Victorian Budget 18/19

GETTING THINGS DONE

2018-19 Budget Update

Presented by Tim Pallas MP,
Treasurer of the State of Victoria

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for the information of Honourable Members

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CHAPTER 1 – ECONOMIC AND FISCAL OVERVIEW

- **Strong economic growth** – by leading the rest of Australia, Victoria has become the economic engine room of the nation.
- **Robust jobs growth** – with unemployment at a seven-year low and new jobs spread broadly across industries and regions.
- **Record infrastructure spend** – building productivity-enhancing infrastructure that creates jobs, drives economic growth and improves living standards for all Victorians.
- **Sound financial management** – maintaining healthy budget surpluses and Victoria's triple-A credit rating.

The Government has been delivering for all Victorians over the past four years: investing in education and skills; improving healthcare; building new schools and hospitals; investing in public transport and roads; making our community safer; and creating more jobs for Victorians. The re-elected Government will be continuing this momentum, maintaining a strong economy while delivering the services and infrastructure our growing State needs.

Victoria's economy continues to lead the nation, creating new jobs and prosperity for all Victorians. Real gross state product (GSP) increased by 3.5 per cent in 2017-18, stronger than the 3.25 per cent estimate in the *2018 Pre-Election Budget Update* and well above the national growth rate of 2.8 per cent. Real GSP per capita grew by 1.2 per cent in 2017-18. This is the fifth successive rise in Victoria's real GSP per capita, the longest period of growth since the global financial crisis. At the same time, 389 000 jobs have been created since November 2014 and the unemployment rate now stands at a seven-year low of 4.5 per cent.

Another year of above-trend growth is expected in 2018-19, with forecast GSP growth of 3.0 per cent. The positive outlook is supported by low interest rates and a strong labour market. Household consumption and public demand, driven by the Government's investment in services and infrastructure, are expected to make strong contributions to GSP growth.

The Government's clear and responsible fiscal strategy and strong financial management means Victoria's finances are in excellent health. The Government has achieved surpluses averaging $2.2 billion over the past four years and maintained Victoria's triple-A credit rating with Moody's and Standard & Poor's. In recent reports, Moody's noted Victoria's triple-A rating is well placed when compared to most Australian states and territories with healthy economic growth, positive fiscal results, strong revenue growth, a manageable debt burden, and the State's diversified revenue base protecting it against downturns. Standard & Poor's recognised the State's very strong financial management and economy, exceptional liquidity and the extremely predictable and supportive institutional framework.

The operating surplus is estimated to be $2.2 billion in 2018-19, and average $2.5 billion a year over the forward estimates.

Government infrastructure investment is projected to reach $13.4 billion in 2018-19, and average $10.6 billion a year over the budget and forward estimates. This is more than double the average of $4.9 billion a year from 2005-06 to 2014-15.

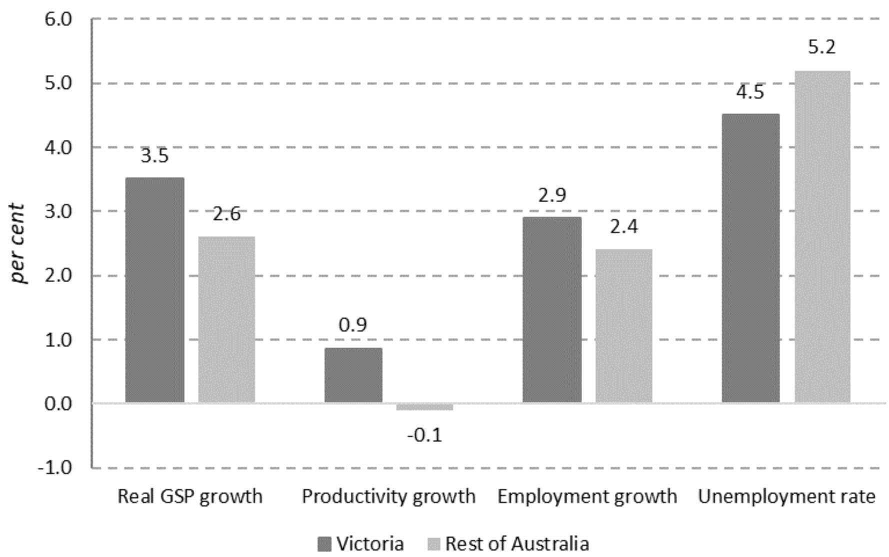
VICTORIA – THE ENGINE ROOM OF THE NATION

Victoria's economy grew by 3.5 per cent in 2017-18, the strongest increase of all the states and above the national growth rate of 2.8 per cent. Over the past four years, real GSP growth has averaged 3.5 per cent a year.

A strong economy means more jobs. Victoria's strong economic activity has driven above-trend employment growth since 2014-15. Since November 2014, employment in Victoria has grown by 13.3 per cent, or 389 000 persons, with almost three-quarters of these being full-time jobs. This has helped produce a sharp decline in the unemployment rate. In October 2018, Victoria's unemployment rate fell to a seven-year low of 4.5 per cent, well down from the 6.7 per cent inherited from the previous Government in November 2014. Jobs growth has been spread across the State, driving the regional unemployment rate to a record low of 4.4 per cent and the Melbourne unemployment rate to 4.5 per cent.

Victoria's economy is the engine room of the nation. Victoria is outperforming the rest of Australia in real economic growth, productivity growth, and jobs growth (Chart 1.1).

Chart 1.1: Selected economic indicators, Victoria and rest of Australia, latest data [(a)]



Source: Australian Bureau of Statistics, Department of Treasury and Finance.

Note:
(a) GSP and labour productivity growth refer to 2017-18; employment growth and the unemployment rate is at October 2018.

The economic outlook for Victoria is positive. Another year of above-trend growth is forecast for 2018-19. Growth will be supported by solid contributions from household consumption, business investment and public demand, driven by the Government's record infrastructure program. Reflecting this, another strong year of above-trend employment growth is expected.

Strong economic growth is improving the well-being of Victorians. Real GSP growth has expanded faster than the population in each of the past five years. This means the State's economic performance is raising the average living standards of Victorians. Real economic growth is expected to continue to outpace the increase in population over the forward estimates. This is expected to translate to rising wages growth over the forecast period.

CONSOLIDATING STRONG FINANCIAL FOUNDATIONS FOR THE FUTURE

The Government's *2018-19 Budget* consolidated its demonstrated track record of responsible financial management.

The general government operating surplus (net result from transactions) is forecast to be $2.2 billion in 2018-19, and average $2.5 billion a year across the forward estimates. Over the next four years, revenue is expected to grow by an average of 4.1 per cent a year, which is greater than average annual expense growth of 4.0 per cent. Net debt as a percentage of GSP was 4.6 per cent at June 2018 and is currently projected to be 6.0 per cent by 30 June 2022, lower than the level published by the previous government in its final year in office.

Table 1.1: General government fiscal aggregates

	Unit of measure	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Net result from transactions	$ billion	2.2	1.7	2.7	3.0
Government infrastructure investment [(a)]	$ billion	13.4	11.4	9.7	8.0
Net debt	$ billion	22.5	27.8	30.3	31.8
Net debt to GSP [(b)]	per cent	5.0	5.8	6.0	6.0

Source: Department of Treasury and Finance

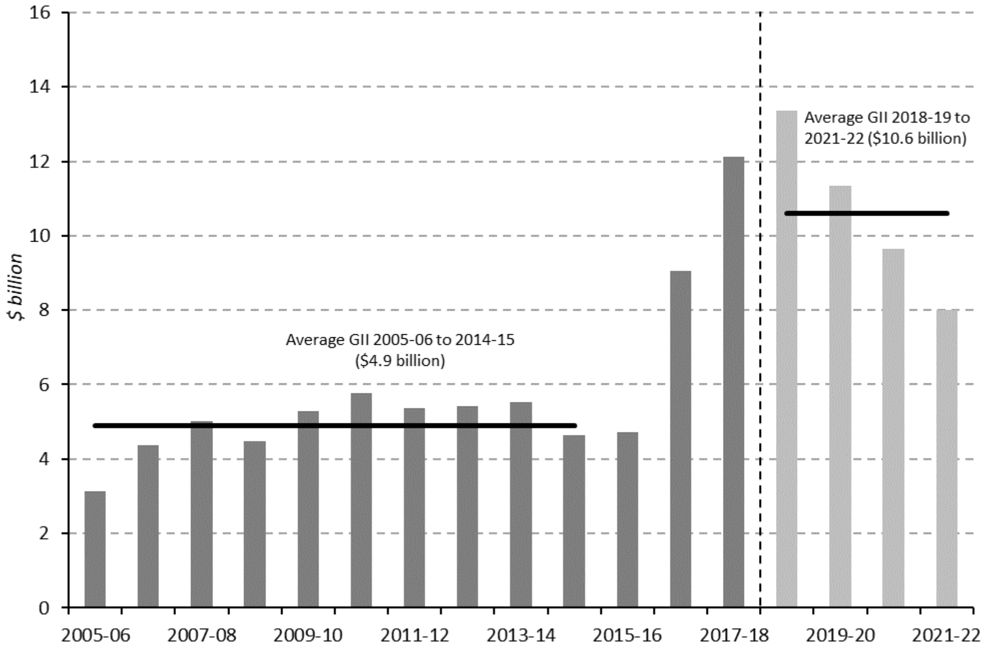
Notes:

(a) Includes general government net infrastructure investment and estimated construction costs for Partnerships Victoria projects.

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

Government infrastructure investment is forecast to average $10.6 billion a year over the budget and forward estimates period, more than double the average of $4.9 billion a year from 2005-06 to 2014-15 (Chart 1.2).

Chart 1.2: Government infrastructure investment [(a)(b)]



Source: Department of Treasury and Finance

Notes:

(a) Includes general government net infrastructure investment and estimated construction costs for Partnerships Victoria projects.

(b) Excludes the impact of the medium-term lease over the operations of the Port of Melbourne and the divestment of Victoria's share of Snowy Hydro Limited.

During the 2018 election the Government committed to increasing borrowings to 12 per cent of GSP (including accounting standards changes) over the medium term to fund three visionary capital projects: the North-East Road Link; the Melbourne Airport Rail Link; and an additional 25 level crossings to be removed by 2025.

In its credit opinion released on 26 November 2018, Moody's noted that the 'State Government expects total net debt to GSP to increase to approximately 12 per cent over the medium term, a level that we consider to be manageable within Victoria's current triple-A rating and stable outlook'.

The *2018-19 Budget* reflected the Government's commitment to its long-term financial management objectives set out in Table 1.2.

Table 1.2: Long-term financial management objectives

Priority	Objective
Sound financial management	Victoria's finances will be managed in a responsible manner to provide capacity to fund services and infrastructure at levels consistent with maintaining a triple-A credit rating.
Improved services	Public services will improve over time.
Building infrastructure	Public infrastructure will grow steadily over time to meet the needs of a growing population.
Efficient use of public resources	Public sector resources will be invested in services and infrastructure to maximise the economic, social and environmental benefits.

Progress towards these objectives is measured against the targets described in Table 1.3.

Table 1.3: Medium-term financial measures and targets

Financial measures	Target
Net debt	General government net debt as a percentage of GSP to be maintained at a sustainable level over the medium term.
Superannuation liabilities	Fully fund the unfunded superannuation liability by 2035.
Operating surplus	A net operating surplus consistent with maintaining general government net debt at a sustainable level over the medium term.

The healthy financial outcomes and projections in this Budget Update validate the fiscal strategy successfully implemented by the Government and underpins Victoria's triple-A credit rating.

The Government's responsible financial management and its prudent use of public resources has created the capacity to keep improving public services, reduce costs to business, and continue a record infrastructure program that will boost productivity, increase export capacity and create jobs.

The Government will review and publish its financial objectives and measures, consistent with requirements under the *Financial Management Act 1994*, as part of the *2019-20 Budget*.

Key new initiatives since the *2018-19 Budget*

Appendix A of the *2018 Pre-Election Budget Update* outlines specific policy initiatives that affect outputs and assets, including Treasurer's Advances, agreed by the Government since the *2018-19 Budget* and before the issue of the election writs on 30 October 2018.

CHAPTER 2 – ECONOMIC CONTEXT

- Victoria's economy is expanding at an above-trend pace, and growth in 2017-18 was slightly stronger than forecast in the *2018 Pre-Election Budget Update*.
- Labour market conditions are positive, with further solid growth in employment expected in 2018-19.
- Population growth is forecast to moderate after a prolonged period of strength.
- Price pressures remain subdued, and inflation in 2018-19 is now expected to be slightly below the *2018 Pre-Election Budget Update* estimate.
- National and global economic conditions are supportive of Victoria's economic outlook as the economic cycle matures.
- Uncertainty surrounding the outlook for the residential property market and global trade policy is elevated, but risks to Victoria's outlook are balanced.

VICTORIAN ECONOMIC CONDITIONS AND OUTLOOK

The economy is evolving broadly as expected at the *2018 Pre-Election Budget Update*, with economic growth to ease gradually from recent above trend rates, to around trend of 2.75 per cent from 2019-20.

Victoria's economy has recorded above-trend growth in recent years. Economic output, as measured by real gross state product (GSP), was stronger than expected in 2017-18, and the growth rate for 2016-17 was revised higher. Economic activity has been supported by an extended period of low interest rates and strong population growth, which has underpinned higher levels of consumer spending and dwelling investment. The contribution to growth from public demand has increased, while business conditions have improved and investment is rising. Exports, particularly in services, have continued to expand, aided by the weaker Australian dollar.

Conditions have also improved at the national level, with growth in gross domestic product (GDP) accelerating over the past year. In part, this reflects a further reduction in the drag from mining investment. Domestic demand has firmed, and resource exports are growing strongly, helped by the stronger global economy. Reflecting this, economic conditions in the mining states are improving.

The global backdrop remains generally positive, with many advanced economies growing at above-trend rates, supported by still accommodative monetary and/or fiscal policy settings. However, there is growing uncertainty around the medium-term outlook, reflecting risks from rising interest rates in the United States and the direction of global trade policy.

Table 2.1 sets out the economic forecasts, with the *2018 Pre-Election Budget Updat*e forecasts in italics where different.

Table 2.1: Victorian economic forecasts [(a)] (per cent)

	2017-18 actual	*2018-19 forecast*	*2019-20 forecast*	*2020-21 projection*	*2021-22 projection*
Real gross state product	3.5	3.00	2.75	2.75	2.75
	3.25				
Employment	2.7	2.50	2.00	1.75	1.75
Unemployment rate [(b)]	5.6	4.75	5.00	5.25	5.50
Consumer price index [(c)]	2.3	2.25	2.50	2.50	2.50
		2.50			
Wage price index [(d)]	2.3	2.75	3.00	3.25	3.50
Population [(e)]	2.2 [(f)]	2.1	2.0	1.9	1.9

Sources: Department of Treasury and Finance; Australian Bureau of Statistics.

Notes:

(a) Percentage change in year average terms compared with previous year, except for the unemployment rate (see note (b)) and population (see note (e)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (e)).
Projections for 2020-21 and 2021-22 represent long-run average growth rates, except for the wage price index, which remains below trend in 2020-21, and population growth, which remains above trend by 2021-22.
The key assumptions underlying the economic forecasts include: interest rates are reflective of movements in market expectations; an Australian dollar trade-weighted index of 62.6; and oil prices that follow the path suggested by the futures market.

(b) Year average, per cent.

(c) Melbourne consumer price index.

(d) Wage price index, Victoria (based on total hourly rates of pay, excluding bonuses).

(e) Percentage change over the year to 30 June. Forecasts are rounded to the nearest 0.1 percentage point.

(f) Estimate, actual not yet available.

Gross state product

Victoria's economy grew by 3.5 per cent in 2017-18, higher than the 3.25 per cent growth rate forecast in the *2018 Pre-Election Budget Update*. This was the largest increase of all the states and marked the 26th year of uninterrupted growth in Victoria. The GSP growth rate in the prior year, 2016-17, was also revised higher by the Australian Bureau of Statistics to 4.0 per cent, from 3.3 per cent previously reported. The major contributors to growth in 2017-18 were consumer spending, public demand and business investment. In 2018-19, GSP growth is forecast to ease to around 3.0 per cent, still above trend.

Consumer spending has been a solid contributor to economic growth in recent years, underpinned by population and employment growth, low interest rates and rising household wealth. After expanding by 3.8 per cent in 2017-18, the highest increase in seven years, growth in household consumption is expected to moderate in 2018-19. This reflects the impact of slowing growth in population and household wealth, relatively modest wage growth, and high levels of household debt in a rising interest rate environment.

Dwelling investment has also risen strongly in recent years and activity in 2018-19 is forecast to remain at historically high levels. A large pipeline of residential construction work is expected to continue to support activity in the near term. However, a weakening in building approvals and investor demand, reflecting tighter credit conditions and lower house price expectations, points to a modest decline in the level of dwelling investment into 2019. The short-term outlook for the residential property market remains a key source of uncertainty for dwelling investment and household consumption, particularly in light of recent declines in dwelling prices and housing market activity. Nonetheless, solid population growth should help support underlying demand for housing over the medium term.

All major components of business investment rose in 2017-18, with overall investment growing by 9.7 per cent. Non-dwelling construction has been strong, especially the construction of office buildings, tourist accommodation and education facilities. The increase in investment is consistent with surveys indicating ongoing positive business conditions in Victoria and nationally. Growth in business investment is expected to remain positive over the forecast horizon.

The contribution to economic growth from public demand has also been strong, and this is expected to continue in 2018-19. Public investment is forecast to remain at high levels, supported by the Government's large pipeline of infrastructure spending.

Exports of goods and services rose in 2017-18, although at a slower pace than imports; growth in merchandise imports was particularly strong, consistent with the strength in consumer spending and business investment. Looking forward, the contribution from net exports is anticipated to improve in 2018-19, as merchandise import growth moderates and exports remain solid. The global economic backdrop is expected to remain positive in the near term, while the depreciation of the Australian dollar should also support export growth.

Overall, the economic outlook for Victoria remains positive. Following forecast growth of 3.0 per cent in 2018-19, real GSP growth is expected to return to its trend rate of around 2.75 per cent per annum from 2019-20.

Labour market

Victoria's labour market has been strong in recent years, with solid gains in employment, record rates of labour force participation and a declining unemployment rate. Employment rose by 2.7 per cent in 2017-18, its fourth year of above-trend growth, supporting a decline in the unemployment rate to 5.6 per cent on average over the year. By industry, employment growth was particularly strong in construction, professional, scientific and technical services, retail trade, and accommodation and food services.

The positive momentum has continued into 2018-19, with the latest data showing employment growth of 2.9 per cent over the year to October 2018 and an unemployment rate of 4.5 per cent. Since the start of 2018, the unemployment rate has declined by 1.6 percentage points.

Labour market conditions are expected to remain solid, consistent with leading indicators of labour demand. Employment is forecast to rise by 2.5 per cent in 2018-19 and by 2.0 per cent in 2019-20. The unemployment rate is expected to average 4.75 per cent in year-average terms in 2018-19, which would represent an 11-year low.

Prices and wages

The Melbourne consumer price index increased by 2.3 per cent in 2017-18, and is forecast to remain around 2.25 per cent in 2018-19. This is a small downward revision from the *2018 Pre-Election Budget Update* estimate of 2.5 per cent, reflecting low inflationary pressures in the first quarter of the financial year. Inflation is forecast to reach 2.5 per cent in 2019-20, the middle of the Reserve Bank of Australia's 2-3 per cent target band.

Wage growth across Australia and in Victoria has remained subdued despite the decline in the unemployment rate over the past few years. In part, this reflects the strong growth in labour supply in Victoria. However, as this growth moderates, and with labour demand anticipated to remain relatively strong, wage growth is expected to increase gradually over the forecast horizon. Overall, wages are forecast to increase by 2.75 per cent in 2018-19, up from 2.3 per cent in 2017-18.

Population

Victoria's population growth has been strong in recent years, driven by high levels of both net overseas and interstate migration. In the year to the March quarter 2018, Victoria's population grew by 2.2 per cent, compared to 1.6 per cent for Australia as a whole. The increased levels of migration – interstate migration in particular – reflect Victoria's economic performance in recent years. However, with economic conditions continuing to normalise between the mining and non-mining states, migration levels are expected to moderate. Population growth is forecast to be 2.1 per cent in 2018-19.

AUSTRALIAN ECONOMIC CONDITIONS AND OUTLOOK

Australian economic conditions have improved over the past year, supported by low interest rates and the ongoing strength in the global economy. GDP grew by 2.8 per cent in 2017-18 and 3.4 per cent through the year to the June quarter 2018, pointing to increased momentum in the first half of 2018. Business conditions are positive, supporting growth in non-mining investment, while public demand is also underpinning activity. The positive global economic backdrop is boosting exports, with resource exports particularly strong.

Solid growth is expected in non-rural exports, business investment, consumer spending and public infrastructure investment. In its *2018-19 Budget*, the Commonwealth Treasury forecast GDP growth of 3.0 per cent in 2018-19. This underpins a further rise in the forecast for employment, taking the national unemployment rate to a forecast average of 5.25 per cent in the June quarter 2019, from 5.5 per cent in 2017-18.

It is anticipated the continued labour market improvement will produce a gradual increase in wage growth and inflation pressures over the next couple of years.

INTERNATIONAL ECONOMIC CONDITIONS AND OUTLOOK

The global economy is continuing to expand at a solid pace, with above-trend growth in key advanced economies. According to the International Monetary Fund's (IMF) October 2018 *World Economic Outlook*, global growth is projected to remain at 3.7 per cent in both 2018 and 2019, the same rate recorded in 2017. This is a small downward revision from the IMF's previous estimate of 3.9 per cent for both years.

Economic growth in the United States is strong, supported by a sizeable fiscal stimulus, and the unemployment rate has fallen below 4 per cent. While near-term momentum remains positive, growth is expected to ease as financial conditions continue to tighten and as the economy faces increased capacity constraints. Economic conditions in Asia are strong, notwithstanding some further moderation in Chinese growth, which the IMF forecasts will continue into 2019.

Despite the current global strength, the IMF cautions that the global expansion is becoming less even, and that downside risks to the outlook are growing. These risks include growing trade protectionism and rising United States interest rates.

RISKS TO THE OUTLOOK

The risks to Victoria's economic outlook are balanced and unchanged from *2018 Pre-Election Budget Update*. See Appendix D *Sensitivity Analysis* for an assessment of the impact from some of these risks. On the upside, while the outlook is for economic growth to moderate to around trend rates as Victoria's economic cycle matures, the economy retains significant momentum, particularly in the labour market, and may remain stronger for longer than currently envisaged. A faster than expected recovery in wages combined with favourable employment conditions would support consumption growth in the near term. Persistent strength in population growth or a higher participation rate could lead to higher employment and GSP growth.

On the downside, the current, orderly adjustment in Victoria's residential property market could prove deeper than is currently factored into the forecasts. There is a risk that sentiment in the market may weaken more significantly, particularly if domestic credit conditions tighten further, or if accompanied by an external shock, such as higher than anticipated global interest rates (as discussed below). A weaker housing market could lead to softer household sentiment, lower consumption and dwelling investment, and slower growth in employment, wages and real GSP.

Global risks are tilted to the downside, with key threats relating to the risk of a larger than expected increase in United States interest rates or rising trade protectionist sentiment impacting on global growth. The heightened sense of uncertainty around these risks has been reflected in volatility in financial markets recently, particularly equity markets, which in itself may impact the Victorian economy.

CHAPTER 3 – BUDGET POSITION AND OUTLOOK

- The general government sector operating surplus is estimated to be $2.2 billion in 2018-19 and average $2.5 billion across the forward estimates.
- Government infrastructure investment is projected to average $10.6 billion a year over the budget and forward estimates.
- Net debt is expected to be 6.0 per cent of gross state product (GSP) by June 2021, and remain at that level in 2021-22.
- Revenue growth is expected to average 4.1 per cent a year over the budget and forward estimates, exceeding average expense growth of 4.0 per cent a year.

This chapter presents the revised budget position of the Victorian public sector, incorporating the general government sector, the public non-financial corporations (PNFC) sector and the public financial corporations (PFC) sector for the budget year and forward estimates.

It takes into account the financial impacts as at 30 November 2018 of all decisions that affect the financial statements, unless otherwise stated.

This chapter also reconciles and explains any movements since the *2018 Pre-Election Budget Update* that affect the estimated net result from transactions.

GENERAL GOVERNMENT SECTOR

Overview

The operating result (net result from transactions) for the general government sector in 2018-19 is forecast to be a surplus of $2.2 billion, with annual operating surpluses averaging $2.5 billion over the forward estimates (Table 3.1).

Revenue growth is expected to average 4.1 per cent a year over the budget and forward estimates, compared to average expense growth of 4.0 per cent a year.

Table 3.1: General government fiscal aggregates

	Unit of measure	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Net result from transactions	$ billion	2.2	1.7	2.7	3.0
Government infrastructure investment [(a)]	$ billion	13.4	11.4	9.7	8.0
Net debt	$ billion	22.5	27.8	30.3	31.8
Net debt to GSP [(b)]	per cent	5.0	5.8	6.0	6.0

Source: Department of Treasury and Finance

Notes:
(a) Includes general government net infrastructure investment and estimated construction costs for Partnerships Victoria projects.
(b) The ratios to GSP may vary from publications year to year due to revisions to the Australian Bureau of Statistics GSP data.

Government infrastructure investment is projected to average $10.6 billion a year over the next four years, more than double the average of $4.9 billion a year from 2005-06 to 2014-15.

Net debt is expected to be $31.8 billion by June 2022. As a proportion of GSP, net debt is projected to increase from its June 2019 level of 5.0 per cent to 6.0 per cent by June 2021, and remain at that level in 2021-22.

BUDGET AND FORWARD ESTIMATES OUTLOOK

Table 3.2 summarises the operating statement for the general government sector. A comprehensive operating statement is presented in Chapter 4 *Estimated financial statements and notes*.

Table 3.2: Summary operating statement for the general government sector [(a)] ($ million)

	2018-19 revised	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Revenue				
Taxation	24 092	25 050	25 836	27 116
Dividends, tax equivalent revenue and interest [(b)]	1 921	1 369	1 357	1 319
Sales of goods and services	7 594	8 417	8 685	8 726
Grant revenue	33 515	33 697	34 686	35 942
Other current revenue	2 636	2 594	2 656	2 714
Total revenue	**69 757**	**71 128**	**73 221**	**75 817**
% change	*8.0*	*2.0*	*2.9*	*3.5*
Expenses				
Employee expenses	24 986	26 446	27 495	28 565
Superannuation [(c)]	3 439	3 441	3 482	3 572
Depreciation	2 921	3 033	3 332	3 526
Interest expense	2 090	2 133	2 211	2 260
Grant expense	12 785	14 045	14 007	14 411
Other operating expenses	21 296	20 305	20 016	20 498
Total expenses	**67 517**	**69 403**	**70 544**	**72 833**
% change	*8.4*	*2.8*	*1.6*	*3.2*
Net result from transactions	**2 241**	**1 725**	**2 677**	**2 984**
Total other economic flows included in net result [(d)]	**(233)**	**(251)**	**(265)**	**(284)**
Net result	**2 008**	**1 473**	**2 412**	**2 700**

Source: Department of Treasury and Finance

Notes:

(a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.
(b) Comprises dividends, income tax and rate equivalent revenue and interest.
(c) Comprises superannuation interest expense and other superannuation expenses.
(d) This typically includes gains and losses from the disposal of non-financial assets, adjustments for bad and doubtful debts and revaluations of financial assets and liabilities.

Revenue outlook

Total revenue for the general government sector is expected to be $69.8 billion in 2018-19, with revenue growth projected to average 4.1 per cent a year over the budget and forward estimates.

Taxation

Taxation revenue is forecast to be $24.1 billion in 2018-19, with the rate of growth in property related taxes forecast to decelerate. Residential property market conditions in 2018 have weakened after several years of strong growth in prices and volume, with residential property prices in Victoria recording negative growth of 3.5 per cent in the year to October 2018 (Melbourne recorded negative growth of 4.7 per cent). Specifically:

- land transfer duty revenue is forecast to decline by 6.8 per cent to $6.5 billion in 2018-19 and grow by 2.1 per cent in 2019-20. Growth is expected to average 3.5 per cent each year over the forward estimates. Land transfer duty revenue was revised down by $2.4 billion over four years at the *2018 Pre-Election Budget Update*. Since then, residential prices, auction clearance rates and housing sentiment have weakened further, however, land transfer duty revenue remains stronger than these residential measures alone would suggest. In part, this reflects the changing composition of land transfer duty revenues and the resilience of duties from non-residential transactions; and
- land tax revenue is forecast to increase to $3.4 billion in 2018-19, reflecting rising residential and commercial property values and an increase in the number of liable properties between 1 January 2016 and 31 December 2017. Land tax revenue growth is projected to moderate over the forward estimates as current property market conditions flow through to land valuations.

Taxation revenue from sources other than property is expected to increase at a steady rate over the forward estimates period. Strong economic growth in Victoria is translating into tighter labour market conditions and strengthening wage and income growth. Specifically:

- payroll tax revenue is forecast to grow by 6.1 per cent in 2018-19 to $6.3 billion, and increase by an average of 4.6 per cent per annum over the forward estimates. Higher payroll tax revenue is supported by a strengthening outlook for full-time employment and wage growth;
- gambling tax revenue is forecast to grow to $1.9 billion in 2018-19. Forecasts incorporate additional revenue from the new lottery licence effective from 1 July 2018, and from the new point of consumption tax (POCT) on wagering, effective from 1 January 2019 that replaces the current wagering tax framework. Over the forward estimates, growth is expected to average 1.7 per cent per annum;
- insurance tax revenue is forecast to grow to $1.4 billion in 2018-19, reflecting strong premium growth across most insurance products; and
- motor vehicle tax revenue is forecast to grow to $2.7 billion in 2018-19.

Dividends, income tax equivalent and interest

Dividend and income tax equivalent revenue is projected to be $1.1 billion in 2018-19 and average $582 million across the forward estimates. The higher revenue in 2018-19 is largely due to dividends received from the Victorian Managed Insurance Authority.

Interest income is earned on holdings of cash and deposits. Total interest income is expected to be $818 million in 2018-19, and is forecast to decline by an average of 2.8 per cent a year over the following three years, as money is drawn down from the Victorian Transport Fund to fund infrastructure.

Sales of goods and services

Revenue from the sales of goods and services is expected to be $7.6 billion in 2018-19. Over the forward estimates, growth is expected to average 4.7 per cent a year. This growth largely reflects increases in the capital asset charge revenue from VicTrack associated with an increase in its asset base, TAFE fees for service and hospital patient fees.

Grants

In 2018-19, total grants revenue is expected to grow by 12.0 per cent to $33.5 billion, largely due to an expected increase in GST revenue, which is anticipated to grow by 8.1 per cent to $16.9 billion, along with expected payments to be received under the DisabilityCare Australia Fund (DCAF). Growth is forecast to ease to 2.4 per cent a year on average over the forward estimates, principally due to a decline in Victoria's GST relativities after the budget year and the transfer of responsibility for disability services to the Commonwealth.

Victoria's share of the GST pool has increased from 24.0 per cent in 2017-18 to 25.6 per cent in 2018-19. This largely reflects continued strong population growth relative to other states, and a related need for greater investment in infrastructure.

