

Victorian Pre-Election Budget Update

November 2018



Treasury
and Finance

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**Victorian Pre-Election
Budget Update**

A report by the Secretary of the
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November 2018

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FOREWORD

This *Pre-Election Budget Update* is published by the Department of Treasury and Finance in accordance with reporting requirements under Part 5, Division 6 of the *Financial Management Act 1994* (FMA). Appendix C *Requirements of the Financial Management Act 1994* details how these requirements have been met.

The purpose of this *Pre-Election Budget Update* is to update information on the general government sector since the *2018-19 Budget* was published in May 2018.

Chapter 1 *Economic conditions and outlook*, outlines the outlook for the Victorian, Australian and international economies, including risks to this outlook. Chapter 2 *Budget position and outlook*, overviews the projected budget position for the period 2018-19 to 2021-22 and outlines the fiscal risks which could materially alter these budget projections. Chapter 3 *Estimated financial statements and notes*, provides the formal financial statements, and underpinning notes and assumptions required by the FMA and is prepared in accordance with applicable Australian Accounting Standards. Chapter 4 *Contingent assets and contingent liabilities*, outlines quantifiable and non-quantifiable contingent assets and contingent liabilities. Appendix A *Specific policy initiatives affecting the budget position*, outlines specific output and asset investment policy decisions since the *2018-19 Budget* and Appendix B *Sensitivity analysis*, estimates the impact of selected economic and financial variables on income, expenses, the net result from transactions, the net result and net debt.

This *Pre-Election Budget Update* is based on Government decisions I was aware of on or before the issue of the election writs on 30 October 2018.



David Martine
Secretary

Department of Treasury and Finance

November 2018

CHAPTER 1 – ECONOMIC CONDITIONS AND OUTLOOK

- Real gross state product (GSP) is forecast to increase by 3.0 per cent in 2018-19 and then return to the trend rate of 2.75 per cent each year over the forward estimates.
- Labour market conditions are positive, with further solid growth in employment expected in 2018-19.
- Population growth is forecast to moderate after a period of strong growth.
- National and global economic conditions are broadly supportive of Victoria's economic outlook as the economic cycle matures.
- Uncertainty surrounding the outlook for the residential property market and global trade policy is elevated, but risks to Victoria's economic outlook are broadly balanced.

VICTORIAN ECONOMIC CONDITIONS AND OUTLOOK

Victoria's economy has recorded solid growth in recent years. Economic activity has been supported by low interest rates and strong population growth, which has underpinned higher levels of consumer spending and dwelling investment. The contribution to growth from public demand has increased, while business confidence has improved and investment is rising. Exports, particularly in services, have continued to expand.

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

The global backdrop remains positive, with many advanced economies growing at above-trend rates, supported by accommodative monetary and/or fiscal policy settings. However, uncertainty around global trade policy is elevated, and poses risks to the outlook.

Gross state product

Table 1.1 sets out the economic forecasts, with the *2018-19 Budget* forecasts in italics where different.

Table 1.1: Victorian economic forecasts ^(a) (per cent)

	2017-18 <i>actual</i>	2018-19 <i>forecast</i>	2019-20 <i>forecast</i>	2020-21 <i>projection</i>	2021-22 <i>projection</i>
Real gross state product	3.25 ^(b) <i>3.00</i>	3.00 <i>2.75</i>	2.75	2.75	2.75
Employment	2.7 <i>2.75</i>	2.50 <i>2.00</i>	2.00 <i>1.75</i>	1.75	1.75
Unemployment rate ^(c)	5.6 <i>5.75</i>	4.75 <i>5.75</i>	5.00 <i>5.50</i>	5.25 <i>5.50</i>	5.50
Consumer price index ^(d)	2.3 <i>2.00</i>	2.50 <i>2.25</i>	2.50	2.50	2.50
Wage price index ^(e)	2.3 <i>2.25</i>	2.75 <i>2.50</i>	3.00 <i>2.75</i>	3.25 <i>3.00</i>	3.50 <i>3.25</i>
Population ^(f)	2.2 ^(b) <i>2.3</i>	2.1 <i>2.2</i>	2.0 <i>2.1</i>	1.9 <i>2.0</i>	1.9 <i>2.0</i>

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

Notes:

- (a) Percentage change in year average terms compared with previous year, except for the unemployment rate (see note (c)) and population (see note (f)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (f)). Projections for 2020-21 and 2021-22 represent long-run average growth rates, except for the wage price index, which remains below trend in 2020-21, and population growth, which remains above trend by 2021-22. The key assumptions underlying the economic forecasts include: interest rates are reflective of movements in market expectations; an Australian dollar trade-weighted index of 62.5; and oil prices that follow the path suggested by the futures market.
- (b) Estimate, actual not yet available.
- (c) Year average, per cent.
- (d) Melbourne consumer price index.
- (e) Wage price index, Victoria (based on total hourly rates of pay, excluding bonuses).
- (f) Percentage change over the year to 30 June. Forecasts are rounded to the nearest 0.1 percentage point.

In 2017-18, Victorian state final demand grew by 5.0 per cent, above the national average increase of 3.4 per cent. Consumer spending, business investment and public demand were particularly strong. Economic output, as measured by GSP, is estimated to have expanded by 3.25 per cent. In 2018-19, GSP growth is forecast to ease slightly to 3.0 per cent, still above trend. Both estimates represent small upward revisions from the *2018-19 Budget* estimates of 3.0 per cent and 2.75 per cent, respectively.

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

Dwelling investment has also risen strongly in recent years and activity in 2018-19 is forecast to remain at historically high levels. A large pipeline of residential construction (for houses and attached dwellings) is expected to continue to support activity in the near term. However, a softening in building approvals and weaker investor demand, reflecting tighter credit conditions and lower house price expectations, point to a modest weakening in dwelling investment into 2019.

All major components of business investment rose in 2017-18, with overall investment growing by 9.7 per cent. The increase in investment is consistent with surveys indicating ongoing positive business conditions in Victoria and nationally. Growth in business investment is expected to remain positive over the forecast horizon.

The contribution to economic growth from public demand has also been strong, and a further increase in demand is anticipated in 2018-19. Public investment is forecast to remain at high levels.

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

Overall, the economic outlook for Victoria remains positive. Real GSP growth is forecast to return to its trend rate of around 2.75 per cent per annum from 2019-20.

Labour market

Victoria's labour market has performed well in recent years, with solid gains in employment, higher labour force participation and a lower unemployment rate. Employment grew by 2.7 per cent in 2017-18, with full-time employment rising by 3.0 per cent and part-time employment by 2.2 per cent. The unemployment rate fell to a six-year low of 5.6 per cent in 2017-18 and the labour force participation rate rose to a record high of 65.9 per cent.

The positive momentum has continued into 2018-19, with the latest data showing employment growth of 2.6 per cent over the year to September 2018 and a further decline in the unemployment rate to 4.5 per cent.

Labour market conditions are expected to remain solid, consistent with leading indicators of labour demand. Employment is forecast to rise by 2.5 per cent in 2018-19 and by 2.0 per cent in 2019-20. Both are upgrades from the *2018-19 Budget* estimates of 2.0 per cent and 1.75 per cent, respectively. The unemployment rate is forecast to average 4.75 per cent in 2018-19, down from the *2018-19 Budget* estimate of 5.75 per cent, largely reflecting recent outcomes and an upgrade to expected employment growth.

Prices and wages

The Melbourne consumer price index increased by 2.3 per cent in 2017-18. The inflation rate is forecast to increase to 2.5 per cent in 2018-19, the middle of the Reserve Bank of Australia's 2-3 per cent target band.

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

Population

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

AUSTRALIAN ECONOMIC CONDITIONS AND OUTLOOK

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

Solid growth is expected in non-rural exports, business investment, consumer spending and public infrastructure investment. In its *2018-19 Budget*, the Commonwealth Treasury forecast GDP growth of 3.0 per cent in 2018-19. This will underpin a further rise in employment, taking the national unemployment rate to a forecast average of 5.25 per cent in the June quarter 2019, from 5.5 per cent in 2017-18. It is anticipated the continued labour market improvement will produce a gradual increase in wage growth and inflation pressures over the next couple of years.

INTERNATIONAL ECONOMIC CONDITIONS AND OUTLOOK

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

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

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

RISKS TO THE OUTLOOK

The risks to Victoria's economic outlook are balanced. On the upside, while the outlook is for economic growth to moderate to around trend rates as Victoria's economic cycle matures, the economy retains significant momentum, particularly in the labour market, and may remain stronger for longer than currently envisaged. A faster than expected recovery in wages combined with favourable employment conditions would support consumption growth in the near term. Persistent strength in population growth or a higher participation rate could lead to higher employment and GSP growth.

On the downside, the moderation in the residential property market could prove deeper than currently factored into the forecasts, particularly if prompted by tighter access to credit, rising borrowing costs or a general economic downturn. A weaker housing market could lead to softer household sentiment, lower consumption and dwelling investment, and slower growth in employment, wages and real GSP.

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

CHAPTER 2 – BUDGET POSITION AND OUTLOOK

- The general government sector operating surplus is estimated to be \$2.3 billion in 2018-19 and average \$2.5 billion across the forward estimates.
- Relative to the *2018-19 Budget*, the net result from transactions has been revised up by \$675 million over the next four years. This largely reflects stronger than expected GST revenue (\$1.7 billion) and land tax revenue (\$0.9 billion), offset by lower than expected land transfer duty revenue (\$2.4 billion) flowing from the effect of the current moderation in prices and volumes in the residential property market.
- Government infrastructure investment is projected to average \$10.6 billion a year over the budget and forward estimates.
- Net debt is expected to be 6.0 per cent of gross state product (GSP) by June 2021, and remain at that level in 2021-22.

This chapter presents the financial position of the general government sector. The estimates take into account the financial impacts of all policy decisions made by the Government, as well as other information that affects the financial statements, unless otherwise stated, up to the issue of the election writs on 30 October 2018.

GENERAL GOVERNMENT SECTOR

Overview

The operating result (net result from transactions) for the general government sector in 2018-19 is forecast to be a surplus of \$2.3 billion, with annual operating surpluses averaging \$2.5 billion over the forward estimates (Table 2.1).

Relative to the *2018-19 Budget*, the net result from transactions has been revised up by \$898 million in 2018-19, down by \$263 million in 2019-20 and \$59 million in 2020-21, and up by \$99 million in 2021-22. This largely reflects stronger than expected GST and land tax revenue, offset by lower than expected land transfer duty revenue flowing from the effect of the current slowdown in the residential property market.

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

Table 2.1: General government fiscal aggregates

	<i>Unit of measure</i>	<i>2018-19 revised</i>	<i>2019-20 estimate</i>	<i>2020-21 estimate</i>	<i>2021-22 estimate</i>
Net result from transactions	\$ billion	2.3	1.7	2.7	3.0
Government infrastructure investment ^(a)	\$ billion	13.4	11.4	9.7	8.0
Net debt	\$ billion	22.5	27.8	30.3	31.8
Net debt to GSP ^(b)	per cent	5.0	5.8	6.0	6.0

Source: Department of Treasury and Finance

Notes:

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

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

Government infrastructure investment is projected to average \$10.6 billion a year over the next four years.

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

BUDGET AND FORWARD ESTIMATES OUTLOOK

Table 2.2 summarises the operating statement for the general government sector. A comprehensive operating statement is presented in Chapter 3 *Estimated financial statements and notes*.

Table 2.2: Summary operating statement for the general government sector ^(a) (\$ million)

	2018-19 <i>revised</i>	2019-20 <i>estimate</i>	2020-21 <i>estimate</i>	2021-22 <i>estimate</i>
Revenue				
Taxation	24 092	25 050	25 836	27 116
Dividends, tax equivalent revenue and interest ^(b)	1 921	1 369	1 357	1 319
Sales of goods and services	7 594	8 417	8 685	8 726
Grant revenue	33 515	33 697	34 686	35 942
Other current revenue	2 636	2 594	2 656	2 714
Total revenue	69 757	71 128	73 221	75 817
<i>% change</i>	8.0	2.0	2.9	3.5
Expenses				
Employee expenses	24 986	26 446	27 495	28 565
Superannuation ^(c)	3 439	3 441	3 482	3 572
Depreciation	2 884	3 050	3 352	3 521
Interest expense	2 090	2 133	2 211	2 260
Other operating expenses	21 296	20 305	20 016	20 498
Grant expense	12 785	14 045	14 007	14 411
Total expenses	67 480	69 420	70 565	72 827
<i>% change</i>	8.4	2.9	1.6	3.2
Net result from transactions	2 277	1 708	2 656	2 990
Total other economic flows included in net result ^(d)	(233)	(251)	(265)	(284)
Net result	2 044	1 456	2 392	2 706

Source: Department of Treasury and Finance

Notes:

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

Revenue outlook

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

Taxation

Taxation revenue is forecast to be \$24.1 billion in 2018-19, with the rate of growth in property related taxes forecast to decelerate. Residential property market conditions in 2018 have weakened after several years of strong growth in prices and volume.

Specifically:

- land transfer duty revenue is forecast to decline by 6.8 per cent to \$6.5 billion in 2018-19 and grow by only 2.1 per cent in 2019-20. Growth in land transfer duty is expected to average 3.5 per cent each year over the forward estimates. This forecast reflects a weaker outlook for the residential property market in the near term, coinciding with lower auction clearance rates, tightening credit conditions, moderating property prices and transaction volumes, and out-of-cycle mortgage rate rises; and
- land tax revenue is forecast to increase to \$3.4 billion in 2018-19, reflecting rising residential and commercial property values and an increase in the number of liable properties between 1 January 2016 and 31 December 2017. Land tax revenue growth is projected to moderate over the forward estimates as current property market conditions flow through to land valuations.

