Victorian Budget 18/19

GETTING THINGS DONE

2018-19 Financial Report

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

VICTORIA State Government

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for the information of Honourable Members

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CHAPTER 1 – FOREWORD

PURPOSE

The *2018-19 Financial Report* presents the consolidated financial outcomes for the State of Victoria, including the general government sector, the public non-financial corporations sector and the public financial corporations sector.

This chapter outlines the economic and fiscal context for the State's financial performance and position, and summarises the 2018-19 results. Chapter 2 analyses the results for the general government sector, comparing them with the actuals in 2017-18 and the revised estimates for the year as presented in the *2019-20 Budget*. Chapter 3 presents the 2018-19 results for the State of Victoria.

Chapter 4 contains the audited financial statements as required under the *Financial Management Act 1994*. These are presented in line with applicable Australian accounting standards and pronouncements, in particular AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Chapter 5 provides supplementary information required under the Uniform Presentation Framework. Appendix A includes the Quarterly Financial Report for the general government sector as required by Section 26 of the *Financial Management Act 1994*. Appendix B presents a compliance index providing a linkage between the relevant legislative provisions relating to the preparation of this report and the disclosure provided therein.

ECONOMIC CONTEXT

Victoria's economy continued to perform strongly in 2018-19, leading to growth in employment of 108 900 persons. This was supported by high population growth and low interest rates.

Victoria's state final demand grew by 3.4 per cent in 2018-19, double the national average increase (1.7 per cent). Gross state product (GSP) is forecast to expand by 3.0 per cent in 2018-19.

Key drivers of the growth in demand were private business investment (which rose by 9.1 per cent), dwelling investment (4.8 per cent) and public demand (4.1 per cent).

Strong population growth has continued to support increased economic activity in Victoria. Victoria's population grew by 2.2 per cent over the year to December 2018, well above the rate of growth for the rest of Australia (1.4 per cent). All components contributed to this growth: natural increase, net interstate migration and net overseas migration.

Ongoing strength in the economy also continued to be reflected in improved labour market conditions. Employment in Victoria grew by 3.4 per cent in 2018-19, with full-time employment rising by 4.1 per cent and part-time employment by 1.8 per cent. This took the unemployment rate down to an 11-year low of 4.6 per cent in 2018-19, despite the participation rate remaining at a record high of 65.9 per cent in 2018-19. By the end of June 2019, 470 600 jobs had been created in the Victorian economy since the Government was elected in November 2014, including 60 100 in regional Victoria.

Inflation slowed in 2018-19, while wage growth increased moderately. Aggregate inflation was constrained by subdued housing price pressures and downward pressure on some administered prices such as utilities and child care.

FISCAL OUTCOMES

The Government achieved a general government sector operating surplus of $1.4 billion for 2018-19.

The operating surplus was $267 million higher than the revised budget estimate in the *2019-20 Budget*, largely due to the timing of activity across departments.

Total revenue from transactions for the general government sector was $69.6 billion. This was consistent with the revised budget estimate and $5 billion higher than the previous year.

State taxation revenue was $23.7 billion, $161 million below the revised budget estimate, and $724 million higher than in 2017-18. The decrease compared with the revised estimate was primarily driven by lower than expected land tax. The increase compared with 2017-18 is largely attributable to higher land tax revenues as a result of higher property revaluations in 2018 and higher payroll tax reflecting the strong labour market. These were partially offset by lower land transfer duty due to weakened property prices and lower transaction volumes.

Dividends, income tax and rate equivalent revenue was $1 billion, $78 million above the revised budget estimate and $249 million higher than in 2017-18. The increase in 2018-19 was mainly due to higher dividends received from the public financial corporations sector, partially offset by lower dividends from the water corporations.

Revenue from the sale of goods and services of $7.8 billion was $38 million above the revised budget estimate and $411 million higher than in 2017-18. The increase in 2018-19 was primarily driven by increased activity in the health sector and higher capital asset charges from the public non-financial corporations sector.

Grant revenue of $33.3 billion was $93 million below the revised budget estimate, but $3.4 billion higher than in 2017-18. The increase in 2018-19 was largely driven by higher GST grants from the Commonwealth from continued growth in household consumption and an increase in Victoria's GST relativity, as well as higher grants from the Commonwealth for the Disability Care Australia Fund.

Total expenses for the general government sector were $68.2 billion in 2018-19, $167 million lower than the revised budget estimate in the *2019-20 Budget* and $5.9 billion higher than in the previous year.

Employee expenses of $25.4 billion were $309 million above the revised budget estimate and $2.1 billion higher than in 2017-18. Compared with the previous year, this was mainly attributable to increased resources in hospitals and healthcare to meet demand, additional teaching and support staff for schools to meet growing school enrolments and to achieve the Government's Education State commitment, and more police following the implementation of the Community Safety Statement. The increase in employee expenses also reflects increases in remuneration levels in enterprise bargaining agreements, including under teachers, police and public health sector agreements.

Other operating expenses in 2018-19 were $21 billion, $222 million below the revised budget estimate and $1.2 billion higher than the previous year. The increase since 2017-18 mainly reflects additional spending in the health, community safety and transport sectors.

Government infrastructure investment, which includes general government net infrastructure investment and estimated construction related cash outflows for Partnership Victoria projects (net of asset sales), was $13.1 billion in 2018-19. This was $706 million above the revised budget estimate.

Net debt for the general government sector was $22.4 billion as at 30 June 2019, 5 per cent of estimated GSP, and $392 million lower than the revised budget estimate. The increase from $20.0 billion in the previous year reflects the additional borrowings required to finance the Government's significant infrastructure program.

Victoria continues to maintain its triple-A credit rating in the latest Moody's report and Standard & Poor's report.

CHAPTER 2 – GENERAL GOVERNMENT SECTOR OUTCOME

- The Government achieved an operating surplus of $1.4 billion for 2018-19.
- The 2018-19 operating surplus was $267 million higher than the revised estimate in the *2019-20 Budget*. This was due to $100 million higher than expected revenue and $167 million lower than expected expenses.
- The level of government infrastructure investment, which includes general government net infrastructure investment and estimated construction related cash outflows for Partnership Victoria projects (net of asset sales), was $13.1 billion for 2018-19. This is $706 million higher than the revised budget.
- Net debt for the general government sector was $22.4 billion (5 per cent of gross state product (GSP)) at 30 June 2019 compared with $22.8 billion (5.1 per cent of GSP) expected in the revised budget published in the *2019-20 Budget*.
- Victoria continues to be rated triple-A with a stable outlook by Moody's Investors Service and Standard & Poor's. Moody's in its latest report noted that 'The credit profile of Victoria reflects the strong institutional framework for Australian states, the ability to adjust State-based revenues and expenditures as required and debt burden benchmarking favourably against its domestic and international peers'. Standard & Poor's in its latest report noted that 'Victoria has a culture of long-term planning and transparency, exceptional debt and liquidity management with a strong institutional framework'.

FISCAL OBJECTIVES

As part of the *2018-19 Budget,* the Government outlined its fiscal strategy and objectives for the 2018-19 financial year, including:

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

The 2018-19 results were consistent with the Government's fiscal strategy and objectives, with:

- a net operating surplus of $1.4 billion for the 2018-19 financial year;
- net debt to GSP increasing from 4.6 per cent at 30 June 2018 to 5 per cent at 30 June 2019; and
- the Government being on track to fully fund the unfunded superannuation liability by 2035, with a contribution of $1.1 billion made to the State Superannuation Fund towards this liability in 2018-19 under section 90(2) of the *State Superannuation Act 1988*.

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

Table 2.1: Key fiscal aggregates for the general government sector **($ million)**

	2018 actual	2019 actual	2019 revised
Operating statement aggregates			
Net result from transactions – net operating balance	2 313	1 375	1 108
Net result	1 486	382	670
Net lending/(borrowing)	(910)	(2 376)	(1 222)
Comprehensive result – total change in net worth	16 089	(1 473)	1 972
Cash surplus/(deficit)	(5 327)	(2 248)	(2 256)
Balance sheet aggregates			
Net worth	184 116	182 644	186 088
Net financial worth	47 540	38 358	43 297
Net financial liabilities	53 713	63 467	61 477
Net debt	20 003	22 407	22 799
			(per cent)
Net debt to GSP [(a)]	**4.6**	**5.0**	**5.1**

Source: Department of Treasury and Finance

Note:

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

The **net result from transactions** surplus of $1.4 billion was $267 million higher than the revised 2018-19 estimate, largely due to the timing of activity across departments.

The decrease of $938 million compared with the 2017-18 result was mainly due to increased service delivery in the health, education, community safety, family violence and transport sectors and the reduction in land transfer duty from the current downturn in the property market. This was partially offset by additional GST grants from the Commonwealth resulting from growth in household consumption and an increase in Victoria's GST relativity.

The **net result** is a further measure of financial performance for the period, including the impact of market movements on the value of assets and liabilities. The 2018-19 net result was $288 million lower than the revised budget and $1.1 billion lower compared with 2017-18. The decrease from the prior year was due to the same reasons as explained for the net result from transactions, as well as higher losses from other economic flows in 2018-19.

The **net lending** measure broadly reflects the net impact of the general government sector on the economy and financial markets, including the impact of operating and capital investing transactions. Net borrowings of $2.4 billion for 2018-19 were $1.2 billion higher than the revised estimate, mainly attributable to the Government's infrastructure investment, partially offset by the higher net result from transactions compared with the revised estimate.

The 2018-19 **comprehensive result – total change in net worth** was $17.6 billion lower than 2017-18. This is primarily due to the revaluation of the general government sector's assets and liabilities reflecting volatility in financial and property market conditions, reflected as other economic flows in the operating statement.

The decrease of $3.4 billion from the revised budget is attributable to the loss on investments of the general government sector in other sector entities, primarily due to the revaluation of land held by the Director of Housing. It also reflects the impact of the remeasurement of superannuation defined benefit plans.

The **cash deficit** position in 2018-19 reflects the sum of net cash flows from operating and investing activities. The deficit position in 2018-19 improved compared to 2017-18, primarily due to the receipt of the proceeds from the commercialisation of land titles and registry functions of Land Use Victoria.

Net worth is a measure of economic wealth and is equal to net assets outlined in Table 2.4. The decrease from revised budget is primarily due to the loss on investments of the general government sector in other sector entities, primarily due to a revaluation of land held by the Director of Housing, and the remeasurement of superannuation defined benefit plans. The decrease from 2017-18 was primarily due to higher borrowings for the Government's investment in infrastructure and the remeasurement of superannuation defined benefit plans.

The year-on-year movement in **net financial worth**, which is equal to total financial assets less total liabilities, was mainly due to the revaluation of the superannuation liability and an increase in borrowings reflecting the Government's investment in infrastructure.

Net financial liabilities are total liabilities less financial assets (excluding investments in other sector entities). Net financial liabilities were $63.5 billion at 30 June 2019, $2.0 billion higher than in the revised budget. This increase was primarily due to higher payables related to growth in the Government's infrastructure investment, and an increased superannuation liability reflecting a reduction in bond yields during 2018-19. The increase also reflects higher employee provisions as a result of the remeasurement of the long service leave provision due to the reduction in bond yields on which this provision is based.

Net debt represents gross debt less liquid financial assets. Net debt of $22.4 billion at 30 June 2019 was $392 million lower than the revised estimate in the *2019-20 Budget*. The year-on-year increase in net debt largely reflects the additional borrowings required to finance the Government's significant infrastructure program.

FINANCIAL PERFORMANCE

Table 2.2 shows an operating surplus of $1.4 billion in 2018-19 compared with the revised 2018-19 estimate of $1.1 billion.

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

	2019 actual	*2019 revised*	*Revised variance*	*% revised variance*	*2018 actual*
Revenue from transactions					
Taxation revenue	23 653	23 814	(161)	(1)	22 929
Interest revenue	817	796	22	3	845
Dividends, income tax equivalent and rate equivalent revenue	1 030	952	78	8	781
Sales of goods and services	7 750	7 712	38	..	7 339
Grant revenue	33 303	33 396	(93)	..	29 928
Other revenue	3 042	2 825	217	8	2 767
Total revenue from transactions	**69 595**	**69 495**	**100**	**..**	**64 589**
Expenses from transactions					
Employee expenses	25 406	25 096	309	1	23 271
Net superannuation interest expense	688	688	..	..	714
Other superannuation	2 797	2 790	7	..	2 535
Depreciation	2 865	2 833	33	1	2 745
Interest expense	2 103	2 130	(27)	(1)	2 092
Other operating expenses	21 006	21 228	(222)	(1)	19 789
Grant expense	13 355	13 622	(267)	(2)	11 130
Total expenses from transactions	**68 220**	**68 387**	**(167)**	**..**	**62 276**
Net result from transactions – net operating balance	**1 375**	**1 108**	**267**	**24**	**2 313**
Total other economic flows included in net result	**(993)**	**(438)**	**(555)**	**127**	**(827)**
Net result	**382**	**670**	**(288)**	**(43)**	**1 486**

Revenue

Total revenue from transactions for the year was $69.6 billion, consistent with the revised estimate. This was $5 billion, or 7.8 per cent, higher than the previous year.

Table 2.3 shows that State taxation revenue decreased by $161 million compared with the revised estimate. This was primarily driven by lower than expected land tax.

The increase compared with 2017-18 is attributable to higher land tax as a result of a higher property revaluation in 2018 and higher payroll tax reflecting the strong labour market. These were partially offset by lower land transfer duty due to weakened property prices and lower transaction volumes.

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

	2019 actual	*2019 revised*	*Revised variance*	*% revised variance*	*2018 actual*
Taxes on employers' payroll and labour force	**6 280**	**6 277**	**3**	**..**	**5 964**
Taxes on immovable property					
Land tax	3 509	3 672	(163)	(4)	2 586
Fire Services Property Levy [(a)]	648	645	2	..	694
Congestion levy	111	111	..	..	103
Metropolitan improvement levy	174	173	1	1	183
Total taxes on property	**4 442**	**4 602**	**(159)**	**(2)**	**3 567**
Gambling taxes					
Public lotteries	523	521	2	..	415
Electronic gaming machines	1 121	1 123	(2)	..	1 115
Casino	241	220	21	9	222
Racing and other sports betting	110	104	6	5	72
Other	11	12	..	(2)	28
Financial and capital transactions					
Land transfer duty	6 009	5 990	19	..	6 933
Other property duties	..	..	1	(389)	..
Metropolitan planning levy	20	21	(1)	(5)	23
Financial accommodation levy	147	151	(4)	(3)	146
Growth areas infrastructure contribution	283	287	(4)	(1)	265
Levies on statutory corporations	**157**	**157**	**..**	**..**	**112**
Taxes on insurance	**1 373**	**1 379**	**(6)**	**..**	**1 299**
Total taxes on the provision of goods and services	**9 996**	**9 964**	**31**	**1**	**10 629**
Motor vehicle taxes					
Vehicle registration fees	1 645	1 683	(38)	(2)	1 560
Duty on vehicle registrations and transfers	909	916	(7)	(1)	920
Liquor licence fees	**24**	**27**	**(3)**	**(10)**	**24**
Other	**357**	**344**	**13**	**4**	**267**
Total taxes on the use of goods and performance of activities	**2 935**	**2 971**	**(36)**	**(1)**	**2 770**
Total taxation revenue	**23 653**	**23 814**	**(161)**	**(1)**	**22 929**

Note:
(a) The Fire Services Property Levy was capped for 2017-18 and 2018-19. The 2018-19 revenue was $14 million lower than the Government's cap of $662 million (the amount collected in 2016-17), returning the over-collection from 2017-18.

Dividends, income tax and rate equivalent revenue of $1 billion increased by $249 million compared with the previous year. The increase is mainly due to higher dividends revenue received from the public financial corporations sector, partially offset by lower dividends from the water corporations.

Dividends, income tax and rate equivalent revenue in 2018-19 was $78 million above the revised estimate.

Revenue from the sale of goods and services was $7.8 billion, $411 million higher than 2017-18. The higher sales of goods and services was primarily driven by increased activity in the health sector and higher capital asset charge from the public non-financial corporations sector.

Revenue from the sale of goods and services in 2018-19 was $38 million higher than the revised budget.

Grant revenue of $33.3 billion was $3.4 billion higher compared with 2017-18. The increase was largely driven by higher GST grants from the Commonwealth resulting from continued growth in household consumption and an increase in Victoria's GST relativity, as well as higher grants from the Commonwealth for the Disability Care Australia Fund.

Grant revenue was $93 million below the revised budget estimate.

Other revenue for 2018-19 was $275 million higher than the 2017-18 actual outcome and $217 million higher than the 2018-19 revised budget. The increase is mainly due to the initial recognition of the fair value of the Support Agreements underlying the Victorian Renewable Energy Auction Scheme.

Expenses

Total general government sector expenses for 2018-19 were $167 million lower than the revised estimate in the *2019-20 Budget*. Compared with the previous year, total expenses increased by $5.9 billion (9.5 per cent).

Employee expenses of $25.4 billion for 2018-19 were 1.2 per cent higher than the revised budget and 9.2 per cent higher than 2017-18. Compared with the previous year, this was mainly attributable to increased resources in hospitals and healthcare to meet demand, additional teaching and support staff for schools to meet growing school enrolments and to achieve the Government's Education State commitment, and more police following the implementation of the Community Safety Statement. The increase in employee expenses also reflects increases in remuneration levels in enterprise bargaining agreements, including under teachers, police and public health sector agreements.

Other superannuation expense of $2.8 billion for 2018-19 was in line with the revised budget. This expense was $262 million higher than in 2017-18, primarily due to higher employer contributions to the defined contribution plans.

Other operating expenses for 2018-19 were $21 billion, $222 million (1 per cent) lower than the revised budget and $1.2 billion higher than in 2017-18. The increase of 6.1 per cent since 2017-18 mainly reflects additional spending in the health, community safety and transport sectors.

Grant expense of $13.4 billion was $267 million lower than the revised budget and $2.2 billion higher than in 2017-18. The decrease from the revised budget was primarily due to the timing of grants payments in a number of programs, including Rural and Regional Victoria, Sports and Visitor Economy programs.

The increase compared with 2017-18 is mainly driven by the timing of payments to the Commonwealth and growth in Commonwealth non-government school grants.

Other economic flows included in the net result

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

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

Other economic flows included in the net result for 2018-19 totalled a net loss of $993 million, primarily reflecting movements in the valuation of doubtful debt for fines and regulatory fees, and the revaluation of long service leave reflecting bond rate movements used in the valuation process.

FINANCIAL POSITION

Table 2.4 shows the general government sector net assets decreased by $1.5 billion (0.8 per cent) to $182.6 billion in 2018-19. This was $3.4 billion (1.9 per cent) lower than expected in the 2018-19 revised budget.

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

	2019 actual	*Revised variance*	*2019 revised*	*Actual movement*	*2018 actual*
Assets					
Financial assets (excluding investment in other sector entities)	27 327	1 975	25 352	863	26 464
Investment in other sector entities:					
Public non-financial corporations	99 116	(3 142)	102 258	1 904	97 212
Public financial corporations	2 709	194	2 515	(1 332)	4 040
Non-financial assets	144 286	1 495	142 792	7 710	136 577
Total assets	**273 439**	**522**	**272 917**	**9 145**	**264 294**
Liabilities					
Superannuation	28 632	1 450	27 182	3 427	25 205
Borrowings	37 885	1 025	36 859	4 378	33 506
Other liabilities	24 279	1 491	22 788	2 812	21 467
Total liabilities	**90 795**	**3 966**	**86 829**	**10 617**	**80 178**
Net assets	**182 644**	**(3 444)**	**186 088**	**(1 472)**	**184 116**

Assets

Financial assets in Table 2.4 include cash, investments, loans and placements. The value of financial assets held by the general government sector increased by $863 million during the year. The increase is mainly due to higher cash balances in 2018-19, partially offset by lower outstanding advances associated with the arrangements established to invest and ultimately apply the proceeds of the Port of Melbourne Lease transaction.

General government investments in other sector entities increased by $572 million in the year. This was mainly due to additional capital investment in level crossing removal programs and other infrastructure investment in public non-financial corporations. This was partially offset by lower investment in public financial corporations reflecting the impact of lower bond yields impacting on the valuation of these liabilities.

Non-financial assets increased by $7.7 billion during 2018-19, mainly due to the revaluation of land and buildings and the Government's investment in infrastructure.

Liabilities

Total liabilities as at 30 June 2019 were $4.0 billion and $10.6 billion higher than the 2018-19 revised budget and the 2017-18 outcome respectively. The increase compared with the revised budget and the prior year mainly reflects higher borrowings for the Government's investment in infrastructure and an increased superannuation liability reflecting a reduction in bond yields during 2018-19. It is also attributable to higher unearned income from the commercialisation of land titles and registry functions of Land Use Victoria.

CASH FLOWS

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

A detailed cash flow statement is provided in Chapter 4.

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

	2018 actual	*2019 actual*	*2019 revised*
Net result from transactions – net operating balance	2 313	1 375	1 108
Add back: Non-cash revenues and expenses (net) [(a)]	1 782	5 693	4 972
Net cash flows from operating activities	**4 094**	**7 068**	**6 080**
Less: Total net investment in fixed assets [(b)]	**4 862**	**7 872**	**7 145**
Finance leases	610	327	452
Other investment activities (net)	2 862	1 273	1 278
Decrease/(increase) in net debt	**(4 241)**	**(2 404)**	**(2 796)**

Source: Department of Treasury and Finance

Notes:

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

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

GOVERNMENT INFRASTRUCTURE INVESTMENT

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

Government infrastructure investment, which includes general government net infrastructure investment and estimated construction related cash outflows for Partnership Victoria projects (net of asset sales), was $13.1 billion for 2018-19. This is $706 million above the revised budget.

The Government's infrastructure scorecard 2018-19

Major projects completed during the year include:

- Joan Kirner Women's and Children's Hospital;
- M80 Ring Road Upgrade – Sunshine Avenue to Calder Freeway;
- Mernda Rail Extension Project; and
- Thompsons Road duplication.

Major projects under procurement or in progress include:

- 75 Level Crossing Removals by 2025;
- Additional VLocity trains – standard gauge train component;
- Ballarat Health Services expansion and redevelopment;
- Building a world-class Geelong Performing Arts Centre;
- Frankston Hospital;
- Casey Hospital expansion;
- Caulfield to Dandenong conventional signalling and power infrastructure upgrade;
- Chandler Highway upgrade;
- Child Link;
- Chisholm road prison project;
- City Loop fire and safety upgrade (Stage 2) and intruder alarm;
- Community Safety Statement (Police Assistance Line/Online reporting);
- Courts case management system;
- Cranbourne Line duplication;
- Cranbourne-Pakenham and Sunbury line upgrade;
- Drysdale Bypass;
- Echuca-Moama bridge;
- Family violence information sharing system reform (Central Information Point);
- Frankston Line stabling;
- Goulburn Valley Health redevelopment;
- Goulburn-Murray Water Connections Project;
- High Capacity Metro Trains;
- Hurstbridge Line upgrade – Stage 2;
- Infringement Management and Enforcement Services (IMES) Reform Project IT solution;
- Level Crossing Removal Project;
- M80 Ring Road upgrade;
- Melbourne Airport Rail;
- Melbourne Park redevelopment – Stage 2;
- Melbourne Park redevelopment – Stage 3;
- Men's prison system capacity;
- Metro Tunnel;
- Metropolitan Network Modernisation program;
- Monash Freeway Upgrade – Stage 2;

The Government's infrastructure scorecard 2018-19 *(continued)*

- Mordialloc Freeway;
- More E-Class trams and infrastructure;
- Murray Basin Rail Project;
- New Schools Construction;
- New Trains for Sunbury;
- New youth justice facility;
- Non-urban train radio renewal;
- North East Link;
- Northern Hospital Inpatient Expansion – Stage 2;
- Princes Highway West duplication project – Winchelsea to Colac;
- Public housing renewal program;
- Public Safety – Police Response (Intelligence capability);
- Public Safety – Police Response (Mobile technology solution);
- Regional Rail Revival;
- Royal Victorian Eye and Ear Hospital redevelopment;
- Safe Digital Clinical Systems – Parkville Precinct electronic medical records;
- Shepparton Corridor upgrade – Stage 2;
- Suburban Rail Loop;
- Suburban Roads Upgrade;
- Ten new community hospitals;
- The new Footscray Hospital;
- Tram Automated Vehicle Monitoring;
- Tram procurement and supporting infrastructure;
- Victorian Heart Hospital;
- Waurn Ponds Track Duplication – Stage 2;
- West Gate Tunnel Project;
- Western Highway duplication – Ballarat to Stawell;
- Western Rail Plan;
- Western Roads Upgrade;
- Women's prison system capacity;
- Wyndham Vale Stabling Yard; and
- Yan Yean Road duplication.

CHAPTER 3 – STATE OF VICTORIA OUTCOME

- The State's balance sheet is in a sustainable position, with net assets of $179 billion at 30 June 2019 and strong positive operating cash flows.
- The **net result from transactions** for the State in 2018-19 was a deficit of $1.4 billion, compared with a deficit of $10 million in the previous year.
- The **net result** for the State was a deficit of $9.1 billion in 2018-19 compared with a $2.1 billion surplus in 2017-18. This movement is primarily due to a decline in discount rates which negatively impacted on the liabilities held by the State's insurance agencies and Treasury Corporation of Victoria (TCV) borrowings.

This chapter sets out the financial results for the State of Victoria for 2018-19.

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

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

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

The full financial statements for the State of Victoria are provided in Chapter 4.

FINANCIAL PEFORMANCE

Table 3.1 summarises the operating performance for the State of Victoria. This table shows the State recorded a net deficit from transactions of $1.4 billion in 2018-19 compared with a deficit of $10 million in 2017-18.

The **net result** for the State was a deficit of $9.1 billion. This compares with a $2.1 billion surplus in 2017-18. These outcomes are further detailed in Table 3.1.

OPERATING STATEMENT

Table 3.1: 2018-19 summary operating statement – State of Victoria [(a)] ($ million)

	2019 actual	2019 revised	Revised variance	% revised variance	2018 actual
Revenue from transactions					
Taxation revenue	23 244	23 377	(133)	(0.6)	22 559
Interest revenue	678	573	105	18.3	667
Dividends	2 426	2 844	(417)	(14.7)	1 339
Sales of goods and services	15 718	15 450	268	1.7	15 136
Grant revenue	32 654	32 730	(77)	(0.2)	29 590
Other revenue	3 914	3 599	314	8.7	3 632
Total revenue from transactions	**78 633**	**78 573**	**60**	**0.1**	**72 923**
Expenses from transactions					
Employee expenses	26 644	26 389	255	1.0	24 483
Net superannuation interest expense	690	692	(3)	(0.4)	716
Other superannuation	2 961	2 951	10	0.3	2 687
Depreciation	5 362	5 197	165	3.2	5 041
Interest expense	2 694	2 623	71	2.7	2 770
Grant expense	9 571	9 925	(354)	(3.6)	7 639
Other operating expenses	32 090	31 587	503	1.6	29 598
Total expenses from transactions	**80 011**	**79 365**	**646**	**0.8**	**72 933**
Net result from transactions – net operating balance	**(1 378)**	**(792)**	**(586)**	**74.1**	**(10)**
Total other economic flows included in net result	(7 705)	(4 391)	(3 314)	75.5	2 080
Net result	**(9 083)**	**(5 182)**	**(3 901)**	**75.3**	**2 070**

Source: Department of Treasury and Finance

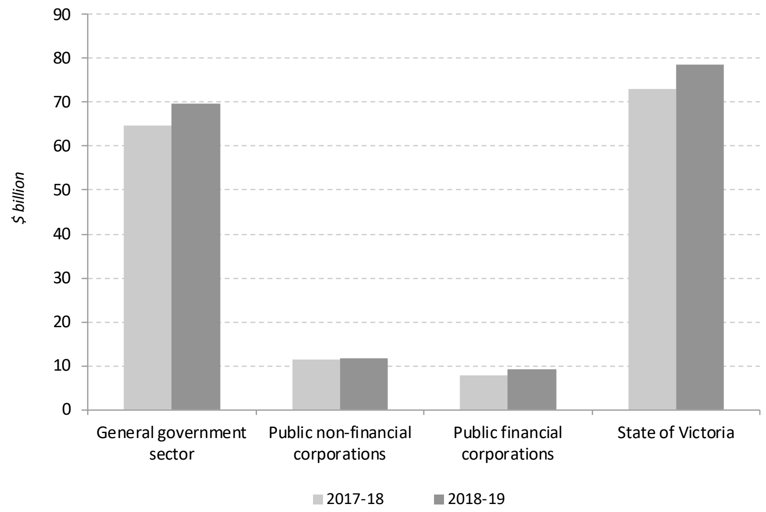
Note:
(a) Figures in this table are subject to rounding to the nearest million and may not add up to the totals.

Revenue

Total State revenue increased by 7.8 per cent in 2018-19 to $78.6 billion, $60 million higher than the revised forecast in the *2019-20 Budget* and $5.7 billion higher than in 2017-18. The general government sector accounts for 88.5 per cent of total State revenue.

Increases in taxation and grant revenue in the general government sector and dividends revenue in the PFC sector in 2018-19 compared with 2017-18 were the main contributors toward these changes.

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



Source: Department of Treasury and Finance

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

Within the PNFC sector, operating revenue increased by 2.5 per cent to $11.6 billion in 2018-19 compared with 2017-18. This was mainly due to an increase in the sales of goods and services for metropolitan water corporations and grant revenue for VicTrack.

In the PFC sector, operating revenue increased by 17 per cent to $9.3 billion in 2018-19 compared with $7.9 billion in 2017-18 mainly due to an increase in dividends received from investments and insurance premium revenue.

The PFC sector experienced marginally lower investment returns overall due to unfavourable conditions in global equity markets during the first half of 2018-19, with the Transport Accident Commission (TAC), WorkSafe and Victorian Managed Insurance Authority (VMIA) recording an average return of 7.5 per cent on their investment portfolios for the financial year compared with 9.9 per cent the previous year. Most of the unfavourable movements in investment returns compared with the previous year are included in total other economic flows impacting the net result.

Expenses

Total State expenses increased by 9.7 per cent to $80 billion during 2018-19, $646 million higher than the revised forecast in the *2019-20 Budget* and $7.1 billion higher than in 2017-18. Most of these movements reflect the activities of the general government sector discussed in the previous chapter.

In the PNFC sector, total expenses increased during the year by 5 per cent or $565 million to $11.9 billion, $219 million higher than forecast in the *2019-20 Budget*.

The annual increase was mainly due to higher depreciation, employee and other operating expenses. The increase in other operating expenses was mainly driven by higher plant operating and energy costs for metropolitan water entities and an increase in the capital asset charge for VicTrack reflecting its increased asset holdings.

Within the PFC sector, total expenses increased by 10.8 per cent to $11 billion in 2018-19. This was mainly driven by an increase in claims expenses of the State's insurers.

Net result from transactions

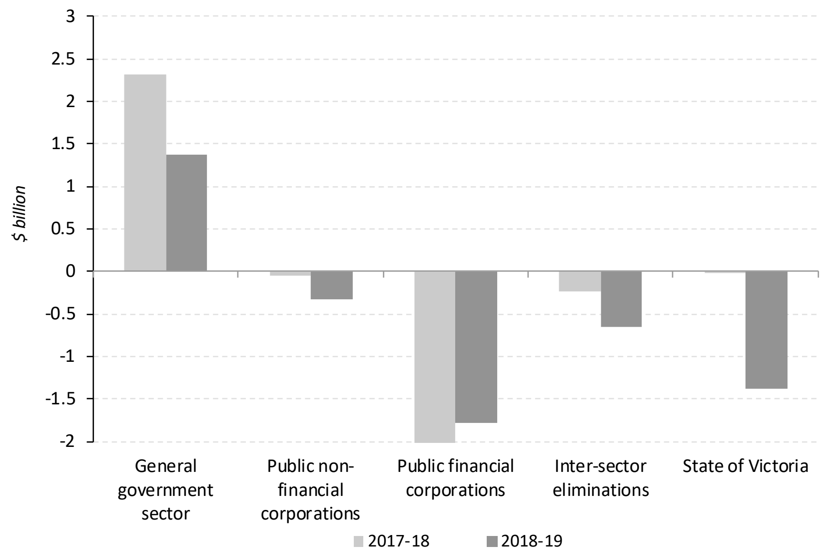
The State's net result from transactions in 2018-19 was a deficit of $1.4 billion, compared with a deficit of $10 million in the previous year after allowing for inter-sector eliminations. This outcome reflects:

- a $1.4 billion surplus within the general government sector (discussed in the previous chapter);
- a $329 million deficit within the PNFC sector; and
- a $1.8 billion deficit within the PFC sector.

As shown in Chart 3.2, the PNFC sector recorded a $329 million net deficit from transactions in 2018-19 compared with a deficit of $46 million in 2017-18. The decrease in the net deficit from transactions was mainly due to an increase in depreciation, employee and other operating expenses.

The PFC sector recorded a net deficit from transactions of $1.8 billion in 2018-19 compared with a $2.0 billion deficit in 2017-18. The decrease in the deficit was mainly driven by increased dividends revenue partially offset by an increase in claims expenses of the insurers.

Chart 3.2: Net result from transactions by sector



Source: Department of Treasury and Finance

Net result

At the consolidated State level, the net result for 2018-19 was a deficit of $9.1 billion.

The difference between the net result and the net result from transactions comprises other economic flows. This includes the impact of changes in bond rates used to value the State's insurance liabilities and variations in the investment returns on the assets invested to fund the State's insurance liabilities.

Other economic flows contributed a deficit of $7.7 billion towards the State's net result, mainly from entities in the PFC sector. This arose primarily from a revaluation expense due to a decline in discount rates used to value the liabilities held by the State's insurance agencies and TCV borrowings.

FINANCIAL POSITION

Table 3.2 shows the State's net assets decreased by $9.1 billion to $178.9 billion at 30 June 2019. This mainly reflects an increase in total liabilities by $29.0 billion due to an increase in the valuation of superannuation liabilities, borrowings and an increase in the value of claims liabilities of the insurers. This was partially offset by a $20.0 billion increase in total assets. Positive net cash flow from operating activities increasing financial assets, new investments plus revaluation gains increasing non-financial assets contributed towards the increase in total assets.

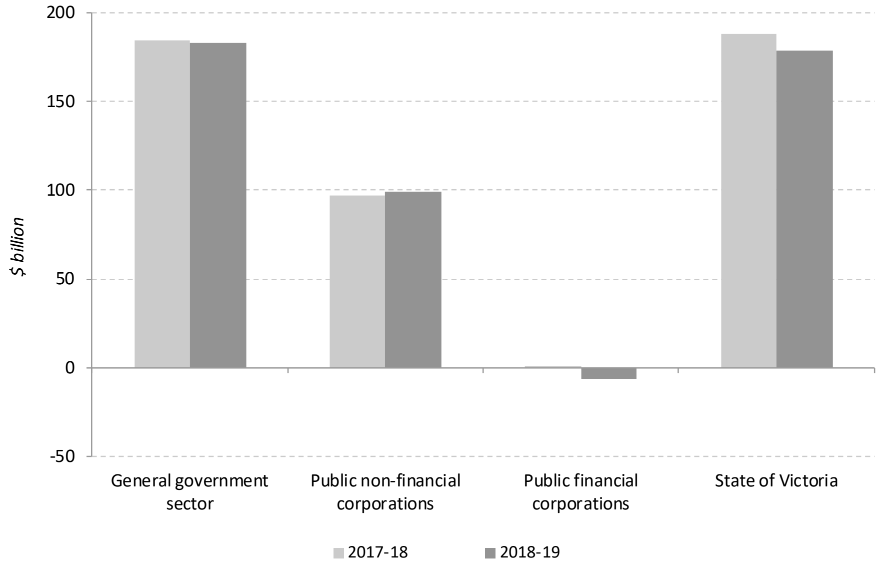
Table 3.2: Summary balance sheet – State of Victoria [(a)] **($ billion)**

	2019 actual	*Revised variance*	*2019 revised*	*Actual movement*	*2018 actual*
Assets					
Financial assets	68	5	63	10	58
Non-financial assets	275	(2)	277	10	265
Total assets	**343**	**3**	**340**	**20**	**323**
Liabilities					
Superannuation	29	1	27	3	25
Borrowings	63	3	60	13	50
Other liabilities	73	6	67	12	60
Total liabilities	**164**	**10**	**154**	**29**	**135**
Net assets	**179**	**(7)**	**186**	**(9)**	**188**

Source: Department of Treasury and Finance

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

Chart 3.3: Net assets by sector as at 30 June [(a)]



Source: Department of Treasury and Finance

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

The decrease in net assets was mainly driven by a decrease of $1.5 billion in the general government sector and $6.9 billion in the PFC sector. A decrease in bond yields, resulting in an increase in the value of claims liabilities of the State's insurers, was the main contributor to the decrease in the net assets of the PFC sector.

Chart 3.3 shows the contribution to the change in net assets by sector during 2018-19.

The reported net asset position of the PFC sector is impacted by the accounting convention adopted for TCV whereby its fixed interest rate loans to Government clients are measured at book value, whereas its liabilities are reported at market value. This valuation methodology for TCV's loans enables consolidation with the borrowings of the general government and the PNFC sector clients. This creates a valuation difference between TCV's assets and liabilities when reported in the PFC sector. This difference is eliminated when TCV's loans to Government clients are consolidated in the whole of State accounts. Note that in TCV's own accounts, both assets and liabilities are reported at market value. This is also impacted by the claims liabilities of the insurers explained above.