Over the forward estimates, Victorian GST revenue is expected to increase on average by 4.4 per cent a year, buoyed by the continued growth in the GST pool. Victoria's GST relativity is forecast to ease beyond 2018-19, partly due to the State's relatively stronger revenue outlook.

Commonwealth grants for specific purposes are projected to average $15.5 billion a year across the budget and forward estimates. The Commonwealth provides these grants as contributions towards health care, education, disability and other services, and major infrastructure investment.

Commonwealth grants for specific purposes decrease in 2019-20 largely due to the transfer of responsibility for disability services, and the Commonwealth funding attached to these services from Victoria to the National Disability Insurance Agency as part of the full roll-out of the National Disability Insurance Scheme (NDIS).

Other current revenue

Other current revenue includes fines, royalties, donations and gifts, assets received free of charge and other miscellaneous revenues. Other current revenue is projected to be $2.6 billion in 2018-19 and increase by an average of 1.0 per cent a year across the forward estimates.

Expenses outlook

Total expenses for the general government sector are expected to be $67.5 billion in 2018-19. Total expenses are expected to grow by 4.0 per cent a year on average over the four years to $72.8 billion in 2021-22. Specifically:

- employee expenses (including superannuation) are forecast to grow by 7.2 per cent in 2018-19, moderating to an average annual increase of 4.2 per cent over the forward estimates. The growth in 2018-19 reflects increases in the public sector workforce due to the Government's large infrastructure spend and social policy reforms. The increase in employee expenses also reflects changes in average remuneration levels through enterprise bargaining agreements;
- depreciation expense is forecast to grow by 6.4 per cent to $2.9 billion in 2018-19 and increase by 6.5 per cent a year on average over the forward estimates to $3.5 billion in 2021-22. This growth is broadly in line with the investment in infrastructure;
- interest expense is forecast to be $2.1 billion in 2018-19. Interest expense is expected to grow by an average of 2.6 per cent a year over the forward estimates;
- grants expenses are forecast to increase by 14.9 per cent to $12.8 billion in 2018-19, largely due to payments made to the National Disability Insurance Agency for disability services as part of the full roll-out of the NDIS. Thereafter, growth is expected to average 4.1 per cent a year over the forward estimates; and
- other operating expenses are forecast to increase by 7.6 per cent in 2018-19, largely reflecting the impact of increases in the public sector workforce and differences in the timing of activity across major departments. Thereafter, other operating expenses are expected to decrease by an average of 1.3 per cent a year over the forward estimates to $20.5 billion in 2021-22, partly reflecting the transition of services to the Commonwealth for the NDIS.

Reconciliation of estimates to the *2018 Pre-Election Budget Update*

There has been no material change to the budget and forward estimates since the *2018 Pre-Election Budget Update (PEBU)*, other than a minor variation to depreciation expenses (Table 3.3). This reflects updated information on the profile of capital expenditure not allocated to departments.

Table 3.3: Reconciliation of estimates to the *2018 PEBU* [(a)] ($ million)

	2018-19 revised	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Net result from transactions: *2018 PEBU*	**2 277**	**1 708**	**2 656**	**2 990**
Administrative variations	(37)	17	20	(5)
Net result from transactions: *2018-19 Budget Update*	**2 241**	**1 725**	**2 677**	**2 984**

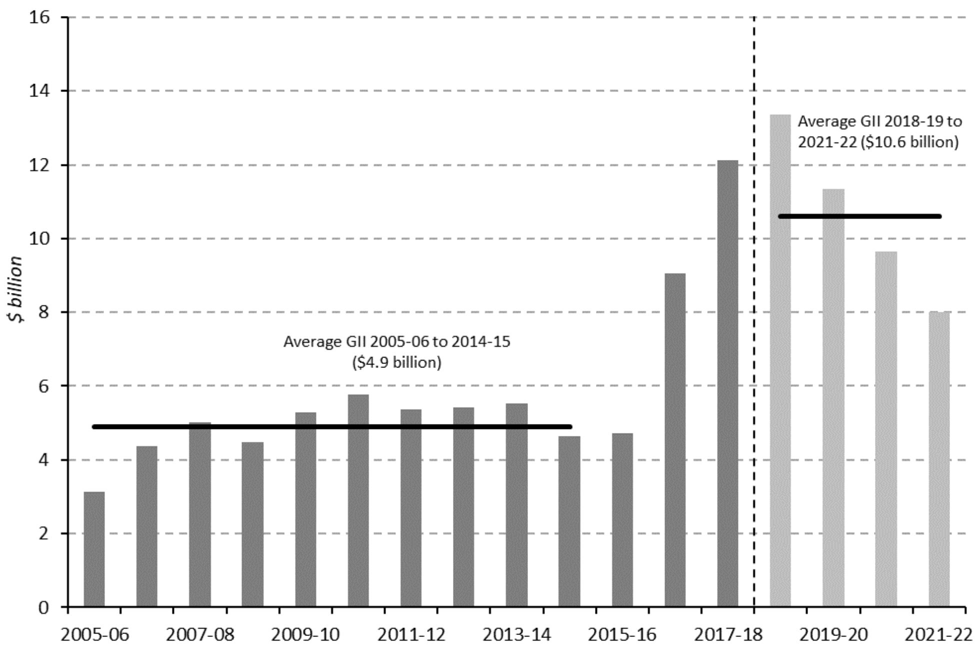
Source: Department of Treasury and Finance

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

Capital expenditure

Government infrastructure investment (GII), which measures investment funded or facilitated by the Government, is forecast to average $10.6 billion a year over the budget and forward estimates. This is more than double the average of $4.9 billion a year from 2005-06 to 2014-15 (Chart 3.1).

Chart 3.1: Government infrastructure investment [(a)(b)]



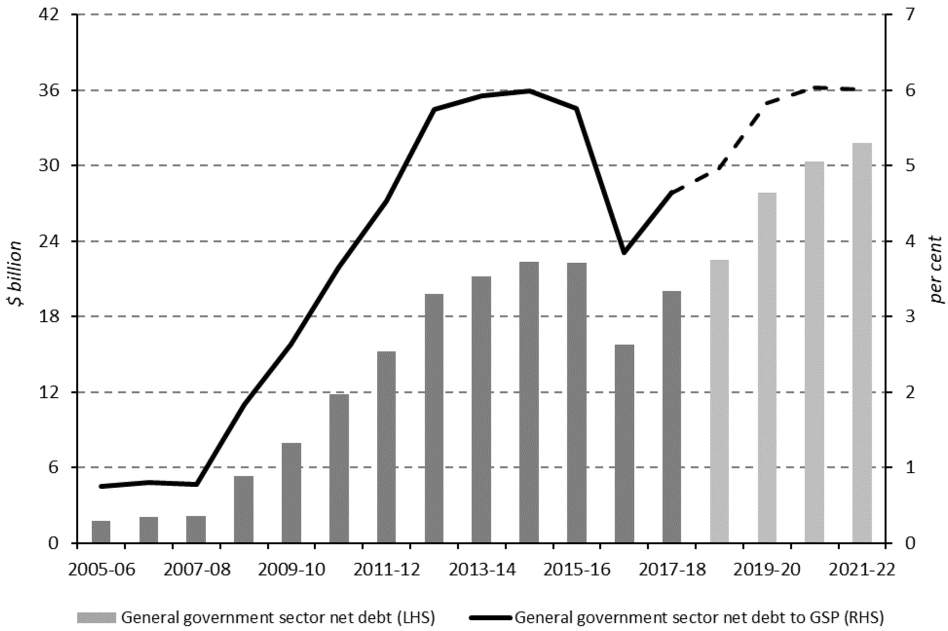
Source: Department of Treasury and Finance

Notes:
(a) Includes general government net infrastructure investment and estimated construction costs for Partnerships Victoria projects.
(b) Excludes the impact of the medium-term lease over the operations of the Port of Melbourne and the divestment of Victoria's share of Snowy Hydro Limited.

Net debt

Net debt as a proportion of GSP was 4.6 per cent at June 2018, and is expected to increase to 6.0 per cent by June 2021, and remain at that level in 2021-22 (Chart 3.2).

Chart 3.2: General government net debt to GSP [(a)(b)]



Source: Department of Treasury and Finance

Notes:

(a) The decrease in 2016-17 reflects the receipt of proceeds from entering into a medium-term lease over the operations of the Port of Melbourne.

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

During the 2018 election, the Government committed to increasing borrowings to 12 per cent of GSP (including accounting standards changes) over the medium term to fund three visionary capital projects: the North-East Road Link; the Melbourne Airport Rail Link; and an additional 25 level crossings to be removed by 2025.

In its credit opinion released on 26 November 2018, Moody's noted that the 'State Government expects total net debt to GSP to increase to approximately 12 per cent over the medium term, a level that we consider to be manageable within Victoria's current triple-A rating and stable outlook'.

The application of cash resources for the general government sector (Table 3.4) outlines the annual movements in net debt. General government sector cash from operating activities is expected to average $4.8 billion a year over the next four years.

Table 3.4: Application of cash resources for the general government sector [(a)] ($ million)

	2018-19 revised	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Net result from transactions	**2 241**	**1 725**	**2 677**	**2 984**
Add back: non-cash revenue and expenses (net) [(b)]	4 914	1 435	1 103	1 978
Net cash flows from operating activities	**7 155**	**3 160**	**3 779**	**4 962**
Total net investment in fixed assets [(c)]	**7 733**	**5 597**	**4 493**	**5 422**
Surplus/(deficit) of cash from operations after funding net investment in fixed assets	**(578)**	**(2 437)**	**(713)**	**(460)**
Finance leases [(d)]	451	1 034	526	448
Other movements	1 481	1 831	1 269	537
Decrease/(increase) in net debt	**(2 510)**	**(5 301)**	**(2 509)**	**(1 445)**

Source: Department of Treasury and Finance

Notes:

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

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

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

(d) The finance lease acquisitions predominately relate to the High Capacity Metro Trains Project, the Western Roads Upgrade, the Casey Hospital Expansion, the Northern Roads Upgrade and the South Eastern Roads Upgrade.

Unfunded superannuation liability

The State's unfunded superannuation liability is on track to be fully funded by 2035. Note 4.6.3 of Chapter 4 *Estimated financial statements and notes* shows information on the reported superannuation liability.

FISCAL RISKS

This section discusses a number of risks which, if realised, are likely to impact on the State's financial position and budget outcomes.

Details of specific contingent assets and liabilities, defined as possible assets or liabilities 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, are contained within Chapter 6 *Contingent assets and contingent liabilities*.

General fiscal risks

State taxes

State tax forecasts are primarily modelled on the relationships between taxation revenue and projected economic variables. As a result, the main source of uncertainty to the taxation estimates are unforeseen changes in the economic outlook.

Revenue from property-based taxes, such as land tax and land transfer duty, are subject to unique risks and historically have been volatile. The *2018-19 Budget Update* allows for some further weakening in property market conditions in 2018-19, while recognising that the underlying drivers of growth remain largely intact. Land transfer duty revenue was revised down by $2.4 billion over four years at the *2018 Pre-Election Budget Update*. However, property markets can exhibit large cycles typically related to changes in official interest rates, changes in sentiment, and/or household income. If property market sentiment were to weaken faster than anticipated or is more prolonged, or mortgage interest rates rose more quickly than currently expected, revenue from property-based taxes may be weaker than forecast.

The translation between developments in the property market into property-based taxes is an additional source of uncertainty.

Employee expenses

Employee expenses are the State's largest expense. Two important determinants of employee expenses are wages growth and the number of employees.

Other factors contributing to projected employee expenses include the composition and profile of the workforce as well as rostering arrangements.

Demand growth

Another key uncertainty is growth in demand for government services exceeding or being below current projections. This can occur, for example, as a result of higher than forecast population growth or expenditure in response to unforeseen events such as natural disasters, including bushfires and floods.

The estimates incorporate contingency provisions to mitigate the impact of expenditure risks, which may be realised during the next four years. The contingency provisions are sized to allow for the likely growth in Victoria's population and consequent derived increased demand for government services.

Note 4.3.5 and Note 4.3.6 of Chapter 4 *Estimated financial statements and notes* discloses general government output and asset contingencies not allocated to departments.

Specific fiscal risks

National Disability Insurance Scheme

Victoria commenced transition to the NDIS on 1 July 2016 and is working towards reaching full roll-out by 1 July 2019. The current transition agreement between Victoria and the Commonwealth ends on 30 June 2019. Negotiations on a full scheme agreement to take effect from 1 July 2019 are ongoing. However, the current agreement states that Victoria's contribution to the NDIS will be an estimated $2.5 billion a year, with the Commonwealth estimated to provide $2.6 billion a year for Victorians in the Scheme.

In August 2018, the Government announced five not-for-profit providers chosen to deliver disability accommodation and respite services as part of the transition to the NDIS. Funding for these providers was included in the *2018-19 Budget*.

Commonwealth schools funding

In June 2017, the Commonwealth Government passed amendments to the *Australian Education Act 2013* to implement new national school funding arrangements for 2018 onwards. The Victorian Government signed a one-year interim agreement with the Commonwealth to ensure funding was not at risk for schools for 2018.

Negotiations on an agreement from 2019 are ongoing and the quantum and conditions of funding are dependent on these being finalised between the Commonwealth, the states and territories, and the non-government schools sector.

Universal Access to Early Childhood Education

The Commonwealth's financial contribution to assist the states and territories in providing 15 hours per week of preschool support per student is supplied under the National Partnership Agreement on Universal Access to Early Childhood Education. Funding under this agreement was extended for the 2019 calendar year, but ongoing Commonwealth funding arrangements are uncertain.

National health reform

Under the National Health Reform Agreement (NHRA), Commonwealth growth funding is derived from a complex model based on the number of procedures performed (activity) and an efficient price determined by an independent administrator.

These arrangements were scheduled to cease from 1 July 2017. However, in April 2016, the Commonwealth agreed to continue the NHRA from 1 July 2017 until 30 June 2020. Conditions attached to the agreement may increase fiscal exposure for the State and include:

- a national cap on Commonwealth annual expenditure growth of 6.5 per cent (above which the State will be required to fund all hospital activity);
- reduced funding to the State for avoidable hospital admissions or unsafe care; and
- the Commonwealth withholding funds until hospital activity data is provided.

A Heads of Agreement for a new agreement was proposed by the Commonwealth at the Council of Australian Governments on 9 February 2018, and negotiations are ongoing.

Victoria's GST revenue

The distribution of GST grants between states and territories is determined by the size of the national GST pool and each jurisdiction's population share weighted by its GST relativity. Revenue sharing relativities are determined by the Commonwealth Treasurer, as informed by the recommendations of the Commonwealth Grants Commission.

Over the forward estimates, there are downside risks to growth in the GST pool if consumer prices and wages growth do not pick up as forecast, or if growth in dwelling investment is slower than expected. Movements in the household savings ratio, particularly in the context of current property market conditions, are a source of uncertainty for consumer spending and the GST pool outlook.

If Victoria's population growth is higher than forecast compared with other states, Victoria's share of GST revenue could increase. Conversely, should other states have higher population growth than expected compared with Victoria this would negatively affect Victoria's GST revenue. Victoria's share of Commonwealth grants payments can affect its GST revenue. Unforeseen movements in the property market also impact Victoria's share of the national GST pool. Variations in commodity prices relative to current forecasts, particularly in iron ore and coal which affect royalty revenue in resource states, also pose uncertainties for Victoria's GST revenue.

NON-FINANCIAL PUBLIC SECTOR

The non-financial public sector (NFPS) consolidates the public non-financial corporations (PNFC) and general government sectors. The PNFC sector is comprised of entities providing services that are primarily funded from user charges and fees. The largest PNFCs provide water, housing and transport services. The financial performance and indebtedness of the NFPS are important elements of financial sustainability that support the State's triple-A credit rating.

Summary operating statement

Table 3.5: Summary operating statement for the non-financial public sector [(a)] ($ million)

	2018-19 revised	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Revenue				
Taxation revenue	23 649	24 600	25 524	26 789
Dividends, income tax equivalent and interest	1 035	541	587	589
Sales of goods and services	11 378	12 355	12 692	13 184
Grant revenue	33 516	33 699	34 687	35 943
Other current revenue	3 261	3 212	3 291	3 333
Total revenue	**72 840**	**74 406**	**76 781**	**79 838**
% change	7.2	2.1	3.2	4.0
Expenses				
Employee expenses	26 264	27 756	28 830	29 936
Superannuation [(b)]	3 572	3 578	3 622	3 717
Depreciation	5 271	5 482	5 941	6 255
Interest expense	2 508	2 612	2 747	2 815
Grant expense	9 128	10 365	10 388	10 828
Other operating expenses	24 602	23 493	23 348	24 144
Total expenses	**71 346**	**73 286**	**74 877**	**77 694**
% change	8.1	2.7	2.2	3.8
Net result from transactions	**1 495**	**1 120**	**1 904**	**2 144**

Source: Department of Treasury and Finance

Notes:
(a) This is a summary operating statement. Figures in this table are subject to rounding to the nearest million and may not add up to totals.
(b) Comprises superannuation interest expense and other superannuation expenses.

The net result from transactions of the NFPS is projected to reach $2.1 billion by 2021-22. This is largely due to the general government sector surplus projected to increase from $2.2 billion in 2018-19 to $3.0 billion by 2021-22.

The net result from transactions of the PNFC sector is projected to be an average deficit of $566 million across the budget and forward estimates period. The deficits mainly reflect:

- depreciation expenses of VicTrack. However, VicTrack is estimated to generate an average operating cash flow surplus of $95.9 million over the budget and forward estimates period; and
- depreciation expenses and costs associated with the Director of Housing managing a large and ageing asset portfolio. However, the Director of Housing is estimated to generate an average operating cash flow surplus of $94.9 million over the budget and forward estimates period.

Despite the projected deficits, the PNFC sector is forecast to remain in a strong and sustainable position with operating cash flow surpluses averaging $1.5 billion over the budget and forward estimates period.

Application of cash resources

The NFPS is forecast to record operating cash flow surpluses averaging $6.1 billion across the budget and forward estimates period. This will fund 62 per cent of the NFPS infrastructure program. This enables the State to deliver infrastructure projects without unduly impacting debt sustainability.

Table 3.6: Application of cash resources for the non-financial public sector [(a)] ($ million)

	2018-19 revised	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Net result from transactions	1 495	1 120	1 904	2 144
Add back: non-cash income and expenses (net) [(b)]	6 735	3 394	3 314	4 248
Net cash flow from operating activities	**8 230**	**4 514**	**5 218**	**6 392**
Total net investment in fixed assets [(c)]	**12 085**	**9 459**	**7 718**	**7 730**
Surplus/(deficit) of cash from operations after funding net investments in fixed assets	**(3 855)**	**(4 945)**	**(2 500)**	**(1 337)**
Finance leases [(d)]	451	1 034	526	448
Other movements	(143)	107	(6)	(71)
Decrease/(increase) in net debt	**(4 164)**	**(6 086)**	**(3 020)**	**(1 715)**

Source: Department of Treasury and Finance

Notes:
(a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.
(b) Includes depreciation, prepayments and movements in the unfunded superannuation liability and liability for employee benefits, as well as operating cash flows not required to be recognised in the operating statement for the respective year.
(c) Includes total purchases of plant, property and equipment, and net capital contributions to other sectors of government net of proceeds from asset recycling.
(d) The finance lease acquisitions relate to Bendigo Hospital – Stage 2, the High Capacity Metro Trains Project, the Western Roads Upgrade, the Casey Hospital Expansion, the Northern Roads Upgrade and the South Eastern Roads Upgrade.

The NFPS is projected to invest a total of $42 billion in non-financial assets over the budget and forward estimates. The key infrastructure projects under development include:

- investment in transport infrastructure to meet patronage growth and improve network performance. This includes investment in the regional and metropolitan rail networks. Key regional rail investments include the Regional Rail Revival program and additional VLocity carriages. Metropolitan rail investments include the Cranbourne-Pakenham and Sunbury line upgrades as well as a range of other metropolitan rail infrastructure improvement projects;
- upgrading and renewal of water and sewer assets by the Melbourne metropolitan water corporations, including an increase in the capacity of the Western Treatment Plant (Melbourne Water Corporation), the Epping Main Sewer and Craigieburn Sewer Transfer Hub (Yarra Valley Water), the Boneo Water Recycling Plant (South East Water), and the West Werribee Dual Water Supply Project (City West Water); and
- upgrading and renewal of water and sewer assets in regional Victoria, including Goulburn-Murray Water's Connections Project, which will connect irrigators to a modernised main system of irrigation channels, and the modernisation of various irrigation systems by Southern Rural Water, and the South West Loddon and East Grampians rural water supply pipeline extension projects by Grampians Wimmera Mallee Water.

NON-FINANCIAL PUBLIC SECTOR NET DEBT AND NET FINANCIAL LIABILITIES

Table 3.7 details NFPS net debt and financial liabilities.

Table 3.7: Non-financial public sector net debt and financial liabilities ($ billion)

	2018-19 revised	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Assets				
Cash and deposits	5.1	5.1	5.0	5.0
Advances paid	0.5	0.4	0.4	0.4
Investments, loans and placements	5.3	5.8	6.0	6.3
Total	**10.8**	**11.2**	**11.4**	**11.7**
Liabilities				
Deposits held and advances received	1.3	1.4	1.4	1.3
Borrowings	47.9	54.3	57.5	59.6
Total	**49.2**	**55.6**	**58.9**	**60.9**
Net debt [(a)]	**38.4**	**44.4**	**47.5**	**49.2**
Superannuation liability	23.3	22.2	21.2	20.2
Net debt plus superannuation liabilities	**61.6**	**66.7**	**68.6**	**69.3**
Other liabilities (net) [(b)]	19.9	19.6	19.1	17.9
Net financial liabilities [(c)]	**81.6**	**86.3**	**87.7**	**87.2**
(per cent)				
Net debt to GSP [(d)]	8.5	9.3	9.4	9.3
Net debt plus superannuation liability to GSP [(d)]	13.6	14.0	13.7	13.1
Net financial liabilities to GSP [(d)]	18.0	18.1	17.4	16.5
Net debt plus superannuation liability to revenue [(e)]	84.6	89.6	89.4	86.8

Source: Department of Treasury and Finance

Notes:

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

(b) Includes other benefits and provisions, payables and other liabilities less other non-equity financial assets.

(c) Net financial liabilities is the sum of superannuation, borrowings and other net financial liabilities less non-equity financial assets.

(d) Ratios to GSP may vary from publications year to year due to revisions made by the Australian Bureau of Statistics to its published GSP data.

(e) The sum of NFPS net debt plus the superannuation liability as a proportion of NFPS total operating revenue.

NFPS net debt is projected to increase to $49.2 billion by 2021-22 following the ongoing investment in infrastructure projects over the budget and forward estimates period. The projected NFPS net debt to GSP ratio is expected to increase from 8.5 per cent in 2018-19 to 9.3 per cent in 2021-22, predominantly driven by the general government sector.

Table 3.8 provides projections of several additional indicators of financial sustainability for the NFPS.

Table 3.8: Indicators of financial sustainability of non-financial public sector (per cent)

	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Operating cash flow surplus to revenue	11.3	6.1	6.8	8.0
Gross debt to revenue [(a)]	67.5	74.8	76.7	76.3
Interest expense to revenue	3.4	3.5	3.6	3.5

Source: Department of Treasury and Finance

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

The ratio of operating cash flow to revenue is a measure of the relative size of the operating result and therefore provides a measure of operating performance. This ratio is higher in 2018-19 mainly due to cash receipts from commercialising part of Victoria's land titles and registry functions. This ratio increases to 8 per cent by 2021-22 due to improving operating cash flow surpluses over the budget and forward estimates supported by improving revenue.

The ratio of NFPS' interest expense to revenue is a measure of the State's debt service burden. This ratio is expected to be 3.4 per cent in 2018-19 and remain relatively stable over the budget and forward estimates period. This is due to higher interest costs from rising debt levels being offset by increasing revenues. The overall debt burden is evidenced by the ratio of gross debt to revenue, which is estimated to be 67.5 per cent in 2018-19, increasing to 76.3 per cent by 2021-22.

STATE OF VICTORIA

The State of Victoria financial results are obtained by consolidating the public financial corporations (PFC) sector with the NFPS. There are two broad types of PFCs; those that provide services to the general public and businesses (statutory insurers such as Transport Accident Commission and WorkSafe Victoria) and those that provide financial services predominantly to other government entities (such as the Victorian Funds Management Corporation and the Treasury Corporation of Victoria).

Table 3.9: Summary operating statement of the State of Victoria [(a)] ($ million)

	2018-19 revised	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Revenue				
Taxation revenue	23 634	24 584	25 508	26 772
Dividends, income tax equivalent and interest	2 225	2 162	2 522	2 606
Sales of goods and services	15 286	16 439	16 972	17 668
Grant revenue	32 525	32 912	34 068	35 271
Other current revenue	3 281	3 233	3 317	3 361
Total revenue	**76 951**	**79 330**	**82 387**	**85 679**
% change	*5.5*	3.1	3.9	4.0
Expenses				
Employee expenses	26 246	27 725	28 794	29 897
Superannuation [(b)]	3 601	3 608	3 652	3 748
Depreciation	5 315	5 540	6 025	6 371
Interest expense	2 569	2 670	2 797	2 864
Grant expense	9 143	10 380	10 404	10 844
Other operating expenses	31 199	30 516	30 595	31 882
Total expenses	**78 074**	**80 439**	**82 267**	**85 606**
% change	*7.0*	3.0	2.3	4.1
Net result from transactions	**(1 123)**	**(1 109)**	**120**	**73**
Total other economic flows included in net result	**1 721**	**1 162**	**1 249**	**1 292**
Net result	**598**	**53**	**1 369**	**1 364**

Source: Department of Treasury and Finance

Notes:

(a) *This is a summary operating statement. The comprehensive operating statement is presented in Chapter 5* Supplementary uniform presentation framework tables. *Figures in this table are subject to rounding to the nearest million and may not add up to totals.*

(b) *Comprises superannuation interest expense and other superannuation expenses.*

The net result from transactions for the State in 2018-19 is projected to be a deficit of $1.1 billion, improving to a surplus of $73 million by 2021-22.

The State's insurers contribute substantially to the projected deficits because a significant portion of investment returns used to fund future claims costs is reported under other economic flows.

Consequently, the net result is a more meaningful measure of the expected operating position of the PFC sector and the State as it includes this substantial projected investment income averaging $1.4 billion over the budget and forward estimates. The net result at State level is a surplus of $598 million in 2018-19, improving to $1.4 billion by 2021-22.

Table 3.10 highlights the State's financial position over the budget and forward estimates period. Total liabilities are projected to increase to $153 billion by 2021-22, offset by expected increases in the State's financial assets and non-financial assets. Financial assets are projected to increase to $60 billion by 2021-22 in line with the assumed growth in investments returns. Non-financial assets are projected to increase by $31 billion to $307 billion, primarily from the Government's infrastructure program and expected revaluations of fixed assets. As a result, the State's net assets are forecast to increase from $194 billion in 2018-19 to $215 billion in 2021-22.

Table 3.10: Summary balance sheet for the State of Victoria [(a)] **($ billion)**

	2018-19 revised	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Assets				
Total financial assets	57	57	58	60
Total non-financial assets	276	293	301	307
Total assets	**333**	**350**	**359**	**368**
Liabilities				
Superannuation	23	22	21	20
Borrowings	52	58	62	64
Deposits held and advances received	2	2	2	2
Other liabilities	62	64	65	67
Total liabilities	**139**	**146**	**150**	**153**
Net assets	194	204	209	215

Source: Department of Treasury and Finance

Note:

(a) This is a summary balance sheet. The comprehensive balance sheet is presented in Chapter 5 Supplementary uniform presentation framework tables. *Figures in this table are subject to rounding to the nearest billion and may not add up to totals.*

CHAPTER 4 – ESTIMATED FINANCIAL STATEMENTS AND NOTES

ESTIMATED GENERAL GOVERNMENT SECTOR COMPREHENSIVE OPERATING STATEMENT

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

	Notes	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Revenue from transactions						
Taxation revenue	4.2.1	24 081	24 092	25 050	25 836	27 116
Interest revenue		864	818	787	761	752
Dividends, income tax equivalent and rate equivalent revenue	4.2.2	922	1 103	582	596	567
Sales of goods and services	4.2.3	7 541	7 594	8 417	8 685	8 726
Grant revenue	4.2.4	33 458	33 515	33 697	34 686	35 942
Other revenue	4.2.5	2 622	2 636	2 594	2 656	2 714
Total revenue from transactions		**69 487**	**69 757**	**71 128**	**73 221**	**75 817**
Expenses from transactions						
Employee expenses		25 562	24 986	26 446	27 495	28 565
Net superannuation interest expense	4.3.2	662	688	639	610	580
Other superannuation	4.3.2	2 676	2 750	2 802	2 873	2 992
Depreciation	4.4.2	2 876	2 921	3 033	3 332	3 526
Interest expense	4.5.3	2 167	2 090	2 133	2 211	2 260
Grant expense	4.3.3	12 901	12 785	14 045	14 007	14 411
Other operating expenses	4.3.4	21 264	21 296	20 305	20 016	20 498
Total expenses from transactions	4.3.5	**68 108**	**67 517**	**69 403**	**70 544**	**72 833**
Net result from transactions – net operating balance		**1 380**	**2 241**	**1 725**	**2 677**	**2 984**
Other economic flows included in net result						
Net gain/(loss) on disposal of non-financial assets		77	90	78	52	51
Net gain/(loss) on financial assets or liabilities at fair value		27	24	26	26	27
Other gains/(losses) from other economic flows	4.7.1	(345)	(347)	(355)	(343)	(362)
Total other economic flows included in net result		**(242)**	**(233)**	**(251)**	**(265)**	**(284)**
Net result		**1 137**	**2 008**	**1 473**	**2 412**	**2 700**

ESTIMATED GENERAL GOVERNMENT SECTOR COMPREHENSIVE OPERATING STATEMENT *(continued)*

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

	Notes	*2018-19 budget*	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Other economic flows – other comprehensive income						
Items that will not be reclassified to net result						
Changes in non-financial assets revaluation surplus		699	699	6 859	1 441	3 797
Remeasurement of superannuation defined benefit plans	4.3.2	1 014	1 996	1 053	1 074	1 094
Other movements in equity		(9)	(13)	8	..	25
Items that may be reclassified subsequently to net result						
Net gain/(loss) on financial assets at fair value		2	2	2	2	2
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	4.6.1	34	2 021	1 152	535	(524)
Total other economic flows – other comprehensive income		**1 741**	**4 705**	**9 074**	**3 051**	**4 394**
Comprehensive result – total change in net worth		**2 878**	**6 713**	**10 547**	**5 463**	**7 094**
KEY FISCAL AGGREGATES						
Net operating balance		**1 380**	**2 241**	**1 725**	**2 677**	**2 984**
Less: Net acquisition of non-financial assets from transactions	4.3.7	1 921	2 027	3 079	2 345	1 915
Net lending/(borrowing)		**(541)**	**214**	**(1 355)**	**332**	**1 070**

Source: Department of Treasury and Finance

The accompanying notes form part of these Estimated Financial Statements.

