2015-16 Budget Update

Presented by Tim Pallas MP
Treasurer of the State of Victoria

The Secretary
Department of Treasury and Finance
1 Treasury Place
Melbourne, Victoria, 3002
Australia
Tel: +61 3 9651 5111
Fax: +61 3 9651 2062
Website: dtf.vic.gov.au

Authorised by the Victorian Government
1 Treasury Place, Melbourne, 3002

Printed by Impact Digital, Brunswick
Printed on recycled paper

ISSN 2204-4701 (online)

Published November 2015

2015-16

Budget Update

Presented by

Tim Pallas MP

Treasurer of the State of Victoria

for the information of Honourable Members

TABLE OF CONTENTS

CHAPTER 1 – ECONOMIC AND FISCAL OVERVIEW

In line with forecasts in the *2015-16 Budget,* a sustained boost in demand in the Victorian economy is emerging. This is evidenced by strong demand for housing and business investment growth driven by non-dwelling construction.

Victoria has recorded the highest population growth among the states, reflecting the continued growth of the Victorian economy and the attraction of the state as a place to live. While the unemployment rate has been at or above 6 per cent for most of 2015, the outlook is for the unemployment rate to decline as economic activity continues to pick up.

The *2015-16 Budget* established key programs to create jobs, generate economic growth and support a growing population. Key initiatives include:

- providing employment and business growth incentives through the Back to Work Plan and the Premier's Jobs and Investment Fund;
- significant investment in schools, health care and community safety to improve long-term liveability and productivity; and
- providing accessible, efficient and reliable transport infrastructure to link Victorians to jobs.

These priorities will help to ensure that all Victorians have the security of a stable job in a growing industry which will, in turn, make our economy stronger.

Key projects, including level crossing removals and the Melbourne Metro Rail Project, will ease congestion and enable people and goods to move more freely in and around Melbourne and Victoria.

This is underpinned by disciplined financial management to support the State's triple-A credit rating and deliver continued strong surpluses forecast over the budget and forward estimates.

Victoria's general government sector forecast operating result of $1.7 billion for 2015-16 has improved by $493 million compared with the *2015-16 Budget.* This is largely due to an uplift in land transfer duty forecasts and higher than expected GST receipts. Strong operating surpluses averaging $1.6 billion are forecast across the forward estimates.

Net debt is expected to decrease from its June 2015 level in both nominal terms and as a proportion of gross state product (GSP).

With recurrent spending less than revenue growth and debt under control, the State has the capacity to borrow sustainably to meet our infrastructure needs. The Government has foreshadowed increasing borrowing to fund infrastructure of state significance, which enhances the productive capacity of the economy for the benefit of all Victorians. Any additional borrowing will be within the context of maintaining debt at prudent levels, below that inherited from the former government and consistent with the Government's commitment to maintain a triple-A credit rating.

The Government's fiscal strategy was reviewed for the *2015-16 Budget* to more closely align with its priorities to provide services and infrastructure for all Victorians in a fiscally responsible manner. The Government's long-term financial management objectives are set out in Table 1.1.

Table 1.1: Long-term financial management objectives

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

Progress towards these long-term financial management objectives is supported by the following financial measures and targets (Table 1.2).

Table 1.2: Financial measures and targets

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

This Budget Update confirms the objectives and targets set out in the *2015-16 Budget*.

CHAPTER 2 – ECONOMIC CONTEXT

ECONOMIC OVERVIEW

- Economic growth is expected to remain solid in 2015-16, with strong growth in business investment and dwelling construction.
- The labour market strengthened in 2014-15 and Victoria's population growth was the strongest of any state.
- However, external risks may challenge Victoria's outlook as national and world growth are below their long-term averages.

Victorian economic conditions and outlook

There are signs of a sustained boost in demand in the Victorian economy with growth of 2.5 per cent recorded for 2014-15. Victoria's traditional growth drivers are responding to low interest rates and strong asset price growth. Business investment growth was solid in 2014-15, driven by strong non-dwelling construction. Dwelling investment growth was also robust, in line with activity in the property market and strong population growth.

Growth in the Victorian economy is expected to remain at 2.5 per cent in 2015-16, consistent with the forecast in the *2015-16 Budget*. Solid growth in business investment is expected to continue in 2015-16. Growth in dwelling investment is also expected to be above trend in 2015-16, driven by ongoing strength in the property market.

Victoria continues to experience robust employment growth. The unemployment rate has been volatile of late, though has averaged above 6 per cent thus far in 2015-16. The outlook is for the unemployment rate to continue to decline over coming years as economic activity returns to trend rates of growth.

Growth in consumer prices was weak in 2014-15 (as expected in the *2015-16 Budget*) partly due to one-off factors. While price growth is expected to lift in the medium term, the outlook is weaker than was expected as competitive pressures inhibit firms from passing on the full extent of increased costs.

Wages growth was moderate in 2014-15 and slightly lower than expected in the *2015-16 Budget*. Despite the recent decline in the unemployment rate, there remains spare capacity in the labour market and private sector wages growth continues to be weak. Consequently, wages growth forecasts have been slightly downgraded in the near term.

Victoria has continued to record the highest population growth among the states, in line with *2015-16 Budget* forecasts. Record high net interstate migration is expected to offset a slightly weaker natural increase and net overseas migration in the medium term.

Economic forecasts

The economic forecasts are set out in Table 2.1, with the *2015-16 Budget* forecasts in parentheses where different.

Table 2.1: Victorian economic forecasts[a]

(per cent)

	2014-15 actual	*2015-16 forecast*	*2016-17 forecast*	*2017-18 projection*	*2018-19 projection*
Real gross state product	2.5	2.50	2.75	2.75	2.75
Employment	2.1	1.50	1.50	1.50	1.50
Unemployment rate [b]	6.4	6.25	6.00	5.75	5.50
			(6.25)	(6.00)	(5.75)
Consumer price index [c]	1.4	2.25	2.50	2.50	2.50
		(2.75)	(2.75)		
Wage price index [d]	2.7	3.00	3.25	3.50	3.50
		(3.25)	(3.50)		
Population [e]	1.8[f]	1.8	1.8	1.8	1.8

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

Notes:

(a) Percentage change in year average compared with previous year, except for 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 follow movements in market expectations in the short term, and stabilise thereafter; a trade-weighted index of 60.7; and oil prices that follow the path suggested by oil futures.

(b) Year average.

(c) Melbourne consumer price index.

(d) Total hourly rate excluding bonuses.

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

(f) Forecast.

Australian economic conditions and outlook

Growth in the Australian economy eased in mid-2015, partly due to adverse weather conditions affecting exports and a further fall in commodity prices. Strong dwelling construction activity only partly offset weak business investment. Real gross domestic product expanded by just 0.2 per cent in the June quarter and 2.3 per cent (year average) over the year.

However, there is some evidence that momentum in the non-resources sector, beyond the housing sector, is responding to lower interest rates and the weaker Australian dollar. Economic activity in the service sectors has picked up which has boosted employment to trend growth.

Further growth in the non-resources sector of the economy is expected to lift economic growth in 2015-16. Resource exports, aided by previous currency depreciations, are likely to make substantial contributions to future growth. Despite this, national economic growth is not expected to return to trend until 2016-17.

International economic conditions and outlook

Global growth remains moderate, reflecting a further slowdown in emerging markets and a weaker recovery in advanced economies. Recent United States growth outcomes have weakened, weighed down by net exports that faced continued headwinds from the stronger US dollar and soft global demand. The eurozone economy continues to grow at a sluggish pace.

For most emerging market economies, external conditions have become more challenging, with financial market volatility due in part to the recent Chinese stock market correction. Growth in China is expected to moderate steadily as weaker growth in investment and goods production is likely to be offset by the effects of accommodative monetary and fiscal policy settings.

RISKS TO THE OUTLOOK

A sharp slowdown in China's economic growth – for example, through a significant downturn in the real estate sector – would have implications for the Australian economy. Such a slowdown would likely see a further reduction in the iron ore price, with consequences for national income.

The expected near-term increase in US interest rates would flow through to global interest rates. This may increase volatility in financial markets, and delay further recovery in business confidence and consumer sentiment.

However, Victoria's strong financial and economic position provide an important buffer for the economy, which is benefiting from low interest rates and the lower Australian dollar.

CHAPTER 3 – BUDGET POSITION AND OUTLOOK

- The general government sector operating surplus is estimated to be $1.7 billion in 2015-16, with strong operating surpluses averaging $1.6 billion across the forward estimates.
- Net debt is expected to be $19.6 billion by June 2019. As a proportion of gross state product (GSP), net debt is expected to fall to 4.4 per cent by June 2019.
- Net financial liabilities are projected to increase from $50.8 billion at June 2016 to $51.3 billion by June 2019. As a proportion of GSP, they are expected to be 13.4 per cent at June 2016, before declining to 11.5 per cent by June 2019.
- The non-financial public sector operating surplus is estimated to be $844 million in 2015-16, growing to $1.3 billion in 2017-18.
- Non-financial public sector net debt is projected to increase from $31.9 billion at June 2016 to $36.0 billion by June 2019. As a proportion of GSP, net debt is expected to peak at 8.6 per cent in June 2017, before declining to 8.1 per cent by June 2019.

This chapter presents the revised budget position of the public sector, incorporating the general government sector, the public non-financial corporations (PNFC) sector and the public financial corporations (PFC) sector, for the 2015-16 budget year and forward estimates.

This chapter also presents a reconciliation and explanation of the movements since the *2015-16 Budget* that affect the estimated net result from transactions, including the impact of new policy initiatives of the Victorian Government.

GENERAL GOVERNMENT SECTOR

Fiscal aggregates

The *2015-16 Budget Update* continues the Government's policy of delivering operating surpluses that generate sufficient capacity to invest in productivity enhancing, value-for-money infrastructure, while maintaining general government net debt at a sustainable level over the medium term.

The operating result (net result from transactions) for the general government sector is forecast to be a surplus of $1.7 billion in 2015-16, and average $1.6 billion over the forward estimates. Operating surpluses provide the State with a buffer against revenue shocks and assists and complements the Government's capital investment strategies.

The Government has foreshadowed increasing borrowing to fund infrastructure of state significance, which enhances the productive capacity of the economy for the benefit of all Victorians. Any additional borrowing will be within the context of maintaining debt at prudent levels, below that inherited from the former government and consistent with the Government's commitment to maintain a triple-A credit rating.

Relative to the *2015-16 Budget*, the net result from transactions has been revised up by $493 million in 2015-16, and by an average of $314 million a year in 2016-17 and 2017-18. This is largely due to an increase in expected land transfer duty and higher GST receipts.

The operating result for 2018-19 is expected to reduce by $274 million largely due to removal by the Commonwealth in the *2015-16 Commonwealth Budget* of $1.5 billion in previously expected grants that will not be received for the former East West Link project (also removed from 2015-16 and 2016-17), and the impact of lower market returns on income tax equivalent revenues in that year.

The initial $1.5 billion already provided by the Commonwealth in 2013-14 for the former East West Link project will be retained by Victoria for infrastructure projects.

Table 3.1: General government fiscal aggregates

	Unit of measure	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Net result from transactions	$ billion	1.7	1.5	1.8	1.6
Government infrastructure investment (a)(b)	$ billion	5.0	6.3	4.5	5.2
Net debt	$ billion	16.9	18.8	18.9	19.6
Net debt to GSP	per cent	4.5	4.7	4.5	4.4

Source: Department of Treasury and Finance

Notes:

(a) Includes general government net infrastructure investment and estimated cash flows for Partnerships Victoria *projects.*

(b) Excludes the impact in 2015-16 of the medium-term lease over the operations of the Port of Melbourne.

Broadly in line with the *2015-16 Budget* estimates, net debt as a percentage of GSP is projected to fall to 4.4 per cent by June 2019. This is consistent with the Government's commitment to maintain the State's triple-A credit rating.

Government infrastructure investment remains high. Estimated government infrastructure investment over the budget and forward estimates averages $5.3 billion a year compared with the historical average of $4.9 billion a year over the decade to 2014-15. The Government's new infrastructure program will be reflected in the 2016-17 budget.

The *2015-16 Budget Update* estimates incorporate the impact of new output and asset policy initiatives, including Education State initiatives and the establishment of the Agriculture Infrastructure and Jobs fund. Details of new policy initiatives since the *2015-16 Budget* are contained in Appendix A *Specific policy initiatives affecting the budget position.*

BUDGET AND FORWARD ESTIMATES OUTLOOK

Table 3.2 summarises the operating statement over the budget and forward estimates for the general government sector. A comprehensive operating statement is presented in Table 4.1 in Chapter 4 *Estimated financial statements and notes.*

Total revenue is expected to grow by 3.2 per cent a year on average over the budget and forward estimates, compared with 3.1 per cent growth in expenses over the same period.

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

($ million)

	2015-16 revised	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Revenue				
Taxation	19 436	20 025	20 547	21 442
Dividends, TER and interest [(b)]	1 927	1 782	1 802	1 711
Sales of goods and services	6 809	6 897	6 969	7 021
Grant revenue	25 455	26 010	27 822	28 358
Other current revenue	2 440	2 522	2 462	2 465
Total revenue	**56 066**	**57 236**	**59 601**	**60 998**
% change [(c)]	*4.3*	*2.1*	*4.1*	*2.3*
Expenses				
Employee expenses	20 069	20 768	21 696	22 588
Superannuation [(d)]	2 927	2 909	2 909	2 942
Depreciation	2 510	2 657	2 820	3 070
Interest expense	2 132	2 108	2 167	2 160
Other operating expenses	18 271	18 080	18 664	18 917
Grants and other transfers	8 446	9 170	9 499	9 767
Total expenses	**54 355**	**55 691**	**57 756**	**59 443**
% change [(c)]	*3.4*	*2.5*	*3.7*	*2.9*
Net result from transactions	**1 712**	**1 544**	**1 845**	**1 555**
Total other economic flows included in net result	**3 479**	**(239)**	**(238)**	**(280)**
Net result	**5 191**	**1 306**	**1 608**	**1 275**

Source: Department of Treasury and Finance

Notes:

(a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.
(b) Comprises dividends, income tax and rate equivalent revenue and interest revenue.
(c) 2015-16 revised per cent change figures refer to 2014-15 actual figures.
(d) Comprises superannuation interest expense and other superannuation expenses.

Revenue outlook

Victoria is expected to collect $56 billion in total revenue in 2015-16, with revenue growth averaging 3.2 per cent over the budget and forward estimates. This is below the projected growth of 3.4 per cent in the *2015-16 Budget,* largely due to the removal of the $1.5 billion in previously expected Commonwealth grants for the former East West Link project that will not be received, following the release of the *2015-16 Commonwealth Budget*.

The initial $1.5 billion already provided by the Commonwealth in 2013-14 for the former East West Link project will be retained by Victoria for infrastructure projects.

Taxation

State taxation revenue is expected to grow by 6.0 per cent in 2015-16 to $19.4 billion, and average 3.3 per cent a year over the forward estimates. Strong land transfer duty revenue offsets relative weakness in income and consumption based taxes. Specifically:

- land transfer duty revenue has been stronger than expected, relative to the *2015-16 Budget*. The momentum observed in the first half of 2015 has continued into the September quarter. Growth is forecast at 9.7 per cent in 2015-16, delivering $5.4 billion, decreasing by 0.6 per cent a year on average over the forward estimates as the property market cools following successive years of strong growth;
- land tax revenue is expected to decline by 0.7 per cent in 2015-16 to $1.7 billion, reflecting the biennial land tax revaluation cycle. Growth is expected to broadly track nominal growth in the economy over the forward estimates period;
- payroll tax is expected to grow slightly below trend, by 5.0 per cent in 2015-16 to $5.4 billion, reflecting softer wages growth relative to the *2015-16 Budget*. Over the forward estimates, growth is expected to average 5.9 per cent as labour market conditions improve;
- gambling taxes are expected to grow by 4.7 per cent in 2015-16 to $1.9 billion. Growth in gambling tax revenue reflects general weakness in nominal consumption expenditure. Despite an expected recovery in household income, spending on electronic gaming machines is expected to decline as a share of consumption, limiting revenue growth;
- taxes on insurance are expected to grow by 5.7 per cent in 2015-16 to $1.1 billion and 7.0 per cent a year on average over the forward estimates; and
- motor vehicle taxes are expected to grow by 4.5 per cent in 2015-16 to $2.2 billion. Thereafter, growth is expected to average 4.1 per cent a year over the forward estimates.

Dividends, income tax equivalent and interest

Dividend and income tax equivalent (ITE) revenue is projected to increase by 0.7 per cent in 2015-16 to $1.1 billion. These revenues are expected to decline in 2016-17 by 13.5 per cent, and fall by 9.5 per cent between 2017-18 and 2018-19 largely due to the impact of lower investment returns forecast and higher revaluation of liabilities on the projected profitability of the Transport Accident Commission and WorkSafe Victoria.

Consistent with previous commitments, the Government is not taking a dividend from WorkSafe Victoria across the budget and forward estimates. Instead, accumulated surpluses will be used to fund improvements to benefits and access to benefits for injured workers, lower WorkCover premiums for Victorian businesses and programs to improve workplace safety and the health of the Victorian workforce.

Across the forward estimates, interest income is projected to grow by 0.8 per cent a year on average to $825 million by 2018-19.

Sales of goods and services

Revenue from the sales of goods and services is expected to grow by 5.0 per cent to $6.8 billion in 2015-16. This growth largely reflects an increase in the capital asset charge from VicTrack associated with an increase in the capital asset base for which there is an offset in grant expenses. Thereafter, growth moderates to an average of 1.0 per cent a year over the forward estimates.

Grants

Total grants revenue is expected to grow by 3.9 per cent to $25 billion in 2015-16 and by 3.7 per cent a year on average to $28 billion in 2018-19. The growth in total grants revenue is largely driven by higher GST receipts.

GST grants revenue is projected to grow by 8.6 per cent in 2015-16 to $13 billion and by an average of 6.9 per cent a year over the forward estimates. This reflects an improvement in expected growth in the national GST pool over the forward estimates as the national economy transitions towards household consumption and reflects the expected positive impact on receipts of further compliance measures by the Australian Taxation Office (ATO). Victoria also has a slightly larger share of the national population than previously expected, increasing GST revenue allocated to the State.

Commonwealth grants for specific policy purposes are projected to be $12.5 billion a year on average across the budget and forward estimates. The Commonwealth provides these grants as contributions towards healthcare, education, disability and other services, and major infrastructure investment. While the outlook is relatively stable across the forward estimates there is significant movement in the underlying components of the grants.

Growth in Commonwealth grants is lower than the *2015-16 Budget* estimate due to the removal of the $1.5 billion in previously expected Commonwealth grants for the former East West Link project that will not be received, following the release of the *2015-16 Commonwealth Budget*.

The initial $1.5 billion already provided by the Commonwealth in 2013-14 for the former East West Link project will be retained by Victoria for infrastructure projects.

Other current revenue

Other current revenue includes fines, royalties, donations and gifts, assets received free of charge and other miscellaneous revenues. Other current revenue is projected to decrease by 2.7 per cent to $2.4 billion in 2015-16 largely due to a reduction in revenue received from the developers for the Kew residential services redevelopment, which was completed in 2014-15. Other current revenue is projected to grow by an average of 0.3 per cent a year across the forward estimates.

Expenses outlook

The Government is expected to spend $54 billion in 2015-16 providing services to the community. Total expenses are expected to grow by 3.1 per cent a year on average over the budget and forward estimates to $59 billion in 2018-19.

The level and expected growth in expenses is broadly comparable with the estimates forecast in the *2015-16 Budget,* which incorporated the Government's decision to invest more to meet the growing demand on core services for families, including on health, education and frontline social services. Specifically:

- employee expenses (including superannuation), which account for 42 per cent of operating expenditure in 2015-16, are projected to grow by 5.2 per cent to $23 billion in 2015-16 and by 3.5 per cent a year on average over the forward estimates. The growth in 2015-16 is driven by annual growth in wages, consistent with the Government's wages policy, growth in staffing numbers associated with growing hospital demand and increased investment in the education sector as part of the Education State initiative;
- grants and other transfer expenses include funding provided to non-government schools, VicTrack and V/Line for operational costs incurred in the provision of transport services, and local governments. Expenditure is forecast to fall by 1.0 per cent to $8.5 billion in 2015-16 primarily due to the early receipt of Commonwealth grants for on-passing to local governments in 2014-15. Growth is expected to return closer to trend levels at 5.0 per cent a year on average over the forward estimates;
- other operating expenses include the purchase of supplies and services in the human services, health and transport sectors, and maintenance expenses. Other operating expenses are projected to increase by 3.5 per cent in 2015-16 and grow by an average of 1.2 per cent a year to $19 billion in 2018-19;
- depreciation expense is projected to grow by 3.5 per cent to $2.5 billion in 2015-16, increasing by 6.9 per cent a year on average over the forward estimates to $3.1 billion in 2018-19. Growth in the depreciable asset base over the forward estimates reflects the Government's commitment to invest in infrastructure; and
- interest expense is forecast to be $2.1 billion in 2015-16, an increase of 1.4 per cent and grow by an average of 0.4 per cent a year on average over the forward estimates.

Other economic flows

The difference between the net result from transactions and the net result is other economic flows included in the net result. 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.

The revised gain in other economic flows of $3.5 billion in 2015-16 largely reflects forecast gains of entering into a medium-term lease over the operations of the Port of Melbourne, partly offset by the impact of bad and doubtful debts.

Reconciliation of estimates to the *2015-16 Budget*

Relative to the *2015-16 Budget*, the net result from transactions has been revised up by an average of $374 million a year from 2015-16 to 2017-18, but decreases by $274 million in 2018-19.

Table 3.3: Reconciliation of estimates to the 2015-16 Budget [a]

($ million)

	2015-16 revised	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Net result from transactions: *2015-16 Budget*	**1 219**	**1 397**	**1 366**	**1 828**
Policy decision variations				
Revenue policy decision variations	..	..	..	..
Output policy decision variations [b]	(88)	(58)	(24)	(13)
	(88)	**(58)**	**(24)**	**(13)**
Economic/demographic variations				
Taxation	411	221	144	103
Investment income [c]	(24)	(19)	(32)	(166)
	388	**202**	**112**	**(63)**
Commonwealth grant variations				
General purpose grants	243	308	108	59
Specific purpose grants [d]	(179)	(427)	212	(283)
	65	**(118)**	**320**	**(224)**
Administrative changes				
Contingency offset for new policy [e]	96	..	..	..
Other administrative variations	33	122	72	26
	129	**122**	**72**	**26**
Total variation since *2015-16 Budget*	**493**	**148**	**480**	**(274)**
Net result from transactions: *2015-16 Budget Update*	**1 712**	**1 544**	**1 845**	**1 555**

Source: Department of Treasury and Finance

Notes:

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

(b) *This is represented in Appendix A* Specific policy initiatives affecting the budget position.

(c) *Investment income includes dividends and income tax and rate equivalent revenue.*

(d) *Reflects the change in grant revenue as per Chapter 4 Note 5* Grant revenue *less associated expense movements.*

(e) *Represents release of funding not allocated to specific purposes contingencies associated with demand for government services.*

Policy decision variations

There have been no revenue policy decisions since the *2015-16 Budget*.

Details of new policy initiatives since the *2015-16 Budget* are contained in Appendix A *Specific policy initiatives affecting the budget position*.

Economic and demographic variations

Taxation revenue has been revised up by $411 million in 2015-16 and by $156 million a year on average over the forward estimates period due to economic and demographic factors, mainly reflecting:

- an increase in land transfer duty of $390 million in 2015-16 due to ongoing strength in the residential, commercial and industrial property markets since the *2015-16 Budget*;
- an increase in the growth areas infrastructure contribution of $41 million in 2015-16 and $45 million a year on average over the forward estimates period, due to strong commercial conditions for property developers, partially offset by;
- decreases in forecast revenue from land tax of $29 million in 2015-16, reflecting the biennial land tax revaluation cycle that carries forward the weaker than expected outcome of the 2014 revaluation cycle; and
- a decrease in forecast payroll tax revenue of $13 million in 2015-16 and $18 million a year on average over the forward estimates, due to a weaker outlook for wages growth.

Total investment income has decreased by an average of $25 million a year from 2015-16 to 2017-18 primarily due to the impact of lower investment returns on the expected ITE payments from WorkSafe Victoria. The 2015-16 impact of lower ITE payments from WorkSafe Victoria has been partially offset by higher expected ITE payments from Melbourne Water as a result of an ATO ruling on the treatment of desalination plant expenses.

Investment income for 2018-19 is expected to decrease by $166 million largely due to the impact of lower investment returns on the expected ITE payments from the Transport Accident Commission.

Commonwealth grants variations

Commonwealth general purpose grants (or GST grants) have been revised up in 2015-16 by $243 million and $158 million a year on average over the forward estimates compared to the *2015-16 Budget*. This increase is driven by stronger than expected national GST pool growth and a higher Victorian share of the national population.

Changes to specific purpose grants has decreased the operating result by an average of $296 million in 2015-16, 2016-17 and 2018-19, and increased it by $212 million in 2017-18. These movements are largely due to:

- the removal of the $1.5 billion in previously expected Commonwealth grants across 2014-15, 2015-16, 2016-17 and 2018-19, for funding that will not be received for the former East West Link project (the initial $1.5 billion already provided by the Commonwealth in 2013-14 will be retained by Victoria for infrastructure projects); partially offset by
- rescheduling $410 million of capital grants for roads and rail projects from 2014-15 to across the budget and forward estimates period; and
- $150 million in additional funding across the forward estimates to complete the M80 ring road upgrade from Sunshine Avenue to Calder Freeway.

Administrative variations

The release of contingency as part of the *2015-16 Budget Update* to offset new policy decisions totals $96 million for 2015-16.

Other administrative variations have increased the operating result by $33 million in 2015-16 and by an average of $74 million a year across the forward estimates. Annual movements are largely driven by:

- lower depreciation expense reflecting the implementation of a new departmental asset management system for schools and a revaluations of roads;
- lower superannuation expense, primarily due to movements in the bond yields that underlie the key superannuation valuation assumptions;
- the recognition of revenue under the Water Purchase Agreement by an average of $46 million a year from 2015-16 to 2017-18; partially offset by
- lower expected revenue from various trust funds due to the impact of weaker investment returns.

The 2015-16 estimate has also been offset by additional departmental expenditure on government services that was originally planned for 2014-15, and adjustments to the provision for decisions made but not yet allocated.

CASH FLOWS

Total net investment in fixed assets is projected to be a net negative $2.5 billion in 2015-16 and average a positive $4.8 billion a year over the forward estimates. This largely reflects the net impact of additional investments in new assets, including prudent provisioning for future budgets and remaining capital election commitments, and the forecast proceeds from entering into a medium-term lease over the operations of the Port of Melbourne.

In addition to net investment in fixed assets, infrastructure investment is also funded and delivered through public private partnerships. These projects are included in the general government infrastructure investment measure, which is projected to average $5.3 billion a year over the budget and forward estimates.

Table 3.4: Application of cash resources for the general government sector [a]

($ million)

	2015-16 revised	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Net result from transactions	**1 712**	**1 544**	**1 845**	**1 555**
Add back: non-cash revenue and expenses (net) [b]	2 318	2 597	2 748	2 744
Net cash flows from operating activities	**4 030**	**4 142**	**4 593**	**4 299**
Less				
Net investment in fixed assets				
Purchases of non-financial assets	4 341	5 615	4 842	4 029
Net cash flows from investments in financial assets for policy purposes	(6 524)	102	(1 049)	217
Funding not allocated to specific purposes [c]	..	300	700	1 000
Proceeds from asset sales	(329)	(555)	(492)	(292)
Total net investment in fixed assets [d]	**(2 513)**	**5 463**	**4 001**	**4 953**
Surplus/(deficit) of cash from operations after funding net investment in fixed assets	**6 543**	**(1 321)**	**592**	**(654)**
Finance leases [e]	1 074	496	652	..
Other movements	34	41	48	52
Decrease/(increase) in net debt	**5 434**	**(1 858)**	**(109)**	**(706)**

Source: Department of Treasury and Finance

Notes:

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

(b) Includes depreciation, movements in the unfunded superannuation liability and liability for employee benefits.