CASH FLOWS

After excluding non-cash items and receipt of the proceeds from the commercialisation of the land titles and registry functions of Land Use Victoria, the change in operating receipts and payments for the State were broadly in line with the same factors that underpinned the income and expense movements discussed earlier in this chapter.

Infrastructure investment

Net cash flows from investments in non-financial assets comprised $9.3 billion invested by the general government sector and $2.5 billion in the PNFC sector, particularly in the water sector.

Investment in water-related infrastructure included:

- upgrading and renewal of water and sewer assets by the Melbourne metropolitan water corporations, including the Western Treatment Plant Capacity Increase (Melbourne Water Corporation), Craigieburn Sewer Transfer Hub and Epping Main Sewer (Yarra Valley Water), Boneo Water Recycling Plant Upgrade (South East Water), and Spencer Street Sewer Augmentation and Nicholson St Distribution Main (City West Water); and
- upgrading and renewal of water and sewer assets in regional Victoria including Goulburn-Murray Water's Connections Project.

FINANCIAL SUSTAINABILITY (NON-FINANCIAL PUBLIC SECTOR)

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

Table 3.3 shows NFPS net debt of $37 billion as at June 2019, compared with $34.2 billion the previous year, and lower than the revised estimate of $38.3 billion. The ratio of NFPS net debt to gross state product (GSP) was 8.2 per cent in 2018-19 compared with 7.9 per cent in 2017-18.

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

	2019 actual	Revised variance	2019 revised	Actual movement	2018 actual
Assets					
Cash and deposits	11 372	1 959	9 413	3 697	7 676
Advances paid	418	(86)	504	40	378
Investments, loans and placements	3 341	156	3 185	(1 867)	5 208
Total	**15 131**	**2 029**	**13 102**	**1 870**	**13 262**
Liabilities					
Deposits held and advances received	1 451	136	1 315	(120)	1 570
Borrowings	50 652	585	50 067	4 774	45 878
Total	**52 103**	**721**	**51 382**	**4 654**	**47 448**
Net debt	**36 971**	**(1 308)**	**38 279**	**2 785**	**34 187**
Superannuation	28 683	1 472	27 211	3 450	25 233
Net debt plus superannuation liabilities	**65 654**	**164**	**65 490**	**6 234**	**59 420**
Other liabilities (net)	21 374	1 129	20 245	3 823	17 551
Net financial liabilities	**87 029**	**1 294**	**85 735**	**10 058**	**76 971**
					(per cent)
Net debt to GSP [(b)]	**8.2**		**8.5**		**7.9**
Net debt plus superannuation liabilities to GSP[(b)]	**14.6**		**14.5**		**13.8**
Net financial liabilities to GSP [(b)]	**19.3**		**19.0**		**17.9**

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

Indicators of financial condition

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

The operating cash flow surplus to revenue ratio has increased in 2018-19 compared with 2017-18. This was mainly due to the proceeds from the commercialisation of the land titles and registry functions of Land Use Victoria which significantly increased the cash receipts in 2018-19.

The interest expense to revenue ratio has steadily declined since 2013-14 to 3.4 per cent in 2018-19. This is due to declining debt portfolio interest costs and increased revenue. The gross debt to revenue ratio has fallen steadily since 2012-13 from 86.5 per cent to 71.3 per cent as at June 2019. The large fall in 2016-17 was due to the reduction in borrowings from the proceeds of the Port of Melbourne medium term lease transaction.

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

	2012	2013	2014	2015	2016	2017	2018	2019
Operating cash flow surplus to revenue	7.6	4.9	10.0	9.1	11.7	24.4	8.7	11.8
Gross debt to revenue [(a)]	66.5	86.5	81.5	81.0	76.8	64.7	69.8	71.3
Interest expense to revenue	3.8	4.8	5.0	4.9	4.4	3.9	3.7	3.4

Source: Department of Treasury and Finance

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

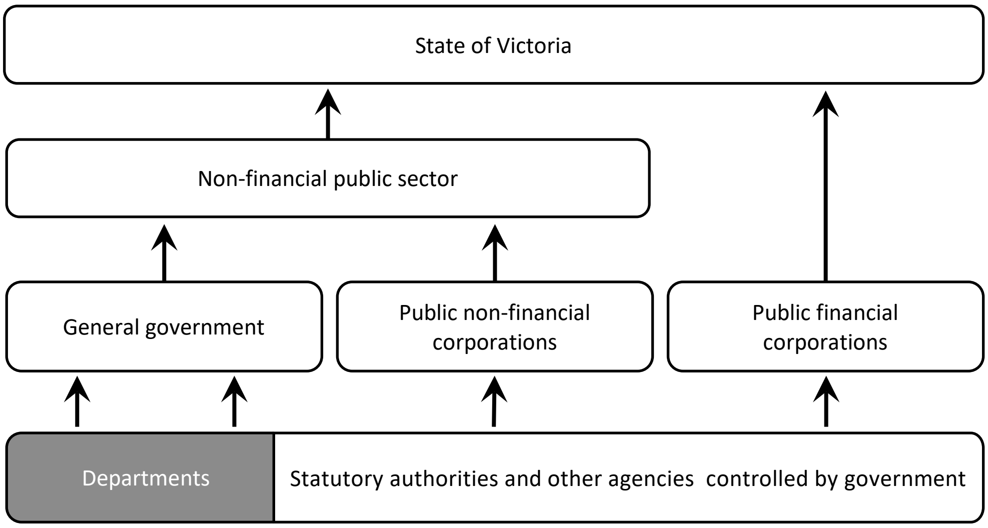
CHAPTER 4 – ANNUAL FINANCIAL REPORT

REPORT STRUCTURE

The Treasurer of Victoria presents the Annual Financial Report of the State of Victoria ("State") for the financial year ended 30 June 2019, as follows:

PUBLIC SECTOR TERMS EXPLAINED

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



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

Term	*Explanation*
General government sector (GGS)	The Victorian general government sector includes all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. The general government sector is not a separate entity but represents a sector within the State of Victoria reporting entity, and is reported in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The primary function of entities within the general government sector is to provide public services (outputs), which are mainly non-market in nature for the collective consumption of the community, and involve the transfer or redistribution of revenue, which is financed mainly through taxes and other compulsory levies.
Public non-financial corporations (PNFC) sector	The primary function of entities in the PNFC sector is to provide goods and services in a competitive market that is non-regulatory and non-financial in nature. Such entities are financed mainly through sales to the consumer of these goods and services.
Public financial corporations (PFC) sector	The PFC sector comprises entities engaged primarily in providing financial intermediation services or auxiliary financial services and which have one or more of the following characteristics: • they perform a central borrowing function; • they provide insurance services; • they accept call, term or savings deposits; or • they have the ability to incur liabilities and acquire financial assets in the market on their own account.
Non-financial public sector (NFPS)	The NFPS sector represents the consolidation of the general government and PNFC sectors.

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

VAGO
Victorian Auditor-General's Office

Independent Auditor's Report

To the Treasurer of the State of Victoria

Opinion

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

- consolidated State and General Government Sector balance sheets as at 30 June 2019
- consolidated State and General Government Sector comprehensive operating statements for the year then ended
- consolidated State and General Government Sector statements of changes in equity for the year then ended
- consolidated State and General Government Sector cash flow statements for the year then ended
- notes to the financial statements, including significant accounting policies
- certification by the Treasurer and the Department of Treasury and Finance.

In my opinion, the consolidated financial report presents fairly, in all material respects, the financial positions of the State and the General Government Sector as at 30 June 2019 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Section 24 of the *Financial Management Act 1994* and applicable Australian Accounting Standards.

Basis for opinion

I have conducted my audit in accordance with the *Audit Act 1994*, which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the *Auditor's responsibilities for the audit of the financial report* section of my report.

My independence is established by the *Constitution Act 1975*. My staff and I are independent of the State and the General Government Sector in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

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

Defined benefit superannuation liability: $28.7 billion.
I considered this to be a key audit matter because:
• the defined benefit superannuation liability is financially significant
• the underlying model (the model) used to value the liability is complex
• a significant degree of management judgement is required to determine the method, the model and key assumptions used in valuing the liability
• a small adjustment to an assumption may have a significant effect on the total value of the liability.
 	
Management engage an actuary to value the liability as at 30 April, then adjust the value of the liability to 30 June to account for actual market performance and movements in key assumptions since that date.
	I relied on the work completed within my audits of the Emergency Services Superannuation Scheme (ESSS) and the Department of Treasury and Finance. My key procedures included:
	• assessing and testing the operating effectiveness of the key controls supporting the membership data used in the model
	• assessing the completeness and accuracy of the membership data used in the model by reconciling this data to underlying membership data in the ESSS system
	• obtaining management's actuarial report and year-end adjustments, and engaging an appropriately qualified independent actuary to assist in obtaining sufficient appropriate audit evidence, which included:
	  o assessing the appropriateness of management's selection and application of the method, significant assumptions and data used in valuing the liability
	  o assessing the appropriateness of the model used to value the liability
	  o challenging the reasonableness of key assumptions by comparing against accepted industry benchmarks
	  o assessing the reasonableness of the reported liability value.
	• assessing the adequacy of financial report disclosures against the requirements of applicable Australian accounting standards.

Key audit matter	How I addressed the matter
Valuation of provision for insurance claims Refer to Note 6.6 *Other provisions* of the financial report	
Provision for insurance claims - $39.6 billion. I considered this to be a key audit matter because: • the provision for insurance claims is financially significant • the underlying models (the models) used to value the provision is complex • a significant degree of management judgement is required to determine the methods, the models and key assumptions used in valuing the provision • a small adjustment to an assumption may have a significant effect on the total value of the provision. Management engage actuaries to value the provision as at 30 June.	I relied on the work completed within my audits of the Victorian WorkCover Authority, Transport Accident Commission and Victorian Managed Insurance Authority. My key procedures included: • assessing and testing the operating effectiveness of the key controls supporting the underlying claims data used in the models • assessing the completeness and accuracy of the claims data used in the models by reconciling this data to underlying claims data in the insurers systems • obtaining management's actuarial reports, and engaging an appropriately qualified independent actuary to assist in obtaining sufficient appropriate audit evidence, which included: o assessing the appropriateness of management's selection and application of the methods, significant assumptions and data used in valuing the provision o assessing the appropriateness of the models used to value the provision o challenging the reasonableness of key assumptions by comparing against claims history and accepted industry benchmarks o assessing the reasonableness of the reported provision value. • assessing the adequacy of financial report disclosures against the requirements of applicable Australian accounting standards.

Other information

The Treasurer of Victoria is responsible for the Other Information, which comprises the information in chapters 1—3 of the 2018–19 Financial Report but does not include the consolidated financial report in chapter 4 of the 2018–19 Financial Report and my auditor's report thereon.

My opinion on the consolidated financial report does not cover the Other Information and accordingly, I do not express any form of assurance conclusion on the Other Information. However, in connection with my audit of the consolidated financial report, my responsibility is to read the Other Information and in doing so, consider whether it is materially inconsistent with the consolidated financial report or the knowledge I obtained during the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude there is a material misstatement of the Other Information, I am required to report that fact. I have nothing to report in this regard.

Treasurer's responsibilities for the financial report	The Treasurer of Victoria is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Financial Management Act 1994*, and for such internal control as the Treasurer determines is necessary to enable the preparation of a consolidated financial report that is free from material misstatement, whether due to fraud or error. In preparing the financial report, the Treasurer is responsible for assessing the State and the General Government Sector's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.
Auditor's responsibilities for the audit of the financial report	As required by the *Audit Act 1994*, my responsibility is to express an opinion on the consolidated financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the consolidated financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report. As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also: • identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. • obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State and the General Government Sector's internal control • evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Treasurer • conclude on the appropriateness of the Treasurer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the State and the General Government Sector's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the State and the General Government Sector to cease to continue as a going concern. • evaluate the overall presentation, structure and content of the consolidated financial report, including the disclosures, and whether the consolidated financial report represents the underlying transactions and events in a manner that achieves fair presentation

Auditor's responsibilities for the audit of the financial report (continued)	• obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the State and the General Government Sector to express an opinion on the consolidated financial report. I remain responsible for the direction, supervision and performance of the audit of the consolidated financial report. I remain solely responsible for my audit opinion. I communicate with the Treasurer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit. From the matters communicated with the Treasurer, I determine those matters that were of most significance in the audit of the consolidated financial report of the current period and are therefore key audit matters. I describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

MELBOURNE
25 September 2019

Andrew Greaves
Auditor-General

CERTIFICATION BY THE TREASURER AND THE DEPARTMENT OF TREASURY AND FINANCE

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

In our opinion, the *Annual Financial Report*, which comprises the consolidated comprehensive operating statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, and notes to the financial statements of the State and the Victorian general government sector as at 30 June 2019:

(a) presents fairly the State's and the Victorian general government sector's financial positions as at 30 June 2019 and their financial performance and cash flows for the financial year ended on that date; and

(b) has been prepared in accordance with Australian Accounting Standards and pronouncements, in particular AASB 1049 *Whole of Government and General Government Sector Financial Reporting* and the financial reporting requirements contained in Part 5 of the *Financial Management Act 1994*.

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

Tim Pallas MP
Treasurer

David Martine
Secretary

Authorised for issue on:

23 September 2019

CONSOLIDATED COMPREHENSIVE OPERATING STATEMENT

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

		State of Victoria		General government sector	
	Notes	2019	2018	2019	2018
Revenue from transactions					
Taxation revenue	2.1	23 244	22 559	23 653	22 929
Interest revenue	2.2	678	667	817	845
Dividends, income tax equivalent and rate equivalent revenue	2.3	2 426	1 339	1 030	781
Sales of goods and services	2.4	15 718	15 136	7 750	7 339
Grant revenue	2.5	32 654	29 590	33 303	29 928
Other revenue	2.6	3 914	3 632	3 042	2 767
Total revenue from transactions		**78 633**	**72 923**	**69 595**	**64 589**
Expenses from transactions					
Employee expenses	3.1	26 644	24 483	25 406	23 271
Net superannuation interest expense	3.2	690	716	688	714
Other superannuation	3.2	2 961	2 687	2 797	2 535
Depreciation	4.1.2	5 362	5 041	2 865	2 745
Interest expense	5.5	2 694	2 770	2 103	2 092
Grant expense	3.3	9 571	7 639	13 355	11 130
Other operating expenses	3.4	32 090	29 598	21 006	19 789
Total expenses from transactions	3.5, 3.6	**80 011**	**72 933**	**68 220**	**62 276**
Net result from transactions – net operating balance		**(1 378)**	**(10)**	**1 375**	**2 313**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets		(68)	39	(38)	59
Net gain/(loss) on financial assets or liabilities at fair value		(1 466)	2 384	(36)	53
Share of net profit/(loss) from associates/joint venture entities		1	(55)	1	(5)
Other gains/(losses) from other economic flows	9.3	(6 173)	(288)	(920)	(933)
Total other economic flows included in net result		**(7 705)**	**2 080**	**(993)**	**(827)**
Net result		**(9 083)**	**2 070**	**382**	**1 486**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus		3 066	14 003	4 162	8 764
Remeasurement of superannuation defined benefits plans	3.2	(3 385)	(247)	(3 371)	(258)
Other movements in equity		186	(133)	72	(103)
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value		(60)	14	(65)	(2)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	6.1	..	..	(2 654)	6 202
Total other economic flows – other comprehensive income		**(193)**	**13 637**	**(1 855)**	**14 603**
Comprehensive result – total change in net worth		**(9 277)**	**15 707**	**(1 473)**	**16 089**
KEY FISCAL AGGREGATES					
Net operating balance		**(1 378)**	**(10)**	**1 375**	**2 313**
Less: Net acquisition of non-financial assets from transactions	9.1	7 082	7 774	3 752	3 223
Net lending/(borrowing)		**(8 460)**	**(7 784)**	**(2 376)**	**(910)**

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET

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

		State of Victoria		General government sector	
	Notes	2019	2018	2019	2018
Assets					
Financial assets					
Cash and deposits	5.3	12 694	6 494	9 775	6 257
Advances paid	5.4	418	378	8 340	10 019
Receivables	6.3	9 813	8 764	6 628	6 208
Investments, loans and placements	5.4	45 098	42 336	2 539	3 928
Investments accounted for using the equity method		45	53	45	53
Investments in other sector entities	6.1	..	..	101 825	101 253
Total financial assets		**68 069**	**58 024**	**129 153**	**127 717**
Non-financial assets					
Inventories	6.2	1 064	1 050	165	175
Non-financial assets held for sale		304	462	223	389
Land, buildings, infrastructure, plant and equipment	4.1.1	270 119	260 578	141 593	134 141
Other non-financial assets	4.2	3 508	3 001	2 305	1 872
Total non-financial assets		**274 995**	**265 090**	**144 286**	**136 577**
Total assets	3.6	**343 064**	**323 114**	**273 439**	**264 294**
Liabilities					
Deposits held and advances received	5.2	1 618	2 331	5 177	6 700
Payables	6.4	21 201	18 243	10 011	6 713
Borrowings	5.1	62 904	49 771	37 885	33 506
Employee benefits	3.1	8 604	7 570	8 020	7 020
Superannuation	6.5	28 683	25 233	28 632	25 205
Other provisions	6.6	41 164	32 025	1 072	1 034
Total liabilities		**164 175**	**135 173**	**90 795**	**80 178**
Net assets		**178 890**	**187 941**	**182 644**	**184 116**
Accumulated surplus/(deficit)		68 851	78 125	52 473	52 574
Reserves		110 039	109 816	130 171	131 543
Net worth		**178 890**	**187 941**	**182 644**	**184 116**
FISCAL AGGREGATES					
Net financial worth		(96 105)	(77 149)	38 358	47 540
Net financial liabilities		96 105	77 149	63 467	53 713
Net debt		6 312	2 894	22 407	20 003

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

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

		State of Victoria		*General government sector*	
	Notes	*2019*	*2018*	*2019*	*2018*
Cash flows from operating activities					
Receipts					
Taxes received		22 892	22 072	23 301	22 442
Grants		32 719	29 654	33 353	29 992
Sales of goods and services [(a)]		19 764	16 571	11 047	8 018
Interest received		453	442	808	843
Dividends, income tax equivalent and rate equivalent receipts		2 426	1 339	1 040	774
Other receipts		2 653	2 784	2 043	1 937
Total receipts		**80 908**	**72 861**	**71 592**	**64 007**
Payments					
Payments for employees		(25 944)	(23 943)	(24 731)	(22 753)
Superannuation		(3 585)	(3 357)	(3 429)	(3 203)
Interest paid		(2 630)	(2 731)	(2 079)	(2 053)
Grants and subsidies		(9 522)	(7 816)	(13 444)	(11 415)
Goods and services [(a)]		(28 795)	(27 597)	(20 050)	(19 731)
Other payments		(792)	(753)	(791)	(757)
Total payments		**(71 268)**	**(66 197)**	**(64 523)**	**(59 912)**
Net cash flows from operating activities	5.3	**9 640**	**6 665**	**7 068**	**4 094**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	3.5, 3.6	(12 123)	(12 397)	(9 559)	(9 804)
Sales of non-financial assets		364	541	243	383
Net cash flows from investments in non-financial assets		**(11 760)**	**(11 855)**	**(9 317)**	**(9 421)**
Cash flows from investments in financial assets for policy purposes					
Cash inflows		407	2 524	2 235	5 432
Cash outflows		(307)	(539)	(790)	(874)
Net cash flows from investments in financial assets for policy purposes [(b)]		**100**	**1 985**	**1 445**	**4 559**
Cash flows from investments in financial assets for liquidity management purposes [(b)]					
Cash inflows		3 503	10 293	2 857	2 426
Cash outflows		(5 743)	(7 418)	(1 225)	(2 662)
Net cash flows from investments in financial assets for liquidity management purposes		**(2 240)**	**2 875**	**1 631**	**(235)**
Net cash flows from investing activities		**(13 900)**	**(6 995)**	**(6 241)**	**(5 098)**
Cash flows from financing activities					
Advances received		16	371	211	370
Advances repaid		(245)	(62)	(1 817)	(3 029)
Advances received (net) [(b)]		(228)	309	(1 606)	(2 659)
Borrowings received		12 308	1 477	6 434	4 700
Borrowings repaid		(1 135)	(911)	(2 220)	(580)
Net borrowings [(b)]		11 173	566	4 214	4 119
Deposits received		2 089	2 298	2 015	2 224
Deposits repaid		(2 574)	(2 216)	(1 933)	(1 952)
Deposits received (net) [(b)]		(484)	82	82	272
Net cash flows from financing activities		**10 461**	**956**	**2 690**	**1 731**
Net increase/(decrease) in cash and cash equivalents		**6 200**	**625**	**3 518**	**727**
Cash and cash equivalents at beginning of reporting period		6 494	5 868	6 257	5 530
Cash and cash equivalents at end of the reporting period	5.3	**12 694**	**6 494**	**9 775**	**6 257**
FISCAL AGGREGATES					
Net cash flows from operating activities		9 640	6 665	7 068	4 094
Net cash flows from investments in non-financial assets		(11 760)	(11 855)	(9 317)	(9 421)
Cash surplus/(deficit)		**(2 120)**	**(5 191)**	**(2 248)**	**(5 327)**

The accompanying notes form part of these financial statements.

Notes:

(a) These items include goods and services tax.

(b) In accordance with AASB 107, Treasury Corporation of Victoria (TCV) is not required to gross up its cash flow information for whole of government consolidation purposes. The net cash movements for TCV have been added to cash inflows or outflows for both financial years ended 30 June 2019 and 30 June 2018.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June ($ million)

State of Victoria	*Accumulated surplus/(deficit)*	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
2019					
Balance at 1 July 2018	78 429	108 122	..	1 615	188 167
Net result for the year	(9 083)	..	..	..	(9 083)
Other comprehensive income for the year	(3 287)	3 066	..	28	(193)
Transfer to/(from) accumulated surplus	2 792	(2 792)	..	..	..
Balance at 30 June 2019	**68 851**	**108 396**	**..**	**1 643**	**178 890**
2018					
Balance at 1 July 2017	75 141	95 472	..	1 620	172 234
Net result for the year	2 070	..	..	..	2 070
Other comprehensive income for the year	(410)	14 003	..	44	13 637
Transfer to/(from) accumulated surplus	1 323	(1 353)	..	30	..
Balance at 30 June 2018	**78 125**	**108 122**	**..**	**1 694**	**187 941**
Change in accounting policy	304	..	..	(79)	226
Restated balance at 1 July 2018 (a)	**78 429**	**108 122**	**..**	**1 615**	**188 167**

General government sector					
2019					
Balance at 1 July 2018	52 626	64 084	66 351	1 055	184 116
Net result for the year	382	..	..	..	382
Other comprehensive income for the year	(3 328)	4 162	(2 654)	(35)	(1 855)
Transfer to/(from) accumulated surplus	2 792	(2 792)	..	..	..
Balance at 30 June 2019	**52 473**	**65 454**	**63 697**	**1 020**	**182 644**
2018					
Balance at 1 July 2017	51 464	55 320	60 149	1 094	168 027
Net result for the year	1 486	..	..	..	1 486
Other comprehensive income for the year	(347)	8 764	6 202	(16)	14 603
Transfer to/(from) accumulated surplus	(30)	..	..	30	..
Balance at 30 June 2018	**52 574**	**64 084**	**66 351**	**1 108**	**184 116**
Change in accounting policy	52	..	..	(53)	..
Restated balance at 1 July 2018 (a)	**52 626**	**64 084**	**66 351**	**1 055**	**184 116**

The accompanying notes form part of these financial statements.

Note:
(a) *The 1 July 2018 balance has been restated resulting from the initial application of AASB 9* Financial Instruments*. Note 9.7.3 provides further information on the impact of the new accounting standard.*

1. ABOUT THIS REPORT

Basis of preparation

This *Annual Financial Report* presents the audited general purpose consolidated financial statements of the State and the Victorian general government sector for the year ended 30 June 2019. This report informs users about the Government's stewardship of the resources entrusted to it.

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

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

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

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

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

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

All amounts in the financial statements have been rounded to the nearest $1 000 000 except in the *Public Account disclosure* in Note 8.2 and the *Related party transactions disclosure* in Note 9.5, which are rounded to the nearest $1 000.

Figures in the *2018-19 Financial Report* may not add due to rounding.

Basis for consolidation

The consolidated financial statements of the State incorporate assets and liabilities of all reporting entities it controlled as at 30 June 2019 and the revenue and expenses of controlled entities for the part of the reporting period in which control existed (Note 9.8).

The consolidated financial statements of the Victorian general government sector incorporate the assets and liabilities, revenue and expenses of entities classified as general government. Entities in the PNFC and PFC sectors are not consolidated into the financial statements of the general government sector, but are accounted for as equity investments measured at the Government's proportional share of the carrying amount of the net assets of the PNFC and PFC sector entities before consolidation eliminations. Where the carrying amount of the entity's net assets is less than zero (before consolidation), the amount is not included in the general government sector, but the net liabilities will be consolidated at the State level. Any change in the carrying amount of the investment from period to period is accounted for as if the change in carrying amount is a change in fair value and accounted for in a manner consistent with AASB 9 *Financial Instruments.*

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

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

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

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

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

Compliance

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

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

The Government Finance Statistics (GFS) information included in this report is based on the GFS manual (the Australian Bureau of Statistics (ABS) publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015* as updated from time to time). Note 9.4 reconciles the differences between Australian Accounting Standards and the requirements contained in the GFS Manual.

2. HOW FUNDS ARE RAISED

Introduction

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

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

Structure

2.1 Taxation revenue

($ million)

	State of Victoria		*General government sector*	
	2019	*2018*	*2019*	*2018*
Taxes on employers' payroll and labour force	**6 203**	**5 885**	**6 280**	**5 964**
Taxes on immovable property				
Land tax	3 483	2 555	3 509	2 586
Fire Services Property Levy [(a)]	648	694	648	694
Congestion levy	111	103	111	103
Metropolitan improvement levy	174	183	174	183
Total taxes on property	**4 416**	**3 536**	**4 442**	**3 567**
Gambling taxes				
Public lotteries	523	415	523	415
Electronic gaming machines	1 121	1 115	1 121	1 115
Casino	241	222	241	222
Racing and other sports betting	110	72	110	72
Other	11	28	11	28
Financial and capital transactions [(b)]				
Land transfer duty	6 009	6 933	6 009	6 933
Other property duties	..	..	..	..
Metropolitan planning levy	20	23	20	23
Financial accommodation levy	..	..	147	146
Growth areas infrastructure contribution	283	265	283	265
Levies on statutory corporations	**..**	**..**	**157**	**112**
Taxes on insurance	**1 373**	**1 299**	**1 373**	**1 299**
Total taxes on the provision of goods and services	**9 692**	**10 370**	**9 996**	**10 629**
Motor vehicle taxes				
Vehicle registration fees	1 643	1 558	1 645	1 560
Duty on vehicle registrations and transfers	909	920	909	920
Liquor licence fees	**24**	**24**	**24**	**24**
Other	**357**	**267**	**357**	**267**
Total taxes on the use of goods and performance of activities	**2 933**	**2 768**	**2 935**	**2 770**
Total taxation revenue	**23 244**	**22 559**	**23 653**	**22 929**

Notes:

(a) The Fire Services Property Levy was capped for 2017-18 and 2018-19. The 2018-19 revenue was $14 million lower than the Government's cap of $662 million (the amount collected in 2016-17), returning the over-collection from 2017-18.

(b) Financial and capital transactions have been reclassified from 'taxes on property' to 'taxes on the provision of goods and services' consistent with the classification required under the updated ABS GFS manual.

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

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

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

2.2 Interest revenue

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

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

2.3 Dividends, income tax equivalent and rate equivalent revenue

($ million)

	State of Victoria		*General government sector*	
	2019	*2018*	*2019*	*2018*
Dividends from PFC sector	..	..	470	94
Dividends from PNFC sector	..	..	158	330
Dividends from non-public sector	2 426	1 339	73	58
Dividends	**2 426**	**1 339**	**701**	**483**
Income tax equivalent revenue from PFC sector	..	..	29	10
Income tax equivalent revenue from PNFC sector	..	..	296	283
Income tax equivalent revenue	**..**	**..**	**325**	**294**
Local government rate equivalent revenue	..	..	5	5
Total dividends, income tax equivalent and rate equivalent revenue	**2 426**	**1 339**	**1 030**	**781**

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

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

While most government departments and agencies are exempt from federal income tax, certain larger PNFC and PFC entities are subject to income tax equivalents payable to the general government sector in accordance with the National Tax Equivalent Regime (NTER). The primary objective of the NTER is to promote competitive neutrality, through uniformly applying income tax laws, between NTER entities and their privately held counterparts.

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

Dividends earned from the non-public sector are recognised when the right to receive payment is established and reflected in the financial statements, as noted in the above table.

Dividends by entity **($ million)**

	General government sector 2019	General government sector 2018
Public financial corporations		
Victorian Managed Insurance Authority	408	..
Transport Accident Commission [(a)]	..	..
Treasury Corporation of Victoria	50	83
State Trustees Ltd	5	5
Victorian Funds Management Corporation	7	7
Dividends from PFC sector	**470**	**94**
Public non-financial corporations		
Melbourne Water Corporation	24	77
City West Water Corporation	20	63
South East Water Corporation	59	107
Yarra Valley Water Corporation	44	42
Development Victoria	9	40
Others	1	2
Dividends from PNFC sector	**158**	**330**

Note:
(a) 'Amounts equivalent to dividends' 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 amount paid in 2018-19 was $255 million.*

2.4 Sales of goods and services

($ million)

	State of Victoria 2019	State of Victoria 2018	General government sector 2019	General government sector 2018
Motor vehicle regulatory fees	231	224	231	224
Other regulatory fees	487	630	472	615
Sale of goods	580	609	84	87
Provision of services [(a)]	13 804	13 185	4 553	4 258
Rental	314	288	80	77
Refunds and reimbursements	302	201	73	35
Inter-sector capital asset charge	..	..	2 257	2 044
Total sales of goods and services	**15 718**	**15 136**	**7 750**	**7 339**

Note:
(a) Further disclosure on provision of services is available on the Department of Treasury and Finance's website (www.dtf.vic.gov.au). This further disclosure is not subject to audit by the Victorian Auditor-General's Office.

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

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

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

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

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

Regulatory fees are recognised at the time of billing.

Capital asset charge is a levy on the controlled non-current physical assets of State government departments and some public non-financial corporations (PNFCs). This represents the opportunity cost of capital used in service delivery.

The charge is calculated on the budgeted carrying amount of applicable non-financial physical assets. At a general government level, the capital asset charge is levied on the PNFC entities.

2.5 Grant revenue

($ million)

	State of Victoria		*General government sector*	
	2019	*2018*	*2019*	*2018*
General purpose grants	16 720	15 595	16 720	15 595
Specific purpose grants for on-passing	4 044	3 828	4 044	3 828
Specific purpose grants	11 879	10 150	11 877	10 149
Total	**32 643**	**29 573**	**32 641**	**29 571**
Other contributions and grants	10	18	662	357
Total grant revenue	**32 654**	**29 590**	**33 303**	**29 928**

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

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

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

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

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

2.6 Other revenue

($ million)

	State of Victoria		General government sector	
	2019	2018	2019	2018
Fair value of assets received free of charge or for nominal consideration	444	386	111	95
Fines	731	823	730	822
Royalties	116	118	103	102
Donations and gifts [(a)]	293	312	210	234
Other non-property rental	86	99	34	28
Other revenue – Education	616	633	616	633
Other revenue – Health [(a)]	194	148	194	148
Other miscellaneous revenue	1 435	1 112	1 045	706
Total other revenue	**3 914**	**3 632**	**3 042**	**2 767**

Note:
(a) June 2018 comparative figures have been reclassified to reflect more current information.

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

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

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

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

Other education revenue mainly comprises locally raised funds from school fetes, fundraising events, and voluntary contributions made by parents, recognised on a cash basis.

Other health revenue mainly comprises research funding from non-government organisations and non-salary cost recovery from external organisations in the health sector.

Other miscellaneous revenue includes all other revenue from various sources, which are not able to be classified elsewhere.

3. HOW FUNDS ARE SPENT

Introduction

This section accounts for the major components of expenditure incurred by the State towards the delivery of services and on capital or infrastructure projects during the year, as well as any related obligations outstanding at 30 June 2019.

Structure

3.1 Employee expenses and provision for outstanding employee benefits

Employee expenses (operating statement)

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

Employee benefits (balance sheet)

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

Total provision for employee benefits and on-costs at 30 June **($ million)**

	State of Victoria		*General government sector*	
	2019	*2018*	*2019*	*2018*
Current				
Accrued salaries and wages	**697**	**633**	**656**	**592**
Other employee benefits	**102**	**113**	**84**	**87**
Annual leave				
Unconditional and expected to settle within 12 months	1 433	1 268	1 317	1 157
Unconditional and expected to settle after 12 months	234	258	196	219
Long service leave				
Unconditional and expected to settle within 12 months	941	658	866	596
Unconditional and expected to settle after 12 months	3 195	2 982	3 029	2 830
On-costs				
Unconditional and expected to settle within 12 months	317	269	294	246
Unconditional and expected to settle after 12 months	566	488	529	454
Total current employee benefits and on-costs	**7 487**	**6 669**	**6 971**	**6 182**
Non-current				
Long service leave	990	793	927	734
On-costs	127	108	121	104
Total non-current employee benefits and on-costs	**1 117**	**901**	**1 048**	**837**
Total employee benefits and on-costs	**8 604**	**7 570**	**8 020**	**7 020**

Wages and salaries, annual leave and sick leave

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

Long service leave

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

The components of this current LSL liability are measured at:

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

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

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

On-costs

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

Movements in provisions of on-costs **($ million)**

	State of Victoria		*General government sector*	
	2019	*2018*	*2019*	*2018*
Opening balance	865	778	804	720
Additional provisions recognised	279	229	261	213
Additions due to acquisitions	6	2	..	2
Reductions arising from payments/other sacrifices of future economic benefits	(150)	(142)	(134)	(130)
Reductions resulting from remeasurement or settlement without cost	(6)	(4)	(4)	(2)
Unwind of discount and effect of changes in the discount rate	16	1	17	1
Closing balance	**1 010**	**865**	**944**	**804**
Represented by:				
Current	884	757	823	700
Non-current	127	108	121	104

3.2 Superannuation interest expense and other superannuation expenses

Superannuation expense recognised in the operating statement

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

- in relation to defined contribution (i.e. accumulation) superannuation plans, the associated expense is simply the employer contributions that are paid or payable in respect of employees who are members of these plans during the reporting period; and
- for defined benefit plans, the superannuation expense reflects the employer financed component of defined benefits that are expected to accrue over the reporting period (i.e. service cost), along with the net superannuation interest expense.

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

- actuarial gains and losses, which reflect the change in the defined benefit obligation that have arisen due to differences between actual outcomes and the assumptions used to calculate the superannuation expense from transactions;
- the return on plan assets, excluding amounts included in the net superannuation interest expense; and
- the effect of any change in actuarial assumptions during the period.

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

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

	State of Victoria	
	2019	*2018*
Defined benefit plans		
Net superannuation interest expense	690	716
Current service cost	1 008	928
Remeasurements:	..	..
Expected return on superannuation assets excluding interest income	(1 039)	(954)
Other actuarial (gain)/loss on superannuation assets	516	(13)
Actuarial and other adjustments to unfunded superannuation liability	3 908	1 214
Total expense recognised in respect of defined benefit plans	**5 083**	**1 891**
Defined contribution plans		
Employer contributions to defined contribution plans	1 866	1 676
Other (including pensions)	87	83
Total expense recognised in respect of defined contribution plans	**1 953**	**1 758**
Total superannuation (gain)/expense recognised in operating statement	**7 035**	**3 649**
Represented by:		
Net superannuation interest expense	690	716
Other superannuation	2 961	2 687
Superannuation expense from transactions	**3 651**	**3 402**
Remeasurement recognised in other comprehensive income	**3 385**	**247**
Total superannuation costs recognised in operating statement	**7 035**	**3 649**

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

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

3.3 Grant expense

($ million)

	State of Victoria		General government sector	
	2019	*2018*	*2019*	*2018*
Current grant expense				
Commonwealth Government	1 885	826	1 883	825
Local government (including grants for on-passing)	1 170	1 080	1 170	1 080
Private sector and not-for-profit on-passing	3 404	3 196	3 404	3 196
Other private sector and not-for-profit	2 632	2 177	2 583	2 130
Grants within the Victorian Government	..	..	3 965	3 668
Grants to other state governments	36	29	36	29
Total current grant expense	**9 127**	**7 309**	**13 041**	**10 928**
Capital grant expense				
Local government (including grants for on-passing)	25	17	25	17
Private sector and not-for-profit on-passing	175	155	153	126
Grants within the Victorian Government	..	..	33	20
Other grants	244	158	104	39
Total capital grant expense	**444**	**330**	**314**	**201**
Total grant expense	**9 571**	**7 639**	**13 355**	**11 130**

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

They include transactions such as grants, subsidies, personal benefit payments made in cash to individuals, other transfer payments made to local government, non-government schools and community groups.

