Victorian Budget
2023/24

Doing What Matters

2023/24 Budget Update

Presented by Tim Pallas MP
Treasurer of the State of Victoria

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for the information of Honourable Members

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CHAPTER 1 – ECONOMIC AND FISCAL OVERVIEW

A STRONG LABOUR MARKET AND A GROWING ECONOMY

The Victorian economy is performing well, and the labour market is strong. Economic output, as measured by real gross state product (GSP), grew by 2.6 per cent in 2022-23, bringing GSP per person to 4.8 per cent above what it was in 2018-19, the last full year before the COVID-19 pandemic. The share of working-age Victorians in employment is above the national average and around a record high, and the rate of unemployment is below 4 per cent – which hasn't happened for nearly 50 years.

While Victoria's economy has recovered following the pandemic, it is now navigating a challenging period of high inflation and increased interest rates, as are economies nationally and globally. However, the Victorian economy's strong foundations mean that most households and businesses are well positioned to meet these challenges. On average, Victorian households have accumulated significant savings over recent years, and business balance sheets are also strong in aggregate. Growth in consumer prices, though still high, is easing and is expected to decline further. Nonetheless, with higher interest rates weighing on activity and rising living costs putting pressure on households, real GSP growth is expected to slow to 1.5 per cent in 2023-24, although unemployment is expected to remain low. Later in the forward estimates, economic growth is expected to strengthen as inflation eases.

Strong economic growth in recent years has led to a very strong labour market. Since the trough in employment in September 2020, 538 000 jobs have been created, and the Government's Jobs Target of creating 400 000 new jobs by 2025 has been met more than two years early. Workforce participation is around a record high, as is the share of working-age Victorians in employment. Employment growth has been broad-based, with all major cohorts of workers benefitting from the strength of the labour market. The share of working-age women in employment is at a record high 61.7 per cent; while the share of young people in employment is 63.9 per cent, higher than before the pandemic. Following robust growth of 4.0 per cent in 2022-23, employment growth is forecast to ease in 2023-24 in light of the high proportion of Victorians already in employment, and the expected slowdown in economic growth.

Victoria's unemployment rate is 3.8 per cent, and it has been below 4 per cent for most of the period since mid-2022 (see Chart 1.1). In regional Victoria, the unemployment rate is even lower, at 2.8 per cent in the three months to October 2023. The strength of the labour market has also meant that many Victorians who have wanted to work more hours are getting the opportunity to do so. The underemployment rate, which captures those who have a job but would like to work more hours, is around the lowest in a decade. Long-term unemployment is also low, with the share of Victorian workers in long-term unemployment around its lowest level in more than a decade. Unemployment is forecast to rise modestly to 4.00 per cent in 2023-24 as economic growth slows, remaining low by historical standards.

Chart 1.1: Unemployment rate, Victoria

Source: Australian Bureau of Statistics

Inflation is past its peak, although it remains high. The Reserve Bank of Australia has raised interest rates significantly to return inflation to its target range. These developments are adversely affecting many Victorians, with those on low incomes in particular facing pressure from the rising cost of living. The tight labour market, however, has supported wages and income growth, with wages growing by 3.7 per cent over the year to September 2023 – the fastest pace in more than a decade. Looking ahead, inflation is expected to continue to decline gradually.

STRONG FINANCIAL MANAGEMENT

As first outlined in the *2020-21 Budget*, the Government developed a clear plan to protect Victorian households and businesses from the global pandemic and to provide the strong foundations for recovery. This involved a four-step plan to support Victorians, grow the economy and restore the budget position over the medium term. The four-step plan provided a clear framework:

- **Step 1**: creating jobs, reducing unemployment and restoring economic growth
- **Step 2**: returning to an operating cash surplus
- **Step 3**: returning to operating surpluses
- **Step 4**: stabilising debt levels.

Progress towards achieving the Government's fiscal strategy

The first step – creating jobs, reducing unemployment and restoring economic growth – has been achieved, with strong employment outcomes and robust economic growth. The unemployment rate is below 4 per cent, which is historically low, and underemployment is around the lowest in a decade.

The second step in the Government's fiscal strategy – returning to an operating cash surplus – means the State is generating sufficient cash inflows to exceed its cash outflows on operating activities, a key pillar of fiscal sustainability. As outlined in the *2022-23 Financial Report*, the Government achieved step two with an operating cash surplus of $4.3 billion in 2022-23. In addition, the Government continues to forecast operating cash surpluses across the forward estimates with $0.3 billion in 2023-24, increasing to $5.9 billion in 2026-27.

The third step – returning to an operating surplus – is important as this is where the Government generates sufficient revenues to not just cover its cash expenditure, but also support the ongoing replacement of existing assets. The net result from transactions for the general government sector is forecast to be in surplus by $1.1 billion in 2025-26 and then increase to $1.2 billion in 2026-27.

Stabilising net debt as a percentage of GSP – the last step in the Government's fiscal strategy – is an important medium-term objective for the Government. This step involves progressively improving the operating cash flow surpluses while growing the economy. These surpluses will fund a higher proportion of capital expenditure, reducing the reliance on borrowings.

As outlined in the *2023-24 Budget*, the Government is implementing strategies to improve the state's financial position and manage the increase in debt in a sustainable manner. This includes the temporary COVID Debt Levy to offset the cost of measures introduced by the Government in response to the pandemic over the past three years, along with taking steps to improve the efficiency and effectiveness of departmental spending and ensure expenditure is directed to key service delivery priorities.

Table 1.1: General government fiscal aggregates

	Unit of measure	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Net result from transactions	$ billion	(3.5)	(1.0)	1.1	1.2
Net cash flows from operating activities	$ billion	0.3	3.6	6.1	5.9
Government infrastructure investment [(a)(b)]	$ billion	23.3	22.2	20.8	19.0
Net debt	$ billion	135.5	152.9	166.1	177.8
Net debt to GSP [(c)]	per cent	22.3	23.9	24.7	25.1

Notes:
(a) Includes general government net infrastructure investment and 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 GSP may vary from publications year to year due to revisions to the Australian Bureau of Statistics GSP data.

Government infrastructure investment (GII) is expected to average $21.3 billion a year over the budget and forward estimates, reflecting the continuation of Victoria's Big Build. This is an increase compared with an average of $19.6 billion in the *2023-24 Budget*. The increase in GII reflects an update in estimated investment largely due to additional funding for the North East Link program and associated Eastern Freeway Upgrade and M80 Ring Road Upgrade projects as set out in Appendix A *Specific policy initiatives affecting the budget position*.

Net debt is expected to be $135.5 billion at June 2024. Net debt is then forecast to be $177.8 billion by June 2027, an increase of $6.4 billion compared with the *2023-24 Budget*. This increase is largely driven by the increase in GII. As a proportion of GSP, net debt is projected to be 22.3 per cent at June 2024 and 25.1 per cent by June 2027.

Interest expense as a share of total revenue remains manageable and is expected to average 7.4 per cent a year over the budget and forward estimates.

Long-term objectives and targets

The Government's long-term financial management objectives as set out in Table 1.2 remain unchanged from the *2023-24 Budget*.

Table 1.2: Long-term financial management objectives

Priority	*Objective*
Sound financial management	Victoria's finances will be managed in a responsible manner to provide capacity to fund services and infrastructure and support households and businesses at levels consistent with sound financial management.
Improved services	Public services will improve over time.
Building infrastructure	Public infrastructure will grow steadily over time to meet the needs of a growing population.
Efficient use of public resources	Public sector resources will be invested in services and infrastructure to maximise the economic, social and environmental benefits.
A resilient economy	Increase economic resilience by supporting an innovative and diversified economy that will unlock employment growth, long-term economic growth and productivity in Victoria.

Progress towards these financial management objectives is supported by the measures and targets in Table 1.3. These measures and targets are also unchanged from the *2023-24 Budget*.

Table 1.3: Financial measures and targets

Financial measures	*Target*
Net debt to GSP	General government net debt as a percentage of GSP to stabilise in the medium term.
Interest expense to revenue	General government interest expense as a percentage of revenue to stabilise in the medium term.
Superannuation liabilities	Fully fund the unfunded superannuation liability by 2035.
Operating cash surplus	A net operating cash surplus consistent with maintaining general government net debt at a sustainable level.

The Government will review and publish its financial objectives and measures, consistent with requirements under the *Financial Management Act 1994*, as part of the 2024-25 budget.

CHAPTER 2 – ECONOMIC CONTEXT

- Victoria's economy is performing well and the labour market is strong.
- The share of working-age Victorians in employment is around a record high. The unemployment rate was just 3.7 per cent in 2022-23 and it remains at an historically low level.
- The economy expanded by 2.6 per cent in 2022-23. Growth is forecast to ease to 1.50 per cent in 2023-24, as higher interest rates and high inflation weigh on economic activity. Amid this economic slowdown, unemployment is forecast to rise modestly in 2023-24, but is expected to remain low.
- High inflation remains a challenge to the Victorian economy, as it does nationally and globally. Inflation has peaked, although it remains elevated. The Reserve Bank of Australia has raised interest rates sharply as it seeks to contain inflation pressures, and inflation is forecast to decline gradually over coming years.
- The risks to the Victorian economy remain higher than usual. These include uncertainty concerning the outlook for household consumption, slower growth in China and its impact on the global economy, geopolitical conditions, and uncertainty around the path for inflation and interest rates.

VICTORIAN ECONOMIC CONDITIONS AND OUTLOOK

The Victorian economy has continued to perform well, delivering growth in real gross state product (GSP) of 2.6 per cent in 2022-23. This raised Victoria's GSP to be more than 8 per cent larger in 2022-23 than it was in 2018-19, before the COVID-19 pandemic. Positive economic conditions have resulted in strong labour market outcomes. The Victorian labour market added more than 120 000 jobs over 2022-23. The annual unemployment rate fell to just 3.7 per cent in 2022-23, and it remains at an historically low level. Currently, the share of Victoria's working-age population in employment is around a record high.

High inflation and a sharp rise in interest rates are leading to cost-of-living pressures for Victorian households. GSP growth is forecast to moderate to 1.50 per cent in 2023-24, with growth in consumer spending expected to be subdued as household budgets are constrained. However, economic growth will be supported by other parts of the economy. There is a significant pipeline of private and public-sector construction projects in delivery, and business investment intentions remain elevated.

Economic activity will also be supported by strong population growth, driven by a rebound in international student arrivals.

The Victorian economy is forecast to continue creating jobs. Leading indicators of labour demand, such as job advertisements, remain elevated and support the positive employment outlook for 2023-24. While the unemployment rate is expected to rise modestly in 2023-24 alongside more subdued economic growth, it is forecast to remain at an historically low level.

Table 2.1 sets out the latest economic forecasts, with the *2023-24 Budget* forecasts in italics where different.

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

	2022-23 actual	*2023-24 forecast*	*2024-25 forecast*	*2025-26 projection*	*2026-27 projection*
Real gross state product	2.6	1.50	2.50	2.75	2.75
Employment	4.0	2.25	1.00	1.75	1.75
		0.75			
Unemployment rate [(b)]	3.7	4.00	4.25	4.50	4.75
		4.25	*4.50*	*4.75*	
Consumer price index [(c)]	6.9	4.25	2.75	2.50	2.50
Wage price index [(d)]	3.4	3.75	3.50	3.25	3.25
		3.50			
Population [(e)]	2.60 [(f)]	2.20	1.80	1.70	1.70
	1.90	*1.90*			

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 (b)) and population (see note (e)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (e)). The key assumptions underlying the economic forecasts include interest rates that broadly follow market economists' expectations; an Australian dollar trade-weighted index of 61.0; and oil prices that follow the path suggested by oil futures.

(b) Year average.

(c) Melbourne consumer price index.

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

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

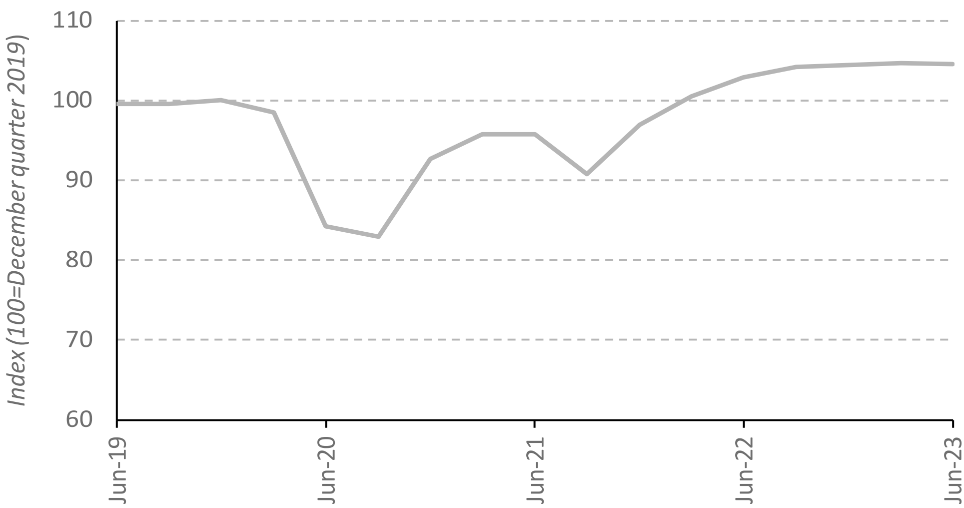
(f) Estimate, actual not yet available.

Gross state product

Victoria's economy grew by 2.6 per cent in 2022-23. This followed strong growth of 6.3 per cent in 2021-22. Higher interest rates and cost-of-living pressures are expected to increasingly weigh on economic activity, with GSP growth expected to moderate to 1.50 per cent in 2023-24.

Household consumption grew strongly in 2022-23, expanding by over 6 per cent compared with 2021-22, although spending growth slowed over the course of the year. Overall, consumption has been reasonably resilient to rising cost-of-living pressures, with household incomes having been supported by high growth in employment, a pick-up in wages growth, and high levels of household savings that were accumulated during the COVID-19 pandemic. However, high inflation and rising interest rates have slowed spending growth (see Chart 2.1). With cost-of-living pressures continuing to affect households, growth in consumer spending is expected to slow in 2023-24 and make only a small positive contribution to GSP growth. Household consumption is expected to pick up again in 2024-25, aided by lower inflation.

Chart 2.1: Victorian household consumption



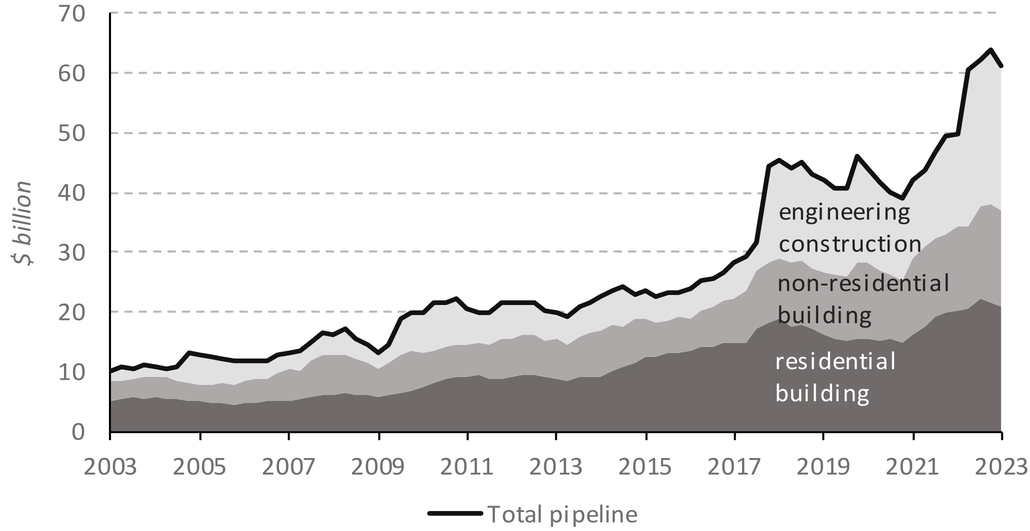
Source: Australian Bureau of Statistics

Dwelling investment, which was around its highest level on record in 2021-22, declined in 2022-23, with the residential construction sector affected by constraints in labour and materials supply. Although supply constraints on materials have now largely eased, labour shortages for some building trades continue to limit the amount of construction work being completed.

The rise in interest rates has also put pressure on dwelling investment, with building approvals trending downward in 2022 and over much of 2023. Nevertheless, construction activity in the near term will be supported by the large pipeline of residential building work still to be completed (see Chart 2.2). Overall, dwelling investment is forecast to decline modestly in 2023-24. Growth is expected to return in 2024-25 alongside easing capacity constraints and a pick-up in demand for new housing.

Business investment grew strongly in 2022-23, with large increases in engineering construction and non-residential building work. Investment in machinery and equipment also grew at a high rate, supported by temporary Commonwealth tax incentives for the purchase of new assets. Business investment is forecast to continue growing at a strong pace in 2023-24. Investment intentions as reported by surveyed firms are elevated. Surveyed business conditions have, on average, remained elevated in recent months and businesses' utilisation of their available productive capacity remains near a record high. The investment outlook is also supported by a large pipeline of both non-residential and engineering projects (see Chart 2.2).

Chart 2.2: **Total Victorian construction pipeline**



Source: Australian Bureau of Statistics

Public demand made a small positive contribution to Victoria's GSP growth in 2022-23. Growth was driven by increased public investment, which offset a small fall in government consumption as spending on COVID-19-related programs continued to unwind. Stronger growth in public demand is expected in 2023-24, in part supported by the Government's ongoing investment in transport and social infrastructure projects.

Goods exports and imports both recorded solid growth in 2022-23. Growth in goods imports was driven by a surge in motor vehicles, following an easing of global supply chain disruptions, while exports were supported by favourable agricultural growing conditions. In 2023-24, growth in goods exports is expected to be subdued. Agricultural exports are expected to ease due to poorer growing conditions. Meanwhile, goods imports are expected to fall in 2023-24, alongside subdued consumer spending.

Growth in services trade recovered strongly in 2022-23, with the reopening of national borders from late 2021 allowing the return of international students and enabling more Victorians to travel overseas. In 2023-24, services exports are forecast to increase further, with ongoing growth in education exports expected. Services imports are also forecast to grow in 2023-24.

In aggregate, net trade in goods and services is forecast to make a positive contribution to GSP in 2023-24.

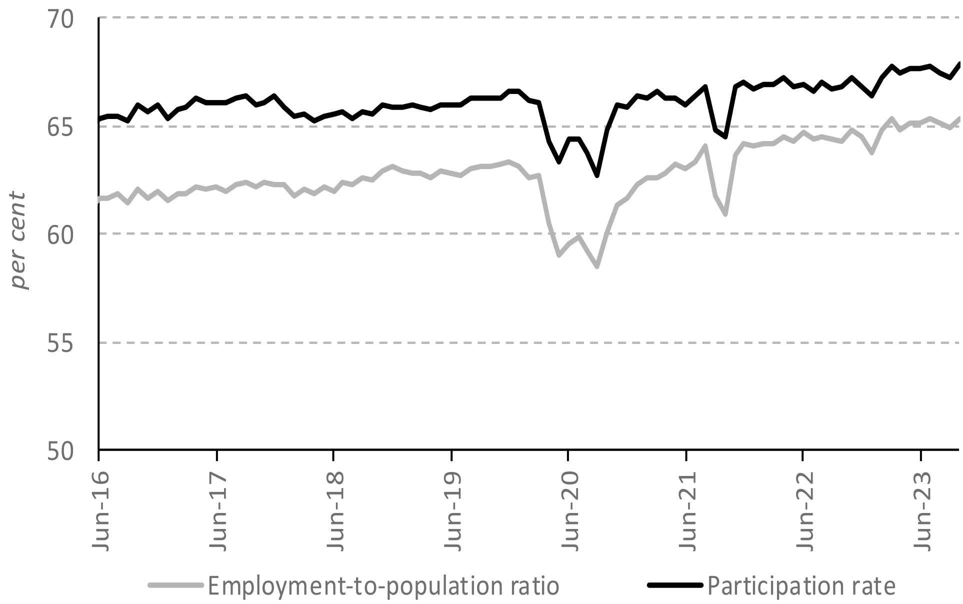
The labour market

The Victorian labour market is strong. In 2022-23, employment grew by 4.0 per cent, with 120 000 more Victorians employed over the year. The unemployment rate fell to 3.7 per cent in 2022-23, and remains low. Workforce participation, and the share of working-age Victorians in employment, are both around record highs (see Chart 2.3).

In 2023-24, employment growth is expected to ease but remain high at 2.25 per cent. Leading indicators of labour demand, such as job vacancies and job advertisements, have declined from record highs, but remain elevated. Alongside this ongoing demand for workers, employment growth will continue to be supported by population growth, which is boosting growth in the supply of labour.

The unemployment rate is forecast to rise modestly, from 3.7 per cent in 2022-23 to 4.00 per cent in 2023-24, remaining low by historical standards.

Chart 2.3: Victorian employment-to-population ratio and participation rate



Source: Australian Bureau of Statistics

Prices and wages

High inflation remains a challenge for the Victorian economy, as it does nationally and globally. In year-average terms, headline Melbourne inflation was 6.9 per cent in 2022-23. In year-ended terms, inflation reached a peak of 8.0 per cent at the end of 2022, and by September 2023 had eased to 4.9 per cent.

While price growth has slowed, inflation remains high and broad-based. The easing of global supply-chain disruptions has contributed to more moderate price increases for some goods. However, services inflation remains high, including for those services most sensitive to domestic labour costs. Rent prices have also increased significantly over the past year. Overall rent inflation reached 5.8 per cent in September 2023 – with advertised rents rising at double-digit rates – due to strong demand for rental housing coinciding with limited growth in supply. Domestic labour, transport and energy costs are now also contributing to price growth.

Increases in interest rates by the Reserve Bank of Australia (RBA) are expected to lead to a further easing in inflationary pressures. In 2023-24, inflation is forecast to moderate to 4.25 per cent in year-average terms, before easing further in the following years.

Victorian wages grew by 3.4 per cent in 2022-23, the fastest rate of growth since 2012. Wage growth is expected to rise further, reaching 3.75 per cent in 2023-24. The tight labour market is supporting higher wages growth among private-sector workers, especially those on individual agreements. Rises in minimum and award wages are also contributing to overall wages growth. In June 2023, the Fair Work Commission raised the national minimum wage and modern awards by a larger-than-normal 8.6 per cent and 5.75 per cent respectively.

Population

Victoria's population growth has continued to rebound strongly following the COVID-19 pandemic and ending of the associated national border restrictions. Population growth reached a high 2.4 per cent over the year to March 2023. This was driven by net overseas migration, led by a strong rise in international students. Net overseas migration is significantly above pre-pandemic peaks.

Population growth is expected to remain strong in 2023-24, rising by 2.2 per cent. International students are expected to continue to drive much of this growth, with the lodgement of student visa applications reaching a record level in June 2023.

AUSTRALIAN ECONOMIC CONDITIONS AND OUTLOOK

The Australian economy recorded growth in 2022-23 of 3.0 per cent. However, the rate of growth slowed over the second half of the year, as rising interest rates and ongoing cost-of-living pressures weighed on demand. Despite this, employment growth has been strong and the national unemployment rate remains low, currently at 3.7 per cent.

In its November 2023 *Statement on Monetary Policy*, the RBA forecast growth in gross domestic product (GDP) to slow markedly to 1.75 per cent in 2023-24, although this is an upgrade from its May forecast of 1.25 per cent. This subdued growth outlook reflects a restrained outlook for household consumption, while ongoing capacity constraints and lower demand are forecast to continue to limit national dwelling investment. However, the RBA expects non-mining business investment and public investment to support growth, along with the continued recovery of tourists and international students.

Employment growth is forecast to ease alongside this subdued economic growth, and the unemployment rate is expected to rise modestly. The RBA forecasts the unemployment rate will rise to 4.0 per cent by the June quarter 2024, although this would remain below pre-pandemic levels. National wage growth is expected to rise, with increases to the modern awards and minimum wage rate by the Fair Work Commission contributing. In year-ended terms, the RBA expects wage growth to increase from 3.6 per cent in June 2023 to 4.0 per cent in June 2024.

Inflation in Australia peaked in December 2022 at 7.8 per cent. It has since moderated to 5.4 per cent in September 2023, although this is still well above the RBA's target band of 2 to 3 per cent. The RBA expects inflation to decline to 4.0 per cent in year-ended terms by June 2024. Energy prices and labour costs are expected to contribute to price growth in the period ahead, although this is expected to be tempered by further easing of goods inflation.

INTERNATIONAL ECONOMIC CONDITIONS AND OUTLOOK

The global economy continues to recover from the effects of the COVID-19 pandemic and Russia's invasion of Ukraine. However, growth remains relatively slow and there are growing divergences among major economies. The International Monetary Fund (IMF) forecasts the global economy will expand by 2.9 per cent in 2024, slightly below its estimate for 2023 of 3.0 per cent. Overall, these forecasts are little changed since the *2023-24 Budget,* although global growth of around 3 per cent is low by historical standards. Policy tightening by major central banks, to contain high inflation, is a key reason for the relatively subdued growth outlook.

At the country level, forecasts for growth in China have been downgraded in both 2023 and 2024, as China continues to encounter challenges in its property sector, including falling dwelling investment, falling prices and declining confidence. The IMF suggests that problems in China's residential construction sector remain a major risk for the global outlook. By contrast, growth forecasts for the United States have been revised higher for both 2023 and 2024, reflecting resilient consumer spending and a tight labour market.

Inflation remains high globally but is easing, with inflation in 2023 forecast to be 6.9 per cent, down from a peak of 8.7 per cent in 2022. A fall in food and energy prices from their 2022 peaks, along with a recovery in global supply chains, has contributed to a decline in headline inflation in most countries. Nevertheless, the IMF has upgraded its forecast for global inflation in 2024 to 5.8 per cent, up from 4.9 per cent in its April forecasts. This upgrade largely reflects tight labour markets which have resulted in strong wages growth and higher services inflation.

RISKS TO THE VICTORIAN OUTLOOK

The risks to Victoria's economic outlook are greater than normal. In terms of upside risks, there could be further strength in population growth in the near term, driven by a larger than anticipated increase in net overseas migration. This would support economic activity and employment growth.

The outlook for consumer spending remains a significant source of uncertainty. Spending has been fairly resilient to date, despite higher interest rates. Consumer spending could be stronger than expected over the coming year, supported by rising dwelling prices, a strong labour market and still-elevated levels of household savings. On the downside, rises in interest rates, combined with ongoing high growth in consumer prices, could weigh on consumers more than expected, partly as these rises are yet to fully flow through to mortgage repayments. There are many borrowers with low fixed-rate mortgages still to roll over onto much higher variable rates over coming months. This could reduce spending among these cohorts, and an increased number of households may experience financial stress. More generally, as the economy slows and uncertainty about the economy and labour market increases, households may increase their precautionary savings and reduce their spending by more than expected. Appendix D *Sensitivity analysis* quantifies the economic and fiscal impacts of a downturn in the Victorian and Australian economies, driven by a greater than expected slowdown in consumer spending and weaker investment.

A further downside risk relates to the outlook for inflation. If inflation remains higher for longer than currently anticipated, this could lead to workers and businesses building higher inflation expectations into wage-bargaining and price-setting decisions. Such a scenario could lead the RBA to raise interest rates further or keep interest rates elevated for longer than expected. This would weigh on economic activity and employment growth.

