DELIVERING FOR ALL VICTORIANS

VICTORIAN BUDGET 19/20

2019/20 BUDGET UPDATE

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

VICTORIA State Government

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for the information of Honourable Members

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CHAPTER 1 – ECONOMIC AND FISCAL OVERVIEW

- **Strong jobs growth** – Victoria's economy has grown above-trend for five consecutive years, employment growth has been stronger than any other state, the unemployment rate is below the national average, and workforce participation is at near record-high levels.
- **Subdued national economy** – A subdued national outlook for consumption and dwelling investment is expected to slow growth in the GST pool.
- **Prudent financial management** – The general government operating result (net result from transactions) is forecast to be a surplus of $618 million in 2019-20, with annual operating surpluses averaging $3.3 billion a year across the forward estimates.
- **Productivity-enhancing investments** – Victoria continues its significant infrastructure program, including North East Link, Melbourne Airport Rail and the removal of an additional 25 level crossings by 2025.

VICTORIA, THE NATION'S ENGINE ROOM

Despite a subdued national economy, the Victorian economy continued to perform strongly in 2018-19. Real gross state product (GSP) growth reached 3.0 per cent, which was in line with the *2019-20 Budget* forecast and well above the national economic growth rate of 1.9 per cent. It was also the second highest growth rate of all Australian states. Continued above trend economic growth underpinned over 120 000 jobs being added to the Victorian economy over the year to June 2019, representing more than 40 per cent of all the jobs added in the nation and more new jobs than any other state.

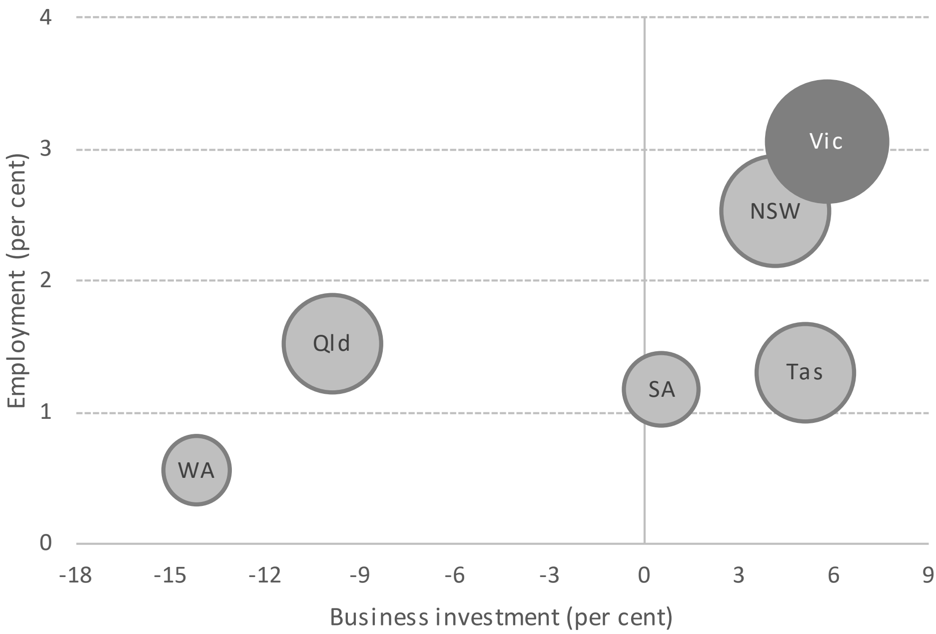
Victoria has experienced five consecutive years of above-trend economic growth, outpacing all other states with average annual GSP growth of 3.3 per cent. The Victorian economy has grown to $455 billion, after expanding by $97 billion over five years.

Real GSP growth is forecast to reach 2.5 per cent in 2019-20, only slightly below trend following 18 months of weak conditions in the residential property market. The economy is expected to strengthen from 2020-21. Public demand is expected to remain a key contributor to economic growth over the next four years.

Conditions in the established property market appear to be strengthening. This is expected to support new housing construction activity from 2020-21, reflecting a lag between housing market conditions and new construction. The forecast recovery in dwelling investment, along with stronger consumer spending, is expected to support a return to trend economic growth in 2020-21 of 2.75 per cent, in line with the *2019-20 Budget* forecast.

Victoria's above-trend economic growth has driven robust labour market outcomes (see Chart 1.1). Employment grew by 3.4 per cent in 2018-19, the strongest of all the states and above the national increase of 2.4 per cent. Since November 2014, over 505 000 more Victorians are employed, representing an increase of 17.3 per cent. The outlook remains positive, with employment forecast to rise by a further 2.0 per cent in 2019-20, unchanged from the *2019-20 Budget* forecast.

Chart 1.1: Employment, business investment and real GSP growth by state, five years to 2018-19 (a)



Note:
(a) Average annual percentage change. The size of the bubble represents real GSP growth over this period.

PRUDENT FINANCIAL MANAGEMENT IN A CHANGING ENVIRONMENT

Victoria's finances remain sound and in line with the Government's clear and responsible long-term financial management strategy, as measured by medium-term financial measures and targets.

Table 1.1: Long-term financial management objectives

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

Progress towards these objectives is measured against the targets described in Table 1.2.

Table 1.2: Medium-term financial measures and targets

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

The general government operating result (net result from transactions) is forecast to be a surplus of $618 million in 2019-20, with annual operating surpluses averaging $3.3 billion a year across the forward estimates (Table 1.3).

Since the *2019-20 Budget* the forecast net result from transactions has been revised down by an average of $193 million a year over the next four years. This reflects a reduction in expected GST revenue received from the Commonwealth due to a weaker national outlook for household consumption and dwelling investment, along with funding new initiatives in priority areas to service a growing population.

Table 1.3: General government fiscal aggregates [(a)]

	Unit of measure	2019-20 revised	2020-21 estimate	2021-22 estimate	2022-23 estimate
Net result from transactions	$ billion	0.6	1.2	3.8	4.9
Government infrastructure investment [(b)(c)]	$ billion	15.8	15.1	12.4	12.3
Net debt	$ billion	40.3	49.3	53.9	57.8
Net debt to GSP [(c)]	per cent	8.5	9.9	10.3	10.5

Notes:

(a) *Includes the impact of accounting standards changes that require the classification of most operating leases as debt and the progressive recognition during construction of capital expenditure and related debt associated with financial service concession arrangements, including certain public private partnerships.*
(b) *Includes general government net infrastructure investment and estimated construction costs for public private partnership projects.*
(c) *The ratios to GSP may vary from publications year to year due to revisions to the Australian Bureau of Statistics GSP data.*

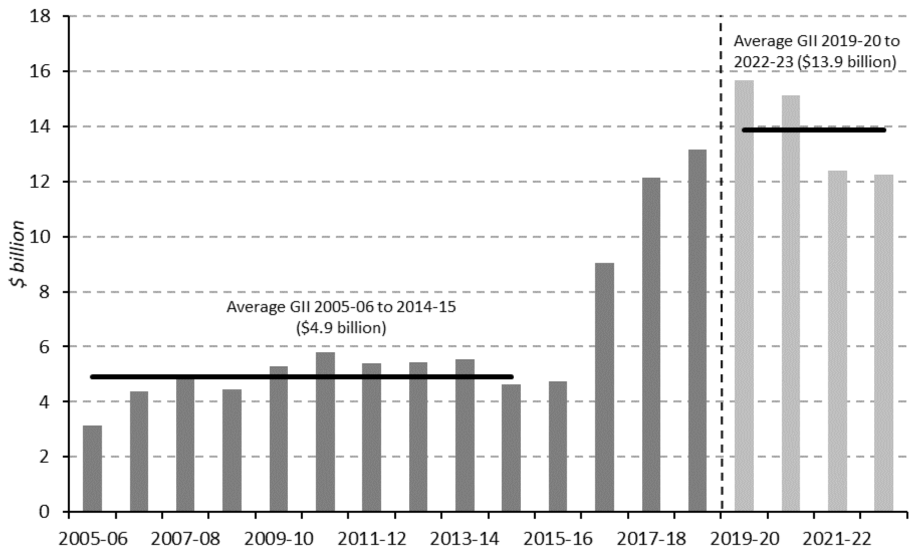
Revenue growth is expected to average 4.4 per cent a year over the budget and forward estimates, compared with average expense growth of 3.3 per cent a year.

Net debt is projected to be $57.8 billion by June 2023. As a proportion of GSP, net debt is projected to be 8.5 per cent at June 2020 and increase to 10.5 per cent by June 2023.

The Government has prudently increased net debt to manageable levels consistent with its triple-A credit rating to fund the significant ongoing investment in productivity-enhancing infrastructure, including North East Link, Melbourne Airport Rail and the removal of an additional 25 level crossings by 2025.

Government infrastructure investment is projected to average $13.9 billion a year over the next four years, nearly triple the average of $4.9 billion a year from 2005-06 to 2014-15 (Chart 1.2).

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



Notes:

(a) *Includes general government net infrastructure investment and estimated construction costs for public private partnership 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.*

After a period of strong revenue growth, the Government is responding to changing economic conditions by progressively realigning expenditure to target priority service areas, including through a comprehensive program of expenditure base reviews. This prudent financial management strategy includes implementing savings and efficiencies to improve the effectiveness of spending. The Government's rebalanced wages policy parameters are also being applied.

These initiatives will support a return to stronger surpluses by the end of the forward estimates and facilitate reinvesting in key Government priorities in the 2020-21 budget and over the coming years.

Key new initiatives since the *2019-20 Budget*

The Government is funding new initiatives in priority areas to service a growing population, including meeting the Government's commitment to the National School Reform Agreement. The Government is also managing urgent and important priorities such as cladding rectification works and providing additional support for drought-affected farmers.

Appendix A outlines specific policy initiatives that affect outputs and assets since the *2019-20 Budget*.

CHAPTER 2 – ECONOMIC CONTEXT

- Victoria's economy recorded its fifth year of above-trend growth in 2018-19, amid strong jobs growth and business investment, despite the Australian economy slowing sharply in 2018-19 to a 10-year low. Weakness in the housing market accelerated in 2018-19, dampening consumption and business sentiment.
- The forecast for gross state product (GSP) in 2019-20 has been lowered slightly compared with the *2019-20 Budget* reflecting subdued consumer spending and dwelling investment. Partly offsetting this, public demand is forecast to remain elevated, supported by the Government's large pipeline of infrastructure investment.
- Following the downturn in the property market, established residential property prices are now rising. This is occurring earlier than was expected in the *2019-20 Budget*, although this will take some time to flow through to increased transaction volumes and dwelling construction. Dwelling investment has slowed, but is anticipated to contribute to growth from 2020-21.
- Despite the modest downgrade to growth in 2019-20, the economic outlook for Victoria remains positive and a return to trend GSP growth is forecast in 2020-21. Real GSP per capita is expected to increase in 2019-20 and over the forward estimates.
- Labour market conditions are positive, with solid employment growth, record levels of labour force participation and a low unemployment rate. In line with slower GSP growth, the unemployment rate is expected to be slightly higher in 2019-20 than forecast in the *2019-20 Budget*, while the forecast for employment growth is broadly unchanged.

VICTORIAN ECONOMIC CONDITIONS AND OUTLOOK

The national and global economic backdrop has deteriorated since the *2019-20 Budget*. National economic growth slowed to its weakest rate in ten years over the year to June, led by a large decline in dwelling investment and weak consumer spending. Globally, the ongoing United States-China trade and technology dispute has contributed to a decline in global trade, industrial output and business investment. The International Monetary Fund (IMF) recently further lowered its 2019 global growth forecast. There remains considerable uncertainty about how these and other global developments will play out over the period ahead, although recent interest rate cuts by major central banks are expected to support global growth in 2020.

Victoria's economy has recorded above-trend growth over the past five years. Economic growth in 2018-19, as measured by gross state product (GSP), was in line with the *2019-20 Budget* forecast. Business investment, public consumption, household spending and services exports all made sizeable contributions to growth.

Given this extended period of above-trend growth, a moderation in GSP growth in 2019-20 had been expected. This slowdown is now expected to be a little more pronounced than forecast in the *2019-20 Budget*.

The housing market is the main driver of the current slowdown in the Victorian economy. Consumers have reduced growth in spending amid falls in the value of their major asset. The number of new plans for housing construction has fallen significantly and the level of construction activity has declined. Further falls in activity are expected during 2019-20.

The recent housing downturn, initially triggered by a combination of tightening national bank lending standards, reduced foreign buyer demand and rising housing supply, constituted one of the largest declines in Melbourne dwelling prices on record. After a number of years of strong growth, prices fell by over 11 per cent between November 2017 and May 2019. Despite these falls and the impact on household wealth, economic growth is projected to be only slightly below trend in 2019-20 and is forecast to return to trend from 2020-21. The economy will be supported by low interest rates, the lower Australian dollar and ongoing strong population growth.

Employment growth is expected to remain solid and the unemployment rate to remain below its estimated trend this year and in 2020-21. If these forecasts are realised, this would represent a solid economic outcome in light of what has been a significant downturn in the property market cycle.

Table 2.1 sets out the economic forecasts, with the *2019-20 Budget* forecasts in italics where different.

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

	2018-19 actual	2019-20 forecast	2020-21 forecast	2021-22 projection	2022-23 projection
Real gross state product	3.0	2.50	2.75	2.75	2.75
		2.75			
Employment	3.4	2.00	1.75	1.75	1.75
Unemployment rate [b]	4.6	5.00	5.00	5.25	5.50
		4.75			
Consumer price index [c]	1.7	1.75	2.00	2.25	2.50
		2.00	*2.25*	*2.50*	
Wage price index [d]	2.7	3.00	3.25	3.25	3.50
				3.50	
Population [e]	2.1 [f]	2.0	1.9	1.9	1.8

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

Notes:

(a) Percentage change in year average terms compared with previous year, except for the unemployment rate (see note (b)) and population (see note (e)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (e)).
Projections for 2021-22 and 2022-23 represent long-run average growth rates, except for the wage price index, which remains below trend in 2021-22, 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 60.2; and oil prices that follow the path suggested by the futures market.

(b) Year average, per cent.

(c) Melbourne consumer price index.

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

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

(f) Estimate, actual not yet available.

Gross state product

Victoria's economy grew by 3.0 per cent in 2018-19, in line with the *2019-20 Budget* forecast and delivering the fifth consecutive year of above-trend growth. Over this five-year period, annual GSP growth has averaged 3.3 per cent, well above the estimated trend rate of 2.75 per cent. The major contributors to growth in 2018-19 were business investment, public consumption, household consumption and services exports. The increase in GSP in 2018-19 marked the 27th year of uninterrupted growth in Victoria.

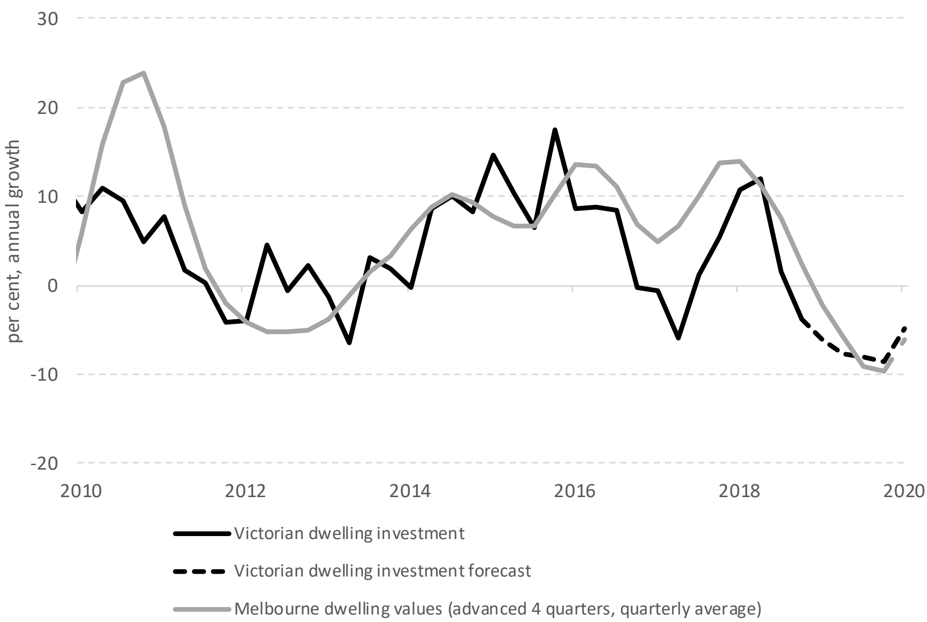
The forecast for real GSP growth in 2019-20 has been revised to 2.5 per cent, 0.25 percentage points below the *2019-20 Budget* forecast and slightly below trend growth. This mainly reflects the impact of the housing market downturn over 2018 and early 2019, which has weighed on consumer spending and the outlook for dwelling investment.

Growth in consumer spending eased in 2018-19, rising by 2.6 per cent. This was the smallest increase in six years, although it was the largest of all the states. The increase was weaker than expected in the *2019-20 Budget*, and growth in 2019-20 is expected to moderate further. The slowdown in household spending reflects a number of factors, including ongoing sluggish income growth, high levels of household debt and heightened concern about the economic outlook. Declines in house prices have reduced household wealth, which is also likely to have weighed on spending, especially on discretionary items. These factors have partly offset the positive impacts of ongoing strong population and employment growth and recent cuts to interest rates.

Dwelling investment made a small contribution to GSP growth in 2018-19, although the level of investment has fallen in the past three quarters. Further falls are expected over much of 2019-20. The sharp fall in house prices over 2018 and early 2019 has contributed to a large decline in dwelling approvals, especially for high-density projects, and this has reduced the pipeline of residential construction activity.

However, there are recent signs of improvement in the established residential property market. The auction clearance rate is high, sales volumes are increasing from low levels, and dwelling prices (and consumers' expectations of future prices) have rebounded from recent lows. Interest rate cuts and regulatory changes to the supply of credit are the key drivers of this improvement, and price growth is expected to accelerate further. Improving housing market conditions are likely to support new construction activity from 2020-21, rather than in 2019-20, reflecting a lag between the two especially for apartments (see Chart 2.1). Ongoing strong population growth is also a positive for the residential construction outlook over the medium term. Where the housing market presented a downside risk in the *2019-20 Budget*, there is now a risk that a resurgent market may lead to higher growth in dwelling investment (and consumer spending) than currently forecast.

Chart 2.1: Lagged relationship between dwelling investment and dwelling values



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

Business investment was strong in 2018-19, with all major components rising. Engineering construction has been particularly strong, driven in part by the Government's investment in infrastructure, as well as high levels of investment in renewable energy generation. More generally, ongoing strong population and employment growth has underpinned higher levels of non-residential construction, including office buildings, industrial premises and education facilities. Growth in business investment is forecast to remain positive in 2019-20, although below the rates seen in the past two years.

Demand for government services and infrastructure has increased in recent years, as Victoria's population has grown. The contribution to GSP growth from public demand has been strong and this is forecast to continue in 2019-20. This is supported by the Government's large pipeline of infrastructure spending as well as State and Commonwealth spending on services.

Victoria's exports of goods and services rose in 2018-19 largely due to another strong increase in services exports, up 10.8 per cent. Education services and tourism are particularly important to Victoria. Imports also rose, although by significantly less than exports, and goods imports were subdued, consistent with the moderation in consumer spending. Looking ahead, the contribution to GSP from net exports in 2019-20 is forecast to be larger than expected in the *2019-20 Budget*, with another solid increase in service exports and lower growth in goods imports. The ongoing depreciation of the Australian dollar since early 2018, which is currently around decade lows, is a supportive factor.

Overall, the economic outlook for Victoria remains positive, notwithstanding the modest downgrade to growth in 2019-20. Real GSP growth is expected to return to its trend rate of 2.75 per cent from 2020-21, unchanged from the *2019-20 Budget* forecast.

Labour market

Conditions in Victoria's labour market are positive, with solid growth in employment, record rates of labour force participation and a low unemployment rate. Employment rose by 3.4 per cent in 2018-19, the largest increase of all the states, and the unemployment rate declined to an 11-year low of 4.6 per cent in year-average terms. Since November 2014 employment in Victoria has grown by 17.3 per cent, or 505 000 persons, including 334 000 in full time jobs. Over this period, employment in regional Victoria has grown by more than 57 000 persons. The regional unemployment rate reached a record low of 3.6 per cent in the three months to August 2019 and remains the lowest of all the states.

By industry, employment growth in 2018-19 was particularly strong in public administration and safety, administrative services, health services, utilities and professional and scientific services. In contrast, agricultural employment declined, reflecting ongoing dry conditions in parts of the State, and retail employment was also weaker.

Strong employment growth has continued to attract new entrants to the labour market. The labour force participation rate is around record high levels, with female participation driving the increase. Participation rates among older workers are also around record highs.

Although labour market conditions remain positive, momentum in employment growth has eased into 2019-20, as anticipated in the *2019-20 Budget*. The unemployment rate is forecast to average 5.0 per cent in 2019-20, which is 0.25 percentage points higher than forecast in the *2019-20 Budget*. The outlook for employment growth is broadly unchanged, with employment forecast to rise by a further 2.0 per cent in 2019-20, while the participation rate is expected to remain around record highs. Beyond 2019-20, employment is forecast to grow at the trend rate of 1.75 per cent.

Prices and wages

Inflation pressures remain subdued, with the Melbourne consumer price index (CPI) rising by just 1.7 per cent in 2018-19, similar to the national increase. Ongoing low wages growth, strong competition in the retail sector and weakness in housing costs are some of the factors contributing to low inflation outcomes. Inflation remains below the Reserve Bank of Australia's (RBA) 2-3 per cent target band.

Inflation is forecast to increase by 1.75 per cent in 2019-20, a downward revision to the *2019-20 Budget* forecast of 2.0 per cent. The CPI forecasts for 2020-21 and 2021-22 have also been lowered, both by 0.25 percentage points compared with the *2019-20 Budget* forecast, with a more gradual return to the middle of the RBA's target band than previously anticipated.

Wages growth has remained subdued despite the strength in employment in recent years, partly due to strong growth in labour supply. However, with labour demand expected to remain relatively strong, and the unemployment rate forecast to remain below its estimated trend rate for the next few years, wages growth is still expected to gradually increase over the forecast period. After rising by 2.7 per cent in 2018-19, an increase of 3.0 per cent is forecast for 2019-20, unchanged from the *2019-20 Budget* forecast. Further out, the anticipated pickup in wages growth is expected to be more gradual than expected in the *2019-20 Budget*.

Population

Victoria's population growth remains strong, rising by 2.1 per cent in the year to the March quarter 2019. This is considerably stronger than the increase of 1.6 per cent for Australia as a whole.

High levels of inward migration, both overseas and interstate, remain the key driver of Victoria's population growth. Total migration has slowed from its peak in 2017, partly as overseas migration to Queensland and to a lesser extent Western Australia has increased. Victoria's population growth in 2019-20 is forecast to moderate slightly to 2.0 per cent, from an estimated 2.1 per cent in 2018-19, unchanged from the *2019-20 Budget* estimate.

AUSTRALIAN ECONOMIC CONDITIONS AND OUTLOOK

Australia's economy has softened since the *2019-20 Budget*. Over the year to the June quarter 2019, real gross domestic product (GDP) rose by 1.4 per cent, the slowest pace of growth since the global financial crisis in 2009. The slowdown reflects the impact of a prolonged fall in dwelling prices and tighter credit conditions, which have weighed on household consumption and dwelling investment. Due to a slowing economy and weak inflationary pressures, the RBA has reduced the cash rate three times since the *2019-20 Budget*, to a record low of 0.75 per cent.

Despite a subdued household sector, strong public demand and export growth have helped support Australia's economic growth. Public demand has been led by the rollout of the National Disability Insurance Scheme and ongoing infrastructure projects on the eastern seaboard, especially in Victoria and New South Wales. Exports, particularly of iron ore and coal, have continued to grow and prices of these commodities have been buoyed by strong Chinese demand and global supply disruptions.

In the November 2019 *Statement on Monetary Policy*, the RBA forecast real GDP to grow by 2.25 per cent in 2019-20, a downgrade of 0.25 percentage points from the May 2019 *Statement on Monetary Policy*. Growth in 2019-20 is expected to be supported by accommodative monetary policy, some recovery in household income growth and solid growth in resources exports, particularly iron ore, coal and liquified natural gas. The RBA's outlook for the labour market also remains solid, with the unemployment rate forecast to average 5.25 per cent in 2019-20.

INTERNATIONAL ECONOMIC CONDITIONS AND OUTLOOK

The outlook for the global economy has weakened since the *2019-20 Budget*, and downside risks have increased. The ongoing United States-China trade and technology dispute has led to higher tariffs and heightened levels of uncertainty, which has weighed on global business sentiment. As a result, business investment has fallen, imports of capital goods have declined and global trade volumes have softened.

Reflecting these developments, the IMF has lowered its outlook for global economic growth in the near term. In its October 2019 *World Economic Outlook* (WEO), the IMF forecast global growth of 3.0 per cent in 2019 and 3.4 per cent in 2020, a downgrade from its April forecast of 0.3 percentage points and 0.2 percentage points respectively. The forecast pickup in growth in 2020 mainly reflects an expected improvement among some emerging market economies that are currently experiencing severe economic stress (such as Argentina, Turkey and Venezuela) or are underperforming their typical growth rates (such as Brazil, Mexico and Russia). By contrast, and more relevant to Victoria, overall growth among the largest economies – the United States, China, the eurozone and Japan – is expected to continue to slow in 2020.

In response to rising global risks and the softening global outlook, major central banks including the United States Federal Reserve and European Central Bank have cut rates and, in the case of the European Central Bank, recommenced quantitative easing. Risks to the global economy remain, though, and pose downside risks to the Victorian economy (see Box 2.1).