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

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

Dividends, income tax equivalent and interest

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

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

Sales of goods and services

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

Grants

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

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

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

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

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

Other current revenue

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

Expenses outlook

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

- employee expenses (including superannuation) are forecast to grow by 7.2 per cent in 2018-19, moderating to an average annual increase of 4.2 per cent over the forward estimates. The growth in 2018-19 reflects increases in the public sector workforce. The increase in employee expenses also reflects changes in average remuneration levels through enterprise bargaining agreements;
- depreciation expense is forecast to grow by 5.1 per cent to \$2.9 billion in 2018-19 and increase by 6.9 per cent a year on average over the forward estimates to \$3.5 billion in 2021-22. This growth is broadly in line with the investment in infrastructure;
- interest expense is forecast to be \$2.1 billion in 2018-19. Interest expense is expected to grow by an average of 2.6 per cent a year over the forward estimates;
- other operating expenses are forecast to increase by 7.6 per cent in 2018-19, largely reflecting the impact of increases in the public sector workforce and differences in the timing of activity across major departments. Thereafter, other operating expenses are expected to decrease by an average of 1.3 per cent a year over the forward estimates to \$20.5 billion in 2021-22, partly reflecting the transition of services to the Commonwealth for the NDIS; and
- grants expenses are forecast to increase by 14.9 per cent to \$12.8 billion in 2018-19, largely due to payments made to the National Disability Insurance Agency for disability services as part of the full roll-out of the NDIS. Thereafter, growth is expected to average 4.1 per cent a year over the forward estimates.

Reconciliation of estimates to the 2018-19 Budget

Relative to the 2018-19 Budget, the net result from transactions has been revised up by \$898 million in 2018-19, down by \$263 million in 2019-20 and \$59 million in 2020-21, and up by \$99 million in 2021-22 (Table 2.3).

Table 2.3: Reconciliation of estimates to the 2018-19 Budget ^(a) (\$ million)

	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Net result from transactions: 2018-19 Budget	1 380	1 971	2 715	2 891
Policy decision variations				
Revenue policy decision variations	16	51	54	58
Output policy decision variations ^(b)	(535)	(133)	(92)	(96)
	(519)	(82)	(38)	(38)
Economic/demographic variations				
Taxation	(10)	(246)	(293)	(427)
Investment income ^(c)	135	0	(40)	(57)
	125	(246)	(333)	(484)
Commonwealth grant variations				
General purpose grants	(28)	488	528	740
Specific purpose grants ^(d)	244	12	180	154
	216	499	708	894
Administrative variations				
Contingency offset for new policy ^(e)	66	..	..	..
Other administrative variations	1 010	(434)	(396)	(273)
	1 076	(434)	(396)	(273)
Total variation since 2018-19 Budget	898	(263)	(59)	99
Net result from transactions	2 277	1 708	2 656	2 990

Source: Department of Treasury and Finance

Notes:

- (a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.
- (b) This is represented in Table 2.4.
- (c) Comprises dividends, income tax and rate equivalent revenue and interest.
- (d) Reflects the change in grant revenue as per Chapter 3 Note 3.2.4 Grant revenue less associated expense movements.
- (e) Represents releases from the funding not allocated to specific purposes contingency included in the 2018-19 Budget. Further information on total output contingencies can be found at Note 3.3.5 of Chapter 3 Estimated financial statements and notes.

Policy variations

Policy variations reflect specific initiatives by the Government that have an impact on the next four years, and are related to a new policy or represent a change in the Government's existing policy position since the *2018-19 Budget*.

Appendix A *Specific policy initiatives affecting budget position* details the specific new output and revenue policy decisions of Government since the *2018-19 Budget* and before the issue of the election writs on 30 October 2018.

Table 2.4: Net impact of new output initiatives since the 2018-19 Budget^(a) (\$ million)

	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
New output initiatives	480	351	348	373
Less:				
Reprioritisations and revenue offsets ^(b)	37	22	..	..
Adjustments ^(c)	(92)	195	256	277
Savings	..	..	..	..
2018-19 output policy initiatives	535	133	92	96
Less: contingency offset for new policy ^(d)	66	..	..	..
Net impact	469	133	92	96

Source: Department of Treasury and Finance

Notes:

- (a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.
- (b) This includes the reprioritisation of resources previously allocated to departments and revenue offsets.
- (c) Primarily incorporates the net impact of the creation and release of contingencies held for decisions made but not yet allocated.
- (d) Represents releases from the funding not allocated to specific purposes contingency associated with demand for government services. Further information on this contingency can be found at Note 3.3.5 of Chapter 3 Estimated financial statements and notes.

Economic and demographic variations

Since the *2018-19 Budget*, taxation revenue has been revised down by \$10 million in 2018-19, and down by an average of \$322 million a year across the forward estimates. Specifically:

- land transfer duty revenue has been revised down by \$2.4 billion over the next four years, reflecting the impact of the current slowdown in the residential property market;
- land tax revenue has been revised up by \$909 million over the next four years. This is informed by updated property valuation data, which indicates an increase in the value of residential, commercial and industrial land in the 2018 revaluation; and
- payroll tax revenue has been revised up by \$275 million over the next four years. This reflects a stronger outlook for Victorian labour market conditions which underpin payroll tax revenue.

Commonwealth grants variations

Commonwealth general purpose grants (or GST grants) estimates have been revised up by an average of \$585 million a year from 2019-20 to 2021-22 compared with the *2018-19 Budget* due to a stronger outlook for the national GST pool and Victoria's GST relativity.

Net changes to specific purpose grants have increased the operating result by an average of \$147 million a year from 2018-19 to 2021-22 compared with the *2018-19 Budget*. These movements primarily reflect the impacts of updated payment phasings expected under the Regional Rail Revival program and the DCAF.

Administrative variations

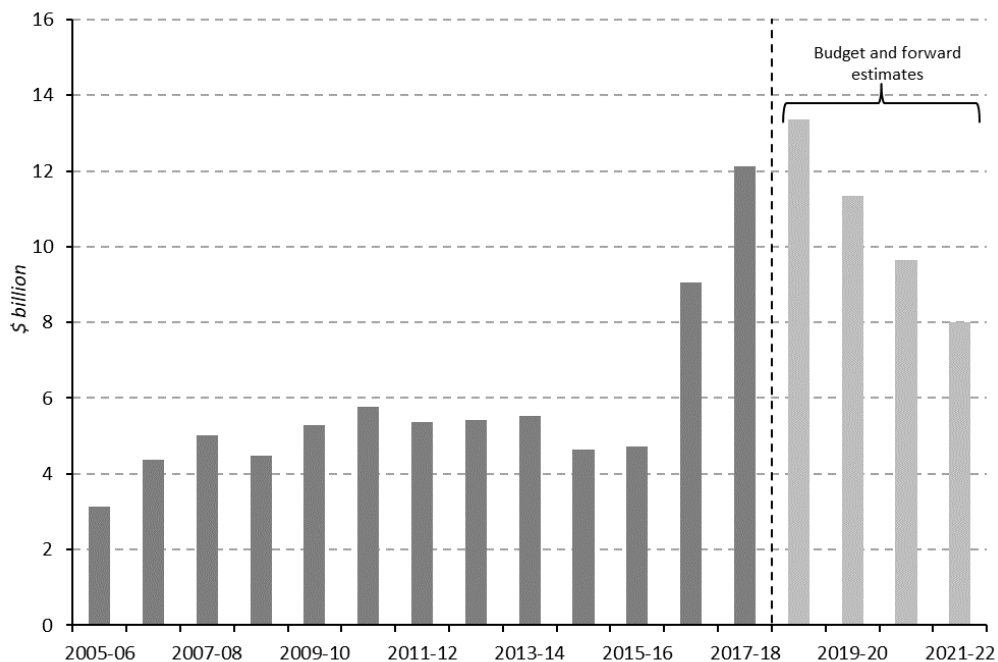
Other administrative variations are expected to increase the operating result by \$1.0 billion in 2018-19, but fall by an average of \$368 million a year across the forward estimates, compared with the *2018-19 Budget*. These movements largely reflect:

- expenditure and revenue impacts associated with commercialising part of Victoria's land titles and registry functions;
- a rephase of grant revenue from the public financial corporation sector from 2017-18 to 2018-19; and
- provisioning for output contingencies not allocated to specific purposes.

Capital expenditure

Government infrastructure investment (GII), which measures investment funded or facilitated by the Government, is forecast to average \$10.6 billion a year over the budget and forward estimates. (Chart 2.1).

Chart 2.1: Government infrastructure investment ^{(a)(b)}



Source: Department of Treasury and Finance

Notes:

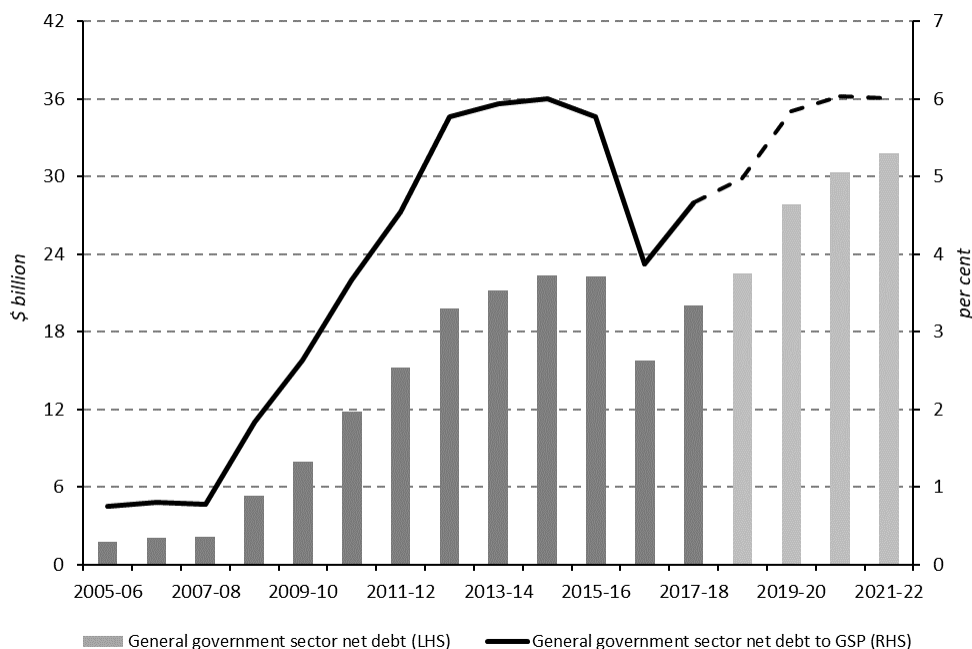
(a) Includes general government net infrastructure investment and estimated construction costs for Partnerships Victoria projects.

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

Net debt

Net debt as a proportion of GSP was 4.7 per cent at June 2018, and is expected to increase to 6.0 per cent by June 2021, and remain at that level in 2021-22 (Chart 2.2).

Chart 2.2: General government net debt to GSP ^(a)



Source: Department of Treasury and Finance

Note:

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

The application of cash resources for the general government sector (Table 2.5) outlines the annual movements in net debt. General government sector cash from operating activities is expected to average \$4.8 billion a year over the next four years.

Table 2.5: Application of cash resources for the general government sector ^(a) (\$ million)

	2018-19 <i>revised</i>	2019-20 <i>estimate</i>	2020-21 <i>estimate</i>	2021-22 <i>estimate</i>
Net result from transactions	2 277	1 708	2 656	2 990
Add back: non-cash revenue and expenses (net) ^(b)	4 877	1 452	1 123	1 973
Net cash flows from operating activities	7 155	3 160	3 779	4 962
Total net investment in fixed assets ^(c)	7 733	5 597	4 493	5 422
Surplus/(deficit) of cash from operations after funding net investment in fixed assets	(578)	(2 437)	(713)	(460)
Finance leases ^(d)	451	1 034	526	448
Other movements	1 481	1 831	1 269	537
Decrease/(increase) in net debt	(2 510)	(5 301)	(2 509)	(1 445)

Source: Department of Treasury and Finance

Notes:

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

Unfunded superannuation liability

The State's unfunded superannuation liability is on track to be fully funded by 2035. Note 3.6.3 of Chapter 3 *Estimated financial statements and notes* shows information on the reported superannuation liability.

FISCAL RISKS

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

Details of specific contingent assets and liabilities, defined as possible assets or liabilities that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, are contained within Chapter 4 *Contingent assets and contingent liabilities*.

General fiscal risks

State taxes

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

Revenue from property-based taxes, such as land tax and land transfer duty, are subject to unique risks and historically have been volatile. Property markets can exhibit large cycles typically related to changes in official interest rates, changes in sentiment, and/or household income. If property market sentiment were to weaken faster than anticipated or is more prolonged, or mortgage interest rates rose more quickly than currently expected, revenue from property-based taxes may be weaker than forecast.

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

Employee expenses

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

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

Demand growth

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

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

Note 3.3.5 and Note 3.3.6 of Chapter 3 *Estimated financial statements and notes* discloses general government output and asset contingencies not allocated to departments.

Specific fiscal risks

National Disability Insurance Scheme

Victoria commenced transition to the NDIS on 1 July 2016 and is working towards reaching full roll-out by 1 July 2019. The current transition agreement between Victoria and the Commonwealth ends on 30 June 2019. Negotiations on a full scheme agreement to take effect from 1 July 2019 were not finalised prior to the issue of the election writs on 30 October 2018. However, the current agreement states that Victoria's contribution to the NDIS will be an estimated \$2.5 billion a year, with the Commonwealth estimated to provide \$2.6 billion a year for Victorians in the Scheme.

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

Commonwealth schools funding

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

Negotiations on a multi-year agreement from 2019 were not finalised prior to the issue of the election writs on 30 October 2018. The quantum and conditions of funding are dependent on formal negotiations being finalised between the Commonwealth, the states and territories, and the non-government schools sector.