Meanwhile, risks to the global economic outlook also appear tilted to the downside. In China, weaker than expected consumer spending and investment would weigh on the global economy and would likely lead to a decline in demand for Victorian exports. The ongoing conflict between Russia and Ukraine, and the conflict in the Middle East, have the potential to further destabilise global energy prices.

CHAPTER 3 – BUDGET POSITION AND OUTLOOK

- The *2023-24 Budget Update* outlines the changes in the Government's fiscal position by the end of the forward estimates compared with the *2023-24 Budget*.
- The Government continues to deliver on its four-step fiscal strategy to restore the state's finances following the COVID-19 pandemic, with employment well above its pre-pandemic levels and workforce participation rates at a near record high.
- The net cash flow from operating activities for the general government sector is forecast to be in surplus by $0.3 billion in 2023-24, increasing to $5.9 billion in 2026-27, demonstrating the Government's commitment to strong financial management.
- The net result from transactions for the general government sector is forecast to be in deficit by $3.5 billion in 2023-24, before improving to an estimated surplus of $1.1 billion in 2025-26. The operating surplus is then forecast to increase to $1.2 billion in 2026-27.
- Government infrastructure investment (GII) is expected to average $21.3 billion a year over the budget and forward estimates. This is an increase compared with an average of $19.6 billion in the *2023-24 Budget* and reflects an update in estimated investment largely due to additional funding for the North East Link program and associated Eastern Freeway Upgrade and M80 Ring Road Upgrade projects.
- Net debt is expected to be $135.5 billion at June 2024. Net debt is then forecast to be $177.8 billion by June 2027, an increase of $6.4 billion compared with the *2023-24 Budget*. The increase is largely driven by the increase in GII. As a proportion of GSP, net debt is projected to be 22.3 per cent at June 2024 and 25.1 per cent by June 2027.
- As outlined in the *2023-24 Budget*, a COVID Debt Repayment Plan, including a temporary COVID Debt Levy, has been established to offset the impact of COVID debt over the next 10 years.
- Interest expense as a share of total revenue is expected to average 7.4 per cent a year over the budget and forward estimates.
- The Government is on track to fully fund the state's unfunded superannuation liability by 2035.

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

It takes into account the financial impacts as at 22 November 2023 of all decisions that affect the financial statements, unless otherwise stated. This chapter also reconciles and explains any movements since the *2023-24 Budget* that affect the estimated net result from transactions.

GENERAL GOVERNMENT SECTOR

Overview

As first outlined in the *2020-21 Budget*, the Government developed a fiscal strategy to manage the extreme circumstances the state was facing and provide the foundations for recovery. It involved a four-step plan to support Victorians through the pandemic and to restore the budget over the medium term. The four-step plan provided a clear framework:

- **Step 1:** creating jobs, reducing unemployment and restoring economic growth
- **Step 2:** returning to an operating cash surplus
- **Step 3:** returning to operating surpluses
- **Step 4:** stabilising debt levels.

Recent economic indicators have shown the strategy is working. The Victorian economy has continued to perform well, with economic activity now above pre-pandemic levels.

As outlined in the *2022-23 Financial Report*, the Government achieved step two of the fiscal strategy with an operating cash surplus of $4.3 billion in 2022-23. This was an improvement of $1.4 billion compared with the $2.9 billion operating cash surplus forecast in the *2023-24 Budget*. The Government continues to forecast operating cash surpluses across the forward estimates with $0.3 billion in 2023-24 increasing to $5.9 billion in 2026-27.

The net result from transactions for the general government sector is forecast to be in deficit by $3.5 billion in 2023-24, before improving to an estimated surplus of $1.1 billion in 2025-26. The operating surplus is then forecast to increase to $1.2 billion in 2026-27.

Total revenue for the general government sector is expected to be $90.3 billion in 2023-24, before increasing to $93.5 billion in 2024-25. Revenue growth is expected to average 4.3 per cent a year over the forward estimates, reaching $102.6 billion in 2026-27.

General government sector expenditure in 2023-24 is expected to be $93.8 billion and grow by an average of 2.6 per cent a year over the forward estimates, reaching $101.4 billion in 2026-27.

Table 3.1: General government fiscal aggregates

	Unit of measure	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
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(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.

As outlined in the *2023-24 Budget*, the Government is implementing strategies to improve the state's financial position and manage the increase in debt in a sustainable manner. This includes the temporary COVID Debt Levy to offset the cost of measures introduced by the Government in response to the pandemic, and taking steps to improve the efficiency and effectiveness of departmental spending and ensure expenditure is directed to key service delivery priorities.

Government infrastructure investment (GII) is expected to average $21.3 billion a year over the budget and forward estimates, reflecting the continuation of Victoria's Big Build. This is an increase compared with an average of $19.6 billion in the *2023-24 Budget*. The increase in GII reflects an update in estimated investment largely due to additional funding for the North East Link program and associated Eastern Freeway Upgrade and M80 Ring Road Upgrade projects as set out in Appendix A *Specific policy initiatives affecting the budget position*.

Net debt is expected to be $135.5 billion at June 2024. Net debt is then forecast to be $177.8 billion by June 2027, an increase of $6.4 billion compared with the *2023-24 Budget*. The increase is largely driven by the increase in GII. As a proportion of GSP, net debt is projected to be 22.3 per cent at June 2024 and 25.1 per cent by June 2027.

Interest expense as a share of total revenue remains manageable and is expected to average 7.4 per cent a year over the budget and forward estimates.

BUDGET AND FORWARD ESTIMATES OUTLOOK

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

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

	2023-24 revised	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Revenue and income from transactions				
Taxation	35 774	37 855	39 645	41 562
Dividends, TER and interest [b]	4 011	2 535	2 355	2 412
Sales of goods and services	6 408	6 675	6 664	6 753
Grants	40 533	43 241	46 228	48 062
Other revenue and income	3 619	3 214	3 327	3 846
Total revenue and income from transactions	**90 346**	**93 519**	**98 220**	**102 635**
% change	*6.6*	*3.5*	*5.0*	*4.5*
Expenses from transactions				
Employee expenses	34 816	35 966	37 035	38 653
Superannuation [c]	4 391	4 389	4 433	4 510
Depreciation	4 897	5 037	5 348	5 557
Interest expense	5 662	6 580	7 741	8 793
Grant expense	16 995	17 124	16 880	16 900
Other operating expenses	27 055	25 445	25 720	26 991
Total expenses from transactions	**93 816**	**94 541**	**97 158**	**101 403**
% change	*0.3*	*0.8*	*2.8*	*4.4*
Net result from transactions – Net operating balance	**(3 470)**	**(1 022)**	**1 062**	**1 232**
Total other economic flows included in net result [d]	**(567)**	**(329)**	**(209)**	**(262)**
Net result	**(4 037)**	**(1 351)**	**853**	**970**

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 (TER) 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 forecast to reach $90.3 billion in 2023-24 and grow by an average of 4.3 per cent per year over the forward estimates, reaching $102.6 billion in 2026-27.

Taxation

Taxation revenue is forecast to be $35.8 billion in 2023-24 and grow by an average of 5.1 per cent per year over the forward estimates. Growth in taxation revenue is primarily driven by growth in the state's three largest tax lines – payroll tax, land tax and land transfer duty.

- Revenue from taxes on employers' payroll and labour force, inclusive of payroll tax, the COVID Debt Levy – Payroll 10m+, and the Mental Health and Wellbeing Levy, is forecast to be $10.3 billion in 2023-24, and is expected to grow by an average of 4.9 per cent per year over the forward estimates. Aggregate employment and hours worked remain healthy, supported by a strong labour market and population growth. Workforce participation and the share of the population with a job have both remained high, and above-trend nominal wages growth is providing further support to the near-term outlook.
- Revenue from land taxes, comprising land tax and the COVID Debt Levy – Landholdings, is expected to be $7.5 billion in 2023-24. Land tax revenue in 2023-24 reflects an expected moderation in the growth of land values, consistent with the Valuer-General of Victoria's (VGV's) revaluation outcomes for 2022. Land taxes are expected to grow by an average of 5.0 per cent per year over the forward estimates, with the rebound in residential property values and cooling of commercial and industrial property market conditions across 2023 flowing through to land tax revenue in 2024-25.
- Revenue from land transfer duty is forecast to be $7.5 billion in 2023-24, which is a 14.6 per cent year-on-year decline following a 15.7 per cent fall in 2022-23. The forecast decline in revenue is driven by a fall in both settlement volumes and average duty per transaction, which are impacted by higher borrowing costs and subdued sentiment. Victorian dwelling prices are expected to grow at below trend rates over 2023 and 2024, as transaction activity also remains below historical averages. Land transfer duty revenue is forecast to increase by an average of 7.9 per cent per year over the forward estimates, reflecting strong longer-term fundamental growth drivers.
- Revenue from gambling taxes is forecast to be $2.6 billion in 2023-24, with revenue expected to grow by an average of 0.9 per cent per year over the forward estimates.
- Motor vehicle tax revenue is forecast to grow to $3.4 billion in 2023-24, reflecting indexation of registration fees and continued strength in new vehicle sales in the near term. Motor vehicle tax revenue is expected to increase by an average of 5.5 per cent per year over the forward estimates. As a result of the recent High Court decision in *Vanderstock & Anor v State of Victoria* [2023], forecast revenue relating to the Victorian zero and low emission vehicles road-user charge has been removed from the estimates.
- Insurance tax revenue is expected to grow to $2.0 billion in 2023-24, reflecting strong premium growth across most insurance products. Over the forward estimates, growth is expected to average 4.9 per cent per year.

Dividends, income tax equivalent and interest

Dividends and income tax equivalent revenue is projected to be $2.2 billion in 2023-24 and reduce to $1.3 billion by 2026-27.

Note 4.2.2 of Chapter 4 *Estimated Financial Statements and notes* contains further details of dividends and income tax equivalent revenue by sector.

Interest revenue is received on the cash and deposits held by the Government. Total interest is expected to increase to $1.8 billion in 2023-24 due to higher balances estimated to be maintained in the Centralised Banking System, increased interest rate assumptions, and estimated interest revenue from the Victorian Future Fund. Interest revenue is then forecast to moderate to $1.2 billion by 2026-27.

Sales of goods and services

Revenue generated by the sales of goods and services is expected to increase to $6.4 billion in 2023-24 and grow by an average of 1.8 per cent a year over the forward estimates, reaching $6.8 billion in 2026-27.

Grants

Total grant revenue is expected to be $40.5 billion in 2023-24 and increase by an average of 5.8 per cent a year over the forward estimates, reaching $48.1 billion in 2026-27.

Victoria's GST revenue is forecast to be $19.9 billion in 2023-24, reflecting forecast growth in the national GST pool following strong growth in 2022-23. Over the forward estimates, GST revenue is expected to grow by an average 6.9 per cent per year, driven largely by increases in Victoria's no-worse-off relativity. This reflects ongoing strength in commodity prices and expected population share growth from an increase in net overseas migration.

Other revenue and income

Other revenue and income includes fines, royalties, donations and gifts, assets received free-of-charge and other miscellaneous revenues. Other revenue is expected to be $3.6 billion in 2023-24 and is forecast to grow by an average of 2.0 per cent a year over the forward estimates.

Chapter 4 *Estimated financial statements and notes* contains further details of expected movements in the major categories of general government revenue.

Expenses outlook

Total expenses for the general government sector are forecast to reach $93.8 billion in 2023-24 and increase by an average of 2.6 per cent a year over the forward estimates to $101.4 billion in 2026-27.

Moderation of expenditure growth over the forward estimates supports the Government's fiscal strategy to achieve an operating surplus by 2025-26 and beyond.

- Employee expenses (including superannuation) are forecast to be $39.2 billion in 2023-24. Average growth over the forward estimates of 3.3 per cent a year is forecast, consistent with the requirements of service delivery and enterprise bargaining agreements.
- Depreciation expense is forecast to grow to $4.9 billion in 2023-24 and by an average of 4.3 per cent a year over the forward estimates to $5.6 billion by 2026-27. Growth in depreciation is broadly in line with continuing high levels of investment in infrastructure.
- Interest expense is forecast to grow to $5.7 billion in 2023-24, and to $8.8 billion by 2026-27, as the Government increases borrowings to continue significant levels of infrastructure investment under Victoria's Big Build. Interest expense as a share of total revenue is expected to average 7.4 per cent a year over the budget and forward estimates.
- Grant expenses are forecast to fall to $17.0 billion in 2023-24, partly due to the bring forward from 2023-24 into 2022-23 of Commonwealth grants to local governments, as well as reflecting the tapering of pandemic support initiatives. Grant expenses are then expected to decline by an average of 0.2 per cent per year across the forward estimates.
- Other operating expenses are forecast to fall to $27.1 billion in 2023-24 as expenditure commitments attributable to the pandemic response reduce. Other operating expenses are then expected to decline by an average of 0.1 per cent per year across the forward estimates.

Chapter 4 *Estimated financial statements and notes* contains further details of major components of expenditure incurred by the state towards the delivery of services.

Reconciliation of estimates to the *2023-24 Budget*

Relative to the *2023-24 Budget*, the net result from transactions has been revised up by $0.5 billion in 2023-24 (Table 3.3).

Table 3.3: Reconciliation of estimates to the *2023-24 Budget* [(a)] **($ million)**

	2023-24 revised	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Net result from transactions: *2023-24 Budget*	**(4 017)**	**(1 060)**	**1 039**	**1 204**
Policy variations				
Revenue policy initiatives	..	44	111	111
Output policy initiatives [(b)]	(1 049)	(787)	(664)	(474)
	(1 049)	**(743)**	**(553)**	**(363)**
Economic/demographic variations				
Taxation	903	1 133	1 037	1 038
Investment income [(c)]	910	366	37	35
	1 813	**1 499**	**1 073**	**1 073**
Commonwealth grant variations				
General purpose grants	29	549	956	936
Specific purpose grants [(d)]	224	(391)	(182)	406
	253	**158**	**774**	**1 342**
Administrative variations				
Contingency offset for new policy initiatives [(e)]	..	..	..	..
Other administrative variations	(470)	(875)	(1 271)	(2 024)
	(470)	**(875)**	**(1 271)**	**(2 024)**
Total variation since *2023-24 Budget*	**547**	**38**	**23**	**28**
Net result from transactions: *2023-24 Budget Update*	**(3 470)**	**(1 022)**	**1 062**	**1 232**

Notes:
(a) *Figures in this table are subject to rounding to the nearest million and may not add up to totals.*
(b) *This is represented in Table 3.4 as the* 2023-24 Budget Update *output policy initiatives.*
(c) *Comprises dividends and income tax and rate equivalent revenue.*
(d) *Reflects the change in grant revenue as per Note 4.2.4 of Chapter 4 less associated expense movements.*
(e) *Represents releases from the funding not allocated to specific purposes contingency included in the* 2023-24 Budget Update*. Further information on total output contingencies can be found at Note 4.3.5 of Chapter 4* Estimated Financial Statements and notes*.*

Policy variations

Policy variations reflect specific initiatives by the Government that will have a fiscal impact over the next four years and are related to a new policy or represent a change in the Government's existing policy position since the *2023-24 Budget*.

The *2023-24 Budget Update* funds $2.6 billion in output initiatives over the four years to 2026-27. Table 3.4 shows the impact of the new output initiatives since the previous publication.

Details of specific new output and revenue policy initiatives are contained in Appendix A *Specific policy initiatives affecting the budget position*.

Table 3.4: Net impact of new output initiatives since the *2023-24 Budget* [(a)] ($ million)

	2023-24 revised	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
New output initiatives	**1 079**	**704**	**540**	**257**
Less:				
Reprioritisations and revenue offsets [(b)]	..	38	76	76
Adjustments [(c)]	30	(121)	(200)	(292)
Savings [(d)]	..	..	..	..
New net output policy initiatives	**1 049**	**787**	**664**	**474**
Less: Contingency offset for new policy [(e)]	..	..	..	..
Net impact	**1 049**	**787**	**664**	**474**

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) *Includes output savings only.*
(e) *Represents releases from the funding not allocated to specific purposes contingency associated with 2023-24 Budget Update new output initiatives. Further information on total output contingencies can be found at Note 4.3.5 of Chapter 4* Estimated Financial Statements and notes.

Economic and demographic variations

Since the *2023-24 Budget*, Victoria's taxation revenue has been revised up by $0.9 billion in 2023-24, and up by $1.1 billion in 2024-25 and $1.0 billion in 2025-26 and 2026-27 respectively, largely due to increases to payroll tax and land tax, reflecting Victoria's strong labour market and upgrades to land revaluation rates.

Investment income has also been revised upwards by $0.9 billion in 2023-24 and $0.4 billion in 2024-25, mainly driven by a reclassification of payments from the Transport Accident Commission (TAC) from grants to dividends.

Commonwealth grants variations

Commonwealth general purpose grants (or GST grants) have been revised up by $0.5 billion in 2024-25, $1.0 billion in 2025-26, and $0.9 billion in 2026-27 compared with the *2023-24 Budget*. These changes largely reflect an improved outlook for Victoria's no-worse-off GST sharing relativity driven by increases in other states' revenue raising capacities, including ongoing strength in commodities prices leading to elevated royalty revenues in mining states. This was supported by a minor upgrade to forecast population share growth.

Net changes to specific purpose grants have improved the operating result by $0.2 billion in 2023-24, and then decreased the operating result by $0.4 billion in 2024-25 and $0.2 billion in 2025-26 before improving the operating result again by $0.4 billion in 2026-27 compared with the *2023-24 Budget*. The movements primarily reflect the state's rephasing of infrastructure grant revenue expected from the Commonwealth based on the Commonwealth Infrastructure Investment Program review.

Administrative variations

Other administrative variations are expected to decrease the operating result by $0.5 billion in 2023-24, $0.9 billion in 2024-25, $1.3 billion in 2025-26 and $2.0 billion in 2026-27 compared with the *2023-24 Budget*. The variations since the *2023-24 Budget* include:

- an increase in interest expense since the *2023-24 Budget* mainly due to the broader increase in the Treasury Corporation of Victoria (TCV) bond yields
- adjustments to the provisions for decisions made but not yet allocated that are outlined in Note 4.3.5 in Chapter 4 *Estimated Financial Statements and notes*
- reclassifying a portion of grant revenue from the TAC as dividends.

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 $21.3 billion a year over the budget and forward estimates.

This includes investments in health, housing, education, transport and cultural precincts, as well as major productivity-enhancing projects such as the North East Link, the Metro Tunnel, the West Gate Tunnel, the Suburban Rail Loop and the Level Crossing Removal Program.

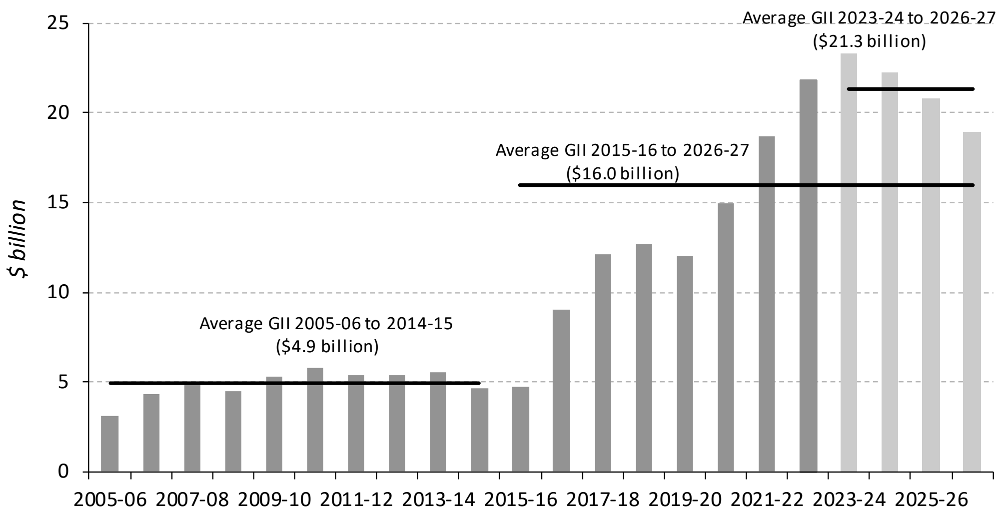
The Commonwealth review of the Infrastructure Investment Program resulted in uncertainty in the *2023-24 Budget* for projects that may have been subject to review. In some cases, procurement for projects was paused pending the review outcomes. As a result of this uncertainty, the *2023-24 Budget* revised the expected capital expenditure of certain projects. This meant that the state could not recognise Commonwealth infrastructure grant revenue in line with the Commonwealth schedule for projects subject to the review. As a result, the state revised down the expected Commonwealth grants for some projects in the budget and forward estimates in line with accounting standards. Final outcomes will be subject to confirmation from the Commonwealth following release of their *2023-24 Mid-Year Economic and Fiscal Outlook*.

The increase in GII compared with the *2023-24 Budget* reflects an update in estimated investment to reflect additional funding for the North East Link program and associated Eastern Freeway Upgrade and M80 Ring Road Upgrade projects as set out in Appendix A *Specific policy initiatives affecting the budget position*.

The Government continues to deliver capital investments aimed at supporting jobs and improving productivity and the quality of public service delivery. New investment focuses on delivering the Government's election commitments alongside existing projects.

Appendix A *Specific policy initiatives affecting the budget position* details the specific new asset initiatives.

Chart 3.1: 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 $135.5 billion at June 2024. Net debt is then forecast to be $177.8 billion by June 2027, an increase of $6.4 billion compared with the *2023-24 Budget,* largely driven by the increase in GII.

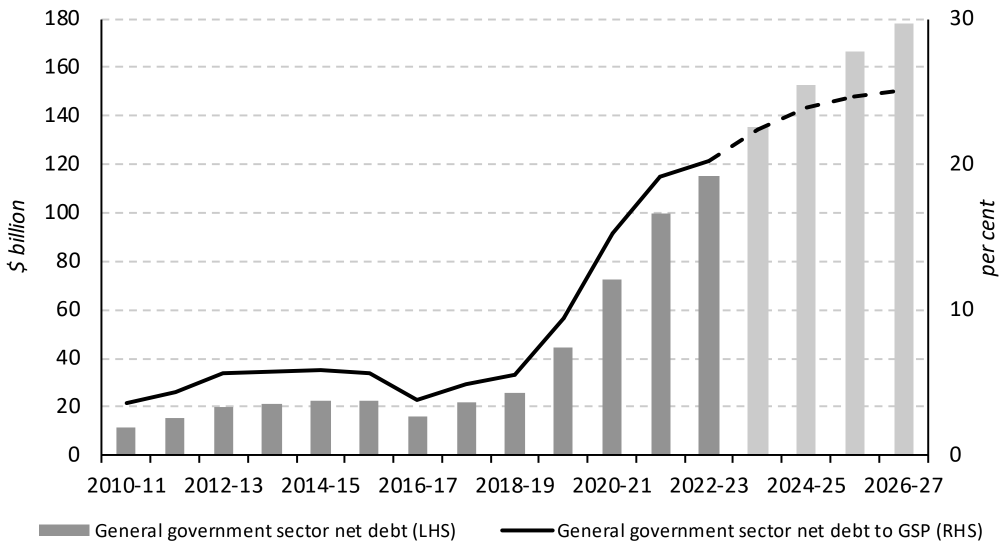
As a proportion of GSP, net debt is projected to increase from 22.3 per cent in June 2024 to 25.1 per cent by June 2027.

Expenditure in response to the COVID-19 pandemic was targeted to allow required services and economic support to assist recovery while maintaining steps two and three of the fiscal strategy.

Throughout the pandemic, the Government prioritised the use of its balance sheet to support the Victorian community and economy. This approach was consistent with stimulus approaches elsewhere in Australia and around the world.

Stabilising net debt as a percentage of GSP – the last step in the Government's fiscal strategy – is an important medium-term objective for the Government. Chart 3.2 outlines the movements in general government net debt levels and the net debt to GSP ratio since 2010-11. It highlights the impact of the pandemic with debt rising across the three years from 2019-20.

Chart 3.2: General government net debt to GSP



The implementation of the COVID Debt Repayment Plan in the *2023-24 Budget* is designed to take the next step in improving the state's financial position. The plan recognises that the COVID debt was incurred for essential short term emergency response measures that involved one-off expenditure. By offsetting the impact of COVID debt, the plan ensures the budgetary impact of such one-off expenditures will be balanced over the longer-term budgetary and economic cycle. Once completed, the plan will mean that the state's balance sheet is returned to investments that generate productive capacity enhancing infrastructure and programs, which produce long-term economic and financial benefits to the state.

The Victorian Future Fund (the Fund) was established by the Government to support the state's debt stabilisation strategy. It was established using proceeds from the VicRoads Modernisation joint venture and will initially serve to offset the impact of the COVID debt.

The Fund is managed by the Victorian Funds Management Corporation, the state's specialist investment agency, by implementing a diversified investment strategy designed to deliver returns that exceed the savings that would otherwise have been achieved. These excess returns are expected to, over time, improve the state's operating result and net debt position.

The application of cash resources for the general government sector (as shown in Table 3.5) outlines the annual movements in net debt.

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

	2023-24 revised	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Net result from transactions	**(3 470)**	**(1 022)**	**1 062**	**1 232**
Add back: Operating cash flows not recognised in the net operating balance [(b)]	3 779	4 664	5 004	4 670
Net cash flows from operating activities	**309**	**3 642**	**6 066**	**5 902**
Less: Total net investment in fixed assets [(c)]	**19 250**	**20 066**	**18 688**	**17 359**
Surplus/(deficit) of cash from operations after funding net investment in fixed assets	**(18 941)**	**(16 424)**	**(12 622)**	**(11 458)**
Less:				
Leases and service concession arrangements [(d)]	2 684	1 215	775	531
Other movements	(1 202)	(161)	(202)	(315)
Decrease/(increase) in net debt	**(20 423)**	**(17 478)**	**(13 196)**	**(11 673)**

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, the Metro Tunnel, the new Footscray Hospital, the new Melton Hospital and the Frankston Hospital Redevelopment.

Unfunded superannuation liability

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

FISCAL RISKS

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

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

General fiscal risks

The risks to Victoria's economic outlook are greater than normal. In terms of upside risks, there could be further strength in population growth in the near term, driven by a larger than anticipated increase in net overseas migration. This would support economic activity and employment growth.

The outlook for consumer spending remains a significant source of uncertainty. Spending has been fairly resilient to date, despite higher interest rates. Consumer spending could be stronger than expected over the coming year, supported by rising house prices, a strong labour market and still-elevated levels of household savings. On the downside, the rise in interest rates, combined with ongoing high growth in consumer prices, could weigh on consumers more than is expected, partly as these rises are yet to fully flow through to mortgage repayments. There are many borrowers with low fixed-rate mortgages still to roll over onto much higher variable rates over coming months. This could reduce spending among these cohorts, and an increased number of households may experience financial stress. More generally, as the economy slows and uncertainty about the economy and labour market increases, households may increase their precautionary savings and reduce their spending by more than expected. Appendix D *Sensitivity analysis* quantifies the economic and fiscal impacts of a downturn in the Victorian and Australian economies, driven by a greater than expected slowdown in consumer spending and weaker investment.

