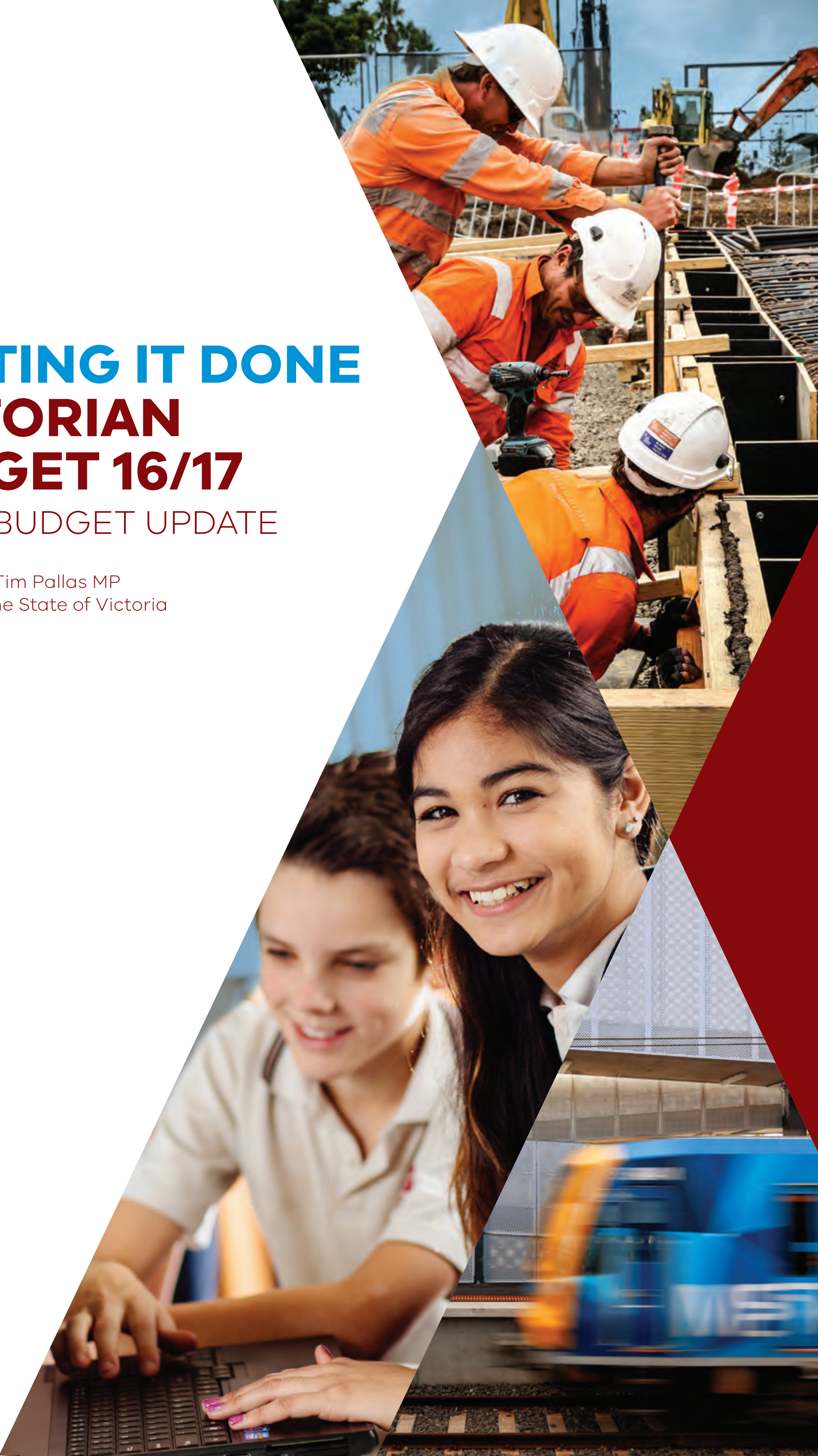
GETTING IT DONE
VICTORIAN BUDGET 16/17
2016-17 BUDGET UPDATE

Presented by Tim Pallas MP
Treasurer of the State of Victoria



VICTORIA
State
Government

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 2204-7182 (print)
ISSN 2204-4701 (online)
Published December 2016

2016-17

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

The Victorian economy grew strongly in 2015-16. Real gross state product (GSP) increased by 3.3 per cent, exceeding the 3.0 per cent forecast in the *2016-17 Budget*. The strong performance of the economy was primarily driven by a significant increase in dwelling investment and solid household consumption. The Victorian economy is expected to continue growing above trend in 2016-17, with a forecast increase of 3.0 per cent.

Real GSP per capita, a key measure of the average standard of living, grew by 1.4 per cent in 2015-16. This is the largest increase since 2008 and reflects improvements in Victoria's employment and productivity.

Since the Government was elected, more than 184 000 new jobs have been added to the Victorian economy, including 93 000 full-time jobs. Employment grew by 2.4 per cent in 2015-16, the best result since 2010-11. Unemployment is forecast to continue to drop over the forward estimates.

Building on initiatives in the *2016-17 Budget,* the Government has announced a range of initiatives to improve vital services, invest in productivity enhancing infrastructure and address Victoria's growing population.

The Outer Suburban Arterial Roads (OSARs) Program will transform the outer-western road network and boost capacity. The program will combine eight high-priority road upgrades with maintenance on more than 700 kilometres of road to ensure motorists benefit from new roads, while maintaining existing roads to a high standard.

The Government has also allocated funding to progress the business case development of the northern package of the OSARs Program for future consideration.

Continuing the Government's recent investment in X'Trapolis and high capacity metro trains, the Government will purchase nine additional six-car X'Trapolis trains to allow for improved train reliability and growing demand across the network.

The Government will employ 450 more paramedics, put more new ambulances on the road and build 15 new and upgraded stations across Victoria as part of a $500 million plan to improve ambulance response times. This includes the establishment of six new 'super response' centres that will support more than 200 paramedics and help meet growing demand in Melbourne's outer suburbs.

To better meet the challenges of providing emergency care in regional and rural communities, additional paramedic and vehicle resources will also be delivered in 12 new rural locations.

As Victoria experiences growth, it is important people are not left behind. The Government is providing $109 million for homelessness services, to intervene early and provide targeted services that will help 19 000 people at risk of or experiencing homelessness over the next five years, including those leaving out-of-home care.

The Government has also committed a package of $266 million to provide assistance to the Latrobe Valley following the closure of Hazelwood power station. This includes funding to assist businesses, workers and their families through the economic impacts of the closure, as well as support new and expanding businesses.

Victoria's general government sector surplus is forecast to be $1.7 billion in 2016-17 and the Government is on track to deliver strong operating surpluses averaging $1.9 billion across the forward estimates. The surplus is lower than forecast in the *2016-17 Budget*, largely due to the funding of new government initiatives such as assistance to the Latrobe Valley, improving ambulance response times and responding to homelessness.

Net debt for 2016-17 has been revised down from the *2016-17 Budget* forecast to $17.6 billion, representing 4.5 per cent of GSP.

The Government continues to fund its productivity enhancing infrastructure program while maintaining a strong balance sheet. As outlined in the *2016-17 Budget*, there is capacity for additional investment through prudent borrowing and a fairer Commonwealth contribution to Victorian infrastructure.

The Government will consider opportunities to leverage its strong balance sheet and take advantage of current low interest rates, with prudent increases in debt that are consistent with maintaining the State's triple-A credit rating.

The Victorian and Commonwealth Governments have agreed on how the $1.5 billion previously allocated for the former East West Link project will be used by the State to further its infrastructure agenda. However, this step alone will not address the Commonwealth under-investment in Victorian infrastructure. Victoria is currently expecting to receive less than 10 per cent of the Commonwealth's infrastructure grants between 2015-16 and 2019-20, relative to a population share of around 25 per cent.

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.

The targets in Table 1.2 measure progress towards these long-term financial management objectives.

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 *2016-17 Budget*.

CHAPTER 2 – ECONOMIC CONTEXT

ECONOMIC OVERVIEW

- The Victorian economy is expected to grow above trend in 2016-17, supported by strong population growth that will boost household consumption and sustain dwelling investment. Growth is forecast to moderate to trend in 2017-18.
- The near-term outlook for the labour market remains solid, following strong employment growth and a decline in the unemployment rate in 2015-16. Normalisation of interest rates in the United States (US) and a weaker Australian dollar are good for Victoria's economy.
- The impact of the US presidential election result and uncertainty surrounding the United Kingdom's (UK) impending withdrawal from the European Union (EU) are key global challenges to Victoria's economic outlook.

Victorian economic conditions and outlook

Victoria is currently experiencing above trend economic and employment growth along with the fastest-growing population in the country. The Australian economy continues to rebalance towards non-mining sectors, helped by a weaker Australian dollar. This is favouring Victoria, as the State's broad-based economy, skilled workforce and reputation for liveability is seeing its economic activity improve ahead of the mining states.

The Victorian economy strengthened in 2015-16, growing by 3.3 per cent compared with 2.5 per cent in 2014-15. Contributors were broad-based. Household consumption consolidated. Dwelling investment rose strongly, buoyed by an active property market and record low borrowing costs. Underlying public demand and business investment growth was also solid in 2015-16.

Growth in the Victorian economy is expected to be 3.0 per cent in 2016-17, above trend and in line with the *2016-17 Budget* forecast. Household consumption and public demand are forecast to pick up slightly in 2016-17, before reverting to trend growth by 2018-19. Momentum in dwelling investment is expected to ease to trend in 2016-17. A lower Australian dollar, historically low interest rates and the Government's substantial infrastructure spending will improve conditions for businesses and consumers.

Labour market conditions in 2015-16 were generally stronger than forecast, consistent with Victoria's strong economic growth. Employment grew by 2.4 per cent, the best result since 2010-11, which contributed to the unemployment rate falling to 5.9 per cent in 2015-16 from 6.4 per cent in the previous year. This strength is repeated in the near-term outlook, with employment growth again expected to be above trend in 2016-17 and 2017-18. Likewise, the unemployment rate is projected to fall to 5.50 per cent in 2017-18, one year earlier than forecast at Budget. Victoria's strong employment market has encouraged more people to look for work, increasing the participation rate. This is in contrast to all other states that experienced declines over the year.

Victoria's population growth remains the highest among the states, with recent data suggesting a higher pace of growth than assumed in the *2016-17 Budget*. Victoria's liveability and strong economic standing has attracted record levels of interstate migration and a high share of net overseas migration. The latter accounted for over half of the State's population increase and a third of the national total in the year to March 2016. The State's population is currently growing by more than 110 000 people every year.

Inflationary pressures were subdued in 2015-16 as consumer prices in Melbourne rose by 1.6 per cent over the year, less than expected in the *2016-17 Budget*. Global and domestic forces combined to dampen price growth. Competition intensified, restricting businesses from passing on the full extent of increased costs, while spare capacity in the domestic economy has limited wage growth. These factors are expected to persist. Consequently, inflation forecasts have been downgraded to reflect the weaker near-term outlook, before returning to trend more gradually.

Wages grew by 2.3 per cent in 2015-16, the slowest growth since the series commenced in 1997. This reflected elevated spare capacity in the labour market, despite strong employment outcomes and a falling unemployment rate. The pace of wages growth is now expected to increase more slowly across the outlook compared with the *2016-17 Budget*.

Economic forecasts

Table 2.1 sets out the economic forecasts, with the *2016-17 Budget* forecasts in parentheses where different.

Table 2.1: Victorian economic forecasts [(a)]

(per cent)

	2015-16 actual	*2016-17 forecast*	*2017-18 forecast*	*2018-19 projection*	*2019-20 projection*
Real gross state product	3.3	3.00	2.75	2.75	2.75
Employment	2.4	2.75	2.00	1.50	1.50
		(1.75)	*(1.50)*		
Unemployment rate [(b)]	5.9	5.75	5.50	5.50	5.50
			(5.75)		
Consumer price index [(c)]	1.6	1.75	2.00	2.25	2.50
		(2.25)	*(2.50)*	*(2.50)*	
Wage price index [(d)]	2.3	2.25	2.50	3.00	3.50
		(2.75)	*(3.00)*	*(3.25)*	
Population [(e)]	2.0 [(f)]	1.9	1.9	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 64.0; and oil prices that follow the path suggested by oil futures.

(b) Year average, per cent.

(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

The national economy grew at a solid pace in the first half of 2016, as rebalancing from mining investment continues. Real gross domestic product (GDP) expanded by 2.7 per cent in 2015-16, the highest growth rate in four years.

Historically low interest rates and the lower Australian dollar boost economic activity in non-mining sectors. The pick-up in services activity has underpinned employment growth, with the relatively more diverse eastern states' economies outperforming the rest of the country.

The recent moderation in household consumption was unexpected, but with house price growth still exhibiting momentum and weak wage increases showing tentative signs of improvement, consumption is expected to support overall growth across the forecast period. The household savings ratio continues to trend downwards.

Public sector investment in a number of large infrastructure projects has provided a boost to growth, offsetting the sharp decline in mining investment over recent years.

Dwelling investment is also growing strongly, increasing by 7.2 per cent on an annual basis in the September quarter 2016. This momentum is expected to carry through in the year ahead given the pipeline of construction work and high level of building approvals during the middle of the year.

The deterioration of the terms of trade, which has been a major headwind for economic growth, is now improving in response to sharp price increases in many of Australia's key commodities. A sustained period of higher prices should provide a further boost to resource exports, which are expected to be a key driver of growth over the next few years.

International economic conditions and outlook

Global economic growth remains below trend, but has shown resilience despite political uncertainty surrounding the Brexit vote and the recent US presidential election. The latest forecasts by the International Monetary Fund (IMF) project global economic growth of 3.1 per cent in 2016, strengthening to 3.4 per cent in 2017. Growth is expected to be strongest in emerging and developing economies, including China and other major trading partners.

US GDP growth eased over the year but continues to grow at a moderate pace. Solid consumer spending, and an improving labour market, is helping to offset soft business investment and external demand. The IMF has revised down forecasts for real GDP growth in the US to 1.6 per cent for 2016, before picking up to 2.2 per cent in 2017 as the effects of a higher exchange rate and lower energy prices dissipate.

Meanwhile, economic activity in the euro area appears to be relatively unaffected by the Brexit vote, although growth remains sluggish since the global financial crisis. The European Central Bank has attempted to augment economic growth by conducting expansionary monetary policy through its large bond buying program. The outlook for the euro area is still one of subdued growth – the IMF forecasts 1.5 per cent growth in 2017 – weighed down by investor uncertainty over the UK's impending withdrawal from the EU.

In the emerging market economies, growth is expected to strengthen in 2017, noting that there is significant variation across countries. The slowdown in Chinese economic growth appears to have stabilised and it remains one of the fastest growing world economies. Accommodative fiscal and monetary policy is providing support to aiding domestic demand, as rebalancing from growth based on investment and exports to service industries and household spending continues.

Risks to the outlook

The risk outlook for Victoria has changed since the *2016-17 Budget*. The impact of US fiscal and trade policies following the US presidential election will only emerge over time. A major slowdown in China's economic growth remains an ever present risk for Australia's economic performance. A fall in Chinese demand would lower prices for our key commodities and in turn, national income. For Victoria, a slowdown may lead to lower receipts in the two major export sectors – higher education and tourism.

Despite the fairly subdued impact of the Brexit vote to date, there is still considerable uncertainty about the final withdrawal agreement. Until the ramifications of the withdrawal become clearer, this will continue to weigh on confidence and growth in Europe and the global economy.

A more subdued outlook for inflation and wages also creates uncertainties for economic growth. Inflation expectations influence wage growth outcomes. In recent years, households have responded to the low wages growth environment by drawing down savings to maintain consumption levels. However, should low wages growth persist, households may respond by reducing their spending.

CHAPTER 3 – BUDGET POSITION AND OUTLOOK

- The general government sector operating surplus is estimated to be $1.7 billion in 2016-17, with strong operating surpluses averaging $1.9 billion across the forward estimates.
- Net debt is expected to be $24.5 billion by June 2020. Net debt as a proportion of gross state product (GSP) is projected to decrease from its June 2016 level of 6.0 per cent to 5.4 per cent by June 2020.
- Estimated government infrastructure investment (GII) averages $8.4 billion a year over the budget and forward estimates compared with the historical average of $4.9 billion a year from 2005-06 to 2015-16.
- The non-financial public sector operating surplus is estimated to be $771 million in 2016-17, and averages $1.1 billion across the forward estimates.

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 budget year and forward estimates.

This chapter also presents a reconciliation and explanation of the movements since the *2016-17 Budget* that affect the estimated net result from transactions, including the impact of new policy initiatives of the Government.

GENERAL GOVERNMENT SECTOR

Fiscal aggregates

The *2016-17 Budget Update* continues the Government's policy of delivering operating surpluses that generate sufficient capacity to invest in productivity enhancing infrastructure and improved services, 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 2016-17, and averages $1.9 billion over the forward estimates. Operating surpluses of this size are designed to insulate the State against revenue shocks and fund infrastructure investment, while maintaining net debt at prudent levels.

Relative to the *2016-17 Budget*, the net result from transactions has been revised down by an average of $671 million a year from 2016-17 to 2018-19 and revised up by $153 million in 2019-20. This is largely due to the funding of new Government initiatives, including assistance to the Latrobe Valley, improving ambulance responsiveness and responses to homelessness.

Table 3.1: General government fiscal aggregates

	Unit of measure	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Net result from transactions	$ billion	1.7	1.2	1.8	2.6
Government infrastructure investment (a)(b)	$ billion	8.4	8.3	8.8	7.9
Net debt	$ billion	17.6	21.0	24.0	24.5
Net debt to GSP	per cent	4.5	5.1	5.5	5.4

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 of the medium-term lease over the operations of the Port of Melbourne.

GII over the budget and forward estimates averages $8.4 billion a year compared with the historical average of $4.9 billion a year over 2005-06 to 2015-16. The current level of GII reflects government decisions and current estimates for project milestones and delivery schedules.

Net debt as a proportion of GSP is expected to fall to 4.5 per cent at June 2017, largely reflecting the receipt of proceeds from entering into a medium-term lease over the operations of the Port of Melbourne. By June 2020, net debt as a proportion of GSP is expected to be 5.4 per cent.

This provides the headroom to potentially increase borrowings in the future for further productivity enhancing infrastructure across Victoria, while keeping debt at levels that are consistent with maintaining a triple-A credit rating.