Box 2.1: Implications of global risks for Victoria's economy

Concerns about the global outlook have intensified since the *2019-20 Budget*, triggered in particular by an escalation in the United States-China trade and technology dispute, leading to sharp movements in financial markets. Other global geopolitical events also pose risks for global economic growth. For Victoria, these risks could potentially play out in the form of lower business investment, weaker exports – including Victoria's largest export, education – and reduced employment growth. This box discusses recent developments relating to these global risks and how they could affect the Victorian economy if they materialise.

The most acute period of risk aversion in financial markets since the *2019-20 Budget* occurred in August. United States-China trade tensions escalated sharply in early August after the United States administration announced a further round of tariffs on Chinese imports. A series of retaliatory responses followed. Investors' concerns about the impact of these developments on economic growth led to large movements in financial markets, including sharp falls in bond yields. In the United States the yield curve inverted (that is, long-term bond yields were lower than short-term yields) – an occurrence that has historically been a good predictor of a recession in the United States. While it is less clear that this indicator is a good predictor of recession in the current low-interest rate environment, it underscored the risks to global growth. In the meantime, the fall in bond yields over the past year will lower borrowing costs for governments, including Victoria, as well as some businesses.

Chart 2.2: 10-year bond yield, Australia, the United States and Treasury Corporation of Victoria

Major central banks have responded to these risks with looser monetary policy. Trade tensions have eased somewhat since August, and markets have largely regained earlier losses as the United States and China reopened negotiations and central banks cut interest rates. Despite this, there is still a high level of uncertainty surrounding trade policy over the medium term.

The risk that growth slows considerably would present near-term risks to Victoria's economy. For example, more intense or more persistent trade tensions – and associated uncertainty – could damage Victorian business confidence and lead to lower business investment or hiring. A sharper slowdown in the United States, China or other economies would likely impact Victorian exports, including the State's major exports of education and tourism. Such outcomes would lead to lower overall economic performance than forecast.

RISKS TO THE VICTORIAN OUTLOOK

Risks to the Victorian economic outlook are broadly balanced, with a number of upside and downside risks facing the economy.

At the time of the *2019-20 Budget*, there was significant uncertainty about the pace and size of the adjustment in the residential property market. Since then there has been a policy response to the downturn in the housing market and the risk of a deep and prolonged downturn weighing on household wealth and consumption has eased. Lower interest rates, regulatory changes to the supply of credit and improved buyer sentiment have led to firmer conditions in the property market. As a result, there is now some upside risk of a faster than anticipated recovery in the residential property market. This could lead to stronger growth in household consumption and dwelling investment than currently forecast, and therefore higher GSP and employment growth.

While the housing market now presents an upside risk to the outlook, the balance of risks to population growth remain on the downside. Population growth has been an important driver of economic activity in Victoria, underpinning consumer spending and dwelling investment. Population growth remains strong, although the rate of increase has moderated over the past few years and a further slowing is expected over the budget and forward estimates. However, there is uncertainty about the pace of the moderation. Slower Australian economic growth or Commonwealth policy changes could lead to a lower than forecast national net overseas migration pool. This could lead to lower population growth in Victoria, reducing household consumption and overall economic activity.

Along with population, global risks are skewed to the downside and, as discussed in Box 2.1, have increased since the *2019-20 Budget*. A faster than anticipated slowdown in global growth, which could be caused by a further escalation of global trade tensions or a slowdown in China's domestic demand, could have negative implications for Victoria. However, these global risks are being at least partly mitigated by central bank interest rate cuts.

Finally, the trend unemployment rate could be lower than currently estimated, which presents an upside risk to the economic forecasts. A lower than estimated trend unemployment rate could lead to higher employment and GSP growth without generating upward pressure on wages or inflation. This would be consistent with the experience of international jurisdictions, including in the United States where the unemployment rate has remained below estimates of trend for some time without raising inflation expectations.

See Appendix D *Sensitivity Analysis* for further information on the estimated economic and fiscal impacts of weaker than anticipated population growth and a lower trend unemployment rate.

CHAPTER 3 – BUDGET POSITION AND OUTLOOK

- The general government sector operating surplus is estimated to be $618 million in 2019-20, with annual operating surpluses averaging $3.3 billion a year across the forward estimates.
- Compared with the *2019-20 Budget*, the net result from transactions has been revised down by an average of $193 million a year over the budget and forward estimates. This largely reflects the funding of new initiatives in priority areas and a reduction in expected GST revenue from the Commonwealth due to the weaker macroeconomic outlook.
- Revenue growth is expected to average 4.4 per cent a year over the budget and forward estimates, exceeding average expense growth of 3.3 per cent a year.
- Net debt is projected to be $57.8 billion by June 2023. As a proportion of gross state product (GSP), net debt is projected to be 8.5 per cent at June 2020 and increase to 10.5 per cent by June 2023.
- Government infrastructure investment (GII) is projected to average $13.9 billion a year over the budget and forward estimates.
- The Government is on track to fully fund the State's unfunded superannuation liability by 2035.

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

It takes into account the financial impacts as at 29 November 2019 of all decisions that affect the financial statements, unless otherwise stated.

This chapter also reconciles and explains any movements since the *2019-20 Budget* that affect the estimated net result from transactions.

GENERAL GOVERNMENT SECTOR

Overview

The operating result (net result from transactions) for the general government sector in 2019-20 is forecast to be a surplus of $618 million, with annual operating surpluses averaging $3.3 billion a year over the forward estimates (as shown in Table 3.1).

Compared with the *2019-20 Budget*, the net result from transactions has been revised down by $432 million in 2019-20, by $232 million in 2020-21, by $59 million in 2021-22 and by $50 million in 2022-23. This largely reflects the impact of new initiatives and a reduction in expected GST revenue from the Commonwealth due to weaker national consumption and dwelling investment. These are partly offset by the improved outlook for property-related revenue, consistent with residential property market conditions, and bringing forward Commonwealth funding for North East Link and other transport projects.

The Government is funding new initiatives in priority areas to service a growing population, including meeting the Government's commitment to the National School Reform Agreement (NSRA). The Government is also managing urgent and important priorities such as cladding rectification works and providing additional support for drought-affected farmers.

Revenue growth is expected to average 4.4 per cent a year over the budget and forward estimates, compared with average expense growth of 3.3 per cent a year.

Table 3.1: General government fiscal aggregates [(a)]

	Unit of measure	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Net result from transactions	$ billion	0.6	1.2	3.8	4.9
Government infrastructure investment [(b)]	$ billion	15.8	15.1	12.4	12.3
Net debt	$ billion	40.3	49.3	53.9	57.8
Net debt to GSP [(c)]	per cent	8.5	9.9	10.3	10.5

Notes:

(a) Includes the impact of accounting standards changes that require the classification of most operating leases as debt and the progressive recognition during construction of capital expenditure and related debt associated with financial service concession arrangements, including certain public private partnerships.

(b) Includes general government net infrastructure investment and estimated construction costs for public private partnership projects.

(c) 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 $13.9 billion a year over the budget and forward estimates, nearly triple the average of $4.9 billion a year from 2005-06 to 2014-15.

Net debt is expected to be $57.8 billion by June 2023. As a proportion of GSP, net debt is projected to be 8.5 per cent at June 2020 and increase to 10.5 per cent by June 2023. The Government has committed to prudently increase net debt to fund capital expenditure for major productivity-enhancing projects, including North East Link, Melbourne Airport Rail and the removal of an additional 25 level crossings by 2025.

As outlined in the *2019-20 Budget*, the Government is implementing savings and efficiencies to improve the effectiveness of spending and to ensure the Government continues to invest in the highest priority programs and services. This includes a comprehensive program of expenditure base reviews, which is currently being undertaken across all portfolios. The Government's rebalanced wages policy parameters are also being applied.

Revenue initiatives to diversify State-sourced revenue foreshadowed in the *2019-20 Budget* are being implemented including increased foreigner property surcharges, expanded luxury motor vehicle duty and removing the exemption for gold from royalties.

These initiatives will support a return to stronger surpluses by the end of the forward estimates and facilitate reinvesting in key Government priorities in the 2020-21 budget and over the coming years.

BUDGET AND FORWARD ESTIMATES OUTLOOK

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

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

	2019-20 revised	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Revenue				
Taxation	24 382	25 427	26 791	28 356
Dividends, TER and interest [(b)]	1 537	1 207	1 206	1 240
Sales of goods and services	8 118	8 791	9 086	9 243
Grant revenue	33 889	35 922	37 910	40 345
Other current revenue	3 025	3 170	3 268	3 382
Total revenue	**70 951**	**74 517**	**78 260**	**82 566**
% change	*1.9*	*5.0*	*5.0*	*5.5*
Expenses				
Employee expenses	26 089	27 536	28 409	29 765
Superannuation [(c)]	3 373	3 376	3 459	3 538
Depreciation	3 717	4 113	4 343	4 647
Interest expense	2 556	2 622	2 752	2 875
Grant expense	13 015	14 869	15 306	15 915
Other operating expenses	21 584	20 779	20 149	20 929
Total expenses	**70 333**	**73 295**	**74 419**	**77 668**
% change	*3.1*	*4.2*	*1.5*	*4.4*
Net result from transactions	**618**	**1 222**	**3 841**	**4 898**
Total other economic flows included in net result [(d)]	**(339)**	**(370)**	**(355)**	**(361)**
Net result	**279**	**852**	**3 486**	**4 537**

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 $71.0 billion in 2019-20, with growth projected to average 4.4 per cent a year over the budget and forward estimates. Compared with the *2019-20 Budget*, forecast growth in GST revenue and some non-property taxes has been downgraded, consistent with revisions to the macroeconomic outlook. This is offset by an improved outlook for property-related taxes and increases in revenue from other sources.

Taxation

State taxation revenue is forecast to be $24.4 billion in 2019-20, and is expected to grow by an average of 5.2 per cent a year over the forward estimates. Following significant downward revisions in the *2019-20 Budget*, property-related taxes have been modestly revised, consistent with improvements in the property market.

- Land transfer duty revenue is forecast to be $6.0 billion in 2019-20 and grow by an average of 6.3 per cent a year over the forward estimates. Following downgrades of $5.2 billion to land transfer duty in the *2018 Pre-election Budget Update* and the *2019-20 Budget*, residential property prices, auction clearance rates and housing sentiment have improved earlier than expected. However, below-average housing turnover, high levels of household debt and elevated global uncertainty are still weighing on the property market.
- Land tax revenue has been downgraded since the *2019-20 Budget* due to fewer properties being liable for land tax than previously anticipated. Land tax revenue is forecast to increase by 1.0 per cent to $3.5 billion in 2019-20. Land tax collections reflect land valuations as well as the number of properties liable for land tax. Improvements in the residential property market are expected to increase land valuations and land tax collections over the forward estimates.

Despite the dampening impact of the weaker macroeconomic outlook, sector-specific factors along with modest wage and price growth are expected to support non-property tax revenue over the forward estimates.

- Payroll tax revenue is forecast to grow by 4.9 per cent to $6.6 billion in 2019-20, and increase by an average of 4.2 per cent a year over the forward estimates. Wages growth is expected to gradually improve, as excess capacity in the labour market is further absorbed.
- Insurance tax revenue is forecast to grow by 6.9 per cent to $1.5 billion in 2019-20, and increase by an average of 6.4 per cent a year over the forward estimates, reflecting growth in some consumer and commercial products.
- Gambling tax revenue is forecast to grow by 0.5 per cent to $2.0 billion in 2019-20, following strong growth in 2018-19. Revenue is forecast to increase by an average of 2.4 per cent a year over the forward estimates reflecting higher lottery and wagering tax collections.
- Motor vehicle tax revenue is forecast to grow by 8.8 per cent to $2.8 billion in 2019-20, reflecting the commencement of new policy decisions announced in the *2019-20 Budget*. Motor vehicle tax revenue is forecast to grow by an average of 4.4 per cent a year over the forward estimates.

Dividends, income tax equivalent and interest

Dividend and income tax equivalent revenue is projected to be $825 million in 2019-20 and decrease by an average of 11.6 per cent a year over the forward estimates. The higher revenue in 2019-20 is largely due to dividends from metropolitan water authorities, the Victorian Managed Insurance Authority, and the Treasury Corporation of Victoria.

Interest income is earned on holdings of cash and deposits. Total interest income is expected to be $712 million in 2019-20, and is forecast to decline by an average of 2.0 per cent a year over the forward estimates, largely due to money being 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 grow by 4.7 per cent in 2019-20 to $8.1 billion. Growth over the forward estimates is expected to average 4.4 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, along with an increase in TAFE fees for service due to higher expected student numbers.

Grants

Total grants revenue is expected to grow by 1.8 per cent to $33.9 billion in 2019-20, and by an average of 6.0 per cent a year over the forward estimates. Total grant revenue growth over the next four years is largely driven by GST revenue.

In 2019-20, GST revenue is expected to grow by 1.8 per cent to $17.0 billion. GST revenue has been downgraded by $1.2 billion over the budget and forward estimates, reflecting slower growth in the national GST pool, driven by a weaker outlook for household consumption and dwelling investment.

Over the forward estimates, GST revenue is expected to grow by an average rate of 7.9 per cent a year. Victoria's GST relativity is forecast to increase, consistent with Victoria's growing population share and the associated need for additional infrastructure. Continued strength in commodity prices will likely sustain high royalty revenue for Queensland and Western Australia that will also contribute to higher GST grants to Victoria.

Commonwealth grants for specific purposes are projected to average $16.6 billion a year across the budget and forward estimates. The Commonwealth provides these grants as contributions towards healthcare, education, disability and other services, and major infrastructure investment.

Commonwealth grants for specific purposes are forecast to decrease in 2019-20 largely due to the transfer of responsibility for disability services from Victoria to the National Disability Insurance Agency (NDIA) 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 $3.0 billion in 2019-20 and increase by an average of 3.8 per cent a year across the forward estimates.

Expenses outlook

Total expenses for the general government sector are expected to be $70.3 billion in 2019-20. Total expenses are expected to grow by 3.3 per cent a year on average over four years to $77.7 billion in 2022-23.

- Employee expenses (including superannuation) are forecast to grow by 2.0 per cent in 2019-20, followed by average annual increases of 4.2 per cent over the forward estimates. The growth over the forward estimates reflects increased service delivery, primarily in respect to health, education and police, as well as increased remuneration consistent with enterprise bargaining agreements;
- Depreciation expense is forecast to grow by 29.7 per cent to $3.7 billion in 2019-20 and increase by 7.7 per cent a year on average over the forward estimates. The increase in 2019-20 is principally due to the impact of accounting standards changes, which increase depreciation expense as a result of the additional assets now recognised;
- Interest expense is forecast to grow by 21.5 per cent to $2.6 billion in 2019-20, largely due to the impact of accounting standards changes associated with the first-time recognition of additional lease liabilities (which does not increase the underlying cost of borrowings). Growth is then expected to moderate, with interest expense forecast to increase by an average of 4.0 per cent a year over the forward estimates;
- Grants expense is forecast to decline by 2.5 per cent to $13.0 billion in 2019-20, largely due to a change in the payment schedule for local government assistance grants the State on-passes on behalf of the Commonwealth. Thereafter, growth is expected to average 6.9 per cent a year over the forward estimates; and
- Other operating expenses are forecast to increase by 2.8 per cent to $21.6 billion in 2019-20. Other operating expenses are expected to decrease by an average of 1.0 per cent a year over the forward estimates, partly reflecting the transition of services to the Commonwealth for the NDIS.

Reconciliation of estimates to the *2019-20 Budget*

Compared with the *2019-20 Budget*, the net result from transactions has been revised down by $432 million in 2019-20, by $232 million in 2020-21, by $59 million in 2021-22 and by $50 million in 2022-23 (as shown in Table 3.3).

Table 3.3: Reconciliation of estimates to the *2019-20 Budget* [(a)] **($ million)**

	2019-20 revised	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Net result from transactions: *2019-20 Budget*	**1 050**	**1 453**	**3 901**	**4 947**
Policy variations				
Revenue policy initiatives	..	..	..	..
Output policy initiatives [(b)]	(443)	(250)	(331)	(476)
	(443)	**(250)**	**(331)**	**(476)**
Economic/demographic variations				
Taxation	54	123	171	216
Investment income [(c)]	(37)	(51)	(28)	(24)
	17	**73**	**143**	**192**
Commonwealth grant variations				
General purpose grants	(506)	(443)	(173)	(28)
Specific purpose grants [(d)]	250	135	(15)	(21)
	(256)	**(308)**	**(188)**	**(49)**
Administrative variations				
Contingency offset for new policy initiatives [(e)]	..	..	..	..
Other administrative variations	251	254	317	284
	251	**254**	**317**	**284**
Total variation since *2019-20 Budget*	**(432)**	**(232)**	**(59)**	**(50)**
Net result from transactions: *2019-20 Budget Update*	**618**	**1 222**	**3 841**	**4 898**

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 3.4 as the* 2019-20 Budget Update *output policy initiatives.*

(c) *Comprises dividends, income tax and rate equivalent revenue and interest.*

(d) *Reflects the change in grant revenue as per Note 4.2.4 of Chapter 4* Estimated Financial Statements and notes *less associated expense movements.*

(e) *Represents releases from the funding not allocated to specific purposes contingency included in the* 2019-20 Budget. *Further information on total output contingencies can be found at Note 4.3.5 of Chapter 4* Estimated Financial Statements and notes.

Policy variations

Policy variations reflect specific initiatives by the Government that have an impact on the budget and forward estimates and are related to a new policy or represent a change in the Government's existing policy position since the previous publication.

Appendix A *Specific policy initiatives affecting budget position* details the specific new output and revenue policy initiatives.

Table 3.4: Net impact of new output initiatives since the *2019-20 Budget* [(a)] ($ million)

	2019-20 revised	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
New output initiatives	**699**	**593**	**464**	**403**
Less:				
Reprioritisations and revenue offsets [(b)]	37	182	216	186
Adjustments [(c)]	219	161	(83)	(259)
Savings	..	..	..	..
2019-20 Budget Update *output policy initiatives*	**443**	**250**	**331**	**476**
Less: contingency offset for new policy [(d)]	..	..	..	..
Net impact	**443**	**250**	**331**	**476**

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 4.3.5 of Chapter 4 Estimated Financial Statements and notes.

Economic and demographic variations

Since the *2019-20 Budget*, taxation revenue has been revised up by an average of $141 million a year over the budget and forward estimates. This is largely due to a moderate increase in expected land transfer duty revenue, which reflects an improved outlook for the residential property market, buoyed by stimulatory monetary policy and the Australian Prudential Regulation Authority relaxing its macroprudential requirements.

Total revenue from dividends and income tax equivalents has been revised down by an average of $35 million a year from 2019-20 to 2022-23 compared with the *2019-20 Budget*, largely reflecting lower dividends from the PNFC sector.

Commonwealth grants variations

Commonwealth general purpose grants (or GST grants) estimates have been revised down by $506 million in 2019-20 and by an average of $215 million a year from 2020-21 to 2022-23 compared with the *2019-20 Budget*. This reflects a deterioration in the outlook for the GST pool, due to sluggish growth in national consumption and stronger than anticipated contraction in national dwelling investment.

Net changes to specific purpose grants have increased the operating result by an average of $87 million a year from 2019-20 to 2022-23 compared with the *2019-20 Budget*. The movements primarily reflect bringing forward Commonwealth funding for North East Link and other transport projects.

Administrative variations

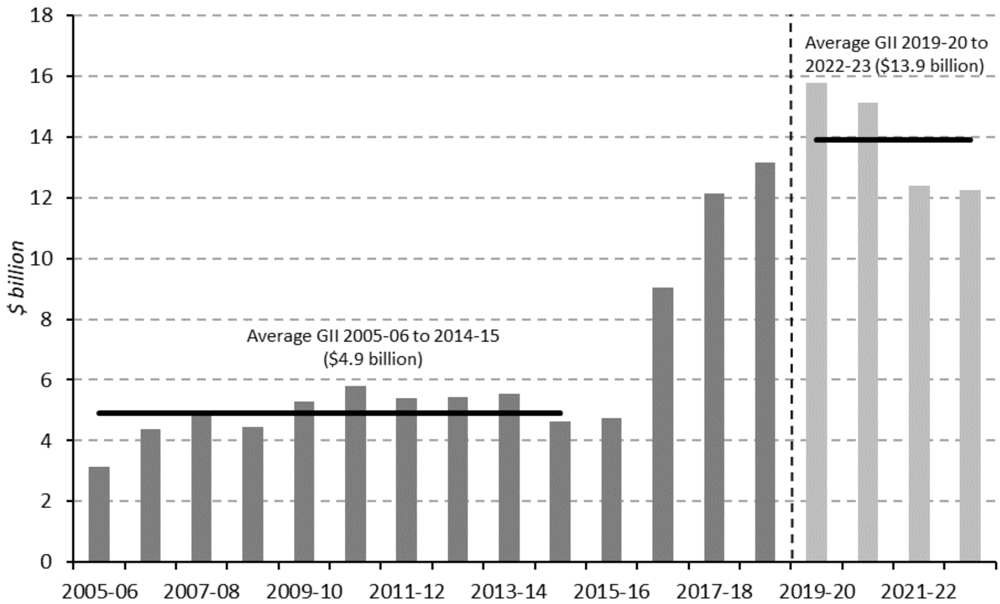
Other administrative variations are expected to increase the operating result by an average of $277 million a year across the budget and forward estimates, compared with the *2019-20 Budget*. These movements are largely due to:

- lower interest expenses reflecting recent interest rate cuts and a change in the profile of the Government's borrowings; and
- superannuation expenses decreasing primarily due to movements in the bond yields that underlie the key superannuation valuation assumptions.

Capital expenditure

Government infrastructure investment, which measures investment funded or facilitated by the Government, is expected to average $13.9 billion a year over the budget and forward estimates, nearly triple the average of $4.9 billion a year from 2005-06 to 2014-15 (as shown in Chart 3.1). This includes expenditure on major productivity-enhancing projects delivered through the Victorian Transport Fund, including North East Link, Melbourne Airport Rail and the removal of an additional 25 level crossings by 2025.

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



Notes:
(a) Includes general government net infrastructure investment and estimated construction costs for public private partnership 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

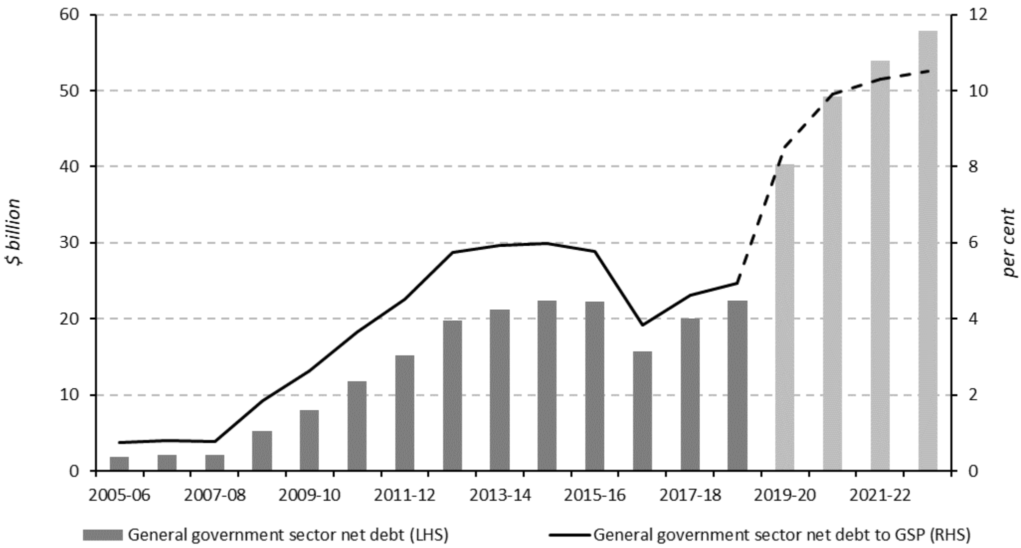
In the *2019-20 Budget*, the Government committed to stabilise net debt at 12 per cent of GSP over the medium term, with the additional borrowings directed to major productivity-enhancing infrastructure projects including North East Link, Melbourne Airport Rail and the removal of an additional 25 level crossings by 2025. The increase was also necessary to accommodate changes to accounting standards, which account for around 1.7 percentage points of the increase in net debt to GSP in 2019-20.

The step change increase in net debt includes the requirement to classify most operating leases as debt and the progressive recognition during construction of capital expenditure and debt associated with financial service concession arrangements, including certain public private partnerships.

Importantly, the interest expense associated with the technical recognition of changes to accounting standards does not increase the underlying cost of borrowings.

As a proportion of GSP, net debt is projected to increase from its June 2020 level of 8.5 per cent to 10.5 per cent by June 2023 (as shown in Chart 3.2).

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



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 (as shown in Table 3.5) outlines the annual movements in net debt. General government sector net cash from operating activities is expected to average $6.1 billion a year over the budget and forward estimates.

Strong operating cash surpluses enable the Government to support the significant investment in the infrastructure and core services the State needs, while maintaining a responsible fiscal position.

Table 3.5: Application of cash resources for the general government sector [(a)] ($ million)

	2019-20 revised [(b)]	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Net result from transactions	**618**	**1 222**	**3 841**	**4 898**
Add back: non-cash revenue and expenses (net) [(c)]	2 740	3 404	3 695	4 078
Net cash flows from operating activities	**3 358**	**4 626**	**7 536**	**8 976**
Less: Total net investment in fixed assets [(d)]	**9 589**	**9 385**	**7 652**	**10 258**
Surplus/(deficit) of cash from operations after funding net investment in fixed assets	**(6 232)**	**(4 759)**	**(115)**	**(1 282)**
Less:				
Leases and service concession arrangements [(e)]	9 829	2 770	3 555	2 272
Other movements	1 881	1 394	930	403
Decrease/(increase) in net debt	**(17 941)**	**(8 923)**	**(4 601)**	**(3 958)**

Notes:
(a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.
(b) Movements in 2019-20 include the impact of the new accounting standards.
(c) 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.
(d) Includes total purchases of plant, property and equipment, and net capital contributions to other sectors of government net of proceeds from asset sales.
(e) Includes most operating leases which are now required to be recognised as lease liabilities. The financial liabilities relating to public private partnerships include the Casey Hospital expansion, the High Capacity Metro Trains Project, the Metro Tunnel, the new Footscray Hospital, North East Link and the Suburban Roads Upgrade – Northern Roads Upgrade, South Eastern Roads Upgrade and Western Roads Upgrade.