A further downside risk relates to the outlook for inflation. If inflation remains higher for longer than currently anticipated, this could lead to workers and businesses building higher inflation expectations into wage-bargaining and price-setting decisions. Such a scenario could lead the RBA to raise interest rates further or keep interest rates elevated for longer than expected. This would weigh on economic activity and employment growth.

Meanwhile, risks to the global economic outlook also appear tilted to the downside. In China, weaker than expected consumer spending and investment would weigh on the global economy and would likely lead to a decline in demand for Victorian exports. The ongoing conflict between Russia and Ukraine, and the conflict in the Middle East, have the potential to further destabilise global energy prices.

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.

As outlined above, the outlook for consumer spending remains a significant source of uncertainty. Risks remain heightened that further downward pressure on household consumption could impact state taxation revenue.

In contrast, Victoria's tight labour market, with elevated population and wage growth may bolster the outlook for taxes on employers' payroll and labour force. Employment conditions have remained strong, and unemployment remains below 4 per cent, which hasn't happened in nearly 50 years. Stronger employment and higher than expected wages growth could bolster household income, and household savings buffers provide an upside risk that consumer spending, in aggregate, holds up better than expected over the coming year.

Property-related taxes

Revenue from property-based taxes, is subject to unique risks and has historically been volatile as property markets can exhibit large cycles typically related to changes in interest rates and sentiment.

Property prices and transaction volumes continue to face pressure from restrictive monetary policy, as high borrowing costs limit housing lending and suppress sentiment. Strong population growth and a tight labour market have supported the property market, contributing to a gradual recovery that began in early 2023. However, tight credit conditions are expected to persist throughout 2023-24, presenting a risk to revenue from land transfer duty in the near term and land tax in the medium term. Elevated interest rates could also have greater impacts than expected on the labour market, and in turn pose risks to buyer demand.

In non-residential land valuations, the tightening credit conditions have depressed sales volumes, with the subdued sentiment causing delays to large transactions throughout 2023. There is uncertainty about how prices for non-residential properties will evolve while transaction volumes remain low, which will affect the trajectory of future land valuations and land taxes. Commercial property conditions present a further risk to the revenue outlook, with the office sector facing the largest threat of devaluation given high vacancy rates, particularly in the Melbourne CBD.

Interest expenses

The state's debt portfolio is made up predominantly of fixed interest debt which means 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 the 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. Wages growth is primarily driven by enterprise bargaining agreements, which are subject to the Government's Wages Policy. This was adjusted in the *2023-24 Budget* to better reflect the current economic context, allowing a 3 per cent per annum increase to wages (up from 1.5 per cent), plus a limited cash payment. 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 core government services.

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

Capital program risks

The Government continues to deliver capital investments aimed at supporting jobs and improving productivity and the quality of public service delivery. New investments focus on the Government's election commitments alongside existing projects in delivery.

The Commonwealth Government announced a review of its Infrastructure Investment Program. The Commonwealth Government is engaging the states and territories on the outcomes and next steps as a result of the review. Movements since the *2023-24 Budget* reflect the state's rephasing of infrastructure grant revenue expected from the Commonwealth. Final outcomes will be subject to confirmation from the Commonwealth following release of their *2023-24 Mid-Year Economic and Fiscal Outlook*.

Victoria's Big Build 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. The Government is implementing strategies to respond to market constraints. Initiatives such as free TAFE, Big Build apprenticeships and wider use of modern construction methods such as offsite and modular construction seek to improve productivity and address skills shortages.

Specific fiscal risks

Commonwealth schools funding

In June 2017, the Commonwealth Government passed amendments to the *Australian Education Act 2013* to implement a new national school funding model. In mid-2019, Victoria signed the National School Reform Agreement and an accompanying bilateral agreement, which will nominally expire on 31 December 2024 following a one-year extension. Estimates of funding required to acquit the Schooling Resource Standard target each year are subject to indexation and based on student number and profile projections.

Expenditure targets are finalised towards the end of, or after, each school year based on actual student data, plus national price indexes, creating a risk that the Victorian and Commonwealth targets differ from the funding allocated that year.

Commonwealth health funding

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 currently capped at a growth rate of 6.5 per cent compared with the previous year's contribution.

Victoria's public hospitals continue to experience significant cost pressures related to ongoing impacts of COVID-19, including the costs of furloughing staff, personal protective equipment, and broad infection control measures. Previously, additional costs related to COVID-19 were shared between the Commonwealth and states and territories under the National Partnership on COVID-19 Response.

With the ceasing of the National Partnership agreement on 31 December 2022, the Commonwealth's contributions to COVID-19 cost pressures are limited to annual price increases as determined by the Independent Health and Aged Care Pricing Authority (IHACPA). IHACPA has made assumptions to determine the National Efficient Price (NEP). These assumptions may dampen the true costs of healthcare delivery, increasing the risk that Commonwealth funding will not be sufficient to meet the 45 per cent share of COVID-19 costs. Further, should any large-scale public health response be required for a future COVID-19 outbreak, there is currently no funding mechanism for the Commonwealth to contribute to the response.

Victorian contribution to disability funding

The bilateral agreement outlining Victoria's contribution to the National Disability Insurance Scheme (NDIS) nominally expired in June 2023. Under the agreement, Victoria's contributions have been indexed at 4 per cent annually since the agreement commenced in July 2019, with a total contribution of $2.9 billion in 2022-23. Funding continues to be indexed at 4 per cent.

On 6 December 2023, National Cabinet agreed to adjust state and territory NDIS escalation rates increasing from 4 per cent in line with scheme growth, capped at 8 per cent, commencing 1 July 2028. National Cabinet also agreed to design and fund new foundational supports for people with a disability through funding agreements with additional costs yet to be determined and shared 50-50.

Further, the Commonwealth has indicated that it may not continue reimbursing states and territories from 2024-25 for their NDIS costs under the National Partnership on DisabilityCare Australia Fund (DCAF) Payments. Victoria's payment from the Commonwealth will be $280 million in 2023-24. Both the bilateral agreement and continuation of the DCAF payments are contingent on the outcomes of the NDIS Review.

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.

The outlook for the national GST pool has improved moderately due to resilience in nominal consumption activity, despite interest rate rises. Nominal consumption has been supported by strong labour market outcomes, an elevated population and price growth. Key risks to the profile include uncertainty about the extent to which these factors can continue to bolster nominal consumption against the impact of higher interest rates. Further uncertainty in the national GST pool forecast is driven by the evolution of post-pandemic spending patterns, which also influence the proportion of consumption subject to GST.

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 sensitive to a broad range of factors, including demographics, infrastructure needs, developments in property markets and global commodity prices (particularly for iron ore, thermal coal and coking coal). Uncertainty in these factors remains heightened as state economies continue to recover from the pandemic, posing a risk to Victoria's GST revenue.

There is further uncertainty in population share as net international migration into Australia is at elevated levels. Victoria has traditionally received a greater share of international migration than its population share and this is likely to increase Victoria's population growth compared with other states, thus increasing Victoria's share of GST.

Commonwealth no-worse-off guarantee for GST entitlement

In 2018, the Commonwealth Government unilaterally changed the GST distribution system by legislating to end full equalisation of GST entitlements for states and territories. The Commonwealth legislation provided that 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. This no-worse-off guarantee is only legislated until the end of 2026-27, posing a fiscal risk to states and territories. On 6 December 2023, National Cabinet agreed to extend the no-worse-off guarantee for three years until 2029-30.

In its 2023-34 Budget, the Commonwealth estimated that Victoria would be $1.4 billion worse off in 2023-24 without the guarantee. Victoria is, like most states, likely to be worse off unless the Commonwealth Government makes the no-worse-off guarantee permanent.

Victoria continues to work with other state governments and the Commonwealth to ensure Victoria receives its fair share of GST.

NON-FINANCIAL PUBLIC SECTOR

The non-financial public sector (NFPS) consolidates the public non-financial corporation (PNFC) and general government sectors. The PNFC sector is comprised of entities providing services that are primarily funded from user charges and fees. The largest PNFCs provide water, housing, and transport services.

Please note that the sum of the general government sector and PNFC sector results may not equal the results shown for the NFPS due to inter-sector transfers.

Summary operating statement

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

	2023-24 revised	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Revenue and income from transactions				
Taxation	35 287	37 529	39 311	41 219
Dividends, income tax equivalent and interest [(b)]	3 164	1 661	1 434	1 498
Sales of goods and services	13 500	14 215	14 331	15 331
Grants	40 600	43 282	46 261	48 093
Other revenue and income	4 354	3 993	4 147	4 713
Total revenue and income from transactions	**96 904**	**100 680**	**105 484**	**110 855**
% change [(c)]	*6.2*	*3.9*	*4.8*	*5.1*
Expenses from transactions				
Employee expenses	36 611	37 701	38 739	40 409
Superannuation [(d)]	4 591	4 599	4 652	4 736
Depreciation	8 040	8 535	8 925	9 472
Interest expense	6 202	7 245	8 510	9 676
Grant expense	15 346	15 512	15 374	15 441
Other operating expenses	31 371	29 562	29 673	31 596
Total expenses from transactions	**102 162**	**103 155**	**105 873**	**111 331**
% change [(c)]	*1.1*	*1.0*	*2.6*	*5.2*
Net result from transactions	**(5 258)**	**(2 474)**	**(389)**	**(476)**
Total other economic flows included in net result	(585)	(337)	18	(288)
Net result	**(5 843)**	**(2 812)**	**(371)**	**(764)**

Notes:
(a) *This is a summary operating statement. The comprehensive operating statement is presented in Chapter 5. 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) *The revenue and expense growth for 2023-24 is based on published figures in the* 2022-23 Financial Report.
(d) *Comprises superannuation interest expense and other superannuation expenses.*

The net result from transactions of the NFPS is projected to improve from a deficit of $5.3 billion in 2023-24 to a deficit of $476 million by 2026-27. This is largely driven by the net result from transactions for the general government sector which is projected to improve, from a deficit of $3.5 billion in 2023-24 to a surplus of $1.2 billion by 2026-27, due to revenue, on average, growing at a faster rate than expenditure over the budget and forward estimates.

The net result from transactions of the PNFC sector is projected to improve, from a deficit of $394 million in 2023-24 to a surplus of $332 million in 2026-27. This reflects the sector's, and broader economy's, recovery from the adverse impact of the COVID-19 pandemic. On average, over the budget and forward estimates, metropolitan water authorities are projected to report an average surplus of $246 million a year.

Application of cash resources

The NFPS is forecast to record an operating cash flow surplus of $1 billion in 2023-24 before increasing to $8 billion in 2025-26 and then falling slightly to $7.7 billion in 2026-27. By 2026-27, the NFPS operating cash flow surplus is projected to fund 36.9 per cent of the NFPS infrastructure program with the remainder funded by borrowings.

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

	2023-24 revised	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Net result from transactions	(5 258)	(2 474)	(389)	(476)
Add back: operating cash flows not recognised in the net operating balance [(b)]	6 270	7 533	8 379	8 174
Net cash flows from operating activities	**1 012**	**5 058**	**7 990**	**7 698**
Less: Total net investment in fixed assets [(c)]	**24 376**	**23 523**	**22 532**	**20 844**
Surplus/(deficit) of cash from operations after funding net investments in fixed assets	**(23 364)**	**(18 465)**	**(14 542)**	**(13 146)**
Less:				
Leases and service concession arrangements [(d)]	3 082	2 051	1 326	1 612
Other movements	572	91	(115)	(263)
Decrease/(increase) in net debt	**(27 018)**	**(20 607)**	**(15 753)**	**(14 495)**

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, movements in the superannuation liability and liability of employee benefits, and the progressive unwinding of the grant of a right to the operator liability.

(c) Includes total purchases of plant, property and equipment, and 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. This also includes financial liabilities relating to public private partnerships including the High Capacity Metro Trains, the Metro Tunnel, the new Footscray Hospital, the new Melton Hospital, the Frankston Hospital Redevelopment, North East Link – Primary Package (Tunnels), and the Homes Victoria Ground Lease Model Projects 1 and 2.

For the NFPS, the total net investment in fixed assets is projected to average $22.8 billion a year over the budget and forward estimates and includes:

- investment in transport infrastructure and rolling stock to meet patronage growth and improve network performance such as the new regional and metropolitan trains, Next Generation Trams, Metro Tunnel infrastructure works and stabling and maintenance facilities for rolling stock
- investment to deliver the North East Link – Primary Package (Tunnels) by the State Tolling Corporation
- various water and sewer related infrastructure projects, such as the Western Treatment Plant 5W NRP Project, Water for a growing North, rollout of digital water meters, South Melbourne Sewerage Capacity Upgrade, an upgrade of the Gisborne Recycled Water Plant and the Goulburn Murray Water's Water Efficiency project.

NON-FINANCIAL PUBLIC SECTOR NET DEBT AND NET FINANCIAL LIABILITIES

Table 3.8 details NFPS net debt and financial liabilities.

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

	2023-24 revised	2024-25 estimate	2025-26 estimate	2026-27 estimate
Assets				
Cash and deposits	13.4	13.9	14.8	15.5
Advances paid	0.4	0.3	0.3	0.3
Investments, loans and placements	14.4	16.0	17.8	20.0
Total	**28.2**	**30.2**	**32.9**	**35.8**
Liabilities				
Deposits held and advances received	1.6	1.6	1.6	1.5
Borrowings	187.2	209.8	228.2	245.7
Total	**188.8**	**211.4**	**229.8**	**247.2**
Net debt [b]	**160.5**	**181.1**	**196.9**	**211.4**
Superannuation liability	17.2	17.3	17.6	17.7
Net debt plus superannuation liability	**177.7**	**198.4**	**214.5**	**229.1**
Other liabilities (net) [c]	40.2	39.0	38.4	37.3
Net financial liabilities [d]	**217.9**	**237.4**	**252.9**	**266.4**
				(per cent)
Net debt to GSP [e]	26.5	28.3	29.3	29.8
Net debt plus superannuation liability to GSP [e]	29.3	31.0	31.9	32.3
Net financial liabilities to GSP [e]	35.9	37.1	37.6	37.5
Net debt plus superannuation liability to revenue [f]	183.4	197.1	203.3	206.6

Notes:
(a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.
(b) Net debt is the sum of borrowings, deposits held and advances received less the sum of cash and deposits, advances paid, and investments, loans and placements.
(c) Other liabilities include other employee entitlements and provisions and other non-equity liabilities, less other non-equity financial assets.
(d) Net financial liabilities is total liabilities less financial assets (excluding investments in other sector entities).
(e) The ratios to GSP may vary over time due to revisions to the Australian Bureau of Statistics GSP data.
(f) The sum of NFPS net debt plus the superannuation liability as a proportion of NFPS total operating revenue.

Due to ongoing investments in infrastructure projects over the budget and forward estimates, primarily in the general government sector, NFPS net debt is projected to increase to $211.4 billion by 2026-27. Given this, the NFPS net debt to GSP ratio is projected to increase from 26.5 per cent in 2023-24 to 29.8 per cent in 2026-27.

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

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

	2023-24 revised	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Operating cash flow surplus / (deficit) to revenue	1.0	5.0	7.6	6.9
Gross debt to revenue [(a)]	194.8	209.9	217.8	223.0
Interest expense to revenue	6.4	7.2	8.1	8.7

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

The operating cash flow surplus to revenue ratio indicates the proportion of cash generated from operations that can be used to fund infrastructure. Due to improvements in the general government sector operating cash position, this ratio is forecast to increase from 1 per cent in 2023-24 to 6.9 per cent by 2026-27.

The ratio of gross debt to revenue, which indicates the overall debt burden, is estimated to be 194.8 per cent in 2023-24 and increase to 223 per cent in 2026-27.

The NFPS interest expense to revenue ratio, which is a measure of the state's debt service burden, is also expected to increase over the budget and forward estimates period. This increase is driven by increases in debt and the higher interest rate environment.

STATE OF VICTORIA

The State of Victoria financial results are obtained by consolidating the public financial corporations (PFC) sector with the NFPS. PFCs can be categorised into two broad types: those that provide services to the general public and businesses (such as WorkSafe Victoria, the Transport Accident Commission, Breakthrough Victoria and State Trustees Limited), and those that predominantly provide financial services to other government entities (such as the Victorian Funds Management Corporation, Treasury Corporation of Victoria and the Victorian Managed Insurance Authority).

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

	2023-24 revised	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Revenue and income from transactions				
Taxation	35 258	37 499	39 280	41 188
Dividends and interest	4 551	4 152	4 380	5 028
Sales of goods and services	19 632	20 609	21 020	22 327
Grants	40 436	43 108	46 025	47 205
Other revenue and income	4 377	4 016	4 171	4 737
Total revenue and income from transactions	**104 254**	**109 384**	**114 876**	**120 486**
% change [(b)]	*5.9*	*4.9*	*5.0*	*4.9*
Expenses from transactions				
Employee expenses	36 362	37 448	38 477	40 143
Superannuation [(c)]	4 646	4 656	4 711	4 796
Depreciation	8 124	8 616	8 996	9 536
Interest expense	6 665	7 704	8 988	10 171
Grant expense	15 358	15 609	15 403	15 464
Other operating expenses	42 616	41 605	42 521	45 260
Total expenses from transactions	**113 772**	**115 638**	**119 096**	**125 370**
% change [(b)]	*2.3*	*1.6*	*3.0*	*5.3*
Net result from transactions	**(9 518)**	**(6 254)**	**(4 221)**	**(4 883)**
Total other economic flows included in net result	3 678	1 396	1 956	2 218
Net result	**(5 840)**	**(4 858)**	**(2 265)**	**(2 666)**

Notes:
(a) *This is a summary operating statement. The comprehensive operating statement is presented in Chapter 5. Figures in this table are subject to rounding to the nearest million and may not add up to totals.*
(b) *The revenue and expense growth for 2023-24 is based on published figures in the* 2022-23 Financial Report.
(c) *Comprises superannuation interest expense and other superannuation expenses.*

Table 3.10 shows that the State's net result from transactions is projected to improve from a deficit of $9.5 billion in 2023-24 to a deficit of $4.9 billion in 2026-27. This improvement is primarily due to general government sector revenues growing faster than expenses over the forward estimates which is explained earlier in this chapter.

The net result from transactions excludes other economic flows such as capital gains on the investments held by the State's insurance agencies, movements in deferred tax assets, and risk margins and claims handling expenses. Other economic flows are projected to average $2.3 billion a year over the budget and forward estimates noting that the annual figure varies between $1.4 billion and $3.7 billion.

When other economic flows are included, the State's net result improves from a deficit of $5.8 billion in 2023-24 to a deficit of $2.7 billion in 2026-27.

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

	2023-24 revised	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Assets				
Total financial assets (b)	103.8	109.6	115.5	122.8
Total non-financial assets (c)	439.5	471.5	491.5	514.2
Total assets	**543.3**	**581.1**	**607.0**	**636.9**
Liabilities				
Superannuation	17.2	17.3	17.6	17.7
Borrowings	189.2	212.3	231.2	249.0
Deposits held and advances received	1.7	1.7	1.6	1.6
Other liabilities (d)	103.5	107.4	111.9	116.4
Total liabilities	**311.7**	**338.8**	**362.3**	**384.7**
Net assets	**231.6**	**242.3**	**244.7**	**252.2**

Notes:

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

(b) Financial assets include cash and deposits, advances paid, investments, loans and placements, receivables, and investments accounted for using the equity method.

(c) Non-financial assets include inventories, non-financial assets held for sale, land, buildings, infrastructure, plant and equipment, and other non-financial assets.

(d) Other liabilities consist of payables, employee benefits, other provisions and contract liabilities.

Table 3.11 shows that the state's net assets are projected to increase over the budget and forward estimates, from $231.6 billion in 2023-24 to $252.2 billion by 2026-27. This reflects a forecast increase in total assets of $93.7 billion over this period, partly offset by a $73 billion increase in liabilities.

The increase in total assets is largely due to the state's non-financial assets, including infrastructure, being estimated to increase from $439.5 billion in 2023-24 to $514.2 billion by 2026-27.

The projected increase in total liabilities, from $311.7 billion in 2023-24 to $384.7 billion by 2026-27, is largely due to borrowings increasing from $189.2 billion in 2023-24 to $249 billion by 2026-27. Other liabilities are also projected to increase, from $103.5 billion in 2023-24 to $116.4 billion by 2026-27, largely due to growth in the value of the outstanding claims liabilities reported by the State's insurance agencies.

The superannuation liability is also projected to increase slightly, from $17.2 billion in 2023-24 to $17.7 billion in 2026-27. This is mainly due to the superannuation expense exceeding employer contributions due to the deferral of $3 billion of top-up payments from the State over this period. The deferral of these contributions reflects the Government's election commitment 'Defined benefit liability management', as published in *Labor's Financial Statement 2022*, and additional contributions will now be paid beyond the forward estimates period to maintain the 2035 full funding objective.

CHAPTER 4 – ESTIMATED FINANCIAL STATEMENTS AND NOTES

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR COMPREHENSIVE OPERATING STATEMENT

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

	Notes	*2023-24 budget*	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Revenue and income from transactions						
Taxation	4.2.1	34 877	35 774	37 855	39 645	41 562
Interest income		1 629	1 827	1 198	1 153	1 153
Dividends, income tax equivalent and rate equivalent income	4.2.2	1 275	2 185	1 337	1 203	1 258
Sales of goods and services	4.2.3	6 111	6 408	6 675	6 664	6 753
Grants	4.2.4	41 751	40 533	43 241	46 228	48 062
Other revenue and income	4.2.5	3 617	3 619	3 214	3 327	3 846
Total revenue and income from transactions		**89 260**	**90 346**	**93 519**	**98 220**	**102 635**
Expenses from transactions						
Employee expenses		35 280	34 816	35 966	37 035	38 653
Net superannuation interest expense	4.3.2	718	774	790	796	806
Other superannuation	4.3.2	3 771	3 617	3 599	3 637	3 704
Depreciation	4.4.2	4 890	4 897	5 037	5 348	5 557
Interest expense	4.5.3	5 566	5 662	6 580	7 741	8 793
Grant expense	4.3.3	16 962	16 995	17 124	16 880	16 900
Other operating expenses	4.3.4	26 091	27 055	25 445	25 720	26 991
Total expenses from transactions	4.3.5	**93 277**	**93 816**	**94 541**	**97 158**	**101 403**
Net result from transactions – Net operating balance		**(4 017)**	**(3 470)**	**(1 022)**	**1 062**	**1 232**
Other economic flows included in net result						
Net gain/(loss) on disposal of non-financial assets		13	13	4	8	5
Net gain/(loss) on financial assets or liabilities at fair value		60	10	82	159	175
Share of net profit/(loss) from associates/joint venture entities		30	30	32	36	4
Other gains/(losses) from other economic flows	4.7.1	(473)	(620)	(446)	(411)	(447)
Total other economic flows included in net result		**(369)**	**(567)**	**(329)**	**(209)**	**(262)**
Net result		**(4 387)**	**(4 037)**	**(1 351)**	**853**	**970**

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR COMPREHENSIVE OPERATING STATEMENT *(CONTINUED)*

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

	Notes	*2023-24 budget*	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Other economic flows – Other comprehensive income						
Items that will not be reclassified to net result						
Changes in non-financial assets revaluation surplus		1 030	1 017	15 018	2 882	9 657
Remeasurement of superannuation defined benefit plans	4.3.2	852	2 541	567	549	528
Other movements in equity		13	11	12	(9)	(6)
Items that may be reclassified subsequently to net result						
Net gain/(loss) on financial assets at fair value		3	18	18	18	18
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	4.6.1	(6 330)	(4 489)	(3 794)	(16 752)	(2 879)
Total other economic flows – Other comprehensive income		**(4 431)**	**(902)**	**11 821**	**(13 313)**	**7 319**
Comprehensive result – Total change in net worth		**(8 818)**	**(4 940)**	**10 471**	**(12 460)**	**8 288**
KEY FISCAL AGGREGATES						
Net operating balance		**(4 017)**	**(3 470)**	**(1 022)**	**1 062**	**1 232**
Less: Net acquisition of non-financial assets from transactions	4.3.7	7 039	9 792	8 840	(9 829)	5 995
Net lending/(borrowing)		**(11 056)**	**(13 263)**	**(9 862)**	**10 890**	**(4 763)**

The accompanying notes form part of these Estimated Financial Statements.

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR BALANCE SHEET

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

	Notes	2024 budget [a]	2024 revised	2025 estimate	2026 estimate	2027 estimate
Assets						
Financial assets						
Cash and deposits		12 204	12 380	13 116	13 912	14 679
Advances paid	4.5.2	6 770	6 389	6 415	6 413	6 448
Receivables and contract assets		9 728	9 283	9 578	10 139	10 706
Investments, loans and placements	4.5.2	13 374	13 652	15 217	17 027	19 158
Investments accounted for using equity method		1 180	1 180	1 389	1 389	1 389
Investments in other sector entities	4.6.1	97 389	98 010	101 430	108 654	112 126
Total financial assets		**140 645**	**140 896**	**147 145**	**157 534**	**164 507**
Non-financial assets						
Inventories		157	392	366	340	280
Non-financial assets held for sale		88	65	33	26	13
Land, buildings, infrastructure, plant and equipment	4.4.1, 4.4.3	258 538	260 988	284 990	278 443	294 415
Other non-financial assets	4.4.4	5 772	5 814	5 611	5 345	5 067
Total non-financial assets		**264 556**	**267 259**	**290 999**	**284 154**	**299 775**
Total assets	4.4.5	**405 200**	**408 155**	**438 144**	**441 689**	**464 282**
Liabilities						
Deposits held and advances received		1 581	1 581	1 501	1 453	1 453
Payables	4.6.2	28 230	27 502	27 036	26 471	25 603
Contract liabilities	4.6.2	324	324	311	307	307
Borrowings	4.5.1	164 529	166 308	186 192	202 040	216 646
Employee benefits	4.3.1	10 583	10 584	10 928	11 274	11 622
Superannuation	4.6.3	19 009	17 196	17 282	17 584	17 668
Other provisions		2 979	2 816	2 580	2 705	2 839
Total liabilities		**227 235**	**226 311**	**245 830**	**261 835**	**276 139**
Net assets		**177 965**	**181 843**	**192 314**	**179 854**	**188 142**
Accumulated surplus/(deficit)		42 367	44 404	43 633	45 371	46 863
Reserves		135 598	137 440	148 682	134 483	141 279
Net worth		**177 965**	**181 843**	**192 314**	**179 854**	**188 142**
FISCAL AGGREGATES [b]						
Net financial worth		(86 590)	(85 415)	(98 685)	(104 300)	(111 633)
Net financial liabilities		183 980	183 426	200 115	212 954	223 759
Net debt		133 763	135 467	152 945	166 141	177 814

The accompanying notes form part of these Estimated Financial Statements.

Notes:

(a) Balances represent actual opening balances at 1 July 2023 plus 2023-24 budgeted movements.

(b) The fiscal aggregates are defined in Note 9.9 of the 2022-23 Financial Report.