(c) The amount available to be allocated to specific departments and projects in future budgets including capital contributions to other sectors.

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

(e) The finance lease acquisition in 2015-16 relates to the Victorian Comprehensive Cancer Centre and metropolitan Melbourne buses contract. The 2016-17 figure relates to the new Bendigo Hospital project (stage 1), the New Schools PPP project (tranche 1) and the metropolitan Melbourne buses contract. The 2017-18 estimate relates to the new Bendigo Hospital project (stage 2), Ravenhall Prison and the New Schools PPP project (tranche 2).

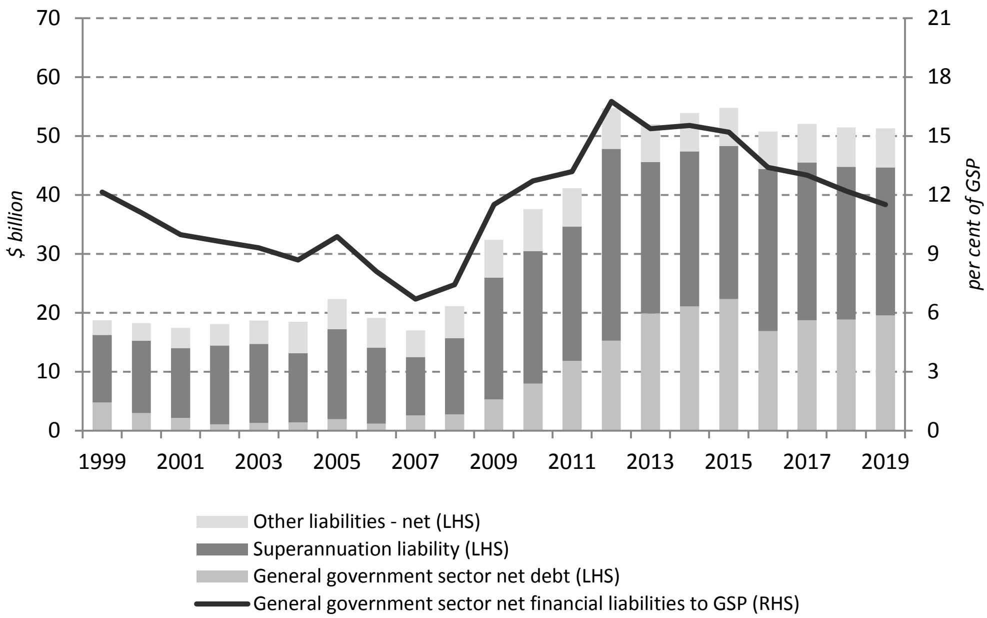
NET DEBT AND NET FINANCIAL LIABILITIES

In line with estimates published in the *2015-16 Budget*, net debt is anticipated to decline in nominal terms and as a percentage of GSP from its June 2015 level of $22.3 billion (6.2 per cent of GSP) to $19.6 billion (4.4 per cent of GSP) by June 2019.

Chart 3.1 presents the trend in net financial liabilities, a key measure of overall indebtedness used by international credit rating agencies to assess the State's financial position. General government net financial liabilities is a measure that sums the superannuation liability, net debt (sum of deposits held, advances received and borrowings less the sum of cash, deposits, advances paid and investments, loans and placements) and other net liabilities. Overall, estimated net financial liabilities as a proportion of GSP are on a downward trajectory over the forward estimates.

Movements in the superannuation liability primarily reflect the impact of variations in the discount rate that is required to value this liability under AASB 119 *Employee Benefits*. These movements do not affect the amount of cash that is required to fund the superannuation liability over time.

Chart 3.1: General government net financial liabilities [(a)]



Source: Department of Treasury and Finance

Note:

(a) Superannuation liabilities between 1999 and 2004 are calculated under the previous Australian accounting standard, whereas from 2005 onwards AASB 119 Employee Benefits has been applied.

Table 3.5: General government sector net debt and net financial liabilities

($ billion)

	2016 revised	2017 estimate	2018 estimate	2019 estimate
Financial assets				
Cash and deposits	4.5	4.7	5.0	5.4
Advances paid	4.5	4.5	4.4	4.4
Investments, loans and placements	3.5	3.6	3.8	3.9
Total	**12.5**	**12.8**	**13.2**	**13.6**
Financial liabilities				
Deposits held and advances received	0.5	0.5	0.5	0.5
Borrowings	28.9	31.1	31.6	32.7
Total	**29.4**	**31.6**	**32.1**	**33.2**
Net debt [(a)]	**16.9**	**18.8**	**18.9**	**19.6**
Superannuation liability	27.5	26.7	25.9	25.1
Net debt plus superannuation liability	**44.4**	**45.5**	**44.8**	**44.6**
Other liabilities (net) [(b)]	6.4	6.6	6.7	6.6
Net financial liabilities [(c)]	**50.8**	**52.0**	**51.5**	**51.3**
(per cent)				
Net debt to GSP [(d)]	**4.5**	**4.7**	**4.5**	**4.4**
Net debt plus superannuation liability to GSP [(d)]	**11.7**	**11.4**	**10.6**	**10.0**
Net financial liabilities to GSP [(d)]	**13.4**	**13.0**	**12.2**	**11.5**

Source: Department of Treasury and Finance

Notes:

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

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

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

(d) Ratios to GSP may vary from publications year to year due to revisions made by the ABS to its GSP data.

FISCAL RISKS

This section contains a number of known 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

State taxes

State tax forecasts are primarily based on an estimated relationship between taxation revenue and projected economic variables. As a result, the main source of risk to the taxation estimates is the economic environment.

For example, higher than expected economic activity or inflation will tend to lead to higher taxation revenue. Fiscal implications of variations in economic parameters from forecasts are considered in Appendix D *Sensitivity analysis*.

There is also the risk of changes in the relationship between the economic variables and taxation revenue (such as between consumer spending and motor vehicle taxes, or between employment and payroll tax). Some state taxes, such as land transfer duty, are sourced from relatively volatile tax bases, and revenue from these sources may be subject to substantial annual variations.

Commonwealth grants

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

Changes to national economic conditions, particularly regarding consumer spending, affect the size of the national pool, while other changes, including to the CGC's methodology, will affect each jurisdiction's assessed fiscal capacity.

Employee expenses

Employee expenses are the State's largest expense. Wages policy sets the framework for enterprise agreement negotiations and in part contributes to the projection of employee expenses.

Demand growth

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

The estimates incorporate contingency provisions to mitigate the impact of expenditure risks, which may be realised during the budget and forward estimates. The contingency provisions are designed to address the likely growth in Victoria's population and consequent derived demand for government services.

Realised expenditure risks will affect total expenditure and the annual budget position to the extent they exceed the contingency provision factored into the estimates. More detailed disclosures of general government output and asset contingencies not allocated to departments are shown in note 12(c) and note 20(c) of Chapter 4 *Estimated financial statements and notes.*

In the longer term, the demand for services is expected to come under increasing pressure due to demographic pressures such as an ageing population. The Government will need to become increasingly efficient and innovative in the delivery of services to ensure that key priorities can continue to be met.

Specific fiscal risks

National Disability Insurance Scheme

Victoria is hosting a launch site for the National Disability Insurance Scheme (NDIS), which will provide useful information to guide the roll out of the full scheme across the State by July 2019. On 16 September 2015, the Commonwealth and Victorian Governments signed the Bilateral Agreement for the Transition to a National Disability Insurance Scheme. From 2019-20, Victoria's investment in disability care and support will increase to an estimated $2.5 billion a year, with the Commonwealth providing around $2.6 billion a year. Victoria will continue to work with the Commonwealth to monitor and manage any risks associated with implementing the full scheme.

National Injury Insurance Scheme

The Productivity Commission recommended the establishment of a National Injury Insurance Scheme (NIIS) to support people who suffer catastrophic injuries. The Commonwealth Government expects the State to fund the total cost in Victoria of a NIIS, as well as contribute to the cost of the NDIS. Victoria already provides support for people injured in motor vehicle and workplace accidents, and is discussing other streams of a NIIS with other jurisdictions but has not agreed to implement them.

Commonwealth schools funding

While final State allocations for the 2018 and 2019 school years are still subject to negotiation, the *2014-15 Commonwealth Budget* indicated that Commonwealth funding for Victorian schools would be reduced to the rate of growth of the consumer price index, plus an adjustment for enrolment growth. This will significantly reduce Commonwealth growth funding to Victoria from 2017-18 onwards.

Universal Access to Early Childhood Education

Commonwealth funding under the National Partnership Agreement on Universal Access to Early Childhood Education provides for one-third of the 15 hours per week of pre-school support per student. The *2015-16 Commonwealth Budget* indicated funding due to cease on 1 January 2016 will be continued to 31 December 2017, with ongoing Commonwealth funding uncertain.

National Health Reform

Under the National Health Reform Agreement (NHRA), Commonwealth growth funding for Victorian hospitals is derived from a complex model based on the number of procedures delivered (activity) and an efficient price determined by an independent administrator. The *2014-15 Commonwealth Budget* announced that from 1 July 2017, the Commonwealth will cease the NHRA and provide significantly lower growth funding based on the consumer price index and population growth. This will significantly reduce the Commonwealth contribution for Victorian hospitals from 2017-18 onwards.

Victoria's GST relativity

Mining royalties are an important driver for the per capita relativities of each jurisdiction over the forward estimates. Royalty revenue is influenced by commodity prices, the value of the Australian dollar and production and export volumes. Forecasts reflect declining commodity prices, partially offset by rising production and export volumes. Variation in prices, relative to our current forecasts, particularly in iron ore and coal, pose a risk for Victoria's GST revenue.

NON-FINANCIAL PUBLIC SECTOR

This section overviews the activities of the non-financial public (NFP) sector, which consolidates the PNFC and general government sectors. The PNFC sector has a wide range of entities that provide services primarily funded from user charges and fees. The largest Victorian PNFCs provide water, housing, transport, and port services. An important measure of the State's financial sustainability is the debt level of the NFP sector which is a key variable that supports the State's triple-A credit rating.

Summary operating statement

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

($ million)

	2015-16 revised	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Taxation revenue	19 003	19 789	20 294	21 174
Interest revenue	341	347	372	378
Dividends and income tax equivalent and rate equivalent revenue [b]	659	628	660	512
Sales of goods and services	10 810	10 584	10 848	11 079
Grant revenue	25 447	26 004	27 816	28 353
Other revenue	2 903	2 984	2 946	2 964
Total revenue from transactions	**59 163**	**60 336**	**62 935**	**64 459**
% change [c]	3.3	2.0	4.3	2.4
Expenses from transactions				
Employee expenses	21 151	21 835	22 791	23 701
Net superannuation interest expense [d]	878	821	803	807
Other superannuation	2 143	2 183	2 203	2 234
Depreciation	4 633	4 766	5 017	5 361
Interest expense	2 738	2 713	2 758	2 758
Grants and other transfers	5 511	6 179	6 459	6 773
Other operating expenses	21 264	20 945	21 600	21 767
Total expenses from transactions	**58 319**	**59 442**	**61 633**	**63 401**
% change [c]	3.3	1.9	3.7	2.9
Net result from transactions – net operating balance	**844**	**894**	**1 303**	**1 058**

Source: Department of Treasury and Finance

Notes:

(a) *This is a summary operating statement. The comprehensive operating statement is presented in Chapter 5* Supplementary uniform presentation framework tables.

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

(c) *The revenue and expense growth for 2015-16 is based on published numbers in the* 2014-15 Financial Report.

(d) *Comprises superannuation interest expense and other superannuation expenses.*

The net result from transactions in 2015-16 for the NFP sector is projected to be a surplus of $844 million, improving to a surplus of $1.3 billion by 2017-18. This is largely due to the forecast performance of the general government sector which shows a $1.7 billion surplus in 2015-16 before moderating to a $1.6 billion surplus in 2018-19. The general government sector performance is discussed earlier in the chapter.

The net result from transactions in the PNFC sector is projected to be $504.1 million in deficit in 2015-16 improving to a $243 million deficit in 2018-19, lower than the deficit of $370.7 million projected in the *2015-16 Budget*. The deficits in the sector mainly reflect:

- the funding arrangements in place for VicTrack, whereby grants from the general government sector are sufficient to allow a cash operating surplus, but do not fully fund depreciation on a year by year basis, resulting in operating losses; and
- projected deficits in the Director of Housing across the forward estimates period, due to the impact of its current operating model and the costs associated with managing a large and ageing asset portfolio.

PNFC sector interest and depreciation expense is projected to be lower compared to the *2015-16 Budget*, as the sector has moderated its capital infrastructure program particularly the water businesses as they continue to implement cost efficiencies and savings measures across the forward estimates.

Despite the forecast deficits, the PNFC sector is forecast to remain in a strong and sustainable position, as evidenced by improving operating cash flow surpluses, averaging $1.6 billion across the forward and budget estimates.

Application of cash resources

The NFP sector is forecast to record growing operating cash flow surpluses across the budget and forward estimates period. This will result in the NFP sector infrastructure program being predominantly funded by net operating cash inflows. This enables the State to deliver significant infrastructure projects without compromising debt sustainability.

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

($ million)

	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Net result from transactions	844	894	1 303	1 058
Add back: non cash income and expenses (net) [(b)]	4 159	4 425	4 635	4 850
Net cash flow from operating activities	5 003	5 319	5 937	5 908
Less:				
Net investments in fixed assets				
Purchase of non-financial assets	6 607	7 816	7 082	6 497
Net cash flow from investments in financial assets for policy purposes	215	(59)	(1 281)	(65)
Funding not allocated for specific purposes [(c)]	..	300	700	1 000
Proceeds from asset sales	(7 477)	(720)	(685)	(496)
Total net investments in fixed assets [(d)]	**(656)**	**7 336**	**5 817**	**6 936**
Surplus/(deficit) of cash from operations after funding net investments in fixed assets	**5 659**	**(2 017)**	**121**	**(1 029)**
Finance Leases [(e)]	1 074	496	652	..
Other investment activities (net)	(14)	3	4	6
Decrease/(increase) in net debt	**4 599**	**(2 516)**	**(535)**	**(1 034)**

Source: Department of Treasury and Finance

Notes:

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

(b) Includes depreciation, movements in the unfunded superannuation liability and liability for employee benefits.

(c) The amount available to be allocated to specific departments and projects in future budgets including capital contributions to other sectors.

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

(e) The finance lease acquisition in 2015-16 relates to the Victorian Comprehensive Cancer Centre and metropolitan Melbourne buses contract. The 2016-17 figure relates to the new Bendigo Hospital project (stage 1), the New Schools PPP project (tranche 1) and the metropolitan Melbourne buses contract. The 2017-18 estimate relates to the new Bendigo Hospital project (stage 2), Ravenhall Prison and the New Schools PPP project (tranche 2).

The NFP sector is projected to invest a total of $30 billion in infrastructure from 2015-16 to 2018-19. The key infrastructure projects under development include:

- significant investment in transport infrastructure, including new trains (metropolitan and regional) and trams to meet patronage growth and improve network performance;
- various water related infrastructure, including the Goulburn-Murray Water's Connections Program, connecting irrigators to a modernised main system of irrigation channels; and
- the Port Capacity Expansion project, which includes developing a third container terminal and a purpose-built automotive facility at Webb Dock. This will cater for future trade demand growth.

NON-FINANCIAL PUBLIC SECTOR NET DEBT AND NET FINANCIAL LIABILITIES

Table 3.8 provides details of NFP sector net debt and financial liabilities. It shows that net debt is projected to increase in nominal terms over the estimates period. In 2016-17, net debt as a percentage of GSP is projected to increase to 8.6 per cent, before falling to 8.1 per cent by 30 June 2019.

Table 3.8 Non-financial public sector net debt and financial liabilities

($ million)

	2015-16 revised	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Assets				
Cash and deposits	5 153	5 343	5 520	5 824
Advances paid	81	76	69	63
Investments, loans and placements	4 427	4 321	4 426	4 568
Total	**9 660**	**9 739**	**10 015**	**10 455**
Liabilities				
Deposits held and advances received	637	638	639	641
Borrowings	40 972	43 566	44 377	45 848
Total	**41 610**	**44 204**	**45 016**	**46 489**
Net debt [(a)]	**31 949**	**34 465**	**35 000**	**36 035**
Superannuation	27 510	26 735	25 930	25 095
Net debt plus superannuation liabilities	**59 459**	**61 200**	**60 930**	**61 130**
Other liabilities (net) [(b)]	5 492	5 565	5 592	5 518
Net financial liabilities [(c)]	**64 951**	**66 764**	**66 523**	**66 647**
Net debt to GSP [(d)]	**8.4**	**8.6**	**8.3**	**8.1**
Net debt plus superannuation liabilities to GSP [(d)]	**15.7**	**15.3**	**14.4**	**13.7**
Net financial liabilities to GSP [(d)]	**17.1**	**16.7**	**15.8**	**15.0**

Source: Department of Treasury and Finance

Notes:

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

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

(c) Net financial liabilities is the sum of superannuation, borrowings and other net liabilities less not-equity financial assets.

(d) Ratios to GSP may vary from publications year to year due to revisions made by ABS to its published GSP data.

Table 3.9 provides projections of several indicators of financial sustainability for the NFP sector which are improving, particularly in 2017-18, before stabilising in subsequent years.

The ratio of operating cash flow to revenue is a measure of the relative size of the operating result and therefore provides a measure of operating performance. The growth in this ratio over the forward estimates indicates an increasing level of cash generated from operations, which can be used to fund necessary infrastructure and also meet the State's commitment to fully fund the superannuation liability by 2035.

The ratio of the NFP sector's interest expense to revenue is a measure of the State's debt service burden. This ratio is expected to be 4.6 per cent in 2015-16, before declining to 4.3 per cent by 2018-19 as debt levels moderate. This is broadly in line with the ratio projected in the *2015-16 Budget*. The debt burden is demonstrated by the ratio of gross debt to revenue, which falls from a peak of 73.3 per cent in 2016-17 to 72.1 per cent in 2018-19.

Table 3.9 Indicators of financial sustainability non-financial public sector

(per cent)

	2015-16 revised	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Operating cash flow surplus to revenue	8.5	8.8	9.4	9.2
Gross debt to revenue [(a)]	70.3	73.3	71.5	72.1
Interest expense to revenue	4.6	4.5	4.4	4.3

Source: Department of Treasury and Finance

Note:

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

STATE OF VICTORIA

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

Table 3.10 Summary operating statement for the State of Victoria [a]

($ million)

	2015-16 revised	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Taxation revenue	18 988	19 774	20 278	21 158
Interest revenue	608	773	832	835
Dividends and income tax equivalent and rate equivalent revenue	520	1 213	1 164	1 125
Sales of goods and services	14 248	14 177	14 616	15 030
Grant revenue	25 317	25 869	27 694	28 238
Other revenue	2 924	3 006	2 969	2 987
Total revenue from transactions	**62 606**	**64 812**	**67 554**	**69 373**
% change [b]	2.5	3.5	4.2	2.7
Expenses from transactions				
Employee expenses	21 116	21 797	22 758	23 678
Net superannuation interest expense [c]	878	821	803	807
Other superannuation	2 167	2 207	2 228	2 260
Depreciation	4 681	4 817	5 068	5 406
Interest expense	2 816	2 765	2 809	2 809
Grant expenses	5 511	6 179	6 459	6 773
Other operating expenses	26 602	26 587	27 536	27 892
Total expenses from transactions	**63 770**	**65 173**	**67 661**	**69 624**
% change [b]	3.4	2.2	3.8	2.9
Net result from transactions – net operating balance	**(1 164)**	**(361)**	**(107)**	**(250)**
Total other economic flows included in net result	**3 357**	**1 259**	**1 374**	**1 520**
Net result	**2 193**	**898**	**1 267**	**1 270**

Source: Department of Treasury and Finance

Notes:

(a) *This is a summary operating statement. The comprehensive operating statement is presented in Chapter 5* Supplementary uniform presentation framework tables.

(b) *The revenue and expense growth for 2015-16 is based on published numbers in the* 2014-15 Financial Report.

(c) *Comprises superannuation interest expense and other superannuation expenses.*

Table 3.10 shows that the State of Victoria is projected to record a surplus net result of $2.2 billion in 2015-16. Thereafter, the surplus net result stabilises at $1.3 billion by 2017-18.

Other economic cash flows make a significant contribution to the surplus net result per year over the budget and the forward estimates period. Other economic flows largely comprise projected investment returns of the State's insurers which are used to service their liabilities. Other economic flows also include valuation gains and revaluation of financial liabilities, which primarily result from movement in bond rates used to value liabilities such as insurance claims and superannuation. For this reason, the net result is considered a more meaningful measure of the expressed operating position on the PFC sector and the State.

Net result from transactions for 2015-16 is a deficit of $1.2 billion, improving to a deficit of $107 million by 2017-18. The 2015-16 revised deficit estimate is higher compared to what was estimated in the *2015-16 Budget*. This is mainly due to lower profit forecasts for TAC and WorkSafe Victoria as a result of lower investment returns and the impact of lower interest rates on the value of their claims liabilities.

Table 3.11 Summary balance sheet for the State of Victoria

($ million)

	2015-16 revised	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Assets				
Financial assets	49 718	51 518	52 325	54 908
Non-financial assets	210 874	214 841	226 772	228 850
Total Assets	**260 591**	**266 359**	**279 097**	**283 758**
Liabilities				
Superannuation	27 510	26 735	25 930	25 095
Borrowings	47 096	49 684	50 493	51 959
Deposits held and advances received	2 243	2 244	2 246	2 248
other liabilities	41 636	43 203	44 809	46 419
Total liabilities	**118 483**	**121 866**	**123 478**	**125 721**
Net assets	**142 108**	**144 493**	**155 619**	**158 037**

Source: Department of Treasury and Finance

Table 3.11 highlights that the State's financial position over the revised budget and the forward estimates. Borrowings are projected to increase during 2016-17 while financial assets are projected to increase in line with longer term trends in investment returns. As a result, the State's net assets are forecast to increase from $142.1 billion in 2015-16 to $158 billion in 2018-19.

CHAPTER 4 – ESTIMATED FINANCIAL STATEMENTS AND NOTES

Table 4.1: Estimated general government sector comprehensive operating statement for the financial year ended 30 June

($ million)

	Notes	*2015-16 budget*	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Revenue from transactions						
Taxation revenue	2	19 024.5	19 435.6	20 025.4	20 547.0	21 442.2
Interest revenue		830.8	806.3	812.7	821.8	824.7
Dividends and income tax equivalent and rate equivalent revenue	3	1 144.3	1 120.8	969.4	979.9	886.5
Sales of goods and services	4	6 779.1	6 809.1	6 897.1	6 969.4	7 020.9
Grant revenue	5	25 579.5	25 454.6	26 009.6	27 821.7	28 358.3
Other revenue	6	2 170.6	2 440.0	2 521.6	2 461.6	2 465.5
Total revenue from transactions		**55 528.7**	**56 066.4**	**57 235.7**	**59 601.4**	**60 998.0**
Expenses from transactions						
Employee expenses		19 903.4	20 069.1	20 767.6	21 696.0	22 587.6
Net superannuation interest expense	7a	886.5	878.0	820.6	803.2	806.7
Other superannuation	7a	2 101.7	2 048.6	2 088.2	2 106.1	2 135.8
Depreciation	8	2 576.9	2 509.6	2 656.9	2 820.4	3 069.6
Interest expense	9	2 096.1	2 131.5	2 108.3	2 167.2	2 159.5
Grant expense	10	8 686.9	8 446.4	9 170.1	9 499.2	9 767.0
Other operating expenses	11	18 058.3	18 271.3	18 079.5	18 663.8	18 917.1
Total expenses from transactions	**12**	**54 309.8**	**54 354.5**	**55 691.2**	**57 755.9**	**59 443.3**
Net result from transactions – net operating balance		**1 218.9**	**1 711.8**	**1 544.5**	**1 845.5**	**1 554.7**
Other economic flows included in net result						
Net gain/(loss) on disposal of non-financial assets		63.6	74.2	87.2	96.7	65.3
Net gain/(loss) on financial assets or liabilities at fair value		5 402.2	3 737.5	7.2	7.2	7.2
Other gains/(losses) from other economic flows	13	(318.4)	(332.7)	(332.9)	(341.6)	(352.1)
Total other economic flows included in net result		**5 147.4**	**3 479.0**	**(238.5)**	**(237.7)**	**(279.6)**
Net result		**6 366.3**	**5 190.8**	**1 306.0**	**1 607.8**	**1 275.1**

Table 4.1: Estimated general government sector comprehensive operating statement for the financial year ended 30 June *(continued)*

($ million)

	Notes	*2015-16 budget*	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Other economic flows – other comprehensive income						
Items that will not be reclassified to net result						
Changes in non-financial assets revaluation surplus		755.8	755.8	513.0	9 129.8	421.8
Remeasurement of superannuation defined benefit plans	7a	962.4	(1 392.9)	847.1	850.3	836.1
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	14	1.5	(243.6)	(264.7)	421.3	(70.0)
Other movements in equity		5.7	5.7	1.1	5.3	24.1
Items that may be reclassified subsequently to net result						
Net gain/(loss) on financial assets at fair value		1.2	1.2	1.3	1.3	1.3
Total other economic flows – other comprehensive income		**1 726.7**	**(873.8)**	**1 097.8**	**10 407.9**	**1 213.3**
Comprehensive result – total change in net worth		**8 092.9**	**4 317.0**	**2 403.8**	**12 015.7**	**2 488.4**
KEY FISCAL AGGREGATES						
Net operating balance		**1 218.9**	**1 711.8**	**1 544.5**	**1 845.5**	**1 554.7**
Less: Net acquisition of non-financial assets from transactions [(a)]	15	1 411.4	1 397.2	1 610.6	852.4	(554.4)
Net lending/(borrowing) [(a)]		**(192.4)**	**314.7**	**(66.1)**	**993.0**	**2 109.2**

The accompanying notes form part of these estimated financial statements.

Note:

(a) 2015-16 Budget *figures have been restated to reflect more current information.*

Table 4.2: Estimated general government sector balance sheet as at 30 June

($ million)

	Notes	2016 budget [(a)]	2016 revised	2017 estimate	2018 estimate	2019 estimate
Assets						
Financial assets						
Cash and deposits		4 479.3	4 461.0	4 717.2	5 029.8	5 363.0
Advances paid	16	4 524.5	4 524.5	4 488.2	4 442.4	4 390.9
Receivables		5 404.2	5 405.4	5 372.7	5 370.1	5 480.7
Investments, loans and placements	16	3 513.0	3 502.0	3 630.0	3 752.7	3 876.6
Investments accounted for using equity method		44.6	44.6	44.6	44.6	44.6
Investments in other sector entities	14	82 431.6	80 405.0	81 908.6	83 365.6	85 809.5
Total financial assets		**100 397.2**	**98 342.5**	**100 161.4**	**102 005.1**	**104 965.2**
Non-financial assets						
Inventories		147.8	147.2	150.7	155.2	159.6
Non-financial assets held for sale		175.3	151.9	154.7	149.9	152.3
Land, buildings, infrastructure, plant and equipment	17,18	109 733.4	109 733.9	111 933.6	122 099.0	122 027.1
Other non-financial assets	19	977.2	979.8	932.7	757.4	693.3
Total non-financial assets		**111 033.7**	**111 012.8**	**113 171.7**	**123 161.5**	**123 032.4**
Total assets	**20(d)**	**211 430.9**	**209 355.3**	**213 333.1**	**225 166.6**	**227 997.6**
Liabilities						
Deposits held and advances received	19	517.7	517.7	517.6	517.5	517.4
Payables	21	5 434.0	5 157.2	5 025.7	4 912.8	4 697.3
Borrowings	22	29 370.5	28 864.5	31 070.2	31 568.5	32 680.0
Employee benefits	23	5 852.4	5 856.4	6 108.9	6 365.8	6 618.3
Superannuation	7(d)	25 003.2	27 482.6	26 708.0	25 903.9	25 069.3
Other provisions		825.6	825.5	847.4	827.0	855.8
Total liabilities		**67 003.4**	**68 703.8**	**70 277.8**	**70 095.5**	**70 438.1**
Net assets		**144 427.4**	**140 651.5**	**143 055.3**	**155 071.1**	**157 559.5**
Accumulated surplus/(deficit)		53 112.0	49 581.1	51 720.8	54 169.1	56 289.4
Reserves	24	91 265.5	91 020.4	91 284.5	100 851.9	101 220.1
Non-controlling interest		50.0	50.0	50.0	50.0	50.0
Net worth		**144 427.4**	**140 651.5**	**143 055.3**	**155 071.1**	**157 559.5**
FISCAL AGGREGATES						
Net financial worth		33 393.7	29 638.7	29 883.6	31 909.6	34 527.1
Net financial liabilities		49 037.9	50 766.3	52 025.0	51 456.0	51 282.4
Net debt		17 371.4	16 894.6	18 752.4	18 861.1	19 567.0

The accompanying notes form part of these estimated financial statements.