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.*

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

($ million)

	2016-17 revised	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Revenue				
Taxation	21 631	21 489	22 670	23 553
Dividends, tax equivalent revenue and interest [(b)]	1 618	1 877	1 523	1 619
Sales of goods and services	6 813	7 090	7 345	7 351
Grant revenue	27 623	28 762	30 627	31 318
Other current revenue	2 539	2 257	2 266	2 301
Total revenue	**60 224**	**61 474**	**64 430**	**66 143**
% change [(c)]	7.2	2.1	4.8	2.7
Expenses				
Employee expenses	21 568	22 401	23 620	24 293
Superannuation [(d)]	3 019	2 994	3 017	3 051
Depreciation	2 633	2 791	3 047	3 221
Interest expense	2 147	2 121	2 145	2 076
Other operating expenses	18 817	19 536	19 750	19 849
Grants and other transfers	10 312	10 404	11 074	11 028
Total expenses	**58 495**	**60 246**	**62 652**	**63 519**
% change	8.2	3.0	4.0	1.4
Net result from transactions	**1 729**	**1 228**	**1 778**	**2 624**
Total other economic flows included in net result [(e)]	**(252)**	**30**	**(237)**	**(262)**
Net result	**1 477**	**1 258**	**1 541**	**2 362**

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) The 2016-17 revised per cent change refers to 2015-16 actual figures, adjusted to remove the one-off receipt of revenue associated with the High Court of Australia's decision in favour of the State relating to the Tatts Group Limited's 'Gambling Licenses' proceedings.

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

(e) This typically includes gains and losses from the disposal of non-financial assets, adjustments for bad and doubtful debts and revaluations of financial assets and liabilities.

Revenue outlook

Victoria is expected to collect $60.2 billion in total revenue in 2016-17, with revenue growth averaging 4.2 per cent over the budget and forward estimates. This is above the projected growth of 3.4 per cent in the *2016-17 Budget,* largely driven by a stronger outlook for land tax and GST and other grant revenue from the Commonwealth.

Taxation

State taxation revenue is expected to grow by 8.7 per cent in 2016-17 to $21.6 billion, and average 2.9 per cent a year over the forward estimates. In 2016-17, the strong growth rate for taxation revenue is driven by the receipt of prepaid port license fees associated with entering into a medium-term lease over the operations of the Port of Melbourne. Excluding the port licence fees, taxation revenue growth remains solid, supported by property tax revenue partially offset by downgrades to gambling and payroll tax revenue since the *2016-17 Budget*. Specifically:

- land transfer duty revenue is expected to be stronger than in the *2016-17 Budget*. Although transaction volumes are forecast to be weaker in 2016-17, revenue over the forward estimates is expected to be higher relative to the *2016-17 Budget*. This is due to stronger property price growth reflecting the Reserve Bank of Australia's two interest rate cuts in May and August this year. Compared to the *2016-17 Budget*, which forecast a fall in revenue of 6.4 per cent in 2016-17*,* revenue is now expected to fall by a more moderate 2.3 per cent to $5.7 billion, before recovering to grow by 3.2 per cent in 2017-18;
- land tax revenue is expected to be stronger than in the *2016-17 Budget*, with revenue expected to be $2.4 billion. This reflects strength in the Victorian property market, which drove a substantial increase in the revaluation outcome for 2016 and additional revenue from compliance activity;
- payroll tax revenue is forecast to increase by 5.6 per cent in 2016-17 to $5.7 billion as softer than expected wages growth is slightly offset by stronger aggregate hours worked. More moderate revenue growth is expected over the forward estimates as growth in hours worked eases and wage inflation gradually improves. Over the forward estimates, growth is forecast to average 4.6 per cent per year;
- gambling taxes are expected to grow by 2.6 per cent in 2016-17 to $1.9 billion. Forecast growth is weaker than expected in the *2016-17 Budget*, reflecting lower spending on gambling products by households;
- taxes on insurance are expected to increase by 6.3 per cent in 2016-17 to $1.2 billion and 6.8 per cent a year on average over the forward estimates. Since the *2016-17 Budget*, the revenue forecast has increased marginally due to an improved outlook for growth in state final demand; and
- motor vehicle taxes are expected to grow by 5.1 per cent in 2016-17 to $2.3 billion. Thereafter, growth is expected to average 3.4 per cent a year over the forward estimates. Revenue has been upgraded slightly since the *2016-17 Budget*, driven by a stronger outlook for population growth.

Dividends, income tax equivalent and interest

Dividend and income tax equivalent (ITE) revenue has been revised down to $712 million in 2016-17, largely due to the impact of lower than expected dividends from the Transport Accident Commission (TAC). Over the forward estimates, total dividend and ITE revenue is forecast to average $809 million per year.

Interest income is earned on holdings of cash and deposits across a number of general government sector agencies including departments, hospitals and schools. Total interest income is projected to increase by 15.2 per cent in 2016-17, largely due to the impact of the receipt of proceeds of the medium-term lease over the operations of the Port of Melbourne into the Victorian Transport Fund (VTF). Across the forward estimates, interest revenue is expected to fall by 2.9 per cent a year on average, as money is drawn down to fund infrastructure expenditure from the VTF.

Sales of goods and services

Revenue from the sales of goods and services is expected to increase by 2.1 per cent to $6.8 billion in 2016-17. This growth largely reflects an increase in the capital asset charge revenue from VicTrack that is associated with an increase in the asset base. Thereafter, growth averages 2.6 per cent a year over the forward estimates.

Grants

Total grants revenue is expected to grow by 8.7 per cent to $27.6 billion in 2016-17 and increase by 4.3 per cent a year on average over the forward estimates to $31.3 billion in 2019-20. The growth in total grants revenue is largely driven by higher than expected GST receipts and the reclassification of contributions from the PFC sector.

GST grants revenue is projected to grow by 7.3 per cent in 2016-17 to $13.9 billion and by an average of 6.8 per cent a year over the forward estimates. This largely reflects an improvement in Victoria's share of the national population which has risen due to overseas migration and elevated interstate migration.

Commonwealth grants for specific policy purposes are projected to be $13.5 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.

The Commonwealth's offer of asset recycling grants reflect only 9 per cent of the final value of the Port of Melbourne lease. The Victorian Government continues to negotiate with the Commonwealth to ensure that it honours its commitments under the National Partnership Agreement on Asset Recycling, and make 15 per cent of the proceeds available for infrastructure in Victoria.

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 18.3 per cent to $2.5 billion in 2016-17, largely due to the one-off receipt of revenue in 2015-16 associated with the High Court of Australia's decision in favour of the State relating to the Tatts Group Limited's 'Gambling Licenses' proceedings. Excluding the transfer of Simonds stadium to the State free of charge in 2016-17, other current revenue is projected to remain relatively stable across the forward estimates.

Expenses outlook

The Government is expected to spend $58.5 billion in 2016-17 providing services to the community. Total expenses are expected to grow by 4.1 per cent a year on average over the budget and forward estimates to $63.5 billion in 2019-20.

The level and expected growth in expenses reflect 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:

- 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, along with funding provided to local governments. Expenditure is forecast to increase by 20.4 per cent to $10.3 billion in 2016-17, primarily due to the delay in the transfer of the Australian Synchrotron to the Commonwealth and an increase in Commonwealth grants for on-passing to local governments compared with 2015-16. Thereafter, growth moderates to an average of 2.3 per cent a year over the forward estimates;
- depreciation expense is projected to grow by 5.2 per cent to $2.6 billion in 2016-17, increasing by 6.9 per cent a year on average over the forward estimates to $3.2 billion in 2019-20. This growth over the forward estimates is broadly in line with the Government's increased investment in infrastructure;
- employee expenses (including superannuation), which account for 42 per cent of operating expenditure in 2016-17, are projected to grow by 6.9 per cent to $24.6 billion in 2016-17 and by 3.6 per cent a year on average over the forward estimates. The growth in 2016-17 is driven by the annual growth in wages, consistent with the Government's wages policy, growth in staffing numbers associated with delivering additional services, growing hospital demand, and increased investment in the emergency services and education sectors;
- 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 5.1 per cent in 2016-17 and grow by an average of 1.8 per cent a year to $19.8 billion in 2019-20; and
- interest expense is expected to be $2.1 billion in 2016-17. Interest expense over the forward estimates is projected to be relatively stable, with the declining borrowing rates being offset by an increase in the level of borrowings to fund infrastructure investment.

Reconciliation of estimates to the *2016-17 Budget*

Relative to the *2016-17 Budget*, the net result from transactions has been revised down by an average of $671 million a year from 2016-17 to 2018-19 and revised up by $153 million in 2019-20.

Table 3.3: Reconciliation of estimates to the *2016-17 Budget*[(a)]

($ million)

	2016-17 revised	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Net result from transactions: *2016-17 Budget*	**2 869**	**1 797**	**2 082**	**2 471**
Policy decision variations				
Revenue policy decision variations	(21)	2	26	26
Output policy decision variations [(b)]	(480)	(430)	(275)	(236)
	(501)	**(428)**	**(249)**	**(210)**
Economic/demographic variations				
Taxation	123	145	151	146
Investment income [(c)]	(347)	(394)	(191)	3
	(224)	**(249)**	**(40)**	**148**
Commonwealth grant variations				
General purpose grants	26	147	381	390
Specific purpose grants [(d)]	(118)	3	407	(434)
	(92)	**150**	**788**	**(44)**
Administrative variations				
Contingency offset for new policy [(e)]	19	..	..	..
Other administrative variations	(343)	(42)	(803)	258
	(323)	**(42)**	**(803)**	**258**
Total variation since *2016-17 Budget*	**(1 140)**	**(569)**	**(304)**	**153**
Net result from transactions: *2016-17 Budget Update*	**1 729**	**1 228**	**1 778**	**2 624**

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 releases from the funding not allocated to specific purposes contingencies associated with demand for government services. Further information on this contingency can be found at Note 12(c) of Chapter 4 Estimated financial statements and notes.

Policy decision variations

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

Revenue policy decision variations

Details of the specific policy initiatives since the *2016-17 Budget* are contained in Appendix A *Specific policy initiatives affecting the budget position*.

Output policy decision variations

Table 3.4 shows the impact of new output initiatives since the *2016-17 Budget*, with further detail contained in Appendix A *Specific policy initiatives affecting the budget position*.

Table 3.4: Net impact of the *2016-17 Budget Update* new output initiatives [(a)]

($ million)

	2016-17 revised	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
New output initiatives	**498**	**440**	**279**	**247**
Less:				
Funding from reprioritisation of existing resources [(b)]	..	..	..	..
Adjustments [(c)]	18	10	4	11
Savings	..	..	..	..
***2016-17 Budget Update* output policy decisions**	**480**	**430**	**275**	**236**
Less: contingency offset for new policy [(d)]	19	..	..	..
Net impact	**460**	**430**	**275**	**236**

Source: Department of Treasury and Finance

Notes:

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

(b) This includes the reprioritisation of resources previously allocated to departments and retained revenues.

(c) Primarily incorporates the net impact of the creation and release of decisions made but not yet allocated contingencies.

(d) Represents releases from the funding not allocated to specific purposes contingency associated with demand for government services. Further information on this contingency can be found at Note 12(c) of Chapter 4 Estimated financial statements and notes.

Economic and demographic variations

Taxation revenue has been revised up by $123 million in 2016-17 and by $147 million a year on average over the forward estimates period, driven largely by:

- an increase in revenue from land tax of an average of $158 million a year that reflects higher revaluations than anticipated; and
- an increase in land transfer duty of an average of $28 million a year reflecting stronger auction clearance rates aided by interest rate cuts and further house price gains.

This has been offset by a decrease in gambling taxes of an average of $33 million a year, reflecting lower spending on gambling products by households.

Total investment income is forecast to be $310 million a year lower, on average, across 2016-17 to 2018-19, but increase by $3 million in 2019-20, compared with the *2016-17 Budget*. This is primarily due to a reclassification of contributions from the PFC sector.

Commonwealth grants variations

Commonwealth general purpose grants (or GST grants) have been revised up in 2016-17 by $26 million and $306 million a year on average over the forward estimates compared to the *2016-17 Budget*. This increase is driven by a stronger outlook for Victoria's share of the national population.

Changes to specific purpose grants has reduced the operating result by $118 million in 2016-17 and $434 million in 2019-20, but revised up by $3 million in 2017-18 and $407 million in 2018-19. These movements are largely due to:

- rescheduling nation building program grants for roads and rail projects from 2015-16 to across the budget and forward estimates period; and
- reprofiling expenditure relating to the Commonwealth's DisabilityCare funding from 2018-19 to 2019-20 to better align expected spending.

Administrative variations

The release of funding not allocated to specific purposes contingencies as part of the *2016-17 Budget Update* to offset new policy decisions totals $19 million for 2016-17.

Other administrative variations have reduced the operating result by an average of $396 million a year across 2016-17 to 2018-19, but increased it by $258 million in 2019-20. Annual movements are largely driven by:

- a decrease in the prepaid port license fees of $117 million in 2016-17 associated with the finalisation of entering into a medium-term lease over the operations of the Port of Melbourne; and
- an increase in First Home Owners Grant (FHOG) expenses of $148 million over the forward estimates reflecting the impact of stronger growth in the property market.

This has been offset by lower superannuation expense, primarily due to movements in the bond yields that underlie the key superannuation valuation assumptions and the reclassification of contributions from the PFC sector.

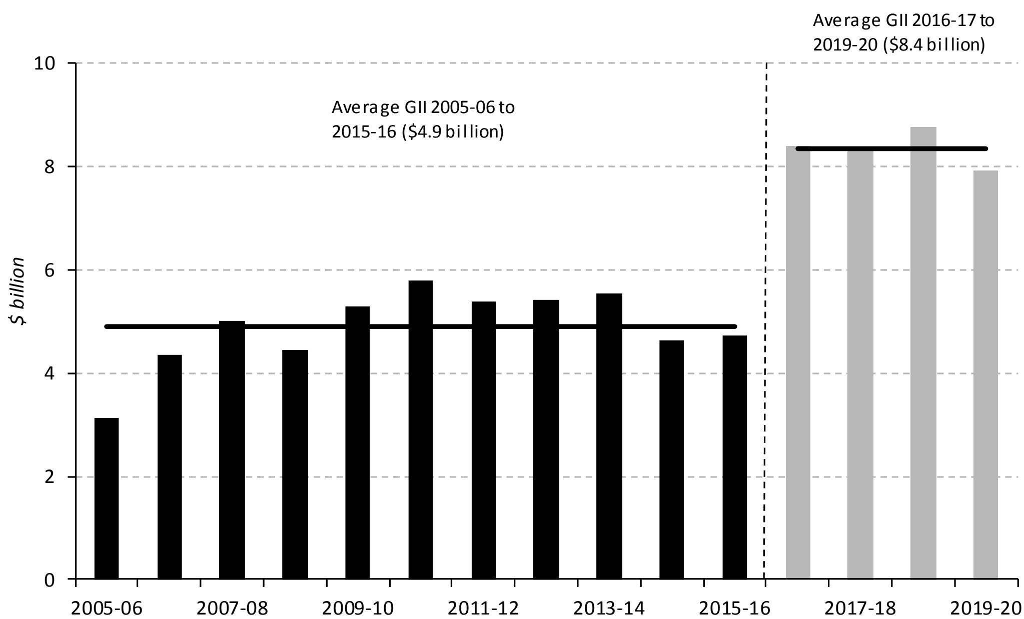
The 2016-17 estimate has also been impacted by additional departmental expenditure on government services that was originally planned for 2015-16.

Capital expenditure

The Government invests in new and upgraded infrastructure to meet the needs of the State's growing population and expanding economy. This investment is delivered through a variety of financing and contractual arrangements including projects that are directly managed by Government, and other projects that are delivered by the private sector through public private partnerships (PPPs). The GII measure provides a comprehensive picture of the investment across Victoria that is funded or facilitated by the Government.

GII averages $8.4 billion across the budget and forward estimates, compared with an average GII for the 11 years to 2015-16 of $4.9 billion (Chart 3.1). The spending projected across the budget and forward estimates reflects substantial and ongoing investment in core services such as health, education and public safety, together with significant funding for transformative projects, including the Melbourne Metro Tunnel and the Western Distributor.

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



Source: Department of Treasury and Finance

Notes:

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

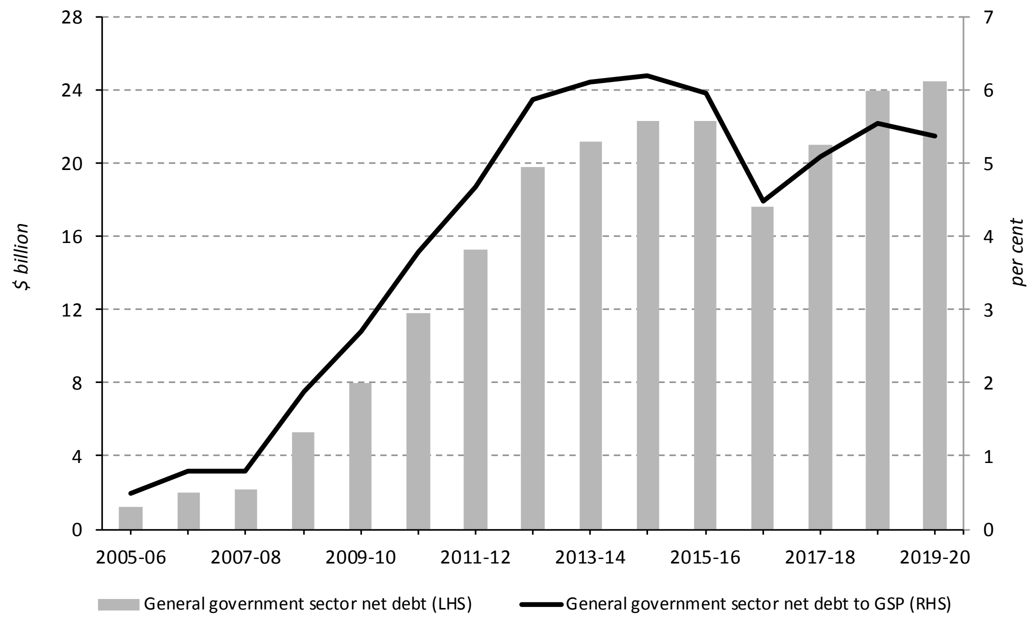
(b) *Excludes the impact of the medium-term lease over the operations of the Port of Melbourne.*

Net debt

Net debt as a proportion of GSP is expected to be 4.5 per cent at June 2017 (Chart 3.2). The reduction from 2015-16 largely reflects the receipt of proceeds from entering into a medium-term lease over the operations of the Port of Melbourne.

Over the forward estimates, net debt to GSP is expected to increase to 5.4 per cent by June 2020. This reflects the Government's substantial and ongoing investment in infrastructure projects.

Chart 3.2: General government sector net debt



Source: Department of Treasury and Finance

The application of cash resources for the general government sector (Table 3.5) outlines the annual movements to net debt. General government sector cash from operating activities is expected to average $4.3 billion a year over the budget and forward estimates.

Total net investment in fixed assets is projected to average $4.6 billion a year over the same period. Other annual movements to net debt primarily reflect the revised timing from entering into a medium-term lease over the operations of the Port of Melbourne.