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR CASH FLOW STATEMENT

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

	Notes	2023-24 budget	2023-24 revised	2024-25 estimate	2025-26 estimate	2026-27 estimate
Cash flows from operating activities						
Receipts						
Taxes received		34 121	35 569	37 433	39 153	41 064
Grants		41 753	39 656	43 240	46 227	48 062
Sales of goods and services [(a)]		6 618	6 949	7 244	7 256	7 356
Interest received		1 557	1 706	1 018	950	950
Dividends, income tax equivalent and rate equivalent receipts		1 551	2 341	1 563	1 197	1 253
Other receipts		2 063	2 398	2 185	2 271	2 620
Total receipts		**87 664**	**88 619**	**92 682**	**97 055**	**101 305**
Payments						
Payments for employees		(34 959)	(34 495)	(35 635)	(36 701)	(38 318)
Superannuation		(3 532)	(3 557)	(3 736)	(3 582)	(3 898)
Interest paid		(5 246)	(5 357)	(6 349)	(7 625)	(8 767)
Grants and subsidies		(16 859)	(16 802)	(16 992)	(16 789)	(16 878)
Goods and services [(a)]		(25 318)	(26 516)	(25 276)	(25 283)	(26 485)
Other payments		(921)	(1 583)	(1 053)	(1 008)	(1 057)
Total payments		**(86 835)**	**(88 310)**	**(89 041)**	**(90 989)**	**(95 404)**
Net cash flows from operating activities		**829**	**309**	**3 642**	**6 066**	**5 902**
Cash flows from investing activities						
Cash flows from investments in non-financial assets						
Purchases of non-financial assets	4.3.6	(15 647)	(17 170)	(17 287)	(17 141)	(15 066)
Sales of non-financial assets		545	570	585	735	466
Net cash flows from investments in non-financial assets		**(15 102)**	**(16 600)**	**(16 702)**	**(16 406)**	**(14 600)**
Net cash flows from investments in financial assets for policy purposes		(3 648)	(2 650)	(3 363)	(2 282)	(2 760)
Subtotal		**(18 750)**	**(19 250)**	**(20 066)**	**(18 688)**	**(17 359)**
Net cash flows from investment in financial assets for liquidity management purposes		(9 516)	(9 839)	(1 498)	(1 651)	(1 931)
Net cash flows from investing activities		**(28 267)**	**(29 090)**	**(21 563)**	**(20 339)**	**(19 290)**
Cash flows from financing activities						
Advances received (net)		(34)	(34)	(79)	(48)	..
Net borrowings		19 978	21 497	18 737	15 117	14 156
Net cash flows from financing activities		**19 944**	**21 463**	**18 657**	**15 069**	**14 155**
Net increase/(decrease) in cash and cash equivalents		**(7 494)**	**(7 318)**	**736**	**796**	**767**
Cash and cash equivalents at beginning of reporting period [(b)]		19 698	19 698	12 380	13 116	13 912
Cash and cash equivalents at end of reporting period [(b)]		**12 204**	**12 380**	**13 116**	**13 912**	**14 679**

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR CASH FLOW STATEMENT *(CONTINUED)*

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

	Notes	*2023-24 budget*	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
FISCAL AGGREGATES						
Net cash flows from operating activities		829	309	3 642	6 066	5 902
Net cash flows from investments in non-financial assets		(15 102)	(16 600)	(16 702)	(16 406)	(14 600)
Cash surplus/(deficit)		**(14 273)**	**(16 291)**	**(13 061)**	**(10 340)**	**(8 698)**

The accompanying notes form part of these Estimated Financial Statements.
Notes:
(a) Sales of goods and services and payments for goods and services are inclusive of goods and services tax.
(b) 2023-24 Budget *figures have been restated to represent actual opening balances at 1 July 2023.*

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*
2023-24 budget [(a)]					
Balance at 1 July 2023	45 889	91 269	48 245	1 380	186 783
Net result for the year	(4 387)	..	..	..	(4 387)
Other comprehensive income for the year	865	1 030	(6 330)	3	(4 431)
Transfer to/(from) accumulated surplus	..	..	..	..	..
Total equity as at 30 June 2024	**42 367**	**92 300**	**41 916**	**1 383**	**177 965**
2023-24 revised					
Balance at 1 July 2023	45 889	91 269	48 245	1 380	186 783
Net result for the year	(4 037)	..	..	..	(4 037)
Other comprehensive income for the year	2 552	1 017	(4 489)	18	(902)
Transfer to/(from) accumulated surplus	..	..	..	..	..
Total equity as at 30 June 2024	**44 404**	**92 286**	**43 756**	**1 398**	**181 843**
2024-25 estimate					
Balance at 1 July 2024	44 404	92 286	43 756	1 398	181 843
Net result for the year	(1 351)	..	..	..	(1 351)
Other comprehensive income for the year	580	15 018	(3 794)	18	11 821
Transfer to/(from) accumulated surplus	..	..	..	..	..
Total equity as at 30 June 2025	**43 633**	**107 304**	**39 962**	**1 416**	**192 314**
2025-26 estimate					
Balance at 1 July 2025	43 633	107 304	39 962	1 416	192 314
Net result for the year	853	..	..	..	853
Other comprehensive income for the year	540	2 882	(16 752)	18	(13 313)
Transfer to/(from) accumulated surplus	345	(345)	..	..	..
Total equity as at 30 June 2026	**45 371**	**109 840**	**23 209**	**1 434**	**179 854**
2026-27 estimate					
Balance at 1 July 2026	45 371	109 840	23 209	1 434	179 854
Net result for the year	970	..	..	..	970
Other comprehensive income for the year	522	9 657	(2 879)	18	7 319
Transfer to/(from) accumulated surplus	..	..	..	..	..
Total equity as at 30 June 2027	**46 863**	**119 497**	**20 331**	**1 452**	**188 142**

The accompanying notes form part of these Estimated Financial Statements.
Note:
(a) Balances represent actual opening balances at 1 July 2023 plus 2023-24 budgeted movements.

4.1 ABOUT THIS REPORT

Basis of preparation

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

The detailed accounting policies applied in preparing the Estimated Financial Statements for the 2023-24 budget year, and the three forward years, are consistent with those in the *2022-23 Financial Report* for the State of Victoria as presented to Parliament. The audited 30 June 2023 asset and liability balances, as reported in the *2022-23 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
- certain liabilities, most notably unfunded superannuation, which are subject to actuarial assessments
- 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 classified 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.

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.

Key judgements, estimates and assumptions

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 onset of the COVID-19 pandemic in early 2020 introduced significant economic and fiscal uncertainties.

Although the economy has recovered well, risks to Victoria's economic outlook remain greater than normal. These risks include the outlook for inflation, and hence for interest rates, as well as prospects for global economic growth against a backdrop of elevated geopolitical volatility. This means that these estimates are subject to a higher degree of uncertainty. For example, goods and services tax (GST) revenue, land transfer duty revenue and interest expense are significantly linked to changes in economic growth, inflation and/or interest rates.

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.

Reporting entity

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

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

Basis for consolidation

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

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

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

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

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

Except as stated in Note 4.7.4, the significant entities consolidated within the sector comprise those general government sector entities listed in Note 9.8 of Chapter 4 of the *2022-23 Financial Report* for the State of Victoria.

Compliance

These Estimated Financial Statements have been prepared in accordance with Sections 23L-23N of the *Financial Management Act 1994*, having regard to Australian Accounting Standards (AAS), 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 the financial impacts as at 22 November 2023 of all decisions that affect the financial statements, unless otherwise stated. It does not include the machinery of government (MoG) changes as a result of the recent Ministerial changes. The transfer of balances and funding between departments resulting from these MoG changes will be reflected in the 2024-25 budget.

In May 2023, the Commonwealth Government announced a review of its Infrastructure Investment Program. The review has now concluded, and the forward estimates in the *2023-24 Budget Update* have been rephased to reflect the expected infrastructure grant revenue from the Commonwealth. Final outcomes will be subject to confirmation from the Commonwealth following the release of their *2023-24 Mid-Year Economic and Fiscal Outlook*.

Key financial measures

The COVID-19 pandemic severely impacted the state's financial position with the Government prioritising the use of its balance sheet to support the Victorian community, Victorian households and the economy. While the economy has rebounded strongly, the ongoing impacts of the pandemic on the state's fiscal position are still present.

The Government's financial sustainability objectives for the *2023-24 Budget Update* are that:

- the net operating balance will return to a surplus by 2025-26
- an operating cash surplus will be achieved by 2022-23 and maintained over the budget and forward estimates period.

The Government's long-term financial management objectives and fiscal measures and targets for the *2023-24 Budget Update* are set out in Chapter 1 *Economic and fiscal overview*.

Economic assumptions

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

Economic assumptions

	2022-23 *actual*	2023-24 *forecast*	2024-25 *forecast*	2025-26 *projection*	2026-27 *projection*
					($ billion)
Nominal gross state product	568.9	606.2	639.1	673.1	709.7
					(percentage change) [(a)]
Real gross state product	2.6	1.50	2.50	2.75	2.75
Employment	4.0	2.25	1.00	1.75	1.75
Unemployment rate [(b)]	3.7	4.00	4.25	4.50	4.75
Consumer price index [(c)]	6.9	4.25	2.75	2.50	2.50
Wage price index [(d)]	3.4	3.75	3.50	3.25	3.25
Population [(e)]	2.60 [(f)]	2.20	1.80	1.70	1.70

Notes:

(a) Percentage change in year average terms compared with the previous year, except for the unemployment rate (see note (b)) and population (see note (e)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (e)).
The key assumptions underlying the economic forecasts include interest rates that broadly follow market economists' expectations; an Australian dollar trade-weighted index of 61.0; and oil prices that follow the path suggested by oil futures.

(b) Year average.

(c) Melbourne consumer price index.

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

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

(f) Estimate, actual not yet available.

Economic risks that affect the Estimated Financial Statements

Risks to Victoria's economic outlook remain elevated and the forecasts are subject to uncertainty.

A key risk is the outlook for inflation, both domestically and globally. Inflation is high and there is uncertainty about how persistent it will be, with implications for the Reserve Bank of Australia's monetary policy as well as for other major central banks. The extent to which monetary policy needs to respond to high inflation has implications for economic activity and employment growth. For example, GST revenue, land transfer duty revenue and interest expense are significantly linked to changes in economic growth, inflation and/or interest rates. A related uncertainty is how much further wages growth will increase amid an ongoing tight labour market.

Another uncertainty is the outlook for the global economy. Global risks remain tilted to the downside, as high inflation and global monetary tightening weigh on prospects for economic growth. Further, Russia's ongoing invasion of Ukraine, and the conflict in the Middle East, have the potential to further destabilise energy prices. Geopolitical tensions in multiple regions also continue to contribute to uncertainty. Weaker global growth would slow demand for Victoria's goods and services exports. Further detail on the economic outlook and risks to the outlook is included in Chapter 2 *Economic context*.

4.2 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

4.2.1 Taxation ($ million)

	2023-24 *budget*	2023-24 *revised*	2024-25 *estimate*	2025-26 *estimate*	2026-27 *estimate*
TAXES ON EMPLOYERS' PAYROLL AND LABOUR FORCE					
Payroll tax	7 984	8 397	8 811	9 131	9 585
COVID Debt Levy – Payroll $10m+	836	894	1 029	1 076	1 140
Mental Health and Wellbeing Levy	912	975	1 029	1 076	1 140
Total taxes on employers' payroll and labour force	**9 732**	**10 266**	**10 868**	**11 283**	**11 864**
TAXES ON IMMOVABLE PROPERTY					
Land tax	6 079	6 095	6 428	6 708	7 131
COVID Debt Levy – Landholdings	1 149	1 357	1 380	1 428	1 488
Fire Services Property Levy	847	847	915	895	935
Congestion levy	122	112	115	118	121
Metropolitan improvement levy	208	208	214	221	221
Windfall gains tax	40	44	65	92	106
Total taxes on immovable property	**8 445**	**8 663**	**9 117**	**9 462**	**10 002**
TAXES ON THE PROVISION OF GOODS AND SERVICES					
Gambling taxes [(a)]					
Public lotteries	674	675	692	714	737
Electronic gaming machines	1 382	1 359	1 389	1 273	1 154
Casino	207	195	199	205	209
Racing and other sports betting	303	303	462	479	497
Other	18	18	18	19	20
Financial and capital transactions					
Land transfer duty	7 360	7 464	8 080	8 807	9 375
Metropolitan planning levy	22	21	22	23	25
Financial accommodation levy	172	172	179	184	188
Growth areas infrastructure contributions	328	328	336	344	330
Levies on statutory corporations [(b)]	**173**	**173**	**..**	**..**	**..**
Taxes on insurance	**2 011**	**2 026**	**2 127**	**2 231**	**2 339**
Total taxes on the provision of goods and services	**12 650**	**12 734**	**13 505**	**14 279**	**14 872**
TAXES ON THE USE OF GOODS AND PERFORMANCE OF ACTIVITIES					
Motor vehicle taxes					
Vehicle registration fees	2 106	2 096	2 235	2 383	2 518
Duty on vehicle registrations and transfers	1 247	1 317	1 370	1 422	1 485
Liquor licence fees	**30**	**30**	**31**	**32**	**33**
Other	**668**	**667**	**729**	**784**	**788**
Total taxes on the use of goods and performance of activities	**4 050**	**4 110**	**4 365**	**4 621**	**4 824**
Total taxation	**34 877**	**35 774**	**37 855**	**39 645**	**41 562**

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 $188 million in 2023-24, $189 million in 2024-25, $189 million in 2025-26 and $189 million in 2026-27, 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.

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

	2023-24 budget	2023-24 revised	2024-25 estimate	2025-26 estimate	2026-27 estimate
Dividends from PFC sector	610	1 247	384	84	86
Dividends from PNFC sector	162	163	176	199	191
Dividends from non-public sector	236	277	528	637	702
Dividends	**1 008**	**1 688**	**1 088**	**921**	**979**
Income tax equivalent income from PFC sector	8	238	7	11	12
Income tax equivalent income from PNFC sector	254	254	236	266	263
Income tax equivalent income	**261**	**492**	**244**	**276**	**274**
Local government rate equivalent income	5	5	6	5	5
Total dividends, income tax equivalent and rate equivalent income	**1 275**	**2 185**	**1 337**	**1 203**	**1 258**

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

	2023-24 budget	2023-24 revised	2024-25 estimate	2025-26 estimate	2026-27 estimate
Public financial corporations					
Victorian Managed Insurance Authority	..	..	..	..	..
WorkSafe Victoria	..	..	..	..	
Transport Accident Commission	525	1 168	300	..	..
Treasury Corporation of Victoria	75	75	75	73	72
State Trustees Ltd	1	..	..	1	1
Victorian Funds Management Corporation	8	4	7	8	11
Other/not allocated [(b)]	1	1	2	3	3
Dividends from PFC sector	**610**	**1 247**	**384**	**84**	**86**
Public non-financial corporations					
Greater Western Water	53	53	57	62	38
Melbourne Water Corporation	13	13	18	26	35
South East Water Corporation	24	24	20	21	27
Yarra Valley Water Corporation	22	22	11	16	20
Development Victoria	33	33	36	23	19
Others/not allocated [(b)]	17	18	34	51	51
Dividends from PNFC sector	**162**	**163**	**176**	**199**	**191**

Notes:

(a) *Consistent with requirements of AASB 1023* General Insurance Contracts*, amounts equivalent to dividends that are to be paid by the Transport Accident Commission are received and reported as contributions forming part of grant revenue. These amounts, which are subject to annual review, are forecast to be $115 million in 2025-26 and $700 million in 2026-27. Based on current projections, the Transport Accident Commission is expected to remain financially sustainable, with an Insurance Funding Ratio above the midpoint of the preferred range, across the forward estimates.*

(b) *A range of savings and efficiency initiatives will be implemented by the PNFC and PFC sectors. Revised dividends payable by individual agencies will be determined following consultation with the relevant agencies.*

4.2.3 Sales of goods and services ($ million)

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Amounts recognised as revenue from contracts with customers (AASB 15)					
Sale of goods	92	92	94	93	91
Provision of services [(a)]	4 883	5 095	5 315	5 349	5 402
Amounts recognised as income of not-for-profit entities (AASB 1058)					
Motor vehicle regulatory fees	306	356	367	375	395
Other regulatory fees	736	772	804	752	768
Amounts recognised as lease income (AASB 16)					
Rental	93	93	95	96	96
Total sales of goods and services	**6 111**	**6 408**	**6 675**	**6 664**	**6 753**

Note:
(a) Further disclosure on the provision of services is available on the Department of Treasury and Finance's website.

4.2.4 Grants [(a)] ($ million)

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
General purpose grants	19 836	19 865	22 325	24 038	24 281
Specific purpose grants for on-passing	5 559	4 905	5 854	6 051	6 264
Specific purpose grants	15 211	15 602	14 885	15 908	16 636
Total	**40 607**	**40 373**	**43 064**	**45 997**	**47 180**
Other contributions and grants	1 144	161	177	231	881
Total grants	**41 751**	**40 533**	**43 241**	**46 228**	**48 062**

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

4.2.5 Other revenue and income ($ million)

	2023-24 budget	2023-24 revised	2024-25 estimate	2025-26 estimate	2026-27 estimate
Amounts recognised as revenue from contracts with customers (AASB 15)					
Royalties	142	142	144	144	144
Other revenue – Health	254	254	261	261	261
Other miscellaneous revenue	693	728	678	722	736
Amounts recognised as income of not-for-profit entities (AASB 1058)					
Fair value of assets received free of charge or for nominal consideration (a)	432	432	59	2	2
Fines	942	942	947	917	945
Donations and gifts (b)	216	216	222	222	222
Other income – Education	396	364	373	383	392
Other miscellaneous income (c)	..	..	..	..	308
Amounts recognised as lease income (AASB 16)					
Other non-property rental	27	27	27	27	27
Revenue items accounted for under AASB 1059					
Revenue related to economic service concession arrangements	515	515	502	648	809
Total other revenue and income	**3 617**	**3 619**	**3 214**	**3 327**	**3 846**

Notes:

(a) The funding profile of the Fair value of assets received free of charge or for nominal consideration in 2023-24 and 2024-25 includes the 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.

(c) Other miscellaneous income reflects the estimated amounts for reimbursement of expenditure.

4.3 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

4.3.1 Employee expenses and provision for outstanding employee benefits

Employee expenses and employee benefits are forecast on the basis of staffing profiles and current salaries, conditions and on-costs. For the forecast period, employee expenses and employee benefits mainly include the expected financial impact of budget decisions and approved wage outcomes in line with the Government's Wages Policy. Forecast employee expenses also reflect the estimated impact of budget decisions that affect employee expense levels. Greater than 95 per cent of employee expenses over the budget and forward estimates 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)**

	2024 budget	*2024 revised*	*2025 estimate*	*2026 estimate*	*2027 estimate*
Current					
Accrued salaries and wages	595	595	610	625	640
Other employee benefits	143	143	143	143	143
Annual leave	2 758	2 758	2 792	2 828	2 864
Long service leave	5 778	5 779	5 925	6 073	6 218
Total current employee benefits and on-costs	**9 274**	**9 274**	**9 471**	**9 669**	**9 865**
Non-current					
Long service leave	1 309	1 310	1 457	1 605	1 757
Total non-current employee benefits and on-costs	**1 309**	**1 310**	**1 457**	**1 605**	**1 757**
Total employee benefits	**10 583**	**10 584**	**10 928**	**11 274**	**11 622**

4.3.2 Superannuation expense

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

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Defined benefit plans					
Net superannuation interest expense	718	774	790	796	806
Current service cost	1 131	945	923	1 004	1 006
Remeasurements:					
Expected return on superannuation assets excluding interest income	(852)	(722)	(567)	(549)	(528)
Other actuarial (gain)/loss on superannuation assets	..	324	..	..	..
Actuarial and other adjustments to unfunded superannuation liability	..	(2 144)	..	..	..
Total expense recognised in respect of defined benefit plans	**997**	**(823)**	**1 146**	**1 251**	**1 284**
Defined contribution plans					
Employer contributions to defined contribution plans	2 573	2 584	2 593	2 549	2 614
Other (including pensions)	67	88	83	83	83
Total expense recognised in respect of defined contribution plans	**2 640**	**2 672**	**2 676**	**2 633**	**2 698**
Total superannuation (gain)/expense recognised in operating statement	**3 637**	**1 849**	**3 822**	**3 884**	**3 982**
Represented by:					
Net superannuation interest expense	718	774	790	796	806
Other superannuation	3 771	3 617	3 599	3 637	3 704
Superannuation expense from transactions	**4 489**	**4 391**	**4 389**	**4 433**	**4 510**
Remeasurements recognised in other comprehensive income	**(852)**	**(2 541)**	**(567)**	**(549)**	**(528)**
Total superannuation expense recognised in operating statement	**3 637**	**1 849**	**3 822**	**3 884**	**3 982**

The accounting policies relating to superannuation expenses and liabilities are consistent with the *2023-24 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)]	4.6
Wages growth [(c)]	3.3
Inflation rate [(c)(d)]	2.5
Expected return on assets [(e)]	
Emergency Services and State Super	7.0
Health Super Fund Defined Benefit Scheme	5.0
Constitutionally protected schemes [(f)]	n.a.

Notes:
(a) All rates are nominal annual rates and are applicable to all the listed schemes.
(b) The discount rate is based on a long-term fixed interest Commonwealth bond rate. The rate stated above is an annual effective rate, gross of tax.
(c) The wages growth and inflation rates, for both salary and pension increases, assumed by the actuary are based on the experience of the fund along with long-term economic and market indicators.
(d) The superannuation assumptions are determined in accordance with AASB 119 Employee Benefits.
(e) The expected return on assets stated is gross of tax. Estimated tax payments are explicitly allowed for in the calculation process.
(f) Pensions payable from constitutionally protected schemes are paid from the Consolidated Fund. These schemes hold no assets, so there is no expected return on assets.

4.3.3 Grant expense ($ million)

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Current grant expense					
Commonwealth Government	3 075	3 126	3 254	3 419	3 551
Local government (including grants for on-passing)	1 212	609	1 354	1 414	1 099
Private sector and not-for-profit for on-passing	4 829	4 875	5 073	5 175	5 352
Other private sector and not-for-profit	4 988	5 069	5 197	4 733	4 810
Grants within the Victorian Government	2 030	2 351	1 876	1 784	1 744
Grants to other state governments	84	86	79	79	79
Total current grant expense	**16 218**	**16 115**	**16 833**	**16 604**	**16 634**
Capital grant expense					
Local government (including grants for on-passing)	234	253	124	120	115
Private sector and not-for-profit on-passing	497	558	139	123	123
Other private sector and not-for-profit	4	31	4	4	4
Grants within the Victorian Government	9	39	5	..	..
Other grants	..	..	19	30	22
Total capital grant expense	**744**	**880**	**292**	**277**	**265**
Total grant expense	**16 962**	**16 995**	**17 124**	**16 880**	**16 900**

4.3.4 Other operating expenses ($ million)

	2023-24 budget	2023-24 revised	2024-25 estimate	2025-26 estimate	2026-27 estimate
Purchase of supplies and consumables [(a)]	7 442	7 236	7 526	8 039	9 390
Cost of goods sold	27	27	27	28	28
Finance expenses and fees	45	27	27	27	27
Purchase of services [(a)]	15 730	16 345	15 134	14 924	14 760
Insurance claims expense	338	340	337	337	341
Maintenance	1 232	1 242	1 218	1 232	1 259
Short-term and low value lease expense	115	112	104	107	110
Other	1 163	1 727	1 072	1 027	1 076
Total other operating expenses	**26 091**	**27 055**	**25 445**	**25 720**	**26 991**

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)

	2023-24 budget	2023-24 revised	2024-25 estimate	2025-26 estimate	2026-27 estimate
Medicinal pharmacy and medical supplies	2 275	2 191	2 086	2 074	2 108
Office supplies and consumables	187	195	183	184	186
Specialised operational supplies and consumables	136	165	148	118	111
Other purchase of supplies and consumables	4 844	4 685	5 108	5 663	6 986
Total purchase of supplies and consumables	**7 442**	**7 236**	**7 526**	**8 039**	**9 390**

Purchase of services ($ million)

	2023-24 budget	2023-24 revised	2024-25 estimate	2025-26 estimate	2026-27 estimate
Service contracts	10 069	10 272	9 542	9 492	9 285
Accommodation/occupancy	938	945	935	939	960
Medical and client care services	494	495	489	487	495
Staff related expenses (non-labour related)	402	422	365	347	344
Other purchase of services	3 827	4 211	3 804	3 659	3 676
Total purchase of services	**15 730**	**16 345**	**15 134**	**14 924**	**14 760**

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

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

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
General public services	8 930	9 093	9 914	10 918	12 040
Public order and safety	11 150	11 649	10 849	10 636	10 621
Economic affairs [(a)]	2 975	3 797	2 566	1 864	1 543
Environmental protection	952	1 061	865	841	828
Housing and community amenities	2 649	1 829	2 191	2 058	2 064
Health	29 141	28 210	28 547	29 281	29 923
Recreation, culture and religion	996	1 397	1 005	790	647
Education	22 389	22 607	23 437	24 176	25 544
Social protection	7 909	8 362	7 919	7 849	8 011
Transport	7 484	7 884	7 306	7 479	7 728
Not allocated by function [(b)]	(1 299)	(2 071)	(58)	1 264	2 453
Total expenses from transactions	**93 277**	**93 816**	**94 541**	**97 158**	**101 403**

Notes:

(a) The increase in the economic affairs classification in 2023-24 and the decrease over the forward estimates is driven by the funding profile of fixed-term initiatives.

(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)

	2023-24 budget	2023-24 revised	2024-25 estimate	2025-26 estimate	2026-27 estimate
Education	20 400	20 937	20 769	21 087	21 075
Energy, Environment and Climate Action	3 411	4 036	2 613	2 410	2 363
Families, Fairness and Housing	7 794	8 267	7 783	7 727	7 885
Government Services	2 167	1 532	2 122	2 090	2 016
Health	28 071	27 875	27 036	27 114	27 388
Jobs, Skills, Industry and Regions	4 107	4 647	3 786	3 114	2 979
Justice and Community Safety	9 234	9 700	9 016	8 786	8 857
Premier and Cabinet	427	468	450	344	327
Transport and Planning	8 015	8 555	7 306	7 490	7 696
Treasury and Finance	12 518	13 386	13 880	14 850	16 040
Parliament	366	372	372	376	379
Courts	891	901	866	883	897
Regulatory bodies and other part funded agencies [(a)]	3 135	3 465	3 010	2 837	2 817
Output contingencies not allocated to departments [(b)]	4 951	3 199	7 219	9 696	12 393
Total expenses by department	**105 486**	**107 340**	**106 228**	**108 805**	**113 110**
Less eliminations and adjustments [(c)]	*(12 209)*	*(13 523)*	*(11 686)*	*(11 648)*	*(11 707)*
Total expenses from transactions	**93 277**	**93 816**	**94 541**	**97 158**	**101 403**

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 (including the COVID Debt Levy – Payroll $10m+), the mental health and wellbeing levy, departmental underspend estimates and inter-departmental transfers.

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

	2023-24 budget	2023-24 revised	2024-25 estimate	2025-26 estimate	2026-27 estimate
Decisions made but not yet allocated [(b)]	4 851	3 099	6 719	9 196	11 293
Funding not allocated to specific purposes [(c)]	100	100	500	500	1 100
Total general government output contingencies	**4 951**	**3 199**	**7 219**	**9 696**	**12 393**

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.