Note:
(a) Balances represent actual opening balances at 1 July 2015 plus 2015-16 budgeted movements.

Table 4.3: Estimated general government sector cash flow statement for the financial year ended 30 June

($ million)

	Notes	*2015-16 budget*	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Cash flows from operating activities						
Receipts						
Taxes received		19 007.3	19 415.4	19 959.4	20 453.7	21 305.6
Grants		25 668.3	25 543.5	26 009.6	27 821.7	28 358.3
Sales of goods and services [(a)]		7 531.3	7 521.5	7 659.3	7 710.7	7 690.7
Interest received		811.8	787.2	795.4	804.5	807.4
Dividends and income tax equivalent and rate equivalent revenue		1 143.5	1 120.0	989.6	982.5	825.3
Other receipts		1 741.4	2 007.2	2 091.4	2 037.2	2 025.9
Total receipts		**55 903.6**	**56 394.8**	**57 504.8**	**59 810.2**	**61 013.2**
Payments						
Payments for employees		(19 657.1)	(19 819.2)	(20 516.4)	(21 440.3)	(22 336.3)
Superannuation		(2 969.0)	(2 783.6)	(2 836.2)	(2 863.1)	(2 941.0)
Interest paid		(2 058.6)	(2 093.2)	(2 071.2)	(2 130.1)	(2 122.5)
Grants and subsidies		(8 748.0)	(8 724.7)	(9 214.9)	(9 454.9)	(9 722.5)
Goods and services [(a)]		(18 055.5)	(18 271.7)	(18 034.8)	(18 608.1)	(18 843.1)
Other payments		(660.5)	(672.8)	(689.6)	(720.5)	(748.7)
Total payments		**(52 148.7)**	**(52 365.2)**	**(53 363.1)**	**(55 217.1)**	**(56 714.1)**
Net cash flows from operating activities		**3 754.9**	**4 029.6**	**4 141.6**	**4 593.1**	**4 299.1**
Cash flows from investing activities						
Purchases of non-financial assets	20a,b	(4 551.7)	(4 340.8)	(5 915.4)	(5 541.9)	(5 028.9)
Sales of non-financial assets		322.0	329.3	555.0	491.7	292.5
Cash flows from investments in non-financial assets		(4 229.7)	(4 011.5)	(5 360.4)	(5 050.2)	(4 736.5)
Net cash flows from investments in financial assets for policy purposes		6 510.8	6 524.4	(102.3)	1 048.8	(216.8)
Subtotal		**2 281.1**	**2 512.9**	**(5 462.7)**	**(4 001.4)**	**(4 953.2)**
Net cash flows from investment in financial assets for liquidity management purposes		(82.6)	(77.6)	(126.7)	(119.4)	(118.3)
Net cash flows from investing activities		**2 198.5**	**2 435.3**	**(5 589.4)**	**(4 120.8)**	**(5 071.5)**
Cash flows from financing activities						
Net borrowings		(5 755.7)	(6 285.5)	1 704.0	(159.6)	1 105.7
Deposits received (net)		(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Net cash flows from financing activities		**(5 755.8)**	**(6 285.6)**	**1 703.9**	**(159.7)**	**1 105.6**

Table 4.3: Estimated general government sector cash flow statement for the financial year ended 30 June *(continued)*

($ million)

	Notes	*2015-16 budget*	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Net increase/(decrease) in cash and cash equivalents		**197.6**	**179.3**	**256.1**	**312.6**	**333.2**
Cash and cash equivalents at beginning of reporting period [b]		4 281.7	4 281.7	4 461.0	4 717.2	5 029.8
Cash and cash equivalents at end of reporting period [b]		**4 479.3**	**4 461.0**	**4 717.2**	**5 029.8**	**5 363.0**
FISCAL AGGREGATES						
Net cash flows from operating activities		3 754.9	4 029.6	4 141.6	4 593.1	4 299.1
Net cash flows from investments in non-financial assets		(4 229.7)	(4 011.5)	(5 360.4)	(5 050.2)	(4 736.5)
Cash surplus/(deficit)		**(474.9)**	**18.2**	**(1 218.8)**	**(457.1)**	**(437.3)**

The accompanying notes form part of these estimated financial statements.

Notes:

(a) Inclusive of goods and services tax.

(b) 2015-16 Budget *figures have been restated to represent actual opening balances at 1 July 2015.*

Table 4.4: Estimated general government sector statement of changes in equity for the financial year ended 30 June

($ million)

	Accumulated surplus/(deficit)	*Non-controlling interest*
2015-16 budget[(a)]		
Balance at 1 July 2015	45 788.5	50.0
Net result for the year	6 366.3	..
Other comprehensive income for the year	957.2	..
Total equity at end of period	**53 112.0**	**50.0**
2015-16 revised		
Balance at 1 July 2015	45 788.5	50.0
Net result for the year	5 190.8	..
Other comprehensive income for the year	(1 398.2)	..
Total equity at end of period	**49 581.1**	**50.0**
2016-17 estimate		
Balance at 1 July 2016	49 581.1	50.0
Net result for the year	1 306.0	..
Other comprehensive income for the year	833.7	..
Total equity at end of period	**51 720.8**	**50.0**
2017-18 estimate		
Balance at 1 July 2017	51 720.8	50.0
Net result for the year	1 607.8	..
Other comprehensive income for the year	840.5	..
Total equity at end of period	**54 169.1**	**50.0**
2018-19 estimate		
Balance at 1 July 2018	54 169.1	50.0
Net result for the year	1 275.1	..
Other comprehensive income for the year	845.1	..
Total equity at end of period	**56 289.4**	**50.0**

The accompanying notes form part of these estimated financial statements.

Note:
(a) Balances represent actual opening balances at 1 July 2015 plus 2015-16 budgeted movements.

	Land, buildings, infrastructure, plant and equipment revaluation surplus	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
	43 354.8	46 413.0	728.2	136 334.5
	..	..	..	6 366.3
	755.8	1.5	12.2	1 726.7
	44 110.7	**46 414.5**	**740.4**	**144 427.4**
	43 354.8	46 413.0	728.2	136 334.5
	..	..	..	5 190.8
	755.8	(243.6)	12.2	(873.8)
	44 110.7	**46 169.4**	**740.4**	**140 651.5**
	44 110.7	46 169.4	740.4	140 651.5
	..	..	..	1 306.0
	513.0	(264.7)	15.8	1 097.8
	44 623.7	**45 904.7**	**756.1**	**143 055.3**
	44 623.7	45 904.7	756.1	143 055.3
	..	..	..	1 607.8
	9 129.8	421.3	16.3	10 407.9
	53 753.5	**46 326.0**	**772.5**	**155 071.1**
	53 753.5	46 326.0	772.5	155 071.1
	..	..	..	1 275.1
	421.8	(70.0)	16.4	1 213.3
	54 175.3	**46 256.0**	**788.9**	**157 559.5**

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Statement of significant accounting policies and forecast assumptions

The note summarises the basis applied in the preparation and presentation of these updated Estimated Financial Statements for the general government sector, which includes the budget year and the estimates for the three subsequent years (referred to as the budget and forward estimates period).

The accounting policies and forecast assumptions applied are consistent with those of the Estimated Financial Statements as published in the 2015-16 Budget Paper No. 5 *Statement of Finances*, which should be read in conjunction with this statement. For further details of the accounting policies, refer to Note 1 of Chapter 4 *Annual Financial Report* of the *2014-15 Financial Report* for the State of Victoria as presented to Parliament.

To gain a better understanding of the terminology and key aggregates used in this report, a glossary of terms can be found in Note 40 of Chapter 4 *Annual Financial Report* of the *2014-15 Financial Report* for the State of Victoria.

(A) Statement of compliance

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

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

The Government Finance Statistics (GFS) information included in this report is based on the *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005 Cat. No. 5514.0.* and the *Amendments to Australian System of Government Finance Statistics, 2005 (ABS Catalogue No 5514.0) (the GFS manual).*

The information presented in the Estimated Financial Statements takes into account all policy decisions taken by the Government and circumstances that may have a material effect on the Estimated Financial Statements as at 18 November 2015.

(B) Basis of accounting, preparation and measurement

The Estimated Financial Statements have been prepared for the 2015-16 year in accordance with accounting policies expected to be used in preparing historically oriented general purpose financial statements for that year, and the same accounting policies have been used for the subsequent forecast years.

The accrual basis of accounting has been applied in the preparation of the Estimated Financial Statements whereby assets, liabilities, equity, revenue 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 general government sector.

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

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

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

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

As required by AASB 1049, the estimated comprehensive operating statement distinguishes between 'Transactions' and 'Other economic flows' based on the principles in the ABS GFS manual. Transactions are defined as flows that arise as a result of government policy decisions, usually an interaction between two entities by mutual agreement. For example, taxation is regarded as mutually agreed interactions between the government and the taxpayer. Transactions also include flows within an organisation such as depreciation because the owner is seen as simultaneously acting as the owner of the depreciating asset and the consumer of the service provided by the asset. Transactions may be settled in kind or for cash.

'Other economic flows' are changes arising from market remeasurements or other changes in the volume of assets. They include:

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

(C) 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 of production. The primary function of entities in the general government sector is to provide public services (outputs), which are mainly non-market in nature, for the collective consumption of the community, and involve the transfer or redistribution of revenue that is financed 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 whole of government reporting entity. Unless otherwise noted, accounting policies applied by the State apply equally to the general government sector.

(D) Basis of consolidation

The Estimated Financial Statements present the consolidated assets and liabilities of all reporting entities in the general government sector, and their revenue, gains and expenses for the respective period, consistent with the principles of AASB 1049 and AASB 10 *Consolidated Financial Statements*.

Where control of an entity is expected to be obtained during the financial period, its results are included in the estimated comprehensive operating statement from the date on which control will commence. Where control is expected to cease during a financial period, the entity's results are included for that part of the period for which control would exist. Where dissimilar accounting policies are adopted by entities and their effect is considered material, adjustments are made to ensure consistent policies are adopted in the Estimated 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 an entity's net assets before consolidation eliminations is less than zero, the amount is not included at 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 in a manner consistent with AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 1049.

In the process of reporting the general government sector, all material transactions and balances between entities within the sector are eliminated.

The significant entities consolidated within the sector comprise those entities listed in Note 42 of Chapter 4 *Annual Financial Report* of the *2014-15 Financial Report* for the State of Victoria, except as stated in Note 27 of the Estimated Financial Statements.

(E) Rounding

All amounts in the Estimated Financial Statements have been rounded to the nearest $100 000 unless otherwise stated. Figures in the Estimated Financial Statements may not add due to rounding.

(F) Key financial measure

The Government expects to achieve a net operating surplus (net result from transactions) consistent with maintaining general government net debt at a sustainable level over the medium term, as set out in Chapter 1 *Economic and Fiscal Overview*.

(G) Revised material economic and other assumptions

The estimated financial statements have been prepared using material economic and other assumptions listed below, which have been updated since the publication of the *2015-16 Budget*.

Key economic assumptions[a]

	2015-16 forecast	2016-17 forecast	2017-18 projection	2018-19 projection
		($ billion)		
Nominal gross state product	378.8	399.8	422.1	445.6
		(percentage change) [b]		
Real gross state product	2.50	2.75	2.75	2.75
Employment	1.50	1.50	1.50	1.50
Unemployment rate	6.25	6.00	5.75	5.50
Consumer price index [c]	2.25	2.50	2.50	2.50
Wage price index [d]	3.00	3.25	3.50	3.50
Population	1.8	1.8	1.8	1.8

Source: Department of Treasury and Finance

Notes:
(a) *The key assumptions underlying the economic forecasts include: interest rates that follow movements in market expectations in the short term, and stabilise thereafter; a trade-weighted index of 60.7; and oil prices that follow the path suggested by oil futures.*
(b) *Percentage change in year-average compared with previous year, except for unemployment rate which is year-average per cent and population which is percentage change over the year to 30 June. Forecasts are rounded to the nearest 0.25 percentage points, except for population which is rounded to the nearest 0.1 percentage point.*
(c) *Melbourne consumer price index.*
(d) *Total hourly rate excluding bonuses.*

Revised forecast assumptions for superannuation

The accounting policies relating to superannuation expenses and liabilities are consistent with those applied in preparing and presenting the *2015-16 Budget*. However, the forecast assumptions have been revised for the budget year and forward years for each relevant defined benefit superannuation scheme as disclosed in the following table.

Underlying assumptions for all listed schemes [a]	*Per cent*
Discount rate [b]	3.1
Wages growth [c]	3.6
Inflation rate [d]	2.1
Expected return on assets [e]	
Emergency Services and State Super	8.0
Health Super Fund Defined Benefit Scheme	5.8
Constitutionally protected schemes [f]	n.a.

Source: Department of Treasury and Finance

Notes:
(a) *All rates are nominal annual rates and are applicable to all the listed schemes.*
(b) *The discount rate is based on a long-term fixed interest Commonwealth Government bond rate. The rate stated above is an annual effective rate, gross of tax.*
(c) *Wages growth is assumed to be 1.5 per cent higher than the inflation rate assumption based on the historical relationship between price and wage inflation.*
(d) *The inflation rate assumed by the actuary reflects market expectations of price inflation, implied from the relationship between the yields on nominal and inflation linked Commonwealth Government bonds. This ensures consistency with the prescribed (i.e. market-based) discount rate.*
(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.*

The expected return on assets, as shown above, is determined by weighting the expected long-term return for each asset class by the target allocation of assets to that class (as detailed in the table below).

Asset allocation

Asset class	*Per cent*
Domestic equity	26.8
International equity	26.8
Domestic and international debt assets	17.4
Property	7.6
Cash	4.2
Other (including private equity, hedge funds and infrastructure)	17.2
Total	**100.0**

Source: Department of Treasury and Finance

(H) Sensitivity analysis

Appendix D *Sensitivity analysis* provides an estimate of the impact on revenue, expenses, the net result from transactions, the net result, and net debt associated with variations to forecasts of selected economic and financial variables.

(I) Prospective accounting changes

Certain new and revised accounting standards have been issued but are not effective for the 2015-16 reporting period. They include:

- AASB 9 *Financial Instruments,* operative for reporting periods beginning from 1 January 2018 as revised by AASB 2014-1 *Amendments to Australian Accounting Standards* (Part E *Financial Instruments*). AASB 9 simplifies requirements for the classification and measurement of financial assets, introduces a new hedging accounting model and also considers a revised impairment loss model to recognise impairment loss earlier, as opposed to the current approach that recognises impairment loss only when incurred.
- AASB 15 *Revenue from Contracts with Customers*, operative for reporting periods commencing 1 January 2018. The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. The State is reviewing its existing revenue recognition policy to assess the potential implications arising from AASB 15.

There is no intention to early adopt the above accounting standards.

Several other amending standards and AASB interpretations have been issued that are applicable for future reporting periods, which have insignificant impacts on public sector reporting.

Note 2: Taxation revenue

($ million)

	2015-16 budget	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Taxes on employers' payroll and labour force	**5 407.5**	**5 394.2**	**5 742.6**	**6 067.8**	**6 407.6**
Taxes on property					
Taxes on immovable property					
Land tax	1 769.7	1 740.6	1 990.7	1 941.0	2 197.8
Fire Services Property Levy	627.9	649.7	631.8	644.7	662.3
Congestion levy	120.2	112.0	115.6	118.5	121.8
Metropolitan improvement levy	150.8	150.8	157.4	158.0	158.0
Total taxes on immovable property	**2 668.7**	**2 653.2**	**2 895.4**	**2 862.2**	**3 139.8**
Financial and capital transactions					
Land transfer duty	5 028.1	5 418.0	5 327.3	5 324.6	5 325.3
Other property duties	1.9	2.4	2.5	2.6	2.6
Metropolitan Planning Levy	17.1	17.1	17.1	17.1	17.1
Financial accommodation levy	151.4	138.0	152.0	166.0	180.0
Growth areas infrastructure contributions	108.3	148.9	157.0	165.7	174.8
Total financial and capital transactions	**5 306.7**	**5 724.4**	**5 655.9**	**5 675.9**	**5 699.8**
Total taxes on property	**7 975.4**	**8 377.5**	**8 551.3**	**8 538.1**	**8 839.6**
Taxes on the provision of goods and services					
Gambling taxes					
Public lotteries	420.7	428.0	447.6	467.1	488.3
Electronic gaming machines	1 087.7	1 084.3	1 106.2	1 133.8	1 162.5
Casino	240.3	241.2	247.2	255.7	265.7
Racing	82.8	81.8	80.7	79.5	78.0
Other	29.9	29.0	36.9	47.1	59.9
Total gambling taxes	**1 861.3**	**1 864.3**	**1 918.6**	**1 983.2**	**2 054.4**
Levies on statutory corporations [(a)]	**112.0**	**112.0**	**..**	**..**	**..**
Taxes on insurance	**1 156.2**	**1 149.1**	**1 234.6**	**1 318.2**	**1 408.9**
Total taxes on the provision of goods and services	**3 129.5**	**3 125.4**	**3 153.2**	**3 301.3**	**3 463.3**
Taxes on the use of goods and performance of activities					
Motor vehicle taxes					
Vehicle registration fees	1 458.9	1 465.6	1 552.4	1 614.5	1 680.0
Duty on vehicle registrations and transfers	743.3	746.1	769.0	792.0	815.8
Total motor vehicle taxes	**2 202.2**	**2 211.7**	**2 321.4**	**2 406.5**	**2 495.8**
Liquor licence fees	**21.9**	**21.9**	**22.5**	**23.2**	**23.8**
Other	**288.0**	**304.9**	**234.4**	**210.0**	**212.1**
Total taxes on the use of goods and performance of activities	**2 512.1**	**2 538.5**	**2 578.3**	**2 639.7**	**2 731.7**
Total taxation revenue	**19 024.5**	**19 435.6**	**20 025.4**	**20 547.0**	**21 442.2**

Note:

(a) A decision has been made to extend the existing environmental levy payable by water authorities for four years from 2016-17, with the relevant rates to be levied subject to further government consideration.

Note 3: Dividends and income tax equivalent and rate equivalent revenue

(a) Dividends and income tax equivalent and rate equivalent revenue

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Dividends from PFC sector	619.5	613.6	514.7	526.5	336.0
Dividends from PNFC sector	215.6	229.7	219.1	175.3	212.6
Dividends from non-public sector	14.5	21.2	21.4	23.9	24.1
Dividends	**849.6**	**864.4**	**755.2**	**725.8**	**572.7**
Income tax equivalent revenue from PFC sector	124.2	7.5	74.7	91.8	132.8
Income tax equivalent revenue from PNFC sector	162.9	238.0	128.4	151.1	169.3
Income tax equivalent revenue	**287.1**	**245.5**	**203.1**	**242.9**	**302.1**
Local government rate equivalent revenue	7.5	10.8	11.1	11.3	11.7
Total dividends and income tax equivalent and rate equivalent revenue	**1 144.3**	**1 120.8**	**969.4**	**979.9**	**886.5**

(b) Dividends by entity

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Public financial corporations					
WorkSafe Victoria [(a)]	..	..	..	..	..
Victorian Managed Insurance Authority	145.0	145.0	145.0	87.0	43.0
Transport Accident Commission	433.6	433.6	341.9	405.0	257.8
Treasury Corporation of Victoria	38.2	31.7	24.7	31.3	31.9
State Trustees Ltd	1.0	1.5	1.3	1.5	1.5
Victorian Funds Management Corporation	1.8	1.7	1.8	1.8	1.8
Dividends from PFC sector	**619.5**	**613.6**	**514.7**	**526.5**	**336.0**
Public non-financial corporations					
Melbourne Water Corporation	17.1	2.9	45.9	40.0	43.0
City West Water Corporation	14.1	16.3	15.2	18.5	20.5
South East Water Corporation	32.5	35.5	22.1	28.2	34.2
Yarra Valley Water Corporation	15.1	32.0	14.7	14.6	21.3
State Electricity Commission of Victoria (Shell)	100.0	100.0	100.0	70.0	80.0
Victorian Regional Channels Authority	1.3	0.6	1.4	1.5	1.5
Port of Melbourne Corporation	27.6	23.4	15.7	..	..
Others	8.0	18.9	4.2	2.5	12.1
Dividends from PNFC sector	**215.6**	**229.7**	**219.1**	**175.3**	**212.6**

Note:

(a) Consistent with the Government's pre-election commitment, there will be no dividends extracted from WorkSafe Victoria in this budget update. The Government expects monies will be returned to the State in future years for a re-established and expanded WorkHealth scheme and other purposes in line with its pre-election commitment.

Note 4: Sales of goods and services

($ million)

	2015-16 budget	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Motor vehicle regulatory fees	228.6	237.7	212.1	187.9	199.5
Other regulatory fees	501.1	505.9	514.4	526.0	531.2
Sale of goods	68.6	68.6	67.9	68.7	69.4
Provision of services	4 114.0	4 138.3	4 087.2	4 122.0	4 133.9
Rental	59.4	59.7	59.7	59.7	59.7
Refunds and reimbursements	55.5	55.5	55.5	55.5	55.5
Inter-sector capital asset charge	1 751.8	1 743.5	1 900.2	1 949.6	1 971.6
Total sales of goods and services	**6 779.1**	**6 809.1**	**6 897.1**	**6 969.4**	**7 020.9**

Note 5: Grant revenue

($ million)

	2015-16 budget	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
General purpose grants	12 769.9	13 013.3	13 659.8	14 509.1	15 901.3
Specific purpose grants for on-passing	3 388.7	3 111.0	3 584.1	3 775.5	3 944.5
Grants for specific purposes	9 269.5	9 188.9	8 621.8	9 406.9	8 390.9
Total	**25 428.1**	**25 313.3**	**25 865.7**	**27 691.5**	**28 236.7**
Other contributions and grants	151.4	141.3	144.0	130.2	121.5
Total grant revenue	**25 579.5**	**25 454.6**	**26 009.6**	**27 821.7**	**28 358.3**

Note 6: Other revenue

($ million)

	2015-16 budget	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Fair value of assets received free of charge or for nominal consideration	61.6	66.0	61.8	61.5	59.5
Fines	777.3	792.0	814.3	831.7	847.4
Royalties	51.2	51.2	51.1	51.1	51.1
Donations and gifts	304.2	306.9	345.9	299.6	301.8
Other non-property rental	20.3	21.4	21.5	21.5	21.5
Other miscellaneous revenue	956.0	1 202.6	1 227.0	1 196.2	1 184.2
Total other revenue	**2 170.6**	**2 440.0**	**2 521.6**	**2 461.6**	**2 465.5**

Note 7: Superannuation

Note 8 in Chapter 4 of the *2014-15 Financial Report* for the State of Victoria contains a comprehensive disclosure of the State's superannuation schemes, the associated funding arrangements and the sensitivity of the liability to movements in the key valuation assumptions.

(a) Superannuation costs recognised in the operating statement

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Defined benefit plans					
Net superannuation interest expense	886.5	878.0	820.6	803.2	806.7
Current service cost	825.9	772.5	784.4	772.0	760.2
Remeasurements:					
Expected return on superannuation assets excluding interest income	(962.4)	(783.7)	(847.1)	(850.3)	(836.1)
Other actuarial (gain)/loss on superannuation assets	..	690.7	..	..	..
Actuarial and other adjustments to unfunded superannuation liability	..	1 485.9	..	..	..
Total expense recognised in respect of defined benefit plans	**749.9**	**3 043.4**	**757.9**	**724.8**	**730.8**
Defined contribution plans					
Employer contributions to defined contribution plans	1 214.1	1 214.5	1 241.5	1 271.3	1 312.0
Other (including pensions)	61.6	61.6	62.3	62.9	63.5
Total expense recognised in respect of defined contribution plans	**1 275.7**	**1 276.2**	**1 303.8**	**1 334.2**	**1 375.6**
Total superannuation (gain)/expense recognised in operating statement	**2 025.7**	**4 319.6**	**2 061.6**	**2 059.0**	**2 106.4**
Represented by:					
Net superannuation interest expense	886.5	878.0	820.6	803.2	806.7
Other superannuation	2 101.7	2 048.6	2 088.2	2 106.1	2 135.8
Superannuation expense from transactions	**2 988.1**	**2 926.6**	**2 908.8**	**2 909.3**	**2 942.5**
Remeasurements recognised in other comprehensive income	**(962.4)**	**1 392.9**	**(847.1)**	**(850.3)**	**(836.1)**
Total superannuation expense recognised in operating statement	**2 025.7**	**4 319.6**	**2 061.6**	**2 059.0**	**2 106.4**

Note 7: Superannuation *(continued)*

(b) Reconciliation of the present value of the defined benefit obligation

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Opening balance of defined benefit obligation	**45 990.4**	**45 990.4**	**47 264.0**	**46 837.7**	**46 420.1**
Current service cost	825.9	772.5	784.4	772.0	760.2
Interest expense	1 429.6	1 564.4	1 412.9	1 400.6	1 386.8
Contributions by plan participants	188.3	194.5	188.7	183.4	178.2
Changes in financial assumptions	..	1 485.9	..	..	..
Benefits paid	(2 680.4)	(2 743.6)	(2 812.2)	(2 773.6)	(2 890.4)
Closing balance of defined benefit obligation	**45 753.9**	**47 264.0**	**46 837.7**	**46 420.1**	**45 854.9**

(c) Reconciliation of the fair value of superannuation plan assets

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Opening balance of plan assets	**20 043.8**	**20 043.8**	**19 781.4**	**20 129.7**	**20 516.2**
Interest income	543.2	686.4	592.3	597.4	580.1
Return on plan assets not included in interest income	962.4	92.9	847.1	850.3	836.1
Employer contributions	1 693.3	1 507.4	1 532.4	1 529.0	1 565.4
Contributions by plan participants	188.3	194.5	188.7	183.4	178.2
Benefits paid (including tax paid)	(2 680.4)	(2 743.6)	(2 812.2)	(2 773.6)	(2 890.4)
Closing balance of plan assets	**20 750.7**	**19 781.4**	**20 129.7**	**20 516.2**	**20 785.6**

Note 7: Superannuation *(continued)*

(d) Reconciliation of the superannuation liabilities

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Emergency Services and State Super					
Defined benefit obligation	41 168.6	42 638.5	42 338.8	41 959.4	41 487.6
Tax liability [(a)]	2 835.8	2 554.2	2 425.1	2 383.0	2 287.3
Plan assets	(19 863.1)	(18 777.4)	(19 152.1)	(19 564.6)	(19 862.0)
Net liability/(asset)	**24 141.3**	**26 415.3**	**25 611.8**	**24 777.9**	**23 912.9**
Other funds [(b)]					
Defined benefit obligation	1 756.0	2 071.2	2 073.8	2 077.6	2 080.0
Tax liability [(a)]	(6.5)	..	..	..	..
Plan assets	(887.6)	(1 004.0)	(977.6)	(951.6)	(923.6)
Net liability/(asset)	**861.9**	**1 067.2**	**1 096.2**	**1 126.0**	**1 156.4**
Total superannuation					
Defined benefit obligation	42 924.6	44 709.7	44 412.6	44 037.0	43 567.6
Tax liability [(a)]	2 829.3	2 554.2	2 425.1	2 383.0	2 287.3
Plan assets	(20 750.7)	(19 781.4)	(20 129.7)	(20 516.2)	(20 785.6)
Superannuation liability	**25 003.2**	**27 482.6**	**26 708.0**	**25 903.9**	**25 069.3**
Represented by:					
Current liability	1 333.4	1 033.4	1 036.3	1 078.4	975.3
Non-current liability	23 669.8	26 449.2	25 671.7	24 825.5	24 094.0
Total superannuation liability	**25 003.2**	**27 482.6**	**26 708.0**	**25 903.9**	**25 069.3**

Notes:

(a) Tax liability represents the present value of tax payments on contributions that are expected to be required to fund accrued benefits.