Universal Access to Early Childhood Education

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

National health reform

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

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

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

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

Victoria's GST revenue

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

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

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

CHAPTER 3 – ESTIMATED FINANCIAL STATEMENTS AND NOTES

ESTIMATED GENERAL GOVERNMENT SECTOR COMPREHENSIVE OPERATING STATEMENT

For the financial year ended 30 June

(\$ million)

	Notes	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Revenue from transactions						
Taxation revenue	3.2.1	24 081	24 092	25 050	25 836	27 116
Interest revenue		864	818	787	761	752
Dividends, income tax equivalent and rate equivalent revenue	3.2.2	922	1 103	582	596	567
Sales of goods and services	3.2.3	7 541	7 594	8 417	8 685	8 726
Grant revenue	3.2.4	33 458	33 515	33 697	34 686	35 942
Other revenue	3.2.5	2 622	2 636	2 594	2 656	2 714
Total revenue from transactions		69 487	69 757	71 128	73 221	75 817
Expenses from transactions						
Employee expenses		25 562	24 986	26 446	27 495	28 565
Net superannuation interest expense	3.3.2	662	688	639	610	580
Other superannuation	3.3.2	2 676	2 750	2 802	2 873	2 992
Depreciation	3.4.2	2 876	2 884	3 050	3 352	3 521
Interest expense	3.5.3	2 167	2 090	2 133	2 211	2 260
Grant expense	3.3.3	12 901	12 785	14 045	14 007	14 411
Other operating expenses	3.3.4	21 264	21 296	20 305	20 016	20 498
Total expenses from transactions	3.3.5	68 108	67 480	69 420	70 565	72 827
Net result from transactions – net operating balance		1 380	2 277	1 708	2 656	2 990
Other economic flows included in net result						
Net gain/(loss) on disposal of non-financial assets		77	90	78	52	51
Net gain/(loss) on financial assets or liabilities at fair value		27	24	26	26	27
Other gains/(losses) from other economic flows	3.7.1	(345)	(347)	(355)	(343)	(362)
Total other economic flows included in net result		(242)	(233)	(251)	(265)	(284)
Net result		1 137	2 044	1 456	2 392	2 706

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

For the financial year ended 30 June

(\$ million)

	Notes	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Other economic flows – other comprehensive income						
Items that will not be reclassified to net result						
Changes in non-financial assets reevaluation surplus		699	699	6 859	1 441	3 797
Remeasurement of superannuation defined benefit plans	3.3.2	1 014	1 996	1 053	1 074	1 094
Other movements in equity		(9)	(13)	8	..	25
Items that may be reclassified subsequently to net result						
Net gain/(loss) on financial assets at fair value		2	2	2	2	2
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	3.6.1	34	34	913	291	(446)
Total other economic flows – other comprehensive income		1 741	2 718	8 836	2 807	4 472
Comprehensive result – total change in net worth		2 878	4 763	10 292	5 199	7 177
KEY FISCAL AGGREGATES						
Net operating balance		1 380	2 277	1 708	2 656	2 990
Less: Net acquisition of non-financial assets from transactions	3.3.7	1 921	2 063	3 062	2 324	1 920
Net lending/(borrowing)		(541)	214	(1 355)	332	1 070

Source: Department of Treasury and Finance

The accompanying notes form part of these Estimated Financial Statements.

ESTIMATED GENERAL GOVERNMENT SECTOR BALANCE SHEET

As at 30 June

(\$ million)

	Notes	2019 budget ^(a)	2019 revised	2020 estimate	2021 estimate	2022 estimate
Assets						
Financial assets						
Cash and deposits		6 325	4 180	4 282	4 285	4 265
Advances paid	3.5.2	8 289	8 524	6 641	5 342	4 796
Receivables		6 465	6 400	6 567	6 935	7 319
Investments, loans and placements	3.5.2	4 197	4 204	4 707	4 962	5 253
Investments accounted for using equity method		53	53	53	53	53
Investments in other sector entities	3.6.1	107 036	106 418	110 858	113 355	114 755
Total financial assets		132 364	129 779	133 109	134 931	136 440
Non-financial assets						
Inventories		179	187	194	199	203
Non-financial assets held for sale		391	391	392	393	394
Land, buildings, infrastructure, plant and equipment	3.4.1	136 801	136 758	145 696	148 058	152 620
Other non-financial assets	3.4.4	1 978	2 130	3 157	4 574	5 271
Total non-financial assets		139 349	139 465	149 439	153 223	158 489
Total assets	3.4.5	271 712	269 244	282 548	288 154	294 929
Liabilities						
Deposits held and advances received		4 669	4 900	3 287	2 042	1 461
Payables	3.6.2	8 638	9 438	9 157	8 864	7 972
Borrowings	3.5.1	38 859	34 522	40 158	42 870	44 621
Employee benefits	3.3.1	7 372	7 319	7 631	7 926	8 227
Superannuation	3.6.3	24 164	23 268	22 220	21 139	20 127
Other provisions		1 016	919	924	942	974
Total liabilities		84 718	80 365	83 377	83 784	83 382
Net assets		186 995	188 879	199 171	204 370	211 547
Accumulated surplus/(deficit)		54 730	56 614	59 134	62 601	66 425
Reserves		132 265	132 265	140 037	141 769	145 122
Net worth		186 995	188 879	199 171	204 370	211 546
FISCAL AGGREGATES ^(b)						
Net financial worth		47 646	49 414	49 732	51 147	53 059
Net financial liabilities		59 390	57 004	61 127	62 207	61 696
Net debt		24 717	22 513	27 815	30 324	31 768

Source: Department of Treasury and Finance

The accompanying notes form part of these Estimated Financial Statements.

Notes:

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

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

ESTIMATED GENERAL GOVERNMENT SECTOR CASH FLOW STATEMENT

For the financial year ended 30 June

(\$ million)

	Notes	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Cash flows from operating activities						
Receipts						
Taxes received		23 907	23 919	24 836	25 452	26 707
Grants		33 458	33 515	33 697	34 686	35 942
Sales of goods and services ^(a)		10 086	11 095	9 094	9 389	9 438
Interest received		864	818	787	761	751
Dividends, income tax equivalent and rate equivalent receipts		861	1 041	576	591	562
Other receipts		2 168	2 164	2 110	2 168	2 212
Total receipts		71 343	72 552	71 101	73 046	75 612
Payments						
Payments for employees		(25 213)	(24 690)	(26 136)	(27 203)	(28 266)
Superannuation		(3 364)	(3 379)	(3 436)	(3 489)	(3 491)
Interest paid		(2 130)	(2 053)	(2 096)	(2 174)	(2 223)
Grants and subsidies		(13 158)	(13 246)	(15 187)	(15 572)	(15 236)
Goods and services ^(a)		(21 141)	(21 256)	(20 280)	(19 989)	(20 632)
Other payments		(787)	(775)	(804)	(840)	(801)
Total payments		(65 792)	(65 398)	(67 941)	(69 267)	(70 650)
Net cash flows from operating activities		5 551	7 155	3 160	3 779	4 962
Cash flows from investing activities						
Cash flows from investments in non-financial assets						
Purchases of non-financial assets	3.3.6	(10 091)	(9 361)	(8 896)	(7 333)	(6 598)
Sales of non-financial assets		368	365	416	390	346
Net cash flows from investments in non-financial assets		(9 723)	(8 996)	(8 480)	(6 943)	(6 252)
Net cash flows from investments in financial assets for policy purposes ^(b)		1 624	1 263	2 883	2 450	830
Subtotal		(8 099)	(7 733)	(5 597)	(4 493)	(5 422)
Net cash flows from investment in financial assets for liquidity management purposes		(248)	(257)	(411)	(199)	(263)
Net cash flows from investing activities		(8 347)	(7 990)	(6 008)	(4 692)	(5 685)
Cash flows from financing activities						
Advances received (net)		(2 031)	(1 795)	(1 612)	(1 245)	(581)
Net borrowings		4 895	559	4 563	2 161	1 283
Deposits received (net)		..	(5)	..	..	..
Net cash flows from financing activities		2 864	(1 242)	2 950	915	703
Net increase/(decrease) in cash and cash equivalents		68	(2 077)	102	3	(20)
Cash and cash equivalents at beginning of reporting period ^(c)		6 257	6 257	4 180	4 282	4 285
Cash and cash equivalents at end of reporting period ^(c)		6 325	4 180	4 282	4 285	4 265

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

For the financial year ended 30 June

(\$ million)

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

Source: Department of Treasury and Finance

The accompanying notes form part of these Estimated Financial Statements.

Notes:

- (a) Inclusive of goods and services tax.
- (b) Includes net advances to public non-financial corporations for policy purposes of \$1 551 million in 2018-19, \$1 662 million in 2019-20, \$1 240 million in 2020-21 and \$549 million in 2021-22.
- (c) 2018-19 Budget figures have been restated to represent actual opening balances at 1 July 2018.

ESTIMATED GENERAL GOVERNMENT SECTOR STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June

(\$ million)

	<i>Accumulated surplus/(deficit)</i>	<i>Non-financial assets revaluation surplus</i>
2018-19 budget ^(a)		
Balance at 1 July 2018	52 574	64 084
Net result for the year	1 137	..
Other comprehensive income for the year	1 019	699
Total equity as at 30 June 2019	54 730	64 783
2018-19 revised		
Balance at 1 July 2018	52 574	64 084
Net result for the year	2 044	..
Other comprehensive income for the year	1 996	699
Total equity as at 30 June 2019	56 614	64 783
2019-20 estimate		
Balance at 1 July 2019	56 614	64 783
Net result for the year	1 456	..
Other comprehensive income for the year	1 063	6 859
Total equity as at 30 June 2020	59 134	71 642
2020-21 estimate		
Balance at 1 July 2020	59 134	71 642
Net result for the year	2 392	..
Other comprehensive income for the year	1 076	1 441
Total equity as at 30 June 2021	62 601	73 083
2021-22 estimate		
Balance at 1 July 2021	62 600	73 083
Net result for the year	2 706	..
Other comprehensive income for the year	1 119	3 797
Total equity as at 30 June 2022	66 425	76 880

Source: Department of Treasury and Finance

The accompanying notes form part of these Estimated Financial Statements.

Note:

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

<i>Investment in other sector entities revaluation surplus</i>	<i>Other reserves</i>	<i>Total</i>
66 351	1 108	184 116
..	..	1 137
34	(12)	1 741
66 385	1 096	186 995
66 351	1 108	184 116
..	..	2 044
34	(12)	2 718
66 385	1 096	188 879
66 385	1 096	188 879
..	..	1 456
913	..	8 836
67 299	1 096	199 171
67 299	1 096	199 171
..	..	2 392
291	..	2 807
67 590	1 096	204 370
67 590	1 096	204 369
..	..	2 706
(446)	2	4 472
67 144	1 098	211 546

3.1 ABOUT THIS REPORT

Basis of preparation

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

Unless otherwise stated, the detailed accounting policies applied in preparing the Estimated Financial Statements are consistent with those in the audited 2017-18 annual financial report published in the *2017-18 Financial Report* for the State of Victoria as presented to Parliament. The audited 30 June 2018 asset and liability balances, as reported in the *2017-18 Financial Report*, form the basis on which asset and liability balances are projected over the next four years.

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

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

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

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

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

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

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

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

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

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

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

Reporting entity

The Estimated Financial Statements are prepared for the general government sector, which includes all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost. The primary function of entities within the general government sector is to provide public services (outputs), which are mainly non-market in nature, for the collective consumption of the community. These services are primarily funded through transferring or redistributing revenue that is collected mainly through taxes and other compulsory levies.

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

Basis for consolidation

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

Entities in the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors are not consolidated into the financial statements of the general government sector, but are accounted for as equity investments measured at the Government's proportional share of the carrying amount of net assets of PNFC and PFC sector entities before consolidation eliminations.

Where the carrying amount of a PNFC or PFC entity's net assets before consolidation eliminations is less than zero, the carrying amount is not included in the general government sector. Any change in the carrying amount of the investment from period to period is accounted for as if the change in carrying amount is a change in fair value and accounted for consistent with AASB 9 *Financial Instruments* and AASB 1049.

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

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

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

Compliance

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

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

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

Material economic assumptions

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

Key economic assumptions ^(a)

	2017-18 actual	2018-19 forecast	2019-20 forecast	2020-21 projection	2021-22 projection
	(\$ billion)				
Nominal gross state product	429.0 ^(b)	452.5	476.6	502.0	528.6
	(percentage change)				
Real gross state product	3.25 ^(b)	3.00	2.75	2.75	2.75
Employment	2.7	2.50	2.00	1.75	1.75
Unemployment rate ^(c)	5.6	4.75	5.00	5.25	5.50
Consumer price index ^(d)	2.3	2.50	2.50	2.50	2.50
Wage price index ^(e)	2.3	2.75	3.00	3.25	3.50
Population ^(f)	2.2 ^(b)	2.1	2.0	1.9	1.9

Source: Department of Treasury and Finance

Notes:

(a) Percentage change in year average terms compared with previous year, except for the unemployment rate (see note (c)) and population (see note (f)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (f)). Projections for 2020-21 and 2021-22 represent long-run average growth rates, except for the wage price index, which remains below trend in 2020-21, and population growth, which remains above trend by 2021-22.

The key assumptions underlying the economic forecasts include: interest rates are reflective of movements in market expectations; an Australian dollar trade-weighted index of 62.5; and oil prices that follow the path suggested by the futures market.

(b) Estimate, actual not yet available.

(c) Year average, per cent.

(d) Melbourne consumer price index.

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

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

3.2 HOW FUNDS ARE RAISED

Introduction

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

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

Structure

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3.2.1 Taxation revenue

(\$ million)

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

Source: Department of Treasury and Finance

Notes:

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

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

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

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

Source: Department of Treasury and Finance

Dividends by entity ^(a) (\$ million)

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

Source: Department of Treasury and Finance

Notes:

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

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

3.2.3 Sales of goods and services

(\$ million)

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

Source: Department of Treasury and Finance

3.2.4 Grant revenue

(\$ million)

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

Source: Department of Treasury and Finance

3.2.5 Other revenue

(\$ million)

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

Source: Department of Treasury and Finance

3.3 HOW FUNDS ARE SPENT

Introduction

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

Structure

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3.3.1 Employee expenses and provision for outstanding employee benefits

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

Employee benefits (balance sheet) (\$ million)

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

Source: Department of Treasury and Finance

3.3.2 Superannuation expense and other superannuation expenses

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

Source: Department of Treasury and Finance

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

Superannuation assumptions

(per cent)

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

Source: Department of Treasury and Finance

Notes:

- (a) All rates are nominal annual rates and are applicable to all the listed schemes.
- (b) The discount rate is based on a long-term fixed interest Commonwealth bond rate. The rate stated above is an annual effective rate, gross of tax.
- (c) Based on the historical relationship between price and wage inflation, wages growth is assumed to be 1.5 per cent higher than price inflation.
- (d) The superannuation assumptions are determined in accordance with Australian accounting standard AASB 119 Employee Benefits, which requires that the discount rate be based on Commonwealth bond yields. To ensure consistency with the market-based discount rate, the inflation rate assumed by the actuary reflects market expectations of price inflation, as implied by the relationship between the yields on nominal and inflation linked Commonwealth bonds. Therefore, these assumptions differ from the key economic assumptions in this chapter, which reflect the expected change in consumer prices in Melbourne and movements in wages and salaries in the Victorian labour market.
- (e) The expected return on assets stated is gross of tax. Estimated tax payments are explicitly allowed for in the calculation process.
- (f) Pensions payable from constitutionally protected schemes are paid from the Consolidated Fund. These schemes hold no assets so there is no expected return on assets.