Table 3.5: Application of cash resources for the general government sector [a]

($ million)

	2016-17 revised	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Net result from transactions	**1 729**	**1 228**	**1 778**	**2 624**
Add back: non-cash revenue and expenses (net) [b]	2 227	2 483	2 377	2 613
Net cash flows from operating activities	**3 956**	**3 711**	**4 155**	**5 237**
Less:				
Net investment in fixed assets				
Purchases of non-financial assets	7 768	7 802	7 349	6 278
Net cash flows from investments in financial assets for policy purposes [c]	(605)	(2 863)	(2 781)	(2 453)
Proceeds from asset sales	(432)	(680)	(484)	(352)
Total net investment in fixed assets [d]	**6 730**	**4 260**	**4 083**	**3 473**
Surplus/(deficit) of cash from operations after funding net investment in fixed assets	**(2 774)**	**(549)**	**71**	**1 764**
Finance leases [e]	517	647	596	349
Other movements [c]	(8 009)	2 247	2 430	1 925
Decrease/(increase) in net debt	**4 718**	**(3 442)**	**(2 955)**	**(510)**

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) Includes net advances to public non-financial corporations for policy purposes of $889 million in 2016-17, $2 193 million in 2017-18, $2 371 million in 2018-19 and $1 883 million in 2019-20.

(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 acquisitions in 2016-17 relate to the new Bendigo Hospital project, the New Schools PPP project and the metropolitan Melbourne buses contract. The 2017-18 estimate relates to the new Bendigo Hospital project, Ravenhall Prison and the New Schools PPP project. The 2018-19 and 2019-20 estimates relate to the High Capacity Metro Trains Project.

Unfunded superannuation liability

The Government is on track to fully fund the State's unfunded superannuation liability by 2035. Information on the reported superannuation liability is shown in Note 7 of Chapter 4 *Estimated financial statements and notes.*

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 contains the growth of employee expenses. The growth also includes the Government's commitment to meet growing demand for services, including health, education and emergency services.

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 as well as other factors. The Government is focused on driving efficiency and innovation in the delivery of services to ensure that key priorities can continue to be met.

Specific fiscal risks

National Disability Insurance Scheme

Victoria commenced transition to the National Disability Insurance Scheme (NDIS) on 1 July 2016 and is expected to reach full scheme across the State by July 2019. Once fully implemented, Victoria's investment in the NDIS will be an estimated $2.5 billion a year, with the Commonwealth providing up to $2.6 billion a year. Victoria will work with the Commonwealth Government to monitor and manage any risks associated with transition.

National Injury Insurance Scheme

The Productivity Commission recommended establishing a National Injury Insurance Scheme (NIIS) to assist people who suffer catastrophic injuries. The Commonwealth Government expects the State to fund the total cost in Victoria of a NIIS. 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

The Commonwealth provided an additional $1.2 billion nationally in Students First funding through the *2016-17 Commonwealth Budget*. The additional funding is provided over three years and is subject to formal negotiations between the Commonwealth, the States and the non-government schools sector.

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. Funding is due to cease on 31 December 2017, with ongoing Commonwealth funding uncertain.

National Health Reform

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

These arrangements were scheduled to cease from 1 July 2017, however, in April 2016 the Commonwealth agreed to continue the NHRA until the end of 2019-20. Conditions attached to the new agreement may increase fiscal risk for the State and include:

- a national cap on Commonwealth annual expenditure growth of 6.5 per cent (above which the State may fund all hospital activity);
- the efficient price paid by the Commonwealth will be adjusted to incorporate quality and safety indicators;
- Commonwealth withholding funds until hospital activity data is provided; and
- coordinated care reforms, which may expose Victoria to jointly funding primary care programs.

NON-FINANCIAL PUBLIC SECTOR

This section provides an overview of 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. The debt level of the NFP sector is an important measure of the State's financial sustainability that supports the State's triple-A credit rating.

Summary operating statement

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

($ million)

	2016-17 revised	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Revenue				
Taxation revenue	21 269	21 133	22 252	23 119
Dividends, income tax equivalent and interest [(b)]	719	788	659	822
Sales of goods and services	10 906	11 244	11 597	11 769
Grant revenue	27 617	28 757	30 621	31 313
Other current revenue	3 129	2 804	2 784	2 817
Total revenue	**63 640**	**64 726**	**67 912**	**69 840**
% change [(c)]	5.7	1.7	4.9	2.8
Expenses				
Employee expenses	22 680	23 537	24 780	25 490
Superannuation [(d)]	3 124	3 100	3 126	3 162
Depreciation	4 874	5 107	5 436	5 669
Interest expense	2 617	2 582	2 645	2 626
Grant expense	7 480	7 189	7 879	7 867
Other operating expenses	22 094	22 827	23 034	23 016
Total expenses	**62 869**	**64 342**	**66 900**	**67 830**
% change	9.3	2.3	4.0	1.4
Net result from transactions	**771**	**384**	**1 012**	**2 010**

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. *Figures in this table are subject to rounding to the nearest dollar and may not add up to totals.*

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

(c) *The revenue and expense growth for 2016-17 is based on published figures in the* 2015-16 Financial Report.

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

The net result from transactions for the NFP sector is projected to reach $2 billion by 2019-20. This is largely due to the performance of the general government sector which shows a $1.7 billion surplus in 2016-17 before increasing to a $2.6 billion surplus in 2019-20.

The net result from transactions in the PNFC sector is projected to be a deficit of $892 million in 2016-17 improving to a deficit of $444 million in 2019-20. The deficits in the sector mainly reflect:

- VicTrack operating losses due to unfunded depreciation expenses. VicTrack is estimated to generate operating cash flow surpluses over the forward estimates; 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.

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.

Application of cash resources

The NFP sector is forecast to record 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 flows. This enables the State to deliver infrastructure projects without compromising debt sustainability.

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

($ million)

	2016-17 revised	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Net result from transactions	771	384	1 012	2 010
Add back: non-cash income and expenses (net) [(b)]	13 028	4 459	4 491	4 729
Net cash flow from operating activities	**13 798**	**4 843**	**5 504**	**6 739**
Less:				
Net cash flows from investment in non-financial assets	9 528	9 645	8 882	8 026
Net cash flow from investment in financial assets for policy purposes	(118)	(733)	(689)	(673)
Total net investment in fixed assets [(c)]	**9 410**	**8 912**	**8 193**	**7 353**
Surplus/(deficit) of cash from operations after funding net investments in fixed assets [(d)]	**4 388**	**(4 069)**	**(2 689)**	**(615)**
Less:				
Finance leases [(e)]	517	647	596	349
Other movements	(33)	6	(7)	(11)
Decrease/(increase) in net debt	**3 904**	**(4 722)**	**(3 277)**	**(952)**

Source: Department of Treasury and Finance

Notes:
(a) Figures in this table are subject to rounding to the nearest dollar and may not add up to totals.
(b) Includes depreciation, movements in the unfunded superannuation liability and liability of employee benefits.
(c) Includes total purchases of plant, property and equipment, and capital contributions to other sectors of government net of proceeds from asset sales.
(d) The higher surplus of cash from operations after funding net investments in fixed assets in 2016-17 is due to lease proceeds received from the medium-term lease of Port of Melbourne being included under net cash flow from operating activities.
(e) The finance lease acquisitions in 2016-17 relate to the new Bendigo Hospital project, the New Schools PPP project and the metropolitan Melbourne buses contract. The 2017-18 estimate relates to the new Bendigo Hospital project, Ravenhall Prison and the New Schools PPP project. The 2018-19 and 2019-20 estimates relate to the High Capacity Metro Trains Project.

The NFP sector is projected to invest a total of $36.1 billion in non-financial assets from 2016-17 to 2019-20. 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; and
- various water related infrastructure, including the Goulburn-Murray Water's Connections Program, connecting irrigators to a modernised main system of irrigation channels.

NON-FINANCIAL PUBLIC SECTOR NET DEBT AND NET FINANCIAL LIABILITIES

Table 3.8 provide 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. By 2018-19, net debt as a percentage of GSP is projected to increase to 9.4 per cent, but will decline to 9.1 per cent in 2019-20.

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

($ billion)

	2016-17 revised	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Assets				
Cash and deposits	5.9	5.5	5.9	6.3
Advances paid	0.2	0.1	0.1	0.1
Investments, loans and placements	4.7	3.9	4.0	4.1
Total	**10.7**	**9.6**	**10.0**	**10.5**
Liabilities				
Deposits held and advances received	0.8	0.8	0.8	0.8
Borrowings	42.6	46.2	49.9	51.3
Total	**43.4**	**47.0**	**50.7**	**52.1**
Net debt (a)	**32.7**	**37.4**	**40.7**	**41.6**
Superannuation liability	28.3	27.2	26.0	24.8
Net debt plus superannuation liabilities	**61.0**	**64.6**	**66.7**	**66.4**
Other liabilities (net) (b)	14.7	14.4	14.2	13.8
Net financial liabilities (c)	**75.7**	**79.0**	**80.8**	**80.2**
(per cent)				
Net debt to GSP (d)	8.3	9.1	9.4	9.1
Net debt plus superannuation liability to GSP (d)	15.5	15.7	15.4	14.6
Net financial liabilities to GSP (d)	19.3	19.2	18.7	17.6
Net debt plus superannuation liability to revenue (e)	95.8	99.8	98.2	95.1

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 financial liabilities less non-equity financial assets.

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

(e) The sum of non-financial public sector net debt (excluding advances paid) plus the superannuation liability as a proportion of non-financial public sector total operating revenue.

NFPS net debt is projected to increase to $41.6 billion by 2019-20 following the Government's substantial and ongoing investments in infrastructure projects over the forward estimates. As a result, the projected NFPS net debt to GSP ratio increases from 8.3 per cent in 2016-17 to 9.1 per cent in 2019-20. The increase in NFPS net debt is predominantly driven by the general government sector.

Table 3.9 provides projections of several indicators of financial sustainability for the NFP sector, which are stabilising over the forward 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 operating cash flow surplus to revenue ratio is high in 2016-17 due to the recognition of cash proceeds from the medium-term lease of the operations of the Port of Melbourne in 2016-17.

The ratio of NFP sector's interest expense to revenue ratio is a measure of the State's debt service burden. This ratio is expected to be 4.1 per cent in 2016-17, before declining to 3.8 per cent by 2019-20 as a result of increasing revenue and moderating debt levels. The overall debt burden is demonstrated by the ratio of gross debt to revenue, which is estimated to be 68.2 per cent in 2016-17. This figure is estimated to increase to 74.7 per cent by 2019-20.

Table 3.9: Indicators of financial sustainability of non-financial public sector

(per cent)

	2016-17 revised	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Operating cash flow surplus to revenue	21.7	7.5	8.1	9.6
Gross debt to revenue [(a)]	68.2	72.6	74.6	74.7
Interest expense to revenue	4.1	4.0	3.9	3.8

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 TAC and WorkSafe Victoria) and those that provide financial services predominantly to other government entities (such as the Victorian Funds Management Corporation and the Treasury Corporation of Victoria).

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

($ million)

	2016-17 revised	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Revenue				
Taxation revenue	21 254	21 117	22 238	23 105
Dividends, income tax equivalent and interest	1 974	1 923	2 041	2 065
Sales of goods and services	14 472	14 968	15 441	15 797
Grant revenue	27 455	28 424	30 292	30 183
Other current revenue	3 152	2 829	2 809	2 842
Total revenue	**68 306**	**69 261**	**72 821**	**73 993**
% change [(b)]	5.6	1.4	5.1	1.6
Expenses				
Employee expenses	22 669	23 534	24 756	25 427
Superannuation [(c)]	3 146	3 123	3 146	3 183
Depreciation	4 922	5 156	5 478	5 713
Interest expense	2 562	2 669	2 698	2 680
Grant expense	7 475	7 185	7 876	7 864
Other operating expenses	27 933	28 944	29 450	29 595
Total expenses	**68 707**	**70 611**	**73 403**	**74 463**
% change	9.0	2.8	4.0	1.4
Net result from transactions	**(401)**	**(1 350)**	**(583)**	**(470)**
Total other economic flows included in net result	**1 728**	**1 713**	**1 431**	**1 544**
Net result	**1 327**	**363**	**849**	**1 074**

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*. Figures in this table are subject to rounding to the nearest dollar and may not add up to totals.*

(b) *The revenue and expense growth for 2016-17 is based on published figures in the* 2015-16 Financial Report*.*

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

Table 3.10 shows the State of Victoria is projected to record a surplus net result of $1.3 billion in 2016-17. Thereafter, the surplus net result stabilises at $1.1 billion by 2019-20.

The State's net results from transactions do not include other economic flows. Other economic flows contribute significantly to the positive net results over the budget and forward estimates period. Other economic flows largely comprise projected investment returns of the State's insurers, which form part of the insurers' normal operations. Due to the inclusion of investment income, the net result is considered a more meaningful measure of the expected operating position of the PFC sector and the State.

In 2016-17 the net result from transactions for the State is projected to be a deficit of $401 million decreasing to a deficit of $470 million by 2019-20. The insurers contribute substantially to these deficits. This is primarily due to a significant portion of investment returns for the State's insurers being reported in other economic flows. At the net result level, the insurers are expected to report surpluses. As a result the net result at State level is a surplus of $1.3 billion in 2016-17 moderating to $1.1 billion by 2019-20.

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

($ billion)

	2016-17 revised	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Assets				
Total financial assets	58	56	56	58
Total non-financial assets	236	248	255	266
Total assets	**293**	**304**	**312**	**323**
Liabilities				
Superannuation	28	27	26	25
Borrowings	54	55	58	59
Deposits held and advances received	2	2	2	2
Other liabilities	54	56	58	59
Total liabilities	**138**	**140**	**143**	**145**
Net assets	**155**	**164**	**169**	**178**

Source: Department of Treasury and Finance

Note:

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

Table 3.11 highlights that the State's financial position over the forward estimates. Borrowings and other liabilities are projected to increase to $145 billion by 2019-20. Offsetting this are financial assets which are projected to increase in line with assumed growth in investments returns and non-financial assets which are estimated to grow by $30 billion. As a result, the State's net assets are forecast to increase from $155 billion in 2016-17 to $178 billion in 2019-20.

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	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
Revenue from transactions						
Taxation revenue	2	21 594	21 631	21 489	22 670	23 553
Interest revenue		881	906	894	867	830
Dividends, income tax equivalent and rate equivalent revenue	3	1 059	712	983	656	789
Sales of goods and services	4	6 843	6 813	7 090	7 345	7 351
Grant revenue	5	27 424	27 623	28 762	30 627	31 318
Other revenue	6	2 569	2 539	2 257	2 266	2 301
Total revenue from transactions		**60 370**	**60 224**	**61 474**	**64 430**	**66 143**
Expenses from transactions						
Employee expenses		21 298	21 568	22 401	23 620	24 293
Net superannuation interest expense	7a	791	692	647	623	599
Other superannuation	7a	2 239	2 327	2 346	2 393	2 451
Depreciation	8	2 620	2 633	2 791	3 047	3 221
Interest expense	9	2 433	2 147	2 121	2 145	2 076
Grant expense	10	9 451	10 312	10 404	11 074	11 028
Other operating expenses	11	18 669	18 817	19 536	19 750	19 849
Total expenses from transactions	12	**57 501**	**58 495**	**60 246**	**62 652**	**63 519**
Net result from transactions – net operating balance		**2 869**	**1 729**	**1 228**	**1 778**	**2 624**
Other economic flows included in net result						
Net gain/(loss) on disposal of non-financial assets		73	75	336	77	67
Net gain/(loss) on financial assets or liabilities at fair value		11	15	18	18	17
Other gains/(losses) from other economic flows	13	(318)	(342)	(325)	(333)	(347)
Total other economic flows included in net result		**(234)**	**(252)**	**30**	**(237)**	**(262)**
Net result		**2 635**	**1 477**	**1 258**	**1 541**	**2 362**

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

($ million)

	Notes	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
Other economic flows – other comprehensive income						
Items that will not be reclassified to net result						
Changes in non-financial assets revaluation surplus		109	60	7 089	1 665	7 444
Remeasurement of superannuation defined benefit plans	7a	877	1 041	1 058	1 075	1 092
Other movements in equity		(1)	61	9	23	(11)
Items that may be reclassified subsequently to net result						
Net gain/(loss) on financial assets at fair value		1	1	1	1	3
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	14	2 707	81	(432)	1 106	(16)
Total other economic flows – other comprehensive income		**3 693**	**1 244**	**7 725**	**3 871**	**8 512**
Comprehensive result – total change in net worth		**6 328**	**2 721**	**8 983**	**5 412**	**10 874**
KEY FISCAL AGGREGATES						
Net operating balance		**2 869**	**1 729**	**1 228**	**1 778**	**2 624**
Less: Net acquisition of non-financial assets from transactions [(a)]	15	1 132	1 103	1 413	725	452
Net lending/(borrowing) [(a)]		**1 737**	**626**	**(185)**	**1 053**	**2 173**

The accompanying notes form part of these estimated financial statements.

Note:
(a) 2016-17 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	2017 budget [a]	2017 revised	2018 estimate	2019 estimate	2020 estimate
Assets						
Financial assets						
Cash and deposits		5 201	5 003	4 865	5 124	5 420
Advances paid	16	10 118	12 589	10 335	7 896	5 937
Receivables		5 601	5 595	5 680	5 944	6 131
Investments, loans and placements	16	2 943	3 733	3 117	3 230	3 371
Investments accounted for using equity method		46	46	46	46	46
Investments in other sector entities	14	95 242	90 351	92 879	97 388	99 456
Total financial assets		**119 151**	**117 317**	**116 922**	**119 627**	**120 360**
Non-financial assets						
Inventories		191	194	195	199	204
Non-financial assets held for sale		186	174	171	172	173
Land, buildings, infrastructure, plant and equipment	17,18	115 572	115 558	124 493	127 144	135 136
Other non-financial assets	19	1 103	1 136	949	906	805
Total non-financial assets		**117 052**	**117 061**	**125 808**	**128 422**	**136 319**
Total assets	20(d)	**236 203**	**234 378**	**242 730**	**248 049**	**256 679**
Liabilities						
Deposits held and advances received		6 288	8 763	6 570	4 198	2 315
Payables	21	5 663	5 461	5 292	5 220	4 985
Borrowings	22	30 391	30 153	32 780	36 038	36 910
Employee benefits	23	6 534	6 541	6 777	7 041	7 253
Superannuation	7(d)	28 453	28 245	27 136	25 937	24 696
Other provisions		852	850	825	855	885
Total liabilities		**78 181**	**80 012**	**79 381**	**79 289**	**77 044**
Net assets		**158 022**	**154 366**	**163 349**	**168 761**	**179 635**
Accumulated surplus/(deficit)		47 963	47 045	49 367	52 004	55 444
Reserves	24	110 009	107 321	113 982	116 757	124 190
Non-controlling interest		50	..	..	..	..
Net worth		**158 022**	**154 366**	**163 349**	**168 761**	**179 635**
FISCAL AGGREGATES						
Net financial worth		40 970	37 305	37 541	40 338	43 316
Net financial liabilities		54 272	53 046	55 338	57 050	56 140
Net debt		18 418	17 590	21 033	23 987	24 497

The accompanying notes form part of these estimated financial statements.

Note:
(a) Balances represent actual opening balances at 1 July 2016 plus 2016-17 budgeted movements.