(b) Other funds include constitutionally protected schemes and the State's share of liabilities of the Defined Benefit Scheme of the Health Super Fund.

Note 8: Depreciation

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Buildings [(a)]	1 028.3	1 040.4	1 140.3	1 173.5	1 222.0
Leasehold buildings	98.0	96.8	105.1	143.7	160.2
Infrastructure systems	28.5	29.2	29.5	29.9	30.2
Plant, equipment and vehicles [(a)]	656.9	592.2	615.6	666.8	725.4
Roads and road networks [(a)]	646.0	600.3	623.9	655.4	791.2
Cultural assets	25.1	25.1	25.9	27.5	30.9
Intangible produced assets [(b)]	94.1	125.7	116.5	123.5	109.8
Total depreciation	**2 576.9**	**2 509.6**	**2 656.9**	**2 820.4**	**3 069.6**

Notes:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2015-16 to 2018-19.

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

Note 9: Interest expense

($ million)	2015-16 budget	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Interest on long-term interest-bearing liabilities	1 239.6	1 278.0	1 178.2	1 178.9	1 166.2
Interest on short-term interest-bearing liabilities	48.2	48.2	47.3	44.2	44.0
Finance charges on finance leases	770.3	767.2	845.9	907.2	912.5
Discount interest on payables	38.0	38.0	36.8	36.8	36.8
Total interest expense	**2 096.1**	**2 131.5**	**2 108.3**	**2 167.2**	**2 159.5**

Note 10: Grant expense

($ million)	2015-16 budget	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Current grant expense					
Commonwealth Government	189.7	231.2	160.7	148.9	144.7
Local government (including grants for on-passing)	858.7	626.6	785.8	769.7	789.8
Private sector and not-for-profit for on-passing	2 843.0	2 834.5	3 037.4	3 205.6	3 350.2
Other private sector and not-for-profit	1 872.6	1 755.3	2 074.9	2 244.9	2 382.4
Grants within the Victorian Government	2 843.4	2 911.0	2 957.5	3 005.2	2 957.8
Grants to other state governments	11.2	11.5	11.2	11.2	11.2
Total current grant expense	**8 618.6**	**8 370.1**	**9 027.6**	**9 385.4**	**9 636.0**
Capital grant expense					
Commonwealth Government	..	..	..	..	..
Local government (including grants for on-passing)	15.2	14.6	43.3	50.5	53.2
Private sector and not-for-profit on-passing	44.6	53.1	49.9	54.2	68.7
Other private sector and not-for-profit	3.6	3.6	4.1	4.1	4.1
Grants within the Victorian Government	..	..	..	..	..
Other grants	5.0	5.0	45.2	5.0	5.0
Total capital grant expense	**68.3**	**76.3**	**142.4**	**113.8**	**131.0**
Total grant expense	**8 686.9**	**8 446.4**	**9 170.1**	**9 499.2**	**9 767.0**

Note 11: Other operating expenses

($ million)

	2015-16 budget	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Purchase of supplies and consumables [(a)]	7 514.8	7 495.9	7 799.1	8 240.4	8 507.6
Cost of goods sold [(a)]	21.5	23.3	22.4	22.9	23.4
Finance expenses and fees	21.3	23.1	21.2	21.3	21.5
Purchase of services	8 840.9	9 037.6	8 551.0	8 653.0	8 598.1
Maintenance	673.8	695.5	671.7	676.8	689.3
Operating lease payments	289.9	300.3	288.4	292.3	292.5
Other	696.1	695.6	725.7	757.1	784.8
Total other operating expenses	**18 058.3**	**18 271.3**	**18 079.5**	**18 663.8**	**18 917.1**

Note:
(a) 2015-16 Budget *figures have been reclassified to reflect more current information.*

Note 12: Total expenses by government purpose and by department

(a) Expenses by government purpose classification[(a)]

($ million)

	2015-16 budget[(b)]	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Expenses					
General public services	2 065.2	2 134.5	1 903.1	1 643.5	1 666.3
Public order and safety	6 164.5	6 249.4	6 211.5	6 455.0	6 628.8
Education	14 049.4	14 209.2	14 621.3	15 149.8	15 272.1
Health	15 264.5	15 240.0	15 711.9	16 258.3	16 768.9
Social security and welfare[(c)]	4 360.6	4 338.2	3 991.7	4 345.2	4 744.0
Housing and community amenities[(d)]	3 169.7	3 022.9	2 957.1	2 843.9	2 739.9
Recreation and culture	647.4	699.2	646.2	626.3	623.7
Fuel and energy	184.6	211.3	177.6	192.7	123.3
Agriculture, forestry, fishing, and hunting	375.9	404.0	358.0	356.2	352.8
Transport and communications	6 342.8	6 386.7	6 526.3	6 451.4	6 548.0
Other economic affairs	841.1	962.9	799.2	772.7	644.0
Other purposes[(e)]	844.2	496.2	1 787.4	2 660.9	3 331.5
Total expenses by government purpose classification	**54 309.8**	**54 354.5**	**55 691.2**	**57 755.9**	**59 443.3**

Notes:
(a) *Note 41 of the* 2014-15 Financial Report *for the State of Victoria provides definitions and descriptions of government purpose classifications.*
(b) 2015-16 Budget *figures have been restated to reflect more current information.*
(c) *From July 2016, the Commonwealth will be responsible for home support and related disability services for people aged over 65 years. Health expenditure is adjusted from 2016-17 to reflect this transfer. The State's contribution to the National Disability Insurance Scheme commences from 2016-17 and increases thereafter as more clients transition into the Scheme.*
(d) *The downward movement from 2015-16 relates to sunsetting initiatives and movements in funding across years for various initiatives.*
(e) *Other purposes include provision available to be allocated to specific departments and projects, future demand growth, departmental underspending and items not yet formalised at the time of publication.*

Note 12: Total expenses by government purpose and by department *(continued)*

(b) Total expenses by department

($ million)

	2015-16 budget	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Expenses from transactions					
Economic Development, Jobs, Transport and Resources	8 088.0	8 317.9	8 186.2	8 140.5	8 091.3
Education and Training	15 549.7	15 860.7	16 084.3	16 479.3	16 544.2
Environment, Land, Water and Planning[(a)]	2 946.5	2 841.5	2 649.1	2 548.9	2 423.1
Health and Human Services[(b)]	21 362.5	21 367.9	21 284.9	21 636.7	21 929.5
Justice and Regulation	5 595.7	5 763.4	5 699.0	5 885.9	6 024.0
Premier and Cabinet	433.3	446.5	416.5	376.5	378.2
Treasury and Finance	6 653.5	6 633.4	6 567.7	6 578.1	6 703.1
Parliament	186.7	184.8	183.8	185.5	185.6
Courts	527.7	538.3	539.2	549.1	574.3
Regulatory bodies and other part funded agencies[(c)]	1 928.0	1 957.0	1 907.7	1 957.2	1 984.3
Contingencies not allocated to departments[(d)]	517.6	327.6	1 360.5	2 696.3	3 980.5
Total expenses by department	**63 789.2**	**64 239.0**	**64 878.9**	**67 034.0**	**68 818.3**
Less eliminations and adjustments[(e)]	(9 479.3)	(9 884.4)	(9 187.7)	(9 278.0)	(9 375.0)
Total expenses	**54 309.8**	**54 354.5**	**55 691.2**	**57 755.9**	**59 443.3**

Notes:

(a) The downward movement from 2015-16 relates to sunsetting initiatives and movements in funding across years for various initiatives.

(b) From July 2016, the Commonwealth will be responsible for home support and related disability services for people aged over 65 years. Health expenditure is adjusted from 2016-17 to reflect this transfer.

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

(d) Note 12(c) provides a breakdown of the general government output contingencies not allocated to departments.

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

Note 12: Total expenses by government purpose and by department *(continued)*

(c) General government output contingencies not allocated to departments

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Decisions made but not yet allocated[(a)]	417.6	274.2	1 060.5	2 196.3	3 280.5
Funding not allocated to specific purposes[(b)]	100.0	53.4	300.0	500.0	700.0
Total general government output contingencies	**517.6**	**327.6**	**1 360.5**	**2 696.3**	**3 980.5**

Notes:

(a) Reflects existing government policy decisions for which funding has yet to be allocated to departments; provision for election commitments to be funded in future budgets; provisions not yet allocated to meet additional price and demand growth for health, disability and education; and a provision for estimated additional depreciation costs associated with the general government unallocated capital contingency.

(b) An unallocated provision available to contribute to future government policy decisions and commitments, including for decisions to extend lapsing programs across the budget and forward estimates.

Note 13: Other gains/(losses) from other economic flows

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Net (increase)/decrease in provision for doubtful receivables	(181.0)	(181.2)	(176.9)	(185.4)	(195.9)
Amortisation of intangible non-produced assets	(0.1)	(1.0)	(1.0)	(1.0)	(1.0)
Bad debts written off	(153.5)	(153.5)	(153.8)	(154.0)	(154.0)
Other gains/(losses)	16.2	3.0	(1.3)	(1.3)	(1.2)
Total other gains/(losses) from other economic flows	**(318.4)**	**(332.7)**	**(332.9)**	**(341.6)**	**(352.1)**

Note 14: Reconciliation of net gain/(loss) on equity investments in other sector entities at proportional share of net assets

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Balance of investment in PNFC and PFC sectors at beginning of period	82 181.0	82 181.0	80 405.0	81 908.6	83 365.6
Net contributions to other sectors by owner	249.1	(1 532.5)	1 768.3	1 035.7	2 514.0
Revaluation gain/(loss) for period	1.5	(243.6)	(264.7)	421.3	(70.0)
Investment in other sector entities at end of period	**82 431.6**	**80 405.0**	**81 908.6**	**83 365.6**	**85 809.5**

Note 15: Net acquisition of non-financial assets from transactions

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Purchases of non-financial assets (including change in inventories)	4 551.7	4 340.8	5 915.4	5 541.9	5 028.9
Less: Sales of non-financial assets	(318.4)	(326.4)	(514.2)	(524.6)	(325.3)
Less: Depreciation and amortisation	(2 576.9)	(2 509.6)	(2 656.9)	(2 820.4)	(3 069.6)
Plus: Other movements in non-financial assets [(a)]	(245.0)	(107.6)	(1 133.7)	(1 344.5)	(2 188.4)
Total net acquisition of non-financial assets from transactions	**1 411.4**	**1 397.2**	**1 610.6**	**852.4**	**(554.4)**

Note:

(a) The other movements in non-financial assets predominantly includes the transfer of fixed assets to other sectors of government and the recognition of finance lease arrangements.

Note 16: Advances paid and investments, loans and placements

($ million)

	2016 budget	2016 revised	2017 estimate	2018 estimate	2019 estimate
Current advances paid and investments, loans and placements					
Loans and advances paid	45.1	45.1	52.3	57.6	60.5
Equities and managed investment schemes	974.1	971.1	979.2	987.3	995.3
Australian dollar term deposits	2 016.5	2 006.5	2 116.2	2 218.8	2 323.1
Debt securities	6.5	6.5	6.5	6.5	6.5
Derivative financial instruments	0.2	0.2	0.2	0.2	0.2
Total current advances paid and investments, loans and placements	**3 042.5**	**3 029.5**	**3 154.4**	**3 270.4**	**3 385.7**
Non-current advances paid and investments, loans and placements					
Loans and advances paid	4 479.4	4 479.4	4 435.9	4 384.8	4 330.3
Equities and managed investment schemes	277.5	279.5	284.1	290.3	295.9
Australian dollar term deposits	203.8	203.8	209.5	215.3	221.3
Debt securities	34.3	34.3	34.3	34.3	34.3
Total non-current advances paid and investments, loans and placements	**4 995.0**	**4 997.0**	**4 963.8**	**4 924.7**	**4 881.8**
Total advances paid and investments, loans and placements	**8 037.5**	**8 026.5**	**8 118.3**	**8 195.1**	**8 267.5**
Represented by:					
Advances paid	4 524.5	4 524.5	4 488.2	4 442.4	4 390.9
Investments, loans and placements	3 513.0	3 502.0	3 630.0	3 752.7	3 876.6

Note 17: Land, buildings, infrastructure, plant and equipment

($ million)

	2016 budget	*2016 revised*	*2017 estimate*	*2018 estimate*	*2019 estimate*
Buildings	26 225.1	26 095.7	26 431.2	29 007.6	29 126.8
Buildings leasehold	3 462.6	3 460.7	4 386.2	5 252.4	5 154.3
Land and national parks	41 071.8	41 119.9	40 926.9	43 837.0	43 822.8
Infrastructure systems	1 314.2	1 325.1	1 353.0	1 341.9	1 322.1
Plant, equipment and vehicles	2 382.2	2 492.8	2 291.0	1 961.8	1 567.3
Roads and road networks	21 940.7	21 784.4	22 575.0	25 521.3	25 709.4
Earthworks	7 831.0	7 954.3	8 112.7	9 335.0	9 501.7
Cultural assets	5 505.8	5 500.9	5 857.6	5 841.9	5 822.6
Total land, buildings, infrastructure, plant and equipment	**109 733.4**	**109 733.9**	**111 933.6**	**122 099.0**	**122 027.1**

Note 18: Reconciliation of movements in land, buildings, infrastructure, plant and equipment[(a)]

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Carrying amount at the start of the year	107 586.4	107 586.4	109 733.9	111 933.6	122 099.0
Additions [(b)]	5 469.0	5 241.0	6 369.9	6 211.5	5 032.3
Disposals at written down value	(263.4)	(260.1)	(472.8)	(400.0)	(232.2)
Revaluations	748.1	748.1	513.0	9 129.8	421.8
Asset transfers [(c)]	(1 323.9)	(1 197.6)	(1 670.0)	(2 079.1)	(2 334.0)
Depreciation	(2 482.8)	(2 383.9)	(2 540.4)	(2 696.8)	(2 959.8)
Carrying amount at the end of the year	**109 733.4**	**109 733.9**	**111 933.6**	**122 099.0**	**122 027.1**

Notes:

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

(b) Includes assets acquired under finance lease arrangements.

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

Note 19: Other non-financial assets

($ million)	2016 budget	2016 revised	2017 estimate	2018 estimate	2019 estimate
Intangible produced assets	1 337.2	1 365.7	1 410.9	1 432.1	1 501.8
Accumulated depreciation	(796.4)	(813.5)	(920.7)	(1 034.5)	(1 137.8)
Intangible non-produced assets	153.8	153.8	153.8	153.8	153.8
Accumulated amortisation	(69.1)	(70.0)	(71.0)	(72.0)	(72.9)
Total intangibles	**625.4**	**635.9**	**572.9**	**479.4**	**444.9**
Investment properties	62.1	54.5	51.9	51.9	51.1
Biological assets	5.0	5.0	6.6	8.1	9.6
Other assets	284.7	284.3	301.3	218.0	187.6
Total other non-financial assets	**977.2**	**979.8**	**932.7**	**757.4**	**693.3**

Note 20: Assets classified by government purpose and by department

(a) Purchases of non-financial assets by government purpose classification[a]

($ million)	2015-16 budget	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
General public services	127.5	147.6	548.2	466.6	555.9
Public order and safety	799.0	862.5	407.7	558.7	197.0
Education	493.4	487.5	519.8	259.8	255.1
Health	692.4	722.0	1 043.1	406.1	275.7
Social security and welfare	114.0	106.7	79.8	68.2	67.1
Housing and community amenities	42.3	58.2	58.8	39.1	29.0
Recreation and culture	120.9	103.4	92.6	39.8	60.9
Fuel and energy	3.0	3.0	2.7	2.7	2.6
Agriculture, forestry, fishing, and hunting	17.5	68.8	42.1	42.1	42.1
Transport and communications	2 365.6	2 361.5	2 804.0	2 810.6	2 523.3
Other economic affairs	131.2	112.5	112.3	104.7	17.8
Other purposes	1.0	1.0	0.9	0.9	0.9
Not allocated by purpose[b]	(356.1)	(693.9)	203.5	742.6	1 001.7
Total purchases of non-financial assets	**4 551.7**	**4 340.8**	**5 915.4**	**5 541.9**	**5 028.9**

Notes:

(a) Note 41 of the 2014-15 Financial Report *for the State of Victoria provides definitions and descriptions of government purpose classifications.*

(b) Estimated amount available to be allocated to departments and projects in future budgets, including for major capital investment. This includes departmental spending, which may be subject to carryover.

Note 20: Assets classified by government purpose and by department *(continued)*

(b) Purchase of non-financial assets by department[(a)]

($ million)

	2015-16 budget	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Economic Development, Jobs, Transport and Resources	2 193.7	2 330.9	2 246.3	1 458.6	783.6
Education and Training	487.6	481.7	514.6	254.6	249.9
Environment, Land, Water and Planning	60.8	97.9	83.2	57.7	48.0
Health and Human Services	873.4	895.7	1 113.1	387.6	234.1
Justice and Regulation	567.3	619.9	242.1	435.4	86.6
Premier and Cabinet	15.5	17.9	14.5	12.5	12.5
Treasury and Finance	37.6	38.0	55.5	39.3	77.0
Parliament	5.4	17.2	1.8	1.8	1.8
Courts	53.4	37.0	44.2	23.4	5.8
Regulatory bodies and other part funded agencies[(a)]	168.2	174.2	100.4	86.6	86.0
Contingencies not allocated to departments[(b)]	478.1	449.1	1 709.6	2 875.3	3 555.1
Adjustments[(c)]	(389.4)	(818.8)	(209.8)	(90.9)	(111.4)
Total purchases of non-financial assets	**4 551.7**	**4 340.8**	**5 915.4**	**5 541.9**	**5 028.9**

Notes:
(a) Other general government sector agencies not allocated to departmental portfolios.
(b) Note 20(c) provides a breakdown of the general government asset contingencies not allocated to departments.
(c) Mainly comprises estimated departmental underspend which may be subject to carryover and estimated outer budget agency underspend.

(c) General government asset contingencies not allocated to departments

($ million)

	2015-16 budget	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Decisions made but not yet allocated[(a)]	478.1	449.1	1 409.6	2 175.3	2 555.1
Funding not allocated to specific purposes[(b)]	..	..	300.0	700.0	1 000.0
Total general government asset contingencies	**478.1**	**449.1**	**1 709.6**	**2 875.3**	**3 555.1**

Notes:
(a) A provision to account for asset policy decisions for which the funding has yet to be allocated to departments and provision for election commitments to be funded in future budgets.
(b) An unallocated provision available for future government asset investment decisions.

Note 20: Assets classified by government purpose and by department *(continued)*

(d) Total assets by government purpose classification[a]

($ million)

	2016 budget	2016 revised	2017 estimate	2018 estimate	2019 estimate
General public services	318.0	332.7	215.3	141.3	117.7
Public order and safety	9 312.9	9 359.3	8 801.0	9 452.8	9 255.0
Education	19 114.3	19 137.4	18 224.6	17 855.6	17 077.1
Health	13 382.3	13 411.7	13 808.9	13 193.1	12 423.0
Social security and welfare	1 898.7	1 891.4	1 915.3	1 927.5	1 938.7
Housing and community amenities	7 153.1	7 169.0	7 108.6	6 946.0	6 858.3
Recreation and culture	8 447.9	8 430.2	8 455.5	8 426.0	8 416.3
Fuel and energy	11.1	11.1	11.6	12.1	12.5
Agriculture, forestry, fishing, and hunting	686.3	737.6	747.4	757.2	767.0
Transport and communications	49 534.0	49 771.3	50 378.2	55 713.2	55 254.0
Other economic affairs	690.1	703.2	821.8	925.8	933.6
Other purposes	2.4	2.4	2.5	2.5	2.6
Not allocated by purpose[b]	100 879.8	98 398.0	102 842.3	109 813.4	114 941.7
Total assets	**211 430.9**	**209 355.3**	**213 333.1**	**225 166.6**	**227 997.6**

Notes:

(a) *Note 41 of the* 2014-15 Financial Report *for the State of Victoria provides definitions and descriptions of government purpose classifications.*

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

Note 21: Payables

($ million)

	2016 budget	2016 revised	2017 estimate	2018 estimate	2019 estimate
Current payables					
Accounts payable and accrued expenses	3 000.4	2 767.2	2 703.5	2 688.1	2 647.3
Accrued taxes payable	43.8	43.8	44.3	44.9	46.4
Unearned income	560.7	561.1	560.4	558.8	550.6
Total current payables	**3 604.9**	**3 372.0**	**3 308.2**	**3 291.8**	**3 244.4**
Non-current payables					
Accounts payable and accrued expenses	117.3	117.3	109.5	101.1	91.4
Unearned income	1 711.8	1 667.8	1 608.0	1 519.9	1 361.5
Total non-current payables	**1 829.2**	**1 785.1**	**1 717.5**	**1 621.0**	**1 452.9**
Total payables	**5 434.0**	**5 157.2**	**5 025.7**	**4 912.8**	**4 697.3**

Note 22: Borrowings

($ million)

	2016 budget	2016 revised	2017 estimate	2018 estimate	2019 estimate
Current borrowings					
Domestic borrowings	3 860.6	3 860.6	3 860.6	3 860.6	3 860.6
Finance lease liabilities	119.0	117.7	122.5	133.9	134.8
Derivative financial instruments	0.2	0.2	0.2	0.2	0.2
Total current borrowings	**3 979.8**	**3 978.5**	**3 983.3**	**3 994.7**	**3 995.6**
Non-current borrowings					
Domestic borrowings	16 473.6	15 945.3	17 777.7	17 789.2	19 077.7
Finance lease liabilities	8 866.8	8 890.4	9 258.9	9 734.2	9 556.4
Derivative financial instruments	50.3	50.3	50.3	50.3	50.3
Total non-current borrowings	**25 390.8**	**24 885.9**	**27 086.9**	**27 573.8**	**28 684.4**
Total borrowings	**29 370.5**	**28 864.5**	**31 070.2**	**31 568.5**	**32 680.0**

Note 23: Employee benefits

($ million)

	2016 budget	2016 revised	2017 estimate	2018 estimate	2019 estimate
Current					
Accrued salaries and wages	2 089.0	2 088.2	2 139.8	2 192.8	2 245.6
Long service leave	2 990.7	2 991.7	3 124.6	3 258.3	3 388.1
Total current employee benefits	**5 079.7**	**5 079.9**	**5 264.3**	**5 451.1**	**5 633.7**
Non-current					
Long service leave	772.6	776.5	844.5	914.7	984.6
Total non-current employee benefits	**772.6**	**776.5**	**844.5**	**914.7**	**984.6**
Total employee benefits	**5 852.4**	**5 856.4**	**6 108.9**	**6 365.8**	**6 618.3**

Note 24: Reserves

($ million)

	2016 budget	2016 revised	2017 estimate	2018 estimate	2019 estimate
Land, buildings, infrastructure, plant and equipment revaluation surplus	44 110.7	44 110.7	44 623.7	53 753.5	54 175.3
Available-for-sale investments revaluation surplus	44.4	44.4	45.7	47.0	48.2
Revaluation surplus for investments in PFC and PNFC entities	46 414.5	46 169.4	45 904.7	46 326.0	46 256.0
Other reserves	696.0	696.0	710.5	725.5	740.6
Total reserves	**91 265.5**	**91 020.4**	**91 284.5**	**100 851.9**	**101 220.1**

Note 25: Reconciliations to Government Finance Statistics – derivation of GFS cash surplus/(deficit)

($ million)

	2015-16 budget	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Cash surplus/(deficit)	**(474.9)**	**18.2**	**(1 218.8)**	**(457.1)**	**(437.3)**
Convergence differences:					
Less: Acquisitions under finance leases and similar arrangements (a)	(1 050.4)	(1 074.2)	(496.0)	(652.1)	..
Total convergence differences	(1 050.4)	(1 074.2)	(496.0)	(652.1)	..
GFS cash surplus/(deficit) (b)	**(1 525.3)**	**(1 056.0)**	**(1 714.7)**	**(1 109.1)**	**(437.3)**

Notes:

(a) The finance lease acquisition in 2015-16 relates to the Victorian Comprehensive Cancer Centre and metropolitan Melbourne bus contracts. The 2016-17 estimate relates to the new Bendigo Hospital project (stage 1), the New Schools PPP project (tranche 1) and the metropolitan Melbourne bus contracts. The 2017-18 estimates relates to the Ravenhall Prison project, the new Bendigo Hospital project (stage 2) and the New Schools PPP project (tranche 2).

(b) Determined in accordance with the ABS GFS manual.

Note 26: Financial instruments

Note 33 in Chapter 4 of the *2014-15 Financial Report* for the State of Victoria contains a comprehensive disclosure of the State's financial risk management objectives and policies. There has been no substantive change to the accounting classification of financial assets and liabilities reported in the *2014-15 Financial Report* for the State of Victoria.

Note 27: Controlled entities

Note 42 *Controlled Entities* in the *2014-15 Financial Report* for the State of Victoria contains a list of significant controlled entities which have been consolidated for the purposes of the financial report.

The following are changes from 1 July 2015, of general government sector entities which have been consolidated for the purposes of the estimated financial statements:

- in the 2015-16 financial year, the Domestic (HIH) Indemnity Fund and Housing Guarantee Claims and Linking Melbourne Authority ceased to exist; and
- effective from 22 September 2015, the Victorian Competition and Efficiency Commission ceased to exist.