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

3.4 Other operating expenses

($ million)

	State of Victoria		General government sector	
	2019	*2018*	*2019*	*2018*
Purchase of supplies and consumables [(a)]	5 426	5 320	4 299	4 159
Cost of goods sold	230	266	30	30
Finance expenses and fees	475	508	43	41
Purchase of services [(a)]	15 946	14 701	14 240	13 255
Insurance claims expense	7 089	6 073	284	262
Maintenance	1 560	1 407	853	828
Operating lease payments	480	450	404	379
Other	884	873	853	835
Total other operating expenses	**32 090**	**29 598**	**21 006**	**19 789**

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

Other operating expenses generally represent the day-to-day running costs incurred in normal operations and includes supplies and services costs, which are recognised as an expense in the reporting period in which they are incurred. The carrying amounts of any inventories held for distribution are expensed when distributed.

Audit fees of $413 000 ($402 900 in 2018) were paid or payable to the Victorian Auditor-General's Office for the audit of the Annual Financial Report of the State of Victoria. The Victorian Auditor-General's Office provided no other services, relating to audit fees, to the State other than the review of the Estimated Financial Statements and the financial audits of departments and agencies.

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

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

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

	State of Victoria		*General government sector*	
	2019	*2018*	*2019*	*2018*
Medicinal pharmacy and medical supplies	1 549	1 493	1 549	1 493
Office supplies and consumables	230	235	214	223
Specialised operational supplies and consumables	292	223	191	152
Other purchase of supplies and consumables	3 355	3 369	2 346	2 291
Total purchase of supplies and consumables	**5 426**	**5 320**	**4 299**	**4 159**

Purchase of services **($ million)**

	State of Victoria		*General government sector*	
	2019	*2018*	*2019*	*2018*
Service contracts	8 183	7 845	7 747	7 448
Accommodation/occupancy	1 097	983	928	828
Medical and client care services	382	344	382	344
Staff related expenses (non-labour related)	371	316	333	281
Other purchase of services	5 912	5 213	4 851	4 355
Total purchases of services	**15 946**	**14 701**	**14 240**	**13 255**

3.5 Total operating expenses and purchases of non-financial assets by department [(a)]

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

($ million)

	Expenses from transactions		*Purchases of non-financial assets*	
State of Victoria	*2019*	*2018*	*2019*	*2018*
Education and Training	17 957	16 981	1 706	1 217
Environment, Land, Water and Planning	9 977	9 051	2 042	1 724
Health and Human Services	28 686	26 542	1 536	1 506
Jobs, Precincts and Regions	1 976	..	136	..
Justice and Community Safety	10 118	7 226	612	740
Premier and Cabinet	800	602	35	44
Transport	16 763	14 950	5 598	6 739
Treasury and Finance	14 332	17 010	82	99
Parliament	214	201	24	43
Courts	650	581	66	70
Regulatory bodies and other part budget funded agencies [(b)]	2 729	2 401	238	191
Total	**104 202**	**95 545**	**12 074**	**12 373**
Less eliminations and adjustments [(c)]	*(24 191)*	*(22 612)*	*49*	*24*
Grand total	**80 011**	**72 933**	**12 123**	**12 397**

General government sector				
Education and Training	17 957	16 981	1 706	1 217
Environment, Land, Water and Planning	3 909	3 226	165	93
Health and Human Services	27 084	25 055	1 199	1 057
Jobs, Precincts and Regions	1 309	..	73	..
Justice and Community Safety	7 793	7 038	613	738
Premier and Cabinet	774	580	35	43
Transport	9 716	9 828	5 258	6 267
Treasury and Finance	7 813	7 086	40	32
Parliament	214	201	24	43
Courts	650	581	66	70
Regulatory bodies and other part budget funded agencies [(b)]	2 729	2 401	238	191
Total	**79 948**	**72 977**	**9 416**	**9 752**
Less eliminations and adjustments [(c)]	*(11 728)*	*(10 701)*	*143*	*52*
Grand total	**68 220**	**62 276**	**9 559**	**9 804**

Notes:

(a) On 29 November 2018, the Premier announced various machinery of government changes effective from 1 January 2019. Please see Note 9.8 for further details.

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

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

3.6 Classification of the functions of government disclosure

The Australian system of Government Finance Statistics (GFS) was revised by the Australian Bureau of Statistics, with the release of the *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015 Cat. No. 5514.0.*

Implementation of the revised GFS manual has resulted in the 'classification of the functions of government' (COFOG) framework replacing the former 'government purpose classification' (GPC) framework, with effect from the 2018-19 financial year for financial reporting under AASB 1049.

The key reporting changes from GPC to COFOG are as follows:

- the number of categories has reduced from 12 under GPC to 10 under COFOG;
- the 'fuel and energy' and 'agriculture, forestry, fishing and hunting' categories have been abolished and are now part of the new 'economic affairs' category. The majority of the outputs in the previous 'other economic affairs' are also included in this new category;
- public debt transactions have moved from the 'other purposes' category (i.e. primarily interest expense on borrowings) to 'general public services' category;
- a new 'environmental protection' category was created to include functions such as waste management, water waste management, pollution and production of biodiversity and landscape, which were previously classified under the 'housing and community amenities' category, as well as national and state parks functions from the 'recreation and culture' category; and
- housing functions such as housing assistance and housing concessions are now part of the 'social protection' category.

The COFOG framework disclosures required under AASB 1049 classify expenses, acquisition of non-financial assets of the public sector and total assets of the general government sector in terms of their purposes. This information is presented to facilitate improved inter-jurisdictional comparison of the financial operations of public sector jurisdictions.

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

The major groups are:

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

Total operating expenses, purchases of non-financial assets and total assets by classification of the functions of government [(a)]

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

($ million)

	Expenses from transactions		*Purchases of non-financial assets*		*Total assets*	
State of Victoria	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*
General public services	12 683	11 686	142	155	5 250	3 252
Public order and safety	8 253	7 365	873	980	10 155	9 447
Economic affairs	1 881	1 543	284	125	1 155	1 378
Environmental protection	953	702	104	41	11 619	11 917
Housing and community amenities	5 378	4 992	1 921	2 026	50 704	49 284
Health	19 450	18 230	1 030	917	19 319	16 115
Recreation, culture and religion	1 853	1 616	491	274	14 078	13 502
Education	15 764	14 911	1 705	1 217	27 002	27 238
Social protection	7 120	5 782	444	460	28 529	29 910
Transport	7 422	7 018	5 026	6 120	110 471	104 452
Not allocated by purpose [(b)(c)]	(746)	(912)	103	82	64 784	56 620
Total	**80 011**	**72 933**	**12 123**	**12 397**	**343 064**	**323 114**

General government sector						
General public services	3 794	3 712	92	87	2 294	2 259
Public order and safety	8 417	7 495	873	980	10 155	9 447
Economic affairs	1 916	1 557	279	116	1 091	1 314
Environmental protection	981	736	104	40	11 618	11 916
Housing and community amenities	2 380	2 091	82	55	1 982	1 817
Health	19 794	18 558	1 030	917	19 319	16 086
Recreation, culture and religion	883	747	198	97	7 561	7 347
Education	15 851	14 991	1 705	1 217	27 002	27 238
Social protection	6 437	5 278	167	156	1 985	1 711
Transport	8 491	7 718	4 885	6 088	61 468	57 659
Not allocated by purpose [(b)(c)]	(724)	(606)	143	52	128 965	127 501
Total	**68 220**	**62 276**	**9 559**	**9 804**	**273 439**	**264 294**

Notes:

(a) The COFOG framework has replaced the former Government Purpose Classification (GPC) framework under the new ABS GFS Manual. This has resulted in the reclassification of certain June 2018 comparative figures.

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

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

4. MAJOR ASSETS AND INVESTMENTS

Introduction

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

Structure

4.1 Land, buildings, infrastructure, plant and equipment

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

	State of Victoria			*General government sector*		
2019	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*
Buildings	57 642	(2 420)	55 222	35 880	(1 369)	34 511
Leased buildings	6 529	(624)	5 905	6 347	(529)	5 819
Land and national parks	87 947	..	87 947	57 525	..	57 525
Infrastructure systems	74 445	(5 631)	68 814	2 486	(572)	1 914
Leased infrastructure systems	4 797	(513)	4 283	..	..	..
Plant, equipment and vehicles	14 068	(5 674)	8 394	6 675	(4 133)	2 543
Leased plant, equipment and vehicles	1 055	(669)	386	583	(306)	277
Roads and road infrastructure	47 256	(23 276)	23 980	47 145	(23 264)	23 881
Leased roads and road infrastructure	584	(38)	547	584	(38)	547
Earthworks	8 916	..	8 916	8 916	..	8 916
Cultural assets	5 915	(189)	5 725	5 850	(189)	5 661
Total land, buildings, infrastructure, plant and equipment	**309 154**	**(39 034)**	**270 119**	**171 992**	**(30 399)**	**141 593**

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

Recognition and measurement

Initial recognition

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

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

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

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

Subsequent measurement

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

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

Impairment

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

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

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

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

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

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

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

4.1.2 Depreciation

($ million)

	State of Victoria 2019	State of Victoria 2018	General government sector 2019	General government sector 2018
Buildings	1 784	1 638	1 177	1 145
Leased buildings	234	206	223	195
Infrastructure systems	1 457	1 353	77	45
Leased infrastructure systems	82	82	..	..
Plant, equipment and vehicles	877	845	544	528
Leased plant, equipment and vehicles	36	34	36	34
Roads and road infrastructure	632	620	628	617
Leased roads and road infrastructure	9	9	9	9
Cultural assets	20	19	20	19
Intangible produced assets	231	234	152	154
Total depreciation	**5 362**	**5 041**	**2 865**	**2 745**

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

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

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

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

Asset	*Useful life*
Buildings	20 to 100 years
Leasehold buildings	2 to 60 years
Infrastructure systems:	
water infrastructure – storage facilities	25 to 300 years
water infrastructure – other	25 to 100 years
rail infrastructure	50 to 100 years
other infrastructure	10 to 32 years
Plant, equipment and vehicle (including leased assets)	3 to 10 years
Road and road infrastructure (including bridges)	60 to 90 years
Cultural assets (with finite useful lives)	100 years
Intangible produced assets	3 to 5 years

Indefinite life assets

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

Intangible assets

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

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

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

Other non-financial assets

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

Reconciliation of movements in carrying values during the financial period

($ million)

	Land and buildings		*Plant, equipment vehicle and infrastructure system*		*Roads, road infrastructure and earthworks*		*Cultural assets*		*Total*	
State of Victoria	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*
Opening balance	**147 736**	**129 348**	**76 945**	**74 808**	**30 188**	**29 050**	**5 709**	**5 680**	**260 578**	**238 886**
Acquisitions	3 704	3 862	5 269	7 107	2 643	1 929	16	46	11 633	12 943
Reclassification	(568)	2 468	1 790	(2 634)	(1 271)	(5)	1	(3)	(48)	(174)
Revaluation	608	14 115	452	146	2 682	18	1	..	3 743	14 279
Disposals	(426)	(394)	(175)	(170)	..	(2)	..	..	(601)	(566)
Assets recognised for the first time	90	188	105	125	208	..	18	6	420	318
Impairment	(53)	(6)	(56)	(122)	(364)	(174)	..	..	(473)	(301)
Depreciation	(2 017)	(1 844)	(2 453)	(2 314)	(642)	(630)	(20)	(19)	(5 132)	(4 807)
Closing balance	**149 074**	**147 736**	**81 877**	**76 945**	**33 443**	**30 188**	**5 725**	**5 709**	**270 119**	**260 578**
General government sector										
Opening balance	**94 273**	**83 303**	**4 131**	**3 889**	**30 091**	**28 967**	**5 646**	**5 617**	**134 141**	**121 776**
Acquisitions	3 375	3 512	2 764	5 091	2 911	1 938	16	46	9 066	10 586
Reclassification	39	(115)	1 225	(1)	(1 271)	..	1	(3)	(5)	(118)
Revaluation	1 833	8 957	40	46	2 681	..	..	..	4 554	9 003
Disposals	(254)	(225)	(91)	(67)	..	(2)	..	..	(346)	(293)
Assets recognised for the first time	62	175	122	1	207	..	18	5	409	181
Assets transferred between Government entities	(69)	9	(2 797)	(4 198)	(273)	(13)	..	..	(3 139)	(4 202)
Impairment	(6)	(4)	(3)	(24)	(364)	(174)	..	..	(373)	(201)
Depreciation	(1 400)	(1 340)	(657)	(607)	(637)	(626)	(20)	(19)	(2 713)	(2 591)
Closing balance	**97 854**	**94 273**	**4 734**	**4 131**	**33 344**	**30 091**	**5 661**	**5 646**	**141 593**	**134 141**

4.2 Other non-financial assets

($ million)

	State of Victoria		General government sector	
	2019	2018	2019	2018
Intangible produced assets	3 483	3 143	2 211	1 946
Accumulated depreciation	(1 826)	(1 700)	(1 088)	(1 010)
Intangible non-produced assets	909	901	109	118
Accumulated amortisation	(309)	(276)	(40)	(39)
Total intangibles	**2 258**	**2 070**	**1 193**	**1 015**
Investment properties	289	194	280	186
Biological assets	60	58	2	2
Other assets [(a)]	901	679	830	669
Total other non-financial assets	**3 508**	**3 001**	**2 305**	**1 872**

Note:

(a) *Other assets includes the State's contribution made towards the construction of the West Gate Tunnel Project assets. The State entered into a public private partnership contract in December 2017 for the building, operation, partial financing and maintenance of the West Gate Tunnel. The project will be funded from a State contribution, tolls on the West Gate Tunnel and changes to tolling on the existing CityLink toll road, including extending the CityLink concession term by 10 years. In March 2019, Parliament approved all required changes to the CityLink Concession Deeds and enacted the* West Gate Tunnel (Truck Bans and Traffic Management) Act 2019 *to facilitate the development and long-term operation of the project. Detailed commitment of the project is available in Note 5.6.*

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

	State of Victoria		General government sector	
	2019	2018	2019	2018
Opening balance	2 322	2 219	1 203	1 080
Acquisitions	543	410	377	294
Reclassification	94	25	93	16
Revaluation	9	24	7	21
Disposals	(20)	(60)	(20)	(60)
Assets recognised for the first time	2	17	..	16
Impairment	(70)	(34)	(26)	(3)
Amortisation and depreciation [(b)]	(273)	(279)	(159)	(160)
Closing balance	**2 607**	**2 322**	**1 475**	**1 203**

Notes:

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

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

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

Investment properties represent properties held to earn rentals or for capital appreciation, or both. Investment properties exclude properties held to meet service delivery objectives of the State. Investment properties are initially recognised at cost.

Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the State. Subsequent to initial recognition at cost, investment properties are revalued to fair value, with changes in the fair value recognised as other economic flows in the comprehensive operating statement in the period that they arise.

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

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

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

4.3 Investments in associates and joint operations

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

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

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

The investments in joint operations are disclosed below.

4.3.1 Joint operations

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

For these arrangements, the State recognises, in its financial statements:

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

Royal Melbourne Showgrounds

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

The State of Victoria's interest in the unincorporated joint venture at 30 June 2019 was 50 per cent (50 per cent in 2018).

AgriBio Project

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

The State of Victoria's interest in the unincorporated joint venture at 30 June 2019 was 75 per cent (75 per cent in 2018).

Murray Darling Basin Authority

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

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

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

- New South Wales: 26.7 per cent;
- South Australia: 26.7 per cent;
- Victoria: 26.7 per cent; and
- the Commonwealth government: 20 per cent.

5. FINANCING STATE OPERATIONS

Introduction

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

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

Structure

5.1 Borrowings

($ million)

	State of Victoria		*General government sector*	
	2019	*2018*	*2019*	*2018*
Current borrowings				
Domestic borrowings [(a)]	14 740	4 932	8 551	3 613
Finance lease liabilities [(b)]	412	469	303	285
Derivative financial instruments	137	337	9	9
Total current borrowings	**15 288**	**5 738**	**8 864**	**3 907**
Non-current borrowings				
Domestic borrowings [(a)]	37 375	33 807	19 499	20 002
Foreign currency borrowings	149	133	..	..
Finance lease liabilities [(b)]	9 465	9 736	9 327	9 490
Derivative financial instruments	628	356	194	107
Total non-current borrowings	**47 616**	**44 032**	**29 021**	**29 599**
Total borrowings	**62 904**	**49 771**	**37 885**	**33 506**

Notes:
(a) The composition of borrowings has changed from non-current to current following the establishment of the Central Banking System.
(b) The accounting treatment of finance lease liabilities is explained and disclosed in Note 9.7.1.

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

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

Borrowings are classified as financial instruments (Note 7.1). All interest bearing liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The measurement basis subsequent to initial recognition depends on whether the State has categorised its interest bearing liabilities as either financial liabilities measured at fair value through profit or loss, or financial liabilities at amortised cost. The classification depends on the nature and purpose of the interest bearing liabilities. The State determines the classification of its interest bearing liabilities at initial recognition.

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

Derivative financial instruments, after initial recognition, are measured at fair value with changes reflected in the comprehensive operating statement (fair value through profit or loss). Derivatives held by insurance entities are designated at fair value.

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

5.2 Deposits held and advances received

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

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

5.3 Cash flow information and balances

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

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

Reconciliation of cash and cash equivalents **($ million)**

	State of Victoria		*General government sector*	
	2019	*2018*	*2019*	*2018*
Cash	3 983	2 330	3 397	1 519
Deposits at call [(a)]	8 712	4 163	6 378	4 738
Cash and cash equivalents	**12 694**	**6 494**	**9 775**	**6 257**
Bank overdraft	..	..	..	..
Balances as per cash flow statement	**12 694**	**6 494**	**9 775**	**6 257**

Note:

(a) The State's 2019 deposits at call includes $5.4 billion relating to the Central Banking System (CBS) while the general government sector includes $4.7 billion relating to the CBS. This has resulted in the transfer of some funds between investments and cash and cash equivalents.

5. FINANCING STATE OPERATIONS

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

	State of Victoria		General government sector	
	2019	2018	2019	2018
Net result	**(9 083)**	**2 070**	**382**	**1 486**
Non-cash movements				
Depreciation and amortisation	5 405	5 085	2 872	2 752
Revaluation of investments	(574)	(1 210)	(310)	(39)
Assets (received)/provided free of charge	(157)	(191)	65	3
Assets not previously/no longer recognised	(99)	(225)	(99)	(224)
Revaluation of assets	232	35	134	548
Discount/premium on other financial assets/borrowings	(178)	(219)	2	3
Foreign currency dealings	1	..	1	..
Unrealised (gains)/losses on borrowings	1 790	(424)	..	..
Discounting of assets and liabilities	(1)	(2)	(1)	(2)
Movements included in investing and financing activities				
Net gain/loss from sale of investments	(239)	(750)	(115)	(5)
Net gain/loss from sale of non-financial assets	68	(39)	38	(59)
Realised gains/losses on borrowings	92	6	60	(8)
Movements in assets and liabilities				
Increase/(decrease) in provision for doubtful debts	561	344	567	342
Increase/(decrease) in payables	3 156	392	3 505	320
Increase/(decrease) in employee benefits	1 033	537	1 000	513
Increase/(decrease) in superannuation	65	45	56	46
Increase/(decrease) in other provisions	9 105	2 515	48	(221)
(Increase)/decrease in receivables	(1 345)	(1 032)	(986)	(1 096)
(Increase)/decrease in other non-financial assets	(192)	(277)	(151)	(265)
Net cash flows from operating activities	**9 640**	**6 664**	**7 068**	**4 094**

Changes in liabilities arising from financing activities ($ million)

State of Victoria			Non-cash changes			
2019	Opening balance	Cash flows	New finance leases	Fair value changes	Other changes	Closing balance
Borrowings and derivative instruments	39 565	11 603	..	1 858	1	53 027
Lease liabilities [(a)]	9 980	(430)	327	..	..	9 877
Advances and deposits received	2 331	(713)	..	..	..	1 618

2018						
Borrowings and derivative instruments	38 901	886	..	(223)	..	39 565
Lease liabilities	9 946	(321)	610	..	(29)	10 206
Advances and deposits received	1 940	390	..	..	..	2 331

General government sector			Non-cash changes			
2019	Opening balance	Cash flows	New finance leases	Fair value changes	Other changes	Closing balance
Borrowings and derivative instruments	23 732	4 459	..	62	1	28 254
Lease liabilities [(a)]	9 549	(245)	327	..	..	9 631
Advances and deposits received	6 700	(1 524)	..	..	..	5 177

2018						
Borrowings and derivative instruments	19 431	4 310	..	(5)	(4)	23 732
Lease liabilities	9 385	(191)	610	..	(29)	9 774
Advances and deposits received	9 088	(2 388)	..	..	..	6 700

Note:

(a) The 1 July 2018 opening balance has been restated resulting from the initial application of AASB 9 Financial Instruments*. Note 9.7.3 provides further information on the impact of the new accounting standard.*

5.4 Advances paid and investments, loans and placements

($ million)

	State of Victoria		*General government sector*	
	2019	*2018*	*2019*	*2018*
Current advances paid and investments, loans and placements				
Loans and advances paid	35	29	2 084	1 875
Equities and managed investment schemes	1 948	1 796	916	1 180
Australian dollar term deposits	2 264	1 361	176	1 243
Debt securities	5 270	5 007	9	2
Derivative financial instruments	506	442	295	9
Total current advances paid and investments, loans and placements	**10 022**	**8 635**	**3 479**	**4 309**
Non-current advances paid and investments, loans and placements				
Loans and advances paid	383	349	6 256	8 144
Equities and managed investment schemes	32 414	30 843	1 084	798
Australian dollar term deposits	33	292	33	663
Debt securities	2 118	2 327	25	29
Derivative financial instruments	546	267	3	3
Total non-current advances paid and investments, loans and placements	**35 494**	**34 078**	**7 400**	**9 637**
Total advances paid and investments, loans and placements	**45 516**	**42 713**	**10 879**	**13 947**
Represented by:				
Advances paid	418	378	8 340	10 019
Investments, loans and placements	45 098	42 336	2 539	3 928

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

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

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

5.5 Interest expense

($ million)

	State of Victoria		*General government sector*	
	2019	*2018*	*2019*	*2018*
Interest on interest-bearing liabilities	1 710	1 779	1 164	1 163
Finance charges on finance leases	912	939	908	892
Discount interest on payables	72	51	31	38
Total interest expense	**2 694**	**2 770**	**2 103**	**2 092**

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

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

5.6 Public private partnerships (service concession arrangements)

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

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

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

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

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

For the 2018-19 reporting period, the State has continued its existing accounting policy to not recognise the right to receive assets from such concession arrangements on its balance sheet. Refer to Note 9.7.4 for further details of the impact of new accounting standards applicable from the 2019-20 financial year.

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

	State of Victoria 2019 Other commitments		General government sector 2019 Other commitments		State of Victoria 2018 Other commitments		General government sector 2018 Other commitments	
	Present value	*Nominal value*	*Present value*	*Nominal value*	*Present value*	*Nominal value*	*Present value*	*Nominal value*
Commissioned public private partnerships other commitments								
AgriBio Project	128	271	128	271	126	282	126	282
Bendigo Hospital	606	1 298	606	1 298	606	1 347	606	1 347
Barwon Water	59	90	..	..	62	97	..	..
Casey Hospital	102	143	102	143	68	102	68	102
Central Highlands Water	22	50	..	..	47	58	..	..
Coliban Water	70	98	..	..	76	85	..	..
County Court	34	42	34	42	46	56	46	56
Emergency Services Telecommunications	187	242	187	242	13	13	13	13
Melbourne Convention Centre	236	430	236	430	257	454	257	454
New Schools PPP	161	313	161	313	167	349	167	349
Peninsula Link	214	422	214	422	210	435	210	435
Partnerships Victoria in Schools	163	375	163	375	168	379	168	379
Prisons	6 599	11 299	6 599	11 299	6 537	11 357	6 537	11 357
Royal Children's Hospital	840	1 677	840	1 677	844	1 764	844	1 764
Royal Melbourne Showgrounds	19	34	19	34	20	37	20	37
Royal Women's Hospital	249	421	249	421	254	449	254	449
Southern Cross Station	259	523	259	523	258	545	258	545
Victorian Comprehensive Cancer Centre	384	946	384	946	366	949	366	949
Victorian Desalination Plant	1 670	4 270	1 670	4 270	1 577	4 342	1 577	4 342
Sub-total	**12 003**	**22 945**	**11 852**	**22 707**	**11 703**	**23 100**	**11 518**	**22 860**

Notes:
(a) The minimum lease payments of commissioned PPPs are recognised on the balance sheet and are not disclosed as a commitment.
(b) The present value of 'other commitments' has been discounted to 30 June of the respective financial years.

Uncommissioned public private partnership commitments [a][b][c]

($ million)

	State of Victoria				*General government sector*			
	2019				*2019*			
	Minimum lease payments	*Capital contribution [e]*	*Other commitments*	*Total commitments*	*Minimum lease payments*	*Capital contribution [e]*	*Other commitments*	*Total commitments*
	Discounted value [d]		*Present value*	*Nominal value*	*Discounted value [d]*		*Present value*	*Nominal value*
Uncommissioned public private partnerships total commitments								
Casey Hospital expansion	2	14	2	19	2	14	2	19
Emergency Services Telecommunications [g]	..		..	..	..		..	..
High Capacity Metro Trains	1 089	421	932	5 833	1 089	421	932	5 833
Metro Tunnel – tunnel and stations	2 210	4 408	555	10 465	2 210	4 408	555	10 465
West Gate Tunnel Project [h][i]	..	1 710	..	1 710	..	1 710	..	1 710
Western Roads Upgrade	762		651	2 047	762		651	2 047
Sub-total	**4 063**	**6 554**	**2 141**	**20 073**	**4 063**	**6 554**	**2 141**	**20 073**
Total commitments for public private partnerships			**14 144**	**43 019**			**13 993**	**42 780**
Total commitments (inclusive of GST) [j]				**81 469**				**78 379**
Less GST recoverable from the Australian Tax Office				7 406				7 125
Total commitments (exclusive of GST) [j]				**74 063**				**71 254**

Notes:

(a) *The discounted value of the minimum lease payments has been discounted to the expected date of commissioning and the present value of other commitments has been discounted to 30 June of the respective financial years.*

(b) *The minimum lease payments represent the total minimum leases payments for the uncommissioned PPPs less those assets recorded on the balance sheet.*

(c) *The capital contributions represent the State's total capital contribution for the uncommissioned PPPs less those assets recorded on the balance sheet.*

(d) *The minimum lease payments include the expected future finance lease liability to be recognised on the balance sheet.*

(e) *Capital contribution is measured at nominal value.*

(f) *The 2017-18 comparatives have been restated to reflect the disaggregation of capital contributions from the discounted value of minimum lease payments.*

(g) *The commitment at June 2019 is disclosed within the commissioned public private partnership commitments table above as the project was commissioned during the 2018-19 financial year.*

(h) *The State entered into a Public Private Partnership contract in December 2017 for the building, operation, partial financing and maintenance of the West Gate Tunnel. The project will be funded from a State contribution, tolls on the West Gate Tunnel and changes to tolling on the existing CityLink toll road, including extending the CityLink concession term by 10 years. In March 2019, Parliament approved all required changes to the CityLink Concession Deeds and enacted the* West Gate Tunnel (Truck Bans and Traffic Management) Act 2019 *to facilitate the development and long-term operation of the project.*

(i) *The 2017-18 comparatives have been reclassified to reflect a more accurate classification of the capital contributions.*

(j) *Total commitments include commitments of both PPPs and non PPPs.*

State of Victoria				*General government sector*			
2018				*2018*			
Minimum lease payments	*Capital contribution* [(e)(f)]	*Other commitments*	*Total commitments*	*Minimum lease payments*	*Capital contribution* [(e)(f)]	*Other commitments*	*Total commitments*
Discounted value [(d)]		*Present value*	*Nominal value*	*Discounted value* [(d)]		*Present value*	*Nominal value*
21	60	40	154	21	60	40	154
46		171	261	46		171	261
1 440	421	932	6 135	1 440	421	932	6 135
2 210	4 400	510	10 457	2 210	4 400	510	10 457
..	1 871	..	1 871	..	1 871	..	1 871
762		682	2 079	762		682	2 079
4 478	**6 753**	**2 335**	**20 958**	**4 478**	**6 753**	**2 335**	**20 958**
		14 038	**44 058**			**13 853**	**43 818**
			81 313				**78 496**
			7 392				7 136
			73 921				**71 360**

5.7 Other commitments

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

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

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

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

Non-public private partnership commitments [(a)] **($ million)**

	State of Victoria 2019	*General government sector 2019*	*State of Victoria 2018*	*General government sector 2018*
Capital expenditure commitments				
Land and buildings	1 872	1 760	1 921	1 798
Plant, equipment and vehicles [(b)]	298	253	280	248
Infrastructure systems [(b)]	6 614	5 755	5 960	5 093
Road networks and earthworks	600	600	1 031	1 031
Other	159	101	192	135
Total capital expenditure commitments	**9 542**	**8 468**	**9 383**	**8 305**
Operating and lease commitments				
Rail services	9 765	9 668	11 666	11 633
Bus services	4 675	4 674	3 199	3 199
Other	5 771	4 945	5 254	4 410
Total operating and lease commitments	**20 212**	**19 287**	**20 118**	**19 241**
Other commitments				
Building occupancy services	..	51	6	63
Capital investment commitments	299	..	202	..
Commercial contracts	149	25	116	5
Debt collection services (Traffic camera office)	57	57	65	65
Emergency Alert System	38	38	56	56
Goulburn-Murray Water Connections Project [(c)]	70	..	31	68
Information technology	366	337	266	229
New ticketing solution (myki)	529	529	651	651
Outsourcing of services	299	227	317	198
Policing services	466	466	39	39
Provision for Health Services	1 857	1 857	2 366	2 366
Traffic camera services (Traffic camera office)	261	261	254	254
Transport Accident Commission funded medical research	13	..	2	..
Other [(c)]	4 291	3 995	3 382	3 137
Total other commitments	**8 697**	**7 844**	**7 753**	**7 131**
Total commitments	**38 451**	**35 599**	**37 255**	**34 678**

Notes:
(a) The figures presented are inclusive of GST.
(b) The 2017-18 comparatives have been reclassified to reflect a more accurate classification of the capital expenditure commitments.
(c) The 2017-18 comparatives have been reclassified to reflect a more accurate classification of the other commitments.

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

Nominal values	*State of Victoria 2019*	*General government sector 2019*	*State of Victoria 2018*	*General government sector 2018*
Capital expenditure commitments payable				
Less than 1 year	5 467	4 660	5 634	4 913
1 year but less than 5 years	3 848	3 581	3 354	2 988
5 years or more	228	226	395	404
Total capital expenditure commitments	**9 542**	**8 468**	**9 383**	**8 305**
Operating and lease commitments payable				
Less than 1 year	3 972	3 824	3 525	3 391
1 year but less than 5 years	11 300	10 913	10 601	10 290
5 years or more	4 940	4 550	5 992	5 560
Total operating and lease commitments	**20 212**	**19 287**	**20 118**	**19 241**
Public private partnership commitments				
Less than 1 year	2 464	2 439	1 226	1 208
1 year but less than 5 years	10 016	9 913	8 791	8 714
5 years or more	30 539	30 428	34 041	33 895
Total public private partnership commitments	**43 019**	**42 780**	**44 058**	**43 818**
Total other commitments payable				
Less than 1 year	4 124	3 833	3 322	3 174
1 year but less than 5 years	3 900	3 451	3 784	3 403
5 years or more	672	560	648	554
Total other commitments	**8 697**	**7 844**	**7 753**	**7 131**
Total commitments (inclusive of GST)	**81 469**	**78 379**	**81 313**	**78 496**

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

6. OTHER ASSETS AND LIABILITIES

Introduction

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

Structure

Assets

Liabilities

6.1 Investment in other sector entities

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

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

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

	2019	*2018*
Balance of investment in PNFC and PFC sectors at beginning of period	101 253	92 509
Net contributions/(returns) to other sectors by owner	3 226	2 542
Revaluation gain/(loss) for period	(2 654)	6 202
Total investments in other sector entities	**101 825**	**101 253**

6.2 Inventories

($ million)

	State of Victoria		*General government sector*	
	2019	*2018*	*2019*	*2018*
At cost				
Raw materials	6	8	5	7
Work in progress	60	19	2	1
Finished goods	77	70	4	3
Consumable stores	200	214	139	149
Land and other assets held as inventory	713	728	15	14
At net realisable value				
Finished goods	4	5	..	..
Consumable stores	4	5	..	..
Total inventories	**1 064**	**1 050**	**165**	**175**

Inventories include goods and other property held either for sale, or for distribution at zero or nominal cost, or for consumption in the ordinary course of business operations.

Inventories held for distribution are measured at cost, adjusted for any loss of service potential. All other inventories, including land held as inventory, are measured at the lower of cost and net realisable value.

Where inventories are acquired for no cost or nominal consideration, they are measured at current replacement cost at the date of acquisition.

Cost includes an appropriate portion of fixed and variable overhead expenses. Cost is assigned to land held as inventory (undeveloped, under development and developed) and to other high-value, low-volume inventory items on a specific identification of cost basis. Cost for all other inventory is measured on the basis of weighted average cost.

Bases used in assessing loss of service potential for inventories held for distribution include current replacement cost and technical or functional obsolescence. Technical obsolescence occurs when an item still functions for some or all of the tasks it was originally acquired to do, but no longer matches existing technologies. Functional obsolescence occurs when an item no longer functions the way it did when it was first acquired.

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

6.3 Receivables

($ million)

	State of Victoria		*General government sector*	
	2019	*2018*	*2019*	*2018*
Contractual				
Sales of goods and services	1 479	1 307	911	682
Accrued investment income	55	50	27	19
Other receivables	2 147	1 569	866	675
Allowance for impairment losses of contractual receivables	(198)	(174)	(138)	(108)
Statutory				
Sales of goods and services	6	5	5	3
Taxes receivable	3 251	3 031	3 363	3 153
Fines and regulatory fees	2 881	2 510	2 881	2 510
GST input tax credits recoverable	1 418	1 197	419	443
Other receivables	11	22	..	..
Allowance for impairment losses of statutory receivables	(1 706)	(1 169)	(1 706)	(1 169)
Other				
Actuarially determined	469	415	..	..
Total receivables	**9 813**	**8 764**	**6 628**	**6 208**
Represented by:				
Current receivables	8 303	7 552	6 306	5 890
Non-current receivables	1 510	1 212	322	318

Receivables consist of:

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

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

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

Other statutory receivables include GST input tax credits recoverable.

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

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

6.4 Payables

($ million)

	State of Victoria		General government sector	
	2019	*2018*	*2019*	*2018*
Contractual				
Accounts payable	2 837	2 674	1 827	1 542
Accrued expenses	3 392	3 308	2 918	2 814
Unearned income	14 884	12 170	5 207	2 298
Statutory				
Accrued taxes payable	88	92	59	60
Total payables	**21 201**	**18 243**	**10 011**	**6 713**
Represented by:				
Current payables	8 114	7 825	5 362	4 856
Non-current payables	13 087	10 418	4 648	1 856

Payables consist of:

- contractual payables, such as accounts payable and accrued expenses;
- statutory payables (accrued taxes payable), such as GST and fringe benefits tax payables; and
- unearned income.

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

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

Unearned income comprises upfront gaming licence fees, deferred revenue from concession notes and upfront fees received for the medium-term lease over the Port of Melbourne and the commercialisation of land titles and registry functions of Land Use Victoria. This unearned income is recognised progressively as revenue, over the term of the relevant arrangements.

6.5 Superannuation

The disclosure in this note is for the consolidated State of Victoria only, as more than 99 per cent of the $28.7 billion superannuation liability is recorded in the general government sector.

Net superannuation liability

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

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

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

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

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

Consideration is given to expected future salary levels and employee departures. Expected future payments are discounted to present values using yields applying to long-term Commonwealth Government Bonds.

Furthermore, the inflation assumption is based upon the relationship between nominal and index linked bond yields of similar duration. This approach ensures that the inflation assumption reflects market expectations and is compatible with the market-based discount rate that is used to value the outstanding liability.

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

Net superannuation liability **($ million)**

	State of Victoria	
	2019	*2018*
Emergency Services and State Super		
Defined benefit obligation	47 402	43 464
Tax liability [(a)]	2 677	2 536
Plan assets	(22 810)	(21 963)
Net liability/(asset)	**27 269**	**24 037**
Other funds [(b)]		
Defined benefit obligation	2 946	2 741
Tax liability [(a)]	..	..
Plan assets	(1 532)	(1 545)
Net liability/(asset)	**1 414**	**1 197**
Total superannuation		
Defined benefit obligation	50 347	46 205
Tax liability [(a)]	2 677	2 536
Plan assets	(24 342)	(23 508)
Superannuation liability	**28 683**	**25 233**
Represented by:		
Current liability	1 106	1 080
Non-current liability	27 577	24 153
Total superannuation liability	**28 683**	**25 233**

Notes:
(a) Tax liability represents the present value of tax payments on contributions that are expected to be required to fund accrued benefits.
(b) Other funds include constitutionally protected schemes and the State's share of liabilities of the defined benefit scheme of the Health Super Fund.