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

($ million)

	Notes	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
Cash flows from operating activities						
Receipts						
Taxes received		21 483	21 525	21 350	22 492	23 385
Grants		27 424	27 623	28 761	30 627	31 318
Sales of goods and services [a]		7 602	7 547	7 862	8 018	8 028
Interest received		881	905	893	866	829
Dividends, income tax equivalent and rate equivalent receipts		1 079	732	986	595	784
Other receipts		1 877	1 852	1 795	1 712	1 745
Total receipts		**60 345**	**60 185**	**61 648**	**64 309**	**66 090**
Payments						
Payments for employees		(20 902)	(21 164)	(22 166)	(23 356)	(24 082)
Superannuation		(2 991)	(3 024)	(3 045)	(3 141)	(3 199)
Interest paid		(2 396)	(2 110)	(2 084)	(2 108)	(2 039)
Grants and subsidies		(9 501)	(10 409)	(10 364)	(11 071)	(10 982)
Goods and services [a]		(18 729)	(18 826)	(19 623)	(19 799)	(19 841)
Other payments		(624)	(697)	(656)	(679)	(710)
Total payments		**(55 143)**	**(56 229)**	**(57 937)**	**(60 154)**	**(60 853)**
Net cash flows from operating activities		**5 202**	**3 956**	**3 711**	**4 155**	**5 237**
Cash flows from investing activities						
Purchases of non-financial assets	20a,b	(7 206)	(7 768)	(7 802)	(7 349)	(6 278)
Sales of non-financial assets		487	432	680	484	352
Cash flows from investments in non-financial assets		(6 720)	(7 336)	(7 123)	(6 864)	(5 927)
Net cash flows from investments in financial assets for policy purposes [b]		391	605	2 863	2 781	2 453
Subtotal		**(6 328)**	**(6 730)**	**(4 260)**	**(4 083)**	**(3 473)**
Net cash flows from investment in financial assets for liquidity management purposes		(84)	(871)	629	(97)	(102)
Net cash flows from investing activities		**(6 413)**	**(7 601)**	**(3 631)**	**(4 181)**	**(3 575)**
Cash flows from financing activities						
Advances received (net)		5 583	8 057	(2 193)	(2 371)	(1 883)
Net borrowings		(3 943)	(4 181)	1 975	2 650	516
Deposits received (net)		..	..	..	..	..
Net cash flows from financing activities		**1 640**	**3 876**	**(218)**	**278**	**(1 368)**
Net increase/(decrease) in cash and cash equivalents		**429**	**231**	**(138)**	**252**	**294**
Cash and cash equivalents at beginning of reporting period [c]		4 772	4 772	5 003	4 865	5 117
Cash and cash equivalents at end of reporting period [c][d]		**5 201**	**5 003**	**4 865**	**5 117**	**5 411**

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

($ million)

	Notes	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
FISCAL AGGREGATES						
Net cash flows from operating activities		5 202	3 956	3 711	4 155	5 237
Net cash flows from investments in non-financial assets		(6 720)	(7 336)	(7 123)	(6 864)	(5 927)
Cash surplus/(deficit)		**(1 518)**	**(3 379)**	**(3 412)**	**(2 710)**	**(689)**

The accompanying notes form part of these estimated financial statements.

Notes:

(a) Inclusive of goods and services tax.

(b) Includes net advances to public non-financial corporations for policy purposes of $889 million in 2016-17, $2 193 million in 2017-18, $2 371 million in 2018-19 and $1 883 million in 2019-20.

(c) 2016-17 Budget *figures have been restated to represent actual opening balances at 1 July 2016.*

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

Table 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*
2016-17 budget [(a)]		
Balance at 1 July 2016	44 453	50
Net result for the year	2 635	..
Other comprehensive income for the year	875	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2017	**47 963**	**50**
2016-17 revised		
Balance at 1 July 2016	44 454	50
Net result for the year	1 477	..
Other comprehensive income for the year	1 114	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	(50)
Total equity as at 30 June 2017	**47 045**	**..**
2017-18 estimate		
Balance at 1 July 2017	47 045	..
Net result for the year	1 258	..
Other comprehensive income for the year	1 064	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2018	**49 367**	**..**
2018-19 estimate		
Balance at 1 July 2018	49 367	..
Net result for the year	1 541	..
Other comprehensive income for the year	1 096	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2019	**52 004**	**..**
2019-20 estimate		
Balance at 1 July 2019	52 004	..
Net result for the year	2 362	..
Other comprehensive income for the year	1 078	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2020	**55 444**	**..**

The accompanying notes form part of these estimated financial statements.

Note:
(a) Balances represent actual opening balances at 1 July 2016 plus 2016-17 budgeted movements.

	Non-financial assets revaluation surplus	Investment in other sector entities revaluation surplus	Other reserves	Total
	49 613	57 027	551	151 694
	..	..	..	2 635
	109	2 707	2	3 693
	..	..	..	..
	..	..	..	..
	49 722	**59 733**	**554**	**158 022**
	49 613	57 027	551	151 695
	..	..	..	1 477
	60	81	(11)	1 244
	..	..	..	..
	..	..	..	(50)
	49 673	**57 108**	**540**	**154 366**
	49 673	57 108	540	154 366
	..	..	..	1 258
	7 089	(432)	4	7 725
	..	..	..	..
	..	..	..	..
	56 762	**56 676**	**543**	**163 349**
	56 762	56 676	543	163 349
	..	..	..	1 541
	1 665	1 106	4	3 871
	..	..	..	..
	..	..	..	..
	58 427	**57 782**	**547**	**168 761**
	58 427	57 782	547	168 761
	..	..	..	2 362
	7 444	(16)	6	8 512
	..	..	..	..
	..	..	..	..
	65 871	**57 766**	**553**	**179 635**

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 2016-17 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 Chapter 4 *Annual Financial Report* of the *2015-16 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 9.8 of Chapter 4 *Annual Financial Report* of the *2015-16 Financial Report* for the State of Victoria.

(A) Statement of compliance

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

The Estimated Financial Statements are presented in a manner consistent with the principles of AASB 1049 *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 Catalogue. 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 29 November 2016.

(B) Basis of accounting, preparation and measurement

The Estimated Financial Statements have been prepared for the 2016-17 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 preparing 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 are likely to differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected.

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 measured 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 Australian Bureau of Statistics (ABS) GFS manual. 'Transactions' are those economic flows that arise as a result of policy decisions, usually interactions between two entities by mutual agreement, and also flows within an entity, such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the government and the taxpayer. Transactions may be settled in kind or for cash (e.g. assets provided/given free of charge or for nominal consideration).

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

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

(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. The primary function of entities within the general government sector is to provide public services (outputs), which are mainly non-market in nature, for the collective consumption of the community, and involve transferring or redistributing revenue that is funded mainly through taxes and other compulsory levies.

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

(D) Basis of consolidation

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

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

Entities in the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors are not consolidated into the financial statements of the general government sector, but are accounted for as equity investments measured at the Government's proportional share of the carrying amount of net assets of PNFC and PFC sector entities before consolidation eliminations. Where the carrying amount of a PNFC or PFC entity's net assets before consolidation eliminations is less than zero, the amount is not included at the general government sector but the net liabilities will be consolidated at the State level.

Any change in the carrying amount of the investment from period to period is accounted for as if the change in carrying amount is a change in fair value and accounted for consistent with AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 1049.

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

The significant entities consolidated within the sector comprise those entities listed in Note 9.7 of Chapter 4 *Annual Financial Report* of the *2015-16 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 $1 million 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*.

For the *2016-17 Budget*, the Government set its sustainability objective as:

- net operating surpluses in each year over the budget and forward estimates;
- expenditure growth no greater than revenue growth, on average, over the budget and forward estimates; and
- net debt to GSP no greater than its peak over the last five years by the end of the forward estimates.

(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 *2016-17 Budget*.

Key economic assumptions [(a)]

	2016-17 forecast	*2017-18 forecast*	*2018-19 projection*	*2019-20 projection*
		($ billion)		
Nominal gross state product	392.7	412.5	433.2	455.5
		(percentage change) [(b)]		
Real gross state product	3.00	2.75	2.75	2.75
Employment	2.75	2.00	1.50	1.50
Unemployment rate	5.75	5.50	5.50	5.50
Consumer price index [(c)]	1.75	2.00	2.25	2.50
Wage price index [(d)]	2.25	2.50	3.00	3.50
Population	1.9	1.9	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 64.0; and oil prices that follow the path suggested by oil futures.
Projections for 2018-19 and 2019-20 represent trend rates, except for the wage price index and consumer price index, which show a path towards trend in 2019-20.

(b) Percentage change in year-average compared with previous year, except for the 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) Wage price index, Victoria (based on total hourly rates of pay, 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 *2016-17 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]	2.3
Wages growth [c]	3.1
Inflation rate [d]	1.6
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 bond rate. The rate stated above is an annual effective rate, gross of tax.*

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

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

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

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

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	26.7
International equity	26.7
Domestic and international debt assets	17.5
Property	7.6
Cash	4.2
Other (including private equity, hedge funds and infrastructure)	17.3
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 2016-17 reporting period. The State is reviewing its existing policies to assess the potential implications and make changes as required. 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 2019. 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.
- AASB 16 *Leases*, operative for reporting periods commencing 1 January 2019. The key changes include the recognition of most operating leases on balance sheet.

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

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

The ABS recently released a new manual, *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015* on 23 December 2015. For financial reporting under AASB 1049, the new manual will apply for reporting periods beginning from 1 July 2018. The State will assess the potential reporting implications of the amendments.

Note 2: Taxation revenue

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Taxes on employers' payroll and labour force	**5 671**	**5 668**	**5 927**	**6 195**	**6 493**
Taxes on property					
Taxes on immovable property					
Land tax	2 225	2 359	2 319	2 632	2 579
Fire Services Property Levy	674	662	684	678	687
Congestion levy	115	108	110	112	115
Metropolitan improvement levy	157	157	158	158	158
Total taxes on immovable property	**3 171**	**3 286**	**3 271**	**3 581**	**3 539**
Financial and capital transactions					
Land transfer duty	5 677	5 705	5 887	6 164	6 532
Other property duties	3	..	..	..	..
Metropolitan planning levy	17	27	27	28	29
Financial accommodation levy	149	132	151	167	179
Growth areas infrastructure contributions	146	168	175	184	193
Total financial and capital transactions	**5 991**	**6 032**	**6 241**	**6 543**	**6 934**
Total taxes on property	**9 162**	**9 318**	**9 512**	**10 123**	**10 473**
Taxes on the provision of goods and services					
Gambling taxes					
Public lotteries	446	441	461	484	506
Electronic gaming machines	1 107	1 099	1 126	1 145	1 164
Casino	251	237	248	256	264
Racing	79	76	74	71	68
Other	28	26	29	32	36
Total gambling taxes	**1 911**	**1 881**	**1 938**	**1 989**	**2 038**
Levies on statutory corporations	**112**	**112**	**112**	**157**	**157**
Taxes on insurance	**1 220**	**1 224**	**1 306**	**1 395**	**1 492**
Total taxes on the provision of goods and services	**3 243**	**3 216**	**3 357**	**3 541**	**3 687**
Taxes on the use of goods and performance of activities					
Motor vehicle taxes					
Vehicle registration fees	1 532	1 537	1 589	1 648	1 711
Duty on vehicle registrations and transfers	802	813	838	861	886
Total motor vehicle taxes	**2 334**	**2 349**	**2 426**	**2 509**	**2 597**
Liquor licence fees	**22**	**23**	**23**	**24**	**24**
Other [(a)]	**1 161**	**1 057**	**243**	**278**	**280**
Total taxes on the use of goods and performance of activities	**3 518**	**3 429**	**2 693**	**2 811**	**2 901**
Total taxation revenue	**21 594**	**21 631**	**21 489**	**22 670**	**23 553**

Note:
(a) Includes prepaid port licence fees.

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

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

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Dividends from PFC sector	526	318	374	183	322
Dividends from PNFC sector	250	190	372	189	146
Dividends from non-public sector	28	21	23	23	22
Dividends	**805**	**529**	**769**	**395**	**490**
Income tax equivalent revenue from PFC sector	50	3	18	89	113
Income tax equivalent revenue from PNFC sector	192	169	184	160	173
Income tax equivalent revenue	**243**	**172**	**201**	**248**	**285**
Local government rate equivalent revenue	11	12	13	13	14
Total dividends, income tax equivalent and rate equivalent revenue	**1 059**	**712**	**983**	**656**	**789**

(b) Dividends by entity

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Public financial corporations					
Victorian Managed Insurance Authority	145	162	165	43	30
Transport Accident Commission	342	109	131	104	252
Treasury Corporation of Victoria	35	42	75	32	34
State Trustees Ltd	2	2	2	3	4
Victorian Funds Management Corporation	2	4	2	2	2
Dividends from PFC sector	**526**	**318**	**374**	**183**	**322**
Public non-financial corporations					
City West Water Corporation	17	21	32	20	9
Melbourne Water Corporation	..	28	11	..	..
South East Water Corporation	46	60	71	52	49
Yarra Valley Water Corporation	33	34	32	24	23
State Electricity Commission of Victoria	100	..	220	80	40
Port of Melbourne Corporation	36	..	..	..	..
Places Victoria	17	46	5	10	23
Others	2	1	2	2	3
Dividends from PNFC sector	**250**	**190**	**372**	**189**	**146**

Note 4: Sales of goods and services

($ million)

	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
Motor vehicle regulatory fees	216	223	206	217	224
Other regulatory fees	499	510	527	534	550
Sale of goods	71	75	76	79	82
Provision of services [(a)]	4 017	3 964	4 092	4 226	4 197
Rental	61	62	62	63	64
Refunds and reimbursements	56	56	56	56	56
Inter-sector capital asset charge	1 924	1 924	2 071	2 171	2 179
Total sales of goods and services	**6 843**	**6 813**	**7 090**	**7 345**	**7 351**

Note:

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

Note 5: Grant revenue

($ million)

	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
General purpose grants	13 885	13 911	14 756	16 151	16 924
Specific purpose grants for on-passing	3 576	3 557	3 739	3 921	4 112
Grants for specific purposes	9 731	9 943	9 816	10 055	9 038
Total	**27 192**	**27 411**	**28 310**	**30 127**	**30 073**
Other contributions and grants [(a)]	232	212	452	500	1 245
Total grant revenue	**27 424**	**27 623**	**28 762**	**30 627**	**31 318**

Note:

(a) Includes reclassification of contributions from Public Financial Corporations.

Note 6: Other revenue

($ million)

	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
Fair value of assets received free of charge or for nominal consideration	290	301	55	55	55
Fines	776	773	796	814	847
Royalties	85	81	95	90	90
Donations and gifts	312	307	261	263	253
Other non-property rental	22	21	22	22	22
Other miscellaneous revenue	1 084	1 056	1 027	1 021	1 034
Total other revenue	**2 569**	**2 539**	**2 257**	**2 266**	**2 301**

Note 7: Superannuation

(a) Superannuation costs recognised in the operating statement

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Defined benefit plans					
Net superannuation interest expense	791	692	647	623	599
Current service cost	780	843	835	820	816
Remeasurements:					
Expected return on superannuation assets excluding interest income	(877)	(1 006)	(1 058)	(1 075)	(1 092)
Other actuarial (gain)/loss on superannuation assets	..	(287)	..	..	..
Actuarial and other adjustments to unfunded superannuation liability	..	253	..	..	..
Total expense recognised in respect of defined benefit plans	**694**	**493**	**425**	**368**	**323**
Defined contribution plans					
Employer contributions to defined contribution plans	1 396	1 421	1 447	1 507	1 567
Other (including pensions)	63	63	65	66	68
Total expense recognised in respect of defined contribution plans	**1 459**	**1 485**	**1 511**	**1 574**	**1 635**
Total superannuation (gain)/expense recognised in operating statement	**2 153**	**1 978**	**1 936**	**1 942**	**1 958**
Represented by:					
Net superannuation interest expense	791	692	647	623	599
Other superannuation	2 239	2 327	2 346	2 393	2 451
Superannuation expense from transactions	**3 030**	**3 019**	**2 994**	**3 017**	**3 051**
Remeasurements recognised in other comprehensive income	**(877)**	**(1 041)**	**(1 058)**	**(1 075)**	**(1 092)**
Total superannuation expense recognised in operating statement	**2 153**	**1 978**	**1 936**	**1 942**	**1 958**

Note 7: Superannuation *(continued)*

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

($ million)

	2017 budget	*2017 revised*	*2018 estimate*	*2019 estimate*	*2020 estimate*
Opening balance of defined benefit obligation	**49 321**	**49 321**	**48 902**	**48 185**	**47 386**
Current service cost	780	843	835	820	816
Interest expense	1 347	1 154	1 105	1 090	1 075
Contributions by plan participants	189	192	186	180	174
Actuarial and other adjustments to unfunded superannuation liability	..	253	..	..	..
Benefits paid	(2 766)	(2 861)	(2 843)	(2 889)	(2 931)
Closing balance of defined benefit obligation	**48 870**	**48 902**	**48 185**	**47 386**	**46 521**

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

($ million)

	2017 budget	*2017 revised*	*2018 estimate*	*2018-19 estimate*	*2020 estimate*
Opening balance of plan assets	**20 032**	**20 032**	**20 657**	**21 048**	**21 449**
Interest income	555	462	458	467	475
Return on plan assets not included in interest income	877	1 293	1 058	1 075	1 092
Employer contributions	1 531	1 537	1 533	1 567	1 564
Contributions by plan participants	189	192	186	180	174
Benefits paid (including tax paid)	(2 766)	(2 861)	(2 843)	(2 889)	(2 931)
Closing balance of plan assets	**20 418**	**20 657**	**21 048**	**21 449**	**21 825**

Note 7: Superannuation *(continued)*

(d) Reconciliation of the superannuation liabilities

($ million)

	2017 budget	*2017 revised*	*2018 estimate*	*2019 estimate*	*2020 estimate*
Emergency Services and State Super					
Defined benefit obligation	44 103	44 081	43 445	42 738	41 966
Tax liability [(a)]	2 667	2 839	2 753	2 657	2 559
Plan assets	(19 426)	(19 693)	(20 105)	(20 527)	(20 926)
Net liability/(asset)	**27 344**	**27 227**	**26 093**	**24 869**	**23 598**
Other funds [(b)]					
Defined benefit obligation	2 101	1 981	1 987	1 991	1 996
Tax liability [(a)]	..	..	..	..	..
Plan assets	(992)	(963)	(944)	(923)	(899)
Net liability/(asset)	**1 109**	**1 018**	**1 043**	**1 068**	**1 098**
Total superannuation					
Defined benefit obligation	46 204	46 062	45 432	44 729	43 962
Tax liability [(a)]	2 667	2 839	2 753	2 657	2 559
Plan assets	(20 418)	(20 657)	(21 048)	(21 449)	(21 825)
Superannuation liability	**28 453**	**28 245**	**27 136**	**25 937**	**24 696**
Represented by:					
Current liability	1 036	1 036	1 078	1 082	1 128
Non-current liability	27 416	27 209	26 058	24 855	23 568
Total superannuation liability	**28 453**	**28 245**	**27 136**	**25 937**	**24 696**

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)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Buildings [(a)]	1 141	1 133	1 168	1 222	1 340
Leasehold buildings	108	109	139	156	155
Infrastructure systems	30	33	33	34	34
Plant, equipment and vehicles [(a)]	571	569	624	683	633
Roads and road networks [(a)]	630	632	660	800	901
Cultural assets	20	20	25	28	28
Intangible produced assets [(b)]	121	139	141	123	131
Total depreciation	**2 620**	**2 633**	**2 791**	**3 047**	**3 221**

Notes:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2016-17 to 2019-20.