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)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Revenue from transactions					
Interest revenue	30.7	26.8	20.7	15.2	14.6
Dividends and income tax equivalent and rate equivalent revenue	73.0	17.1	17.6	18.2	18.7
Sales of goods and services	6 106.8	6 141.3	6 048.9	6 334.8	6 297.7
Grant revenue	2 950.0	3 013.3	3 058.7	3 105.9	3 058.4
Other revenue	421.0	462.8	462.4	484.4	498.2
Total revenue from transactions	**9 581.5**	**9 661.3**	**9 608.2**	**9 958.3**	**9 887.7**
Expenses from transactions					
Employee expenses	1 084.2	1 132.5	1 118.5	1 147.7	1 166.5
Other superannuation	90.2	94.8	94.9	97.3	98.7
Depreciation	2 129.7	2 123.4	2 109.5	2 196.7	2 291.6
Interest expense	1 148.5	1 098.3	1 090.9	1 056.5	1 059.7
Grant expense	232.4	273.8	198.2	196.0	212.5
Other operating expenses	5 269.3	5 327.8	5 288.5	5 469.4	5 161.8
Other property expenses	150.7	114.9	105.5	121.8	139.7
Total expenses from transactions	**10 104.9**	**10 165.4**	**10 005.9**	**10 285.5**	**10 130.7**
Net result from transactions – net operating balance	**(523.4)**	**(504.1)**	**(397.7)**	**(327.1)**	**(243.0)**
Total other economic flows included in net result	**4 616.0**	**4 033.6**	**200.8**	**186.3**	**185.8**
Net result	**4 092.6**	**3 529.4**	**(197.0)**	**(140.8)**	**(57.2)**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	830.3	1 283.2	(7.5)	(8.0)	(7.9)
Remeasurement of superannuation defined benefits plans	(4.3)	(4.3)	(4.3)	(4.3)	(4.3)
Other movements in equity	583.6	(264.0)	(38.8)	(11.2)	(6.9)

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

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	27.2	21.3	(1.2)	(0.5)	(2.7)
Total other economic flows – other comprehensive income	**1 436.9**	**1 036.3**	**(51.8)**	**(24.0)**	**(21.7)**
Comprehensive result – total change in net worth	**5 529.5**	**4 565.7**	**(248.7)**	**(164.8)**	**(78.9)**
KEY FISCAL AGGREGATES					
Net operating balance	**(523.4)**	**(504.1)**	**(397.7)**	**(327.1)**	**(243.0)**
Less: Net acquisition of non-financial assets from transactions [(b)]	(5 153.1)	(5 390.3)	1 776.8	1 957.1	2 284.9
Net lending/(borrowing) [(b)]	**4 629.7**	**4 886.2**	**(2 174.5)**	**(2 284.2)**	**(2 527.9)**

Source: Department of Treasury and Finance

Notes:

(a) *Certain line items have been aggregated in the table above due to commercial sensitivities of balances.*

(b) 2015-16 Budget *figures have been restated to reflect more current information.*

Table 5.2: Public non-financial corporations sector balance sheet as at 30 June

($ million)

	2016 budget [(a)]	*2016 revised*	*2017 estimate*	*2018 estimate*	*2019 estimate*
Assets					
Financial assets					
Cash and deposits	983.1	692.0	625.5	489.9	460.7
Advances paid	50.2	56.9	53.3	51.3	50.5
Receivables	1 180.7	1 170.6	1 195.8	1 255.7	1 256.8
Investments, loans and placements	1 078.3	924.7	690.7	673.8	691.6
Investments accounted for using equity method	1 564.9	1 564.9	1 567.9	1 572.0	1 577.5
Total financial assets	**4 857.1**	**4 409.2**	**4 133.1**	**4 042.7**	**4 037.0**
Non-financial assets					
Inventories	553.2	523.9	626.9	703.5	799.2
Non-financial assets held for sale	29.1	11.1	0.1	0.1	0.1
Land, buildings, infrastructure, plant and equipment	100 000.0	98 089.7	99 793.9	101 600.0	103 720.0
Other non-financial assets	1 260.4	1 390.2	1 425.9	1 364.7	1 368.3
Total non-financial assets	**101 842.7**	**100 014.9**	**101 846.8**	**103 668.2**	**105 887.5**
Total assets	**106 699.9**	**104 424.1**	**105 979.9**	**107 710.9**	**109 924.6**
Liabilities					
Deposits held and advances received	426.3	428.6	428.8	428.2	428.7
Payables	1 542.5	1 467.0	1 449.2	1 295.8	1 282.0
Borrowings	16 560.1	16 301.9	16 655.4	16 927.7	17 243.3
Employee benefits	379.0	368.5	372.2	377.0	382.6
Superannuation	27.6	27.0	26.6	26.3	25.8
Other provisions	8 636.5	8 236.0	8 135.4	7 919.2	7 718.6
Total liabilities	**27 571.9**	**26 829.0**	**27 067.7**	**26 974.2**	**27 081.0**
Net assets	**79 127.9**	**77 595.1**	**78 912.2**	**80 736.7**	**82 843.6**
Accumulated surplus/(deficit)	8 848.6	3 630.3	2 372.2	2 009.5	1 698.4
Reserves	70 279.3	73 964.8	76 540.1	78 727.1	81 145.2
Net worth	**79 127.9**	**77 595.1**	**78 912.2**	**80 736.7**	**82 843.6**
FISCAL AGGREGATES					
Net financial worth	(22 714.8)	(22 419.8)	(22 934.5)	(22 931.5)	(23 044.0)
Net financial liabilities	22 714.8	22 419.8	22 934.5	22 931.5	23 044.0
Net debt	14 874.8	15 056.9	15 714.7	16 140.9	16 469.2

Source: Department of Treasury and Finance

Note:

(a) Balances represent actual opening balances at 1 July 2015 plus 2015-16 budgeted movements.

Table 5.3: Public non-financial corporations sector cash flow statement for the financial year ended 30 June[(a)]

($ million)

	2015-16 budget	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Cash flows from operating activities					
Receipts					
Grants	3 013.1	3 076.5	3 131.2	3 094.7	3 024.3
Sales of goods and services [(b)]	6 685.7	6 819.2	6 662.7	6 840.6	6 917.6
Interest received	28.9	27.2	21.4	15.0	14.5
Dividends and income tax equivalent and rate equivalent receipts	73.0	16.5	17.6	18.1	18.7
Other receipts	295.7	265.2	266.0	272.1	301.7
Total receipts	**10 096.4**	**10 204.5**	**10 098.9**	**10 240.5**	**10 276.8**
Payments					
Payments for employees	(1 083.9)	(1 144.5)	(1 115.7)	(1 144.0)	(1 161.9)
Superannuation	(108.7)	(113.9)	(99.5)	(101.8)	(103.4)
Interest paid	(1 136.3)	(1 068.5)	(1 071.1)	(1 033.7)	(1 033.0)
Grants and subsidies	(119.4)	(112.7)	(74.8)	(45.7)	(43.4)
Goods and services [(b)]	(4 167.0)	(4 306.5)	(3 997.3)	(4 133.8)	(3 806.7)
Other payments	(1 831.5)	(1 941.7)	(2 190.3)	(2 266.4)	(2 314.9)
Total payments	**(8 446.7)**	**(8 687.7)**	**(8 548.8)**	**(8 725.5)**	**(8 463.3)**
Net cash flows from operating activities	**1 649.7**	**1 516.8**	**1 550.1**	**1 515.1**	**1 813.5**
Cash flows from investing activities					
Net cash flows from investments in non-financial assets	4 423.6	4 570.6	(2 172.9)	(2 047.1)	(2 264.9)
Net cash flows from investments in financial assets for policy purposes	(41.9)	(210.5)	63.1	61.1	64.3
Net cash flows from investment in financial assets for liquidity management purposes	(61.6)	84.3	233.8	16.9	(20.5)
Net cash flows from investing activities	**4 320.0**	**4 444.4**	**(1 876.1)**	**(1 969.1)**	**(2 221.1)**
Cash flows from financing activities					
Advances received (net)	1.1	1.1	(1.6)	(0.7)	(1.1)
Net borrowings	626.0	368.8	353.4	272.3	315.6
Deposits received (net)	(0.2)	2.2	1.0	0.7	2.1
Other financing (net)	(6 705.5)	(6 733.2)	(93.5)	46.3	61.8
Net cash flows from financing activities	**(6 078.5)**	**(6 361.0)**	**259.4**	**318.6**	**378.3**
Net increase/(decrease) in cash and cash equivalents	**(108.8)**	**(399.8)**	**(66.6)**	**(135.5)**	**(29.3)**
Cash and cash equivalents at beginning of reporting period [(c)]	1 091.8	1 091.8	692.0	625.5	489.9
Cash and cash equivalents at end of reporting period [(c)]	**983.1**	**692.0**	**625.5**	**489.9**	**460.7**

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

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
FISCAL AGGREGATES					
Net cash flows from operating activities	1 649.7	1 516.8	1 550.1	1 515.1	1 813.5
Dividends paid	(215.6)	(229.7)	(219.1)	(175.3)	(212.6)
Net cash flows from investments in non-financial assets	4 423.6	4 570.6	(2 172.9)	(2 047.1)	(2 264.9)
Cash surplus/(deficit)	**5 857.7**	**5 857.7**	**(841.9)**	**(707.4)**	**(664.0)**

Source: Department of Treasury and Finance

Notes:

(a) Certain line items have been aggregated in the table above due to commercial sensitivities of balances.

(b) Inclusive of goods and services tax.

(c) 2015-16 Budget *figures have been restated to represent actual opening balances at 1 July 2015.*

Table 5.4: Public non-financial corporation sector statement of changes in equity

($ million)

	Accumulated surplus/(deficit)	*Contribution by owners*
2015-16 budget[(a)]		
Balance at 1 July 2015	4 429.8	49 942.9
Net result	4 092.6	..
Other comprehensive income for the year	541.8	..
Dividends paid	(215.6)	..
Transactions with owners in their capacity as owners	..	(5 157.5)
Total equity at end of period	**8 848.6**	**44 785.4**
2015-16 revised		
Balance at 1 July 2015	4 429.8	49 942.9
Net result	3 529.4	..
Other comprehensive income for the year	(300.0)	..
Dividends paid	(229.7)	..
Transfer to accumulated surplus	(3 799.3)	..
Transactions with owners in their capacity as owners	..	(322.8)
Total equity at end of period	**3 630.3**	**49 620.1**
2016-17 estimate		
Balance at 1 July 2016	3 630.3	49 620.1
Net result	(197.0)	..
Other comprehensive income for the year	(71.9)	..
Dividends paid	(219.1)	..
Transfer to accumulated surplus	(770.1)	..
Transactions with owners in their capacity as owners	..	2 555.1
Total equity at end of period	**2 372.2**	**52 175.2**
2017-18 estimate		
Balance at 1 July 2017	2 372.2	52 175.2
Net result	(140.8)	..
Other comprehensive income for the year	(46.5)	..
Dividends paid	(175.3)	..
Transactions with owners in their capacity as owners	..	2 164.5
Total equity at end of period	**2 009.5**	**54 339.7**
2018-19 estimate		
Balance at 1 July 2018	2 009.5	54 339.7
Net result	(57.2)	..
Other comprehensive income for the year	(41.4)	..
Dividends paid	(212.6)	..
Transactions with owners in their capacity as owners	..	2 398.4
Total equity at end of period	**1 698.4**	**56 738.2**

Source: Department of Treasury and Finance

Note:
(a) Balances represent actual opening balances at 1 July 2015 plus 2015-16 budgeted movements.

Land, buildings, infrastructure, plant and equipment revaluation surplus	Other reserves	Total
24 161.5	437.3	78 971.5
..	..	4 092.6
830.3	64.7	1 436.9
..	..	(215.6)
..	..	(5 157.5)
24 991.8	**502.1**	**79 127.9**
24 161.5	437.3	78 971.5
..	..	3 529.4
1 283.2	53.1	1 036.3
..	..	(229.7)
(1 590.4)	..	(5 389.7)
..	..	(322.8)
23 854.3	**490.4**	**77 595.1**
23 854.3	490.4	77 595.1
..	..	(197.0)
(7.5)	27.6	(51.8)
..	..	(219.1)
..	..	(770.1)
..	..	2 555.1
23 846.8	**518.0**	**78 912.2**
23 846.8	518.0	78 912.2
..	..	(140.8)
(8.0)	30.5	(24.0)
..	..	(175.3)
..	..	2 164.5
23 838.8	**548.6**	**80 736.7**
23 838.8	548.6	80 736.7
..	..	(57.2)
(7.9)	27.5	(21.7)
..	..	(212.6)
..	..	2 398.4
23 831.0	**576.0**	**82 843.6**

Table 5.5: Derivation of public non-financial corporations sector GFS cash surplus/(deficit)

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Cash surplus/(deficit)	**5 857.7**	**5 857.7**	**(841.9)**	**(707.4)**	**(664.0)**
Convergence differences:					
Acquisitions under finance leases and similar arrangements	..	..	..	..	..
GFS cash surplus/(deficit) [(a)]	**5 857.7**	**5 857.7**	**(841.9)**	**(707.4)**	**(664.0)**

Source: Department of Treasury and Finance

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

Table 5.6: Net acquisition of non-financial assets – public non-financial corporations sector[(a)]

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Purchases of non-financial assets less sales of non-financial assets [(b)]	(4 426.4)	(4 569.8)	2 182.3	2 038.2	2 265.2
Less: Depreciation	(2 129.7)	(2 123.4)	(2 109.5)	(2 196.7)	(2 291.6)
Plus: Other movements in non-financial assets [(b)]	1 402.9	1 302.9	1 703.9	2 115.6	2 311.4
Total net acquisition of non-financial assets [(b)]	**(5 153.1)**	**(5 390.3)**	**1 776.8**	**1 957.1**	**2 284.9**

Source: Department of Treasury and Finance

Notes:
(a) Certain line items have been aggregated in the table above due to commercial sensitivities of balances.
(b) 2015-16 Budget *figures have been restated to reflect more current information.*

Table 5.7: Non-financial public sector comprehensive operating statement for the financial year ended 30 June[(a)]

($ million)

	2015-16 budget	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Revenue from transactions					
Taxation revenue	18 595.0	19 002.9	19 788.5	20 293.6	21 173.9
Interest revenue	369.7	341.3	347.4	371.5	378.4
Dividends and income tax equivalent and rate equivalent revenue	831.3	659.3	628.4	660.4	511.7
Sales of goods and services	10 654.2	10 809.8	10 584.2	10 847.6	11 079.1
Grant revenue	25 580.8	25 446.7	26 003.6	27 816.1	28 352.7
Other revenue	2 591.6	2 902.9	2 983.9	2 946.0	2 963.7
Total revenue from transactions	**58 622.6**	**59 162.7**	**60 336.0**	**62 935.2**	**64 459.3**
Expenses from transactions					
Employee expenses	20 939.5	21 151.1	21 834.9	22 791.3	23 701.0
Net superannuation interest expense	886.5	878.0	820.6	803.2	806.7
Other superannuation	2 191.8	2 143.4	2 183.1	2 203.4	2 234.5
Depreciation	4 706.5	4 633.0	4 766.4	5 017.1	5 361.2
Interest expense	2 752.8	2 738.0	2 713.2	2 758.3	2 758.3
Grant expense	5 822.4	5 510.8	6 179.0	6 459.2	6 772.9
Other operating expenses	20 862.7	21 264.3	20 945.1	21 600.2	21 766.9
Total expenses from transactions	**58 162.4**	**58 318.6**	**59 442.3**	**61 632.7**	**63 401.4**
Net result from transactions – net operating balance	**460.2**	**844.1**	**893.7**	**1 302.5**	**1 057.9**
Total other economic flows included in net result	**3 831.3**	**3 305.4**	**(212.6)**	**(210.8)**	**(232.1)**
Net result	**4 291.5**	**4 149.6**	**681.1**	**1 091.7**	**825.8**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	2 165.1	2 169.7	498.2	9 114.5	406.7
Remeasurement of superannuation defined benefit plans	958.2	(1 397.2)	842.9	846.0	831.8
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	77.5	(416.2)	169.9	850.9	320.4
Other movements in equity	490.4	(357.2)	146.7	(11.6)	11.6
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	28.5	22.5	..	0.7	(1.4)
Total other economic flows – other comprehensive income	**3 719.7**	**21.6**	**1 657.8**	**10 800.6**	**1 569.1**
Comprehensive result – total change in net worth	**8 011.2**	**4 171.1**	**2 338.8**	**11 892.3**	**2 394.8**

Table 5.7: Non-financial public sector comprehensive operating statement for the financial year ended 30 June[(a)] *(continued)*

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
KEY FISCAL AGGREGATES					
Net operating balance	**460.2**	**844.1**	**893.7**	**1 302.5**	**1 057.9**
Less: Net acquisition of non-financial assets from transactions [(b)]	(4 053.5)	(4 304.9)	3 249.6	2 809.5	1 730.5
Net lending/(borrowing) [(b)]	**4 513.8**	**5 149.1**	**(2 355.9)**	**(1 507.0)**	**(672.6)**

Source: Department of Treasury and Finance

Notes:

(a) Certain line items have been aggregated in the table above due to commercial sensitivities of balances.

(b) 2015-16 Budget *figures have been restated to reflect more current information.*

Table 5.8: Non-financial public sector balance sheet as at 30 June

($ million)

	2016 budget [(a)]	2016 revised	2017 estimate	2018 estimate	2019 estimate
Assets					
Financial assets					
Cash and deposits	5 462.4	5 153.1	5 342.6	5 519.7	5 823.7
Advances paid	81.4	80.6	75.7	69.2	63.0
Receivables	5 591.0	5 580.0	5 668.6	5 776.0	5 922.1
Investments, loans and placements	4 591.2	4 426.7	4 320.7	4 426.4	4 568.2
Investments accounted for using equity method	2 020.8	2 020.8	2 023.8	2 027.9	2 033.4
Investments in other sector entities	3 303.6	2 809.9	2 996.4	2 628.9	2 965.9
Total financial assets	**21 050.4**	**20 071.1**	**20 427.9**	**20 448.2**	**21 376.3**
Non-financial assets					
Inventories	701.1	671.1	777.7	858.7	958.8
Non-financial assets held for sale	204.4	163.0	154.7	149.9	152.4
Land, buildings, infrastructure, plant and equipment	209 733.4	207 823.6	211 727.4	223 699.0	225 747.1
Other non-financial assets	1 841.7	1 944.0	1 907.8	1 788.6	1 721.5
Total non-financial assets	**212 480.5**	**210 601.7**	**214 567.6**	**226 496.3**	**228 579.8**
Total assets	**233 531.0**	**230 672.8**	**234 995.5**	**246 944.5**	**249 956.1**
Liabilities					
Deposits held and advances received	637.1	637.5	638.4	639.0	641.0
Payables	6 195.6	5 931.5	5 864.8	5 774.7	5 579.7
Borrowings	41 741.6	40 972.1	43 565.6	44 376.6	45 848.4
Employee benefits	6 231.3	6 224.9	6 481.1	6 742.8	7 000.9
Superannuation	25 030.8	27 509.5	26 734.6	25 930.2	25 095.1
Other provisions	961.6	936.4	911.2	878.7	892.6
Total liabilities	**80 798.0**	**82 211.9**	**84 195.8**	**84 341.9**	**85 057.6**
Net assets	**152 733.0**	**148 460.9**	**150 799.7**	**162 602.5**	**164 898.4**
Accumulated surplus/(deficit)	68 530.3	66 349.4	67 976.7	69 767.3	71 292.3
Reserves	84 152.7	82 061.5	82 773.0	92 785.2	93 556.1
Non-controlling interest	50.0	50.0	50.0	50.0	50.0
Net worth	**152 733.0**	**148 460.9**	**150 799.7**	**162 602.5**	**164 898.4**
FISCAL AGGREGATES					
Net financial worth	(59 747.6)	(62 140.8)	(63 767.9)	(63 893.7)	(63 681.4)
Net financial liabilities	63 051.2	64 950.8	66 764.3	66 522.6	66 647.3
Net debt	32 243.6	31 949.2	34 465.0	35 000.2	36 034.5

Source: Department of Treasury and Finance

Note:
(a) Balances represent actual opening balances at 1 July 2015 plus 2015-16 budgeted movements.

Table 5.9: Non-financial public sector cash flow statement for the financial year ended 30 June[(a)]

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Cash flows from operating activities					
Receipts					
Taxes received	18 577.8	18 982.7	19 722.5	20 200.3	21 037.2
Grants	25 671.2	25 537.0	26 024.0	27 804.0	28 347.4
Sales of goods and services [(b)]	12 005.4	12 175.2	11 927.8	12 198.1	12 347.2
Interest received	367.5	341.2	347.5	354.0	360.9
Dividends and income tax equivalent and rate equivalent receipts	831.4	658.8	628.3	660.2	458.3
Other receipts	2 029.1	2 157.9	2 193.7	2 309.9	2 313.1
Total receipts	**59 482.3**	**59 852.8**	**60 843.9**	**63 526.4**	**64 864.2**
Payments					
Payments for employees	(20 692.9)	(20 913.2)	(21 580.9)	(22 531.9)	(23 445.1)
Superannuation	(3 077.7)	(2 897.5)	(2 935.7)	(2 965.0)	(3 044.4)
Interest paid	(2 721.7)	(2 688.5)	(2 673.1)	(2 698.4)	(2 694.5)
Grants and subsidies	(5 836.7)	(5 734.0)	(6 171.0)	(6 389.1)	(6 701.9)
Goods and services [(b)]	(21 512.9)	(21 973.7)	(21 468.8)	(22 278.2)	(22 315.3)
Other payments	(765.0)	(643.0)	(695.4)	(726.7)	(755.4)
Total payments	**(54 606.9)**	**(54 849.9)**	**(55 525.0)**	**(57 589.3)**	**(58 956.6)**
Net cash flows from operating activities	**4 875.4**	**5 002.9**	**5 319.0**	**5 937.2**	**5 907.6**
Cash flows from investing activities					
Net cash flows from investments in non-financial assets	505.6	870.9	(7 395.6)	(7 097.3)	(7 001.4)
Net cash flows from investments in financial assets for policy purposes	(53.1)	(214.9)	59.4	1 280.7	65.3
Net cash flows from investment in financial assets for liquidity management purposes	(154.3)	(2.6)	114.1	(97.1)	(135.5)
Net cash flows from investing activities	**298.3**	**653.4**	**(7 222.0)**	**(5 913.7)**	**(7 071.6)**
Cash flows from financing activities					
Advances received (net)	..	..	..	..	..
Net borrowings	(5 085.1)	(5 877.4)	2 091.7	153.1	1 466.0
Deposits received (net)	0.3	0.7	0.9	0.6	2.0
Net cash flows from financing activities	**(5 084.8)**	**(5 876.7)**	**2 092.6**	**153.7**	**1 467.9**

Table 5.9: Non-financial public sector cash flow statement for the financial year ended 30 June[(a)] *(continued)*

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Net increase/(decrease) in cash and cash equivalents	**88.9**	**(220.5)**	**189.6**	**177.1**	**303.9**
Cash and cash equivalents at beginning of reporting period [(c)]	5 373.5	5 373.5	5 153.1	5 342.6	5 519.7
Cash and cash equivalents at end of reporting period [(c)]	**5 462.4**	**5 153.1**	**5 342.6**	**5 519.7**	**5 823.7**
FISCAL AGGREGATES					
Net cash flows from operating activities	4 875.4	5 002.9	5 319.0	5 937.2	5 907.6
Net cash flows from investments in non-financial assets	505.6	870.9	(7 395.6)	(7 097.3)	(7 001.4)
Cash surplus/(deficit)	**5 381.0**	**5 873.7**	**(2 076.6)**	**(1 160.1)**	**(1 093.8)**

Source: Department of Treasury and Finance

Notes:

(a) *Certain line items have been aggregated in the table above due to commercial sensitivities of balances.*

(b) *Inclusive of goods and services tax.*

(c) 2015-16 Budget *figures have been restated to represent actual opening balances at 1 July 2015.*

Table 5.10: Non-financial public sector statement of changes in equity

($ million)

	Accumulated surplus/(deficit)	Non-controlling interest
2015-16 budget[a]		
Balance at 1 July 2015	62 838.7	50.0
Net result	4 291.5	..
Other comprehensive income for the year	1 400.1	..
Transactions with owners in their capacity as owners	..	..
Total equity at end of period	**68 530.3**	**50.0**
2015-16 revised		
Balance at 1 July 2015	62 838.6	50.0
Net result	4 149.6	..
Other comprehensive income for the year	(1 797.1)	..
Transfer to accumulated surplus	1 158.3	..
Transactions with owners in their capacity as owners	..	..
Total equity at end of period	**66 349.4**	**50.0**
2016-17 estimate		
Balance at 1 July 2016	66 349.4	50.0
Net result	681.1	..
Other comprehensive income for the year	946.3	..
Transfer to accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity at end of period	**67 976.7**	**50.0**
2017-18 estimate		
Balance at 1 July 2017	67 976.7	50.0
Net result	1 091.7	..
Other comprehensive income for the year	788.4	..
Transfer to accumulated surplus	(89.5)	..
Transactions with owners in their capacity as owners	..	..
Total equity at end of period	**69 767.3**	**50.0**
2018-19 estimate		
Balance at 1 July 2018	69 767.3	50.0
Net result	825.8	..
Other comprehensive income for the year	798.1	..
Transfer to accumulated surplus	(98.9)	..
Transactions with owners in their capacity as owners	..	..
Total equity at end of period	**71 292.3**	**50.0**

Source: Department of Treasury and Finance

Note:
(a) Balances represent actual opening balances at 1 July 2015 plus 2015-16 budgeted movements.

Land, buildings, infrastructure, plant and equipment revaluation surplus	Investment in other sector entities revaluation surplus	Other reserves	Total
77 427.4	3 240.2	1 165.6	144 721.8
..	..	..	4 291.5
2 165.1	77.5	76.9	3 719.7
..	..	..	..
79 592.5	**3 317.7**	**1 242.5**	**152 733.0**
77 427.4	3 240.2	1 165.6	144 721.8
..	..	..	4 149.6
2 169.7	(416.2)	65.2	21.6
(1 590.4)	..	..	(432.1)
..	..	..	..
78 006.7	**2 824.0**	**1 230.8**	**148 460.9**
78 006.7	2 824.0	1 230.8	148 460.9
..	..	..	681.1
498.2	169.9	43.4	1 657.8
..	..	..	..
..	..	..	..
78 504.9	**2 993.9**	**1 274.2**	**150 799.7**
78 504.9	2 993.9	1 274.2	150 799.7
..	..	..	1 091.7
9 114.5	850.9	46.9	10 800.6
..	..	..	(89.5)
..	..	..	..
87 619.4	**3 844.8**	**1 321.1**	**162 602.5**
87 619.4	3 844.8	1 321.1	162 602.5
..	..	..	825.8
406.7	320.4	43.8	1 569.1
..	..	..	(98.9)
..	..	..	..
88 026.0	**4 165.2**	**1 364.9**	**164 898.4**

Table 5.11: Derivation of non-financial public sector GFS cash surplus/(deficit)

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Cash surplus/(deficit)	**5 381.0**	**5 873.7**	**(2 076.6)**	**(1 160.1)**	**(1 093.8)**
Convergence differences:					
Acquisitions under finance leases and similar arrangements [(a)]	(1 050.4)	(1 074.2)	(496.0)	(652.1)	..
GFS cash surplus/(deficit) [(b)]	**4 330.5**	**4 799.6**	**(2 572.6)**	**(1 812.2)**	**(1 093.8)**

Source: Department of Treasury and Finance

Notes:

(a) The finance lease acquisition in 2015-16 relates to the Victorian Comprehensive Cancer Centre and metropolitan Melbourne bus contracts. The 2016-17 figure relates to the new Bendigo Hospital project (stage 1), the New Schools PPP project (tranche 1) and the metropolitan Melbourne bus contracts. The 2017-18 estimates relates to the Ravenhall Prison project, the new Bendigo Hospital project (stage 2) and the New Schools PPP project (tranche 2).

(b) Determined in accordance with the ABS GFS manual.

Table 5.12: Net acquisition of non-financial assets – non-financial public sector[(a)]

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Purchases of non-financial assets less sales of non-financial assets [(b)]	(504.9)	(867.2)	7 445.8	7 055.5	6 968.8
Less: Depreciation	(4 706.5)	(4 633.0)	(4 766.4)	(5 017.1)	(5 361.2)
Plus: Other movements in non-financial assets [(b)(c)]	1 157.9	1 195.3	570.2	771.1	122.9
Total net acquisition of non-financial assets [(b)]	**(4 053.5)**	**(4 304.9)**	**3 249.6**	**2 809.5**	**1 730.5**

Source: Department of Treasury and Finance

Notes:

(a) Certain line items have been aggregated in the table above due to commercial sensitivities of balances.

(b) 2015-16 Budget *figures have been restated to reflect more current information.*

(c) The other movements in non-financial assets in 2015-16 predominantly relates to the recognition of finance lease arrangements for the Victorian Comprehensive Cancer Centre and metropolitan Melbourne bus contracts. The 2016-17 estimate predominantly relates to the new Bendigo Hospital project (stage 1), the New Schools PPP project (tranche 1) and the metropolitan Melbourne bus contracts. The 2017-18 estimate predominantly relates to the Ravenhall Prison project, the new Bendigo Hospital project (stage 2) and the New Schools PPP project (tranche 2). The 2018-19 estimate predominantly relates to developer contributions to metropolitan water corporations.