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

	State of Victoria	
	2019	*2018*
Opening balance of defined benefit obligation	**48 741**	**47 119**
Current service cost	1 008	928
Interest cost	1 315	1 338
Contributions by plan participants	233	229
Remeasurements:		
Actuarial (gain)/loss arising from change in financial assumptions	4 253	1 010
Actuarial (gain)/loss arising from change in demographic assumptions	..	657
Actuarial (gain)/loss due to other experience	(346)	(453)
Benefits paid	(2 181)	(2 087)
Closing balance of defined benefit obligation	**53 025**	**48 741**

6. OTHER ASSETS AND LIABILITIES

Reconciliation of the fair value of plan assets

($ million)

	State of Victoria 2019	2018
Opening balance of plan assets	**23 508**	**22 181**
Interest income	626	622
Remeasurements:		
Expected return on plan assets excluding interest income	1 039	954
Actuarial gain/(loss) relative to expected return	(516)	1
Employer contributions	1 633	1 607
Contributions by plan participants	233	229
Benefits paid (including tax paid)	(2 181)	(2 087)
Closing balance of plan assets	**24 342**	**23 508**

The State's defined benefit superannuation plans

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

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

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

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

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

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

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

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

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

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

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

Superannuation assumptions

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

Victorian statutory superannuation funds	*Actuary*	*Financial assumptions*	*Per cent per annum 2019*	*2018*
Emergency Services and State Super	PwC Securities Ltd.	Expected return on assets [(a)]	7.6	8.0
		Discount rate [(b)]	1.5	2.8
		Wages growth [(c)]	2.7	3.4
		Inflation rate	1.2	1.9
Constitutionally Protected Pensions	PwC Securities Ltd.	Discount rate [(b)]	1.5	2.8
		Wages growth [(c)]	2.7	3.4
		Inflation rate	n.a.	n.a.
Health Super Fund	Mercer (Australia) Pty. Ltd.	Expected return on assets [(a)]	5.0	5.0
		Discount rate [(b)]	1.5	2.8
		Wages growth [(c)]	2.7	3.4
		Inflation rate	1.2	1.9

Notes:

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

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

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

Sensitivity analysis

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

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

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

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

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

		Base case	*Discount rate plus 1 per cent*	*Wage growth plus 1 per cent*	*Inflation rate plus 1 per cent*
Discount rate	(per cent a year)	1.5	2.5	1.5	1.5
Salary growth	(per cent a year)	2.7	2.7	3.7	2.7
Inflation rate	(per cent a year)	1.2	1.2	1.2	2.2
Estimated impact	**(per cent)**	**n.a**	**(11.0)**	**2.0**	**7.0**
Estimated change in defined benefit obligation	**($ million)**	**n.a**	**(5 765)**	**1 048**	**3 669**

Target asset allocation **(per cent)**

Asset class	*2019*	*2018*
Domestic equity	27.6	27.6
International equity	27.6	27.6
Domestic debt assets	17.8	17.8
Property	7.5	7.5
Cash	4.1	4.1
Other (including private equity, hedge funds and infrastructure)	15.4	15.4
Total	**100**	**100**

The assets are invested in the asset classes shown above. The chosen assets are not designed to match the liabilities exactly. However, the nature of the liabilities is considered in setting the investment strategy.

At 30 June 2019, the plans held investments within the central banking system worth $427 million.

Funding arrangements

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

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

ESSS DB – a funded scheme, with a funding target of 110 per cent to 120 per cent of vested benefits. The board's shortfall limit is 95 per cent of vested benefits.

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

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

In the 2019-20 financial year, employer contributions of $1.6 billion, in total, are expected to be paid to the defined benefit plans. Of this, $1.1 billion relates to the funding of the SSF's past service liability.

The weighted average duration of the defined benefit obligation is approximately 11 years.

6.6 Other provisions

($ million)

	State of Victoria		General government sector	
	2019	*2018*	*2019*	*2018*
Provision for insurance claims				
WorkSafe Victoria	2 418	2 245	..	..
Transport Accident Commission [(a)]	1 589	1 395	..	..
Victorian Managed Insurance Authority [(a)]	358	299	..	..
Other agencies	37	36	34	32
Current provision for insurance claims [(a)]	**4 402**	**3 976**	**34**	**32**
Other provisions [(a)]	880	518	339	305
Total current other provisions	**5 282**	**4 493**	**373**	**337**
Non-current provision for insurance claims				
WorkSafe Victoria	13 763	11 452	..	..
Transport Accident Commission	19 659	13 852	..	..
Victorian Managed Insurance Authority	1 749	1 520	..	..
Other agencies	60	53	59	52
Non-current provision for insurance claims	**35 231**	**26 878**	**59**	**52**
Other provisions	652	654	640	644
Total non-current other provisions	**35 882**	**27 532**	**699**	**697**
Total other provisions	**41 164**	**32 025**	**1 072**	**1 034**

Note:
(a) June 2018 comparative figures have been restated to reflect the reclassification of the insurers unexpired risk liability from provision for insurance claims to other provisions.

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

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

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

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

6.6.1 Insurance claims

Assumptions used in measurement of liability for outstanding insurance claims

The liability for outstanding insurance claims is independently assessed by actuaries. It covers claims reported but not yet paid, claims incurred but not yet reported, and the anticipated costs of settling those claims. Due to the inherent uncertainty in the estimate of the outstanding insurance claims, a risk margin is included. The risk margin is set to increase the probability that the liability estimate will be sufficient to a level of 75 per cent.

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

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

6. OTHER ASSETS AND LIABILITIES

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

	State of Victoria	
	2019	*2018*
Opening balance [(b)]	30 854	28 118
Effect of changes in assumptions and claims experience	5 766	1 015
Cost of prior year claims (unwinding of discount)	546	724
Increase in claims incurred [(c)]	6 362	5 326
Claim payments during the year [(c)]	(3 823)	(3 705)
Other [(b)]	(73)	(625)
Closing balance [(b)]	**39 632**	**30 854**

Notes:

(a) Reconciliation of movements in insurance claims is only disclosed for the whole of State as they are only material for the State's insurance entities in the public financial corporations sector.

(b) June 2018 comparative figures have been restated to reflect the reclassification of the insurers unexpired risk liability from provision for insurance claims to other provisions.

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

Insurance claims assumptions

		Weighted average expected term to settlement (years)		*Financial assumptions used (%)* [(a)(b)(c)]				*Prudential margin used (%)*	
				Weighted average inflation rate (%) [(d)]		*Weighted average discount rate (%)*			
Entity	*Actuary*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*
Victorian WorkCover Authority (WorkSafe Victoria)	PwC Actuarial Ltd.	7.30	6.50	AWE [(e)] inflation 0 to 20 years = 3.37 21+ years = 3.02 CPI inflation 0 to 20 years = 2.14 21+ years = 2.02	AWE [(e)] inflation 0 to 20 years = 2.96 21+ years = 3.27 CPI inflation 0 to 20 years = 2.17 21+ years = 2.01	0 to 20 years = 1.50 21+ years = 2.86	0 to 20 years = 2.68 21+ years = 3.87	8.00	8.00
Transport Accident Commission	PwC Actuarial Ltd.	19.07	16.34	AWE inflation 0 to 20 years = 3.27 21+ years = 3.06 CPI inflation 0 to 20 years = 2.11 21+ years = 2.08	AWE inflation 0 to 20 years = 3.06 21+ years = 3.31 CPI inflation 0 to 20 years = 2.12 21+ years = 2.08	0 to 20 years = 1.74 21+ years = 3.27	0 to 20 years = 2.56 21+ years = 3.43	11.00	10.00
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Medical Indemnity)	4.00	4.00	5.80	6.30	1.10	2.40	Risk margin = 20.00 CHE [(f)] = 2.50	Risk margin = 20.00 CHE [(f)] = 2.50
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd. (Liability)	3.10	3.20	2.30	2.80	1.10	2.30	Risk margin = 31.70 CHE = 6.50	Risk margin = 31.70 CHE = 6.60
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Property)	1.00	1.10	2.30	2.80	1.10	2.30	Risk margin = 17.50 CHE = 6.50	Risk margin = 17.50 CHE = 6.50
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Other)	2.60	2.50	2.30	2.80	1.10	2.30	Risk margin = 30.90 CHE = 6.20	Risk margin = 30.10 CHE = 6.00
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Dust Diseases and Workers' Compensation)	11.70	11.70	4.50	5.40	1.70	3.00	Risk margin = 30.70 CHE = 7.00	Risk margin = 30.90 CHE = 7.00
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Domestic Building Insurance)	3.10	3.40	2.30	3.00	1.10	2.30	Risk margin =23.50 CHE = 5.00	Risk margin =23.50 CHE = 5.00

Notes:
(a) The inflation rate assumptions are based on the anticipated rise in costs relevant to a particular entity.
(b) Financial assumptions used for provisions not later than 1 year and later than 1 year are the same unless otherwise specified.
(c) Data in 'Financial assumptions used' columns are weighted average unless otherwise specified.
(d) The inflation rates used by Transport Accident Commission are not weighted average for 21+ years.
(e) AWE = Victorian Average Weekly Earnings.
(f) Refers to 'Claims Handling Expenses'. Claims handling expenses is an allowance made for the direct expenses to be incurred in settling claims.

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Introduction

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

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

Structure

7.1 Financial instruments

Introduction

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

From 1 July 2018, the State applies AASB 9 *Financial Instruments* (AASB 9) and classifies all of its financial assets based on the nature of the assets, the business model for managing those assets and the asset's contractual cash flow terms.

The State has elected to apply the limited exemption in AASB 9 paragraph 7.2.15 relating to transition for classification and measurement and impairment, and accordingly has not restated the 2017-18 comparative information.

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

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

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

2019	*State of Victoria*	*General government sector*
Financial assets		
Cash and deposits	12 694	9 775
Financial assets designated at fair value through profit/loss (FVTPL)	43 126	911
Financial assets mandatorily measured at fair value through profit or loss	575	297
Financial assets at amortised cost	4 172	10 211
Financial assets measured at fair value through other comprehensive income	46	46
Investment in equity instrument designated at fair value through other comprehensive income	1 081	1 080
Total financial assets [(a)]	**61 694**	**22 320**
Financial liabilities		
Financial liabilities designated at fair value through profit and loss	46 887	302
Financial liabilities mandatorily measured at fair value through profit or loss	639	204
Financial liabilities at amortised cost	23 190	47 300
Total financial liabilities [(b)]	**70 716**	**47 805**

2018	*State of Victoria*	*General government sector*
Financial assets		
Cash and deposits	6 494	6 257
Designated at fair value through the operating statement	40 315	1 172
Held-for-trading at fair value through the operating statement	293	12
Loans and receivables	3 078	11 836
Available-for-sale	1 101	811
Held-to-maturity	678	1 383
Total financial assets [(a)]	**51 959**	**21 471**
Financial liabilities		
Designated at fair value through the operating statement	40 098	223
Held-for-trading at fair value through the operating statement	361	117
At amortised cost	17 593	44 222
Total financial liabilities [(b)]	**58 052**	**44 562**

Notes:

(a) The State's total financial assets in this table exclude statutory and other receivables of $6 330 million ($6 012 million in 2018) while the general government's total financial assets exclude statutory receivables of $4 962 million ($4 940 million in 2018).

(b) The State's total financial liabilities exclude statutory taxes payable, unearned income and advance premiums of $15 008 million ($12 293 million in 2018) while the general government's total financial liabilities exclude statutory taxes payable and unearned income of $5 266 million ($2 357 million in 2018).

Categories of financial instruments under AASB 9

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

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

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

Financial assets measured at fair value through other comprehensive income

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

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

Upon disposal of these debt instruments, any related balance in the fair value reserve is reclassified to profit or loss.

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

Such assets are initially recognised at fair value. Subsequent to initial recognition, they are measured at fair value with gains and losses arising from changes in fair value, recognised in other economic flows – other comprehensive income.

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

Financial assets at fair value through the profit or loss are financial instruments that are not classified at amortised cost or at fair value through other comprehensive income.

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

Financial instruments at fair value through the profit or loss are initially measured at fair value and attributable transaction costs are expensed as incurred. Subsequently, any changes in fair value are recognised in the net result as an other economic flow.

Categories of financial assets previously under AASB 139

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

Up to 30 June 2018, the State previously recognised the following assets in this category:

- cash and deposits;
- receivables (excluding statutory receivables);
- term deposits; and
- certain debt securities.

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

Held to maturity financial assets: If the State has the positive intent and ability to hold nominated investments to maturity, then such financial assets may be classified as held to maturity. These are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

The State makes limited use of this classification because any sale or reclassification of more than an insignificant amount of held to maturity investments not close to their maturity, would result in the whole category being reclassified as available-for-sale. The held to maturity category includes term deposits and debt securities for which the State intends to hold to maturity.

Categories of financial liabilities under AASB 9 and previously under AASB 139

Financial assets and liabilities at fair value through net result are categorised as such at trade date, or if they are classified as held for trading or designated as such upon initial recognition. Financial instrument assets are designated at fair value through net result on the basis that the financial assets form part of a group of financial assets that are managed based on their fair values and have their performance evaluated in accordance with documented risk management and investment strategies. Financial instruments at fair value through net result are initially measured at fair value; attributable transaction costs are expensed as incurred. Subsequently, any changes in fair value are recognised in the net result as other economic flows unless the changes in fair value relate to changes in the State's own credit risk. In this case, the portion of the change attributable to changes in the State's own credit risk is recognised in other comprehensive income with no subsequent recycling to net result when the financial liability is derecognised. The State recognises some debt securities that are held for trading in this category and designated certain debt securities as fair value through net result in this category.

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

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

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

Derecognition of financial assets and liabilities

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

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

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

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised as an other economic flow in the consolidated comprehensive operating statement.

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

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

Impairment of financial assets

From 1 July 2018, the State has been recording the allowance for impairment for the relevant financial instruments under AASB's 'Expected Credit Loss' approach, replacing the 'Incurred Loss' approach under AASB 139. Subject to AASB 9 impairment assessment include the State's contractual receivables, statutory receivables and its investment in debt instruments.

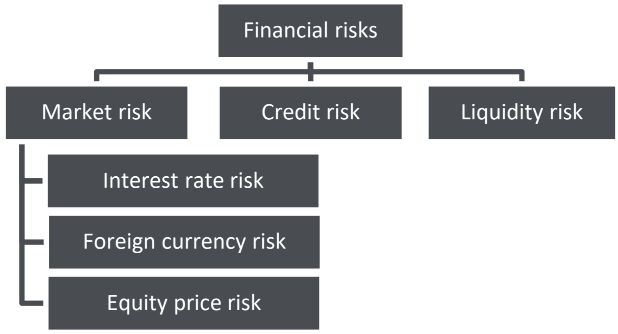
All financial instrument assets, except those measured at fair value through profit or loss, are subject to review at each reporting date.

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

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

Financial risk management

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



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

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

- the Treasurer is responsible for approving and establishing the prudential framework containing policies and guidelines on financial risk management;
- the Senior Executive Group of DTF is responsible for advising the Government on the management of the State's financial risks;
- DTF's Balance Sheet Management Committee provides oversight of the State's key financial balance sheet and financial market risks. These risks relate to the State's investments, borrowings, superannuation and insurance claims liabilities, as well as exposures to interest rate, foreign exchange and commodity price volatility and liquidity position;
- the TCV is the State's central borrowing authority and financing advisor. An independent prudential supervisor is appointed by the Treasurer to monitor TCV's compliance with its prudential framework;
- the Victorian Funds Management Corporation (VFMC) acts as the State's central investment fund manager providing expertise in developing investment strategy and providing funds management services in accordance with each entity's investment objectives. An independent prudential supervisor is appointed by the Treasurer to monitor VFMC's compliance with its prudential framework; and

- the State's entities are responsible for setting their own financial risk policy and objectives in accordance with the Standing Directions 2018. All entities are responsible for the day-to-day operational management of their financial instruments and associated risks in accordance with the Standing Directions.

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

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

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

7.1.1 Interest rate risk

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

- fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. It relates to financial instruments with fixed interest rates, measured at fair value and represents the most significant interest rate risk for the State; and
- cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Only a small portion of the State's financial instruments are exposed to cash flow interest rate risk and these arise from financial assets and financial liabilities with floating interest rates, which are measured at amortised cost.

The interest rate exposure table provides details of the carrying amounts of financial assets and liabilities that expose the State to either interest rate fair value risk or interest rate cash flow risk.

Interest rate exposure as at 30 June

($ million)

	State of Victoria				*General government sector*			
2019	*Floating rate*	*Fixed rate*	*Non-interest bearing*	*Total*	*Floating rate*	*Fixed rate*	*Non-interest bearing*	*Total*
Financial assets								
Cash and deposits	12 139	153	402	12 694	9 322	91	362	9 775
Receivables	84	29	3 370	3 483	28	..	1 638	1 667
Advances paid	258	6	153	418	4 183	3 722	435	8 340
Term deposits	48	2 249	..	2 297	48	161	..	209
Derivative financial instruments	285	267	499	1 052	285	..	12	297
Equities and managed investment schemes	595	248	33 518	34 362	283	244	1 473	1 999
Debt securities	212	7 143	33	7 389	..	..	33	34
Total financial assets	**13 622**	**10 096**	**37 976**	**61 694**	**14 149**	**4 218**	**3 954**	**22 321**
Financial liabilities								
Payables, deposits held and advances received	300	134	7 377	7 812	4 027	123	5 771	9 921
Derivative financial instruments	..	626	138	764	..	191	13	204
Interest-bearing liabilities	7	52 256	..	52 263	..	28 050	..	28 050
Finance lease liabilities	..	9 830	46	9 877	..	9 584	46	9 631
Total financial liabilities	**308**	**62 846**	**7 562**	**70 716**	**4 027**	**37 948**	**5 830**	**47 805**
2018								
Financial assets								
Cash and deposits	6 096	234	164	6 494	5 490	607	160	6 257
Receivables	261	42	2 449	2 752	8	2	1 258	1 268
Advances paid	259	60	59	378	5 550	4 413	56	10 019
Term deposits	28	1 625	..	1 653	83	1 823	..	1 906
Derivative financial instruments	..	261	449	710	..	..	12	12
Equities and managed investment schemes	714	350	31 576	32 639	428	339	1 212	1 978
Debt securities	628	6 706	..	7 334	31	..	..	31
Total financial assets	**7 986**	**9 277**	**34 697**	**51 959**	**11 591**	**7 183**	**2 698**	**21 471**
Financial liabilities								
Payables, deposits held and advances received	935	384	6 963	8 282	5 663	28	5 365	11 056
Derivative financial instruments	..	343	350	693	..	..	117	117
Interest-bearing liabilities	6	38 866	..	38 872	..	23 615	..	23 615
Finance lease liabilities	..	10 206	..	10 206	..	9 774	..	9 774
Total financial liabilities	**941**	**49 798**	**7 313**	**58 052**	**5 663**	**33 417**	**5 482**	**44 562**

Interest rate risk management

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

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

At 30 June 2019, approximately 96 per cent (94 per cent in 2018) of the State's borrowings are at fixed rates of interest. There has been no change in the State's exposure to interest rate risk or the manner in which it manages and measures the risk from the previous reporting period.

Interest rate sensitivity analysis

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

- the exposure to interest rates for both derivative and non-derivative instruments at the reporting date, and the stipulated change taking place at the beginning of the financial year, are held constant throughout the reporting period; and
- based on historic movements, and in particular, management's knowledge and experience of the recent volatility in global financial markets, the State has assessed that it may be exposed to a reasonably possible increase or decrease of 100 basis points in interest rates (100 basis points in 2018).

With all other variables held constant, the impact of a 100 basis point increase or decrease on the net result and net assets at 30 June 2019 is a $2.2 billion increase/$2.4 billion decrease ($1.7 billion increase/$1.9 billion decrease in 2018).

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

7.1.2 Foreign currency risk

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

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

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

The carrying amount of the State's foreign currency denominated monetary assets and monetary liabilities at the reporting date is $4.0 billion ($3.7 billion in 2018) of equities and managed investment schemes and $148 million ($133 million in 2018) of foreign currency borrowings.

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

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

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

Foreign currency sensitivity analysis

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

- exposure to the pool of foreign currencies for both derivative and non-derivative instruments at the reporting date, and the stipulated change taking place at the beginning of the financial year are held constant throughout the reporting period; and
- based on historic movements, future expectations and management's knowledge and experience of the foreign currency markets, the State has assessed that it may be exposed to an increase or decrease of 15 per cent against the Australian dollar (15 per cent in 2018).

With all other variables held constant, the impact of a 15 per cent increase or decrease in exchange rates on economic flows and net assets at 30 June 2019 is $218 million decrease/$188 million increase ($582 million decrease/$434 million increase in 2018).

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

7.1.3 Equity price risk

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

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

Equity price sensitivity analysis

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

- exposure to equity securities for both derivative and non-derivative instruments at the reporting date, and the stipulated change taking place at the beginning of the financial year are held constant throughout the reporting period; and
- based on historic movements, future expectations and management's knowledge and experience of the volatility of the equity markets, the State has assessed that it may be exposed to a reasonably possible increase or decrease of 15 per cent to equity prices (increase or decrease of 15 per cent in 2018).

With all other variables held constant, the impact of a 15 per cent increase or decrease in listed equities prices on economic flows and net assets at 30 June 2019 is $2 million increase/$3 million decrease ($2 million increase/$3 million decrease in 2018) and from unlisted equities is $3.3 billion increase/$3.2 billion decrease ($3.1 billion increase/$3.1 billion decrease in 2018).

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

7.1.4 Credit risk

Credit risk refers to the possibility that a borrower will default on its financial obligations as and when they fall due. The State's exposure to credit risk mainly arises through its investments in fixed interest instruments and contractual loans and receivables. Most of the State's investments and derivatives are centrally managed by TCV and VFMC. Limits are set both in terms of the quality and amount of credit exposure in accordance with the *Borrowings and Investment Powers Act 1987* and the prudential supervisory policies and framework of the State.

The State has a material credit risk exposure resulting from the level of investments and derivative transactions with the four major Australian banks, which is managed by reference to the credit quality and exposure policies that have been established.

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

There has been no material change to the State's credit risk profile in 2018-19.

The table below provides information on the credit quality of the State's financial assets that are neither past due, nor impaired.

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

State of Victoria		*Other*		
2019	*(triple-A credit rating)*	*(min triple-B credit rating)*	*Other (not rated)*	*Total*
Financial assets				
Financial assets with loss allowance measured at 12 month expected credit loss				
Cash and deposits	4 074	8 027	593	12 694
Advances paid	27	..	16	43
Term deposits	46	218	4	268
Debt securities	..	..	7	7
Financial assets with loss allowance measured at lifetime credit loss (not credit impaired)				
Receivables applying the simplified approach for impairment	232	1 112	2 445	3 789
Financial assets with loss allowance measured at lifetime credit loss (credit impaired)				
Debt securities	..	26	..	26
Total financial assets	**4 379**	**9 382**	**3 066**	**16 827**

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

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

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

General government sector	Government agencies	Other			
2019	(triple-A credit rating)	(triple-A credit rating)	(min triple-B credit rating)	(not rated)	Total
Financial assets					
Financial assets with loss allowance measured at 12 month expected credit loss					
Cash and deposits	1 462	1 816	6 240	256	9 775
Advances paid	4 246	27	..	6	4 280
Term deposits	30	20	154	4	208
Debt securities	..	..	..	7	7
Financial assets with loss allowance measured at lifetime credit loss (not credit impaired)					
Receivables applying the simplified approach for impairment	3 843	188	62	1 630	5 723
Financial assets with loss allowance measured at lifetime credit loss (credit impaired)					
Debt securities	..	..	26	..	26
Total financial assets	**9 581**	**2 052**	**6 483**	**1 905**	**20 020**

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

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

7.1.5 Other matters

Offsetting financial instruments

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

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

Some master netting arrangements do not result in an offset of balance sheet assets and liabilities. Where the State does not have a legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as default, insolvency or bankruptcy, they are reported on a gross basis.

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

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

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

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

Master netting or similar arrangements [(a)] **($ million)**

State of Victoria	*Effects of offsetting on the balance sheet*				
2019	*Gross amounts*	*Gross amounts set off in the consolidated balance sheet*	*Net amounts presented in the consolidated balance sheet*	*Related amounts not offset*	*Net amount*
Financial assets					
Derivative financial instruments	1 571	(519)	1 052	(490)	562
Financial liabilities					
Derivative financial instruments	1 283	(519)	764	(468)	297
2018					
Financial assets					
Derivative financial instruments	1 767	(1 057)	710	(477)	233
Financial liabilities					
Derivative financial instruments	1 750	(1 057)	693	(402)	290

Note:
(a) Master netting or similar arrangements is only disclosed for the whole of State as they are only material for the State's insurance entities in the public financial corporations sector.

Net gain or loss by category of financial instruments

The net gains or losses on financial assets and liabilities held at 30 June 2019 are determined as follows:

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

Net gain or loss by category of financial instruments

($ million)

2019	State of Victoria	General government sector
Financial assets		
Cash and deposits	(1)	..
Financial assets designated at fair value through profit/loss (FVTPL)	300	(12)
Financial assets mandatorily measured at fair value through profit or loss	120	31
Financial assets at amortised cost	(43)	(36)
Financial assets measured at fair value through other comprehensive income	25	24
Investment in equity instrument designated at fair value through other comprehensive income	1	9
Total financial assets	**401**	**15**
Financial liabilities		
Financial liabilities designated at fair value through profit and loss	(1 852)	..
Financial liabilities mandatorily measured at fair value through profit or loss	(152)	(60)
Total financial liabilities	**(2 004)**	**(60)**

2018	State of Victoria	General government sector
Financial assets		
Cash and deposits	235	830
Designated at fair value through the operating statement	1 949	37
Held-for-trading at fair value through the operating statement	3	5
Loans and receivables	(21)	(22)
Total financial assets	**2 166**	**851**
Financial liabilities		
Designated at fair value through the operating statement	(432)	(8)
Held-for-trading at fair value through the operating statement	21	..
Total financial liabilities	**(411)**	**(8)**

Breakdown of interest revenue [(a)]

($ million)

	State of Victoria		General government sector	
	2019	2018	2019	2018
Interest revenue from financial assets not at fair value through the operating statement	259	229	826	845
Interest revenue from financial assets at fair value through the operating statement	573	587	..	..
Total	**832**	**816**	**826**	**845**

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

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

($ million)

	State of Victoria		General government sector	
	2019	2018	2019	2018
Interest expense from financial liabilities not at fair value through the operating statement	923	953	2 068	2 054
Interest expense from financial liabilities at fair value through the operating statement	1 889	1 914	2	3
Fee expenses from financial liabilities not at fair value through the operating statement	38	36	42	39
Fee expenses from financial liabilities at fair value through the operating statement	437	472	1	1
Total	**3 288**	**3 375**	**2 113**	**2 099**

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

7.1.6 Liquidity risk

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

Short-term liquidity management and control

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

TCV has an enhanced liquidity policy to assist the Government to manage the whole of Victorian government liquidity risk. The policy requires daily measurement of the whole of Victorian government liquidity ratio, which measures TCV's liquid assets (after discounting to reflect potential loss of value in the event of a quick sale), versus 12 months of debt refinancing and interest obligations.

The policy also measures the daily 'going concern' net and cumulative cash flow limits to manage short-term liquidity exposures during normal operating liquidity conditions and the monitoring of 'going concern' and 'liquidity stress' scenario cash flows out to 12 months.

As at 30 June 2019, the whole of Victorian government liquidity ratio stood at 118 per cent against a limit of 80 per cent (115 per cent against a limit of 80 per cent in 2018).

Long-term liquidity management monitoring

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

Managing a liquidity crisis

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

Maturity analysis of financial liabilities

Disclosed are details of the State's maturity analysis for its domestic borrowings and finance lease liabilities. The maturity analysis for the remainder of the State's financial liabilities are immaterial to the financial report.

Domestic borrowings **($ million)**

	State of Victoria		General government sector	
	2019	*2018*	*2019*	*2018* (a)
Carrying amount	52 114	38 738	28 050	23 615
Nominal amount (b)	56 255	44 279	34 039	30 375
Contractual maturity				
0 to 3 months	3 520	1 056	2 686	1 798
3 months to 1 year	12 716	5 553	6 967	2 894
1 to 2 years	1 783	8 128	2 601	3 449
2 to 5 years	12 522	10 604	5 649	8 935
5 years or more	25 715	18 937	16 136	13 298

Notes:
(a) June 2018 comparative figures have been restated to reflect more current information.
(b) Represents undiscounted nominal amount.

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

	State of Victoria		General government sector	
	2019	*2018*	*2019*	*2018*
Less than 1 year	1 220	1 209	1 113	1 024
1 year but less than 5 years	4 620	4 159	4 565	4 012
5 years or more	14 703	15 700	14 619	15 601
Minimum lease payments	**20 543**	**21 067**	**20 297**	**20 636**
Future finance charges	10 666	10 862	10 666	10 862
Total finance lease liabilities	**9 877**	**10 206**	**9 631**	**9 774**

7.2 Contingent assets and contingent liabilities (State of Victoria)

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

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

Contingent assets

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

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

The table below contains quantifiable contingent assets as at 30 June 2019 (arising from outside of government).

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

	State of Victoria	
	2019	*2018*
General government (b)	178	146
Public non-financial corporations	510	408
Public financial corporations	..	..
Eliminations	*(10)*	*(22)*
Total contingent assets – State of Victoria	**678**	**533**
Guarantees, indemnities and warranties	133	73
Legal proceedings and disputes	48	14
Other (b)	497	446
Total contingent assets – State of Victoria	**678**	**533**

Notes:
(a) Figures reflect contingent assets that arise from outside of government.
(b) Contingent assets in the general government sector mainly consists of $100 million relating to a contingent payment for Crown Melbourne licence amendments that may be payable in calendar year 2022.

Non-quantifiable contingent assets

Peninsula Link compensable enhancement claim

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

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

Contingent liabilities

Contingent liabilities are:

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

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

The table below contains quantifiable contingent liabilities as at 30 June 2019.

Quantifiable contingent liabilities **($ million)**

	State of Victoria	
	2019	*2018*
General government	12 983	12 287
Public non-financial corporations	224	186
Public financial corporations	..	..
Eliminations [(a)]	*(12 477)*	*(11 873)*
Total contingent liabilities – State of Victoria	**730**	**600**
Guarantees, indemnities and warranties	189	206
Legal proceedings and disputes	252	209
Other	289	185
Total contingent liabilities – State of Victoria	**730**	**600**

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

Non-quantifiable contingent liabilities

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

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

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

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

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

Cladding rectification

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, and the February 2019 fire at the Neo200 Tower on Spencer Street have highlighted that dangerous materials have been used on some buildings throughout Victoria.

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

On behalf of the Cladding Taskforce, the Victorian Building Authority has undertaken a building audit to assess the extent of non-compliant cladding on buildings.

The building audit has identified a number of buildings that require rectification. These buildings are being risk-assessed to inform the extent of rectification works required. The Government has committed funding for cladding rectification initiatives.

Department of Education and Training

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

- volunteer school workers and volunteer student workers: the *Education and Training Reform Act 2006* provides indemnity for personal injuries or death (and at the discretion of the Minister, for property damage) suffered by volunteer school workers and volunteer student workers arising out of or in the course of engaging in school work or community work respectively;
- 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;
- board members: the *Education and Training Reform Act 2006* requires the State to indemnify a member of a Merit Protection Board or a Disciplinary Appeals Board for anything done or omitted to be done in good faith in the exercise of a power or the discharge of their statutory duties;
- school councils: the *Education and Training Reform Act 2006* requires the Department to indemnify individual members of school councils for any legal liability, whether in contract, negligence or defamation, if they acted in good faith and in the 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* 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.

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

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

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

Fiskville independent investigation and closure of training college

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

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

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

The Government's 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 the EPA. These relate to any further notices that may be issued by the EPA, any regulatory infringements that may be imposed by the EPA, compensation that may be sought, any legal claims that may be made, 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 contamination is identified.

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.

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.

Motor Vehicle Duty

A plaintiff has issued proceedings in the High Court against the State of Victoria and the Commissioner of State Revenue, challenging the constitutional validity of motor vehicle duty on applications for registrations of new motor vehicles and seeking restitution for any duty unlawfully collected by the Commissioner.

The proceedings are at an early stage and accordingly it is not feasible at this time to quantify any future liability.

Victorian Managed Insurance Authority – insurance cover

The Victorian Managed Insurance Authority (VMIA) was established in 1996 as an insurer for State Government departments, participating bodies and other entities as defined under the *Victorian Managed Insurance Authority Act 1996*. The VMIA insures its clients 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 limit of $950 million for public and products liability, and for losses above $50 million arising out of any one event, up to a limit 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 1993, 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 in any policy year from 1 July 2003 exceed the initial estimate, on which the risk premium was based, by more than 20 per cent.

7.3 Fair value determination

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

Fair values are determined for the following assets and liabilities:

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

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

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

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

Fair value hierarchy

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

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

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

Fair value disclosure

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

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

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

7.4 Fair value determination of financial assets and liabilities

How fair values are determined

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

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

Fair value of financial instruments measured at amortised cost **($ million)**

	2019		*2018*	
State of Victoria	*Carrying amount*	*Fair value*	*Carrying amount*	*Fair value*
Financial assets				
Non-current receivables	120	120	111	111
Financial liabilities				
Finance lease liabilities	9 877	10 165	10 206	10 207
General government sector				
Financial assets				
Non-current receivables	98	98	88	89
Financial liabilities				
Finance lease liabilities	9 631	9 918	9 774	9 775

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

State of Victoria	*Carrying amount as at*	*Fair value measurement at end of reporting period using:*		
2019	*30 June*	*Level 1*	*Level 2*	*Level 3*
Financial assets				
Cash	12 694	12 694	..	..
Derivative assets	1 052	26	741	285
Term deposits	2 029	7	2 022	..
Equities and managed investment schemes	34 362	2 366	24 421	7 575
Debt securities at fair value	7 389	2 868	4 520	..
Total financial assets	**57 525**	**17 962**	**31 703**	**7 860**
Financial liabilities				
Domestic borrowings	52 114	45 548	6 566	..
Foreign currency borrowings	149	..	149	..
Derivative financial liabilities	764	11	570	184
Total financial liabilities	**53 027**	**45 559**	**7 285**	**184**
2018				
Financial assets				
Cash	6 494	6 494	..	..
Derivative assets	710	27	682	..
Term deposits	1 059	7	1 052	..
Equities and managed investment schemes	32 639	2 638	22 908	7 093
Debt securities at fair value	7 334	1 365	5 968	..
Total financial assets	**48 235**	**10 532**	**30 610**	**7 093**
Financial liabilities				
Domestic borrowings	38 738	31 202	7 536	..
Foreign currency borrowings	133	..	133	..
Derivative financial liabilities	693	24	669	..
Total financial liabilities	**39 565**	**31 226**	**8 339**	**..**

General Government Sector [(a)]	*Carrying amount as at*	*Fair value measurement at end of reporting period using:*		
2019	*30 June*	*Level 1*	*Level 2*	*Level 3*
Financial assets				
Cash	9 775	9 775	..	..
Derivative assets	297	12	..	285
Term deposits	..	..	..	..
Equities and managed investment schemes	1 999	1 353	620	26
Debt securities at fair value	34	7	27	..
Total financial assets	**12 105**	**11 147**	**647**	**311**
2018				
Financial assets				
Cash	6 257	6 257	..	..
Derivative assets	12	12	..	..
Term deposits	..	..	..	..
Equities and managed investment schemes	1 978	1 342	636	..
Debt securities at fair value	31	25	6	..
Total financial assets	**8 279**	**7 637**	**642**	**..**

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

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

	Derivative assets		Equities and managed investment schemes		Debt securities at fair value	
State of Victoria	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*
Opening balance		**..**	**7 093**	**6 318**	**..**	**3**
Total gains and losses recognised in:	..	..	..	..	..	..
Net result	285	..	(25)	294	..	..
Other comprehensive income	..	..	581	..	..	..
Purchase	..	..	283	819	..	..
Sales	..	..	(360)	(337)	..	..
Settlements	..	..	3	..	..	(3)
Transfers from other levels	..	..	..	..	..	..
Transfers out of Level 3	..	..	..	(1)	..	..
Closing balance	**285**	**..**	**7 576**	**7 093**	**..**	**..**

Note:
(a) Reconciliation of Level 3 fair value movements is only disclosed for the whole of State as they are only material for the State's insurance entities in the public financial corporations sector.

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

The majority of the State's Level 3 financial assets relate to either investment funds/trusts managed by VFMC on behalf of the State's insurance entities or derivative financial instruments in the general government sector. Approximately one third of the funds under management by VFMC are directly managed internally while two-thirds are funds selected by VFMC but managed externally by other fund managers.

The disclosure below provides details of the inputs and assumptions used in the valuation models for various asset classes. The State is not privy to the detailed inputs and assumptions used by external fund managers to value the underlying investment assets and not in a position to provide a sensitivity analysis.

The unlisted investment fund/trust assets include the following asset classes; infrastructure, non-traditional strategies, property and private equity.

Infrastructure

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

Non-traditional strategies

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

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

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

Property investments

Property investments comprise externally managed unlisted property trusts with exposure to the domestic and international commercial, industrial, retail and development property market.

The valuations of unlisted property investments are primarily based on discounted cash flow, capitalisation and direct comparison methodologies. The assumptions, which may be subject to estimation uncertainty, include the estimated future profits and cash flows, risk-free rate, risk premium, and future economic and regulatory conditions.

Private equities

VFMC's holdings of private equity investments are small and being phased out. Private equity investments are valued primarily on multiples of earnings, discounted cash flow, market equivalents and other accepted methodologies. Key inputs and assumptions, which are subject to estimation uncertainty, include the estimated future profits and cash flows, the risk-free discount rate, the risk premium, and future economic and regulatory conditions.