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

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

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
General public services	135	164	115	103	106
Public order and safety	1 165	1 163	723	381	273
Economic affairs	222	197	139	108	89
Environmental protection	177	151	93	65	56
Housing and community amenities	86	81	118	100	6
Health	2 585	2 770	1 757	1 493	978
Recreation, culture and religion	97	160	180	257	221
Education	2 899	3 240	1 983	1 807	1 859
Social protection	116	131	75	71	71
Transport	12 342	13 258	10 777	9 947	8 216
Not allocated by function [(a)]	(4 178)	(4 146)	1 326	2 809	3 191
Total purchases of non-financial assets	**15 647**	**17 170**	**17 287**	**17 141**	**15 066**

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)

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Education	2 642	2 992	1 445	748	327
Energy, Environment and Climate Action	324	326	249	205	172
Families, Fairness and Housing	85	99	49	44	45
Government Services	115	131	92	91	92
Health	2 001	2 263	1 257	876	254
Jobs, Skills, Industry and Regions	219	352	176	141	141
Justice and Community Safety	578	585	261	138	106
Premier and Cabinet	3	3	4	5	5
Transport and Planning	6 635	8 970	5 086	2 870	819
Treasury and Finance	15	19	14	6	6
Parliament	11	20	8	4	5
Courts	292	320	197	20	22
Regulatory bodies and other part funded agencies [(a)]	196	181	167	146	143
Asset contingencies not allocated to departments [(b)]	6 661	5 087	7 114	10 006	11 458
Adjustments [(c)]	(4 130)	(4 177)	1 169	1 841	1 473
Total purchases of non-financial assets	**15 647**	**17 170**	**17 287**	**17 141**	**15 066**

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)**

	2023-24 budget	2023-24 revised	2024-25 estimate	2025-26 estimate	2026-27 estimate
Decisions made but not yet allocated [(a)(b)]	8 785	5 913	10 436	12 915	13 542
Funding not allocated to specific purposes [(c)]	..	..	500	1 000	1 700
Total general government asset contingencies	**8 785**	**5 913**	**10 936**	**13 915**	**15 242**

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.

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

	2023-24 budget	2023-24 revised	2024-25 estimate	2025-26 estimate	2026-27 estimate
Purchases of non-financial assets (including change in inventories)	15 230	17 134	17 273	17 129	15 057
Less: Sales of non-financial assets	(545)	(570)	(585)	(735)	(466)
Less: Depreciation and amortisation	(4 890)	(4 897)	(5 037)	(5 348)	(5 557)
Less: Other movements in non-financial assets [(a)(b)]	(2 757)	(1 875)	(2 812)	(20 875)	(3 039)
Total net acquisition of non-financial assets from transactions	**7 039**	**9 792**	**8 840**	**(9 829)**	**5 995**

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, the Metro Tunnel, the new Footscray Hospital, the new Melton Hospital, the Frankston Hospital Redevelopment and the West Gate Tunnel.

4.4 MAJOR ASSETS AND INVESTMENTS

Introduction

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

Structure

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

	2024 budget	2024 revised	2025 estimate	2026 estimate	2027 estimate
Buildings	61 108	61 624	64 342	68 293	75 764
Land and national parks	95 972	96 136	104 231	104 721	108 148
Infrastructure systems	29 790	31 123	33 463	17 790	21 604
Plant, equipment and vehicles	5 382	5 714	5 850	5 494	3 598
Roads and road infrastructure	47 571	47 455	57 151	61 745	64 479
Earthworks	12 085	12 182	12 268	12 280	12 292
Cultural assets	6 630	6 753	7 685	8 120	8 529
Total land, buildings, infrastructure, plant and equipment	**258 538**	**260 988**	**284 990**	**278 443**	**294 415**

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)

	2024 budget	*2024 revised*	*2025 estimate*	*2026 estimate*	*2027 estimate*
Buildings	8 356	8 617	8 032	7 543	6 957
Infrastructure systems	1	1	1	2	2
Plant, equipment and vehicles	283	283	197	111	26
Total right-of-use assets: Buildings, infrastructure, plant and equipment	**8 640**	**8 901**	**8 230**	**7 655**	**6 985**

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

	2024 budget	*2024 revised*	*2025 estimate*	*2026 estimate*	*2027 estimate*
Buildings	2 009	1 996	1 942	1 987	1 938
Land	3 353	3 353	3 701	3 701	3 701
Infrastructure systems	10 218	9 791	10 178	871	1 023
Plant, equipment and vehicles	182	279	294	288	278
Roads and road infrastructure	17 739	17 366	19 069	19 447	19 180
Earthworks	1 056	1 056	1 130	1 130	1 130
Total service concession assets: Land, buildings, infrastructure, plant and equipment	**34 557**	**33 840**	**36 315**	**27 423**	**27 250**

4.4.2 Depreciation ($ million)

	2023-24 budget	2023-24 revised	2024-25 estimate	2025-26 estimate	2026-27 estimate
Buildings [(a)]	2 693	2 702	2 818	2 978	3 023
Infrastructure systems	54	55	61	57	57
Plant, equipment and vehicles [(a)]	868	866	870	869	865
Roads and road networks [(a)]	957	957	957	1 112	1 282
Cultural assets	12	12	12	12	12
Intangible produced assets [(b)]	306	305	319	319	318
Total depreciation	**4 890**	**4 897**	**5 037**	**5 348**	**5 557**

Notes:
(a) Includes estimated depreciation on amounts not yet allocated to projects in 2023-24 to 2026-27.
(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)

	2023-24 budget	2023-24 revised	2024-25 estimate	2025-26 estimate	2026-27 estimate
Buildings	752	752	801	788	787
Plant, equipment and vehicles	125	124	124	124	124
Total depreciation of right-of-use assets	**876**	**876**	**925**	**912**	**910**

Depreciation of service concession assets ($ million)

	2023-24 budget	2023-24 revised	2024-25 estimate	2025-26 estimate	2026-27 estimate
Buildings	47	47	47	47	47
Plant, equipment and vehicles	28	28	28	28	28
Roads and road infrastructure	178	178	177	303	416
Intangible produced assets	1	1	1	1	1
Total depreciation of service concession assets	**255**	**255**	**254**	**380**	**493**

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

	2024 budget	*2024 revised*	*2025 estimate*	*2026 estimate*	*2027 estimate*
Carrying amount at the start of the year	249 480	249 480	260 988	284 990	278 443
Additions of self-owned assets [(b)]	16 095	17 567	17 503	17 494	15 382
Additions of right-of-use assets	240	501	144	217	101
Additions of service concession arrangement assets	2 331	2 426	596	165	19
Disposals at written-down value	(419)	(421)	(475)	(655)	(401)
Revaluations	1 030	1 016	15 017	2 881	9 656
Asset transfers [(c)]	(5 636)	(4 988)	(4 065)	(21 620)	(3 547)
Depreciation expense	(4 584)	(4 592)	(4 718)	(5 029)	(5 239)
Carrying amount at the end of the year	**258 538**	**260 988**	**284 990**	**278 443**	**294 415**

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) *Represents additions of assets recognised under AASB 116* Property, Plant and Equipment*.*

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

4.4.4 Other non-financial assets ($ million)

	2024 budget	*2024 revised*	*2025 estimate*	*2026 estimate*	*2027 estimate*
Intangible produced assets	3 102	3 142	3 246	3 278	3 287
Accumulated depreciation	(1 914)	(1 913)	(2 217)	(2 511)	(2 794)
Service concession assets – Intangible produced	3 370	3 370	3 370	3 370	3 370
Accumulated depreciation	(5)	(5)	(7)	(8)	(10)
Intangible non-produced assets	81	81	82	83	84
Accumulated amortisation	(65)	(65)	(70)	(75)	(80)
Total intangibles	**4 569**	**4 610**	**4 405**	**4 137**	**3 859**
Investment properties	306	306	306	306	306
Biological assets	6	6	7	9	10
Other assets	892	893	893	893	892
Total other non-financial assets	**5 772**	**5 814**	**5 611**	**5 345**	**5 067**

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

	2024 budget	*2024 revised*	*2025 estimate*	*2026 estimate*	*2027 estimate*
General public services	3 069	3 097	2 967	2 786	2 631
Public order and safety	16 050	16 043	16 186	16 951	16 393
Economic affairs	1 629	1 584	2 443	2 645	3 343
Environmental protection	16 762	16 736	16 762	16 760	16 749
Housing and community amenities	3 678	3 692	5 702	6 669	6 598
Health	26 177	26 828	27 945	28 288	30 346
Recreation, culture and religion	8 689	8 646	8 754	8 939	9 088
Education	45 695	46 037	47 199	48 170	55 141
Social protection	2 671	2 686	2 685	2 680	2 967
Transport	145 059	146 801	164 254	151 711	155 173
Not allocated by function (a)	135 722	136 005	143 247	156 091	165 851
Total assets	**405 200**	**408 155**	**438 144**	**441 689**	**464 282**

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.

4.5 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

4.5.1 Borrowings ($ million)

	2024 budget	*2024 revised*	*2025 estimate*	*2026 estimate*	*2027 estimate*
Current borrowings					
Domestic borrowings	13 395	13 395	13 336	13 298	13 270
Lease liabilities	669	671	583	498	402
Service concession arrangement liabilities	555	555	310	283	1 455
Derivative financial instruments	13	..	..	..	..
Total current borrowings	**14 633**	**14 621**	**14 229**	**14 080**	**15 127**
Non-current borrowings					
Domestic borrowings	137 935	139 395	160 090	176 600	192 044
Lease liabilities	6 824	7 084	6 578	6 133	5 580
Service concession arrangement liabilities	4 927	4 927	4 999	4 943	3 620
Derivative financial instruments	210	281	296	284	274
Total non-current borrowings	**149 896**	**151 687**	**171 963**	**187 960**	**201 519**
Total borrowings	**164 529**	**166 308**	**186 192**	**202 040**	**216 646**

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

	2024 budget	2024 revised	2025 estimate	2026 estimate	2027 estimate
Current advances paid and investments, loans and placements					
Loans and advances paid	724	515	339	310	317
Equities and managed investment schemes	678	678	695	711	727
Australian dollar term deposits	213	213	233	235	237
Debt securities	3	3	3	3	3
Derivative financial instruments	65	59	23	1	1
Total current advances paid and investments, loans and placements	**1 684**	**1 469**	**1 292**	**1 260**	**1 286**
Non-current advances paid and investments, loans and placements					
Loans and advances paid	6 046	5 874	6 076	6 102	6 131
Equities and managed investment schemes	12 382	12 667	14 232	16 046	18 158
Australian dollar term deposits	4	4	4	4	4
Debt securities	22	22	22	22	22
Derivative financial instruments	5	5	5	5	5
Total non-current advances paid and investments, loans and placements	**18 459**	**18 572**	**20 340**	**22 180**	**24 321**
Total advances paid and investments, loans and placements	**20 143**	**20 042**	**21 632**	**23 440**	**25 606**
Represented by:					
Advances paid	6 770	6 389	6 415	6 413	6 448
Investments, loans and placements	13 374	13 652	15 217	17 027	19 158

4.5.3 Interest expense ($ million)

	2023-24 budget	2023-24 revised	2024-25 estimate	2025-26 estimate	2026-27 estimate
Interest on interest bearing liabilities and deposits	4 768	4 864	5 816	6 965	8 065
Interest on lease liabilities	386	384	375	362	348
Interest on service concession liabilities	382	385	362	389	354
Discount interest on payables	30	30	27	26	25
Total interest expense	**5 566**	**5 662**	**6 580**	**7 741**	**8 793**

4.6 OTHER ASSETS AND LIABILITIES

Introduction

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

Structure

4.6.1 Investments in other sector entities ($ million)

	2024 budget	*2024 revised*	*2025 estimate*	*2026 estimate*	*2027 estimate*
Balance of investment in PNFC and PFC sectors at beginning of period	96 042	96 042	98 010	101 430	108 654
Net contributions to other sectors by owner	7 677	6 458	7 214	23 977	6 351
Revaluation gain/(loss) for period	(6 330)	(4 489)	(3 794)	(16 752)	(2 879)
Investment in other sector entities at end of period	**97 389**	**98 010**	**101 430**	**108 654**	**112 126**

4.6.2 Payables and contract liabilities ($ million)

	2024 budget	*2024 revised*	*2025 estimate*	*2026 estimate*	*2027 estimate*
Contractual					
Accounts payable	887	886	896	893	885
Accrued expenses	5 333	5 014	4 716	4 716	4 717
Grant of a right to the operator liability	19 984	20 076	19 972	19 478	18 688
Unearned income	1 886	1 448	1 374	1 306	1 235
Statutory					
Accrued taxes payable	77	77	78	79	79
Unearned income	63	..	..	..	..
Other					
Contract liabilities	324	324	311	307	307
Total payables and contract liabilities	**28 554**	**27 826**	**27 347**	**26 779**	**25 910**
Represented by:					
Current payables and contract liabilities	8 462	7 309	7 152	7 292	7 285
Non-current payables and contract liabilities	20 092	20 517	20 195	19 487	18 625

4.6.3 Superannuation

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

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Emergency Services and State Super					
Defined benefit obligation	40 245	37 911	37 624	37 417	37 196
Tax liability [(a)]	2 121	2 152	2 159	2 184	2 173
Plan assets	(24 359)	(23 900)	(23 569)	(23 122)	(22 853)
Net liability/(asset)	**18 007**	**16 163**	**16 214**	**16 478**	**16 516**
Other funds [(b)]					
Defined benefit obligation	1 864	1 898	1 913	1 927	1 948
Plan assets	(862)	(866)	(844)	(821)	(796)
Net liability/(asset)	**1 002**	**1 033**	**1 069**	**1 106**	**1 152**
Total superannuation					
Defined benefit obligation	42 109	39 810	39 537	39 344	39 144
Tax liability [(a)]	2 121	2 152	2 159	2 184	2 173
Plan assets	(25 221)	(24 766)	(24 414)	(23 944)	(23 649)
Total superannuation liability	**19 009**	**17 196**	**17 282**	**17 584**	**17 668**
Represented by:					
Current superannuation liability	442	442	317	550	1 885
Non-current superannuation liability	18 567	16 755	16 966	17 034	15 783

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 Health Super Fund (which is now part of Aware Super).

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

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Opening balance of defined benefit obligation	**44 541**	**44 541**	**41 962**	**41 696**	**41 528**
Current service cost	1 131	945	923	1 004	1 006
Interest expense	1 560	1 805	1 893	1 880	1 872
Contributions by plan participants	224	219	221	225	230
Actuarial (gains)/losses on the defined benefit obligation, due to:					
Changes in financial assumptions	..	(2 144)	..	..	..
Benefits paid (including tax paid)	(3 226)	(3 404)	(3 303)	(3 278)	(3 318)
Closing balance of defined benefit obligation	**44 230**	**41 962**	**41 696**	**41 528**	**41 318**

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

	2023-24 *budget*	2023-24 *revised*	2024-25 *estimate*	2025-26 *estimate*	2026-27 *estimate*
Opening balance of plan assets	**25 637**	**25 637**	**24 766**	**24 414**	**23 944**
Interest income	842	1 031	1 103	1 085	1 066
Return on plan assets not included in interest income	852	398	567	549	528
Employer contributions	893	885	1 059	950	1 200
Contributions by plan participants	224	219	221	225	230
Benefits paid (including tax paid)	(3 226)	(3 404)	(3 303)	(3 278)	(3 318)
Closing balance of plan assets	**25 221**	**24 766**	**24 414**	**23 944**	**23 649**

See Note 4.3.2 for further information on superannuation assumptions.

4.7 OTHER DISCLOSURES

Introduction

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

Structure

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

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Net (increase)/decrease in allowances for credit losses	(112)	(112)	(94)	(90)	12
Amortisation of intangible non-produced assets	(7)	(7)	(7)	(7)	(7)
Bad debts written off	(335)	(335)	(322)	(288)	(390)
Other gains/(losses)	(20)	(166)	(24)	(27)	(63)
Total other gains/(losses) from other economic flows	**(473)**	**(620)**	**(446)**	**(411)**	**(447)**

4.7.2 Reconciliation of Government Finance Statistics and Australian Accounting Standards

The estimated financial statements have 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 only 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.

Convergence difference	*AASB 1049 treatment*	*ABS GFS treatment*	*Fiscal aggregate impact*
AASB 16 *Leases*			
	Operating leases are recognised on the balance sheet under AASB 16 *Leases* 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.	• 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 *Service Concession Arrangements: Grantors*.	Economic service concession arrangements, such as toll roads, are not recognised on the balance sheet.	• 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 *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 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.	• Cash surplus/deficit • Comprehensive result – Total change in net worth • Net lending/borrowing • Net result from transactions – Net operating balance • Net worth

Convergence difference	*AASB 1049 treatment*	*ABS GFS treatment*	*Fiscal aggregate impact*
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.	• 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.	• 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 losses 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.	• Comprehensive result – Total change in net worth • Net worth
Provisions			
	Provisions recognised under AASB 137 are recorded when there is a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.	The act of creating provisions is not considered an economic event and is therefore not included on the balance sheet. The associated expense is not recognised on the operating statement.	• Comprehensive result – Total change in net worth • Net lending/borrowing • Net result from transactions – Net operating balance • 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.	• Comprehensive result – Total change in net worth • Net worth

4.7.3 Prospective accounting and reporting changes

New and revised accounting standards have been issued that are not effective for the 2023-24 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 2022-10 Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities:
  - AASB 2022-10 amends AASB 13 *Fair Value Measurement* by adding authoritative implementation guidance and illustrative examples for fair value measurement of non-financial assets of not-for-profit public sector entities not held primarily for their ability to generate net cash inflows.
  - Among other things, this Standard:
    - specifies that an entity needs to consider whether an asset's highest and best use differs from its current use only when it is held for sale or held for distributions to owners under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* or if it is highly probable that it will be used for an alternative purpose
    - clarifies that an asset's use is 'financially feasible' if market participants would be willing to invest in the asset's service capacity, considering both the capacity to provide needed goods or services and the resulting costs of those goods and services
    - specifies that if both market selling price and some market participant data required to fair value the asset are not observable, an entity needs to start with its own assumptions and adjust them to the extent that reasonably available information indicates that other market participants would use different data
    - provides guidance on the application of the cost approach to fair value, including the nature of costs to be included in a reference asset and identification of economic obsolescence.
  - This Standard applies prospectively to annual periods beginning on or after 1 January 2024, with earlier application permitted.
- AASB 17 Insurance Contracts, AASB 2022-8 Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments and AASB 2022-9 Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector:
  - AASB 17 replaces AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* for not-for-profit public sector entities for annual reporting periods beginning on or after 1 July 2026.
  - AASB 2022-9 amends AASB 17 to make public sector-related modifications (for example, it specifies the pre-requisites, indicators, and other considerations in identifying arrangements that fall within the scope of AASB 17 in a public sector context). This Standard applies for annual reporting periods beginning on or after 1 July 2026.
  - AASB 2022-8 makes consequential amendments to other AASs so that public sector entities are permitted to continue to apply AASB 4 and AASB 1023 to annual periods before 1 July 2026.

A number of other standards and amendments have also been issued that apply to future reporting periods, however they are not expected to have any significant impact on the financial statements in the period of initial application.

4.7.4 Controlled entities

Note 9.8 in Chapter 4 of the *2022-23 Financial Report* for the State of Victoria lists significant controlled entities that were consolidated in that financial report.

The following are changes to entities since 1 July 2023, which have been consolidated in this financial report:

General government
Department of Health
Northern Health [(a)]
Department of Transport and Planning
Secretary, Project Development [(b)]
Public non-financial corporations
Department of Energy, Environment, and Climate Action
State Electricity Commission of Victoria [(c)]
SEC Victoria Pty Ltd: [(d)]
• SEC Infrastructure Pty Ltd
• SEC Energy Pty Ltd

Notes:

(a) Effective from 1 November 2023, Northern Health and Kilmore District Health are amalgamated to be known as Northern Health under a voluntary amalgamation.

(b) Effective from 1 August 2023, the Secretary, Project Development, was assigned from the Department of Jobs, Skills, Industry and Regions to the Department of Transport and Planning.

(c) The previous State Electricity Commission of Victoria, established under the State Electricity Commission Act 1958 *(SEC Act), remains a separate legal entity. Subject to passing of legislation currently before Parliament, the entity will be abolished by amendment of the SEC Act.*

(d) In October 2023, the SEC Victoria Pty Ltd and its subsidiaries SEC Infrastructure Pty Ltd and SEC Energy Pty Ltd were incorporated as companies under the Corporations Act 2001 *and registered in Victoria. Subsequently in November 2023, they were each declared a State Owned Company (SOC) under the* State Owned Enterprises Act 1992*.*

CHAPTER 5 – SUPPLEMENTARY UNIFORM PRESENTATION FRAMEWORK TABLES

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

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Revenue and income from transactions					
Interest income	125	24	20	19	20
Dividend income	32	31	32	33	33
Sales of goods and services	7 361	7 450	7 897	8 030	8 961
Grants	2 013	2 424	1 892	1 790	1 743
Other revenue and income	715	734	779	820	866
Total revenue and income from transactions	**10 246**	**10 664**	**10 619**	**10 691**	**11 624**
Expenses from transactions					
Employee expenses	1 701	1 896	1 839	1 811	1 867
Net superannuation interest expense	4	4	4	4	4
Other superannuation	164	196	206	216	222
Depreciation	2 006	2 024	2 078	2 135	2 191
Interest expense	984	957	1 075	1 169	1 276
Grant expense	460	881	411	423	426
Other operating expenses	4 970	4 891	4 526	4 373	5 051
Other property expenses	252	208	217	247	254
Total expenses from transactions	**10 541**	**11 058**	**10 356**	**10 378**	**11 292**
Net result from transactions – Net operating balance	**(295)**	**(394)**	**263**	**313**	**332**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	49	43	52	291	39
Net gain/(loss) on financial assets or liabilities at fair value	..	(1)	..	..	..
Other gains/(losses) from other economic flows	(5 629)	(4 508)	(3 647)	(18 204)	(3 233)
Total other economic flows included in net result	**(5 580)**	**(4 466)**	**(3 595)**	**(17 913)**	**(3 193)**
Net result	**(5 875)**	**(4 860)**	**(3 331)**	**(17 600)**	**(2 861)**
Other economic flows – Other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	11	(427)	16	979	7
Other movements in equity	..	112	(9)	2	3

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

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	(5)	(2)	(5)	..	..
Total other economic flows – Other comprehensive income	**6**	**(316)**	**3**	**981**	**10**
Comprehensive result – Total change in net worth	**(5 869)**	**(5 176)**	**(3 329)**	**(16 620)**	**(2 851)**
KEY FISCAL AGGREGATES					
Net operating balance	**(295)**	**(394)**	**263**	**313**	**332**
Less: Net acquisition of non-financial assets from transactions	11 950	12 019	9 868	27 068	8 906
Net lending/(borrowing)	**(12 245)**	**(12 413)**	**(9 605)**	**(26 755)**	**(8 573)**

Note:

(a) The 2023-24 Budget *included a range of savings and efficiency initiatives that will be implemented by the public non-financial corporations (PNFC) sector. The impact of these initiatives is reflected in the estimates for the budget year and the three forward years.*

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

	2024 budget [(a)]	2024 revised	2025 estimate	2026 estimate	2027 estimate
Assets					
Financial assets					
Cash and deposits	1 789	944	753	802	796
Advances paid	206	206	116	113	110
Receivables and contract assets	1 674	1 435	1 635	1 461	1 522
Investments, loans and placements	814	770	765	797	816
Total financial assets	**4 484**	**3 355**	**3 269**	**3 173**	**3 244**
Non-financial assets					
Inventories	1 362	2 076	1 900	2 183	1 685
Non-financial assets held for sale	28	28	27	27	27
Land, buildings, infrastructure, plant and equipment	123 452	123 424	129 605	139 258	145 265
Other non-financial assets	3 334	3 289	3 568	3 833	4 144
Total non-financial assets	**128 177**	**128 818**	**135 101**	**145 302**	**151 121**
Total assets	**132 660**	**132 173**	**138 370**	**148 475**	**154 365**
Liabilities					
Deposits held and advances received	2 939	2 728	2 899	2 995	3 077
Payables	10 189	9 806	9 707	9 519	9 461
Contract liabilities	218	308	316	328	333
Borrowings	24 009	24 853	27 403	29 883	32 599
Employee benefits	585	575	583	599	616
Superannuation	..	3	2	1	..
Other provisions	11 949	11 854	11 731	11 820	11 865
Total liabilities	**49 889**	**50 126**	**52 640**	**55 145**	**57 953**
Net assets	**82 771**	**82 047**	**85 730**	**93 330**	**96 412**
Accumulated surplus/(deficit)	(35 903)	(34 791)	(38 321)	(56 130)	(59 180)
Reserves	118 674	116 838	124 051	149 460	155 592
Net worth	**82 771**	**82 047**	**85 730**	**93 330**	**96 412**
FISCAL AGGREGATES					
Net financial worth	(45 406)	(46 771)	(49 371)	(51 972)	(54 709)
Net financial liabilities	45 406	46 771	49 371	51 972	54 709
Net debt	24 138	25 660	28 667	31 167	33 954

Note:
(a) Balances represent actual opening balances at 1 July 2023 plus 2023-24 budgeted movements.

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

($ million)

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Cash flows from operating activities					
Receipts					
Grants	2 012	2 437	1 892	1 790	1 743
Sales of goods and services [(a)]	7 808	7 669	8 412	8 593	9 611
Interest received	125	31	20	19	20
Dividend receipts	32	27	26	33	33
Other receipts	273	478	383	399	424
Total receipts	**10 250**	**10 642**	**10 733**	**10 833**	**11 831**
Payments					
Payments for employees	(1 689)	(1 896)	(1 833)	(1 796)	(1 851)
Superannuation	(168)	(198)	(211)	(221)	(227)
Interest paid	(960)	(925)	(1 041)	(1 147)	(1 242)
Grants and subsidies	(236)	(658)	(188)	(199)	(202)
Goods and services [(a)]	(5 688)	(5 627)	(5 410)	(4 858)	(5 825)
Other payments	(479)	(473)	(458)	(489)	(487)
Total payments	**(9 220)**	**(9 776)**	**(9 140)**	**(8 710)**	**(9 835)**
Net cash flows from operating activities	**1 030**	**866**	**1 592**	**2 123**	**1 996**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(8 121)	(8 611)	(6 908)	(7 116)	(6 275)
Sales of non-financial assets	243	279	207	443	183
Net cash flows from investments in non-financial assets	**(7 879)**	**(8 332)**	**(6 701)**	**(6 673)**	**(6 092)**
Net cash flows from investments in financial assets for policy purposes	53	168	85	5	6
Subtotal	**(7 826)**	**(8 164)**	**(6 616)**	**(6 668)**	**(6 086)**
Net cash flows from investment in financial assets for liquidity management purposes	9	54	(5)	(32)	(20)
Net cash flows from investing activities	**(7 817)**	**(8 109)**	**(6 621)**	**(6 700)**	**(6 106)**
Cash flows from financing activities					
Advances received (net)	1 710	1 620	181	94	95
Net borrowings	2 413	3 036	1 633	1 886	1 581
Deposits received (net)	(12)	(54)	(10)	3	(14)
Other financing (net)	2 124	1 305	2 947	2 599	2 387
Net cash flows from financing activities	**6 234**	**5 907**	**4 752**	**4 582**	**4 049**
Net increase/(decrease) in cash and cash equivalents	**(553)**	**(1 337)**	**(277)**	**5**	**(60)**
Cash and cash equivalents at beginning of reporting period [(b)(c)]	2 232	2 232	895	618	623
Cash and cash equivalents at end of reporting period [(b)(c)]	**1 679**	**895**	**618**	**623**	**562**

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

($ million)

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
FISCAL AGGREGATES					
Net cash flows from operating activities	1 030	866	1 592	2 123	1 996
Dividends paid	(162)	(213)	(176)	(199)	(191)
Net cash flows from investments in non-financial assets	(7 879)	(8 332)	(6 701)	(6 673)	(6 092)
Cash surplus/(deficit)	**(7 011)**	**(7 679)**	**(5 284)**	**(4 750)**	**(4 287)**

Notes:

(a) Sales of goods and services and payments for goods and services are inclusive of goods and services tax.

