(\$ million)

	State of Victoria		General government sector	
	Dec	Dec	Dec	Dec
	2017	2016	2017	2016
Cash	1 844	1 653	1 405	1 345
Deposits at call	3 992	4 914	2 587	2 974
Cash and cash equivalents	5 835	6 567	3 992	4 319
Bank overdraft	..	..	..	..
Balances as per cash flow statement	5 835	6 567	3 992	4 319

Reconciliation of net result to net cash flows from operating activities

(\$ million)

	State of Victoria		General government sector	
	Dec	Dec	Dec	Dec
	2017	2016	2017	2016
Net result	2 070	5 596	868	1 226
Non-cash movements				
Depreciation and amortisation	2 498	2 424	1 314	1 257
Revaluation of investments	(881)	(702)	(38)	(14)
Assets (received)/provided free of charge	(34)	163	3	70
Revaluation of assets	3	2	3	..
Discount/premium on other financial assets/borrowings	(110)	(82)	1	1
Unrealised (gains)/losses on borrowings	(393)	(1 693)	..	..
Movements included in investing and financing activities				
Net gain/loss from sale of investments	(358)	(459)	(1)	3
Net gain/loss from sale of non-financial assets	(34)	(3)	(21)	(15)
Realised gains/losses on borrowings	10	52	..	..
Movements in assets and liabilities				
Increase/(decrease) in provision for doubtful debts	4	53	4	54
Increase/(decrease) in payables	803	10 658	(284)	(464)
Increase/(decrease) in employee benefits	42	78	49	107
Increase/(decrease) in superannuation	294	250	297	259
Increase/(decrease) in other provisions	298	(1 551)	(286)	38
(Increase)/decrease in receivables	(399)	(161)	121	43
(Increase)/decrease in other non-financial assets	(318)	(284)	(295)	(336)
Net cash flows from operating activities	3 497	14 342	1 736	2 230

5.3 Advances paid and investments, loans and placements

(\$ million)

	State of Victoria		General government sector	
	Dec	Jun	Dec	Jun
	2017	2017	2017	2017
Current advances paid and investments, loans and placements				
Loans and advances paid	15	19	1 756	2 709
Equities and managed investment schemes	1 205	1 539	1 185	1 085
Australian dollar term deposits	1 564	5 140	1 412	1 400
Debt securities	4 007	3 860	2	1
Derivative financial instruments	577	540	5	5
Total current advances paid and investments, loans and placements	7 368	11 099	4 360	5 201
Non-current advances paid and investments, loans and placements				
Loans and advances paid	294	261	10 231	10 230
Equities and managed investment schemes	30 584	27 294	711	332
Australian dollar term deposits	285	1 334	816	814
Debt securities	2 624	2 577	16	24
Derivative financial instruments	529	521	11	11
Total non-current advances paid and investments, loans and placements	34 316	31 987	11 785	11 411
Total advances paid and investments, loans and placements	41 684	43 086	16 145	16 612
Represented by:				
Advances paid	309	280	11 986	12 939
Investments, loans and placements	41 375	42 806	4 159	3 673

5.4 Interest expense

(\$ million)

	State of Victoria		General government sector	
	2017	2016	2017	2016
	Interest on interest-bearing liabilities	889	932	568	600
Finance charges on finance leases	436	422	424	395
Discount interest on payables	21	19	17	18
Total interest expense	1 346	1 373	1 009	1 012

5.5 Commitments

Commitments include those operating, capital and other commitments contracted at balance date but not recognised as liabilities, arising from non-cancellable, contractual or statutory sources, and which embody obligations to sacrifice future economic benefits.

Reference to the *2016-17 Financial Report* for the State of Victoria (notes 5.6 and 5.7) should be made for details of commitments as at 30 June 2017.

As at 31 December 2017, the following additional material commitments were recorded for the State of Victoria.

Unless otherwise stated, contract amounts are presented as nominal values.

- In August 2017, VicRoads contracted with Unisys Australia Pty Ltd for corporate information and communications technology (ICT) and infrastructure relocation, and a transformation program. The total cost of the contract is \$56 million, which is expected to be completed in August 2024.
- In August and September 2017, the State contracted with Civica to operate the contact centre for Fines Victoria for the next five years. The total cost of the two contracts is \$201 million.
- In September 2017, the State contracted with BMD Constructions Pty Ltd to design and construct roadworks and bridgeworks for the duplication of Thompsons Road from Dandenong-Frankston Road to Berwick-Cranbourne Road (Clyde Road). The total cost of the contract is \$72 million, with expected completion in June 2019.
- In September 2017, the State contracted with Plenary Health to expand Casey Hospital as a modification under the existing public private partnership (PPP). The expansion contract term aligns with the existing contract, which expires in 2029. The expansion is expected to be operational in 2019, and the net present value of the State's commitment to the contract is \$96 million (excluding GST).
- In September 2017, a contract adjustment of \$330 million was approved for the South Western Region Road Network Maintenance Alliance agreement with Fulton Hogan Industries Pty Ltd. The contract remains due for completion in 2020.
- In October 2017, the State contracted with G4S Integrated Services Pty Ltd for the provision of Court Security Services for the next six years. The total cost of the contract is \$78 million.
- In October 2017, the State contracted with Visionstream Pty Ltd to operate and maintain the Emergency Alerting System. The total cost of the contract is \$107 million. The contractual period started in November 2017, for a period of five years.
- In October 2017, the State entered into new contracts with Metro Trains Melbourne and Keolis Downer to operate Melbourne's train and tram networks for the next seven years. The new franchise term commenced on 30 November 2017 and the total cost of the contracts, net of farebox, is \$9.2 billion.
- In October 2017, the State contracted with BMD Constructions Pty Ltd to design and build the Yan Yean Road upgrade. The total cost of the contract is \$70 million, expected to be completed in June 2019.
- In December 2017, a contract adjustment of \$180 million was approved for the Eastern Region Road Network Maintenance Alliance agreement with Fulton Hogan Industries Pty Ltd. The contract remains due for completion in 2021.
- In December 2017, the State contracted with Motorola Solutions Australia to operate and maintain the Metropolitan Mobile Radio service under a PPP arrangement. The net present value of the contract is \$211 million (excluding GST). The contractual period will start in July 2018, for a period of seven years.
- In December 2017, the State contracted with Transurban and CPB Contractors and John Holland to build the West Gate Tunnel under a PPP arrangement. The project includes the West Gate Tunnel, the Monash Freeway Upgrade and the Webb Dock Access Improvement Works. The State's commitment to the contract is \$2.7 billion, and the works are expected to be completed in late 2022. The State is required to make substitute contributions if changes to toll indexation or an extension to the concession term under the *Melbourne City Link Act 1995* is not passed in Parliament by the time the West Gate Tunnel is open.
- In December 2017, the State entered into a Project Alliance Agreement with CPB Contractors, Bombardier Transportation Australia and Metro Trains Melbourne to deliver the Metro Tunnel – Rail Systems package. The total cost of the contract is \$1.1 billion, and works are expected to be completed in 2025.