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

Note 9: Interest expense

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Interest on long-term interest-bearing liabilities	1 528	1 246	1 162	1 185	1 133
Interest on short-term interest-bearing liabilities	47	30	27	28	28
Finance charges on finance leases	821	834	895	895	878
Discount interest on payables	37	37	37	37	37
Total interest expense	**2 433**	**2 147**	**2 121**	**2 145**	**2 076**

Note 10: Grant expense

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Current grant expense					
Commonwealth Government	213	441	267	265	189
Local government (including grants for on-passing)	861	956	869	828	751
Private sector and not-for-profit for on-passing	3 037	3 015	3 176	3 335	3 492
Other private sector and not-for-profit	2 011	2 294	2 644	3 223	3 233
Grants within the Victorian Government	3 147	3 235	3 344	3 301	3 283
Grants to other state governments	12	12	11	11	11
Total current grant expense	**9 281**	**9 951**	**10 311**	**10 964**	**10 959**
Capital grant expense					
Commonwealth Government	..	..	..	..	..
Local government (including grants for on-passing)	37	10	15	20	..
Private sector and not-for-profit on-passing	72	72	66	71	21
Other private sector and not-for-profit	14	4	4	4	4
Grants within the Victorian Government	8	8	8	15	..
Other grants	40	267	..	..	44
Total capital grant expense	**170**	**360**	**92**	**110**	**69**
Total grant expense	**9 451**	**10 312**	**10 404**	**11 074**	**11 028**

Note 11: Other operating expenses

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Purchase of supplies and consumables [(a)]	4 781	4 913	5 810	6 086	6 409
Cost of goods sold	26	22	21	22	22
Finance expenses and fees	25	27	27	27	27
Purchase of services [(a)]	11 910	11 864	11 751	11 663	11 396
Insurance claims expense	188	191	191	192	191
Maintenance	770	768	729	730	739
Operating lease payments	292	310	299	295	298
Other	677	722	709	735	767
Total other operating expenses	**18 669**	**18 817**	**19 536**	**19 750**	**19 849**

Note:

(a) Further disclosure on purchase of supplies and consumables and purchase of services by department is available on the Department of Treasury and Finance's website.

Note 12: Total expenses by government purpose and by department

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

($ million)

	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
Expenses					
General public services	2 296	2 231	2 045	1 960	2 010
Public order and safety	6 645	6 838	6 805	7 007	7 202
Education	14 801	14 763	15 018	15 313	15 655
Health	16 374	16 724	17 043	17 834	18 762
Social security and welfare [(b)]	4 244	4 294	4 590	4 902	4 347
Housing and community amenities [(c)]	3 226	3 319	3 294	2 902	2 800
Recreation and culture	743	729	687	666	633
Fuel and energy	201	210	237	190	98
Agriculture, forestry, fishing, and hunting	388	475	428	427	370
Transport and communications	6 751	6 921	6 809	6 961	7 088
Other economic affairs	993	1 275	914	758	555
Other purposes	1 515	1 255	1 156	1 205	1 188
Not allocated by purpose [(d)]	(677)	(539)	1 221	2 525	2 810
Total expenses by government purpose classification	**57 501**	**58 495**	**60 246**	**62 652**	**63 519**

Notes:

(a) *Note 3.6 of the* 2015-16 Financial Report *for the State of Victoria provides definitions and descriptions of government purposes classifications.*

(b) *The National Disability specific purpose payment is ceasing in 2019-20.*

(c) *The downward movement from 2017-18 relates to sunsetting initiatives and movements in funding across years for various initiatives.*

(d) *Mainly comprising provision for future demand growth, departmental underspending, eliminated purchase of supplies and consumables between Government entities, 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)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Expenses from transactions					
Economic Development, Jobs, Transport and Resources	8 726	9 224	8 712	8 730	8 514
Education and Training	16 526	16 532	16 704	16 823	17 108
Environment, Land, Water and Planning [(a)]	2 892	3 144	3 044	2 574	2 512
Health and Human Services	22 235	22 798	22 868	23 249	23 328
Justice and Regulation	6 061	6 268	6 306	6 476	6 546
Premier and Cabinet	613	653	454	387	374
Treasury and Finance	7 132	6 934	6 560	6 637	6 736
Parliament	200	207	205	206	209
Courts	550	560	567	593	615
Regulatory bodies and other part funded agencies [(b)]	2 103	2 175	2 117	2 147	2 190
Output contingencies not allocated to departments [(c)]	818	879	2 235	4 254	4 858
Total expenses by department	**67 857**	**69 374**	**69 771**	**72 076**	**72 991**
Less eliminations and adjustments [(d)]	(10 357)	(10 879)	(9 525)	(9 424)	(9 472)
Total expenses	**57 501**	**58 495**	**60 246**	**62 652**	**63 519**

Notes:

(a) The downward movement from 2017-18 relates to sunsetting initiatives and movements in funding across years for various initiatives.

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

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

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

(c) General government output contingencies not allocated to departments

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Decisions made but not yet allocated [(a)]	518	602	1 735	3 454	3 908
Funding not allocated to specific purposes [(b)]	300	277	500	800	950
Total general government output contingencies	**818**	**879**	**2 235**	**4 254**	**4 858**

Notes:

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

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

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

($ million)

	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
Net (increase)/decrease in provision for doubtful receivables	(159)	(158)	(167)	(175)	(178)
Amortisation of intangible non-produced assets	(3)	(3)	(3)	(3)	(3)
Bad debts written off	(154)	(154)	(154)	(154)	(164)
Other gains/(losses)	(1)	(27)	..	(1)	(1)
Total other gains/(losses) from other economic flows	**(318)**	**(342)**	**(325)**	**(333)**	**(347)**

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

($ million)

	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
Balance of investment in PNFC and PFC sectors at beginning of period	94 710	94 710	90 351	92 879	97 388
Net contributions to other sectors by owner	(2 175)	(4 440)	2 959	3 403	2 083
Revaluation gain/(loss) for period	2 707	81	(432)	1 106	(16)
Investment in other sector entities at end of period	**95 242**	**90 351**	**92 879**	**97 388**	**99 456**

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

($ million)

	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
Purchases of non-financial assets (including change in inventories) [(a)]	7 247	7 808	7 770	7 353	6 283
Less: Sales of non-financial assets	(487)	(432)	(680)	(484)	(352)
Less: Depreciation and amortisation	(2 620)	(2 633)	(2 791)	(3 047)	(3 221)
Plus: Other movements in non-financial assets [(a)(b)]	(3 008)	(3 639)	(2 886)	(3 097)	(2 258)
Total net acquisition of non-financial assets from transactions [(a)]	**1 132**	**1 103**	**1 413**	**725**	**452**

Notes:

(a) 2016-17 Budget *figures have been restated to reflect more current information.*

(b) The other movements in non-financial assets 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)

	2017 budget	2017 revised	2018 estimate	2019 estimate	2020 estimate
Current advances paid and investments, loans and placements					
Loans and advances paid	1 238	2 253	2 439	1 956	1 305
Equities and managed investment schemes	1 045	1 045	1 010	1 026	1 042
Australian dollar term deposits	994	1 707	1 024	1 082	1 172
Debt securities	3	3	3	3	3
Derivative financial instruments	1	1	1	1	1
Total current advances paid and investments, loans and placements	**3 281**	**5 010**	**4 477**	**4 068**	**3 524**
Non-current advances paid and investments, loans and placements					
Loans and advances paid	8 881	10 335	7 896	5 940	4 632
Equities and managed investment schemes	285	281	319	308	307
Australian dollar term deposits	534	615	679	729	765
Debt securities	64	64	64	64	64
Derivative financial instruments	17	17	17	17	17
Total non-current advances paid and investments, loans and placements	**9 780**	**11 312**	**8 975**	**7 058**	**5 784**
Total advances paid and investments, loans and placements	**13 061**	**16 322**	**13 452**	**11 125**	**9 308**
Represented by:					
Advances paid	10 118	12 589	10 335	7 896	5 937
Investments, loans and placements	2 943	3 733	3 117	3 230	3 371

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

($ million)

	2017 budget	2017 revised	2018 estimate	2019 estimate	2020 estimate
Buildings (written down value)	27 171	27 578	28 564	29 947	30 606
Buildings leasehold	4 923	4 950	5 816	5 665	5 518
Land and national parks	44 646	44 743	47 299	47 382	49 867
Infrastructure systems (written down value)	1 354	1 353	1 341	1 321	1 301
Plant, equipment and vehicles (written down value)	2 423	2 278	2 158	1 923	1 642
Leased plant, equipment and vehicles	142	138	122	107	90
Roads and road infrastructure (written down value)	20 601	20 308	23 669	25 035	28 601
Leased roads and road infrastructure	565	565	628	618	663
Earthworks	8 149	8 049	9 312	9 580	10 624
Cultural assets (written down value)	5 596	5 595	5 583	5 567	6 225
Total land, buildings, infrastructure, plant and equipment	**115 572**	**115 558**	**124 493**	**127 144**	**135 136**

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

($ million)

	2017 budget	2017 revised	2018 estimate	2019 estimate	2020 estimate
Carrying amount at the start of the year	114 254	114 254	115 558	124 493	127 144
Additions [(b)]	7 868	8 287	8 396	8 036	6 578
Disposals (written down value)	(414)	(460)	(344)	(407)	(328)
Revaluations	109	61	7 089	1 665	7 444
Asset transfers [(c)]	(3 747)	(4 090)	(3 555)	(3 720)	(2 610)
Depreciation	(2 499)	(2 495)	(2 650)	(2 924)	(3 091)
Carrying amount at the end of the year	**115 572**	**115 558**	**124 493**	**127 144**	**135 136**

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)

	2017 budget	2017 revised	2018 estimate	2019 estimate	2020 estimate
Intangible produced assets	1 467	1 489	1 515	1 572	1 583
Accumulated depreciation	(879)	(909)	(1 020)	(1 127)	(1 239)
Intangible non-produced assets	109	110	123	124	124
Accumulated amortisation	(37)	(37)	(48)	(50)	(52)
Total intangibles	**660**	**652**	**569**	**518**	**415**
Investment properties	143	133	128	128	128
Biological assets	4	4	5	7	8
Other assets	296	347	246	253	254
Total other non-financial assets	**1 103**	**1 136**	**949**	**906**	**805**

Note 20: Assets classified by government purpose and by department

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

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
General public services	208	84	49	52	29
Public order and safety	701	913	789	300	203
Education	802	873	644	297	114
Health	1 240	1 299	787	568	209
Social security and welfare	108	113	81	72	71
Housing and community amenities	161	145	114	111	108
Recreation and culture	107	102	66	57	16
Fuel and energy	4	4	4	3	3
Agriculture, forestry, fishing, and hunting	51	66	11	6	6
Transport and communications	5 094	5 772	5 747	5 354	3 758
Other economic affairs	142	154	96	9	2
Other purposes	1	1	1	1	1
Not allocated by purpose[(b)]	(1 414)	(1 756)	(585)	521	1 760
Total purchases of non-financial assets	**7 206**	**7 768**	**7 802**	**7 349**	**6 278**

Notes:

(a) *Note 3.6 of the* 2015-16 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) Purchases of non-financial assets by department

($ million)

	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
Economic Development, Jobs, Transport and Resources	3 488	5 639	4 446	2 765	1 422
Education and Training	850	922	695	351	170
Environment, Land, Water and Planning	116	121	68	62	59
Health and Human Services	1 367	1 431	726	503	242
Justice and Regulation	475	598	558	139	90
Premier and Cabinet	17	22	14	13	11
Treasury and Finance	63	38	20	41	19
Parliament	29	29	17	1	1
Courts	49	67	27	6	6
Regulatory bodies and other part funded agencies (a)	166	215	195	157	107
Asset contingencies not allocated to departments (b)	1 992	337	2 095	3 689	3 688
Adjustments (c)	(1 408)	(1 650)	(1 060)	(376)	463
Total purchases of non-financial assets	**7 206**	**7 768**	**7 802**	**7 349**	**6 278**

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

(c) General government asset contingencies not allocated to departments

($ million)

	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
Decisions made but not yet allocated (a)	1 992	337	1 595	2 789	2 488
Funding not allocated to specific purposes (b)	..	..	500	900	1 200
Total general government asset contingencies	**1 992**	**337**	**2 095**	**3 689**	**3 688**

Notes:
(a) A provision to account for asset policy decisions and commitments for which the funding has yet to be allocated to departments. Includes $1.5 billion in Commonwealth Government funds reallocated from other projects.
(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)

	2017 budget	*2017 revised*	*2018 estimate*	*2019 estimate*	*2020 estimate*
General public services	1 609	1 561	1 483	1 415	1 317
Public order and safety	9 504	9 701	10 542	10 396	10 873
Education	22 619	22 645	25 087	24 974	24 641
Health	14 399	14 458	14 323	15 545	14 856
Social security and welfare	2 066	2 071	2 095	2 110	2 124
Housing and community amenities	8 342	8 374	8 434	10 000	11 860
Recreation and culture	8 942	8 928	8 930	8 921	8 869
Fuel and energy	23	23	25	24	24
Agriculture, forestry, fishing, and hunting	622	634	549	521	494
Transport and communications	49 628	49 936	56 254	57 467	63 001
Other economic affairs	879	674	770	770	762
Other purposes	1	1	1	1	2
Not allocated by purpose[(b)]	117 568	115 371	114 236	115 903	117 856
Total assets	**236 203**	**234 378**	**242 730**	**248 049**	**256 679**

Notes:

(a) *Note 3.6 of the* 2015-16 Financial Report *for the State of Victoria provides definitions 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)

	2017 budget	*2017 revised*	*2018 estimate*	*2019 estimate*	*2020 estimate*
Current payables					
Accounts payable and accrued expenses	3 366	3 173	3 077	3 012	2 980
Accrued taxes payable	38	38	38	39	39
Unearned income	606	598	597	593	592
Total current payables	**4 011**	**3 809**	**3 712**	**3 644**	**3 611**
Non-current payables					
Accounts payable and accrued expenses	61	59	50	40	29
Unearned income	1 592	1 592	1 530	1 536	1 345
Total non-current payables	**1 653**	**1 651**	**1 580**	**1 576**	**1 374**
Total payables	**5 663**	**5 461**	**5 292**	**5 220**	**4 985**

Note 22: Borrowings

($ million)

	2017 budget	2017 revised	2018 estimate	2019 estimate	2020 estimate
Current borrowings					
Domestic borrowings	3 132	1 827	1 827	1 834	1 835
Finance lease liabilities	142	131	133	119	82
Derivative financial instruments	19	19	19	19	19
Total current borrowings	**3 292**	**1 976**	**1 979**	**1 971**	**1 936**
Non-current borrowings					
Domestic borrowings	17 714	18 785	20 939	23 803	24 547
Finance lease liabilities	9 253	9 261	9 731	10 133	10 297
Derivative financial instruments	131	131	131	131	131
Total non-current borrowings	**27 098**	**28 177**	**30 802**	**34 067**	**34 974**
Total borrowings	**30 391**	**30 153**	**32 780**	**36 038**	**36 910**

Note 23: Employee benefits

($ million)

	2017 budget	2017 revised	2018 estimate	2019 estimate	2020 estimate
Current					
Accrued salaries and wages	1 999	1 998	2 033	2 078	2 110
Long service leave	3 657	3 666	3 797	3 943	4 054
Total current employee benefits	**5 656**	**5 664**	**5 829**	**6 021**	**6 164**
Non-current					
Long service leave	878	878	948	1 021	1 089
Total non-current employee benefits	**878**	**878**	**948**	**1 021**	**1 089**
Total employee benefits	**6 534**	**6 541**	**6 777**	**7 041**	**7 253**

Note 24: Reserves

($ million)

	2017 budget	2017 revised	2018 estimate	2019 estimate	2020 estimate
Land, buildings, infrastructure, plant and equipment revaluation surplus	49 722	49 673	56 762	58 427	65 871
Available-for-sale investments revaluation surplus	41	41	42	43	47
Revaluation surplus for investments in PFC and PNFC entities	59 733	57 108	56 676	57 782	57 766
Other reserves	513	499	502	504	507
Total reserves	**110 009**	**107 321**	**113 982**	**116 757**	**124 190**

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

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Cash surplus/(deficit)	**(1 518)**	**(3 379)**	**(3 412)**	**(2 710)**	**(689)**
Convergence differences:					
Less: Acquisitions under finance leases and similar arrangements [(a)]	(517)	(517)	(647)	(596)	(349)
Total convergence differences	(517)	(517)	(647)	(596)	(349)
GFS cash surplus/(deficit) [(b)]	**(2 035)**	**(3 897)**	**(4 058)**	**(3 305)**	**(1 038)**

Notes:

(a) The finance lease acquisition in 2016-17 relates to the new Bendigo Hospital project, the New Schools PPP project and the metropolitan Melbourne buses contract. The 2017-18 estimate relates to the Ravenhall Prison project, the new Bendigo Hospital project and the New Schools PPP project. The 2018-19 and 2019-20 estimates relate to the High Capacity Metro Trains Project.

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

Note 26: Financial instruments

Note 7.1 in Chapter 4 of the *2015-16 Financial Report* for the State of Victoria contains comprehensive disclosures of the State's (including general government sector's) financial instruments, including financial risk management objectives and policies.

There have been no substantive changes to the accounting classification of financial assets and liabilities for the general government sector as reported in the *2015-16 Financial Report* for the State of Victoria.

Note 27: Controlled entities

Note 9.7 *Controlled Entities* in the *2015-16 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 2016, of general government sector entities which have been consolidated for the purposes of the estimated financial statements:

General government	
Department of Health and Human Services	**Department of Economic Development, Jobs, Transport and Resources**
Dunmunkle Health Services [(a)]	Australian Synchrotron Holding Company [(b)]
West Wimmera Health Service [(a)]	Energy Safe Victoria [(c)]
	Tourism Victoria [(d)]
	Visit Victoria [(d)]

Notes:

(a) On 1 July 2016, by Order of the Governor-in-Council, Dunmunkle Health Service and West Wimmera Health Service were amalgamated to form a new registered funded agency named West Wimmera Health Service.

(b) The Australian Synchrotron Holding Company was transferred from the State of Victoria to the Australian Nuclear Science and Technology Organisation (ANSTO) on 1 July 2016.