(b) 2023-24 Budget *figures have been restated to represent actual opening balances at 1 July 2023.*

(c) Cash and cash equivalents at the end of the reporting period does not equal cash and deposits on the balance sheet. This is due to overdrafts being included in the cash flow statement balances.

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

	Accumulated surplus/(deficit)	*Contributions by owners*	*Non-financial assets revaluation surplus*	*Other reserves*	*Total*
2023-24 budget [b]					
Balance at 1 July 2023	(29 846)	78 417	31 605	702	80 880
Net result for the year	(5 875)	..	..	..	(5 875)
Other comprehensive income for the year	(20)	..	11	15	6
Dividends paid	(162)	..	..	..	(162)
Transactions with owners in their capacity as owners	..	7 922	..	..	7 922
Total equity as at 30 June 2024	**(35 903)**	**86 340**	**31 616**	**718**	**82 771**
2023-24 revised					
Balance at 1 July 2023	(29 846)	78 417	31 605	702	80 880
Net result for the year	(4 860)	..	..	..	(4 860)
Other comprehensive income for the year	77	..	(427)	33	(316)
Dividends paid	(163)	..	..	..	(163)
Transactions with owners in their capacity as owners	..	6 506	..	..	6 506
Total equity as at 30 June 2024	**(34 791)**	**84 923**	**31 179**	**736**	**82 047**
2024-25 estimate					
Balance at 1 July 2024	(34 791)	84 923	31 179	736	82 047
Net result for the year	(3 331)	..	..	..	(3 331)
Other comprehensive income for the year	(22)	..	16	8	3
Dividends paid	(176)	..	..	..	(176)
Transactions with owners in their capacity as owners	..	7 188	..	..	7 188
Total equity as at 30 June 2025	**(38 321)**	**92 112**	**31 195**	**744**	**85 730**
2025-26 estimate					
Balance at 1 July 2025	(38 321)	92 112	31 195	744	85 730
Net result for the year	(17 600)	..	..	..	(17 600)
Other comprehensive income for the year	(9)	..	979	11	981
Dividends paid	(199)	..	..	..	(199)
Transactions with owners in their capacity as owners	..	24 419	..	..	24 419
Total equity as at 30 June 2026	**(56 130)**	**116 530**	**32 175**	**755**	**93 330**
2026-27 estimate					
Balance at 1 July 2026	(56 130)	116 530	32 175	755	93 330
Net result for the year	(2 861)	..	..	..	(2 861)
Other comprehensive income for the year	3	..	7	..	10
Dividends paid	(191)	..	..	..	(191)
Transactions with owners in their capacity as owners	..	6 125	..	..	6 125
Total equity as at 30 June 2027	**(59 180)**	**122 656**	**32 182**	**755**	**96 412**

Notes:

(a) *The* 2023-24 Budget *included a range of savings and efficiency initiatives that will be implemented by the PNFC sector. The impact of these initiatives is reflected in the estimates for the budget year and the three forward years.*

(b) *Balances represent actual opening balances at 1 July 2023 plus 2023-24 budgeted movements.*

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

	2023-24 *budget*	2023-24 *revised*	2024-25 *estimate*	2025-26 *estimate*	2026-27 *estimate*
Purchases of non-financial assets (including change in inventories)	8 117	8 602	6 908	7 116	6 275
Less: Sales of non-financial assets	(243)	(279)	(207)	(443)	(183)
Less: Depreciation and amortisation	(2 006)	(2 024)	(2 078)	(2 135)	(2 191)
Plus: Other movements in non-financial assets [(a)(b)]	6 082	5 720	5 245	22 530	5 005
Total net acquisition of non-financial assets from transactions	**11 950**	**12 019**	**9 868**	**27 068**	**8 906**

Notes:

(a) The other movements in non-financial assets primarily include fixed asset transfers from the general government sector to the public non-financial corporations sector and recognising service concession arrangements arising from public private partnerships.

(b) The public private partnerships across the budget and forward estimates relates to the North East Link – Primary Package (Tunnels) and the Homes Victoria Ground Lease Model Project 1 and 2.

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

($ million)

	2023-24 budget	2023-24 revised	2024-25 estimate	2025-26 estimate	2026-27 estimate
Revenue and income from transactions					
Taxation	34 407	35 287	37 529	39 311	41 219
Interest income	1 169	1 370	710	669	666
Dividends, income tax equivalent and rate equivalent income	886	1 794	951	765	833
Sales of goods and services	13 165	13 500	14 215	14 331	15 331
Grants	41 724	40 600	43 282	46 261	48 093
Other revenue and income	4 277	4 354	3 993	4 147	4 713
Total revenue and income from transactions	**95 627**	**96 904**	**100 680**	**105 484**	**110 855**
Expenses from transactions					
Employee expenses	36 896	36 611	37 701	38 739	40 409
Net superannuation interest expense	722	778	794	800	811
Other superannuation	3 935	3 813	3 805	3 853	3 926
Depreciation	7 866	8 040	8 535	8 925	9 472
Interest expense	5 979	6 202	7 245	8 510	9 676
Grant expense	15 153	15 346	15 512	15 374	15 441
Other operating expenses	30 542	31 371	29 562	29 673	31 596
Total expenses from transactions	**101 093**	**102 162**	**103 155**	**105 873**	**111 331**
Net result from transactions – Net operating balance	**(5 466)**	**(5 258)**	**(2 474)**	**(389)**	**(476)**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	62	56	56	299	45
Net gain/(loss) on financial assets or liabilities at fair value	60	9	82	159	175
Share of net profit/(loss) from associates/joint venture entities	30	30	32	36	4
Other gains/(losses) from other economic flows	(545)	(680)	(507)	(476)	(512)
Total other economic flows included in net result	**(393)**	**(585)**	**(337)**	**18**	**(288)**
Net result	**(5 859)**	**(5 843)**	**(2 812)**	**(371)**	**(764)**
Other economic flows – Other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	1 041	549	15 035	4 024	9 706
Remeasurement of superannuation defined benefit plans	852	2 541	567	549	528
Other movements in equity	8	123	3	(7)	(2)
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	(2)	17	13	18	18
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	(694)	652	(412)	9	138
Total other economic flows – Other comprehensive income	**1 206**	**3 882**	**15 206**	**4 592**	**10 387**
Comprehensive result – Total change in net worth	**(4 654)**	**(1 960)**	**12 394**	**4 221**	**9 623**
KEY FISCAL AGGREGATES					
Net operating balance	**(5 466)**	**(5 258)**	**(2 474)**	**(389)**	**(476)**
Less: Net acquisition of non-financial assets from transactions	18 004	20 481	17 177	15 681	13 019
Net lending/(borrowing)	**(23 470)**	**(25 739)**	**(19 651)**	**(16 069)**	**(13 496)**

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

	2024 budget [a]	2024 revised	2025 estimate	2026 estimate	2027 estimate
Assets					
Financial assets					
Cash and deposits	13 994	13 375	13 920	14 764	15 525
Advances paid	633	423	324	293	303
Receivables and contract assets	11 174	10 513	10 998	11 377	11 995
Investments, loans and placements	14 188	14 422	15 982	17 824	19 974
Investments accounted for using equity method	1 180	1 180	1 389	1 389	1 389
Investments in other sector entities	14 622	15 967	15 703	15 328	15 717
Total financial assets	**55 791**	**55 880**	**58 316**	**60 976**	**64 903**
Non-financial assets					
Inventories	1 519	2 468	2 266	2 523	1 965
Non-financial assets held for sale	116	93	60	54	40
Land, buildings, infrastructure, plant and equipment	428 510	429 622	462 220	482 274	505 934
Other non-financial assets	6 814	6 819	6 625	6 337	6 038
Total non-financial assets	**436 960**	**439 002**	**471 172**	**491 187**	**513 977**
Total assets	**492 750**	**494 882**	**529 488**	**552 163**	**578 880**
Liabilities					
Deposits held and advances received	1 641	1 600	1 598	1 552	1 539
Payables	38 127	37 080	36 503	35 727	34 770
Contract liabilities	529	615	606	610	611
Borrowings	184 730	187 155	209 771	228 225	245 655
Employee benefits	11 169	11 158	11 511	11 873	12 239
Superannuation	19 009	17 199	17 284	17 585	17 668
Other provisions	3 191	3 026	2 774	2 927	3 112
Total liabilities	**258 396**	**257 834**	**280 046**	**298 500**	**315 594**
Net assets	**234 355**	**237 048**	**249 442**	**253 663**	**263 286**
Accumulated surplus/(deficit)	64 722	66 528	64 274	64 780	64 541
Reserves	169 633	170 519	185 168	188 883	198 745
Net worth	**234 355**	**237 048**	**249 442**	**253 663**	**263 286**
FISCAL AGGREGATES					
Net financial worth	(202 605)	(201 955)	(221 730)	(237 524)	(250 691)
Net financial liabilities	217 227	217 921	237 433	252 852	266 408
Net debt	157 557	160 536	181 143	196 896	211 391

Note:
(a) Balances represent actual opening balances at 1 July 2023 plus 2023-24 budgeted movements.

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

($ million)

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Cash flows from operating activities					
Receipts					
Taxes received	33 651	35 082	37 107	38 818	40 722
Grants	41 726	39 736	43 281	46 261	48 093
Sales of goods and services [(a)]	14 149	14 297	15 312	15 490	16 588
Interest received	1 113	1 314	629	570	570
Dividends, income tax equivalent and rate equivalent receipts	1 167	1 951	1 177	764	832
Other receipts	2 333	2 861	2 565	2 667	3 041
Total receipts	**94 138**	**95 242**	**100 070**	**104 570**	**109 847**
Payments					
Payments for employees	(36 563)	(36 290)	(37 363)	(38 390)	(40 058)
Superannuation	(3 700)	(3 755)	(3 946)	(3 803)	(4 125)
Interest paid	(5 635)	(5 857)	(6 981)	(8 373)	(9 618)
Grants and subsidies	(15 055)	(15 103)	(15 329)	(15 232)	(15 369)
Goods and services [(a)]	(30 609)	(31 636)	(30 333)	(29 768)	(31 915)
Other payments	(928)	(1 589)	(1 059)	(1 014)	(1 063)
Total payments	**(92 490)**	**(94 230)**	**(95 012)**	**(96 580)**	**(102 149)**
Net cash flows from operating activities	**1 648**	**1 012**	**5 058**	**7 990**	**7 698**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(23 698)	(25 717)	(24 096)	(24 154)	(21 234)
Sales of non-financial assets	787	849	792	1 178	649
Net cash flows from investments in non-financial assets	**(22 911)**	**(24 869)**	**(23 304)**	**(22 976)**	**(20 585)**
Net cash flows from investments in financial assets for policy purposes	164	492	(219)	444	(259)
Subtotal	**(22 747)**	**(24 376)**	**(23 523)**	**(22 532)**	**(20 844)**
Net cash flows from investment in financial assets for liquidity management purposes	(9 508)	(9 785)	(1 503)	(1 683)	(1 951)
Net cash flows from investing activities	**(32 255)**	**(34 161)**	**(25 026)**	**(24 215)**	**(22 795)**
Cash flows from financing activities					
Advances received (net)	(64)	16	8	(48)	..
Net borrowings	22 637	24 581	20 429	17 071	15 817
Deposits received (net)	(12)	(54)	(11)	2	(14)
Net cash flows from financing activities	**22 561**	**24 544**	**20 427**	**17 026**	**15 803**
Net increase/(decrease) in cash and cash equivalents	**(8 047)**	**(8 605)**	**459**	**801**	**707**
Cash and cash equivalents at beginning of reporting period [(b)(c)]	21 930	21 930	13 325	13 784	14 585
Cash and cash equivalents at end of reporting period [(b)(c)]	**13 883**	**13 325**	**13 784**	**14 585**	**15 291**

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

($ million)

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
FISCAL AGGREGATES					
Net cash flows from operating activities	1 648	1 012	5 058	7 990	7 698
Net cash flows from investments in non-financial assets	(22 911)	(24 869)	(23 304)	(22 976)	(20 585)
Cash surplus/(deficit)	**(21 263)**	**(23 856)**	**(18 246)**	**(14 986)**	**(12 886)**

Notes:

(a) Sales of goods and services and payments for goods and services are inclusive of goods and services tax.

(b) 2023-24 Budget *figures have been restated to represent actual opening balances at 1 July 2023.*

(c) Cash and cash equivalents at the end of the reporting period does not equal cash and deposits on the balance sheet. This is due to overdrafts being included in the cash flow statement balances.

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

($ million)

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
2023-24 budget [(a)]					
Balance at 1 July 2023	69 741	151 941	15 243	2 082	239 008
Net result for the year	(5 859)	..	..	..	(5 859)
Other comprehensive income for the year	840	1 041	(694)	18	1 206
Transfer to/(from) accumulated surplus	..	..	..	..	..
Total equity as at 30 June 2024	**64 722**	**152 983**	**14 550**	**2 100**	**234 355**
2023-24 revised					
Balance at 1 July 2023	69 741	151 941	15 243	2 082	239 008
Net result for the year	(5 843)	..	..	..	(5 843)
Other comprehensive income for the year	2 630	549	652	52	3 882
Transfer to/(from) accumulated surplus	..	..	..	..	..
Total equity as at 30 June 2024	**66 528**	**152 491**	**15 895**	**2 134**	**237 048**
2024-25 estimate					
Balance at 1 July 2024	66 528	152 491	15 895	2 134	237 048
Net result for the year	(2 812)	..	..	..	(2 812)
Other comprehensive income for the year	558	15 035	(412)	26	15 206
Transfer to/(from) accumulated surplus	..	..	..	..	..
Total equity as at 30 June 2025	**64 274**	**167 525**	**15 483**	**2 160**	**249 442**
2025-26 estimate					
Balance at 1 July 2025	64 274	167 525	15 483	2 160	249 442
Net result for the year	(371)	..	..	..	(371)
Other comprehensive income for the year	531	4 024	9	29	4 592
Transfer to/(from) accumulated surplus	345	(345)	..	..	..
Total equity as at 30 June 2026	**64 780**	**171 204**	**15 491**	**2 188**	**253 663**
2026-27 estimate					
Balance at 1 July 2026	64 780	171 204	15 491	2 188	253 663
Net result for the year	(764)	..	..	..	(764)
Other comprehensive income for the year	525	9 706	138	18	10 387
Transfer to/(from) accumulated surplus	..	..	..	..	..
Total equity as at 30 June 2027	**64 541**	**180 910**	**15 629**	**2 206**	**263 286**

Note:
(a) Balances represent actual opening balances at 1 July 2023 plus 2023-24 budgeted movements.

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

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Purchases of non-financial assets (including change in inventories)	23 277	25 525	24 070	24 128	21 175
Less: Sales of non-financial assets	(787)	(849)	(792)	(1 178)	(649)
Less: Depreciation and amortisation	(7 866)	(8 040)	(8 535)	(8 925)	(9 472)
Plus: Other movements in non-financial assets [(a)(b)]	3 380	3 844	2 434	1 656	1 966
Total net acquisition of non-financial assets from transactions	**18 004**	**20 481**	**17 177**	**15 681**	**13 019**

Notes:

(a) The other movements in non-financial assets includes recognising right-of-use assets under lease arrangements, and recognising service concession arrangements arising from public private partnerships.

(b) The public private partnerships across the budget and forward estimates relate to the High Capacity Metro Trains, the Metro Tunnel, the new Melton Hospital, the new Footscray Hospital, the Frankston Hospital Redevelopment, the North East Link – Primary Package (Tunnels), the Homes Victoria Ground Lease Model Project 1 and 2, and the West Gate Tunnel.

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

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Revenue and income from transactions					
Interest income	5 094	5 548	6 668	7 918	9 225
Dividend income	1 879	2 045	2 109	2 239	2 773
Sales of goods and services	7 793	7 860	8 223	8 605	9 005
Grants	25	25	27	29	31
Other revenue and income	22	23	23	24	25
Total revenue and income from transactions	**14 813**	**15 500**	**17 051**	**18 815**	**21 058**
Expenses from transactions					
Employee expenses	545	551	561	569	582
Other superannuation	52	55	56	58	60
Depreciation	85	84	82	72	65
Interest expense	4 810	5 176	6 346	7 587	8 856
Grant expense	1 150	181	279	274	923
Other operating expenses	11 315	12 222	13 109	13 985	14 875
Other property expenses	8	250	7	11	34
Total expenses from transactions	**17 965**	**18 518**	**20 440**	**22 556**	**25 395**
Net result from transactions – net operating balance (b)	**(3 152)**	**(3 018)**	**(3 389)**	**(3 741)**	**(4 337)**
Other economic flows included in net result					
Net gain/(loss) on financial assets or liabilities at fair value	282	1 671	395	515	993
Other gains/(losses) from other economic flows	1 526	2 804	1 874	1 976	1 954
Total other economic flows included in net result	**1 808**	**4 475**	**2 269**	**2 491**	**2 946**
Net result	**(1 344)**	**1 457**	**(1 120)**	**(1 250)**	**(1 390)**
Other economic flows – other comprehensive income					
Total other economic flows – other comprehensive income	..	..	..	..	..
Comprehensive result – total change in net worth	**(1 344)**	**1 457**	**(1 120)**	**(1 250)**	**(1 390)**
KEY FISCAL AGGREGATES					
Net operating balance	**(3 152)**	**(3 018)**	**(3 389)**	**(3 741)**	**(4 337)**
Less: Net acquisition of non-financial assets from transactions	(47)	(46)	(67)	(59)	(52)
Net lending/(borrowing)	**(3 104)**	**(2 972)**	**(3 321)**	**(3 682)**	**(4 285)**

Notes:

(a) *The* 2023-24 Budget *included a range of savings and efficiency initiatives that will be implemented by the public financial corporations (PFC) sector. The impact of these initiatives is reflected in the estimates for the budget year and the three forward years.*

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

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

	2024 budget [(a)]	*2024 revised*	*2025 estimate*	*2026 estimate*	*2027 estimate*
Assets					
Financial assets					
Cash and deposits	3 841	3 589	3 661	3 717	3 935
Advances paid	42	27	19	14	10
Receivables	2 286	2 240	2 194	2 205	2 218
Investments, loans and placements	64 151	58 763	61 585	64 412	67 905
Loans receivable from non-financial public sector [(b)]	156 736	159 183	180 790	199 431	216 409
Investments accounted for using equity method	13	13	13	13	13
Total financial assets	**227 069**	**223 815**	**248 262**	**269 793**	**290 490**
Non-financial assets					
Land, buildings, infrastructure, plant and equipment	300	316	281	240	199
Other non-financial assets	3 534	3 462	3 933	4 439	4 818
Total non-financial assets	**3 833**	**3 778**	**4 214**	**4 679**	**5 017**
Total assets	**230 903**	**227 593**	**252 476**	**274 472**	**295 507**
Liabilities					
Deposits held and advances received	212	209	208	196	186
Payables	2 430	2 572	2 356	2 365	2 356
Borrowings [(c)]	166 298	161 339	183 421	202 453	219 796
Employee benefits	128	131	135	138	141
Other provisions	50 217	49 561	53 931	58 613	63 547
Total liabilities	**219 285**	**213 813**	**240 052**	**263 765**	**286 025**
Net assets [(d)]	**11 617**	**13 780**	**12 425**	**10 707**	**9 482**
Accumulated surplus/(deficit)	11 110	13 275	11 771	9 950	8 472
Reserves	507	505	654	757	1 010
Net worth [(d)]	**11 617**	**13 780**	**12 425**	**10 707**	**9 482**
FISCAL AGGREGATES					
Net financial worth	7 784	10 002	8 211	6 028	4 465
Net financial liabilities	(7 784)	(10 002)	(8 211)	(6 028)	(4 465)
Net debt	(58 260)	(60 014)	(62 426)	(64 925)	(68 278)

Notes:
(a) Balances represent actual opening balances at 1 July 2023 plus 2023-24 budgeted movements.
(b) Loans receivable from the non-financial public sector are at amortised cost.
(c) Borrowings with the private sector are at market value.
(d) Treasury Corporation of Victoria's external loan liabilities are at mark-to-market value, while the corresponding assets, that is lending to the non-financial public sector, are at historical value.

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

	2023-24 *budget*	2023-24 *revised*	2024-25 *estimate*	2025-26 *estimate*	2026-27 *estimate*
Cash flows from operating activities					
Receipts					
Grants	24	16	27	29	31
Sales of goods and services [(a)]	8 548	8 730	9 025	9 449	9 886
Interest received	4 782	5 238	6 358	7 608	8 915
Dividend receipts	1 879	2 045	2 109	2 239	2 773
Other receipts	123	156	116	58	57
Total receipts	**15 356**	**16 185**	**17 635**	**19 383**	**21 661**
Payments					
Payments for employees	(542)	(544)	(557)	(565)	(579)
Superannuation	(52)	(55)	(56)	(58)	(60)
Interest paid	(4 828)	(4 911)	(6 079)	(7 308)	(8 590)
Grants and subsidies	(1 150)	(172)	(279)	(274)	(922)
Goods and services [(a)]	(7 639)	(7 937)	(8 134)	(8 679)	(9 269)
Other payments	(289)	(400)	(239)	(10)	(11)
Total payments	**(14 500)**	**(14 018)**	**(15 345)**	**(16 895)**	**(19 430)**
Net cash flows from operating activities	**857**	**2 167**	**2 290**	**2 488**	**2 230**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(39)	(39)	(15)	(14)	(14)
Sales of non-financial assets	1	1	1	1	1
Net cash flows from investments in non-financial assets	**(38)**	**(38)**	**(14)**	**(13)**	**(13)**
Net cash flows from investments in financial assets for policy purposes	13	30	8	4	4
Subtotal	**(24)**	**(8)**	**(6)**	**(9)**	**(9)**
Net cash flows from investment in financial assets for liquidity management purposes	(34 719)	(32 150)	(23 724)	(20 640)	(19 164)
Net cash flows from investing activities	**(34 744)**	**(32 158)**	**(23 730)**	**(20 649)**	**(19 173)**
Cash flows from financing activities					
Advances received (net)	(29)	(61)	(16)	(9)	(8)
Net borrowings	34 088	30 580	21 749	18 696	17 006
Deposits received (net)	29	57	14	(3)	(3)
Other financing (net)	(460)	(1 098)	(235)	(468)	166
Net cash flows from financing activities	**33 628**	**29 479**	**21 512**	**18 217**	**17 161**
Net increase/(decrease) in cash and cash equivalents	**(259)**	**(512)**	**72**	**56**	**219**
Cash and cash equivalents at beginning of reporting period [(b)]	4 100	4 100	3 589	3 661	3 717
Cash and cash equivalents at end of reporting period [(b)]	**3 841**	**3 589**	**3 661**	**3 717**	**3 935**
FISCAL AGGREGATES					
Net cash flows from operating activities	857	2 167	2 290	2 488	2 230
Dividends paid	(610)	(1 247)	(384)	(84)	(86)
Net cash flows from investments in non-financial assets	(38)	(38)	(14)	(13)	(13)
Cash surplus/(deficit)	**209**	**881**	**1 892**	**2 390**	**2 132**

Notes:

(a) Sales of goods and services and payments for goods and services are inclusive of goods and services tax.