- In December 2017, the State contracted with Cross Yarra Partnership (CYP) – a consortium comprising Lendlease Engineering, John Holland, Bouygues Construction and Capella Capital – to deliver the Metro Tunnel – Tunnel and Stations package under a PPP arrangement. The net present value of the contract with CYP is \$5.2 billion (excluding GST), and works are expected to be completed in 2024.
- In December 2017, the State entered into a Project Alliance Agreement with V/Line and Lendlease Engineering, Coleman Rail and SMEC Australia to deliver Stage 1 of the Ballarat Line Upgrade project including a new station at Toolern. The total value of the contract with the alliance is \$400.5 million and the project is expected to be completed in 2019.
- In December 2017, the State signed the Western Roads Upgrade contract under a PPP arrangement with Netflow Consortium – comprising Plenary, Cintra, WBHO and Amey-Broadspectrum – for roads upgrades and maintenance. The initial works include eight capital upgrade projects and initial rehabilitation works. These works are expected to be completed progressively in 2020, following which the Netflow Consortium will be required to maintain the relevant area of the road network for 20 years. The net present value of the contract with Netflow, including the capital, maintenance and lifecycle components, is \$1.1 billion.
- In December 2017, the State contracted with Lendlease Engineering, Acciona Coleman and WSP for the removal of level crossings on the Frankston line in Bonbeach, Carrum and Seaford. The work will also include building a new train storage facility near Kananook Station. The total commitment for the Initial Work Package for the Southern Program Alliance is \$647 million and the program is expected to be completed by August 2021.

There was no other material change in commitments for the State during this mid-year reporting period.

6. OTHER ASSETS AND LIABILITIES

Introduction

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

Structure

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6.1 Inventories

(\$ million)

	State of Victoria		General government sector	
	Dec	Jun	Dec	Jun
	2017	2017	2017	2017
At cost				
Raw materials	8	7	7	6
Work in progress	16	9	6	1
Finished goods	63	60	3	3
Consumable stores	202	199	154	152
Land and other assets held as inventory	521	387	7	12
At net realisable value				
Finished goods	2	4	..	..
Consumable stores	6	5	..	..
Total inventories	817	671	176	173

6.2 Receivables

(\$ million)

	State of Victoria		General government sector	
	Dec	Jun	Dec	Jun
	2017	2017	2017	2017
Contractual				
Sales of goods and services	1 446	1 202	855	598
Accrued investment income	53	63	18	19
Other receivables	2 314	1 756	1 165	1 169
Provision for doubtful contractual receivables	(162)	(161)	(97)	(97)
Statutory				
Sales of goods and services	10	7	3	1
Taxes receivables	2 195	2 560	2 267	2 676
Fines and regulatory fees	2 138	2 052	2 138	2 052
GST input tax credits recoverable	928	976	301	352
Other receivables	..	15	..	..
Provision for doubtful statutory receivables	(842)	(838)	(842)	(838)
Other				
Actuarially determined	351	406	..	..
Total receivables	8 432	8 038	5 807	5 931
Represented by:				
Current receivables	7 270	6 875	4 989	5 103
Non-current receivables	1 162	1 163	818	828

6.3 Payables

(\$ million)

	State of Victoria		General government sector	
	Dec	Jun	Dec	Jun
	2017	2017	2017	2017
Contractual				
Accounts payable	2 104	2 439	1 288	1 402
Accrued expenses	2 209	2 618	1 848	2 239
Unearned income	13 636	12 128	2 352	2 130
Statutory				
Accrued taxes payable	47	48	53	44
Total payables	17 996	17 233	5 542	5 815
Represented by:				
Current payables	7 693	6 868	3 897	4 134
Non-current payables	10 303	10 365	1 645	1 681

6.4 Superannuation

(\$ million)

	State of Victoria	
	Dec	Jun
	2017	2017
Current liability	1 038	1 040
Non-current liability	23 434	23 897
Total superannuation liability	24 472	24 938
Represented by:		
Emergency Services and State Super	23 358	23 803
Other funds	1 114	1 135

6.5 Other provisions

(\$ million)

	State of Victoria		General government sector	
	Dec	Jun	Dec	Jun
	2017	2017	2017	2017
Provision for insurance claims				
WorkSafe Victoria	2 171	1 941	..	..
Transport Accident Commission	1 334	1 251	..	..
Victorian Managed Insurance Authority	335	321	..	..
Other agencies	64	23	60	19
Current provision for insurance claims	3 904	3 536	60	19
Other provisions	423	865	301	745
Total current other provisions	4 327	4 401	361	764
Non-current provision for insurance claims				
WorkSafe Victoria	10 896	11 040	..	..
Transport Accident Commission	12 457	12 134	..	..
Victorian Managed Insurance Authority	1 508	1 426	..	..
Other agencies	32	30	32	29
Non-current provision for insurance claims	24 895	24 629	32	29
Other provisions	581	562	560	532
Total non-current other provisions	25 475	25 191	591	561
Total other provisions	29 802	29 592	953	1 326

7. RISKS AND CONTINGENCIES

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, and contingent assets and liabilities.

