

Victorian Pre-Election Budget Update

November 2022



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and Finance

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**Victorian Pre-Election
Budget Update**

A report by the Secretary of the
Department of Treasury and Finance

November 2022

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FOREWORD

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

The purpose of this *Pre-Election Budget Update* is to update information on the general government sector since the *2022-23 Budget* was published in May 2022 and to also capture the financial impact of Government decisions and other material information since the publication of the *2022 Victorian Economic and Fiscal Update* on 31 October 2022.

Chapter 1 *Economic conditions and outlook*, outlines the outlook for the Victorian, Australian and international economies, including risks to this outlook. Chapter 2 *Budget position and outlook*, presents the revised budget position of the general government sector for the period 2022-23 to 2025-26 and outlines the fiscal risks which could materially alter these budget projections. Chapter 3 *Estimated financial statements and notes*, provides the formal financial statements, and underpinning notes and assumptions required by the FMA and is consistent with applicable Australian Accounting Standards. Chapter 4 *Contingent assets and contingent liabilities*, outlines quantifiable and non-quantifiable contingent assets and contingent liabilities. Appendix A *Sensitivity analysis*, estimates the impact of selected economic and financial variables on income, expenses, the net result from transactions, the net result and net debt.

This *Pre-Election Budget Update* is based on Government decisions I was aware of on or before the issue of the election writs on 1 November 2022.



David Martine
Secretary

Department of Treasury and Finance
November 2022

CHAPTER 1 – ECONOMIC CONDITIONS AND OUTLOOK

- Victoria’s economy has recovered strongly from the COVID-19 pandemic. State final demand is well above pre-pandemic levels, with recent economic growth outpacing the national average.
- The unemployment rate is around its lowest level since the mid-1970s. Labour market conditions are expected to remain strong in 2022-23, with further solid growth in employment and the unemployment rate remaining very low in the near term, before gradually rising from 2023-24.
- The outlook remains positive, with real economic growth forecast to be 3.00 per cent in 2022-23. Growth will be tempered, though, by rising interest rates as the Reserve Bank of Australia (RBA) seeks to contain a sharp rise in inflation, and by a weaker global economic outlook. Inflation has risen domestically and globally, driven by ongoing pandemic-related supply-chain disruptions, Russia’s invasion of Ukraine, and strong consumer demand. It is expected to peak in late 2022 and then decline progressively.
- The risks to Victoria’s economy are elevated and include uncertainty around the outlook for domestic and global inflation, interest rates, geopolitical conditions, recent flood events, and ongoing impacts of the COVID-19 pandemic.

VICTORIAN ECONOMIC CONDITIONS AND OUTLOOK

Victoria’s economy rebounded strongly in 2021-22 and is estimated to have grown by 5.00 per cent in real terms as it recovered from the effects of the COVID-19 pandemic that began in early 2020. The strength of economic growth over the past year has meant that aggregate demand is high, business conditions are positive and capacity utilisation is around a record high. Labour market conditions have been particularly robust, with the share of working-age Victorians in employment near a record high and the unemployment rate recently falling to a near 50-year low.

The economic outlook for 2022-23 remains positive, although growth will be tempered by the effect of rising interest rates and a weaker global economic outlook. The RBA began raising interest rates in May 2022 to contain a sharp rise in inflation. Inflation has risen domestically and globally, driven by ongoing pandemic-related supply chain disruptions, Russia’s invasion of Ukraine and strong consumer demand.

Overall, Victoria’s economy is expected to record solid real growth of 3.00 per cent in 2022-23. Business investment intentions are positive and forward indicators of labour demand, such as job advertisements and job vacancies, are strong. Activity will also be supported by a very high level of household savings, which is expected to help consumers remain resilient during a period of higher inflation and interest rates.

The October–November 2022 floods are significantly affecting communities in some regions of Victoria. It is too early to determine the likely impact on the state’s overall economy, but once this is assessed there may be some downward pressure on growth in the near-term (see Box 1.1). Over the medium term, recovery and reconstruction activity may offset these negative impacts on growth. Floods may also temporarily add to inflation pressures, particularly for fresh food.

Gross state product

Table 1.1 sets out the economic forecasts, with the *2022-23 Budget* forecasts in italics where different.

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

	<i>2021-22 actual</i>	<i>2022-23 forecast</i>	<i>2023-24 forecast</i>	<i>2024-25 projection</i>	<i>2025-26 projection</i>
Real gross state product	5.00 ^(b)	3.00	1.75	2.75	2.75
	<i>5.50</i>	<i>3.25</i>	<i>2.25</i>		
Employment	3.90	1.75	1.00	1.25	1.75
	<i>3.00</i>				
Unemployment rate ^(c)	4.30	3.75	4.00	4.25	4.50
	<i>4.25</i>	<i>4.00</i>	<i>4.25</i>	<i>4.50</i>	<i>4.75</i>
Consumer price index ^(d)	4.00	7.25	4.00	2.75	2.50
	<i>3.00</i>	<i>2.50</i>	<i>2.25</i>	<i>2.50</i>	
Wage price index ^(e)	2.40	3.25	3.50	3.25	3.25
	<i>2.50</i>	<i>2.75</i>	<i>3.00</i>	<i>3.00</i>	<i>3.00</i>
Population ^(f)	0.90 ^(b)	1.40	1.70	1.70	1.70
	<i>0.10</i>	<i>1.20</i>			

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

Notes:

(a) Percentage change in year average terms compared with the previous year, except for the unemployment rate (see note (c)) and population (see note (f)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (f)).

The key assumptions underlying the economic forecasts include interest rates that broadly follow market economists’ expectations; an Australian dollar trade-weighted index of 62.6; and oil prices that follow the path suggested by oil futures.

(b) Estimate, actual not yet available.

(c) Year average.

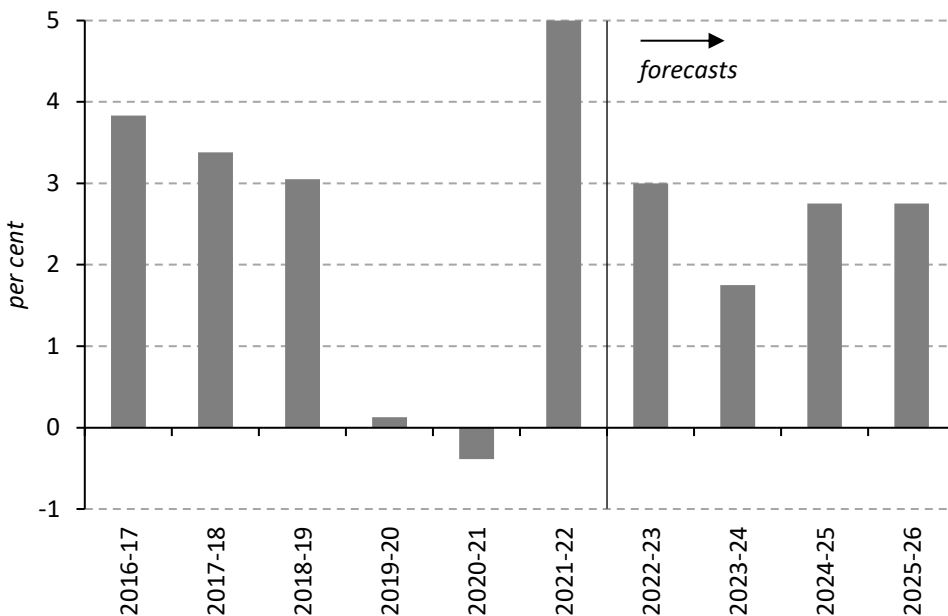
(d) Melbourne consumer price index.

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

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

In 2021-22, Victorian state final demand grew by 7.4 per cent, above the national increase of 5.1 per cent. The strength was broad-based, with growth in all major components of demand, and consumer spending was particularly strong. Economic output, as measured by real gross state product (GSP), is estimated to have grown by 5.00 per cent in 2021-22 and is forecast to grow by 3.00 per cent in 2022-23 (see Chart 1.1).

Chart 1.1: Victorian GSP annual real growth rates, actual and forecast ^(a)



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

Note:

(a) GSP growth for 2021-22 is an estimate.

Consumer spending was the major contributor to economic growth in 2021-22, supported by an easing of COVID-19 public health restrictions, a strong labour market and high levels of household savings. The rebound in household spending is expected to continue into 2022-23, as spending – notably on consumer services – continues to recover from pandemic-related disruptions. The labour market remains strong and will support household incomes. Elevated levels of household savings, which have been accumulated during the pandemic, are also expected to support ongoing household consumption.

Nevertheless, growth in consumer spending is expected to be moderated by several factors, which have led to consumer confidence falling to low levels in recent months. High inflation is weighing on real incomes, while rising interest rates are also putting downward pressure on disposable incomes. Declining asset prices may also cause consumers to become more risk-averse and reduce discretionary spending.

Dwelling investment made a solid contribution to economic growth in 2021-22, as low interest rates and government incentives drove demand. Activity became somewhat constrained over the year due to labour shortages and as pandemic-induced supply chain disruptions led to materials shortages. These also led to rising input costs for the construction sector. In 2022-23, dwelling investment is expected to grow modestly. Capacity constraints are expected to gradually ease, which, alongside a large pipeline of construction work, should continue to support activity in the near term. However, rising interest rates are expected to dampen demand for new housing and construction activity, particularly from the second half of 2022-23.

Business investment grew strongly in 2021-22 and is forecast to continue growing at a high rate in 2022-23. A large pipeline of engineering and non-residential building construction projects support the positive outlook, as do elevated investment intentions as reported by surveyed businesses.

Public demand has been a key driver of Victoria's GSP growth since the onset of the pandemic, making another strong contribution in 2021-22. It is forecast to be broadly unchanged in 2022-23, with overall spending levels constrained as temporary COVID-19 support measures unwind. Already contracted transport and social infrastructure projects will continue to underpin high levels of public investment.

Exports of goods and services rose modestly in 2021-22, with continued strength in goods exports and a rise in services exports from March 2022 after border restrictions eased. Imports of goods and services, by contrast, rose strongly in 2021-22. Imports of goods were particularly strong, driven by the pickup in consumer spending and business investment. Services imports began to rise after Australia's national border restrictions began to ease in late 2021.

Looking ahead, the net trade in services is forecast to detract moderately from growth in 2022-23. International travel flows are expected to gradually increase following the easing of COVID-19-related restrictions on national borders, including a sustained recovery in international student arrivals to Victoria. Meanwhile, the net trade in goods is forecast to make a positive contribution to GSP growth. Demand for goods imports is expected to ease in 2022-23, with businesses having significantly replenished inventories in 2021-22 and the exports of goods are forecast to grow strongly.

Box 1.1: The economic impacts of the October–November 2022 floods

In October 2022, high-intensity rainfall caused widespread flooding across the state. Many households have been displaced, businesses disrupted, and properties, community assets and infrastructure damaged.

The full extent of the damage to physical assets, or the impact on the state’s overall economy, is not yet known. As the extent of damage becomes clearer, there may be some downward pressure on forecast economic growth in the December quarter, and then some upward pressure in the March quarter during the recovery phase. At this stage, it is too early to determine the impacts on the year-average economic growth forecasts.

Primary producers are particularly affected by the floods. The impacted regions produce a significant share of Victoria’s dairy, meat, and horticulture output. Road closures due to flooding may affect the ability to transport produce from farms, while electricity supply disruptions could also affect milk collection. Crop yields may also be affected. In addition, the construction sector may be temporarily disrupted by poor weather. The extent of losses to economic output will depend on the extent and the persistence of the flooding, which cannot yet be determined.

Flooding may also add to consumer price pressures in the near term. Retail prices for affected fresh food products may increase where supply is limited by crop losses and disruptions to production and distribution. The October–November 2022 floods will add to existing pressures on fresh food prices, which have risen over the past year due to previous flooding on the east coast of Australia, supply chain disruptions and higher input costs for transport and fertiliser.

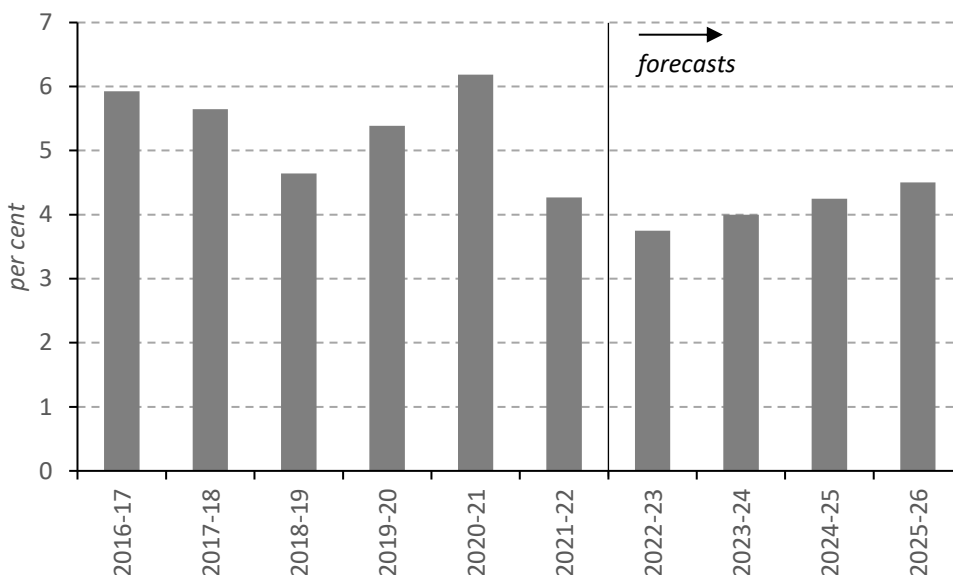
Labour market

Victoria’s labour market has recovered well from the earlier effects of the COVID-19 pandemic. Employment grew by a very strong 3.9 per cent in 2021-22, with the increase driven by full-time employment. Since its trough in September 2020, employment has risen by 313 000 persons, and the share of working-age Victorians in employment is near a record high.

The labour market recovery has been inclusive. While women, young people and single parents were disproportionately affected during 2020 and 2021 amid the pandemic, the proportions of these cohorts of workers in employment have recovered to be above pre-pandemic levels. The unemployment rate has declined sharply over the past year. It averaged 4.3 per cent in 2021-22, and at 3.5 per cent is now near a 50-year low.

Labour market conditions are expected to remain strong in 2022-23, consistent with leading indicators of labour demand such as job advertisements and job vacancies, which remain very high. Softening economic conditions are expected to weigh on employment growth somewhat in the medium term. Employment is forecast to grow by 1.75 per cent in 2022-23, and by a further 1.0 per cent in 2023-24. The unemployment rate is forecast to average 3.75 per cent in 2022-23, before gradually rising in line with slower economic growth and approaching the rate consistent with stable inflation within the RBA’s target band (see Chart 1.2).

Chart 1.2: Victorian unemployment rate^(a), actual and forecast



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

Note:

(a) Year average.

Prices

Inflation, which was very low in 2020-21, has risen to an elevated level in Victoria – as it has nationally and globally. The Melbourne consumer price index rose by 4.0 per cent in year-average terms in 2021-22, and is forecast to rise to 7.25 per cent in year-average terms in 2022-23. In year-ended terms, inflation is forecast to peak at around 8 per cent in December 2022, before easing in 2023.

Global inflation has been driven higher by global supply-chain disruptions and the strong demand for goods – both of which were caused by the pandemic. Russia’s invasion of Ukraine in February 2022 led to a sharp rise in global energy prices and the price of some commodities, which added to these inflationary pressures. In Victoria and Australia, these global factors have driven the prices of imported consumer goods higher, especially automotive fuel. They have also contributed to higher input costs for a range of domestic goods and services, leading to broad-based inflation. Higher prices for new dwellings have made a large contribution to overall consumer inflation, amid shortages of construction-related materials and labour coupled with strong demand for new housing.

The RBA began raising interest rates in May 2022 to contain growing price pressures across the Australian economy. Recent and expected rate rises, along with a stabilisation or decline in oil and other global commodity prices, are expected to progressively lower inflation over the forecast period. Substantial rises in retail energy prices, though, are expected to temper this easing in inflationary pressure.

Wages

Wages growth increased to 2.4 per cent in 2021-22 as the labour market recovered, up from 1.4 per cent in 2020-21. Wage growth had slowed in 2020 as many firms introduced wage freezes or temporary wage cuts due to the COVID-19 pandemic. Some weakness persisted into 2021 amid the resumption of public health restrictions due to the Delta outbreak.