(b) 2023-24 Budget *figures have been restated to represent actual opening balances at 1 July 2023.*

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

	Accumulated surplus/(deficit)	*Contributions by owners*	*Non-financial assets revaluation surplus*	*Other reserves*	*Total*
2023-24 budget [(b)]					
Balance at 1 July 2023	13 065	290	10	57	13 421
Net result for the year	(1 344)	..	..	..	(1 344)
Other comprehensive income for the year	(1)	..	..	1	..
Dividends paid	(610)	..	..	..	(610)
Transactions with owners in their capacity as owners	..	149	..	..	149
Total equity as at 30 June 2024	**11 110**	**439**	**10**	**58**	**11 617**
2023-24 revised					
Balance at 1 July 2023	13 065	290	10	57	13 421
Net result for the year	1 457	..	..	..	1 457
Other comprehensive income for the year	1	..	..	(1)	..
Dividends paid	(1 247)	..	..	..	(1 247)
Transfer to/(from) accumulated surplus	..	..	..	..	..
Transactions with owners in their capacity as owners	..	149	..	..	149
Total equity as at 30 June 2024	**13 275**	**439**	**10**	**56**	**13 780**
2024-25 estimate					
Balance at 1 July 2024	13 275	439	10	56	13 780
Net result for the year	(1 120)	..	..	..	(1 120)
Other comprehensive income for the year	(1)	..	..	1	..
Dividends paid	(384)	..	..	..	(384)
Transactions with owners in their capacity as owners	..	149	..	..	149
Total equity as at 30 June 2025	**11 771**	**588**	**10**	**57**	**12 425**
2025-26 estimate					
Balance at 1 July 2025	11 771	588	10	57	12 425
Net result for the year	(1 250)	..	..	..	(1 250)
Other comprehensive income for the year	(2)	..	..	2	..
Dividends paid	(84)	..	..	..	(84)
Transfer to/(from) accumulated surplus	(485)	485	..	..	..
Transactions with owners in their capacity as owners	..	(384)	..	..	(384)
Total equity as at 30 June 2026	**9 950**	**689**	**10**	**58**	**10 707**
2026-27 estimate					
Balance at 1 July 2026	9 950	689	10	58	10 707
Net result for the year	(1 390)	..	..	..	(1 390)
Other comprehensive income for the year	(2)	..	..	2	..
Dividends paid	(86)	..	..	..	(86)
Transactions with owners in their capacity as owners	..	251	..	..	251
Total equity as at 30 June 2027	**8 472**	**941**	**10**	**60**	**9 482**

Notes:

(a) The 2023-24 Budget *included a range of savings and efficiency initiatives that will be implemented by the PFC sector. The impact of these initiatives is reflected in the estimates for the budget year and the three forward years.*

(b) *Balances represent actual opening balances at 1 July 2023 plus 2023-24 budgeted movements.*

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

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Purchases of non-financial assets less sale of non-financial assets (including change in inventories)	38	38	14	13	13
Less: Depreciation and amortisation	(85)	(84)	(82)	(72)	(65)
Total net acquisition of non-financial assets from transactions	**(47)**	**(46)**	**(67)**	**(59)**	**(52)**

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

($ million)

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Revenue and income from transactions					
Taxation	34 383	35 258	37 499	39 280	41 188
Interest income	1 753	2 198	1 483	1 471	1 521
Dividend income	2 147	2 354	2 669	2 909	3 508
Sales of goods and services	19 198	19 632	20 609	21 020	22 327
Grants	40 663	40 436	43 108	46 025	47 205
Other revenue and income	4 299	4 377	4 016	4 171	4 737
Total revenue and income from transactions	**102 443**	**104 254**	**109 384**	**114 876**	**120 486**
Expenses from transactions					
Employee expenses	36 623	36 362	37 448	38 477	40 143
Net superannuation interest expense	722	778	794	800	811
Other superannuation	3 987	3 868	3 861	3 911	3 985
Depreciation	7 950	8 124	8 616	8 996	9 536
Interest expense	6 287	6 665	7 704	8 988	10 171
Grant expense	15 237	15 358	15 609	15 403	15 464
Other operating expenses	40 872	42 616	41 605	42 521	45 260
Total expenses from transactions	**111 678**	**113 772**	**115 638**	**119 096**	**125 370**
Net result from transactions – Net operating balance	**(9 234)**	**(9 518)**	**(6 254)**	**(4 221)**	**(4 883)**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	62	56	56	299	45
Net gain/(loss) on financial assets or liabilities at fair value	342	1 680	476	674	1 168
Share of net profit/(loss) from associates/joint venture entities	30	30	32	36	4
Other gains/(losses) from other economic flows	737	1 912	831	947	1 001
Total other economic flows included in net result	**1 171**	**3 678**	**1 396**	**1 956**	**2 218**
Net result	**(8 064)**	**(5 840)**	**(4 858)**	**(2 265)**	**(2 666)**
Other economic flows – Other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	1 041	549	15 035	4 024	9 706
Remeasurement of superannuation defined benefit plans	852	2 541	567	549	528
Other movements in equity	8	123	3	(7)	(2)
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	(2)	17	13	18	18
Total other economic flows – Other comprehensive income	**1 899**	**3 231**	**15 618**	**4 583**	**10 250**
Comprehensive result – Total change in net worth	**(6 165)**	**(2 609)**	**10 760**	**2 318**	**7 584**
KEY FISCAL AGGREGATES					
Net operating balance	**(9 234)**	**(9 518)**	**(6 254)**	**(4 221)**	**(4 883)**
Less: Net acquisition of non-financial assets from transactions	17 957	20 435	17 110	15 622	12 968
Net lending/(borrowing)	**(27 191)**	**(29 953)**	**(23 364)**	**(19 842)**	**(17 851)**

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

	2024 budget [(a)]	2024 revised	2025 estimate	2026 estimate	2027 estimate
Assets					
Financial assets					
Cash and deposits	17 468	16 906	17 528	18 433	19 417
Advances paid	633	423	324	293	303
Receivables and contract assets	12 990	12 160	12 825	13 213	13 841
Investments, loans and placements	78 269	73 116	77 484	82 151	87 792
Investments accounted for using equity method	1 193	1 193	1 402	1 402	1 402
Total financial assets	**110 553**	**103 799**	**109 563**	**115 492**	**122 755**
Non-financial assets					
Inventories	1 519	2 468	2 266	2 523	1 965
Non-financial assets held for sale	116	93	60	54	40
Land, buildings, infrastructure, plant and equipment	428 808	429 937	462 500	482 513	506 133
Other non-financial assets	6 986	6 974	6 716	6 380	6 042
Total non-financial assets	**437 430**	**439 472**	**471 542**	**491 470**	**514 180**
Total assets	**547 983**	**543 271**	**581 106**	**606 962**	**636 935**
Liabilities					
Deposits held and advances received	1 766	1 709	1 699	1 649	1 631
Payables	40 078	39 061	38 494	37 724	36 757
Contract liabilities	529	615	606	610	611
Borrowings	193 872	189 229	212 332	231 184	248 986
Employee benefits	11 297	11 290	11 645	12 011	12 380
Superannuation	19 009	17 199	17 284	17 585	17 668
Other provisions	53 401	52 581	56 698	61 532	66 651
Total liabilities	**319 952**	**311 684**	**338 758**	**362 296**	**384 685**
Net assets	**228 032**	**231 587**	**242 347**	**244 665**	**252 249**
Accumulated surplus/(deficit)	72 881	76 897	72 596	71 206	69 064
Reserves	155 151	154 690	169 751	173 460	183 186
Net worth	**228 032**	**231 587**	**242 347**	**244 665**	**252 249**
FISCAL AGGREGATES					
Net financial worth	(209 398)	(207 885)	(229 195)	(246 804)	(261 930)
Net financial liabilities	209 398	207 885	229 195	246 804	261 930
Net debt	99 268	100 493	118 695	131 956	143 106

Note:
(a) Balances represent actual opening balances at 1 July 2023 plus 2023-24 budgeted movements.

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

	2023-24 budget	2023-24 revised	2024-25 estimate	2025-26 estimate	2026-27 estimate
Cash flows from operating activities					
Receipts					
Taxes received	33 627	35 053	37 077	38 788	40 691
Grants	40 665	39 572	43 107	46 025	47 205
Sales of goods and services [(a)]	20 925	21 292	22 512	23 022	24 465
Interest received	1 386	1 833	1 092	1 063	1 117
Dividend receipts	2 147	2 349	2 664	2 909	3 508
Other receipts	2 456	3 018	2 681	2 725	3 098
Total receipts	**101 206**	**103 117**	**109 132**	**114 532**	**120 083**
Payments					
Payments for employees	(36 287)	(36 034)	(37 107)	(38 125)	(39 789)
Superannuation	(3 752)	(3 810)	(4 003)	(3 861)	(4 185)
Interest paid	(5 962)	(6 056)	(7 173)	(8 574)	(9 846)
Grants and subsidies	(15 139)	(15 115)	(15 427)	(15 261)	(15 392)
Goods and services [(a)]	(37 251)	(38 589)	(37 406)	(37 310)	(39 972)
Other payments	(928)	(1 589)	(1 059)	(1 014)	(1 063)
Total payments	**(99 318)**	**(101 193)**	**(102 175)**	**(104 146)**	**(110 247)**
Net cash flows from operating activities	**1 888**	**1 924**	**6 958**	**10 386**	**9 836**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(23 737)	(25 757)	(24 111)	(24 167)	(21 248)
Sales of non-financial assets	788	850	793	1 179	650
Net cash flows from investments in non-financial assets	**(22 949)**	**(24 907)**	**(23 318)**	**(22 988)**	**(20 598)**
Net cash flows from investments in financial assets for policy purposes	312	642	(71)	60	(8)
Subtotal	**(22 637)**	**(24 265)**	**(23 389)**	**(22 928)**	**(20 605)**
Net cash flows from investment in financial assets for liquidity management purposes	(13 830)	(9 090)	(3 600)	(3 680)	(4 135)
Net cash flows from investing activities	**(36 467)**	**(33 355)**	**(26 989)**	**(26 608)**	**(24 740)**
Cash flows from financing activities					
Advances received (net)	(78)	(14)	..	(52)	(4)
Net borrowings	26 349	22 676	20 578	17 133	15 852
Deposits received (net)	(12)	(54)	(11)	2	(14)
Net cash flows from financing activities	**26 258**	**22 609**	**20 567**	**17 083**	**15 834**
Net increase/(decrease) in cash and cash equivalents	**(8 321)**	**(8 822)**	**536**	**861**	**930**
Cash and cash equivalents at beginning of reporting period [(b)(c)]	25 678	25 678	16 857	17 392	18 253
Cash and cash equivalents at end of reporting period [(b)(c)]	**17 357**	**16 857**	**17 392**	**18 253**	**19 183**

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

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
FISCAL AGGREGATES					
Net cash flows from operating activities	1 888	1 924	6 958	10 386	9 836
Net cash flows from investments in non-financial assets	(22 949)	(24 907)	(23 318)	(22 988)	(20 598)
Cash surplus/(deficit)	**(21 061)**	**(22 982)**	**(16 361)**	**(12 602)**	**(10 762)**

Notes:

(a) Sales of goods and services and payments for goods and services are inclusive of goods and services tax.

(b) 2023-24 Budget *figures have been restated to represent actual opening balances at 1 July 2023.*

(c) Cash and cash equivalents at the end of the reporting period does not equal cash and deposits on the balance sheet. This is due to overdrafts being included in the cash flow statement balances.

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

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*	*Other reserves*	*Total*
2023-24 budget [(a)]				
Balance at 1 July 2023	80 106	151 951	2 139	234 196
Net result for the year	(8 064)	..	..	(8 064)
Other comprehensive income for the year	838	1 041	20	1 899
Transfer to/(from) accumulated surplus	..	..	..	..
Total equity as at 30 June 2024	**72 881**	**152 992**	**2 159**	**228 032**
2023-24 revised				
Balance at 1 July 2023	80 106	151 951	2 139	234 196
Net result for the year	(5 840)	..	..	(5 840)
Other comprehensive income for the year	2 630	549	51	3 231
Transfer to/(from) accumulated surplus	..	..	..	..
Total equity as at 30 June 2024	**76 897**	**152 500**	**2 190**	**231 587**
2024-25 estimate				
Balance at 1 July 2024	76 897	152 500	2 190	231 587
Net result for the year	(4 858)	..	..	(4 858)
Other comprehensive income for the year	557	15 035	27	15 618
Transfer to/(from) accumulated surplus	..	..	..	..
Total equity as at 30 June 2025	**72 596**	**167 535**	**2 217**	**242 347**
2025-26 estimate				
Balance at 1 July 2025	72 596	167 535	2 217	242 347
Net result for the year	(2 265)	..	..	(2 265)
Other comprehensive income for the year	529	4 024	30	4 583
Transfer to/(from) accumulated surplus	345	(345)	..	..
Total equity as at 30 June 2026	**71 206**	**171 213**	**2 247**	**244 665**
2026-27 estimate				
Balance at 1 July 2026	71 206	171 213	2 247	244 665
Net result for the year	(2 666)	..	..	(2 666)
Other comprehensive income for the year	524	9 706	19	10 250
Transfer to/(from) accumulated surplus	..	..	..	..
Total equity as at 30 June 2027	**69 064**	**180 919**	**2 266**	**252 249**

Note:
(a) Balances represent actual opening balances at 1 July 2023 plus 2023-24 budgeted movements.

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

	2023-24 budget	*2023-24 revised*	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Purchases of non-financial assets (including change in inventories)	23 316	25 565	24 085	24 141	21 189
Less: Sales of non-financial assets	(788)	(850)	(793)	(1 179)	(650)
Less: Depreciation and amortisation	(7 950)	(8 124)	(8 616)	(8 996)	(9 536)
Plus: Other movements in non-financial assets [(a)(b)]	3 380	3 844	2 434	1 656	1 966
Total net acquisition of non-financial assets from transactions	**17 957**	**20 435**	**17 110**	**15 622**	**12 968**

Notes:

(a) The other movements in non-financial assets includes recognising right-of-use assets under lease arrangements, and recognising service concession arrangements arising from public private partnerships.

(b) The public private partnerships across the budget and forward estimates relate to the High Capacity Metro Trains, the Metro Tunnel, the new Melton Hospital, the new Footscray Hospital, the Frankston Hospital Redevelopment, the North East Link – Primary Package (Tunnels), the Homes Victoria Ground Lease Model Project 1 and 2, and the West Gate Tunnel.

CHAPTER 6 – CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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

CONTINGENT ASSETS

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 6.1 contains quantifiable contingent assets as at 22 November 2023 (arising from outside of government).

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

	As at Nov 2023	*Published budget estimate* [(a)]
Guarantees, indemnities and warranties	66	75
Legal proceedings and disputes	..	2
Other	165	79
Total contingent assets	**231**	**155**

Note:
(a) As published in the 2023-24 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 of either of the following:
  - 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 6.2 contains quantifiable contingent liabilities as at 22 November 2023.

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

	As at Nov 2023	*Published budget estimate [(a)]*
Guarantees, indemnities and warranties [(b)]	1 042	1 042
Legal proceedings and disputes	277	324
Other	353	331
Non-general government debt [(c)]	15 729	15 476
Total contingent liabilities	**17 401**	**17 173**

Notes:
(a) *As published in the* 2023-24 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 Energy, Environment and Climate Action 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 and the Department of Jobs, Precincts and Regions relating to economic losses suffered by Victorian businesses under Stage 3 and 4 public health restrictions. The Victorian Managed Insurance Authority (VMIA) has been notified of this proceeding and it is intended that 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 and Planning has received and may receive notifications under the contractual agreements by the contractors in relation to the possible impact of COVID-19 on a number of projects. Current and possible future claims cannot be reliably estimated at this stage, as quantifiable claims are still under review and/or have not yet been provided for under the contract.

It is not possible to estimate the financial effect of these claims at the date of this report.

Department of Education

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

- Volunteer school workers and volunteer student workers: the *Education and Training Reform Act 2006* provides indemnity for personal injuries or death (and at the discretion of the Minister, for property damage) suffered by volunteer school workers and volunteer student workers arising out of or in the course of engaging in school work or community work respectively.
- Teaching service and public service employees: if a Department employee is named as a defendant in a civil proceeding (for example, 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* (the Act) was assented 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

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

The 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, and any legal claims that may be made.

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 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, local government infrastructure and other infrastructure. These impacts continue to be felt in many local government areas across regional Victoria and metropolitan Melbourne. The Victorian and Commonwealth governments are working cooperatively to implement relief and recovery initiatives to be cost shared under the Disaster Recovery Funding Arrangements (DRFA). The Victorian Government has also initiated a number of separate programs not eligible under the DRFA to support communities impacted by the flood event.

The State is insured by policies with the VMIA and may be able to recover certain costs that relate to flood repairs and recovery required to State owned assets and infrastructure through these policies.

At this stage it is not possible to accurately quantify the full financial effects of these events.

Per-fluoroalkyl and poly-fluoroalkyl substances (known as PFAS)

Fire Rescue Victoria and the Country Fire Authority (State Fire Services) has determined that there are per-fluoroalkyl and poly-fluoroalkyl substances contamination at specific State Fire Service properties and adjoining surroundings. The State Fire Services continue to test for exposure across all sites and locations. Due to the ongoing complexities of each site and adjoining surroundings, together with the multiple stages of testing required to establish the degree of penetration, the State Fire Services are unable to estimate an underlying value for this liability. This is likely to include any remediation works which may be required to meet environmental and people health and safety obligations across all of the sites while this testing continues and a complete program of works to remediate related risks.

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.

The 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 and Planning (DTP) is party to contractual arrangements from 30 November 2017, with franchisees to operate across the state:

- metropolitan tram services until 1 December 2024
- metropolitan train services until 7 June 2026.

The major contingent liabilities arising in the event of early termination or expiry of the contracts are:

- partnership assets – to maintain continuity of services, at early termination or expiry of the franchise contract, assets will revert to DTP or a successor. In the case of some assets, a reversion back to DTP would entail those assets being purchased
- unfunded superannuation – at the early termination or expiry of the contract, DTP 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.

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 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 insurances. The VMIA also provides domestic building insurance to Victorian residential builders.

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 the VMIA reinsures in the private market is borne by the State.

The State, under separate deeds of indemnity, has agreed to reimburse the 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 the 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 – SPECIFIC POLICY INITIATIVES AFFECTING THE BUDGET POSITION

Appendix A outlines specific policy initiatives that affect outputs and assets, including Treasurer's Advances, agreed by the Government since the *2023-24 Budget*.

The following tables provide details of:

- revenue initiatives
- output and asset initiatives for departments.

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

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

REVENUE INITIATIVES

Table A.1: Revenue initiatives **($ million)**

	2023-24	2024-25	2025-26	2026-27
Revenue initiatives				
Reforms to the Vacant Residential Land Tax	..	6.0	36.0	36.0
Total revenue initiatives	**..**	**6.0**	**36.0**	**36.0**

Revenue initiatives

Reforms to the Vacant Residential Land Tax

From 1 January 2025, the Vacant Residential Land Tax (VRLT) will be expanded across Victoria to include outer Melbourne and regional Victoria. Currently, the VRLT applies in specified areas covering inner and middle Melbourne suburbs. The VRLT will also be extended from 1 January 2026 to apply to unimproved residential land in metropolitan Melbourne that remains undeveloped for at least five years. The reforms will provide a financial incentive for property owners to rent out empty homes or develop long-term unimproved vacant land.

Existing exemptions from the VRLT will continue to apply. The VRLT will also not apply where any property is exempt from land tax. New exemptions will be established for land contiguous to a principal place of residence and land that is infeasible to develop. Transitional arrangements are in place for uninhabitable residential properties in outer suburban Melbourne and regional Victoria.

Subsequent to the revenue estimates in Table A.1: Revenue Initiatives being settled, additional amendments were made to the VRLT, including:

- from 1 January 2025, variable VRLT rates will apply to vacant dwellings based on the number of consecutive tax years they have been liable for VRLT, up to a maximum of 3 per cent for properties liable for three consecutive tax years
- permitting the VRLT holiday home exemption period to be fulfilled by a ‘close relative’ of the owner or vested beneficiary, and
- extending the ‘new residential premises’ exemption to three years, provided the owner has made genuine and reasonable efforts to sell the land since construction completed. Where a new residential premises qualifying for this exemption continues to be unoccupied and unsold after this time, the land will be assessed for VRLT at a rate of 1 per cent until it is sold.

WHOLE OF GOVERNMENT – REGIONAL PACKAGE

Output initiatives

Table A.2: Output initiatives – Regional Package **($ million)**

	2023-24	2024-25	2025-26	2026-27
Regional Economic Development and Participation Package	77.1	176.6	160.3	61.0
Regional Housing Fund	tbc	tbc	tbc	tbc
Regional Sport Infrastructure Package	tbc	tbc	tbc	tbc
Total output initiatives	**77.1**	**176.6**	**160.3**	**61.0**

Regional Economic Development and Participation Package

Funding is provided for the Regional Economic Development and Participation Package as part of the $2 billion Regional Package to support lasting economic and community benefits in regional Victoria, including through:

- Aboriginal Economic Development Fund
- All Abilities Sports Fund
- Council Support Package
- Growing food and fibre exports
- Regional Community Sport Development Fund
- Regional Multicultural Festivals
- Regional Tourism and Events Fund
- Regional Tourism Marketing
- Regional Worker Accommodation Package
- Tiny Towns Fund.

This initiative contributes to the Department of Jobs, Skills, Industry and Regions':

- Jobs output
- Regional Development output
- Sport and Recreation output.
- Tourism and Major Events output
- Trade and Investment output.

This initiative contributes to the Departments of Families, Fairness and Housing's Multicultural Affairs Policy and Programs output.

Regional Housing Fund

Refer to the asset initiative for a description of this initiative.

Regional Sport Infrastructure Package

Funding is provided for the Regional Sport Infrastructure Package as part of the $2 billion Regional Package to deliver new and upgraded sports facilities for regional communities across Bendigo, Ballarat, Geelong, Gippsland and Shepparton.

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

Asset initiatives

Table A.3: Asset initiatives – Regional Package **($ million)**

	2023-24	*2024-25*	*2025-26*	*2026-27*	*TEI*
Regional Housing Fund	tbc	tbc	tbc	tbc	tbc
Total asset initiatives	**..**	**..**	**..**	**..**	**..**

Regional Housing Fund

Funding is provided for a new $1 billion Regional Housing Fund as part of the $2 billion Regional Package to deliver more than 1 300 new homes across regional Victoria. The new homes will include a mix of social and affordable housing.

This initiative contributes to the Department of Families, Fairness and Housing's Housing Assistance output.

WHOLE OF GOVERNMENT – HOUSING STATEMENT

Revenue initiatives

Table A.4: Revenue initiatives – Housing Statement **($ million)**

	2023-24	*2024-25*	*2025-26*	*2026-27*
Short Stay Levy	..	37.5	75.0	75.0
Total revenue initiatives	**..**	**37.5**	**75.0**	**75.0**

Short Stay Levy

From 1 January 2025, the Government will introduce a 7.5 per cent levy on short stay accommodation in Victoria. The levy is intended to encourage the return of properties to the long-term rental market, and to raise revenue for Homes Victoria to spend on social and affordable housing, with 25 per cent of funds directly invested in Regional Victoria.

Output initiatives

Table A.5: Output initiatives – Housing Statement **($ million)**

	2023-24	*2024-25*	*2025-26*	*2026-27*
Additional investment in public housing system	..	37.5	75.0	75.0
Delivering a Rental Stress Support Package	2.0	..	..	..
Planning reform initiatives to support housing	21.5	29.3	22.8	10.2
Public Housing Revitalisation	3.0	3.0	3.0	3.0
Social Housing Accelerator Program	3.6	6.5	12.6	8.9
Total output initiatives	**30.2**	**76.4**	**113.4**	**97.2**

Additional investment in public housing system

Funding sourced from the State's short-stay accommodation levy is provided as an additional investment in the public housing system, with at least 25 per cent to be invested in Regional Victoria.

This initiative contributes to the Department of Families, Fairness and Housing's Housing Assistance output.

Delivering a Rental Stress Support Package

Funding is provided for a Rental Stress Support Package to support households dealing with rental stress by providing renting-focused community education, information, advice or advocacy services to be delivered by Consumer Affairs Victoria.

This initiative contributes to the Department of Government Services' Regulation of the Victorian Consumer Marketplace output.

Planning reform initiatives to support housing

Funding is provided to deliver initiatives under Victoria's Housing Statement, to foster the conditions needed to stimulate investment and build high-quality homes, quickly, in the places where Victorians want to live. Initiatives include an expansion of the Development Facilitation Program, delivery of additional homes around activity centres, and clearing the backlog of housing permit applications.

This initiative contributes to the Department of Transport and Planning's Planning and Heritage output.

Public Housing Revitalisation

Refer to the asset initiative for a description of this initiative.

Social Housing Accelerator Program

Refer to the asset initiative for a description of this initiative.

Asset initiatives

Table A.6: Asset initiatives – Housing Statement **($ million)**

	2023-24	2024-25	2025-26	2026-27	TEI
Expanding the Victorian Homebuyer Fund	500.0	..	..	..	500.0
Public Housing Revitalisation	19.2	58.9	103.0	99.4	427.3
Social Housing Accelerator Program	45.4	91.8	175.6	133.5	463.3
Total asset initiatives	**564.7**	**150.7**	**278.6**	**232.8**	**1390.6**

Expanding the Victorian Homebuyer Fund

Funding is provided to enable the Victorian Homebuyer Fund to support even more households into home ownership.

This initiative contributes to the Department of Treasury and Finance's Economic and Policy Advice output.

Public Housing Revitalisation

Funding is provided to kickstart the redevelopment of the first tranche of older-style high-rise public housing towers in Flemington and North Melbourne. Funding is also provided for planning for future tranches. This is part of the Government's commitment to redevelop all of Melbourne's towers and increase the overall number of social homes across these sites by 2051.

This initiative contributes to the Department of Families, Fairness and Housing's Housing Assistance output.

Social Housing Accelerator Program

Funding is provided by the Commonwealth Government to Victoria via the Social Housing Accelerator to build up to 769 new homes through developments on state-owned land, including the redevelopment of two older-style high-rise public housing towers in Carlton and spot purchasing of dwellings in targeted locations.

This initiative contributes to the Department of Families, Fairness and Housing's Housing Assistance output.

DEPARTMENT OF EDUCATION

Output initiatives

Table A.7: Output initiatives – Education **($ million)**

	2023-24	2024-25	2025-26	2026-27
Promoting Equal Access to Education				
English as an Additional Language	18.7	19.2	..	..
Strengthening Self-Determination in Education	0.9	..	..	..
School Education Primary and Secondary				
Lifting student outcomes – Tutor Learning Initiative	114.4	231.9	120.5	..
Supports for Schools and Staff				
Career Start program	18.0	46.1	31.7	..
Growing the pipeline of teachers across all Victorian government schools	14.1	25.7	25.8	25.8
Total output initiatives	**166.1**	**322.8**	**178.0**	**25.8**

Promoting Equal Access to Education

English as an Additional Language

Funding is provided to increase the number of students supported by the English as an Additional Language program for the 2024 school year, in line with growth in enrolments. The program supports government school students who do not speak English at home, including Australian-born students, newly arrived migrants and students from refugee and asylum seeker backgrounds, to become proficient in English.

This initiative contributes to the Department of Education's Promoting Equal Access to Educational output.

Strengthening Self-Determination in Education

Funding is provided to improve the educational outcomes of Koorie students in Victoria. This includes funding to support the delivery of the Koorie Literacy and Numeracy program and to support the implementation of self-determination reforms in schools.

This initiative contributes to the Department of Education's Promoting Equal Access to Education output.

School Education Primary and Secondary

Lifting student outcomes – Tutor Learning Initiative

Funding is provided to continue small group tutoring in 2024 and 2025 in government and non-government schools for students who have fallen behind expected achievement levels for literacy and numeracy, including by:

- providing schools and tutors the implementation support they need to provide small group tutoring
- providing support to undertake high-quality assessments necessary to ensure effective implementation of small group tutoring
- continuing the virtual tutor program to support schools that are experiencing tutor recruitment challenges.

This initiative contributes to the Department of Education's School Education Primary and School Education Secondary outputs.

Supports for Schools and Staff

Career Start program

Funding is provided to continue and expand the Career Start program to graduate teachers in all government schools. The Career Start program provides graduate teachers with additional time release, mentoring and professional development opportunities.

This initiative contributes to the Department of Education's Supports for Schools and Staff output.

Growing the pipeline of teachers across all Victorian government schools

Funding is provided to continue attracting and developing high quality teachers in Victorian government schools, including by:

- introducing new scholarships for students who enrol in secondary school or dual primary/secondary school teaching degrees
- supporting partnerships with universities to deliver innovative undergraduate employment-based initial teacher education programs
- continuing and expanding the Targeted Financial Incentives program to attract teachers into teaching at hard to staff schools in rural and regional areas.

This initiative contributes to the Department of Education's Supports for Schools and Staff output.

DEPARTMENT OF ENERGY, ENVIRONMENT AND CLIMATE ACTION

Output initiatives

Table A.8: Output initiatives – Energy, Environment and Climate Action ($ million)

	2023-24	2024-25	2025-26	2026-27
Agriculture				
Forestry Transition Program	155.5	62.5	20.2	4.1
Energy				
Gas substitution roadmap	1.8	..	..	..
Statutory Activities and Environment Protection				
Lemon Springs site remediation	6.2	..	..	..
Total output initiatives	**163.4**	**62.5**	**20.2**	**4.1**

Agriculture

Forestry Transition Program

Funding is provided for a variety of industry, community and worker support programs related to the transition out of native timber harvesting in State forests by 1 January 2024.

This initiative contributes to the Department of Energy, Environment and Climate Action's Agriculture output.

Energy

Gas substitution roadmap

Funding is provided to progress the necessary building reforms required to phase out gas connections to new and existing buildings and phase out the use of gas appliances.

This initiative contributes to the Department of Energy, Environment and Climate Action's Energy output.

Statutory Activities and Environment Protection

Lemon Springs site remediation

Additional funding is provided for the Environment Protection Authority to continue to remediate the high-risk illegal waste site at Lemon Springs in order to protect the community and the environment.

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

This initiative contributes to the Department of Energy, Environment and Climate Action's Statutory Activities and Environment Protection output.