ESTIMATED GENERAL GOVERNMENT SECTOR BALANCE SHEET

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

	Notes	2019 budget [(a)]	2019 revised	2020 estimate	2021 estimate	2022 estimate
Assets						
Financial assets						
Cash and deposits		6 325	4 180	4 282	4 285	4 265
Advances paid	4.5.2	8 289	8 524	6 641	5 342	4 796
Receivables		6 465	6 400	6 567	6 935	7 319
Investments, loans and placements	4.5.2	4 197	4 204	4 707	4 962	5 253
Investments accounted for using equity method		53	53	53	53	53
Investments in other sector entities	4.6.1	107 036	108 405	113 084	115 823	117 145
Total financial assets		**132 364**	**131 766**	**135 334**	**137 400**	**138 831**
Non-financial assets						
Inventories		179	187	194	199	203
Non-financial assets held for sale		391	391	392	393	394
Land, buildings, infrastructure, plant and equipment	4.4.1	136 801	136 721	145 677	148 058	152 615
Other non-financial assets	4.4.4	1 978	2 130	3 157	4 574	5 271
Total non-financial assets		**139 349**	**139 428**	**149 420**	**153 223**	**158 484**
Total assets	**4.4.5**	**271 712**	**271 194**	**284 753**	**290 623**	**297 315**
Liabilities						
Deposits held and advances received		4 669	4 900	3 287	2 042	1 461
Payables	4.6.2	8 638	9 438	9 157	8 864	7 972
Borrowings	4.5.1	38 859	34 522	40 158	42 870	44 621
Employee benefits	4.3.1	7 372	7 319	7 631	7 926	8 227
Superannuation	4.6.3	24 164	23 268	22 220	21 139	20 127
Other provisions		1 016	919	924	942	974
Total liabilities		**84 718**	**80 365**	**83 377**	**83 784**	**83 382**
Net assets		**186 995**	**190 829**	**201 376**	**206 839**	**213 933**
Accumulated surplus/(deficit)		54 730	56 577	59 114	62 601	66 421
Reserves		132 265	134 252	142 263	144 237	147 512
Net worth		**186 995**	**190 829**	**201 376**	**206 839**	**213 933**
FISCAL AGGREGATES [(b)]						
Net financial worth		47 646	51 401	51 957	53 616	55 449
Net financial liabilities		59 390	57 004	61 127	62 207	61 696
Net debt		24 717	22 513	27 815	30 324	31 768

Source: Department of Treasury and Finance

The accompanying notes form part of these Estimated Financial Statements.

Notes:

(a) *Balances represent actual opening balances at 1 July 2018 plus 2018-19 budgeted movements.*

(b) *The fiscal aggregates are defined in Note 9.9 of the* 2017-18 Financial Report.

ESTIMATED GENERAL GOVERNMENT SECTOR CASH FLOW STATEMENT

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

	Notes	*2018-19 budget*	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Cash flows from operating activities						
Receipts						
Taxes received		23 907	23 919	24 836	25 452	26 707
Grants		33 458	33 515	33 697	34 686	35 942
Sales of goods and services [(a)]		10 086	11 095	9 094	9 389	9 438
Interest received		864	818	787	761	751
Dividends, income tax equivalent and rate equivalent receipts		861	1 041	576	591	562
Other receipts		2 168	2 164	2 110	2 168	2 212
Total receipts		**71 343**	**72 552**	**71 101**	**73 046**	**75 612**
Payments						
Payments for employees		(25 213)	(24 690)	(26 136)	(27 203)	(28 266)
Superannuation		(3 364)	(3 379)	(3 436)	(3 489)	(3 491)
Interest paid		(2 130)	(2 053)	(2 096)	(2 174)	(2 223)
Grants and subsidies		(13 158)	(13 246)	(15 187)	(15 572)	(15 236)
Goods and services [(a)]		(21 141)	(21 256)	(20 280)	(19 989)	(20 632)
Other payments		(787)	(775)	(804)	(840)	(801)
Total payments		**(65 792)**	**(65 398)**	**(67 941)**	**(69 267)**	**(70 650)**
Net cash flows from operating activities		**5 551**	**7 155**	**3 160**	**3 779**	**4 962**
Cash flows from investing activities						
Cash flows from investments in non-financial assets						
Purchases of non-financial assets	4.3.6	(10 091)	(9 361)	(8 896)	(7 333)	(6 598)
Sales of non-financial assets		368	365	416	390	346
Net cash flows from investments in non-financial assets		**(9 723)**	**(8 996)**	**(8 480)**	**(6 943)**	**(6 252)**
Net cash flows from investments in financial assets for policy purposes		1 624	1 263	2 883	2 450	830
Subtotal		**(8 099)**	**(7 733)**	**(5 597)**	**(4 493)**	**(5 422)**
Net cash flows from investment in financial assets for liquidity management purposes		(248)	(257)	(411)	(199)	(263)
Net cash flows from investing activities		**(8 347)**	**(7 990)**	**(6 008)**	**(4 692)**	**(5 685)**
Cash flows from financing activities						
Advances received (net)		(2 031)	(1 795)	(1 612)	(1 245)	(581)
Net borrowings		4 895	559	4 563	2 161	1 283
Deposits received (net)		..	(5)	..	..	..
Net cash flows from financing activities		**2 864**	**(1 242)**	**2 950**	**915**	**703**
Net increase/(decrease) in cash and cash equivalents		**68**	**(2 077)**	**102**	**3**	**(20)**
Cash and cash equivalents at beginning of reporting period [(b)]		6 257	6 257	4 180	4 282	4 285
Cash and cash equivalents at end of reporting period [(b)]		**6 325**	**4 180**	**4 282**	**4 285**	**4 265**

ESTIMATED GENERAL GOVERNMENT SECTOR
CASH FLOW STATEMENT *(continued)*

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

	Notes	*2018-19 budget*	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
FISCAL AGGREGATES						
Net cash flows from operating activities		5 551	7 155	3 160	3 779	4 962
Net cash flows from investments in non-financial assets		(9 723)	(8 996)	(8 480)	(6 943)	(6 252)
Cash surplus/(deficit)		**(4 172)**	**(1 841)**	**(5 320)**	**(3 164)**	**(1 289)**

Source: Department of Treasury and Finance

The accompanying notes form part of these Estimated Financial Statements.

Notes:
(a) *Inclusive of goods and services tax.*
(b) 2018-19 Budget *figures have been restated to represent actual opening balances at 1 July 2018.*

ESTIMATED GENERAL GOVERNMENT SECTOR STATEMENT OF CHANGES IN EQUITY

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

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*
2018-19 budget [(a)]		
Balance at 1 July 2018	52 574	64 084
Net result for the year	1 137	..
Other comprehensive income for the year	1 019	699
Total equity as at 30 June 2019	**54 730**	**64 783**
2018-19 revised		
Balance at 1 July 2018	52 574	64 084
Net result for the year	2 008	..
Other comprehensive income for the year	1 996	699
Total equity as at 30 June 2019	**56 577**	**64 783**
2019-20 estimate		
Balance at 1 July 2019	56 577	64 783
Net result for the year	1 473	..
Other comprehensive income for the year	1 063	6 859
Total equity as at 30 June 2020	**59 114**	**71 642**
2020-21 estimate		
Balance at 1 July 2020	59 114	71 642
Net result for the year	2 412	..
Other comprehensive income for the year	1 076	1 441
Total equity as at 30 June 2021	**62 601**	**73 083**
2021-22 estimate		
Balance at 1 July 2021	62 601	73 083
Net result for the year	2 700	..
Other comprehensive income for the year	1 119	3 797
Total equity as at 30 June 2022	**66 421**	**76 880**

Source: Department of Treasury and Finance

The accompanying notes form part of these Estimated Financial Statements.

Note:
(a) Balances represent actual opening balances at 1 July 2018 plus 2018-19 budgeted movements.

Investment in other sector entities revaluation surplus	Other reserves	Total
66 351	1 108	184 116
..	..	1 137
34	(12)	1 741
66 385	**1 096**	**186 995**
66 351	1 108	184 116
..	..	2 008
2 021	(12)	4 705
68 372	**1 096**	**190 829**
68 372	1 096	190 829
..	..	1 473
1 152	..	9 074
69 524	**1 096**	**201 376**
69 524	1 096	201 376
..	..	2 412
535	..	3 051
70 058	**1 096**	**206 839**
70 058	1 096	206 839
..	..	2 700
(524)	2	4 394
69 534	**1 098**	**213 933**

4.1 ABOUT THIS REPORT

Basis of preparation

This note summarises the basis applied in preparing and presenting these Estimated Financial Statements, which includes the budget year and the estimates for the three subsequent years.

Unless otherwise stated, the detailed accounting policies applied in preparing the Estimated Financial Statements are consistent with those in the audited 2017-18 annual financial report published in the *2017-18 Financial Report* for the State of Victoria as presented to Parliament.

The audited 30 June 2018 asset and liability balances, as reported in the *2017-18 Financial Report*, form the basis on which asset and liability balances are projected over the next four years.

The Estimated Financial Statements for the 2018-19 budget year have been prepared in accordance with accounting policies expected to be used in preparing historically oriented general purpose financial statements for that year, and the same accounting policies have been used for the subsequent three years.

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

The Estimated Financial Statements are presented in Australian dollars, which is also the functional currency of the Victorian general government sector.

The Estimated Financial Statements have been prepared in accordance with the historical cost convention. Historical cost is based on the fair value of the consideration given in exchange for assets. Exceptions to the historical cost convention include:

- 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 costs to sell;
- financial assets and liabilities measured at fair value through the profit or loss;
- 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 estimated comprehensive operating statement (fair value through profit or loss);

- certain liabilities, most notably unfunded superannuation and insurance claim provisions, which are subject to an actuarial assessment; and
- financial assets measured at fair value through other comprehensive income, which are measured at fair value with movements reflected in 'Other economic flows – other comprehensive income'.

Judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Given the prospective nature of the Estimated Financial Statements, actual results are likely to differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected.

For assets and liabilities measured at fair value in the estimated balance sheet, the principles under AASB 13 *Fair Value Measurement* have been applied.

As required by AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049), the estimated comprehensive operating statement distinguishes between 'Transactions' and 'Other economic flows' based on the principles in the Government Finance Statistics (GFS) Manual. 'Transactions' are those economic flows that are considered to arise as a result of policy decisions, usually interactions between two entities by mutual agreement, and also flows within an entity, such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the government and the taxpayer. Transactions may be cash or settled in kind (e.g. assets provided/given free of charge or for nominal consideration).

'Other economic flows' are changes arising from market remeasurements. They include:

- gains and losses from disposals;
- revaluations and impairments of non-financial physical and intangible assets;
- remeasurement arising from defined benefit superannuation plans;
- fair value changes of financial instruments and agricultural assets; and
- depletion of natural assets (non-produced) from their use or removal.

All amounts in the Estimated Financial Statements have been rounded to the nearest $1 million unless otherwise stated. The Estimated Financial Statements may not add due to rounding.

Reporting entity

The Estimated Financial Statements are prepared for the general government sector, which includes all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost. 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. These services are primarily funded through transferring or redistributing revenue that is collected mainly through taxes and other compulsory levies.

The general government sector is not a separate entity but represents a sector within the State of Victoria reporting entity. Unless otherwise noted, accounting policies applied by the State apply equally to the general government sector.

Basis for consolidation

The Estimated Financial Statements present the estimated consolidated results and position of all reporting entities in the general government sector that are controlled by the State, consistent with the principles of AASB 1049 and AASB 10 *Consolidated Financial Statements*.

Entities in the public non-financial corporations (PNFC) and public financial corporations (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 PNFC and PFC sector entities before consolidation eliminations.

Where the carrying amount of a PNFC or PFC entity's net assets before consolidation eliminations is less than zero, the carrying amount is not included in the general government sector. 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 consistent with AASB 9 *Financial Instruments* and AASB 1049.

Where control of an entity is expected to be obtained during the reporting period, its results are included in the estimated comprehensive operating statement from the date on which control will commence. Where control is expected to cease during a reporting period, the entity's results are included for that part of the period for which control would exist. Where entities adopt dissimilar accounting policies and their effect is considered material, adjustments are made to ensure consistent policies are adopted in the Estimated Financial Statements.

All material transactions and balances between entities within the general government sector are eliminated.

Except as stated in Note 3.7.5 of the Estimated Financial Statements, the significant entities consolidated within the sector comprise those general government sector entities listed in Note 9.8 of Chapter 4 *Annual Financial Report* of the *2017-18 Financial Report* for the State of Victoria.

Compliance

These Estimated Financial Statements have been prepared in accordance with Sections 23L-23N of the *Financial Management Act 1994*, having regard to Australian Accounting Standards (AAS). AAS include Interpretations issued by the Australian Accounting Standards Board (AASB).

The Estimated Financial Statements are presented in a manner consistent with the principles of AASB 1049. However, the prospective nature of these Estimated Financial Statements means that some AAS disclosures are neither relevant nor practical and have been omitted. Where applicable, those AASs paragraphs relevant to not-for-profit entities have been applied. Because AASs do not prescribe requirements for preparing and presenting prospective financial statements, the Estimated Financial Statements have been prepared having regard to the principles set out in New Zealand Public Benefit Entity Financial Reporting Standard 42 *Prospective Financial Statements*.

The GFS information included in this report is based on the *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015 Cat. No. 5514.0* (ABS GFS). Note 1.7.5 of Budget Paper No.5 *Estimated Financial Statements* of the *2018-19 Budget* provides further information on the updated ABS GFS manual.

The information presented in the Estimated Financial Statements takes into account all policy decisions made by the Victorian Government, as well as known Commonwealth Government funding revisions and circumstances that may have a material effect on the Estimated Financial Statements as at 30 November 2018.

Material economic assumptions

The Estimated Financial Statements have been prepared using the material economic assumptions listed below.

Key economic assumptions [(a)]

	2017-18 actual	2018-19 forecast	2019-20 forecast	2020-21 projection	2021-22 projection
			($ billion)		
Nominal gross state product	430.5	453.7	477.5	502.7	529.2
			(percentage change)		
Real gross state product	3.5	3.00	2.75	2.75	2.75
Employment	2.7	2.50	2.00	1.75	1.75
Unemployment rate [(b)]	5.6	4.75	5.00	5.25	5.50
Consumer price index [(c)]	2.3	2.25	2.50	2.50	2.50
Wage price index [(d)]	2.3	2.75	3.00	3.25	3.50
Population [(e)]	2.2 [(f)]	2.1	2.0	1.9	1.9

Source: Department of Treasury and Finance

Notes:

(a) Percentage change in year average terms compared with previous year, except for the unemployment rate (see note (b)) and population (see note (e)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (e)).
Projections for 2020-21 and 2021-22 represent long-run average growth rates, except for the wage price index, which remains below trend in 2020-21, and population growth, which remains above trend by 2021-22.
The key assumptions underlying the economic forecasts include: interest rates are reflective of movements in market expectations; an Australian dollar trade-weighted index of 62.5; and oil prices that follow the path suggested by the futures market.

(b) Year average, per cent.

(c) Melbourne consumer price index.

(d) Wage price index, Victoria (based on total hourly rates of pay, excluding bonuses).

(e) Percentage change over the year to 30 June. Forecasts are rounded to the nearest 0.1 percentage point.

(f) Estimate, actual not yet available.

4.2 HOW FUNDS ARE RAISED

Introduction

This section presents the sources and amounts of revenue forecast for the general government sector.

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

Structure

4.2.1 Taxation revenue ($ million)

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Taxes on employers' payroll and labour force	**6 193**	**6 327**	**6 605**	**6 903**	**7 234**
Taxes on immovable property					
Land tax	3 093	3 433	3 620	3 696	4 016
Fire Services Property Levy [(a)]	642	644	698	719	738
Congestion levy	122	104	105	105	106
Metropolitan improvement levy	169	169	174	178	182
Total taxes on property	**4 026**	**4 350**	**4 597**	**4 698**	**5 042**
Gambling taxes					
Public lotteries	418	424	424	424	424
Electronic gaming machines	1 119	1 147	1 154	1 167	1 180
Casino	237	239	247	254	261
Racing and other sports betting [(b)]	70	106	140	143	147
Other [(b)]	32	13	13	14	15
Financial and capital transactions					
Land transfer duty	7 067	6 463	6 598	6 863	7 171
Metropolitan planning levy	26	24	23	24	25
Financial accommodation levy	174	170	193	209	222
Growth areas infrastructure contributions	238	287	300	330	369
Levies on statutory corporations [(c)]	**157**	**157**	**157**	**..**	**..**
Taxes on insurance	**1 367**	**1 400**	**1 491**	**1 582**	**1 679**
Total taxes on the provision of goods and services	**10 904**	**10 429**	**10 739**	**11 010**	**11 493**
Motor vehicle taxes					
Vehicle registration fees	1 676	1 701	1 792	1 869	1 950
Duty on vehicle registrations and transfers	975	977	1 012	1 047	1 084
Liquor licence fees	**24**	**24**	**25**	**25**	**26**
Other	**283**	**283**	**281**	**284**	**286**
Total taxes on the use of goods and performance of activities	**2 957**	**2 986**	**3 109**	**3 226**	**3 346**
Total taxation revenue	**24 081**	**24 092**	**25 050**	**25 836**	**27 116**

Source: Department of Treasury and Finance

Notes:

(a) *The Government set the 2017-18 and 2018-19 Fire Services Property Levy rates to collect the amount that was budgeted in 2016-17 ($662 million). In the* 2018-19 Budget*, the Government decided to return the 2017-18 over-collection through reduced rates for the 2018-19 levy year.*

(b) *The decline in other gambling taxes reflects a reclassification of Tabcorp sports betting to racing and other sports betting following the introduction of a point of consumption tax.*

(c) *The fourth tranche of the environmental contribution levy commenced on 1 July 2016 for a period of four years concluding on 30 June 2020.*

4.2.2 Dividends, income tax equivalent and rate equivalent revenue ($ million)

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Dividends from PFC sector	507	511	65	81	96
Dividends from PNFC sector	160	205	183	165	141
Dividends from non-public sector	31	78	107	109	111
Dividends	**698**	**794**	**356**	**355**	**348**
Income tax equivalent revenue from PFC sector	31	104	22	42	10
Income tax equivalent revenue from PNFC sector	186	197	197	192	203
Income tax equivalent revenue	**217**	**302**	**219**	**234**	**213**
Local government rate equivalent revenue	7	7	7	7	7
Total dividends, income tax equivalent and rate equivalent revenue	**922**	**1 103**	**582**	**596**	**567**

Source: Department of Treasury and Finance

Dividends by entity (a) ($ million)

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Public financial corporations					
Victorian Managed Insurance Authority (b)	408	408	34	41	49
Treasury Corporation of Victoria	91	91	22	29	37
State Trustees Ltd	4	5	2	2	2
Victorian Funds Management Corporation	4	7	6	8	8
WorkSafe Victoria	..	..	..	..	..
Dividends from PFC sector	**507**	**511**	**65**	**81**	**96**
Public non-financial corporations					
City West Water Corporation	26	34	31	25	24
Melbourne Water Corporation	12	35	9	..	..
South East Water Corporation	56	81	46	48	49
Yarra Valley Water Corporation	34	44	51	36	35
Development Victoria	29	9	43	54	31
Others	2	2	3	2	2
Dividends from PNFC sector	**160**	**205**	**183**	**165**	**141**

Source: Department of Treasury and Finance

Notes:

(a) *'Amounts equivalent to dividends' to be paid by the Transport Accident Commission are received and reported as contributions forming part of grant revenue, consistent with the requirements of* AASB 1023 General Insurance Contracts (AASB 1023). *The amounts forecast to be paid are $586 million in 2018-19, $383 million in 2019-20, $407 million in 2020-21 and $500 million in 2021-22.*

(b) *The 2018-19 amount includes a Victorian Managed Insurance Authority dividend deferred from 2017-18.*

4.2.3 Sales of goods and services ($ million)

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Motor vehicle regulatory fees	225	225	234	266	300
Other regulatory fees	539	539	547	558	566
Sale of goods	89	89	93	96	99
Provision of services	4 342	4 387	5 080	5 276	5 258
Rental	78	83	82	82	84
Refunds and reimbursements	11	15	11	11	11
Inter-sector capital asset charge	2 257	2 257	2 371	2 395	2 408
Total sales of goods and services	**7 541**	**7 594**	**8 417**	**8 685**	**8 726**

Source: Department of Treasury and Finance

4.2.4 Grant revenue ($ million)

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
General purpose grants	16 881	16 853	17 958	18 639	19 160
Specific purpose grants for on-passing	3 997	3 703	4 220	4 462	4 717
Grants for specific purposes	11 847	11 952	10 718	10 953	11 387
Total	**32 725**	**32 508**	**32 897**	**34 054**	**35 264**
Other contributions and grants	733	1 006	801	632	678
Total grant revenue	**33 458**	**33 515**	**33 697**	**34 686**	**35 942**

Source: Department of Treasury and Finance

4.2.5 Other revenue ($ million)

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Fair value of assets received free of charge or for nominal consideration	69	69	70	58	58
Fines	785	788	820	838	857
Royalties	100	99	102	104	107
Donations and gifts	313	317	311	338	346
Other non-property rental	27	27	28	29	31
Other revenue – Education	643	643	659	675	692
Other revenue – Health	49	49	51	53	54
Other miscellaneous revenue	637	644	554	562	570
Total other revenue	**2 622**	**2 636**	**2 594**	**2 656**	**2 714**

Source: Department of Treasury and Finance

4.3 HOW FUNDS ARE SPENT

Introduction

This section details the major components of forecast expenditure for the general government sector's operating activities (expenses from transactions) and capital or infrastructure projects during the year, as well as any related obligations.

Structure

4.3.1 Employee expenses and provision for outstanding employee benefits

Employee expenses and employee benefits are forecast on the basis of staffing profiles and current salaries, conditions and on costs. For the forecast period, employee expenses and employee benefits includes the expected financial impact of employing more staff to increase service delivery and approved wage outcomes, in line with wages policy. Forecast employee expenses also reflect the estimated impact of budget decisions, which either increase or reduce employee expenses. The majority of employee expenses in the operating statement are salaries and wages.

Employee benefits (balance sheet) **($ million)**

	2019 budget	*2019 revised*	*2020 estimate*	*2021 estimate*	*2022 estimate*
Current					
Accrued salaries and wages	609	606	620	635	651
Other employee benefits	87	87	87	87	87
Annual leave	1 649	1 647	1 683	1 720	1 757
Long service leave	4 074	4 026	4 169	4 316	4 465
Total current employee benefits and on-costs	**6 419**	**6 366**	**6 558**	**6 758**	**6 960**
Non-current					
Long service leave	952	953	1 072	1 167	1 267
Total non-current employee benefits and on-costs	**952**	**953**	**1 072**	**1 167**	**1 267**
Total employee benefits	**7 372**	**7 319**	**7 631**	**7 926**	**8 227**

Source: Department of Treasury and Finance

4.3.2 Superannuation expense and other superannuation expenses

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

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Defined benefit plans					
Net superannuation interest expense	662	688	639	610	580
Current service cost	918	1 000	992	1 002	1 051
Remeasurements:					
Expected return on superannuation assets excluding interest income	(1 014)	(1 039)	(1 053)	(1 074)	(1 094)
Other actuarial (gain)/loss on superannuation assets	..	(40)	..	..	..
Actuarial and other adjustments to unfunded superannuation liability	..	(917)	..	..	..
Total expense recognised in respect of defined benefit plans	**566**	**(308)**	**578**	**538**	**538**
Defined contribution plans					
Employer contributions to defined contribution plans	1 686	1 679	1 736	1 795	1 864
Other (including pensions)	71	71	73	75	76
Total expense recognised in respect of defined contribution plans	**1 758**	**1 750**	**1 810**	**1 870**	**1 940**
Total superannuation (gain)/expense recognised in operating statement	**2 324**	**1 442**	**2 388**	**2 408**	**2 478**
Represented by:					
Net superannuation interest expense	662	688	639	610	580
Other superannuation	2 676	2 750	2 802	2 873	2 992
Superannuation expense from transactions	**3 338**	**3 439**	**3 441**	**3 482**	**3 572**
Remeasurements recognised in other comprehensive income	**(1 014)**	**(1 996)**	**(1 053)**	**(1 074)**	**(1 094)**
Total superannuation expense recognised in operating statement	**2 324**	**1 442**	**2 388**	**2 408**	**2 478**

Source: Department of Treasury and Finance

The accounting policies relating to superannuation expenses and liabilities are consistent with the *2018-19 Budget*. However, the forecast assumptions have been revised for each relevant defined benefit superannuation scheme as in the following table.

Superannuation assumptions **(per cent)**

Underlying assumptions for all listed schemes [a]	
Discount rate [b]	2.9
Wages growth [c]	3.2
Inflation rate [d]	1.7
Expected return on assets [e]	
Emergency Services and State Super	8.0
Health Super Fund Defined Benefit Scheme	5.0
Constitutionally protected schemes [f]	n.a.

Source: Department of Treasury and Finance

Notes:

(a) All rates are nominal annual rates and are applicable to all the listed schemes.

(b) The discount rate is based on a long-term fixed interest Commonwealth bond rate. The rate stated above is an annual effective rate, gross of tax.

(c) Based on the historical relationship between price and wage inflation, wages growth is assumed to be 1.5 per cent higher than price inflation.

(d) The superannuation assumptions are determined in accordance with Australian accounting standard AASB 119 Employee Benefits*, which requires that the discount rate be based on Commonwealth bond yields. To ensure consistency with the market-based discount rate, the inflation rate assumed by the actuary reflects market expectations of price inflation, as implied by the relationship between the yields on nominal and inflation linked Commonwealth bonds. Therefore, these assumptions differ from the key economic assumptions in this chapter, which reflect the expected change in consumer prices in Melbourne and movements in wages and salaries in the Victorian labour market.*

(e) The expected return on assets stated is gross of tax. Estimated tax payments are explicitly allowed for in the calculation process.

(f) Pensions payable from constitutionally protected schemes are paid from the Consolidated Fund. These schemes hold no assets so there is no expected return on assets.

4.3.3 Grant expense ($ million)

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Current grant expense					
Commonwealth Government [(a)]	1 755	1 778	2 852	2 957	3 034
Local government (including grants for on-passing)	1 212	726	658	646	651
Private sector and not-for-profit for on-passing	3 404	3 427	3 598	3 813	4 038
Other private sector and not-for-profit	2 534	2 624	2 769	2 600	2 809
Grants within the Victorian Government	3 707	3 840	3 728	3 679	3 642
Grants to other state governments	21	21	21	21	21
Total current grant expense	**12 633**	**12 417**	**13 626**	**13 716**	**14 195**
Capital grant expense					
Commonwealth Government					
Local government (including grants for on-passing)	83	179	220	175	176
Private sector and not-for-profit on-passing	115	115	135	110	35
Other private sector and not-for-profit	4	4	4	4	4
Grants within the Victorian Government	44	44	16	2	1
Other grants	22	26	44	..	..
Total capital grant expense	**268**	**368**	**419**	**292**	**216**
Total grant expense	**12 901**	**12 785**	**14 045**	**14 007**	**14 411**

Source: Department of Treasury and Finance

Note:
(a) The increase in Commonwealth grant expense is largely due to the State's contribution to the National Disability Insurance Scheme (NDIS).

4.3.4 Other operating expenses ($ million)

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Purchase of supplies and consumables [(a)]	6 159	6 091	5 992	6 094	6 655
Cost of goods sold	30	29	29	30	31
Finance expenses and fees	32	31	32	32	32
Purchase of services [(a)(b)]	12 702	12 809	11 896	11 433	11 373
Insurance claims expense	267	267	269	277	285
Maintenance	904	906	891	913	919
Operating lease payments	339	343	346	351	355
Other	832	820	849	885	848
Total other operating expenses	**21 264**	**21 296**	**20 305**	**20 016**	**20 498**

Source: Department of Treasury and Finance

Notes:
(a) The following two tables breakdown the purchase of supplies and consumables and the purchase of services.
(b) The reduction in the purchase of services in 2019-20 is largely due to the State's existing expenditure on disability services, including payments to disability service providers, being allocated towards the State's contribution to the NDIS. These services will be funded by the NDIS.

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

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Medicinal pharmacy and medical supplies	1 545	1 514	1 541	1 572	1 604
Office supplies and consumables	185	191	186	187	192
Specialised operational supplies and consumables	133	150	137	146	143
Other purchase of supplies and consumables	4 295	4 235	4 129	4 189	4 716
Total purchase of supplies and consumables	**6 159**	**6 091**	**5 992**	**6 094**	**6 655**

Source: Department of Treasury and Finance

Purchase of services **($ million)**

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Service contracts [(a)]	7 196	7 188	6 861	6 684	6 839
Accommodation/occupancy	855	847	811	815	815
Medical and client care services	385	387	393	397	401
Staff related expenses (non-labour related)	254	269	262	260	260
Other purchase of services	4 012	4 117	3 569	3 277	3 058
Total purchase of services	**12 702**	**12 809**	**11 896**	**11 433**	**11 373**

Source: Department of Treasury and Finance

Note:

(a) The reduction in service contracts in 2019-20 is largely due to the State's existing expenditure on disability services, including payments to disability service providers, being allocated towards the State's contribution to the NDIS. These services will be funded by the NDIS.

4.3.5 Total expenses by classification of the functions of government and by portfolio department

Expenses by classification of the functions of government [(a)] ($ million)

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
General public services	3 968	3 877	3 784	3 750	3 861
Public order and safety	8 144	8 290	8 250	8 409	8 545
Economic affairs	1 951	2 115	1 405	1 052	942
Environmental protection	766	844	744	703	674
Housing and community amenities	2 421	2 196	2 212	2 117	2 017
Health	19 634	19 449	20 079	21 044	21 960
Recreation, culture and religion	922	938	680	615	552
Education	16 436	16 454	16 522	16 954	18 172
Social protection [(b)]	6 136	6 450	7 017	7 059	7 047
Transport	8 260	8 343	8 059	8 188	8 087
Not allocated by purpose [(c)]	(529)	(1 439)	650	652	976
Total expenses by COFOG	**68 108**	**67 517**	**69 403**	**70 544**	**72 833**

Source: Department of Treasury and Finance

Notes:

(a) *The classification of the functions of government (COFOG) framework has replaced the former Government Purpose Classification (GPC) framework under the new ABS GFS Manual. This was implemented for the first time in the* 2018-19 Budget*. Note 1.7.5 of Budget Paper No.5 of the* 2018-19 Budget *provides definitions and descriptions of the COFOG.*

(b) *The State's contribution to the NDIS transition is expected to increase over the next four years as more clients transition into the scheme.*

(c) *Mainly comprising provision for future demand growth, departmental underspending, eliminated purchases of supplies and consumables between government entities, and items not yet formalised at the time of publication.*

Total expenses by portfolio department ($ million)

	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Expenses from transactions					
Economic Development, Jobs, Transport and Resources	10 645	10 834	9 923	9 760	9 522
Education and Training	18 345	18 494	18 502	18 572	19 260
Environment, Land, Water and Planning	3 581	3 799	3 286	2 925	2 762
Health and Human Services	26 926	27 236	27 928	28 280	28 708
Justice and Regulation	7 616	7 787	7 734	7 931	8 062
Premier and Cabinet	764	820	570	469	409
Treasury and Finance	7 444	7 618	7 315	7 520	7 825
Parliament	230	233	228	231	233
Courts	658	675	687	694	729
Regulatory bodies and other part funded agencies [(a)]	2 268	2 451	2 344	2 349	2 360
Output contingencies not allocated to departments [(b)]	1 325	834	2 128	3 067	4 312
Total expenses by department	**79 801**	**80 780**	**80 646**	**81 799**	**84 181**
Less eliminations and adjustments [(c)]	*(11 693)*	*(13 263)*	*(11 243)*	*(11 255)*	*(11 349)*
Total expenses	**68 108**	**67 517**	**69 403**	**70 544**	**72 833**

Source: Department of Treasury and Finance

Notes:

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

(b) The following table provides a breakdown of the general government output contingencies not allocated to departments.