7.1 Financial instruments

Note 7.1 Financial instruments in the *2016-17 Financial Report* for the State of Victoria contains a comprehensive disclosure of the State's financial risk management objectives and policies associated with financial instruments.

There has been no substantive change to the accounting classification of financial assets and liabilities reported in the *2016-17 Financial Report* for the State of Victoria.

7.2 Contingent assets and contingent liabilities

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.

Reference should be made to the *2016-17 Financial Report* for the State of Victoria (note 7.2) for details of contingent assets as at 30 June 2017.

Since 30 June 2017, compensable enhancement claims contained in the Melbourne CityLink Concession Deed were settled as part of the West Gate Tunnel arrangement.

There were no other material changes in contingent assets for the State during this mid-year reporting period.

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.

Reference should be made to the *2016-17 Financial Report* for the State of Victoria (note 7.2) for details of contingent liabilities as at 30 June 2017.

There were no material changes in contingent liabilities for the State during this mid-year reporting period.

8. PUBLIC ACCOUNT

Introduction

This section provides disclosure of information in respect of the Public Account, in accordance with the requirements of the *Financial Management Act, No. 18 of 1994* (FMA).

Structure

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8.1 Consolidated fund receipts and payments

(\$ million)

2016-17		2017-18	
actual to Dec		actual to Dec	revised budget
Receipts			
10 167	Taxation	11 077	22 327
422	Fines and regulatory fees	382	914
8 537	Grants received	9 284	20 119
3 047	Sales of goods and services	3 349	6 668
235	Interest received	228	507
499	Dividends, income tax equivalent and rate equivalent receipts	471	1 247
100	Other receipts	101	365
23 008	Total operating activities	24 892	52 147
9 717	Total inflows from investing and financing	1 000	6 698
32 725	Total receipts	25 892	58 845
Payments to departments			
4 963	Economic Development, Jobs, Transport and Resources	5 271	11 398
6 014	Education and Training	6 913	13 326
1 046	Environment, Land, Water and Planning	1 063	2 358
7 820	Health and Human Services	8 597	16 770
3 063	Justice and Regulation	3 753	7 578
219	Premier and Cabinet	237	683
7 727	Treasury and Finance	3 156	8 835
95	Parliament	117	240
252	Courts	287	635
31 199	Total payments	29 394	61 822
1 526	Net receipts/(payments)	(3 501)	(2 976)

8.2 Trust fund statement cash flows

(\$ million)

2016-17 actual to Dec		2017-18 actual to Dec		revised budget
Cash flows from operating activities				
Receipts				
1 041	Taxation		276	390
31	Regulatory fees and fines		37	55
7 283	Grants received		7 894	14 812
62	Sale of goods and services		14	96
66	Interest received		106	245
20	Dividends received ^(a)		12	13
1 496	Net transfers from consolidated fund		1 851	3 105
39	Other receipts		162	125
10 038	Total receipts ^(a)		10 350	18 840
Payments				
(84)	Employee benefits		(103)	(210)
(7)	Superannuation		(9)	(15)
(8 102)	Grants paid		(9 081)	(17 451)
(472)	Supplies and consumables		(888)	(1 639)
(2)	Interest paid		(2)	(5)
(8 667)	Total payments		(10 082)	(19 321)
1 371	Net cash flows from operating activities ^(a)		268	(481)
Cash flows from investing activities				
(113)	Purchase of non-financial assets		(13)	(396)
26	Sales of non-financial assets		24	34
(9 561)	Net proceeds from customer loans		980	2 907
8 465	Other investing activities		(985)	(2 404)
(1 183)	Net cash flows from investing activities		6	141
Cash flows from financing activities				
(25)	Net proceeds (repayments) from borrowings		(427)	(25)
(25)	Net cash flows from financing activities		(427)	(25)
163	Net cash inflow/(outflow) ^(a)		(152)	(364)

Note:

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

8.3 Reconciliation of cash flows to balances held

(\$ million)

	Balances held at 30 Jun 2017	Dec movement YTD	Balances held at 31 Dec 2017
Cash and deposits			
Cash balances outside the Public Account	..	4	4
Deposits held with the Public Account – specific trusts	561	28	589
Other balances held in the Public Account	3 328	(4 058)	(730)
Total cash and deposits	3 888	(4 026)	(137)
Investments			
Investments held with the Public Account – specific trusts	1 285	(83)	1 202
Total investments	1 285	(83)	1 202
Total fund balances	5 173	(4 109)	1 065
Less funds held outside the Public Account			
Cash	..	4	4
Total fund balances held outside the Public Account	..	4	4
Total funds held in the Public Account ^(a)	5 174	(4 113)	1 061

Note:

(a) See Note 8.4 below for details of securities and investments including amounts held in the Public Account on behalf of trust accounts.

8.4 Details of securities held in the Public Account

(\$ million)

2016-17 actual to Dec		2017-18 opening 1 Jul	actual 31 Dec
6 486	Total Public Account	5 174	1 061
	Represented by:		
4 607	Stock, securities, cash and investments	3 850	428
	Add cash advanced for:		
1 879	Advances pursuant to sections 36 and 37 of the <i>Financial Management Act 1994</i>	874	633
..	Temporary Advance to the Consolidated Fund pursuant to Section 38 of the <i>Financial Management Act, No. 18 of 1994</i>	450	..
6 486	Total Public Account	5 174	1 061

9. OTHER DISCLOSURES

Introduction

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

Structure

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9.1 Disaggregated information

Disaggregated operating statement for the six months ended 31 December

(\$ million)