Unfunded superannuation liability

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

FISCAL RISKS

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

Details of specific contingent assets and liabilities, defined as possible assets or liabilities that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the State, are contained within Chapter 6 *Contingent assets and contingent liabilities*.

General fiscal risks

State taxes

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

Revenue from property-based taxes, such as land tax and land transfer duty, are subject to unique risks and historically have been volatile. The *2019-20 Budget Update* incorporates continued growth in revenue over the budget and forward estimates. Property markets can exhibit large cycles typically related to changes in interest rates and/or changes in sentiment. If property prices and transaction volumes were to pick up more than anticipated, or mortgage interest rates fall by more than currently expected, revenue from property-based taxes may be stronger than forecast. On the downside, prolonged global uncertainty and deterioration in Victorian economic conditions could lead to weaker collections.

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 the derived increased demand for government services.

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

Capital program risks

The Government is delivering a historically large program of capital investments which are aimed at improving the productivity of Victoria's transport network to get people out of traffic and home sooner. In addition to the projects the Government has already funded, there is a substantial pipeline of investments that are in their development phase and will be ready for funding over the coming years.

This increased level of infrastructure investment in Victoria coincides with similar increases in New South Wales. Investment is anticipated to remain at current levels over the next 10 years and constrains some sectors. These constraints include shortages in skilled labour, materials and advisory services, placing pressure on delivery timetables and costs. To mitigate the impact of these constraints, the Government is implementing a range of strategies to support growth in the construction industry, including freeing up supply chains and increasing investment in skills.

Specific fiscal risks

Commonwealth schools funding

In June 2017, the Commonwealth Government passed amendments to the *Australian Education Act 2013* to implement a new national school funding model. Victoria has signed the NSRA and an accompanying bilateral agreement, which expire on 31 December 2023. Estimates of funding required to acquit the Schooling Resource Standard target in a given year will be based on student number and profile projections for that year. Expenditure targets will be finalised towards the end of or after the school year in question based on actual student data, creating a risk that the Victorian and Commonwealth targets differ from the funding allocated that year.

Universal Access to Early Childhood Education

The Commonwealth's financial contribution to assist the states and territories to provide 15 hours a week of preschool support per student is supplied under the National Partnership Agreement on Universal Access to Early Childhood Education. Funding under this agreement expires on 31 December 2020 and ongoing Commonwealth funding arrangements are uncertain. A review of the agreement is underway, with interim findings expected to be delivered by the end of 2019, and will inform Commonwealth and state government consideration of preschool arrangements from 2021.

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 are provided.

A Heads of Agreement was proposed by the Commonwealth at the Council of Australian Governments on 9 February 2018, which has been signed by all states and territories, including Victoria. Negotiations for the new National Health Agreement are ongoing.

Victoria's GST revenue

Victoria's GST revenue is broadly determined by three key factors:

- the amount of GST collected by the Commonwealth (the national GST pool);
- Victoria's GST relativity; and
- Victoria's share of the national population.

National GST pool

If consumption growth or dwelling investment recover more slowly than expected, the national GST pool could grow more slowly, resulting in lower GST grants to Victoria. Movements in the household saving ratio, in the context of high levels of household debt, are a source of uncertainty for household spending and to the GST pool outlook.

GST relativities

The national GST pool is shared between states and territories based on relativities determined annually by the Commonwealth Treasurer, informed by the recommendations of the Commonwealth Grants Commission.

These relativities are based on the relative fiscal capacity of each jurisdiction and are influenced by differences in revenue bases and costs of delivering services. Relativities are sensitive to a broad range of factors, including demographics, infrastructure needs, developments in property markets and global commodity prices (particularly for iron ore and coal).

Population

Victoria's population growth is forecast to remain high relative to other states and territories, resulting in an increase in Victoria's share of the national population. 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.

NON-FINANCIAL PUBLIC SECTOR

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

Summary operating statement

Table 3.6: Summary operating statement for the non-financial public sector [(a)] ($ million)

	2019-20 revised	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Revenue				
Taxation revenue	23 958	25 149	26 500	28 059
Interest revenue	239	258	268	267
Dividends, income tax equivalent and rate equivalent revenue	252	178	187	182
Sales of goods and services	12 089	12 797	12 941	13 484
Grant revenue	33 891	35 924	37 911	40 344
Other current revenue	3 635	3 781	3 867	3 986
Total revenue	**74 064**	**78 087**	**81 674**	**86 321**
% change [(b)]	*1.3*	*5.4*	*4.6*	*5.7*
Expenses				
Employee expenses	27 464	28 915	29 825	31 205
Net superannuation interest expense	411	332	316	301
Other superannuation	3 102	3 187	3 292	3 391
Depreciation	6 266	6 797	7 191	7 656
Interest expense	2 997	3 136	3 290	3 434
Grant expense	9 144	11 032	11 395	11 903
Other operating expenses	24 954	24 251	23 423	24 505
Total expenses	**74 338**	**77 649**	**78 732**	**82 394**
% change	*3.0*	*4.5*	*1.4*	*4.7*
Net result from transactions	**(274)**	**437**	**2 942**	**3 927**

Notes:
(a) This is a summary operating statement. Figures in this table are subject to rounding to the nearest million and may not add up to totals.
(b) The revenue and expense growth for 2019-20 is based on published figures in the 2018-19 Financial Report.

The net result from transactions of the NFPS is projected to reach around $4 billion by 2022-23. This is largely due to the projected increase in the general government sector surplus from $618 million in 2019-20 to $4.9 billion by 2022-23.

The net result from transactions of the PNFC sector is projected to be an average deficit of $693 million across the budget and forward estimates period. The deficits mainly reflect:

- depreciation expenses of VicTrack. However, VicTrack is estimated to generate an average annual operating cash flow surplus of $52 million over the budget and forward estimates; and
- depreciation expenses and costs associated with the Director of Housing managing a large and ageing asset portfolio. However, the Director of Housing is estimated to generate an average operating cash flow surplus of $119 million over the budget and forward estimates.

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

Application of cash resources

The NFPS is forecast to record operating cash flow surpluses averaging $7.4 billion across the budget and forward estimates. This will fund 56.7 per cent of the NFPS infrastructure program. This enables the State to deliver infrastructure projects without unduly impacting debt sustainability.

Table 3.7: Application of cash resources for the non-financial public sector [(a)] ($ million)

	2019-20 revised [(b)]	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Net result from transactions	(274)	437	2 942	3 927
Add back: non-cash income and expenses (net) [(c)]	4 558	5 546	6 037	6 355
Net cash flow from operating activities	**4 284**	**5 983**	**8 979**	**10 282**
Less: Total net investment in fixed assets [(d)]	**14 379**	**12 960**	**10 710**	**11 844**
Surplus/(deficit) of cash from operations after funding net investments in fixed assets	**(10 095)**	**(6 977)**	**(1 731)**	**(1 562)**
Less:				
Leases and service concession arrangements [(e)]	10 112	2 792	3 527	2 264
Other movements	(63)	90	354	513
Decrease/(increase) in net debt	**(20 144)**	**(9 859)**	**(5 612)**	**(4 338)**

Notes:

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

(b) Movements in 2019-20 include the impact of the new accounting standards.

(c) 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.

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

(e) Includes most operating leases which are now required to be recognised as lease liabilities. The financial liabilities relating to public private partnerships include the Casey Hospital expansion, the High Capacity Metro Trains Project, the Metro Tunnel, the new Footscray Hospital, North East Link, the Suburban Roads Upgrade – Northern Roads Upgrade, South Eastern Roads Upgrade and Western Roads Upgrade.

NFPS total net cash flows from investments in non-financial assets is projected to be $52 billion over the budget and forward estimates. This includes $8.4 billion in the PNFC sector, particularly in the water sector. The key water-related infrastructure projects under development include:

- upgrading and renewal of water and sewer assets by the Melbourne metropolitan water corporations, including the 55E Activated Sludge Treatment Plant at the Western Treatment Plant site (Melbourne Water Corporation), the Lockerbie Main Sewer and Monbulk Community Sewerage Program (Yarra Valley Water), the Boneo Water Recycling Plant (South East Water), and the inner city and CBD sewerage upgrade works (City West Water); and
- upgrading and renewal of water and sewer assets in regional Victoria, including Goulburn-Murray Water's Connections Project, which will connect irrigators to a modernised main system of irrigation channels, and the South West Loddon and East Grampians rural water supply pipeline extension projects by Grampians Wimmera Mallee Water.

NON-FINANCIAL PUBLIC SECTOR NET DEBT AND NET FINANCIAL LIABILITIES

Table 3.8 details NFPS net debt and financial liabilities.

Table 3.8: Non-financial public sector net debt and financial liabilities ($ billion)

	2019-20 revised	2020-21 estimate	2021-22 estimate	2022-23 estimate
Assets				
Cash and deposits	7.5	7.2	7.3	7.5
Advances paid	0.5	0.5	0.6	0.5
Investments, loans and placements	3.6	3.7	3.7	3.8
Total	**11.6**	**11.4**	**11.5**	**11.8**
Liabilities				
Deposits held and advances received	1.4	1.4	1.3	1.3
Borrowings	67.3	77.0	82.8	87.4
Total	**68.7**	**78.4**	**84.1**	**88.7**
Net debt (a)	**57.1**	**67.0**	**72.6**	**76.9**
Superannuation liability	28.5	26.9	25.4	23.9
Net debt plus superannuation liabilities	**85.6**	**93.9**	**98.0**	**100.8**
Other liabilities (net) (b)	27.2	27.5	27.5	26.2
Net financial liabilities (c)	**112.8**	**121.4**	**125.4**	**127.0**
				(per cent)
Net debt to GSP (d)	12.1	13.5	13.9	14.0
Net debt plus superannuation liability to GSP (d)	18.1	18.9	18.7	18.3
Net financial liabilities to GSP (d)	23.8	24.4	24.0	23.1
Net debt plus superannuation liability to revenue (e)	115.6	120.2	119.9	116.8

Notes:

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

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

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

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

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

NFPS net debt is projected to increase to $76.9 billion by 2022-23 following the ongoing investment in infrastructure projects over the budget and forward estimates. The NFPS net debt to GSP ratio is projected to increase from 12.1 per cent in 2019-20 to 14 per cent in 2022-23, predominantly driven by the general government sector.

Table 3.9 provides projections of several additional indicators of financial sustainability for the NFPS.

Table 3.9: Indicators of financial sustainability of non-financial public sector (per cent)

	2019-20 revised	2020-21 estimate	2021-22 estimate	2022-23 estimate
Operating cash flow surplus to revenue	5.8	7.7	11.0	11.9
Gross debt to revenue [(a)]	92.8	100.4	103.0	102.8
Interest expense to revenue	4.0	4.0	4.0	4.0

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

The operating cash flow surplus to revenue ratio is an indication of the level of cash generated from operations that can be used to fund infrastructure. This ratio increases strongly from 5.8 per cent in 2019-20 to 11.9 per cent by 2022-23 due to improving operating cash flow surpluses over the budget and forward estimates. This partly reflects the impact of revenue growth exceeding expenditure growth for the general government sector in line with the Government's prudent financial strategy implementing savings and efficiencies to improve the effectiveness of spending.

The ratio of NFPS interest expense to revenue is a measure of the State's debt service burden. This ratio is expected to be 4.0 per cent in 2019-20 and remain stable over the budget and forward estimates. This is due to debt requirements (new and refinancing of existing debt) being financed at historically low interest rates and an estimated increase in revenue. The overall debt burden is evidenced by the ratio of gross debt to revenue ratio, which is estimated to be 92.8 per cent in 2019-20, increasing to 102.8 per cent by 2022-23.

STATE OF VICTORIA

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

Table 3.10: Summary operating statement of the State of Victoria [(a)] ($ million)

	2019-20 revised	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Revenue				
Taxation revenue	23 941	25 133	26 483	28 042
Interest revenue	457	422	484	488
Dividends, income tax equivalent and rate equivalent revenue	1 876	1 824	1 830	1 882
Sales of goods and services	16 263	17 163	17 519	18 279
Grant revenue	32 342	34 508	36 555	39 649
Other current revenue	3 659	3 805	3 892	4 013
Total revenue	**78 539**	**82 855**	**86 764**	**92 354**
% change [(b)]	*(0.1)*	*5.5*	*4.7*	*6.4*
Expenses				
Employee expenses	27 457	28 915	29 825	31 196
Net superannuation interest expense	411	332	316	301
Other superannuation	3 134	3 219	3 326	3 425
Depreciation	6 345	6 896	7 315	7 797
Interest expense	3 093	3 178	3 340	3 484
Grant expense	9 168	11 057	11 417	11 914
Other operating expenses	33 095	32 479	32 025	33 350
Total expenses	**82 704**	**86 077**	**87 564**	**91 466**
% change	*3.4*	*4.1*	*1.7*	*4.5*
Net result from transactions	**(4 165)**	**(3 222)**	**(800)**	**887**
Total other economic flows included in net result	**(411)**	**1 100**	**1 264**	**1 289**
Net result	**(4 576)**	**(2 122)**	**465**	**2 176**

Notes:

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

(b) *The revenue and expense growth for 2019-20 is based on published figures in the* 2018-19 Financial Report.

The net result from transactions for the State in 2019-20 is projected to be a deficit of $4.2 billion, improving to a surplus of $887 million by 2022-23.

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

Consequently, the net result is a more meaningful measure of the expected operating position of the PFC sector and the State as it includes this substantial projected investment income averaging $811 million over the budget and forward estimates. The net result at a State level is a deficit of $4.6 billion in 2019-20, improving to a $2.2 billion surplus by 2022-23.

The large deficit in 2019-20 is largely due to the impact of a fall in bond rates which are used to value the claims liabilities of the Transport Accident Commission, WorkSafe and the Victorian Managed Insurance Authority. The fall in bond rates has increased insurance liabilities by $2.4 billion which is shown as a loss in the net result.

Table 3.11 shows the State's financial position is projected to improve over the budget and forward estimates. Overall, the State's net assets are forecast to increase from $182 billion in 2019-20 to $202 billion by 2022-23. Financial assets are estimated to increase from $62 billion in 2019-20 to $65 billion by 2022-23. Non-financial assets are estimated to increase from $310 billion in 2019-20 to $351 billion by 2022-23. This increase reflects the Government's large pipeline of infrastructure spending.

The superannuation liability is projected to fall from $28 billion in 2019-20 to $24 billion in 2022-23 reflecting the contributions the Government is making to fully fund the liabilities of the former state superannuation fund by 2035.

Offsetting these improvements in net assets is a projected increase in borrowings from $78 billion in 2019-20 to $98 billion by 2022-23. The incremental borrowings will be used to fund the Government's large pipeline of infrastructure spending.

Table 3.11: Summary balance sheet for the State of Victoria [(a)] **($ billion)**

	2019-20 revised	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Assets				
Total financial assets	62	61	63	65
Total non-financial assets	310	328	340	351
Total assets	**371**	**389**	**402**	**416**
Liabilities				
Superannuation	28	27	25	24
Borrowings	78	88	94	98
Deposits held and advances received	2	2	1	1
Other liabilities	81	85	88	91
Total liabilities	**190**	**201**	**209**	**214**
Net assets	**182**	**188**	**194**	**202**

Note:

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

CHAPTER 4 – ESTIMATED FINANCIAL STATEMENTS AND NOTES

ESTIMATED GENERAL GOVERNMENT SECTOR COMPREHENSIVE OPERATING STATEMENT

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

	Notes	*2019-20 budget*	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Revenue from transactions						
Taxation revenue	4.2.1	24 328	24 382	25 427	26 791	28 356
Interest revenue		719	712	692	681	669
Dividends, income tax equivalent and rate equivalent revenue	4.2.2	863	825	515	525	570
Sales of goods and services	4.2.3	8 030	8 118	8 791	9 086	9 243
Grant revenue	4.2.4	34 093	33 889	35 922	37 910	40 345
Other revenue	4.2.5	2 999	3 025	3 170	3 268	3 382
Total revenue from transactions		**71 032**	**70 951**	**74 517**	**78 260**	**82 566**
Expenses from transactions						
Employee expenses		26 208	26 089	27 536	28 409	29 765
Net superannuation interest expense	4.3.2	565	407	328	312	297
Other superannuation	4.3.2	2 960	2 965	3 049	3 147	3 241
Depreciation	4.4.2	3 748	3 717	4 113	4 343	4 647
Interest expense	4.5.3	2 611	2 556	2 622	2 752	2 875
Grant expense	4.3.3	12 934	13 015	14 869	15 306	15 915
Other operating expenses	4.3.4	20 955	21 584	20 779	20 149	20 929
Total expenses from transactions	4.3.5	**69 982**	**70 333**	**73 295**	**74 419**	**77 668**
Net result from transactions – net operating balance		**1 050**	**618**	**1 222**	**3 841**	**4 898**
Other economic flows included in net result						
Net gain/(loss) on disposal of non-financial assets		40	25	1	23	41
Net gain/(loss) on financial assets or liabilities at fair value		25	18	18	15	15
Other gains/(losses) from other economic flows	4.7.1	(388)	(382)	(389)	(394)	(418)
Total other economic flows included in net result		**(323)**	**(339)**	**(370)**	**(355)**	**(361)**
Net result		**726**	**279**	**852**	**3 486**	**4 537**

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

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

	Notes	*2019-20 budget*	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Other economic flows – other comprehensive income						
Items that will not be reclassified to net result						
Changes in non-financial assets revaluation surplus		3 204	3 114	5 387	3 727	4 801
Remeasurement of superannuation defined benefit plans	4.3.2	1 109	63	1 424	1 454	1 481
Other movements in equity		47	..	..	26	24
Items that may be reclassified subsequently to net result						
Net gain/(loss) on financial assets at fair value		2	2	3	3	3
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	4.6.1	692	383	651	(579)	(670)
Total other economic flows – other comprehensive income		**5 055**	**3 563**	**7 465**	**4 630**	**5 638**
Comprehensive result – total change in net worth		**5 782**	**3 842**	**8 317**	**8 116**	**10 175**
KEY FISCAL AGGREGATES						
Net operating balance		**1 050**	**618**	**1 222**	**3 841**	**4 898**
Less: Net acquisition of non-financial assets from transactions	4.3.7	3 889	6 529	5 388	3 642	3 977
Net lending/(borrowing)		**(2 839)**	**(5 911)**	**(4 166)**	**200**	**921**

The accompanying notes form part of these Estimated Financial Statements.

ESTIMATED GENERAL GOVERNMENT SECTOR BALANCE SHEET

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

	Notes	2020 budget [a]	2020 revised	2021 estimate	2022 estimate	2023 estimate
Assets						
Financial assets						
Cash and deposits		7 736	6 266	6 301	6 491	6 673
Advances paid	4.5.2	6 243	6 478	5 193	4 669	4 701
Receivables		6 969	6 843	7 187	7 597	8 043
Investments, loans and placements	4.5.2	2 968	2 846	2 900	2 877	2 942
Investments accounted for using equity method		45	45	45	45	45
Investments in other sector entities	4.6.1	107 723	106 310	111 030	114 644	118 325
Total financial assets		**131 684**	**128 787**	**132 655**	**136 323**	**140 730**
Non-financial assets						
Inventories		172	172	176	180	184
Non-financial assets held for sale		215	229	223	234	236
Land, buildings, infrastructure, plant and equipment	4.4.1	165 417	168 202	179 823	187 696	195 961
Other non-financial assets	4.4.4	1 971	2 048	1 880	1 737	1 576
Total non-financial assets		**167 775**	**170 652**	**182 102**	**189 848**	**197 957**
Total assets	4.4.5	**299 459**	**299 439**	**314 758**	**326 170**	**338 686**
Liabilities						
Deposits held and advances received		3 215	3 205	2 002	1 350	1 194
Payables	4.6.2	16 430	16 014	16 573	16 807	16 096
Borrowings	4.5.1	51 237	52 732	61 663	66 558	70 953
Employee benefits	4.3.1	8 337	8 333	8 624	8 916	9 214
Superannuation	4.6.3	27 551	28 437	26 844	25 331	23 817
Other provisions		1 056	1 024	1 042	1 083	1 113
Total liabilities		**107 826**	**109 746**	**116 748**	**120 045**	**122 386**
Net assets		**191 633**	**189 693**	**198 010**	**206 125**	**216 300**
Accumulated surplus/(deficit)		57 449	79 584	81 862	86 827	92 868
Reserves		134 184	110 109	116 148	119 298	123 432
Net worth		**191 633**	**189 693**	**198 010**	**206 125**	**216 300**
FISCAL AGGREGATES [b]						
Net financial worth		23 858	19 041	15 907	16 278	18 343
Net financial liabilities		83 865	87 268	95 122	98 367	99 981
Net debt		37 506	40 348	49 272	53 872	57 830

The accompanying notes form part of these Estimated Financial Statements.

Notes:
(a) Balances represent actual opening balances at 1 July 2019 plus 2019-20 budgeted movements.
(b) The fiscal aggregates are defined in Note 9.9 of the 2018-19 Financial Report.

ESTIMATED GENERAL GOVERNMENT SECTOR CASH FLOW STATEMENT

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

	Notes	2019-20 budget	2019-20 revised	2020-21 estimate	2021-22 estimate	2022-23 estimate
Cash flows from operating activities						
Receipts						
Taxes received		24 098	24 183	25 066	26 397	27 977
Grants		34 118	33 904	35 931	37 904	40 345
Sales of goods and services [(a)]		8 774	8 881	9 610	9 936	10 132
Interest received		719	704	682	670	658
Dividends, income tax equivalent and rate equivalent receipts		857	820	510	520	565
Other receipts		2 134	2 183	2 346	2 410	2 398
Total receipts		**70 701**	**70 675**	**74 145**	**77 837**	**82 075**
Payments						
Payments for employees		(25 898)	(25 782)	(27 252)	(28 123)	(29 473)
Superannuation		(3 497)	(3 504)	(3 545)	(3 520)	(3 572)
Interest paid		(2 081)	(2 273)	(2 281)	(2 349)	(2 333)
Grants and subsidies		(12 927)	(13 007)	(14 867)	(15 304)	(15 913)
Goods and services [(a)]		(20 895)	(21 945)	(20 760)	(20 244)	(21 030)
Other payments		(801)	(805)	(814)	(760)	(778)
Total payments		**(66 099)**	**(67 317)**	**(69 519)**	**(70 301)**	**(73 099)**
Net cash flows from operating activities		**4 602**	**3 358**	**4 626**	**7 536**	**8 976**
Cash flows from investing activities						
Cash flows from investments in non-financial assets						
Purchases of non-financial assets	4.3.6	(13 102)	(13 290)	(12 196)	(9 096)	(10 937)
Sales of non-financial assets		825	349	313	492	534
Net cash flows from investments in non-financial assets		**(12 277)**	**(12 941)**	**(11 883)**	**(8 605)**	**(10 404)**
Net cash flows from investments in financial assets for policy purposes		3 106	3 351	2 498	953	145
Subtotal		**(9 171)**	**(9 589)**	**(9 385)**	**(7 652)**	**(10 258)**
Net cash flows from investment in financial assets for liquidity management purposes		(361)	(278)	(29)	44	(34)
Net cash flows from investing activities		**(9 532)**	**(9 868)**	**(9 414)**	**(7 608)**	**(10 293)**
Cash flows from financing activities						
Advances received (net)		(1 930)	(1 941)	(1 203)	(652)	(156)
Net borrowings		4 821	4 942	6 026	913	1 655
Net cash flows from financing activities		**2 891**	**3 001**	**4 823**	**261**	**1 499**
Net increase/(decrease) in cash and cash equivalents		(2 039)	(3 509)	35	190	182
Cash and cash equivalents at beginning of reporting period [(b)]		9 775	9 775	6 266	6 301	6 491
Cash and cash equivalents at end of reporting period [(b)]		**7 736**	**6 266**	**6 301**	**6 491**	**6 673**

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

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

	Notes	2019-20 budget	2019-20 revised	2020-21 estimate	2021-22 estimate	2022-23 estimate
FISCAL AGGREGATES						
Net cash flows from operating activities		4 602	3 358	4 626	7 536	8 976
Net cash flows from investments in non-financial assets		(12 277)	(12 941)	(11 883)	(8 605)	(10 404)
Cash surplus/(deficit)		**(7 675)**	**(9 583)**	**(7 257)**	**(1 068)**	**(1 428)**

The accompanying notes form part of these Estimated Financial Statements.

Notes:

(a) Inclusive of goods and services tax.

(b) 2019-20 Budget *figures have been restated to represent actual opening balances at 1 July 2019.*

ESTIMATED GENERAL GOVERNMENT SECTOR STATEMENT OF CHANGES IN EQUITY

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

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*
2019-20 budget [(a)]		
Balance at 1 July 2019 [(b)]	55 565	65 569
Net result for the year	726	..
Other comprehensive income for the year	1 158	3 204
Transfer to/(from) accumulated surplus	..	..
Total equity as at 30 June 2020	**57 449**	**68 773**
2019-20 revised		
Balance at 1 July 2019 [(b)]	55 565	65 569
Net result for the year	279	..
Other comprehensive income for the year	65	3 114
Transfer to/(from) accumulated surplus	23 675	(23 675)
Total equity as at 30 June 2020	**79 584**	**45 008**
2020-21 estimate		
Balance at 1 July 2020	79 584	45 008
Net result for the year	852	..
Other comprehensive income for the year	1 426	5 387
Transfer to/(from) accumulated surplus	..	..
Total equity as at 30 June 2021	**81 862**	**50 395**
2021-22 estimate		
Balance at 1 July 2021	81 862	50 395
Net result for the year	3 486	..
Other comprehensive income for the year	1 479	3 727
Transfer to/(from) accumulated surplus	..	..
Total equity as at 30 June 2022	**86 827**	**54 122**
2022-23 estimate		
Balance at 1 July 2022	86 827	54 122
Net result for the year	4 537	..
Other comprehensive income for the year	1 504	4 801
Transfer to/(from) accumulated surplus	..	..
Total equity as at 30 June 2023	**92 868**	**58 922**

The accompanying notes form part of these Estimated Financial Statements.