More recently, the strength in the labour market has contributed to higher wages growth. Business surveys indicate that wage costs have increased in 2022, notably in industries where there have also been reports of labour shortages, such as professional services and construction. The RBA's business liaison program also suggests that labour costs have picked up, with firms expecting wages growth to continue rising in the year ahead. Furthermore, the Fair Work Commission lifted the national minimum wage by 5.2 per cent and award minimum wages by 4.6 per cent, effective from 1 July 2022.

With unemployment expected to remain at very low levels, wages growth is forecast to rise to 3.25 per cent on average in 2022-23, and rise further to 3.50 per cent in the following year.

Population

Victoria's population growth had been strong leading up to the COVID-19 pandemic. However, the COVID-19 pandemic has had a significant negative impact on population growth, with Victoria's population declining in 2020-21 as both net overseas and net interstate migration detracted from growth.

Victoria's population is estimated to have grown by 0.9 per cent in 2021-22, with population growth forecast to rise to 1.4 per cent in 2022-23 as net overseas and net interstate migration recover further. Population growth is expected to return to the long-term trend of 1.7 per cent later in the forecast period.

AUSTRALIAN ECONOMIC CONDITIONS AND OUTLOOK

The Australian economy has performed strongly over the past year, growing by 3.9 per cent in 2021-22, with the economy 5.5 per cent larger by the end of the year than it was prior to the COVID-19 pandemic. Employment growth has been strong, and the unemployment rate has fallen to a very low 3.5 per cent.

Global supply chain disruptions, Russia's invasion of Ukraine and domestic capacity constraints have driven Australian inflation to its highest level since 1990. In response, the RBA has increased official interest rates by 2.75 percentage points since May 2022 to slow aggregate spending and contain these rising inflation pressures. Private sector economists and financial market participants expect the RBA to raise interest rates further over coming months.

As outlined in the latest Commonwealth Budget released on 25 October 2022, the Commonwealth Treasury expects the Australian economy to grow by 3.25 per cent in 2022-23 and by 1.5 per cent in 2023-24. The forecast for 2022-23 represents a downward revision of 25 basis points since the Commonwealth's March 2022 budget, while the forecast for 2023-24 is 100 basis points lower. These downgrades are driven by a weaker global economic outlook, persistent inflation and rising interest rates. Employment growth is forecast to moderate to 1.75 per cent in 2022-23, slowing to 0.75 per cent in the following year. The unemployment rate is expected to remain low at 3.75 per cent in 2022-23 before rising to 4.50 per cent in 2023-24. The Commonwealth's forecast for wages growth in 2022-23 has been revised higher, from 3.25 per cent in its March budget to 3.75 per cent. Meanwhile, inflation is expected to end 2022-23 at 5.75 per cent, a significant upward revision from 3.0 per cent in its March 2022 budget, before declining gradually over the following two years.

International economic conditions and outlook

The global economy rebounded strongly in 2021, with the International Monetary Fund (IMF) estimating output growing by 6.0 per cent. However, the global economy is estimated to have contracted modestly in the second quarter of 2022 and the outlook has deteriorated, with the IMF downgrading its global growth forecasts for 2022 and 2023 since the *2022-23 Budget*. The IMF cited several factors behind its forecast downgrades, including high inflation and tighter monetary policy in the United States and many European economies, spill-over effects from Russia's invasion of Ukraine, ongoing COVID-19 health restrictions, and the deepening real estate downturn in China.

The IMF revised up its forecast for global inflation, which is now expected to reach 7.2 per cent in advanced economies in 2022, driven by higher food and energy prices and ongoing supply-demand imbalances. The IMF expects some easing in price pressures over 2023, due in part to the disinflationary effect of higher interest rates, but does not expect global inflation to return to near pre-pandemic levels until 2025.

RISKS TO THE OUTLOOK

The risks to Victoria's economic outlook remain greater than normal. Domestically, there is significant uncertainty about the inflation outlook and hence the outlook for interest rates. Global supply chain pressures and high energy prices could persist for longer than expected. Current elevated inflation could raise expectations of future inflation, which may become self-sustaining as workers and firms build higher expectations into price-setting and wage-bargaining behaviour. Such scenarios could lead the RBA to increase interest rates by more than expected, weighing on economic activity and employment growth. A related uncertainty is how quickly and to what extent wage-setting behaviour responds to the current tight labour market.

Another key domestic risk is the outlook for consumer spending. The labour market is expected to remain tight; robust employment growth and a stronger than expected increase in wages growth would further boost household income. Combined with high levels of household savings and pent-up demand, this could lead to stronger growth in consumer spending than currently forecast. Yet consumers are also facing significant challenges. The material rises in interest rates and high inflation could weigh on consumer spending more than expected. Meanwhile, with asset prices declining, consumers could become more risk-averse and reduce discretionary expenditure. How these opposing dynamics play out is key to the outlook for consumption and is subject to a high degree of uncertainty.

The IMF considers that global risks are considerably tilted to the downside. High inflation and rising interest rates in the United States and Europe, Russia's invasion of Ukraine, as well as some ongoing COVID-19 restrictions and the property sector downturn in China will impede global growth in 2023. There is considerable uncertainty, however, around the scale and duration of these impacts. Weaker global growth would slow demand for Victoria's exports of goods and services.

The October–November 2022 floods significantly affecting communities in some regions of Victoria represent an additional risk to the outlook for both growth and inflation.

COVID-19 also remains a significant source of uncertainty for the Victorian economy, particularly the risk of new variants emerging that are resistant to current vaccines. Appendix A *Sensitivity Analysis* considers this possibility. In this scenario, new COVID-19 variants lead to renewed public health measures in major economies outside Australia as well as the reimposition of Australia's national border restrictions, disrupting both the global and domestic economic recovery. Heightened uncertainty would weigh heavily on Victorian consumer sentiment, reducing consumer spending and slowing economic growth.

CHAPTER 2 – BUDGET POSITION AND OUTLOOK

- The net result from transactions for the general government sector is estimated to be a \$10.2 billion deficit in 2022-23 and is forecast to return to a \$0.9 billion surplus by 2025-26.
- The net cash flows from operating activities for the general government sector is estimated to be in surplus by \$1.9 billion in 2022-23, increasing to \$5.3 billion in 2025-26.
- Net debt is projected to be \$116.0 billion by June 2023, growing to \$165.9 billion by June 2026. As a proportion of GSP, net debt is projected to be 20.3 per cent at June 2023 and 24.6 per cent by June 2026.
- Government infrastructure investment (GII) is expected to average \$21.6 billion a year over the budget and forward estimates.
- Interest expense as a share of total revenue is expected to average 6.5 per cent a year over the budget and forward estimates.
- The State's unfunded superannuation liability is on track to be fully funded by 2035.

This chapter presents the revised budget position of the general government sector for the budget year and forward estimates. It takes into account all policy decisions made by the Victorian Government, as well as other information that affects the financial statements, including the recognition of material financial updates for agreed funding agreements able to be assessed for inclusion from the *October 2022-23 Commonwealth Budget*, up to the issue of the election writs on 1 November 2022.

GENERAL GOVERNMENT SECTOR

Overview

The net result from transactions for the general government sector is estimated to be a \$10.2 billion deficit in 2022-23 and is forecast to return to a \$0.9 billion surplus by 2025-26.

The net cash flows from operating activities for the general government sector is estimated to be in surplus by \$1.9 billion in 2022-23, increasing to \$5.3 billion in 2025-26.

Total revenue for the general government sector is expected to be \$81.5 billion in 2022-23 and increase to \$93.5 billion by 2025-26. Total general government sector expenditure is expected to be \$91.6 billion in 2022-23 and increase to \$92.7 billion by 2025-26.

Net debt is expected to be \$116.0 billion at June 2023 and \$165.9 billion by June 2026. As a proportion of GSP, net debt is projected to be 20.3 per cent at June 2023 and 24.6 per cent by June 2026.

Government infrastructure investment (GII) is expected to average \$21.6 billion a year over the budget and forward estimates.

Interest expense as a share of total revenue is expected to average 6.5 per cent a year over the budget and forward estimates.

Table 2.1: General government fiscal aggregates

	<i>Unit of measure</i>	<i>2022-23 revised</i>	<i>2023-24 estimate</i>	<i>2024-25 estimate</i>	<i>2025-26 estimate</i>
Net result from transactions	\$ billion	(10.2)	(3.6)	(0.6)	0.9
Net cash flows from operating activities	\$ billion	1.9	0.8	4.0	5.3
Government infrastructure investment ^{(a)(b)}	\$ billion	21.2	22.3	22.2	20.7
Net debt	\$ billion	116.0	134.4	151.9	165.9
Net debt to GSP ^(c)	per cent	20.3	22.2	23.8	24.6

Notes:

(a) Includes general government net infrastructure investment and the estimated construction costs of public private partnership projects.

(b) Includes the estimated private sector construction-related expenditure associated with the North East Link held in the public non-financial corporations (PNFC) sector.

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

BUDGET AND FORWARD ESTIMATES OUTLOOK

Table 2.2 summarises the operating statement for the general government sector. A comprehensive operating statement is presented in Chapter 3 *Estimated Financial Statements and Notes*.

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

	2022-23 <i>revised</i>	2023-24 <i>estimate</i>	2024-25 <i>estimate</i>	2025-26 <i>estimate</i>
Revenue and income from transactions				
Taxation	31 166	32 686	33 802	35 554
Dividends, TER and interest ^(b)	1 390	1 715	1 820	2 035
Sales of goods and services	6 067	6 238	6 535	6 500
Grants	39 290	40 450	43 197	46 017
Other revenue and income	3 547	3 639	3 210	3 432
Total revenue and income from transactions	81 460	84 729	88 563	93 539
<i>% change</i>	<i>(1.9)</i>	<i>4.0</i>	<i>4.5</i>	<i>5.6</i>
Expenses from transactions				
Employee expenses	33 474	34 165	34 722	35 763
Superannuation ^(c)	4 132	4 243	4 308	4 320
Depreciation	4 712	4 714	4 829	5 094
Interest expense	3 863	5 172	6 342	7 438
Grant expense	18 779	15 824	15 255	15 701
Other operating expenses	26 682	24 225	23 747	24 353
Total expenses from transactions	91 643	88 344	89 203	92 669
<i>% change</i>	<i>(5.3)</i>	<i>(3.6)</i>	<i>1.0</i>	<i>3.9</i>
Net result from transactions – net operating balance	(10 183)	(3 615)	(639)	870
Total other economic flows included in net result ^(d)	(339)	(339)	(265)	(147)
Net result	(10 522)	(3 954)	(904)	723

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 \$81.5 billion in 2022-23, with revenue growth projected to average 4.7 per cent a year over the forward estimates.

Taxation

Taxation revenue is forecast to be \$31.2 billion in 2022-23, with a forecast decline in land transfer duty weighing on the short-term revenue outlook. Taxation revenue is expected to grow by an average 4.5 per cent per year over the forward estimates.

- Land transfer duty revenue is expected to decrease to \$8.1 billion in 2022-23, then increase by an average of 3.0 per cent per year over the forward estimates. The residential property market outlook has weakened in the near term compared with the *2022-23 Budget* as the Reserve Bank of Australia has rapidly lifted the official cash rate, flowing through to increased borrowing costs, moderating property prices, and lower auction clearance rates.
- Land tax revenue is forecast to increase to \$5.2 billion in 2022-23, reflecting strong growth across residential, commercial, and industrial property values between 1 January 2021 and 31 December 2021. Land tax revenue is projected to grow by an average of 4.4 per cent per year over the forward estimates, with the weakness in current property market conditions flowing through to land tax revenue in 2023-24.

The strong recovery of the Victorian economy from the effects of the COVID-19 pandemic by the end of 2021-22 – aided by the strong labour market outlook and accumulated household savings – is supporting the outlook for other taxation revenues.

- Payroll tax revenue is forecast to grow to \$7.1 billion in 2022-23, reflecting a strengthening outlook for full-time employment and nominal wage growth in the near term. Payroll tax revenue is expected to grow by an average of 6.1 per cent per year over the forward estimates.
- Motor vehicle tax revenue is forecast to grow to \$3.2 billion in 2022-23, reflecting the continued growth in vehicle prices and sales. Motor vehicle tax revenue is expected to increase by an average of 5.0 per cent per year over the forward estimates.
- Gambling tax revenue is forecast to grow to \$2.5 billion in 2022-23, reflecting elevated electronic gaming machine (EGM) activity and recovering casino revenue. Over the forward estimates, growth is expected to average 4.4 per cent per year.
- Insurance tax revenue is forecast to grow to \$1.8 billion in 2022-23. Strong premium growth across most insurance products supports the forward outlook, with growth expected to average 7.0 per cent per year over the forward estimates.

Dividends, income tax equivalent and interest

Dividend and income tax equivalent revenue is projected to be \$0.6 billion in 2022-23 and increase to \$1.1 billion in 2025-26. The growth across the forward estimates largely reflects the increase in investment returns from the establishment of the Victorian Future Fund.

Interest revenue is received on cash and deposits. Total interest is expected to be \$0.8 billion in 2022-23 and is forecast to increase by an average of 5.6 per cent a year over the forward estimates.

Sales of goods and services

Revenue generated by the sales of goods and services is expected to increase to \$6.1 billion in 2022-23, largely reflecting the expected recovery in various service fees after the easing of public health restrictions. Growth is forecast to increase by an average of 2.3 per cent a year over the forward estimates.

Grants

Total grants revenue is expected to decline to \$39.3 billion in 2022-23, largely driven by a decrease in Commonwealth grants reflecting the jointly funded business support packages provided in 2021-22 in response to the COVID-19 pandemic.

GST revenue is forecast to grow to \$18.4 billion in 2022-23. Victoria's share of the GST pool has decreased from 23.7 per cent in 2021-22 to 23.5 per cent in 2022-23. This largely reflects a reduction in the rate of Victoria's population growth due to the COVID-19 pandemic. However, strong commodity prices (in prior years) and growth in the national GST pool are forecast to more than offset this decline.

Over the forward estimates, Victorian GST revenue is expected to increase on average by 5.8 per cent a year, buoyed by the continued growth in the GST pool. Victoria's GST relativity is forecast to decline in 2023-24 before rising due to strength in commodities revenue in commodity-rich states.

Other current revenue

Other current revenue and income includes fines, royalties, donations and gifts, assets received free-of-charge and other miscellaneous revenues. Other revenue is projected to be \$3.5 billion in 2022-23, followed by an average decline of 1.1 per cent a year over the forward estimates. This revenue profile is primarily driven by the progressive recognition of the Cross Yarra Partnership Consortium's contributions to additional costs borne by the operator as part of the Metro Tunnel settlement.

Expenses outlook

Total expenses for the general government sector is expected to be \$91.6 billion in 2022-23. Total expenditure is then projected to increase by an average of 0.4 per cent a year over the forward estimates to \$92.7 billion in 2025-26. Specifically:

- Employee expenses (including superannuation) is forecast to grow to \$37.6 billion in 2022-23, reflecting the response to the COVID-19 pandemic and increases in the health workforce in 2021-22. Average growth over the forward estimates of 2.1 per cent a year is forecast, consistent with service delivery requirements and enterprise bargaining agreements.
- Depreciation expense is forecast to grow to \$4.7 billion in 2022-23, and by an average of 2.6 per cent a year over the forward estimates to \$5.1 billion by 2025-26. Growth in depreciation is broadly in line with the investment in infrastructure.
- Interest expense is forecast to grow to \$3.9 billion in 2022-23, and to \$7.4 billion by 2025-26. Interest expense as a share of total revenue is expected to average 6.5 per cent a year over the budget and forward estimates. Interest expense has been updated since the 2022 *Victorian Economic and Fiscal Update* (VEFU) to take into account the latest market expectations of interest rate movements.
- Grant expenses are forecast to fall to \$18.8 billion in 2022-23, largely reflecting the additional business support grants provided to Victorian businesses in 2021-22. Grants expenses are then expected to continue to decrease by an average of 5.8 per cent a year over the forward estimates, largely reflecting the tapering of COVID-19 pandemic support initiatives.
- Other operating expenses are forecast to fall to \$26.7 billion in 2022-23, reflecting the additional support provided for the health response to the COVID-19 pandemic in 2021-22. Other operating expenses are then expected to decline by 9.2 per cent in 2023-24 as expenditure commitments attributable to the COVID-19 response continue to reduce.

Reconciliation of estimates to the 2022-23 Budget

Relative to the 2022-23 Budget, the net result from transactions has been revised down by \$2.3 billion in 2022-23, down by \$0.4 billion in 2023-24, up by \$0.5 billion in 2024-25 and up by \$0.2 billion in 2025-26 (Table 2.3).