	General government sector		Public non-financial corporations	
	2017	2016	2017	2016
Revenue from transactions				
Taxation revenue	10 708	10 662	..	..
Interest revenue	415	375	78	39
Dividends, income tax equivalent and rate equivalent revenue	433	438	5	4
Sales of goods and services	3 637	3 416	3 007	2 948
Grant revenue	14 227	13 318	1 766	1 600
Other revenue	1 170	1 288	417	347
Total revenue from transactions	30 591	29 498	5 273	4 938
Expenses from transactions				
Employee expenses	11 296	10 436	633	590
Net superannuation interest expense	360	349	..	..
Other superannuation	1 255	1 148	60	54
Depreciation	1 312	1 256	1 144	1 129
Interest expense	1 009	1 012	536	524
Grant expense ^(a)	5 064	4 924	196	361
Other operating expenses ^(a)	9 344	8 987	2 780	2 498
Other property expenses	..	..	128	110
Total expenses from transactions	29 642	28 111	5 477	5 265
Net result from transactions – net operating balance	950	1 387	(204)	(327)
Other economic flows included in net result				
Net gain/(loss) on disposal of non-financial assets	21	15	13	(12)
Net gain/(loss) on financial assets or liabilities at fair value	39	14	1	(15)
Share of net profit/(loss) from associates/joint venture entities	..	(3)	38	28
Other gains/(losses) from other economic flows	(141)	(187)	118	121
Total other economic flows included in net result	(81)	(161)	170	122
Net result	868	1 226	(34)	(205)
Other economic flows – other comprehensive income				
Items that will not be reclassified to net result				
Changes in non-financial assets revaluation surplus	(2)	(89)	35	21
Remeasurement of superannuation defined benefits plans	759	2 984	4	(5)
Other movements in equity	(107)	83	(55)	16
Items that may be reclassified subsequently to net result				
Net gain/(loss) on financial assets at fair value	25	18	24	6
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	686	644	..	..
Total other economic flows – other comprehensive income	1 360	3 640	8	38
Comprehensive result – total change in net worth	2 229	4 866	(26)	(167)
FISCAL AGGREGATES				
Net operating balance	950	1 387	(204)	(327)
Net acquisition of non-financial assets from transactions				
Purchases of non-financial assets (including change in inventories)	4 571	3 118	1 020	807
Less: Sales of non-financial assets	(96)	(65)	(68)	(51)
Less: Depreciation and amortisation	(1 312)	(1 256)	(1 144)	(1 129)
Plus: Other movements in non-financial assets	(1 412)	(1 626)	1 909	1 463
Less: Net acquisition of non-financial assets from transactions	1 751	171	1 717	1 090
Net lending/(borrowing)	(801)	1 216	(1 921)	(1 416)

Note:

(a) December 2016 comparative figures have been restated to reclassify the Transport Accident Commission Safer Roads Infrastructure Program expenditure from other operating expenses to grant expense to more correctly reflect the nature of the expenditure.

<i>Public financial corporations</i>		<i>Inter-sector eliminations</i>		<i>State of Victoria</i>	
2017	2016	2017	2016	2017	2016
..	..	(184)	(195)	10 524	10 467
961	1 041	(1 118)	(1 127)	337	327
843	508	(414)	(414)	867	536
2 291	2 184	(1 597)	(1 485)	7 338	7 063
..	..	(1 875)	(1 633)	14 119	13 285
12	142	..	(132)	1 599	1 646
4 107	3 875	(5 189)	(4 986)	34 783	33 325
172	157	(226)	(205)	11 875	10 977
..	..	..	..	360	349
14	13	..	..	1 328	1 215
21	22	..	..	2 478	2 406
919	964	(1 118)	(1 127)	1 346	1 373
115	37	(1 929)	(1 714)	3 446	3 608
3 282	3 032	(1 501)	(1 526)	13 905	12 991
362	932	(490)	(1 042)	..	..
4 884	5 157	(5 264)	(5 614)	34 739	32 919
(777)	(1 283)	76	628	44	406
..	..	..	..	34	3
1 544	2 783	..	..	1 583	2 782
..	..	..	..	38	26
514	2 574	(120)	(128)	371	2 380
2 058	5 358	(120)	(128)	2 026	5 190
1 280	4 075	(44)	500	2 070	5 596
..	..	(5)	(12)	27	(80)
..	..	..	..	763	2 979
2	..	..	..	(161)	99
..	..	..	..	49	25
..	..	(686)	(644)	..	..
2	..	(691)	(656)	679	3 023
1 282	4 076	(736)	(156)	2 749	8 619
(777)	(1 283)	76	628	44	406
37	16	..	..	5 629	3 940
(1)	(1)	1	..	(164)	(116)
(21)	(22)	..	..	(2 478)	(2 406)
..	..	..	..	497	(163)
15	(6)	1	..	3 484	1 254
(792)	(1 276)	75	628	(3 439)	(848)

Disaggregated balance sheet as at 31 December

(\$ million)

	General government sector		Public non-financial corporations	
	Dec	Jun	Dec	Jun
	2017	2017	2017	2017
Assets				
Financial assets				
Cash and deposits	3 992	5 530	1 261	1 154
Advances paid	11 986	12 939	7 334	8 323
Receivables	5 807	5 931	1 815	1 688
Investments, loans and placements	4 159	3 673	1 258	1 119
Loans receivable from non-financial public sector ^(a)	..	..	..	..
Investments accounted for using the equity method	47	47	1 651	1 651
Investments in other sector entities	95 297	92 509	..	..
Total financial assets	121 290	120 630	13 319	13 934
Non-financial assets				
Inventories	176	173	641	498
Non-financial assets held for sale	438	405	17	27
Land, buildings, infrastructure, plant and equipment	123 323	121 776	118 573	117 030
Other non-financial assets	1 763	1 494	1 322	1 354
Total non-financial assets	125 700	123 849	120 554	118 909
Total assets	246 990	244 478	133 873	132 843
Liabilities				
Deposits held and advances received	8 252	9 088	7 803	8 760
Payables	5 542	5 815	10 015	10 158
Borrowings	30 995	28 816	16 345	15 925
Employee benefits	6 555	6 506	416	421
Superannuation	24 438	24 900	34	37
Other provisions	953	1 326	8 285	8 415
Total liabilities	76 734	76 451	42 898	43 717
Net assets ^(b)	170 256	168 027	90 974	89 126
Accumulated surplus/(deficit)	52 965	51 464	3 427	3 747
Reserves	117 290	116 563	87 547	85 379
Net worth ^(b)	170 256	168 027	90 974	89 126
FISCAL AGGREGATES				
Net financial worth	44 555	44 178	(29 579)	(29 783)
Net financial liabilities	50 742	48 331	29 579	29 783
Net debt	19 109	15 762	14 295	14 090

Notes:

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

(b) The net assets and net worth of the public financial corporations sector incorporates the impact of Treasury Corporation of Victoria's external loan liabilities being reported at market value while the corresponding assets, that is lending to the non-financial public sector, being reported at amortised cost. This mismatch has contributed to the negative net asset position of the sector.