(c) Effective from 1 July 2016, Energy Safe Victoria was transferred from the Department of Economic Development, Jobs, Transport and Resources to the Department of Environment, Land, Water and Planning.

(d) Effective 1 July 2016, Visit Victoria commenced operations and took over the responsibilities of Tourism Victoria and the Victorian Major Events Company Limited. Tourism Victoria ceased to operate but will remain in existence until its legislation is repealed. Effective from 1 July 2016, Victorian Major Events Company 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)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Revenue from transactions					
Interest revenue	105	124	135	97	63
Dividends, income tax equivalent and rate equivalent revenue	18	14	18	18	19
Sales of goods and services	6 353	6 445	6 852	6 690	6 839
Grant revenue	3 243	3 330	3 438	3 404	3 271
Other revenue	481	591	548	518	516
Total revenue from transactions	**10 200**	**10 504**	**10 991**	**10 727**	**10 708**
Expenses from transactions					
Employee expenses	1 157	1 172	1 195	1 220	1 259
Other superannuation	99	105	107	109	112
Depreciation	2 244	2 241	2 316	2 389	2 447
Interest expense	1 139	1 137	1 134	1 118	1 095
Grant expense	571	753	451	514	414
Other operating expenses	5 532	5 684	6 065	5 782	5 662
Other property expenses	127	304	177	152	162
Total expenses from transactions	**10 869**	**11 396**	**11 443**	**11 284**	**11 152**
Net result from transactions – net operating balance	**(669)**	**(892)**	**(452)**	**(557)**	**(444)**
Total other economic flows included in net result	**(14)**	**419**	**50**	**277**	**273**
Net result	**(683)**	**(473)**	**(402)**	**(279)**	**(171)**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	3 367	522	2	1 438	(1)
Remeasurement of superannuation defined benefits plans	(4)	(9)	(4)	(4)	(4)
Other movements in equity	122	(1)	(15)	2	(5)

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

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	4	12	1	1	4
Total other economic flows – other comprehensive income	**3 489**	**523**	**(17)**	**1 437**	**(6)**
Comprehensive result – total change in net worth	**2 806**	**50**	**(419)**	**1 158**	**(177)**
KEY FISCAL AGGREGATES					
Net operating balance	**(669)**	**(892)**	**(452)**	**(557)**	**(444)**
Less: Net acquisition of non-financial assets from transactions [(b)]	3 217	4 050	3 768	3 340	2 330
Net lending/(borrowing) [(b)]	**(3 886)**	**(4 942)**	**(4 221)**	**(3 896)**	**(2 774)**

Source: Department of Treasury and Finance

Notes:

(a) *Presentation is consistent with the* 2016-17 Budget, *where certain line items have been aggregated in the table above due to commercial sensitivities of balances.*

(b) 2016-17 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)

	2017 budget [a]	2017 revised	2018 estimate	2019 estimate	2020 estimate
Assets					
Financial assets					
Cash and deposits	826	892	676	727	848
Advances paid	5 712	8 206	6 113	3 839	2 059
Receivables	1 786	1 794	1 835	1 889	1 912
Investments, loans and placements	819	942	820	773	750
Investments accounted for using equity method	1 501	1 501	1 505	1 510	1 511
Total financial assets	**10 644**	**13 335**	**10 948**	**8 738**	**7 079**
Non-financial assets					
Inventories	684	529	1 024	1 049	1 282
Non-financial assets held for sale	6	6	5	5	5
Land, buildings, infrastructure, plant and equipment	117 880	116 705	119 756	124 552	126 693
Other non-financial assets	1 312	1 397	1 376	1 347	1 323
Total non-financial assets	**119 882**	**118 639**	**122 160**	**126 952**	**129 303**
Total assets	**130 526**	**131 974**	**133 108**	**135 691**	**136 383**
Liabilities					
Deposits held and advances received	6 062	8 533	6 450	4 173	2 382
Payables	6 984	10 507	10 222	10 061	9 899
Borrowings	16 494	16 594	17 525	17 856	18 407
Employee benefits	404	390	403	413	408
Superannuation	65	60	60	60	60
Other provisions	7 920	8 235	7 956	7 663	7 401
Total liabilities	**37 929**	**44 320**	**42 616**	**40 225**	**38 557**
Net assets	**92 597**	**87 654**	**90 492**	**95 466**	**97 826**
Accumulated surplus/(deficit)	3 164	3 546	2 735	2 247	1 900
Reserves	89 433	84 108	87 758	93 219	95 927
Net worth	**92 597**	**87 654**	**90 492**	**95 466**	**97 826**
FISCAL AGGREGATES					
Net financial worth	(27 285)	(30 985)	(31 668)	(31 487)	(31 477)
Net financial liabilities	27 285	30 985	31 668	31 487	31 477
Net debt	15 199	15 087	16 366	16 689	17 131

Source: Department of Treasury and Finance

Note:

(a) Balances represent actual opening balances at 1 July 2016 plus 2016-17 budgeted movements.

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

($ million)

	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
Cash flows from operating activities					
Receipts					
Grants	3 315	3 403	3 427	3 370	3 271
Sales of goods and services [(b)]	12 624	15 962	7 226	7 179	7 324
Interest received	106	126	145	108	74
Dividends, income tax equivalent and rate equivalent receipts	18	14	18	18	19
Other receipts	124	195	358	250	286
Total receipts	**16 187**	**19 699**	**11 174**	**10 925**	**10 974**
Payments					
Payments for employees	(1 167)	(1 196)	(1 186)	(1 214)	(1 267)
Superannuation	(102)	(117)	(112)	(114)	(116)
Interest paid	(1 135)	(1 116)	(1 128)	(1 114)	(1 092)
Grants and subsidies	(104)	(273)	(87)	(67)	(67)
Goods and services [(b)]	(4 138)	(4 433)	(4 647)	(4 227)	(4 113)
Other payments	(2 421)	(2 377)	(2 517)	(2 659)	(2 677)
Total payments	**(9 068)**	**(9 513)**	**(9 675)**	**(9 395)**	**(9 332)**
Net cash flows from operating activities	**7 119**	**10 186**	**1 499**	**1 530**	**1 642**
Cash flows from investing activities					
Net cash flows from investments in non-financial assets [(c)]	(1 829)	(2 192)	(2 522)	(2 017)	(2 099)
Net cash flows from investments in financial assets for policy purposes	(5 526)	(8 017)	2 139	2 338	1 862
Net cash flows from investment in financial assets for liquidity management purposes	239	90	124	50	9
Net cash flows from investing activities [(c)]	**(7 115)**	**(10 119)**	**(259)**	**371**	**(229)**
Cash flows from financing activities					
Advances received (net)	5 665	8 139	(2 084)	(2 277)	(1 789)
Net borrowings	716	852	931	331	551
Deposits received (net)	1	(3)	1	..	(2)
Other financing (net) [(c)]	(6 362)	(8 966)	(303)	95	(52)
Net cash flows from financing activities [(c)]	**20**	**23**	**(1 455)**	**(1 851)**	**(1 293)**
Net increase/(decrease) in cash and cash equivalents	**24**	**89**	**(215)**	**51**	**121**
Cash and cash equivalents at beginning of reporting period [(d)]	802	802	892	676	727
Cash and cash equivalents at end of reporting period [(d)]	**826**	**892**	**676**	**727**	**848**

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

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
FISCAL AGGREGATES					
Net cash flows from operating activities	7 119	10 186	1 499	1 530	1 642
Dividends paid	(250)	(190)	(372)	(189)	(146)
Net cash flows from investments in non-financial assets [c]	(1 829)	(2 192)	(2 522)	(2 017)	(2 099)
Cash surplus/(deficit) [c]	**5 041**	**7 803**	**(1 395)**	**(676)**	**(603)**

Source: Department of Treasury and Finance

Notes:

(a) *Presentation is consistent with the* 2016-17 Budget, *where certain line items have been aggregated in the table above due to commercial sensitivities of balances.*

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

(c) 2016-17 Budget *figures have been restated to reflect more current information.*

(d) 2016-17 Budget *figures have been restated to represent actual opening balances at 1 July 2016.*

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

($ million)

	Accumulated surplus/(deficit)	Contribution by owners
2016-17 budget [(a)]		
Balance at 1 July 2016	4 397	52 166
Net result for the year	(683)	..
Other comprehensive income for the year	88	..
Dividends paid	(250)	..
Transfer to/(from) accumulated surplus	(387)	4 481
Transactions with owners in their capacity as owners	..	(2 191)
Total equity as at 30 June 2017	**3 164**	**54 456**
2016-17 revised		
Balance at 1 July 2016	4 397	52 166
Net result for the year	(473)	..
Other comprehensive income for the year	(63)	..
Dividends paid	(189)	..
Transfer to/(from) accumulated surplus	(125)	8 465
Transactions with owners in their capacity as owners	..	(4 440)
Total equity as at 30 June 2017	**3 546**	**56 191**
2017-18 estimate		
Balance at 1 July 2017	3 546	56 191
Net result for the year	(402)	..
Other comprehensive income for the year	(37)	..
Dividends paid	(372)	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	3 629
Total equity as at 30 June 2018	**2 735**	**59 820**
2018-19 estimate		
Balance at 1 July 2018	2 735	59 820
Net result for the year	(279)	..
Other comprehensive income for the year	(21)	..
Dividends paid	(188)	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	4 003
Total equity as at 30 June 2019	**2 247**	**63 824**
2019-20 estimate		
Balance at 1 July 2019	2 247	63 824
Net result for the year	(171)	..
Other comprehensive income for the year	(31)	..
Dividends paid	(146)	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	2 683
Total equity as at 30 June 2020	**1 900**	**66 507**

Source: Department of Treasury and Finance

Note:
(a) Balances represent actual opening balances at 1 July 2016 plus 2016-17 budgeted movements.

Non-financial assets revaluation surplus	Other reserves	Total
35 219	451	92 233
..	..	(683)
3 367	34	3 489
..	..	(250)
(4 094)	..	..
..	..	(2 191)
34 492	**485**	**92 597**
35 219	451	92 233
..	..	(473)
522	65	523
..	..	(189)
(8 340)	..	..
..	..	(4 440)
27 401	**516**	**87 654**
27 401	516	87 654
..	..	(402)
2	19	(17)
..	..	(372)
..	..	..
..	..	3 629
27 403	**534**	**90 492**
27 403	534	90 492
..	..	(279)
1 438	19	1 437
..	..	(188)
..	..	..
..	..	4 003
28 841	**554**	**95 466**
28 841	554	95 466
..	..	(171)
(1)	25	(6)
..	..	(146)
..	..	..
..	..	2 683
28 841	**579**	**97 826**

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

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Cash surplus/(deficit) [(a)]	**5 041**	**7 803**	**(1 395)**	**(676)**	**(603)**
Convergence differences:					
Acquisitions under finance leases and similar arrangements	..	..	..	..	..
GFS cash surplus/(deficit) [(a)(b)]	**5 041**	**7 803**	**(1 395)**	**(676)**	**(603)**

Source: Department of Treasury and Finance

Notes:

(a) 2016-17 Budget *figures have been restated to reflect more current information.*

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

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

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Purchases of non-financial assets less sales of non-financial assets (including change in inventories) [(b)]	1 829	2 193	2 522	2 018	2 099
Less: Depreciation	(2 244)	(2 241)	(2 316)	(2 389)	(2 447)
Plus: Other movements in non-financial assets [(c)]	3 632	4 098	3 562	3 711	2 678
Total net acquisition of non-financial assets [(b)]	**3 217**	**4 050**	**3 768**	**3 340**	**2 330**

Source: Department of Treasury and Finance

Notes:

(a) Presentation is consistent with the 2016-17 Budget, *where certain line items have been aggregated in the table above due to commercial sensitivities of balances.*

(b) 2016-17 Budget *figures have been restated to reflect more current information.*

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

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

($ million)

	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
Revenue from transactions					
Taxation revenue	21 215	21 269	21 133	22 252	23 119
Interest revenue	341	364	355	346	347
Dividends, income tax equivalent and rate equivalent revenue	622	356	433	313	475
Sales of goods and services	10 862	10 906	11 244	11 597	11 769
Grant revenue	27 418	27 617	28 757	30 621	31 313
Other revenue	3 049	3 129	2 804	2 784	2 817
Total revenue from transactions	**63 507**	**63 640**	**64 726**	**67 912**	**69 840**
Expenses from transactions					
Employee expenses	22 401	22 680	23 537	24 780	25 490
Net superannuation interest expense	791	692	647	623	599
Other superannuation	2 338	2 433	2 453	2 502	2 563
Depreciation	4 863	4 874	5 107	5 436	5 669
Interest expense	2 926	2 617	2 582	2 645	2 626
Grant expense	6 509	7 480	7 189	7 879	7 867
Other operating expenses	21 805	22 094	22 827	23 034	23 016
Total expenses from transactions	**61 634**	**62 869**	**64 342**	**66 900**	**67 830**
Net result from transactions – net operating balance	**1 873**	**771**	**384**	**1 012**	**2 010**
Total other economic flows included in net result	**(429)**	**(202)**	**(155)**	**(191)**	**(220)**
Net result	**1 445**	**568**	**229**	**822**	**1 789**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	2 790	449	7 091	3 104	7 443
Remeasurement of superannuation defined benefit plans	873	1 032	1 053	1 071	1 088
Other movements in equity	192	131	(12)	19	(22)
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	5	13	2	2	7
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	151	220	359	136	307
Total other economic flows – other comprehensive income	**4 011**	**1 844**	**8 494**	**4 333**	**8 823**
Comprehensive result – total change in net worth	**5 456**	**2 412**	**8 723**	**5 154**	**10 613**
KEY FISCAL AGGREGATES					
Net operating balance	**1 873**	**771**	**384**	**1 012**	**2 010**
Less: Net acquisition of non-financial assets from transactions [(b)]	4 349	5 153	5 181	4 065	2 781
Net lending/(borrowing) [(b)]	**(2 476)**	**(4 382)**	**(4 797)**	**(3 053)**	**(772)**

Source: Department of Treasury and Finance

Notes:

(a) *Presentation is consistent with the* 2016-17 Budget, *where certain line items have been aggregated in the table above due to commercial sensitivities of balances.*

(b) 2016-17 Budget *figures have been restated to reflect more current information.*

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

($ million)

	2017 budget [(a)]	2017 revised	2018 estimate	2019 estimate	2020 estimate
Assets					
Financial assets					
Cash and deposits	6 027	5 895	5 542	5 851	6 267
Advances paid	148	163	142	133	126
Receivables	6 662	6 650	6 776	7 086	7 291
Investments, loans and placements	3 762	4 676	3 937	4 003	4 121
Investments accounted for using equity method	1 921	1 921	1 925	1 931	1 932
Investments in other sector entities	2 648	2 700	2 390	1 926	1 633
Total financial assets	**21 169**	**22 005**	**20 711**	**20 929**	**21 370**
Non-financial assets					
Inventories	875	723	1 218	1 248	1 486
Non-financial assets held for sale	192	180	175	177	178
Land, buildings, infrastructure, plant and equipment	233 452	232 263	244 249	251 696	261 830
Other non-financial assets	2 155	2 154	2 077	2 014	1 886
Total non-financial assets	**236 674**	**235 320**	**247 720**	**255 135**	**265 380**
Total assets	**257 843**	**257 325**	**268 430**	**276 064**	**286 749**
Liabilities					
Deposits held and advances received	803	799	800	800	798
Payables	12 374	15 378	15 050	14 812	14 410
Borrowings	42 747	42 608	46 216	49 860	51 342
Employee benefits	6 939	6 931	7 180	7 454	7 661
Superannuation	28 517	28 306	27 197	25 997	24 756
Other provisions	1 011	944	905	905	933
Total liabilities	**92 392**	**94 966**	**97 348**	**99 828**	**99 900**
Net assets	**165 451**	**162 359**	**171 082**	**176 236**	**186 849**
Accumulated surplus/(deficit)	67 733	71 191	72 442	74 333	77 164
Reserves	97 668	91 167	98 640	101 903	109 685
Non-controlling interest	50	..	..	..	..
Net worth	**165 451**	**162 359**	**171 082**	**176 236**	**186 849**
FISCAL AGGREGATES					
Net financial worth	(71 223)	(72 962)	(76 638)	(78 899)	(78 531)
Net financial liabilities	73 872	75 662	79 027	80 824	80 163
Net debt	33 614	32 674	37 396	40 673	41 626

Source: Department of Treasury and Finance

Note:
(a) Balances represent actual opening balances at 1 July 2016 plus 2016-17 budgeted movements.

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

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Cash flows from operating activities					
Receipts					
Taxes received	21 104	21 163	20 994	22 074	22 951
Grants	27 438	27 637	28 744	30 616	31 313
Sales of goods and services [(b)]	17 849	21 048	12 506	12 756	12 941
Interest received	358	381	366	356	358
Dividends, income tax equivalent and rate equivalent receipts	622	355	432	260	474
Other receipts	1 871	1 905	2 190	1 981	2 051
Total receipts	**69 243**	**72 490**	**65 232**	**68 042**	**70 088**
Payments					
Payments for employees	(22 016)	(22 301)	(23 292)	(24 510)	(25 287)
Superannuation	(3 093)	(3 141)	(3 156)	(3 255)	(3 316)
Interest paid	(2 902)	(2 576)	(2 539)	(2 604)	(2 585)
Grants and subsidies	(6 302)	(7 293)	(7 007)	(7 729)	(7 771)
Goods and services [(b)]	(22 382)	(22 680)	(23 735)	(23 756)	(23 673)
Other payments	(630)	(701)	(661)	(685)	(716)
Total payments	**(57 326)**	**(58 692)**	**(60 390)**	**(62 538)**	**(63 349)**
Net cash flows from operating activities	**11 917**	**13 798**	**4 843**	**5 504**	**6 739**
Cash flows from investing activities					
Net cash flows from investments in non-financial assets	(8 548)	(9 528)	(9 645)	(8 882)	(8 026)
Net cash flows from investments in financial assets for policy purposes	107	118	733	689	673
Net cash flows from investment in financial assets for liquidity management purposes	160	(777)	760	(45)	(94)
Net cash flows from investing activities	**(8 281)**	**(10 187)**	**(8 152)**	**(8 237)**	**(7 448)**
Cash flows from financing activities					
Net borrowings	(3 184)	(3 287)	2 955	3 036	1 126
Deposits received (net)	1	(3)	1	..	(2)
Net cash flows from financing activities	**(3 183)**	**(3 291)**	**2 956**	**3 036**	**1 124**
Net increase/(decrease) in cash and cash equivalents	**453**	**321**	**(353)**	**303**	**415**
Cash and cash equivalents at beginning of reporting period [(c)]	5 574	5 574	5 895	5 542	5 844
Cash and cash equivalents at end of reporting period [(c)(d)]	**6 027**	**5 895**	**5 542**	**5 844**	**6 259**
FISCAL AGGREGATES					
Net cash flows from operating activities	11 917	13 798	4 843	5 504	6 739
Net cash flows from investments in non-financial assets	(8 548)	(9 528)	(9 645)	(8 882)	(8 026)
Cash surplus/(deficit)	**3 369**	**4 270**	**(4 802)**	**(3 378)**	**(1 287)**

Source: Department of Treasury and Finance

Notes:

(a) *Presentation is consistent with the* 2016-17 Budget, *where certain line items have been aggregated in the table above due to commercial sensitivities of balances.*

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

(c) 2016-17 Budget *figures have been restated to represent actual opening balances at 1 July 2016.*

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

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

($ million)

	Accumulated surplus/(deficit)	*Non-controlling interest*
2016-17 budget [(a)]		
Balance at 1 July 2016	61 160	50
Net result for the year	1 445	..
Other comprehensive income for the year	1 034	..
Transfer to/(from) accumulated surplus	4 094	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2017	**67 733**	**50**
2016-17 revised		
Balance at 1 July 2016	61 161	50
Net result for the year	568	..
Other comprehensive income for the year	1 122	..
Transfer to/(from) accumulated surplus	8 340	..
Transactions with owners in their capacity as owners	..	(50)
Total equity as at 30 June 2017	**71 191**	**..**
2017-18 estimate		
Balance at 1 July 2017	71 191	..
Net result for the year	229	..
Other comprehensive income for the year	1 021	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2018	**72 442**	**..**
2018-19 estimate		
Balance at 1 July 2018	72 442	..
Net result for the year	822	..
Other comprehensive income for the year	1 069	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2019	**74 333**	**..**
2019-20 estimate		
Balance at 1 July 2019	74 333	..
Net result for the year	1 789	..
Other comprehensive income for the year	1 042	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2020	**77 164**	**..**

Source: Department of Treasury and Finance

Note:
(a) Balances represent actual opening balances at 1 July 2016 plus 2016-17 budgeted movements.