Table 2.3: Reconciliation of estimates to the 2022-23 Budget ^(a) (\$ million)

	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
Net result from transactions: 2022-23 Budget	(7 864)	(3 263)	(1 126)	652
Policy variations				
Revenue policy initiatives	..	..	..	..
Output policy initiatives ^(b)	(2 467)	(427)	(656)	(922)
	(2 467)	(427)	(656)	(922)
Economic/demographic variations				
Taxation	678	470	482	536
Investment income ^(c)	(43)	128	84	249
	635	598	566	785
Commonwealth grant variations				
General purpose grants	(318)	(470)	237	391
Specific purpose grants ^(d)	(399)	(239)	53	819
	(717)	(709)	290	1 210
Administrative variations				
Contingency offset for new policy initiatives ^(e)	..	..	..	..
Other administrative variations	231	186	286	(854)
	231	186	286	(854)
Total variation since the 2022-23 Budget	(2 318)	(351)	487	219
Net result from transactions	(10 183)	(3 615)	(639)	870

Notes:

- (a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.
- (b) This is represented in Table 2.4 as the 2022 Victorian Pre-Election Budget Update (PEBU) new net output policy initiatives.
- (c) Comprises dividends and income tax and rate equivalent revenue.
- (d) Reflects the change in grant revenue as per Note 3.2.4, Chapter 3 Estimated Financial Statements and Notes less associated expense movements.
- (e) Represents releases from the funding not allocated to specific purposes contingency associated with new net output policy initiatives. Further information on total output contingencies can be found at Note 3.3.5, Chapter 3 Estimated Financial Statements and Notes.

Policy variations

Policy variations reflect specific initiatives by the Government that have a fiscal impact and are related to a new policy or represent a change in the Government's existing policy position since the *2022-23 Budget*.

Details of specific new output policy initiatives since the *2022-23 Budget* are contained in VEFU Appendix A *Specific policy initiatives affecting the budget position*, published on 31 October 2022. Additional government decisions since the release of VEFU include the following:

- An additional provision of \$500.0 million in 2022-23 is provided to meet the immediate needs of flood-affected communities and support the emergency response
- A sponsorship agreement with Netball Australia (\$15 million over five years, including \$5.4 million in 2022-23).

Table 2.4: Net impact of new output initiatives since the 2022-23 Budget ^(a) (\$ million)

	2022-23 <i>revised</i>	2023-24 <i>estimate</i>	2024-25 <i>estimate</i>	2025-26 <i>estimate</i>
New output initiatives	2 907	856	777	951
Less:				
Reprioritisations and revenue offsets ^(b)	99	92	140	66
Adjustments ^(c)	341	338	(18)	(37)
Savings	..	..	..	..
New net output policy initiatives	2 467	427	656	922
Less: Contingency offset for new policy ^(d)	..	..	..	..
Net impact	2 467	427	656	922

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 specific 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 new net output policy initiatives.*

Further information on total output contingencies can be found at Note 3.3.5, Chapter 3 Estimated Financial Statements and Notes.

Economic and demographic variations

Since the *2022-23 Budget*, taxation revenue has been revised upwards by \$678 million in 2022-23, \$470 million in 2023-24, \$482 million in 2024-25 and \$536 million in 2025-26. This includes upgrades to payroll tax and motor vehicle taxes.

Commonwealth grants variations

Commonwealth general purpose grants (or GST grants) have been revised down by \$318 million in 2022-23 and \$470 million in 2023-24, and upwards by \$237 million in 2024-25 and \$391 million in 2025-26, compared with the *2022-23 Budget*. These changes largely reflect a reduction in Victoria's population share. A near-term reduction in relativities is offset over the forward estimates by strength in commodity revenue in commodity-rich states.

Net changes to specific purpose grants have decreased the operating result by \$399 million in 2022-23 and \$239 million in 2023-24, and increased it by \$53 million in 2024-25 and \$819 million in 2025-26, compared with the *2022-23 Budget*. The movements primarily reflect new infrastructure grants expected from the Commonwealth and a rephase of some existing infrastructure grants.

Administrative variations

Other administrative variations are expected to increase the operating result by \$231 million in 2022-23, \$186 million in 2023-24 and \$286 million in 2024-25, and decrease by \$854 million in 2025-26, compared with the *2022-23 Budget*.

Major variations include:

- updates to the timing of some expenditure programs across departments
- an increase in interest expense in line with increased global bond rates and volatile market conditions since the *2022-23 Budget*. Interest expense has also been updated since VEFU to take into account the latest market expectations of interest rate movements, offset by
- a reduction in the defined benefit superannuation expense from 2022-23 that primarily relates to the impact of increases in the bond yields that underlie the key superannuation valuation assumptions.

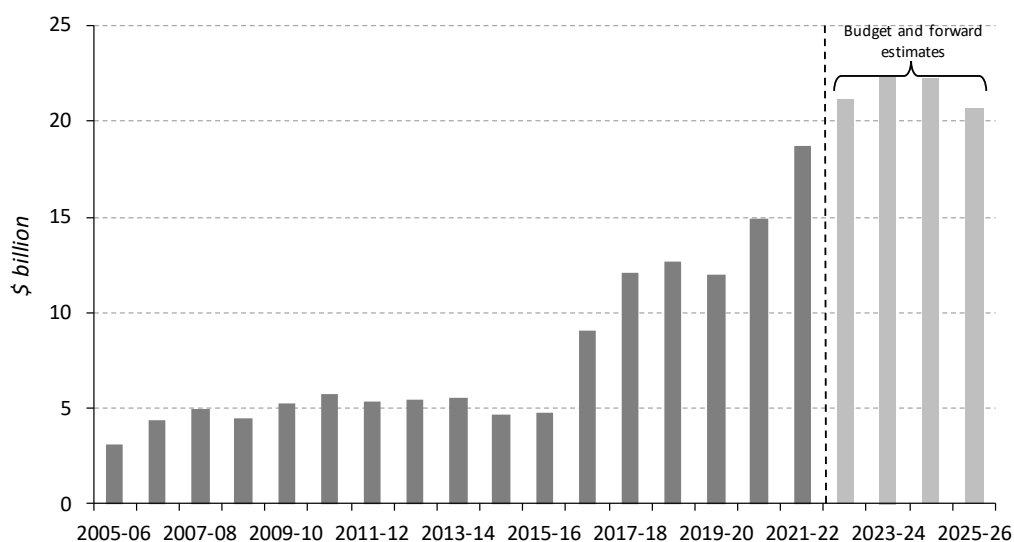
Capital expenditure

Government infrastructure investment (GII), which measures investment funded by the Government and estimated private sector construction-related expenditure on public private partnership projects, is expected to average \$21.6 billion a year over the budget and forward estimates.

Details of specific new asset policy initiatives since the *2022-23 Budget* are contained in VEFU Appendix A *Specific policy initiatives affecting the budget position*, published on 31 October 2022. Additional government decisions since the release of VEFU include the following:

- Upgrades to the Sunshine Station precinct including relocation of the bus interchange, improvements to the station entrance and open space and upgrades to local roads and intersections (\$143.0 million in TEI).

Chart 2.1: Government infrastructure investment (a)(b)(c)



Notes:

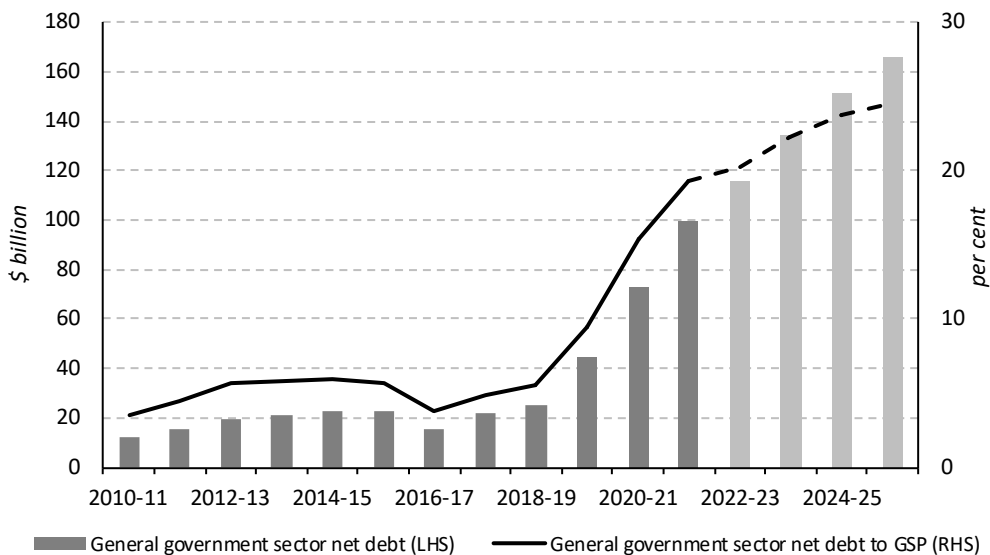
- (a) Includes general government net infrastructure investment and the estimated cash flows for public private partnership projects.
- (b) Includes the estimated private sector construction-related expenditure associated with the North East Link held in the PNFC sector.
- (c) Excludes the impact of the medium-term lease over the operations of the Port of Melbourne and the divestment of Victoria's share of Snowy Hydro Limited.

Net debt

Net debt is projected to be \$116.0 billion at June 2023 and is forecast to increase to \$165.9 billion by June 2026.

As a proportion of gross state product (GSP), net debt is projected to increase from 20.3 per cent in June 2023 to 24.6 per cent by June 2026.

Chart 2.2: General government net debt to GSP



The application of cash resources for the general government sector (as shown in Table 2.5) outlines the annual movements in net debt.

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

	2022-23 <i>revised</i>	2023-24 <i>estimate</i>	2024-25 <i>estimate</i>	2025-26 <i>estimate</i>
Net result from transactions	(10 183)	(3 615)	(639)	870
Add back: Operating cash flows not recognised in the net operating balance ^(b)	12 063	4 408	4 611	4 442
Net cash flows from operating activities	1 880	793	3 971	5 312
Less: Total net investment in fixed assets ^(c)	16 014	18 298	20 641	19 341
Surplus/(deficit) of cash from operations after funding net investment in fixed assets	(14 133)	(17 505)	(16 670)	(14 029)
Less:				
Leases and service concession arrangements ^(d)	2 380	2 401	946	300
Other movements	(436)	(1 556)	(85)	(327)
Decrease/(increase) in net debt	(16 077)	(18 350)	(17 530)	(14 002)

Notes:

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

(b) Includes depreciation, prepayments and movements in the superannuation liability and liability of employee benefits for the year, and the progressive unwinding of the grant of a right to the operator liability.

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

(d) Includes most operating leases, which are now required to be recognised as lease liabilities. It also includes the financial liabilities relating to public private partnership projects including the High Capacity Metro Trains Project, the Metro Tunnel, the new Footscray Hospital and the Frankston Hospital Redevelopment.

Unfunded superannuation liability

The State's unfunded superannuation liability is on track to be fully funded by 2035.

Note 3.6.3 of Chapter 3 *Estimated Financial Statements and Notes* shows information on the reported superannuation liability.

FISCAL RISKS

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

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

GENERAL FISCAL RISKS

The risks to Victoria's economic outlook remain greater than prior to the COVID-19 pandemic. These include ongoing risks relating to the pandemic, the outlook for inflation (and hence for interest rates), prospects for global economic growth against a backdrop of geopolitical volatility, and recent flood events.

Forecast revenues, expenses and borrowings are predicated on a series of assumptions, including those related to the global recovery. If these assumptions do not eventuate, the actual financial outcomes may differ from the revised estimates.

Appendix A *Sensitivity analysis* contains information on the impact of variations in the macroeconomic outlook on the key fiscal aggregates. This includes a scenario of a renewed global downturn resulting from the emergence of a vaccine-resistant COVID-19 strain, leading to renewed outbreaks and restrictions in major economies outside Australia.

National Partnership on COVID-19 Response

To support the national and coordinated health response to the COVID-19 pandemic, in April 2020 the Commonwealth, States and Territories agreed shared funding arrangements via a new National Partnership Agreement. The Agreement does not have a clear sunset date for budget purposes. The Commonwealth has only committed funding until 2022-23 despite ongoing impacts on the health system from the COVID-19 pandemic. As such, if the Agreement is terminated before the COVID-19 pandemic response ends, the State may bear increased costs without Commonwealth contributions, particularly if there are future outbreaks of COVID-19.

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 is unforeseen changes in the economic outlook.

Pressure on some households is growing in response to higher interest rates and inflation, and declining housing prices. Rising interest rates, inflation and slowing economic growth will also put pressure on business balance sheets. Each of these are sources of risk to the state taxation outlook.

Revenue from property-based taxes, such as land tax and land transfer duty, is subject to unique risks and historically has been volatile, as property markets can exhibit large cycles typically related to changes in interest rates and/or changes in sentiment. Both dwelling price and transaction volume movements are key risks to property-based tax collections.

Interest expenses

The State's debt portfolio is made up predominantly of fixed interest debt which means that most of the interest expense on existing debt is not exposed to movements in interest rates. However, approximately 10 per cent of this debt matures each year and must be refinanced at the current market interest rate. The interest expense on the refinancing along with new borrowings and a small proportion of floating rate notes in the portfolio are subject to changes in interest rates.

The interest rate forecasts used in the estimates for interest expenses are based on the forward interest rates that are derived from the yield curve for Treasury Corporation of Victoria (TCV) bonds that are traded in financial markets. Currently the TCV yield curve is upward sloping, implying that future interest rates will be higher than current interest rates. Consequently, the interest expense estimates assume that the average interest rate on new and refinanced borrowings will increase over time.

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 anticipated composition and profile of the workforce.

Demand for government services

Another key uncertainty is whether growth in demand for government services will exceed or be lower than 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 that 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 3.3.5 and Note 3.3.6 of Chapter 3 *Estimated Financial Statements and Notes* discloses general government output and asset contingencies not allocated to departments.

Capital program risks

The State's capital program coincides with a period of unprecedented growth in construction across Victoria and nationally. The high level of demand for skills and resources is placing significant pressure on the construction market and supply chain, resulting in capacity challenges and escalation in the price of materials and labour.

Specific fiscal risks

Commonwealth schools funding

In June 2017, the former Commonwealth Government passed amendments to the *Australian Education Act 2013* to implement a new national school funding model. In mid-2019, Victoria signed the National School Reform Agreement 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 are based on student number and profile projections for that year. Expenditure targets are finalised towards the end of or after each school year based on actual student data, creating a risk that the Victorian and Commonwealth targets differ from the funding allocated that year.

National Health Reform Agreement Funding Cap

Under the 2020-25 Addendum to the National Health Reform Agreement (NHRA), the Commonwealth co-funds public hospitals by contributing 45 per cent of the cost of eligible activity, with the Commonwealth's contribution capped at a growth rate of 6.5 per cent compared with the previous year's contribution.

This is a 'soft cap' that applies at a national level, with states entitled to receive Commonwealth contributions beyond the cap until the growth rate of national expenditure reaches 6.5 per cent. Uncertainty around expenditure growth in other states and territories may create a fiscal risk to the State if the Commonwealth does not fund 45 per cent of additional eligible hospital spending.

In addition, should the Commonwealth's participation in the National Partnership on COVID-19 Response not be extended beyond the current commitment, additional hospital activity and costs relating to the COVID-19 response could fall instead under the NHRA, which would increase the risk of breaching the 6.5 per cent cap for annual efficient growth in Commonwealth funding.

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
- Victoria's share of the national population.

National GST Pool

The outlook for the national GST pool has continued its strong recovery following the pandemic but is expected to be impacted by an anticipated slowing of consumption following interest rate rises.

A greater decline in consumption or dwelling investment could further slow growth in the GST pool. Key risks to the profile are largely around consumption and population growth. Further sources of uncertainty include the emergence of new variants of COVID-19, the outlook for inflation and interest rates and the prospects for global economic growth against a backdrop of elevated uncertainty.

GST relativities

The national GST pool is shared between states and territories based on relativities determined annually by the Commonwealth Treasurer, which are 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). Uncertainty in these factors represent risks for Victoria's GST revenue.

Population

The 2021 Census results were utilised by the ABS to inform population statistics for the 2016 to 2021 period. Victoria's population share has decreased over this period due to the impacts of the COVID-19 pandemic and interstate migration flows.

Victoria's population share expectations have been amended for the 2021 Census results, but are subject to greater risk around interstate and overseas migration as the ongoing effects of the COVID-19 migration flows are assessed.

Victoria's GST revenue is subject to Victoria's population share and population share growth and may be materially affected by changes.