<i>Public financial corporations</i>		<i>Inter-sector eliminations</i>		<i>State of Victoria</i>	
<i>Dec 2017</i>	<i>Jun 2017</i>	<i>Dec 2017</i>	<i>Jun 2017</i>	<i>Dec 2017</i>	<i>Jun 2017</i>
4 508	4 229	(3 926)	(5 043)	5 835	5 869
1	17	(19 012)	(20 999)	309	280
1 860	1 516	(1 050)	(1 097)	8 432	8 038
38 275	40 182	(2 316)	(2 168)	41 375	42 806
31 641	29 695	(31 641)	(29 695)	..	..
..	..	488	488	2 187	2 187
..	..	(95 297)	(92 509)	..	..
76 284	75 640	(152 754)	(151 023)	58 139	59 180
..	..	..	..	817	671
..	..	..	..	455	432
98	80	..	..	241 994	238 886
454	780	(622)	(980)	2 917	2 648
552	860	(622)	(980)	246 185	242 637
76 837	76 499	(153 376)	(152 004)	304 323	301 818
5 327	7 363	(19 841)	(23 270)	1 542	1 940
3 091	1 920	(652)	(659)	17 996	17 233
38 203	38 776	(37 089)	(34 670)	48 453	48 847
105	106	..	..	7 076	7 034
..	..	..	..	24 472	24 938
28 711	28 122	(8 146)	(8 271)	29 802	29 592
75 437	76 287	(65 729)	(66 871)	129 341	129 584
1 400	213	(87 648)	(85 133)	174 983	172 234
1 327	143	20 087	19 783	77 806	75 137
73	70	(107 735)	(104 915)	97 176	97 096
1 400	213	(87 648)	(85 133)	174 983	172 234
848	(647)	(87 026)	(84 152)	(71 202)	(70 404)
(848)	647	(8 272)	(8 357)	71 202	70 404
(30 894)	(27 985)	(35)	(35)	2 475	1 833

Disaggregated cash flow statement for the six months ended 31 December

(\$ million)

	General government sector		Public non-financial corporations	
	2017	2016	2017	2016
Cash flows from operating activities				
Receipts				
Taxes received	10 999	10 883	..	..
Grants	14 226	13 320	1 785	1 649
Sales of goods and services ^(a)	4 077	3 781	3 267	12 159
Interest received	416	377	78	25
Dividends, income tax equivalent and rate equivalent receipts	477	523	5	4
Other receipts	909	833	108	207
Total receipts	31 104	29 715	5 242	14 044
Payments				
Payments for employees	(11 228)	(10 286)	(638)	(604)
Superannuation	(1 318)	(1 237)	(62)	(63)
Interest paid	(990)	(1 022)	(535)	(511)
Grants and subsidies ^(b)	(5 455)	(5 087)	(35)	(103)
Goods and services ^{(a)(b)}	(9 984)	(9 480)	(2 049)	(2 012)
Other payments	(393)	(373)	(1 224)	(1 236)
Total payments	(29 368)	(27 485)	(4 544)	(4 529)
Net cash flows from operating activities	1 736	2 230	698	9 515
Cash flows from investing activities				
Cash flows from investments in non-financial assets				
Purchases of non-financial assets	(4 570)	(3 121)	(1 019)	(802)
Sales of non-financial assets	96	65	68	51
Net cash flows from investments in non-financial assets	(4 473)	(3 056)	(951)	(751)
Net cash flows from investments in financial assets for policy purposes	718	(850)	1 008	(9 517)
Sub-total	(3 756)	(3 906)	56	(10 267)
Net cash flows from investments in financial assets for liquidity management purposes	(426)	(2 638)	(82)	(157)
Net cash flows from investing activities	(4 181)	(6 544)	(25)	(10 424)
Cash flows from financing activities				
Advances received (net)	(937)	9 579	(984)	9 545
Net borrowings	1 744	(5 827)	390	251
Deposits received (net)	101	109	27	48
Other financing (net)	..	..	2	(8 837)
Net cash flows from financing activities	908	3 860	(565)	1 006
Net increase/(decrease) in cash and cash equivalents	(1 537)	(453)	108	98
Cash and cash equivalents at beginning of reporting period ^(c)	5 530	4 772	1 153	802
Cash and cash equivalents at end of the reporting period	3 992	4 319	1 261	900
FISCAL AGGREGATES				
Net cash flows from operating activities	1 736	2 230	698	9 515
Dividends paid	..	..	(228)	(122)
Net cash flows from investments in non-financial assets	(4 473)	(3 056)	(951)	(751)
Cash surplus/(deficit)	(2 738)	(825)	(481)	8 643

Notes:

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

(b) The December 2016 comparative figures have been restated to reclassify the Transport Accident Commission Safer Roads Infrastructure Program payment from goods and services to grants and subsidies to more correctly reflect the nature of the payment.

(c) Cash and cash equivalents at the beginning of the reporting period does not equal cash and deposits on the balance sheet for the Public non-financial corporations sector and State of Victoria. This is due to overdrafts being included in the cash flow statement balances.