3.3.3 Grant expense

(\$ million)

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

Source: Department of Treasury and Finance

Note:

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

3.3.4 Other operating expenses

(\$ million)

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

Source: Department of Treasury and Finance

Notes:

(a) The following two tables breakdown the purchase of supplies and consumables and the purchase of services.

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

Purchase of supplies and consumables

(\$ million)

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

Source: Department of Treasury and Finance

Purchase of services

(\$ million)

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

Source: Department of Treasury and Finance

Note:

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

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

Expenses by classification of the functions of government ^(a)					(\$ million)
	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
General public services	3 968	3 877	3 784	3 750	3 861
Public order and safety	8 144	8 290	8 250	8 409	8 545
Economic affairs	1 951	2 115	1 405	1 052	942
Environmental protection	766	844	744	703	674
Housing and community amenities	2 421	2 196	2 212	2 117	2 017
Health	19 634	19 449	20 079	21 044	21 960
Recreation, culture and religion	922	938	680	615	552
Education	16 436	16 454	16 522	16 954	18 172
Social protection ^(b)	6 136	6 450	7 017	7 059	7 047
Transport	8 260	8 343	8 059	8 188	8 087
Not allocated by purpose ^(c)	(529)	(1 476)	667	673	970
Total expenses by COFOG	68 108	67 480	69 420	70 565	72 827

Source: Department of Treasury and Finance

Notes:

- (a) The classification of the functions of government (COFOG) framework has replaced the former Government Purpose Classification (GPC) framework under the new ABS GFS Manual. This was implemented for the first time in the 2018-19 Budget. Note 1.7.5 of Budget Paper No.5 of the 2018-19 Budget provides definitions and descriptions of the COFOG.
- (b) The State's contribution to the NDIS transition is expected to increase over the next four years as more clients transition into the scheme.
- (c) Mainly comprising provision for future demand growth, departmental underspending, eliminated purchases of supplies and consumables between government entities, and items not yet formalised at the time of publication.

Total expenses by portfolio department

(\$ million)

	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Expenses from transactions					
Economic Development, Jobs, Transport and Resources	10 645	10 834	9 923	9 760	9 522
Education and Training	18 345	18 494	18 502	18 572	19 260
Environment, Land, Water and Planning	3 581	3 799	3 286	2 925	2 762
Health and Human Services	26 926	27 236	27 928	28 280	28 708
Justice and Regulation	7 616	7 787	7 734	7 931	8 062
Premier and Cabinet	764	820	570	469	409
Treasury and Finance	7 444	7 618	7 315	7 520	7 825
Parliament	230	233	228	231	233
Courts	658	675	687	694	729
Regulatory bodies and other part funded agencies ^(a)	2 268	2 451	2 344	2 349	2 360
Output contingencies not allocated to departments ^(b)	1 325	837	2 185	3 128	4 347
Total expenses by department	79 801	80 783	80 703	81 859	84 216
<i>Less eliminations and adjustments ^(c)</i>	<i>(11 693)</i>	<i>(13 303)</i>	<i>(11 283)</i>	<i>(11 295)</i>	<i>(11 389)</i>
Total expenses	68 108	67 480	69 420	70 565	72 827

Source: Department of Treasury and Finance

Notes:

- (a) Other general government sector agencies not allocated to departmental portfolios.
 (b) The following table provides a breakdown of the general government output contingencies not allocated to departments.
 (c) Mainly comprising payroll tax, capital asset charge, departmental underspend estimates and inter-departmental transfers.

General government output contingencies not allocated to departments

(\$ million)

	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Decisions made but not yet allocated ^(a)	1 225	802	1 335	2 328	3 447
Funding not allocated to specific purposes ^(b)	100	34	850	800	900
Total general government output contingencies	1 325	837	2 185	3 128	4 347

Source: Department of Treasury and Finance

Notes:

- (a) Reflects existing government policy decisions for which funding has yet to be allocated to departments; provisions not yet allocated to meet additional price and demand growth for health, disability services and education; and a provision for estimated depreciation expense associated with the general government unallocated asset contingency.
 (b) An unallocated provision available to contribute to future government policy decisions and commitments, including for decisions to extend lapsing programs across the budget and forward estimates.

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

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

(\$ million)

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

Source: Department of Treasury and Finance

Notes:

- (a) The COFOG framework has replaced the former GPC framework under the new ABS GFS Manual. This was implemented for the first time in the 2018-19 Budget. Note 1.7.5 of Budget Paper No.5 of the 2018-19 Budget provides definitions and descriptions of the COFOG.
- (b) Estimated amount available to be allocated to departments and projects in future budgets, including major capital investment. It also includes departmental spending, which may be subject to carryover.

Purchases of non-financial assets by portfolio department

(\$ million)

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

Source: Department of Treasury and Finance

Notes:

- (a) Other general government sector agencies not allocated to departmental portfolios.
- (b) The following table provides a breakdown of the general government asset contingencies not allocated to departments.
- (c) Mainly comprises estimated general government underspend, which may be subject to carryover.

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

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

Source: Department of Treasury and Finance

Notes:

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

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

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

	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Purchases of non-financial assets (including change in inventories)	10 095	9 366	8 900	7 337	6 603
Less: Sales of non-financial assets	(368)	(365)	(416)	(390)	(346)
Less: Depreciation and amortisation	(2 876)	(2 884)	(3 050)	(3 352)	(3 521)
Less: Other movements in non-financial assets ^{(a)(b)}	(4 931)	(4 053)	(2 371)	(1 271)	(815)
Total net acquisition of non-financial assets from transactions	1 921	2 063	3 062	2 324	1 920

Source: Department of Treasury and Finance

Notes:

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

(b) The finance lease acquisitions across the forward estimates relate to the High Capacity Metro Trains Project, the Western Roads Upgrade, the Melbourne Convention and Exhibition Centre – Stage 2 development, the Casey Hospital expansion, the Northern Roads Upgrade and the South Eastern Roads Upgrade.

3.4 MAJOR ASSETS AND INVESTMENTS

Introduction

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

Structure

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

	2019 <i>budget</i>	2019 <i>revised</i>	2020 <i>estimate</i>	2021 <i>estimate</i>	2022 <i>estimate</i>
Buildings	31 604	31 669	32 080	33 404	36 263
Leased buildings	5 424	5 462	5 291	5 113	4 929
Land and national parks	58 923	58 902	62 376	62 658	64 412
Infrastructure systems	1 408	1 407	1 424	1 393	1 350
Plant, equipment and vehicles	2 548	2 584	2 380	2 086	1 728
Leased plant, equipment and vehicles	224	224	206	188	171
Roads and road infrastructure	22 164	22 014	25 447	25 762	26 201
Leased roads and road infrastructure	579	579	1 355	1 506	1 554
Earthworks	8 290	8 279	9 506	9 646	9 703
Cultural assets	5 639	5 639	5 632	6 301	6 310
Total land, buildings, infrastructure, plant and equipment	136 801	136 758	145 696	148 058	152 620

Source: Department of Treasury and Finance

3.4.2 Depreciation

(\$ million)

	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Buildings ^(a)	1 198	1 198	1 291	1 378	1 467
Leased buildings	195	195	198	198	198
Infrastructure systems	37	47	48	50	50
Plant, equipment and vehicles ^(a)	624	619	623	659	659
Leased plant, equipment and vehicles	17	17	17	19	19
Roads and road networks ^(a)	624	624	683	843	920
Leased roads and road infrastructure	9	9	10	23	23
Cultural assets	26	26	24	23	22
Intangible produced assets ^(b)	145	148	157	159	163
Total depreciation	2 876	2 884	3 050	3 352	3 521

Source: Department of Treasury and Finance

Notes:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2018-19 to 2021-22.

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

3.4.3 Reconciliation of movements in land, buildings, infrastructure, plant and equipment ^(a)

(\$ million)

	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Carrying amount at the start of the year	134 141	134 141	136 758	145 696	148 058
Additions ^(b)	10 586	9 798	9 843	7 740	6 484
Disposals at written down value	(263)	(252)	(323)	(264)	(270)
Revaluations ^(c)	700	700	6 860	1 441	3 797
Asset transfers ^(d)	(5 632)	(4 893)	(4 548)	(3 363)	(2 092)
Depreciation expense	(2 730)	(2 736)	(2 893)	(3 192)	(3 358)
Carrying amount at the end of the year	136 801	136 758	145 696	148 058	152 620

Source: Department of Treasury and Finance

Notes:

(a) The reconciliation of movements comprises land and buildings, infrastructure systems, plant, equipment, vehicles, roads, roads infrastructure and cultural assets and excludes intangible assets, investment properties and other non-financial assets.

(b) Includes assets acquired under finance lease arrangements.

(c) The 2019-20 amount mainly represents a forecast revaluation of transport assets consistent with the revaluation cycle per the State's accounting policy.

(d) Represents the transfer of assets to the public non-financial corporations sector.

3.4.4 Other non-financial assets (\$ million)

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

Source: Department of Treasury and Finance

3.4.5 Total assets by classification of the functions of government ^(a) (\$ million)

	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
General public services	2 163	2 165	2 120	2 086	2 086
Public order and safety	10 050	10 249	10 885	11 346	11 473
Economic affairs	1 120	1 152	1 156	1 152	1 142
Environmental protection	11 926	11 948	13 075	13 424	13 410
Housing and community amenities	1 775	1 739	1 685	1 693	1 717
Health	15 336	15 436	15 033	14 748	14 408
Recreation, culture and religion	7 420	7 415	7 476	7 515	7 537
Education	28 341	28 367	28 710	28 562	31 828
Social protection	3 305	3 346	3 423	3 471	3 478
Transport	59 283	59 411	67 881	71 303	71 810
Not allocated by purpose ^(b)	130 995	128 016	131 104	132 853	136 038
Total assets by COFOG	271 712	269 244	282 548	288 154	294 929

Source: Department of Treasury and Finance

Notes:

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

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

3.5 FINANCING STATE OPERATIONS

Introduction

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

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

Structure

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3.5.3	Interest expense.....	52

3.5.1 Borrowings

(\$ million)

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

Source: Department of Treasury and Finance

Note:

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

3.5.2 Advances paid and investments, loans and placements (\$ million)

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

Source: Department of Treasury and Finance

3.5.3 Interest expense (\$ million)

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

Source: Department of Treasury and Finance

3.6 OTHER ASSETS AND LIABILITIES

Introduction

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

Structure

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3.6.1 Investments in other sector entities

(\$ million)

	2019 budget	2019 revised	2020 estimate	2021 estimate	2022 estimate
Balance of investment in PNFC and PFC sectors at beginning of period	101 253	101 253	106 418	110 858	113 355
Net contributions to other sectors by owner	5 749	5 130	3 528	2 205	1 846
Revaluation gain/(loss) for period	34	34	913	291	(446)
Investment in other sector entities at end of period	107 036	106 418	110 858	113 355	114 755

Source: Department of Treasury and Finance

3.6.2 Payables

(\$ million)

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

Source: Department of Treasury and Finance

3.6.3 Superannuation

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

Source: Department of Treasury and Finance

Notes:

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

See Note 3.3.2 *Superannuation expense and other superannuation expenses* for further information on superannuation assumptions.

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

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

Source: Department of Treasury and Finance

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

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

Source: Department of Treasury and Finance

3.7 OTHER DISCLOSURES

Introduction

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

Structure

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

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

Source: Department of Treasury and Finance

3.7.2 Reconciliation to Government Finance Statistics ^{(a)(b)}

(\$ million)

	2018-19 budget	2018-19 revised	2019-20 estimate	2020-21 estimate	2021-22 estimate
Net result from transactions – net operating balance	1 380	2 277	1 708	2 656	2 990
<i>Convergence differences:</i>					
Licence fees ^(c)	52	52	52	52	52
<i>plus total convergence difference:</i>	52	52	52	52	52
GFS net operating balance	1 432	2 330	1 760	2 709	3 042
Net lending/(borrowing)	(541)	214	(1 355)	332	1 070
<i>Convergence differences:</i>					
Licence fees ^(c)	52	52	52	52	52
<i>plus total convergence difference:</i>	52	52	52	52	52
GFS net lending/(borrowing)	(489)	266	(1 302)	384	1 122
Comprehensive result – total change in net worth	2 878	4 763	10 292	5 199	7 177
<i>Convergence differences:</i>					
Doubtful receivables of the general government sector ^(d)	41	41	39	41	46
Net gain on equity investments in other sector entities measured at proportional share of the carrying amount of net assets/(liabilities) ^(e)	(382)	(382)	98	82	(303)
Unearned income relating to licence fees ^(c)	52	52	52	52	52
Port of Melbourne lease transaction ^(f)	(144)	(144)	(144)	(144)	(153)
<i>plus total convergence difference:</i>	(434)	(434)	44	30	(358)
GFS total change in net worth	2 445	4 329	10 337	5 229	6 819
Net worth	186 995	188 879	199 171	204 370	211 546
<i>Convergence differences:</i>					
Doubtful receivables of the general government sector ^(d)	1 318	1 318	1 357	1 398	1 444
Investments in other sector entities ^(g)	6 787	6 787	6 885	6 967	6 663
Unearned income relating to licence fees ^(c)	(679)	(679)	(626)	(574)	(522)
Port of Melbourne lease transaction ^(f)	(1 211)	(1 211)	(1 355)	(1 500)	(1 653)
<i>plus total convergence difference:</i>	6 216	6 216	6 260	6 290	5 932
GFS net worth	193 210	195 095	205 431	210 660	217 478

Source: Department of Treasury and Finance

Notes:

- Determined in accordance with the ABS GFS manual.
- Under the new ABS GFS manual the convergence difference for cash surplus/deficit relating to acquisitions under finance lease arrangements has been removed.
- The convergence difference arises because the GFS recognises the 15-year prepaid Port Licence Fee from the medium-term lease of the Port of Melbourne as revenue over the 15-year period.
- 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.
- 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.
- The convergence difference for the Port of Melbourne lease transaction arises because GFS recognised the transaction as a sale of equity from the general government sector, whereas under Australian Accounting Standards the Port of Melbourne lease transaction has been treated as an operating lease with the leased assets remaining with the PNFC sector.
- 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.