Notes:

(a) Balances represent actual opening balances at 1 July 2019 plus 2019-20 budgeted movements.

(b) The 1 July 2019 balance has been restated resulting from the application of AASB 15 Revenue from Contracts with Customers, *AASB 1058* Income of Not for Profit Entities, *AASB 16* Leases *and AASB 1059* Service Concession Arrangements: Grantors.

	Investment in other sector entities revaluation surplus	*Other reserves*	*Total*
	63 697	1 020	185 851
	..	..	726
	692	1	5 055
	..	..	..
	64 390	**1 021**	**191 633**
	63 697	1 020	185 851
	..	..	279
	383	1	3 563
	..	..	..
	64 081	**1 021**	**189 693**
	64 081	1 021	189 693
	..	..	852
	651	1	7 465
	..	..	..
	64 732	**1 022**	**198 010**
	64 732	1 022	198 010
	..	..	3 486
	(579)	3	4 630
	..	..	..
	64 153	**1 024**	**206 125**
	64 153	1 024	206 125
	..	..	4 537
	(670)	3	5 638
	..	..	..
	63 483	**1 027**	**216 300**

4.1 ABOUT THIS REPORT

Basis of preparation

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

Except as indicated below, the detailed accounting policies applied in preparing the Estimated Financial Statements are consistent with those in the audited 2018-19 annual financial report published in the *2018-19 Financial Report* for the State of Victoria as presented to Parliament.

The audited 30 June 2019 asset and liability balances, as reported in the *2018-19 Financial Report*, adjusted for the impact of the new accounting standards (as indicated below) form the basis on which asset and liability balances are projected over the next four years.

Several new accounting standards issued by the Australian Accounting Standards Board (AASB) have been applied in this financial report. These are:

- AASB 15 *Revenue from Contracts with Customers*;
- AASB 1058 *Income of Not-for-profits Entities*;
- AASB 16 *Leases*; and
- AASB 1059 *Service Concession Arrangements: Grantors*.

The scope, high level requirements and estimated impacts of these new standards are outlined in Note 1.7.2 of the Estimated Financial Statements for 2019-20, presented in Chapter 1 of 2019-20 Budget Paper No. 5 *Statement of Finances*.

The Estimated Financial Statements for the 2019-20 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*, 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 4.7.4, the significant entities consolidated within the sector comprise those general government sector entities listed in Note 9.8 of Chapter 4 of the *2018-19 Financial Report* for the State of Victoria.

Compliance

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

The Estimated Financial Statements are presented in a manner consistent with the principles of AASB 1049. However, the prospective nature of these Estimated Financial Statements means that some AAS disclosures are neither relevant nor practical and have been omitted. Where applicable, those AAS paragraphs relevant to not-for-profit entities have been applied. Because AAS 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).

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 29 November 2019.

Material economic assumptions

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

Key economic assumptions [(a)]

	2018-19 actual	2019-20 forecast	2020-21 forecast	2021-22 projection	2022-23 projection
					($ billion)
Nominal gross state product	454.6	473.8	497.4	522.7	550.5
					(percentage change)
Real gross state product	3.00	2.50	2.75	2.75	2.75
Employment	3.4	2.00	1.75	1.75	1.75
Unemployment rate [(b)]	4.6	5.00	5.00	5.25	5.50
Consumer price index [(c)]	1.7	1.75	2.00	2.25	2.50
Wage price index [(d)]	2.7	3.00	3.25	3.25	3.50
Population [(e)]	2.10 [(f)]	2.00	1.90	1.90	1.80

Notes:

(a) Percentage change in year average terms compared with previous year, except for the unemployment rate (see note (b)) and population (see note (e)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (e)). Projections for 2021-22 and 2022-23 represent long-run average growth rates, except for the wage price index, which remains below trend in 2021-22, 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 60.2; and oil prices that follow the path suggested by the futures market.

(b) Year average, per cent.

(c) Melbourne consumer price index.

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

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

(f) Estimate, actual not yet available.

4.2 HOW FUNDS ARE RAISED

Introduction

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

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

Structure

4.2.1 Taxation revenue ($ million)

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Taxes on employers' payroll and labour force	**6 537**	**6 590**	**6 871**	**7 152**	**7 447**
Taxes on immovable property					
Land tax	3 659	3 545	3 714	4 062	4 517
Fire Services Property Levy	709	709	738	756	776
Congestion levy	101	101	101	100	100
Metropolitan improvement levy	183	183	187	191	195
Total taxes on property	**4 653**	**4 538**	**4 740**	**5 109**	**5 588**
Gambling taxes					
Public lotteries	444	502	515	530	546
Electronic gaming machines	1 140	1 115	1 133	1 153	1 188
Casino	238	233	241	247	254
Racing and other sports betting	140	156	159	162	165
Other	13	11	11	11	11
Financial and capital transactions					
Land transfer duty	5 896	6 025	6 434	6 813	7 241
Metropolitan planning levy	22	20	20	21	21
Financial accommodation levy	178	163	172	184	187
Growth areas infrastructure contributions	285	293	322	369	413
Levies on statutory corporations [(a)]	**157**	**157**	**..**	**..**	**..**
Taxes on insurance	**1 479**	**1 467**	**1 562**	**1 661**	**1 767**
Total taxes on the provision of goods and services	**9 992**	**10 143**	**10 568**	**11 151**	**11 794**
Motor vehicle taxes					
Vehicle registration fees	1 784	1 771	1 844	1 920	2 006
Duty on vehicle registrations and transfers	1 029	1 008	1 064	1 110	1 156
Liquor licence fees	**26**	**25**	**26**	**28**	**29**
Other	**307**	**307**	**313**	**321**	**337**
Total taxes on the use of goods and performance of activities	**3 146**	**3 111**	**3 247**	**3 379**	**3 527**
Total taxation revenue	**24 328**	**24 382**	**25 427**	**26 791**	**28 356**

Note:

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

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

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Dividends from PFC sector	132	111	39	45	37
Dividends from PNFC sector	385	340	115	132	168
Dividends from non-public sector	107	111	110	111	112
Dividends	**624**	**562**	**264**	**288**	**318**
Income tax equivalent revenue from PFC sector	8	6	7	8	8
Income tax equivalent revenue from PNFC sector	224	250	238	223	238
Income tax equivalent revenue	**232**	**257**	**245**	**231**	**246**
Local government rate equivalent revenue	7	6	6	7	6
Total dividends, income tax equivalent and rate equivalent revenue	**863**	**825**	**515**	**525**	**570**

Dividends by entity [(a)] ($ million)

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Public financial corporations					
Victorian Managed Insurance Authority	52	52	..	..	..
Treasury Corporation of Victoria	72	50	31	36	28
State Trustees Ltd	2	2	1	1	1
Victorian Funds Management Corporation	6	7	6	7	8
Dividends from PFC sector	**132**	**111**	**39**	**45**	**37**
City West Water Corporation	68	66	32	34	34
Melbourne Water Corporation	53	69	1	..	..
South East Water Corporation	140	135	38	41	45
Yarra Valley Water Corporation	77	68	33	37	36
Development Victoria	43	1	11	17	51
Others	4	2	1	2	2
Dividends from PNFC sector	**385**	**340**	**115**	**132**	**168**

Note:

(a) *Amounts equivalent to dividends to be paid by the Victorian Managed Insurance Authority and 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*. The amounts, subject to annual review, that are forecast to be paid are $890 million in 2019-20, $982 million in 2020-21 and $1 billion in 2021-22 for the Transport Accident Commission and $277 million in 2019-20, $105 million in 2020-21, $46 million in 2021-22 and $49 million in 2022-23 for the Victorian Managed Insurance Authority. WorkSafe Victoria is forecast to pay $125 million in 2021-22 and $575 million in 2022-23 as contributions forming part of grant revenue. These payments from the three insurance agencies include contributions to the Delivering for all Victorians Infrastructure Fund.*

4.2.3 Sales of goods and services ($ million)

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Motor vehicle regulatory fees	242	240	272	306	315
Other regulatory fees	579	593	593	620	635
Sale of goods	99	89	93	94	96
Provision of services	4 630	4 715	5 169	5 278	5 328
Rental	86	86	87	89	91
Refunds and reimbursements	11	11	11	11	11
Inter-sector capital asset charge	2 384	2 384	2 566	2 686	2 766
Total sales of goods and services	**8 030**	**8 118**	**8 791**	**9 086**	**9 243**

4.2.4 Grant revenue ($ million)

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
General purpose grants	17 535	17 028	18 336	19 810	21 379
Specific purpose grants for on-passing	3 936	3 927	4 564	4 832	5 108
Grants for specific purposes	11 026	11 363	11 587	11 901	13 155
Total	**32 497**	**32 318**	**34 487**	**36 543**	**39 642**
Other contributions and grants	1 596	1 570	1 435	1 367	703
Total grant revenue	**34 093**	**33 889**	**35 922**	**37 910**	**40 345**

4.2.5 Other revenue ($ million)

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Fair value of assets received free of charge or for nominal consideration	56	63	56	57	57
Fines	822	822	868	931	959
Royalties	110	121	142	143	134
Donations and gifts	209	210	239	249	239
Other non-property rental	28	28	29	31	33
Other revenue – Education	651	640	656	673	690
Other revenue – Health	220	220	233	238	242
Revenue related to economic service concession arrangements [(a)]	337	337	351	352	443
Other miscellaneous revenue	566	584	596	594	584
Total other revenue	**2 999**	**3 025**	**3 170**	**3 268**	**3 382**

Note:
(a) This revenue relates to economic service concession arrangements and reflects the progressive unwinding of the grant of right to operate liability over the remaining period of the arrangement.

4.3 HOW FUNDS ARE SPENT

Introduction

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

Structure

4.3.1 Employee expenses and provision for outstanding employee benefits

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

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

	2020 budget	*2020 revised*	*2021 estimate*	*2022 estimate*	*2023 estimate*
Current					
Accrued salaries and wages	670	671	686	698	713
Other employee benefits	84	81	81	81	81
Annual leave	1 794	1 801	1 836	1 873	1 909
Long service leave	4 617	4 602	4 747	4 892	5 037
Total current employee benefits and on-costs	**7 164**	**7 155**	**7 349**	**7 544**	**7 740**
Non-current					
Long service leave	1 173	1 178	1 274	1 372	1 474
Total non-current employee benefits and on-costs	**1 173**	**1 178**	**1 274**	**1 372**	**1 474**
Total employee benefits	**8 337**	**8 333**	**8 624**	**8 916**	**9 214**

4.3.2 Superannuation expense

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

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Defined benefit plans					
Net superannuation interest expense	565	407	328	312	297
Current service cost	1 093	1 108	1 138	1 191	1 231
Remeasurements:					
Expected return on superannuation assets excluding interest income	(1 109)	(1 316)	(1 424)	(1 454)	(1 481)
Other actuarial (gain)/loss on superannuation assets	..	(15)	..	..	..
Actuarial and other adjustments to unfunded superannuation liability	..	1 267	..	..	..
Total expense recognised in respect of defined benefit plans	**549**	**1 452**	**42**	**50**	**47**
Defined contribution plans					
Employer contributions to defined contribution plans	1 794	1 784	1 835	1 880	1 941
Other (including pensions)	73	73	75	76	69
Total expense recognised in respect of defined contribution plans	**1 868**	**1 858**	**1 910**	**1 956**	**2 011**
Total superannuation (gain)/expense recognised in operating statement	**2 416**	**3 310**	**1 952**	**2 006**	**2 058**
Represented by:					
Net superannuation interest expense	565	407	328	312	297
Other superannuation	2 960	2 965	3 049	3 147	3 241
Superannuation expense from transactions	**3 526**	**3 373**	**3 376**	**3 459**	**3 538**
Remeasurements recognised in other comprehensive income	**(1 109)**	**(63)**	**(1 424)**	**(1 454)**	**(1 481)**
Total superannuation expense recognised in operating statement	**2 416**	**3 310**	**1 952**	**2 006**	**2 058**

The accounting policies relating to superannuation expenses and liabilities are consistent with the *2019-20 Budget*. However, the forecast assumptions have been revised for each relevant defined benefit superannuation scheme as in the following table.

Superannuation assumptions **(per cent)**

Underlying assumptions for all listed schemes [(a)]	
Discount rate [(b)]	1.1
Wages growth [(c)]	2.6
Inflation rate [(d)]	1.1
Expected return on assets [(e)]	
Emergency Services and State Super	7.6
Health Super Fund Defined Benefit Scheme	5.0
Constitutionally protected schemes [(f)]	n.a.

Notes:

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

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

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

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

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

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

4.3.3 Grant expense ($ million)

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Current grant expense					
Commonwealth Government [(a)]	1 696	1 614	2 959	3 038	3 033
Local government (including grants for on-passing)	692	757	742	650	628
Private sector and not-for-profit for on-passing	3 627	3 580	3 867	4 102	4 343
Other private sector and not-for-profit	2 637	2 637	2 872	3 062	3 284
Grants within the Victorian Government	3 877	3 980	3 934	3 995	4 094
Grants to other state governments	21	21	21	21	21
Total current grant expense	**12 551**	**12 590**	**14 395**	**14 869**	**15 403**
Capital grant expense					
Local government (including grants for on-passing)	110	136	194	213	334
Private sector and not-for-profit on-passing	236	252	274	219	174
Other private sector and not-for-profit	14	14	4	4	4
Grants within the Victorian Government	17	17	2	1	..
Other grants	5	5	..	..	..
Total capital grant expense	**383**	**424**	**474**	**437**	**511**
Total grant expense	**12 934**	**13 015**	**14 869**	**15 306**	**15 915**

Note:

(a) The increase in Commonwealth grant expense in 2020-21 is largely driven by the State's contribution to the National Disability Insurance Scheme (NDIS).

4.3.4 Other operating expenses ($ million)

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Purchase of supplies and consumables [a]	5 811	5 600	5 652	5 746	6 581
Cost of goods sold	31	31	31	32	33
Finance expenses and fees	33	41	41	42	42
Purchase of services [a][b]	12 926	13 619	12 846	12 260	12 169
Insurance claims expense	263	265	265	270	274
Maintenance	964	1 095	1 012	914	927
Short term and low value lease expense	79	84	74	76	75
Other	847	850	859	809	828
Total other operating expenses	**20 955**	**21 584**	**20 779**	**20 149**	**20 929**

Notes:

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

(b) The reduction in the purchase of services in 2020-21 is partly driven by 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)

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Medicinal pharmacy and medical supplies	1 613	1 627	1 644	1 650	1 656
Office supplies and consumables	191	195	212	218	221
Specialised operational supplies and consumables	153	155	157	152	154
Other purchase of supplies and consumables	3 854	3 623	3 638	3 726	4 550
Total purchase of supplies and consumables	**5 811**	**5 600**	**5 652**	**5 746**	**6 581**

Purchase of services ($ million)

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Service contracts [a]	7 861	8 090	7 584	7 501	7 475
Accommodation/occupancy	735	762	753	748	750
Medical and client care services	408	409	410	409	399
Staff related expenses (non-labour related)	289	312	282	280	288
Other purchase of services	3 633	4 045	3 817	3 322	3 257
Total purchase of services	**12 926**	**13 619**	**12 846**	**12 260**	**12 169**

Note:

(a) The reduction in service contracts in 2020-21 is largely due to the State's existing expenditure on disability services, including payments to disability service providers, being allocated towards the State's contribution to the NDIS. These services will be funded by the NDIS.

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

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

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
General public services	3 821	3 621	3 578	3 670	3 774
Public order and safety	8 611	8 640	8 751	8 844	8 939
Economic affairs [(b)]	1 991	2 237	1 415	1 176	1 079
Environmental protection	840	866	795	753	675
Housing and community amenities	2 083	2 214	2 325	2 268	2 289
Health	20 977	21 007	22 003	22 291	23 310
Recreation, culture and religion	927	892	1 026	734	648
Education	16 939	16 906	17 650	18 870	20 160
Social protection [(c)]	5 535	5 606	6 452	6 486	6 605
Transport	9 164	9 312	9 345	8 967	9 402
Not allocated by purpose [(d)]	(907)	(968)	(46)	360	787
Total expenses by the classification of the functions of government	**69 982**	**70 333**	**73 295**	**74 419**	**77 668**

Notes:

(a) The 2019-20 Budget *figures have been reclassified between different categories to reflect more current information.*

(b) The decrease in the 'Economic affairs' classification over the forward estimates is driven by fixed-term and lapsing initiative funding provided in previous state budgets.

(c) The increase in the 'Social Protection' classification in 2020-21 is largely driven by the State's contribution to the NDIS.

(d) Mainly comprises the 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)

	2019-20 *budget*	2019-20 *revised*	2020-21 *estimate*	2021-22 *estimate*	2022-23 *estimate*
Education and Training	19 255	19 477	19 759	20 153	20 783
Environment, Land, Water and Planning	3 472	3 687	3 348	3 101	2 991
Health and Human Services	27 923	28 151	28 991	28 987	29 503
Jobs, Precincts and Regions	2 403	2 574	1 864	1 525	1 399
Justice and Community Safety	8 047	8 225	8 271	8 443	8 521
Premier and Cabinet	671	712	596	490	576
Transport	9 224	9 097	9 242	8 895	9 284
Treasury and Finance	7 764	7 572	7 491	7 707	7 913
Parliament	244	248	238	240	244
Courts	710	718	726	765	769
Regulatory bodies and other part funded agencies [a]	2 470	2 614	2 577	2 439	2 403
Output contingencies not allocated to departments [b]	1 187	837	2 250	3 770	5 550
Total expenses by department	**83 369**	**83 912**	**85 354**	**86 517**	**89 936**
Less eliminations and adjustments [c]	(13 387)	(13 579)	(12 059)	(12 098)	(12 267)
Total expenses	**69 982**	**70 333**	**73 295**	**74 419**	**77 668**

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 payroll tax, capital asset charge, departmental underspend estimates and inter-departmental transfers.

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

	2019-20 *budget*	2019-20 *revised*	2020-21 *estimate*	2021-22 *estimate*	2022-23 *estimate*
Decisions made but not yet allocated [a]	1 187	787	2 050	3 170	4 650
Funding not allocated to specific purposes [b]	..	50	200	600	900
Total general government output contingencies	**1 187**	**837**	**2 250**	**3 770**	**5 550**

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

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

Purchases of non-financial assets by classification of the functions of government ($ million)

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
General public services	47	66	138	24	24
Public order and safety	1 658	1 899	1 561	768	276
Economic affairs	67	98	65	47	41
Environmental protection	164	170	87	55	64
Housing and community amenities	40	35	146	162	58
Health	966	1 021	862	647	534
Recreation, culture and religion	167	164	135	144	47
Education	1 750	1 873	1 116	851	615
Social protection	134	133	91	62	62
Transport	9 847	9 603	8 212	5 730	7 960
Not allocated by purpose [(a)]	(1 738)	(1 773)	(218)	607	1 256
Total purchases of non-financial assets	**13 102**	**13 290**	**12 196**	**9 096**	**10 937**

Note:

(a) Estimated amount available to be allocated to departments and projects in future budgets, including major capital investment. It also includes departmental underspend, which may be subject to carryover and other regulatory bodies and other part funded agencies estimated underspend.

Purchases of non-financial assets by portfolio department ($ million)

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Education and Training	1 758	1 882	938	426	212
Environment, Land, Water and Planning	144	129	113	104	103
Health and Human Services	1 134	1 185	808	529	199
Jobs, Precincts and Regions	160	161	63	45	41
Justice and Community Safety	1 058	1 464	1 016	297	114
Premier and Cabinet	14	26	8	12	12
Transport	6 887	6 374	5 331	2 583	1 628
Treasury and Finance	33	33	18	15	15
Parliament	2	10	..	..	..
Courts	83	116	119	80	6
Regulatory bodies and other part funded agencies [(a)]	265	342	192	143	114
Asset contingencies not allocated to departments [(b)]	3 125	3 204	3 861	4 731	7 587
Adjustments [(c)]	(1 561)	(1 635)	(272)	131	906
Total purchases of non-financial assets	**13 102**	**13 290**	**12 196**	**9 096**	**10 937**

Notes:

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

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

(c) Mainly comprises estimated departmental underspend, which may be subject to carryover and other regulatory bodies and other part funded agencies estimated underspend.

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

	2019-20 budget	2019-20 revised	2020-21 estimate	2021-22 estimate	2022-23 estimate
Decisions made but not yet allocated [(a)]	3 125	3 204	3 611	4 231	6 787
Funding not allocated to specific purposes [(b)]	..	..	250	500	800
Total general government asset contingencies	**3 125**	**3 204**	**3 861**	**4 731**	**7 587**

Notes:

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

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

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

	2019-20 budget	2019-20 revised	2020-21 estimate	2021-22 estimate	2022-23 estimate
Purchases of non-financial assets (including change in inventories)	13 105	13 293	12 200	9 100	10 941
Less: Sales of non-financial assets	(825)	(349)	(313)	(492)	(534)
Less: Depreciation and amortisation	(3 748)	(3 717)	(4 113)	(4 343)	(4 647)
Less: Other movements in non-financial assets [(a)(b)]	(4 643)	(2 699)	(2 386)	(624)	(1 784)
Total net acquisition of non-financial assets from transactions	**3 889**	**6 529**	**5 388**	**3 642**	**3 977**

Notes:

(a) The other movements in non-financial assets includes transferring fixed assets to other sectors of government, recognising the right of use assets under lease arrangements, and recognising service concession arrangements, including from public private partnerships. Some of these items have been impacted by the application of the new accounting standards.

(b) The public private partnerships across the forward estimates relate to the Casey Hospital expansion, the High Capacity Metro Trains Project, the Metro Tunnel, the new Footscray Hospital, North East Link, the Suburban Roads Upgrade – Northern Roads Upgrade, South Eastern Roads Upgrade and Western Roads Upgrade, and the West Gate Tunnel Project.

4.4 MAJOR ASSETS AND INVESTMENTS

Introduction

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

Structure

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

	2020 *budget*	2020 *revised*	2021 *estimate*	2022 *estimate*	2023 *estimate*
Buildings	44 228	45 889	48 147	51 681	52 673
Land and national parks	59 464	59 537	63 076	63 149	65 985
Infrastructure systems	6 210	6 509	7 794	8 629	8 790
Plant, equipment and vehicles	3 150	3 301	3 157	2 831	2 377
Roads and road infrastructure	37 474	38 069	42 012	45 718	50 468
Earthworks	9 238	9 238	9 235	9 237	9 225
Cultural assets	5 653	5 660	6 403	6 451	6 443
Total land, buildings, infrastructure, plant and equipment	**165 417**	**168 202**	**179 823**	**187 696**	**195 961**

The following two tables are subsets of total land, buildings, infrastructure, plant and equipment by right of use (leased) assets and service concession assets.

Total right of use (leased) assets: land, buildings, infrastructure, plant and equipment

($ million)

	2020 budget	*2020 revised*	*2021 estimate*	*2022 estimate*	*2023 estimate*
Buildings	7 696	8 802	8 390	7 912	7 393
Infrastructure systems	6	13	10	8	5
Plant, equipment and vehicles	321	529	601	580	489
Total right of use assets: land, buildings, infrastructure, plant and equipment	**8 023**	**9 344**	**9 001**	**8 500**	**7 887**

Total service concession assets: land, buildings, infrastructure, plant and equipment

($ million)

	2020 budget	*2020 revised*	*2021 estimate*	*2022 estimate*	*2023 estimate*
Buildings	1 668	1 780	1 723	1 664	1 606
Land and national parks	975	972	972	972	972
Infrastructure systems	4 686	4 459	5 686	6 535	6 717
Plant, equipment and vehicles	88	88	78	86	76
Roads and road infrastructure	11 255	11 805	14 405	17 652	21 318
Total service concession assets: land, buildings, infrastructure, plant and equipment	**18 673**	**19 104**	**22 865**	**26 909**	**30 689**

4.4.2 Depreciation ($ million)

	2019-20 budget	2019-20 revised	2020-21 estimate	2021-22 estimate	2022-23 estimate
Buildings [(a)]	1 941	1 929	2 096	2 225	2 349
Infrastructure systems	61	54	54	55	55
Plant, equipment and vehicles [(a)]	708	700	749	744	749
Roads and road networks [(a)]	852	850	1 030	1 125	1 306
Cultural assets	22	22	21	20	21
Intangible produced assets [(b)]	165	163	163	174	167
Total depreciation	**3 748**	**3 717**	**4 113**	**4 343**	**4 647**

Notes:
(a) Includes estimated depreciation on amounts not yet allocated to projects in 2019-20 to 2022-23.
(b) Amortisation of intangible non-produced assets is included under other gains/(losses) from other economic flows.

The following two tables are subsets of total depreciation expense.

Depreciation of right of use (leased) assets ($ million)

	2019-20 budget	2019-20 revised	2020-21 estimate	2021-22 estimate	2022-23 estimate
Buildings	607	597	598	594	596
Infrastructure systems	12	5	3	3	3
Plant, equipment and vehicles	122	121	126	117	114
Total depreciation of right of use assets	**740**	**723**	**727**	**714**	**713**

Depreciation of service concession assets ($ million)

	2019-20 budget	2019-20 revised	2020-21 estimate	2021-22 estimate	2022-23 estimate
Buildings	30	47	47	47	47
Plant, equipment and vehicles	28	29	28	28	28
Roads and road infrastructure	183	183	215	217	294
Intangible produced assets	1	1	1	1	1
Total depreciation of service concession assets	**243**	**260**	**292**	**294**	**370**

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

	2020 budget	*2020 revised*	*2021 estimate*	*2022 estimate*	*2023 estimate*
Carrying amount at the start of the year	157 821	157 814	168 202	179 823	187 696
Additions [(b)]	14 974	16 744	15 753	13 357	12 918
Disposals at written down value	(771)	(310)	(292)	(448)	(473)
Revaluations	3 188	3 114	5 389	3 730	4 803
Asset transfers [(c)]	(6 212)	(5 605)	(5 280)	(4 596)	(4 504)
Depreciation expense	(3 584)	(3 554)	(3 950)	(4 170)	(4 480)
Carrying amount at the end of the year	**165 417**	**168 202**	**179 823**	**187 696**	**195 961**

Notes:

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

(b) Includes assets acquired under lease and service concession arrangements.