Non-financial assets revaluation surplus	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
94 963	2 819	1 002	159 995
..	..	..	1 445
2 790	151	36	4 011
(4 094)	..	..	..
..	..	..	..
93 659	**2 970**	**1 039**	**165 451**
94 963	2 819	1 002	159 996
..	..	..	568
449	220	53	1 844
(8 340)	..	..	..
..	..	..	(50)
87 073	**3 039**	**1 056**	**162 359**
87 073	3 039	1 056	162 359
..	..	..	229
7 091	359	22	8 494
..	..	..	..
..	..	..	..
94 164	**3 398**	**1 078**	**171 082**
94 164	3 398	1 078	171 082
..	..	..	822
3 104	136	23	4 333
..	..	..	..
..	..	..	..
97 268	**3 534**	**1 101**	**176 236**
97 268	3 534	1 101	176 236
..	..	..	1 789
7 443	307	31	8 823
..	..	..	..
..	..	..	..
104 711	**3 841**	**1 132**	**186 849**

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

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Cash surplus/(deficit)	**3 369**	**4 270**	**(4 802)**	**(3 378)**	**(1 287)**
Convergence differences:					
Acquisitions under finance leases and similar arrangements [(a)]	(517)	(517)	(647)	(596)	(349)
GFS cash surplus/(deficit)[(b)]	**2 852**	**3 753**	**(5 448)**	**(3 974)**	**(1 636)**

Source: Department of Treasury and Finance

Notes:

(a) The finance lease acquisitions in 2016-17 relate to the new Bendigo Hospital project, the New Schools PPP project and the metropolitan Melbourne buses contract. The 2017-18 estimate relates to the Ravenhall Prison project, the new Bendigo Hospital project and the New Schools PPP project. The 2018-19 and 2019-20 estimates predominantly relate to the High Capacity Metro Trains Project.

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

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

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Purchases of non-financial assets less sales of non-financial assets (including change in inventories [(b)]	8 589	9 568	9 611	8 886	8 030
Less: Depreciation	(4 863)	(4 874)	(5 107)	(5 436)	(5 669)
Plus: Other movements in non-financial assets [(b)(c)]	623	459	677	614	420
Total net acquisition of non-financial assets [(b)]	**4 349**	**5 153**	**5 181**	**4 065**	**2 781**

Source: Department of Treasury and Finance

Notes:

(a) Presentation is consistent with the 2016-17 Budget, *where certain line items have been aggregated in the table above due to commercial sensitivities of balances.*

(b) 2016-17 Budget *figures have been restated to reflect more current information.*

(c) The other movements in non-financial assets in 2016-17 predominantly relate to the recognition of finance lease arrangements for the new Bendigo Hospital project, the New Schools PPP project and the metropolitan Melbourne buses contract. The 2017-18 estimate predominantly relates to the Ravenhall Prison project, the new Bendigo Hospital project and the New Schools PPP project. The 2018-19 and 2019-20 estimates predominantly relate to the High Capacity Metro Trains Project.

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

($ million)

	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
Revenue from transactions					
Interest revenue	2 453	2 298	2 183	2 277	2 283
Dividends, income tax equivalent and rate equivalent revenue	1 034	1 108	1 071	1 164	1 183
Sales of goods and services	4 336	4 333	4 530	4 668	4 892
Grant revenue	..	..	..	..	..
Other revenue	22	23	24	25	26
Total revenue from transactions	**7 844**	**7 762**	**7 808**	**8 133**	**8 384**
Expenses from transactions					
Employee expenses	308	339	352	331	306
Other superannuation	24	22	23	20	20
Depreciation	47	47	49	42	45
Interest expense	2 094	1 776	1 813	1 840	1 842
Grant expense	..	9	209	209	1 023
Other operating expenses	6 294	6 419	6 704	7 014	7 193
Other property expenses	55	6	18	85	109
Total expenses from transactions	**8 822**	**8 619**	**9 168**	**9 542**	**10 538**
Net result from transactions – net operating balance [(a)]	**(978)**	**(857)**	**(1 360)**	**(1 408)**	**(2 154)**
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	843	1 252	1 070	794	898
Other gains/(losses) from other economic flows	654	487	694	805	802
Total other economic flows included in net result	**1 496**	**1 739**	**1 763**	**1 599**	**1 700**
Net result	**519**	**881**	**404**	**191**	**(454)**
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	(4)	..	(1)	6	5
Total other economic flows – other comprehensive income	**(4)**	**..**	**(1)**	**6**	**5**
Comprehensive result – total change in net worth	**514**	**881**	**402**	**197**	**(449)**

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

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
KEY FISCAL AGGREGATES					
Net operating balance	**(978)**	**(857)**	**(1 360)**	**(1 408)**	**(2 154)**
Less: Net acquisition of non-financial assets from transactions	8	10	15	(8)	(12)
Net lending/(borrowing)	**(986)**	**(867)**	**(1 375)**	**(1 400)**	**(2 142)**

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)

	2017 budget [(a)]	2017 revised	2018 estimate	2019 estimate	2020 estimate
Assets					
Financial assets					
Cash and deposits	4 830	4 731	4 771	4 313	3 943
Advances paid	15	..	..	..	..
Investments, loans and placements	34 746	38 058	35 548	36 192	37 085
Loans receivable from non-financial public sector [(b)]	32 211	32 328	35 597	39 050	40 637
Receivables	1 950	1 459	1 506	1 559	1 602
Total financial assets	**73 752**	**76 576**	**77 422**	**81 114**	**83 267**
Non-financial assets					
Land, buildings, infrastructure, plant and equipment	82	86	100	93	83
Other non-financial assets	1 519	1 463	1 333	1 292	1 215
Total non-financial assets	**1 601**	**1 548**	**1 433**	**1 386**	**1 299**
Total assets	**75 353**	**78 125**	**78 855**	**82 499**	**84 566**
Liabilities					
Deposits held and advances received	6 694	6 343	5 084	5 166	5 327
Payables	1 658	1 671	1 719	1 825	1 849
Borrowings [(c)]	41 222	43 641	44 660	47 063	48 598
Employee benefits	98	90	93	95	98
Other provisions	29 454	29 594	31 156	32 793	34 507
Total liabilities	**79 126**	**81 339**	**82 711**	**86 942**	**90 379**
Net assets [(d)]	**(3 774)**	**(3 215)**	**(3 856)**	**(4 443)**	**(5 814)**
Accumulated surplus/(deficit)	(3 856)	(3 286)	(3 903)	(4 490)	(5 861)
Reserves	83	71	47	47	47
Net worth [(d)]	**(3 774)**	**(3 215)**	**(3 856)**	**(4 443)**	**(5 814)**
FISCAL AGGREGATES					
Net financial worth	(5 374)	(4 763)	(5 289)	(5 829)	(7 113)
Net financial liabilities	5 374	4 763	5 289	5 829	7 113
Net debt	(23 885)	(25 133)	(26 172)	(27 326)	(27 739)

Source: Department of Treasury and Finance

Notes:

(a) Balances represent actual opening balances at 1 July 2016 plus 2016-17 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)

	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
Cash flows from operating activities					
Receipts					
Grants	..	..	..	..	..
Sales of goods and services [(b)]	4 780	4 768	4 988	5 151	5 415
Interest received	2 387	2 238	2 123	2 218	2 225
Dividends, income tax equivalent and rate equivalent receipts	1 034	1 108	1 071	1 164	1 183
Other receipts	64	47	32	26	37
Total receipts	**8 264**	**8 161**	**8 214**	**8 560**	**8 860**
Payments					
Payments for employees	(306)	(346)	(349)	(369)	(345)
Superannuation	(24)	(22)	(23)	(24)	(24)
Interest paid	(2 122)	(1 824)	(1 845)	(1 869)	(1 871)
Grants and subsidies	..	(9)	(209)	(209)	(1 023)
Goods and services [(b)]	(4 552)	(4 607)	(4 774)	(4 963)	(5 092)
Other payments	(50)	(3)	(17)	(25)	(113)
Total payments	**(7 055)**	**(6 811)**	**(7 218)**	**(7 459)**	**(8 468)**
Net cash flows from operating activities	**1 210**	**1 349**	**996**	**1 101**	**392**
Cash flows from investing activities					
Purchases of non-financial assets	(56)	(57)	(65)	(35)	(33)
Sales of non-financial assets	1	1	1	1	1
Cash flows from investments in non-financial assets	(56)	(57)	(64)	(34)	(32)
Net cash flows from other investing activities for policy and liquidity purposes	2 438	(818)	381	(3 237)	(1 515)
Net cash flows from investing activities	**2 382**	**(875)**	**317**	**(3 271)**	**(1 548)**
Cash flows from financing activities					
Advances received (net)	2	1	1	1	2
Net borrowings	(2 953)	210	1 030	2 413	1 545
Deposits received (net)	45	(290)	(1 260)	81	161
Other financing (net)	(509)	(318)	(1 044)	(783)	(922)
Net cash flows from financing activities	**(3 415)**	**(396)**	**(1 273)**	**1 711**	**786**
Net increase/(decrease) in cash and cash equivalents	**177**	**78**	**40**	**(459)**	**(370)**
Cash and cash equivalents at beginning of reporting period [(c)]	4 654	4 654	4 731	4 771	4 313
Cash and cash equivalents at end of reporting period [(c)]	**4 830**	**4 731**	**4 771**	**4 313**	**3 943**

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

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
FISCAL AGGREGATES					
Net cash flows from operating activities	1 210	1 349	996	1 101	392
Dividends paid	(526)	(318)	(374)	(183)	(322)
Net cash flows from investments in non-financial assets	(56)	(57)	(64)	(34)	(32)
Cash surplus/(deficit)	**628**	**975**	**558**	**883**	**38**

Source: Department of Treasury and Finance

Notes:
(a) *Presentation is consistent with the* 2016-17 Budget, *where certain line items have been aggregated in the table above due to commercial sensitivities of balances.*
(b) *Inclusive of goods and services tax.*
(c) 2016-17 Budget *figures have been restated to represent actual opening balances at 1 July 2016.*

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

($ million)

	Accumulated surplus/(deficit)	Contribution by owners
2016-17 budget [(a)]		
Balance at 1 July 2016	(3 849)	29
Net result for the year	519	..
Other comprehensive income for the year	..	..
Dividends paid	(526)	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	17
Total equity as at 30 June 2017	**(3 856)**	**45**
2016-17 revised		
Balance at 1 July 2016	(3 849)	29
Net result for the year	881	..
Other comprehensive income for the year	..	..
Dividends paid	(318)	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2017	**(3 286)**	**29**
2017-18 estimate		
Balance at 1 July 2017	(3 286)	29
Net result for the year	404	..
Other comprehensive income for the year	9	..
Dividends paid	(374)	..
Transfer to/(from) accumulated surplus	(656)	656
Transactions with owners in their capacity as owners	..	(670)
Total equity as at 30 June 2018	**(3 903)**	**15**
2018-19 estimate		
Balance at 1 July 2018	(3 903)	15
Net result for the year	191	..
Other comprehensive income for the year	6	..
Dividends paid	(183)	..
Transfer to/(from) accumulated surplus	(600)	600
Transactions with owners in their capacity as owners	..	(600)
Total equity as at 30 June 2019	**(4 490)**	**15**
2019-20 estimate		
Balance at 1 July 2019	(4 490)	15
Net result for the year	(454)	..
Other comprehensive income for the year	5	..
Dividends paid	(322)	..
Transfer to/(from) accumulated surplus	(600)	600
Transactions with owners in their capacity as owners	..	(600)
Total equity as at 30 June 2020	**(5 861)**	**15**

Source: Department of Treasury and Finance

Note:
(a) Balances represent actual opening balances at 1 July 2016 plus 2016-17 budgeted movements.

Non-financial assets revaluation surplus	Other reserves	Total
2	40	(3 778)
..	..	519
..	(4)	(4)
..	..	(526)
..	..	..
..	..	17
2	**36**	**(3 774)**
2	40	(3 778)
..	..	881
..	..	..
..	..	(318)
..	..	..
..	..	..
2	**41**	**(3 215)**
2	41	(3 215)
..	..	404
..	(11)	(1)
..	..	(374)
..	..	..
..	..	(670)
2	**30**	**(3 856)**
2	30	(3 856)
..	..	191
..	..	6
..	..	(183)
..	..	..
..	..	(600)
2	**30**	**(4 443)**
2	30	(4 443)
..	..	(454)
..	..	5
..	..	(322)
..	..	..
..	..	(600)
2	**31**	**(5 814)**

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

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Cash surplus/(deficit)	**628**	**975**	**558**	**883**	**38**
Convergence differences:					
Acquisitions under finance leases and similar arrangements	..	..	..	..	..
GFS cash surplus/(deficit) [(a)]	**628**	**975**	**558**	**883**	**38**

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)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Purchases of non-financial assets less sales of non-financial assets (including change in inventories)	56	57	64	34	32
Less: Depreciation	(47)	(47)	(49)	(42)	(45)
Plus: Other movements in non-financial assets	..	..	..	..	..
Total net acquisition of non-financial assets	**8**	**10**	**15**	**(8)**	**(12)**

Source: Department of Treasury and Finance

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

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Revenue from transactions					
Taxation revenue	21 200	21 254	21 117	22 238	23 105
Interest revenue	753	830	812	836	841
Dividends, income tax equivalent and rate equivalent revenue	1 079	1 143	1 112	1 205	1 224
Sales of goods and services	14 425	14 472	14 968	15 441	15 797
Grant revenue	27 256	27 455	28 424	30 292	30 183
Other revenue	3 072	3 152	2 829	2 809	2 842
Total revenue from transactions	**67 786**	**68 306**	**69 261**	**72 821**	**73 993**
Expenses from transactions					
Employee expenses	22 368	22 669	23 534	24 756	25 427
Net superannuation interest expense	791	692	647	623	599
Other superannuation	2 362	2 455	2 476	2 522	2 584
Depreciation	4 911	4 922	5 156	5 478	5 713
Interest expense	2 979	2 562	2 669	2 698	2 680
Grant expense	6 496	7 475	7 185	7 876	7 864
Other operating expenses	27 505	27 933	28 944	29 450	29 595
Total expenses from transactions	**67 412**	**68 707**	**70 611**	**73 403**	**74 463**
Net result from transactions – net operating balance	**374**	**(401)**	**(1 350)**	**(583)**	**(470)**
Total other economic flows included in net result	**1 191**	**1 728**	**1 713**	**1 431**	**1 544**
Net result	**1 564**	**1 327**	**363**	**849**	**1 074**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	2 790	449	7 091	3 104	7 443
Remeasurement of superannuation defined benefits plans	873	1 032	1 053	1 071	1 088
Other movements in equity	187	131	(13)	25	(17)
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	5	13	2	2	7
Total other economic flows – other comprehensive income	**3 855**	**1 624**	**8 133**	**4 203**	**8 521**
Comprehensive result – total change in net worth	**5 420**	**2 952**	**8 496**	**5 051**	**9 596**

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

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
KEY FISCAL AGGREGATES					
Net operating balance	**374**	**(401)**	**(1 350)**	**(583)**	**(470)**
Less: Net acquisition of non-financial assets from transactions [(b)]	4 357	5 163	5 196	4 057	2 769
Net lending/(borrowing) [(b)]	**(3 984)**	**(5 564)**	**(6 546)**	**(4 639)**	**(3 239)**

Source: Department of Treasury and Finance

Notes:

(a) *Presentation is consistent with the* 2016-17 Budget, *where certain line items have been aggregated in the table above due to commercial sensitivities of balances.*

(b) 2016-17 Budget *figures have been restated to reflect more current information.*

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

($ million)

	2017 budget [(a)]	2017 revised	2018 estimate	2019 estimate	2020 estimate
Assets					
Financial assets					
Cash and deposits	7 116	7 387	7 526	7 279	7 199
Advances paid	148	163	142	133	126
Receivables	8 050	7 821	7 993	8 303	8 644
Investments, loans and placements	36 963	40 389	37 947	38 673	39 652
Investments accounted for using equity method	1 921	1 921	1 925	1 931	1 932
Total financial assets	**54 198**	**57 681**	**55 533**	**56 319**	**57 552**
Non-financial assets					
Inventories	875	723	1 218	1 248	1 486
Non-financial assets held for sale	192	180	175	177	178
Land, buildings, infrastructure, plant and equipment	233 534	232 349	244 349	251 790	261 913
Other non-financial assets	2 325	2 335	2 233	2 152	2 012
Total non-financial assets	**236 926**	**235 588**	**247 976**	**255 367**	**265 589**
Total assets	**291 124**	**293 268**	**303 509**	**311 686**	**323 141**
Liabilities					
Deposits held and advances received	2 629	1 724	1 726	1 727	1 725
Payables	13 500	16 745	16 465	16 282	15 906
Borrowings	51 295	53 723	55 081	57 675	59 200
Employee benefits	7 037	7 021	7 273	7 550	7 760
Superannuation	28 517	28 306	27 197	25 997	24 756
Other provisions	30 435	30 555	32 079	33 715	35 457
Total liabilities	**133 414**	**138 075**	**139 820**	**142 945**	**144 804**
Net assets	**157 711**	**155 193**	**163 689**	**168 741**	**178 336**
Accumulated surplus/(deficit)	62 925	67 022	68 416	70 339	72 460
Reserves	94 736	88 171	95 274	98 401	105 876
Non-controlling interest	50	..	..	..	..
Net worth	**157 711**	**155 193**	**163 689**	**168 741**	**178 336**
FISCAL AGGREGATES					
Net financial worth	(79 216)	(80 394)	(84 286)	(86 626)	(87 253)
Net financial liabilities	79 216	80 394	84 286	86 626	87 253
Net debt	9 697	7 510	11 192	13 316	13 949

Source: Department of Treasury and Finance

Note:
(a) Balances represent actual opening balances at 1 July 2016 plus 2016-17 budgeted movements.