Table 5.13: Public financial corporations sector comprehensive operating statement for the financial year ended 30 June

($ million)

	2015-16 budget	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Revenue from transactions					
Interest revenue	2 398.3	2 176.7	2 232.2	2 273.4	2 278.1
Dividends and income tax equivalent and rate equivalent revenue	991.6	481.8	1 173.9	1 122.0	1 081.8
Sales of goods and services	4 167.8	4 164.5	4 334.8	4 551.8	4 777.0
Other revenue	23.1	21.4	21.8	22.9	23.8
Total revenue from transactions	**7 580.7**	**6 844.3**	**7 762.6**	**7 970.1**	**8 160.8**
Expenses from transactions					
Employee expenses	297.2	302.3	305.6	314.9	323.0
Other superannuation	23.7	23.4	23.9	24.7	25.4
Depreciation	54.8	48.1	50.2	50.8	44.5
Interest expense	2 022.2	1 987.2	1 858.0	1 863.5	1 872.3
Other operating expenses	5 871.1	5 870.8	6 190.3	6 507.3	6 734.7
Other property expenses	207.5	12.6	77.7	92.1	132.5
Total expenses from transactions	**8 476.4**	**8 244.4**	**8 505.8**	**8 853.3**	**9 132.4**
Net result from transactions – net operating balance [(a)]	**(895.7)**	**(1 400.1)**	**(743.1)**	**(883.1)**	**(971.6)**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	..	..	..	..	..
Net gain/(loss) on financial assets or liabilities at fair value	787.7	77.8	706.6	796.0	933.2
Other gains/(losses) from other economic flows	694.9	236.3	627.9	669.6	704.7
Total other economic flows included in net result	**1 482.6**	**314.0**	**1 334.5**	**1 465.5**	**1 637.9**
Net result	**586.9**	**(1 086.1)**	**591.4**	**582.4**	**666.3**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	..	..	..	..	..
Other movements in equity	(3.3)	0.5	(1.0)	(1.5)	(1.4)
Total other economic flows – other comprehensive income	**(3.3)**	**0.5**	**(1.0)**	**(1.5)**	**(1.4)**
Comprehensive result – total change in net worth	**583.6**	**(1 085.6)**	**590.4**	**580.9**	**664.9**

Table 5.13: Public financial corporations sector comprehensive operating statement for the financial year ended 30 June *(continued)*

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
KEY FISCAL AGGREGATES					
Net operating balance	**(895.7)**	**(1 400.1)**	**(743.1)**	**(883.1)**	**(971.6)**
Less: Net acquisition of non-financial assets from transactions	(8.3)	(3.1)	(0.7)	(0.6)	(9.9)
Net lending/(borrowing)	**(887.4)**	**(1 397.0)**	**(742.5)**	**(882.6)**	**(961.7)**

Source: Department of Treasury and Finance

Note:

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

Table 5.14: Public financial corporations balance sheet as at 30 June

($ million)

	2016 budget (a)	2016 revised	2017 estimate	2018 estimate	2019 estimate
Assets					
Financial assets					
Cash and deposits	4 766.6	3 166.9	3 348.3	3 402.9	3 609.7
Advances paid	47.2	11.4	12.1	12.9	13.7
Investments, loans and placements	34 240.7	32 869.8	34 178.8	34 475.6	36 367.1
Loans receivable from non-financial public sector (b)	31 206.3	31 058.7	33 383.8	33 862.0	35 745.2
Receivables	1 620.6	1 562.6	1 534.4	1 600.5	1 714.8
Total financial assets	**71 881.4**	**68 669.4**	**72 457.4**	**73 353.9**	**77 450.5**
Non-financial assets					
Non-financial assets held for sale	..	..	..	..	..
Land, buildings, infrastructure, plant and equipment	75.7	76.9	82.6	89.4	80.8
Other non-financial assets	960.0	1 298.7	1 156.7	1 033.4	922.6
Total non-financial assets	**1 035.6**	**1 375.6**	**1 239.3**	**1 122.8**	**1 003.4**
Total assets	**72 917.1**	**70 045.1**	**73 696.7**	**74 476.7**	**78 453.9**
Liabilities					
Deposits held and advances received	6 724.6	6 272.4	6 105.5	6 105.0	6 273.3
Payables	1 787.4	1 720.1	1 794.7	1 845.1	1 948.1
Borrowings (c)	38 671.3	37 304.5	39 624.4	40 100.7	41 977.9
Employee benefits	93.0	89.3	91.3	93.8	95.4
Other provisions	26 454.2	27 135.3	28 465.0	29 880.4	31 361.9
Total liabilities	**73 730.5**	**72 521.6**	**76 080.9**	**78 025.0**	**81 656.7**
Net assets (d)	**(813.4)**	**(2 476.6)**	**(2 384.3)**	**(3 548.3)**	**(3 202.8)**
Accumulated surplus/(deficit)	(1 045.4)	(2 719.5)	(2 644.0)	(3 824.6)	(3 495.7)
Reserves	232.0	242.9	259.7	276.3	292.9
Net worth (d)	**(813.4)**	**(2 476.6)**	**(2 384.3)**	**(3 548.3)**	**(3 202.8)**
FISCAL AGGREGATES					
Net financial worth	(1 849.0)	(3 852.2)	(3 623.6)	(4 671.1)	(4 206.2)
Net financial liabilities	1 849.0	3 852.2	3 623.6	4 671.1	4 206.2
Net debt	(24 865.0)	(23 529.9)	(25 193.1)	(25 547.8)	(27 484.5)

Source: Department of Treasury and Finance

Notes:

(a) *Balances represent actual opening balances at 1 July 2015 plus 2015-16 budgeted movements.*

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

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

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

Table 5.15: Public financial corporations sector cash flow statement for the financial year ended 30 June[(a)]

($ million)

	2015-16 budget	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Cash flows from operating activities					
Receipts					
Sales of goods and services [(b)]	4 595.5	4 521.0	4 768.8	5 004.9	5 255.2
Interest received	2 300.9	2 110.7	2 166.1	2 207.2	2 212.1
Dividends and income tax equivalent and rate equivalent receipts	991.6	481.8	1 173.9	1 122.0	1 081.8
Other receipts	33.0	306.3	42.9	21.7	10.8
Total receipts	**7 921.0**	**7 419.7**	**8 151.6**	**8 355.8**	**8 559.9**
Payments					
Payments for employees	(295.3)	(304.2)	(303.6)	(312.5)	(321.4)
Superannuation	(23.7)	(23.4)	(23.9)	(24.7)	(25.4)
Interest paid	(2 042.7)	(2 023.8)	(1 894.6)	(1 907.1)	(1 908.9)
Goods and services [(b)]	(4 288.0)	(4 374.3)	(4 497.2)	(4 750.2)	(4 904.6)
Other payments	(124.3)	(156.4)	(13.3)	(91.6)	(126.9)
Total payments	**(6 774.1)**	**(6 882.1)**	**(6 732.5)**	**(7 086.1)**	**(7 287.2)**
Net cash flows from operating activities	**1 146.9**	**537.6**	**1 419.1**	**1 269.7**	**1 272.7**
Cash flows from investing activities					
Purchases of non-financial assets	(47.5)	(45.8)	(50.3)	(51.0)	(35.3)
Sales of non-financial assets	1.0	0.8	0.7	0.7	0.7
Cash flows from investments in non-financial assets	(46.6)	(45.0)	(49.5)	(50.2)	(34.6)
Net cash flows from other investing activities for policy and liquidity purposes	3 607.2	4 698.5	(2 864.2)	81.6	(2 778.1)
Net cash flows from investing activities	**3 560.6**	**4 653.5**	**(2 913.7)**	**31.3**	**(2 812.7)**
Cash flows from financing activities					
Advances received (net)	2.8	(80.2)	1.4	1.5	1.7
Net borrowings	(4 036.8)	(5 663.1)	2 341.1	498.9	1 897.9
Deposits received (net)	(23.0)	(392.2)	(168.3)	(2.0)	166.6
Other financing (net)	(602.9)	(597.0)	(498.1)	(1 744.9)	(319.4)
Net cash flows from financing activities	**(4 659.9)**	**(6 732.4)**	**1 676.1**	**(1 246.4)**	**1 746.8**
Net increase/(decrease) in cash and cash equivalents	**47.6**	**(1 541.3)**	**181.4**	**54.6**	**206.8**
Cash and cash equivalents at beginning of reporting period [(c)]	4 708.2	4 708.2	3 166.9	3 348.3	3 402.9
Cash and cash equivalents at end of reporting period [(c)(d)]	**4 755.8**	**3 166.9**	**3 348.3**	**3 402.9**	**3 609.7**

Table 5.15: Public financial corporations sector cash flow statement for the financial year ended 30 June[(a)] *(continued)*

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
FISCAL AGGREGATES					
Net cash flows from operating activities	1 146.9	537.6	1 419.1	1 269.7	1 272.7
Dividends paid	(619.5)	(613.6)	(514.7)	(526.5)	(336.0)
Net cash flows from investments in non-financial assets	(46.6)	(45.0)	(49.5)	(50.2)	(34.6)
Cash surplus/(deficit)	**480.8**	**(120.9)**	**854.9**	**693.0**	**902.1**

Source: Department of Treasury and Finance

Notes:

(a) Certain line items have been aggregated in the table above due to commercial sensitivities of balances.
(b) Inclusive of goods and services tax.
(c) 2015-16 Budget *figures have been restated to represent actual opening balances at 1 July 2015.*
(d) Cash and cash equivalents at the end of the reporting period in the 2015-16 budget year does not equal cash and deposits on the balance sheet. This is due to the overdraft being included on the cash flow statement.

Table 5.16: Public financial corporations sector statement of changes in equity

($ million)

	Accumulated surplus/(deficit)	Contribution by owners
2015-16 budget[(a)]		
Balance at 1 July 2015	(1 008.6)	177.1
Net result	586.9	..
Other comprehensive income for the year	(4.2)	..
Dividends paid	(619.5)	..
Transactions with owners in their capacity as owners	..	16.6
Total equity at end of period	**(1 045.4)**	**193.7**
2015-16 revised		
Balance at 1 July 2015	(1 008.6)	177.1
Net result	(1 086.1)	..
Other comprehensive income for the year	0.3	..
Dividends paid	(613.6)	..
Transfer to accumulated surplus	(11.6)	..
Transactions with owners in their capacity as owners	..	28.2
Total equity at end of period	**(2 719.5)**	**205.3**
2016-17 estimate		
Balance at 1 July 2016	(2 719.5)	205.3
Net result	591.4	..
Other comprehensive income for the year	(1.2)	..
Dividends paid	(514.7)	..
Transactions with owners in their capacity as owners	..	16.6
Total equity at end of period	**(2 644.0)**	**221.9**
2017-18 estimate		
Balance at 1 July 2017	(2 644.0)	221.9
Net result	582.4	..
Other comprehensive income for the year	(1.5)	..
Dividends paid	(526.5)	..
Transfer to accumulated surplus	(1 235.0)	..
Transactions with owners in their capacity as owners	..	16.6
Total equity at end of period	**(3 824.6)**	**238.5**
2018-19 estimate		
Balance at 1 July 2018	(3 824.6)	238.5
Net result	666.3	..
Other comprehensive income for the year	(1.4)	..
Dividends paid	(336.0)	..
Transactions with owners in their capacity as owners	..	16.6
Total equity at end of period	**(3 495.7)**	**255.1**

Source: Department of Treasury and Finance

Note:
(a) Balances represent actual opening balances at 1 July 2015 plus 2015-16 budgeted movements.

Land, buildings, infrastructure, plant and equipment revaluation surplus	Other reserves	Total
2.1	35.3	(794.0)
..	..	586.9
..	0.9	(3.3)
..	..	(619.5)
..	..	16.6
2.1	**36.2**	**(813.4)**
2.1	35.3	(794.0)
..	..	(1 086.1)
..	0.2	0.5
..	..	(613.6)
..	..	(11.6)
..	..	28.2
2.1	**35.5**	**(2 476.6)**
2.1	35.5	(2 476.6)
..	..	591.4
..	0.2	(1.0)
..	..	(514.7)
..	..	16.6
2.1	**35.7**	**(2 384.3)**
2.1	35.7	(2 384.3)
..	..	582.4
..	..	(1.5)
..	..	(526.5)
..	..	(1 235.0)
..	..	16.6
2.1	**35.7**	**(3 548.3)**
2.1	35.7	(3 548.3)
..	..	666.3
..	..	(1.4)
..	..	(336.0)
..	..	16.6
2.1	**35.7**	**(3 202.8)**

Table 5.17: Derivation of public financial corporations sector GFS cash surplus/(deficit)

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Cash surplus/(deficit)	**480.8**	**(120.9)**	**854.9**	**693.0**	**902.1**
Convergence differences:					
Acquisitions under finance leases and similar arrangements	..	..	..	..	..
GFS cash surplus/(deficit) [(a)]	**480.8**	**(120.9)**	**854.9**	**693.0**	**902.1**

Source: Department of Treasury and Finance

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

Table 5.18: Net acquisition of non-financial assets – public financial corporations sector

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Purchases of non-financial assets less sales of non-financial assets	46.6	45.0	49.5	50.2	34.6
Less: Depreciation	(54.8)	(48.1)	(50.2)	(50.8)	(44.5)
Plus: Other movements in non-financial assets	..	..	..	..	..
Total net acquisition of non-financial assets	**(8.3)**	**(3.1)**	**(0.7)**	**(0.6)**	**(9.9)**

Source: Department of Treasury and Finance

Table 5.19: State of Victoria operating statement for the financial year ended 30 June[(a)]

($ million)

	2015-16 budget	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Revenue from transactions					
Taxation revenue	18 580.5	18 988.3	19 773.7	20 278.3	21 158.2
Interest revenue	833.9	608.3	773.1	832.4	834.7
Dividends and income tax equivalent and rate equivalent revenue	1 079.0	520.0	1 212.9	1 164.1	1 124.7
Sales of goods and services	14 137.2	14 248.0	14 177.3	14 616.3	15 030.0
Grant revenue	25 434.8	25 317.0	25 868.9	27 694.2	28 238.4
Other revenue	2 614.8	2 924.2	3 005.7	2 968.9	2 987.5
Total revenue from transactions	**62 680.2**	**62 605.8**	**64 811.6**	**67 554.2**	**69 373.5**
Expenses from transactions					
Employee expenses	20 899.8	21 116.4	21 797.5	22 757.9	23 677.6
Net superannuation interest expense	886.5	878.0	820.6	803.2	806.7
Other superannuation	2 215.5	2 166.8	2 207.0	2 228.1	2 259.8
Depreciation	4 761.4	4 681.2	4 816.6	5 067.9	5 405.7
Interest expense	2 840.9	2 815.6	2 764.8	2 809.2	2 808.8
Grant expense	5 822.4	5 510.8	6 179.0	6 459.2	6 772.9
Other operating expenses	26 225.5	26 601.7	26 587.2	27 535.6	27 891.9
Total expenses from transactions	**63 652.0**	**63 770.3**	**65 172.8**	**67 661.0**	**69 623.5**
Net result from transactions – net operating balance	**(971.8)**	**(1 164.5)**	**(361.1)**	**(106.8)**	**(250.1)**
Total other economic flows included in net result	**5 313.9**	**3 357.4**	**1 259.4**	**1 373.8**	**1 519.7**
Net result	**4 342.1**	**2 192.9**	**898.3**	**1 266.9**	**1 269.7**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	2 165.1	2 169.7	498.2	9 114.5	406.7
Remeasurement of superannuation defined benefits plans	958.2	(1 397.2)	842.9	846.0	831.8
Other movements in equity	487.1	(356.8)	145.7	(13.1)	10.2
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	28.5	22.5	..	0.7	(1.4)
Total other economic flows – other comprehensive income	**3 638.8**	**438.3**	**1 486.9**	**9 948.2**	**1 247.2**
Comprehensive result – total change in net worth	**7 980.9**	**2 631.1**	**2 385.1**	**11 215.1**	**2 516.9**

Table 5.19: State of Victoria operating statement for the financial year ended 30 June[a] *(continued)*

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
KEY FISCAL AGGREGATES					
Net operating balance	**(971.8)**	**(1 164.5)**	**(361.1)**	**(106.8)**	**(250.1)**
Less: Net acquisition of non-financial assets from transactions [b]	(4 061.8)	(4 308.0)	3 248.9	2 808.9	1 720.6
Net lending/(borrowing) [b]	**3 090.0**	**3 143.5**	**(3 610.0)**	**(2 915.8)**	**(1 970.7)**

Source: Department of Treasury and Finance

Notes:

(a) Certain line items have been aggregated in the table above due to commercial sensitivities of balances.

(b) 2015-16 Budget *figures have been restated to reflect more current information.*

Table 5.20: State of Victoria balance sheet as at 30 June

($ million)

	2016 budget [(a)]	2016 revised	2017 estimate	2018 estimate	2019 estimate
Assets					
Financial assets					
Cash and deposits	6 844.6	5 807.9	6 258.1	6 547.4	6 971.2
Advances paid	113.5	80.6	75.7	69.2	63.0
Receivables	6 599.0	6 746.5	6 807.1	6 979.6	7 186.0
Investments, loans and placements	36 468.1	35 061.8	36 353.8	36 700.8	38 654.1
Investments accounted for using equity method	2 020.8	2 020.8	2 023.8	2 027.9	2 033.4
Total financial assets	**52 046.0**	**49 717.6**	**51 518.4**	**52 324.9**	**54 907.8**
Non-financial assets					
Inventories	701.1	671.1	777.7	858.7	958.8
Non-financial assets held for sale	204.4	163.0	154.7	149.9	152.4
Land, buildings, infrastructure, plant and equipment	209 809.1	207 900.5	211 810.1	223 788.3	225 827.9
Other non-financial assets	2 040.3	2 139.2	2 098.5	1 975.0	1 911.0
Total non-financial assets	**212 754.9**	**210 873.8**	**214 840.9**	**226 772.0**	**228 850.1**
Total assets	**264 800.8**	**260 591.4**	**266 359.3**	**279 096.9**	**283 757.9**
Liabilities					
Deposits held and advances received	2 321.5	2 242.6	2 244.2	2 245.6	2 248.4
Payables	7 373.4	7 256.7	7 242.4	7 201.4	7 055.9
Borrowings	48 451.9	47 095.5	49 683.7	50 492.7	51 958.5
Employee benefits	6 324.4	6 314.2	6 572.5	6 836.6	7 096.3
Superannuation	25 030.8	27 509.5	26 734.6	25 930.2	25 095.1
Other provisions	27 408.7	28 064.6	29 388.6	30 771.4	32 266.8
Total liabilities	**116 910.7**	**118 483.2**	**121 866.0**	**123 477.9**	**125 721.0**
Net assets	**147 890.1**	**142 108.2**	**144 493.3**	**155 618.9**	**158 036.9**
Accumulated surplus/(deficit)	66 966.8	62 783.2	64 626.5	66 590.7	68 558.2
Reserves	80 873.3	79 275.1	79 816.8	88 978.2	89 428.7
Non-controlling interest	50.0	50.0	50.0	50.0	50.0
Net worth	**147 890.1**	**142 108.2**	**144 493.3**	**155 618.9**	**158 036.9**
FISCAL AGGREGATES					
Net financial worth	(64 864.8)	(68 765.6)	(70 347.6)	(71 153.1)	(70 813.2)
Net financial liabilities	64 864.8	68 765.6	70 347.6	71 153.1	70 813.2
Net debt	7 347.2	8 387.8	9 240.4	9 421.0	8 518.5

Source: Department of Treasury and Finance

Note:

(a) Balances represent actual opening balances at 1 July 2015 plus 2015-16 budgeted movements.

Table 5.21: State of Victoria cash flow statement for the financial year ended 30 June[(a)]

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Cash flows from operating activities					
Receipts					
Taxes received	18 563.3	18 968.2	19 707.7	20 185.0	21 021.5
Grants	25 525.1	25 407.4	25 889.3	27 682.2	28 233.2
Sales of goods and services [(b)]	15 914.1	15 970.0	15 955.1	16 419.9	16 776.4
Interest received	734.8	541.2	706.8	749.3	751.8
Dividends and income tax equivalent and rate equivalent receipts	1 079.0	519.4	1 212.9	1 164.1	1 124.6
Other receipts	2 062.1	2 246.9	2 236.7	2 331.6	2 323.9
Total receipts	**63 878.4**	**63 653.1**	**65 708.5**	**68 532.0**	**70 231.4**
Payments					
Payments for employees	(20 651.3)	(20 880.3)	(21 541.5)	(22 496.0)	(23 420.2)
Superannuation	(3 101.4)	(2 920.8)	(2 959.6)	(2 989.7)	(3 069.8)
Interest paid	(2 830.7)	(2 801.7)	(2 760.9)	(2 793.5)	(2 782.2)
Grants and subsidies	(5 836.7)	(5 516.7)	(6 171.0)	(6 389.1)	(6 701.9)
Goods and services [(b)]	(25 290.6)	(25 814.8)	(25 418.0)	(26 456.5)	(26 610.3)
Other payments	(765.0)	(791.8)	(634.0)	(726.7)	(802.8)
Total payments	**(58 475.8)**	**(58 726.1)**	**(59 485.0)**	**(61 851.6)**	**(63 387.1)**
Net cash flows from operating activities	**5 402.7**	**4 926.9**	**6 223.4**	**6 680.4**	**6 844.3**
Cash flows from investing activities					
Net cash flows from investments in non-financial assets	459.1	825.9	(7 445.1)	(7 147.6)	(7 036.0)
Net cash flows from investments in financial assets for policy purposes	(40.5)	(165.9)	73.5	58.7	79.2
Net cash flows from investment in financial assets for liquidity management purposes	(1 219.1)	(292.8)	(510.9)	522.6	(946.9)
Net cash flows from investing activities	**(800.5)**	**367.2**	**(7 882.5)**	**(6 566.2)**	**(7 903.7)**
Advances received (net)	1.3	(78.0)	0.7	0.8	0.8
Net borrowings	(4 280.3)	(5 919.1)	2 107.6	173.8	1 480.6
Deposits received (net)	0.3	0.7	0.9	0.6	2.0
Net cash flows from financing activities	**(4 278.7)**	**(5 996.5)**	**2 109.2**	**175.1**	**1 483.3**
Net increase/(decrease) in cash and cash equivalents	**323.5**	**(702.3)**	**450.1**	**289.3**	**423.9**
Cash and cash equivalents at beginning of reporting period [(c)]	6 510.3	6 510.3	5 807.9	6 258.1	6 547.4
Cash and cash equivalents at end of reporting period [(c)(d)]	**6 833.7**	**5 807.9**	**6 258.1**	**6 547.4**	**6 971.2**

Table 5.21: State of Victoria cash flow statement for the financial year ended 30 June[a] *(continued)*

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
FISCAL AGGREGATES					
Net cash flows from operating activities	5 402.7	4 926.9	6 223.4	6 680.4	6 844.3
Net cash flows from investments in non-financial assets	459.1	825.9	(7 445.1)	(7 147.6)	(7 036.0)
Cash surplus/(deficit)	**5 861.7**	**5 752.8**	**(1 221.7)**	**(467.1)**	**(191.7)**

Source: Department of Treasury and Finance

Notes:

(a) Certain line items have been aggregated in the table above due to commercial sensitivities of balances.

(b) Inclusive of goods and services tax.

(c) 2015-16 Budget *figures have been restated to represent actual opening balances at 1 July 2015.*

(d) Cash and cash equivalents at the end of the reporting period in the 2015-16 budget year does not equal cash and deposits on the balance sheet. This is due to the overdraft being included on the cash flow statement.

Table 5.22: State of Victoria statement of changes in equity

($ million)

	Accumulated surplus/(deficit)	*Non-controlling interest*
2015-16 budget[(a)]		
Balance at 1 July 2015	61 228.8	50.0
Net result	4 342.1	..
Other comprehensive income for the year	1 395.9	..
Transactions with owners in their capacity as owners	..	..
Total equity at end of period	**66 966.8**	**50.0**
2015-16 revised		
Balance at 1 July 2015	61 228.8	50.0
Net result	2 192.9	..
Other comprehensive income for the year	(1 796.8)	..
Transfer to accumulated surplus	1 158.3	..
Total equity at end of period	**62 783.2**	**50.0**
2016-17 estimate		
Balance at 1 July 2016	62 783.2	50.0
Net result	898.3	..
Other comprehensive income for the year	945.1	..
Transfer to accumulated surplus	..	..
Total equity at end of period	**64 626.5**	**50.0**
2017-18 estimate		
Balance at 1 July 2017	64 626.5	50.0
Net result	1 266.9	..
Other comprehensive income for the year	786.8	..
Transfer to accumulated surplus	(89.5)	..
Total equity at end of period	**66 590.7**	**50.0**
2018-19 estimate		
Balance at 1 July 2018	66 590.7	50.0
Net result	1 269.7	..
Other comprehensive income for the year	796.8	..
Transfer to accumulated surplus	(98.9)	..
Total equity at end of period	**68 558.2**	**50.0**

Source: Department of Treasury and Finance

Note:
(a) Balances represent actual opening balances at 1 July 2015 plus 2015-16 budgeted movements.

Land, buildings, infrastructure, plant and equipment revaluation surplus	Other reserves	Total
77 429.5	1 200.9	139 909.2
..	..	4 342.1
2 165.1	77.8	3 638.8
..	..	..
79 594.6	**1 278.7**	**147 890.1**
77 429.5	1 200.9	139 909.2
..	..	2 192.9
2 169.7	65.4	438.3
(1 590.4)	..	(432.1)
78 008.7	**1 266.3**	**142 108.2**
78 008.7	1 266.3	142 108.2
..	..	898.3
498.2	43.6	1 486.9
..	..	..
78 506.9	**1 309.9**	**144 493.3**
78 506.9	1 309.9	144 493.3
..	..	1 266.9
9 114.5	46.9	9 948.2
..	..	(89.5)
87 621.4	**1 356.8**	**155 618.9**
87 621.4	1 356.8	155 618.9
..	..	1 269.7
406.7	43.8	1 247.2
..	..	(98.9)
88 028.1	**1 400.6**	**158 036.9**

Table 5.23: Derivation of whole of State GFS cash surplus/(deficit)

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Cash surplus/(deficit)	**5 861.7**	**5 752.8**	**(1 221.7)**	**(467.1)**	**(191.7)**
Convergence differences:					
Acquisitions under finance leases and similar arrangements [(a)]	(1 050.4)	(1 074.2)	(496.0)	(652.1)	..
GFS cash surplus/(deficit) [(b)]	**4 811.3**	**4 678.6**	**(1 717.7)**	**(1 119.2)**	**(191.7)**

Source: Department of Treasury and Finance

Notes:

(a) *The finance lease acquisition in 2015-16 relates to the Victorian Comprehensive Cancer Centre and metropolitan Melbourne bus contracts. The 2016-17 estimate relates to the new Bendigo Hospital project (stage 1), the New Schools PPP project (tranche 1) and the metropolitan Melbourne bus contracts. The 2017-18 estimates relates to the Ravenhall Prison project, the new Bendigo Hospital project (stage 2) and the New Schools PPP project (tranche 2).*

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

Table 5.24: Net acquisition of non-financial assets – State of Victoria[(a)]

($ million)

	2015-16 budget	*2015-16 revised*	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Purchases of non-financial assets less sales of non-financial assets [(b)]	(458.3)	(822.2)	7 495.3	7 105.7	7 003.4
Less: Depreciation	(4 761.4)	(4 681.2)	(4 816.6)	(5 067.9)	(5 405.7)
Plus: Other movements in non-financial assets [(b)(c)]	1 157.9	1 195.3	570.2	771.1	122.9
Total net acquisition of non-financial assets [(b)]	**(4 061.8)**	**(4 308.0)**	**3 248.9**	**2 808.9**	**1 720.6**

Source: Department of Treasury and Finance

Notes:

(a) *Certain line items have been aggregated in the table above due to commercial sensitivities of balances.*

(b) 2015-16 Budget *figures have been restated to reflect more current information.*

(c) *The other movements in non-financial assets in 2015-16 predominantly relates to the recognition of finance lease arrangements for the Victorian Comprehensive Cancer Centre and metropolitan Melbourne bus contracts. The 2016-17 estimate predominantly relates to the new Bendigo Hospital project (stage 1), the New Schools PPP project (tranche 1) and the metropolitan Melbourne bus contracts. The 2017-18 estimate predominantly relates to the Ravenhall Prison project, the new Bendigo Hospital project (stage 2) and the New Schools PPP project (tranche 2). The 2018-19 estimate predominantly relates to developer contributions to metropolitan water corporations.*

VICTORIA'S LOAN COUNCIL ALLOCATION

Under the Uniform Presentation Framework (UPF), Victoria is required to publish the Loan Council Allocation (LCA) estimates. The LCA is a measure of each government's net call on financial markets in a given financial year to meet its budget obligations. The method of public release is the responsibility of each jurisdiction. Victoria discloses its LCA information through the Financial Report for the State of Victoria, Budget Paper No. 5 *Statement of Finances* and Budget Update.