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

General government output contingencies not allocated to departments ($ million)

	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Decisions made but not yet allocated [(a)]	1 225	799	1 278	2 267	3 412
Funding not allocated to specific purposes [(b)]	100	34	850	800	900
Total general government output contingencies	**1 325**	**834**	**2 128**	**3 067**	**4 312**

Source: Department of Treasury and Finance

Notes:

(a) Reflects existing government policy decisions for which funding has yet to be allocated to departments; provisions not yet allocated to meet additional price and demand growth for health, disability services and education; and a provision for estimated depreciation expense associated with the general government unallocated asset contingency.

(b) An unallocated provision available to contribute to future government policy decisions and commitments, including for decisions to extend lapsing programs across the budget and forward estimates.

4.3.6 Purchases of non-financial assets by classification of the functions of government and by portfolio department

Purchases of non-financial assets by classification of the functions of government [(a)]

($ million)

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
General public services	63	102	35	22	25
Public order and safety	1 099	1 275	922	872	640
Economic affairs	19	53	56	87	59
Environmental protection	121	144	136	42	40
Housing and community amenities	94	68	53	56	48
Health	1 019	1 119	543	691	659
Recreation, culture and religion	140	136	88	42	39
Education	1 580	1 603	862	381	200
Social protection	110	154	101	95	76
Transport	7 008	6 215	6 264	4 094	2 677
Not allocated by purpose [(b)]	(1 165)	(1 508)	(163)	950	2 136
Total purchases of non-financial assets	**10 091**	**9 361**	**8 896**	**7 333**	**6 598**

Source: Department of Treasury and Finance

Notes:

(a) *The COFOG framework has replaced the former GPC framework under the new ABS GFS Manual. This was implemented for the first time in the* 2018-19 Budget*. Note 1.7.5 of Budget Paper No.5 of the* 2018-19 Budget *provides definitions and descriptions of the COFOG.*

(b) *Estimated amount available to be allocated to departments and projects in future budgets, including major capital investment. It also includes departmental spending, which may be subject to carryover.*

Purchases of non-financial assets by portfolio department

($ million)

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Economic Development, Jobs, Transport and Resources	5 590	6 185	4 367	2 382	1 122
Education and Training	1 637	1 660	870	389	207
Environment, Land, Water and Planning	186	181	147	147	108
Health and Human Services	1 207	1 351	622	593	388
Justice and Regulation	607	782	402	212	96
Premier and Cabinet	25	51	14	8	11
Treasury and Finance	37	43	24	15	15
Parliament	4	10	..	..	..
Courts	109	120	22	7	6
Regulatory bodies and other part funded agencies [(a)]	253	288	211	115	110
Asset contingencies not allocated to departments [(b)]	1 640	349	2 611	3 183	3 539
Adjustments [(c)]	(1 204)	(1 660)	(390)	281	997
Total purchases of non-financial assets by department	**10 091**	**9 361**	**8 896**	**7 333**	**6 598**

Source: Department of Treasury and Finance

Notes:

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

(b) *The following table provides a breakdown of the general government asset contingencies not allocated to departments.*

(c) *Mainly comprises estimated general government underspend, which may be subject to carryover.*

General government asset contingencies not allocated to departments ($ million)

	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Decisions made but not yet allocated [(a)]	1 640	349	2 224	2 475	1 889
Funding not allocated to specific purposes [(b)]	..	..	387	708	1 650
Total general government asset contingencies	**1 640**	**349**	**2 611**	**3 183**	**3 539**

Source: Department of Treasury and Finance

Notes:

(a) A provision to account for asset policy decisions for which the funding has yet to be allocated to departments.

(b) An unallocated provision available for future government asset investment decisions.

4.3.7 Net acquisition of non-financial assets from transactions ($ million)

	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Purchases of non-financial assets (including change in inventories)	10 095	9 366	8 900	7 337	6 603
Less: Sales of non-financial assets	(368)	(365)	(416)	(390)	(346)
Less: Depreciation and amortisation	(2 876)	(2 921)	(3 033)	(3 332)	(3 526)
Less: Other movements in non-financial assets [(a)(b)]	(4 931)	(4 053)	(2 371)	(1 271)	(815)
Total net acquisition of non-financial assets from transactions	**1 921**	**2 027**	**3 079**	**2 345**	**1 915**

Source: Department of Treasury and Finance

Notes:

(a) The other movements in non-financial assets includes the transfer of fixed assets to other sectors of government, State capital contributions to major projects and recognising finance lease arrangements, including from public private partnerships.

(b) The finance lease acquisitions across the forward estimates predominately relate to the High Capacity Metro Trains Project, the Western Roads Upgrade, the Casey Hospital Expansion, the Northern Roads Upgrade and the South Eastern Roads Upgrade.

4.4 MAJOR ASSETS AND INVESTMENTS

Introduction

This section outlines the major assets that the general government sector controls from investing activities in the prior, current, and future years.

Structure

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

	2019 budget	*2019 revised*	*2020 estimate*	*2021 estimate*	*2022 estimate*
Buildings	31 604	31 631	32 030	33 344	36 180
Leased buildings	5 424	5 462	5 291	5 113	4 929
Land and national parks	58 923	58 902	62 376	62 658	64 412
Infrastructure systems	1 408	1 407	1 424	1 393	1 350
Plant, equipment and vehicles	2 548	2 584	2 380	2 086	1 728
Leased plant, equipment and vehicles	224	224	206	188	171
Roads and road infrastructure	22 164	22 015	25 477	25 823	26 278
Leased roads and road infrastructure	579	579	1 355	1 506	1 554
Earthworks	8 290	8 279	9 506	9 646	9 703
Cultural assets	5 639	5 639	5 632	6 301	6 310
Total land, buildings, infrastructure, plant and equipment	**136 801**	**136 721**	**145 677**	**148 058**	**152 615**

Source: Department of Treasury and Finance

4.4.2 Depreciation ($ million)

	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Buildings (a)	1 198	1 236	1 302	1 388	1 489
Leased buildings	195	195	198	198	198
Infrastructure systems	37	47	48	50	50
Plant, equipment and vehicles (a)	624	619	623	659	659
Leased plant, equipment and vehicles	17	17	17	19	19
Roads and road networks (a)	624	623	654	812	903
Leased roads and road infrastructure	9	9	10	23	23
Cultural assets	26	26	24	23	22
Intangible produced assets (b)	145	148	157	159	163
Total depreciation	**2 876**	**2 921**	**3 033**	**3 332**	**3 526**

Source: Department of Treasury and Finance

Notes:
(a) Includes estimated depreciation on amounts not yet allocated to projects in 2018-19 to 2021-22.
(b) Amortisation of intangible non-produced assets is included under other gains/(losses) from other economic flows.

4.4.3 Reconciliation of movements in land, buildings, infrastructure, plant and equipment (a) ($ million)

	2019 budget	2019 revised	2020 estimate	2021 estimate	2022 estimate
Carrying amount at the start of the year	134 141	134 141	136 721	145 677	148 058
Additions (b)	10 586	9 798	9 843	7 740	6 484
Disposals at written down value	(263)	(252)	(323)	(264)	(270)
Revaluations (c)	700	700	6 860	1 441	3 797
Asset transfers (d)	(5 632)	(4 893)	(4 548)	(3 363)	(2 092)
Depreciation expense	(2 730)	(2 773)	(2 876)	(3 172)	(3 363)
Carrying amount at the end of the year	**136 801**	**136 721**	**145 677**	**148 058**	**152 615**

Source: Department of Treasury and Finance

Notes:
(a) The reconciliation of movements comprises land and buildings, infrastructure systems, plant, equipment, vehicles, roads, roads infrastructure and cultural assets and excludes intangible assets, investment properties and other non-financial assets.
(b) Includes assets acquired under finance lease arrangements.
(c) The 2019-20 amount mainly represents a forecast revaluation of transport assets consistent with the revaluation cycle per the State's accounting policy.
(d) Represents the transfer of assets to the public non-financial corporations sector.

4.4.4 Other non-financial assets ($ million)

	2019 budget	2019 revised	2020 estimate	2021 estimate	2022 estimate
Intangible produced assets	1 965	2 015	1 978	1 964	1 974
Accumulated depreciation	(1 135)	(1 138)	(1 250)	(1 385)	(1 524)
Intangible non-produced assets	119	119	119	120	122
Accumulated amortisation	(42)	(42)	(44)	(47)	(50)
Total intangibles	**906**	**954**	**803**	**652**	**523**
Investment properties	184	183	183	183	182
Biological assets	4	4	5	7	8
Other assets	884	990	2 166	3 732	4 558
Total other non-financial assets	**1 978**	**2 130**	**3 157**	**4 574**	**5 271**

Source: Department of Treasury and Finance

4.4.5 Total assets by classification of the functions of government [(a)] ($ million)

	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
General public services	2 163	2 165	2 120	2 086	2 086
Public order and safety	10 050	10 249	10 885	11 346	11 473
Economic affairs	1 120	1 152	1 156	1 152	1 142
Environmental protection	11 926	11 948	13 075	13 424	13 410
Housing and community amenities	1 775	1 739	1 685	1 693	1 717
Health	15 336	15 436	15 033	14 748	14 408
Recreation, culture and religion	7 420	7 415	7 476	7 515	7 537
Education	28 341	28 367	28 710	28 562	31 828
Social protection	3 305	3 346	3 423	3 471	3 478
Transport	59 283	59 411	67 881	71 303	71 810
Not allocated by purpose [(b)]	130 995	129 966	133 310	135 322	138 424
Total assets by COFOG	**271 712**	**271 194**	**284 753**	**290 623**	**297 315**

Source: Department of Treasury and Finance

Notes:

(a) *The COFOG framework has replaced the former GPC framework under the new ABS GFS Manual. This was implemented for the first time in the* 2018-19 Budget. *Note 1.7.5 of Budget Paper No.5 of the* 2018-19 Budget *provides definitions and descriptions of the COFOG.*

(b) *Represents financial assets which are not able to be allocated by purpose. This mainly includes balances relating to the general government sector's investment in other sector entities.*

4.5 FINANCING STATE OPERATIONS

Introduction

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

This section provides information on the balances related to the financing of the general government sector's operations.

Structure

4.5.1 Borrowings ($ million)

	2019 budget	2019 revised	2020 estimate	2021 estimate	2022 estimate
Current borrowings					
Domestic borrowings	3 613	1 113	1 113	1 113	1 113
Finance lease liabilities [a]	265	265	207	226	408
Derivative financial instruments	9	184	264	330	322
Total current borrowings	**3 887**	**1 562**	**1 584**	**1 669**	**1 843**
Non-current borrowings					
Domestic borrowings	25 179	23 168	27 973	30 361	32 005
Finance lease liabilities [a]	9 685	9 685	10 493	10 733	10 666
Derivative financial instruments	107	107	107	107	107
Total non-current borrowings	**34 971**	**32 960**	**38 574**	**41 202**	**42 778**
Total borrowings	**38 859**	**34 522**	**40 158**	**42 870**	**44 621**

Source: Department of Treasury and Finance

Note:

(a) *Further detailed disclosures on finance lease liabilities can be found in the* 2017-18 Financial Report *for the State of Victoria.*

4.5.2 Advances paid and investments, loans and placements ($ million)

	2019 budget	2019 revised	2020 estimate	2021 estimate	2022 estimate
Current advances paid and investments, loans and placements					
Loans and advances paid	1 742	1 891	1 303	605	130
Equities and managed investment schemes	1 171	1 191	1 210	1 258	1 275
Australian dollar term deposits	1 159	1 159	1 127	1 146	1 154
Debt securities	2	2	2	2	2
Derivative financial instruments	9	9	42	62	75
Total current advances paid and investments, loans and placements	**4 084**	**4 251**	**3 685**	**3 074**	**2 636**
Non-current advances paid and investments, loans and placements					
Loans and advances paid	6 546	6 634	5 338	4 738	4 667
Equities and managed investment schemes	1 096	1 084	1 498	1 560	1 583
Australian dollar term deposits	728	728	795	900	1 131
Debt securities	29	29	29	29	29
Derivative financial instruments	3	3	3	3	3
Total non-current advances paid and investments, loans and placements	**8 402**	**8 478**	**7 663**	**7 230**	**7 413**
Total advances paid and investments, loans and placements	**12 486**	**12 729**	**11 348**	**10 304**	**10 049**
Represented by:					
Advances paid	8 289	8 524	6 641	5 342	4 796
Investments, loans and placements	4 197	4 204	4 707	4 962	5 253

Source: Department of Treasury and Finance

4.5.3 Interest expense ($ million)

	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Interest on interest-bearing liabilities	1 266	1 186	1 227	1 269	1 302
Finance charges on finance leases	864	867	870	906	921
Discount interest on payables	37	37	37	37	37
Total interest expense	**2 167**	**2 090**	**2 133**	**2 211**	**2 260**

Source: Department of Treasury and Finance

4.6 OTHER ASSETS AND LIABILITIES

Introduction

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

Structure

4.6.1 Investments in other sector entities ($ million)

	2019 budget	*2019 revised*	*2020 estimate*	*2021 estimate*	*2022 estimate*
Balance of investment in PNFC and PFC sectors at beginning of period	101 253	101 253	108 405	113 084	115 823
Net contributions to other sectors by owner	5 749	5 130	3 528	2 205	1 846
Revaluation gain/(loss) for period	34	2 021	1 152	535	(524)
Investment in other sector entities at end of period	**107 036**	**108 405**	**113 084**	**115 823**	**117 145**

Source: Department of Treasury and Finance

4.6.2 Payables ($ million)

	2019 budget	*2019 revised*	*2020 estimate*	*2021 estimate*	*2022 estimate*
Current payables					
Accounts payable and accrued expenses	4 129	4 060	4 057	4 146	3 534
Accrued taxes payable	61	60	61	62	62
Unearned income	663	675	670	667	665
Total current payables	**4 853**	**4 796**	**4 788**	**4 875**	**4 261**
Non-current payables					
Accounts payable and other payables	185	185	187	81	76
Unearned income	3 600	4 457	4 183	3 909	3 635
Total non-current payables	**3 785**	**4 642**	**4 370**	**3 989**	**3 711**
Total payables	**8 638**	**9 438**	**9 157**	**8 864**	**7 972**

Source: Department of Treasury and Finance

4.6.3 Superannuation

Reconciliation of the superannuation liabilities **($ million)**

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Emergency Services and State Super					
Defined benefit obligation	43 001	42 119	41 710	41 262	40 795
Tax liability [(a)]	2 438	2 438	2 338	2 235	2 140
Plan assets	(22 398)	(22 487)	(23 053)	(23 609)	(24 100)
Net liability/(asset)	**23 042**	**22 071**	**20 995**	**19 888**	**18 835**
Other funds [(b)]					
Defined benefit obligation	2 125	2 157	2 161	2 164	2 183
Tax liability [(a)]	..	..	..	..	..
Plan assets	(1 002)	(960)	(936)	(912)	(891)
Net liability/(asset)	**1 123**	**1 197**	**1 225**	**1 251**	**1 292**
Total superannuation					
Defined benefit obligation	45 126	44 276	43 871	43 426	42 978
Tax liability [(a)]	2 438	2 438	2 338	2 235	2 140
Plan assets	(23 400)	(23 446)	(23 989)	(24 522)	(24 991)
Superannuation liability	**24 164**	**23 268**	**22 220**	**21 139**	**20 127**
Represented by:					
Current liability	1 082	1 082	1 075	1 007	1 095
Non-current liability	23 083	22 187	21 144	20 132	19 032
Total superannuation liability	**24 164**	**23 268**	**22 220**	**21 139**	**20 127**

Source: Department of Treasury and Finance

Notes:

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

(b) Other funds include constitutionally protected schemes and the State's share of liabilities of the Defined Benefit Scheme of the Health Super Fund.

See Note 4.3.2 *Superannuation expense and other superannuation expenses* for further information on superannuation assumptions.

Reconciliation of the present value of the defined benefit obligation **($ million)**

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Opening balance of defined benefit obligation	**48 151**	**48 151**	**46 715**	**46 208**	**45 661**
Current service cost	918	1 000	992	1 002	1 051
Interest expense	1 270	1 314	1 287	1 272	1 257
Contributions by plan participants	194	203	198	195	193
Actuarial and other adjustments to unfunded superannuation liability		(917)			
Benefits paid	(2 968)	(3 036)	(2 984)	(3 017)	(3 044)
Closing balance of defined benefit obligation	**47 564**	**46 715**	**46 208**	**45 661**	**45 117**

Source: Department of Treasury and Finance

Reconciliation of the fair value of superannuation plan assets **($ million)**

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Opening balance of plan assets	**22 946**	**22 946**	**23 446**	**23 989**	**24 522**
Interest income	607	626	648	663	676
Return on plan assets not included in interest income	1 014	1 080	1 053	1 074	1 094
Employer contributions	1 607	1 629	1 627	1 618	1 550
Contributions by plan participants	194	203	198	195	193
Benefits paid (including tax paid)	(2 968)	(3 036)	(2 984)	(3 017)	(3 044)
Closing balance of plan assets	**23 400**	**23 446**	**23 989**	**24 522**	**24 991**

Source: Department of Treasury and Finance

4.7 OTHER DISCLOSURES

Introduction

This section includes several additional disclosures that assist the understanding of the Estimated Financial Statements.

Structure

4.7.1 Other gains/(losses) from other economic flows ($ million)

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Net (increase)/decrease in provision for doubtful receivables	(212)	(212)	(208)	(230)	(225)
Amortisation of intangible non-produced assets	(4)	(4)	(4)	(4)	(4)
Bad debts written off	(129)	(129)	(144)	(110)	(133)
Other gains/(losses)	(1)	(3)	1	..	..
Total other gains/(losses) from other economic flows	**(345)**	**(347)**	**(355)**	**(343)**	**(362)**

Source: Department of Treasury and Finance

4.7.2 Reconciliation to Government Finance Statistics [a][b] ($ million)

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Net result from transactions – net operating balance	**1 380**	**2 241**	**1 725**	**2 677**	**2 984**
Convergence differences:					
Licence fees [c]	52	52	52	52	52
plus total convergence difference:	52	52	52	52	52
GFS net operating balance	**1 432**	**2 293**	**1 777**	**2 729**	**3 036**
Net lending/(borrowing)	**(541)**	**214**	**(1 355)**	**332**	**1 070**
Convergence differences:					
Licence fees [c]	52	52	52	52	52
plus total convergence difference:	52	52	52	52	52
GFS net lending/(borrowing)	**(489)**	**266**	**(1 302)**	**384**	**1 122**
Comprehensive result – total change in net worth	**2 878**	**6 713**	**10 547**	**5 463**	**7 094**
Convergence differences:					
Doubtful receivables of the general government sector [d]	41	41	39	41	46
Net gain on equity investments in other sector entities measured at proportional share of the carrying amount of net assets/(liabilities) [e]	(382)	(333)	(121)	(8)	(356)
Unearned income relating to licence fees [c]	52	52	52	52	52
Port of Melbourne lease transaction [f]	(144)	(144)	(144)	(144)	(153)
plus total convergence difference:	(434)	(385)	(174)	(59)	(411)
GFS total change in net worth	**2 445**	**6 328**	**10 373**	**5 403**	**6 683**
Net worth	**186 995**	**190 829**	**201 376**	**206 839**	**213 933**
Convergence differences:					
Doubtful receivables of the general government sector [d]	1 318	1 318	1 357	1 398	1 444
Investments in other sector entities [g]	6 787	6 836	6 716	6 708	6 352
Unearned income relating to licence fees [c]	(679)	(679)	(626)	(574)	(522)
Port of Melbourne lease transaction [f]	(1 211)	(1 211)	(1 355)	(1 500)	(1 653)
plus total convergence difference:	6 216	6 265	6 091	6 032	5 621
GFS net worth	**193 210**	**197 094**	**207 467**	**212 870**	**219 554**

Source: Department of Treasury and Finance

Notes:

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

(b) Under the new ABS GFS manual the convergence difference for cash surplus/deficit relating to acquisitions under finance lease arrangements has been removed.

(c) The convergence difference arises because the GFS recognises the 15-year prepaid Port Licence Fee from the medium-term lease of the Port of Melbourne as revenue over the 15-year period.

(d) The convergence difference in accounts receivable arises because GFS does not recognise doubtful receivables, whereas a provision for doubtful receivables is recognised in the balance sheet.

(e) Net gain on equity investments in other sector entities includes doubtful receivables, future tax benefits and deferred tax liability of the PNFC and PFC sectors.

(f) The convergence difference for the Port of Melbourne lease transaction arises because GFS recognised the transaction as a sale of equity from the general government sector, whereas under Australian Accounting Standards the Port of Melbourne lease transaction has been treated as an operating lease with the leased assets remaining with the PNFC sector.

(g) Investments in other sector entities for general government sector includes doubtful receivables, future tax benefits and deferred tax liability of the PNFC and PFC sectors.

4.7.3 Financial instruments

Note 7.1 in the *2017-18 Financial Report* for the State of Victoria contains comprehensive disclosures of the State's (including the general government sector's) financial instruments, including financial risk management objectives and policies.

AASB 9 *Financial Instruments* supersedes previous versions of the standard (AASB 9 (2014)) and certain parts of AASB 139 *Financial Instruments: Recognition and Measurement*. It applies to annual reporting periods beginning on or after 1 January 2018, with retrospective application. The first applicable annual reporting period for the State will be 2018-19. The initial application of AASB 9 is not expected to significantly impact the State's financial position.

AASB 9 simplifies the model for classifying and recognising financial assets from four categories into three categories – financial assets as subsequently measured at either amortised cost, and financial assets measured at fair value through profit or loss or through other comprehensive income. AASB 9 adopts an 'expected loss model' for impairment assessment, where the expected losses are recognised throughout the life of a loan or other financial asset measured at amortised cost, and not only after a loss event has been identified. The revised standard no longer requires a credit event (e.g. a receivable is past due) to have occurred before recognising credit losses. As a result, impairment losses will be recognised earlier and at more regular intervals than under the 'incurred loss model' of AASB 139.

4.7.4 Prospective accounting and reporting changes

Certain new and revised accounting standards have been issued but are not effective for the 2018-19 reporting period. These accounting standards have not been applied to the *2018-19 Budget Update*. The State is reviewing its existing policies and assessing the potential implications. These accounting standards include:

- AASB 15 Revenue from Contracts with Customers, operative for reporting periods commencing 1 January 2019 for not-for-profit entities. The core principle of AASB 15 is to require an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. The changes in revenue recognition may result in changes to the timing and amount of revenue recognised. Revenue from capital grants that are provided under an enforceable agreement that have sufficiently specific obligations, will now be deferred and recognised as the performance obligations are satisfied.

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

- AASB 16 *Leases*, operative for reporting periods beginning from 1 January 2019. The key changes introduced by AASB 16 include the requirement to recognise most operating leases on the balance sheet, which will increase net debt.
- AASB 1058 *Income of Not-for-Profit Entities*, operative for reporting periods commencing 1 January 2019. This standard will replace AASB 1004 *Contributions* and establishes revenue recognition principles for transactions where the consideration to acquire an asset is significantly less than fair value to enable not-for-profit entities to further their objectives.

- AASB 1059 *Service Concession Arrangements: Grantors*, operative for reporting periods commencing 1 January 2020, with early adoption permitted. This standard prescribes the accounting treatment for public private partnership (PPP) arrangements involving a private sector operator providing public services related to a service concession asset on behalf of the State, for a specified period of time. For social infrastructure PPP arrangements, this would result in an earlier recognition of financial liabilities progressively over the construction period rather than at completion date. For economic infrastructure PPP arrangements, that were previously not on the balance sheet, the standard will require recognition of these arrangements on-balance sheet, but will continue to have no impact to net debt consistent with the current accounting treatment.
- AASB 17 *Insurance Contracts*, operative for reporting periods commencing 1 January 2021. This new standard eliminates inconsistencies and weaknesses in existing practices by providing a single principles based framework to account for all types of insurance contracts. It should be noted this standard does not apply to the not-for-profit public sector entities. There will be no significant impact expected for the for-profit entities within State.
- Several other amending standards and AASB interpretations have been issued that apply to future reporting periods, but are considered to have limited impact on public sector reporting.

4.7.5 Controlled entities

Note 9.8 Controlled entities in the *2017-18 Financial Report* for the State of Victoria lists significant controlled entities, which were consolidated in that financial report.

The following are changes in general government sector entities since 1 July 2018, which have also been incorporated in this financial report:

General government sector	
Department of Health and Human Services	**Department of Economic Development, Jobs, Transport and Resources**
Family Violence Prevention Agency [(a)]	Commercial Passenger Vehicles Victoria [(b)]

Notes:

(a) *The Family Violence Prevention Agency was established under the* Prevention of Family Violence Act 2018 *and, by Order of the Governor in Council, commenced on 4 October 2018 and will trade as Respect Victoria.*

(b) *On 2 June 2018, the Taxi Services Commission changed its name to Commercial Passenger Vehicles Victoria in accordance with the* Commercial Passenger Vehicle Industry Act 2017.

CHAPTER 5 – SUPPLEMENTARY UNIFORM PRESENTATION FRAMEWORK TABLES

Table 5.1 Public non-financial corporations sector comprehensive operating statement for the financial year ended 30 June **($ million)**

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Revenue from transactions					
Interest revenue	109	117	80	50	32
Dividend revenue	15	23	23	23	29
Sales of goods and services	6 753	6 441	6 679	6 784	7 140
Grant revenue	3 752	3 890	3 751	3 686	3 648
Other revenue	598	680	672	690	674
Total revenue from transactions	**11 228**	**11 151**	**11 205**	**11 233**	**11 524**
Expenses from transactions					
Employee expenses	1 282	1 342	1 377	1 402	1 440
Net superannuation interest expense	4	4	4	4	4
Other superannuation	123	129	133	135	141
Depreciation	2 332	2 351	2 449	2 610	2 728
Interest expense	1 048	1 034	1 023	1 015	995
Grant expense	413	440	277	117	115
Other operating expenses	6 345	6 187	6 160	6 358	6 589
Other property expenses	178	200	201	198	213
Total expenses from transactions	**11 726**	**11 688**	**11 624**	**11 839**	**12 226**
Net result from transactions – net operating balance	**(498)**	**(537)**	**(419)**	**(606)**	**(702)**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	37	51	27	20	61
Other gains/(losses) from other economic flows	157	154	196	227	239
Total other economic flows included in net result	**194**	**206**	**224**	**247**	**301**
Net result	**(304)**	**(332)**	**(196)**	**(359)**	**(401)**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	817	2 787	1 441	943	6
Other movements in equity	(6)	(6)	(3)	(5)	(5)
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	8	(9)	13	(9)	1
Total other economic flows – other comprehensive income	**819**	**2 773**	**1 451**	**928**	**2**
Comprehensive result – total change in net worth	**515**	**2 441**	**1 255**	**569**	**(399)**

Table 5.1 Public non-financial corporations sector comprehensive operating statement for the financial year ended 30 June *(continued)* **($ million)**

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
KEY FISCAL AGGREGATES					
Net operating balance	**(498)**	**(537)**	**(419)**	**(606)**	**(702)**
Less: Net acquisition of non-financial assets from transactions	6 121	5 603	4 621	2 887	1 046
Net lending/(borrowing)	**(6 619)**	**(6 140)**	**(5 040)**	**(3 493)**	**(1 748)**

Source: Department of Treasury and Finance

Table 5.2 Public non-financial corporations sector balance sheet as at 30 June ($ million)

	2019 budget (a)	2019 revised	2020 estimate	2021 estimate	2022 estimate
Assets					
Financial assets					
Cash and deposits	1 090	871	780	740	760
Advances paid	3 549	3 791	2 109	860	322
Receivables	1 896	1 824	1 811	1 793	1 807
Investments, loans and placements	1 173	1 084	1 083	1 080	1 038
Investments accounted for using equity method					
Total financial assets	**7 708**	**7 570**	**5 783**	**4 474**	**3 927**
Non-financial assets					
Inventories	1 118	1 167	1 283	1 310	1 211
Non-financial assets held for sale	72	55	55	55	55
Land, buildings, infrastructure, plant and equipment	132 995	134 384	140 667	144 774	145 933
Other non-financial assets	1 395	1 363	1 367	1 366	1 354
Total non-financial assets	**135 580**	**136 969**	**143 373**	**147 505**	**148 553**
Total assets	**143 288**	**144 539**	**149 156**	**151 979**	**152 479**
Liabilities					
Deposits held and advances received	3 994	4 233	2 563	1 311	754
Payables	10 227	9 962	9 749	9 589	9 424
Borrowings	17 373	17 353	18 050	18 529	18 796
Employee benefits	447	444	447	453	456
Superannuation	28	30	29	29	29
Other provisions	7 903	7 938	7 988	8 011	7 657
Total liabilities	**39 973**	**39 960**	**38 827**	**37 922**	**37 116**
Net assets	**103 316**	**104 579**	**110 328**	**114 057**	**115 364**
Accumulated surplus/(deficit)	2 833	2 758	2 356	1 813	1 245
Reserves	100 483	101 821	107 972	112 244	114 118
Net worth	**103 316**	**104 579**	**110 328**	**114 057**	**115 364**
FISCAL AGGREGATES					
Net financial worth	(32 264)	(32 390)	(33 045)	(33 447)	(33 189)
Net financial liabilities	32 264	32 390	33 045	33 447	33 189
Net debt	15 555	15 840	16 642	17 160	17 430

Source: Department of Treasury and Finance

Note:
(a) Balances represent actual opening balances at 1 July 2018 plus 2018-19 budgeted movements.