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

4.4.4 Other non-financial assets ($ million)

	2020 budget	*2020 revised*	*2021 estimate*	*2022 estimate*	*2023 estimate*
Intangible produced assets	2 211	2 289	2 306	2 319	2 328
Accumulated depreciation	(1 201)	(1 200)	(1 343)	(1 494)	(1 640)
Service concession assets – intangible produced	248	251	251	251	251
Accumulated depreciation	(1)	(2)	(4)	(5)	(7)
Intangible non-produced assets	110	111	112	114	115
Accumulated amortisation	(45)	(45)	(51)	(56)	(61)
Total intangibles	**1 321**	**1 403**	**1 271**	**1 129**	**985**
Investment properties	280	281	277	276	258
Biological assets	4	4	5	7	8
Other assets	366	360	326	326	325
Total other non-financial assets	**1 971**	**2 048**	**1 880**	**1 737**	**1 576**

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

	2020 budget	*2020 revised*	*2021 estimate*	*2022 estimate*	*2023 estimate*
General public services	2 407	2 399	2 550	2 614	2 607
Public order and safety	12 458	13 761	14 886	14 995	14 550
Economic affairs	1 265	1 296	2 493	2 438	2 379
Environmental protection	11 769	11 777	11 823	11 797	11 780
Housing and community amenities	2 198	2 202	3 740	3 861	3 877
Health	20 010	20 044	19 998	20 395	20 280
Recreation, culture and religion	7 683	7 680	7 735	7 800	7 771
Education	28 442	28 510	30 797	33 348	37 193
Social protection	2 361	2 378	2 369	2 359	2 305
Transport	81 646	82 541	88 663	93 050	97 494
Not allocated by purpose [(a)]	129 220	126 848	129 702	133 514	138 450
Total assets by the classification of government	**299 459**	**299 439**	**314 758**	**326 170**	**338 686**

Note:

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

4.5 FINANCING STATE OPERATIONS

Introduction

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

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

Structure

4.5.1 Borrowings ($ million)

	2020 budget	*2020 revised*	*2021 estimate*	*2022 estimate*	*2023 estimate*
Current borrowings					
Domestic borrowings	8 592	7 768	7 666	7 771	8 218
Lease liabilities	660	656	585	585	513
Service concession arrangement liabilities	1 307	1 197	1 024	681	2 226
Derivative financial instruments	130	104	105	61	24
Total current borrowings	**10 690**	**9 725**	**9 380**	**9 097**	**10 981**
Non-current borrowings					
Domestic borrowings	24 820	26 213	34 220	37 083	39 828
Lease liabilities	11 253	11 127	10 928	10 496	9 997
Service concession arrangement liabilities	4 279	5 473	6 942	9 688	9 952
Derivative financial instruments	194	194	194	194	194
Total non-current borrowings	**40 547**	**43 007**	**52 283**	**57 461**	**59 972**
Total borrowings	**51 237**	**52 732**	**61 663**	**66 558**	**70 953**

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

	2020 budget	2020 revised	2021 estimate	2022 estimate	2023 estimate
Current advances paid and investments, loans and placements					
Loans and advances paid	1 276	1 499	800	329	278
Equities and managed investment schemes	921	856	873	900	927
Australian dollar term deposits	119	150	138	81	58
Debt securities	9	9	9	9	9
Derivative financial instruments	328	302	306	309	322
Total current advances paid and investments, loans and placements	**2 653**	**2 816**	**2 126**	**1 628**	**1 593**
Non-current advances paid and investments, loans and placements					
Loans and advances paid	4 966	4 979	4 394	4 339	4 422
Equities and managed investment schemes	1 500	1 484	1 530	1 534	1 583
Australian dollar term deposits	64	17	17	17	17
Debt securities	25	25	25	25	25
Derivative financial instruments	3	3	3	3	3
Total non-current advances paid and investments, loans and placements	**6 558**	**6 507**	**5 968**	**5 918**	**6 050**
Total advances paid and investments, loans and placements	**9 211**	**9 323**	**8 093**	**7 545**	**7 643**
Represented by:					
Advances paid	6 243	6 478	5 193	4 669	4 701
Investments, loans and placements	2 968	2 846	2 900	2 877	2 942

4.5.3 Interest expense ($ million)

	2019-20 budget	2019-20 revised	2020-21 estimate	2021-22 estimate	2022-23 estimate
Interest on interest-bearing liabilities and deposits	1 218	1 200	1 224	1 267	1 274
Finance charges on lease liabilities	863	853	827	809	778
Finance charges on service concession liabilities	494	466	534	640	786
Discount interest on payables	37	37	37	37	37
Total interest expense	**2 611**	**2 556**	**2 622**	**2 752**	**2 875**

4.6 OTHER ASSETS AND LIABILITIES

Introduction

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

Structure

4.6.1 Investments in other sector entities ($ million)

	2020 budget	2020 revised	2021 estimate	2022 estimate	2023 estimate
Balance of investment in PNFC and PFC sectors at beginning of period	101 825	101 825	106 310	111 030	114 644
Net contributions to other sectors by owner	5 206	4 101	4 068	4 194	4 350
Revaluation gain/(loss) for period	692	383	651	(579)	(670)
Investment in other sector entities at end of period	**107 723**	**106 310**	**111 030**	**114 644**	**118 325**

4.6.2 Payables ($ million)

	2020 budget	2020 revised	2021 estimate	2022 estimate	2023 estimate
Current payables					
Accounts payable and accrued expenses	4 511	4 107	4 098	4 075	3 863
Accrued taxes payable	60	61	60	60	61
Grant of right to operate liability [a]	354	354	363	451	542
Unearned income	601	609	610	605	603
Total current payables	**5 526**	**5 131**	**5 130**	**5 191**	**5 069**
Non-current payables					
Accounts payable and other payables	204	188	184	180	176
Grant of right to operate liability [a]	9 756	9 756	10 486	10 830	10 365
Unearned income	943	938	772	606	487
Total non-current payables	**10 903**	**10 883**	**11 443**	**11 617**	**11 028**
Total payables	**16 430**	**16 014**	**16 573**	**16 807**	**16 096**

Note:
(a) Related to unearned income resulting from economic service concession arrangements.

4.6.3 Superannuation

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

	2019-20 budget	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Emergency Services and State Super					
Defined benefit obligation	46 835	47 895	47 050	46 192	45 353
Tax liability [(a)]	2 643	2 551	2 424	2 304	2 183
Plan assets	(23 236)	(23 395)	(24 034)	(24 607)	(25 193)
Net liability/(asset)	**26 242**	**27 051**	**25 439**	**23 890**	**22 343**
Other funds [(b)]					
Defined benefit obligation	2 279	2 335	2 332	2 348	2 365
Tax liability [(a)]	..	..	..	..	..
Plan assets	(969)	(949)	(927)	(908)	(891)
Net liability/(asset)	**1 309**	**1 386**	**1 405**	**1 440**	**1 474**
Total superannuation					
Defined benefit obligation	49 113	50 231	49 382	48 541	47 718
Tax liability [(a)]	2 643	2 551	2 424	2 304	2 183
Plan assets	(24 206)	(24 345)	(24 961)	(25 515)	(26 084)
Superannuation liability	**27 551**	**28 437**	**26 844**	**25 331**	**23 817**
Represented by:					
Current liability	1 075	1 075	1 007	1 007	1 123
Non-current liability	26 476	27 362	25 837	24 323	22 694
Total superannuation liability	**27 551**	**28 437**	**26 844**	**25 331**	**23 817**

Notes:

(a) Tax liability is 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 former Health Super Fund.

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

	2019-20 budget	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Opening balance of defined benefit obligation	**52 413**	**52 413**	**52 782**	**51 805**	**50 845**
Current service cost	1 093	1 108	1 138	1 191	1 231
Interest expense	988	741	589	580	570
Contributions by plan participants	200	208	204	201	198
Actuarial (gains)/losses on the defined benefit obligation, due to:					
Changes in financial assumptions	..	1 267	..	..	..
Benefits paid	(2 938)	(2 955)	(2 907)	(2 932)	(2 944)
Closing balance of defined benefit obligation	**51 756**	**52 782**	**51 805**	**50 845**	**49 901**

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

	2019-20 budget	*2019-20 estimate*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Opening balance of plan assets	**23 781**	**23 781**	**24 345**	**24 961**	**25 515**
Interest income	423	334	261	268	274
Return on plan assets not included in interest income	1 109	1 330	1 424	1 454	1 481
Employer contributions	1 631	1 647	1 634	1 563	1 561
Contributions by plan participants	200	208	204	201	198
Benefits paid (including tax paid)	(2 938)	(2 955)	(2 907)	(2 932)	(2 944)
Closing balance of plan assets	**24 205**	**24 345**	**24 961**	**25 515**	**26 084**

See Note 4.3.2 for further information on superannuation assumptions.

4.7 OTHER DISCLOSURES

Introduction

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

Structure

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

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Net (increase)/decrease in allowances for credit losses	(192)	(192)	(194)	(198)	(201)
Amortisation of intangible non-produced assets	(6)	(6)	(6)	(7)	(7)
Bad debts written off	(169)	(168)	(170)	(171)	(173)
Other gains/(losses)	(21)	(14)	(18)	(18)	(37)
Total other gains/(losses) from other economic flows	**(388)**	**(382)**	**(389)**	**(394)**	**(418)**

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

	2019-20 budget	2019-20 revised	2020-21 estimate	2021-22 estimate	2022-23 estimate
Net result from transactions – net operating balance	**1 050**	**618**	**1 222**	**3 841**	**4 898**
Convergence differences:					
Licence fees [c]	52	52	52	52	52
plus total convergence difference:	52	52	52	52	52
GFS net operating balance	**1 102**	**670**	**1 274**	**3 893**	**4 950**
Net lending/(borrowing)	**(2 839)**	**(5 911)**	**(4 166)**	**200**	**921**
Convergence differences:					
Licence fees [c]	52	52	52	52	52
plus total convergence difference:	52	52	52	52	52
GFS net lending/(borrowing)	**(2 787)**	**(5 859)**	**(4 114)**	**252**	**973**
Comprehensive result – total change in net worth	**5 782**	**3 842**	**8 317**	**8 116**	**10 175**
Convergence differences:					
Doubtful receivables of the general government sector [d]	16	13	14	14	16
Net gain on equity investments in other sector entities measured at proportional share of the carrying amount of net assets/(liabilities) [e]	(494)	(779)	(298)	(658)	(608)
Unearned income relating to licence fees [c]	52	52	52	52	52
Port of Melbourne lease transaction [f]	(144)	(141)	(141)	(150)	(151)
plus total convergence difference:	(571)	(855)	(373)	(742)	(691)
GFS total change in net worth	**5 211**	**2 987**	**7 944**	**7 373**	**9 484**
Net worth	**191 633**	**189 693**	**198 010**	**206 125**	**216 300**
Convergence differences:					
Doubtful receivables of the general government sector [d]	1 860	1 857	1 872	1 885	1 901
Investments in other sector entities [e]	4 674	4 384	4 086	3 428	2 819
Unearned income relating to licence fees [c]	(626)	(626)	(574)	(522)	(470)
Port of Melbourne lease transaction [f]	(1 341)	(1 349)	(1 490)	(1 640)	(1 791)
plus total convergence difference:	4 566	4 266	3 893	3 151	2 460
GFS net worth	**196 199**	**193 959**	**201 903**	**209 276**	**218 760**

Notes:

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

(b) *The transition to the new suite of accounting standards, AASB 15* Revenue from Contracts with Customers; *AASB 16* Leases; *AASB 1058* Income of Not-for-Profit Entities; and *AASB 1059* Service Concession Arrangements: Grantors *has resulted in a number of new convergence differences between Australian Accounting Standards and Government Finance Statistics. The estimated convergence differences across the current forward estimates period were disclosed in Note 1.7.3 of Budget Paper No. 5, in the* 2019-20 Budget. *The opening adjustments at the date of initial transition (1 July 2019), have also been disclosed in Note 7.4 of the* Quarterly Financial Report No. 1.

Australian public sector jurisdictions have agreed to only maintain transitional data up until 1 July 2019 for the purpose of preparing this table. Consequently the AASB is considering (through the issue of an amended accounting standard) approving ongoing relief from presenting this information in future financial reports. As such this table does not include the convergence differences arising from the new accounting standards.

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

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

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

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

4.7.3 Prospective accounting and reporting changes

Certain new and revised accounting standards have been issued but are not effective for the 2018-19 reporting period. These accounting standards have not been applied to the *2018-19 Budget Update*. The State is reviewing its existing policies and assessing the potential implications of AASB 17 *Insurance Contracts*. This accounting standard is operative on or after 1 January 2021 and will supersede AASB 4 *Insurance Contracts*. AASB 17 seeks to eliminate inconsistencies and weaknesses in existing practices by providing a single principles based framework to account for all types of insurance contracts. The standard also provides new requirements for presentation and disclosure to enhance comparability between entities. The standard currently does not apply to not-for-profit public sector entities.

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

4.7.4 Controlled entities

Note 9.8 in the *2018-19 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 2019, which have also been incorporated in this financial report:

General government sector	
Department of Health and Human Services	**Department of Premier and Cabinet**
Central Highlands Rural Health [(a)]	The Portable Long Service Authority [(d)]
Great Ocean Road Health [(b)]	**Department of Transport** [(e)]
NCN Health [(c)]	

Notes:

(a) *Effective from 30 November 2019, Hepburn Health Service and Kyneton District Health Service were amalgamated into Central Highlands Rural Health.*

(b) *Effective from 1 July 2019, Lorne Community Hospital and Otway Health were amalgamated into Great Ocean Road Health.*

(c) *Effective from 1 July 2019, Numurkah District Health Service, Cobram District Health, and Nathalia District Hospital were amalgamated into NCN Health.*

(d) *The Portable Long Service Authority was established under the* Long Service Benefits Portability Act 2018*, and by Order of the Governor in Council, commenced on 1 July 2019.*

(e) *Effective from 1 July 2019, the Public Transport Development Authority and the Roads Corporation (with the exception of registration and licensing and some heavy vehicle functions) were consolidated into the Department of Transport.*

CHAPTER 5 – SUPPLEMENTARY UNIFORM PRESENTATION FRAMEWORK TABLES

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

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Revenue from transactions					
Interest revenue	81	79	46	28	21
Dividend revenue	23	24	23	23	24
Sales of goods and services	6 807	6 730	6 960	6 906	7 368
Grant revenue	3 902	4 004	3 943	4 002	4 096
Other revenue	595	665	665	654	659
Total revenue from transactions	**11 407**	**11 502**	**11 637**	**11 614**	**12 168**
Expenses from transactions					
Employee expenses	1 403	1 442	1 446	1 485	1 511
Net superannuation interest expense	4	4	4	4	4
Other superannuation	135	136	138	144	149
Depreciation	2 469	2 550	2 685	2 849	3 010
Interest expense	1 014	994	995	981	987
Grant expense	335	340	155	142	137
Other operating expenses	6 218	6 332	6 639	6 549	6 932
Other property expenses	227	239	240	225	240
Total expenses from transactions	**11 806**	**12 038**	**12 304**	**12 380**	**12 971**
Net result from transactions – net operating balance	**(398)**	**(536)**	**(667)**	**(766)**	**(802)**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	16	528	27	47	42
Other gains/(losses) from other economic flows	562	212	243	242	237
Total other economic flows included in net result	**577**	**740**	**270**	**288**	**279**
Net result	**179**	**203**	**(397)**	**(478)**	**(523)**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	1 091	996	963	9	6
Remeasurement of superannuation defined benefit plans	..	(7)	..	..	..
Other movements in equity	(130)	(17)	6	(8)	(7)
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	13	1	..	..	..
Total other economic flows – other comprehensive income	**975**	**973**	**969**	**1**	**..**
Comprehensive result – total change in net worth	**1 154**	**1 176**	**572**	**(477)**	**(523)**

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

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
KEY FISCAL AGGREGATES					
Net operating balance	**(398)**	**(536)**	**(667)**	**(766)**	**(802)**
Less: Net acquisition of non-financial assets from transactions	6 760	5 923	5 006	4 086	3 294
Net lending/(borrowing)	**(7 158)**	**(6 459)**	**(5 673)**	**(4 852)**	**(4 096)**

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

	2020 budget [(a)]	*2020 revised*	*2021 estimate*	*2022 estimate*	*2023 estimate*
Assets					
Financial assets					
Cash and deposits	1 747	1 237	901	762	837
Advances paid	2 029	2 015	796	254	96
Receivables	1 664	1 825	1 782	1 797	2 075
Investments, loans and placements	423	742	787	836	860
Total financial assets	**5 863**	**5 819**	**4 265**	**3 649**	**3 868**
Non-financial assets					
Inventories	1 003	1 311	1 200	1 462	1 165
Non-financial assets held for sale	82	38	38	38	38
Land, buildings, infrastructure, plant and equipment	136 695	136 060	142 514	146 351	149 951
Other non-financial assets	1 329	1 358	1 355	1 342	1 320
Total non-financial assets	**139 108**	**138 767**	**145 107**	**149 192**	**152 475**
Total assets	**144 971**	**144 586**	**149 372**	**152 841**	**156 343**
Liabilities					
Deposits held and advances received	2 512	2 584	1 306	744	881
Payables	10 043	9 953	9 717	9 586	9 452
Borrowings	17 880	18 203	18 914	19 858	20 047
Employee benefits	478	461	464	470	474
Superannuation	51	50	50	50	50
Other provisions	7 797	8 161	8 202	7 829	7 484
Total liabilities	**38 760**	**39 412**	**38 654**	**38 537**	**38 388**
Net assets	**106 210**	**105 173**	**110 719**	**114 304**	**117 955**
Accumulated surplus/(deficit)	2 501	2 664	2 124	1 468	724
Reserves	103 709	102 509	108 595	112 836	117 231
Net worth	**106 210**	**105 173**	**110 719**	**114 304**	**117 955**
FISCAL AGGREGATES					
Net financial worth	(32 897)	(33 594)	(34 388)	(34 889)	(34 520)
Net financial liabilities	32 897	33 594	34 388	34 889	34 520
Net debt	16 193	16 794	17 737	18 750	19 134

Note:
(a) Balances represent actual opening balances at 1 July 2019 plus 2019-20 budgeted movements.

Table 5.3: Public non-financial corporations sector cash flow statement for the financial year ended 30 June

($ million)

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Cash flows from operating activities					
Receipts					
Grants	3 902	3 999	3 943	4 002	4 096
Sales of goods and services [(a)]	7 300	7 004	7 421	7 380	7 899
Interest received	81	94	46	28	21
Dividend receipts	22	24	22	23	24
Other receipts	360	334	323	305	185
Total receipts	**11 665**	**11 454**	**11 754**	**11 739**	**12 225**
Payments					
Payments for employees	(1 402)	(1 457)	(1 443)	(1 480)	(1 507)
Superannuation	(139)	(148)	(142)	(149)	(154)
Interest paid	(1 014)	(990)	(992)	(977)	(983)
Grants and subsidies	(94)	(99)	(72)	(56)	(49)
Goods and services [(a)]	(4 420)	(4 573)	(4 739)	(4 498)	(4 959)
Other payments	(2 811)	(2 894)	(2 851)	(2 957)	(3 053)
Total payments	**(9 881)**	**(10 161)**	**(10 240)**	**(10 117)**	**(10 705)**
Net cash flows from operating activities	**1 784**	**1 293**	**1 514**	**1 622**	**1 520**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(3 128)	(3 367)	(2 303)	(2 533)	(1 779)
Sales of non-financial assets	295	774	170	413	195
Net cash flows from investments in non-financial assets	**(2 833)**	**(2 592)**	**(2 133)**	**(2 120)**	**(1 584)**
Net cash flows from investments in financial assets for policy purposes	1 813	1 932	1 218	534	151
Subtotal	**(1 020)**	**(661)**	**(916)**	**(1 586)**	**(1 433)**
Net cash flows from investment in financial assets for liquidity management purposes	402	79	(38)	(49)	(24)
Net cash flows from investing activities	**(618)**	**(582)**	**(953)**	**(1 636)**	**(1 457)**
Cash flows from financing activities					
Advances received (net)	(1 947)	(1 870)	(1 270)	(555)	143
Net borrowings	1 100	1 426	690	972	197
Deposits received (net)	..	(5)	(8)	(7)	(6)
Other financing (net)	(170)	(623)	(308)	(534)	(322)
Net cash flows from financing activities	**(1 018)**	**(1 072)**	**(897)**	**(125)**	**12**
Net increase/(decrease) in cash and cash equivalents	149	(361)	(337)	(139)	75
Cash and cash equivalents at beginning of reporting period [(b)]	1 598	1 598	1 237	901	762
Cash and cash equivalents at end of reporting period [(b)]	**1 747**	**1 237**	**901**	**762**	**837**

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

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
FISCAL AGGREGATES					
Net cash flows from operating activities	1 784	1 293	1 514	1 622	1 520
Dividends paid	(385)	(340)	(115)	(132)	(168)
Net cash flows from investments in non-financial assets	(2 833)	(2 592)	(2 133)	(2 120)	(1 584)
Cash surplus/(deficit)	**(1 434)**	**(1 639)**	**(735)**	**(630)**	**(232)**

Notes:
(a) Inclusive of goods and services tax.
(b) 2019-20 Budget *figures have been restated to represent actual opening balances at 1 July 2019.*

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

	Accumulated surplus/(deficit)	*Contributions by owners*
2019-20 budget [(a)]		
Balance at 1 July 2019	2 857	62 949
Net result for the year	179	..
Other comprehensive income for the year	(149)	..
Dividends paid	(385)	..
Transactions with owners in their capacity as owners	..	6 429
Total equity as at 30 June 2020	**2 501**	**69 378**
2019-20 revised		
Balance at 1 July 2019	2 857	62 949
Net result for the year	203	..
Other comprehensive income for the year	(56)	..
Dividends paid	(340)	..
Transactions with owners in their capacity as owners	..	5 324
Total equity as at 30 June 2020	**2 664**	**68 274**
2020-21 estimate		
Balance at 1 July 2020	2 664	68 274
Net result for the year	(397)	..
Other comprehensive income for the year	(28)	..
Dividends paid	(115)	..
Transactions with owners in their capacity as owners	..	5 088
Total equity as at 30 June 2021	**2 124**	**73 362**
2021-22 estimate		
Balance at 1 July 2021	2 124	73 362
Net result for the year	(478)	..
Other comprehensive income for the year	(46)	..
Dividends paid	(132)	..
Transactions with owners in their capacity as owners	..	4 194
Total equity as at 30 June 2022	**1 468**	**77 556**
2022-23 estimate		
Balance at 1 July 2022	1 468	77 556
Net result for the year	(523)	..
Other comprehensive income for the year	(45)	..
Dividends paid	(175)	..
Transactions with owners in their capacity as owners	..	4 350
Total equity as at 30 June 2023	**724**	**81 906**

Note:
(a) Balances represent actual opening balances at 1 July 2019 plus 2019-20 budgeted movements.