3.7.3 Financial instruments

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

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

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

3.7.4 Prospective accounting and reporting changes

Certain new and revised accounting standards have been issued but are not effective for the 2018-19 reporting period. There is no intention to early adopt these accounting standards and they have not been applied to the *2018 Victorian Pre-Election Budget Update*. The State is reviewing its existing policies and assessing the potential implications. These accounting standards include:

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

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

- AASB 16 *Leases*, operative for reporting periods beginning from 1 January 2019. The key changes introduced by AASB 16 include the requirement to recognise most operating leases on the balance sheet, which will increase net debt.

- AASB 1058 *Income of Not-for-Profit Entities*, operative for reporting periods commencing 1 January 2019. This standard will replace AASB 1004 *Contributions* and establishes revenue recognition principles for transactions where the consideration to acquire an asset is significantly less than fair value to enable not-for-profit entities to further their objectives.
- AASB 1059 *Service Concession Arrangements: Grantors*, operative for reporting periods commencing 1 January 2019. This standard prescribes the accounting treatment for public private partnership (PPP) arrangements involving a private sector operator providing public services related to a service concession asset on behalf of the State, for a specified period of time. For social infrastructure PPP arrangements, this would result in an earlier recognition of financial liabilities (increase in net debt) progressively over the construction period rather than at completion date. For economic infrastructure PPP arrangements, that were previously not on the balance sheet, the standard will require recognition of these arrangements on-balance sheet, but will continue to have no impact to net debt consistent with the current accounting treatment.
- AASB 17 *Insurance Contracts*, operative for reporting periods commencing 1 January 2021. This new standard eliminates inconsistencies and weaknesses in existing practices by providing a single principles based framework to account for all types of insurance contracts. It should be noted this standard does not apply to the not-for-profit public sector entities. There will be no significant impact expected for the for-profit entities within State.

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

3.7.5 Controlled entities

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

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

General government sector

Department of Health and Human Services

Family Violence Prevention Agency ^(a)

Note:

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

CHAPTER 4 – CONTINGENT ASSETS AND CONTINGENT LIABILITIES

This chapter contains information on contingent assets and liabilities for the general government sector and should be read in conjunction with Chapter 3.

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

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

CONTINGENT ASSETS

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

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

Table 4.1 contains quantifiable contingent assets as at 30 October 2018 (arising from outside of government).

	As at Oct 2018	Published budget estimate ^(a)
Guarantees, indemnities and warranties	37	36
Legal proceedings and disputes	3	9
Other ^(b)	113	100
Total contingent assets	153	145

Source: Department of Treasury and Finance

Notes:

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

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

Non-quantifiable contingent assets

Peninsula Link compensable enhancement claim

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

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

CONTINGENT LIABILITIES

Contingent liabilities are:

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

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

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

Table 4.2: Quantifiable contingent liabilities (\$ million)

	As at Oct 2018	Published budget estimate ^(a)
Guarantees, indemnities and warranties	175	207
Legal proceedings and disputes	176	114
Other	66	44
Non-general government debt ^(b)	12 036	11 611
Total contingent liabilities	12 453	11 976

Source: Department of Treasury and Finance

Notes:

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

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

Non-quantifiable contingent liabilities

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

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

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

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

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

Cladding rectification works – government buildings

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

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

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

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

Department of Education and Training

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

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

National redress scheme – sexual abuse of children in institutions

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

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

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

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

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

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

Public transport rail partnership agreements

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

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

West Gate Tunnel Project

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

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

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

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

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

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

Fiskville independent investigation and closure of the training college

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

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

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

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

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

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

Compulsory property acquisitions

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

Land remediation – environmental concerns

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

Native Title

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

Royal Melbourne Showgrounds redevelopment

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

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

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

Victorian Managed Insurance Authority – insurance cover

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

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

APPENDIX A – SPECIFIC POLICY INITIATIVES AFFECTING BUDGET POSITION

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

The following tables provide details of:

- revenue initiatives; and
- output and asset initiatives for departments.

Appendix A also includes a cross reference between initiatives and their relevant departmental outputs, which indicates the impact of policy decisions on relevant portfolios.

The figures included are the gross costs of decisions. Funding from reprioritisation and other sources has not been deducted from the total cost of new initiatives.

WHOLE OF GOVERNMENT – 10-YEAR ANNIVERSARY OF THE 2009 VICTORIAN BUSHFIRES

Output initiatives

Table A.1: Output initiatives – 10-year anniversary of the 2009 Victorian bushfires

	(\$ million)			
	2018-19	2019-20	2020-21	2021-22
10-year anniversary of the 2009 Victorian bushfires	4.4	..	..	..
Total output initiatives	4.4	..	..	..

10-year anniversary of the 2009 Victorian bushfires

Funding will be provided for memorial events and other initiatives to commemorate the 10-year anniversary of the 2009 Victorian bushfires.

This initiative contributes to the Department of Economic Development, Jobs, Transport and Resources’:

- Creative Industries Access, Development and Innovation output; and
- Creative Industries Portfolio Agencies output.

This initiative contributes to the Department of Education and Training’s:

- School Education – Primary output; and
- School Education – Secondary output.

This initiative contributes to the Department of Environment, Land, Water and Planning’s Local Government output.

This initiative contributes to the Department of Justice and Regulation’s Emergency Management Capability output.

This initiative contributes to the Department of Health and Human Services’ Concessions to Pensioners and Beneficiaries output.

This initiative contributes to the Department of Premier and Cabinet’s Government-wide leadership, reform and implementation output.

WHOLE OF GOVERNMENT – DROUGHT ASSISTANCE

Output initiatives

Table A.2: Output initiatives – Drought Assistance (\$ million)

	2018-19	2019-20	2020-21	2021-22
Drought Assistance	29.7	..	..	..
Total output initiatives	29.7	..	..	..

Drought Assistance

Funding has been provided in two stages to: i) ensure farmers and irrigation communities have the support they need; and ii) provide targeted support for mental health, small business planning and support for parents in farming communities manage cost of living pressures. A range of initiatives will support drought affected communities in East and Central Gippsland and help farmers across Northern Victoria prepare for tougher conditions ahead including:

- Helping affected farmers with drought preparedness and management through on-farm infrastructure improvement grants, providing technical and business supports, animal health and welfare, feed budgeting and land management;
- Counselling, workshops and mobile mentor services for affected small businesses;
- Extending the Camps, Sports and Excursions Fund for all students in drought affected areas, a drought kindergarten fee subsidy program and extending the Back to School initiative, helping families with uniforms, shoes and other essential school item costs;
- Mental health and wellbeing supports including counselling services and psychological first aid training;
- Health checks by the National Centre for Farmer Health for drought affected families dealing with stress on the farm;
- Grants for social events and community initiatives, bringing people together off-farm, and for affected local councils to undertake community support activities; and
- The appointment of three Regional Drought Coordinators to oversee the response.

This initiative contributes to the Department of Economic Development, Jobs, Transport and Resources' Agriculture output.

This initiative contributes to the Department of Environment, Land, Water and Planning's Environment and Biodiversity output.

This initiative contributes to the Department of Education and Training's:

- Support Services Delivery output;
- Early Childhood Development output;
- School Education – Primary output; and
- School Education – Secondary output.

This initiative contributes to the Department of Health and Human Services' Mental Health Community Support Services (MHCSS) output.

REVENUE INITIATIVES

Table A.3: Revenue initiatives (\$ million)

	2018-19	2019-20	2020-21	2021-22
Point of Consumption Tax	34.0	106.0	109.0	113.0
Repeal of existing wagering taxes	(18.0)	(55.0)	(55.0)	(55.0)
Total revenue initiatives^(a)	16.0	51.0	54.0	58.0

Note:

(a) Table may not add due to rounding.

Point of Consumption Tax

Commencing on 1 January 2019, a Point of Consumption Tax (POCT) will apply to all wagering and betting in Victoria. The POCT will apply at a rate of 8 per cent of net wagering revenue earned in excess of an annual \$1 million tax-free threshold, on bets placed by persons located in Victoria.

The POCT will replace the current wagering tax framework which was estimated to raise around \$55 million in 2019-20 and will apply to all bets taken by wagering and betting operators from persons located in Victoria, regardless of where the entity is located or licensed. It will better align the wagering tax framework with the increasingly digital betting environment.

In line with the introduction of the POCT, 1.5 per cent of taxable net wagering revenue received will be provided to the Victorian Racing Industry (VRI). The revenue raised by the POCT, after this disbursement of funds to the VRI, will be paid into the Hospitals and Charities Fund.

The POCT will raise approximately \$106 million in total revenue per year from 2019-20, its first full year of operation, resulting in total additional revenue of approximately \$51 million per year from 2019-20. After accounting for the VRI payment, the net additional revenue raised by the POCT will be approximately \$34 million per year across the forward estimates. The payment to the VRI is outlined further in the output initiative published in the Department of Justice and Regulation section of this Appendix.

DEPARTMENT OF ECONOMIC DEVELOPMENT, JOBS, TRANSPORT AND RESOURCES

Output initiatives

Table A.4: Output initiatives – Department of Economic Development, Jobs, Transport and Resources (\$ million)

	2018-19	2019-20	2020-21	2021-22
Como House preservation works	1.0	..	..	..
Frankston signal box	0.7	0.7	0.7	0.7
Geelong ferry trial	6.0	..	..	..
Preliminary design of new X'Trapolis trains	15.0	..	..	..
Regional Roads Victoria	1.8	..	..	..
Supporting local communities impacted by sawmill closures	7.0	2.4	..	..
Wage Inspectorate Victoria	6.6	5.4	5.1	5.1
Total output initiatives ^(a)	38.1	8.5	5.8	5.9

Note:

(a) Table may not add due to rounding.

Como House preservation works

Funding will be provided for urgent preservation and restoration works at Como House.

This initiative contributes to the Department of Economic Development, Jobs, Transport and Resources' Creative Industries Portfolio Agencies output.

Frankston signal box

Funding will be provided for additional signalling operators at Frankston Station. There is currently a combination of computerised and manually operated signalling and interlocking systems at Frankston. The additional signalling staff will improve the safety and reliability of signalling operators along the Frankston and Stony Point lines.

This initiative contributes to the Department of Economic Development, Jobs, Transport and Resources' Train Services output.

Geelong ferry trial

Funding will be provided to support a three-year trial of a ferry service between Victoria Harbour and Geelong. This service will provide an additional transport option to Melbourne for local residents and is expected to support tourism in Geelong.

This initiative contributes to the Department of Economic Development, Jobs, Transport and Resources' Port and Freight Network Access output.

Preliminary design of new X'Trapolis trains

Design works will be undertaken to ensure that Victoria's next generation train carriages will meet the growing needs of the Melbourne network, including contemporary safety and accessibility standards.

This initiative contributes to the Department of Economic Development, Jobs, Transport and Resources' Train Services output.

Regional Roads Victoria

Regional Roads Victoria will receive additional funding to support its establishment, including IT system development, branding and communications, office fit-out and collateral for all regional offices, and a new website.

This initiative contributes to the Department of Economic Development, Jobs, Transport and Resources' Road Operations and Network Improvements output.

Supporting local communities impacted by sawmill closures

Funding will be provided to support the exit of sawmills in the Hume and Gippsland regions. In addition, assistance will be provided to the impacted workforce and affected local communities to achieve a stable transition.

This initiative contributes to the Department of Economic Development, Jobs, Transport and Resources' Agriculture and Jobs and Investment outputs.

Wage Inspectorate Victoria

Funding will be provided to establish the Wage Inspectorate Victoria, to promote and enforce the State's industrial relations laws. The inspectorate will protect Victorian workers by promoting workers' rights, approving and monitoring child employment permits, and managing the regulation of the State's long service leave law.

This initiative contributes to the Department of Economic Development, Jobs, Transport and Resources' Industrial Relations output.

Asset initiatives

Table A.5 Asset initiatives – Department of Economic Development, Jobs, Transport and Resources (\$ million)

	2018-19	2019-20	2020-21	2021-22	TEI
E-Class trams	22.1	51.4	5.4	4.0	82.9
Total asset initiatives	22.1	51.4	5.4	4.0	82.9

E-Class trams

Funding will be provided for the purchase of 10 additional E-Class trams to be built in Dandenong. This initiative will improve service delivery and accessibility to public transport in Melbourne. The new E-Class trams have increased safety features and will improve customer experience on Melbourne's tram network.

This initiative contributes to the Department of Economic Development, Jobs, Transport and Resources' Tram Services output.

DEPARTMENT OF EDUCATION AND TRAINING

Output initiatives

Table A.6: Output initiatives – Department of Education and Training (\$ million)

	2018-19	2019-20	2020-21	2021-22
Cutting red tape and supporting Victoria’s principals	5.7	13.6	15.9	15.9
Funding for non-government schools	4.0	4.0	..	..
Greater subject choice for rural and regional students	3.1	6.4	6.4	6.8
Kindergarten Information Management System	0.9	0.8	0.8	..
Maintaining universal access to four-year-old kindergarten	8.7	8.7	..	..
Mental health reform in schools	0.4	6.3	16.7	27.8
Middle years literacy and numeracy support package	16.2	38.4	62.2	70.2
Total output initiatives ^(a)	39.0	78.2	102.0	120.7

Note:

(a) Table may not add due to rounding.

Cutting red tape and supporting Victoria’s principals

School principals will be supported with the development of a new occupational health and safety management system to reduce administrative burden and provide specialist support for complex incidents. The Principal Health and Wellbeing Strategy will receive continued funding to build on existing pilot initiatives to protect and promote the mental and physical health and wellbeing of Victorian school principals.

This initiative contributes to the Department of Education and Training’s Support Services Delivery output.

Funding for non-government schools

The *Education and Training Reform Amendment (Funding of Non-Government Schools) Act 2015* requires that State funding for the non-government schools sector is commensurate with the government schools sector. This initiative will ensure that funding for non-government schools is at least 25 per cent of the recurrent per capita State funding of government schools.

This initiative contributes to the Department of Education and Training’s:

- School Education – Primary output; and
- School Education – Secondary output.

Greater subject choice for rural and regional students

From 2019, rural and regional students will have access to a greater selection of Victorian Certificate of Education (VCE) subjects through expanded virtual learning statewide. A VCE Collaboration Fund will also be established to support partnerships between schools and the local provision of VCE.

This initiative contributes to the Department of Education and Training’s School Education – Secondary output.