Table 5.3 Public non-financial corporations sector cash flow statement for the financial year ended 30 June ($ million)

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Cash flows from operating activities					
Receipts					
Grants	3 718	3 890	3 751	3 686	3 648
Sales of goods and services [(a)]	7 133	6 768	7 084	7 269	7 644
Interest received	121	140	80	50	32
Dividend receipts	15	22	22	23	29
Other receipts	340	331	393	411	358
Total receipts	**11 326**	**11 153**	**11 330**	**11 440**	**11 711**
Payments					
Payments for employees	(1 280)	(1 343)	(1 377)	(1 399)	(1 439)
Superannuation	(128)	(132)	(138)	(140)	(145)
Interest paid	(1 043)	(1 043)	(1 021)	(1 014)	(993)
Grants and subsidies	(72)	(80)	(48)	(37)	(34)
Goods and services [(a)]	(4 699)	(4 551)	(4 409)	(4 570)	(4 822)
Other payments	(2 618)	(2 672)	(2 768)	(2 633)	(2 657)
Total payments	**(9 839)**	**(9 820)**	**(9 761)**	**(9 793)**	**(10 091)**
Net cash flows from operating activities	**1 487**	**1 332**	**1 569**	**1 647**	**1 620**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(3 113)	(3 251)	(2 634)	(2 149)	(1 900)
Sales of non-financial assets	324	251	308	205	401
Net cash flows from investments in non-financial assets	**(2 789)**	**(3 000)**	**(2 326)**	**(1 945)**	**(1 499)**
Net cash flows from investments in financial assets for policy purposes	1 782	1 549	1 661	1 235	533
Subtotal	**(1 007)**	**(1 451)**	**(665)**	**(709)**	**(967)**
Net cash flows from investment in financial assets for liquidity management purposes	108	188	33	1	43
Net cash flows from investing activities	**(900)**	**(1 263)**	**(632)**	**(709)**	**(923)**
Cash flows from financing activities					
Advances received (net)	(1 788)	(1 553)	(1 666)	(1 248)	(557)
Net borrowings	929	914	697	479	267
Deposits received (net)	(4)	(2)	(3)	(4)	(1)
Other financing (net)	(52)	23	(55)	(205)	(386)
Net cash flows from financing activities	**(916)**	**(617)**	**(1 028)**	**(978)**	**(678)**
Net increase/(decrease) in cash and cash equivalents	**(329)**	**(548)**	**(91)**	**(39)**	**19**
Cash and cash equivalents at beginning of reporting period [(b)]	1 419	1 419	871	780	740
Cash and cash equivalents at end of reporting period [(b)]	**1 090**	**871**	**780**	**740**	**760**

Table 5.3 Public non-financial corporations sector cash flow statement for the financial year ended 30 June *(continued)* **($ million)**

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
FISCAL AGGREGATES					
Net cash flows from operating activities	1 487	1 332	1 569	1 647	1 620
Dividends paid	(160)	(205)	(183)	(165)	(141)
Net cash flows from investments in non-financial assets	(2 789)	(3 000)	(2 326)	(1 945)	(1 499)
Cash surplus/(deficit)	**(1 462)**	**(1 872)**	**(940)**	**(463)**	**(20)**

Source: Department of Treasury and Finance

Notes:

(a) Inclusive of goods and services tax.

(b) 2018-19 Budget *figures have been restated to represent actual opening balances at 1 July 2018.*

Table 5.4 Public non-financial corporations sector statement of changes in equity for the financial year ended 30 June **($ million)**

	Accumulated surplus/(deficit)	*Contributions by owners*
2018-19 budget [(a)]		
Balance at 1 July 2018	3 333	59 478
Net result for the year	(304)	..
Other comprehensive income for the year [(b)]	(36)	..
Dividends paid	(160)	..
Transactions with owners in their capacity as owners	..	5 749
Total equity as at 30 June 2019	**2 833**	**65 227**
2018-19 revised		
Balance at 1 July 2018	3 333	59 478
Net result for the year	(332)	..
Other comprehensive income for the year	(38)	..
Dividends paid	(205)	..
Transactions with owners in their capacity as owners	..	5 130
Total equity as at 30 June 2019	**2 758**	**64 609**
2019-20 estimate		
Balance at 1 July 2019	2 758	64 609
Net result for the year	(196)	..
Other comprehensive income for the year	(23)	..
Dividends paid	(183)	..
Transactions with owners in their capacity as owners	..	4 678
Total equity as at 30 June 2020	**2 356**	**69 286**
2020-21 estimate		
Balance at 1 July 2020	2 356	69 286
Net result for the year	(359)	..
Other comprehensive income for the year	(18)	..
Dividends paid	(165)	..
Transactions with owners in their capacity as owners	..	3 325
Total equity as at 30 June 2021	**1 813**	**72 611**
2021-22 estimate		
Balance at 1 July 2021	1 813	72 611
Net result for the year	(401)	..
Other comprehensive income for the year	(26)	..
Dividends paid	(141)	..
Transactions with owners in their capacity as owners	..	1 846
Total equity as at 30 June 2022	**1 245**	**74 458**

Source: Department of Treasury and Finance

Notes:

(a) Balances represent actual opening balances at 1 July 2018 plus 2018-19 budgeted movements.

(b) 2018-19 Budget *figures have been updated to reflect more current information.*

Non-financial assets revaluation surplus	*Other reserves*	*Total*
33 851	549	97 212
..	..	(304)
817	37	819
..	..	(160)
..	..	5 749
34 669	**587**	**103 316**
33 851	549	97 212
..	..	(332)
2 787	24	2 773
..	..	(205)
..	..	5 130
36 639	**573**	**104 579**
36 639	573	104 579
..	..	(196)
1 441	33	1 451
..	..	(183)
..	..	4 678
38 080	**606**	**110 328**
38 080	606	110 328
..	..	(359)
943	4	928
..	..	(165)
..	..	3 325
39 023	**610**	**114 057**
39 023	610	114 057
..	..	(401)
6	22	2
..	..	(141)
..	..	1 846
39 029	**631**	**115 364**

Table 5.5 Net acquisition of non-financial assets – public non-financial corporations sector ($ million)

	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Purchases of non-financial assets (including change in inventories)	3 113	3 237	2 635	2 150	1 900
Less: Sales of non-financial assets	(324)	(251)	(308)	(205)	(401)
Less: Depreciation and amortisation	(2 332)	(2 351)	(2 449)	(2 610)	(2 728)
Plus: Other movements in non-financial assets [(a)]	5 664	4 968	4 743	3 551	2 275
Total net acquisition of non-financial assets from transactions	**6 121**	**5 603**	**4 621**	**2 887**	**1 046**

Source: Department of Treasury and Finance

Note:

(a) The other movements in non-financial assets include fixed asset transfers from the general government sector to the public non-financial corporations sector.

Table 5.6 Non-financial public sector comprehensive operating statement for the financial year ended 30 June ($ million)

	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Revenue from transactions					
Taxation revenue	23 653	23 649	24 600	25 524	26 789
Interest revenue	363	320	323	332	344
Dividends, income tax equivalent and rate equivalent revenue	584	716	218	255	245
Sales of goods and services	11 428	11 378	12 355	12 692	13 184
Grant revenue	33 454	33 516	33 699	34 687	35 943
Other revenue	3 220	3 261	3 212	3 291	3 333
Total revenue from transactions	**72 702**	**72 840**	**74 406**	**76 781**	**79 838**
Expenses from transactions					
Employee expenses	26 779	26 264	27 756	28 830	29 936
Net superannuation interest expense	667	692	643	614	585
Other superannuation	2 799	2 879	2 935	3 008	3 132
Depreciation	5 208	5 271	5 482	5 941	6 255
Interest expense	2 604	2 508	2 612	2 747	2 815
Grant expense	9 406	9 128	10 365	10 388	10 828
Other operating expenses	24 532	24 602	23 493	23 348	24 144
Other property expenses					
Total expenses from transactions	**71 995**	**71 346**	**73 286**	**74 877**	**77 694**
Net result from transactions – net operating balance	**706**	**1 495**	**1 120**	**1 904**	**2 144**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	113	141	104	72	112
Net gain/(loss) on financial assets or liabilities at fair value	27	25	26	26	27
Other gains/(losses) from other economic flows	(421)	(422)	(434)	(430)	(439)
Total other economic flows included in net result	**(280)**	**(257)**	**(303)**	**(331)**	**(300)**
Net result	**426**	**1 238**	**817**	**1 573**	**1 845**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	1 504	3 485	8 668	2 748	3 804
Remeasurement of superannuation defined benefit plans	1 014	1 996	1 053	1 074	1 094
Other movements in equity	(21)	(25)	(1)	(11)	15
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	9	(7)	15	(8)	2
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	(320)	(215)	80	131	16
Total other economic flows – other comprehensive income	**2 187**	**5 235**	**9 815**	**3 934**	**4 931**
Comprehensive result – total change in net worth	**2 613**	**6 473**	**10 632**	**5 507**	**6 775**
KEY FISCAL AGGREGATES					
Net operating balance	**706**	**1 495**	**1 120**	**1 904**	**2 144**
Less: Net acquisition of non-financial assets from transactions	8 041	7 628	7 700	5 232	2 961
Net lending/(borrowing)	**(7 335)**	**(6 133)**	**(6 580)**	**(3 327)**	**(816)**

Source: Department of Treasury and Finance

Table 5.7 Non-financial public sector balance sheet as at 30 June ($ million)

	2019 budget [(a)]	2019 revised	2020 estimate	2021 estimate	2022 estimate
Assets					
Financial assets					
Cash and deposits	7 415	5 050	5 062	5 025	5 024
Advances paid	504	504	361	354	402
Receivables	7 935	7 831	8 001	8 335	8 728
Investments, loans and placements	5 370	5 289	5 790	6 042	6 291
Investments accounted for using equity method	53	53	53	53	53
Investments in other sector entities	3 723	3 829	2 759	1 769	1 785
Total financial assets	**24 999**	**22 556**	**22 025**	**21 579**	**22 284**
Non-financial assets					
Inventories	1 296	1 354	1 478	1 509	1 414
Non-financial assets held for sale	463	446	447	448	449
Land, buildings, infrastructure, plant and equipment	269 796	271 105	286 343	292 832	298 548
Other non-financial assets	3 035	3 199	4 237	5 647	6 341
Total non-financial assets	**274 591**	**276 103**	**292 505**	**300 435**	**306 752**
Total assets	**299 590**	**298 659**	**314 530**	**322 014**	**329 036**
Liabilities					
Deposits held and advances received	1 322	1 320	1 367	1 358	1 313
Payables	18 407	19 010	18 536	18 047	16 958
Borrowings	52 236	47 873	54 283	57 520	59 576
Employee benefits	7 819	7 763	8 078	8 378	8 683
Superannuation	24 192	23 298	22 249	21 168	20 156
Other provisions	1 097	1 019	1 010	1 028	1 060
Total liabilities	**105 074**	**100 283**	**105 522**	**107 500**	**107 746**
Net assets	**194 516**	**198 376**	**209 008**	**214 515**	**221 290**
Accumulated surplus/(deficit)	79 147	80 934	82 785	85 410	88 342
Reserves	115 369	117 442	126 223	129 105	132 948
Net worth	**194 516**	**198 376**	**209 008**	**214 515**	**221 290**
FISCAL AGGREGATES					
Net financial worth	(80 075)	(77 728)	(83 497)	(85 920)	(85 462)
Net financial liabilities	83 798	81 557	86 256	87 690	87 247
Net debt	40 270	38 351	44 437	47 457	49 171

Source: Department of Treasury and Finance

Note:
(a) Balances represent actual opening balances at 1 July 2018 plus 2018-19 budgeted movements.

Table 5.8 Non-financial public sector cash flow statement for the financial year ended 30 June

($ million)

	2018-19 *budget*	2018-19 *revised*	2019-20 *estimate*	2020-21 *estimate*	2021-22 *estimate*
Cash flows from operating activities					
Receipts					
Taxes received	23 479	23 477	24 386	25 140	26 381
Grants	33 449	33 516	33 699	34 687	35 943
Sales of goods and services [(a)]	14 423	15 351	13 478	13 884	14 375
Interest received	374	324	323	332	344
Dividends, income tax equivalent and rate equivalent receipts	530	662	216	254	244
Other receipts	2 524	2 460	2 492	2 582	2 593
Total receipts	**74 779**	**75 790**	**74 594**	**76 879**	**79 880**
Payments					
Payments for employees	(26 428)	(25 968)	(27 447)	(28 535)	(29 637)
Superannuation	(3 492)	(3 510)	(3 574)	(3 629)	(3 636)
Interest paid	(2 562)	(2 457)	(2 574)	(2 709)	(2 776)
Grants and subsidies	(9 474)	(9 437)	(11 485)	(11 923)	(11 623)
Goods and services [(a)]	(25 145)	(25 403)	(24 190)	(24 019)	(25 008)
Other payments	(793)	(784)	(810)	(846)	(808)
Total payments	**(67 894)**	**(67 560)**	**(70 081)**	**(71 661)**	**(73 488)**
Net cash flows from operating activities	**6 885**	**8 230**	**4 514**	**5 218**	**6 392**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(13 204)	(12 555)	(11 475)	(9 427)	(8 443)
Sales of non-financial assets	692	617	725	595	747
Net cash flows from investments in non-financial assets	**(12 512)**	**(11 938)**	**(10 750)**	**(8 833)**	**(7 696)**
Net cash flows from investments in financial assets for policy purposes	(162)	(147)	1 291	1 115	(33)
Subtotal	**(12 673)**	**(12 085)**	**(9 459)**	**(7 718)**	**(7 730)**
Net cash flows from investment in financial assets for liquidity management purposes	(125)	(63)	(427)	(213)	(207)
Net cash flows from investing activities	**(12 799)**	**(12 148)**	**(9 886)**	**(7 931)**	**(7 936)**
Cash flows from financing activities					
Advances received (net)	(244)	(244)	50	(5)	(44)
Net borrowings	5 901	1 543	5 337	2 686	1 588
Deposits received (net)	(4)	(6)	(3)	(3)	(1)
Net cash flows from financing activities	**5 653**	**1 293**	**5 384**	**2 677**	**1 543**
Net increase/(decrease) in cash and cash equivalents	**(261)**	**(2 625)**	**12**	**(36)**	**(1)**
Cash and cash equivalents at beginning of reporting period [(b)]	7 676	7 676	5 050	5 062	5 025
Cash and cash equivalents at end of reporting period [(b)]	**7 415**	**5 050**	**5 062**	**5 025**	**5 024**
FISCAL AGGREGATES					
Net cash flows from operating activities	6 885	8 230	4 514	5 218	6 392
Net cash flows from investments in non-financial assets	(12 512)	(11 938)	(10 750)	(8 833)	(7 696)
Cash surplus/(deficit)	**(5 627)**	**(3 709)**	**(6 237)**	**(3 614)**	**(1 304)**

Source: Department of Treasury and Finance

Notes:

(a) Inclusive of goods and services tax.

(b) 2018-19 Budget *figures have been restated to represent actual opening balances at 1 July 2018.*

Table 5.9 Non-financial public sector statement of changes in equity for the financial year ended 30 June ($ million)

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*
2018-19 budget [(a)]		
Balance at 1 July 2018	77 744	108 120
Net result for the year	426	..
Other comprehensive income for the year [(b)]	977	1 504
Total equity as at 30 June 2019	**79 147**	**109 624**
2018-19 revised		
Balance at 1 July 2018	77 744	108 120
Net result for the year	1 238	..
Other comprehensive income for the year	1 952	3 485
Total equity as at 30 June 2019	**80 934**	**111 605**
2019-20 estimate		
Balance at 1 July 2019	80 934	111 605
Net result for the year	817	..
Other comprehensive income for the year	1 034	8 668
Total equity as at 30 June 2020	**82 785**	**120 273**
2020-21 estimate		
Balance at 1 July 2020	82 785	120 273
Net result for the year	1 573	..
Other comprehensive income for the year	1 052	2 748
Total equity as at 30 June 2021	**85 410**	**123 021**
2021-22 estimate		
Balance at 1 July 2021	85 410	123 021
Net result for the year	1 845	..
Other comprehensive income for the year	1 088	3 804
Total equity as at 30 June 2022	**88 342**	**126 825**

Source: Department of Treasury and Finance

Notes:
(a) *Balances represent actual opening balances at 1 July 2018 plus 2018-19 budgeted movements.*
(b) 2018-19 Budget *figures have been updated to reflect more current information.*

Investment in other sector entities revaluation surplus	Other reserves	Total
4 382	1 657	191 903
..	..	426
(320)	26	2 187
4 062	**1 683**	**194 516**
4 382	1 657	191 903
..	..	1 238
(215)	12	5 235
4 168	**1 669**	**198 376**
4 168	1 669	198 376
..	..	817
80	33	9 815
4 247	**1 702**	**209 008**
4 247	1 702	209 008
..	..	1 573
131	3	3 934
4 378	**1 706**	**214 515**
4 378	1 706	214 515
..	..	1 845
16	23	4 931
4 394	**1 729**	**221 290**

Table 5.10 Net acquisition of non-financial assets – non-financial public sector

($ million)

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Purchases of non-financial assets (including change in inventories)	13 208	12 546	11 479	9 432	8 448
Less: Sales of non-financial assets	(692)	(617)	(725)	(595)	(747)
Less: Depreciation and amortisation	(5 208)	(5 271)	(5 482)	(5 941)	(6 255)
Plus: Other movements in non-financial assets [(a)]	733	970	2 427	2 335	1 515
Total net acquisition of non-financial assets from transactions	**8 041**	**7 628**	**7 700**	**5 232**	**2 961**

Source: Department of Treasury and Finance

Note:

(a) The other movements in non-financial assets across the forward estimates predominantly relates to finance leases for the High Capacity Metro Trains Project, the Western Roads Upgrade, the Casey Hospital Expansion, the Northern Roads Upgrade and the South Eastern Roads Upgrade.

Table 5.11 Public financial corporations sector comprehensive operating statement for the financial year ended 30 June

($ million)

	2018-19 *budget*	2018-19 *revised*	2019-20 *estimate*	2020-21 *estimate*	2021-22 *estimate*
Revenue from transactions					
Interest revenue	1 922	1 854	1 960	2 081	2 176
Dividend revenue	1 405	1 607	1 505	1 819	1 862
Sales of goods and services	4 776	4 807	5 022	5 262	5 514
Grant revenue					
Other revenue	25	20	21	26	27
Total revenue from transactions	**8 128**	**8 288**	**8 509**	**9 188**	**9 580**
Expenses from transactions					
Employee expenses	375	384	381	387	395
Other superannuation	26	30	30	30	31
Depreciation	45	44	58	84	116
Interest expense	1 768	1 718	1 813	1 892	1 965
Grant expense	731	1 001	799	633	686
Other operating expenses	6 924	7 122	7 585	7 892	8 331
Other property expenses	31	111	22	53	23
Total expenses from transactions	**9 900**	**10 409**	**10 687**	**10 971**	**11 545**
Net result from transactions – net operating balance [(a)]	**(1 772)**	**(2 121)**	**(2 179)**	**(1 783)**	**(1 966)**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets					
Net gain/(loss) on financial assets or liabilities at fair value	539	960	576	658	632
Other gains/(losses) from other economic flows	905	1 089	1 063	959	984
Total other economic flows included in net result	**1 444**	**2 049**	**1 639**	**1 618**	**1 615**
Net result	**(328)**	**(72)**	**(539)**	**(165)**	**(350)**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Other movements in equity	1	..	..	..	..
Total other economic flows – other comprehensive income	**1**	**..**	**..**	**..**	**..**
Comprehensive result – total change in net worth	**(327)**	**(72)**	**(540)**	**(166)**	**(351)**
KEY FISCAL AGGREGATES					
Net operating balance	**(1 772)**	**(2 121)**	**(2 179)**	**(1 783)**	**(1 966)**
Less: Net acquisition of non-financial assets from transactions	75	89	120	122	1
Net lending/(borrowing)	**(1 848)**	**(2 210)**	**(2 299)**	**(1 905)**	**(1 967)**

Source: Department of Treasury and Finance

Note:

(a) Capital gains on the investment portfolios of the State's insurance agencies (WorkSafe Victoria, Transport Accident Commission and Victorian Managed Insurance Authority) are classified as other economic flows. As these capital gains are available to fund claims expenses, the net result more meaningfully reflects the underlying operating and performance of the public financial corporations sector than the net result from transactions.

Table 5.12 Public financial corporations sector balance sheet as at 30 June ($ million)

	2019 budget [(a)]	2019 revised	2020 estimate	2021 estimate	2022 estimate
Assets					
Financial assets					
Cash and deposits	5 645	3 052	3 148	3 238	3 246
Advances paid	19	12	12	12	12
Receivables	1 493	1 367	1 449	1 363	1 425
Investments, loans and placements	38 207	37 946	37 273	37 568	39 078
Loans receivable from non-financial public sector [(b)]	39 917	37 278	42 992	45 928	47 890
Investments in other sector entities					
Total financial assets	**85 281**	**79 655**	**84 875**	**88 110**	**91 651**
Non-financial assets					
Land, buildings, infrastructure, plant and equipment	195	114	125	138	146
Other non-financial assets	956	1 047	1 325	1 454	1 453
Total non-financial assets	**1 151**	**1 161**	**1 450**	**1 592**	**1 599**
Total assets	**86 432**	**80 816**	**86 324**	**89 701**	**93 250**
Liabilities					
Deposits held and advances received	7 003	4 642	4 324	4 182	4 154
Payables	2 035	1 824	1 816	1 806	1 800
Borrowings [(c)]	44 816	41 582	47 296	50 232	52 195
Employee benefits	112	97	100	103	106
Other provisions	32 549	32 503	34 374	36 330	38 394
Total liabilities	**86 515**	**80 647**	**87 910**	**92 653**	**96 649**
Net assets [(d)]	**(83)**	**169**	**(1 586)**	**(2 952)**	**(3 399)**
Accumulated surplus/(deficit)	(150)	100	(1 625)	(2 991)	(3 438)
Reserves	68	69	39	39	39
Net worth [(d)]	**(83)**	**169**	**(1 586)**	**(2 952)**	**(3 399)**
FISCAL AGGREGATES					
Net financial worth	(1 234)	(992)	(3 035)	(4 544)	(4 998)
Net financial liabilities	1 234	992	3 035	4 544	4 998
Net debt	(31 969)	(32 065)	(31 806)	(32 332)	(33 876)

Source: Department of Treasury and Finance

Notes:

(a) Balances represent actual opening balances at 1 July 2018 plus 2018-19 budgeted movements.

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

(c) Borrowings with the private sector are at market value.

(d) Treasury Corporation of Victoria's external loan liabilities are at mark-to-market value while the corresponding assets, that is lending to the non-financial public sector, is at historical value. This mismatch results in the negative net asset position of the sector.

Table 5.13 Public financial corporations sector cash flow statement for the financial year ended 30 June ($ million)

	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Cash flows from operating activities					
Receipts					
Grants					
Sales of goods and services [(a)]	5 292	5 247	5 503	5 771	6 049
Interest received	1 862	1 794	1 900	2 021	2 116
Dividend receipts	1 405	1 607	1 505	1 819	1 862
Other receipts	34	61	29	56	30
Total receipts	**8 592**	**8 708**	**8 937**	**9 667**	**10 057**
Payments					
Payments for employees	(373)	(397)	(377)	(385)	(392)
Superannuation	(26)	(30)	(30)	(30)	(31)
Interest paid	(1 822)	(1 786)	(1 865)	(1 943)	(2 015)
Grants and subsidies	(731)	(1 001)	(822)	(633)	(686)
Goods and services [(a)]	(4 924)	(5 096)	(5 384)	(5 581)	(5 917)
Other payments	(18)	(91)	(22)	(41)	(9)
Total payments	**(7 893)**	**(8 399)**	**(8 500)**	**(8 613)**	**(9 050)**
Net cash flows from operating activities	**699**	**309**	**437**	**1 054**	**1 007**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(121)	(133)	(178)	(206)	(118)
Sales of non-financial assets	1	1	1	1	1
Net cash flows from investments in non-financial assets	**(121)**	**(132)**	**(178)**	**(206)**	**(118)**
Net cash flows from investments in financial assets for policy purposes	(1)	6	(1)	(1)	1
Subtotal	**(121)**	**(126)**	**(179)**	**(207)**	**(117)**
Net cash flows from investment in financial assets for liquidity management purposes	(4 723)	(1 949)	(4 403)	(2 411)	(2 779)
Net cash flows from investing activities	**(4 844)**	**(2 075)**	**(4 582)**	**(2 618)**	**(2 895)**
Cash flows from financing activities					
Advances received (net)	1	(12)	1	1	..
Net borrowings	5 384	2 776	5 773	2 995	2 021
Deposits received (net)	(641)	(2 988)	(318)	(143)	(27)
Other financing (net)	(507)	(511)	(1 215)	(1 201)	(96)
Net cash flows from financing activities	**4 237**	**(736)**	**4 241**	**1 653**	**1 897**
Net increase/(decrease) in cash and cash equivalents	**92**	**(2 502)**	**96**	**90**	**8**
Cash and cash equivalents at beginning of reporting period [(b)]	5 554	5 554	3 052	3 148	3 238
Cash and cash equivalents at end of reporting period [(b)]	**5 645**	**3 052**	**3 148**	**3 238**	**3 246**
FISCAL AGGREGATES					
Net cash flows from operating activities	699	309	437	1 054	1 007
Dividends paid	(507)	(511)	(65)	(81)	(96)
Net cash flows from investments in non-financial assets	(121)	(132)	(178)	(206)	(118)
Cash surplus/(deficit)	**71**	**(334)**	**194**	**768**	**793**

Source: Department of Treasury and Finance

Notes:

(a) Inclusive of goods and services tax.

(b) 2018-19 Budget *figures have been restated to represent actual opening balances at 1 July 2018.*

Table 5.14 Public financial corporations sector statement of changes in equity for the financial year ended 30 June **($ million)**

	Accumulated surplus/(deficit)	*Contributions by owners*
2018-19 budget [(a)]		
Balance at 1 July 2018	684	29
Net result for the year	(328)	..
Other comprehensive income for the year	..	..
Dividends paid	(507)	..
Transfer to/(from) accumulated surplus		
Transactions with owners in their capacity as owners		
Total equity as at 30 June 2019	**(150)**	**29**
2018-19 revised		
Balance at 1 July 2018	683	29
Net result for the year	(72)	..
Other comprehensive income for the year	..	..
Dividends paid	(511)	..
Transfer to/(from) accumulated surplus		
Transactions with owners in their capacity as owners		
Total equity as at 30 June 2019	**100**	**29**
2019-20 estimate		
Balance at 1 July 2019	100	29
Net result for the year	(539)	..
Other comprehensive income for the year	..	..
Dividends paid	(65)	..
Transfer to/(from) accumulated surplus	(1 120)	1 120
Transactions with owners in their capacity as owners	..	(1 150)
Total equity as at 30 June 2020	**(1 625)**	**..**
2020-21 estimate		
Balance at 1 July 2020	(1 625)	..
Net result for the year	(165)	..
Other comprehensive income for the year	..	..
Dividends paid	(81)	..
Transfer to/(from) accumulated surplus	(1 120)	1 120
Transactions with owners in their capacity as owners	..	(1 120)
Total equity as at 30 June 2021	**(2 991)**	**..**
2021-22 estimate		
Balance at 1 July 2021	(2 991)	..
Net result for the year	(350)	..
Other comprehensive income for the year	..	..
Dividends paid	(96)	..
Transfer to/(from) accumulated surplus		
Transactions with owners in their capacity as owners		
Total equity as at 30 June 2022	**(3 438)**	**..**

Source: Department of Treasury and Finance

Note:
(a) Balances represent actual opening balances at 1 July 2018 plus 2018-19 budgeted movements.

Non-financial assets revaluation surplus	*Other reserves*	*Total*
2	36	751
..	..	(328)
..	..	1
..	..	(507)
2	**37**	**(83)**
2	36	751
..	..	(72)
..	..	..
..	..	(511)
2	**36**	**169**
2	36	169
..	..	(539)
..	..	..
..	..	(65)
..	..	..
..	..	(1 150)
2	**36**	**(1 586)**
2	36	(1 586)
..	..	(165)
..	..	..
..	..	(81)
..	..	..
..	..	(1 120)
2	**36**	**(2 952)**
2	36	(2 952)
..	..	(350)
..	..	..
..	..	(96)
2	**37**	**(3 399)**

Table 5.15 Net acquisition of non-financial assets – public financial corporations sector

($ million)

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Purchases of non-financial assets less sale of non-financial asset (including change in inventories)	121	132	178	206	118
Less: Depreciation and amortisation	(45)	(44)	(58)	(84)	(116)
Plus: Other movements in non-financial assets					
Total net acquisition of non-financial assets from transactions	**75**	**89**	**120**	**122**	**1**

Source: Department of Treasury and Finance

Table 5.16 State of Victoria operating statement for the financial year ended 30 June

($ million)

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Revenue from transactions					
Taxation revenue	23 636	23 634	24 584	25 508	26 772
Interest revenue	535	517	527	570	605
Dividend revenue	1 451	1 708	1 635	1 951	2 001
Sales of goods and services	15 296	15 286	16 439	16 972	17 668
Grant revenue	32 735	32 525	32 912	34 068	35 271
Other revenue	3 246	3 281	3 233	3 317	3 361
Total revenue from transactions	**76 899**	**76 951**	**79 330**	**82 387**	**85 679**
Expenses from transactions					
Employee expenses	26 752	26 246	27 725	28 794	29 897
Net superannuation interest expense	667	692	643	614	585
Other superannuation	2 826	2 909	2 965	3 039	3 163
Depreciation	5 253	5 315	5 540	6 025	6 371
Interest expense	2 622	2 569	2 670	2 797	2 864
Grant expense	9 423	9 143	10 380	10 404	10 844
Other operating expenses	30 921	31 199	30 516	30 595	31 882
Other property expenses					
Total expenses from transactions	**78 464**	**78 074**	**80 439**	**82 267**	**85 606**
Net result from transactions – net operating balance	**(1 565)**	**(1 123)**	**(1 109)**	**120**	**73**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	113	141	104	72	112
Net gain/(loss) on financial assets or liabilities at fair value	566	985	603	684	659
Other gains/(losses) from other economic flows	395	595	455	493	521
Total other economic flows included in net result	**1 074**	**1 721**	**1 162**	**1 249**	**1 292**
Net result	**(491)**	**598**	**53**	**1 369**	**1 364**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	1 504	3 485	8 668	2 748	3 804
Remeasurement of superannuation defined benefit plans	1 014	1 996	1 053	1 074	1 094
Other movements in equity	(20)	(25)	(1)	(11)	15
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	9	(7)	15	(8)	2
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	..	..	..	..	..
Total other economic flows – other comprehensive income	**2 508**	**5 449**	**9 736**	**3 803**	**4 914**
Comprehensive result – total change in net worth	**2 017**	**6 048**	**9 788**	**5 172**	**6 279**
KEY FISCAL AGGREGATES					
Net operating balance	**(1 565)**	**(1 123)**	**(1 109)**	**120**	**73**
Less: Net acquisition of non-financial assets from transactions	8 117	7 716	7 820	5 353	2 962
Net lending/(borrowing)	**(9 682)**	**(8 839)**	**(8 929)**	**(5 234)**	**(2 890)**

Source: Department of Treasury and Finance

Table 5.17 State of Victoria balance sheet as at 30 June ($ million)

	2019 budget [(a)]	2019 revised	2020 estimate	2021 estimate	2022 estimate
Assets					
Financial assets					
Cash and deposits	6 733	5 941	6 291	6 473	6 567
Advances paid	504	504	361	354	402
Receivables	9 071	8 884	9 151	9 468	9 898
Investments, loans and placements	41 658	41 402	41 307	41 866	43 566
Investments accounted for using equity method	53	53	53	53	53
Investments in other sector entities	..	..	..	..	..
Total financial assets	**58 020**	**56 783**	**57 163**	**58 214**	**60 486**
Non-financial assets					
Inventories	1 296	1 354	1 478	1 509	1 414
Non-financial assets held for sale	463	446	447	448	449
Land, buildings, infrastructure, plant and equipment	269 991	271 219	286 468	292 970	298 694
Other non-financial assets	3 169	3 448	4 590	6 102	6 784
Total non-financial assets	**274 920**	**276 467**	**292 983**	**301 029**	**307 341**
Total assets	**332 939**	**333 250**	**350 145**	**359 243**	**367 828**
Liabilities					
Deposits held and advances received	2 083	2 074	2 121	2 112	2 067
Payables	20 052	20 484	20 003	19 504	18 408
Borrowings	55 080	52 025	58 436	61 674	63 730
Employee benefits	7 931	7 860	8 178	8 481	8 789
Superannuation	24 192	23 298	22 249	21 168	20 156
Other provisions	33 645	33 521	35 382	37 356	39 451
Total liabilities	**142 982**	**139 262**	**146 369**	**150 295**	**152 601**
Net assets	**189 957**	**193 988**	**203 776**	**208 948**	**215 227**
Accumulated surplus/(deficit)	78 611	80 675	81 762	84 182	86 634
Reserves	111 346	113 313	122 015	124 766	128 593
Net worth	**189 957**	**193 988**	**203 776**	**208 948**	**215 227**
FISCAL AGGREGATES					
Net financial worth	(84 963)	(82 479)	(89 206)	(92 080)	(92 114)
Net financial liabilities	84 963	82 479	89 206	92 080	92 114
Net debt	8 267	6 253	12 598	15 092	15 262

Source: Department of Treasury and Finance

Note:
(a) Balances represent actual opening balances at 1 July 2018 plus 2018-19 budgeted movements.