Non-financial assets revaluation surplus	*Other reserves*	*Total*
32 620	586	99 013
..	..	179
1 091	33	975
..	..	(385)
..	..	6 429
33 712	**619**	**106 210**
32 620	586	99 013
..	..	203
996	32	973
..	..	(340)
..	..	5 324
33 617	**619**	**105 173**
33 617	619	105 173
..	..	(397)
963	34	969
..	..	(115)
..	..	5 088
34 580	**653**	**110 719**
34 580	653	110 719
..	..	(478)
9	38	1
..	..	(132)
..	..	4 194
34 589	**690**	**114 304**
34 589	690	114 304
..	..	(523)
6	39	..
..	..	(175)
..	..	4 350
34 595	**729**	**117 955**

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

	2019-20 *budget*	2019-20 *revised*	2020-21 *estimate*	2021-22 *estimate*	2022-23 *estimate*
Purchases of non-financial assets (including change in inventories)	3 106	3 367	2 304	2 541	1 774
Less: Sales of non-financial assets	(295)	(774)	(170)	(413)	(195)
Less: Depreciation and amortisation	(2 469)	(2 550)	(2 685)	(2 849)	(3 010)
Plus: Other movements in non-financial assets [(a)]	6 418	5 880	5 558	4 807	4 725
Total net acquisition of non-financial assets from transactions	**6 760**	**5 923**	**5 006**	**4 086**	**3 294**

Note:

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

Table 5.6: Non-financial public sector comprehensive operating statement for the financial year ended 30 June

($ million)

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Revenue from transactions					
Taxation revenue	23 891	23 958	25 149	26 500	28 059
Interest revenue	242	239	258	268	267
Dividends, income tax equivalent and rate equivalent revenue	270	252	178	187	182
Sales of goods and services	12 076	12 089	12 797	12 941	13 484
Grant revenue	34 095	33 891	35 924	37 911	40 344
Other revenue	3 539	3 635	3 781	3 867	3 986
Total revenue from transactions	**74 113**	**74 064**	**78 087**	**81 674**	**86 321**
Expenses from transactions					
Employee expenses	27 545	27 464	28 915	29 825	31 205
Net superannuation interest expense	570	411	332	316	301
Other superannuation	3 095	3 102	3 187	3 292	3 391
Depreciation	6 217	6 266	6 797	7 191	7 656
Interest expense	3 068	2 997	3 136	3 290	3 434
Grant expense	9 161	9 144	11 032	11 395	11 903
Other operating expenses	24 196	24 954	24 251	23 423	24 505
Total expenses from transactions	**73 853**	**74 338**	**77 649**	**78 732**	**82 394**
Net result from transactions – net operating balance	**260**	**(274)**	**437**	**2 942**	**3 927**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	55	552	28	70	84
Net gain/(loss) on financial assets or liabilities at fair value	25	19	18	15	16
Other gains/(losses) from other economic flows	(467)	(448)	(442)	(450)	(475)
Total other economic flows included in net result	**(386)**	**123**	**(396)**	**(365)**	**(376)**
Net result	**(126)**	**(151)**	**41**	**2 577**	**3 551**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	4 671	4 467	6 735	3 736	4 804
Remeasurement of superannuation defined benefit plans	1 109	56	1 424	1 454	1 481
Other movements in equity	(89)	(23)	..	12	12
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	16	3	3	3	3
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	(52)	(349)	194	30	29
Total other economic flows – other comprehensive income	**5 655**	**4 154**	**8 357**	**5 234**	**6 328**
Comprehensive result – total change in net worth	**5 529**	**4 002**	**8 398**	**7 811**	**9 879**
KEY FISCAL AGGREGATES					
Net operating balance	**260**	**(274)**	**437**	**2 942**	**3 927**
Less: Net acquisition of non-financial assets from transactions	10 644	12 457	10 395	7 729	7 272
Net lending/(borrowing)	**(10 384)**	**(12 731)**	**(9 958)**	**(4 787)**	**(3 345)**

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

	2020 budget [(a)]	2020 revised	2021 estimate	2022 estimate	2023 estimate
Assets					
Financial assets					
Cash and deposits	9 483	7 503	7 201	7 253	7 510
Advances paid	341	499	518	570	493
Receivables	8 208	8 275	8 598	9 020	9 739
Investments, loans and placements	3 391	3 587	3 687	3 713	3 803
Investments accounted for using equity method	45	45	45	45	45
Investments in other sector entities	1 437	1 140	314	344	373
Total financial assets	**22 905**	**21 049**	**20 364**	**20 946**	**21 964**
Non-financial assets					
Inventories	1 175	1 483	1 376	1 642	1 349
Non-financial assets held for sale	296	267	261	272	274
Land, buildings, infrastructure, plant and equipment	302 099	304 253	322 329	334 039	345 906
Other non-financial assets	3 024	3 116	2 979	2 838	2 671
Total non-financial assets	**306 594**	**309 120**	**326 946**	**338 792**	**350 200**
Total assets	**329 499**	**330 169**	**347 309**	**359 737**	**372 163**
Liabilities					
Deposits held and advances received	1 420	1 421	1 420	1 301	1 294
Payables	26 074	25 582	25 928	26 000	25 118
Borrowings	65 463	67 282	76 960	82 820	87 435
Employee benefits	8 815	8 794	9 088	9 385	9 688
Superannuation	27 602	28 487	26 895	25 381	23 867
Other provisions	1 111	1 114	1 133	1 153	1 185
Total liabilities	**130 484**	**132 681**	**141 423**	**146 040**	**148 587**
Net assets	**199 015**	**197 488**	**205 886**	**213 697**	**223 577**
Accumulated surplus/(deficit)	81 198	103 848	105 282	109 287	114 292
Reserves	117 817	93 640	100 604	104 410	109 285
Net worth	**199 015**	**197 488**	**205 886**	**213 697**	**223 577**
FISCAL AGGREGATES					
Net financial worth	(107 579)	(111 631)	(121 059)	(125 094)	(126 623)
Net financial liabilities	109 016	112 771	121 374	125 438	126 996
Net debt	53 668	57 115	66 973	72 585	76 924

Note:
(a) Balances represent actual opening balances at 1 July 2019 plus 2019-20 budgeted movements.

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

($ million)

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Cash flows from operating activities					
Receipts					
Taxes received	23 661	23 759	24 789	26 106	27 681
Grants	34 121	33 901	35 933	37 906	40 343
Sales of goods and services [(a)]	13 372	13 201	14 102	14 266	14 904
Interest received	242	238	247	256	255
Dividends, income tax equivalent and rate equivalent receipts	269	251	177	187	181
Other receipts	2 506	2 504	2 676	2 715	2 584
Total receipts	**74 171**	**73 854**	**77 924**	**81 436**	**85 948**
Payments					
Payments for employees	(27 234)	(27 173)	(28 628)	(29 534)	(30 910)
Superannuation	(3 637)	(3 653)	(3 687)	(3 668)	(3 725)
Interest paid	(2 536)	(2 702)	(2 793)	(2 882)	(2 888)
Grants and subsidies	(9 122)	(9 104)	(10 998)	(11 359)	(11 865)
Goods and services [(a)]	(24 867)	(26 073)	(25 015)	(24 246)	(25 493)
Other payments	(807)	(866)	(820)	(766)	(784)
Total payments	**(68 202)**	**(69 570)**	**(71 941)**	**(72 457)**	**(75 666)**
Net cash flows from operating activities	**5 968**	**4 284**	**5 983**	**8 979**	**10 282**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(16 172)	(16 599)	(14 444)	(11 575)	(12 662)
Sales of non-financial assets	1 120	1 117	483	905	729
Net cash flows from investments in non-financial assets	**(15 052)**	**(15 482)**	**(13 961)**	**(10 670)**	**(11 933)**
Net cash flows from investments in financial assets for policy purposes	1 250	1 103	1 001	(40)	89
Subtotal	**(13 802)**	**(14 379)**	**(12 960)**	**(10 710)**	**(11 844)**
Net cash flows from investment in financial assets for liquidity management purposes	(53)	(217)	(74)	(5)	(58)
Net cash flows from investing activities	**(13 855)**	**(14 597)**	**(13 034)**	**(10 715)**	**(11 902)**
Cash flows from financing activities					
Advances received (net)	..	6	6	(112)	..
Net borrowings	5 996	6 441	6 751	1 906	1 884
Deposits received (net)	..	(5)	(8)	(7)	(6)
Net cash flows from financing activities	**5 996**	**6 442**	**6 750**	**1 788**	**1 877**
Net increase/(decrease) in cash and cash equivalents	**(1 890)**	**(3 870)**	**(302)**	**52**	**257**
Cash and cash equivalents at beginning of reporting period [(b)]	11 373	11 373	7 503	7 201	7 253
Cash and cash equivalents at end of reporting period [(b)]	**9 483**	**7 503**	**7 201**	**7 253**	**7 510**
FISCAL AGGREGATES					
Net cash flows from operating activities	5 968	4 284	5 983	8 979	10 282
Net cash flows from investments in non-financial assets	(15 052)	(15 482)	(13 961)	(10 670)	(11 933)
Cash surplus/(deficit)	**(9 084)**	**(11 198)**	**(7 978)**	**(1 691)**	**(1 650)**

Notes:

(a) Inclusive of goods and services tax.

(b) 2019-20 Budget *figures have been restated to represent actual opening balances at 1 July 2019.*

Table 5.9: Non-financial public sector statement of changes in equity for the financial year ended 30 June

($ million)

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*
2019-20 budget [(a)]		
Balance at 1 July 2019	80 321	108 507
Net result for the year	(126)	..
Other comprehensive income for the year	1 003	4 671
Transfer to/(from) accumulated surplus	..	..
Total equity as at 30 June 2020	**81 198**	**113 178**
2019-20 revised		
Balance at 1 July 2019	80 321	108 507
Net result for the year	(151)	..
Other comprehensive income for the year	3	4 467
Transfer to/(from) accumulated surplus	23 675	(23 675)
Total equity as at 30 June 2020	**103 848**	**89 299**
2020-21 estimate		
Balance at 1 July 2020	103 848	89 299
Net result for the year	41	..
Other comprehensive income for the year	1 392	6 735
Transfer to/(from) accumulated surplus	..	..
Total equity as at 30 June 2021	**105 282**	**96 034**
2021-22 estimate		
Balance at 1 July 2021	105 282	96 034
Net result for the year	2 577	..
Other comprehensive income for the year	1 428	3 736
Transfer to/(from) accumulated surplus	..	..
Total equity as at 30 June 2022	**109 287**	**99 770**
2022-23 estimate		
Balance at 1 July 2022	109 287	99 770
Net result for the year	3 551	..
Other comprehensive income for the year	1 453	4 804
Transfer to/(from) accumulated surplus	..	..
Total equity as at 30 June 2023	**114 292**	**104 574**

Note:
(a) Balances represent actual opening balances at 1 July 2019 plus 2019-20 budgeted movements.

Investment in other sector entities revaluation surplus	*Other reserves*	*Total*
3 051	1 606	193 486
..	..	(126)
(52)	34	5 655
..	..	..
2 999	**1 640**	**199 015**
3 051	1 606	193 486
..	..	(151)
(349)	33	4 154
..	..	..
2 702	**1 639**	**197 488**
2 702	1 639	197 488
..	..	41
194	35	8 357
..	..	..
2 896	**1 674**	**205 886**
2 896	1 674	205 886
..	..	2 577
30	40	5 234
..	..	..
2 926	**1 715**	**213 697**
2 926	1 715	213 697
..	..	3 551
29	42	6 328
..	..	..
2 955	**1 756**	**223 577**

Table 5.10: Net acquisition of non-financial assets – non-financial public sector ($ million)

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Purchases of non-financial assets (including change in inventories)	16 154	16 603	14 449	11 586	12 660
Less: Sales of non-financial assets	(1 120)	(1 117)	(483)	(905)	(729)
Less: Depreciation and amortisation	(6 217)	(6 266)	(6 797)	(7 191)	(7 656)
Plus: Other movements in non-financial assets [(a)(b)]	1 827	3 236	3 226	4 239	2 997
Total net acquisition of non-financial assets from transactions	**10 644**	**12 457**	**10 395**	**7 729**	**7 272**

Notes:

(a) The other movements in non-financial assets includes recognising right of use assets under lease arrangements, and recognising service concession arrangements, including from public private partnerships. Some of these items have been impacted by the application of the new accounting standards.

(b) The public private partnerships across the forward estimates relate to the Casey Hospital expansion, the High Capacity Metro Trains Project, the Metro Tunnel, the new Footscray Hospital, North East Link, the Suburban Roads Upgrade – Northern Roads Upgrade, South Eastern Roads Upgrade and Western Roads Upgrade, and the West Gate Tunnel Project.

Table 5.11: Public financial corporations sector comprehensive operating statement for the financial year ended 30 June **($ million)**

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Revenue from transactions					
Interest revenue	1 939	1 879	1 902	2 014	2 021
Dividend revenue	1 536	1 742	1 691	1 695	1 746
Sales of goods and services	5 085	5 143	5 382	5 646	5 917
Other revenue	22	24	25	26	27
Total revenue from transactions	**8 583**	**8 788**	**9 001**	**9 381**	**9 711**
Expenses from transactions					
Employee expenses	387	403	417	425	427
Other superannuation	30	32	33	34	34
Depreciation	89	80	100	125	141
Interest expense	1 802	1 757	1 772	1 841	1 842
Grant expense	1 555	1 534	1 357	1 354	687
Other operating expenses	7 766	8 757	8 929	9 285	9 568
Other property expenses	8	6	7	8	9
Total expenses from transactions	**11 637**	**12 569**	**12 614**	**13 071**	**12 708**
Net result from transactions –net operating balance [(a)]	**(3 054)**	**(3 781)**	**(3 613)**	**(3 690)**	**(2 997)**
Other economic flows included in net result					
Net gain/(loss) on financial assets or liabilities at fair value	540	68	531	631	653
Other gains/(losses) from other economic flows	1 085	227	1 313	1 319	1 281
Total other economic flows included in net result	**1 625**	**294**	**1 844**	**1 950**	**1 934**
Net result	**(1 429)**	**(3 486)**	**(1 770)**	**(1 740)**	**(1 063)**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Other movements in equity	5	10	..	..	..
Total other economic flows – other comprehensive income	**5**	**10**	**..**	**..**	**..**
Comprehensive result – total change in net worth	**(1 424)**	**(3 477)**	**(1 770)**	**(1 740)**	**(1 063)**
KEY FISCAL AGGREGATES					
Net operating balance	**(3 054)**	**(3 781)**	**(3 613)**	**(3 690)**	**(2 997)**
Less: Net acquisition of non-financial assets from transactions	82	138	104	15	(9)
Net lending/(borrowing)	**(3 136)**	**(3 918)**	**(3 717)**	**(3 705)**	**(2 988)**

Note:

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

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

	2020 budget [(a)]	*2020 revised*	*2021 estimate*	*2022 estimate*	*2023 estimate*
Assets					
Financial assets					
Cash and deposits	4 114	3 067	3 028	2 930	2 859
Advances paid	29	19	19	18	17
Receivables	2 219	1 907	1 958	2 035	2 114
Investments, loans and placements	36 290	37 714	37 095	37 943	39 408
Loans receivable from non-financial public sector [(b)]	39 319	41 873	50 523	53 979	56 543
Total financial assets	**81 971**	**84 580**	**92 623**	**96 904**	**100 941**
Non-financial assets					
Non-financial assets held for sale					
Land, buildings, infrastructure, plant and equipment	230	350	330	321	312
Other non-financial assets	3 153	3 818	4 262	4 600	4 862
Total non-financial assets	**3 383**	**4 168**	**4 591**	**4 921**	**5 173**
Total assets	**85 355**	**88 748**	**97 214**	**101 825**	**106 114**
Liabilities					
Deposits held and advances received	603	672	513	518	539
Payables	1 808	1 635	1 677	1 709	1 741
Borrowings [(c)]	49 698	52 821	61 468	64 922	67 444
Employee benefits	112	100	102	105	108
Other provisions	42 065	44 483	47 244	50 147	52 959
Total liabilities	**94 286**	**99 711**	**111 005**	**117 401**	**122 791**
Net assets [(d)]	**(8 931)**	**(10 963)**	**(13 791)**	**(15 576)**	**(16 676)**
Accumulated surplus/(deficit)	(9 000)	(11 031)	(13 859)	(15 644)	(16 744)
Reserves	68	68	68	68	68
Net worth [(d)]	**(8 931)**	**(10 963)**	**(13 791)**	**(15 576)**	**(16 676)**
FISCAL AGGREGATES					
Net financial worth	(12 315)	(15 131)	(18 382)	(20 497)	(21 850)
Net financial liabilities	12 315	15 131	18 382	20 497	21 850
Net debt	(29 452)	(29 180)	(28 683)	(29 429)	(30 843)

Notes:

(a) Balances represent actual opening balances at 1 July 2019 plus 2019-20 budgeted movements.

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

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

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

Table 5.13: Public financial corporations sector cash flow statement for the financial year ended 30 June

($ million)

	2019-20 *budget*	2019-20 *revised*	2020-21 *estimate*	2021-22 *estimate*	2022-23 *estimate*
Cash flows from operating activities					
Receipts					
Sales of goods and services [(a)]	5 560	5 583	5 865	6 155	6 454
Interest received	1 879	1 819	1 842	1 954	1 961
Dividend receipts	1 536	1 742	1 691	1 695	1 746
Other receipts	69	118	46	42	25
Total receipts	**9 045**	**9 262**	**9 445**	**9 847**	**10 186**
Payments					
Payments for employees	(383)	(411)	(414)	(422)	(424)
Superannuation	(30)	(32)	(33)	(34)	(34)
Interest paid	(1 852)	(1 826)	(1 824)	(1 895)	(1 896)
Grants and subsidies	(1 555)	(1 534)	(1 357)	(1 354)	(687)
Goods and services [(a)]	(5 389)	(5 541)	(5 706)	(5 966)	(6 338)
Other payments	(8)	(6)	(6)	(7)	(7)
Total payments	**(9 217)**	**(9 350)**	**(9 340)**	**(9 678)**	**(9 387)**
Net cash flows from operating activities	**(172)**	**(88)**	**105**	**169**	**800**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(171)	(219)	(205)	(141)	(133)
Sales of non-financial assets	..	1	1	1	1
Net cash flows from investments in non-financial assets	**(171)**	**(217)**	**(204)**	**(140)**	**(132)**
Net cash flows from investments in financial assets for policy purposes	3	18	..	1	1
Subtotal	**(168)**	**(199)**	**(204)**	**(138)**	**(131)**
Net cash flows from investment in financial assets for liquidity management purposes	1 766	(2 920)	(7 441)	(3 612)	(3 315)
Net cash flows from investing activities	**1 597**	**(3 119)**	**(7 645)**	**(3 750)**	**(3 445)**
Cash flows from financing activities					
Advances received (net)	4	(18)	1	(1)	(1)
Net borrowings	2 526	5 159	8 717	3 523	2 592
Deposits received (net)	(2 552)	(1 600)	(158)	6	22
Other financing (net)	(1 355)	(1 334)	(1 059)	(45)	(37)
Net cash flows from financing activities	**(1 377)**	**2 207**	**7 500**	**3 484**	**2 575**
Net increase/(decrease) in cash and cash equivalents	**47**	**(1 000)**	**(39)**	**(98)**	**(70)**
Cash and cash equivalents at beginning of reporting period [(b)]	4 067	4 067	3 067	3 028	2 930
Cash and cash equivalents at end of reporting period [(b)]	**4 114**	**3 067**	**3 028**	**2 930**	**2 859**
FISCAL AGGREGATES					
Net cash flows from operating activities	(172)	(88)	105	169	800
Dividends paid	(132)	(111)	(39)	(45)	(37)
Net cash flows from investments in non-financial assets	(171)	(217)	(204)	(140)	(132)
Cash surplus/(deficit)	**(475)**	**(417)**	**(137)**	**(15)**	**630**

Notes:

(a) Inclusive of goods and services tax.

(b) 2019-20 Budget *figures have been restated to represent actual opening balances at 1 July 2019.*

Table 5.14: Public financial corporations sector statement of changes in equity for the financial year ended 30 June

($ million)

	Accumulated surplus/(deficit)	*Contributions by owners*
2019-20 budget [(a)]		
Balance at 1 July 2019	(6 220)	29
Net result for the year	(1 429)	..
Other comprehensive income for the year	4	..
Dividends paid	(132)	..
Transfer to/(from) accumulated surplus	(1 223)	1 223
Transactions with owners in their capacity as owners	..	(1 223)
Total equity as at 30 June 2020	**(9 000)**	**29**
2019-20 revised		
Balance at 1 July 2019	(6 220)	29
Net result for the year	(3 486)	..
Other comprehensive income for the year	10	..
Dividends paid	(111)	..
Transfer to/(from) accumulated surplus	(1 223)	1 223
Transactions with owners in their capacity as owners	..	(1 223)
Total equity as at 30 June 2020	**(11 031)**	**29**
2020-21 estimate		
Balance at 1 July 2020	(11 031)	29
Net result for the year	(1 770)	..
Other comprehensive income for the year	..	..
Dividends paid	(39)	..
Transfer to/(from) accumulated surplus	(1 020)	1 020
Transactions with owners in their capacity as owners	..	(1 020)
Total equity as at 30 June 2021	**(13 859)**	**29**
2021-22 estimate		
Balance at 1 July 2021	(13 859)	29
Net result for the year	(1 740)	..
Other comprehensive income for the year	..	..
Dividends paid	(45)	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2022	**(15 644)**	**29**
2022-23 estimate		
Balance at 1 July 2022	(15 644)	29
Net result for the year	(1 063)	..
Other comprehensive income for the year	..	..
Dividends paid	(37)	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2023	**(16 744)**	**29**

Note:
(a) Balances represent actual opening balances at 1 July 2019 plus 2019-20 budgeted movements.

Non-financial assets revaluation surplus	Other reserves	Total
2	37	(6 152)
..	..	(1 429)
..	..	5
..	..	(132)
..	..	..
..	..	(1 223)
2	**37**	**(8 931)**
2	37	(6 152)
..	..	(3 486)
..	..	10
..	..	(111)
..	..	..
..	..	(1 223)
2	**37**	**(10 963)**
2	37	(10 963)
..	..	(1 770)
..	..	..
..	..	(39)
..	..	..
..	..	(1 020)
2	**37**	**(13 791)**
2	37	(13 791)
..	..	(1 740)
..	..	..
..	..	(45)
..	..	..
..	..	..
2	**37**	**(15 576)**
2	37	(15 576)
..	..	(1 063)
..	..	..
..	..	(37)
..	..	..
..	..	..
2	**37**	**(16 676)**

Table 5.15: Net acquisition of non-financial assets – public financial corporations sector **($ million)**

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Purchases of non-financial assets less sale of non-financial asset (including change in inventories)	171	217	204	140	132
Less: Depreciation and amortisation	(89)	(80)	(100)	(125)	(141)
Total net acquisition of non-financial assets from transactions	**82**	**138**	**104**	**15**	**(9)**

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

($ million)

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Revenue from transactions					
Taxation revenue	23 875	23 941	25 133	26 483	28 042
Interest revenue	489	457	422	484	488
Dividend revenue	1 666	1 876	1 824	1 830	1 882
Sales of goods and services	16 199	16 263	17 163	17 519	18 279
Grant revenue	32 520	32 342	34 508	36 555	39 649
Other revenue	3 561	3 659	3 805	3 892	4 013
Total revenue from transactions	**78 309**	**78 539**	**82 855**	**86 764**	**92 354**
Expenses from transactions					
Employee expenses	27 526	27 457	28 915	29 825	31 196
Net superannuation interest expense	570	411	332	316	301
Other superannuation	3 125	3 134	3 219	3 326	3 425
Depreciation	6 306	6 345	6 896	7 315	7 797
Interest expense	3 183	3 093	3 178	3 340	3 484
Grant expense	9 181	9 168	11 057	11 417	11 914
Other operating expenses	31 350	33 095	32 479	32 025	33 350
Total expenses from transactions	**81 240**	**82 704**	**86 077**	**87 564**	**91 466**
Net result from transactions – net operating balance	**(2 932)**	**(4 165)**	**(3 222)**	**(800)**	**887**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	55	552	28	70	84
Net gain/(loss) on financial assets or liabilities at fair value	565	86	549	647	669
Other gains/(losses) from other economic flows	430	(1 049)	523	548	536
Total other economic flows included in net result	**1 051**	**(411)**	**1 100**	**1 264**	**1 289**
Net result	**(1 881)**	**(4 576)**	**(2 122)**	**465**	**2 176**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	4 671	4 467	6 735	3 736	4 804
Remeasurement of superannuation defined benefit plans	1 109	56	1 424	1 454	1 481
Other movements in equity	(84)	(13)	..	12	12
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	16	3	3	3	3
Total other economic flows – other comprehensive income	**5 712**	**4 513**	**8 162**	**5 204**	**6 299**
Comprehensive result – total change in net worth	**3 831**	**(63)**	**6 040**	**5 669**	**8 475**
KEY FISCAL AGGREGATES					
Net operating balance	**(2 932)**	**(4 165)**	**(3 222)**	**(800)**	**887**
Less: Net acquisition of non-financial assets from transactions	10 724	12 595	10 500	7 744	7 264
Net lending/(borrowing)	**(13 655)**	**(16 760)**	**(13 721)**	**(8 544)**	**(6 376)**

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

	2020 budget [(a)]	2020 revised	2021 estimate	2022 estimate	2023 estimate
Assets					
Financial assets					
Cash and deposits	13 247	10 165	9 975	9 920	10 083
Advances paid	341	499	518	570	493
Receivables	10 114	9 915	10 283	10 780	11 576
Investments, loans and placements	38 569	41 011	40 498	41 375	42 931
Investments accounted for using equity method	45	45	45	45	45
Total financial assets	**62 316**	**61 635**	**61 320**	**62 691**	**65 129**
Non-financial assets					
Inventories	1 175	1 483	1 376	1 642	1 349
Non-financial assets held for sale	296	267	261	272	274
Land, buildings, infrastructure, plant and equipment	302 325	304 601	322 657	334 359	346 217
Other non-financial assets	3 336	3 453	3 412	3 288	3 114
Total non-financial assets	**307 131**	**309 805**	**327 706**	**339 561**	**350 954**
Total assets	**369 448**	**371 439**	**389 026**	**402 251**	**416 083**
Liabilities					
Deposits held and advances received	1 589	1 579	1 578	1 459	1 452
Payables	27 576	26 956	27 340	27 441	26 588
Borrowings	74 755	77 998	87 679	93 544	98 125
Employee benefits	8 927	8 894	9 190	9 490	9 795
Superannuation	27 602	28 487	26 895	25 381	23 867
Other provisions	43 175	45 596	48 376	51 298	54 142
Total liabilities	**183 624**	**189 510**	**201 057**	**208 613**	**213 969**
Net assets	**185 824**	**181 929**	**187 969**	**193 638**	**202 114**
Accumulated surplus/(deficit)	70 966	90 952	90 222	92 115	95 744
Reserves	114 858	90 977	97 747	101 524	106 369
Net worth	**185 824**	**181 929**	**187 969**	**193 638**	**202 114**
FISCAL AGGREGATES					
Net financial worth	(121 307)	(127 875)	(139 737)	(145 923)	(148 840)
Net financial liabilities	121 307	127 875	139 737	145 923	148 840
Net debt	24 186	27 903	38 265	43 138	46 070

Note:
(a) Balances represent actual opening balances at 1 July 2019 plus 2019-20 budgeted movements.