Kindergarten Information Management System

Refer to the asset description of this initiative.

Maintaining universal access to four-year-old kindergarten

Additional funding will be provided to maintain universal access to 15 hours per week of kindergarten in 2019, covering educator-to-child ratios, educator salaries and other related costs.

This supplements Commonwealth funding for the National Partnership Agreement on Early Childhood Education.

This initiative contributes to the Department of Education and Training's Early Childhood Development output.

Mental health reform in schools

Funding will be provided to ensure all government secondary school campuses will have access to a qualified mental health professional to provide direct counselling support, early intervention services and to coordinate a whole school approach to enhance prevention and promotion of mental health issues.

This initiative contributes to the Department of Education and Training's Support Services Delivery output.

Middle years literacy and numeracy support package

Individual support will be provided to every student in Year 7 and Year 9 who does not meet minimum standards in literacy and numeracy. Funding will be provided to enable secondary school teachers to receive a range of supports including professional development workshops and teaching tools to improve literacy and numeracy teaching practice. Up to 229 area-based literacy and numeracy specialists will also be employed to provide additional support to schools that have more students in need.

This initiative contributes to the Department of Education and Training's School Education – Secondary output.

Asset initiatives

Table A.7: Asset initiatives – Department of Education and Training (\$ million)

	2018-19	2019-20	2020-21	2021-22	TEI
Additional school relocatable buildings	13.8	..	..	..	13.8
Cladding rectification works	10.5	..	..	..	10.5
Docklands Primary School land acquisition and Stage 1 construction	39.8	..	..	..	39.8
Kindergarten Information Management System	3.5	2.0	1.3	..	6.8
Total asset initiatives ^(a)	67.6	2.0	1.3	..	70.9

Note:

(a) Table may not add due to rounding.

Additional school relocatable buildings

Additional funding will be provided for the purchase of new relocatable buildings to meet increased forecast enrolment numbers in 2019.

This initiative contributes to the Department of Education and Training's:

- School Education – Primary output; and
- School Education – Secondary output.

Cladding rectification works

Funding is provided for the complete removal of combustible cladding, lining and attachments from 16 school buildings including project management planning and removal costs. This initiative contributes to the Department of Education and Training's:

- School Education – Primary output; and
- School Education – Secondary output.

Docklands Primary School land acquisition and Stage 1 construction

Funding will be provided for the acquisition of land and to build the first stage of Docklands Primary School.

This initiative contributes to the Department of Education and Training's School Education – Primary output.

Kindergarten Information Management System

Funding will be provided for the replacement of the existing Kindergarten Information Management System. The new system will support the effective allocation of funding for kindergarten services, and enable efficient data collection and analysis of kindergarten participation to support capacity planning.

This initiative contributes to the Department of Education and Training's Early Childhood Development output.

DEPARTMENT OF ENVIRONMENT, LAND, WATER AND PLANNING

Output initiatives

Table A.8: Output initiatives – Department of Environment, Land, Water and Planning
(\$ million)

	2018-19	2019-20	2020-21	2021-22
Additional support for Land Use Victoria	17.4	14.4	15.8	16.3
Aviation resources	13.8	..	..	..
Increased superannuation for firefighters	6.3	6.5	6.8	7.0
Recovery activities – Barwon South West fires	1.3	..	..	..
Recycling Industry Strategic Plan	9.3	12.7	2.3	..
Selection of an alternative site for the City of Melbourne Arden Depot	0.2	..	..	..
Solar homes program	74.0	..	..	..
Stony Creek incident response	1.1	..	..	..
Support to progress agreements under the <i>Traditional Owner Settlement Act 2010</i>	5.0	4.3	4.3	4.3
Total output initiatives ^(a)	128.4	38.0	29.2	27.6

Note:

(a) Table may not add due to rounding.

Additional support for Land Use Victoria

Funding will be provided to support Land Use Victoria’s management of the changed delivery arrangement for its services with the new private operator, including information technology, legal and business services to ensure appropriate audit and compliance, dispute resolution and interface changes with the private operator.

This initiative contributes to the Department of Environment, Land, Water and Planning’s Land Use Victoria output.

Aviation resources

Additional firefighting aviation resources will be funded to support the State’s firefighting capability for the 2018-19 bushfire season. This includes leasing two large air tankers and two helitaks, conducting a trial of a Blackhawk helitak, and associated support aircraft. Two helicopter services will also be upgraded, providing greater water or fire retardant carrying and flying capacity.

This initiative contributes to the Department of Environment, Land, Water and Planning’s Fire and Emergency Management output.

Increased superannuation for firefighters

Victorian public sector employees engaged in fire management and response activities as part of Forest Fire Management Victoria will receive increased superannuation payments. These employees include aircraft officers. This will provide them with comparable superannuation benefits to employees of the Country Fire Authority and the Metropolitan Fire Brigade.

This initiative contributes to the Department of Environment, Land, Water and Planning's Fire and Emergency Management output.

Recovery activities – Barwon South West fires

Refer to the initiative description under the Department of Justice and Regulation.

This initiative contributes to the Department of Environment, Land, Water and Planning's Fire and Emergency Management output.

Recycling Industry Strategic Plan

Funding will be provided for the Recycling Industry Strategic Plan. The plan is designed to increase the quality of recycled materials, develop new markets and improve the community's understanding of what can and cannot be recycled. The Landfill Levy Relief Program will also receive further funding to ensure that charities can focus their resources on charitable work rather than meeting the costs associated with rubbish disposal.

This initiative will be funded from the Sustainability Fund.

This initiative contributes to the Department of Environment, Land, Water and Planning's Environment and Biodiversity output.

Selection of an alternative site for the City of Melbourne Arden Depot

A package of community upgrades for the inner north and west will be delivered in support of the West Gate Tunnel project. This will include relocating the City of Melbourne Arden Depot to a suitable alternative site. The process for selecting an alternative site has commenced.

This initiative contributes to the Department of Environment, Land, Water and Planning's Land Use Victoria output.

Solar homes program

One year of funding will be provided for the provision of rebates to households who install solar hot water systems and solar panels on their homes. A capped number of rebates will be available up until 30 June 2019 as part of the first phase of the Solar homes program. A new independent agency, Solar Victoria, will be established to work with industry, regulators and training providers to deliver the program.

This initiative contributes to the Department of Environment, Land, Water and Planning's Energy output.

Stony Creek incident response

Additional funding will be provided to the Environment Protection Authority and Melbourne Water to manage the environmental impacts of the 2018 fire incident in West Footscray and the recovery of Stony Creek.

This initiative contributes to the Department of Environment, Land, Water and Planning's Environment and Biodiversity output.

Support to progress agreements under the *Traditional Owner Settlement Act 2010*

Refer to the initiative description under the Department of Justice and Regulation.

This initiative contributes to the Department of Environment, Land, Water and Planning's:

- Parks Victoria output; and
- Management of Public Land and Forests output.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Output initiatives

Table A.9: Output initiatives – Department of Health and Human Services (\$ million)

	2018-19	2019-20	2020-21	2021-22
End of Life Care Palliative Care Funding Review ^(a)	23.4	..	..	..
Geelong Women’s and Children’s Hospital	10.0	..	..	..
Recovery activities – Barwon South West fires	1.2	..	..	..
Reid Oval redevelopment	7.0	..	..	..
Safe Patient Care – Nurse to Patient and Midwife to Patient ratio amendments	5.5	42.4	63.9	74.5
Shooting Sports Facilities Program	2.0	0.9	..	..
Stepping in to Support Community Mental Health	32.1	37.2	..	..
Whitten Oval planning and redevelopment	2.8	7.2	..	..
Total output initiatives ^(b)	83.9	87.7	63.9	74.5

Notes:

(a) These initiatives contribute to activity that attracts Commonwealth funding under the National Health Reform Agreement. Estimates of the Commonwealth’s contribution are included.

(b) Table may not add due to rounding.

End of Life Care Palliative Care Funding Review

In response to an independent review of Victoria’s palliative care funding model, funding for one year will be provided to support community palliative care providers in metropolitan Melbourne to respond to growing demand, target resources to emerging gaps in after-hours community nursing supports and enable an expansion of hospital-based palliative care consultancy teams. Infrastructure grants will be provided to support community palliative care and for the refurbishment of a modern and homelike palliative care unit for Peter MacCallum Cancer Centre and Melbourne Health, including additional inpatient palliative care beds across the State.

This initiative contributes to the Department of Health and Human Services’:

- Admitted Services output; and
- Non-admitted Services output.

Geelong Women’s and Children’s Hospital

Funding will be provided to identify options for transforming the Geelong Private Hospital on Ryrie Street into a Women’s and Children’s Hospital.

This initiative contributes to the Department of Health and Human Services’ Admitted Services output.

Recovery activities – Barwon South West fires

Refer to the initiative description under the Department of Justice and Regulation.

This initiative contributes to the Department of Health and Human Services’ Concessions to Pensioners and Beneficiaries output.

Reid Oval redevelopment

Funding will be provided to assist in the redevelopment of Reid Oval in Warrnambool. Improvements to lighting and related infrastructure will allow the venue to host a range of regional, state and national-level sporting events.

This initiative contributes to the Department of Health and Human Services' Sport and Recreation output.

Safe Patient Care – Nurse to Patient and Midwife to Patient ratio amendments

Additional nurses and midwives will be employed to support the Safe Patient Care (Nurse to Patient and Midwife to Patient Ratios) Amendment Bill 2018, which was introduced into the Parliament in August 2018. Under the proposed changes, ratios will be increased in palliative care, birthing suites, special care nurseries, acute stroke units, haematology wards, acute inpatient oncology and during peak times in emergency department resuscitation cubicles.

This initiative contributes to the Department of Health and Human Services' Admitted Services output.

Shooting Sports Facilities Program

Additional funding will be provided for projects to improve shooting facilities and activities at Little River Range, Springvale Range and the Eastern Victoria Shooting Complex.

This initiative contributes to the Department of Health and Human Services' Sport and Recreation output.

Stepping in to Support Community Mental Health

Funding for a new community mental health service to deliver tailored psychosocial supports to people with a severe mental illness who are either not eligible for the National Disability Insurance Scheme (NDIS) or yet to transition to the scheme. The service will support people with a mental illness during the NDIS rollout.

This initiative contributes to the Department of Health and Human Services':

- Mental Health and Community Support Services (MHCSS) output; and
- Disability Services output.

Whitten Oval planning and redevelopment

Additional funding will be provided for the realignment of Cross Street in Footscray. This will improve infrastructure and better accommodate women's sport at Whitten Oval.

This initiative contributes to the Department of Health and Human Services' Sport and Recreation Output.

DEPARTMENT OF JUSTICE AND REGULATION

Output initiatives

Table A.10: Output initiatives – Department of Justice and Regulation (\$ million)

	2018-19	2019-20	2020-21	2021-22
2018-19 Summer Fire Campaign	4.1	..	..	..
Aboriginal Justice Agreement Phase Four	2.4	3.8	4.5	4.4
Aviation Resources	0.7	..	..	..
Caulfield Racecourse Reserve – relocation of thoroughbred training	..	2.9	6.9	3.5
Corrections system capacity	15.0	..	..	..
Future emergency alert	1.0	..	..	..
National Redress Scheme for Institutional Child Sexual Abuse	31.4	72.7	95.7	95.1
Recovery activities – Barwon South West fires	0.1	..	..	..
Support to progress agreements under the <i>Traditional Owner Settlement Act 2010</i>	26.3	1.0	1.1	0.9
Victorian Racing Industry POCT Payment	6.4	19.9	20.4	21.2
Wye River – Separation Creek bushfires	1.7	..	..	..
Total output initiatives ^(a)	89.1	100.3	128.5	125.1

Note:

(a) Table may not add due to rounding.

2018-19 Summer Fire Campaign

A program of public fire safety information and education will be delivered through a combination of direct marketing, traditional and social media, and public relations. The program will provide fire safety advice and promote community awareness of fire risk and planning in preparation for the 2018-19 summer.

This initiative contributes to the Department of Justice and Regulation’s Emergency Management Capability output.

Aboriginal Justice Agreement Phase Four

Funding will be provided for Aboriginal community-led initiatives under Burra Lotjpa Dungaludja: Victorian Aboriginal Justice Agreement Phase Four. Several initiatives will be implemented to improve access to justice for Aboriginal Victorians and to reduce their over-representation in the criminal justice system, including:

- supporting community-led projects, including diversion for Aboriginal women and young people;
- expanding Baroona Youth Healing Place to provide an alternative to remand for young Aboriginal people;
- providing intensive support for vulnerable families; and
- providing support for the Aboriginal Justice Caucus.

This initiative contributes to the Department of Justice and Regulation’s Victims and Community Support Services output.

Aviation Resources

Refer to the initiative description under Department of Environment, Land, Water and Planning.

This initiative contributes to the Department of Justice and Regulation's Emergency Management Capability output.

Caulfield Racecourse Reserve – relocation of thoroughbred training

Funding will be provided to assist with the relocation of thoroughbred training from Caulfield Racecourse to the Cranbourne Turf Club and Pakenham Racing Club. This will enable the consolidation and improvement of world-class training facilities at Cranbourne Turf Club and Pakenham Racing Club, and optimise access to public space for the community.

This initiative contributes to the Department of Justice and Regulation's Gambling, Liquor and Racing output.

Corrections system capacity

Funding will be provided to open 160 new beds and increase capacity in the men's and women's prison systems through extending weekend reception operating hours for Melbourne Assessment Prison, measures to divert more people away from remand and planning further options to increase capacity to meet expected demand.

This initiative contributes to the Department of Justice and Regulation's Prisoner Supervision and Support output.

Future emergency alert

Refer to the asset description of this initiative.

National Redress Scheme for Institutional Child Sexual Abuse

Funding will be provided for Victoria's participation in the National Redress Scheme over 10 years from 1 July 2018. The scheme will deliver a financial payment of up to \$150 000 to eligible individual claimants, access to psychological counselling and a direct personal response – such as an apology from the responsible institution – to eligible survivors of institutional child abuse. This implements recommendations of the Victorian Parliamentary Inquiry Betrayal of Trust report and the Royal Commission into Institutional Responses to Child Sexual Abuse.

This initiative contributes to the Department of Justice and Regulation's Criminal Law Support and Reform output.

Recovery activities – Barwon South West fires

Funding will be provided for community recovery activities and restoration and rehabilitation works arising from the March 2018 Barwon South West fires.