Derivative financial instruments

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

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

The fair value of derivative financial instruments is based on the discounted cash flow technique. The selection of variables requires significant judgement and therefore there is a range of reasonably possible assumptions in estimating the fair value of derivatives. Significant inputs in applying this technique include growth rates applied for cash flows and discount rates used.

7.5 Fair value determination of non-financial assets

Revaluations of non-financial physical assets

Non-financial physical assets are measured on a cyclical basis in accordance with the Financial Reporting Directions (FRDs) issued by the Assistant Treasurer. A full revaluation normally occurs every five years, based upon the asset's classification of the functions of government (COFOG) framework. This led to assets within the housing and health and welfare purpose groups being formally revalued in 2018-19. However, a revaluation may occur more frequently if fair value assessments indicate material changes in values. This resulted in managerial valuations on land held by the Department of Education and Training and roads and earthworks held by VicRoads in 2018-19. Independent valuers are generally used to conduct these scheduled revaluations.

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

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

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

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

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

Biological assets are measured at fair value less costs to sell and are revalued at 30 June each year. For breeding livestock, fair value is based on the amount that could be expected to be received from the disposal of livestock with similar attributes.

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

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

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

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

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

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

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

7.5.1 Land, buildings, infrastructure, plant and equipment

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

State of Victoria	*Carrying amount 2019*	*Fair value measurement at the end of the 2019 reporting period using: Level 1*	*Level 2*	*Level 3*	*Carrying amount 2018*	*Fair value measurement at the end of the 2018 reporting period using: Level 1*	*Level 2*	*Level 3*
Buildings	**51 897**	**..**	**9 985**	**41 913**	**47 886**	**..**	**9 217**	**38 669**
Non-specialised buildings	12 104	..	9 398	2 706	11 051	..	8 879	2 172
Specialised buildings	38 693	..	577	38 116	36 002	..	328	35 674
Heritage buildings	1 100	..	9	1 091	832	..	9	823
Land and national parks	**87 947**	**..**	**22 989**	**64 958**	**91 486**	**..**	**25 155**	**66 331**
Non-specialised land	24 554	..	21 821	2 732	26 729	..	24 268	2 461
Specialised land	37 833	..	1 168	36 665	39 192	..	887	38 305
Land under roads	24 341	..	..	24 341	24 332	..	..	24 332
National parks and other 'land only' holdings	1 219	..	..	1 219	1 233	..	..	1 233
Plant, equipment, vehicles and infrastructure systems	**66 654**	**..**	**1 222**	**65 432**	**62 709**	**..**	**1 245**	**61 464**
Infrastructure systems	59 455	..	1 124	58 331	56 139	..	1 165	54 975
Rolling stock	3 551	..	..	3 551	3 101	..	..	3 101
Plant, equipment and vehicles	3 648	..	98	3 550	3 469	..	80	3 389
Roads, road infrastructure and earthworks	**30 398**	**..**	**..**	**30 398**	**26 754**	**..**	**..**	**26 754**
Cultural assets	**5 725**	**..**	**1 930**	**3 795**	**5 709**	**..**	**1 960**	**3 749**
Total land, buildings, infrastructure, plant and equipment (a)	**242 621**	**..**	**36 125**	**206 495**	**234 545**	**..**	**37 577**	**196 968**

Note:
(a) The State's total land, building, infrastructure, plant and equipment in this table excludes leased and construction in progress assets, which are valued at cost. The total of excluded assets is $27 499 million (2018: $26 033 million).

General government sector	*Carrying amount 2019*	*Fair value measurement at the end of the 2019 reporting period using: Level 1*	*Level 2*	*Level 3*	*Carrying amount 2018*	*Fair value measurement at the end of the 2018 reporting period using: Level 1*	*Level 2*	*Level 3*
Buildings	**31 919**	**..**	**1 263**	**30 656**	**27 988**	**..**	**741**	**27 247**
Non-specialised buildings	2 731	..	687	2 044	2 159	..	594	1 565
Specialised buildings	28 097	..	576	27 521	25 021	..	146	24 875
Heritage buildings	1 092	..	1	1 091	808	..	1	807
Land and national parks	**57 525**	**..**	**2 406**	**55 119**	**58 442**	**..**	**2 105**	**56 336**
Non-specialised land	3 941	..	1 318	2 623	3 689	..	1 298	2 391
Specialised land	28 023	..	1 088	26 935	29 188	..	807	28 381
Land under roads	24 341	..	..	24 341	24 332	..	..	24 332
National parks and other 'land only' holdings	1 219	..	..	1 219	1 233	..	..	1 233
Plant, equipment, vehicles and infrastructure systems	**3 190**	**..**	**43**	**3 148**	**3 117**	**..**	**29**	**3 089**
Infrastructure systems	1 224	..	..	1 224	1 204	..	..	1 204
Plant, equipment and vehicles	1 967	..	43	1 924	1 914	..	29	1 885
Roads, road infrastructure and earthworks	**30 299**	**..**	**..**	**30 299**	**26 658**	**..**	**..**	**26 658**
Cultural assets	**5 661**	**..**	**1 866**	**3 795**	**5 646**	**..**	**1 897**	**3 749**
Total land, buildings, infrastructure, plant and equipment (a)	**128 594**	**..**	**5 578**	**123 017**	**121 851**	**..**	**4 772**	**117 079**

Note:
(a) The general government sector's total land, building, infrastructure, plant and equipment in this table excludes leased and construction in progress assets, which are valued at cost. The total of excluded assets is $12 999 million (2018: $12 289 million).

Reconciliation of Level 3 fair value movements

($ million)

State of Victoria 2019	Opening balance	Depreciation	Impairment	Assets recognised for the first time	Revaluation	Acquisitions/ (disposals)	Capitalisation of work-in-progress	Transfers in/out of Level 3	Reclassification	Closing balance
Buildings	**38 669**	**(1 339)**	**(1)**	**45**	**2 654**	**489**	**1 076**	**91**	**228**	**41 913**
Non-specialised buildings	2 172	(87)	..	16	358	(1)	1	77	169	2 706
Specialised buildings	35 674	(1 223)	(1)	29	2 267	505	1 075	14	(225)	38 116
Heritage buildings	823	(29)	..	..	29	(16)	..	..	284	1 091
Land and national parks	**66 331**	**..**	**(4)**	**63**	**(1 532)**	**202**	**35**	**(13)**	**(125)**	**64 958**
Non-specialised land	2 461	..	..	..	29	244	..	..	(2)	2 732
Specialised land	38 305	..	(4)	61	(1 560)	(28)	35	(13)	(133)	36 665
Land under roads	24 332	..	..	..	..	..	..	..	9	24 341
National parks and other 'land only' holdings	1 233	..	..	1	(1)	(14)	..	..	..	1 219
Plant, equipment, vehicles and infrastructure systems	**61 464**	**(2 393)**	**(51)**	**45**	**419**	**1 907**	**4 125**	**(163)**	**77**	**65 432**
Infrastructure systems	54 975	(1 069)	(12)	20	435	1 387	2 506	..	88	58 331
Rolling stock	3 101	(171)	..	..	..	364	258	..	..	3 551
Plant, equipment and vehicles	3 389	(1 153)	(39)	25	(16)	157	1 361	(163)	(12)	3 550
Roads, road infrastructure and earthworks	**26 754**	**(631)**	**(364)**	**14**	**2 685**	**251**	**1 690**	**..**	**..**	**30 398**
Cultural assets	**3 749**	**(17)**	**..**	**8**	**..**	**44**	**..**	**9**	**2**	**3 795**
Total	**196 968**	**(4 380)**	**(420)**	**175**	**4 227**	**2 893**	**6 926**	**(75)**	**181**	**206 495**

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

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

General government sector *2019*	*Opening balance*	*Depreciation*	*Impairment*	*Assets recognised for the first time*	*Revaluation*	*Acquisitions/ (disposals)*	*Capitalisation of work-in-progress*	*Assets transferred between Government entities*	*Transfers in/out of Level 3*	*Reclassification*	*Closing balance*
Buildings	**27 247**	**(1 024)**	**(1)**	**20**	**2 562**	**289**	**1 510**	**(52)**	**16**	**89**	**30 656**
Non-specialised buildings	1 565	(61)	..	14	350	4	..	9	..	163	2 044
Specialised buildings	24 875	(933)	(1)	6	2 184	284	1 510	(61)	16	(358)	27 521
Heritage buildings	807	(29)	..	..	29	..	..	..	..	284	1 091
Land and national parks	**56 336**	**..**	**(4)**	**53**	**(1 400)**	**374**	**5**	**(189)**	**(11)**	**(45)**	**55 119**
Non-specialised land	2 391	..	..	..	21	349	..	(105)	..	(32)	2 623
Specialised land	28 381	..	(4)	52	(1 420)	39	5	(83)	(11)	(22)	26 935
Land under roads	24 332	..	..	..	..	..	..	..	..	9	24 341
National parks and other 'land only' holdings	1 233	..	..	1	(1)	(14)	..	..	..	..	1 219
Plant, equipment, vehicles and infrastructure systems	**3 089**	**(555)**	**(1)**	**15**	**9**	**492**	**257**	**23**	**(165)**	**(15)**	**3 148**
Infrastructure systems	1 204	(85)	..	..	..	27	56	22	..	..	1 224
Plant, equipment and vehicles	1 885	(470)	(1)	15	9	465	201	1	(165)	(15)	1 924
Roads, road infrastructure and earthworks	**26 658**	**(628)**	**(364)**	**14**	**2 681**	**(5)**	**1 690**	**254**	**..**	**..**	**30 299**
Cultural assets	**3 749**	**(17)**	**..**	**8**	**..**	**44**	**..**	**..**	**9**	**2**	**3 795**
Total	**117 079**	**(2 223)**	**(370)**	**110**	**3 852**	**1 194**	**3 461**	**36**	**(151)**	**30**	**123 017**
2018											
Buildings	**25 913**	**(1 203)**	**(7)**	**6**	**1 269**	**547**	**794**	**8**	**3**	**(83)**	**27 247**
Non-specialised buildings	1 516	(99)	..	4	..	162	..	..	1	(19)	1 565
Specialised buildings	23 566	(1 081)	(7)	2	1 264	396	794	8	3	(70)	24 875
Heritage buildings	831	(23)	..	..	5	(11)	..	..	(1)	5	807
Land and national parks	**48 865**	**..**	**..**	**173**	**7 190**	**57**	**7**	**6**	**40**	**..**	**56 336**
Non-specialised land	2 276	..	..	..	248	1	..	(9)	..	(126)	2 391
Specialised land	23 503	..	..	168	4 502	50	7	42	40	70	28 381
Land under roads	22 036	..	..	..	2 268	5	..	(34)	..	56	24 332
National parks and other 'land only' holdings	1 050	..	..	5	172	..	..	7	..	..	1 233
Plant, equipment, vehicles and infrastructure systems	**3 021**	**(521)**	**(23)**	**2**	**42**	**417**	**122**	**(10)**	**..**	**38**	**3 089**
Infrastructure systems	1 187	(56)	(4)	..	41	24	13	..	..	(1)	1 204
Plant, equipment and vehicles	1 834	(465)	(19)	2	2	393	108	(10)	..	39	1 885
Roads, road infrastructure and earthworks	**26 749**	**(617)**	**(174)**	**..**	**..**	**8**	**691**	**..**	**..**	**..**	**26 658**
Cultural assets	**3 757**	**(19)**	**..**	**5**	**..**	**19**	**..**	**..**	**(10)**	**(3)**	**3 749**
Total	**108 304**	**(2 359)**	**(203)**	**186**	**8 502**	**1 047**	**1 614**	**3**	**33**	**(48)**	**117 079**

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

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

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

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

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

Fair value disclosure for assets held primarily for service potential

Asset class	*Valuation technique*	*Significant unobservable input*
Buildings		
Non-specialised buildings	Depreciated replacement cost	Direct cost per square metre Useful life
Specialised buildings	Depreciated replacement cost	Direct cost per square metre Useful life
Heritage buildings	Depreciated replacement cost	Community service obligation (CSO) adjustment [(a)] Direct cost per square metre Useful life
Land and national parks		
Non-specialised land	Market approach	CSO adjustment [(a)]
Specialised land	Market approach	CSO adjustment [(a)]
Land under roads	Market approach	CSO adjustment [(a)]
National parks	Market approach	CSO adjustment [(a)]
Plant, equipment, vehicles and infrastructure systems		
Infrastructure systems and rolling stock	Depreciated replacement cost	Cost: per square metre per unit Useful life
Plant, equipment and vehicles	Depreciated replacement cost	Cost per unit Useful life
Roads and roads infrastructure		
Roads and roads infrastructure	Depreciated replacement cost	Cost per kilometre lane Useful life
Earthworks	Depreciated replacement cost	Cost per kilometre
Cultural assets		
Cultural assets	Statistical valuation	Market price Statistically verified random sample Professional judgement

Note:

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

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

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

Asset class	*Valuation technique*	*Significant unobservable input*	*Range*
Buildings			
Metropolitan water corporations	Depreciated replacement cost	Direct cost per square metre	$11–8 600
		Useful life	1–150 years
Land			
Metropolitan water corporations	Market approach	CSO adjustment (a)	1–92%
Channels			
Ports	Discounted cash flow method (income approach)	Discount rates (b)	8.60%
Infrastructure			
Ports	Depreciated replacement cost	Cost per unit	$33 700–4 831 000
Metropolitan water corporations	Discounted cash flow method (income approach)	Discount rates (b)	5.0–6.0%
		Terminal value growth rate	3.0–4.0%
		Useful life	2–245 years
Plant, equipment and vehicles			
Plant, equipment and vehicles	Depreciated replacement cost	Useful life	1–50 years
		Cost per unit	$1–2 300 000

Notes:

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

(b) Applicable to the valuation using the income approach.

8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

Introduction

This section presents a summary of the original and revised published budget estimates for the Victorian general government sector and explains the material variances between the estimates and actual outcomes as presented in these financial statements.

It also provides disclosure of information in respect of the Public Account, in accordance with the requirement of the *Financial Management Act, No. 18 of 1994* (FMA).

Structure

8.1 Explanations of material variances between budget and actual outcomes

The tables and notes that follow explain material variances between the general government sector original budget as published in Chapter 1 of 2018-19 Budget Paper No. 5 *Statement of Finances* and actual outcomes.

The tables also include the revised budget estimates as published in Appendix B of 2019-20 Budget Paper No. 5 *Statement of Finances*.

The original budget data is sourced from the estimated financial statements, which were reviewed by the Auditor-General, but is not subject to an audit.

For the general government sector comprehensive operating statement, variances are considered to be material where the variance exceeds the greater of 10 per cent of the original budget estimates or $50 million. In regard to the other statements, high level explanations of major variances in the key aggregates, where material, have been provided.

8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

Consolidated comprehensive operating statement for the financial year ending 30 June **($ million)**

General government sector	*Notes*	*Published budget*	*Revised budget*	*2019 actual*	*Budget variance*	*%*	*Revised budget variance*	*%*
Revenue from transactions								
Taxation revenue	(a)	24 081	23 814	23 653	(428)	(2)	(161)	(1)
Interest revenue		864	796	817	(47)	(5)	22	3
Dividends, income tax equivalent and rate equivalent revenue	(b)	922	952	1 030	108	12	78	8
Sales of goods and services	(c)	7 541	7 712	7 750	210	3	38	..
Grant revenue	(d)	33 458	33 396	33 303	(155)	..	(93)	..
Other revenue	(e)	2 622	2 825	3 042	420	16	217	8
Total revenue from transactions		**69 487**	**69 495**	**69 595**	**108**	**..**	**100**	**..**
Expenses from transactions								
Employee expenses	(f)	25 562	25 096	25 406	(157)	(1)	309	1
Net superannuation interest expense		662	688	688	26	4	..	..
Other superannuation	(g)	2 676	2 790	2 797	121	5	7	..
Depreciation		2 876	2 833	2 865	(10)	..	33	1
Interest expense	(h)	2 167	2 130	2 103	(64)	(3)	(27)	(1)
Grant expense	(i)	12 901	13 622	13 355	454	4	(267)	(2)
Other operating expenses	(j)	21 264	21 228	21 006	(258)	(1)	(222)	(1)
Total expenses from transactions		**68 108**	**68 387**	**68 220**	**112**	**..**	**(167)**	**..**
Net result from transactions – net operating balance		**1 380**	**1 108**	**1 375**	**(4)**	**..**	**267**	**24**
Other economic flows included in net result								
Net gain/(loss) on disposal of non-financial assets		77	88	(38)	(114)	(149)	(126)	(143)
Net gain/(loss) on financial assets or liabilities at fair value		27	(122)	(36)	(63)	(237)	85	(70)
Share of net profit/(loss) from associates/joint venture entities, excluding dividends		..	..	1	1	..	1	..
Other gains/(losses) from other economic flows		(345)	(404)	(920)	(575)	167	(516)	128
Total other economic flows included in net result	(k)	**(242)**	**(438)**	**(993)**	**(751)**	**310**	**(555)**	**127**
Net result		**1 137**	**670**	**382**	**(755)**	**(66)**	**(288)**	**(43)**
Other economic flows – other comprehensive income								
Items that will not be reclassified to net result								
Changes in non-financial assets revaluation surplus		699	3 794	4 162	3 463	495	368	10
Remeasurement of superannuation defined benefits plans		1 014	(1 920)	(3 371)	(4 385)	(432)	(1 451)	76
Other movements in equity		(9)	(15)	72	81	(907)	87	(584)
Items that may be reclassified subsequently to net result								
Net gain/(loss) on financial assets at fair value		2	2	(65)	(66)	n.a.	(67)	n.a.
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets		34	(560)	(2 654)	(2 688)	n.a.	(2 093)	374
Total other economic flows – other comprehensive income		**1 741**	**1 302**	**(1 855)**	**(3 596)**	**(207)**	**(3 157)**	**(243)**
Comprehensive result – total change in net worth		**2 878**	**1 972**	**(1 473)**	**(4 351)**	**(151)**	**(3 444)**	**(175)**

Revenue from transactions

Revenue from transactions was $69.6 billion for the year to 30 June 2019. This is consistent with the estimate in the original budget. Movements in revenue items from the original budget are discussed below.

a) Taxation revenue was $428 million lower than the original budget. This was largely driven by lower land transfer duty of $1.1 billion due to the softening in the property market resulting in lower property prices and sales volumes. This was partly offset by higher land tax collections of $416 million due to a larger land tax base and a $131 million increase in lottery and gambling taxes collected due to more high-value jackpots during the year.

b) Dividends, income tax equivalent and rate equivalent revenue was higher than the original published budget by $108 million. This was largely due to increased income tax equivalent receipts from the water industry due to higher than expected profits.

c) Revenue from the sales of goods and services was higher by $210 million. This was in part due to higher than expected revenue progressively recognised by the State over the 40-year concession term from the commercialisation of land titles and registry functions of Land Use Victoria and higher than expected activity in the health sector.

d) Grant revenue was $155 million lower than the original published budget reflecting lower than expected GST pool collections.

e) Other revenue was $420 million higher than originally budgeted mainly due to the initial recognition of the fair value of the Support Agreements underlying the Victorian Renewable Energy Auction Scheme.

Expenses from transactions

Expenses from transactions were $68.2 billion for the year to 30 June 2019. This is consistent with the estimate in the original budget. Movements in expense items from the original budget are discussed below.

f) Employee expenses were $157 million lower than originally estimated. This mainly reflects differences in the timing of activity in the education sector.

g) Other superannuation expenses were $121 million higher than originally estimated. This was primarily due to a reduction in the discount rate that underlies the calculation of defined benefit service costs.

h) Interest expense was lower than originally published by $64 million. This was primarily due to lower than expected borrowings and an operating cash surplus.

i) Grant expenses were $454 million higher than the published budget. This was primarily due to an increase in the National Disability Insurance Scheme payment to the Commonwealth.

j) Other operating expenses were $258 million less than originally estimated. This largely reflects differences in the timing of activity across the major departments.

Other economic flows included in net result

k) Total other economic flows included in the net result have decreased by $751 million since the original budget. This decrease is primarily due to an increase in the provision for doubtful debts associated with road safety fines.

8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

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

	Published budget	*Revised budget*	*2019 actual*	*Budget variance*	*%*	*Revised budget variance*	*%*
Assets							
Financial assets							
Cash and deposits	4 632	8 189	9 775	5 143	111	1 586	19
Advances paid	8 141	8 745	8 340	199	2	(405)	(5)
Receivables	5 740	6 132	6 628	888	15	496	8
Investments, loans and placements	4 128	2 242	2 539	(1 589)	(38)	297	13
Investments accounted for using the equity method	47	44	45	(2)	(5)	1	2
Investments in other sector entities	102 530	104 773	101 825	(705)	(1)	(2 948)	(3)
Total financial assets	**125 219**	**130 126**	**129 153**	**3 934**	**3**	**(973)**	**(1)**
Non-financial assets							
Inventories	179	190	165	(14)	(8)	(25)	(13)
Non-financial assets held-for-sale	297	362	223	(74)	(25)	(139)	(38)
Land, buildings, infrastructure, plant and equipment	127 262	140 129	141 593	14 331	11	1 465	1
Other non-financial assets	1 756	2 111	2 305	549	31	195	9
Total non-financial assets	**129 494**	**142 792**	**144 286**	**14 792**	**11**	**1 495**	**1**
Total assets	**254 713**	**272 917**	**273 439**	**18 726**	**7**	**522**	**..**
Liabilities							
Deposits held and advances received	4 248	5 115	5 177	929	22	62	1
Payables	7 707	9 425	10 011	2 303	30	585	6
Borrowings	36 992	36 859	37 885	893	2	1 025	3
Employee benefits	7 140	7 318	8 020	879	12	701	10
Superannuation	23 195	27 182	28 632	5 437	23	1 450	5
Other provisions	932	929	1 072	140	15	143	15
Total liabilities	**80 214**	**86 829**	**90 795**	**10 581**	**13**	**3 966**	**5**
Net assets	**174 499**	**186 088**	**182 644**	**8 145**	**5**	**(3 444)**	**(2)**
Accumulated surplus/(deficit)	55 665	51 323	52 473	(3 192)	(6)	1 150	2
Reserves	118 834	134 765	130 171	11 337	10	(4 595)	(3)
Net worth	**174 499**	**186 088**	**182 644**	**8 145**	**5**	**(3 444)**	**(2)**
FISCAL AGGREGATES							
Net financial worth	45 005	43 297	38 358	(6 647)	(15)	(4 939)	(11)
Net financial liabilities	57 525	61 477	63 467	5 942	10	1 991	3
Net debt	24 339	22 799	22 407	(1 932)	(8)	(392)	(2)

Net financial worth

Net financial worth is total financial assets minus total liabilities. Net financial worth was $6.6 billion lower than originally published. This was due to an increase in financial assets of $3.9 billion and higher liabilities of $10.6 billion.

The increase in financial assets was primarily driven by an increase in cash and deposits due to the new central banking system arrangements.

The higher than expected liabilities were primarily due to a $5.4 billion increase in the superannuation liability that arose due to a significant reduction in the bond yields that underlie its valuation. There was also a $2.3 billion increase in payables attributing to the upfront receipt of the proceeds from the commercialisation of land titles and registry functions of Land Use Victoria.

Net financial liabilities

Net financial liabilities are total liabilities less all financial assets (excluding investments in other sectors). Net financial liabilities were $5.9 billion higher than the original budget. A key driver was the increase in the superannuation liability that resulted from a reduction in the bond yields that underlie the key superannuation valuation assumptions.

Net debt

Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowings less the sum of cash and deposits, advances paid and investments, loans and placements. Net debt was $1.9 billion lower compared with the original budget. This was due to increases in cash and deposits as described under Net financial worth.

The actual cash operating surplus of $7.1 billion was $1.5 billion higher than originally budgeted, which reduced the underlying borrowing requirements for 2018-19.

Non-financial assets

Non-financial assets were $14.8 billion higher than originally budgeted. This was primarily driven by a $12.9 billion increase in the valuation of roads and land under roads, school land, and land and buildings in the health sector.

8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

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

General government sector	*Published budget*	*Revised budget*	*2019 actual*	*Budget variance*	*%*	*Revised budget variance*	*%*
Cash flows from operating activities							
Receipts							
Taxes received	23 907	23 760	23 301	(606)	(3)	(459)	(2)
Grants	33 458	33 391	33 353	(105)	..	(38)	..
Sales of goods and services [(a)(b)]	10 086	11 215	11 047	960	10	(169)	(2)
Interest received	864	790	808	(55)	(6)	18	2
Dividends, income tax equivalent and rate equivalent receipts	861	891	1 040	180	21	149	17
Other receipts	2 168	2 212	2 043	(125)	(6)	(170)	(8)
Total receipts	**71 343**	**72 261**	**71 592**	**248**	**..**	**(669)**	**(1)**
Payments							
Payments for employees	(25 213)	(24 805)	(24 731)	481	(2)	73	..
Superannuation	(3 364)	(3 420)	(3 429)	(64)	2	(8)	..
Interest paid	(2 130)	(2 093)	(2 079)	51	(2)	14	(1)
Grants and subsidies	(13 158)	(13 935)	(13 444)	(286)	2	491	(4)
Goods and services [(a)]	(21 141)	(21 138)	(20 050)	1 091	(5)	1 088	(5)
Other payments	(787)	(790)	(791)	(4)	..	..	..
Total payments	**(65 792)**	**(66 181)**	**(64 523)**	**1 269**	**(2)**	**1 658**	**(3)**
Net cash flows from operating activities	**5 551**	**6 080**	**7 068**	**1 517**	**27**	**989**	**16**
Cash flows from investing activities							
Cash flows from investments in non-financial assets							
Purchases of non-financial assets	(10 091)	(8 654)	(9 559)	531	(5)	(905)	10
Sales of non-financial assets	368	319	243	(125)	(34)	(76)	(24)
Net cash flows from investments in non-financial assets	**(9 723)**	**(8 335)**	**(9 317)**	**406**	**(4)**	**(981)**	**12**
Net cash flows from investments in financial assets for policy purposes	1 624	1 190	1 445	(179)	(11)	255	21
Subtotal	**(8 099)**	**(7 145)**	**(7 872)**	**227**	**(3)**	**(727)**	**10**
Net cash flows from investments in financial assets for liquidity management purposes	(248)	1 688	1 631	1 879	(758)	(56)	(3)
Net cash flows from investing activities	**(8 347)**	**(5 458)**	**(6 241)**	**2 107**	**(25)**	**(783)**	**14**
Cash flows from financing activities							
Advances received (net)	(2 031)	(1 579)	(1 606)	425	(21)	(27)	2
Net borrowings	4 895	2 895	4 214	(681)	(14)	1 319	46
Deposits received (net)	..	(6)	82	82	n.a.	88	n.a.
Net cash flows from financing activities	**2 864**	**1 310**	**2 690**	**(174)**	**(6)**	**1 380**	**105**
Net increase/(decrease) in cash and cash equivalents	**68**	**1 932**	**3 518**	**3 450**	**n.a.**	**1 586**	**82**
Cash and cash equivalents at beginning of reporting period	4 565	6 257	6 257	1 692	37	..	..
Cash and cash equivalents at end of the reporting period	**4 632**	**8 189**	**9 775**	**5 143**	**111**	**1 586**	**19**

Net cash flows from operating activities

Total net cash inflows from operating activities were $1.5 billion higher than originally budgeted. This was due to increases in unearned income resulting from the proceeds from the commercialisation of land titles and registry functions of Land Use Victoria and a reduction in outflows for operating supplies and consumables. A reconciliation of the net result to net cash flows from operating activities is provided at Note 5.3.

Net cash flows from investing activities

Total net cash flows from investing activities was $2.1 billion lower than the original budget. This decrease was driven by cash outflows in financial assets for liquidity management purposes due to the implementation of the new central banking system arrangements.

Net cash flows from financing activities

Total net cash inflows from financing activities were $174 million lower than originally budgeted. This was primarily due to lower borrowings than expected in the original budget as a result of increased cash flows from operating activities partially by an increase in advances received.

Consolidated statement of changes in equity

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

8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

Consolidated statement of changes in equity ($ million)

	Accumulated surplus/ (deficit)	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
2018-19 original budget					
Balance at 1 July 2018	53 509	56 366	61 070	676	171 621
Net result for the year	1 137	..	..	..	1 137
Other comprehensive income for the year	1 019	699	34	(12)	1 741
Transfer to/(from) accumulated surplus	..	..	..	..	..
Balance at 30 June 2019	**55 665**	**57 066**	**61 104**	**664**	**174 499**
2018-19 revised budget					
Balance at 1 July 2018	52 574	64 084	66 351	1 108	184 116
Net result for the year	670	..	..	..	670
Other comprehensive income for the year	(1 921)	3 794	(560)	(11)	1 302
Transfer to/(from) accumulated surplus	..	..	..	..	..
Balance at 30 June 2019	**51 323**	**67 878**	**65 790**	**1 097**	**186 088**
2018-19 actual					
Balance at 1 July 2018 [(a)]	52 626	64 084	66 351	1 055	184 116
Net result for the year	382	..	..	..	382
Other comprehensive income for the year	(3 328)	4 162	(2 654)	(35)	(1 855)
Transfer to/(from) accumulated surplus	2 792	(2 792)	..	..	..
Balance at 30 June 2019	**52 473**	**65 454**	**63 697**	**1 020**	**182 644**
Variance to original budget					
Balance at 1 July 2018	(883)	7 717	5 281	380	12 495
Net result for the year	(755)	..	..	..	(755)
Other comprehensive income for the year	(4 347)	3 463	(2 688)	(24)	(3 596)
Transfer to/(from) accumulated surplus	2 792	(2 792)	..	..	..
Balance at 30 June 2019	**(3 192)**	**8 388**	**2 593**	**356**	**8 145**
Variance to revised budget					
Balance at 1 July 2018 [(a)]	53	..	..	(53)	..
Net result for the year	(288)	..	..	..	(288)
Other comprehensive income for the year	(1 407)	368	(2 093)	(24)	(3 157)
Transfer to/(from) accumulated surplus	2 792	(2 792)	..	..	..
Balance at 30 June 2019	**1 150**	**(2 425)**	**(2 093)**	**(77)**	**(3 444)**

Note:

(a) *The 1 July 2018 balance has been restated resulting from the initial application of AASB 9* Financial Instruments. *Note 9.7.3 provides further information on the impact of the new accounting standard.*

8.2 Public Account disclosures

The *Financial Management Act, No. 18 of 1994* (FMA) requires certain disclosures of information in respect of the transactions and balances of the Public Account.

The Public Account is the Government's official bank account. The Public Account holds the cash balances of the Consolidated Fund and the Trust Fund.

The FMA, among other things, also provides for:

- temporary advances from the Public Account for a number of purposes related to the needs of the Government;
- investment of the Public Account in trustee securities; and
- temporary borrowings should the balance in the Consolidated Fund be insufficient to meet commitments during a financial year.

Consolidated Fund

The Consolidated Fund established by the FMA is the Government's primary financial account and receives all consolidated revenue under the *Constitution Act 1975* from which payments, appropriated by Parliament, are made.

Trust Fund

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

Structure of Public Account disclosure

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

($ thousand)

	Notes	*2019*	*2018*
Receipts			
Taxation		23 637 495	22 721 228
Fines and regulatory fees		734 542	715 318
Grants received		22 307 008	19 426 037
Sales of goods and services		9 860 606	6 781 356
Interest received		467 012	458 474
Dividends, income tax equivalent and rate equivalent receipts		966 835	729 667
Other receipts		783 932	204 212
Total cash inflows from operating activities		**58 757 431**	**51 036 292**
Total cash inflows from investing and financing activities		**5 599 079**	**6 744 386**
Total consolidated fund receipts	8.2.2	**64 356 509**	**57 780 679**
Payments			
Special appropriations			
Special appropriations (excluding Section 33, *Financial Management Act, No. 18 of 1994)*		5 077 142	3 329 283
Section 33 *Financial Management Act, No. 18 of 1994*		382 627	518 447
Total special appropriations	8.2.7	**5 459 770**	**3 847 730**
Annual appropriations			
Provision of outputs			
Provision of outputs – net application	8.2.8	45 573 086	41 284 893
Section 29 *Financial Management Act, No. 18 of 1994* (appropriation of annotated receipts)	8.2.11	2 324 913	2 194 040
Section 32 *Financial Management Act, No. 18 of 1994* (prior year unspent appropriations brought forward)	8.2.12	281 209	518 842
Section 35 *Financial Management Act, No. 18 of 1994* (temporary advances)	8.2.14	..	31 550
Advance to Treasurer to be sanctioned	8.2.13	1 353 137	1 452 260
Total provision of outputs		**49 532 345**	**45 481 585**
Additions to net asset base			
Additions to net asset base – net application	8.2.8	3 473 528	2 714 297
Section 29 *Financial Management Act, No. 18 of 1994* (appropriation of annotated receipts)	8.2.11	540 700	39 787
Section 32 *Financial Management Act, No. 18 of 1994* (prior year unspent appropriations brought forward)	8.2.12	384 353	320 010
Section 35 *Financial Management Act, No. 18 of 1994* (temporary advances)	8.2.14	..	73 940
Advance to Treasurer to be sanctioned	8.2.13	400 583	348 994
Total additions to net asset base		**4 799 164**	**3 497 028**
Payments made on behalf of the State			
Payments made on behalf of the State	8.2.8	4 702 946	6 133 033
Section 32 *Financial Management Act, No. 18 of 1994* (prior year unspent appropriations brought forward)	8.2.12	..	..
Advance to Treasurer to be sanctioned	8.2.13	..	59 996
Total payments made on behalf of State		**4 702 946**	**6 193 028**
Other			
Contribution by the State under agreements pursuant to Section 25 of *the Murray-Darling Basin Act 1993*	8.2.8	28 128	26 985
Victorian Law Reform Commission – pursuant to Section 17 (b) of the *Victorian Law Reform Commission Act 2000*	8.2.8	662	665
Payment to Regional Growth Fund pursuant to Section 4 of *the Regional Growth Fund Act No. 8 of 2011*	8.2.8	125 000	125 000
Total other		**153 790**	**152 650**
Total annual appropriations		**59 188 246**	**55 324 291**
Applied appropriations remaining unspent relating to the 2018-19 appropriations		(1 090 858)	(1 128 871)
Total payments		**63 557 157**	**58 043 151**
Consolidated fund balance 1 July		**(199 588)**	**62 884**
Add total receipts for year		**64 356 509**	**57 780 679**
Less total payments for year		**(63 557 157)**	**(58 043 151)**
Consolidated fund balance 30 June [(a)]		**599 764**	**(199 588)**

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

($ thousand)

	Notes	2019	2018
Reconciliation of unspent appropriations:			
Applied appropriations unspent at end of year		8 603 383	7 895 152
add payments made during the year under the Financial Management Act, No. 18 of 1994*, Section 33*		382 627	518 447
Subtotal		**8 986 010**	**8 413 599**
less applied appropriations unspent at beginning of year		(7 895 152)	(7 284 728)
Current year appropriations remaining unspent as at 30 June		1 090 858	1 128 871

Note:

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

8.2.2 Consolidated fund receipts for the financial year ended 30 June [(a)]

($ thousand)

	Estimate 2019	*Actual 2019*	*Actual 2018*
Operating activities			
Taxation			
Payroll tax	6 878 312	7 003 524	6 638 272
Land tax	2 923 593	3 499 055	2 542 873
Fire Services Property Levy	641 800	647 688	694 091
Congestion levy	121 703	111 336	103 151
Financial and capital transactions			
Land transfer duty	7 075 088	5 897 244	6 617 493
Other property duties	..	861	853
Metropolitan Planning Levy	25 942	20 314	23 025
Financial accommodation levy	174 139	147 302	146 480
Growth areas infrastructure contribution	136 200	153 772	108 546
Gambling			
Public lotteries	453 968	554 268	439 295
Electronic gaming machines	924 823	983 323	969 721
Casino taxes	237 309	229 095	224 253
Racing	35 513	76 947	37 606
Other gambling	208 354	74 510	208 259
Levies on statutory corporations	**156 609**	**156 609**	**111 943**
Taxes on insurance	**1 366 753**	**1 372 647**	**1 298 582**
Motor vehicle			
Registration fees pursuant to the *Road Safety Act, No. 127 of 1986*	1 688 478	1 658 227	1 569 314
Stamp duty on vehicle transfers	974 902	908 986	919 610
Franchise fees			
Liquor	23 617	24 048	23 750
Other	**199 712**	**117 742**	**44 112**
Total taxation	**24 246 816**	**23 637 495**	**22 721 228**
Fines and regulatory fees			
Fines	380 435	324 030	157 881
Regulatory fees	514 840	410 512	557 438
Total fines and regulatory fees	**895 275**	**734 542**	**715 318**
Grants received			
Department of Education and Training	7 500	6 647	8 472
Department of Environment, Land, Water and Planning	10 029	..	21 689
Department of Health and Human Services	38 953	88 190	79 409
Department of Justice and Community Safety	..	582	582
Department of Premier and Cabinet	..	..	3 426
Department of Transport	1 000	46	398
Department of Treasury and Finance	22 328 282	22 211 521	19 311 561
Parliament	458	..	500
Regulatory bodies and other part budget funded agencies	..	23	..
Total grants received	**22 386 222**	**22 307 008**	**19 426 037**
Sales of goods and services			
Capital asset charge	5 864 621	5 864 524	5 406 374
Other sales of goods and services	3 408 308	3 996 082	1 374 982
Total sales of goods and services	**9 272 929**	**9 860 606**	**6 781 356**
Interest received	**491 337**	**467 012**	**458 474**
Dividends, income tax equivalent and rate equivalent revenue			
Dividends	666 454	627 346	424 913
Income tax equivalent revenue	156 137	334 828	300 245
Local government tax equivalent revenue	6 950	4 662	4 509
Total dividends, income tax equivalent and rate equivalent revenue	**829 541**	**966 835**	**729 667**

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

($ thousand)

	Estimate 2019	*Actual 2019*	*Actual 2018*
Other receipts			
Land rent received	16 186	24 507	22 193
Royalties received	99 387	102 797	101 495
Other	353 283	656 628	80 524
Total other receipts	**468 855**	**783 932**	**204 212**
Total cash inflows from operating activities	**58 590 976**	**58 757 431**	**51 036 292**
Cash inflows from investing activities			
Proceeds from sale of property, plant and equipment	..	95 150	279 737
Other loans	655	..	2 870
Return of capital – government entities	329 555	438 328	2 163 879
Total cash inflows from investing activities	**330 210**	**533 479**	**2 446 486**
Cash inflows from financing activities			
Borrowings	7 039 525	5 065 600	4 297 901
Total cash inflows from financing activities	**7 039 525**	**5 065 600**	**4 297 901**
Total cash inflows from investing and financing activities	**7 369 735**	**5 599 079**	**6 744 386**
Total consolidated fund receipts	**65 960 711**	**64 356 509**	**57 780 679**

Note:
(a) On 29 November 2018, the Premier announced various machinery of government changes effective from 1 January 2019. Please see Note 9.8 for further details.