Commonwealth no-worse-off guarantee for GST entitlement

In 2018, the former Commonwealth Government legislated a change in the system of horizontal fiscal equalisation (HFE), which introduced:

- a minimum GST revenue sharing relativity (relativity floor) of 0.70 commencing in 2019-20, supported by transition payments from the Commonwealth and facilitated within the GST distribution from 2022-23, rising to 0.75 from 2024-25
- a small boost to the GST revenue pool from 2021-22 with additional Commonwealth financial assistance
- the transition of the HFE system from full equalisation (so called equalising to the strongest state) to 'reasonable' equalisation, based upon the fiscal capacity of the stronger of New South Wales or Victoria.

During the six-year transition period commencing in 2021-22, each state and territory is entitled to receive additional Commonwealth financial assistance to ensure it is no worse off compared with its GST entitlement had full equalisation been maintained. The no-worse-off guarantee is currently only legislated until the end of the transition period in 2026-27, which poses a fiscal risk to states and territories.

CHAPTER 3 – ESTIMATED FINANCIAL STATEMENTS AND NOTES

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR COMPREHENSIVE OPERATING STATEMENT

For the financial year ended 30 June

(\$ million)

	Notes	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
Revenue and income from transactions						
Taxation	3.2.1	30 488	31 166	32 686	33 802	35 554
Interest income		715	831	884	942	979
Dividends, income tax equivalent and rate equivalent income	3.2.2	602	559	831	877	1 056
Sales of goods and services	3.2.3	6 366	6 067	6 238	6 535	6 500
Grants	3.2.4	40 351	39 290	40 450	43 197	46 017
Other revenue and income	3.2.5	3 459	3 547	3 639	3 210	3 432
Total revenue and income from transactions		81 980	81 460	84 729	88 563	93 539
Expenses from transactions						
Employee expenses		33 087	33 474	34 165	34 722	35 763
Net superannuation interest expense	3.3.2	682	719	716	690	668
Other superannuation	3.3.2	3 768	3 413	3 527	3 618	3 652
Depreciation	3.4.2	4 650	4 712	4 714	4 829	5 094
Interest expense	3.5.3	3 899	3 863	5 172	6 342	7 438
Grant expense	3.3.3	17 391	18 779	15 824	15 255	15 701
Other operating expenses	3.3.4	26 367	26 682	24 225	23 747	24 353
Total expenses from transactions	3.3.5	89 844	91 643	88 344	89 203	92 669
Net result from transactions – net operating balance		(7 864)	(10 183)	(3 615)	(639)	870
Other economic flows included in net result						
Net gain/(loss) on disposal of non-financial assets		52	54	31	32	25
Net gain/(loss) on financial assets or liabilities at fair value		76	60	54	91	199
Share of net profit/(loss) from associates/joint venture entities		4	26	30	32	36
Other gains/(losses) from other economic flows	3.7.1	(479)	(479)	(455)	(419)	(408)
Total other economic flows included in net result		(347)	(339)	(339)	(265)	(147)
Net result		(8 212)	(10 522)	(3 954)	(904)	723

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR COMPREHENSIVE OPERATING STATEMENT (CONTINUED)

For the financial year ended 30 June

(\$ million)

		2022-23	2022-23	2023-24	2024-25	2025-26
	Notes	budget	revised	estimate	estimate	estimate
Other economic flows – other comprehensive income						
Items that will not be reclassified to net result						
Changes in non-financial assets revaluation surplus		5 940	6 154	5 718	10 343	1 689
Remeasurement of superannuation defined benefit plans	3.3.2	984	1 872	672	676	677
Other movements in equity		46	21	27	33	18
Items that may be reclassified subsequently to net result						
Net gain/(loss) on financial assets at fair value		3	95	58	57	92
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	3.6.1	(3 869)	(3 869)	(4 837)	(4 590)	(14 209)
Total other economic flows – other comprehensive income		3 105	4 274	1 638	6 519	(11 733)
Comprehensive result – total change in net worth		(5 107)	(6 248)	(2 316)	5 614	(11 010)
KEY FISCAL AGGREGATES						
Net operating balance		(7 864)	(10 183)	(3 615)	(639)	870
Less: Net acquisition of non-financial assets from transactions	3.3.7	6 504	9 164	7 957	6 536	(2 997)
Net lending/(borrowing)		(14 368)	(19 347)	(11 572)	(7 175)	3 867

The accompanying notes form part of these Estimated Financial Statements.

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR BALANCE SHEET

As at 30 June (\$ million)

	Notes	2023 budget ^(a)	2023 revised	2024 estimate	2025 estimate	2026 estimate
Assets						
Financial assets						
Cash and deposits		10 932	11 118	11 426	11 880	12 388
Advances paid	3.5.2	5 066	5 326	6 641	6 543	6 552
Receivables and contract assets		8 615	7 904	8 206	8 495	8 854
Investments, loans and placements	3.5.2	9 651	12 549	13 844	15 443	17 411
Investments accounted for using equity method		10	1 219	1 219	1 428	1 428
Investments in other sector entities	3.6.1	92 092	89 226	91 186	96 408	99 700
Total financial assets		126 366	127 342	132 522	140 197	146 332
Non-financial assets						
Inventories		870	753	476	252	256
Non-financial assets held for sale		159	187	161	133	127
Land, buildings, infrastructure, plant and equipment	3.4.1	235 585	238 100	252 812	270 041	269 119
Other non-financial assets	3.4.4	7 178	7 342	7 140	6 917	6 669
Total non-financial assets		243 792	246 382	260 589	277 343	276 170
Total assets	3.4.5	370 157	373 724	393 111	417 540	422 502
Liabilities						
Deposits held and advances received		1 383	1 386	1 402	1 410	1 362
Payables	3.6.2	22 729	26 416	26 642	26 110	25 465
Contract liabilities	3.6.2	304	338	310	297	293
Borrowings	3.5.1	140 808	143 651	164 904	184 382	200 915
Employee benefits	3.3.1	10 179	10 099	10 429	10 766	11 109
Superannuation	3.6.3	19 244	17 461	17 336	16 789	16 421
Other provisions		2 090	2 090	2 121	2 204	2 366
Total liabilities		196 736	201 441	223 144	241 958	257 931
Net assets		173 421	172 283	169 967	175 581	164 571
Accumulated surplus/(deficit)		45 642	44 198	40 943	40 748	42 511
Reserves		127 779	128 085	129 024	134 834	122 060
Net worth		173 421	172 283	169 967	175 581	164 571
FISCAL AGGREGATES^(b)						
Net financial worth		(70 371)	(74 099)	(90 622)	(101 762)	(111 599)
Net financial liabilities		162 463	163 326	181 808	198 169	211 299
Net debt		116 542	116 045	134 395	151 926	165 928

The accompanying notes form part of these Estimated Financial Statements.

Notes:

(a) Balances represent actual opening balances at 1 July 2022 plus 2022-23 budgeted movements.

(b) The fiscal aggregates are defined in Note 9.9 of the 2021-22 Financial Report.

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR CASH FLOW STATEMENT

For the financial year ended 30 June

(\$ million)

	Notes	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
Cash flows from operating activities						
Receipts						
Taxes received		30 770	31 439	32 465	33 516	35 201
Grants		40 319	39 283	40 452	43 196	46 017
Sales of goods and services ^(a)		6 920	6 634	6 762	7 116	7 093
Interest received		682	780	814	845	863
Dividends, income tax equivalent and rate equivalent receipts		596	888	826	872	1 051
Other receipts		6 873	10 381	2 117	2 281	2 356
Total receipts		86 160	89 406	83 434	87 826	92 581
Payments						
Payments for employees		(32 772)	(33 241)	(33 848)	(34 397)	(35 432)
Superannuation		(3 977)	(4 554)	(3 696)	(4 179)	(4 012)
Interest paid		(3 588)	(3 556)	(4 853)	(6 092)	(7 351)
Grants and subsidies		(17 391)	(18 764)	(15 721)	(15 108)	(15 590)
Goods and services ^(a)		(25 845)	(25 996)	(23 606)	(23 116)	(23 979)
Other payments		(1 305)	(1 415)	(917)	(963)	(906)
Total payments		(84 879)	(87 525)	(82 641)	(83 855)	(87 269)
Net cash flows from operating activities		1 281	1 880	793	3 971	5 312
Cash flows from investing activities						
Cash flows from investments in non-financial assets						
Purchases of non-financial assets	3.3.6	(15 138)	(14 681)	(16 795)	(18 666)	(17 920)
Sales of non-financial assets		693	423	661	607	698
Net cash flows from investments in non-financial assets		(14 445)	(14 259)	(16 135)	(18 059)	(17 222)
Net cash flows from investments in financial assets for policy purposes		(1 429)	(1 755)	(2 163)	(2 582)	(2 119)
Subtotal		(15 874)	(16 014)	(18 298)	(20 641)	(19 341)
Net cash flows from investment in financial assets for liquidity management purposes		(6 254)	(9 079)	(1 242)	(1 550)	(1 716)
Net cash flows from investing activities		(22 129)	(25 092)	(19 540)	(22 191)	(21 057)
Cash flows from financing activities						
Advances received (net)		(448)	(448)	16	8	(48)
Net borrowings		21 253	23 794	19 039	18 667	16 300
Net cash flows from financing activities		20 805	23 346	19 055	18 674	16 252
Net increase/(decrease) in cash and cash equivalents		(43)	133	308	455	507
Cash and cash equivalents at beginning of reporting period ^{(b)(c)}		10 974	10 985	11 118	11 426	11 880
Cash and cash equivalents at end of reporting period ^{(b)(c)}		10 931	11 118	11 426	11 880	12 388

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR CASH FLOW STATEMENT (CONTINUED)

For the financial year ended 30 June

(\$ million)

	Notes	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
FISCAL AGGREGATES						
Net cash flows from operating activities		1 281	1 880	793	3 971	5 312
Net cash flows from investments in non-financial assets		(14 445)	(14 259)	(16 135)	(18 059)	(17 222)
Cash surplus/(deficit)		(13 164)	(12 378)	(15 342)	(14 088)	(11 910)

The accompanying notes form part of these Estimated Financial Statements.

Notes:

(a) Inclusive of goods and services tax.

(b) 2022-23 Budget figures have been restated to represent actual opening balances at 1 July 2022.

(c) The variance in the cash and cash equivalents at the beginning of the reporting period for the 2022-23 budget and 2022-23 revised budget reflects the abolition of seven Waste and Resource Recovery Groups in the PNFC sector with their functions transferred into the Department of Environment, Land, Water and Planning (DELWP) to form a business unit within DELWP, Recycling Victoria, effective from 1 July 2022.

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June

(\$ million)

	Accumulated surplus/(deficit)	Non-financial assets revaluation surplus	Investment in other sector entities revaluation surplus	Other reserves	Total
2022-23 budget ^(a)					
Balance at 1 July 2022	52 824	79 719	44 815	1 170	178 528
Net result for the year	(8 212)	..	..	..	(8 212)
Other comprehensive income for the year	1 030	5 940	(3 869)	3	3 105
Total equity as at 30 June 2023	45 642	85 660	40 946	1 173	173 421
2022-23 revised					
Balance at 1 July 2022 ^(b)	52 827	79 719	44 815	1 170	178 531
Net result for the year	(10 522)	..	..	..	(10 522)
Other comprehensive income for the year	1 893	6 154	(3 869)	95	4 274
Total equity as at 30 June 2023	44 198	85 874	40 946	1 265	172 283
2023-24 estimate					
Balance at 1 July 2023	44 198	85 874	40 946	1 265	172 283
Net result for the year	(3 954)	..	..	..	(3 954)
Other comprehensive income for the year	699	5 718	(4 837)	58	1 638
Total equity as at 30 June 2024	40 943	91 592	36 110	1 323	169 967
2024-25 estimate					
Balance at 1 July 2024	40 943	91 592	36 110	1 323	169 967
Net result for the year	(904)	..	..	..	(904)
Other comprehensive income for the year	709	10 343	(4 590)	57	6 519
Total equity as at 30 June 2025	40 748	101 935	31 519	1 379	175 581
2025-26 estimate					
Balance at 1 July 2025	40 748	101 935	31 519	1 379	175 581
Net result for the year	723	..	..	..	723
Other comprehensive income for the year	695	1 689	(14 209)	92	(11 733)
Transfer to/(from) accumulated surplus	345	(345)	..	..	..
Total equity as at 30 June 2026	42 511	103 278	17 310	1 472	164 571

The accompanying notes form part of these Estimated Financial Statements.

Notes:

(a) Balances represent actual opening balances at 1 July 2022 plus 2022-23 budgeted movements.

(b) On 1 July 2022, the seven Waste and Resource Recovery Groups were abolished and transferred from the PNFC sector to be amalgamated into DELWP to form a business unit within DELWP, Recycling Victoria. This has resulted in the 1 July 2022 opening balance not equalling the 30 June closing balance.

3.1 ABOUT THIS REPORT

Basis of preparation

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

The detailed accounting policies applied in preparing the Estimated Financial Statements for the 2022-23 budget year, and the three forward years, are consistent with those in the 2021-22 *Financial Report* for the State of Victoria as presented to Parliament. The audited 30 June 2022 asset and liability balances, as reported in the 2021-22 *Financial Report*, form the basis on which asset and liability balances are projected over the next four 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 including service concession arrangement assets and right-of-use assets which, subsequent to initial recognition, are measured at a revalued amount being their fair value at the reporting date 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 values
- productive trees in commercial native forests, which are measured at their fair value less estimated costs to sell
- certain liabilities, most notably unfunded superannuation, which are subject to an actuarial assessment
- financial assets at fair value through other comprehensive income, which are measured at fair value with movements reflected in other economic flows – other comprehensive income
- financial assets at fair value through profit and loss, which are measured at fair value with movements reflected in other economic flows included in the net result.

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. However, the COVID-19 pandemic has introduced significant economic and fiscal uncertainties since early 2020. Although the economy has recovered well to date, risks to Victoria's economic outlook remain greater than normal. Beyond risks relating to COVID-19, other key risks include the outlook for inflation, and hence for interest rates, geopolitical conditions and recent flood events. This means that these estimates are subject to a higher degree of uncertainty. 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 of 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 settled in 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
- 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.

Basis for consolidation

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

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

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

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

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

Except as stated in Note 3.7.4, the significant entities consolidated within the sector comprise those general government sector entities listed in Note 9.8 of Chapter 4 of the 2021-22 *Financial Report* for the State of Victoria.

Compliance

These Estimated Financial Statements have been prepared in accordance with Sections 27-27B of the *Financial Management Act 1994*, having regard to Australian Accounting Standards (AASs), which 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 and other relevant AASs. However, the prospective nature of these Estimated Financial Statements means that some AAS disclosures are neither relevant nor practical and have been omitted. Where applicable, those AAS paragraphs relevant to not-for-profit entities have been applied. Because AASs do not prescribe requirements for preparing and presenting prospective financial statements, the Estimated Financial Statements have been prepared having regard to the principles set out in New Zealand Public Benefit Entity Financial Reporting Standard 42 *Prospective Financial Statements*.

The GFS information included in this report is based on the *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015 Cat. No. 5514.0* (ABS GFS).

The information presented in the estimated financial statements takes into account all policy decisions made by the Victorian Government, as well as other information that affects the financial statements, including the recognition of material financial updates to agreed funding agreements able to be assessed for inclusion from the *October 2022-23 Commonwealth Budget*, up to the issue of the election writs on 1 November 2022.

Economic assumptions

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

Economic assumptions

	2021-22 actual	2022-23 forecast	2023-24 forecast	2024-25 projection	2025-26 projection
					(\$ billion)
Nominal gross state product	517.6 ^(a)	571.3	604.6	639.7	674.8
					(percentage change) ^(b)
Real gross state product	5.00 ^(a)	3.00	1.75	2.75	2.75
Employment	3.90	1.75	1.00	1.25	1.75
Unemployment rate ^(c)	4.30	3.75	4.00	4.25	4.50
Consumer price index ^(d)	4.00	7.25	4.00	2.75	2.50
Wage price index ^(e)	2.40	3.25	3.50	3.25	3.25
Population ^(f)	0.90 ^(a)	1.40	1.70	1.70	1.70

Notes:

(a) Estimate, actual not yet available.

(b) Percentage change in year average terms compared with previous year, except for the unemployment rate (see note (c)) and population (see note (f)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (f)).

The economic assumptions underlying the economic forecasts include interest rates that follow movements in market economists' expectations, an Australian dollar trade-weighted index of 62.6, and oil prices that follow the path suggested by oil futures.

(c) Year average.

(d) Melbourne consumer price index.

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

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

3.2 HOW FUNDS ARE RAISED

Introduction

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

Revenue and income recognition is determined by the State based on the substance of the arrangement in accordance with the requirements of 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*.