Table 5.18 State of Victoria cash flow statement for the financial year ended 30 June ($ million)

	2018-19 *budget*	2018-19 *revised*	2019-20 *estimate*	2020-21 *estimate*	2021-22 *estimate*
Cash flows from operating activities					
Receipts					
Taxes received	23 462	23 461	24 370	25 124	26 364
Grants	32 730	32 482	32 912	34 068	35 271
Sales of goods and services [(a)]	18 805	19 703	18 043	18 673	19 394
Interest received	487	457	467	510	545
Dividend receipts	1 451	1 707	1 635	1 951	2 001
Other receipts	2 550	2 513	2 505	2 570	2 646
Total receipts	**79 486**	**80 325**	**79 931**	**82 897**	**86 222**
Payments					
Payments for employees	(26 398)	(25 963)	(27 413)	(28 496)	(29 595)
Superannuation	(3 518)	(3 540)	(3 604)	(3 659)	(3 667)
Interest paid	(2 635)	(2 582)	(2 683)	(2 810)	(2 877)
Grants and subsidies	(9 491)	(9 409)	(11 523)	(11 939)	(11 639)
Goods and services [(a)]	(29 533)	(29 978)	(29 012)	(28 955)	(30 333)
Other payments	(833)	(824)	(810)	(846)	(808)
Total payments	**(72 409)**	**(72 296)**	**(75 046)**	**(76 705)**	**(78 919)**
Net cash flows from operating activities	**7 077**	**8 028**	**4 886**	**6 192**	**7 303**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(13 326)	(12 688)	(11 654)	(9 634)	(8 561)
Sales of non-financial assets	693	617	725	595	748
Net cash flows from investments in non-financial assets	**(12 632)**	**(12 071)**	**(10 928)**	**(9 038)**	**(7 814)**
Net cash flows from investments in financial assets for policy purposes	(161)	(147)	141	(5)	(33)
Subtotal	**(12 794)**	**(12 217)**	**(10 787)**	**(9 044)**	**(7 847)**
Net cash flows from investment in financial assets for liquidity management purposes	1 313	1 430	807	299	(964)
Net cash flows from investing activities	**(11 481)**	**(10 787)**	**(9 980)**	**(8 745)**	**(8 811)**
Cash flows from financing activities					
Advances received (net)	(244)	(251)	50	(5)	(44)
Net borrowings	4 892	2 463	5 397	2 744	1 647
Deposits received (net)	(4)	(6)	(3)	(3)	(1)
Net cash flows from financing activities	**4 644**	**2 206**	**5 444**	**2 735**	**1 602**
Net increase/(decrease) in cash and cash equivalents	**239**	**(552)**	**349**	**182**	**94**
Cash and cash equivalents at beginning of reporting period [(b)]	6 494	6 494	5 941	6 291	6 473
Cash and cash equivalents at end of reporting period [(b)]	**6 733**	**5 941**	**6 291**	**6 473**	**6 567**
FISCAL AGGREGATES					
Net cash flows from operating activities	7 077	8 028	4 886	6 192	7 303
Net cash flows from investments in non-financial assets	(12 632)	(12 071)	(10 928)	(9 038)	(7 814)
Cash surplus/(deficit)	**(5 556)**	**(4 042)**	**(6 042)**	**(2 846)**	**(511)**

Source: Department of Treasury and Finance

Notes:

(a) Inclusive of goods and services tax.

(b) 2018-19 Budget figures have been restated to represent actual opening balances at 1 July 2018.

Table 5.19 State of Victoria statement of changes in equity for the financial year ended 30 June

($ million)

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*	*Other reserves*	*Total*
2018-19 budget [(a)]				
Balance at 1 July 2018	78 125	108 122	1 694	187 941
Net result for the year	(491)	..	..	(491)
Other comprehensive income for the year [(b)]	978	1 504	26	2 508
Total equity as at 30 June 2019	**78 611**	**109 626**	**1 720**	**189 957**
2018-19 revised				
Balance at 1 July 2018	78 125	108 122	1 694	187 941
Net result for the year	598	..	..	598
Other comprehensive income for the year	1 952	3 485	12	5 449
Total equity as at 30 June 2019	**80 675**	**111 607**	**1 706**	**193 988**
2019-20 estimate				
Balance at 1 July 2019	80 675	111 607	1 706	193 988
Net result for the year	53	..	..	53
Other comprehensive income for the year	1 034	8 668	33	9 736
Total equity as at 30 June 2020	**81 762**	**120 276**	**1 739**	**203 776**
2020-21 estimate				
Balance at 1 July 2020	81 762	120 276	1 739	203 776
Net result for the year	1 369	..	..	1 369
Other comprehensive income for the year	1 052	2 748	3	3 803
Total equity as at 30 June 2021	**84 182**	**123 024**	**1 742**	**208 948**
2021-22 estimate				
Balance at 1 July 2021	84 182	123 024	1 742	208 948
Net result for the year	1 364	..	..	1 364
Other comprehensive income for the year	1 088	3 804	23	4 914
Total equity as at 30 June 2022	**86 634**	**126 827**	**1 766**	**215 227**

Source: Department of Treasury and Finance

Notes:

(a) Balances represent actual opening balances at 1 July 2018 plus 2018-19 budgeted movements.

(b) 2018-19 Budget *figures have been updated to reflect more current information.*

Table 5.20 Net acquisition of non-financial assets – State of Victoria ($ million)

	2018-19 budget	*2018-19 revised*	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Purchases of non-financial assets (including change in inventories)	13 329	12 679	11 658	9 638	8 566
Less: Sales of non-financial assets	(693)	(617)	(725)	(595)	(748)
Less: Depreciation and amortisation	(5 253)	(5 315)	(5 540)	(6 025)	(6 371)
Plus: Other movements in non-financial assets [(a)]	733	970	2 427	2 335	1 515
Total net acquisition of non-financial assets from transactions	**8 117**	**7 716**	**7 820**	**5 353**	**2 962**

Source: Department of Treasury and Finance

Note:

(a) The other movements in non-financial assets across the forward estimates predominantly relates to finance leases for the High Capacity Metro Trains Project, the Western Roads Upgrade, the Casey Hospital Expansion, the Northern Roads Upgrade and the South Eastern Roads Upgrade.

CHAPTER 6 – CONTINGENT ASSETS AND CONTINGENT LIABILITIES

This chapter contains information on contingent assets and liabilities for the general government sector and should be read in conjunction with Chapter 4.

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

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

CONTINGENT ASSETS

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

These are classified as either quantifiable, where the potential economic benefit is known, or non-quantifiable.

Table 6.1 contains quantifiable contingent assets as at 30 November 2018 (arising from outside of government).

Table 6.1: Quantifiable contingent assets **($ million)**

	As at Dec 2018	*Published budget estimate* [(a)]
Guarantees, indemnities and warranties	34	36
Legal proceedings and disputes	2	9
Other [(b)]	113	100
Total contingent assets	**149**	**145**

Source: Department of Treasury and Finance

Notes:

(a) *As published in the* 2018-19 Budget.

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

Non-quantifiable contingent assets

Peninsula Link compensable enhancement claim

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

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

CONTINGENT LIABILITIES

Contingent liabilities are:

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

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

The table below contains quantifiable contingent liabilities as at 30 November 2018.

Table 6.2: Quantifiable contingent liabilities **($ million)**

	As at Dec 2018	*Published budget estimate* (a)
Guarantees, indemnities and warranties	181	207
Legal proceedings and disputes	176	114
Other	66	44
Non-general government debt (b)	12 086	11 611
Total contingent liabilities	**12 509**	**11 976**

Source: Department of Treasury and Finance

Notes:
(a) As published in the 2018-19 Budget*.*
(b) Mainly represents the guarantee of borrowings provided by the Treasurer for the public sector borrowings portfolio.

Non-quantifiable contingent liabilities

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

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

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

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

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

Cladding rectification works – government buildings

The 2014 fire at the Lacrosse apartment building in Melbourne's Docklands, and the Grenfell fire in London in June 2017, highlighted the fire safety risks from the non-compliant use of exterior cladding on buildings. Subsequent investigations have highlighted that dangerous materials are widely used on buildings throughout Victoria.

The Victorian Government Cladding Taskforce is investigating the extent of non-compliant cladding on all buildings state-wide.

On behalf of the Cladding Taskforce, the Victorian Building Authority is undertaking a whole of government building audit to assess the extent of non-compliant cladding on all government-owned buildings.

The building audit has identified a number of government-owned buildings that may require rectification. These buildings are being risk-assessed to inform the extent of rectification works required. The expected cost for rectifying the non-compliant cladding is unknown at this time.

Department of Education and Training

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

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

National redress scheme – sexual abuse of children in institutions

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

The Government has set aside funding in the budget estimates over the next 10 years for redress. Due to the historical nature of the abuse in question, the precise number of eligible survivors of abuse is difficult to estimate. Consequently, the exact financial implications for Victoria remain uncertain.

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

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

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

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

Public transport rail partnership agreements

Public Transport Victoria (PTV) is party to contractual arrangements with franchisees to operate metropolitan rail transport services across the State, from 30 November 2017 until 30 November 2024. The major contingent liabilities arising in the event of early termination or expiry of the contract are:

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

West Gate Tunnel Project

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

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

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

Several variables may influence the value of any additional State funding which will depend on:

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

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

Fiskville independent investigation and closure of the training college

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

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

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

The Government response to the Fiskville Inquiry was tabled in Parliament on 24 November 2016. The response supports all of the 31 recommendations of the Victorian Parliamentary Inquiry into the CFA Training College at Fiskville, either in full, in principle or in part.

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

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

Compulsory property acquisitions

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

Land remediation – environmental concerns

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

Native Title

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

Royal Melbourne Showgrounds redevelopment

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

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

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

Victorian Managed Insurance Authority – insurance cover

The Victorian Managed Insurance Authority (VMIA) was established in 1996 as an insurer for Victorian government departments, participating bodies and other entities as defined under the *Victorian Managed Insurance Authority Act 1996*. The VMIA provides its clients with a range of insurance cover, including for property, public and products liability, professional indemnity, contract works and domestic building insurance for the Victorian residential builders. The VMIA reinsures in the private market for losses above $50 million arising out of any one occurrence, up to a maximum of $1 billion for public and products liability, and for losses above $50 million arising out of any one event, up to a maximum of $3.6 billion for property. Further, the VMIA reinsures in the private market for losses above $10 million arising out of any one event, up to a limit of $1.5 billion for terrorism. The risk of losses above these reinsured levels is borne by the State.

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

APPENDIX A – SPECIFIC POLICY INITIATIVES AFFECTING BUDGET POSITION

Policy initiatives that affect outputs and assets, including Treasurer's Advances, agreed by the Government since the *2018-19 Budget* are detailed in Appendix A of the November *2018 Pre-Election Budget Update*.

APPENDIX B – AMENDMENTS TO THE 2018-19 OUTPUT PERFORMANCE MEASURES

Output measures for all departments were published in Chapter 2 and Appendix A of Budget Paper No. 3 *Service Delivery*. The Public Accounts and Estimates Committee has completed its review of the measures which were substantially changed or proposed to be discontinued, and tabled its report in Parliament on 18 September 2018. The Government will consider the Committee's report and respond to the recommendations within the legislated timeline. All agreed changes to output performance measures will be reflected in the next budget publication.

APPENDIX C – TAX EXPENDITURES AND CONCESSIONS

Tax expenditures and concessions represent forgone revenue to the State. They take a number of different forms in the tax system, for example, exemptions, benefits and incentives delivered through the tax system. Regardless of form, they preferentially benefit certain taxpayers, activities or assets compared with normal taxation treatment.

TAX EXPENDITURES

Tax expenditures are estimated by taking the difference between the reduced tax paid by a person or entity receiving preferential treatment and the tax paid by similar taxpayers who do not receive that treatment. Benefits arising from marginal tax rates and tax-free thresholds are not considered to be tax expenditures, since they apply to all taxpayers. Accordingly, they are not included in this section.

Over the past decade, the State has forgone $47.6 billion in revenue in the form of tax expenditures. In 2018-19, tax expenditures are forecast to be $8.9 billion.

The tax expenditures outlined below can include exemptions, reduced rates, deductions or rebates of tax for a certain type of taxpayer, activity or asset. Table C.1 aggregates tax expenditure estimates by the main tax categories for the period 2017-18 to 2021-22. In estimating tax expenditures, it is assumed that taxpayer behaviour is unchanged by the concession.

Land tax expenditures form a significant portion of total estimated tax expenditures. The current biennial property valuation process was centralised within the Valuer-General Victoria on 1 July 2018 and will be undertaken annually from the 2019 revaluation cycle.

Table C.1: Estimates of aggregate tax expenditures by type of tax (a) ($ million)

Description	2017-18	2018-19	2019-20	2020-21	2021-22
Land tax	4 053	5 379	5 706	5 877	6 440
Fire Services Property Levy	22	22	22	22	22
Payroll tax	1 327	1 468	1 544	1 624	1 711
Gambling tax	77	80	81	81	82
Motor vehicle taxes	188	206	216	225	234
Land transfer duties	1 673	1 701	1 692	1 580	1 602
Congestion levy	59	60	62	63	65
Total estimated tax expenditures	**7 399**	**8 916**	**9 323**	**9 472**	**10 156**

Source: Department of Treasury and Finance

Notes:

(a) *All amounts have been rounded to the nearest $1 million unless otherwise stated. Figures may not add due to rounding.*

(b) *The increase in Payroll tax expenditures since* 2018-19 Budget *reflects a higher than anticipated outcome in 2017-18 for the regional Payroll tax rate reduction.*

CONCESSIONS

Concessions are direct budget outlays or reduced government charges that reduce the price of a good or service for particular groups. Over the past decade, the State has provided $14.8 billion in concessions. In 2018-19, concessions are forecast to be about $1.7 billion.

Certain characteristics of a consumer, such as possession of a Commonwealth Government pension card or health care card, can be the basis for such entitlements. Concessions allow certain groups in the community to access or purchase important public services such as energy, education, health and transportation at a reduced cost. Table C.2 classifies the major concessions by category.

Eligible concession card holders receive reduced bills for energy, municipal rates, water and sewerage, funded by the State and paid to service providers.

Education concessions include concessions for preschool and for vocational education and training.

Hardship schemes include the Utility Relief Grants Scheme and payment to State Trustees through a Community Service Agreement. The Utility Relief Grants Scheme assists Victorians unable to pay utility bills due to temporary financial hardship. State Trustees provide trustee services, including managing the legal and financial affairs of Victorians unable to do so independently.

The social and community services category includes assistance to not-for-profit organisations such as Bereavement Assistance Limited, the Charity Freight Service and food relief organisations.

Private transport concessions consist of a discount on Transport Accident Commission premiums and funding of the Multi-Purpose Taxi Program.

Table C.2: Concessions by category [(a)] **($ million)**

Description	*2017-18*	*2018-19*
Electricity	151	154
Mains gas	67	66
Municipal rates	94	97
Water and sewerage	171	174
Total energy, municipal rates, water and sewerage	**484**	**491**
Ambulance	400	412
Dental services and spectacles	170	174
Community health programs	99	102
Total health	**669**	**688**
Education	**54**	**73**
Hardship schemes	**43**	**45**
Social and community services	**3**	**3**
Private transport	**204**	**182**
Public transport	**161**	**168**
Total for items estimated	**1 618**	**1 651**

Source: Department of Treasury and Finance

Notes:
(a) All amounts have been rounded to the nearest $1 million unless otherwise stated. Figures may not add due to rounding.

APPENDIX D – SENSITIVITY ANALYSIS

The *2018-19 Budget Update* relies on forecasts and judgements about the economic, operating and financial conditions for the Victorian general government sector. Uncertainty in these conditions, for example as a result of international developments and other risks to the national economy, may cause the actual results to differ from projections.

This sensitivity analysis explores the impact of variations in the macroeconomic outlook on key fiscal aggregates of the general government sector using two alternative approaches.

The first quantifies the fiscal impacts of scenarios involving simultaneous variations in economic parameters that represent key risks to the economic outlook described in Chapter 2 *Economic Context*. These scenarios were selected to cover plausible shocks that could affect Victoria over the medium term, and the modelling takes account of linkages between key international, Australian and Victorian economic aggregates.

The modelled outcomes are intended to be used as a guide and care should be exercised in interpreting the results. In particular, economic shocks tend to be idiosyncratic in nature, with the modelled scenarios unlikely to completely reflect any future shock that could occur. Departures from these scenarios would be expected to result in different impacts on the budget. Furthermore, these shocks do not incorporate any policy responses to the shock or the change in outlook.

The second approach considers the fiscal impacts of independent variations in major macroeconomic parameters, holding all parameters other than the indicator of interest constant. This analysis may be useful for assessing the impact on fiscal aggregates of a forecast error in a single economic parameter. In practice, economic variations rarely occur in isolation, and scenario analysis is likely to be more appropriate to illustrate the fiscal impacts of an economic environment materially different from that presented in the budget papers.

FISCAL IMPACTS OF VARIATIONS TO THE ECONOMIC OUTLOOK

This part of the sensitivity analysis quantifies some of the key risks identified in Chapter 2 *Economic Context* and presents how these risks might affect the State's economic and fiscal aggregates. Two scenarios are considered: a negative shock to the household sector that affects consumption and dwelling investment; and a positive shock to Victoria's labour force participation rate, partially accommodated through an increase in final demand.[1] The design and calibration of both scenarios is identical to those analysed in Budget Paper No. 2, Appendix A *Sensitivity Analysis* of the *2018-19 Budget*. Continued strength in the Victorian economy over the past six months has, however, flowed through to a stronger base case against which the two scenarios have been compared.

The economic impacts of both scenarios have been modelled as deviations from a business as usual base case generated from the Victoria University Regional Model (VURM).[2] The changes in economic indicators resulting from the modelled shocks are then mapped into estimated revenue and expenditure impacts using elasticities that describe the historic relationship between fiscal outcomes and major macroeconomic parameters in Table D.5.[3]

Downturn in household consumption and dwelling investment

The household sector has been an important engine of growth for the Victorian economy, with both household consumption and dwelling investment growing strongly in recent years. However, there are signs of vulnerability. The residential property market is moderating, with weak to negative price growth and slowing transaction volumes. The housing construction cycle is maturing and growth in building approvals has declined, while the increase in household leverage has left some households vulnerable to housing and mortgage stress should their circumstances change or borrowing costs rise significantly. This could have broader implications for consumer spending, housing construction activity, the labour market and overall economic growth prospects.

Shocks to the household sector could arise through a more rapid rise in borrowing costs for mortgage holders, tighter lending standards or other prudential measures. Alternatively, a broader softening of economic conditions could cause households to reduce their appetite to take on debt, increase their rate of saving and shrink spending on discretionary items. Households may also reappraise expectations about future asset price growth, meaning they require a higher rate of return to invest in property and other assets.

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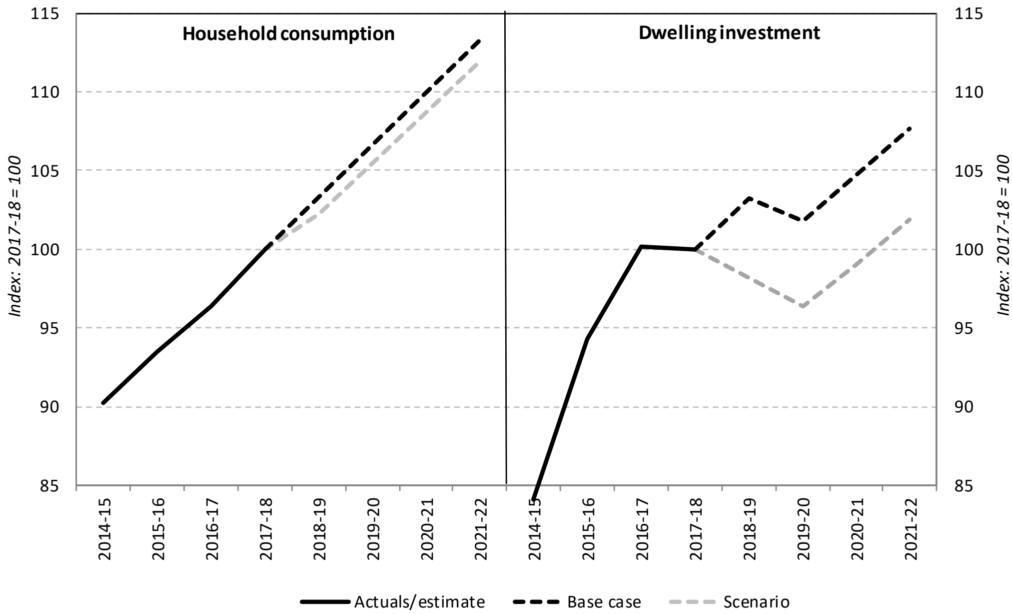
[1] The results generated in each scenario are mutually exclusive and non-additive.

[2] VURM is a dynamic computable general equilibrium model of Australia's six states and two territories, with each region modelled as an economy in its own right. See Adams, P., Dixon, J. and Horridge, M. (2015), 'The Victoria University Regional Model (VURM): Technical Documentation, Version 1.0', CoPS/IMPACT Working Paper Number G-254 for a more detailed description of the model (available from www.copsmodels.com/ftp/workpapr/g-254.pdf).

[3] The Department of Treasury and Finance maintains a comprehensive set of elasticities covering the relationship between major economic parameters and all revenue and expenditure lines, including superannuation, and dividends and income tax equivalents from the public financial and non-financial corporations.

To model this scenario in VURM, the shock has been applied to raise the national household saving rate and the threshold rate of return required by households to purchase newly constructed property. A national shock has been applied since the triggers for this type of downturn would likely apply to all states and territories, rather than Victoria in isolation. The weakening in national household consumption and dwelling investment has been calibrated as a five percentage point fall in national dwelling investment growth[4] and a one percentage point decrease in national household consumption growth in the budget year.[5] Chart D.1 illustrates how Victorian household consumption and dwelling investment evolve under the base case and the scenario.

Chart D.1: Household consumption and dwelling investment under the base case and scenario



Sources: Australian Bureau of Statistics, Centre of Policy Studies, Victoria University, and Department of Treasury and Finance

[4] The magnitude of the shock to dwelling investment aligns with the difference between the annual growth rate in national dwelling investment in 2007-08 (1.5 per cent) and 2008-09 (-3.1 per cent). It is worth noting that the decline in dwelling investment in 2008-09 was ameliorated by successive reductions to the official cash rate and policy measures introduced by Commonwealth, state and territory governments aimed at stimulating first home buyer activity.

[5] In the aftermath of the global financial crisis, Australia's actual consumption was a little more than one per cent below its equilibrium consumption; see KPMG Economics (2017), 'The Global Financial Crisis: 10 Years On', August (available from https://assets.kpmg.com/content/dam/kpmg/au/pdf/2017/global-financial-crisis-10-years-on.pdf).

Table D.1 summarises the economic effects of this downside scenario on the Victorian economy. Real gross state product (GSP) is around three-tenths of a percentage point lower under the scenario in the budget year, with the falls in household consumption and dwelling investment partly offset by a boost to Victoria's trade balance as a result of a depreciation in the Australian dollar. The weaker currency also raises tradable goods and services prices, adding to higher consumer price index (CPI) in 2018-19 and 2019-20. Employment falls in line with weaker conditions in the construction, accommodation and food services and retail trade industries (Chart D.2). Subdued demand conditions reduce growth in wages, which lowers production costs and the CPI in 2020-21 and 2021-22 through second-round effects. Consequent reductions in household incomes and asset returns also weigh on growth in real GSP, acting to depress household spending further.

Table D.1: The effect of a downturn in household consumption and dwelling investment on major economic parameters[(a)] (per cent)

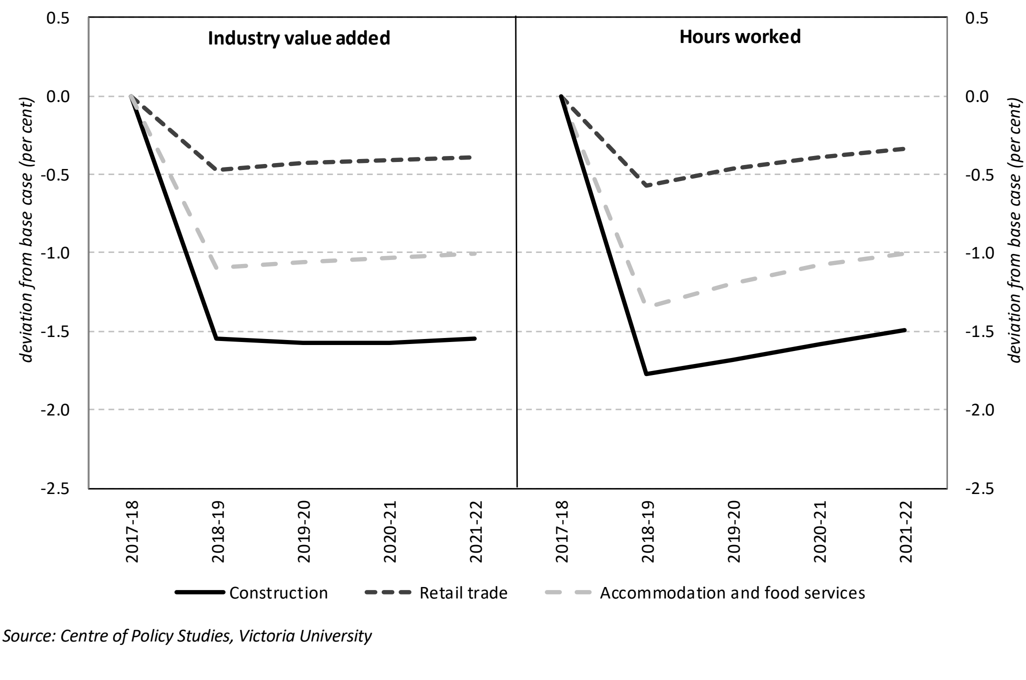
	2018-19 estimate	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Real GSP	(0.29)	(0.28)	(0.29)	(0.29)
Employment	(0.33)	(0.22)	(0.15)	(0.11)
Consumer price index	0.24	0.10	(0.02)	(0.11)
Wage price index	(0.06)	(0.40)	(0.65)	(0.84)

Source: Centre of Policy Studies, Victoria University

Note:

(a) Figures reported are the change in the level of each parameter relative to the baseline of no change in the economic outlook, for each year of the budget.

Chart D.2: Weaker conditions in the Victorian construction and discretionary spending sectors



Source: Centre of Policy Studies, Victoria University

Table D.2 summarises the fiscal impacts of this scenario. With slower growth in real GSP, employment and wages, income from transactions is lower over the budget and forward estimates. This is reflected in lower payroll tax and reduced GST grants revenue as a result of a smaller national GST pool relative to the base case.[6] Land transfer duty collections are also lower, reflecting softer property prices. Growth in expenses from transactions is marginally slower in the scenario relative to the base case, reflecting lower public sector employment and a gradual pass-through of weaker economy-wide wage increases to public sector wage agreements. The impact on public sector employee expenses reflects the model's assumed relationship between private and public sector employment and wages. Public sector employment is assumed to be a fixed share of overall employment, while public sector wage growth is assumed to respond to private sector wage growth. Overall, the impact on employee expenses is insufficient to offset the fall in general government sector revenue and is reflected in a decline in the net result and an increase in net debt over the budget and forward estimates.

Table D.2: Projected fiscal impact of a downturn in household consumption and dwelling investment ($ million)

	2018-19 estimate	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Income from transactions	(294.0)	(326.8)	(351.2)	(352.0)
Expenses from transactions	(40.3)	(63.8)	(165.1)	(246.2)
Net result from transactions	**(253.6)**	**(263.0)**	**(186.1)**	**(105.9)**
Other economic flows	(4.3)	(4.3)	(3.5)	(3.1)
Net result	**(257.9)**	**(267.3)**	**(189.5)**	**(108.9)**
Net debt (cumulative)	**257.9**	**518.4**	**700.9**	**802.6**
Net debt to GSP ratio (percentage point difference)	**0.07**	**0.13**	**0.16**	**0.17**

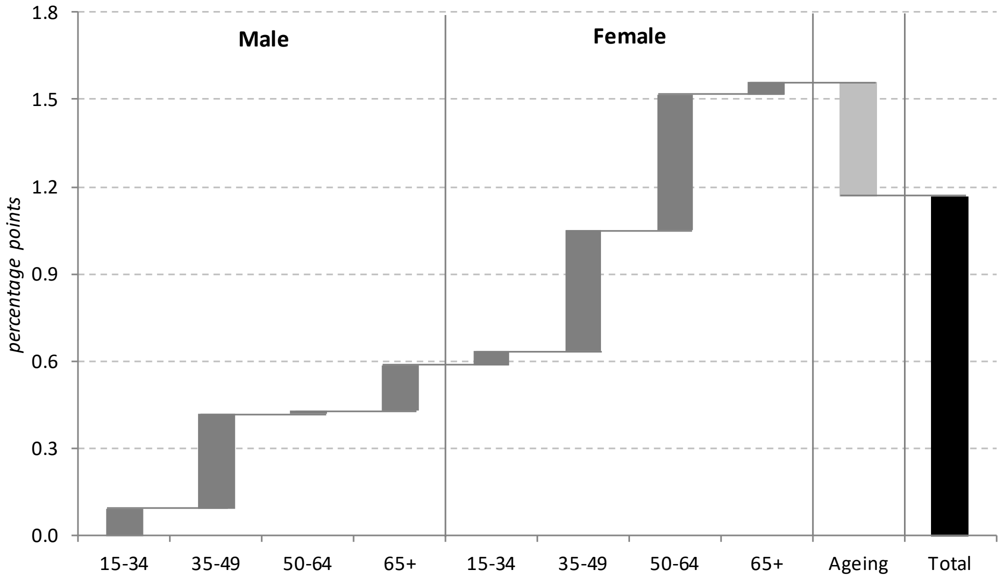
Source: Department of Treasury and Finance

[6] This model does not consider the second-round effect associated with the change in GST relativity that could occur in response to changes in states' fiscal capacities.

Sustained high labour force participation in Victoria

Victoria's labour force participation rate has outperformed expectations in recent years. High labour force participation has supported the strongest period of job creation since the early 1990s. Longer-term structural trends, such as rising workforce participation by both females and those aged 50 years and over that reflect cultural, economic, and social changes in Australia have contributed significantly to the pick up in the participation rate over the past four years (Chart D.3). This has more than counteracted the role that demographic change through an ageing population has played in attenuating Victoria's participation rate.