This initiative contributes to the Department of Justice and Regulation's Emergency Management Capability output.

Support to progress agreements under the *Traditional Owner Settlement Act 2010*

Funding is provided to support negotiation and engagement with Traditional Owner groups to improve Native Title recognition and settlement processes with a range of groups on the path to agreements under the *Traditional Owner Settlement Act 2010*.

This initiative contributes to the Department of Justice and Regulation's Protection of Personal Identity and Individual/Community Rights output.

Victorian Racing Industry POCT Payment

Consistent with the introduction of the Point of Consumption Tax (POCT) in 2019, a proportion of the POCT revenue will be provided to the Victorian Racing Industry. This proportion will be set at 1.5 per cent of taxable net wagering revenue received.

This initiative contributes to the Department of Justice and Regulation's Gambling, Liquor, and Racing Output.

Wye River – 2015 Separation Creek bushfires

Further support will be provided for the Colac Otway Shire Council to complete additional storm water reticulation works which are required following damage caused by the Wye River and Separation Creek Christmas Day bushfires in 2015.

This initiative contributes to the Department of Justice and Regulation's Emergency Management Capability output.

Asset initiatives

Table A.11: Asset initiatives – Department of Justice and Regulation (\$ million)

	2018-19	2019-20	2020-21	2021-22	TEI
Future emergency alert	2.5	..	..	..	2.5
Total asset initiatives	2.5	..	..	..	2.5

Future emergency alert

Funding will be provided to continue delivery of a modern national telephone warning system. This will allow emergency services to send messages to landlines and mobile phones within a defined area about likely or actual emergencies. This will continue to minimise risks to public safety by using a proven and modern emergency alert system.

This initiative contributes to the Department of Justice and Regulation's Emergency Management Capability output.

DEPARTMENT OF PREMIER AND CABINET

Output initiatives

Table A.12: Output initiatives – Department of Premier and Cabinet (\$ million)

	2018-19	2019-20	2020-21	2021-22
Victorian Electoral Commission – new donations disclosure and reporting scheme	22.0	15.0	15.0	15.0
Service Victoria – transition to unrestricted public access ^(a)	20.0	20.0	..	..
Total output initiatives ^(b)	42.0	35.0	15.0	15.0

Notes:

(a) This is in addition to funding announced in the 2015-16 and 2016-17 budgets.

(b) Table may not add due to rounding.

Victorian Electoral Commission – new donations disclosure and reporting scheme

Funding will be provided to establish and maintain a Victorian political donations disclosure and reporting scheme, creating greater public transparency in the Victorian political system and decision-making process. Key features of the new scheme include a ban on political donations from foreign sources and introducing a cap on political donations.

This initiative contributes to the Department of Premier and Cabinet’s State electoral roll and electoral events output.

Service Victoria – transition to unrestricted public access

Service Victoria has been established to enhance the delivery of government transactions with citizens, enable the delivery of a more effective customer experience and create new distribution channels for simple, high-volume transactions. Funding will be provided to operate and extend a range of transactions and service enhancements, including identity verification services.

This initiative contributes to the Department of Premier and Cabinet’s Digital government and communications output.

Asset initiatives

Table A.13: Asset initiatives – Department of Premier and Cabinet (\$ million)

	2018-19	2019-20	2020-21	2021-22	TEI
Victorian Electoral Commission – new donations disclosure and reporting scheme ^(a)	1.0	1.0	1.0	1.0	8.0
Total asset initiatives	1.0	1.0	1.0	1.0	8.0

Notes:

(a) TEI includes funding in 2017-18.

Victorian Electoral Commission – new donations disclosure and reporting scheme

Refer to the output description of this initiative.

DEPARTMENT OF TREASURY AND FINANCE

Output initiatives

Table A.14: Output initiatives – Department of Treasury and Finance (\$ million)

	2018-19	2019-20	2020-21	2021-22
Annual land valuations	8.0	..	..	..
Commercialisation of land titles and registry functions of Land Use Victoria	10.8	..	..	..
Homes for Victorians housing strategy	1.0	..	..	..
Point of Consumption Tax administrative costs	2.5	1.0	1.0	1.0
Total output initiatives ^(a)	22.3	1.0	1.0	1.0

Note:

(a) Table may not add due to rounding.

Annual land valuations

Additional funding for land valuations will be provided to aid implementation of changes to the *Valuation Land Act 1960*, which centralised responsibility for statutory property valuations with the Valuer-General Victoria from the 2019 revaluation year.

This initiative contributes to the Department of Treasury and Finance's Revenue Management and Administrative Services to Government output.

Commercialisation of land titles and registry functions of Land Use Victoria

Funding has been provided to undertake the market engagement and transaction phase of the commercialisation of land titles and registry functions of Land Use Victoria, which includes the engagement of financial, accounting, tax and business separation, and legal and insurance advisers.

This initiative contributes to the Department of Treasury and Finance's Commercial and Infrastructure Advice output.

Homes for Victorians housing strategy

Funding will be provided for administering the *Homes for Victorians* housing strategy, which consists of a suite of initiatives that will assist in improving housing accessibility and affordability in Victoria.

This initiative contributes to the Department of Treasury and Finance's Commercial and Infrastructure Advice output.

Point of Consumption Tax administrative costs

The State Revenue Office will be provided with additional funding to administer the Point of Consumption Tax, including for the establishment of collection and administrative systems.

This initiative contributes to the Department of Treasury and Finance's Revenue Management and Administrative Services to Government output.

COURT SERVICES VICTORIA

Output initiatives

Table A.15: Output initiatives – Court Services Victoria (\$ million)

	2018-19	2019-20	2020-21	2021-22
Aboriginal Justice Agreement Phase Four	2.4	2.4	2.9	3.2
Judicial Commission of Victoria	0.4	..	..	..
Total output initiatives ^(a)	2.8	2.4	2.9	3.2

Note:

(a) Table may not add due to rounding.

Aboriginal Justice Agreement Phase Four

Funding will be provided for initiatives under the Burra Lotjpa Dunguludja: Victorian Aboriginal Justice Agreement Phase Four, informed by the Aboriginal community. Court Services Victoria will implement several initiatives to improve access to justice for Aboriginal Victorians and reduce their overrepresentation in the criminal justice system, including:

- expanding the Koori Court to new locations;
- providing additional resources in the Coroners' Court, Victims of Crime Assistance Tribunal, the Victorian Civil and Administrative Tribunal for cases involving Aboriginal people; and
- developing Aboriginal Community Justice Reports for cases involving Aboriginal people.

This initiative contributes to Court Services Victoria's Courts output.

Judicial Commission of Victoria

Funding is provided to the Judicial Commission of Victoria to undertake an investigation in line with its statutory responsibilities to maintain public confidence in Victorian courts.

This initiative contributes to Court Services Victoria's Courts output.

Asset initiatives

Table A.16: Asset initiatives – Court Services Victoria (\$ million)

	2018-19	2019-20	2020-21	2021-22	TEI
Aboriginal Justice Agreement Phase Four	0.4	0.2	0.4	0.2	1.3
Total asset initiatives ^(a)	0.4	0.2	0.4	0.2	1.3

Note:

(a) Table may not add due to rounding.

Aboriginal Justice Agreement Phase Four

Refer to the output description of this initiative.

APPENDIX B – SENSITIVITY ANALYSIS

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

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

The first quantifies the fiscal impacts of scenarios involving simultaneous variations in economic parameters that represent key risks to the economic outlook described in Chapter 1 *Economic Conditions and Outlook*. These scenarios were selected to cover plausible shocks that could affect Victoria over the medium term, and the modelling takes account of linkages between key international, Australian and Victorian economic aggregates.

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

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

FISCAL IMPACTS OF VARIATIONS TO THE ECONOMIC OUTLOOK

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

The economic impacts of both scenarios have been modelled as deviations from a business as usual base case generated from the Victoria University Regional Model (VURM).² The changes in economic indicators resulting from the modelled shocks are then mapped into estimated revenue and expenditure impacts using elasticities that describe the historic relationship between fiscal outcomes and major macroeconomic parameters in Table B.5.³

Downturn in household consumption and dwelling investment

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

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

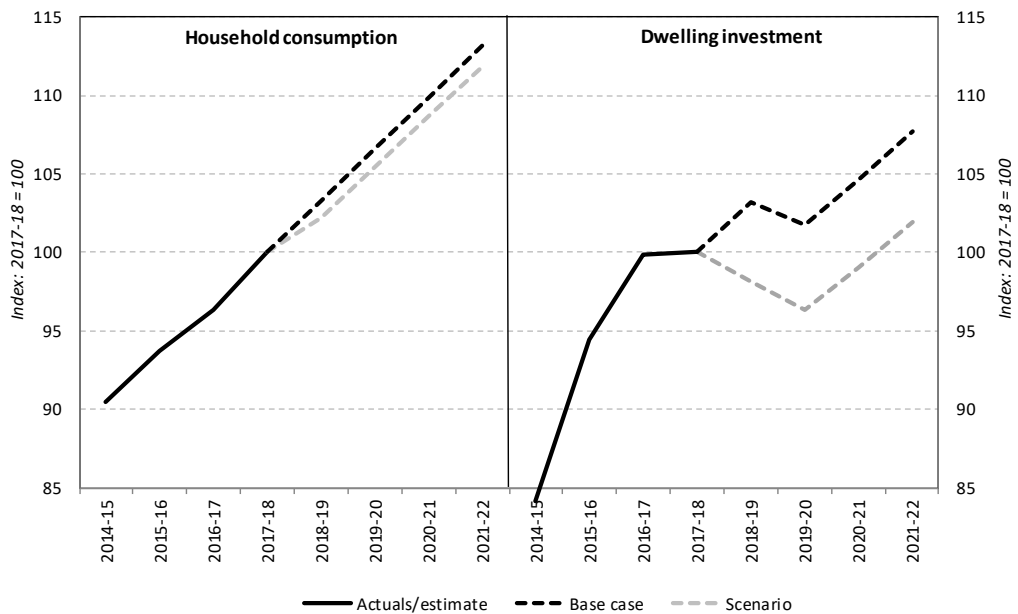
¹ The results generated in each scenario are mutually exclusive and non-additive.

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

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

To model this scenario in VURM, the shock has been applied to raise the national household saving rate and the threshold rate of return required by households to purchase newly constructed property. A national shock has been applied since the triggers for this type of downturn would likely apply to all states and territories, rather than Victoria in isolation. The weakening in national household consumption and dwelling investment has been calibrated as a five percentage point fall in national dwelling investment growth⁴ and a one percentage point decrease in national household consumption growth in the budget year.⁵ Chart B.1 illustrates how Victorian household consumption and dwelling investment evolve under the base case and the scenario.

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



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

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

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

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

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

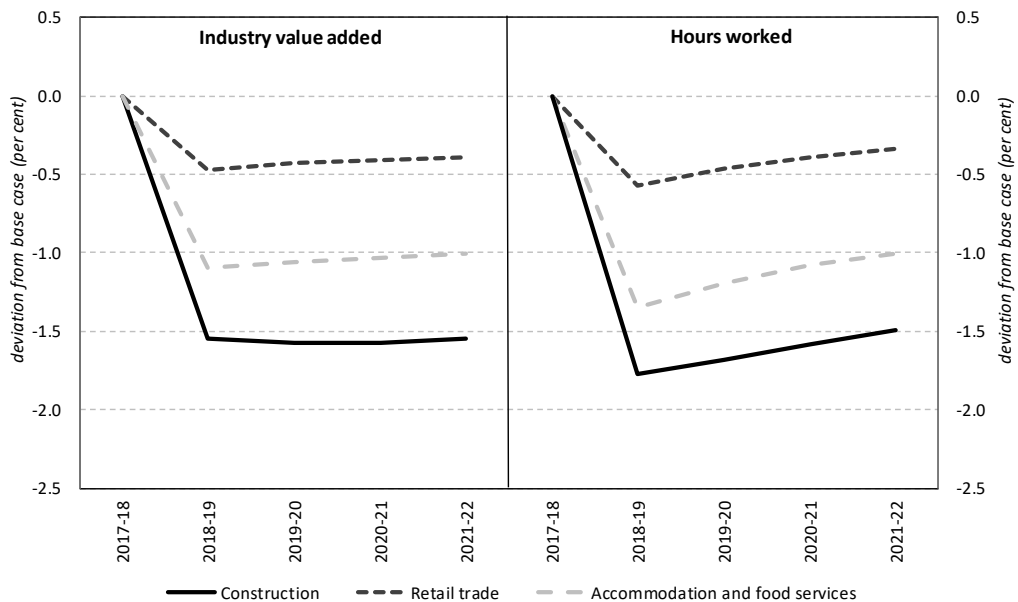
	2018-19 estimate	2019-20 estimate	2020-21 estimate	2021-22 estimate
Real GSP	(0.29)	(0.28)	(0.29)	(0.29)
Employment	(0.33)	(0.22)	(0.15)	(0.11)
Consumer price index	0.24	0.10	(0.02)	(0.11)
Wage price index	(0.06)	(0.40)	(0.65)	(0.84)

Source: Centre of Policy Studies, Victoria University

Note:

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

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



Source: Centre of Policy Studies, Victoria University

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

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

	2018-19 estimate	2019-20 estimate	2020-21 estimate	2021-22 estimate
Income from transactions	(294.0)	(326.8)	(351.2)	(352.0)
Expenses from transactions	(40.4)	(63.9)	(165.1)	(246.1)
Net result from transactions	(253.6)	(263.0)	(186.1)	(105.9)
Other economic flows	(4.3)	(4.3)	(3.5)	(3.1)
Net result	(257.9)	(267.2)	(189.5)	(108.9)
Net debt (cumulative)	257.9	518.3	700.8	802.5
Net debt to GSP ratio (percentage point difference)	0.07	0.13	0.16	0.17