Structure

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3.2.1 Taxation

(\$ million)

	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
Taxes on employers' payroll and labour force					
Payroll tax	6 815	7 145	7 809	8 134	8 526
Mental Health and Wellbeing Levy	819	858	893	936	985
Total taxes on employers' payroll and labour force	7 634	8 003	8 702	9 070	9 511
Taxes on immovable property					
Land tax	4 836	5 158	5 217	5 398	5 868
Fire Services Property Levy	800	800	839	873	895
Congestion levy	108	117	121	124	127
Metropolitan improvement levy	215	202	208	214	221
Windfall gains tax	..	..	42	62	90
Total taxes on property	5 959	6 276	6 426	6 672	7 202
Taxes on the provision of goods and services					
Gambling taxes					
Public lotteries ^(a)	690	636	681	710	733
Electronic gaming machines ^(a)	1 206	1 348	1 401	1 449	1 497
Casino ^(a)	223	183	219	227	233
Racing and other sports betting ^(a)	304	309	326	340	353
Other ^(a)	14	14	15	16	18
Financial and capital transactions					
Land transfer duty	8 226	8 064	8 249	8 494	8 820
Metropolitan planning levy	20	22	21	22	23
Financial accommodation levy	184	160	172	178	182
Growth areas infrastructure contributions	280	320	328	336	344
Levies on statutory corporations ^(b)	173	173	173	..	..
Taxes on insurance	1 829	1 846	1 977	2 116	2 263
Total taxes on the provision of goods and services	13 150	13 078	13 562	13 889	14 465
Taxes on the use of goods and performance of activities					
Motor vehicle taxes					
Vehicle registration fees	1 994	1 976	2 088	2 192	2 297
Duty on vehicle registrations and transfers	1 077	1 176	1 239	1 297	1 357
Liquor licence fees	26	27	29	30	32
Other	648	629	641	653	691
Total taxes on the use of goods and performance of activities	3 745	3 808	3 996	4 172	4 376
Total taxation	30 488	31 166	32 686	33 802	35 554

Notes:

(a) The public lotteries, electronic gaming machines, casino, racing and other sports betting and other gambling taxes balances include gambling licence revenue forecasts of \$174 million in 2022-23, \$190 million in 2023-24, \$190 million in 2024-25 and \$190 million in 2025-26, recognised under AASB 15. The balance of these items is recognised under AASB 1058.

(b) The fifth tranche of the environmental contribution levy began on 1 July 2020 for a period of four years concluding on 30 June 2024.

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

	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
Dividends from PFC sector	60	60	67	79	70
Dividends from PNFC sector	74	100	145	139	132
Dividends from non-public sector	233	150	379	430	616
Dividends	367	310	592	648	817
Income tax equivalent income from PFC sector	8	8	10	10	10
Income tax equivalent income from PNFC sector	221	235	224	214	224
Income tax equivalent income	229	244	234	224	234
Local government rate equivalent income	5	5	5	6	5
Total dividends, income tax equivalent and rate equivalent income	602	559	831	877	1 056

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

	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
Public financial corporations					
Victorian Managed Insurance Authority	..	..	..	..	..
WorkSafe Victoria	..	..	..	..	..
Transport Accident Commission	..	..	..	..	..
Treasury Corporation of Victoria	52	52	61	70	60
State Trustees Ltd	1	1	1	1	1
Victorian Funds Management Corporation	8	8	6	9	9
Dividends from PFC sector	60	60	67	79	70
Public non-financial corporations					
Greater Western Water	15	20	52	64	66
Melbourne Water Corporation	..	14	13	5	5
South East Water Corporation	33	29	33	24	21
Yarra Valley Water Corporation	15	33	13	11	16
Development Victoria	10	4	33	36	23
Others	..	..	..	..	..
Dividends from PNFC sector	74	100	145	139	132

Note:

(a) Amounts equivalent to dividends to be paid by the Transport Accident Commission are received and reported as contributions forming part of grant revenue, consistent with the requirements of AASB 1023 General Insurance Contracts. The amounts, subject to annual review, that are forecast to be paid are \$200 million in 2022-23, \$600 million in 2023-24, \$900 million in 2024-25 and \$1.3 billion in 2025-26. Based on current projections, the Transport Accident Commission is expected to remain financially sustainable, with an Insurance Funding Ratio (IFR) above the midpoint of the preferred range, across the forward estimates.

3.2.3 Sales of goods and services

(\$ million)

	2022-23 <i>budget</i>	2022-23 <i>revised</i>	2023-24 <i>estimate</i>	2024-25 <i>estimate</i>	2025-26 <i>estimate</i>
Amounts recognised as revenue from contracts with customers (AASB 15)					
Sale of goods	90	91	92	94	93
Provision of services	5 230	5 052	5 054	5 344	5 373
Amounts recognised as income of not-for-profit entities (AASB 1058)					
Motor vehicle regulatory fees	296	190	233	236	230
Other regulatory fees	653	639	764	763	706
Amounts recognised as lease income (AASB 16)					
Rental	96	94	95	98	98
Total sales of goods and services	6 366	6 067	6 238	6 535	6 500

3.2.4 Grants ^(a)

(\$ million)

	2022-23 <i>budget</i>	2022-23 <i>revised</i>	2023-24 <i>estimate</i>	2024-25 <i>estimate</i>	2025-26 <i>estimate</i>
General purpose grants	18 721	18 403	18 882	20 702	21 775
Specific purpose grants for on-passing	5 171	4 704	5 453	5 650	5 843
Specific purposes grants	15 741	15 756	15 313	15 834	16 949
Total	39 633	38 864	39 648	42 187	44 567
Other contributions and grants	718	426	802	1 010	1 451
Total grants	40 351	39 290	40 450	43 197	46 017

Note:

(a) Grants predominantly relate to grants from the Commonwealth Government which are recognised under AASB 1058.

3.2.5 Other revenue and income

(\$ million)

	2022-23 <i>budget</i>	2022-23 <i>revised</i>	2023-24 <i>estimate</i>	2024-25 <i>estimate</i>	2025-26 <i>estimate</i>
Amounts recognised as revenue from contracts with customers (AASB 15)					
Royalties	140	140	142	144	144
Other revenue – health	248	248	254	261	261
Other miscellaneous revenue	676	812	657	677	724
Amounts recognised as income of not-for-profit entities (AASB 1058)					
Fair value of assets received free of charge or for nominal consideration ^(a)	382	384	488	2	2
Fines	857	857	944	967	985
Donations and gifts ^(b)	209	209	214	222	222
Other income – education	514	386	396	406	417
Amounts recognised as lease income (AASB 16)					
Other non-property rental	29	29	29	29	29
Revenue items accounted for under AASB 1059					
Revenue related to economic service concession arrangements	405	483	515	502	648
Total other revenue and income	3 459	3 547	3 639	3 210	3 432

Notes:

(a) The funding profile of the Fair value of assets received free of charge or for nominal consideration in 2022-23 and 2023-24 includes

Cross Yarra Partnership Consortium's contribution to the additional costs borne by the operator as part of the Metro Tunnel settlement.

(b) Primarily relates to donations to health services from non-government sources.

3.3 HOW FUNDS ARE SPENT

Introduction

This section presents the major components of expenditure incurred by the State towards the delivery of services and on capital or infrastructure projects during the year.

Structure

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3.3.1 Employee expenses and provision for outstanding employee benefits

Employee expenses and employee benefits are forecast on the basis of staffing profiles and current salaries, conditions and on-costs. For the forecast period, employee expenses and employee benefits mainly include the expected financial impact of employing more staff in accordance with budget decisions and approved wage outcomes in line with wages policy. Forecast employee expenses also reflect the estimated impact of budget decisions that affect employee expense levels. The majority of employee expenses in the operating statement are salaries and wages. Employee expenses are recognised in the period in which the employee provides the services.

Employee benefits (balance sheet) (\$ million)

	2023 budget	2023 revised	2024 estimate	2025 estimate	2026 estimate
Current					
Accrued salaries and wages	787	787	802	817	833
Other employee benefits	209	141	141	141	141
Annual leave	2 598	2 581	2 616	2 651	2 686
Long service leave	5 385	5 387	5 532	5 678	5 825
Total current employee benefits and on-costs	8 979	8 896	9 091	9 288	9 486
Non-current					
Long service leave	1 200	1 203	1 337	1 478	1 623
Total non-current employee benefits and on-costs	1 200	1 203	1 337	1 478	1 623
Total employee benefits	10 179	10 099	10 429	10 766	11 109

3.3.2 Superannuation expense

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

	2022-23 <i>budget</i>	2022-23 <i>revised</i>	2023-24 <i>estimate</i>	2024-25 <i>estimate</i>	2025-26 <i>estimate</i>
Defined benefit plans					
Net superannuation interest expense	682	719	716	690	668
Current service cost	1 418	988	1 046	1 129	1 221
Remeasurements:					
Expected return on superannuation assets excluding interest income	(984)	(836)	(672)	(676)	(677)
Other actuarial (gain)/loss on superannuation assets	..	407	..	..	..
Actuarial and other adjustments to unfunded superannuation liability	..	(1 443)	..	..	..
Total expense recognised in respect of defined benefit plans	1 116	(165)	1 089	1 143	1 212
Defined contribution plans					
Employer contributions to defined contribution plans	2 280	2 357	2 415	2 422	2 364
Other (including pensions)	69	67	67	67	67
Total expense recognised in respect of defined contribution plans	2 349	2 424	2 482	2 489	2 431
Total superannuation (gain)/expense recognised in operating statement	3 465	2 260	3 571	3 632	3 643
Represented by:					
Net superannuation interest expense	682	719	716	690	668
Other superannuation	3 768	3 413	3 527	3 618	3 652
Superannuation expense from transactions	4 449	4 132	4 243	4 308	4 320
Remeasurements recognised in other comprehensive income	(984)	(1 872)	(672)	(676)	(677)
Total superannuation expense recognised in operating statement	3 465	2 260	3 571	3 632	3 643

The accounting policies relating to superannuation expenses and liabilities are consistent with the 2022-23 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)	4.1
Wages growth ^(c)	3.6
Inflation rate ^(d)	2.1
Expected return on assets ^(e)	
Emergency Services and State Super	7.0
Health Super Fund Defined Benefit Scheme	3.8
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 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 Note 3.1, which reflect the expected change in consumer prices in Melbourne and movements in wages and salaries in the Victorian labour market.
- (e) The expected return on assets stated is gross of tax. Estimated tax payments are explicitly allowed for in the calculation process.
- (f) Pensions payable from constitutionally protected schemes are paid from the Consolidated Fund. These schemes hold no assets, so there is no expected return on assets.

3.3.3 Grant expense (\$ million)

	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
Current grant expense					
Commonwealth Government	2 970	3 046	3 081	3 264	3 460
Local government (including grants for on-passing)	1 032	795	996	952	953
Private sector and not-for-profit for on-passing	4 513	4 508	4 719	4 887	4 992
Other private sector and not-for-profit	5 948	7 140	4 888	4 188	4 412
Grants within the Victorian Government	2 335	2 595	1 802	1 624	1 543
Grants to other state governments	92	103	84	83	81
Total current grant expense	16 890	18 186	15 570	14 999	15 441
Capital grant expense					
Local government (including grants for on-passing)	188	223	135	123	118
Private sector and not-for-profit on-passing	294	312	115	96	89
Other private sector and not-for-profit	19	27	4	4	4
Grants within the Victorian Government	..	32	..	..	..
Other grants	..	..	..	34	49
Total capital grant expense	501	593	254	257	260
Total grant expense	17 391	18 779	15 824	15 255	15 701

3.3.4 Other operating expenses

(\$ million)

	2022-23 <i>budget</i>	2022-23 <i>revised</i>	2023-24 <i>estimate</i>	2024-25 <i>estimate</i>	2025-26 <i>estimate</i>
Purchase of supplies and consumables ^(a)	9 582	8 261	6 873	7 068	7 870
Cost of goods sold	28	27	27	28	28
Finance expenses and fees	64	45	45	27	27
Purchase of services ^(a)	14 263	15 320	14 546	13 901	13 889
Insurance claims expense	353	359	341	339	339
Maintenance	1 136	1 176	1 112	1 104	1 113
Short-term and low value lease expense	146	163	149	152	162
Other	795	1 328	1 132	1 128	924
Total other operating expenses	26 367	26 682	24 225	23 747	24 353

Note:

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

Purchase of supplies and consumables

(\$ million)

	2022-23 <i>budget</i>	2022-23 <i>revised</i>	2023-24 <i>estimate</i>	2024-25 <i>estimate</i>	2025-26 <i>estimate</i>
Medicinal pharmacy and medical supplies	2 466	2 372	2 054	2 040	1 959
Office supplies and consumables	211	209	205	205	206
Specialised operational supplies and consumables	203	221	183	158	143
Other purchase of supplies and consumables	6 703	5 460	4 430	4 665	5 562
Total purchase of supplies and consumables	9 582	8 261	6 873	7 068	7 870

Purchase of services

(\$ million)

	2022-23 <i>budget</i>	2022-23 <i>revised</i>	2023-24 <i>estimate</i>	2024-25 <i>estimate</i>	2025-26 <i>estimate</i>
Service contracts	8 549	9 293	9 074	8 671	8 742
Accommodation/occupancy	909	928	905	908	896
Medical and client care services	469	483	472	470	469
Staff related expenses (non-labour related)	382	404	370	340	322
Other purchase of services	3 954	4 213	3 725	3 513	3 460
Total purchase of services	14 263	15 320	14 546	13 901	13 889

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

Expenses from transactions by classification of the functions of government (\$ million)

	2022-23 budget ^(a)	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
General public services	7 400	7 593	8 378	9 289	10 349
Public order and safety	10 718	12 437	10 439	10 392	10 139
Economic affairs	4 075	4 595	2 485	1 783	2 630
Environmental protection	1 601	1 119	843	800	778
Housing and community amenities	2 433	2 158	2 179	1 901	1 858
Health	27 914	28 930	27 685	27 995	28 346
Recreation, culture and religion	1 232	1 421	700	642	600
Education	20 745	20 872	21 610	22 476	23 508
Social protection	7 924	8 204	7 556	7 475	7 645
Transport	7 269	7 390	6 503	6 428	6 789
Not allocated by function ^(b)	(1 467)	(3 077)	(33)	21	28
Total expenses by COFOG	89 844	91 643	88 344	89 203	92 669

Notes:

(a) The 2022-23 Budget numbers have been reclassified between various expenses by COFOG classifications to more correctly reflect the nature of the transactions.

(b) 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 from transactions by portfolio department (\$ million)

	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
Education and Training	21 018	21 302	21 067	21 287	21 675
Environment, Land, Water and Planning	3 680	4 328	2 858	2 527	2 490
Families, Fairness and Housing	7 593	7 826	7 365	7 338	7 426
Health	26 973	28 592	26 390	25 893	25 834
Jobs, Precincts and Regions	3 866	4 392	3 062	2 426	2 325
Justice and Community Safety	9 144	9 888	9 022	8 969	8 731
Premier and Cabinet	867	1 106	634	612	529
Transport	6 937	7 147	6 319	6 255	6 614
Treasury and Finance	11 072	11 552	12 353	13 372	14 557
Parliament	346	357	349	355	362
Courts	886	877	853	849	857
Regulatory bodies and other part funded agencies ^(a)	3 211	3 486	3 120	3 045	2 886
Output contingencies not allocated to departments ^(b)	5 411	3 563	5 286	6 824	9 256
Total expenses by department	101 006	104 414	98 679	99 752	103 543
<i>Less eliminations and adjustments^(c)</i>	<i>(11 161)</i>	<i>(12 772)</i>	<i>(10 335)</i>	<i>(10 549)</i>	<i>(10 874)</i>
Total expenses from transactions	89 844	91 643	88 344	89 203	92 669

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, departmental underspend estimates and inter-departmental transfers.