Chart D.3: Contributions to changes in Victoria's labour force participation rate, twelve months to June 2014 to twelve months to October 2018[(a)]



Sources: Australian Bureau of Statistics; Department of Treasury and Finance

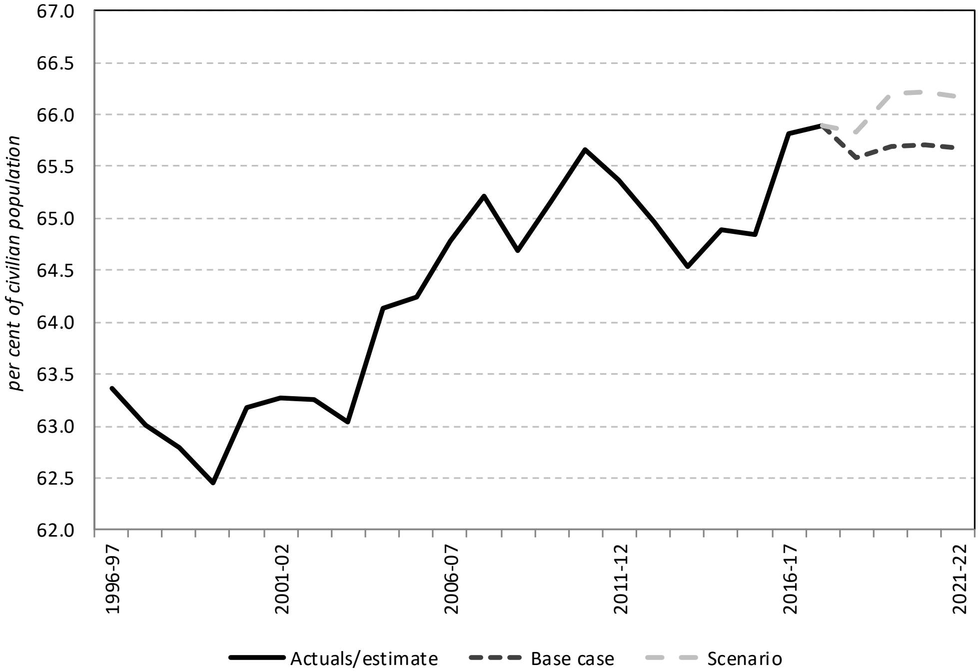
Note:

(a) Demographic change affects the size and composition of the potential workforce. Population ageing results in a higher proportion of the civilian population (aged 15 years and over) being in older age cohorts, which have relatively lower participation rates.

The forecasts in Chapter 2 *Economic Context* assume the labour force participation rate (in year average terms) moderates from its peak of 65.9 per cent in 2017-18 over the budget and forward estimates (Chart D.4). However, it is possible that the various factors that have underpinned the rise in participation in recent years persist.

This upside scenario assumes that the labour force participation rate rises to around 66.2 per cent by 2019-20, plateauing around this value over the forward estimates. This amounts to the aggregate participation being around 0.25 percentage points higher in the budget year and 0.5 percentage points higher than the base case for each of the following three years.

Chart D.4: Victoria's labour force participation rate under the base case and scenario



Sources: Australian Bureau of Statistics; Department of Treasury and Finance

The most recent upswing in the participation rate suggests such an increase would not happen exogenously; that is, more Victorians would not supply their labour without reasonable prospects of gaining work. For this reason, the shock has been implemented in VURM so that the rise in the participation rate has been accompanied by an increase in final demand from household consumption. This results in the Victorian economy being able to accommodate much of the additional labour supply, leaving the unemployment rate little changed relative to the base case.

The effects of this scenario on major economic parameters are reported in Table D.3. Strong employment growth and household demand provides a short-term impetus to consumer price inflation in 2018-19 and 2019-20. Over time, the larger labour force exerts downward pressure on wages and production costs, spilling over into lower inflation by the end of the forward estimates relative to current forecasts. The boost to final demand and more contained wages growth stimulates employment (Chart D.5). This also improves the productivity of capital, resulting in higher investment.

Table D.3: The effect of higher participation on major economic parameters[(a)] (per cent)

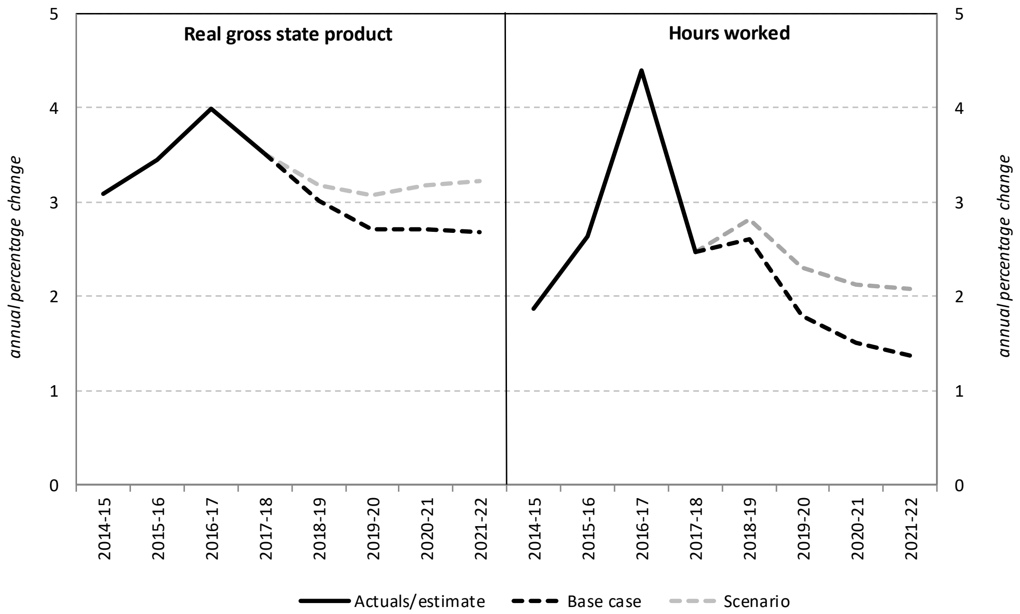
	2018-19 estimate	2019-20 estimate	2020-21 estimate	2021-22 estimate
Real GSP	0.16	0.37	0.47	0.54
Employment	0.22	0.51	0.63	0.70
Consumer price index	0.11	0.13	(0.00)	(0.09)
Wage price index	(0.03)	(0.24)	(0.49)	(0.63)

Source: Centre of Policy Studies, Victoria University

Note:

(a) Figures reported are the change in the level of each parameter relative to the baseline of no change in the economic outlook, for each year of the budget.

Chart D.5: The effects on growth and employment of high labour force participation



Sources: Australian Bureau of Statistics; Centre of Policy Studies; Department of Treasury and Finance

Under this scenario, general government sector revenue is higher, as shown in Table D.4. The boost to Victorian household consumption raises the GST pool,[7] while higher household disposable income leads to more property-based taxes being collected by the State Government. In contrast, payroll tax collections are only marginally higher in the scenario, as the effect of the higher level of employment and more modest wage growth almost negate each other.

[7] The increase in GST revenue reflects the impact of the Victoria-specific consumption shock on the national GST pool. The model used does not consider second-round effects that could alter Victoria's GST relativity over the forward estimates.

Table D.4: Projected fiscal impact of higher labour force participation ($ million)

	2018-19 estimate	2019-20 estimate	2020-21 estimate	2021-22 estimate
Income from transactions	207.4	336.4	294.8	286.9
Expenses from transactions	67.8	126.1	41.5	(16.6)
Net result from transactions	**139.6**	**210.2**	**253.2**	**303.5**
Other economic flows	2.1	4.2	3.4	3.1
Net result	**141.7**	**214.4**	**256.6**	**306.6**
Net debt (cumulative)	**(141.7)**	**(358.5)**	**(617.5)**	**(926.5)**
Net debt to GSP ratio (percentage point difference)	**(0.04)**	**(0.10)**	**(0.15)**	**(0.21)**

Source: Department of Treasury and Finance

Government expenses are marginally higher under the scenario, reflecting higher public sector employment. However, these effects largely unwind by the last year of the forward estimates, reflecting the pass-through of more modest economy-wide wages growth. These impacts reflect the assumed relationship between private and public sector employment and wages in the model, as discussed in the lower household consumption and dwelling investment scenario. Overall, the increase in revenue more than offsets the immediate rise in expenses, boosting the net result across all four years of the budget and forward estimates and leading to a fall in the stock of net debt.

SENSITIVITY TO INDEPENDENT VARIATIONS IN MAJOR ECONOMIC PARAMETERS

Table D.5 presents the sensitivity of financial aggregates where the levels of key economic parameters are one per cent (or, for interest rates, one percentage point) above the forecast for each year of the budget and forward estimates, holding all else constant. The impacts shown are broadly symmetric; that is, the estimated fiscal impacts would apply approximately equally in the opposite direction where there is a decrease in the parameter. Differences may arise to the extent that the impact on income tax equivalent income may not be symmetric because that line item is subject to a floor of zero, and the impact on dividends may be affected by some entities facing caps on the share of profits that can be returned to the general government sector.

Table D.5: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2018-19 [(a)(b)(c)(d)] **($ million)**

	2018-19 estimate	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
GSP				
Income from transactions	115	121	126	130
Expenses from transactions	1	(4)	(9)	(15)
Net result from transactions	**114**	**126**	**135**	**144**
Net debt	**(114)**	**(239)**	**(375)**	**(519)**
Employment [(e)]				
Income from transactions	80	84	88	93
Expenses from transactions	254	276	294	313
Net result from transactions	**(174)**	**(192)**	**(206)**	**(221)**
Net debt	**174**	**366**	**572**	**793**
Consumer prices [(f)]				
Income from transactions	170	261	254	278
Expenses from transactions	219	216	211	214
Net result from transactions	**(49)**	**45**	**43**	**64**
Net debt	**49**	**(4)**	**(56)**	**(128)**
Average weekly earnings [(g)]				
Income from transactions	(21)	54	22	52
Expenses from transactions	5	4	3	2
Net result from transactions	**(27)**	**49**	**19**	**50**
Net debt	**27**	**(23)**	**(41)**	**(91)**
Total employee expenses [(h)]				
Income from transactions	..	24	84	92
Expenses from transactions	255	314	336	357
Net result from transactions	**(255)**	**(290)**	**(251)**	**(265)**
Net debt	**255**	**529**	**765**	**1 013**
Domestic share prices				
Income from transactions	(1)	3	3	1
Expenses from transactions	..	(2)	(2)	(2)
Net result from transactions	**(1)**	**5**	**5**	**4**
Net debt	**1**	**(2)**	**(5)**	**(6)**
Overseas share prices				
Income from transactions	1	7	5	3
Expenses from transactions	..	(2)	(2)	(3)
Net result from transactions	**1**	**9**	**8**	**6**
Net debt	**(1)**	**(8)**	**(13)**	**(17)**
Property prices				
Income from transactions	92	93	98	101
Expenses from transactions	(2)	(7)	(11)	(15)
Net result from transactions	**94**	**100**	**109**	**117**
Net debt	**(97)**	**(199)**	**(311)**	**(430)**

Table D.5: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2018-19 *(continued)* ($ million)

	2018-19 estimate	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*
Property volumes				
Income from transactions	61	62	65	67
Expenses from transactions	(1)	(4)	(7)	(10)
Net result from transactions	**62**	**66**	**71**	**77**
Net debt	**(62)**	**(128)**	**(199)**	**(277)**
Interest rates (i)				
Income from transactions	406	110	115	125
Expenses from transactions	2	158	153	135
Net result from transactions	**404**	**(48)**	**(38)**	**(10)**
Net debt	(404)	(521)	(648)	(789)

Source: Department of Treasury and Finance

Notes:

(a) Variations are applied to the economic variables effective from the first day in the budget year (1 July 2018). It is assumed that each variable's growth rate matches that under a no-variation scenario for the forward estimates period. This implies economic variables, other than interest rates, are 1 per cent higher across the four years compared with a no-variation scenario; interest rates are assumed to be 1 percentage point higher in each year of the budget and forward estimates.

(b) A positive number for income from transactions denotes an increase in revenue. A positive number for expenses from transactions denotes an increase in expenses (and hence a reduction in the net result from transactions). A positive number for the net result from transactions denotes a higher surplus or smaller deficit. A positive number for net debt denotes a higher level of net debt in the relevant year compared with a no-variation scenario. Numbers may not balance due to rounding.

(c) Only reasonably quantifiable impacts have been included in the analysis.

(d) Estimates of net debt are approximately equal to the cumulative impact of the net result from transactions. The difference between the cumulative net result from transactions and net debt is due to non-cash expenses and gross sale proceeds (where applicable).

(e) A shock to employment is assumed to impact payroll tax revenue to an extent consistent with no change to historical relationships between total employment, part-time/full-time employment shares, and payroll tax revenue. Both public and private sector employment are assumed to be 1 per cent higher across the four years; the rise in public sector employment boosts general government sector employee expenses.

(f) Incorporates the impact of departmental funding model arrangements. It is assumed that an increase in consumer prices within the budget year does not affect employee entitlements.

(g) A positive shock to average weekly earnings increases the expenses of public financial and non-financial corporations and reduces the general government sector's income from dividends and ITEs.

(h) Represents a one-off 1 per cent increase in total employee expenses relative to a no-variation scenario. This could be generated through a change in the size of the workforce, the price of the workforce (salaries, overtime, allowances and bonuses, long service leave expenses, fringe benefits tax and WorkCover premiums), through other management decisions regarding the composition and profile of the workforce or any combination of these.

(i) Interest rates are assumed to be 1 percentage point higher in each year of the budget and forward estimates.

APPENDIX E – QUARTERLY FINANCIAL REPORT FOR THE VICTORIAN GENERAL GOVERNMENT SECTOR – SEPTEMBER 2018

The financial statements included in this appendix estimate the revised budget outcomes for the 2018-19 financial year and the actual financial results for the general government sector for the three months ended 30 September 2018, prepared in accordance with the *Financial Management Act 1994*.

GENERAL GOVERNMENT SECTOR OUTCOME

Financial performance

The general government sector recorded a net result from transactions of $832 million for the three months to 30 September 2018. This is higher than the $555 million net result from transactions for the first quarter of 2017-18, primarily driven by growth in GST grants due to an increase in Victoria's share of national population, an increase in Victoria's GST relativity and an increase in the expected 2018-19 national GST pool in the Commonwealth's 2018-19 Budget. Growth in payroll tax revenue, attributable to strong employment growth, is also contributing to the higher net result from transactions for the three months to 30 September 2018 when compared to the same period last year.

Similar to previous years, the uneven recognition pattern of various major revenue items such as land tax, the Fire Services Property Levy, Commonwealth grants and dividends from public corporations has a significant impact on quarterly operating results. Accordingly, care needs to be taken in their interpretation and projecting potential annual outcomes.

Revenue for the quarter totalled $16.6 billion, or 23.8 per cent of the full year revised budget. Although revenue levels are tracking slightly below the revised budget, this is consistent with previous years and expectations for the current year to date, due to the timing of certain revenue items. In particular:

- land tax recognition is $781 million below the pro rata revised budget, as the majority of land tax is billed and recognised in the March quarter, partially offset by the Fire Services Property Levy which is tracking $483 million above the pro-rata revised budget due to its billing in the September quarter;
- grant revenue is $456 million below the pro-rata revised budget, primarily impacted by the timing of Commonwealth Government grants; and

- dividends from public non-financial and financial corporations are lower than the pro-rata revised budget for the quarter as they are typically declared during the second and fourth quarters of the relevant financial years.

Expenses from transactions totalled $15.8 billion for the September 2018 quarter, or 23.3 per cent of the annual revised budget for the year.

Grant expenditure was 22.3 per cent of the revised budget for the quarter. This was lower than the pro-rata revised budget primarily due to the timing of payments to the Commonwealth relating to the National Disability Insurance Scheme.

Other significant expenditure categories include employee expenses and other operating expenses. These tracked below pro-rata for the September quarter, at 24.3 per cent and 22.6 per cent of the revised budget respectively, in line with expectations.

The comprehensive result includes other economic flows that are not included in the net result from transactions. The comprehensive result was a surplus of $1.9 billion for the quarter, compared with $1.7 billion over the same period in 2017-18. In both periods, the surplus was primarily attributable to gains on the remeasurement of the State's superannuation liability due to increases in the bond yields that underlie the key superannuation valuation assumptions.

Financial position

Total assets over the three months to September 2018 increased by $771 million to $265 billion. Total assets are expected to increase throughout the remainder of 2018-19 as a result of the Government's infrastructure investment program.

Total liabilities declined by $1.2 billion to $79.0 billion over the same period, primarily due to the earlier mentioned positive remeasurement of the State's superannuation liability.

Net debt decreased by $1.3 billion to $18.7 billion over the quarter, primarily due to the receipt of proceeds from the commercialisation of the land titles and registry functions of Land Use Victoria.

Cash flows

The movements disclosed in the cash flow statement are consistent with the above-mentioned drivers associated with the net result, the impact of the Government's infrastructure program, and the upfront proceeds from the commercialisation of the land titles and registry functions of Land Use Victoria.

Infrastructure investment

The State continues to deliver its infrastructure program to support growing community needs and ongoing productivity improvement.

For the three months to September 2018, net investment in infrastructure totalled $2.2 billion, compared to $1.9 billion over the corresponding period in 2017.

CONSOLIDATED COMPREHENSIVE OPERATING STATEMENT

For the period ended 30 September **($ million)**

2017-18 actual 30 Sep		Notes	2018-19 actual 30 Sep	2018-19 revised budget
	Revenue from transactions			
5 722	Taxation revenue	E.2.1	5 896	24 092
210	Interest revenue		210	818
57	Dividends, income tax equivalent and rate equivalent revenue	E.2.2	82	1 103
1 766	Sales of goods and services	E.2.3	1 905	7 594
6 899	Grant revenue	E.2.4	7 923	33 515
544	Other revenue	E.2.5	573	2 636
15 198	**Total revenue from transactions**		**16 589**	**69 757**
	Expenses from transactions			
5 581	Employee expenses		6 081	24 986
192	Net superannuation interest expense	E.3.3	167	688
598	Other superannuation	E.3.3	671	2 750
655	Depreciation	E.4.2	680	2 921
454	Interest expense		493	2 090
2 559	Grant expense		2 853	12 785
4 604	Other operating expenses		4 812	21 296
14 643	**Total expenses from transactions**	E.3.4	**15 757**	**67 517**
555	**Net result from transactions – net operating balance**		**832**	**2 241**
	Other economic flows included in net result			
(1)	Net gain/(loss) on disposal of non-financial assets		5	90
(2)	Net gain/(loss) on financial assets or liabilities at fair value		(4)	24
..	Share of net profit/(loss) from associates/joint venture entities		..	..
(56)	Other gains/(losses) from other economic flows	E.7.1	(116)	(347)
(58)	**Total other economic flows included in net result**		**(115)**	**(233)**
497	**Net result**		**718**	**2 008**
	Other economic flows – other comprehensive income			
	Items that will not be reclassified to net result			
(22)	Changes in non-financial assets revaluation surplus		16	699
1 259	Remeasurement of superannuation defined benefits plans		1 213	1 996
(65)	Other movements in equity		14	(13)
	Items that may be reclassified subsequently to net result			
(6)	Net gain/(loss) on financial assets at fair value		(12)	2
..	Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets		..	2 021
1 165	**Total other economic flows – other comprehensive income**		**1 230**	**4 705**
1 662	**Comprehensive result – total change in net worth**		**1 948**	**6 713**
	KEY FISCAL AGGREGRATES			
555	**Net operating balance**		**832**	**2 241**
283	Less: Net acquisition of non-financial assets from transactions	E.3.6	690	2 027
272	**Net lending/(borrowing)**		**142**	**214**

Source: Department of Treasury and Finance

CONSOLIDATED BALANCE SHEET

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

2017-18 actual 30 Sep		Notes	opening 1 Jul	2018-19 actual 30 Sep	revised budget
	Assets				
	Financial assets				
4 146	Cash and deposits	E.7.2	6 257	5 940	4 180
12 179	Advances paid		10 019	9 189	8 524
6 281	Receivables	E.5.1	6 208	6 400	6 400
3 895	Investments, loans and placements		3 928	3 940	4 204
48	Investments accounted for using the equity method		53	52	53
93 484	Investments in other sector entities		101 253	102 157	108 405
120 033	**Total financial assets**		**127 717**	**127 679**	**131 766**
	Non-financial assets				
173	Inventories		175	171	187
405	Non-financial assets held for sale		389	391	391
122 018	Land, buildings, infrastructure, plant and equipment	E.4.1	134 141	134 414	136 721
1 944	Other non-financial assets	E.4.7	1 872	2 411	2 130
124 539	**Total non-financial assets**		**136 577**	**137 386**	**139 428**
244 573	**Total assets**	E.4.8	**264 294**	**265 065**	**271 194**
	Liabilities				
8 403	Deposits held and advances received		6 700	5 772	4 900
5 722	Payables	E.5.2	6 713	9 143	9 438
29 485	Borrowings		33 506	31 974	34 522
6 329	Employee benefits	E.3.2	7 020	6 893	7 319
23 903	Superannuation		25 205	24 257	23 268
1 043	Other provisions		1 034	962	919
74 884	**Total liabilities**		**80 178**	**79 001**	**80 365**
169 689	**Net assets**		**184 116**	**186 064**	**190 829**
53 145	Accumulated surplus/(deficit)		52 574	54 496	56 577
116 544	Reserves		131 543	131 569	134 252
169 689	**Net worth**		**184 116**	**186 064**	**190 829**
	FISCAL AGGREGATES				
45 150	Net financial worth		47 540	48 678	51 401
48 335	Net financial liabilities		53 713	53 479	57 004
17 667	Net debt		20 003	18 677	22 513

Source: Department of Treasury and Finance

CONSOLIDATED CASH FLOW STATEMENT

For the period ended 30 September ($ million)

2017-18 actual 30 Sep		Notes	2018-19 actual 30 Sep	2018-19 revised budget
	Cash flows from operating activities			
	Receipts			
5 491	Taxes received		5 994	23 919
6 902	Grants		7 927	33 515
1 984	Sales of goods and services [(a)(b)]		4 984	11 095
210	Interest received		209	818
57	Dividends, income tax equivalent and rate equivalent receipts		82	1 041
469	Other receipts		491	2 164
15 114	**Total receipts**		**19 686**	**72 552**
	Payments			
(5 748)	Payments for employees		(6 211)	(24 690)
(529)	Superannuation		(572)	(3 379)
(476)	Interest paid		(514)	(2 053)
(2 947)	Grants and subsidies		(2 908)	(13 246)
(5 179)	Goods and services [(a)]		(5 694)	(21 256)
(207)	Other payments		(211)	(775)
(15 086)	**Total payments**		**(16 110)**	**(65 398)**
28	**Net cash flows from operating activities**	E.7.3	**3 577**	**7 155**
	Cash flows from investing activities			
	Cash flows from investments in non-financial assets			
(1 881)	Purchases of non-financial assets	E.3.5	(2 139)	(9 361)
45	Sales of non-financial assets		45	365
(1 835)	**Net cash flows from investments in non-financial assets**		**(2 095)**	**(8 996)**
672	Net cash flows from investments in financial assets for policy purposes		729	1 263
(1 163)	**Sub-total**		**(1 365)**	**(7 733)**
(232)	Net cash flows from investments in financial assets for liquidity management purposes		(35)	(257)
(1 395)	**Net cash flows from investing activities**		**(1 400)**	**(7 990)**
	Cash flows from financing activities			
(707)	Advances received (net)		(834)	(1 795)
669	Net borrowings		(1 566)	559
22	Deposits received (net)		(94)	(5)
(16)	**Net cash flows from financing activities**		**(2 494)**	**(1 242)**
(1 384)	**Net increase/(decrease) in cash and cash equivalents**		**(317)**	**(2 077)**
5 530	Cash and cash equivalents at beginning of reporting period		6 257	6 257
4 146	**Cash and cash equivalents at end of the reporting period**	E.7.2	**5 940**	**4 180**
	FISCAL AGGREGATES			
28	Net cash flows from operating activities		3 577	7 155
(1 835)	Net cash flows from investments in non-financial assets		(2 095)	(8 996)
(1 808)	**Cash surplus/(deficit)**		**1 482**	**(1 841)**

Source: Department of Treasury and Finance

Notes:

(a) These items include goods and services tax.

(b) The September 2018 balance includes the upfront proceeds from the commercialisation of the land titles and registry functions of Land Use Victoria.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September **($ million)**

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*
2018-19		
Balance at 1 July 2018	52 574	64 084
Net result for the year	718	..
Other comprehensive income for the year	1 204	16
Total equity as at 30 September 2018	**54 496**	**64 099**
Revised budget equity as at 30 June 2019	**56 577**	**64 783**
2017-18		
Balance at 1 July 2017 (a)	51 464	55 320
Net result for the year	497	..
Other comprehensive income for the year	1 184	(22)
Total equity as at 30 September 2017 (a)	**53 145**	**55 298**

Source: Department of Treasury and Finance

Note:

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

Investment in other sector entities revaluation surplus	*Other reserves*	*Total*
66 351	1 108	184 116
..	..	718
..	11	1 230
66 351	**1 119**	**186 064**
68 372	**1 096**	**190 829**
60 149	1 094	168 027
..	..	497
..	4	1 165
60 149	**1 098**	**169 689**

1. ABOUT THIS REPORT

Basis of preparation

This September Quarterly Financial Report presents the unaudited financial report for the general government sector for the three months ended 30 September 2018.

The accounting policies applied in this quarterly financial report are consistent with those applied in the financial statements published in the *2017-18 Financial Report* for the State of Victoria. Full presentation and disclosure of transition to AASB 9 *Financial Instruments* will be reflected in the *2018-19 Financial Report* for the State of Victoria.

This quarterly financial report does not include all the notes normally included with the annual financial report, and should be read in conjunction with the *2017-18 Financial Report.*

Statement of compliance

These financial statements have been prepared in accordance with section 26 of the *Financial Management Act 1994*, having regard to the recognition and measurement principles of the applicable Australian Accounting Standards (AAS) and Interpretations issued by the Australian Accounting Standards Board (AASB). The financial statements are presented in a manner consistent with the requirements of *AASB 1049 Whole of Government and General Government Sector Financial Reporting*. The financial statements have also applied the reporting requirements from the *Australian System of Government Finance Statistics: Concepts, Sources and Methods (2015)* manual released by the Australian Bureau of Statistics.

Where applicable, those paragraphs of AAS applicable to not-for-profit entities have been applied.

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 cash is received or paid.

Reporting entity

The 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 primary function of entities in 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.

The general government sector is not a separate entity but represents a sector within the State of Victoria reporting entity. Unless otherwise noted, accounting policies applied by the State of Victoria apply equally to the general government sector.

Basis of consolidation

The September Quarterly Financial Report includes all reporting entities in the general government sector that are controlled by the State. Information on entities consolidated for the general government sector is included in Note 7.4. In the process of reporting the general government sector as a single economic entity, all material transactions and balances in the sector are eliminated.

2. HOW FUNDS ARE RAISED

Introduction

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

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

2.1 Taxation revenue

($ million)

2017-18 actual 30 Sep		*2018-19 actual 30 Sep*	*2018-19 revised budget*
1 521	**Taxes on employers' payroll and labour force**	**1 616**	**6 327**
	Taxes on immovable property		
65	Land tax	77	3 433
658	Fire Services Property Levy [(a)]	644	644
(3)	Congestion levy	2	104
125	Metropolitan improvement levy	122	169
845	**Total taxes on property**	**845**	**4 350**
	Gambling taxes		
108	Public lotteries	142	424
281	Electronic gaming machines	296	1 147
51	Casino	54	239
18	Racing and other sports betting	17	106
7	Other	7	13
	Financial and capital transactions		
1 717	Land transfer duty	1 682	6 463
6	Metropolitan planning levy	5	24
39	Financial accommodation levy	34	170
65	Growth areas infrastructure contribution	76	287
23	**Levies on statutory corporations**	**35**	**157**
369	**Taxes on insurance**	**387**	**1 400**
2 683	**Total taxes on the provision of goods and services**	**2 737**	**10 429**
	Motor vehicle taxes		
395	Vehicle registration fees	410	1 701
222	Duty on vehicle registrations and transfers	230	977
..	**Liquor licence fees**	**..**	**24**
56	**Other**	**59**	**283**
674	**Total taxes on the use of goods and performance of activities**	**699**	**2 986**
5 722	**Total taxation revenue**	**5 896**	**24 092**

Source: Department of Treasury and Finance

Note:

(a) *The Government set the 2017-18 and 2018-19 Fire Services Property Levy rates to collect the amount that was budgeted in 2016-17 ($662 million). In the* 2018-19 Budget*, the Government decided to return the 2017-18 over-collection through reduced rates for the 2018-19 levy year.*

2.2 Dividends, income tax equivalent and rate equivalent revenue

($ million)

2017-18 actual 30 Sep		2018-19 actual 30 Sep	2018-19 revised budget
..	Dividends from PFC sector [(a)]	..	511
..	Dividends from PNFC sector	..	205
9	Dividends from non-public sector	21	78
9	**Dividends**	**21**	**794**
..	Income tax equivalent revenue from PFC sector	2	104
47	Income tax equivalent revenue from PNFC sector	58	197
48	**Income tax equivalent revenue**	**60**	**302**
..	Local government rate equivalent revenue	..	7
57	**Total dividends, income tax equivalent and rate equivalent revenue**	**82**	**1 103**

Source: Department of Treasury and Finance

Note:

(a) 'Amounts equivalent to dividends' to be paid by the Transport Accident Commission are received and reported as contributions forming part of grant revenue, consistent with the requirements of AASB 1023 General Insurance Contracts *(AASB 1023).*

2.3 Sales of goods and services

($ million)

2017-18 actual 30 Sep		2018-19 actual 30 Sep	2018-19 revised budget
55	Motor vehicle regulatory fees	57	225
131	Other regulatory fees	122	539
23	Sale of goods	20	89
1 045	Provision of services	1 129	4 387
17	Rental	19	83
2	Refunds and reimbursements	..	15
494	Inter-sector capital asset charge	557	2 257
1 766	**Total sales of goods and services**	**1 905**	**7 594**

Source: Department of Treasury and Finance

2.4 Grant revenue

($ million)

2017-18 actual 30 Sep		2018-19 actual 30 Sep	2018-19 revised budget
3 691	General purpose grants	4 324	16 853
851	Specific purpose grants for on-passing	896	3 703
2 309	Other specific purpose grants	2 367	11 952
6 851	**Total**	**7 587**	**32 508**
48	Other contributions and grants	336	1 006
6 899	**Total grant revenue**	**7 923**	**33 515**

Source: Department of Treasury and Finance

2.5 Other revenue

($ million)

2017-18 actual 30 Sep		2018-19 actual 30 Sep	2018-19 revised budget
1	Fair value of assets received free of charge or for nominal consideration	..	69
169	Fines	205	788
24	Royalties	25	99
65	Donations and gifts	71	317
7	Other non-property rental	9	27
152	Other revenue – Education	111	643
10	Other revenue – Health	15	49
116	Other miscellaneous revenue	137	644
544	**Total other revenue**	**573**	**2 636**

Source: Department of Treasury and Finance

3. HOW FUNDS ARE SPENT

Introduction

This section details the major components of expenditure incurred by the general government sector towards the operating activities (expenses from transactions) and on capital or infrastructure projects during the period, as well as any related obligations outstanding as at 30 September 2018.