<i>Public financial corporations</i>		<i>Inter-sector eliminations</i>		<i>State of Victoria</i>	
2017	2016	2017	2016	2017	2016
..	..	(184)	(195)	10 815	10 688
..	302	(1 893)	(1 982)	14 118	13 288
3 351	3 361	(1 637)	(1 468)	9 058	17 833
848	962	(1 110)	(1 123)	231	240
843	508	(458)	(499)	867	536
166	380	42	(113)	1 225	1 306
5 208	5 512	(5 240)	(5 380)	36 314	43 891
(174)	(170)	226	205	(11 813)	(10 855)
(14)	(13)	..	..	(1 394)	(1 313)
(918)	(1 006)	1 110	1 123	(1 334)	(1 416)
(115)	(37)	1 893	1 984	(3 712)	(3 243)
(2 597)	(1 378)	458	551	(14 172)	(12 318)
(6)	(2)	1 231	1 208	(393)	(404)
(3 824)	(2 607)	4 918	5 071	(32 818)	(29 549)
1 384	2 905	(321)	(309)	3 497	14 342
(37)	(16)	..	..	(5 625)	(3 938)
1	1	(1)	..	164	116
(36)	(15)	(1)	..	(5 462)	(3 821)
17	(1)	(1 759)	10 362	(17)	(5)
(19)	(16)	(1 760)	10 362	(5 478)	(3 826)
1 229	233	2 049	(3 062)	2 772	(5 624)
1 210	217	290	7 300	(2 707)	(9 450)
(8)	2	1 954	(19 103)	25	22
(184)	(4 045)	(2 374)	5 529	(424)	(4 092)
(2 028)	1 078	1 475	(2 166)	(424)	(932)
(94)	(157)	93	8 995	..	..
(2 315)	(3 123)	1 149	(6 745)	(823)	(5 001)
279	..	1 117	246	(33)	(109)
4 229	4 654	(5 043)	(3 552)	5 868	6 676
4 508	4 654	(3 926)	(3 305)	5 835	6 567
1 384	2 905	(321)	(309)	3 497	14 342
(94)	(157)	322	279	..	..
(36)	(15)	(1)	..	(5 462)	(3 821)
1 253	2 733	..	(30)	(1 965)	10 521

Disaggregated statement of changes in equity as at 31 December

(\$ million)

2017	Accumulated surplus/(deficit)	Contribution by owners	Non-controlling Interest	Non-financial assets revaluation surplus	Investment in other sector entities revaluation surplus	Other reserves	Total
General government sector							
Balance at 1 July 2017	51 464	..	..	55 745	60 149	669	168 027
Net result for the year	868	..	..	..	..	..	868
Other comprehensive income for the year	633	..	..	(2)	686	44	1 360
Total equity as at 31 December 2017	52 965	..	..	55 743	60 835	712	170 256
PNFC sector							
Balance at 1 July 2017	3 747	54 902	..	29 985	..	492	89 126
Net result for the year	(34)	..	..	..	..	..	(34)
Other comprehensive income for the year	(58)	..	..	35	..	32	8
Transfer to/(from) accumulated surplus	..	26	..	(26)	..	..	..
Dividends paid	(228)	..	..	..	..	..	(228)
Transactions with owners in their capacity as owners	..	2 102	..	..	..	..	2 102
Total equity as at 31 December 2017	3 427	57 030	..	29 994	..	523	90 974
PFC sector							
Balance at 1 July 2017	143	29	..	2	..	39	213
Net result for the year	1 280	..	..	..	..	..	1 280
Other comprehensive income for the year	(2)	..	..	..	..	3	2
Dividends paid	(94)	..	..	..	..	..	(94)
Total equity as at 31 December 2017	1 327	29	..	2	..	42	1 400
Eliminations	20 087	(57 059)	..	10 159	(60 835)	..	(87 648)
Total State of Victoria	77 806	..	..	95 899	..	1 277	174 983

Disaggregated statement of changes in equity as at 31 December (continued)

(\$ million)

2016	Accumulated surplus/(deficit)	Contribution by owners	Non-controlling Interest	Non-financial assets revaluation surplus	Investment in other sector entities revaluation surplus	Other reserves	Total
General government sector							
Balance at 1 July 2016 ^(a)	44 557	..	50	49 613	57 027	551	151 798
Net result for the year	1 226	..	..	..	..	..	1 226
Other comprehensive income for the year	3 035	..	..	(89)	644	50	3 640
Transactions with owners in their capacity as owners	..	..	(50)	..	..	..	(50)
Total equity as at 31 December 2016 ^(a)	48 817	..	..	49 524	57 671	602	156 614
PNFC sector							
Balance at 1 July 2016	4 397	52 166	..	35 219	..	451	92 233
Net result for the year	(205)	..	..	..	..	..	(205)
Other comprehensive income for the year	..	..	..	21	..	17	38
Transfer to/(from) accumulated surplus	(416)	8 301	..	(7 885)	..	..	..
Dividends paid	(122)	..	..	..	..	..	(122)
Transactions with owners in their capacity as owners	..	(7 167)	..	..	..	..	(7 167)
Total equity as at 31 December 2016	3 654	53 300	..	27 355	..	468	84 777
PFC sector							
Balance at 1 July 2016	(3 849)	29	..	2	..	40	(3 778)
Net result for the year	4 075	..	..	..	..	..	4 075
Other comprehensive income for the year	(3)	..	..	..	..	4	..
Dividends paid	(157)	..	..	..	..	..	(157)
Total equity as at 31 December 2016	65	29	..	2	..	44	140
Eliminations	20 304	(53 328)	..	10 120	(57 671)	..	(80 576)
Total State of Victoria ^(a)	72 840	..	..	87 001	..	1 114	160 955

Note:

(a) December 2016 comparative figures have been restated to reflect a subsequent adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets and opening accumulated surplus/(deficit) balances due to the first-time recognition of Renewable Energy Certificates in 2016-17.

9.2 Other gains/(losses) from other economic flows

(\$ million)

	State of Victoria		General government sector	
	2017	2016	2017	2016
Net (increase)/decrease in provision for doubtful receivables	(121)	(162)	(120)	(162)
Amortisation of intangible non-produced assets	(20)	(18)	(2)	(2)
Net swap interest revenue/(expense)	1	(6)	..	..
Bad debts written off	(48)	(54)	(43)	(49)
Other gains/(losses)	558	2 620	24	25
Total other gains/(losses) from other economic flows	371	2 380	(141)	(187)

9.3 Controlled entities

Note 9.8 *Controlled entities* in the 2016-17 Financial Report for the State of Victoria contains a list of significant controlled entities, which have been consolidated for the purposes of the financial report.