DEPARTMENT OF FAMILIES, FAIRNESS AND HOUSING

Output initiatives

Table A.9: Output initiatives – Families, Fairness and Housing **($ million)**

	2023-24	*2024-25*	*2025-26*	*2026-27*
Child Protection and Family Services				
Supporting Community Sector Jobs	40.3	41.6	43.0	44.5
Total output initiatives	**40.3**	**41.6**	**43.0**	**44.5**

Child Protection and Family Services

Supporting Community Sector Jobs

Additional funding is provided to community service organisations that deliver social services on behalf of the Government.

This initiative contributes to the Department of Families, Fairness and Housing's:

- Child Protection and Family Services output
- Community Participation output
- Concessions to Pensioners and Beneficiaries output
- Disability Services output
- Family Violence Service Delivery output
- Housing Assistance output
- Office for Disability output
- Seniors Programs and Participation output

DEPARTMENT OF GOVERNMENT SERVICES

Output initiatives

Table A.11: Output initiatives – Government Services **($ million)**

	2023-24	2024-25	2025-26	2026-27
Regulation of the Victorian consumer marketplace				
Payment scheme for the customers of liquidated builders	13.6	..	..	..
Supporting Community Sector Jobs	0.4	0.4	0.4	0.4
Total output initiatives	**13.9**	**0.4**	**0.4**	**0.4**

Regulation of the Victorian consumer marketplace

Payment scheme for the customers of liquidated builders

Funding is provided to support payments to customers of builders who declared insolvency during 2022-23, previously limited to Porter Davis Homes customers.

This initiative contributes to the Department of Government Services' Regulation of the Victorian Consumer Marketplace output.

Supporting Community Sector Jobs

Refer to the Department of Families, Fairness and Housing initiative for a description of this initiative.

This initiative contributes to the Department of Government Services' Regulation of the Victorian Consumer Marketplace output.

DEPARTMENT OF HEALTH

Output initiatives

Table A.12: Output initiatives – Health **($ million)**

	2023-24	*2024-25*	*2025-26*	*2026-27*
Drug Treatment and Rehabilitation				
Supporting community sector jobs	18.6	19.3	19.9	20.6
Total output initiatives	**18.6**	**19.3**	**19.9**	**20.6**

Drug Treatment and Rehabilitation

Supporting community sector jobs

Refer to the Department of Families, Fairness and Housing initiative for a description of this initiative.

This initiative contributes to the Department of Health's:

- Aged Support Services output
- Community Health Care output
- Drug Prevention and Control output
- Drug Treatment and Rehabilitation output
- Emergency Management output
- Health Advancement output
- Health Protection output
- Home and Community Care Program for Younger People output
- Maternal and Child Health and Early Parenting Services output
- Mental Health Community Support Services output
- Non-Admitted Services output
- Small Rural Services – Primary Health output.

DEPARTMENT OF JOBS, SKILLS, INDUSTRY AND REGIONS

Output initiatives

Table A.13: Output initiatives – Jobs, Skills, Industry and Regions **($ million)**

	2023-24	2024-25	2025-26	2026-27
Creative Industries Portfolio Agencies				
Cultural and creative agencies operations	28.4	..	..	..
Training, Higher Education and Workforce Development				
GOTAFE funding support	15.0	..	..	..
Total output initiatives	**43.4**	..	..	**..**

Creative Industries Portfolio Agencies

Cultural and creative agencies operations

Additional funding is provided to Victoria's cultural and creative agencies to support program delivery in 2023-24.

This initiative contributes to the Department of Jobs, Skills, Industry and Regions' Creative Industries Portfolio Agencies output.

Training, Higher Education and Workforce Development

GOTAFE funding support

Funding is provided to support GOTAFE, a vocational education provider in regional Victoria, for the remainder of 2023.

This initiative contributes to the Department of Jobs, Skills, Industry and Regions' Training, Higher Education and Workforce Development output.

DEPARTMENT OF JUSTICE AND COMMUNITY SAFETY

Output initiatives

Table A.14: Output initiatives – Justice and Community Safety **($ million)**

	2023-24	2024-25	2025-26	2026-27
Advocacy, Human Rights and Victim Support				
Historical Forced Adoption Redress Scheme for mothers	137.7	0.3	0.3	..
Emergency Management Capability				
Life Saving Victoria	4.5	..	..	..
Public Prosecutions and Legal Assistance				
Supporting Community Sector Jobs	2.3	2.4	2.5	2.5
Total output initiatives	**144.5**	**2.6**	**2.7**	**2.5**

Advocacy, Human Rights and Victim Support

Historical Forced Adoption Redress Scheme for mothers

Funding is provided to establish the Historical Forced Adoptions Redress Scheme for mothers who had children forcibly removed under historical forced adoption practices.

This initiative contributes to the Department of Justice and Community Safety's Advocacy, Human Rights and Victim Support output.

Emergency Management Capability

Life Saving Victoria

Funding is provided to boost critical services provided by Life Saving Victoria to support improved water safety outcomes and awareness.

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

Public Prosecutions and Legal Assistance

Supporting Community Sector Jobs

Refer to the Department of Families, Fairness and Housing for a description of this initiative.

This initiative contributes to the Department of Justice and Community Safety's:

- Advocacy, Human Rights and Victim Support output
- Community Based Offender Supervision output
- Justice Policy, Services and Law Reform output
- Prisoner Supervision and Support output
- Public Prosecutions and Legal Assistance output
- Racing, Gambling, Liquor and Casino Control Regulation output
- Youth Justice Community Based Services output
- Youth Justice Custodial Services output.

DEPARTMENT OF TRANSPORT AND PLANNING

Output initiatives

Table A.15: Output initiatives – Transport and Planning **($ million)**

	2023-24	*2024-25*	*2025-26*	*2026-27*
Bus Services				
Deer Park bus interchange network change	0.3	0.5	0.5	0.5
Total output initiatives	**0.3**	**0.5**	**0.5**	**0.5**

Bus Services

Deer Park bus interchange network change

Funding is provided for a bus network change aligning existing bus services with a new integrated bus interchange at the Deer Park Station delivered as part of the Mt Derrimut Road Level Crossing removal works.

This initiative contributes to the Department of Transport and Planning's Bus Services – Metropolitan output.

Asset initiatives

Table A.16: Asset initiatives – Transport and Planning **($ million)**

	2023-24	*2024-25*	*2025-26*	*2026-27*	*TEI*
Bus Services					
Deer Park bus interchange network change	0.1	..	..	..	0.1
Road Network Performance [(a)]					
Eastern Freeway Upgrade	tbc	tbc	tbc	tbc	5 700.0
M80 Ring Road Upgrade	tbc	tbc	tbc	tbc	3 800.0
North East Link Connections	tbc	tbc	tbc	tbc	2 600.0
Total asset initiatives	**0.1**	**..**	**..**	**..**	**12 100.1**

Note:
(a) *This project was previously published as part of 'North East Link (State and Freeway Packages)' in the 2023-24 Budget Paper No. 4* State Capital Program*. The funding in the table reflects a combination of existing and additional funding. The Commonwealth Government is contributing $1 750 million to the North East Link program. The estimated expenditure will be reported as procurement processes and commercial arrangements are finalised.*

Bus Services

Deer Park bus interchange network change

Refer to the output initiative for a description of this initiative.

Road Network Performance

Eastern Freeway Upgrade

To be delivered in conjunction with the North East Link – Primary Package (Tunnels), the project involves a major upgrade to the Eastern Freeway, including more than 45 kilometres of new lanes, a dedicated busway, a state-of-the-art lane management system that will help deliver 11-minute travel time savings along the freeway, 5 kilometres of new walking and cycling paths, a rebuilt Koonung Creek Reserve and an upgraded Park and Ride at Doncaster.

This project was previously published as part of 'North East Link (State and Freeway Packages)' in the 2023-24 Budget Paper No. 4 – State Capital Program.

This initiative contributes to the Department of Transport and Planning's Road Network Performance output.

M80 Ring Road Upgrade

To be delivered in conjunction with the North East Link – Primary Package (Tunnels), the project involves a major upgrade to the M80 Ring Road, including nearly 15 kilometres of new lanes between Plenty Road and North East Link, a better and more efficient interchange at Grimshaw Street, a multi deck cark park at Watsonia train station, and new walking and cycling links.

This project was previously published as part of 'North East Link (State and Freeway Packages)' in the 2023-24 Budget Paper No. 4 – State Capital Program.

This initiative contributes to the Department of Transport and Planning's Road Network Performance output.

North East Link Connections

To be delivered in conjunction with the North East Link – Primary Package (Tunnels), the project includes interface works between the State Tolling Corporation boundary of operations and the adjacent Eastern Freeway Upgrade.

This project was previously published as part of 'North East Link (State and Freeway Packages)' in the 2023-24 Budget Paper No. 4 – State Capital Program.

This initiative contributes to the Department of Transport and Planning's Road Network Performance output.

DEPARTMENT OF TREASURY AND FINANCE

Output initiatives

Table A.17: Output initiatives – Treasury and Finance **($ million)**

	2023-24	*2024-25*	*2025-26*	*2026-27*
Budget and Financial Advice				
Commonwealth Games	380.0	..	..	..
Total output initiatives	**380.0**	**..**	**..**	**..**

Budget and Financial Advice

Commonwealth Games

Funding is provided to settle all disputes regarding the cancellation of the regional Victoria 2026 Commonwealth Games. The settlement finalises all matters between the parties.

This initiative contributes to the Department of Treasury and Finance's Budget and Financial Advice output.

PARLIAMENT

Output initiatives

Table A.18: Output initiatives – Parliament **($ million)**

	2023-24	2024-25	2025-26	2026-27
Legislative Council				
Legislative Council 2024 regional sitting	0.4	..	..	..
Parliamentary Services				
Parliamentary Advisers for 60th Parliament	1.2	1.2	1.3	0.5
Total output initiatives	**1.6**	**1.2**	**1.3**	**0.5**

Legislative Council

Legislative Council 2024 regional sitting

Funding is provided to conduct a Legislative Council sitting in central northern Victoria in 2024, following resolutions of the Legislative Council on 3 May 2023 to acknowledge the serious impacts of the October 2022 flood event and sit in a flood-affected community.

This initiative contributes to Parliament's Legislative Council output.

Parliamentary Services

Parliamentary Advisers for 60th Parliament

Funding is provided to allocate Parliamentary Advisers for Members of Parliament who are either aligned with minor parties or independent members until the conclusion of the 60th Parliament in November 2026.

This initiative contributes to Parliament's Parliamentary Services output.

Asset initiatives

Table A.19: Asset initiatives – Parliament **($ million)**

	2023-24	2024-25	2025-26	2026-27	TEI
Parliamentary Services					
Electorate office relocations	1.2	..	..	..	1.2
Total asset initiatives [(a)]	**1.2**	**..**	**..**	**..**	**1.2**

Parliamentary Services

Electorate office relocations

Funding is provided to relocate four electorate offices following boundary redistributions determined by the Victorian Boundaries Commission.

This initiative contributes to Parliament's Parliamentary Services output.

APPENDIX B – AMENDMENTS TO THE 2023-24 OUTPUT PERFORMANCE MEASURES

Output measures for all departments were published in Chapter 2 and Appendix A of Budget Paper No. 3 *Service Delivery*. The Public Accounts and Estimates Committee has completed its review of the measures which were substantially changed or proposed to be discontinued, and tabled its report in Parliament on 3 October 2023. The Government will consider the Committee's report and respond to the recommendations within the legislated timeline. All agreed changes to output performance measures will be reflected in the next budget publication.

APPENDIX C – TAX EXPENDITURES AND CONCESSIONS

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

TAX EXPENDITURES

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

Over the decade to 2022-23, the State has forgone $84.9 billion in revenue from tax expenditures. In 2023-24, tax expenditures are forecast to be approximately $20.2 billion.

The tax expenditures outlined below include exemptions, reduced rates and deductions or rebates of tax for a certain type of taxpayer, activity or asset. Table C.1 aggregates tax expenditure estimates by the main tax categories for the period 2023-24 to 2026-27. In estimating tax expenditures, it is assumed that taxpayer behaviour is unchanged by the relative treatment.

Land tax makes the largest contribution to total estimated tax expenditures in 2023-24, primarily due to the principal place of residence and primary production exemptions. The *2023-24 Budget* introduced new land tax exemptions which have been included in the expenditure estimates. These include the expansion of the land tax exemption for principal places of residence under construction or renovation to provide the Commissioner of State Revenue with discretion to extend the period by two years if the builder goes into liquidation.

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

Description	2023-24	2024-25	2025-26	2026-27
Land tax [(b)]	15 774	16 021	16 388	17 091
Fire Services Property Levy	30	30	30	31
Payroll tax	1 711	1 690	1 753	1 853
Gambling taxes	82	85	78	70
Motor vehicle taxes	208	219	234	253
Land transfer duties	1 438	1 554	1 637	1 710
Congestion levy	72	74	76	78
Mental Health and Wellbeing Levy	103	99	105	112
Insurance duty [(c)]	732	807	894	994
COVID Debt Levy – Payroll $10m+	94	99	105	112
Total estimated tax expenditures	**20 244**	**20 678**	**21 298**	**22 303**

Notes:

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

(b) *The increase in land tax expenditures since* the 2023-24 Budget *largely reflects updated revenue information.*

(c) *In* the 2023-24 Budget, *the Government increased the average WorkCover premium rate from 1.272 per cent to 1.8 per cent. The increase is also driven by upgrades to payroll forecasts.*

CONCESSIONS

Concessions are direct budget outlays or reduced government charges that reduce the price of a good or service for particular groups. Over the decade to 2022-23, the State provided $17.5 billion in concessions. In 2023-24, concessions are forecast to be approximately $2.2 billion.

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

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

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

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

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

Private transport concessions include a discount on Transport Accident Commission premiums, funding of the Multi-Purpose Taxi Program and vehicle registration discounts through the Victorian Veterans Card initiative.

Public transport concessions consist of free travel passes and concessional fares provided to eligible customers to travel free or on discounted fares on the public transport network.

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

Description	*2023-24*
Electricity	146
Mains gas	72
Municipal rates	105
Water and sewerage	186
Total energy, municipal rates, water and sewerage	**508**
Ambulance [(b)]	569
Dental services and spectacles	182
Community health programs	140
Total health	**892**
Education	**210**
Hardship schemes	**89**
Social and community services	**11**
Private transport	**297**
Public transport	**210**
Total for items estimated	**2 217**

Notes:
(a) All amounts have been rounded to the nearest $1 million unless otherwise stated. Figures may not add due to rounding.
(b) The increase in the Ambulance concession estimate represents a change in methodology to reflect current activity and service fees.

APPENDIX D – SENSITIVITY ANALYSIS

The *2023-24 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 budget 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 2 *Economic context*. 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 scenario component of the sensitivity analysis quantifies a key risk identified in Chapter 2 *Economic context* and presents how this risk might affect the state's economic and fiscal aggregates.

The scenario considers a downturn in Victorian and Australian aggregate demand, partly due to uncertainty around the trajectory for interest rates and inflation. In the scenario, risk aversion and falling wealth are assumed to constrain discretionary consumption among households, leading to a higher savings rate. Downward pressure on consumer confidence and consumption also leads to lower utilisation of capital and lower business investment, relative to the base case outlined in Chapter 2 *Economic context*.

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 presented as a deviation from the 'business as usual' base case, which reflects the central economic forecasts outlined in Chapter 2 *Economic context*.

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 D.1.[1]

Scenario: A domestic economic slowdown

High inflation and rising interest rates have presented rising cost-of-living pressures for some Victorian households, as has been the case nationally and globally. While households in aggregate are still adding to their savings, high inflation and rising interest rates have caused a decline in real household disposable incomes. Consumer spending in Victoria is expected to grow despite these financial pressures, although the outlook for spending remains uncertain. As discussed in the Risks section of Chapter 2 *Economic context*, some households may reduce consumption further than expected as a result of cost-of-living pressures. More generally, as the economy slows and uncertainty about the economic outlook increases, households may increase their precautionary savings and thereby reduce their spending by more than is assumed in the base case.

Business confidence and investment are also likely to be weaker in this environment, reflecting lower consumer demand for goods and services. This scenario explores the implications of lower national household and business confidence and spending, which disrupts both the Victorian and Australian economies.

[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 the scenario, lower consumer confidence leads consumers to increase precautionary savings from early 2024, which weighs on their spending both in Victoria and nationally. Household consumption falls by 0.18 per cent relative to the base case in 2023-24, and by 0.77 per cent in 2024-25. Lower demand results in a reduction in capital utilisation among firms, which is modelled as a decline in the productivity of the capital stock. This lowers the incentive for businesses to invest. This results in a 0.19 per cent fall in Victorian investment relative to the base case in 2023-24, and a 0.79 per cent fall in 2024-25.

An improvement in the trade balance partly offsets the negative impacts of the falls in consumption and investment on gross state product (GSP). This occurs as imports, which are influenced by the fall in domestic consumption and investment, decline by more than exports, which are supported by foreign demand.

The shocks to household consumption and investment collectively reduce the level of Victoria's GSP, compared with the base case, by 0.14 per cent in 2023-24, 0.58 per cent in 2024-25, 0.17 per cent in 2025-26 and 0.12 per cent in 2026-27. The peak economic impact occurs in 2024-25, when consumer and business confidence effects are assumed to have a significant role in lowering household consumption and business investment (see Chart D.1). Consumption and investment largely recover later in the forecast period as these confidence effects dissipate.

Government consumption is assumed to remain unchanged. 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.

Reduced domestic activity lowers the demand for labour, with employment lower by 0.11 per cent in 2023-24 and by 0.44 per cent in 2024-25 compared with the base case. This results in higher spare capacity in the labour market, with the unemployment rate 0.40 percentage points higher in 2024-25 in the scenario. This in turn places downwards pressure on wages growth. Weaker domestic activity also puts downward pressure on consumer prices in the near term, though this is partly offset by a weaker currency that leads to higher import prices.

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

Chart D.1: Scenario impact on select variables

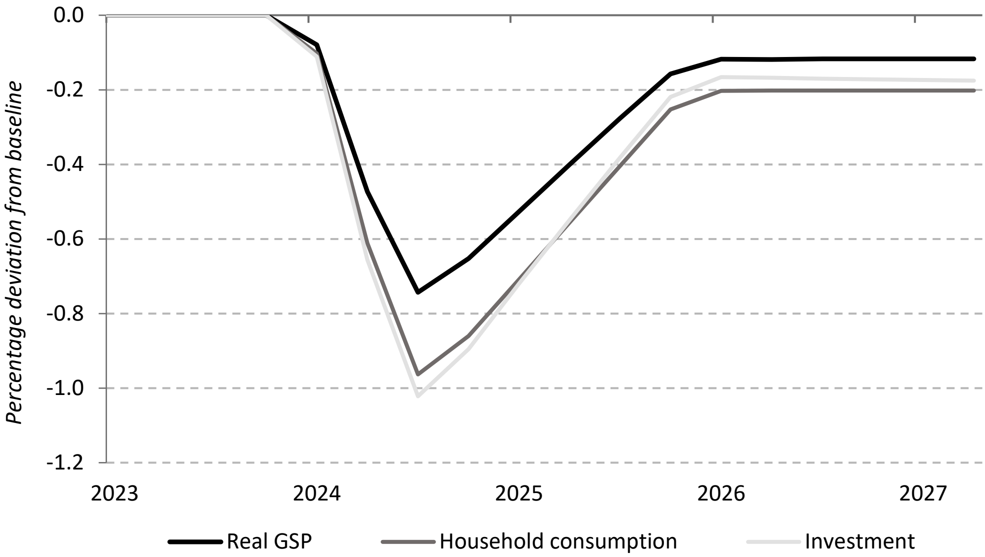


Table D.1: Projected economic impact of a domestic economic slowdown [(a)] (per cent)

	2023-24 estimate	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Real GSP	(0.14)	(0.58)	(0.17)	(0.12)
Employment	(0.11)	(0.44)	(0.06)	(0.02)
Consumer price index	(0.02)	(0.06)	0.02	0.03
Wage price index	(0.04)	(0.26)	(0.25)	(0.24)

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

The shock has a negative fiscal impact on the State's finances (see Table D.2). Lower domestic consumer demand and investment lead to lower property related taxation revenue, including land transfer duty and land taxes. Payroll tax revenue also falls due to lower growth in employment and wages. Reduced consumption leads to a smaller national GST pool – and hence lower GST grant 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 public sector wage costs, which lowers employee expenses. These estimated impacts on expenses reflect the assumed relationship between private and public sector wages in the model: namely that public sector wage growth corresponds to private sector wage growth in the medium to long term. The decrease in expenses is partly offset by higher interest expenses due to a higher level of debt (resulting from revenue falling by more than expenses in the scenario).

Table D.2: Projected fiscal impact of a domestic economic slowdown (a) **($ million)**

	2023-24 estimate	2024-25 estimate	2025-26 estimate	2026-27 estimate
Income from transactions	(87.8)	(426.5)	(138.1)	(100.5)
Expenses from transactions	(4.3)	(49.7)	(49.3)	(49.1)
Net result from transactions	**(83.5)**	**(376.8)**	**(88.8)**	**(51.4)**
Other economic flows	(0.3)	(1.2)	(0.0)	0.1
Net result	**(83.8)**	**(378.0)**	**(88.8)**	**(51.3)**
Net debt (cumulative)	**83.8**	**461.8**	**550.6**	**601.9**
Net debt to GSP ratio (percentage point difference)	0.01	0.07	0.08	0.09

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

SENSITIVITY TO INDEPENDENT VARIATIONS IN MAJOR ECONOMIC PARAMETERS

Table D.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 D.3: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2023-24 [(a)(b)(c)(d)(e)] **($ million)**

	2023-24 estimate	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
GSP				
Income from transactions	135	151	163	164
Expenses from transactions	1	(6)	(15)	(26)
Net result from transactions	**134**	**158**	**178**	**190**
Net debt	**(134)**	**(292)**	**(470)**	**(660)**
Employment [(f)]				
Income from transactions	133	142	146	151
Expenses from transactions	354	376	400	432
Net result from transactions	**(220)**	**(235)**	**(255)**	**(280)**
Net debt	**220**	**455**	**710**	**990**
Consumer prices [(g)]				
Income from transactions	133	323	344	348
Expenses from transactions	280	266	266	275
Net result from transactions	**(146)**	**57**	**78**	**74**
Net debt	**146**	**88**	**9**	**(65)**
Average weekly earnings [(h)]				
Income from transactions	137	144	148	155
Expenses from transactions	2	(5)	(13)	(22)
Net result from transactions	**135**	**149**	**161**	**177**
Net debt	**(135)**	**(284)**	**(445)**	**(622)**
Total employee expenses				
Income from transactions	..	46	155	168
Expenses from transactions	357	386	413	445
Net result from transactions	**(357)**	**(340)**	**(258)**	**(277)**
Net debt	**357**	**697**	**955**	**1232**
Domestic share prices [(i)]				
Income from transactions	7	1	1	2
Expenses from transactions	(0)	(0)	(0)	(0)
Net result from transactions	**7**	**1**	**2**	**3**
Net debt	**(15)**	**(28)**	**(43)**	**(61)**
Overseas share prices [(i)]				
Income from transactions	17	2	3	6
Expenses from transactions	(0)	(1)	(1)	(1)
Net result from transactions	**17**	**3**	**4**	**7**
Net debt	**(36)**	**(66)**	**(102)**	**(144)**
Property prices				
Income from transactions	187	200	215	229
Expenses from transactions	(5)	(15)	(27)	(42)
Net result from transactions	**192**	**215**	**242**	**270**
Net debt	**(196)**	**(415)**	**(663)**	**(936)**

Table D.3: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2023-24 *(continued)* **($ million)**

	2023-24 estimate	*2024-25 estimate*	*2025-26 estimate*	*2026-27 estimate*
Property transaction volumes				
Income from transactions	72	78	85	90
Expenses from transactions	(2)	(6)	(10)	(16)
Net result from transactions	**73**	**83**	**95**	**106**
Net debt	**(73)**	**(157)**	**(252)**	**(358)**
Interest rates (j)				
Income from transactions	648	141	136	131
Expenses from transactions	113	102	309	448
Net result from transactions	**535**	**39**	**(173)**	**(317)**
Net debt (k)	**(535)**	**(342)**	**76**	**750**

Notes:

(a) Variations are applied to the economic variables effective from the first day in the budget year (1 July 2023). 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.

(b) A positive number for income from transactions denotes an increase in revenue. A positive number for expenses from transactions denotes an increase in expenses (and hence a reduction in the net result from transactions). A positive number for the net result from transactions denotes a higher surplus or smaller deficit. A positive number for net debt denotes a higher level of net debt in the relevant year compared with a no-variation scenario.

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

(d) Figures may not add due to rounding.

(e) 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.

(f) 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 increases general government sector employee expenses.

(g) 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.

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

(i) The smaller impact on the net result from transactions, compared with the impact on net debt, reflects that only the income component of the State's investment return (and not the capital gain) is recorded on the operating statement.

(j) Interest rates 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 that would change value due to being refinanced, as well as new debt issuance.

(k) The larger impact on the net debt, compared with the impact on the net result from transactions, reflects that a reduction in non-cash superannuation expenses reduces operating expenses but does not reduce the net debt.

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

The *Financial Management Act 1994* (the Act) requires the Minister to prepare a budget update for tabling in Parliament each financial year. The provisions of the Act have been complied with in the *2023-24 Budget Update*.

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

Table E.1: Statements required by the *Financial Management Act 1994* and their location in the *2023-24 Budget Update*

Relevant section of the Act and corresponding requirement	*Location*
Sections 23 E-G	
Statement of financial policy objectives and strategies for the year including the short- and long-term financial objectives, key financial measures, the relationship to the principles of sound financial management and any temporary financial policy actions	Chapter 1 *Economic and fiscal overview*
Sections 23 H-N	
Estimated general government sector financial statements for the year comprising: • an estimated statement of financial performance • an estimated statement of financial position at the end of the year • an estimated statement of cash flows for the year • a statement of the accounting policies on which these statements are based and explanatory notes	Chapter 4 *Estimated financial statements and notes* (including estimated consolidated general government sector comprehensive operating statement, estimated consolidated general government sector balance sheet, estimated consolidated general government sector cash flow statement, and estimated consolidated general government sector statement of changes in equity provided as per AASB 1049)

Table E.1: Statements required by the *Financial Management Act 1994* and their location in the *2023-24 Budget* Update *(continued)*

Relevant section of the Act and corresponding requirement	*Location*
The estimated financial statements take into account Government decisions and other circumstances that may have a material effect on the estimated financial statements and are prepared on a basis consistent with the current financial policy objectives, strategies statement and have regard to appropriate financial reporting frameworks	Appendix A *Specific policy initiatives affecting the budget position*
Section 23K	
Accompanying statements which take into account Government decisions and other circumstances that may have a material effect on each set of estimated financial statements comprising:	
• a statement of the material economic and other assumptions that have been used in preparing the estimated financial statements	Chapter 2 *Economic context* Chapter 4 *Estimated financial statements and notes*
• a discussion of the sensitivity of the estimated financial statements to changes in those economic and other assumptions	Appendix D *Sensitivity analysis*
• an overview of the estimated tax expenditures for the financial years covered by the estimated financial statements	Appendix C *Tax expenditures and concessions*
• a statement of risks that may have a material effect on the estimated financial statements including contingent liabilities and publicly announced Government commitments that are not yet included in the estimated financial statements	Chapter 2 *Economic context* Chapter 3 *Budget position and outlook* Chapter 6 *Contingent assets and contingent liabilities*

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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