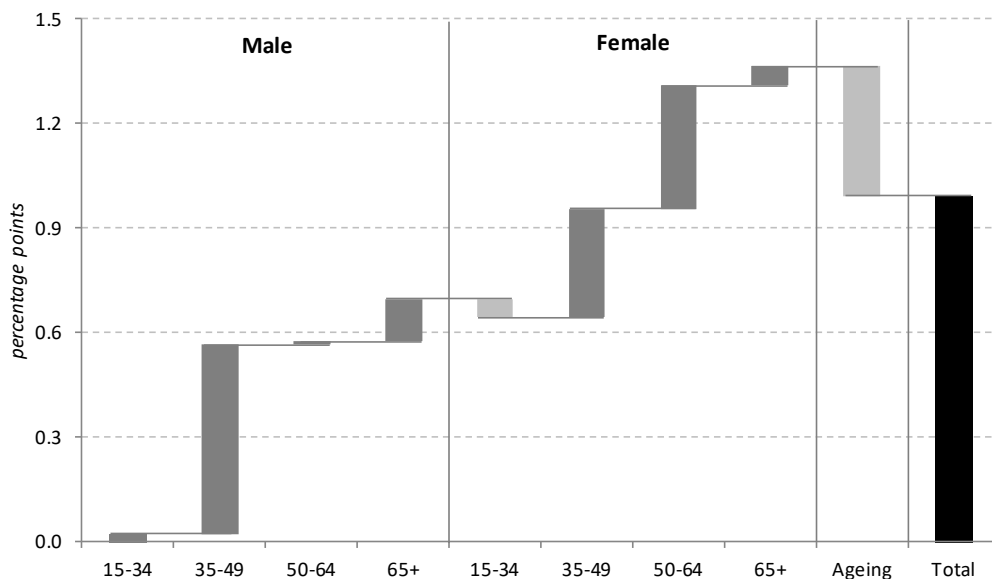
Source: Department of Treasury and Finance

Sustained high labour force participation in Victoria

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

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

Chart B.3: Contributions to changes in Victoria’s labour force participation rate, three months to June 2014 to three months to September 2018^(a)



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

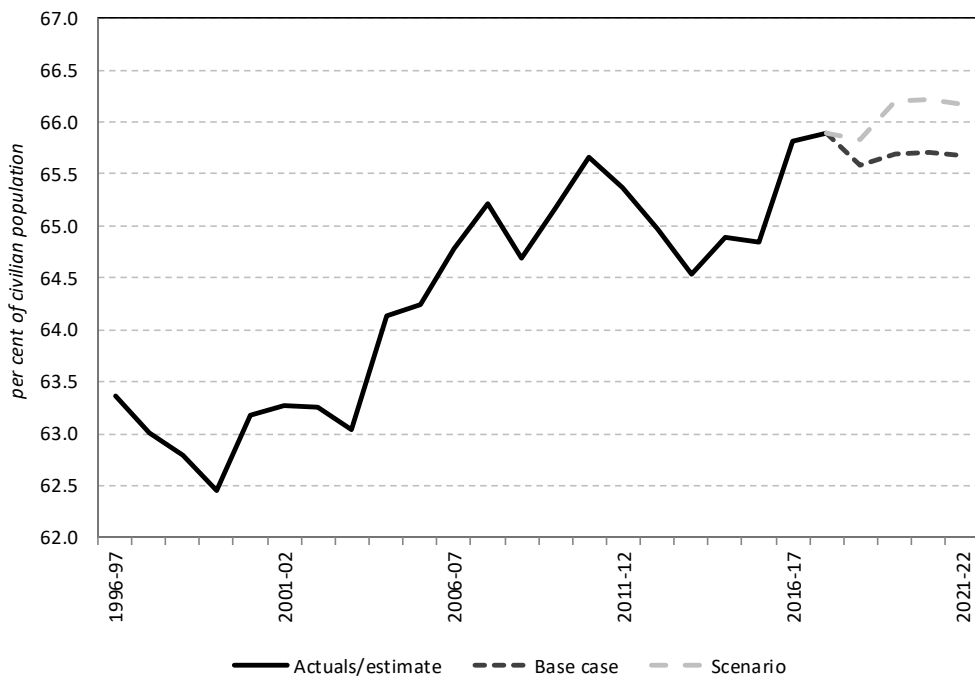
Note:

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

The forecasts in Chapter 1 *Economic Conditions and Outlook* assume the labour force participation rate (in year average terms) moderates from its peak of 65.9 per cent in 2017-18 over the budget and forward estimates (Chart B.4). However, it is possible that the various factors that have underpinned the rise in participation in recent years persist.

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

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



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

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

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

Table B.3: The effect of higher participation on major economic parameters^(a) (per cent)

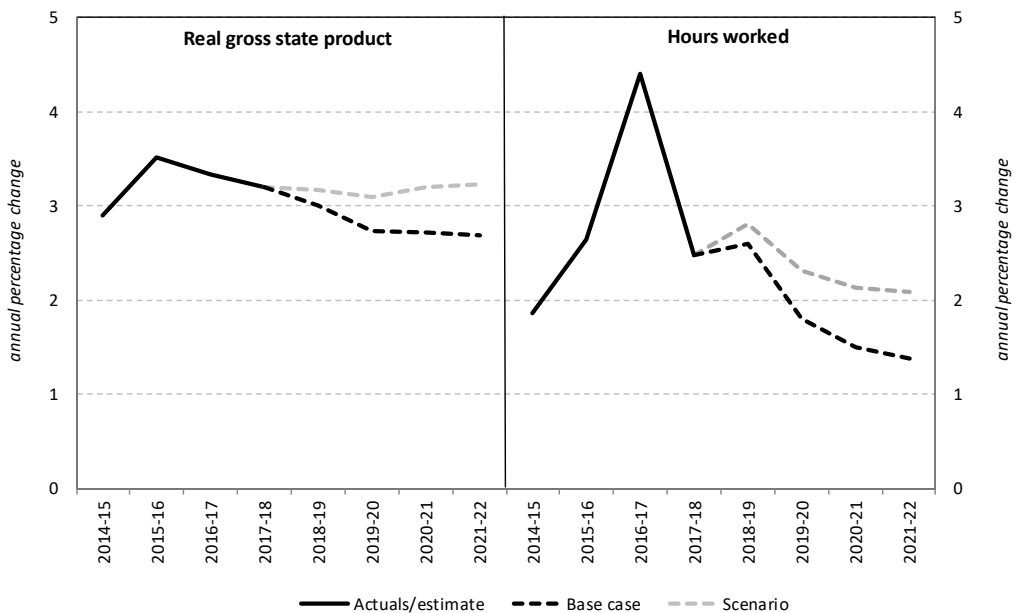
	2018-19 estimate	2019-20 estimate	2020-21 estimate	2021-22 estimate
Real GSP	0.16	0.37	0.47	0.54
Employment	0.22	0.51	0.63	0.70
Consumer price index	0.11	0.13	(0.00)	(0.09)
Wage price index	(0.03)	(0.24)	(0.49)	(0.63)

Source: Centre of Policy Studies, Victoria University

Note:

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

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



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

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

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

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

	2018-19 estimate	2019-20 estimate	2020-21 estimate	2021-22 estimate
Income from transactions	207.4	336.4	294.8	286.9
Expenses from transactions	67.9	126.1	41.5	(16.6)
Net result from transactions	139.5	210.2	253.2	303.5
Other economic flows	2.1	4.2	3.4	3.1
Net result	141.6	214.4	256.6	306.6
Net debt (cumulative)	(141.6)	(358.4)	(617.4)	(926.5)
Net debt to GSP ratio (percentage point difference)	(0.04)	(0.10)	(0.15)	(0.21)

Source: Department of Treasury and Finance

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

SENSITIVITY TO INDEPENDENT VARIATIONS IN MAJOR ECONOMIC PARAMETERS

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

Table B.5: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2018-19 ^{(a)(b)(c)(d)}

(\$ million)

	2018-19 estimate	2019-20 estimate	2020-21 estimate	2021-22 estimate
GSP				
Income from transactions	115	121	126	130
Expenses from transactions	1	(4)	(9)	(15)
Net result from transactions	114	126	135	144
Net debt	(114)	(239)	(375)	(519)
Employment ^(e)				
Income from transactions	80	84	88	93
Expenses from transactions	254	276	294	313
Net result from transactions	(174)	(192)	(206)	(220)
Net debt	174	366	572	792
Consumer prices ^(f)				
Income from transactions	241	186	270	327
Expenses from transactions	217	214	211	212
Net result from transactions	23	(28)	59	115
Net debt	(24)	(4)	(71)	(194)
Average weekly earnings ^(g)				
Income from transactions	50	(21)	(26)	35
Expenses from transactions	4	3	4	4
Net result from transactions	46	(24)	(30)	31
Net debt	(46)	(23)	8	(23)
Total employee expenses ^(h)				
Income from transactions	..	24	84	92
Expenses from transactions	256	315	336	357
Net result from transactions	(256)	(290)	(252)	(265)
Net debt	256	530	765	1013
Domestic share prices				
Income from transactions	1	3	2	9
Expenses from transactions	(0)	(2)	(2)	(3)
Net result from transactions	1	5	4	12
Net debt	(1)	(4)	(6)	(16)
Overseas share prices				
Income from transactions	3	7	4	24
Expenses from transactions	(0)	(2)	(3)	(3)
Net result from transactions	3	9	7	27
Net debt	(3)	(10)	(15)	(39)
Property prices				
Income from transactions	92	93	98	101
Expenses from transactions	(2)	(7)	(11)	(15)
Net result from transactions	94	100	109	117
Net debt	(97)	(199)	(311)	(430)

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

	2018-19 estimate	2019-20 estimate	2020-21 estimate	2021-22 estimate
Property volumes				
Income from transactions	61	62	65	67
Expenses from transactions	(1)	(4)	(7)	(10)
Net result from transactions	62	66	71	77
Net debt	(62)	(128)	(199)	(277)
Interest rates ⁽ⁱ⁾				
Income from transactions	607	113	163	309
Expenses from transactions	(3)	149	143	120
Net result from transactions	610	(36)	20	190
Net debt	(610)	(739)	(924)	(1264)

Source: Department of Treasury and Finance

Notes:

- (a) Variations are applied to the economic variables effective from the first day in the budget year (1 July 2018). It is assumed that each variable's growth rate matches that under a no-variation scenario for the forward estimates period. This implies economic variables, other than interest rates, are 1 per cent higher across the four years compared with a no-variation scenario; interest rates are assumed to be 1 percentage point higher in each year of the budget and forward estimates.
- (b) A positive number for income from transactions denotes an increase in revenue. A positive number for expenses from transactions denotes an increase in expenses (and hence a reduction in the net result from transactions). A positive number for the net result from transactions denotes a higher surplus or smaller deficit. A positive number for net debt denotes a higher level of net debt in the relevant year compared with a no-variation scenario. Numbers may not balance due to rounding.
- (c) Only reasonably quantifiable impacts have been included in the analysis.
- (d) Estimates of net debt are approximately equal to the cumulative impact of the net result from transactions. The difference between the cumulative net result from transactions and net debt is due to non-cash expenses and gross sale proceeds (where applicable).
- (e) A shock to employment is assumed to impact payroll tax revenue to an extent consistent with no change to historical relationships between total employment, part-time/full-time employment shares, and payroll tax revenue. Both public and private sector employment are assumed to be 1 per cent higher across the four years; the rise in public sector employment boosts general government sector employee expenses.
- (f) Incorporates the impact of departmental funding model arrangements. It is assumed that an increase in consumer prices within the budget year does not affect employee entitlements.
- (g) A positive shock to average weekly earnings increases the expenses of public financial and non-financial corporations and reduces the general government sector's income from dividends and ITEs.
- (h) Represents a one-off 1 per cent increase in total employee expenses relative to a no-variation scenario. This could be generated through a change in the size of the workforce, the price of the workforce (salaries, overtime, allowances and bonuses, long service leave expenses, fringe benefits tax and WorkCover premiums), through other management decisions regarding the composition and profile of the workforce or any combination of these.
- (i) Interest rates are assumed to be 1 percentage point higher in each year of the budget and forward estimates.

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

The *Financial Management Act 1994* (the Act) requires the Secretary of the Department of Treasury and Finance to prepare a pre-election budget update when a writ is issued for a general election. The provisions of the Act have been complied with in the *2018 Victorian Pre-Election Budget Update*.

Table C.1 provides details of these requirements together with appropriate references in this document.

Table C.1: Statements required by the *Financial Management Act 1994* and their location in the *2018 Victorian Pre-Election Budget Update*

<i>Relevant section of the Act and corresponding requirement</i>	<i>Location</i>
Section 27B(1)	
A pre-election budget update comprises –	
(a) updated estimated financial statements for the Victorian general government sector for the financial year in respect of which they are prepared and the following 3 financial years;	Chapter 3, <i>Estimated Financial Statements and Notes</i>
(b) a statement of the material economic and other assumptions that have been used in preparing the updated statements;	Chapter 1, <i>Economic conditions and outlook</i> Chapter 2, <i>Budget position and outlook</i> and Chapter 3, <i>Estimated Financial Statements and Notes</i>
(c) discussion of the sensitivity of the updated statements to changes in those economic and other assumptions;	Appendix B, <i>Sensitivity analysis</i>
(d) a statement of the risks, quantified where feasible, that may have a material effect on the updated statements, including:	Foreword, Chapter 1, <i>Economic conditions and outlook</i> , Chapter 2, <i>Budget position and outlook</i> , Chapter 3, <i>Estimated Financial Statements and Notes</i> , Chapter 4, <i>Contingent assets and contingent liabilities</i>
(i) contingent liabilities; and	
(ii) publicly announced Government commitments that are not yet included in the updated statements.	

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

<i>Relevant section of the Act and corresponding requirement</i>	<i>Location</i>
<p>Section 27B(2)</p> <p>The information in a pre-election budget update must take into account, to the fullest extent possible, all Government decisions and all other circumstances that may have a material effect on the estimated financial statements.</p>	<p>Appendix A, <i>Specific policy initiatives affecting the budget position</i></p>
<p>Section 27B(3)</p> <p>A pre-election budget update must be prepared on a basis consistent with:</p> <p>(a) the current financial policy objectives and strategies statement; and</p> <p>(b) the most recent estimated financial statements or budget update, as applicable.</p>	<p>Chapter 1, <i>Economic conditions and outlook</i> Chapter 2, <i>Budget position and outlook</i> and Chapter 3, <i>Estimated Financial Statements and Notes</i></p>

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 changes in all tables are based on the underlying unrounded amounts.

The notation used in the tables and charts is as follows:

n.a. or na	not available or not applicable
1 billion	1 000 million
1 basis point	0.01 per cent
..	zero, or rounded to zero
tbc	to be confirmed
ongoing	continuing output, program, project etc.
(x xxx.x)	negative amount
x xxx.0	rounded amount

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

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