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

	2022-23 <i>budget</i>	2022-23 <i>revised</i>	2023-24 <i>estimate</i>	2024-25 <i>estimate</i>	2025-26 <i>estimate</i>
Decisions made but not yet allocated ^(b)	5 311	3 463	4 886	6 124	8 156
Funding not allocated to specific purposes ^(c)	100	100	400	700	1 100
Total general government output contingencies	5 411	3 563	5 286	6 824	9 256

Notes:

- (a) *The general government output contingencies have primarily been allocated proportionally across the relevant expense lines in the operating statement.*
- (b) *Reflects existing government policy decisions for which funding has yet to be allocated to departments and provisions not yet allocated to meet additional price and demand growth for health, disability and education.*
- (c) *An unallocated provision available to contribute to future government policy decisions and commitments.*

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

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

	2022-23 <i>budget</i>	2022-23 <i>revised</i>	2023-24 <i>estimate</i>	2024-25 <i>estimate</i>	2025-26 <i>estimate</i>
General public services	244	262	95	116	108
Public order and safety	1 742	1 801	803	468	272
Economic affairs	226	518	221	159	97
Environmental protection	232	232	150	93	62
Housing and community amenities	58	49	79	45	104
Health	2 479	2 361	2 032	1 133	1 159
Recreation, culture and religion	111	152	76	188	267
Education	2 977	3 471	1 915	1 199	1 258
Social protection	569	457	900	462	89
Transport	13 846	13 286	12 871	12 364	12 372
Not allocated by function ^(a)	(7 347)	(7 908)	(2 345)	2 440	2 133
Total purchases of non-financial assets	15 138	14 681	16 795	18 666	17 920

Note:

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

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

	2022-23	2022-23	2023-24	2024-25	2025-26
	<i>budget</i>	<i>revised</i>	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>
Education and Training	2 808	3 316	1 849	931	370
Environment, Land, Water and Planning	406	417	286	200	146
Families, Fairness and Housing	112	128	59	51	51
Health	1 571	2 235	1 350	632	519
Jobs, Precincts and Regions	54	384	44	30	30
Justice and Community Safety	958	1 011	304	181	132
Premier and Cabinet	47	41	18	37	37
Transport	8 430	11 738	6 918	4 118	985
Treasury and Finance	190	216	71	78	70
Parliament	19	28	7	3	3
Courts	158	222	249	120	19
Regulatory bodies and other part funded agencies ^(a)	165	211	142	128	137
Asset contingencies not allocated to departments ^(b)	7 611	2 674	8 307	9 956	14 400
Adjustments ^(c)	(7 391)	(7 938)	(2 810)	2 199	1 020
Total purchases of non-financial assets	15 138	14 681	16 795	18 666	17 920

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 estimated underspends by other regulatory bodies and other part-funded agencies.

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

	2022-23	2022-23	2023-24	2024-25	2025-26
	<i>budget</i>	<i>revised</i>	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>
Decisions made but not yet allocated ^{(a)(b)}	8 831	2 991	10 808	12 484	16 171
Funding not allocated to specific purposes ^(c)	..	..	500	700	1 200
Total general government asset contingencies	8 831	2 991	11 308	13 184	17 371

Notes:

- (a) A provision to account for asset policy decisions for which the funding has yet to be allocated to departments.
- (b) Asset contingencies include equity contributions to other sectors for capital projects which are included as part of net cash flows from investments in financial assets for policy purposes, rather than purchases of non-financial assets, on the cash flow statement.
- (c) An unallocated provision available for future government asset investment decisions.

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

	2022-23 <i>budget</i>	2022-23 <i>revised</i>	2023-24 <i>estimate</i>	2024-25 <i>estimate</i>	2025-26 <i>estimate</i>
Purchases of non-financial assets (including change in inventories)	14 746	14 174	16 518	18 442	17 924
Less: Sales of non-financial assets	(693)	(423)	(661)	(607)	(698)
Less: Depreciation and amortisation	(4 650)	(4 712)	(4 714)	(4 829)	(5 094)
Less: Other movements in non-financial assets ^{(a)(b)}	(2 900)	125	(3 186)	(6 471)	(15 129)
Total net acquisition of non-financial assets from transactions	6 504	9 164	7 957	6 536	(2 997)

Notes:

(a) *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.*

(b) *The public private partnerships across the budget and forward estimates relate to the High Capacity Metro Trains project, the Metro Tunnel, the new Footscray Hospital, the Frankston Hospital Redevelopment and the West Gate Tunnel Project.*

3.4 MAJOR ASSETS AND INVESTMENTS

Introduction

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

Structure

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3.4.5	Total assets by classification of the functions of government.....	56

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

	2023 budget	2023 revised	2024 estimate	2025 estimate	2026 estimate
Buildings	54 613	54 426	57 454	61 319	63 398
Land and national parks	93 906	94 476	94 813	101 386	101 536
Infrastructure systems	23 374	25 680	30 847	31 177	25 089
Plant, equipment and vehicles	6 057	6 506	5 262	4 964	4 763
Roads and road infrastructure	40 834	40 213	47 714	53 532	56 425
Earthworks	10 035	10 035	9 950	10 057	10 053
Cultural assets	6 765	6 765	6 771	7 607	7 854
Total land, buildings, infrastructure, plant and equipment	235 585	238 100	252 812	270 041	269 119

Note:

(a) The balances for each class of assets includes those related to service concession arrangement assets and right-of-use assets.

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: buildings, infrastructure, plant and equipment (\$ million)

	2023 <i>budget</i>	2023 <i>revised</i>	2024 <i>estimate</i>	2025 <i>estimate</i>	2026 <i>estimate</i>
Buildings	8 141	8 185	7 588	7 019	6 458
Infrastructure systems	1	1	2	2	2
Plant, equipment and vehicles	402	401	294	209	123
Total right-of-use assets: buildings, infrastructure, plant and equipment	8 544	8 587	7 883	7 230	6 584

Total service concession assets: land, buildings, infrastructure, plant and equipment (\$ million)

	2023 <i>budget</i>	2023 <i>revised</i>	2024 <i>estimate</i>	2025 <i>estimate</i>	2026 <i>estimate</i>
Buildings	1 927	1 927	1 875	1 821	1 767
Land	3 353	3 353	3 353	3 653	3 653
Infrastructure systems	8 327	8 590	10 326	10 544	1 646
Plant, equipment and vehicles	1 430	1 430	96	141	170
Roads and road infrastructure	15 434	15 242	16 795	18 391	18 535
Earthworks	916	916	916	990	990
Total service concession assets: land, buildings, infrastructure, plant and equipment	31 386	31 457	33 360	35 540	26 762

3.4.2 Depreciation (\$ million)

	2022-23 <i>budget</i>	2022-23 <i>revised</i>	2023-24 <i>estimate</i>	2024-25 <i>estimate</i>	2025-26 <i>estimate</i>
Buildings ^(a)	2 448	2 490	2 535	2 640	2 766
Infrastructure systems	53	53	54	60	56
Plant, equipment and vehicles ^(a)	890	888	863	867	863
Roads and road networks ^(a)	967	967	949	941	1 087
Cultural assets	16	16	16	16	16
Intangible produced assets ^(b)	277	298	297	304	306
Total depreciation	4 650	4 712	4 714	4 829	5 094

Notes:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2022-23 to 2025-26.

(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)

	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
Buildings	768	764	744	785	762
Plant, equipment and vehicles	125	127	125	123	124
Total depreciation of right-of-use assets	893	891	868	908	886

Depreciation of service concession assets (\$ million)

	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
Buildings	47	47	47	47	47
Plant, equipment and vehicles	28	28	28	28	28
Roads and road infrastructure	199	199	178	177	303
Intangible produced assets	1	1	1	1	1
Total depreciation of service concession assets	276	276	255	254	380

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

	2023 budget	2023 revised	2024 estimate	2025 estimate	2026 estimate
Carrying amount at the start of the year (b)	225 770	225 771	238 100	252 812	270 041
Additions of self-owned assets (c)	15 326	14 771	17 327	18 667	17 981
Additions of right-of-use assets	274	324	130	164	135
Additions of service concession arrangement assets	2 754	2 481	2 544	473	82
Disposals at written down value	(522)	(250)	(517)	(510)	(642)
Revaluations	1 927	2 055	5 718	10 343	1 689
Asset transfers (d)	(5 572)	(2 637)	(6 074)	(7 383)	(15 379)
Depreciation expense	(4 373)	(4 414)	(4 417)	(4 525)	(4 787)
Carrying amount at the end of the year	235 585	238 100	252 812	270 041	269 119

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 and service concession assets. It excludes intangible assets, investment properties and other non-financial assets.
- (b) The variance in the carrying amount at the start of the year for the 2023 budget and 2023 revised budget reflects the abolition of seven Waste and Resource Recovery Groups in the PNFC sector with their functions transferred into the Department of Environment, Land, Water and Planning (DELWP) to form a business unit within DELWP, Recycling Victoria, effective from 1 July 2022.
- (c) Represents additions of assets recognised under AASB 116 Property, Plant and Equipment.
- (d) Represents the transfer of assets to/from the public non-financial corporations sector.

3.4.4 Other non-financial assets

(\$ million)

	2023 <i>budget</i>	2023 <i>revised</i>	2024 <i>estimate</i>	2025 <i>estimate</i>	2026 <i>estimate</i>
Intangible produced assets	3 175	3 249	3 344	3 413	3 446
Accumulated depreciation	(1 903)	(1 916)	(2 193)	(2 482)	(2 759)
Service concession assets – intangible produced	4 526	4 612	4 612	4 612	4 612
Accumulated depreciation	(1)	(1)	(3)	(4)	(6)
Intangible non-produced assets	81	80	82	83	84
Accumulated amortisation	(62)	(60)	(67)	(71)	(76)
Total intangibles	5 816	5 964	5 776	5 551	5 302
Investment properties	302	302	302	302	302
Biological assets	7	7	8	10	11
Other assets	1 053	1 070	1 053	1 053	1 054
Total other non-financial assets	7 178	7 342	7 140	6 917	6 669

3.4.5 Total assets by classification of the functions of government

(\$ million)

	2023 <i>budget</i>	2023 <i>revised</i>	2024 <i>estimate</i>	2025 <i>estimate</i>	2026 <i>estimate</i>
General public services	4 261	4 333	3 957	3 654	3 672
Public order and safety	15 880	15 905	15 895	16 835	16 664
Economic affairs	1 458	1 750	1 802	3 000	3 082
Environmental protection	16 808	16 809	16 889	16 912	16 903
Housing and community amenities	2 364	2 354	2 592	3 696	4 182
Health	23 361	23 090	25 598	25 475	24 982
Recreation, culture and religion	8 723	8 763	8 769	8 885	9 079
Education	42 736	43 358	44 494	44 961	45 471
Social protection	3 370	3 318	3 569	3 810	4 051
Transport	132 860	135 016	147 916	158 823	154 849
Not allocated by function ^(a)	118 336	119 026	121 629	131 490	139 567
Total assets by COFOG	370 157	373 724	393 111	417 540	422 502

Note:

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

3.5 FINANCING STATE OPERATIONS

Introduction

State operations are financed through a variety of means, including 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

3.5.1	Borrowings.....	57
3.5.2	Advances paid and investments, loans and placements	58
3.5.3	Interest expense.....	58

3.5.1 Borrowings

(\$ million)

	2023 <i>budget</i>	2023 <i>revised</i>	2024 <i>estimate</i>	2025 <i>estimate</i>	2026 <i>estimate</i>
Current borrowings					
Domestic borrowings	13 990	13 824	13 868	13 933	14 020
Lease liabilities	593	638	557	468	382
Service concession arrangement liabilities	2 410	2 319	461	215	187
Derivative financial instruments	54	54	65	76	87
Total current borrowings	17 047	16 836	14 951	14 692	14 676
Non-current borrowings					
Domestic borrowings	112 113	115 030	137 816	158 028	175 234
Lease liabilities	7 222	7 249	6 758	6 276	5 770
Service concession arrangement liabilities	4 137	4 173	5 018	5 054	4 943
Derivative financial instruments	289	364	362	332	292
Total non-current borrowings	123 761	126 815	149 953	169 690	186 239
Total borrowings	140 808	143 651	164 904	184 382	200 915

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

	2023 <i>budget</i>	2023 <i>revised</i>	2024 <i>estimate</i>	2025 <i>estimate</i>	2026 <i>estimate</i>
Current advances paid and investments, loans and placements					
Loans and advances paid	853	861	581	459	439
Equities and managed investment schemes	744	744	782	798	814
Australian dollar term deposits	114	114	129	148	151
Debt securities	3	3	3	3	3
Derivative financial instruments	376	373	311	208	163
Total current advances paid and investments, loans and placements	2 090	2 095	1 806	1 616	1 570
Non-current advances paid and investments, loans and placements					
Loans and advances paid	4 214	4 465	6 060	6 085	6 112
Equities and managed investment schemes	8 354	11 256	12 560	14 226	16 220
Australian dollar term deposits	37	36	37	37	37
Debt securities	22	22	22	22	22
Derivative financial instruments	1	1	1	1	1
Total non-current advances paid and investments, loans and placements	12 627	15 780	18 680	20 370	22 392
Total advances paid and investments, loans and placements	14 717	17 875	20 485	21 986	23 963
Represented by:					
Advances paid	5 066	5 326	6 641	6 543	6 552
Investments, loans and placements	9 651	12 549	13 844	15 443	17 411

3.5.3 Interest expense (\$ million)

	2022-23 <i>budget</i>	2022-23 <i>revised</i>	2023-24 <i>estimate</i>	2024-25 <i>estimate</i>	2025-26 <i>estimate</i>
Interest on interest bearing liabilities	3 056	3 030	4 405	5 589	6 705
Interest on lease liabilities	369	373	356	354	341
Interest on service concession liabilities	442	428	381	372	366
Discount interest on payables	32	32	30	27	26
Total interest expense	3 899	3 863	5 172	6 342	7 438

3.6 OTHER ASSETS AND LIABILITIES

Introduction

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

Structure

3.6.1	Investments in other sector entities	59
3.6.2	Payables.....	59
3.6.3	Superannuation.....	60

3.6.1 Investments in other sector entities (\$ million)

	2023 <i>budget</i>	2023 <i>revised</i>	2024 <i>estimate</i>	2025 <i>estimate</i>	2026 <i>estimate</i>
Balance of investment in PNFC and PFC sectors at beginning of period	89 162	89 162	89 226	91 186	96 408
Net contributions to other sectors by owner	6 799	3 933	6 796	9 812	17 502
Revaluation gain/(loss) for period	(3 869)	(3 869)	(4 837)	(4 590)	(14 209)
Investment in other sector entities at end of period	92 092	89 226	91 186	96 408	99 700

3.6.2 Payables (\$ million)

	2023 <i>budget</i>	2023 <i>revised</i>	2024 <i>estimate</i>	2025 <i>estimate</i>	2026 <i>estimate</i>
Contractual					
Accounts payable	836	844	866	876	874
Accrued expenses	5 143	4 727	4 704	4 416	4 417
Grant of a right to the operator liability	15 628	19 705	20 056	19 924	19 402
Unearned income	1 053	1 070	946	823	701
Statutory					
Accrued taxes payable	69	71	70	71	71
Other					
Contract liabilities	304	338	310	297	293
Total payables and contract liabilities	23 033	26 754	26 952	26 407	25 758
Represented by:					
Current payables and contract liabilities	7 246	7 001	6 919	6 570	6 502
Non-current payables and contract liabilities	15 787	19 753	20 033	19 837	19 257

3.6.3 Superannuation

Reconciliation of the superannuation liabilities (\$ million)

	2023 <i>budget</i>	2023 <i>revised</i>	2024 <i>estimate</i>	2025 <i>estimate</i>	2026 <i>estimate</i>
Emergency Services and State Super					
Defined benefit obligation	40 224	38 216	37 957	37 754	37 631
Tax liability ^(a)	1 733	1 851	1 744	1 640	1 550
Plan assets	(23 868)	(23 823)	(23 646)	(23 948)	(24 170)
Net liability/(asset)	18 089	16 243	16 055	15 446	15 010
Other funds ^(b)					
Defined benefit obligation	2 071	2 088	2 123	2 151	2 186
Plan assets	(917)	(870)	(841)	(808)	(776)
Net liability/(asset)	1 155	1 218	1 282	1 343	1 410
Total superannuation					
Defined benefit obligation	42 295	40 303	40 079	39 905	39 817
Tax liability ^(a)	1 733	1 851	1 744	1 640	1 550
Plan assets	(24 784)	(24 693)	(24 487)	(24 755)	(24 946)
Total superannuation liability	19 244	17 461	17 336	16 789	16 421
Represented by:					
Current superannuation liability	1 079	579	1 042	917	1 150
Non-current superannuation liability	18 165	16 882	16 295	15 873	15 271

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)

	2023	2023	2024	2025	2026
	<i>budget</i>	<i>revised</i>	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>
Opening balance of defined benefit obligation	44 148	44 148	42 154	41 823	41 545
Current service cost	1 418	988	1 046	1 129	1 221
Interest expense	1 426	1 630	1 672	1 657	1 645
Contributions by plan participants	226	224	229	235	241
Actuarial (gains)/losses on the defined benefit obligation, due to:					
Changes in financial assumptions	..	(1 443)	..	..	..
Benefits paid	(3 189)	(3 393)	(3 277)	(3 300)	(3 285)
Closing balance of defined benefit obligation	44 028	42 154	41 823	41 545	41 367

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

	2023	2023	2024	2025	2026
	<i>budget</i>	<i>revised</i>	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>
Opening balance of plan assets	24 392	24 392	24 693	24 487	24 755
Interest income	744	910	956	967	977
Return on plan assets not included in interest income	984	429	672	676	677
Employer contributions	1 627	2 130	1 214	1 690	1 580
Contributions by plan participants	226	224	229	235	241
Benefits paid (including tax paid)	(3 189)	(3 393)	(3 277)	(3 300)	(3 285)
Closing balance of plan assets	24 784	24 693	24 487	24 755	24 946

See Note 3.3.2 for further information on superannuation assumptions.