The following are changes from 1 July 2017, of general government sector and public non-financial corporation entities, which have been consolidated for the purposes of the financial report:

General government	
Department of Health and Human Services Corryong Health ^(a)	Department of Economic Development, Jobs, Transport and Resources
Department of Premier and Cabinet Victorian Information Commissioner ^(b)	Victorian Fisheries Authority ^(c)
	Courts Judicial Commission of Victoria ^(d)
Public non-financial corporation	
Department of Health and Human Services Queen Victoria Women's Centre Trust ^(e)	

Notes:

(a) On 4 July 2017, Upper Murray Health and Community Services changed its name to Corryong Health.

(b) Effective from 1 September 2017, the Office of the Victorian Information Commissioner commenced operations and took over the responsibilities of the Freedom of Information Commissioner and the Office of the Commissioner for Privacy and Data Protection.

(c) The Victorian Fisheries Authority is an independent statutory authority established on 1 July 2017 to effectively manage Victoria's fisheries resources.

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

(e) Effective from 1 July 2017, portfolio responsibility for the Queen Victoria Women's Centre Trust was transferred from the Department of Premier and Cabinet to the Department of Health and Human Services.

9.4 Glossary of technical terms

The 2016-17 Financial Report for the State of Victoria (Note 9.9) contains a summary of the major technical terms used in this report.

APPENDIX A – GENERAL GOVERNMENT SECTOR QUARTERLY FINANCIAL REPORT

This section includes the comprehensive operating statement, balance sheet and cash flow statement for the past five quarters in accordance with the requirements of the *Financial Management Act 1994*.

Consolidated comprehensive operating statement for the past five quarters (\$ million)

	2016-17			2017-18	
	Dec	Mar	Jun	Sep	Dec
Revenue from transactions					
Taxation revenue	5 397	6 880	4 730	5 722	4 986
Interest revenue	207	230	258	210	206
Dividends, income tax equivalent and rate equivalent revenue	360	57	164	57	376
Sales of goods and services	1 744	1 736	1 786	1 766	1 871
Grant revenue	6 620	7 556	6 667	6 899	7 328
Other revenue	779	570	786	544	626
Total revenue from transactions	15 107	17 029	14 391	15 198	15 393
Expenses from transactions					
Employee expenses	5 257	5 249	5 812	5 581	5 715
Net superannuation interest expense	149	171	172	192	168
Other superannuation	596	581	603	598	657
Depreciation	629	639	722	655	657
Interest expense	540	498	517	454	555
Grant expense	2 337	3 006	2 541	2 559	2 505
Other operating expenses	4 692	4 313	5 274	4 604	4 741
Total expenses from transactions	14 200	14 456	15 643	14 643	14 998
Net result from transactions – net operating balance	907	2 573	(1 251)	555	395
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	17	18	18	(1)	22
Net gain/(loss) on financial assets or liabilities at fair value	(3)	22	(12)	(2)	41
Share of net profit/(loss) from associates/joint venture entities	(3)	..	4	..	..
Other gains/(losses) from other economic flows	(63)	(80)	42	(56)	(86)
Total other economic flows included in net result	(51)	(41)	52	(58)	(23)
Net result	856	2 532	(1 199)	497	371
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	4	25	6 154	(22)	20
Remeasurement of superannuation defined benefits plans	2 729	617	765	1 259	(500)
Other movements in equity	14	..	6	(65)	(43)
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	13	42	(7)	(6)	31
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	644	..	2 478	..	686
Total other economic flows – other comprehensive income	3 404	684	9 396	1 165	195
Comprehensive result – total change in net worth	4 260	3 216	8 197	1 662	567
KEY FISCAL AGGREGATES					
Net operating balance	907	2 573	(1 251)	555	395
Less: Net acquisition of non-financial assets from transactions	163	956	527	283	1 468
Net lending/(borrowing)	744	1 617	(1 778)	272	(1 073)

Consolidated balance sheet as at the end of the past five quarters
(\$ million)

	2016-17			2017-18	
	Dec	Mar	Jun	Sep	Dec
Assets					
Financial assets					
Cash and deposits	4 319	3 900	5 530	4 146	3 992
Advances paid	14 156	13 648	12 939	12 179	11 986
Receivables	5 469	7 108	5 931	6 281	5 807
Investments, loans and placements	5 516	5 720	3 673	3 895	4 159
Investments accounted for using the equity method	44	44	47	48	47
Investments in other sector entities	88 196	89 043	92 509	93 484	95 297
Total financial assets	117 701	119 462	120 630	120 033	121 290
Non-financial assets					
Inventories	186	187	173	173	176
Non-financial assets held for sale	183	182	405	405	438
Land, buildings, infrastructure, plant and equipment	114 148	115 219	121 776	122 018	123 323
Other non-financial assets	1 535	1 456	1 494	1 944	1 763
Total non-financial assets	116 052	117 044	123 849	124 539	125 700
Total assets	233 753	236 506	244 478	244 573	246 990
Liabilities					
Deposits held and advances received	10 393	9 913	9 088	8 403	8 252
Payables	5 084	5 227	5 815	5 722	5 542
Borrowings	27 986	28 684	28 816	29 485	30 995
Employee benefits	6 244	6 050	6 506	6 329	6 555
Superannuation	26 566	25 944	24 900	23 903	24 438
Other provisions	866	858	1 326	1 043	953
Total liabilities	77 139	76 676	76 451	74 884	76 734
Net assets	156 614	159 831	168 027	169 689	170 256
Accumulated surplus/(deficit)	48 817	51 977	51 464	53 145	52 965
Reserves	107 797	107 853	116 563	116 544	117 290
Net worth	156 614	159 831	168 027	169 689	170 256
FISCAL AGGREGATES					
Net financial worth	40 562	42 787	44 178	45 150	44 555
Net financial liabilities	47 634	46 256	48 331	48 335	50 742
Net debt	14 387	15 330	15 762	17 667	19 109

Consolidated cash flow statement for the past five quarters
(\$ million)