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

($ thousand)

	2019	*2018*
Cash flows from operating activities		
Receipts		
Taxation	384 105	394 393
Regulatory fees and fines	82 877	78 864
Grants received	17 627 231	15 864 957
Sale of goods and services	497 059	90 139
Interest received	180 669	203 947
Dividend received	46 049	43 095
Net transfers from the consolidated fund	3 679 615	3 399 796
Other receipts	153 502	61 528
Payments		
Payments for employees	(271 344)	(244 062)
Superannuation	(23 282)	(19 532)
Interest paid	(6 598)	(2 334)
Grants and subsidies	(19 904 198)	(18 398 349)
Goods and services	(1 674 441)	(1 587 783)
Net cash flows from operating activities	**771 244**	**(115 342)**
Cash flows from investing activities		
Purchase of non-financial assets	(92 079)	(54 494)
Sales of non-financial assets	75 204	61 181
Net proceeds from customer loans	1 362 029	2 940 122
Other investing activities	(1 761 935)	(2 480 321)
Net cash flows from investing activities	**(416 781)**	**466 489**
Cash flows from financing activities		
Net borrowings	(469 415)	418 074
Net cash flows from financing activities	**(469 415)**	**418 074**
Net increase/(decrease) in trust fund cash and deposits	**(114 952)**	**769 222**

8.2.4 Trust fund summary for the financial year ended 30 June

($ thousand)

	Balances held 2019	*Balances held 2018*
State Government funds		
Accounts established to receive levies imposed by Parliament and record the expenditure thereof	740 739	812 110
Accounts established to receive monies provided in the annual budget and record the expenditure thereof	682 635	1 526 039
Specific purpose operating accounts established for various authorities	1 435 819	980 651
Suspense and clearing accounts to facilitate accounting procedures	744 580	974 792
Treasury Trust Fund	262 805	262 444
Agency and deposit accounts	489 460	460 434
Total State Government funds	**4 356 038**	**5 016 471**
Joint Commonwealth and State funds	**97 907**	**211 141**
Commonwealth Government funds		
Commonwealth Grants passed on to individuals and organisations	87 447	121 333
Total Commonwealth Government funds	**87 447**	**121 333**
Prizes, scholarships, research and private donations	**317 807**	**259 430**
Total trust fund	**4 859 199**	**5 608 375**

8.2.5 Reconciliation of cash flows to balances held

($ thousand)

	Balances held at 30 June 2018	*Net movement for year*	*Balances held at 30 June 2019*
Cash and deposits			
Cash balances outside the Public Account	(593)	419	(174)
Deposits held with the Public Account – specific trusts	697 176	(678 051)	19 125
Deposits held with the Public Account – general trusts	14	..	14
Other balances held in the Public Account	3 211 865	1 211 825	4 423 689
Total cash and deposits	**3 908 461**	**534 193**	**4 442 654**
Investments			
Investments held with the Public Account – specific trusts	1 500 326	(484 017)	1 016 309
Total investments	**1 500 326**	**(484 017)**	**1 016 309**
Total fund balances	**5 408 787**	**50 176**	**5 458 963**
Less funds held outside the Public Account			
Cash	(593)	419	(174)
Total fund balances held outside the Public Account	**(593)**	**419**	**(174)**
Total funds held in the Public Account [(a)]	**5 409 380**	**49 757**	**5 459 137**

Note:
(a) See Note 8.2.6 for details of securities and investments including amounts held in the Public Account on behalf of trust accounts.

8.2.6 Details of securities held and included in the balances at 30 June

($ thousand)

	2019	*2018*
Funds held at 30 June		
Trust accounts		
Amounts invested on behalf of specific trusts	1 035 433	2 197 502
Amounts invested on behalf of general trusts	14	14
General account balances	3 823 926	3 411 453
Total trust accounts	**4 859 373**	**5 608 968**
Consolidated fund account balance [(a)]	**599 764**	**(199 588)**
Total funds held in the public account	**5 459 137**	**5 409 380**
Represented by:		
Stocks and securities held with/in –		
Managed Investments	1 015 919	1 009 217
Treasury Corporation of Victoria	19 529	1 188 298
	1 035 447	**2 197 515**
Cash and investments held with/in –		
Treasury Corporation of Victoria	1 010 000	1 330 000
Cash at bank balances held in Australia	2 481 831	102 868
	3 491 832	**1 432 868**
Total stock, securities, cash and investments	**4 527 279**	**3 630 384**
Temporary Advance from the Treasury Corporation of Victoria to the Consolidated Fund pursuant to Section 38 of the *Financial Management Act, No. 18 of 1994* [(a)]	350 000	850 000
Add cash advanced pursuant to Sections 36 and 37 of the *Financial Management Act, No. 18 of 1994*	581 858	928 996
Total funds held in the public account	**5 459 137**	**5 409 380**

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

8.2.7 Consolidated Fund payments: special appropriations [(a)]

($ thousand)

	2019	*2018*
Education and Training	44 910	291 558
Environment, Land, Water and Planning	157 119	112 207
Health and Human Services	1 697 269	1 533 776
Jobs, Precincts and Regions	8 381	..
Justice and Community Safety	107 931	44 589
Premier and Cabinet	128 876	46 457
Transport	184 181	262 943
Treasury and Finance	2 857 906	1 306 725
Parliament	45 127	63 953
Courts	228 068	185 523
Total special appropriations	**5 459 770**	**3 847 730**

Note:
(a) On 29 November 2018, the Premier announced various machinery of government changes effective from 1 January 2019. Please see Note 9.8 for further details.

8.2.8 Consolidated Fund payments: annual appropriations [(a)]

($ thousand)

2019	*Provision of outputs*	*Additions to net asset base*	*Payments made on behalf of the State*	*Total*
Education and Training	13 110 117	594 131	..	13 704 248
Environment, Land, Water and Planning	1 307 648	113 139	659 152	2 079 939
Health and Human Services	14 689 063	157 651	62 294	14 909 009
Jobs, Precincts and Regions	958 597	91 482	35 730	1 085 810
Justice and Community Safety	7 019 038	95 862	36 000	7 150 901
Premier and Cabinet	544 989	1 620	18 330	564 939
Transport	7 222 052	2 404 058	34 387	9 660 497
Treasury and Finance	366 815	..	3 885 180	4 251 995
Parliament	140 743	6 514	..	147 257
Courts	339 686	9 070	..	348 756
Total annual appropriations	**45 698 749**	**3 473 528**	**4 731 074**	**53 903 351**
2018				
Education and Training	11 886 734	259 734	..	12 146 468
Environment, Land, Water and Planning	1 157 871	101 626	638 430	1 897 928
Health and Human Services	13 891 523	248 522	60 344	14 200 389
Jobs, Precincts and Regions	..	..	..	..
Justice and Community Safety	6 251 414	415 710	28 976	6 696 100
Premier and Cabinet	377 026	12 972	..	389 998
Transport	7 141 611	1 596 333	69 743	8 807 687
Treasury and Finance	276 199	50 000	5 362 524	5 688 723
Parliament	132 309	6 000	..	138 309
Courts	295 871	23 399	..	319 270
Total annual appropriations	**41 410 558**	**2 714 297**	**6 160 018**	**50 284 873**

Note:
(a) On 29 November 2018, the Premier announced various machinery of government changes effective from 1 January 2019. Please see Note 9.8 for further details.

8.2.9 Amounts paid into working accounts pursuant to Section 23 of the *Financial Management Act 1994* for the year ended 30 June

($ thousand)

	2019	2018
Appropriation transfer equivalent to consolidated fund receipts	22 586	15 907
Interest received on credit balances	405	..
Total amounts paid into working accounts	**22 991**	**15 907**

8.2.10 Transfers pursuant to Sections 30 and 31 of the *Financial Management Act 1994* for the financial year ended 30 June 2019

($ thousand)

	Decrease	Increase
Section 30 and 31 transfers		
(Transfers between items of departmental appropriations)		
Education and Training		
Provision of outputs	25 567	
Additions to the net asset base		25 567
Environment, Land, Water and Planning		
Provision of outputs		13 018
Additions to the net asset base	13 018	
Health and Human Services		
Provision of outputs		30 145
Additions to the net asset base	30 145	
Jobs, Precincts and Regions		
Provision of outputs		13 858
Additions to the net asset base	13 858	
Justice and Community Safety		
Provision of outputs		35 688
Additions to the net asset base	35 688	
Premier and Cabinet		
Provision of outputs	17 780	
Additions to the net asset base	550	
Payments made on behalf of the State		18 330
Transport		
Provision of outputs		117 703
Additions to the net asset base	117 703	
Courts		
Provision of outputs	2 803	
Additions to the net asset base		2 803
Total Section 30 and 31 transfers	**257 112**	**257 112**

8.2.11 Appropriation of revenue and asset sale proceeds pursuant to Section 29 of the *Financial Management Act 1994* for the financial year ended 30 June 2019

($ thousand)

		Source		
Department	*Outputs*	*Commonwealth*	*Other*	*Total*
Education and Training	82 801	528 722	12 764	624 288
Environment, Land, Water and Planning	147 802	32 400	2 490	182 692
Health and Human Services	357 357	617 069	1 550	975 977
Jobs, Precincts and Regions	21 409	28 131	..	49 540
Justice and Community Safety	183 218	67 516	362	251 096
Premier and Cabinet	852	490	..	1 342
Transport	42 018	613 693	..	655 711
Treasury and Finance	..	10 000	13 913	23 913
Parliament	27 340	..	..	27 340
Courts	65 050	..	8 664	73 714
Total appropriation	**927 848**	**1 898 022**	**39 742**	**2 865 613**

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

Amounts approved for carryover to 2018-19 pursuant to Section 32 of the *Financial Management Act 1994* (a) **($ thousand)**

Department	*Provision of outputs*	*Additions to net assets*	*Payments made on behalf of State*	*Total carryover*
Education and Training	63 370	89 223	..	152 593
Environment, Land, Water and Planning	8 073	..	..	8 073
Health and Human Services	54 381	..	..	54 381
Jobs, Precincts and Regions	1 027	1 586	..	2 613
Justice and Community Safety	96 321	176 840	..	273 161
Premier and Cabinet	1 792	3 373	..	5 165
Transport	40 709	133 146	..	173 856
Treasury and Finance	2 333		..	2 333
Parliament	5 027	500	..	5 527
Courts	11 177	2 451	..	13 628
Total carryovers by department	**284 210**	**407 119**	**..**	**691 329**

Note:
(a) On 29 November 2018, the Premier announced various machinery of government changes effective from 1 January 2019. Please see Note 9.8 for further details.

Amounts applied against carryover of appropriations in 2018-19 pursuant to Section 32 of the *Financial Management Act 1994* **($ thousand)**

Department	*Provision of outputs*	*Additions to net assets*	*Payments made on behalf of State*	*Total carryover*
Education and Training	63 370	89 223	..	152 593
Environment, Land, Water and Planning	8 072	..	..	8 072
Health and Human Services	54 381	..	..	54 381
Jobs, Precincts and Regions	987	1 586	..	2 573
Justice and Community Safety	96 317	172 156	..	268 473
Premier and Cabinet	1 792	..	..	1 792
Transport	38 334	118 437	..	156 771
Treasury and Finance	2 333	..	..	2 333
Parliament	4 446	500	..	4 946
Courts	11 177	2 451	..	13 628
Total carryovers by department	**281 209**	**384 353**	**..**	**665 562**

Amounts approved for carryover to 2019-20 pursuant to Section 32 of the *Financial Management Act 1994* **($ thousand)**

Department	*Provision of outputs*	*Additions to net assets*	*Payments made on behalf of State*	*Total carryover*
Education and Training	37 466	64 272	..	101 738
Environment, Land, Water and Planning	15 601	507	..	16 108
Health and Human Services	51 799	92 275	..	144 074
Jobs, Precincts and Regions	79 171	3 000	..	82 171
Justice and Community Safety	69 893	217 506	..	287 399
Premier and Cabinet	5 000	3 499	..	8 499
Transport	17 400	465 109	..	482 509
Treasury and Finance	4 290	1 000	..	5 290
Parliament	6 716	..	..	6 716
Courts	5 549	24 034	..	29 583
Total carryovers by department	**292 883**	**871 202**	**..**	**1 164 086**

8.2.13 Payments from advance to the Treasurer for the financial year ended 30 June [(a)]

($ thousand)

Department	*Purpose*	*2018-19*
Education and Training	School enrolment based funding	32 309
		32 309
Environment, Land, Water and Planning	Fire suppression costs	158 510
	Solar Homes Program and solar panels for renters	84 883
	Land Use Victoria commercialisation	47 983
	Power saving bonus	26 243
	Firefighting aviation resources	13 788
	Southern alpine resorts	7 700
	Increased super contributions for Forest Fire Management Victoria	6 333
	Cladding rectification program	5 206
	Growing Suburbs Fund	3 000
	Drought assistance	2 200
	Revitalising central Geelong project	2 000
	Taking action on gas heater safety program	1 700
	Legal costs	1 483
	Barwon South West fires: funding for recovery	1 329
	Managing wildlife and pest program	1 000
	Ten year anniversary of the 2009 Victorian bushfires	710
	Stony Creek: funding for response and recovery works	700
	Port Phillip Bay improvement plan	250
	West Gate Tunnel Project – Citywide Depot, Arden Street	200
		365 218
Health and Human Services	Additional state contribution to National Health Reform Agreement	136 202
	National Disability Insurance Scheme subsidy funding	87 127
	Additional funding for health services	73 400
	National Disability Insurance Scheme transfer of services for statewide preparation and transformation	68 826
	Gas heater replacement regime	21 945
	End of life care	16 690
	Increased demand for children with complex disabilities	14 140
	National Disability Insurance Scheme support for people with psychosocial disability and the Victoria Disability Sector	13 257
	Central information point stage 2	9 806
	Civil claims for historical Institutional child abuse	8 457
	Safe patient care – nurse to patient and midwife to patient ratios	5 482
	Child information sharing reforms	3 219
	Deteriorating seasonal conditions and increased drought responses in Victoria	1 890
	Shooting sports facilities	1 878
	Barwon South West fires 2018 – long-term recovery activities	1 158
	Social Investment Initiatives – Sacred Heart	804
	Ten year anniversary of the 2009 Victorian bushfires	555
	Geelong Women's and Children's Hospital planning and early works	170
		465 005
Jobs, Precincts and Regions	Repowering and cash advance facility	29 973
	Drought response	24 430
	Boosting Jobs and Investment in Victorian Racing	9 600
	Regent Theatre	8 189
	State Library Victoria redevelopment	7 000
	Premier's Jobs and Investment Fund	5 911
	Increase Private Co-Investment in Agriculture Research and Development	3 000
	Worker Transfer Scheme	1 337
	Biosecurity response	1 066
	Advanced Lignite Demonstration Program (ALDP)	1 066
	Reid Oval	1 022
	Como House preservation	1 000
	Biosciences Research Centre	650
	Victoria Live	500
	Dairy support package	353
	Business Transition Support Package	193
	Animal Welfare Reforms	157

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

($ thousand)

Department	*Purpose*	*2018-19*
Jobs, Precincts and Regions	Melbourne Markets	145
(continued)	Globally connected investment and trade	135
	Showgrounds redevelopment	111
	Heyfield Mill acquisition	32
		95 870
Justice and Community Safety	Support for police operations	63 800
	Building capacity in the corrections system	49 622
	Resource funding for Metropolitan Fire Brigade and Country Fire Authority	30 592
	Critical police stations	30 430
	Youth Justice secure bed expansion and New youth justice facility (Cherry Creek)	17 073
	Bushfire suppression and recovery activities	16 749
	Strengthening of youth justice precincts	9 928
	Implementation of the new Victorian Infringements, Enforcement and Warrants system	8 099
	Regulating gambling and liquor and gaming entitlements	5 820
	Child information sharing reforms	5 075
	Summer fire information campaign	4 073
	Melbourne CBD security measures	4 029
	Police prosecutors	3 700
	Establishing a National Disability Insurance Scheme worker screening service	3 396
	Strengthening the Victorian Prosecution Service	3 285
	Increased legal assistance	3 075
	Countering violent terrorism	3 064
	Working with Children Check	2 802
	Volunteer marine search and rescue	2 644
	Aboriginal Justice Agreement Phase Four	2 437
	Emergency Alert	1 741
	Supporting forensic medical capacity	1 119
	Royal Commission into the management of police informants funding	1 044
	Establishment of Emergency Services Infrastructure Authority	894
	Additional court capacity	676
	Resource funding for Specialist Forensic Pathologists and Physicians	497
	Reducing reoffending and improving community safety	451
	Support to progress agreements under the *Traditional Owner Settlement Act 2010*	320
	Additional aviation resources	79
	Ten year anniversary of the 2009 Victorian bushfires	24
		276 538
Premier and Cabinet	Service Victoria	28 351
	Latrobe Valley Sports and Community Initiative	15 090
	Costs associated with administration changes	8 918
	Royal Commission into Victoria's Mental Health System	5 465
	Labour Hire Licensing Authority	4 127
	National Disability Insurance Scheme – Transfer of services	3 100
	Latrobe Valley Authority Worker Transfer Scheme	1 878
	Pick my project	1 808
	Ten year anniversary of the 2009 Victorian bushfires	1 438
	Victorian Wage Inspectorate	1 168
	Social Cohesion and Community Resilience Initiatives	1 084
	Multicultural Policy Statement and Communications Strategy	845
	Multicultural Community Infrastructure Program	750
	Multi-agency Risk Assessment and Safeguarding	661
	Munarra Centre for Regional Excellence	609
	Whole of Victorian Government Application Program Interface	464
	Portable Long Service Leave	282
	Labour Hire and Long Service Leave Inquiries outcomes	147
	Building capacity in the office of the Chief Parliamentary Counsel	125
	Funding to the Ombudsman's Office	100
		76 409

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

($ thousand)

Department	*Purpose*	*2018-19*
Transport [(b)]	Cranbourne-Pakenham Line Upgrade	189 879
	North East Link	89 358
	Repowering and cash advance facility	49 912
	Metro Tunnel	37 235
	Unlocking Benefits of the Big Build – Improving Passenger Experience	15 771
	Additional train services	9 334
	Public Transport accessibility improvements	5 949
	More regional trains – New VLocity trains	5 500
	Melbourne Airport Rail	4 181
	Business Transition Support Package	2 983
	Regent Theatre	1 824
	Public transport network integrity	1 779
	West Gate Tunnel complementary works	1 775
	Ballarat Bus Interchange	1 639
	Regional Roads Victoria	1 321
	Drought response	1 280
	Labour Hire Licensing Authority	1 176
	Premier's Jobs and Investment Fund	923
	Additional signalling staff at the Frankston Signal Box	732
	Southern Cross Station market-led proposal	524
	New bike lanes on St Kilda Road	450
	Supporting Youth Engagement	425
	Heyfield Mill acquisition	409
	Ten-year anniversary of the 2009 Victorian bushfires	275
	Western Interstate Freight Terminal	256
	Fixing Congestion on Punt Road	234
	Commercial Passenger Vehicle Victoria disability funding	165
	Victorian Wage Inspectorate	159
	Globally connected investment and trade	158
	Portable Long Service Leave	109
	Animal Welfare Reforms	93
	Biosciences Research Centre	67
	Showgrounds redevelopment	13
	Commercial Passenger Vehicles Victoria Reform	3
	Labour Hire and Long Service Leave Inquiries outcomes	1
		425 891
Treasury and Finance	Annual Municipal Valuation	4 799
	Commercialisation of land titles and registry functions of Land Use Victoria	3 451
	Homes for Victorians housing strategy	461
	Social Impact Bonds	458
	Review of building and planning approvals processes	420
		9 589
Parliament	New Parliament House Annex Building	1 120
	2018 State Election Costs	932
	Parliamentary Budget Office	741
	Parliamentary Advisers	204
		2 997
Courts	Bourke Street Coronial Inquest	1 526
	County Court accommodation	815
	Aboriginal Justice Agreement Phase Four	766
	Judicial Commission of Victoria investigations	400
	Supreme Court Master Plan	194
	Child Information Sharing reform	192
		3 893
Total Payments from Advance to the Treasurer		**1 753 720**

Notes:

(a) On 29 November 2018, the Premier announced various machinery of government changes effective from 1 January 2019. Please see Note 9.8 for further details.

(b) Certain initiatives from advance to the Treasurer are reported under the Department of Transport and the Department of Jobs, Precincts and Regions, as a result of machinery of government transitions across departments, announced by the Premier effective from 1 January 2019.

8.2.14 Payments from advances and unused advances carried forward to 2018-19 pursuant to Section 35 and 35(4) of the *Financial Management Act 1994*

There have been no payments from advances or amounts being carried forward to 2018-19 from prior financial year under Section 35 and 35(4) of the *Financial Management Act, No. 18 of 1994*.

8.2.15 Government guarantees

Details of payments made in fulfilment of any guarantee by the Government

There have been no payments made during 2018-19 in fulfilment of any guarantee by the Government.

Money received or recovered in respect of any guarantee payments

There has been no money recovered during 2018-19 in respect of any guarantee payments.

9. OTHER DISCLOSURES

Introduction to this section

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

Structure

9. OTHER DISCLOSURES

9.1 Disaggregated information

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

	General government sector		*Public non-financial corporations*	
	2019	*2018*	*2019*	*2018*
Revenue from transactions				
Taxation revenue	23 653	22 929	..	..
Interest revenue	817	845	114	153
Dividends, income tax equivalent and rate equivalent revenue	1 030	781	30	32
Sales of goods and services	7 750	7 339	6 497	6 533
Grant revenue	33 303	29 928	3 999	3 654
Other revenue	3 042	2 767	914	901
Total revenue from transactions	**69 595**	**64 589**	**11 554**	**11 272**
Expenses from transactions				
Employee expenses	25 406	23 271	1 374	1 303
Net superannuation interest expense	688	714	2	2
Other superannuation	2 797	2 535	135	123
Depreciation	2 865	2 745	2 455	2 251
Interest expense	2 103	2 092	987	1 091
Grant expense	13 355	11 130	430	363
Other operating expenses	21 006	19 789	6 190	5 884
Other property expenses	..	..	311	302
Total expenses from transactions	**68 220**	**62 276**	**11 883**	**11 319**
Net result from transactions – net operating balance	**1 375**	**2 313**	**(329)**	**(46)**
Other economic flows included in net result				
Net gain/(loss) on disposal of non-financial assets	(38)	59	(30)	(21)
Net gain/(loss) on financial assets or liabilities at fair value	(36)	53	64	4
Share of net profit/(loss) from associates/joint venture entities	1	(5)	..	(50)
Other gains/(losses) from other economic flows	(920)	(933)	99	772
Total other economic flows included in net result	**(993)**	**(827)**	**133**	**706**
Net result	**382**	**1 486**	**(196)**	**660**
Other economic flows – other comprehensive income				
Items that will not be reclassified to net result				
Changes in non-financial assets revaluation surplus	4 162	8 764	(1 231)	5 219
Remeasurement of superannuation defined benefits plans	(3 371)	(258)	(14)	11
Other movements in equity	72	(103)	114	(30)
Items that may be reclassified subsequently to net result				
Net gain/(loss) on financial assets at fair value	(65)	(2)	4	16
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	(2 654)	6 202	..	..
Total other economic flows – other comprehensive income	**(1 855)**	**14 603**	**(1 126)**	**5 215**
Comprehensive result – total change in net worth	**(1 473)**	**16 089**	**(1 322)**	**5 875**
FISCAL AGGREGATES				
Net operating balance	**1 375**	**2 313**	**(329)**	**(46)**
Purchases of non-financial assets (including change in inventories)	9 549	9 802	2 602	2 564
Less: Sales of non-financial assets	(243)	(383)	(113)	(158)
Less: Depreciation and amortisation	(2 865)	(2 745)	(2 455)	(2 251)
Plus: Other movements in non-financial assets	(2 689)	(3 451)	3 329	4 341
Less: Net acquisition of non-financial assets from transactions	**3 752**	**3 223**	**3 362**	**4 495**
Net lending/(borrowing)	**(2 376)**	**(910)**	**(3 691)**	**(4 541)**

Public financial corporations		*Inter-sector eliminations*		*State of Victoria*	
2019	*2018*	*2019*	*2018*	*2019*	*2018*
..	..	(409)	(370)	23 244	22 559
1 957	1 935	(2 211)	(2 266)	678	667
2 322	1 249	(957)	(723)	2 426	1 339
4 968	4 718	(3 497)	(3 455)	15 718	15 136
..	..	(4 649)	(3 992)	32 654	29 590
19	20	(61)	(55)	3 914	3 632
9 266	**7 922**	**(11 782)**	**(10 861)**	**78 633**	**72 923**
349	354	(485)	(444)	26 644	24 483
..	..	..	..	690	716
29	28	..	..	2 961	2 687
41	45	..	..	5 362	5 041
1 815	1 853	(2 211)	(2 266)	2 694	2 770
650	304	(4 864)	(4 158)	9 571	7 639
8 160	7 194	(3 265)	(3 269)	32 090	29 598
(2)	187	(309)	(489)	..	..
11 042	**9 964**	**(11 134)**	**(10 626)**	**80 011**	**72 933**
(1 777)	**(2 042)**	**(648)**	**(234)**	**(1 378)**	**(10)**
..	..	..	..	(68)	39
(1 494)	2 328	..	..	(1 466)	2 384
..	..	..	..	1	(55)
(3 159)	347	(2 192)	(474)	(6 173)	(288)
(4 653)	**2 675**	**(2 192)**	**(474)**	**(7 705)**	**2 080**
(6 430)	**633**	**(2 840)**	**(708)**	**(9 083)**	**2 070**
..	..	135	20	3 066	14 003
..	..	..	..	(3 385)	(247)
..	..	..	..	186	(133)
..					
..	..	..	..	(60)	14
..	..	2 654	(6 202)	..	..
..	**..**	**2 788**	**(6 182)**	**(193)**	**13 637**
(6 430)	**633**	**(52)**	**(6 890)**	**(9 277)**	**15 707**
(1 777)	**(2 042)**	**(648)**	**(234)**	**(1 378)**	**(10)**
50	68	(93)	(22)	12 108	12 412
(1)	(1)	(7)	1	(364)	(541)
(41)	(45)	..	..	(5 362)	(5 041)
..	..	61	55	700	944
7	**22**	**(39)**	**34**	**7 082**	**7 774**
(1 784)	**(2 064)**	**(609)**	**(269)**	**(8 460)**	**(7 784)**

9. OTHER DISCLOSURES

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

	General government sector		*Public non-financial corporations*	
	2019	*2018*	*2019*	*2018*
Assets				
Financial assets				
Cash and deposits	9 775	6 257	1 597	1 419
Advances paid	8 340	10 019	3 981	5 345
Receivables	6 628	6 208	1 725	1 827
Investments, loans and placements	2 539	3 928	802	1 281
Loans receivable from non-financial public sector (a)	..	..	..	..
Investments accounted for using equity method	45	53	..	..
Investments in other sector entities	101 825	101 253	..	..
Total financial assets	**129 153**	**127 717**	**8 106**	**9 872**
Non-financial assets				
Inventories	165	175	899	875
Non-financial assets held for sale	223	389	82	72
Land, buildings, infrastructure, plant and equipment	141 593	134 141	128 416	126 329
Other non-financial assets	2 305	1 872	1 342	1 393
Total non-financial assets	**144 286**	**136 577**	**130 738**	**128 670**
Total assets	**273 439**	**264 294**	**138 844**	**138 542**
Liabilities				
Deposits held and advances received	5 177	6 700	4 460	5 787
Payables	10 011	6 713	10 109	10 417
Borrowings	37 885	33 506	16 489	16 444
Employee benefits	8 020	7 020	476	442
Superannuation	28 632	25 205	51	28
Other provisions	1 072	1 034	8 144	8 212
Total liabilities	**90 795**	**80 178**	**39 728**	**41 330**
Net assets (b)	**182 644**	**184 116**	**99 116**	**97 212**
Accumulated surplus/(deficit)	52 473	52 574	2 960	3 333
Reserves	130 171	131 543	96 156	93 879
Net worth (b)	**182 644**	**184 116**	**99 116**	**97 212**
FISCAL AGGREGATES				
Net financial worth	38 358	47 540	(31 622)	(31 458)
Net financial liabilities	63 467	53 713	31 622	31 458
Net debt	22 407	20 003	14 568	14 187

Notes:

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

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

Public financial corporations		*Inter-sector eliminations*		*State of Victoria*	
2019	*2018*	*2019*	*2018*	*2019*	*2018*
4 067	5 554	(2 745)	(6 736)	12 694	6 494
28	18	(11 931)	(15 005)	418	378
2 190	1 455	(730)	(726)	9 813	8 764
42 164	39 279	(407)	(2 151)	45 098	42 336
33 745	33 524	(33 745)	(33 524)	..	..
..	..	..	..	45	53
..	..	(101 825)	(101 253)	..	..
82 194	**79 829**	**(151 383)**	**(159 394)**	**68 069**	**58 024**
..					
..	..	..	..	1 064	1 050
..	..	..	..	304	462
110	108	..	..	270 119	260 578
2 844	885	(2 983)	(1 149)	3 508	3 001
2 954	**993**	**(2 983)**	**(1 149)**	**274 995**	**265 090**
85 148	**80 822**	**(154 367)**	**(160 544)**	**343 064**	**323 114**
..					
2 290	7 644	(10 308)	(17 800)	1 618	2 331
1 807	1 951	(725)	(837)	21 201	18 243
47 087	39 472	(38 556)	(39 652)	62 904	49 771
108	109	..	..	8 604	7 570
..	..	..	..	28 683	25 233
40 003	30 895	(8 055)	(8 115)	41 164	32 025
91 295	**80 070**	**(57 644)**	**(66 404)**	**164 175**	**135 173**
(6 148)	**751**	**(96 722)**	**(94 139)**	**178 890**	**187 941**
(6 216)	684	19 634	21 534	68 851	78 125
68	67	(116 356)	(115 673)	110 039	109 816
(6 148)	**751**	**(96 722)**	**(94 139)**	**178 890**	**187 941**
(9 102)	(241)	(93 739)	(92 990)	(96 105)	(77 149)
9 102	241	(8 086)	(8 262)	96 105	77 149
(30 627)	(31 259)	(36)	(36)	6 312	2 894

9. OTHER DISCLOSURES

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

	General government sector		*Public non-financial corporations*	
	2019	*2018*	*2019*	*2018*
Cash flows from operating activities				
Receipts				
Taxes received	23 301	22 442	..	..
Grants	33 353	29 992	4 012	3 644
Sales of goods and services [(a)]	11 047	8 018	6 961	7 045
Interest received	808	843	122	141
Dividends, income tax equivalent and rate equivalent receipts	1 040	774	30	32
Other receipts	2 043	1 937	611	505
Total receipts	**71 592**	**64 007**	**11 736**	**11 367**
Payments				
Payments for employees	(24 731)	(22 753)	(1 346)	(1 283)
Superannuation	(3 429)	(3 203)	(127)	(126)
Interest paid	(2 079)	(2 053)	(1 004)	(1 085)
Grants and subsidies	(13 444)	(11 415)	(74)	(78)
Goods and services [(a)]	(20 050)	(19 731)	(4 609)	(4 188)
Other payments	(791)	(757)	(2 746)	(2 460)
Total payments	**(64 523)**	**(59 912)**	**(9 907)**	**(9 221)**
Net cash flows from operating activities	**7 068**	**4 094**	**1 829**	**2 147**
Cash flows from investing activities				
Cash flows from investments in non-financial assets				
Purchases of non-financial assets	(9 559)	(9 804)	(2 607)	(2 546)
Sales of non-financial assets	243	383	113	158
Net cash flows from investments in non-financial assets	**(9 317)**	**(9 421)**	**(2 493)**	**(2 388)**
Cash flows from investments in financial assets for policy purposes				
Cash inflows	2 235	5 432	1 491	5 147
Cash outflows	(790)	(874)	(33)	(49)
Net cash flows from investments in financial assets for policy purposes	**1 445**	**4 559**	**1 458**	**5 099**
Sub-total	**(7 872)**	**(4 863)**	**(1 036)**	**2 711**
Cash flows from investments in financial assets for liquidity management purposes [(b)]				
Cash inflows	2 857	2 426	540	92
Cash outflows	(1 225)	(2 662)	(56)	(239)
Net cash flows from investments in financial assets for liquidity management purposes	**1 631**	**(235)**	**484**	**(147)**
Net cash flows from investing activities	**(6 241)**	**(5 098)**	**(552)**	**2 563**
Cash flows from financing activities				
Advances received	211	370	5	6
Advances repaid	(1 817)	(3 029)	(1 369)	(2 968)
Advances received (net) [(b)]	(1 606)	(2 659)	(1 364)	(2 962)
Borrowings received	6 434	4 700	2 113	1 926
Borrowings repaid	(2 220)	(580)	(1 785)	(1 406)
Net borrowings [(b)]	4 214	4 119	328	520
Deposits received	2 015	2 224	75	75
Deposits repaid	(1 933)	(1 952)	(38)	(86)
Deposits received (net) [(b)]	82	272	36	(11)
Other financing inflows	..	..	386	499
Other financing outflows	..	..	(485)	(2 490)
Other financing (net) [(b)]	..	..	(99)	(1 991)
Net cash flows from financing activities	**2 690**	**1 731**	**(1 098)**	**(4 444)**
Net increase/(decrease) in cash and cash equivalents	**3 518**	**727**	**179**	**266**
Cash and cash equivalents at beginning of reporting period	6 257	5 530	1 419	1 153
Cash and cash equivalents at end of the reporting period	**9 775**	**6 257**	**1 597**	**1 419**
FISCAL AGGREGATES				
Net cash flows from operating activities	7 068	4 094	1 829	2 147
Dividends paid	..	..	(158)	(330)
Net cash flows from investments in non-financial assets	(9 317)	(9 421)	(2 493)	(2 388)
Cash surplus/(deficit)	**(2 248)**	**(5 327)**	**(822)**	**(572)**

Notes:
(a) These items include goods and services tax.
(b) In accordance with AASB 107, Treasury Corporation of Victoria (TCV) is not required to gross up its cash flow information for whole of government consolidation purposes. The net cash movements for TCV have been added to cash inflows or outflows for both financial years ended 30 June 2019 and 30 June 2018.