3.7 OTHER DISCLOSURES

Introduction

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

Structure

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

	2022-23 <i>budget</i>	2022-23 <i>revised</i>	2023-24 <i>estimate</i>	2024-25 <i>estimate</i>	2025-26 <i>estimate</i>
Net (increase)/decrease in allowances for credit losses	(21)	(21)	(114)	(34)	80
Amortisation of intangible non-produced assets	(7)	(7)	(7)	(7)	(7)
Bad debts written off	(398)	(398)	(316)	(367)	(470)
Other gains/(losses)	(54)	(54)	(19)	(12)	(12)
Total other gains/(losses) from other economic flows	(479)	(479)	(455)	(419)	(408)

3.7.2 Reconciliation of Government Finance Statistics and Australian Accounting Standards

This financial report has been prepared on the basis of relevant AASs. This note outlines the key convergence differences between the AAS and GFS reporting frameworks, to explain the relationship between the balances and aggregates presented in this financial report and the related balances and aggregates presented under the GFS reporting framework.

GFS information enables policymakers and analysts to study developments in the financial operations, financial position and liquidity situation of governments based on consistent economic reporting rules and definitions.

AASB 1049 provides optional relief from the disclosure of reconciliations of key fiscal aggregates measured in accordance with the GFS where they differ from the key fiscal aggregates provided pursuant to this accounting standard.

The State has adopted the optional relief, which requires an explanation of how each of the key fiscal aggregates required by AASB 1049 are calculated and how it differs from the corresponding key fiscal aggregate measured in accordance with the ABS GFS.

The key fiscal aggregates below, as defined by AASB 1049, have convergence differences with the GFS:

- **Cash surplus/deficit** represents the net cash flows from operating activities plus the net cash flows from investments in non-financial assets (less dividends paid for the PNFC and PFC sectors).
- **Comprehensive result – total change in net worth** is the amount included in the operating statement representing the total change in net worth other than transactions with owners as owners.
- **Net lending/borrowing** is the financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. It also equals transactions in financial assets less transactions in liabilities. A positive result reflects a net lending position and a negative result reflects a net borrowing position.
- **Net result from transactions – net operating balance** is revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.
- **Net worth** is calculated as assets less liabilities, which is an economic measure of wealth.

The convergence differences between AASB 1049 and the GFS and their expected impacts applying GFS methodology are outlined in the following table.

<i>Convergence difference</i>	<i>AASB 1049 treatment</i>	<i>ABS GFS treatment</i>	<i>Fiscal aggregate impact</i>
AASB 16 Leases			
	Operating leases are recognised on the balance sheet under AASB 16 <i>Leases</i> unless the lease is shorter than 12 months or where the underlying assets are worth less than \$10 000.	Operating leases are not recognised on the balance sheet.	<ul style="list-style-type: none"> • Cash surplus/deficit • Comprehensive result – total change in net worth • Net lending/borrowing • Net result from transactions – net operating balance • Net worth
AASB 1059 Service concession arrangements			
	Economic service concession arrangements, such as toll roads, are recognised on the State’s balance sheet under AASB 1059 <i>Service Concession Arrangements: Grantors</i> .	Economic service concession arrangements, such as toll roads, are not recognised on the balance sheet.	<ul style="list-style-type: none"> • Cash surplus/deficit • Comprehensive result – total change in net worth • Net lending/borrowing • Net result from transactions – net operating balance • Net worth
AASB 15 Revenue from Contracts with Customers and AASB 1058 Income of Not-for-Profit Entities			
	Deferral of revenue recognition, such as where performance obligations have not been satisfied, or for capital grants from the Commonwealth Government, is a requirement under AASB 15 and AASB 1058.	Deferral of revenue recognition, such as where performance obligations have not been satisfied, or for capital grants from the Commonwealth Government, is not recognised. This timing difference is expected to impact all the key fiscal aggregates. While it is expected that there will not be a net change to the fiscal aggregates over time, there will be convergence differences in any given year.	<ul style="list-style-type: none"> • Cash surplus/deficit • Comprehensive result – total change in net worth • Net lending/borrowing • Net result from transactions – net operating balance • Net worth

<i>Convergence difference</i>	<i>AASB 1049 treatment</i>	<i>ABS GFS treatment</i>	<i>Fiscal aggregate impact</i>
Port of Melbourne lease transaction			
Port Licence Fee	The 15-year prepaid Port Licence Fee from the medium-term lease of the Port of Melbourne is recognised upfront upon receipt.	The 15-year prepaid Port Licence Fee from the medium-term lease of the Port of Melbourne is recognised as revenue over the 15-year period.	<ul style="list-style-type: none"> • Comprehensive result – total change in net worth • Net lending/borrowing • Net result from transactions – net operating balance • Net worth
Port of Melbourne lease transaction	The Port of Melbourne lease transaction is treated as an operating lease with the leased assets remaining with the PNFC sector.	The Port of Melbourne lease transaction is recognised as a sale of equity from the general government sector.	<ul style="list-style-type: none"> • Cash surplus/deficit • Comprehensive result – total change in net worth • Net lending/borrowing • Net result from transactions – net operating balance • Net worth
Doubtful receivables			
	Provisions for expected credit loss are included on the balance sheet as a reduction in assets.	The act of creating provisions is not considered an economic event and is therefore not included on the balance sheet.	<ul style="list-style-type: none"> • Comprehensive result – total change in net worth • Net worth
Investment in other sector entities			
	The net worth of investments in other sector entities for the general government sector includes doubtful receivables, future tax benefits and deferred tax liabilities of the PNFC and PFC sectors.	The determination of net worth is exclusive of this.	<ul style="list-style-type: none"> • Comprehensive result – total change in net worth • Net worth

3.7.3 Prospective accounting and reporting changes

New and revised accounting standards have been issued that are not effective for the 2022-23 reporting period. These accounting standards have not been applied to the Estimated Financial Statements. The State is reviewing its existing policies and assessing the potential implications of:

- AASB 17 *Insurance Contracts*: it is proposed in Exposure Draft 319 *Insurance Contracts in the Public Sector* that public sector entities would apply AASB 17 to annual periods beginning on or after 1 July 2025, with earlier application permitted. This is later than the application date of AASB 17 to entities that are not public sector entities, which is annual periods beginning on or after 1 January 2023. AASB 17 will supersede AASB 4 *Insurance Contracts* and AASB 1023 *General Insurance Contracts* and seeks to eliminate inconsistencies and weaknesses in existing practices by providing a single principle-based framework to account for all types of insurance contracts, including reinsurance contracts, that an insurer holds. The standard also provides new requirements for presentation and disclosure to enhance comparability between entities.

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

3.7.4 Controlled entities

Note 9.8 in Chapter 4 of the *2021-22 Financial Report* for the State of Victoria lists significant controlled entities that were consolidated in that financial report.

The following are changes in general government sector entities since 1 July 2022, which have also been incorporated in this financial report:

General government sector

Department of Environment, Land, Water and Planning ^(a)

Department of Jobs, Precincts and Regions

Victoria 2026 Pty Ltd ^(b)

Department of Transport ^(c)

Safe Transport Victoria (STV) ^(d)

VicRoads Modernisation including: ^(e)

- CP Services Victoria Pty Ltd
- R&L Services Victoria Pty Ltd
- Victorian R&L Services Trust
- Victorian CP Services Trust

Notes:

(a) On 1 July 2022, the seven Waste and Resource Recovery Groups were abolished and amalgamated to form a business unit within DELWP, Recycling Victoria.

(b) On 7 September 2022, the Victorian Commonwealth Games Organising Committee was established as Victoria 2026 Pty Ltd to organise, host and manage the 2026 Commonwealth Games.

(c) Effective from August 2022, VicHoldCo was dissolved.

(d) On 1 July 2022, Commercial Passenger Vehicles Victoria and Transport Safety Victoria came together as a new entity, Safe Transport Victoria (STV), to create a new regulator to manage safety, compliance, accreditation and registration for commercial passenger vehicles, buses and the marine sector.

(e) On 15 August 2022, the majority interest in the corporate trustees was transferred to the joint venture partner as part of the financial close of the VicRoads Modernisation process, with the State retaining an interest in the joint venture.

CHAPTER 4 – CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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

CONTINGENT ASSETS

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 disclosed as either quantifiable, where the potential economic benefit is known, or non-quantifiable.

Table 4.1 contains quantifiable contingent assets as at 1 November 2022.

	<i>As at Nov 2022</i>	<i>Published budget estimate ^(a)</i>
Guarantees, indemnities and warranties	75	81
Legal proceedings and disputes	2	3
Other	46	47
Total contingent assets	123	131

Note:

(a) As published in the 2022-23 Budget.

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 either:

- 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
- present obligations that arise from past events but are not recognised because either:
 - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations
 - the amount of the obligations cannot be measured with sufficient reliability.

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

Table 4.2 contains quantifiable contingent liabilities as at 1 November 2022.

Table 4.2: Quantifiable contingent liabilities (\$ million)

	As at Nov 2022	Published budget estimate ^(a)
Guarantees, indemnities and warranties ^(b)	1 070	999
Legal proceedings and disputes	335	423
Other	442	454
Non-general government debt ^(c)	14 603	14 241
Total contingent liabilities	16 450	16 118

Notes:

(a) As published in the 2022-23 Budget.

(b) Guarantees, indemnities and warranties include loans provided by the Treasury Corporation of Victoria to entities other than the State of Victoria and participating authorities, subject to the provision of a guarantee by the Treasurer.

(c) Mainly represents the guarantee of borrowings provided by the Treasurer for the public sector borrowings portfolio. Expected losses under any financial guarantees are recorded as financial liabilities in the balance sheet.

Non-quantifiable contingent liabilities

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

- indemnities provided in relation to transactions, including financial arrangements and consultancy services, as well as for directors and administrators
- performance guarantees, warranties, letters of comfort and the like
- deeds in respect of certain obligations
- 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.

Biosciences Research Centre (known as AgriBio)

The quarterly service fee payment obligations of Biosciences Research Centre Pty Ltd (BRC Co) 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 the financial capacity to meet their payment obligations to BRC Co, thereby enabling BRC Co to meet its obligations to pay the quarterly service fee to the concessionaire under the Project Agreement. The State underwrites the risk of any default by BRC Co.

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.

COVID-19 class action – Victorian businesses

A class action has been filed in the Supreme Court of Victoria against the State of Victoria, the Ministers for Health and Jobs, and the Secretaries of the Department of Health and Human Services (DHHS) and the Department of Jobs, Precincts and Regions (DJPR) relating to economic losses suffered by Victorian businesses under Stage 3 and 4 public health restrictions. The VMIA has been notified of this proceeding. VMIA's Combined Liability Policy will respond.

At this stage, it is impractical to quantify the financial effects of this contingent liability.

COVID-19 class action – public housing towers residents

A class action was filed in the Supreme Court of Victoria against the State of Victoria relating to the decision to declare localised public health restrictions. The VMIA has been notified of this proceeding. VMIA's Combined Liability Policy will respond.

At this stage, it is impractical to quantify the financial effects of this contingent liability.

COVID-19 related claim notifications

The Department of Transport may receive notifications under the contractual agreements by the contractors in relation to the possible impact of the COVID-19 pandemic on a number of projects. Possible future claims cannot be reliably estimated at this stage, as quantifiable claims have not yet been provided under the contract.

Until detailed claims have been submitted and substantiated by the contractors, it is not possible to estimate the financial effect of the claims.

Department of Education and Training

The Department of Education and Training 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 an 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.
- Teaching service and public service employees: if a department employee is named as a defendant in a civil proceeding (for example, a personal injury, discrimination or employment claim) any costs and damages will generally be paid by the Department provided the employee was not under the influence of illicit drugs or alcohol or engaging in a criminal offence and the behaviour was not outrageous and was related to their employment.
- Board members: the *Education and Training Reform Act 2006* requires the State to indemnify a member of a Merit Protection Board or a Disciplinary Appeals Board for anything done or omitted to be done in good faith in the exercise of a power or the discharge of their statutory duties.
- School councils: the *Education and Training Reform Act 2006* requires the Department to indemnify individual members of school councils for any legal liability, whether in contract, negligence or defamation, if they acted in good faith and in the exercise of their powers or functions. The Department may decide to indemnify school councils, which are separate entities to the Department, in claims of common law negligence, employment disputes and other civil claims, for the cost of settlement and/or 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
 - the school council has insufficient funds to pay the claim.

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

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

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

Fiskville independent investigation and closure of training college

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

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

On 26 March 2015, the Government announced the permanent closure of Fiskville. Fiskville and the 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). In addition, the CFA has received a clean-up notice to remediate the immediate neighbouring properties located downstream of the formal Fiskville Training College.

The Government's response to the Fiskville Inquiry was tabled in Parliament on 24 November 2016. The response supported 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, and recommendations made by the inquiry.

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

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.

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.

October–November 2022 flood event

In October 2022, Victoria experienced significant rainfall which caused a major widespread flood event, resulting in loss and damage to many homes, farms, properties, community assets, roads and other infrastructure. These impacts have been, and continue to be felt, in many local government areas across regional Victoria and metropolitan Melbourne. The Victorian and Commonwealth governments are working cooperatively together on implementing relief and recovery initiatives to be jointly funded under the Disaster Recovery Funding Arrangements (DRFA). The Victorian Government has also initiated a number of separate programs not eligible under DRFA to support communities impacted by the flood event. At this stage it is not possible to accurately quantify the full financial effects of these liabilities.

Planning scheme compensation

Under section 98 of the *Planning and Environment Act 1987*, the owner or occupier of any land may claim compensation from the planning authority for financial loss suffered as the natural, direct and reasonable consequence of the land being reserved or declared as reserved for a public purpose under a planning scheme.

Any future liability depends on a number of factors and cannot be reliably quantified.

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
- 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. As a result, the liability cannot be reliably quantified.

Public transport rail partnership agreements

The Department of Transport (DoT) 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 DoT or a successor. In the case of some assets, a reversion back to DoT would entail those assets being purchased
- unfunded superannuation – at the early termination or expiry of the contract, DoT 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.

The Royal Commission into the Management of Police Informants

Since the conclusion of the Royal Commission into the Management of Police Informants (RCMPI), the State of Victoria (Victoria Police) has been served with a number of civil claims. These civil claims and a number of Court of Appeal criminal matters as well as ongoing disclosure work by Victoria Police will likely dictate whether further claims are received.

Given those circumstances, it is not possible to reliably quantify any contingent liabilities relating to potential matters arising from the conduct explored by the RCMPI.

Royal Melbourne Showgrounds redevelopment

The State has entered into an agreement with the Royal Agricultural Society of Victoria (RASV) pursuant to which the State agrees to support certain payment obligations of RASV that may arise under the Non-Core Development Agreement subject to the RASV complying with certain obligations as set out in that Deed.

Southern Cross Station Target Capacity Threshold

The State has a possible liability relating to a claim from a contractor responsible for operating and maintaining Southern Cross Station. The claim relates to patronage levels at the station and the contract provides a process to assess whether modifications to the station, compensation to the contractor or changes to the service standards are required. The claim is being considered and the financial effect is yet to be determined.

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 as defined under the *Victorian Managed Insurance Authority Act 1996* and other entities as declared by the Minister. The VMIA insures its clients for property, public and products liability, professional indemnity, medical indemnity, contract works and a range of other risks. The VMIA also provides domestic building insurance to Victorian residential builders and, until 31 December 2022, has been directed to provide COVID-19 event insurance to qualifying creative, business, sporting and community event organisers.

The VMIA reinsures in the private market based on the likelihood and impact of events as well as the cost and availability of such cover. The risk of losses above what VMIA reinsures in the private market is borne by the State.

The State, under separate deeds of indemnity, has agreed to reimburse VMIA:

- if the costs of public sector medical indemnity claims for a policy year exceed the initial estimate on which the risk premium was based by more than 20 per cent
- for losses above a certain limit that VMIA may incur due to changes in the availability of reinsurance.

Yallourn Power Station safety net

The Government has reached an agreement with EnergyAustralia (EA) to ensure an orderly transition as EA implements the closure of the Yallourn Power Station in June 2028.