Table 5.25 compares the Victorian 2015-16 LCA nomination approved by the Loan Council in April 2015, with the revised LCA based upon 2015-16 Budget Update estimates.

Table 5.25: Loan Council Allocation

($ million)

	2015-16 nomination	*2015-16 revised*
General government cash deficit(+) or surplus (-)	(226.8)	(18.2)
Public non-financial corporations sector cash deficit(+) or surplus (-)	(5 107.6)	(5 857.7)
Non-financial public sector cash deficit(+) or surplus(-)[(a)]	(5 433.4)	(5 873.7)
Acquisitions under finance leases and similar arrangements	1 050.4	1 074.2
ABS GFS cash deficit(+) or surplus(-)	(4 383.0)	(4 799.6)
Less net cash flows from investments in financial assets for policy purposes[(b)]	(115.9)	(214.9)
Plus memorandum items[(c)]	401.3	583.6
Loan Council Allocation[(d)]	**(3 865.8)**	**(4 001.1)**
Tolerance limit (2 per cent of non-financial public sector cash receipts from operating activities)[(e)]	1 177.5	1 177.5

Source: Department of Treasury and Finance

Notes:

(a) The sum of the deficit of the general government and public non-financial corporation sectors does not directly equal the non-financial public sector cash deficit due to inter-sectoral transfers, which are netted out in the calculation of the non-financial public sector figure. The non-financial public sector cash deficit excludes finance lease acquisitions.

(b) The ABS GFS cash deficit is adjusted to include in the LCA the impact of net cash flows from investments in financial assets for policy purposes.

(c) The ABS GFS cash deficit is adjusted to include in the LCA the impact of memorandum items, which include certain transactions that have many of the characteristics of public sector borrowings but do not constitute formal borrowings (e.g. operating leases). They also include, where appropriate, transactions that the Loan Council has agreed should not be included in the LCA (e.g. the over/under funding of employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities).

(d) 2015-16 nomination has been restated to reflect more current information.

(e) A tolerance limit equal to 2 per cent of total non-financial public sector cash receipt from operating activities applies to the movement between a jurisdiction's LCA budget estimate and LCA outcome (calculated using estimates in the 2015-16 Budget Update*). The tolerance limit applying to the movement between Victoria's 2015-16 LCA nomination and its LCA revised budget estimate is $1 177.5 million (2 per cent of $58 877.4 million).*

As part of the Loan Council arrangements, the Council has agreed that if at any time a state or territory finds that it is likely to exceed its tolerance limit, in either direction, it is required to provide an explanation to the Council and, in line with the emphasis of increased transparency, to make the explanation public. Victoria's 2015-16 revised LCA (a surplus of $4.0 billion) did not exceed the tolerance limit established under the LCA nomination process.

NEW INFRASTRUCTURE PROJECTS WITH PRIVATE SECTOR INVOLVEMENT

In the interest of transparency, the State is required to disclose the details of new infrastructure projects with private sector involvement that are expected to be contracted during the LCA year, and to report the full contingent exposure, if any. Exposure is to be measured by the Government's termination liabilities in a case of private sector default and disclosed as a footnote to, rather than a component of, the LCA. The amount payable will not exceed the fair market value of the project (which is usually calculated by an independent valuer) less any costs incurred by the Government as a result of the default.

Listed below are details of the public private partnership projects that are expected to be contracted in the 2015-16 financial year.

There are no other *Partnerships Victoria* contracts greater than $5 million that are currently expected to be signed during the 2015-16 financial year.

Melbourne Convention and Exhibition Centre – Stage 2 development

The Melbourne Convention and Exhibition Centre – Stage 2 development project provides for construction of an additional 9 000 square metres of flexible exhibition space including a multi-purpose facility with 900 retractable seats and 200 additional moveable seats. A hub space connecting the existing buildings will be constructed with cafes, bars and informal meeting spaces. The project will also provide meeting rooms and a banquet room seating 450 people. This expansion will provide additional space and earning capacity to Melbourne Convention and Exhibition Centre.

The expansion will provide direct and indirect economic benefits over the life of the development including benefits from the construction, and, during operation, benefits from the additional interstate and international delegates visiting Victoria.

The expansion will provide the additional space required for Victoria to compete against the interstate and international suppliers in the exhibition and conference market. This will enable Melbourne Convention and Exhibition Centre to attract new business and to reduce the amount of business it currently turns away.

New Schools PPP project

The New Schools PPP project will deliver 15 new schools in growth communities as a public private partnership under the *Partnerships Victoria* framework.

The tender process commenced in October 2014 and the contract was executed on 28 October 2015. The Learning Communities Victoria consortium will design, build, finance and maintain the schools for a term of 25 years, with the State retaining responsibility for delivering educational services.

The new schools are expected to be operational in 2017 and 2018. Once the schools commence operations, the State will begin quarterly payments to the consortium, the value of which will depend on the attainment of key performance indicators related to ongoing service provision.

CityLink–Tulla widening

The CityLink–Tulla widening project will widen the Western Link section of CityLink (from the West Gate Freeway–Burnley Tunnel to Bulla Road) and Tullamarine Freeway (from Bulla Road to the Melbourne Airport), and introduce a Freeway Management System along this corridor.

The CityLink–Tulla widening is a combination of a Market-Led Proposal from Transurban, the owner and operator of the CityLink toll road concession, and State and Commonwealth Government contributions to upgrade the Tullamarine Freeway. Transurban is to deliver works on CityLink under a public private partnership (PPP) arrangement where Transurban is responsible for the design, construction, funding, financing, maintenance and operation of the road until the end of the concession. The State is to deliver works on the Tullamarine Freeway.

Under the PPP arrangement, Transurban will pay for costs associated with the project through CityLink tolls, namely an expected uplift in traffic and toll revenue post construction, an extension of the CityLink concession by one year, toll prices remaining escalated at an annual rate of 4.5 per cent for an additional year after 2015 and truck tolls increasing to become consistent with national pricing for trucks on other motorway networks. These funding sources are also contributing to fund the costs of the State works for the project.

In addition to the funding sourced from CityLink tolls, the State and Commonwealth Governments are also providing $272.8 million to fund the State works.

The total estimated capital cost of the project is $1.28 billion, with the State works on the Tullamarine Freeway estimated to cost $415 million and Transurban works on CityLink estimated to cost $867 million.

Transurban and Leighton Contractors (the successful tenderer for the CityLink works) commenced construction on site on 5 October 2015. The State works will commence in 2016. The project is expected to be completed by 2018.

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 classified as either quantifiable, where the potential economic benefit is known, or non-quantifiable. The table below contains quantifiable contingent assets as at 18 November 2015.

Table 6.1: Quantifiable contingent assets

($ million)

	As at Dec 2015	*Published budget estimate* [(a)]
Guarantees, indemnities and warranties	6.6	6.8
Legal proceedings and disputes	7.0	4.5
Other [(b)]	103.2	105.4
Total contingent assets	**116.8**	**116.7**

Notes:

(a) As published in the 2015-16 Budget.

(b) Other contingent assets mainly consists of $100 million relating to contingent payment for Crown Melbourne licence amendments that may be payable in calendar year 2022.

Non-quantifiable contingent assets

CityLink compensable enhancement claims

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

Compensable enhancement claims have previously been lodged in respect to works for improving traffic flows on the West Gate Freeway (between Lorimer and Montague streets), and in the vicinity of the intersection of the Bulla Road and the Tullamarine Freeway. The claims were lodged on 20 May 2005 and 29 September 2006 respectively, and are still outstanding.

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.

Gambling licences

In 1992, a gaming operator's licence was issued to the Trustees of the Will and Estate of the late George Adams, later succeeded by Tatts Group Limited (Tatts). In 1994, the State issued a coupled wagering licence and gaming licence to Tabcorp Holdings Limited (Tabcorp). These licences expired in August 2012.

The *Gambling Regulation Act 2003* specified end of licence arrangements, which included compensation provisions for the licensees predicated on the previous licensing arrangements being rolled over beyond their scheduled expiry date. On 10 April 2008, the State announced that a new regulatory and licencing regime would be implemented post August 2012.

This included separating the wagering and gaming licence to instead license wagering on a standalone basis; and transitioning from the gaming operator duopoly to a system where venue operators are licensed to own and operate gaming machines in their own right. After considering the end of licence arrangements in the *Gambling Regulation Act 2003*, the State formed the view that neither Tatts nor Tabcorp were entitled to compensation after the expiration of their licences.

In August 2012 Tatts and Tabcorp commenced legal proceedings in the Supreme Court against the State. The State defended both claims and was successful in relation to the Tabcorp claim but unsuccessful in relation to the Tatts claim. On 27 June 2014, the State paid Tatts its claimed amount including interest, amounting to $540.5 million.

On 4 December 2014, the decision was upheld by the Court of Appeal. The State appealed the decision to the High Court of Australia, and the appeal was heard on 10 and 11 November 2015.

Judgement has been reserved and will be handed down by the High Court in due course.

CONTINGENT LIABILITIES

Contingent liabilities are:

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

As with contingent assets, contingent liabilities are also classified as either quantifiable or non-quantifiable. The table below contains quantifiable contingent liabilities as at 18 November 2015.

Table 6.2: Quantifiable contingent liabilities

($ million)

	As at Dec 2015	*Published budget estimate* [(a)]
Guarantees, indemnities and warranties	316.2	312.4
Legal proceedings and disputes	223.7	235.3
Other	173.9	200.7
Non-general government debt [(b)]	10 984.7	11 274.6
Total contingent liabilities	**11 698.4**	**12 023.0**

Notes:

(a) *As published in the* 2015-16 Budget.

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

Non-quantifiable contingent liabilities

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

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

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

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

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

Department of Education and Training

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

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

Notebooks for Teachers and Principals Program

In April 2013, the Australian Education Union (AEU) issued proceedings in the Federal Court on behalf of affected AEU members against the State in relation to the Notebook for Teachers and Principals Program, which provided notebook computers to principals, teachers and paraprofessionals.

The AEU's case is that the Notebook Program breaches the relevant enterprise agreements and the *Fair Work Act 2009*.

The matter was heard in mid-2014. On 6 November 2015, the Federal Court made a decision against the State regarding the Notebooks for Teachers and Principals Program, however no orders were made at this time. The next hearing date is scheduled for 25 November 2015, at which point, it is anticipated that the Court will issue final orders in relation to its decision. The State has decided not to appeal the decision of the Court. At the date of this report, the estimated financial effect of the decision cannot yet be determined.

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

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

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

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

Public transport rail partnership agreements

Public Transport Victoria (PTV) is party to partnership contractual arrangements with franchisees to operate metropolitan rail transport services in the State, from 30 November 2009 until 30 November 2017. The major contingent liabilities arising in the event of early termination or expiry of the contract are:

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

Fiskville independent investigation and closure of training college

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

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

On 26 March 2015, the Government announced the permanent closure of the Fiskville Training College. The permanent closure of Fiskville requires the CFA to assess the direction and approach to remediation and rehabilitation of the Fiskville site. CFA will also need to take into consideration the findings and recommendations of the Victorian Parliamentary Inquiry into the CFA Training College at Fiskville, which is due to present its final report by no later than 1 December 2015.

At this stage it is impractical to quantify the financial effects as a result of the closure of Fiskville and its effect on the implementation of recommendations received from the independent investigation.

Gambling licences

In relation to the 'Gambling licences' item within non-quantifiable contingent assets, given that the State was successful in the Tabcorp proceeding, it did not need to pay Tabcorp its claimed amount of $686.8 million plus interest. On 4 December 2014 the decision was upheld by the Court of Appeal. Tabcorp appealed the decision to the High Court of Australia, and the appeal was heard on 10 and 11 November 2015. Judgement has been reserved and will be handed down by the High Court in due course.

Public lottery licence litigation

On 27 August 2014, Intralot Australia Pty Ltd (Intralot) served a writ and Statement of Claim on the State. Intralot's claim relates to allegations that Tattersall's Sweeps Pty Ltd was granted favourable treatment relating to the awarding of public lottery licences on 24 October 2007. Intralot claims its total costs to 30 June 2014 are $63.4 million. The State has lodged its defence and the matter will be heard in the Supreme Court.

Compulsory property acquisitions

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

Land remediation – environmental concerns

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

Lancefield fire review

On Wednesday 30 September 2015, the Department of Environment, Land, Water and Planning initiated a planned burn in the forest 10 kilometres north west of Lancefield. This fire jumped containment lines resulting in the loss of personal property. The Government's immediate priority has been to support the local communities most affected by the fire, including those in and around Lancefield, Benloc and Cobaw.

The Government announced an independent investigation into the escape of the fire which examined all aspects of the planned burn, including communication with the community and factors involved in it breaking containment lines.

The independent investigation was finalised and a report was released on 19 November 2015. The department has accepted all 22 of the recommendations in the report, and has started working on implementing the recommendations as a priority. The department expects all recommendations to be implemented by March 2016. The estimated financial effect, if any, cannot yet be determined.

Native Title

A number of claims have been filed with 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.

Melbourne Park redevelopment

In 2010, the State entered into a capital works agreement with Tennis Australia and the Melbourne and Olympic Park Trust for the Australian Open to remain at Melbourne Park until 2036. The agreement contains a number of conditions including that the State will invest in further improvements to Melbourne Park in three stages or (if an agreed investment threshold is reached), pay a rights fee to retain the Australian Open at Melbourne Park until 2036.

In the *2010-11 Budget*, Stage 1 of the Melbourne Park redevelopment with a total estimated investment of $363 million was announced. In January 2014, a further $338 million of total estimated investment was announced by the State for Stage 2 of the redevelopment.

Royal Melbourne Showgrounds redevelopment

Under the State's commitment to the Royal Agriculture Society of Victoria (RASV), the State has agreed to support certain obligations of RASV which may arise out of the joint venture agreement. In accordance with the terms set out in the State's commitment to RASV, the State will pay (in the form of a loan) the amount requested by RASV. If any outstanding loan amount remains unpaid at the date, which is 25 years after the commencement of the operation term under the development and operation agreement, RASV will be obliged to satisfy and discharge each such outstanding loan amount. This may take the form of a transfer to the State, of the whole of the RASV participating interest in the joint venture.

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

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

Victorian Managed Insurance Authority – insurance cover

The Victorian Managed Insurance Authority (VMIA) was established in 1996 as an insurer for state government departments, participating bodies and other entities as defined under the *Victorian Managed Insurance Authority Act 1996*. The VMIA provides its clients with a range of insurance cover, including for property, public and products liability, professional indemnity and contract works. The VMIA reinsures in the private market for losses above $50 million arising out of any one occurrence, up to a maximum of $1 billion for public and products liability, and for losses above $50 million arising out of any one event, up to a maximum of $3.35 billion for property. The risk of losses above these reinsured levels is borne by the State.

With effect from 28 August 2015, VMIA purchased additional reinsurance cover for property and public liability losses to better cover the State's potential liabilities.

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

APPENDIX A – SPECIFIC POLICY INITIATIVES AFFECTING THE BUDGET POSITION

Appendix A outlines specific policy initiatives that affect outputs and assets, including Treasurer's Advances, agreed by the Government since the *2015-16 Budget*.

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

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

WHOLE OF GOVERNMENT – DROUGHT PACKAGE

Output initiatives

Table A.1: Output initiatives – Drought Package

($ million)

	2015-16	*2016-17*	*2017-18*	*2018-19*
Drought response	2.0	..	..	..
Drought support	2.5	7.5	..	..
	4.5	**7.5**	**..**	**..**

Drought response

Additional funding is provided to support a broad package of initiatives being delivered in response to worsening drought conditions in north-west Victoria. New measures include:

- additional extension services to help affected farmers make informed business decisions in response to the drought;
- grants to farmers to assist with the costs of establishing stock containment areas on their properties;
- grants to affected local councils to undertake community support activities; and
- appointment of a Regional Drought Coordinator to oversee the whole of government response.

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

Drought support

The Government will create a new $10 million fund to support drought-affected Victorians. The Government will consult to inform the best allocation of the funds in supporting affected communities.

This initiative is expected to contribute to various outputs. Until the Government's consultations are complete, the funding will be held centrally.

DEPARTMENT OF ECONOMIC DEVELOPMENT, JOBS, TRANSPORT AND RESOURCES

Output initiatives

Table A.2: Output initiatives – Economic Development, Jobs, Transport and Resources

($million)

	2015-16	*2016-17*	*2017-18*	*2018-19*
Additional rail maintenance and renewal activities	14.1	10.8	..	..
Automotive Supply Chain Transition Program	2.0	3.0	..	..
Establishment of the Agriculture Infrastructure and Jobs fund	12.5	12.5	12.5	12.5
Industry Capability Network	2.6	..	..	..
	31.2	**26.3**	**12.5**	**12.5**

Additional rail maintenance and renewal activities

Funding is provided for rail maintenance and renewal activities as result of timetable changes.

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

- Train Services output; and
- Tram Services output.

Automotive Supply Chain Transition Program

Funding is provided for a new Automotive Supply Chain Transition Program to deliver tailored support for automotive businesses to transition into new markets. With the upcoming closure of the three major car manufacturers, supply chain businesses are looking at opportunities to transition to the global automotive supply chain or diversify to non-automotive domestic sectors.

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

Establishment of the Agriculture Infrastructure and Jobs fund

A new $200 million fund will be established to support agricultural infrastructure supply chains to boost productivity, increase exports and reduce costs for farmers to maintain their competitiveness. The fund will be established following the passage of the Delivering Victorian Infrastructure (Port of Melbourne Lease Transaction) Bill 2015.

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

Industry Capability Network

Support for the Industry Capability Network will continue in 2015-16, assisting Victorian companies to increase access to export opportunities.

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

Asset initiatives

Table A.3: Asset initiatives – Economic Development, Jobs, Transport and Resources

($ million)

	2015-16	*2016-17*	*2017-18*	*2018-19*	*TEI*
Establishment of the Agriculture Infrastructure and Jobs fund	37.5	37.5	37.5	37.5	150.0
Maryvale Automated Points Project	0.7	..	..	..	0.7
Western Distributor project development	20.0	..	..	..	20.0
	58.2	**37.5**	**37.5**	**37.5**	**170.7**

Establishment of the Agriculture Infrastructure and Jobs fund

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

Maryvale Automated Points Project

Automated points on the Bairnsdale line will be installed to reduce ongoing costs, alleviate delays on passenger services and improve safety.

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

Western Distributor project development

Funding will enable project development relating to the business case and assessment of market-led proposals for the Western Distributor project.

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

DEPARTMENT OF EDUCATION AND TRAINING

Output initiatives

Table A.4: Output initiatives – Education and Training

($ million)

	2015-16	*2016-17*	*2017-18*	*2018-19*
Supporting kindergarten services	13.5	28.9	23.8	17.5
	13.5	**28.9**	**23.8**	**17.5**

Supporting kindergarten services

Support will be provided to kindergarten services to:

- assist sessional kindergarten providers to meet the costs of introducing the new educator to child ratio of 1:11 from 1 January 2016, in line with the requirements of the National Quality Agenda for Early Childhood Education and Care and the Education and Care Services National Law; and
- meet increased demand for the Kindergarten Fee Subsidy and Early Start Kindergarten programs.

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

DEPARTMENT OF ENVIRONMENT, LAND, WATER AND PLANNING

Output initiatives

Table A.5: Output initiatives – Environment, Land, Water and Planning

($million)

	2015-16	2016-17	2017-18	2018-19
Additional aviation resources for firefighting	9.1	..	..	..
Implementation of Plan Melbourne initiatives	..	1.3	..	..
Managing rising groundwater risks in Bendigo	6.5	..	..	..
	15.6	**1.3**	**..**	**..**

Additional aviation resources for firefighting

An additional five firefighting aviation resources including two large air tankers, two helitaks and one fixed wing aircraft will be available to support the State's firefighting capability, responding to the expected higher fire risk profile for the 2015-16 summer period.

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

Implementation of Plan Melbourne initiatives

Funding is provided for improvements to the Broadmeadows Central Activity District as part of Plan Melbourne.

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

Managing rising groundwater risks in Bendigo

Funding is provided to manage the risks associated with rising poor quality groundwater in Bendigo.

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

Asset initiatives

Table A.6: Asset initiatives – Environment, Land, Water and Planning

($ million)

	2015-16	*2016-17*	*2017-18*	*2018-19*	*TEI*
Implementation of Plan Melbourne initiatives	..	13.0	..	..	13.0
	..	**13.0**	**..**	**..**	**13.0**

Implementation of Plan Melbourne initiatives

Funding is allocated for the delivery of a number of priority Plan Melbourne projects.

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

DEPARTMENT OF JUSTICE AND REGULATION

Output initiatives

Table A.7: Output initiatives – Justice and Regulation

($million)

	2015-16	*2016-17*	*2017-18*	*2018-19*
Night Network – transport security	23.1	11.0	..	..
Summer Fire Information and Education Program	3.0	..	..	..
	26.1	**11.0**	**..**	**..**

Night Network – transport security

Funding is provided for an additional 109 Protective Services Officers and 62 Transit Police to provide security during the Night Network 24 hour public transport on weekends initiative trial.

This initiative contributes to the Department of Justice and Regulation’s Policing Services output.

Summer Fire Information and Education Program

The program will promote key fire safety advice around leaving early and community awareness of fire risk and planning in preparation for the 2015-16 summer period. This will be achieved through the utilisation of direct marketing, traditional and social media and public relations.

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

DEPARTMENT OF TREASURY AND FINANCE

Output initiatives

Table A.8: Output initiatives – Treasury and Finance

($ million)

	2015-16	*2016-17*	*2017-18*	*2018-19*
Western Distributor project development	10.0	..	..	..
	10.0	**..**	**..**	**..**

Western Distributor project development

Funding will enable options analysis and project development to be progressed for the business case and assessment of market-led proposals for the Western Distributor project.

This initiative contributes to the Department of Treasury and Finance's Land and Infrastructure Investment Management output.

PARLIAMENT

Output initiatives

Table A.9: Output initiatives – Parliament

($ million)

	2015-16	*2016-17*	*2017-18*	*2018-19*
Appointment of additional parliamentary advisors	0.5	0.5	0.5	0.5
	0.5	**0.5**	**0.5**	**0.5**

Appointment of additional parliamentary advisors

Four additional advisors will be employed to support independent and cross-bench members in the Parliament.

This initiative contributes to Parliament's Parliamentary Services output.

COURTS

Output initiatives

Table A.10: Output initiatives – Courts

($ million)

	2015-16	*2016-17*	*2017-18*	*2018-19*
Heidelberg Court remediation	0.5	..	..	..
	0.5	**..**	**..**	**..**

Heidelberg Court remediation

The Heidelberg Court suffered severe flooding in February 2015 due to a burst water main, requiring court operations to be shut down and cases to be reallocated to other courts or to be adjourned. Funding is provided to assist in remediation works to bring the court back up to an operational standard.

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

Asset initiatives

Table A.11: Asset initiatives – Courts

($ million)

	2015-16	*2016-17*	*2017-18*	*2018-19*	*TEI*
Heidelberg Court remediation	2.9	..	..	..	2.9
	2.9	**..**	**..**	**..**	**2.9**

Heidelberg Court remediation

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

APPENDIX B – AMENDMENTS TO THE 2015-16 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 their review of the measures which were substantially changed and proposed to be discontinued and tabled their report in Parliament on 12 November 2015. 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 are important because they represent foregone revenue to the State. They may take a number of different forms, for example, concessions, benefits and incentives delivered through the tax system. Regardless of form, they provide preferential financial benefit for certain taxpayers, activities or assets compared with normal taxation treatment.

TAX EXPENDITURES

In 2015-16, tax expenditures are forecast to be $5.0 billion, 37 per cent of which will accrue to property owners.

Tax expenditures outlined below can include tax-free thresholds, exemptions or reduced rates, and deductions or rebates of a tax for a certain type of taxpayer, activity or asset.

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 similar taxpayers who do not receive that treatment. They exclude benefits arising from broadly applicable marginal tax rates as part of a tax scale.

Table C.1 shows aggregate tax expenditure estimates by the main tax categories for the period 2014-15 to 2018-19, excluding the effect of tax free thresholds for land tax and payroll tax, which are available to the entire community. In estimating tax expenditures, the simplifying assumption is made that taxpayer behaviour is unchanged by the concession.

Growth in the value of Victorian aggregate tax expenditures is largely determined by the growth profile of land tax expenditures. The biennial revaluation cycle drives growth in land tax expenditures. For example, a revaluation year such as 2016-17, sees strong growth in expenditures, with more muted growth in the following year.

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

($ million)

Description	*2014-15*	*2015-16*	*2016-17*	*2017-18*	*2018-19*
Land tax	2 987.8	2 967.0	3 363.5	3 283.1	3 720.7
Fire Services Property Levy	21.7	21.9	22.1	22.3	22.5
Payroll tax	1 152.6	1 210.0	1 288.2	1 362.6	1 440.0
Gambling tax	73.9	73.7	74.3	76.0	76.3
Motor vehicle taxes	164.6	176.6	188.5	195.9	203.6
Transfer duties [(b)]	669.8	462.0	604.7	610.1	615.4
Congestion levy	42.7	43.7	44.8	46.0	47.2
Total estimated tax expenditures	**5 112.9**	**4 954.9**	**5 586.1**	**5 595.9**	**6 125.7**

Source: Department of Treasury and Finance

Notes:

(a) Tax expenditures associated with thresholds are excluded due to the different nature of these expenditures to other taxation expenditures. Expenditures are benefits that target certain taxpayers or activities, whereas thresholds exclude transactions below a certain size.

(b) Estimates for transfer duties expenditures decline in 2015-16 due to lower than expected levels of corporate reconstruction during the first four months of 2015-16. Estimates for corporate reconstruction are expected to return to trend across the forward estimates.

CONCESSIONS

Concessions are a direct budget outlay or reduction in government charges that have the effect of reducing the price of a good or service for particular groups. Over the past decade, the State has provided $13.9 billion in concessions expenditure.

Certain characteristics of the consumer, such as possession of a Commonwealth Government Pensioner Concession Card or Health Care Card, are the basis for entitlement. Concessions allow certain groups in the community to access or purchase important amenities like energy, education, health and transportation at a reduced or zero cost.

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 Grants Scheme and payment to State Trustees through a Community Service Agreement. The Utility Relief Grants Scheme assists Victorians unable to pay utility bills due to temporary financial crisis. 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 non-profit organisations such as the Bereavement Assistance Limited, the Charity Freight Service and food relief organisations.

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

Table C.2 classifies the major concessions by category.

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

($ million)

Description	*2014-15*	*2015-16*
Electricity	151.0	170.2
Mains gas	55.2	62.6
Municipal rates	90.8	95.8
Water and sewerage	161.3	168.7
Total energy, municipal rates, water and sewerage	**458.2**	**497.4**
Ambulance	338.2	377.2
Dental services and spectacles[(b)]	159.1	121.9
Community health programs	101.8	104.4
Total health	**599.0**	**603.5**
Education	**82.0**	**110.1**
Hardship schemes	**37.0**	**39.3**
Social and community services	**4.9**	**4.9**
Private transport	**192.3**	**202.7**
Public transport	**141.0**	**147.3**
Total for items estimated	**1 514.4**	**1 605.2**

Source: Department of Treasury and Finance

Notes:

(a) Some concessions are unable to be directly measured and are estimates only.

(b) The 2015-16 estimated concession expenditure excludes the proposed new Adult Public Dental Services National Partnership Agreement funding as negotiations with the Commonwealth have not yet commenced at time of publication and funding under the previous agreement have lapsed.

APPENDIX D – SENSITIVITY ANALYSIS

The macroeconomic forecasts and assumptions underpinning the *2015-16 Budget Update* are subject to variation. This section explores the impact of variations in these parameters on key fiscal aggregates of the general government sector.

Two types of sensitivity analysis are presented. First, the fiscal impact of independent variations in economic variables is considered. This type of analysis could be useful, for example, in considering the impact of a forecast error in an individual economic parameter on the fiscal aggregates. Second, the simultaneous impact of variations in a number of economic variables is considered with reference to recent historical examples. The analysis attempts to capture some, though not all, of the interrelationships between economic variables. This provides a better understanding of the fiscal impact where the general economic environment is materially different from forecast.