Public financial corporations		*Inter-sector eliminations*		*State of Victoria*	
2019	*2018*	*2019*	*2018*	*2019*	*2018*
..	..	(409)	(370)	22 892	22 072
..	..	(4 645)	(3 982)	32 719	29 654
5 156	5 036	(3 399)	(3 529)	19 764	16 571
1 745	1 710	(2 222)	(2 252)	453	442
2 322	1 249	(967)	(717)	2 426	1 339
46	243	(46)	98	2 653	2 784
9 269	**8 239**	**(11 689)**	**(10 752)**	**80 908**	**72 861**
(352)	(351)	485	444	(25 944)	(23 943)
(29)	(28)	..	..	(3 585)	(3 357)
(1 772)	(1 841)	2 226	2 248	(2 630)	(2 731)
(650)	(304)	4 645	3 982	(9 522)	(7 816)
(4 962)	(4 831)	826	1 153	(28 795)	(27 597)
(34)	(15)	2 779	2 480	(792)	(753)
(7 799)	**(7 371)**	**10 962**	**10 307**	**(71 268)**	**(66 197)**
1 469	**868**	**(727)**	**(444)**	**9 640**	**6 665**
(50)	(68)	93	22	(12 123)	(12 397)
1	1	7	(1)	364	541
(49)	**(67)**	**99**	**21**	**(11 760)**	**(11 855)**
..	..	(3 319)	(8 055)	407	2 524
(9)	(1)	526	384	(307)	(539)
(9)	**(1)**	**(2 793)**	**(7 671)**	**100**	**1 985**
(58)	**(68)**	**(2 694)**	**(7 650)**	**(11 659)**	**(9 870)**
5 223	9 923	(5 116)	(2 148)	3 503	10 293
(7 980)	(10 479)	3 518	5 961	(5 743)	(7 418)
(2 757)	**(556)**	**(1 598)**	**3 814**	**(2 240)**	**2 875**
(2 815)	**(624)**	**(4 292)**	**(3 836)**	**(13 900)**	**(6 995)**
52	38	(252)	(42)	16	371
(33)	(35)	2 974	5 970	(245)	(62)
19	2	2 722	5 928	(228)	309
6 031	1 098	(2 270)	(6 246)	12 308	1 477
(349)	(203)	3 219	1 278	(1 135)	(911)
5 682	895	949	(4 968)	11 173	566
59	478	(59)	(478)	2 089	2 298
(5 431)	(200)	4 829	21	(2 574)	(2 216)
(5 373)	278	4 770	(457)	(484)	82
4	4	(390)	(503)	..	..
(474)	(99)	959	2 589	..	..
(470)	(94)	568	2 086	..	..
(141)	**1 081**	**9 010**	**2 588**	**10 461**	**956**
(1 487)	**1 325**	**3 991**	**(1 693)**	**6 200**	**625**
5 554	4 229	(6 736)	(5 043)	6 494	5 868
4 067	**5 554**	**(2 745)**	**(6 736)**	**12 694**	**6 494**
1 469	868	(727)	(444)	9 640	6 665
(470)	(94)	627	425	..	..
(49)	(67)	99	21	(11 760)	(11 855)
951	**707**	**(1)**	**2**	**(2 120)**	**(5 191)**

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

	Accumulated surplus/(deficit)	*Contributions by owners*	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
General government sector						
Balance at 1 July 2018	52 626	..	64 084	66 351	1 055	184 116
Net result for the year	382	..	..	..	..	382
Other comprehensive income for the year	(3 328)	..	4 162	(2 654)	(35)	(1 855)
Transfer to/(from) accumulated surplus	2 792	..	(2 792)	..	..	..
Dividends paid	..	..	..	..	..	..
Transactions with owners in their capacity as owners	..	..	..	..	..	..
Balance at 30 June 2019	**52 473**	**..**	**65 454**	**63 697**	**1 020**	**182 644**
PNFC sector						
Balance at 1 July 2018	3 517	59 478	33 851	..	523	97 370
Net result for the year	(196)	..	..	..	..	(196)
Other comprehensive income for the year	42	..	(1 231)	..	63	(1 126)
Transfer to/(from) accumulated surplus	(245)	245	..	..	..	..
Dividends paid	(158)	..	..	..	..	(158)
Transactions with owners in their capacity as owners	..	3 226	..	..	..	3 226
Balance at 30 June 2019	**2 960**	**62 949**	**32 620**	**..**	**586**	**99 116**
PFC sector						
Balance at 1 July 2018	684	29	2	..	36	751
Net result for the year	(6 430)	..	..	..	..	(6 430)
Other comprehensive income for the year	(1)	..	..	..	1	..
Transfer to/(from) accumulated surplus	..	..	..	..	..	..
Dividends paid	(470)	..	..	..	..	(470)
Transactions with owners in their capacity as owners	..	..	..	..	..	..
Balance at 30 June 2019	**(6 216)**	**29**	**2**	**..**	**37**	**(6 148)**
Eliminations	19 634	(62 978)	10 319	(63 697)	..	(96 722)
Total State of Victoria	**68 851**	**..**	**108 396**	**..**	**1 643**	**178 890**

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

	Accumulated surplus/(deficit)	*Contributions by owners*	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
General government sector						
Balance at 1 July 2017	51 464	..	55 320	60 149	1 094	168 027
Net result for the year	1 486	..	..	..	..	1 486
Other comprehensive income for the year	(347)	..	8 764	6 202	(16)	14 603
Transfer to/(from) accumulated surplus	(30)	..	..	..	30	..
Dividends paid	..	..	..	..	..	..
Transactions with owners in their capacity as owners	..	..	..	..	..	..
Balance at 30 June 2018	**52 574**	**..**	**64 084**	**66 351**	**1 108**	**184 116**
Change in accounting policy	52	..	..	..	(53)	..
Restated balance at 1 July 2018 [(a)]	**52 626**	**..**	**64 084**	**66 351**	**1 055**	**184 116**
PNFC sector						
Balance at 1 July 2017	3 751	54 902	29 985	..	488	89 126
Net result for the year	660	..	..	..	..	660
Other comprehensive income for the year	(65)	..	5 219	..	62	5 215
Transfer to/(from) accumulated surplus	(682)	2 034	(1 353)	..	..	..
Dividends paid	(330)	..	..	..	..	(330)
Transactions with owners in their capacity as owners	..	2 542	..	..	..	2 542
Balance at 30 June 2018	**3 333**	**59 478**	**33 851**	**..**	**549**	**97 212**
Change in accounting policy	184	..	..	..	(26)	158
Restated balance at 1 July 2018 [(a)]	**3 517**	**59 478**	**33 851**	**..**	**523**	**97 370**
PFC sector						
Balance at 1 July 2017	143	29	2	..	39	213
Net result for the year	633	..	..	..	..	633
Other comprehensive income for the year	2	..	..	..	(2)	..
Transfer to/(from) accumulated surplus	..	..	..	..	..	..
Dividends paid	(94)	..	..	..	..	(94)
Transactions with owners in their capacity as owners	..	..	..	..	..	..
Balance at 30 June 2018	**684**	**29**	**2**	**..**	**36**	**751**
Eliminations [(a)]	21 602	(59 507)	10 184	(66 351)	..	(94 072)
Total State of Victoria	**78 125**	**..**	**108 122**	**..**	**1 694**	**187 941**

Note:
(a) The 1 July 2018 balance has been restated resulting from the initial application of AASB 9 Financial Instruments. *Note 9.7.3 provides further information on the impact of the new accounting standard.*

9.2 Funds under management

The State has responsibility for transactions and balances relating to trust funds held on behalf of third parties external to the State. The funds managed on behalf of third parties are not recognised in these financial statements as they are managed on a fiduciary and custodial basis, and therefore are not controlled by the State. Funds under management are reported in the table below.

($ million)

	State of Victoria		General Government Sector	
	2019	2018	2019	2018
Cash and investments in common and premium funds	1 221	1 212	95	113
Funds under management by Legal Services Board	1 199	954	1 199	954
Funds under management by the Senior Master of the Supreme Court	2 024	1 855	2 024	1 855
Funds under management for The Victorian Bushfire Appeal Fund	1	1	1	1
Investments, real estate, personal and other assets	4 152	3 673	27	..
Other funds held	28	32	12	10
Residential tenancies bonds money	1 218	1 128	1 218	1 128
Total funds under management	**9 844**	**8 856**	**4 577**	**4 062**

9.3 Other gains/(losses) from other economic flows

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions. This includes remeasurements of certain liabilities for variables such as movements in discount rates used to value these liabilities.

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

	State of Victoria		General government sector	
	2019	2018	2019	2018
Net (increase)/decrease in allowances for credit losses	(622)	(503)	(618)	(498)
Amortisation of intangible non-produced assets	(42)	(45)	(7)	(7)
Net swap interest revenue/(expense)	(5)	18	..	..
Bad debts written off	(64)	(134)	(51)	(123)
Other gains/(losses)	(5 440)	376	(245)	(305)
Total other gains/(losses) from other economic flows	**(6 173)**	**(288)**	**(920)**	**(933)**

9.4 Reconciliation between Government Finance Statistics and Australian Accounting Standards

This note identifies and reconciles unconverged differences between the Australian Accounting Standards reporting (upon which this report is based) and the Government Finance Statistics (GFS) reporting. All GFS balances are calculated in accordance with the Australian Bureau of Statistics GFS manual *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015*.

GFS information enable policymakers and analysts to study developments in the financial operations, financial position and liquidity situation of the Government based on consistent economic reporting rules and definitions.

9.4.1 Reconciliation to GFS net operating balance [(a)]

($ million)

	General government sector		*Public non-financial corporations*		*Public financial corporations*		*Eliminations*		*State of Victoria*	
	2019	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*
Net result from transactions – net operating balance	**1 375**	**2 313**	**(329)**	**(46)**	**(1 777)**	**(2 042)**	**(648)**	**(234)**	**(1 378)**	**(10)**
Convergence differences:										
PNFC/PFC dividends [(b)]	..	..	(158)	(330)	(470)	(94)	627	425	..	..
Port Licence Fee treatment [(c)]	52	52	..	..	..	..	..	..	52	52
Port of Melbourne lease transaction [(d)]	..	..	(130)	(147)	..	..	1	1	(130)	(146)
Total convergence difference:	*52*	*52*	*(288)*	*(477)*	*(470)*	*(94)*	*628*	*426*	*(78)*	*(93)*
GFS net operating balance	**1 427**	**2 365**	**(617)**	**(524)**	**(2 246)**	**(2 136)**	**(20)**	**192**	**(1 456)**	**(104)**

Notes:
(a) Determined in accordance with the ABS GFS Manual.
(b) The convergence difference arises between GFS recognised dividends paid/payable as an expense from transactions on the operating statement whereas, under accounting standards, dividends are classified as after-profit distributions to owners.
(c) The convergence difference arises because the GFS recognises the 15-year prepaid Port Licence Fee from the medium-term lease over the operations of the Port of Melbourne as revenue over the 15-year period.
(d) The convergence difference for the Port of Melbourne lease transaction arises because GFS recognises the transaction as a sale of equity from the general government sector, whereas under Australian Accounting Standards the Port of Melbourne lease transaction has been treated as an operating lease with the leased assets remaining within the public non-financial corporations sector.

9.4.2 Reconciliation to GFS net lending/(borrowing) [(a)]

($ million)

	General government sector		*Public non-financial corporations*		*Public financial corporations*		*Eliminations*		*State of Victoria*	
	2019	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*
Net lending/(borrowing)	**(2 376)**	**(910)**	**(3 691)**	**(4 541)**	**(1 784)**	**(2 064)**	**(609)**	**(269)**	**(8 460)**	**(7 784)**
Convergence differences:										
PNFC/PFC dividends [(b)]	..	..	(158)	(330)	(470)	(94)	627	425	..	..
Port Licence Fee treatment [(c)]	52	52	..	..	..	..	..	..	52	52
Port of Melbourne lease transaction [(d)]	..	..	(130)	(147)	..	..	1	1	(130)	(146)
Total convergence difference:	*52*	*52*	*(288)*	*(477)*	*(470)*	*(94)*	*628*	*426*	*(78)*	*(93)*
GFS net lending/(borrowing)	**(2 324)**	**(858)**	**(3 979)**	**(5 019)**	**(2 253)**	**(2 159)**	**19**	**157**	**(8 538)**	**(7 878)**

Notes:
(a) Determined in accordance with the ABS GFS Manual.
(b) The convergence difference arises between GFS recognised dividends paid/payable as an expense from transactions on the operating statement whereas, under accounting standards, dividends are classified as after-profit distributions to owners.
(c) The convergence difference arises because the GFS recognises the 15-year prepaid Port Licence Fee from the medium-term lease over the operations of the Port of Melbourne as revenue over the 15-year period.
(d) The convergence difference for the Port of Melbourne lease transaction arises because GFS recognises the transaction as a sale of equity from the general government sector, whereas under Australian Accounting Standards the Port of Melbourne lease transaction has been treated as an operating lease with the leased assets remaining within the public non-financial corporations sector.

9.4.3 Reconciliation to GFS total change in net worth [(a)]

($ million)

	General government sector		*Public non-financial corporations*		*Public financial corporations*		*Eliminations*		*State of Victoria*	
	2019	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*
Comprehensive result – total change in net worth	**(1 473)**	**16 089**	**(1 322)**	**5 875**	**(6 430)**	**633**	**(52)**	**(6 890)**	**(9 277)**	**15 707**
Convergence differences:										
Relating to net operating balance	52	53	(288)	(477)	(470)	(94)	628	426	(78)	(93)
Relating to other economic flows:										
Port of Melbourne lease transaction [(b)]	(130)	(136)	..	9	..	..	130	137	..	10
Doubtful receivables of the general government sector [(c)]	567	342	..	..	..	..	..	..	567	342
Doubtful receivables of the PNFC/PFC sector [(c)]	..	..	2	..	(8)	2	..	..	(5)	2
Future tax benefits of the PNFC/PFC sector	..	..	13	(60)	(1 926)	(91)	1 913	150	..	..
Deferred tax liability of the PNFC/PFC sector	..	..	(128)	(156)	(1)	..	128	156	..	..
Net gain on equity investments in other sector entities measured at proportional share of the carrying amount of net assets/(liabilities) [(d)(e)]	(2 047)	(304)	..	..	..	..	2 047	304	..	..
Change in shares and other contributed capital	..	..	1 723	(5 190)	8 833	(450)	(10 557)	5 640	..	..
Total convergence difference:	*(1 558)*	*(46)*	*1 322*	*(5 875)*	*6 430*	*(633)*	*(5 710)*	*6 814*	*484*	*260*
GFS total change in net worth	**(3 030)**	**16 043**	**..**	**..**	**..**	**..**	**(5 762)**	**(76)**	**(8 793)**	**15 967**

Notes:

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

(b) The convergence difference for the Port of Melbourne lease transaction arises because GFS recognises the transaction as a sale of equity from the general government sector, whereas under Australian Accounting Standards the Port of Melbourne lease transaction has been treated as an operating lease with the leased assets remaining within the public non-financial corporations sector.

(c) The convergence difference arises because GFS does not recognise doubtful receivables, whereas the operating statement recognises it and classifies doubtful receivables as other economic flows.

(d) The convergence difference arises because the amount of net assets (and therefore the change in carrying amount of net assets) of other sector entities determined under GFS principles and rules differs from Australian Accounting Standards.

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

9.4.4 Reconciliation to GFS net worth [(a)]

($ million)

	General government sector		*Public non-financial corporations*		*Public financial corporations*		*Eliminations*		*State of Victoria*	
	2019	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*
Net worth	**182 644**	**184 116**	**99 116**	**97 212**	**(6 148)**	**751**	**(96 722)**	**(94 139)**	**178 890**	**187 941**
Convergence differences:										
Relating to net operating balance:										
PNFC/PFC dividends	..	..	(158)	(330)	(470)	(94)	627	425	..	..
Port Licence Fee treatment [(b)]	(679)	(731)	..	..	..	..	..	..	(679)	(731)
Port of Melbourne lease transaction [(c)]	..	..	(130)	(147)	..	..	1	1	(130)	(146)
Relating to other economic flows:										
Port of Melbourne lease transaction [(c)]	(1 196)	(1 067)	(1 070)	(923)	..	..	1 199	1 068	(1 066)	(921)
Doubtful receivables of the general government sector [(d)]	1 844	1 277	..	..	..	..	..	..	1 844	1 277
Doubtful receivables of the PNFC/PFC sector [(d)]	..	..	20	18	40	48	..	..	61	66
Future tax benefits of the PNFC/PFC sector	..	..	(272)	(284)	(2 653)	(727)	2 925	1 012	..	..
Deferred tax liability of the PNFC/PFC sector	..	..	8 054	8 113	1	2	(8 055)	(8 115)	..	..
Investments in other sector entities [(e)(f)]	5 190	7 170	..	..	..	..	(5 190)	(7 170)	..	..
Shares and other contributed capital	..	..	(105 560)	(103 659)	9 229	21	96 332	103 639	..	..
Total convergence difference:	*5 159*	*6 649*	*(99 116)*	*(97 212)*	*6 148*	*(751)*	*87 839*	*90 860*	*29*	*(455)*
GFS net worth	**187 803**	**190 766**	**..**	**..**	**..**	**..**	**(8 884)**	**(3 280)**	**178 919**	**187 486**

Notes:

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

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

(c) The convergence difference for the Port of Melbourne lease transaction arises because GFS recognises the transaction as a sale of equity from the general government sector, whereas under Australian Accounting Standards the Port of Melbourne lease transaction has been treated as an operating lease with the leased assets remaining within the public non-financial corporations sector.

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

(e) The convergence difference arises because the amount of net assets (and therefore the change in carrying amount of net assets) of other sector entities determined under GFS principles and rules differs from the carrying amount of net assets.

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

9.4.5 Reconciliation to GFS cash surplus/(deficit) [(a)]

($ million)

	General government sector		*Public non-financial corporations*		*Public financial corporations*		*Eliminations*		*State of Victoria*	
	2019	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*
Cash surplus/(deficit)	**(2 248)**	**(5 327)**	**(822)**	**(572)**	**951**	**707**	**(1)**	**2**	**(2 120)**	**(5 191)**
Convergence differences:										
Port of Melbourne lease transaction [(b)]	2	..	(1)	(11)	..	..	1	1	2	(10)
Total convergence difference:	*2*	*..*	*(1)*	*(11)*	*..*	*..*	*1*	*1*	*2*	*(10)*
GFS cash surplus/(deficit)	**(2 246)**	**(5 327)**	**(823)**	**(583)**	**951**	**707**	**..**	**3**	**(2 118)**	**(5 201)**

Notes:

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

(b) The convergence difference for the Port of Melbourne lease transaction arises because GFS recognises the transaction as a sale of equity from the general government sector, whereas under Australian Accounting Standards the Port of Melbourne lease transaction has been treated as an operating lease with the leased assets remaining within the public non-financial corporations sector.

9.5 Related party transactions

The State of Victoria reporting entity includes government departments, public non-financial corporations, public financial corporations and other government-controlled entities.

Key management personnel

All cabinet ministers are considered members of the key management personnel of the State of Victoria reporting entity for 2018-19. They are listed below.

Position title	*Key management personnel*
Premier	Hon Daniel Andrews
Deputy Premier	Hon James Merlino
Ministers of the Crown	Hon Jacinta Allan
	Hon Philip Dalidakis [(a)]
	Hon Lily D'Ambrosio
	Hon Luke Donnellan
	Hon John Eren [(a)]
	Mr Martin Foley
	Hon Jill Hennessy
	Hon Melissa Horne [(b)]
	Hon Natalie Hutchins [(a)]
	Mr Gavin Jennings
	Hon Marlene Kairouz
	Ms Jenny Mikakos
	Hon Lisa Neville
	Hon Ben Carroll
	Hon Martin Pakula
	Mr Tim Pallas
	Hon Jaala Pulford
	Mr Robin Scott
	Hon Adem Somyurek [(b)]
	Hon Jaclyn Symes [(c)]
	Hon Gayle Tierney
	Hon Gabrielle Williams [(b)]
	Hon Richard Wynne

Notes:
(a) Held ministry until 28 November 2018.
(b) Appointed to Ministry on 29 November 2018.
(c) Appointed to Ministry on 13 December 2018.

Related parties of the State of Victoria reporting entity include:

- all cabinet ministers and their close family members; and
- other arrangements or entities jointly controlled by the ministers or their close family members, or entities that they have significant influence over.

Transactions and balances with key management personnel and other related parties

Given the breadth and depth of State government activities, related parties transact with the Victorian public sector as normal citizens in a manner consistent with other members of the public, involving the receipt of services and benefits, and payment of taxes and other government fees and charges. No transactions have occurred with related parties on terms and conditions more or less favourable than those conducted under standard government policies, procedures and practices.

Outside of normal citizen type transactions, transactions are disclosed only when they are considered necessary to draw attention to the possibility that the State's financial position and profit or loss may have been affected by the existence of related parties, and by transactions and outstanding balances, including commitments, with such parties.

There were no material related party transactions that involved key management personnel, their close family members and their personal business interests. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

Remuneration of key management personnel

The remuneration and allowances of ministers are set by the *Parliamentary Salaries and Superannuation Act 1968* and the aggregated remuneration for ministers is $8.4 million in 2019 ($8.0 million in 2018).

($ thousand)

State of Victoria	*2019*	*2018*
Salaries and short-term employee benefits	7 924	7 717
Post-employment benefits [(a)]	460	281
Other long-term benefits	..	..
Termination benefits	..	..
Share based payments	n.a.	n.a.
Total	**8 384**	**7 998**

Note:
(a) Parliamentary Salaries and Superannuation Act 1968 *was amended by the* Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Act 2019 *removing contribution cap on members superannuation in 2019.*

9.6 Subsequent events

Assets, liabilities, revenues or expenses arise from past transactions or other past events. Adjustments are made to amounts recognised in the financial statements for events, which occur after the reporting period and before the date the statements are authorised for issue, where those events provide information about conditions which existed at the reporting date. If required, note disclosure is made about events that occur between the end of the reporting period and the date the statements are authorised for issue where the events relate to conditions which arose after the reporting period that are considered to be of material interest.

There are no events that have arisen since 30 June that have significantly affected or may significantly affect the operations, or results, or state of affairs of the State.

9.7 Other accounting policies

9.7.1 How leases are accounted for

A lease is a right to use an asset for an agreed period of time in exchange for payment. Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership. Leases of infrastructure, property, plant and equipment are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership from the lessor to the lessee. All other leases are classified as operating leases.

State as lessor in finance leases

Amounts due from lessees under finance leases are recorded as receivables. Finance lease receivables are initially recorded at amounts equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease receipts are apportioned between periodic interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

State as lessee under finance leases

At the commencement of the lease term, finance leases are initially recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. The leased asset is accounted for as a non-financial physical asset and depreciated over the shorter of the estimated useful life of the asset or the term of the lease. Minimum finance lease payments are apportioned between the reduction of the outstanding lease liability and the periodic finance expense, which is calculated using the interest rate implicit in the lease and charged directly to the consolidated comprehensive operating statement.

Contingent rentals associated with finance leases are recognised as an expense in the period in which they are incurred.

State as lessor under operating leases

Rental revenue from operating leases is recognised on a straight line basis over the term of the relevant lease.

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments. In the event that lease incentives are given to the lessee, the aggregate cost of incentives are recognised as a reduction of rental revenue over the lease term on a straight line basis, unless another systematic basis is more representative of the time pattern over which the economic benefit of the leased asset is diminished.

State as lessee under operating leases

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments. In the event that lease incentives are received to enter into operating leases, the aggregate benefit of incentives are recognised as a reduction of rental expense over the lease term on a straight line basis, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

9.7.2 Accounting for the goods and services tax

Revenues, expenses and assets are recognised net of the amount of associated GST, except where the GST incurred is not recoverable from the taxation authority. In this case the GST payable is recognised as part of the cost of acquisition of an asset or part of an item of expense.

Receivables and payables are stated inclusive of GST receivable or payable. Cash flows are presented on a gross basis. The GST components of cash flows from investing or financing activities are presented as an operating cash flow. Commitments and contingent assets and liabilities are also stated inclusive of GST.

9.7.3 Change in accounting policies

This note explains the impact of the adoption of AASB 9 *Financial Instruments* on the Annual Financial Report.

The State has elected to apply the limited exemption in AASB 9 paragraph 7.2.15 relating to transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. As a result:

- any adjustments to carrying amounts of financial assets or liabilities are recognised at beginning of the current reporting period with the difference recognised in opening retained earnings; and
- financial assets and provision for impairment have not been reclassified and/or restated in the comparative period.

Changes to classification and measurement

On initial application of AASB 9 on 1 July 2018, all financial assets were assessed based on the business models for managing the assets. The following are the changes in the classification of the State's financial assets:

- Certain listed shares previously classified as available-for-sale under AASB 139 are now classified as fair value through profit or loss under AASB 9 because these equity investments are held for trading.
- Certain debt investments and managed investment schemes previously classified as available-for-sale under AASB 139 are now classified as fair value through profit or loss because they are managed on a fair value basis and their performance is monitored on this basis.
- As the result of the above mentioned changes in classification, the related fair value gain for the State of $79 million ($52 million for the general government sector) was transferred from the available-for-sale revaluation surplus to accumulated surplus on 1 July 2018.
- Unlisted equity instruments previously classified as available-for-sale under AASB 139 are now classified as fair value through other comprehensive income under AASB 9 because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term.
- Term deposits and debt securities previously classified as held to maturity under AASB 139 are now reclassified as financial assets at amortised cost under AASB 9. There was no difference between the previous carrying amount and the revised carrying amount at 1 July 2018 to be recognised in opening retained earnings.
- Contractual receivables previously classified as other loans and receivables under AASB 139 are now reclassified as financial assets at amortised cost under AASB 9.

The accounting for financial liabilities remains largely the same as it was under AASB 139.

From 1 July 2018, AASB 9 has replaced the modification of debt guidance previously applied by the State under AASB 139.

The loans affected by this change are in relation to the refinancing activities. Gains or losses from the modifications are now required to be recognised immediately through profit and loss. The gains or losses reflect the difference between the original contractual cash flows and the modified cash flows discounted at the original 'effective interest rate'. Previously these gains (or losses) would have been recognised over the remaining life by adjusting the effective interest rate, on the basis that the terms and conditions of the facility remained largely unchanged.

On adoption of AASB 9, an adjustment has been made to account for previous refinancing gains or losses. For the State of Victoria an adjustment has been made to decrease borrowings by $226 million and increase accumulated surplus by $226 million.

Changes to the impairment of financial assets

Under AASB 9, all loans and receivables and other debt instruments not carried at fair value through net result are subject to AASB 9's new Expected Credit Loss (ECL) impairment model, which replaces AASB 139's incurred loss approach.

For loans and receivables, the State applies the AASB 9 simplified approach to measure expected credit losses based on the change in the ECLs over the life of the asset.

For debt instruments at amortised cost, the State considers them to be low risk and therefore determines the loss allowance based on ECLs associated with the probability of default in the next 12 months. Applying the ECL model does not result in recognition of additional loss allowance (previous loss allowance was nil).

9.7.4 Prospective accounting and reporting changes

The following Australian Accounting Standards become effective for reporting periods commencing after 1 July 2019 and not used in this report:

- AASB 1059 *Service Concession Arrangements: Grantors*;
- AASB 16 *Leases*;
- AASB 15 *Revenue from Contracts with Customers*; and
- AASB 1058 *Income of Not-for-Profit Entities*.

As part of the *2019-20 Budget*, departments and public sector agencies in collaboration with DTF, undertook a comprehensive review and assessment of the estimated financial impacts of the new accounting standards.

The outcome of that process was published in Note 1.7.2 of *Chapter 1 of Budget Paper 5 Statement of Finances* and indicated that the estimated impact on the general government sector net debt for 2019-20 was $8.1 billion. This estimated impact was subject to review, which was not a full audit, by the Victorian Auditor-General's Office.

The changes required for the new standards are complex and diverse and require significant management judgement. Accordingly, work continues across the public sector to further assess and refine the impact on the actuals to be included in future publications for 2019-20. This continuing work may result in variances from those published in the *2019-20 Budget.*

A summary of the key standards and the required changes follows:

Service concession arrangements

Prior to the issuance of AASB 1059, there was no definitive accounting guidance in Australia for service concession arrangements, which include a number of public private partnership (PPP) arrangements. The AASB issued the new standard to address the lack of specific accounting guidance and based the content thereof broadly on its international equivalent: International Public Sector Accounting Standard 32: *Service Concession Arrangements: Grantor*.

For arrangements within the scope of AASB 1059, the public sector grantor will be required to record the asset(s) used in the service concession arrangement at current replacement cost in accordance with the cost approach to Fair Value under AASB 13: *Fair Value Measurement* (AASB 13), with a related liability, which could be a financial liability, an accrued revenue liability (referred to as the 'Grant Of A Right To The Operator' or GORTO liability) or a combination of both. The State intends to early adopt AASB 1059 in line with the original adoption date of 1 January 2019, i.e. the 2019-20 financial year.

The State will apply the standard using a full retrospective approach to prior reporting periods from 1 July 2018 ('transition date'). As a result, all comparative information in the financial statements will be prepared as if AASB 1059 had always been in effect with a cumulative adjustment between the recognition of service concession assets and financial liabilities and/or GORTO liabilities recognised in accumulated surplus as at 1 July 2018.

Leases

AASB 16 *Leases* replaces AASB 117 *Leases,* AASB Interpretation 4 *Determining whether an Arrangement contains a Lease,* AASB Interpretation 115 *Operating Leases-Incentives and* AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases on the balance sheet by recording a Right-Of-Use (RoU) asset and a lease liability except for leases that are shorter than 12 months and leases where the underlying asset is of low value (deemed to be below $10 000).

AASB 16 also requires the lessees to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset, and remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The amount of the remeasurement of the lease liability will generally be recognised as an adjustment to the RoU asset.

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.

The effective date is for annual reporting periods beginning on or after 1 January 2019. The State intends to adopt AASB 16 in 2019-20 financial year when it becomes effective.

The State will apply the standard using a modified retrospective approach with the cumulative effect of initial application recognised as an adjustment to the opening balance of accumulated surplus at 1 July 2019, with no restatement of comparative information.

Various practical expedients are available on adoption to account for leases previously classified by a lessee as operating leases under AASB 117. The State will elect to use the exemptions for all short-term leases (lease term less than 12 months) and low value leases (underlying asset deemed to be below $10 000).

In addition, AASB 2018-8 *Amendments to Australian Accounting Standards – Right of Use Assets of Not-for-Profit Entities* allows a temporary option for not-for-profit entities to not measure RoU assets at initial recognition at fair value in respect of leases that have significantly below-market terms, since further guidance is expected to be developed to assist not-for-profit entities in measuring RoU assets at fair value. The Standard requires an entity that elects to apply the option (i.e. measures a class or classes of such RoU assets at cost rather than fair value) to include additional disclosures. The State intends to choose the temporary relief to value the RoU asset at the present value of the payments required (at cost).

Revenue and Income

AASB 15 supersedes AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers.

AASB 15 establishes a five-step model to account for revenue arising from an enforceable contract that imposes a sufficiently specific performance obligation on an entity to transfer goods or services. AASB 15 requires entities to only recognise revenue upon the fulfilment of the performance obligation. Therefore, entities need to allocate the transaction price to each performance obligation in a contract and recognise the revenue only when the related obligation is satisfied.

To address specific concerns from the 'not-for-profit' sector in Australia, the AASB also released the following standards and guidance:

- AASB 2016-8 *Amendments to Australian Accounting Standards – Australian implementation guidance for NFP entities* (AASB 2016-8), to provide guidance on application of revenue recognition principles under AASB 15 in the not-for-profit sector.
- AASB 2018-4 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public-Sector Licensors* (2018-4), to provide guidance on how to distinguish payments received in connection with the access to an asset (or other resource) or to enable other parties to perform activities as a tax or non-IP licence. It also provides guidance on timing of revenue recognition for non-IP licence payments.
- AASB 1058 *Income of Not-for-Profit Entities,* to supplement AASB 15 and provide criteria to be applied by not-for-profit entities in establishing the timing of recognising income for government grants and other types of contributions previously contained within AASB 1004 *Contributions*.

AASB 15, AASB 1058 and the related guidance will come into effect for not-for-profit entities for annual reporting periods beginning on or after 1 January 2019. The State intends to adopt these standards in 2019-20 financial year when it becomes effective.

The State will apply the standard using a modified retrospective approach with the cumulative effect of initial application recognised as an adjustment to the opening balance of accumulated surplus at 1 July 2019, with no restatement of comparative information.

9. OTHER DISCLOSURES

Other standards

AASB 17 *Insurance Contracts*, operative on or after 1 January 2021, will supersede AASB 4 Insurance Contracts. AASB 17 seeks to eliminate inconsistencies and weaknesses in existing practices by providing a single principles based framework to account for all types of insurance contracts, including reissuance contracts that an insurer holds.

The standard also provides new requirements for presentation and disclosure to enhance comparability between entities. The standard currently 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.

9.8 Controlled entities

The table below contains a list of the significant controlled entities which have been consolidated for the purposes of the financial report. Unless otherwise noted below, all such entities are wholly-owned. The entities below may include additional consolidated entities, for which only the parent entity has been listed.

The principal activities of the controlled entities reflect the three sectors of government they are within as set out in the reporting structure under public sector terms explained (refer to page 22). Further, Note 3.6 Classification of the functions of government reflects the broad objectives of these controlled entities.

General government [(a)]

Department of Education and Training

Adult Community and Further Education Board
Adult Multicultural Education Services
TAFEs including:
- Bendigo Kangan Institute
- Box Hill Institute
- Chisholm Institute
- Federation Training
- Gordon Institute of TAFE
- Goulburn Ovens Institute of TAFE
- Holmesglen Institute
- Melbourne Polytechnic
- South West Institute of TAFE
- Sunraysia Institute of TAFE
- William Angliss Institute of TAFE
- Wodonga Institute of TAFE

Victorian Curriculum and Assessment Authority
Victorian Institute of Teaching
Victorian Registration and Qualifications Authority

Department of Environment, Land, Water and Planning

Architects Registration Board of Victoria
Catchment Management Authorities including:
- Corangamite Catchment Management Authority
- East Gippsland Catchment Management Authority
- Glenelg Hopkins Catchment Management Authority
- Goulburn Broken Catchment Management Authority
- Mallee Catchment Management Authority
- North Central Catchment Management Authority
- North East Catchment Management Authority
- Port Phillip and Westernport Catchment Management Authority
- West Gippsland Catchment Management Authority
- Wimmera Catchment Management Authority

Caulfield Racecourse Reserve Trust [(b)]
Dhelkunya Dja Land Management Board
Energy Safe Victoria
Environment Protection Authority
Gunaikurnai Traditional Owner Land Management
Heritage Council of Victoria
Office of the Commissioner for Environmental Sustainability
Parks Victoria
Royal Botanic Gardens Board Victoria
Surveyors Registration Board of Victoria
Sustainability Victoria
Trust for Nature (Victoria)
Victorian Building Authority
Victorian Environmental Water Holder
Victorian Planning Authority
Yorta Yorta Traditional Owner Land Management Board

Department of Health and Human Services

Commission for Children and Young People
Family Violence Prevention Agency [(c)]
Health Purchasing Victoria
Hospitals, Health and Ambulance Services including:
- Albury Wodonga Health
- Alexandra District Health
- Alfred Health
- Alpine Health
- Ambulance Victoria
- Austin Health
- Bairnsdale Regional Health Service
- Ballarat Health Services
- Barwon Health
- Bass Coast Health
- Beaufort and Skipton Health Service
- Beechworth Health Service
- Benalla Health
- Bendigo Health Care Group
- Boort District Health
- Casterton Memorial Hospital
- Castlemaine Health
- Central Gippsland Health Service
- Cobram District Health [(d)]
- Cohuna District Hospital
- Colac Area Health
- Corryong Health
- Dental Health Services Victoria
- Djerriwarrh Health Services
- East Grampians Health Service
- East Wimmera Health Service
- Eastern Health
- Echuca Regional Health
- Edenhope and District Memorial Hospital
- Gippsland Southern Health Service
- Goulburn Valley Health
- Heathcote Health
- Hepburn Health Service
- Hesse Rural Health Service
- Heywood Rural Health
- Inglewood and Districts Health Service
- Kerang District Health
- Kooweerup Regional Health Service
- Kyabram and District Health Services
- Kyneton District Health Service
- Latrobe Regional Hospital
- Lorne Community Hospital [(e)]
- Maldon Hospital
- Mallee Track Health and Community Service
- Mansfield District Hospital
- Maryborough District Health Service
- Melbourne Health
- Monash Health
- Moyne Health Services
- Nathalia District Hospital [(d)]
- Northeast Health Wangaratta
- Northern Health
- Numurkah and District Health Service [(d)]
- Omeo District Health
- Orbost Regional Health
- Otway Health [(e)]
- Peninsula Health
- Peter MacCallum Cancer Institute
- Portland District Health
- Robinvale District Health Services
- Rochester and Elmore District Health Service
- Rural Northwest Health
- Seymour Health
- South Gippsland Hospital
- South West Healthcare
- Stawell Regional Health
- Swan Hill District Health

General government (continued)

- Tallangatta Health Service
- Terang and Mortlake Health Service
- The Kilmore and District Hospital
- The Royal Children's Hospital
- The Royal Victorian Eye and Ear Hospital
- The Royal Women's Hospital
- Timboon and District Healthcare Service
- Victorian Assisted Reproductive Treatment Authority
- Victorian Institute of Forensic Mental Health
- West Gippsland Healthcare Group
- West Wimmera Health Service
- Western District Health Service
- Western Health
- Wimmera Health Care Group
- Yarram and District Health Service
- Yarrawonga Health
- Yea and District Memorial Hospital

The Queen Elizabeth Centre
Tweddle Child and Family Health Service
Victorian Health Promotion Foundation
Victorian Pharmacy Authority

Department of Jobs, Precincts and Regions

Australian Centre for the Moving Image
Dockland Studios Melbourne Pty Ltd
Film Victoria
Game Management Authority
Library Board of Victoria
Melbourne Cricket Ground Trust
Melbourne Recital Centre Limited
Museums Board of Victoria
National Gallery of Victoria, Council of Trustees
Rural Assistance Commissioner
Veterinary Practitioners Registration Board of Victoria
Victorian Institute of Sport Limited
Victorian Institute of Sport Trust
Visit Victoria

Department of Justice and Community Safety

Country Fire Authority
Emergency Services Telecommunications Authority
Metropolitan Fire and Emergency Services Board
Office of Public Prosecutions
Professional Standards Council of Victoria
Residential Tenancies Bond Authority
Sentencing Advisory Council
Victoria Legal Aid
Victoria Police (Office of the Chief Commissioner of Police)
Victoria State Emergency Service Authority
Victorian Commission for Gambling and Liquor Regulation
Victorian Equal Opportunity and Human Rights Commission
Victorian Institute of Forensic Medicine
Victorian Law Reform Commission
Victorian Legal Services Board and Commissioner
Victorian Responsible Gambling Foundation

Department of Premier and Cabinet [f]

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

Department of Transport [h]

Commercial Passenger Vehicles Victoria [i]
Linking Melbourne Authority
Public Transport Development Authority
Roads Corporation
Victorian Fisheries Authority

Department of Treasury and Finance

Cenitex
Essential Services Commission

Courts

Judicial College of Victoria
Judicial Commission of Victoria

Parliament of Victoria

Victorian Auditor General's Office

Public non-financial corporation [a]

Department of Environment, Land, Water and Planning

Alpine Resorts Management Board including:

- Alpine Resorts Co-ordinating Council
- Falls Creek Alpine Resort Management Board
- Mount Buller and Mount Stirling Alpine Resort Management Board
- Mount Hotham Alpine Resort Management Board
- Southern Alpine Resort Management Board

Phillip Island Nature Parks
Waste and Resource Recovery Groups including:

- Barwon South West Waste and Resource Recovery Group
- Gippsland Waste and Resource Recovery Group
- Goulburn Valley Waste and Resource Recovery Group
- Grampians Central Waste and Resource Recovery Group
- Metropolitan Waste and Resource Recovery Group
- Loddon Mallee Waste and Resource Recovery Group
- North East Waste and Resource Recovery Group

Water authorities including:

- Barwon Region Water Corporation
- Central Gippsland Region Water Corporation
- Central Highlands Region Water Corporation
- City West Water Corporation
- Coliban Region Water Corporation
- East Gippsland Region Water Corporation
- Gippsland and Southern Rural Water Corporation
- Goulburn Murray Rural Water Corporation
- Goulburn Valley Region Water Corporation
- Grampians Wimmera Mallee Water Corporation
- Lower Murray Urban and Rural Water Corporation
- Melbourne Water Corporation
- North East Region Water Corporation
- South East Water Corporation
- South Gippsland Region Water Corporation
- Wannon Region Water Corporation
- Western Region Water Corporation
- Westernport Region Water Corporation
- Yarra Valley Water Corporation

Zoological Parks and Gardens Board

Department of Health and Human Services

Cemeteries including:

- Ballarat General Cemeteries Trust
- Bendigo Cemeteries Trust
- Geelong Cemeteries Trust
- The Greater Metropolitan Cemeteries Trust
- Southern Metropolitan Cemeteries Trust
- The Mildura Cemetery Trust

Director of Housing

Public non-financial corporation (continued)

Department of Jobs, Precincts and Regions

Agriculture Victoria Services Pty Ltd
Australian Grand Prix Corporation
Dairy Food Safety Victoria
Development Victoria
Emerald Tourist Railway Board
Fed Square Pty Ltd
Geelong Performing Arts Centre Trust
Greater Sunraysia Pest Free Area Industry Development Committee
Greyhound Racing Victoria
Harness Racing Victoria
Kardinia Park Stadium Trust
Launch Victoria Ltd
Melbourne and Olympic Parks Trust
Melbourne Convention and Exhibition Trust
Melbourne Market Authority
Murray Valley Wine Grape Industry Development Committee
Primesafe
State Sport Centres Trust
VicForests
Victorian Arts Centre Trust
Victorian Strawberry Industry Development Committee

Department of Justice and Community Safety

Accident Compensation Conciliation Service

Department of Premier and Cabinet

Queen Victoria Women's Centre Trust
VITS Languagelink

Department of Transport

Melbourne Port Lessor Pty Ltd
Port of Hastings Development Authority
V/Line Corporation
Victorian Ports Corporation (Melbourne)
Victorian Rail Track
Victorian Regional Channels Authority

Department of Treasury and Finance

State Electricity Commission of Victoria
Victorian Plantations Corporation (shell)

Public financial corporation (a)

Department of Justice and Community Safety

Victorian WorkCover Authority

Department of Transport

Transport Accident Commission

Department of Treasury and Finance

State Trustees Limited
Treasury Corporation of Victoria
Victorian Funds Management Corporation
Victorian Managed Insurance Authority

Notes:

(a) On 29 November 2018, the Premier announced machinery of government changes effective 1 January 2019. The following Victorian government departments were affected:

- *The Department of Economic Development, Jobs, Transport and Resources was renamed to the Department of Transport.*
- *Certain functions of the former Department of Economic Development, Jobs, Transport and Resources were transferred to the new department called the Department of Jobs, Precincts and Regions and the Department of Treasury and Finance.*
- *The Department of Justice and Regulation was renamed to the Department of Justice and Community Safety.*
- *Portfolio responsibility for the Transport Accident Commission was transferred from the Department of Treasury and Finance to the Department of Transport.*
- *Portfolio responsibility for the Victorian WorkCover Authority (WorkSafe Victoria) was transferred from the Department of Treasury and Finance to the Department of Justice and Community Safety.*
- *Sport and Recreation Victoria was transferred from the Department of Health and Human Services to the Department of Jobs, Precincts and Regions.*
- *The Office of Racing was transferred from the former Department of Justice and Regulation to the Department of Jobs, Precincts and Regions.*
- *Industrial Relations Victoria was transferred from the former Department of Economic Development, Jobs, Transport and Resources to the Department of Premier and Cabinet.*
- *The Office for Women was transferred from the Department of Health and Human Services to the Department of Premier and Cabinet.*

Certain functions and operations of Victorian government departments were also transferred as part of the machinery of government changes.