The agreement includes, should it be needed, a safety net to avoid an unplanned exit of Yallourn.

As part of this safety net, under certain scenarios, the State agrees to provide partial support to EA in the event of exceptional costs incurred in the operation of the Yallourn Power Station.

This support will help to ensure Yallourn’s workers and Victoria’s energy system have sufficient time to plan for the plant’s closure. The possible liability depends on a number of future events and cannot be reliably and readily quantified.

APPENDIX A – SENSITIVITY ANALYSIS

The *2022 Victorian Pre-Election Budget Update* relies on forecasts and judgements about the economic, operating and financial conditions for the Victorian general government sector. Uncertainty in these conditions, for example, as a result of international developments and other risks to the national economy, may cause the actual results to differ from projections.

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

The first approach quantifies the fiscal impacts of a scenario involving simultaneous variations in economic parameters that represent key risks to the economic outlook described in Chapter 1 *Economic Conditions and Outlook*. This scenario was selected to cover a plausible shock that could affect Victoria over the budget period, 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 scenario unlikely to completely reflect any future shock that could occur. Departures from this scenario would likely result in different impacts on the budget. Furthermore, the modelled results of the shocks do not incorporate any policy responses to the shocks and their subsequent effects on the economic or fiscal 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 a key risk identified in Chapter 1 *Economic Conditions and Outlook* and presents how this risk might affect the State's economic and fiscal aggregates.

The scenario considered is the emergence of a new vaccine-resistant COVID-19 variant that leads to a setback in global growth, which weighs on the Victorian economy. Under the scenario, domestic policy responses for the duration of the outbreak such as closing Australia's international border – though not a return to the tight restrictions required in 2020 and 2021 ahead of mass vaccination – also slow economic activity. The behavioural responses of businesses and households, reflected in labour supply and supply chain challenges, and downward pressure on consumer confidence also slow economic activity.

The economic impacts of the scenario have been modelled using VURMTAX, a computable general equilibrium model developed by the Centre of Policy Studies at Victoria University. The results of the scenario are analysed as a deviation from the 'business as usual' base case, which represents the economic forecasts outlined in Chapter 1 *Economic Conditions and Outlook*.

The changes in economic variables resulting from the modelled shocks are then mapped into estimated revenue and expenditure impacts using elasticities that describe the historical relationship between fiscal outcomes and major macroeconomic parameters in Table A.1.¹

Scenario: Global COVID-19 resurgence

The global economy was severely affected by the onset of the COVID-19 pandemic, with world GDP falling by 3 per cent in 2020. In 2021, global economic output was recovering well and rebounded by a strong 6.0 per cent. Success in rolling out vaccines, particularly in advanced economies, allowed public health restrictions to be eased over late 2021 and early 2022 despite elevated COVID-19 case numbers (Chart A.1).

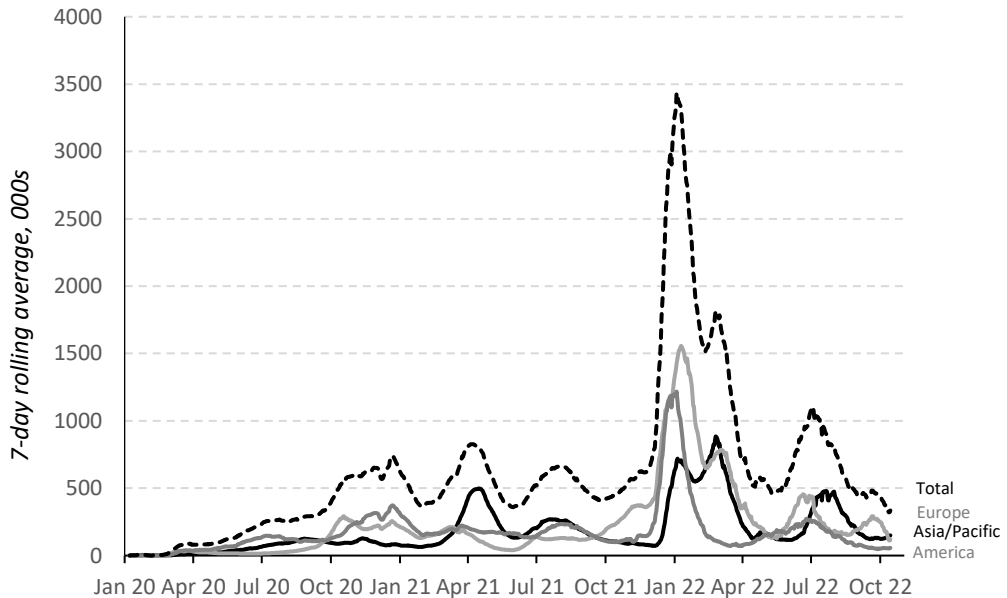
More recently, case numbers have declined again, and public health restrictions in major advanced economies continue to be limited – while the emergence of high inflation and sharply rising interest rates now dominate the economic outlook. In China, though, the authorities' zero-COVID policy has led to periods of tight public health restrictions that have continued to weigh on economic activity there in 2022.

The World Health Organization has warned that more transmissible and deadly variants of COVID-19 may evolve as long as a substantial share of the world population remains unprotected. Such a development would be a major setback for the global economy. This scenario explores the implications of the emergence of such a variant, which leads to a renewed global economic downturn that disrupts Victoria's economy.

¹ The Department of Treasury and Finance maintains a set of elasticities covering the relationships between major economic parameters and revenue and expenditure lines, including superannuation, and dividends and income tax equivalents from the public financial and non-financial corporations.

In this scenario, global economic activity falls with the reimposition of health restrictions in major economies outside Australia. Global growth is assumed to be 1.6 percentage points lower than the baseline in 2023, with the shock assumed to begin in the March quarter 2023.

Chart A.1: Daily COVID-19 case numbers



Source: Johns Hopkins University

Australia’s national border restrictions are assumed to be reimposed for a period of 12 months due to significant outbreaks overseas. Subdued global demand and the reimposition of border restrictions have an adverse impact on immigration and services trade in Victoria, including international education and tourism exports.

The reimposition of Australian border controls in this scenario leads to net overseas migration falling sharply, with Victoria’s population 0.8 per cent smaller than the base case by 2025-26. A smaller population weighs on Victorian consumer spending, dwelling investment and business investment relative to the base case.

With the state accounting for nearly a third of onshore international students in Australia, international education is Victoria’s largest service export. A setback in international student arrivals has a significant negative impact on Victoria’s education exports. Tourism, which accounted for over 2 per cent of the Victorian economy in 2020-21, is also adversely affected by the national border restrictions. While Victorian consumers substitute some international tourism with domestic tourism in the scenario, the net impact on the Victorian economy is negative. Overall, national border restrictions result in a 5.4 per cent fall in Victoria’s service exports relative to the base case in 2023 in the scenario. Service imports also decline by 2.2 per cent.

Consumer confidence in Victoria is weighed down by reports of global outbreaks of a vaccine-resistant COVID-19 variant, lower levels of global growth and national border restrictions. Consumers respond by increasing precautionary savings, weighing on household spending. These impacts are in addition to those caused by lower trade and population flows.

The shocks to exports, net overseas migration and consumer confidence reduce Victoria's gross state product (GSP) by 0.35 per cent in 2022-23, 0.69 per cent in 2023-24, 0.66 per cent in 2024-25 and 0.67 per cent in 2025-26 compared with the base case.

The peak economic impact occurs in 2023, when household consumption declines due to lower confidence (see Chart A.2). Later in the forecast period, as this confidence effect dissipates, consumption recovers somewhat, but lower global growth and a lower population mean it remains weaker than in the baseline.

Government consumption is also lower over the forecast period as a smaller population requires a lower level of expenditure. In the scenario, there is no further discretionary fiscal expenditure assumed to occur in response to the shock. In practice, governments and the Reserve Bank of Australia may intervene to mitigate the shock's impacts on the economy.

Weaker domestic activity puts downward pressure on the real exchange rate, leading to a depreciation of the domestic currency that increases the international competitiveness of domestic exporters. This raises goods export volumes relative to the baseline, more than offsetting the decline in service exports in the scenario. Overall, net trade adds to growth and somewhat offsets the negative impacts of the shocks.

Subdued domestic activity lowers the demand for labour, with employment growth 0.28 per cent lower in 2022-23 and 0.61 per cent lower than the base case in 2023-24. Labour supply is also reduced due to the decline in international migration, and employment is still lower than the base case in 2025-26. Weaker economic growth increases the level of spare capacity in the labour market, which puts downward pressure on wages.

The depreciation of the domestic currency raises the cost of imports to households, placing upward pressure on consumer prices. This effect on consumer prices is more than offset, though, by weaker domestic activity, with the net effect that consumer prices are lower in the scenario.

Table A.1 summarises the economic effects of this shock.

Chart A.2: Scenario impact on select variables

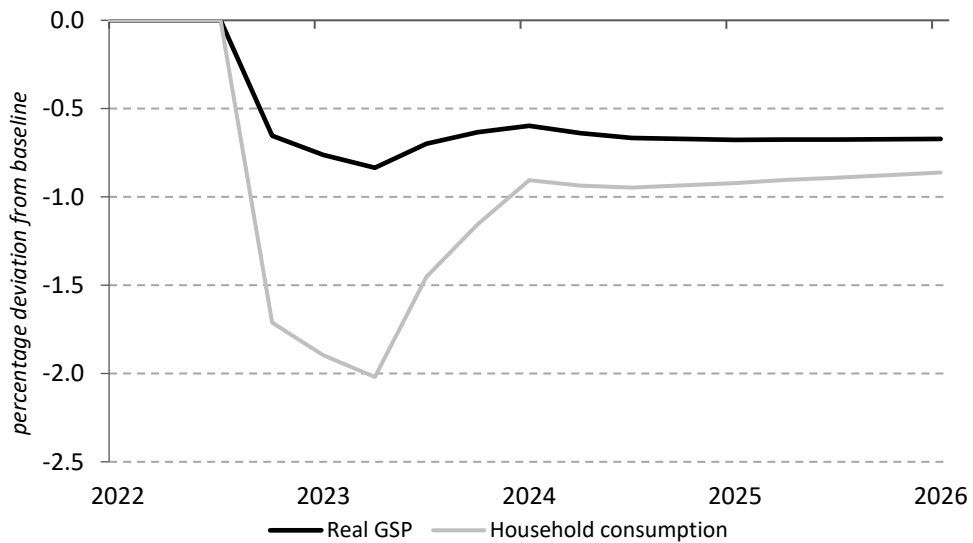


Table A.1: Projected economic impact of a global COVID-19 outbreak ^(a) (per cent)

	2022-23 <i>estimate</i>	2023-24 <i>estimate</i>	2024-25 <i>estimate</i>	2025-26 <i>estimate</i>
Real GSP	(0.35)	(0.69)	(0.66)	(0.67)
Employment	(0.28)	(0.61)	(0.67)	(0.69)
Consumer price index	(0.17)	(0.28)	(0.21)	(0.21)
Wage price index	(0.21)	(0.42)	(0.28)	(0.21)

Note:

(a) Figures reported are the change in the level of each parameter relative to the baseline forecasts as presented in Chapter 1 Economic Conditions and Outlook.

The shock has a negative fiscal impact on the State’s finances (see Table A.2). Lower population growth, because of lower overseas migration, slows growth in property-related taxation revenue, including land transfer duty and land taxes. Reduced consumption leads to a smaller national GST pool and hence smaller GST grants revenue for Victoria. As a result, income from transactions is lower over the forward estimates.

Expenses from transactions are also lower in the scenario relative to the base case, mainly due to lower employment growth which lowers employee expenses. These estimated impacts on expenses reflect the assumed relationships 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 in the medium to long-term.

Table A.2: Projected fiscal impact of a global COVID-19 outbreak ^(a) (\$ million)

	2022-23 <i>estimate</i>	2023-24 <i>estimate</i>	2024-25 <i>estimate</i>	2025-26 <i>estimate</i>
Income from transactions	(506.8)	(989.5)	(815.1)	(827.8)
Expenses from transactions	(135.0)	(240.6)	(251.7)	(237.2)
Net result from transactions	(371.8)	(748.9)	(563.5)	(590.6)
Other economic flows	(4.2)	(12.3)	(7.4)	(8.9)
Net result	(376.0)	(761.2)	(570.9)	(599.5)
Net debt (cumulative)	376.0	1 013.6	1 462.2	1 942.1
Net debt to GSP ratio (percentage point difference)	0.07	0.17	0.23	0.29

Note:

(a) Figures may not add due to rounding.

SENSITIVITY TO INDEPENDENT VARIATIONS IN MAJOR ECONOMIC PARAMETERS

Table A.3 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 A.3: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2022-23 ^{(a)(b)(c)(d)(e)} (\$ million)

	2022-23 estimate	2023-24 estimate	2024-25 estimate	2025-26 estimate
GSP				
Income from transactions	126	129	141	148
Expenses from transactions	1	(4)	(11)	(19)
Net result from transactions	124	133	152	168
Net debt	(124)	(258)	(410)	(577)
Employment ^(f)				
Income from transactions	108	117	122	127
Expenses from transactions	340	357	375	399
Net result from transactions	(232)	(241)	(253)	(272)
Net debt	232	472	726	997
Consumer prices ^(g)				
Income from transactions	296	303	326	340
Expenses from transactions	272	246	238	239
Net result from transactions	25	57	88	101
Net debt	(25)	(83)	(172)	(273)
Average weekly earnings ^(h)				
Income from transactions	112	120	125	131
Expenses from transactions	3	(2)	(8)	(15)
Net result from transactions	109	122	133	146
Net debt	(109)	(230)	(363)	(509)
Total employee expenses				
Income from transactions	..	38	129	141
Expenses from transactions	342	364	384	409
Net result from transactions	(342)	(327)	(255)	(267)
Net debt	342	669	924	1 191

Table A.3: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2022-23 (continued) (\$ million)

	2022-23 estimate	2023-24 estimate	2024-25 estimate	2025-26 estimate
Domestic share prices				
Income from transactions	..	..	..	..
Expenses from transactions	..	..	..	..
Net result from transactions	..	..	..	..
Net debt	..	..	..	..
Overseas share prices				
Income from transactions	..	..	..	..
Expenses from transactions	..	..	..	..
Net result from transactions	..	..	..	..
Net debt	..	..	..	..
Property prices				
Income from transactions	190	193	200	211
Expenses from transactions	(4)	(13)	(24)	(36)
Net result from transactions	194	207	223	247
Net debt	(197)	(408)	(636)	(888)
Property transaction volumes				
Income from transactions	77	79	82	85
Expenses from transactions	(2)	(5)	(10)	(15)
Net result from transactions	79	85	91	99
Net debt	(79)	(164)	(255)	(354)
Interest rates ⁽ⁱ⁾				
Income from transactions	110	105	101	98
Expenses from transactions	114	488	743	1 009
Net result from transactions	(4)	(383)	(642)	(911)
Net debt	4	271	799	1 599

Notes:

- Variations are applied to the economic variables effective from the first day in the budget year (1 July 2022). 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 level 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.
- 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.
- Only reasonably quantifiable impacts have been included in the analysis.
- 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).
- Figures may not add due to rounding.
- A shock to employment is assumed to impact payroll tax revenue. Both public and private sector employment levels are assumed to be 1 per cent higher across the four years, with the shares of full-time and part-time employment held constant. The rise in public sector employment boosts general government sector employee expenses.
- Estimates assume that higher consumer prices flow through to government operating expenses, such as the purchase of supplies and consumables and the purchase of services. For simplicity, these estimates make no assumptions about agencies' administrative actions or government policy responses to mitigate the effects of higher inflation on aggregate spending. It is assumed an increase in consumer prices within the budget year does not affect employee entitlements.
- 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.
- Interest rates on Treasury Corporation Victoria bonds and Victorian Government holdings of financial assets are assumed to be 1 percentage point higher in each year of the budget and forward estimates. The fiscal impact is based on the portion of government debt being refinanced, as well as new debt issuance.

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

The *Financial Management Act 1994* (the Act) requires the Secretary of the Department of Treasury and Finance to prepare a pre-election budget update when a writ is issued for a general election. The provisions of the Act have been complied with in the *2022 Victorian Pre-Election Budget Update*.

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

Table B.1: Statements required by the *Financial Management Act 1994* and their location in the *2022 Victorian Pre-Election Budget Update*

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

Table B.1: Statements required by the *Financial Management Act 1994* and their location in the *2022 Victorian Pre-Election Budget Update (continued)*

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

STYLE CONVENTIONS

The source of data for tables and charts is the Department of Treasury and Finance unless specified otherwise.

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

The notation used in the tables is as follows:

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

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

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