Table 5.18: State of Victoria cash flow statement for the financial year ended 30 June

($ million)

	2019-20 *budget*	2019-20 *revised*	2020-21 *estimate*	2021-22 *estimate*	2022-23 *estimate*
Cash flows from operating activities					
Receipts					
Taxes received	23 646	23 743	24 772	26 089	27 664
Grants	32 545	32 320	34 518	36 550	39 649
Sales of goods and services [(a)]	17 974	17 812	18 955	19 354	20 237
Interest received	429	390	353	413	417
Dividend receipts	1 665	1 876	1 823	1 830	1 882
Other receipts	2 576	2 622	2 722	2 757	2 609
Total receipts	**78 834**	**78 762**	**83 142**	**86 994**	**92 458**
Payments					
Payments for employees	(27 210)	(27 174)	(28 625)	(29 531)	(30 898)
Superannuation	(3 667)	(3 685)	(3 719)	(3 702)	(3 759)
Interest paid	(2 702)	(2 861)	(2 888)	(2 987)	(2 992)
Grants and subsidies	(9 142)	(9 097)	(11 024)	(11 382)	(11 877)
Goods and services [(a)]	(29 647)	(30 995)	(30 024)	(29 529)	(31 110)
Other payments	(807)	(866)	(820)	(766)	(784)
Total payments	**(73 176)**	**(74 677)**	**(77 100)**	**(77 898)**	**(81 420)**
Net cash flows from operating activities	**5 658**	**4 085**	**6 042**	**9 096**	**11 037**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(16 341)	(16 818)	(14 649)	(11 715)	(12 795)
Sales of non-financial assets	1 120	1 118	484	906	730
Net cash flows from investments in non-financial assets	**(15 220)**	**(15 700)**	**(14 165)**	**(10 809)**	**(12 065)**
Net cash flows from investments in financial assets for policy purposes	31	(110)	(19)	(40)	89
Subtotal	**(15 189)**	**(15 810)**	**(14 183)**	**(10 849)**	**(11 976)**
Net cash flows from investment in financial assets for liquidity management purposes	7 129	4 876	1 129	(164)	(810)
Net cash flows from investing activities	**(8 060)**	**(10 934)**	**(13 054)**	**(11 014)**	**(12 786)**
Cash flows from financing activities					
Advances received (net)	1	(3)	6	(112)	..
Net borrowings	2 952	4 327	6 824	1 981	1 919
Deposits received (net)	..	(5)	(8)	(7)	(6)
Net cash flows from financing activities	**2 953**	**4 319**	**6 822**	**1 862**	**1 912**
Net increase/(decrease) in cash and cash equivalents	**552**	**(2 530)**	**(190)**	**(56)**	**163**
Cash and cash equivalents at beginning of reporting period [(b)]	12 695	12 695	10 165	9 975	9 920
Cash and cash equivalents at end of reporting period [(b)]	**13 247**	**10 165**	**9 975**	**9 920**	**10 083**
FISCAL AGGREGATES					
Net cash flows from operating activities	5 658	4 085	6 042	9 096	11 037
Net cash flows from investments in non-financial assets	(15 220)	(15 700)	(14 165)	(10 809)	(12 065)
Cash surplus/(deficit)	**(9 562)**	**(11 615)**	**(8 122)**	**(1 713)**	**(1 028)**

Notes:

(a) Inclusive of goods and services tax.

(b) 2019-20 Budget *figures have been restated to represent actual opening balances at 1 July 2019.*

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

($ million)

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*	*Other reserves*	*Total*
2019-20 budget [(a)]				
Balance at 1 July 2019	71 840	108 510	1 643	181 993
Net result for the year	(1 881)	..	..	(1 881)
Other comprehensive income for the year	1 007	4 671	34	5 712
Transfer to/(from) accumulated surplus	..	..	..	..
Total equity as at 30 June 2020	**70 966**	**113 181**	**1 677**	**185 824**
2019-20 revised				
Balance at 1 July 2019	71 840	108 510	1 643	181 993
Net result for the year	(4 576)	..	..	(4 576)
Other comprehensive income for the year	13	4 467	33	4 513
Transfer to/(from) accumulated surplus	23 675	(23 675)	..	..
Total equity as at 30 June 2020	**90 952**	**89 301**	**1 676**	**181 929**
2020-21 estimate				
Balance at 1 July 2020	90 952	89 301	1 676	181 929
Net result for the year	(2 122)	..	..	(2 122)
Other comprehensive income for the year	1 393	6 735	35	8 162
Transfer to/(from) accumulated surplus	..	..	..	..
Total equity as at 30 June 2021	**90 222**	**96 036**	**1 711**	**187 969**
2021-22 estimate				
Balance at 1 July 2021	90 222	96 036	1 711	187 969
Net result for the year	465	..	..	465
Other comprehensive income for the year	1 428	3 736	40	5 204
Transfer to/(from) accumulated surplus	..	..	..	..
Total equity as at 30 June 2022	**92 115**	**99 772**	**1 751**	**193 638**
2022-23 estimate				
Balance at 1 July 2022	92 115	99 772	1 751	193 638
Net result for the year	2 176	..	..	2 176
Other comprehensive income for the year	1 454	4 804	41	6 299
Transfer to/(from) accumulated surplus	..	..	..	..
Total equity as at 30 June 2023	**95 744**	**104 577**	**1 793**	**202 114**

Note:

(a) Balances represent actual opening balances at 1 July 2019 plus 2019-20 budgeted movements.

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

	2019-20 budget	*2019-20 revised*	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Purchases of non-financial assets (including change in inventories)	16 322	16 821	14 654	11 727	12 793
Less: Sales of non-financial assets	(1 120)	(1 118)	(484)	(906)	(730)
Less: Depreciation and amortisation	(6 306)	(6 345)	(6 896)	(7 315)	(7 797)
Plus: Other movements in non-financial assets [(a)(b)]	1 827	3 236	3 226	4 239	2 997
Total net acquisition of non-financial assets from transactions	**10 724**	**12 595**	**10 500**	**7 744**	**7 264**

Notes:

(a) The other movements in non-financial assets includes recognising right of use assets under lease arrangements, and recognising service concession arrangements, including from public private partnerships. Some of these items have been impacted by the application of the new accounting standards.

(b) The public private partnerships across the forward estimates relate to the Casey Hospital expansion, the High Capacity Metro Trains Project, the Metro Tunnel, the new Footscray Hospital, North East Link, the Suburban Roads Upgrade – Northern Roads Upgrade, South Eastern Roads Upgrade and Western Roads Upgrade, and the West Gate Tunnel Project.

CHAPTER 6 – CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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

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

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

CONTINGENT ASSETS

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

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

Table 6.1 contains quantifiable contingent assets as at 29 November 2019 (arising from outside of government).

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

	As at Nov 2019	*Published budget estimate (a)*
Guarantees, indemnities and warranties	45	37
Legal proceedings and disputes	23	23
Other (b)	103	107
Total contingent assets	**172**	**167**

Notes:
(a) As published in the 2019-20 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 and which was not recognised under AASB 15 principles.

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 29 November 2019.

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

	As at Nov 2019	*Published budget estimate* [(a)]
Guarantees, indemnities and warranties	183	239
Legal proceedings and disputes	224	174
Other	149	70
Non-general government debt [(b)]	12 986	12 341
Total contingent liabilities	**13 541**	**12 825**

Notes:
(a) As published in the 2019-20 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 Jobs, Precincts and Regions and La Trobe University) are backed by the State of Victoria under a State Support Deed. Under this Deed, the State ensures that the joint venture participants have severally the financial capacity to meet their payment obligations to Biosciences Research Centre Pty Ltd (BRC), thereby enabling BRC to meet its obligations to pay the service fee to the concessionaire under the project agreement. The State underwrites the risk of any default by BRC.

Cladding rectification

The 2014 fire at the Lacrosse apartment building in Melbourne's Docklands and the Grenfell fire in London in June 2017 highlighted the fire safety risks from the non-compliant use of exterior cladding on buildings. Subsequent investigations and the February 2019 fire at the Neo200 Tower on Spencer Street have highlighted that dangerous materials have been used on some buildings throughout Victoria.

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

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

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

Department of Education and Training

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

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

National redress scheme – sexual abuse of children in institutions

On 13 June 2018, the *National Redress Scheme for Institutional Child Sexual Abuse (Commonwealth Powers) Act 2018* commenced.

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

The Government has committed funding across 10 years for the redress scheme. Due to the historical nature of the abuse in question, the precise number of eligible survivors of abuse is difficult to estimate. Consequently, the exact financial implications for Victoria remain uncertain.

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

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

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

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

Public transport rail partnership agreements

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

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

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

The *Firefighters' Presumptive Rights Compensation and Fire Services Legislation Amendment (Reform) Act 2019* (the Act) received royal assent on 2 July 2019.

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

Fiskville independent investigation and closure of training college

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

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

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

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

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

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

Compulsory property acquisitions

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

Land remediation – environmental concerns

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

Royal Melbourne Showgrounds redevelopment

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

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

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

Native Title

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

Motor Vehicle Duty

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

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

Victorian Managed Insurance Authority – insurance cover

The Victorian Managed Insurance Authority (VMIA) was established in 1996 as an insurer for State Government departments, participating bodies and other entities as defined under the *Victorian Managed Insurance Authority Act 1996*. The VMIA insures its clients for property, public and products liability, professional indemnity, contract works and domestic building insurance for the Victorian residential builders.

The VMIA reinsures in the private market for losses above $50 million arising out of any one occurrence, up to a limit of $950 million for public and products liability, and for losses above $50 million arising out of any one event, up to a limit of $3.6 billion for property. Further, the VMIA reinsures in the private market for losses above $10 million arising out of any one event, up to a limit of $1.5 billion for terrorism. The risk of losses above these reinsured levels is borne by the State.

The VMIA also insures the Department of Health and Human Services for all public sector medical indemnity claims incurred in each policy year from 1 July 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 in any policy year from 1 July 2003 exceed the initial estimate, on which the risk premium was based, by more than 20 per cent.

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 *2019-20 Budget*.

The following tables provide details of 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 – ADDITIONAL SUPPORT FOR DROUGHT-AFFECTED FARMERS

Table A.1: Output initiatives – Additional support for drought-affected farmers ($ million)

	2019-20	*2020-21*	*2021-22*	*2022-23*
Additional support for drought-affected farmers	36.0	..	..	..
Total output initiatives	**36.0**	**..**	**..**	**..**

Additional support for drought-affected farmers

The Government will continue to provide support to farmers affected by drought and dry conditions in Central and East Gippsland, the Millewa region and the Goulburn Murray Irrigation District by delivering immediate relief and building longer-term resilience to alleviate future drought and climate change impacts.

Support for farming businesses and families will be provided by establishing a Farmers' Drought Fund and delivering Farm Business Management and Planning Support services. The Local Government Service Support Payments and the Community Priorities Fund will help the East Gippsland, Wellington and Mildura Shires to meet the immediate needs of their communities.

The Catchment Management Authority Drought Employment Program will also be extended to provide off-farm employment and training opportunities and improvements to emergency water supply points will be made, including establishing new points and upgrading existing sites for better access and water flow. Additional mental health support services will be made available for farmers and their employees.

This initiative contributes to the:

- Department of Environment, Land, Water and Planning's Effective Water Management and Supply output;
- Department of Health and Human Services' Mental Health Community Support Services output; and
- Department of Jobs, Precincts and Regions' Agriculture output.

WHOLE OF GOVERNMENT – VICTORIAN FORESTRY PLAN

Table A.2: Output initiatives – Victorian Forestry Plan ($ million)

	2019-20	2020-21	2021-22	2022-23
Victorian Forestry Plan [(a)]	21.3	13.7	10.6	10.0
Total output initiatives	**21.3**	**13.7**	**10.6**	**10.0**

Note:
(a) This initiative includes funding beyond the forward estimates.

Victorian Forestry Plan

Funding will be provided for a transition package of more than $120 million to support a sustainable Victorian timber industry following the immediate cessation of logging of old growth forest in November 2019 and the phasing out of all timber harvesting in State forests by 2030. These measures will help support the timber industry transition to plantation timber and protect old growth forests and critically endangered fauna.

The business, worker and community transition support package will deliver:

- support for impacted workers through top-up redundancies, an extension to the Back to Work scheme, retraining services, mental health and wellbeing support and case management services to assist impacted workers and their families find new job opportunities;
- business planning and transition support, including grants to help leverage new innovative business opportunities and transition to new products and markets;
- economic diversification planning and the introduction of a new Regional Growth Fund for economic and community development projects to generate economic activity and job growth in impacted regions; and
- improvements to habitat and environmental conditions in designated Immediate Protection Areas to enhance community access to camping and recreation facilities.

This initiative contributes to the:

- Department of Environment, Land, Water and Planning's Management of Public Land and Forests output; and
- Department of Jobs, Precincts and Regions' Agriculture output.

DEPARTMENT OF EDUCATION AND TRAINING

Output initiatives

Table A.3: Output initiatives – Department of Education and Training ($ million)

	2019-20	2020-21	2021-22	2022-23
Affordable School Uniforms	..	5.5	6.1	6.7
Camps, Sports and Excursions Fund	37.6	39.3	41.1	43.0
Education State initiatives	28.8	63.8	62.9	55.0
Engaging at-risk youth	..	2.1	2.3	2.5
English as an Additional Language	25.7	23.9	..	..
Enhanced behaviour support and intervention for schools	1.1	2.5	1.2	..
Essential maintenance and compliance	162.0	148.8	44.2	43.8
Expanding Professional Learning Communities	13.6	10.2	14.5	14.9
Glasses for Kids	..	0.4	0.4	0.4
Learning specialists leading excellence in teaching and learning	4.6	4.3	4.8	5.5
Lifting the digital experience of connected learners	3.9	8.1	11.2	14.6
Mobile phones in schools	12.4	..	..	..
Onsite school technical support and digital connectivity	..	2.2	2.2	2.2
Refugee education support	1.4	2.7	2.9	2.9
Rural and regional school reform	7.0	8.4	8.7	9.1
Support for excellent school leaders	6.1	11.2	14.0	17.0
Support for students with disabilities and additional needs	..	9.4	4.1	..
Supporting high ability students in every classroom	10.5	20.8	20.3	10.4
Targeted initiatives to attract more teachers	14.8	28.7	38.1	22.3
Victorian Young Leaders to Indonesia program	0.1	0.6	..	..
Total output initiatives [(a)]	**329.5**	**393.0**	**278.9**	**250.0**

Note:
(a) Table may not add due to rounding.

Affordable School Uniforms

Funding will be provided to enable State Schools' Relief to continue to deliver free school uniform items and other essential items to government school students experiencing financial hardship.

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

Camps, Sports and Excursions Fund

Funding will be provided to continue the Camps, Sports and Excursions Fund to deliver financial assistance to eligible students from families experiencing socio-economic disadvantage to help cover the costs of school trips, camps, excursions and sporting activities.

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

Education State initiatives

Funding will be provided for targeted programs to improve student outcomes and support our teachers.

These initiatives contribute to the Department of Education and Training's:

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

Engaging at-risk youth

Funding will be provided to continue the engaging at-risk youth program to deliver education programs for young people at risk of disengagement.

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

English as an Additional Language

Funding will be provided for the English as an Additional Language program to support more students in the 2020 school year, due to enrolment growth. The program supports government school students who do not speak English at home, including Australian-born students, newly arrived migrants and students from refugee and asylum seeker backgrounds, to become proficient in English.

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

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

Enhanced behaviour support and intervention for schools

Funding will be provided to continue building the capability of the school workforce to prevent and reduce behaviours of concern and enable students with additional needs to fully participate in their education.

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

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

Essential maintenance and compliance

Funding will be provided to facilitate proactive school maintenance and compliance activity. Funding will also be provided to increase investment by schools in maintenance and minor works.

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

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

Expanding Professional Learning Communities

Professional Learning Communities (PLCs) will be expanded to support all government schools to help improve student outcomes through further training and expanding the networked system. Funding will also increase the number of teaching practice instructors to support these new PLCs and introduce an accreditation tool to support best practice.

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

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

Glasses for Kids

Funding will be provided to continue the Glasses for Kids program to assist children with a visual impairment. Free vision screening and free glasses will be provided to Prep to Year 3 students in government schools in disadvantaged areas.

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

Learning specialists leading excellence in teaching and learning

Learning specialists are instructional leaders who focus on building the capabilities of teachers and improving student outcomes. Additional funding will be provided to lead and embed high-impact teaching strategies, share evidence-based best practices across government schools and leverage national and international expertise.

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

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

Lifting the digital experience of connected learners

Funding will be provided to lift the digital experience of connected learners by delivering additional internet bandwidth to schools, giving every student and teacher access to essential digital resources.

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

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

Mobile phones in schools

Funding will be provided to schools for secure storage options to support the Government's policy requiring all government school students to switch off and securely store phones during school hours.

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

Onsite school technical support and digital connectivity

Funding will be provided to maintain frontline information technology service delivery for government schools, including school onsite technical support and digital connectivity services. This will equip and support schools to utilise technology in creating engaging learning opportunities.

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

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

Refugee education support

Funding will be provided to continue the refugee education support programs to be delivered by Foundation House and the Centre for Multicultural Youth. These programs build the capacity of schools and early childhood services to meet the educational and wellbeing needs of children and young people from refugee backgrounds and their families.

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

Rural and regional school reform

Funding will be provided to improve outcomes for students in rural and regional Victoria. Reforms will include professional development outreach for teachers, support for school clusters to work together to strengthen curriculum delivery, free access to Virtual School Victoria, and access to Victorian Certificate of Education revision lectures and other resources.

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

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

Support for excellent school leaders

The quality of school leadership is one of the most important drivers of student outcomes. Funding will be provided to support the best leaders to tackle the most challenging leadership roles in government schools and to expand the Turnaround Teams initiative to work with individual schools facing the greatest barriers to addressing underperformance.

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

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

Support for students with disabilities and additional needs

Funding will be provided to continue programs to support students with disability and additional needs, including the Outside School Hours Care Demonstration program and Equipment Boost for Schools.

This initiative contributes to the Department of Education and Training's Support for Students with Disabilities output.

Supporting high ability students in every classroom

High ability students will be supported to reach their full potential by providing enrichment opportunities, including through the Victorian High Ability Program and through partner organisations. This initiative will ensure every government primary and secondary school will have access to a High Ability Practice Leader and provide teachers with online professional learning and a toolkit of evidence-based resources.

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

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

Targeted initiatives to attract more teachers

Funding will be provided for financial incentives to encourage teachers to work in hard-to-staff positions and schools. Funding is also provided to increase the supply and quality of teachers specialising in vocational education and training through retraining, grants to schools and scholarships for teachers.

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

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

Victorian Young Leaders to Indonesia program

Funding will be provided for the Victorian Young Leaders to Indonesia program to support 40 Year 9 students to study in Indonesia for up to six weeks in 2020, to build their Indonesian language, intercultural and leadership capabilities.

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

DEPARTMENT OF ENVIRONMENT, LAND, WATER AND PLANNING

Output initiatives

Table A.4: Output initiatives – Department of Environment, Land, Water and Planning

($ million)

	2019-20	*2020-21*	*2021-22*	*2022-23*
Aviation resources	14.1	..	..	..
Cladding Rectification Program [(a)]	93.8	142.6	141.8	142.7
Lara waste stockpile site rehabilitation	..	43.6	32.3	..
Recycling Immediate Relief Package	6.6	..	..	..
Solar Homes Program Boost	62.5	..	..	..
Total output initiatives [(b)]	**177.0**	**186.1**	**174.0**	**142.7**

Notes:
(a) This initiative incorporates reprioritised funding from the Cladding Rectification Program ($15.0 million) in the 2019-20 Budget.
(b) Table may not add due to rounding.

Aviation resources

Additional firefighting aviation resources will be funded to support the State's firefighting capability for the 2019-20 bushfire season. This additional funding will contribute to a fleet of 50 aircraft, which will include two large air tankers, space at the Avalon airbase and a number of specialist night-time aircraft.

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

Cladding Rectification Program

Funding is being provided to establish Cladding Safety Victoria, a new entity to respond to buildings with combustible cladding. Rectification works on hundreds of buildings found to have high-risk cladding will be undertaken to ensure occupant safety and compliance with building regulations.

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

Lara waste stockpile site rehabilitation

Funding will be provided to the Environment Protection Authority Victoria (EPA) to clean up a large waste stockpile at Lara, taking action to reduce the risk to the community and the environment. This includes maintaining fire prevention measures and continuing works to clean up the site. The City of Greater Geelong will manage these works on behalf of the Government and the EPA.

This initiative will be funded from the Municipal and Industrial Landfill Levy.

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

Recycling Immediate Relief Package

Funding is being provided to councils to cover additional costs they face to manage their recyclable waste.

This initiative will be partly funded from the Sustainability Fund.

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

Solar Homes Program Boost

Over 23 000 additional rebates will be available in 2019-20 to eligible households who install solar panels on their homes. Rebates will be released twice per month, rather than monthly.

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

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Output initiatives

Table A.5: Output initiatives – Department of Health and Human Services ($ million)

	2019-20	2020-21	2021-22	2022-23
Backing our hospitals with flu funding boost	100.0	..	..	..
Increased demand for mental health supports and services	2.8	..	..	..
Total output initiatives	**102.8**	**..**	**..**	**..**

Backing our hospitals with flu funding boost

Additional funding of $100 million is being provided to hospitals to support extra medical, allied health and nursing staff, as well as extra support services including emergency cubicles and more acute beds. This will contribute to a total package of $200 million to back our hospitals following an unprecedented flu season.

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

Increased demand for mental health supports and services

Funding is being provided to enable key non-government organisations to support people who participate in the Royal Commission into Victoria's Mental Health System. This includes support for people with lived experience of mental illness and their families and carers. Support will also be provided to groups including Aboriginal communities and Victorians experiencing homelessness.

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

DEPARTMENT OF JOBS, PRECINCTS AND REGIONS

Output initiatives

Table A.6: Output initiatives – Department of Jobs, Precincts and Regions ($ million)

	2019-20	2020-21	2021-22	2022-23
Beckley Park racing precinct	2.0	..	..	..
Total output initiatives	**2.0**	**..**	**..**	**..**

Beckley Park racing precinct

Funding will be provided to the Beckley Park Committee of Management to deliver infrastructure upgrades at Beckley Park Racecourse Reserve, including grandstand renovations and refurbishment, improved car parking facilities and a 240 metre extension to the karting track. These upgrades will benefit harness, greyhound and kart racing in the Geelong region and enhance the experience of visitors to the venue.

This initiative contributes to the Department of Jobs, Precincts and Regions' Sport, Recreation and Racing output.

DEPARTMENT OF JUSTICE AND COMMUNITY SAFETY

Output initiatives

Table A.7: Output initiatives – Department of Justice and Community Safety ($ million)

	2019-20	2020-21	2021-22	2022-23
Emergency Services Telecommunications Authority	5.0	..	..	..
Summer fire information and education program	9.7	..	..	..
Total output initiatives [(a)]	**14.7**	**..**	**..**	**..**

Note:
(a) Table may not add due to rounding.

Emergency Services Telecommunications Authority

Funding will be provided to the Emergency Services Telecommunications Authority for the completion and commissioning of its communications centre at Williams Landing.

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

Summer fire information and education program

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 safety advice and promote community awareness of fire risk and planning in preparation for the 2019-20 bushfire season.

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

DEPARTMENT OF PREMIER AND CABINET

Output initiatives

Table A.8: Output initiatives – Department of Premier and Cabinet ($ million)

	2019-20	2020-21	2021-22	2022-23
Supporting the Royal Commission into Victoria's Mental Health System	13.6	..	..	..
Total output initiatives	**13.6**	**..**	**..**	**..**

Supporting the Royal Commission into Victoria's Mental Health System

Additional funding is being provided to support the operation of the Royal Commission into Victoria's Mental Health System, including the delivery of an interim and final report.

This initiative contributes to the Department of Premier and Cabinet's Government-wide Leadership, Reform and Implementation output.

DEPARTMENT OF TRANSPORT

Asset initiatives

Table A.9: Asset initiatives – Department of Transport ($ million)

	2019-20	*2020-21*	*2021-22*	*2022-23*	*TEI*
Echuca-Moama Bridge Project [(a)]	..	..	30.0	13.7	43.7
Improving the South Gippsland Highway [(a)]	11.6	37.9	15.6	..	65.1
Monash Freeway Upgrade Stage 2 [(a)]	..	80.5	134.8	152.2	367.5
Mordialloc Freeway	11.8	79.9	56.5	..	148.2
Total asset initiatives	**23.4**	**198.3**	**236.9**	**165.9**	**624.5**

Note:
(a) This project includes Commonwealth funding.

Echuca-Moama Bridge Project

Funding will be provided to complete construction of a second river crossing over the Murray River, a new crossing over the Campaspe River, and road and intersection upgrades connecting Echuca and Moama. The construction works will be undertaken in partnership with the New South Wales Government. Additional funding will be provided to enhance the standard of the bridges in accordance with the high quality design outcome required to comply with the Environment Effects Statement.

This initiative contributes to the Department of Transport's Road Operations output.

Improving the South Gippsland Highway

The South Gippsland Highway will be realigned between Koonawarra and Meeniyan. Additional funding will be provided to deliver the full scope of the road safety upgrades including safety improvements between Meeniyan and Yarram. Project works will improve road safety and reduce travel times for freight and local road users.

This initiative contributes to the Department of Transport's Road Operations output.

Monash Freeway Upgrade Stage 2

Additional funding will be provided to complete the second stage of the Monash Freeway upgrade, which will expand the freeway from eight to ten lanes between Springvale Road and EastLink, and from four to six lanes between Clyde Road and Cardinia Road.

An extra 36 kilometres of new lanes will be added to the Monash Freeway along with a range of other enhancements, significantly improving safety and reducing congestion for the drivers making 470 000 trips on the Monash Freeway each day.

This builds on the significant investment already made by the Victorian and Commonwealth Governments on the Monash Freeway upgrade project.

This initiative contributes to the Department of Transport's Road Operations output.

Mordialloc Freeway

Additional funding will be provided to deliver the full scope of the road connection and to address additional scope required as a result of the outcomes of the Environment Effects Statement process, such as additional noise attenuation requirements.

The Mordialloc Freeway will connect the Mornington Peninsula Freeway at Springvale Road to the Dingley Bypass. The new link will increase the connectivity of the arterial road network and draw through traffic away from residential areas in Aspendale Gardens and Mordialloc. This will improve the local amenity in those areas as well as broader transport network efficiency in south-east Melbourne.

This initiative contributes to the Department of Transport's Road Operations output.