	2016-17			2017-18	
	Dec	Mar	Jun	Sep	Dec
Cash flows from operating activities					
Receipts					
Taxes received	5 805	5 121	5 782	5 491	5 508
Grants	6 621	7 552	6 670	6 902	7 325
Sales of goods and services ^(a)	1 890	2 031	1 926	1 984	2 092
Interest received	208	228	257	210	205
Dividends, income tax equivalent and rate equivalent receipts	417	57	163	57	420
Other receipts	515	360	543	469	440
Total receipts	15 456	15 348	15 341	15 114	15 990
Payments					
Payments for employees	(5 060)	(5 391)	(5 288)	(5 748)	(5 480)
Superannuation	(495)	(756)	(1 054)	(529)	(790)
Interest paid	(529)	(499)	(477)	(476)	(515)
Grants and subsidies	(2 417)	(3 013)	(2 103)	(2 947)	(2 508)
Goods and services ^(a)	(4 917)	(4 106)	(4 462)	(5 179)	(4 805)
Other payments	(179)	(167)	(80)	(207)	(185)
Total payments	(13 595)	(13 932)	(13 463)	(15 086)	(14 282)
Net cash flows from operating activities	1 861	1 416	1 878	28	1 708
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(1 556)	(1 963)	(2 195)	(1 881)	(2 689)
Sales of non-financial assets	40	49	173	45	51
Net cash flows from investments in non-financial assets	(1 516)	(1 914)	(2 022)	(1 835)	(2 638)
Net cash flows from investments in financial assets for policy purposes	(760)	485	499	672	45
Sub-total	(2 276)	(1 429)	(1 523)	(1 163)	(2 593)
Net cash flows from investments in financial assets for liquidity management purposes	(2 454)	(141)	2 029	(232)	(193)
Net cash flows from investment activities	(4 730)	(1 570)	506	(1 395)	(2 786)
Cash flows from financing activities					
Advances received (net)	9 592	(483)	(718)	(707)	(230)
Net borrowings	(6 566)	214	72	669	1 075
Deposits received (net)	85	3	(108)	22	79
Net cash flows from financing activities	3 110	(265)	(754)	(16)	924
Net increase/(decrease) in cash and cash equivalents	240	(419)	1 630	(1 384)	(153)
Cash and cash equivalents at beginning of reporting period	4 079	4 319	3 900	5 530	4 146
Cash and cash equivalents at end of the reporting period	4 319	3 900	5 530	4 146	3 992
FISCAL AGGREGATES					
Net cash flows from operating activities	1 861	1 416	1 878	28	1 708
Net cash flows from investments in non-financial assets	(1 516)	(1 914)	(2 022)	(1 835)	(2 638)
Cash surplus/(deficit)	345	(497)	(144)	(1 808)	(930)

Note:

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

APPENDIX B – FINANCIAL MANAGEMENT ACT 1994 COMPLIANCE INDEX

The *Financial Management Act 1994* (FMA) requires the Minister to prepare a mid-year financial report and a quarterly financial report for tabling in Parliament. These reports have been prepared in accordance with applicable Australian Accounting Standards and the FMA.

The FMA specifies that these reports must meet certain requirements. The following compliance index explains how these requirements are met, together with appropriate references in this document.

<i>Financial Management Act reference</i>	<i>Requirement</i>	<i>Comments/reference</i>
Section 25(1)	The Minister must prepare a mid-year report for each financial year.	Refer to Chapter 2.
Section 25(2)	The mid-year report:	
	(a) must be prepared in the manner and form determined by the Minister, having regard to appropriate financial reporting frameworks;	Manner is in accordance with Australian Accounting Standards and Ministerial Directions. Form is operating statement, balance sheet, statement of cash flows, statement of changes in equity and accompanying notes. Refer to Chapter 2.
	(b) must present fairly the financial position of the State and the Victorian general government sector at midnight on 31 December in the financial year and:	Refer to Chapter 2, balance sheet, page 10.
	(i) the transactions on the Public Account;	Refer to Chapter 2, Note 8, pages 38-40.
	(ii) the transactions of the Victorian general government sector; and	Refer to Chapter 2, operating statement, page 9, statement of cash flows, page 11 and related notes.
	(iii) other financial transactions of the State in respect of the period of six months ending on that day.	Refer to Chapter 2, operating statement, page 9, statement of cash flows, page 11 and related notes.
Section 26(1)	The Minister must prepare a quarterly financial report for each quarter of each financial year.	Refer to Appendix A, pages 51-53.
Section 26(2)	A quarterly financial report comprises:	
	(a) a statement of financial performance of the Victorian general government sector for the quarter;	Refer to Appendix A, operating statement, page 51.
	(b) a statement of the financial position of the Victorian general government sector at the end of the quarter;	Refer to Appendix A, balance sheet, page 52.
	(c) a statement of cash flows of the Victorian general government sector for the quarter; and	Refer to Appendix A, statement of cash flows, page 53.
	(d) a statement of the accounting policies on which the statements required by paragraphs (a), (b) and (c) are based.	Refer to Chapter 2, Note 1, pages 14-16.
Section 26(2A)	A quarterly financial report must be prepared in the manner and form determined by the Minister, having regard to appropriate financial reporting frameworks.	Manner is a financial report for the general government sector. Form is operating statement, balance sheet, statement of cash flows. Refer to Appendix A.
Section 26(2B)	The quarterly financial report for the quarter ending on 31 December in a financial year must include, in addition to the statements referred to in subsection (2)(a) to (d) for that quarter, those statements for the period of six months ending on that 31 December.	Refer to Chapter 2, operating statement, page 9, balance sheet, page 10 and statement of cash flows, page 11.

STYLE CONVENTIONS

Figures in the tables and in the text have been rounded. Discrepancies in tables between totals and sums of components reflect rounding. Percentage variations in all tables are based on the underlying unrounded amounts.

The notation used in the tables is as follows:

n.a.	not available or not applicable
1 billion	1 000 million
1 basis point	0.01 per cent
..	zero, or rounded to zero
(x xxx.x)	negative amount
x xxx.0	rounded amount

Please refer to the **Treasury and Finance glossary for budget and financial reports** at dtf.vic.gov.au for additional terms and references.

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