3.1 Employee expenses and provision for outstanding employee benefits

Employee expenses (operating statement)

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

Employee expenses (balance sheet)

As part of 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 as at 30 September 2018.

3.2 Employee benefits (balance sheet)

($ million)

2017-18 actual 30 Sep		*opening 1 Jul*	*2018-19 actual 30 Sep*	*revised budget*
	Current			
313	Accrued salaries and wages	592	409	606
64	Other employee benefits	87	85	87
1 507	Annual leave	1 615	1 632	1 647
3 651	Long service leave	3 888	3 919	4 026
5 536	**Total current employee benefits and on-costs**	**6 182**	**6 044**	**6 366**
	Non-current			
793	Long service leave	837	849	953
793	**Total non-current employee benefits and on-costs**	**837**	**849**	**953**
6 329	**Total employee benefits and on-costs**	**7 020**	**6 893**	**7 319**

Source: Department of Treasury and Finance

3.3 Superannuation (operating statement)

($ million)

2017-18 actual 30 Sep		*2018-19 actual 30 Sep*	*2018-19 revised budget*
	Defined benefit plans		
192	Net superannuation interest expense	167	688
197	Current service cost	231	1 000
	Remeasurements:		
(231)	Expected return on superannuation assets excluding interest income	(256)	(1 039)
90	Other actuarial (gain)/loss on superannuation assets	(40)	(40)
(1 118)	Actuarial and other adjustments to unfunded superannuation liability	(917)	(917)
(870)	**Total expense recognised in respect of defined benefit plans**	**(815)**	**(308)**
	Defined contribution plans		
384	Employer contributions to defined contribution plans	419	1 679
17	Other (including pensions)	20	71
401	**Total expense recognised in respect of defined contribution plans**	**440**	**1 750**
(469)	**Total superannuation (gain)/expense recognised in operating statement**	**(375)**	**1 442**
	Represented by:		
192	Net superannuation interest expense	167	688
598	Other superannuation	671	2 750
790	**Superannuation expense from transactions**	**838**	**3 439**
(1 259)	**Remeasurement recognised in other comprehensive income**	**(1 213)**	**(1 996)**
(469)	**Total superannuation costs recognised in operating statement**	**(375)**	**1 442**

Source: Department of Treasury and Finance

3.4 Total expenses by classification of the functions of government and by portfolio department

(a) Expenses by classification of the functions of government [(a)] ($ million)

2017-18 actual 30 Sep		*2018-19 actual 30 Sep*	*2018-19 revised budget*
890	General public services	970	3 877
1 712	Public order and safety	1 920	8 290
323	Economic affairs	365	2 115
171	Environmental protection	157	844
450	Housing and community amenities	461	2 196
4 319	Health	4 755	19 449
156	Recreation, culture and religion	186	938
3 776	Education	3 968	16 454
1 213	Social protection	1 225	6 450
1 772	Transport	1 950	8 343
(139)	Not allocated by purpose	(200)	(1 439)
14 643	**Total Expenses by COFOG**	**15 757**	**67 517**

Source: Department of Treasury and Finance

Note:

(a) The classification of the functions of government (COFOG) framework has replaced the former Government Purpose Classification (GPC) framework under the new ABS GFS Manual. This was implemented for the first time in the 2018-19 Budget*. Note 1.7.5 of Budget Paper No.5 of the* 2018-19 Budget *provides definitions and descriptions of the COFOG.*

(b) Total expenses by portfolio department ($ million)

2017-18 actual 30 Sep		*2018-19 actual 30 Sep*	*2018-19 revised budget*
	Expenses from transactions		
2 264	Economic Development, Jobs, Transport and Resources	2 472	10 834
4 239	Education and Training	4 495	18 494
713	Environment, Land, Water and Planning	677	3 799
5 864	Health and Human Services	6 336	27 236
1 748	Justice and Regulation	1 845	7 787
112	Premier and Cabinet	151	820
1 668	Treasury and Finance	1 805	7 618
47	Parliament	52	233
138	Courts	157	675
549	Regulatory bodies and other part funded agencies [(a)]	573	2 451
17 342	**Total expenses by department**	**18 561**	**79 946**
(2 699)	*Less eliminations and adjustments*	(2 804)	(12 430)
14 643	**Total expenses**	**15 757**	**67 517**

Source: Department of Treasury and Finance

Note:

(a) Other general government sector agencies, which receive less than 50 per cent of their revenue from appropriations and therefore are not allocated to departments.

3.5 Purchases of non-financial assets by portfolio department

($ million)

2017-18 actual 30 Sep		*2018-19 actual 30 Sep*	*2018-19 revised budget*
1 220	Economic Development, Jobs, Transport and Resources	1 352	6 185
270	Education and Training	378	1 660
30	Environment, Land, Water and Planning	17	181
187	Health and Human Services	125	1 351
74	Justice and Regulation	177	782
1	Premier and Cabinet	1	51
11	Treasury and Finance	5	43
10	Parliament	3	10
11	Courts	11	120
44	Regulatory bodies and other part funded agencies [(a)]	46	288
1 858	**Total purchases of non-financial assets by department**	**2 113**	**10 672**
22	*Eliminations and adjustments* [(b)]	26	(1 311)
1 881	**Total purchases of non-financial assets**	**2 139**	**9 361**

Source: Department of Treasury and Finance

Notes:

(a) Other general government sector agencies, which receive less than 50 per cent of their revenue from appropriations and therefore are not allocated to departments.

(b) Budget includes contingencies not allocated to departments and estimated departmental underspend.

3.6 Net acquisition of non-financial assets from transactions

($ million)

2017-18 actual 30 Sep		*2018-19 actual 30 Sep*	*2018-19 revised budget*
1 884	Purchases of non-financial assets (including change in inventories)	2 138	9 366
(45)	Less: Sales of non-financial assets	(45)	(365)
(655)	Less: Depreciation and amortisation	(680)	(2 921)
(901)	Plus/(less): Other movements in non-financial assets	(723)	(4 053)
283	**Total net acquisition of non-financial assets from transactions**	**690**	**2 027**

Source: Department of Treasury and Finance

4. MAJOR ASSETS AND INVESTMENTS

Introduction

This section outlines those assets the general government sector controls, reflecting investing activities in the current period and prior years.

4.1 Total land, buildings, infrastructure, plant and equipment

($ million)

2017-18 actual 30 Sep		*2018-19 opening 1 Jul*	*2018-19 actual 30 Sep*	*2018-19 revised budget*
28 152	Buildings	30 232	30 150	31 631
4 657	Leased buildings	5 600	5 568	5 462
50 556	Land and national parks	58 442	58 496	58 902
1 369	Infrastructure systems	1 353	1 308	1 407
2 363	Plant, equipment and vehicles	2 538	2 819	2 584
179	Leased plant, equipment and vehicles	240	274	224
20 596	Roads and road infrastructure	21 496	21 561	22 015
563	Leased roads and road infrastructure	556	554	579
7 961	Earthworks	8 039	8 039	8 279
5 622	Cultural assets	5 646	5 644	5 639
122 018	**Total land, buildings, infrastructure, plant and equipment**	**134 141**	**134 414**	**136 721**

Source: Department of Treasury and Finance

4.2 Depreciation

($ million)

2017-18 actual 30 Sep		*2018-19 actual 30 Sep*	*2018-19 revised budget*
283	Buildings	290	1 236
40	Leased buildings	47	195
8	Infrastructure systems	9	47
128	Plant, equipment and vehicles	131	619
7	Leased plant, equipment and vehicles	7	17
152	Roads and road infrastructure	156	623
2	Leased roads and road infrastructure	2	9
5	Cultural assets	5	26
30	Intangible produced assets (a)	33	148
655	**Total depreciation**	**680**	**2 921**

Source: Department of Treasury and Finance

Note:
(a) Amortisation of intangible non-produced assets is included under other gains/(losses) from other economic flows.

4.3 Land and buildings

($ million)

2017-18 actual 30 Sep		2018-19 opening 1 Jul	2018-19 actual 30 Sep	2018-19 revised budget
31 104	Buildings	32 525	32 716	35 304
(2 952)	Accumulated depreciation	(2 293)	(2 567)	(3 674)
28 152	**Buildings (net carrying amount)**	**30 232**	**30 150**	**31 631**
5 306	Leased buildings	6 242	6 259	6 306
(649)	Leased buildings accumulated depreciation	(643)	(691)	(844)
4 657	**Leased buildings (net carrying amount)**	**5 600**	**5 568**	**5 462**
49 507	Land	57 209	57 263	57 678
1 049	National parks and other 'land only' holdings	1 233	1 233	1 224
50 556	**Land and national parks**	**58 442**	**58 496**	**58 902**
83 366	**Total land and buildings**	**94 273**	**94 215**	**95 994**

Source: Department of Treasury and Finance

4.4 Plant, equipment, vehicles, and infrastructure systems

($ million)

2017-18 actual 30 Sep		2018-19 opening 1 Jul	2018-19 actual 30 Sep	2018-19 revised budget
1 869	Infrastructure systems	1 840	1 803	1 940
(500)	Accumulated depreciation	(487)	(495)	(533)
1 369	**Infrastructure systems (net carrying amount)**	**1 353**	**1 308**	**1 407**
6 232	Plant, equipment and vehicles	6 561	6 947	7 142
(3 869)	Accumulated depreciation	(4 024)	(4 128)	(4 558)
441	Leased plant, equipment and vehicles	519	560	519
(263)	Accumulated depreciation	(279)	(285)	(295)
2 541	**Plant, equipment and vehicles (net carrying amount)**	**2 778**	**3 093**	**2 808**
3 910	**Total plant, equipment and vehicles, and infrastructure systems**	**4 131**	**4 401**	**4 215**

Source: Department of Treasury and Finance

4.5 Roads, road infrastructure and earthworks

($ million)

2017-18 actual 30 Sep		*2018-19 opening 1 Jul*	*actual 30 Sep*	*revised budget*
40 089	Roads and roads infrastructure	41 627	41 849	42 770
(19 493)	Accumulated depreciation	(20 132)	(20 288)	(20 755)
20 596	**Roads and road infrastructure (net carrying amount)**	**21 496**	**21 561**	**22 015**
584	Leased road and road infrastructure	584	584	617
(21)	Accumulated depreciation	(28)	(31)	(38)
563	**Leased road and road infrastructure (net carrying amount)**	**556**	**554**	**579**
7 961	**Earthworks**	**8 039**	**8 039**	**8 279**
29 120	**Total roads, road infrastructure and earthworks**	**30 091**	**30 154**	**30 873**

Source: Department of Treasury and Finance

4.6 Cultural assets

($ million)

2017-18 actual 30 Sep		*2018-19 opening 1 Jul*	*actual 30 Sep*	*revised budget*
5 780	Cultural assets	5 818	5 821	5 837
(158)	Accumulated depreciation	(172)	(177)	(198)
5 622	**Total cultural assets**	**5 646**	**5 644**	**5 639**

Source: Department of Treasury and Finance

4.7 Other non-financial assets

($ million)

2017-18 actual 30 Sep		*2018-19 opening 1 Jul*	*actual 30 Sep*	*revised budget*
1 710	Intangible produced assets	1 946	1 972	2 015
(903)	Accumulated depreciation	(1 010)	(1 042)	(1 138)
118	Intangible non-produced assets	118	119	119
(34)	Accumulated amortisation	(39)	(41)	(42)
891	**Total intangibles**	**1 015**	**1 008**	**954**
177	Investment properties	186	186	183
3	Biological assets	2	2	4
873	Other assets	669	1 214	990
1 944	**Total other non-financial assets**	**1 872**	**2 411**	**2 130**

Source: Department of Treasury and Finance

4.8 Total assets by classification of the functions of government [(a)]

($ million)

2017-18 actual 30 Sep		*2018-19 actual 30 Sep*	*2018-19 revised budget*
2 222	General public services	2 273	2 165
8 350	Public order and safety	9 674	10 249
1 033	Economic affairs	1 240	1 152
10 309	Environmental protection	11 955	11 948
1 822	Housing and community amenities	1 796	1 739
14 613	Health	15 368	15 436
7 124	Recreation, culture and religion	7 334	7 415
22 810	Education	27 489	28 367
2 368	Social protection	2 626	3 346
54 092	Transport	57 851	59 411
119 828	Not allocated by purpose	127 459	129 966
244 573	**Total assets by COFOG**	**265 065**	**271 194**

Source: Department of Treasury and Finance

Note:

(a) *The classification of the functions of government (COFOG) framework has replaced the former Government Purpose Classification (GPC) framework under the new ABS GFS Manual. This was implemented for the first time in the* 2018-19 Budget*. Note 1.7.5 of Budget Paper No. 5 of the* 2018-19 Budget *provides definitions and descriptions of the COFOG.*

5. OTHER ASSETS AND LIABILITIES

Introduction

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

5.1 Receivables

($ million)

2017-18 actual 30 Sep		2018-19 opening 1 Jul	actual 30 Sep	revised budget
	Contractual			
736	Sales of goods and services	682	1 150	646
18	Accrued investment income	19	19	20
1 138	Other receivables	675	640	688
(97)	Provision for doubtful contractual receivables	(108)	(108)	(107)
	Statutory			
4	Sales of goods and services	3	3	2
2 869	Taxes receivable	3 153	3 016	3 277
2 106	Fines and regulatory fees	2 510	2 629	2 642
349	GST input tax credits recoverable	443	323	444
(841)	Provision for doubtful statutory receivables	(1 169)	(1 271)	(1 211)
6 281	**Total receivables**	**6 208**	**6 400**	**6 400**
	Represented by:			
5 462	Current receivables	5 890	6 086	6 086
819	Non-current receivables	318	314	314

Source: Department of Treasury and Finance

5.2 Payables

($ million)

2017-18 actual 30 Sep		2018-19 opening 1 Jul	actual 30 Sep	revised budget
	Contractual			
1 239	Accounts payable	1 542	1 387	1 507
2 155	Accrued expenses	2 814	2 200	2 738
2 285	Unearned income	2 298	5 222	5 132
	Statutory			
44	Accrued taxes payable	60	333	60
5 722	**Total payables**	**6 713**	**9 143**	**9 438**
	Represented by:			
4 070	Current payables	4 856	4 589	4 796
1 652	Non-current payables	1 856	4 554	4 642

Source: Department of Treasury and Finance

6. PUBLIC ACCOUNT

Introduction

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

6.1 Consolidated fund receipts and payments

($ million)

2017-18 actual to Sep		*2018-19 actual to Sep*	*2018-19 revised budget*
5 491	Taxation	5 999	24 275
189	Fines and regulatory fees	184	896
4 453	Grants received	5 310	22 880
1 675	Sales of goods and services [(a)]	4 702	9 865
115	Interest received	110	491
48	Dividends, income tax equivalent and rate equivalent receipts	60	963
33	Other receipts [(a)]	139	952
12 003	**Total operating activities**	**16 505**	**60 322**
310	Total inflows from investing and financing	24	3 656
12 314	**Total receipts**	**16 528**	**63 978**
	Payments to departments		
2 680	Economic Development, Jobs, Transport and Resources	2 419	13 419
3 655	Education and Training	3 876	14 678
606	Environment, Land, Water and Planning	608	2 975
4 630	Health and Human Services	4 972	18 415
1 846	Justice and Regulation	2 067	8 131
125	Premier and Cabinet	167	822
2 067	Treasury and Finance	2 394	7 761
61	Parliament	58	231
144	Courts	158	735
15 814	**Total payments**	**16 717**	**67 168**
(3 500)	**Net receipts/(payments)**	**(189)**	**(3 190)**

Source: Department of Treasury and Finance

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

6.2 Trust fund cash flow statement

($ million)

2017-18 actual to Sep		2018-19 actual to Sep	2018-19 revised budget
	Cash flows from operating activities		
173	Taxation	176	385
10	Regulatory fees and fines	20	55
4 271	Grants received [(a)]	4 560	17 128
93	Sale of goods and services [(b)]	24	493
55	Interest received	53	168
5	Dividends received	12	63
1 103	Net transfers from consolidated fund	1 087	3 283
43	Other receipts [(b)]	89	96
5 753	**Total receipts [(a)]**	**6 021**	**21 672**
(50)	Payments for employees	(66)	(229)
(4)	Superannuation	(5)	(16)
(1)	Interest paid	(3)	(6)
(4 676)	Grants and subsidies [(a)]	(4 955)	(20 398)
(509)	Goods and services	(542)	(1 578)
(5 239)	**Total payments [(a)]**	**(5 571)**	**(22 226)**
514	**Net cash flows from operating activities**	**450**	**(555)**
(31)	Purchases of property, plant and equipment	(53)	(54)
9	Proceeds from sale of property, plant and equipment	13	52
754	Net proceeds from customer loans	826	1 551
(459)	Other investing activities	(731)	(1 898)
273	**Net cash flows from investing activities**	**55**	**(348)**
	Cash flows from financing activities		
(452)	Net proceeds (repayments) from borrowings	(870)	(579)
(452)	**Net cash flows from financing activities**	**(870)**	**(579)**
335	**Net cash inflow/(outflow)**	**(366)**	**(1 481)**

Source: Department of Treasury and Finance

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

6.3 Reconciliation of cash flows to balances held

($ million)

	Balances held at 30 Jun 2018	*Sep movement YTD*	*Balances held at 30 Sep 2019*
Cash and deposits			
Cash and balances outside of the Public Account	(1)	(1)	(1)
Deposits held with the Public Account – specific trusts	697	329	1 026
Other balances held in the Public Account	3 212	(984)	2 228
Total cash and deposits	**3 908**	**(656)**	**3 253**
Investments			
Investments held with the Public Account – specific trusts	1 500	(105)	1 396
Total investments	**1 500**	**(105)**	**1 396**
Total fund balances	**5 409**	**(760)**	**4 649**
Less funds held outside the public account			
Cash	(1)	(1)	(1)
Total fund balances held outside the Public Account	**(1)**	**(1)**	**(1)**
Total fund balances held in the Public Account	**5 409**	**(760)**	**4 650**

Source: Department of Treasury and Finance

6.4 Details of securities held

($ million)

2017-18 actual 30 Sep		*2018-19 opening 1 Jul*	*actual 30 Sep*
2 125	Amounts invested on behalf of specific trust accounts [(a)]	2 198	2 422
(226)	General account balances	3 211	2 228
1 899	**Total Public Account [(a)]**	**5 409**	**4 650**
	Represented by:		
1 266	Stock, securities, cash and investments [(a)]	3 630	3 766
	Add cash advanced for:		
..	Temporary Advance from the Treasury Corporation of Victoria to the Consolidated Fund pursuant to Section 38 of the *Financial Management Act 1994*	850	..
633	Advances pursuant to sections 36 and 37 of the *Financial Management Act 1994*	929	884
1 899	**Total Public Account [(a)]**	**5 409**	**4 650**

Source: Department of Treasury and Finance

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

7. OTHER DISCLOSURES

Introduction

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

7.1 Other gains/(losses) from other economic flows

($ million)

2017-18 actual 30 Sep		*2018-19 actual 30 Sep*	*2018-19 revised budget*
(61)	Net (increase)/decrease in provision for doubtful receivables	(109)	(212)
(2)	Amortisation of intangible non-produced assets	(1)	(4)
(4)	Bad debts written off	(2)	(129)
11	Other gains/(losses)	(3)	(3)
(56)	**Total other gains/(losses) from other economic flows**	**(116)**	**(347)**

Source: Department of Treasury and Finance

7.2 Reconciliation of cash and cash equivalents

($ million)

2017-18 actual 30 Sep		*2018-19 actual 30 Sep*
1 429	Cash	1 748
2 717	Deposits at call	4 191
4 146	**Cash and cash equivalents**	**5 940**
..	Bank overdraft	..
4 146	**Balances as per cash flow statement**	**5 940**

Source: Department of Treasury and Finance

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

($ million)

2017-18 actual to Sep		2018-19 actual to Sep
497	**Net result**	**718**
	Non-cash movements	
657	Depreciation and amortisation	681
2	Revaluation of investments	4
(1)	Assets (received)/provided free of charge	..
	Movements included in investing and financing activities	
1	Net gain/loss from sale of investments	(5)
	Movements in assets and liabilities	
2	Increase/(decrease) in provision for doubtful debts	102
(165)	Increase/(decrease) in payables	2 560
(177)	Increase/(decrease) in employee benefits	(127)
261	Increase/(decrease) in superannuation	265
(235)	Increase/(decrease) in other provisions	(70)
(352)	(Increase)/decrease in receivables	(8)
(462)	(Increase)/decrease in other non-financial assets	(544)
28	**Net cash flows from operating activities**	**3 577**

Source: Department of Treasury and Finance

7.4 Controlled entities

Note 9.8 Controlled entities in the *2017-18 Financial Report* for the State of Victoria lists significant controlled entities, which were consolidated in that financial report.

Refer to Note 4.7.5 of Chapter 4 of this budget update for changes to general government sector entities since 1 July 2018.

7.5 Glossary of technical terms

The *2017-18 Financial Report* for the State of Victoria (Note 9.9) summarises the major technical terms used in this report.

8. RESULTS QUARTER BY QUARTER – VICTORIAN GENERAL GOVERNMENT SECTOR

Introduction

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)**

	2017-18				*2018-19*
	Sep	*Dec*	*Mar*	*Jun*	*Sep*
Revenue from transactions					
Taxation revenue	5 722	4 986	6 980	5 241	5 896
Interest revenue	210	206	202	228	210
Dividends, income tax equivalent and rate equivalent revenue	57	376	85	263	82
Sales of goods and services	1 766	1 871	1 801	1 901	1 905
Grant revenue	6 899	7 328	8 162	7 538	7 923
Other revenue	544	626	566	1 031	573
Total revenue from transactions	**15 198**	**15 393**	**17 796**	**16 202**	**16 589**
Expenses from transactions					
Employee expenses	5 581	5 715	5 698	6 276	6 081
Net superannuation interest expense	192	168	176	178	167
Other superannuation	598	657	631	649	671
Depreciation	655	657	666	767	680
Interest expense	454	555	513	570	493
Grant expense	2 559	2 505	3 346	2 719	2 853
Other operating expenses	4 604	4 741	4 709	5 736	4 812
Total expenses from transactions	**14 643**	**14 998**	**15 739**	**16 896**	**15 757**
Net result from transactions – net operating balance	**555**	**395**	**2 057**	**(694)**	**832**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	(1)	22	63	(25)	5
Net gain/(loss) on financial assets or liabilities at fair value	(2)	41	(5)	19	(4)
Share of net profit/(loss) from associates/joint venture entities	..	..	(4)	(2)	..
Other gains/(losses) from other economic flows	(56)	(86)	(78)	(714)	(116)
Total other economic flows included in net result	**(58)**	**(23)**	**(23)**	**(722)**	**(115)**
Net result	**497**	**371**	**2 035**	**(1 417)**	**718**

Consolidated comprehensive operating statement for the past five quarters *(continued)*

($ million)

	2017-18 *Sep*	*Dec*	*Mar*	*Jun*	*2018-19* *Sep*
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	(22)	20	66	8 700	16
Remeasurement of superannuation defined benefits plans	1 259	(500)	(263)	(754)	1 213
Other movements in equity	(65)	(43)	2	2	14
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	(6)	31	(16)	(10)	(12)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	..	686	..	5 515	..
Total other economic flows – other comprehensive income	**1 165**	**195**	**(210)**	**13 453**	**1 230**
Comprehensive result – total change in net worth	**1 662**	**567**	**1 825**	**12 036**	**1 948**
KEY FISCAL AGGREGATES					
Net operating balance	**555**	**395**	**2 057**	**(694)**	**832**
Less: Net acquisition of non-financial assets from transactions	283	1 468	235	1 237	690
Net lending/(borrowing)	**272**	**(1 073)**	**1 823**	**(1 932)**	**142**

Source: Department of Treasury and Finance

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

	2017-18 Sep	Dec	Mar	Jun	2018-19 Sep
Assets					
Financial assets					
Cash and deposits	4 146	3 992	3 900	6 257	5 940
Advances paid	12 179	11 986	11 095	10 019	9 189
Receivables	6 281	5 807	7 756	6 208	6 400
Investments, loans and placements	3 895	4 159	4 163	3 928	3 940
Investments accounted for using the equity method	48	47	44	53	52
Investments in other sector entities	93 484	95 297	96 575	101 253	102 157
Total financial assets	**120 033**	**121 290**	**123 533**	**127 717**	**127 679**
Non-financial assets					
Inventories	173	176	176	175	171
Non-financial assets held for sale	405	438	355	389	391
Land, buildings, infrastructure, plant and equipment	122 018	123 323	123 897	134 141	134 414
Other non-financial assets	1 944	1 763	1 756	1 872	2 411
Total non-financial assets	**124 539**	**125 700**	**126 184**	**136 577**	**137 386**
Total assets	**244 573**	**246 990**	**249 718**	**264 294**	**265 065**
Liabilities					
Deposits held and advances received	8 403	8 252	7 781	6 700	5 772
Payables	5 722	5 542	5 902	6 713	9 143
Borrowings	29 485	30 995	31 902	33 506	31 974
Employee benefits	6 329	6 555	6 458	7 020	6 893
Superannuation	23 903	24 438	24 714	25 205	24 257
Other provisions	1 043	953	880	1 034	962
Total liabilities	**74 884**	**76 734**	**77 637**	**80 178**	**79 001**
Net assets	**169 689**	**170 256**	**172 080**	**184 116**	**186 064**
Accumulated surplus/(deficit)	53 145	52 965	54 751	52 574	54 496
Reserves	116 544	117 290	117 329	131 543	131 569
Net worth	**169 689**	**170 256**	**172 080**	**184 116**	**186 064**
FISCAL AGGREGATES					
Net financial worth	45 150	44 555	45 896	47 540	48 678
Net financial liabilities	48 335	50 742	50 679	53 713	53 479
Net debt	17 667	19 109	20 524	20 003	18 677

Source: Department of Treasury and Finance

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

	2017-18 Sep	Dec	Mar	Jun	2018-19 Sep
Cash flows from operating activities					
Receipts					
Taxes received	5 491	5 508	5 317	6 126	5 994
Grants	6 902	7 325	8 160	7 606	7 927
Sales of goods and services [(a)]	1 984	2 092	1 937	2 004	4 984
Interest received	210	205	203	224	209
Dividends, income tax equivalent and rate equivalent receipts	57	420	85	213	82
Other receipts	469	440	240	788	491
Total receipts	**15 114**	**15 990**	**15 942**	**16 960**	**19 686**
Payments					
Payments for employees	(5 748)	(5 480)	(5 796)	(5 729)	(6 211)
Superannuation	(529)	(790)	(794)	(1 091)	(572)
Interest paid	(476)	(515)	(529)	(534)	(514)
Grants and subsidies	(2 947)	(2 508)	(3 466)	(2 494)	(2 908)
Goods and services [(a)]	(5 179)	(4 805)	(4 544)	(5 203)	(5 694)
Other payments	(207)	(185)	(165)	(199)	(211)
Total payments	**(15 086)**	**(14 282)**	**(15 294)**	**(15 250)**	**(16 110)**
Net cash flows from operating activities	**28**	**1 708**	**649**	**1 710**	**3 577**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(1 881)	(2 689)	(1 949)	(3 286)	(2 139)
Sales of non-financial assets	45	51	121	166	45
Net cash flows from investments in non-financial assets	**(1 835)**	**(2 638)**	**(1 828)**	**(3 120)**	**(2 095)**
Net cash flows from investments in financial assets for policy purposes	672	45	825	3 016	729
Sub-total	**(1 163)**	**(2 593)**	**(1 003)**	**(104)**	**(1 365)**
Net cash flows from investments in financial assets for liquidity management purposes	(232)	(193)	(34)	224	(35)
Net cash flows from investing activities	**(1 395)**	**(2 786)**	**(1 037)**	**120**	**(1 400)**
Cash flows from financing activities					
Advances received (net)	(707)	(230)	(648)	(1 075)	(834)
Net borrowings	669	1 075	768	1 607	(1 566)
Deposits received (net)	22	79	177	(6)	(94)
Net cash flows from financing activities	**(16)**	**924**	**296**	**526**	**(2 494)**
Net increase/(decrease) in cash and cash equivalents	**(1 384)**	**(153)**	**(92)**	**2 356**	**(317)**
Cash and cash equivalents at beginning of the reporting period	5 530	4 146	3 992	3 900	6 257
Cash and cash equivalents at end of the reporting period	**4 146**	**3 992**	**3 900**	**6 257**	**5 940**
FISCAL AGGREGATES					
Net cash flows from operating activities	28	1 708	649	1 710	3 577
Net cash flows from investments in non-financial assets	(1 835)	(2 638)	(1 828)	(3 120)	(2 095)
Cash surplus/(deficit)	**(1 808)**	**(930)**	**(1 180)**	**(1 410)**	**1 482**

Source: Department of Treasury and Finance

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

APPENDIX F – REQUIREMENTS OF THE *FINANCIAL MANAGEMENT ACT 1994*

The *Financial Management Act 1994* (the Act) requires the Minister to prepare a budget update for tabling in Parliament each financial year. The provisions of the Act have been complied with in the *2018-19 Budget Update*.

Table F.1 details the statements required to be included in this document under the provisions of the Act together with appropriate chapter references.

Table F.1: Statements required by the *Financial Management Act 1994* and their location in the *2018-19 Budget Update*

Relevant section of the Act and corresponding requirement	*Location*
Sections 23 E-G	
Statement of financial policy objectives and strategies for the year.	Chapter 1 *Economic and fiscal overview*
Sections 23 H-N	
Estimated financial statements for the year comprising: • an estimated statement of financial performance for the year; • an estimated statement of financial position at the end of the year; • an estimated statement of cash flows for the year; • a statement of the accounting policies on which these statements are based and explanatory notes; and	Chapter 4 *Estimated financial statements and notes* (estimated consolidated comprehensive operating statement, estimated consolidated balance sheet, estimated consolidated cash flow statement and estimated consolidated statement of changes in equity provided as per AASB 1049)
• government decisions and other circumstances that may have a material effect on the estimated financial statements.	Appendix A *Specific policy initiatives affecting budget position*

Table F.1: Statements required by the *Financial Management Act 1994* and their location in the *2018-19 Budget Update (continued)*

Relevant section of the Act and corresponding requirement	*Location*
Accompanying statement to estimated financial statements which:	
• outlines the material economic assumptions used in preparation of the estimated financial statements;	Chapter 2 *Economic context* and Chapter 4 *Estimated financial statements and notes*
• discusses the sensitivity of the estimated financial statements to changes in these assumptions;	Appendix D *Sensitivity analysis*
• provides an overview of estimated tax expenditures for the financial years covered by the estimated financial statements; and	Appendix C *Tax expenditures and concessions*
• provides a statement of the risks that may have a material effect on the estimated financial statements.	Chapter 2 *Economic context*; Chapter 3 *Budget position and outlook*; and Chapter 6 *Contingent assets and contingent liabilities*
Section 27D(1)(c)	
A quarterly financial report for the quarter ending on 30 September.	Appendix E *Quarterly Financial Report for the Victorian General Government Sector – September 2018*

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 and charts is as follows:

n.a.	not available or not applicable
1 billion	1 000 million
1 basis point	0.01 per cent
..	zero, or rounded to zero
(x xxx.x)	negative amount
x xxx.0	rounded amount
201x	financial year

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

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