COURT SERVICES VICTORIA

Output initiatives

Table A.10: Output initiatives – Court Services Victoria **($ million)**

	2019-20	*2020-21*	*2021-22*	*2022-23*
Judicial Commission of Victoria	1.7	..	..	..
Total output initiatives	**1.7**	**..**	**..**	**..**

Judicial Commission of Victoria

Funding will be provided to the Judicial Commission of Victoria to undertake investigations and other activities in line with its statutory responsibilities to maintain public confidence in Victorian courts.

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

APPENDIX B – AMENDMENTS TO THE 2019-20 OUTPUT PERFORMANCE MEASURES

Output measures for all departments were published in Chapter 2 and Appendix A of Budget Paper No. 3 *Service Delivery*. The Public Accounts and Estimates Committee has completed its review of the measures which were substantially changed or proposed to be discontinued, and tabled its report in Parliament on 29 October 2019. The Government will consider the Committee's report and respond to the recommendations within the legislated timeline. All agreed changes to output performance measures will be reflected in the next budget publication.

APPENDIX C – TAX EXPENDITURES AND CONCESSIONS

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

TAX EXPENDITURES

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

Over the past decade, the State has forgone $54.4 billion in revenue from tax expenditures. In 2019-20, tax expenditures are forecast to be about $9.5 billion.

The tax expenditures outlined below include exemptions, reduced rates and deductions or rebates of tax for a certain type of taxpayer, activity or asset. Table C.1 aggregates tax expenditure estimates by the main tax categories for the period 2018-19 to 2022-23.
In estimating tax expenditures, it is assumed that taxpayer behaviour is unchanged by the concession.

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

Description	*2018-19*	*2019-20*	*2020-21*	*2021-22*	*2022-23*
Land tax	5 922	5 642	5 787	6 373	7 175
Fire Services Property Levy	22	22	22	22	22
Payroll tax	1 543	1 655	1 768	1 885	2 010
Gambling tax	78	78	79	80	78
Motor vehicle taxes	204	227	237	246	257
Land transfer duties [(b)]	1 790	1 782	1 630	1 687	1 807
Congestion levy	61	62	63	65	66
Total estimated tax expenditures	**9 620**	**9 469**	**9 585**	**10 357**	**11 415**

Notes:
(a) *All amounts have been rounded to the nearest $1 million unless otherwise stated. Figures may not add due to rounding.*
(b) *The estimated land transfer duty expenditures over the forward estimates have increased compared with the* 2019-20 Budget*. This is largely due to an increase in the anticipated number and value of concessions for first home buyers and off-the-plan purchases, reflecting that property market conditions have improved earlier than expected.*

CONCESSIONS

Concessions are direct budget outlays or reduced government charges that reduce the price of a good or service for particular groups. Over the past decade, the State has provided $15.3 billion in concessions. In 2019-20, concessions are forecast to be about $1.7 billion.

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

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

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

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

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

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

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

Description	*2018-19*	*2019-20*
Electricity	147	155
Mains gas	71	72
Municipal rates	97	99
Water and sewerage	171	174
Total energy, municipal rates, water and sewerage	**486**	**501**
Ambulance	412	425
Dental services and spectacles	153	152
Community health programs	105	108
Total health	**670**	**684**
Education	**83**	**63**
Hardship schemes	**48**	**50**
Social and community services	**6**	**6**
Private transport	**178**	**187**
Public transport	**169**	**176**
Total for items estimated	1 639	1 667

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

APPENDIX D – SENSITIVITY ANALYSIS

The *2019-20 Budget Update* relies on forecasts and judgements about the economic, operating and financial conditions for the Victorian general government sector. Uncertainty in these conditions, for example as a result of international developments and other risks to the national economy, may cause the actual results to differ from projections.

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

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

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

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

FISCAL IMPACTS OF VARIATIONS TO THE ECONOMIC OUTLOOK

This part of the sensitivity analysis quantifies some of the key risks identified in Chapter 2 *Economic Context* and presents how these risks might affect the State's economic and fiscal aggregates. Two scenarios are considered: a negative shock to population growth that affects growth in employment and household consumption; and a positive shock to Victoria's labour market, modelled as a reduction in the assumed trend rate of unemployment, which results in higher employment and investment activity.[1]

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

Downturn in Victorian population growth

Population growth has been a key contributor to Victoria's recent economic performance and remains significantly above its long-term average. The central forecasts are for population growth to moderate over the forward estimates period, consistent with an assumed decline in the national net overseas migration pool. However, any significant changes in economic growth in source countries of immigration, or changes to Commonwealth policy, could lead to a lower than forecast national net overseas migration (NOM) pool. This would directly impact population growth in Australia and Victoria. An improvement in the labour market conditions of some other states, relative to Victoria, could result in Victoria's share of national NOM declining, which would also lower the State's population growth rate.

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

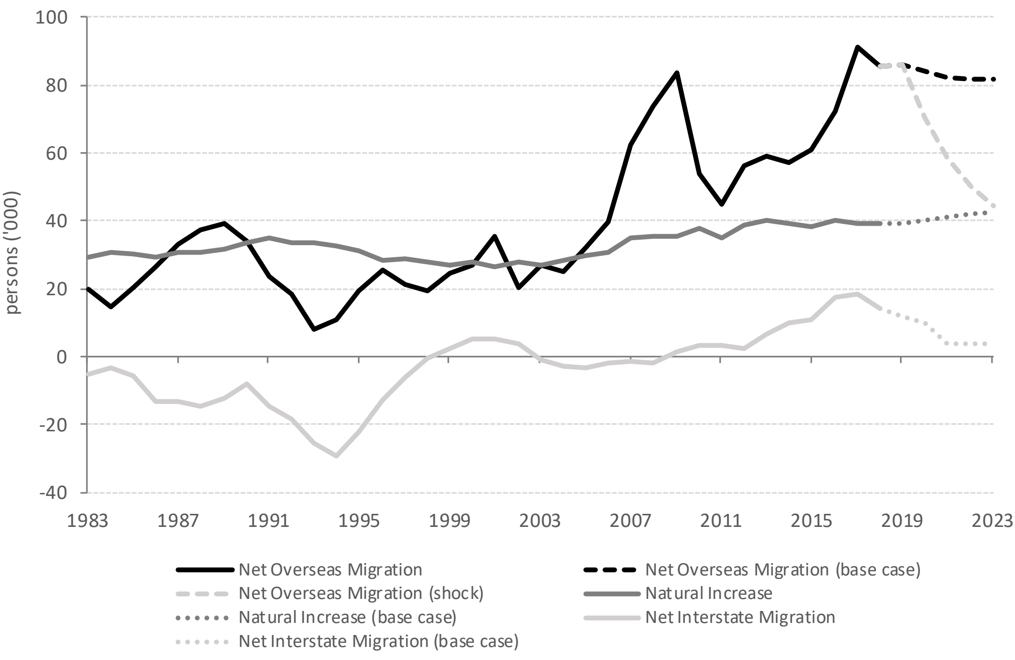
[2] VURM is a dynamic computable general equilibrium model, which has been modified to model two economies: Victoria and the rest of Australia. See Adams, P., Dixon, J., & Horridge, M. (2015), 'The Victoria University Regional Model (VURM): Technical Documentation, Version 1.0', CoPS/IMPACT Working Paper Number G-254 for a more detailed description of the model (available from www.copsmodels.com/ftp/workpapr/g-254.pdf).

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

To model a lower population growth rate scenario, a negative shock that lowers national NOM by 75 000 persons relative to the base case (that is, from a forecast 240 000 in 2018-19 to 165 000 in 2022-23) has been applied in VURM. This shock has been calibrated to lower the ratio of annual NOM relative to the national population to its long-run average of 0.7 per cent. In this scenario, national NOM in the budget year falls by 30 000 persons, with more incremental falls over the forward estimates period to 2022-23. 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 scenario also assumes a reversion in Victoria's share of national NOM from its current level of 35 per cent back to its historical average of 27 per cent.[4]

These factors imply a reduction in annual NOM flows into Victoria from a forecast 86 000 persons in 2018-19 to 44 000 persons by 2022-23 (Chart D.1). Similar to the national shock, most of the fall in Victorian NOM is experienced in the budget year. This shock is similar to the reduction in Victorian NOM experienced during the global financial crisis. The shock implies that the Victorian population would be around 106 000 persons lower (cumulatively) in 2022-23 relative to the base case.

Chart D.1: Victorian population components under the base case and scenario



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

[4] For the calculation of revenue impacts, population estimates for states other than Victoria have been adjusted such that the decrease in Victoria's population share is absorbed as an increase in other states' populations in proportion to their share of the Australian population (excluding Victoria) in the base case. The demographic, geographic and socioeconomic distribution of the states' populations are assumed as unchanged in the shock.

Table D.1 summarises the economic effects of this downside scenario on the Victorian economy. Lower population growth decreases demand in the economy, with employment and gross state product (GSP) lower over the forward estimates period relative to the base case. The economic effects of a lower supply of labour also results in a small increase in the wage price index relative to the base case. Falls in household consumption, and both dwelling and non-dwelling investment, are partly offset by lower demand for imports. Overall, real GSP is lower by 0.24 per cent relative to the baseline forecast in 2022-23. Inflation is slightly lower over the forward estimates period, which reflects that lower overall demand in the economy more than offsets the rise in wage costs.

Table D.1: The effect of a downturn in population growth on major economic parameters [(a)] (per cent)

	2019-20 estimate	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Real GSP	(0.03)	(0.09)	(0.16)	(0.24)
Employment	(0.04)	(0.13)	(0.24)	(0.34)
Consumer price index	(0.02)	(0.03)	(0.02)	(0.01)
Wage price index	0.02	0.09	0.20	0.30

Note:
(a) Figures reported are the change in the level of each parameter relative to the baseline forecasts as presented in Chapter 2 Economic Context*.*

Table D.2 summarises the fiscal impacts of this scenario. With slower growth in real GSP and employment, income from transactions is lower over the forward estimates. This largely reflects reduced GST grants revenue because of a smaller national GST pool, and a lower Victorian population share, relative to the base case. Lower demand for housing also results in a reduction in property-related revenues. Expenses from transactions are marginally lower in the scenario relative to the base case, consistent with a smaller population and slightly lower consumer prices. Overall, the impact on revenue more than offsets the lower expenses, resulting in a negative impact on the net result from transactions.

Table D.2: Projected fiscal impact of lower Victorian population growth [(a)] ($ million)

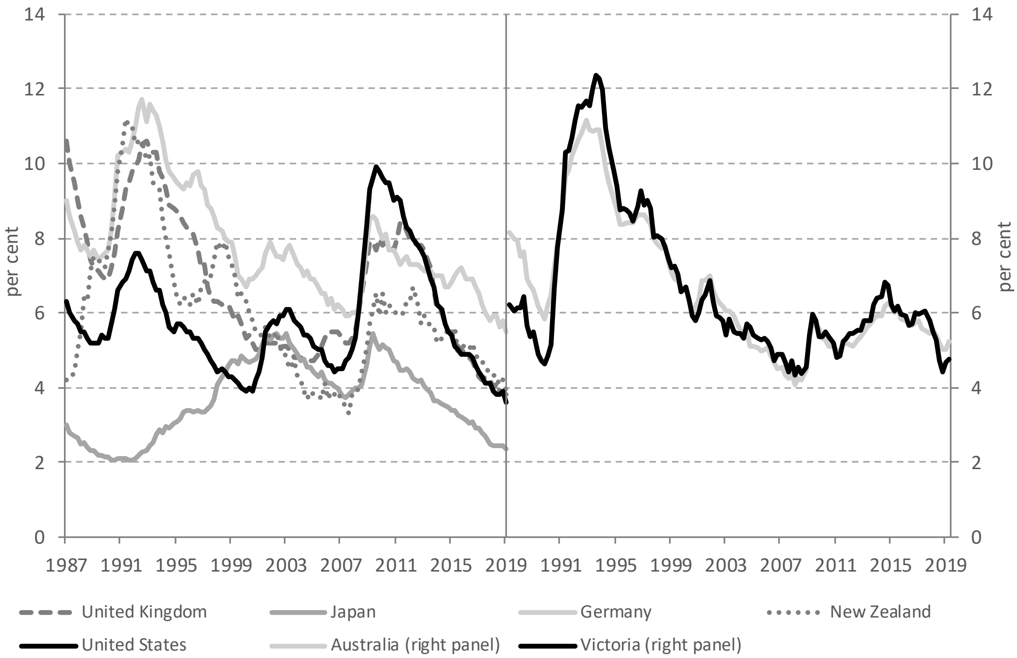
	2019-20 estimate	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Income from transactions	(23.2)	(71.1)	(159.0)	(282.6)
Expenses from transactions	(19.0)	(46.8)	(50.2)	(45.9)
Net result from transactions	**(4.2)**	**(24.4)**	**(108.9)**	**(236.8)**
Other economic flows	(0.2)	(0.2)	(0.6)	(0.9)
Net result	**(4.5)**	**(24.6)**	**(109.5)**	**(237.7)**
Net debt (cumulative)	**4.5**	**29.1**	**138.6**	**376.3**
Net debt to GSP ratio (percentage point difference)	**0.00**	**0.01**	**0.03**	**0.07**

Note:
(a) Figures may not add due to rounding.

A lower trend rate of unemployment in Victoria

Over the past few years there have been large and sustained falls in unemployment rates across a range of advanced economies, including in Victoria and Australia (Chart D.2). This suggests these economies may be approaching capacity constraints and businesses may find it more difficult to find suitably skilled employees.

Chart D.2: Unemployment rates for select advanced economies, Victoria and Australia [(a)]



Sources: Deutsche Bundesbank, U.S. Bureau of Labor Statistics, Japanese Ministry of Internal Affairs and Communications, United Kingdom Office for National Statistics, Australian Bureau of Statistics and the Department of Treasury and Finance

Note:
(a) Data are quarterly seasonally adjusted averages.

One way of assessing the degree of spare capacity in the labour market is to analyse the difference between the observed unemployment rate and the trend rate of unemployment. A widely used estimate of trend unemployment is the non-accelerating inflation rate of unemployment (NAIRU).[5] As the NAIRU is an estimate only and cannot be observed, model estimates are highly uncertain and can change as new data become available. Currently, the budget estimate of the Victorian NAIRU is 5.5 per cent, which is above the quarterly average Victorian unemployment rate to September 2019 of 4.8 per cent.

[5] The term NAIRU refers to the rate of unemployment at which the rate of inflation is constant. That is, prices are changing, but not accelerating. The NAIRU is also slightly different from the concept of a 'natural rate of unemployment', which is a broader concept that refers to the rate of unemployment that exists when an economy is in long-run equilibrium and not affected by cyclical unemployment driven by short-run rigidities in both labour and product markets.

Economic theory suggests that when the observed unemployment rate is above the NAIRU, there is an excess supply of workers relative to the equilibrium level of employment, which implies that there will be downward pressure on wages growth and inflation. In this situation, firms can source labour more easily, and competition among workers for roles makes it more difficult for them to demand higher wages (wages are sticky downwards). Conversely, when the observed unemployment rate is below the NAIRU, there is a shortage of workers, resulting in upward pressure on wage growth because firms need to bid up wages to find suitably skilled employees.

The difference between the NAIRU and the observed rate of unemployment – the unemployment gap – is therefore an important input to the central economic forecasts for the labour market and for prices, which assume that the labour market is in equilibrium in the long run, and that the rate of inflation is stable.[6]

Since March 2018, Victoria's quarterly average unemployment rate has remained below the budget estimate of the NAIRU. However, inflation and wages growth in Victoria have also remained below trend (although wages growth is now above its recent lows). This is in contrast to what would be expected in this environment. Other jurisdictions such as New South Wales, the United States and the United Kingdom, have also seen a divergence of labour market strength and wages growth. The prolonged period of low wages growth across many countries has given rise to some debate about whether the theoretical relationship between the NAIRU and wages growth still holds, whether the true unobserved NAIRU is lower than previously estimated, or whether low wages growth reflects other factors.

Other than a fall in the NAIRU, there are several other possible explanations why wages growth may be low at a time of low unemployment. Underemployment, which primarily represents part-time workers who would prefer to work more hours, has been elevated in recent years. This suggests that there has been more spare capacity in the labour market than the unemployment rate alone would indicate. Other factors such as weak labour productivity growth and lower inflation expectations, may have also contributed to subdued wages growth.

There is also a degree of uncertainty around estimates of the NAIRU itself. There are several ways to model it in practice, and each method can provide different results. These models rely on data on unemployment and inflation, and measurement issues associated with these data need to be considered. They are, for example, often revised and subject to one-off events, not all of which may indicate a structural change in the labour market.[7]

[6] The estimated Victorian NAIRU is incorporated into the central forecasts as the trend unemployment rate achieved in the final year of the forecasts, when the labour market is assumed to be in equilibrium. The trend rate of inflation is the midpoint of the RBA's cash rate target band, or 2.5 per cent.

[7] Another consideration is that the labour market may exhibit 'hysteresis' effects, meaning that any transmission of short-run deviations in the unemployment rate to the long-run unemployment rate needs to be taken into account. 'Hysteresis' refers to instances where single, short-run disturbances in the economy affect the long-run trajectory of economic growth. In the labour market, these types of disturbances can affect estimates of the NAIRU. An example of this in the Australian context is the large increase in long-term unemployment as a result of the 1991-92 recession.

There are a number of factors that can result in changes to the NAIRU over time. These include changes in the nature of workplace bargaining, more workers being employed on a part-time basis, as well as greater efficiency in the labour market itself (through better technology and job matching). These factors suggest trend unemployment – that is, the true unobserved NAIRU – may have declined over time. This would mean the economy can sustain a lower rate of unemployment without inducing inflationary pressure. Indeed, recent research from the Reserve Bank of Australia indicates that, for Australia, the NAIRU has gradually fallen in recent years, from 5.25 per cent to 4.5 per cent, reflecting weaker than expected wages growth.

Given some uncertainty over the current level of the NAIRU, it is useful to explore the economic and fiscal implications of a lower-assumed trend rate of unemployment. To analyse the impact of a lower NAIRU in VURM, a shock was applied to the base case by lowering the trend rate of unemployment in Victoria by 0.5 percentage points. The forecasts in Chapter 2 *Economic Context* assume the unemployment rate will rise gradually over the forward estimates period to 5.5 per cent by 2022-23, consistent with a reversion of the economy to trend. This modelled scenario assumes the Victorian unemployment rate rises to only 5.0 per cent by 2022-23.

The effects of this scenario on major economic parameters are reported in Table D.3. Relative to the base case, a lower NAIRU results in stronger employment growth, with employment higher by 0.36 per cent in 2022-23. The rise in employment improves the productivity of capital in the short run, attracting more investment and resulting in higher real GSP over the forward estimates period. Because a lower NAIRU implies there is more labour capacity than in the base case, upward pressure on wages is reduced, resulting in slower real wages growth. Relative to the base case, wages are lower by 0.64 per cent in 2022-23.

While employment is higher, the slower growth in real wages weighs on household income, and the net effect on consumption growth of these two factors is relatively minor. Slower real wages growth also lowers production costs, resulting in lower inflation relative to current forecasts.

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

	2019-20 estimate	2020-21 estimate	2021-22 estimate	2022-23 estimate
Real GSP	0.08	0.15	0.20	0.24
Employment	0.13	0.23	0.30	0.36
Consumer price index	(0.09)	(0.16)	(0.20)	(0.22)
Wage price index	(0.27)	(0.46)	(0.58)	(0.64)

Note:

(a) Figures reported are the change in the level of each parameter relative to the baseline forecasts as presented in Chapter 2 Economic Context.

Under this scenario, general government sector revenue is lower, as shown in Table D.4. Payroll tax collections decline through lower wages growth, although this is partially offset by an increase in employment. Weaker inflationary pressures in the economy also reduces tax collections on the sales of goods and services, and the distribution of GST grants.

While higher public sector employment raises costs, the lower wages in the scenario more than offset this, resulting in lower net expenses over the forward estimates period. These impacts reflect the assumed relationship between private and public sector employment and wages in the model; namely that public sector employment is a fixed share of overall employment, and public sector wage growth corresponds to private sector wage growth. By 2022-23, the decrease in expenditure offsets the reduction in taxes, boosting the net result.

Table D.4: Projected fiscal impact of lower trend unemployment in Victoria [(a)] ($ million)

	2019-20 estimate	2020-21 estimate	2021-22 estimate	2022-23 estimate
Income from transactions	(34.2)	(62.5)	(78.9)	(87.7)
Expenses from transactions	(15.5)	(18.4)	(73.8)	(126.5)
Net result from transactions	**(18.7)**	**(44.1)**	**(5.1)**	**38.8**
Other economic flows	(0.5)	(0.3)	(0.5)	(0.6)
Net result	**(19.1)**	**(44.4)**	**(5.6)**	**38.2**
Net debt (cumulative)	**19.1**	**63.8**	**69.7**	**31.7**
Net debt to GSP ratio (percentage point difference)	**0.00**	**0.01**	**0.01**	**0.01**

Note:

(a) Figures may not add due to rounding.

SENSITIVITY TO INDEPENDENT VARIATIONS IN MAJOR ECONOMIC PARAMETERS

Table D.5 presents the sensitivity of financial aggregates where the levels of key economic parameters are 1 per cent (or, for interest rates, 1 percentage point) above the forecast for each year of the budget and forward estimates, holding all else constant. The impacts shown are broadly symmetric; that is, the estimated fiscal impacts would apply approximately equally in the opposite direction where there is a decrease in the parameter. Differences may arise to the extent that the impact on income tax equivalent income may not be symmetric because that line item is subject to a floor of zero, and the impact on dividends may be affected by some entities facing caps on the share of profits that can be returned to the general government sector.

Table D.5: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2019-20 [(a)(b)(c)(d)(e)] **($ million)**

	2019-20 estimate	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
GSP				
Income from transactions	116	125	135	145
Expenses from transactions	1	(4)	(9)	(15)
Net result from transactions	**116**	**129**	**144**	**161**
Net debt	**(116)**	**(245)**	**(389)**	**(550)**
Employment [(f)]				
Income from transactions	89	92	95	99
Expenses from transactions	265	287	304	326
Net result from transactions	**(176)**	**(195)**	**(208)**	**(227)**
Net debt	**176**	**371**	**579**	**806**
Consumer prices [(g)]				
Income from transactions	272	291	309	327
Expenses from transactions	219	212	202	205
Net result from transactions	**52**	**80**	**107**	**122**
Net debt	**(53)**	**(136)**	**(246)**	**(372)**
Average weekly earnings [(h)]				
Income from transactions	92	95	99	104
Expenses from transactions	3	(1)	(5)	(9)
Net result from transactions	**89**	**96**	**104**	**113**
Net debt	**(89)**	**(185)**	**(289)**	**(402)**
Total employee expenses				
Income from transactions	..	30	101	110
Expenses from transactions	267	325	345	369
Net result from transactions	**(267)**	**(296)**	**(244)**	**(259)**
Net debt	**267**	**548**	**777**	**1020**
Domestic share prices				
Income from transactions	..	..	..	..
Expenses from transactions	..	(1)	(1)	(1)
Net result from transactions	**..**	**1**	**1**	**1**
Net debt	**..**	**..**	**..**	**..**

Table D.5: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2019-20 *(continued)* **($ million)**

	2019-20 estimate	*2020-21 estimate*	*2021-22 estimate*	*2022-23 estimate*
Overseas share prices				
Income from transactions	..	..	..	..
Expenses from transactions	..	(1)	(1)	(1)
Net result from transactions	**..**	**1**	**1**	**1**
Net debt	**..**	**..**	**..**	**..**
Property prices				
Income from transactions	75	128	137	149
Expenses from transactions	(2)	(6)	(12)	(18)
Net result from transactions	**76**	**134**	**149**	**167**
Net debt	**(79)**	**(216)**	**(370)**	**(541)**
Property transaction volumes				
Income from transactions	58	62	65	70
Expenses from transactions	(1)	(4)	(7)	(10)
Net result from transactions	**59**	**66**	**72**	**79**
Net debt	**(59)**	**(125)**	**(197)**	**(276)**
Interest rates (i)				
Income from transactions	75	70	66	64
Expenses from transactions	1	188	178	160
Net result from transactions	**74**	**(118)**	**(112)**	**(97)**
Net debt	**(74)**	**(146)**	**(216)**	**(286)**

Notes:

(a) Variations are applied to the economic variables effective from the first day in the budget year (1 July 2019). It is assumed that each variable's growth rate matches that under a no-variation scenario for the forward estimates period. This implies that the level of all economic variables (other than interest rates) is 1 per cent higher in levels terms in each year of the budget and forward estimates. 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) Figures may not add due to rounding.

(f) 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 levels are assumed to be 1 per cent higher across the four years; the rise in public sector employment boosts general government sector employee expenses.

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

(h) 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.

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

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

The *Financial Management Act 1994* (the Act) requires the Minister to prepare a budget update for tabling in Parliament each financial year. The provisions of the Act have been complied with in the *2019-20 Budget Update*.

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

Table E.1: Statements required by the *Financial Management Act 1994* and their location in the *2019-20 Budget Update*

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

Table E.1: Statements required by the *Financial Management Act 1994* and their location in the *2019-20 Budget Update (continued)*

Relevant section of the Act and corresponding requirement	*Location*
Accompanying statement to estimated financial statements which:	
• outlines the material economic assumptions used in preparation of the estimated financial statements;	Chapter 2 *Economic context;* and Chapter 4 *Estimated financial statements and notes*
• discusses the sensitivity of the estimated financial statements to changes in these assumptions;	Appendix D *Sensitivity analysis*
• provides an overview of estimated tax expenditures for the financial years covered by the estimated financial statements; and	Appendix C *Tax expenditures and concessions*
• provides a statement of the risks that may have a material effect on the estimated financial statements.	Chapter 2 *Economic context*; Chapter 3 *Budget position and outlook*; and Chapter 6 *Contingent assets and contingent liabilities*

STYLE CONVENTIONS

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

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

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

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

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