(b) Effective from 1 August 2018, the Caulfield Racecourse Reserve Trust was established to manage the Caulfield Racecourse.

(c) 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 operate as Respect Victoria. Responsibility for this entity was transferred to the Department of Premier and Cabinet from 1 July 2019 by agreement between the Secretaries of both departments.

(d) Effective from 1 July 2019, Numurkah and District Health Service, Cobram District Health, and Nathalia District Hospital were amalgamated into NCN Health.

(e) Effective from 1 July 2019, Lorne Community Hospital and Otway Health were amalgamated into Great Ocean Road Health.

(f) The Portable Long Service Authority was established under the Long Service Benefits Portability Act 2018*, and by Order of the Governor in Council, commenced on 1 July 2019.*

(g) The Labour Hire Licensing Authority was established under the Labour Hire Licensing Act 2018 *and by Order of the Governor in Council. The various functions of the Authority under the Act commenced progressively throughout 2018-19, with the licencing operations commencing on 29 April 2019.*

(h) Effective from 1 July 2019, the Public Transport Development Authority and Roads Corporation (with the exception of registration and licensing and some heavy vehicle functions) was consolidated into the Department of Transport.

(i) On 2 June 2018, the Taxi Services Commission changed its name to Commercial Passenger Vehicles Victoria.

9.9 Glossary of technical terms

The following is a summary of the major technical terms used in this report as sourced from the *Uniform Presentation Framework (2008)*. Technical terms that have been discussed elsewhere in this chapter are excluded from the list below.

ABS GFS manual represents the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005* as updated from time to time.

Capital grants are transactions in which the ownership of an asset (other than cash and inventories) is transferred from one institutional unit to another, to enable the recipient to acquire another asset or in which the funds realised by the disposal of another asset are transferred, for which no economic benefits of equal value are receivable or payable in return.

Cash surplus/deficit represents the net cash flows from operating activities plus net cash flows from investments in non-financial assets (less dividends paid for the PNFC and PFC sectors).

Cash surplus/deficit – ABS GFS version is equal to the cash surplus deficit (above) less the value of assets acquired under finance leases and similar arrangements.

Change in net worth (comprehensive result) is revenue from transactions less expenses from transactions plus other economic flows and measures the variation in a government's accumulated assets and liabilities.

Comprehensive result is the amount included in the operating statement representing total change in net worth other than transactions with owners as owners.

Current grants are amounts payable or paid for current purposes for which no economic benefits of equal value are receivable or payable in return.

Effective interest method is the method used to calculate the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

Fiscal aggregates: Analytical balances that are useful for macroeconomic analysis purposes, including assessing the impact of a government and its sectors on the economy.

Key fiscal aggregates defined under ABS GFS manual are required to be disclosed under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. They are: opening net worth, net operating balance, net lending/(borrowing), change in net worth due to revaluations, change in net worth due to other changes in the volume of assets, total change in net worth, closing net worth, and cash surplus/(deficit). AASB 1049 also allows additional fiscal aggregates to be included such as net financial worth, net financial liabilities and net debt.

Government Finance Statistics (GFS) enables policymakers and analysts to study developments in the financial operations, financial position and liquidity situation of the Government. More details about the GFS can be found in the Australian Bureau of Statistics GFS manual *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005*.

Infrastructure systems provide essential services used in delivering final services or products. They are generally a complex interconnected network of individual assets and mainly include sewerage systems, water storage and supply systems, and public transport assets owned by the State.

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

Net acquisition of non-financial assets (from transactions) are purchases (and other acquisitions) of non-financial assets less sales (or disposals) of non-financial assets less depreciation plus changes in inventories and other movements in non-financial assets. Includes only those increases or decreases in non-financial assets resulting from transactions and therefore excludes write offs, impairment write downs and revaluations.

Net cash flows from investments in financial assets (liquidity management purposes) are cash receipts from liquidation or repayment of investments in financial assets for liquidity management purposes less cash payments for such investments. Investment for liquidity management purposes means making funds available to others with no policy intent and with the aim of earning a commercial rate of return.

Net cash flows from investments in financial assets (policy purposes) represents cash payments made for acquiring financial assets for policy purposes, less cash receipts from the repayment and liquidation of such investments in financial assets.

Acquisition of financial assets for policy purposes is distinguished from investments in financial assets (liquidity management purposes) by the underlying government motivation for acquiring the assets. Acquisition of financial assets for policy purposes includes loans made by government that are motivated by Government policies, such as encouraging the development of certain industries or assisting people affected by natural disaster.

For the general government sector, this item also includes cash flows arising from the acquisition and disposal by government of its investments (contributed capital) in entities in the public non-financial corporations and public financial corporations sectors.

Net debt equals sum of deposits held, advances received, government securities, loans and other borrowing less the sum of cash and deposits, advances paid and investments, loans and placements. For the PFC sector, this also includes loans receivable from other sector entities.

Net financial liabilities is calculated as liabilities less financial assets, other than equity in PNFCs and PFCs. This measure is broader than net debt as it includes significant liabilities, other than borrowings (e.g. accrued employee liabilities such as superannuation and long service leave entitlements). For the PNFC and PFC sectors, it is equal to negative net financial worth.

Net financial worth is equal to financial assets minus liabilities. It is a broader measure than net debt as it incorporates provisions made (such as superannuation, but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

Net lending/borrowing is the financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. It also equals transactions in financial assets less transactions in liabilities. A positive result reflects a net lending position and a negative result reflects a net borrowing position.

Net operating balance – net result from transactions: Net result from transactions or net operating balance is a key fiscal aggregate and is revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

Net result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner movements in equity'.

Net worth is calculated as assets less liabilities, which is an economic measure of wealth.

Non-financial assets are all assets that are not financial assets. It includes inventories, land, buildings, infrastructure, road networks, land under roads, plant and equipment, cultural and heritage assets, intangibles and biological assets such as commercial forests.

Non-financial public sector represents the consolidated transactions and assets and liabilities of the general government and PNFC sectors. In compiling statistics for the non-financial public sector, transactions and debtor creditor relationships between sub sectors are eliminated to avoid double counting.

Non-produced assets are assets needed for production that have not themselves been produced. They include land, subsoil assets, and certain intangible assets. Non-produced intangibles are intangible assets needed for production that have not themselves been produced. They include constructs of society such as patents.

Operating result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner movements in equity'. Refer also 'net result'.

9. OTHER DISCLOSURES

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions. In simple terms, other economic flows are changes arising from market remeasurements. They include gains and losses from disposals, revaluations and impairments of non-current physical and intangible assets; actuarial gains and losses arising from defined benefit superannuation plans; fair value changes of financial instruments and agricultural assets; and depletion of natural assets (non-produced) from their use or removal.

Produced assets include buildings, plant and equipment, inventories, cultivated assets and certain intangible assets. Intangible produced assets may include computer software, motion picture films and research and development costs (which does not include the start-up costs associated with capital projects).

Roads include road pavement and road works in progress. All land under roads is included under the category of 'land'.

Road infrastructure mainly includes sound barriers, bridges and traffic signal control systems.

Taxation revenue represents revenue received from the State's taxpayers and includes: payroll tax, land tax, duties levied principally on conveyances and land transfers, gambling taxes levied mainly on private lotteries, electronic gaming machines, casino operations and racing, insurance duty relating to compulsory third party, life and non-life policies, insurance company contributions to fire brigades, Fire Services Property Levy, motor vehicle taxes, including registration fees and duty on registrations and transfers, levies (including the environmental levy) on statutory corporations in other sectors of government, and other taxes, including landfill levies, licence and concession fees.

Transactions are those economic flows that are considered to arise as a result of policy decisions, usually interactions between two entities by mutual agreement, and also flows within an entity, such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the Government and taxpayers. Transactions can be cash or in kind (e.g. assets provided/given free of charge or for nominal consideration). In simple terms, transactions arise from the policy decisions of the Government.

CHAPTER 5 – SUPPLEMENTARY UNIFORM PRESENTATION FRAMEWORK TABLES

THE ACCRUAL GOVERNMENT FINANCE STATISTICS PRESENTATION

The Government Finance Statistics (GFS) system employed by the Australian Bureau of Statistics (ABS) is designed to provide statistics relating to the finances of the Australian public sector. The statistics show the consolidated transactions and balances of the various institutional sectors of government from an economic viewpoint, providing details of the revenue, expenses, payments, receipts, assets and liabilities. It includes only those transactions and balances over which a government exercises control under its legislative or policy framework and excludes from the calculation of net operating balance both revaluations (realised and unrealised gains or losses) arising from a change in market prices, and other changes in the volume of assets that result from discoveries, depletion and destruction of assets. These gains and losses are classified as other economic flows.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES/GOVERNMENT FINANCE STATISTICS HARMONISATION

In October 2007, the Australian Accounting Standards Board issued a new standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, applicable from 1 July 2008. The objective as set out by the Financial Reporting Council in December 2002 is 'to achieve an Australian accounting standard for a single set of government reports which are auditable, comparable between jurisdictions, and in which the outcome statements as directly comparable with the relevant budget statements'. This standard incorporates the major elements of the GFS framework, including the presentation formats and key fiscal aggregates, into a standard based on generally accepted accounting principles (GAAP).

The current Uniform Presentation Framework (UPF) was agreed by the Council of Federal Financial Relations in February 2019, based on the 2015 update to the Australian System of Government Finance Statistics (GFS) Framework AASB 1049, and is applicable from the reporting period commencing 1 July 2018. In addition to the audited Annual Financial Report presented in Chapter 4, the following statements are also required to be presented under the UPF.

FINANCIAL STATEMENTS FOR THE NON-FINANCIAL PUBLIC SECTOR

Table 5.1: Non-financial public sector operating statement for the financial year ended 30 June ($ million)

	2019	*2018*
Revenue from transactions		
Taxation revenue	23 259	22 575
Interest	334	315
Dividends and income tax equivalent and rate equivalent revenue	603	194
Sales of goods and services	11 707	11 317
Grant revenue	33 290	29 917
Other revenue	3 895	3 613
Total revenue from transactions	**73 088**	**67 930**
Expenses from transactions		
Employee expenses	26 718	24 510
Net superannuation interest expense	690	716
Other superannuation	2 931	2 659
Depreciation	5 321	4 996
Interest expense	2 493	2 499
Grant expense	9 557	7 661
Other operating expenses	24 479	22 939
Total expenses from transactions	**72 188**	**65 980**
Net result from transactions – net operating balance	**900**	**1 950**
Other economic flows included in net result		
Net gain/(loss) on disposal of non-financial assets	(68)	39
Net gain/(loss) on financial assets or liabilities at fair value	28	56
Share of net profit/(loss) from associates/joint venture entities	1	(55)
Other gains/(losses) from other economic flows	(1 087)	(401)
Total other economic flows included in net result	**(1 126)**	**(360)**
Net result	**(226)**	**1 590**
Other economic flows – other comprehensive income		
Items that will not be reclassified to net result		
Changes in non-financial assets revaluation surplus	3 066	14 003
Remeasurement of superannuation defined benefits plans	(3 385)	(247)
Other movements in equity	186	(133)
Items that may be reclassified subsequently to net result		
Net gain/(loss) on financial assets at fair value	(60)	14
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	(1 332)	658
Total other economic flows – other comprehensive income	**(1 525)**	**14 294**
Comprehensive result – total change in net worth	**(1 751)**	**15 884**
FISCAL AGGREGATES		
Net operating balance	**900**	**1 950**
Net acquisition of non-financial assets from transactions		
Purchases of non-financial assets (including change in inventories)	12 057	12 344
Less: Sales of non-financial assets	(363)	(540)
Less: Depreciation and amortisation	(5 321)	(4 996)
Plus/(less): Other movements in non-financial assets	700	944
Less: Net acquisition of non-financial assets from transactions	**7 073**	**7 752**
Net lending/(borrowing)	**(6 174)**	**(5 802)**

Source: Department of Treasury and Finance

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

	2019	*2018*
Assets		
Financial assets		
Cash and deposits	11 372	7 676
Advances paid	418	378
Receivables	7 934	7 620
Investments, loans and placements	3 341	5 208
Investments accounted for using the equity method	45	53
Investments in other sector entities	2 712	4 044
Total financial assets	**25 823**	**24 979**
Non-financial assets		
Inventories	1 064	1 050
Non-financial assets held for sale	304	462
Land, buildings, infrastructure, plant and equipment	270 009	260 470
Other non-financial assets	3 317	2 848
Total non-financial assets	**274 695**	**264 830**
Total assets	**300 517**	**289 808**
Liabilities		
Deposits held and advances received	1 451	1 570
Payables	19 695	16 631
Borrowings	50 652	45 878
Employee benefits	8 496	7 461
Superannuation	28 683	25 233
Other provisions	1 162	1 132
Total liabilities	**110 139**	**97 905**
Net assets	**190 378**	**191 903**
Accumulated surplus/(deficit)	77 328	77 744
Reserves	113 050	114 159
Net worth	**190 378**	**191 903**
FISCAL AGGREGATES		
Net financial worth	(84 316)	(72 927)
Net financial liabilities	87 029	76 971
Net debt	36 971	34 187

Source: Department of Treasury and Finance

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

	2019	2018
Cash flows from operating activities		
Receipts		
Taxes received	22 907	22 088
Grants	33 340	29 980
Sales of goods and services [(a)]	15 572	12 426
Interest received	324	308
Dividends, income tax equivalent and rate equivalent receipts	607	199
Other receipts	2 605	2 540
Total receipts	**75 355**	**67 541**
Payments		
Payments for employees	(26 015)	(23 973)
Superannuation	(3 556)	(3 329)
Interest paid	(2 473)	(2 465)
Grants and subsidies	(9 493)	(7 838)
Goods and services [(a)]	(24 387)	(23 293)
Other payments	(792)	(753)
Total payments	**(66 716)**	**(61 651)**
Net cash flows from operating activities	**8 639**	**5 890**
Cash flows from investing activities		
Cash flows from investments in non-financial assets		
Purchases of non-financial assets	(12 072)	(12 329)
Sales of non-financial assets	363	540
Net cash flows from investments in non-financial assets	**(11 710)**	**(11 789)**
Net cash flows from investments in financial assets for policy purposes	100	1 985
Sub-total	**(11 610)**	**(9 804)**
Net cash flows from investments in financial assets for liquidity management purposes	2 119	(367)
Net cash flows from investing activities	**(9 490)**	**(10 170)**
Cash flows from financing activities		
Advances received (net)	(238)	308
Net borrowings	4 668	4 700
Deposits received (net)	118	266
Other financing (net)	..	..
Net cash flows from financing activities	**4 548**	**5 273**
Net increase/(decrease) in cash and cash equivalents	**3 697**	**993**
Cash and cash equivalents at beginning of the reporting period	7 676	6 683
Cash and cash equivalents at end of the reporting period	**11 372**	**7 676**
FISCAL AGGREGATES		
Net cash flows from operating activities	8 639	5 890
Net cash flows from investments in non-financial assets	(11 710)	(11 789)
Cash surplus/(deficit)	**(3 070)**	**(5 899)**

Source: Department of Treasury and Finance

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

Table 5.4: Non-financial public sector statement of changes in equity ($ million)

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
2019					
Balance at 1 July 2019	78 048	108 120	4 382	1 579	192 129
Net result for the year	(226)	..	..	..	(226)
Other comprehensive income for the year	(3 287)	3 066	(1 332)	28	(1 525)
Transfer to/(from) accumulated surplus	2 792	(2 792)	..	..	..
Balance as at 30 June 2019	**77 328**	**108 393**	**3 051**	**1 606**	**190 378**
2018	**..**	**..**	**..**	**..**	**..**
Balance at 1 July 2018	75 243	95 470	3 725	1 581	176 019
Net result for the year	1 590	..	..	..	1 590
Other comprehensive income for the year	(412)	14 003	658	46	14 294
Transfer to/(from) accumulated surplus	1 323	(1 353)	..	30	..
Balance as at 30 June 2018	**77 744**	**108 120**	**4 382**	**1 657**	**191 903**
Change in accounting policy	304	..	..	(78)	226
Restated balance at 1 July 2018 [(a)]	**78 048**	**108 120**	**4 382**	**1 579**	**192 129**

Source: Department of Treasury and Finance

Note:
(a) *The 1 July 2018 balance has been restated resulting from the initial application of AASB 9* Financial Instruments*. Note 9.7.3 in chapter 4 provides further information on the impact of the new accounting standard.*

Table 5.5: General government sector detailed expenses by function [a] [b] **($ million)**

	2019	2018
General public services	**3 794**	**3 712**
Executive and legislative organs, financial and fiscal affairs, external affairs	2 037	2 125
General Services	261	249
Public debt transactions	1 086	1 045
General public services NEC [c]	410	293
Public order and safety	**8 417**	**7 495**
Police services	3 232	2 908
Civil and fire protection services	1 978	1 759
Law courts	1 457	1 311
Prisons	1 751	1 518
Economic affairs	**1 916**	**1 557**
General economic, commercial and labour affairs	591	462
Economic affairs NEC [c]	307	202
Agriculture, forestry, fishing and hunting	476	385
Fuel and energy	241	212
Other industries	302	296
Environmental protection	**981**	**736**
Protection of biodiversity and landscape	457	402
Environmental protection NEC [c]	524	335
Housing and community amenities	**2 380**	**2 091**
Housing development	..	..
Community development	2 262	1 965
Water supply	118	126
Housing and Communities amenities NEC [c]	..	..
Health	**19 794**	**18 558**
Medical products, appliances and equipment	..	..
Outpatient Services	2 116	1 806
Hospital Services	15 040	14 199
Mental health institutions	..	..
Community health services	2 241	2 147
Public health services	328	338
Health NEC [c]	70	67
Recreation, culture and religion	**883**	**747**
Recreational and sporting services	335	238
Cultural Services	549	509
Education	**15 851**	**14 991**
Pre-primary and primary education	7 058	6 617
Secondary education	5 629	5 440
Tertiary education	1 976	1 795
Education not definable by level	98	138
Subsidiary services to education	125	122
Education NEC [c]	964	879
Social protection	**6 437**	**5 278**
Sickness and disability	2 807	2 099
Old age	376	278
Family and children	1 807	1 534
Housing	797	738
Social protection NEC [c]	650	629
Transport	**8 491**	**7 718**
Road transport	2 187	2 154
Bus transport	1 177	1 208
Water transport	111	105
Railway transport	4 862	4 074
Multi-mode urban transport	153	178
Transport NEC [c]	..	..
Not allocated by purpose [d]	**(724)**	**(606)**
Total expenses	**68 220**	**62 276**

Source: Department of Treasury and Finance

Notes:

(a) Chapter 4, Note 3.6 provides definitions and descriptions of the classification of the functions of government.

(b) The COFOG framework has replaced the former Government Purpose Classification (GPC) framework under the new ABS GFS Manual. This has resulted in the reclassification of certain June 2018 comparative figures.

(c) NEC: Not elsewhere classified.

(d) Not allocated by purpose represents eliminations and adjustments.

APPENDIX A – GENERAL GOVERNMENT SECTOR QUARTERLY FINANCIAL REPORT

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

	2017-18	*2018-19*			
	Jun	*Sep*	*Dec*	*Mar*	*Jun*
Revenue from transactions					
Taxation revenue	5 241	5 896	5 049	7 763	4 945
Interest revenue	228	210	206	191	209
Dividends, income tax equivalent and rate equivalent revenue	263	82	248	97	603
Sales of goods and services	1 901	1 905	1 944	1 914	1 987
Grant revenue	7 538	7 923	7 878	9 165	8 337
Other revenue	1 031	573	774	547	1 148
Total revenue from transactions	**16 202**	**16 589**	**16 100**	**19 676**	**17 230**
Expenses from transactions					
Employee expenses	6 276	6 081	6 213	6 196	6 916
Net superannuation interest expense	178	167	180	170	172
Other superannuation	649	671	711	690	725
Depreciation	767	680	690	698	798
Interest expense	570	493	539	503	568
Grant expense	2 719	2 853	3 127	3 858	3 516
Other operating expenses	5 736	4 812	5 107	4 818	6 270
Total expenses from transactions	**16 896**	**15 757**	**16 567**	**16 932**	**18 964**
Net result from transactions – net operating balance	**(694)**	**832**	**(467)**	**2 744**	**(1 734)**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	(25)	5	(55)	(15)	27
Net gain/(loss) on financial assets or liabilities at fair value	19	(4)	(195)	72	91
Share of net profit/(loss) from associates/joint venture entities	(2)	..	..	1	..
Other gains/(losses) from other economic flows	(714)	(116)	(190)	(166)	(449)
Total other economic flows included in net result	**(722)**	**(115)**	**(439)**	**(109)**	**(330)**
Net result	**(1 417)**	**718**	**(906)**	**2 636**	**(2 065)**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	8 700	16	(13)	82	4 078
Remeasurement of superannuation defined benefits plans	(754)	1 213	(2 304)	(1 087)	(1 192)
Other movements in equity	2	14	..	7	51
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	(10)	(12)	(36)	(15)	(2)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	5 515	..	(1 240)		(1 414)
Total other economic flows – other comprehensive income	**13 453**	**1 230**	**(3 593)**	**(1 013)**	**1 520**
Comprehensive result – total change in net worth	**12 036**	**1 948**	**(4 499)**	**1 623**	**(544)**
KEY FISCAL AGGREGATES					
Net operating balance	**(694)**	**832**	**(467)**	**2 744**	**(1 734)**
Less: Net acquisition of non-financial assets from transactions	1 237	690	973	330	1 758
Net lending/(borrowing)	**(1 932)**	**142**	**(1 440)**	**2 414**	**(3 492)**

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

	2017-18	2018-19			
	Jun	*Sep*	*Dec*	*Mar*	*Jun*
Assets					
Financial assets					
Cash and deposits	6 257	5 940	4 567	5 722	9 775
Advances paid [(a)]	10 019	8 963	8 692	8 441	8 340
Receivables	6 208	6 400	5 738	8 376	6 628
Investments, loans and placements	3 928	3 940	3 965	5 059	2 539
Investments accounted for using the equity method	53	52	53	45	45
Investments in other sector entities	101 253	102 157	102 040	102 979	101 825
Total financial assets [(a)]	**127 717**	**127 453**	**125 055**	**130 621**	**129 153**
Non-financial assets					
Inventories	175	171	177	177	165
Non-financial assets held for sale	389	391	361	345	223
Land, buildings, infrastructure, plant and equipment	134 141	134 414	135 411	135 875	141 593
Other non-financial assets	1 872	2 411	2 289	2 197	2 305
Total non-financial assets	**136 577**	**137 386**	**138 238**	**138 595**	**144 286**
Total assets [(a)]	**264 294**	**264 839**	**263 293**	**269 216**	**273 439**
Liabilities					
Deposits held and advances received	6 700	5 772	5 491	5 224	5 177
Payables	6 713	9 143	8 694	9 146	10 011
Borrowings [(a)]	33 506	31 748	32 748	35 834	37 885
Employee benefits	7 020	6 893	7 141	7 056	8 020
Superannuation	25 205	24 257	26 600	27 699	28 632
Other provisions	1 034	962	1 053	1 070	1 072
Total liabilities [(a)]	**80 178**	**78 775**	**81 728**	**86 028**	**90 795**
Net assets	**184 116**	**186 064**	**181 565**	**183 188**	**182 644**
Accumulated surplus/(deficit) [(a)]	52 574	54 548	51 308	52 864	52 473
Reserves [(a)]	131 543	131 516	130 257	130 324	130 171
Net worth	**184 116**	**186 064**	**181 565**	**183 188**	**182 644**
FISCAL AGGREGATES					
Net financial worth	47 540	48 678	43 327	44 594	38 358
Net financial liabilities	53 713	53 479	58 713	58 386	63 467
Net debt	20 003	18 677	21 015	21 837	22 407

Note:

(a) Certain prior period balances have been restated resulting from the initial application of AASB 9 Financial Instruments. Note 9.7.3 in Chapter 4 provides further information on the impact of the new accounting standard.

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

	2017-18	2018-19			
	Jun	*Sep*	*Dec*	*Mar*	*Jun*
Cash flows from operating activities					
Receipts					
Taxes received	6 126	5 994	5 650	5 058	6 599
Grants	7 606	7 927	7 877	9 163	8 386
Sales of goods and services [(a)]	2 004	4 984	1 939	2 302	1 823
Interest received	224	209	203	194	203
Dividends, income tax equivalent and rate equivalent receipts	213	82	298	97	563
Other receipts	788	491	381	301	870
Total receipts	**16 960**	**19 686**	**16 348**	**17 115**	**18 443**
Payments					
Payments for employees	(5 729)	(6 211)	(5 994)	(6 369)	(6 158)
Superannuation	(1 091)	(572)	(853)	(848)	(1 156)
Interest paid	(534)	(514)	(507)	(510)	(548)
Grants and subsidies	(2 494)	(2 908)	(3 228)	(3 909)	(3 399)
Goods and services [(a)]	(5 203)	(5 694)	(5 009)	(4 388)	(4 959)
Other payments	(199)	(211)	(202)	(174)	(203)
Total payments	**(15 250)**	**(16 110)**	**(15 793)**	**(16 198)**	**(16 423)**
Net cash flows from operating activities	**1 710**	**3 577**	**555**	**916**	**2 020**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(3 286)	(2 139)	(2 712)	(1 880)	(2 828)
Sales of non-financial assets	166	45	39	53	106
Net cash flows from investments in non-financial assets	**(3 120)**	**(2 095)**	**(2 672)**	**(1 828)**	**(2 722)**
Net cash flows from investments in financial assets for policy purposes	3 016	729	156	298	261
Sub-total	**(104)**	**(1 365)**	**(2 516)**	**(1 529)**	**(2 462)**
Net cash flows from investments in financial assets for liquidity management purposes	224	(35)	(123)	(1 036)	2 825
Net cash flows from investing activities	**120**	**(1 400)**	**(2 639)**	**(2 565)**	**364**
Cash flows from financing activities					
Advances received (net)	(1 075)	(834)	(340)	(329)	(103)
Net borrowings	1 607	(1 566)	993	3 070	1 717
Deposits received (net)	(6)	(94)	59	62	56
Other financing (net)	..	..	..	..	..
Net cash flows from financing activities	**526**	**(2 494)**	**712**	**2 803**	**1 669**
Net increase/(decrease) in cash and cash equivalents	**2 356**	**(317)**	**(1 372)**	**1 154**	**4 053**
Cash and cash equivalents at beginning of the reporting period	3 900	6 257	5 940	4 567	5 722
Cash and cash equivalents at end of the reporting period	**6 257**	**5 940**	**4 567**	**5 722**	**9 775**
FISCAL AGGREGATES					
Net cash flows from operating activities	1 710	3 577	555	916	2 020
Net cash flows from investments in non-financial assets	(3 120)	(2 095)	(2 672)	(1 828)	(2 722)
Cash surplus/(deficit)	**(1 410)**	**1 482**	**(2 117)**	**(911)**	**(702)**

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

APPENDIX B – *FINANCIAL MANAGEMENT ACT 1994* – COMPLIANCE INDEX

The *Financial Management Act 1994* (the Act) requires the Minister to prepare an audited annual financial report for tabling in Parliament. This report has been prepared in accordance with applicable Australian Accounting Standards and the Act.

The Act also requires the annual financial report to meet certain requirements. The following compliance index explains how these requirements are met, together with appropriate references in this document.

Financial Management Act 1994 *reference*	*Requirement*	*Comments/reference*
Section 24(1)	The Minister must prepare an annual financial report for each financial year.	Refer to Chapter 4
Section 24(2)	The annual financial report: (a) must be prepared in the manner and form determined by the Minister, having regard to appropriate financial reporting frameworks;	Manner is in accordance with Australian Accounting Standards and Ministerial Directions. Form is consolidated comprehensive operating statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity and accompanying notes. Refer to Chapter 4
	(b) must present fairly the financial position of the State and the Victorian general government sector at the end of the financial year; and	Consolidated balance sheet, page 30
	(i) the transactions on the Public Account;	Refer Chapter 4, Note 8.2, pages 113-128
	(ii) the transactions of the Victorian general government sector; and	Refer Chapter 4, consolidated comprehensive operating statement page 29, consolidated cash flow statement page 31 and selected notes
	(iii) other financial transactions of the State;	Refer Chapter 4, consolidated comprehensive operating statement page 29, consolidated cash flow statement page 31 and Notes 1-8, pages 33-128

Financial Management Act 1994 *reference*	*Requirement*	*Comments/reference*
	in respect of the financial year;	
	(c) must include details of amounts paid into working accounts under section 23;	Refer Chapter 4, Note 8.2.9, page 122
	(d) must include details of amounts allocated to departments during the financial year under section 28;	Refer Chapter 4, Note 8.2.10, page 122
	(e) must include details of money credited under section 29 to an item in a schedule to an appropriation Act for that financial year;	Refer Chapter 4, Note 8.2.12, page 124
	(f) must include particulars of amounts transferred in accordance with determinations under section 30 or 31;	Refer Chapter 4, Note 8.2.11, page 123
	(g) must include details of;	
	(i) amounts appropriated in respect of the financial year as a result of a determination under section 32 in respect of unused appropriation for the preceding financial year;	Refer Chapter 4, Note 8.2.13, page 125
	(ii) the application during the financial year of amounts referred to in subparagraph (i); and	Refer Chapter 4, Note 8.2.13, page 125
	(iii) amounts appropriated in respect of the next financial year as a result of a determination under section 32 in respect of unused appropriation for the financial year;	Refer Chapter 4, Note 8.2.13, page 125
	(h) must include;	
	(i) details of expenses and obligations met from money advanced to the Minister under section 35(1) during the financial year; and	Refer Chapter 4, Note 8.2.15, page 128
	(ii) a statement of the reasons for carrying forward any part of an unused advance to the next financial year under section 35(4);	Refer Chapter 4, Note 8.2.16, page 128
	(i) must include details of payments made during the financial year out of money advanced to the Treasurer in an annual appropriation Act for that year to meet urgent claims;	Refer Chapter 4, Note 8.2.14, pages 126-128

Financial Management Act 1994 *reference*	*Requirement*	*Comments/reference*
	(j) must include details of;	
	(i) payments made during the financial year in fulfilment of any guarantee by the Government under any Act; and	Refer Chapter 4, Note 8.2.17, page 128
	(ii) money received or recovered by the Minister or Treasurer during the financial year in respect of any guarantee payments;	Refer Chapter 4, Note 8.2.17, page 128
	(k) must include details, as at the end of the financial year, of;	
	(i) the liabilities (including contingent liabilities under guarantees and indemnities or in respect of superannuation payments and all other contingent liabilities) and assets of the State; and	Refer Chapter 4, Note 7.2 pages 88-92, Note 3.2 page 42 and consolidated balance sheet page 30
	(ii) prescribed assets and prescribed liabilities of prescribed bodies;	Refer Chapter 4, Note 9.1, pages 131-137, and Chapter 5, Table 5.2, page 157
	(l) must be audited by the Auditor-General.	Refer Chapter 4, *Report of the Auditor-General*, pages 23-27
Section 26(1)	The Minister must prepare a quarterly financial report for each quarter of each financial year.	Refer Appendix A, pages 161-163
Section 26(2)	A quarterly financial report comprises:	
	(a) a statement of financial performance of the Victorian general government sector for the quarter;	Refer Appendix A, page 161
	(b) a statement of financial position of the Victorian general government sector at the end of the quarter;	Refer Appendix A, page 162
	(c) a statement of cash flows of the Victorian general government sector for the quarter; and	Refer Appendix A, page 163
	(d) a statement of the accounting policies on which the statements required by paragraphs (a), (b) and (c) are based.	Refer Chapter 4

Financial Management Act 1994 *reference*	*Requirement*	*Comments/reference*
Section 26(2A)	A quarterly financial report must be prepared in the manner and form determined by the Minister, having regard to appropriate financial reporting frameworks.	Refer to Appendix A for agreed form, pages 161-163
Section 26(3A)	The quarterly financial report for the quarter ending on 30 June in a financial year must include, in addition to the statements referred to in sub-section (2)(a) to (d) for that quarter, those statements for the period of 12 months ending on that 30 June.	Refer to Chapter 4, consolidated comprehensive operating statement page 29, consolidated balance sheet page 30, consolidated cash flow statement page 31 and selected notes

STYLE CONVENTIONS

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

The notation used in the tables is as follows:

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

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

The Annual Financial Report is based on the style set in the example of a general purpose financial report for a government in illustrative example A of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The styles used in other chapters of this document are generally consistent with those used in other publications relating to the annual budget papers.

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