While sensitivity analysis provides a useful indication of the fiscal impact of variations in economic conditions, care should be exercised in interpreting these results. The relationships between economic and fiscal aggregates are complex, and typically depend on the specific characteristics of the economic shock. For example, an asset price shock in the property market is likely to have a different fiscal impact to a sector-specific shock in say manufacturing, even if the overall impact on gross state product (GSP) and employment is similar.

SENSITIVITY TO INDEPENDENT VARIATIONS IN MAJOR ECONOMIC PARAMETERS

Table D.1 presents the sensitivity of financial aggregates, if the levels of key economic parameters are 1 per cent above the forecast for each year of the budget and forward estimates period, holding all else constant. The impacts shown are broadly symmetrical. That is, the estimated fiscal impact would apply equally in the opposite direction if a 1 per cent decrease in each variable was considered.

Table D.1: Sensitivity of key fiscal aggregates to selected economic indicators being 1 per cent higher than expected from 2015-16[(a)(b)(c)(d)(e)(f)]

($ million)

	2015-16 estimate	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
GSP				
Income from transactions	165	172	181	196
Expenses from transactions	7	(2)	(10)	(19)
Net result from transactions	**158**	**173**	**191**	**215**
Net debt	**(158)**	**(332)**	**(522)**	**(737)**
Employment				
Income from transactions	58	61	65	69
Expenses from transactions	(2)	(5)	(8)	(11)
Net result from transactions	**59**	**66**	**73**	**80**
Net debt	**(59)**	**(125)**	**(198)**	**(278)**
Consumer prices [(g)]				
Income from transactions	307	251	292	334
Expenses from transactions	69	69	62	49
Net result from transactions	**237**	**182**	**231**	**285**
Other economic flows	..	..	..	..
Net result	**238**	**182**	**231**	**286**
Net debt (cumulative)	**(238)**	**(427)**	**(666)**	**(959)**
Average weekly earnings				
Income from transactions	70	8	(4)	36
Expenses from transactions	7	5	6	5
Net result from transactions	**63**	**3**	**(10)**	**31**
Net debt	**(63)**	**(66)**	**(55)**	**(87)**
Enterprise agreements [(h)]				
Income from transactions	30	30	32	31
Expenses from transactions	215	259	280	301
Net result from transactions	**(185)**	**(229)**	**(248)**	**(270)**
Net debt	**185**	**399**	**632**	**887**
Domestic share prices				
Income from transactions	1	1	1	3
Expenses from transactions	..	(2)	(2)	(2)
Net result	**1**	**4**	**3**	**3**
Net debt (cumulative)	**(1)**	**(3)**	**(4)**	**(6)**
Overseas share prices				
Income from transactions	3	7	4	2
Expenses from transactions	..	(2)	(2)	(3)
Net result from transactions	**3**	**9**	**6**	**5**
Net debt	**(3)**	**(10)**	**(15)**	**(18)**

Table D.1: Sensitivity of key fiscal aggregates to selected economic indicators being 1 per cent higher than expected from 2015-16 *(continued)*

($ million)

	2015-16 estimate	*2016-17 estimate*	*2017-18 estimate*	*2018-19 estimate*
Property prices				
Income from transactions	63	92	93	97
Expenses from transactions	(2)	(6)	(11)	(16)
Net result from transactions	**65**	**99**	**104**	**113**
Other economic flows	2	5	4	2
Net result	**67**	**103**	**108**	**115**
Net debt	**(67)**	**(170)**	**(277)**	**(392)**
Property volumes				
Income from transactions	54	53	53	54
Expenses from transactions	(1)	(4)	(7)	(10)
Net result from transactions	**56**	**57**	**60**	**64**
Net debt	**(56)**	**(113)**	**(173)**	**(237)**
Interest rates [(i)]				
Income from transactions	230	164	203	221
Expenses from transactions	6	174	170	151
Net result	**224**	**(11)**	**34**	**70**
Net debt (cumulative)	**(224)**	**(392)**	**(608)**	**(853)**

Source: Department of Treasury and Finance

Notes:

(a) *In the* 2015-16 Budget*, the Department of Treasury and Finance reviewed the methodology for generating the sensitivity analysis. This resulted in identification of superannuation expense movements which flow through to net debt in more detail, consequently affecting the calculation of the net debt sensitivities to interest rates, consumer prices, enterprise agreements, domestic and overseas share prices, and property prices.*

(b) *Variations are applied to the economic variables in the budget year. For the out years it is assumed that variables' growth rates match those under a no-variation scenario. This implies that economic variables are 1 per cent higher across the budget and forward years compared with a no-variation scenario.*

(c) *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 and net result). A positive number for other economic flows represents a gain. A positive number for the net result from transactions and net result denotes a higher surplus or lower deficit. A positive number for net debt denotes a higher level of net debt in the relevant year compared with a no-variation scenario. Numbers may not balance due to rounding.*

(d) *The impact of a 1 per cent lower than expected outcome for an economic variable would, in most instances, simply be the opposite of the impact shown in the table.*

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

(f) *Estimates of net debt are approximately equal to the cumulative impact of the net result. Over time however, small discrepancies arise from adding back certain non-cash expenses.*

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

(h) *Represents a 1 per cent increase in all government enterprise agreements.*

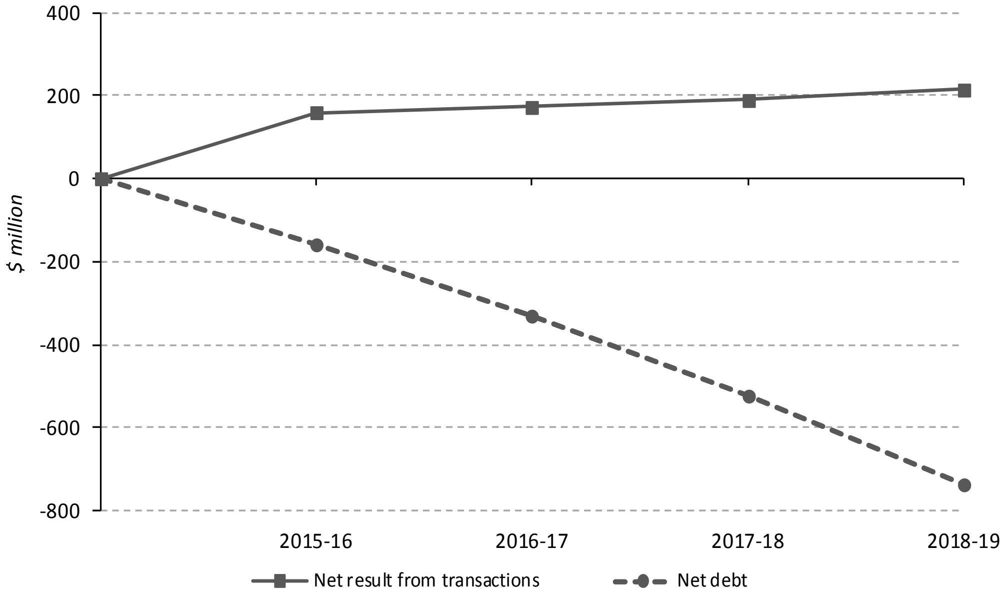
(i) *Assumes interest rates are 1 percentage point higher across the entire term structure, i.e. short and long-term rates, over the budget and forward estimates period.*

Sensitivity to gross state product

Higher than expected GSP is associated with higher household consumption, leading to higher revenue from state taxes and goods and services tax (GST). This increases the net result from transactions and reduces net debt. As net debt is a stock variable, the impacts in each year accumulate over the forward estimates.

Based on Table D.1, if GSP was 1 per cent higher than forecast in 2015-16, the net result from transactions would increase by $158 million. An increase in the net result would lower net debt by the same amount. Over the budget and forward estimates period, the increased surpluses would reduce the stock of net debt by $737 million.

Chart D.1: Sensitivity of key fiscal aggregates to GSP being 1 per cent higher than expected from 2015-16[(a)]



Source: Department of Treasury and Finance

Note:
(a) See footnotes for Table D.1 for detailed description of estimates.

Sensitivity to interest rates

An increase in interest rates results in a gain on the valuation of insurance liabilities of the state-owned insurance agencies, partially offset by a loss on the valuation of investment assets.

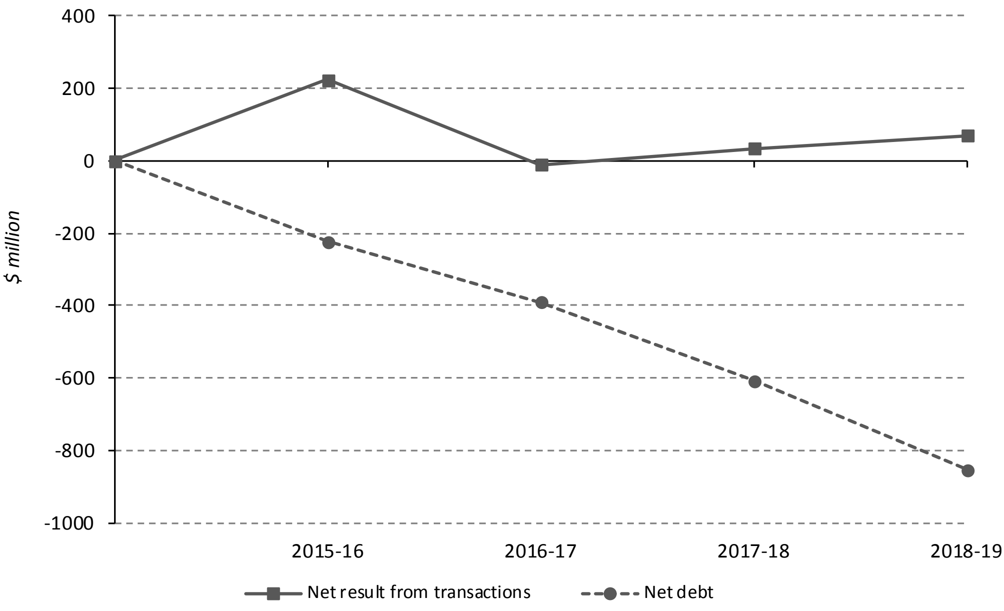
As dividends of the State's insurance agencies are based on performance from insurance operations, which excludes the initial impact of discount rate movements, the increase in interest rates will have little direct impact on dividends in the budget year. As income tax equivalents (ITEs) of the insurance agencies are assessed on profit before tax, which includes the impact of interest rates on liability and asset values, an increase in interest rates will increase ITEs.

Higher borrowing costs lead to reduced net results of public non-financial corporations, lowering dividends and ITEs payable to the State.

An increase in interest rates also increases the superannuation expense and borrowing cost of the general government sector over the out years.

The combined effect of these influences produces the profile shown in Chart D.2.

Chart D.2: Sensitivity of key fiscal aggregates to interest rates being 1 percentage point higher than expected from 2015-16[(a)]



Source: Department of Treasury and Finance

Note:
(a) See footnotes for Table D.1 for detailed description of estimates.

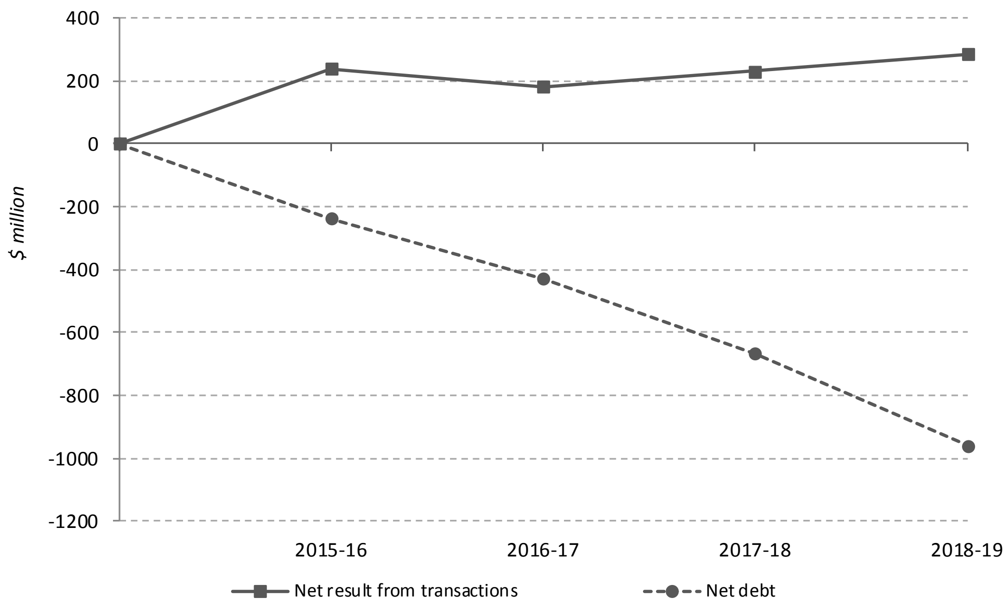
Sensitivity to consumer prices

Higher consumer prices lead to higher taxation revenue, as the nominal values of tax bases rise. Commonwealth-sourced revenue also rises due to indexation. Dividends and ITEs from the State's insurance agencies are reduced, mainly due to higher claims expenses.

Government expenses are affected through the higher cost of supplies and services and some increases in outlays on grants and transfers. Reflecting the operation of departmental funding arrangements, the impact of higher prices is limited as only a portion of department funding is automatically indexed to inflation. An increase in consumer prices also increases the superannuation expense in the out years.

Overall, there is a positive impact on the net result from transactions and a cumulative reduction in net debt over the budget and forward estimates.

Chart D.3: Sensitivity of key fiscal aggregates to consumer prices being 1 per cent higher than expected from 2015-16[(a)]



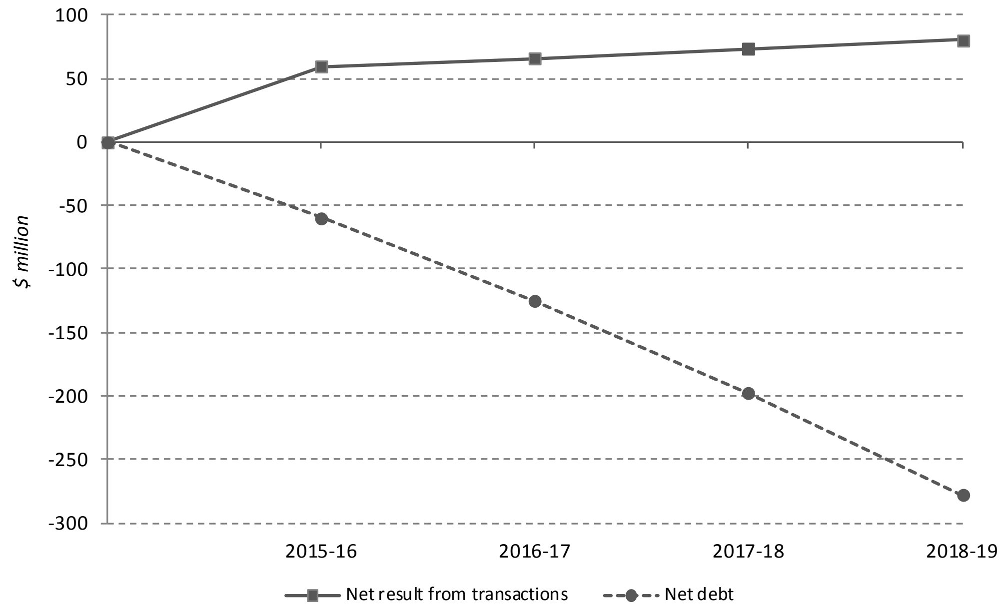
Source: Department of Treasury and Finance

Note:
(a) See footnotes for Table D.1 for detailed description of estimates.

Sensitivity to employment

Higher than expected employment results in additional payroll tax revenue. An increase in the remuneration base also results in additional revenue from higher premiums for WorkSafe Victoria. This leads to higher ITEs for the State. These impacts increase the net result from transactions and cumulatively reduce net debt.

Chart D.4: Sensitivity of key fiscal aggregates to employment being 1 per cent higher than expected from 2015-16[(a)]



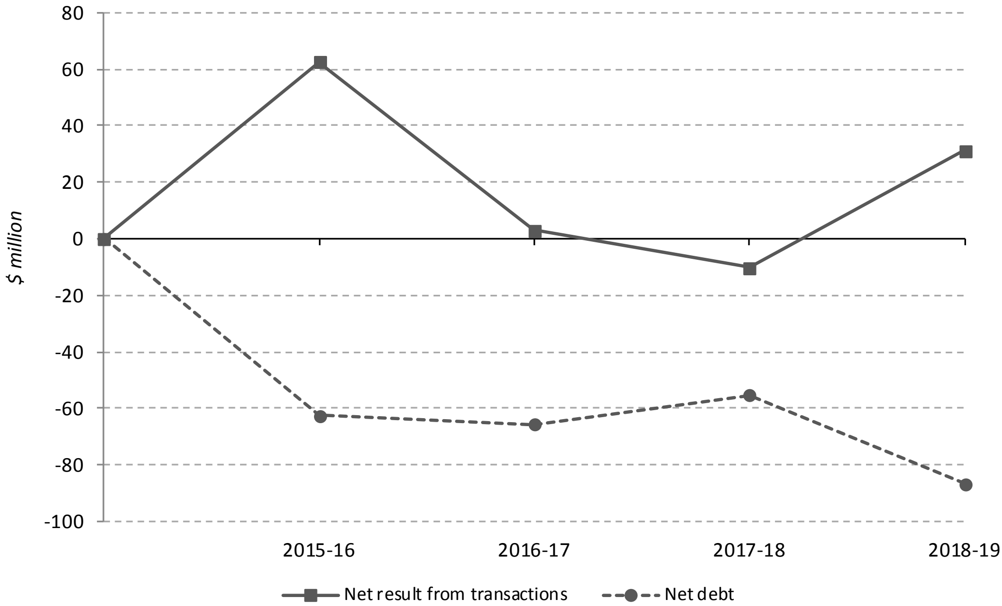
Source: Department of Treasury and Finance

Note:
(a) See footnotes for Table D.1 for detailed description of estimates.

Sensitivity to average weekly earnings

A rise in the level of wages in the economy (but not in the public sector) results in higher payroll tax revenue in each year. ITEs fall as claims expenses for WorkSafe Victoria increase, partially offset by increased premium revenue. Overall, these effects lead to a higher net result from transactions over most of the budget and forward estimates period.

Chart D.5: Sensitivity of key fiscal aggregates to average weekly earnings being 1 per cent higher than expected from 2015-16[a]



Source: Department of Treasury and Finance

Note:
(a) See footnotes for Table D.1 for detailed description of estimates.

Sensitivity to enterprise agreements

All government enterprise agreements are assumed to be unchanged over the projection period. An across-the-board increase in wages arising from an enterprise agreement, which exceeds the wages policy guideline rate, increases the general government sector's employee entitlement expenses. Increased employee entitlements also increase the value of the superannuation liability and flow through to a greater superannuation expense in the out years. These impacts result in a decline in the net result from transactions and cumulatively higher net debt over the budget and forward estimates.

Sensitivity to domestic and overseas share prices

A rise in share prices increases the net results of the State's insurance agencies. This leads to an increase in the ITEs payable to the State; however the availability of carry-forward tax losses means there is only a small impact on ITEs in the budget year. There is no significant impact on underlying dividends payable to the State as these are based on the agencies' performance from insurance operations, which excludes the impact of investment returns being higher than the agencies' budgeted long-term rates of return.

An increase in domestic and international share prices also reduces the value of the superannuation liability due to the associated increase in superannuation fund assets. This then reduces the superannuation interest expense beyond the budget year, thereby improving the net result from transactions in these years.

Sensitivity to property prices and volumes

Higher property prices have an immediate impact on the net result from transactions through increased collections of land transfer duty. At the same time, the value of the superannuation liability decreases due to the increased value of property holdings in superannuation funds' investment portfolios. In later years, higher property prices continue to raise land transfer duty and land tax revenues, while the previous reduction in the superannuation liability reduces ongoing superannuation expenses. Each of these factors increase the net result from transactions and lower net debt.

Higher property transaction volumes increase land transfer duty receipts, leading to a rise in the net result from transactions and a reduction in net debt.

SENSITIVITY TO VARIATIONS IN THE ECONOMIC OUTLOOK

The previous section considered the fiscal implications of independent variations in selected economic parameters. Typically, however, variations in economic parameters do not occur in isolation. For example, general economic conditions may differ from expectations, particularly in the event of an unanticipated economic or financial shock, causing most or all economic parameters to vary from forecasts.

This section considers two examples where general economic conditions varied significantly from expectations, resulting in the broad sweep of economic parameters being different from forecast. In the first example, in 2006-07 growth was significantly stronger than anticipated while in the second example, in 2008-09 the onset of the global financial crisis resulted in most economic and financial variables being lower than initially forecast.

The analysis confirms that the fiscal impact of variations in economic parameters can be significantly greater than indicated by the sum of each variable's individual impact. This highlights the point that the relationships between economic parameters and fiscal aggregates are complex and heavily influenced by the specific nature and characteristics of a given economic shock. Such shocks affect Victoria's fiscal position to varying degrees, but given the composition of Victoria's revenue base, property-related shocks are likely to have the largest impact on the fiscal situation.

The State's fiscal position in any year is the product of economic trends and policy changes in that and previous years. Similarly, an economic shock in a given year will affect fiscal outcomes in that and later years.

The outcomes for a particular year will diverge from forecast values because of forecast errors and policy changes. This analysis highlights the critical impact that government policy decisions have on the final result, which by nature cannot be captured by standard sensitivity analysis.

2006-07 – economic growth exceeding expectations

Table D.2 presents a situation where economic growth was underestimated. It shows the largest forecast error in the macroeconomic variables was for employment. Real GSP was also underestimated, and there were relatively minor errors in the forecasting of prices and wages.

Table D.2: Actual deviations of growth rates of key economic variables from *2006-07 Budget* forecasts

(per cent)

	2006-07 budget (a)	*2006-07 actual*	*Forecast error (b)*
Real GSP	3.3	3.5	0.2
Employment	1.3	3.2	1.9
Consumer price index	2.5	2.6	0.1
Wage price index (c)	3.5	3.6	0.1

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

Notes:
(a) Forecast in May 2006 for 2006-07 Budget.
(b) Percentage point variation.
(c) Total hourly rate excluding bonuses.

The main areas of revenue forecast error in 2006-07 relate to the underestimation of land transfer duty and of other revenue, while payroll tax was close to forecast (Table D.3). Strong land transfer duty revenues largely reflect the property cycle. As land transfer duty is a transaction-based tax, with the bulk of revenue collected from the residential property sector, collections are subject to the volatile nature of consumer sentiment. In 2006-07, both house prices and volumes were in growth phases, and in the second half of the financial year consumer sentiment was well above historical averages.

A significant portion of other revenue is composed of tied grants from the Commonwealth Government for health and education purposes. Forecasts are finalised around four months before the start of the relevant budget year and alternative arrangements may be made with the Commonwealth Government at any time during the ensuing 16 months to affect revenue from this source.

As payroll tax is levied on the stock of employees, forecast errors in growth are unlikely to have a large effect on revenue from this line. This proved to be the case in 2006-07. Despite growth in employment being two percentage points higher than anticipated, the 2006-07 outcome for payroll tax was largely consistent with budgeted estimates. This suggests a disconnect at that time between Victoria's labour market performance and payroll tax collections, and may have occurred because payroll tax is levied on a small share of Victorian businesses, which may not necessarily have been the drivers of growth.

Table D.3: Actual deviations of key revenue lines from *2006-07 Budget* forecasts

($ million)

	2006-07 budget	*2006-07 actual*	*Forecast error*	*Forecast error (%)*
Payroll taxes	3 418	3 479	61	2
Land transfer duty	2 424	2 961	537	22
Other own-sourced revenue	5 129	5 262	133	3
Taxation revenue	**10 971**	**11 702**	**731**	**7**
Other revenue	13 002	14 600	1 598	12
GST	8 469	8 584	114	1
Total revenue	**32 442**	**34 886**	**2 444**	**8**
Total expenses	**32 125**	**33 551**	**1 426**	**4**
Net result from transactions	**317**	**1 335**	**1 018**	**321**

Source: Department of Treasury and Finance

2008-09 – global financial crisis

A situation where economic growth was overestimated is shown in Table D.4. The largest forecast errors occurred in real GSP and consumption. Relatively small errors occurred in employment as employers chose to reduce hours and accept productivity falls rather than lay off staff. Consumer prices and wages were less affected by the global financial crisis and consequently the level of forecast error was much lower for these variables.

Table D.4: Actual deviations of growth rates of key economic variables from *2008-09 Budget* forecasts

(per cent)

	2008-09 budget (a)	*2008-09 actual*	*Forecast error (b)*
Real GSP	3.0	1.5	(1.5)
Consumption (unpublished)	2.8	0.5	(2.3)
Employment	1.5	0.9	(0.6)
Consumer price index	3.0	2.8	(0.2)
Wage price index (c)	3.8	4.0	0.3

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

Notes:
(a) Forecast in May 2008 for 2008-09 Budget.
(b) Percentage point variation.
(c) Total hourly rate excluding bonuses.

The impact of the global financial crisis on revenue is evident in Table D.5, which shows forecast revenue and expenditure compared with the actual outcome. Both revenue and expenditure were underestimated; however expenditure was underestimated to a greater extent leading to a forecast error of $576 million in the net result from transactions.

This increase in expenditure largely reflects the Commonwealth Government's fiscal stimulus packages, such as *Building the Education Revolution*, which were mostly distributed by the states.

Much of the overestimation of taxation revenue can be attributed to the weak performance of the property market, with the land transfer duty forecast being over $900 million higher than the actual outcome. By contrast, the error in the forecast of payroll tax revenue was small and partly reflects the response of employers to hoard labour.

The pervading weak consumer sentiment during the global financial crisis led to much weaker consumption growth, and consequently to a sizeable forecast error for GST revenue. The global financial crisis seems to have created a structural shift in the economy, with the impacts felt over a number of years. Households adjusted their behaviour and entered a phase of reducing debt. This hastened the return of the household savings ratio to long-term averages, following a sustained period of near zero savings.

The overestimation of land transfer duty and GST was dwarfed by the underestimation of other revenues. A large share of this was the increased Commonwealth Government disbursements to the states as part of the stimulus package. However, these revenues were partially offset by increased expenditure as the Commonwealth Government's stimulus payments were spent. Of the $3.2 billion forecast error for other revenues, approximately $2.4 billion is attributable to grants revenue other than GST.

This analysis reports the contemporaneous effect of macroeconomic shocks, whereas in many situations there will be enduring influences. While the national GST pool recovered from the lows of 2009-10 following the global financial crisis, since then its growth has remained below trend. This is consistent with the changes in household consumption. Similarly, following a temporary recovery in land transfer volumes in 2009-10, property market turnover was subdued in subsequent years as potential buyers were cautious about entering the market.

Table D.5: Actual deviations of key revenue lines from *2008-09 Budget* forecasts

($ million)

	2008-09 budget	*2008-09 actual*	*Forecast error*
Payroll taxes	3 963	3 980	17
Land transfer duty	3 737	2 801	(936)
Other own-sourced revenue	5 683	5 846	163
Taxation revenue	**13 383**	**12 627**	**(756)**
Other revenue	14 146	17 339	3 193
GST	10 281	9 319	(962)
Total revenue	**37 810**	**39 285**	**1 475**
Total expenses	**36 982**	**39 034**	**2 051**
Net result from transactions	**828**	**251**	**(576)**

Source: Department of Treasury and Finance

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 *2015-16 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 location in the *2015-16 Budget Update*

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

Table E.1: Statements required by the *Financial Management Act 1994* and location in the *2015-16 Budget Update (continued)*

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

STYLE CONVENTIONS

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

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

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

If you would like to receive this publication in an accessible format please telephone (03) 9651 0909 or email information@dtf.vic.gov.au

This document is also available in PDF and Word format at dtf.vic.gov.au

Budget Update
dtf.vic.gov.au

Department of **Treasury and Finance**