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

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Cash flows from operating activities					
Receipts					
Taxes received	21 089	21 148	20 979	22 060	22 937
Grants	27 277	27 202	28 411	30 287	30 183
Sales of goods and services [(b)]	21 857	25 048	16 688	17 083	17 398
Interest received	703	787	763	789	794
Dividends, income tax equivalent and rate equivalent receipts	1 079	1 142	1 112	1 205	1 224
Other receipts	1 936	1 951	2 223	2 007	2 088
Total receipts	**73 941**	**77 280**	**70 174**	**73 431**	**74 624**
Payments					
Payments for employees	(21 980)	(22 296)	(23 287)	(24 524)	(25 263)
Superannuation	(3 117)	(3 163)	(3 179)	(3 278)	(3 340)
Interest paid	(2 982)	(2 568)	(2 657)	(2 687)	(2 669)
Grants and subsidies	(6 289)	(7 015)	(7 002)	(7 726)	(7 768)
Goods and services [(b)]	(26 341)	(26 707)	(27 923)	(28 121)	(28 151)
Other payments	(630)	(701)	(661)	(674)	(717)
Total payments	**(61 340)**	**(62 450)**	**(64 709)**	**(67 010)**	**(67 909)**
Net cash flows from operating activities	**12 601**	**14 830**	**5 465**	**6 422**	**6 715**
Cash flows from investing activities					
Net cash flows from investments in non-financial assets	(8 604)	(9 585)	(9 709)	(8 916)	(8 058)
Net cash flows from investments in financial assets for policy purposes	124	118	74	94	78
Net cash flows from investment in financial assets for liquidity management purposes	(504)	(3 778)	3 593	150	5
Net cash flows from investing activities	**(8 984)**	**(13 245)**	**(6 042)**	**(8 672)**	**(7 975)**
Cash flows from financing activities					
Advances received (net)	1	..	1	1	1
Net borrowings	(3 178)	28	715	1 996	1 179
Deposits received (net)	1	(903)	1	..	(2)
Net cash flows from financing activities	**(3 177)**	**(875)**	**717**	**1 997**	**1 177**
Net increase/(decrease) in cash and cash equivalents	**440**	**710**	**139**	**(253)**	**(83)**
Cash and cash equivalents at beginning of reporting period [(c)]	6 676	6 676	7 387	7 526	7 273
Cash and cash equivalents at end of reporting period [(c)(d)]	**7 116**	**7 387**	**7 526**	**7 273**	**7 190**

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

($ million)

	2016-17 budget	*2016-17 revised*	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
FISCAL AGGREGATES					
Net cash flows from operating activities	12 601	14 830	5 465	6 422	6 715
Net cash flows from investments in non-financial assets	(8 604)	(9 585)	(9 709)	(8 916)	(8 058)
Cash surplus/(deficit)	**3 997**	**5 245**	**(4 244)**	**(2 494)**	**(1 343)**

Source: Department of Treasury and Finance

Notes:

(a) *Presentation is consistent with the* 2016-17 Budget, *where certain line items have been aggregated in the table above due to commercial sensitivities of balances.*

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

(c) 2016-17 Budget *figures have been restated to represent actual opening balances at 1 July 2016.*

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

Table 5.22: State of Victoria statement of changes in equity

($ million)

	Accumulated surplus/(deficit)	*Non-controlling interest*
2016-17 budget [(a)]		
Balance at 1 July 2016	56 233	50
Net result for the year	1 564	..
Other comprehensive income for the year	1 034	..
Dividends paid	..	..
Transfer to/(from) accumulated surplus	4 094	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2017	**62 925**	**50**
2016-17 revised		
Balance at 1 July 2016	56 234	50
Net result for the year	1 327	..
Other comprehensive income for the year	1 122	..
Dividends paid	..	..
Transfer to/(from) accumulated surplus	8 340	..
Transactions with owners in their capacity as owners	..	(50)
Total equity as at 30 June 2017	**67 022**	**..**
2017-18 estimate		
Balance at 1 July 2017	67 022	..
Net result for the year	363	..
Other comprehensive income for the year	1 031	..
Dividends paid	..	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2018	**68 416**	**..**
2018-19 estimate		
Balance at 1 July 2018	68 416	..
Net result for the year	849	..
Other comprehensive income for the year	1 075	..
Dividends paid	..	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2019	**70 339**	**..**
2019-20 estimate		
Balance at 1 July 2019	70 339	..
Net result for the year	1 074	..
Other comprehensive income for the year	1 047	..
Dividends paid	..	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2020	**72 460**	**..**

Source: Department of Treasury and Finance

Note:
(a) Balances represent actual opening balances at 1 July 2016 plus 2016-17 budgeted movements.

Non-financial assets revaluation surplus	*Other reserves*	*Total*
94 965	1 042	152 291
..	..	1 564
2 790	32	3 855
..	..	..
(4 094)	..	..
..	..	..
93 661	**1 074**	**157 711**
94 965	1 042	152 291
..	..	1 327
449	54	1 624
..	..	..
(8 340)	..	..
..	..	(50)
87 075	**1 096**	**155 193**
87 075	1 096	155 193
..	..	363
7 091	12	8 133
..	..	..
..	..	..
..	..	..
94 166	**1 108**	**163 689**
94 166	1 108	163 689
..	..	849
3 104	24	4 203
..	..	..
..	..	..
..	..	..
97 270	**1 131**	**168 741**
97 270	1 131	168 741
..	..	1 074
7 443	32	8 521
..	..	..
..	..	..
..	..	..
104 713	**1 163**	**178 336**

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

($ million)

	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
Cash surplus/(deficit)	**3 997**	**5 245**	**(4 244)**	**(2 494)**	**(1 343)**
Convergence differences:					
Acquisitions under finance leases and similar arrangements [(a)]	(517)	(517)	(647)	(596)	(349)
GFS cash surplus/(deficit) [(b)]	**3 480**	**4 728**	**(4 891)**	**(3 090)**	**(1 692)**

Source: Department of Treasury and Finance

Notes:

(a) The finance lease acquisitions in 2016-17 relate to the new Bendigo Hospital project, the New Schools PPP project and the metropolitan Melbourne buses contract. The 2017-18 estimate relates to the Ravenhall Prison project, the new Bendigo Hospital project and the New Schools PPP project. The 2018-19 and 2019-20 estimates predominantly relate to the High Capacity Metro Trains Project.

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

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

($ million)

	2016-17 budget	2016-17 revised	2017-18 estimate	2018-19 estimate	2019-20 estimate
Purchases of non-financial assets less sales of non-financial assets [(b)]	8 645	9 625	9 675	8 920	8 062
Less: Depreciation	(4 911)	(4 922)	(5 156)	(5 478)	(5 713)
Plus: Other movements in non-financial assets [(b)(c)]	623	459	677	614	420
Total net acquisition of non-financial assets [(b)]	**4 357**	**5 163**	**5 196**	**4 057**	**2 769**

Source: Department of Treasury and Finance

Notes:

(a) Presentation is consistent with the 2016-17 Budget, *where certain line items have been aggregated in the table above due to commercial sensitivities of balances.*

(b) 2016-17 Budget *figures have been restated to reflect more current information.*

(c) The other movements in non-financial assets in 2016-17 predominantly relate to the recognition of finance lease arrangements for the new Bendigo Hospital project, the New Schools PPP project and the metropolitan Melbourne buses contract. The 2017-18 estimate predominantly relates to the Ravenhall Prison project, the new Bendigo Hospital project and the New Schools PPP project. The 2018-19 and 2019-20 estimates predominantly relate to the High Capacity Metro Trains Project.

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 2016-17 LCA nomination approved by the Loan Council in April 2016, with a revised LCA based upon *2016-17 Budget Update* estimates.

Table 5.25: Loan Council Allocation

($ million)

	2016-17 nomination	*2016-17 revised*
General government cash deficit (+) or surplus (-)	1 219	3 379
Public non-financial corporations sector cash deficit (+) or surplus (-)	842	(7 803)
Non-financial public sector cash deficit (+) or surplus (-) [(a)]	2 077	(4 270)
Acquisitions under finance leases and similar arrangements	496	517
ABS GFS cash deficit (+) or surplus (-)	2 573	(3 753)
Less net cash flows from investments in financial assets for policy purposes [(b)]	59	(118)
Plus memorandum items [(c)]	484	702
Loan Council Allocation	**2 998**	**(2 933)**
Tolerance limit (2 per cent of non-financial public sector cash receipts from operating activities) [(d)]	1 217	1 217

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) *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* 2016-17 Budget Update*). The tolerance limit applying to the movement between Victoria's 2016-17 LCA nomination and its LCA revised budget estimate is $1 217 million (2 per cent of $60 844 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 2016-17 revised LCA (a surplus of $2.9 billion) exceeds the tolerance limit established under the LCA nomination process mainly due to the re-phasing of the Port of Melbourne lease transaction proceeds from 2015-16 to 2016-17.

NEW INFRASTRUCTURE PROJECTS WITH PRIVATE SECTOR INVOLVEMENT

In the interests 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 a 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 (PPP) projects that are expected to be contracted in the 2016-17 financial year.

Casey Hospital Expansion

The Casey Hospital expansion project was allocated $106.3 million in the *2015-16 Budget*. The Government subsequently announced an additional $28.6 million in October 2016 for the expansion and an additional 64 multi-day beds. The expansion will increase the floor area of the existing facility by approximately 12 700sqm (35 per cent) through a new multi-storey tower that connects with the existing hospital. The scope of the expansion will add 96 beds, four new operating theatres and a new central sterile services department. The expansion will provide significant across-the-board benefits in improving local access for patients and providing an increased range of acute services, provide improved and sustainable patient outcomes, and allow for improved financial performance through improved operational efficiency. Negotiations are progressing to deliver the expansion as a modification under the current PPP contract with Plenary Health, which expires in 2029. The expansion is expected to be operational in 2019.

High Capacity Metropolitan Trains

The High Capacity Metropolitan Trains (HCMT) Project will provide a dedicated fleet to meet growing demand on the Cranbourne-Pakenham corridor and later on the Sunbury Line, and will provide the trains required for the Metro Tunnel project. A new train depot in Pakenham East and the Light Service Facility at Calder Park will have the flexibility to cater for the future rolling stock maintenance needs of the network. Associated infrastructure will be separately delivered by the State. The project scope will have a nominal capital cost of $2.2 billion.

The project is being procured as an availability-based PPP project. The successful consortium will be contracted to undertake the design, financing, manufacture and commissioning of 65 HCMTs (with a priced option for an additional 35), the Pakenham East Depot and Simulator and the Calder Park Light Service Facility. The consortium will also be responsible for the operating and maintenance activities over the maintenance phase of the contract, commencing from Provisional Acceptance of the first HCMT and ending 30 years post completion of Provisional Acceptance of the fleet. The contract was executed in November 2016, with the first train due to be delivered for testing in 2018.

There are no other Partnerships Victoria contracts greater than $5 million that are currently expected to be signed during the 2016-17 financial year.

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 29 November 2016.

Table 6.1: Quantifiable contingent assets

($ million)

	As at Dec 2016	*Published budget estimate* [(a)]
Guarantees, indemnities and warranties	8	4
Legal proceedings and disputes	6	10
Other [(b)]	102	109
Total contingent assets	**117**	**123**

Notes:

(a) *As published in the* 2016-17 Budget.

(b) *Other contingent assets in the general government sector mainly consists of a contingent payment of $100 million from Crown Melbourne, that may be payable in the 2022 calendar year.*

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 Ltd 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 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.

CONTINGENT LIABILITIES

Contingent liabilities are:

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

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

The table below contains quantifiable contingent liabilities as at 29 November 2016.

Table 6.2: Quantifiable contingent liabilities

($ million)

	As at Dec 2016	Published budget estimate (a)
Guarantees, indemnities and warranties	257	279
Legal proceedings and disputes	149	222
Other	141	127
Non-general government debt (b)	10 972	10 870
Total contingent liabilities	**11 518**	**11 498**

Note:
(a) As published in the 2016-17 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 backed 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.

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

Public acquisition overlays are in place to reserve certain areas of land for the 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.

Level Crossing Removal Program

The State has introduced a voluntary purchase scheme for residential properties directly impacted by the Caulfield-Dandenong level crossing removal project. The scheme commenced on 29 March 2016. The Level Crossing Removal Authority is anticipating future claims by property owners for either outright purchase and associated costs or costs related to landscaping if property owners choose to stay. Due to the uncertainty of the take-up of the offer, it is not feasible to quantify the value of the liability at this stage.

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 Fiskville Training College (Fiskville). Fiskville and Victorian Emergency Management Training Centre training grounds owned by CFA at the Penshurst, Bangholme, West Sale, Wangaratta, Huntly, and Longerenong have been the subject of notices issued by the Environment Protection Authority (EPA).

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

The Government response to the Fiskville Inquiry was tabled in Parliament on 24 November 2016. The response supports all of the 31 recommendations of the Inquiry, either in full, in principle or in part.

The exact financial implications of the Government's response are yet to be quantified.

Compulsory property acquisitions

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

Land remediation – environmental concerns

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

Native Title

A number of claims have been filed 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 not 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 back 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 guarantee 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 $3.6 billion for property. The risk of losses above these reinsured levels is borne by the State.

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

2016 Flood and Storm Events

Since September 2016 , under the Commonwealth-State Natural Disaster Relief and Recovery Arrangements (NDRRA), a severe flood and storm event has been affecting a large number of local government areas (LGAs) across Victoria. At the time of preparing this report, 50 LGAs have been impacted and the initial impact assessments are still being collected and analysed to determine the estimated cost of the damage that has and is occurring. While it is still too early to determine the total costs likely to be incurred, these costs could potentially be shared between the Victorian and the Commonwealth Governments.

On 17 September 2016, the State formally activated the NDRRA with the Commonwealth. In addition, the State has activated the NDRRA for the 11 November 2016 storm event impacting the Mildura LGA.

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

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 *2016-17 Budget*.

The following tables provide details of:

- revenue initiatives;
- whole of government output and asset initiatives; and
- output and asset initiatives for departments.

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.

REVENUE INITIATIVES

Table A.1: Revenue initiatives

($ million)

	2016-17	*2017-18*	*2018-19*	*2019-20*
Commercial passenger vehicle reform	(21.2)	1.6	25.8	26.4
	(21.2)	**1.6**	**25.8**	**26.4**

Commercial passenger vehicle reform

As part of the Government's commercial passenger vehicle reform package, from early 2018 all commercial passenger vehicle providers will be charged a levy equivalent to $2 per trip on all commercial passenger vehicle trips.

Levy revenues will contribute to the industry support package, which includes financial assistance to existing taxi licence holders and additional funding to improve access to convenient and reliable point-to-point transport for people with a disability.

The effect on revenue includes the combined impact of the levy and the foregone revenue from taxi licence fees.

WHOLE OF GOVERNMENT – LATROBE VALLEY ASSISTANCE PACKAGE

Output initiatives

Table A.2: Output initiatives – Latrobe Valley Assistance Package

($ million)

	2016-17	*2017-18*	*2018-19*	*2019-20*
Community Infrastructure and Investment Fund	48.4	42.0	38.3	38.3
Economic Growth Zone	6.5	14.5	14.5	14.5
Latrobe Valley Authority	5.0	5.0	5.0	5.0
Worker and business support	6.4	8.6	3.6	3.6
	66.3	**70.1**	**61.3**	**61.3**

Community Infrastructure and Investment Fund

The Government will establish a fund for new local projects, which could include road and rail upgrades, school upgrades and health facilities to assist Latrobe Valley communities to grow and to create more local jobs.

Economic Growth Zone

To create local jobs, financial incentives (including reimbursement of fees and charges) will be provided to companies seeking to start or expand their businesses in the Latrobe Valley. The Economic Growth Zone will cover the local government areas of Latrobe City Council, Wellington Shire and Baw Baw Shire.

Latrobe Valley Authority

The Government has established a dedicated authority to respond to the closure of the Hazelwood power plant, and to manage the transition and future economic development of the Latrobe Valley. The authority will also assess eligibility for Economic Growth Zone funding on a case-by-case basis.

Worker and business support

Support will be provided to workers and businesses affected by the closure of the Hazelwood power plant, through the establishment of a Worker Transition Centre, counselling, financial advice, subsidised job seeker training, tailored assistance for businesses and the expansion of the Back to Work Scheme to businesses that employ workers in the Latrobe Valley.

Asset initiatives

Table A.3: Asset initiatives – Latrobe Valley Assistance Package

($ million)

	2016-17	*2017-18*	*2018-19*	*2019-20*	*TEI*
Community Infrastructure and Investment Fund	0.5	6.0	..	..	6.5
	0.5	**6.0**	**..**	**..**	**6.5**

Community Infrastructure and Investment Fund

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

DEPARTMENT OF ECONOMIC DEVELOPMENT, JOBS, TRANSPORT AND RESOURCES

Output initiatives

Table A.4: Output initiatives – Department of Economic Development, Jobs, Transport and Resources

($ million)

	2016-17	*2017-18*	*2018-19*	*2019-20*
Commercial passenger vehicle reform	221.5	173.3	5.0	5.0
Myki ticketing services retender	28.4	35.6	36.1	32.9
Outer Suburban Arterial Roads – northern package development	5.6	..	..	..
Outer Suburban Arterial Roads – western package	tbc	tbc	tbc	tbc
Portable long service leave and labour hire inquiry outcomes	1.3	..	..	..
Rural Assistance Commissioner	0.5	0.5	0.5	0.5
V/Line wheel wear management	16.8	..	..	..
	274.1	**209.4**	**41.6**	**38.4**

Commercial passenger vehicle reform

The Government is providing Victorians with greater transport choices by establishing a single commercial passenger vehicle industry. The current licencing regime will be replaced by a single registration system, which will ensure high quality and safety standards for all commercial passenger vehicles, including taxis, hire cars and ride share services.

The reform package includes financial assistance to existing taxi licence holders and additional funding to improve access to convenient and reliable point-to-point transport for people with a disability. All commercial passenger vehicle providers will be charged a levy equivalent to $2 per trip to fund the transition.

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

Myki ticketing services retender

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

Outer Suburban Arterial Roads – northern package development

The Government has allocated funding to progress the business case development of the northern package of the Outer Suburban Arterial Roads (OSARs) Program for future consideration.

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

Outer Suburban Arterial Roads – western package

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

Portable long service leave and labour hire inquiry outcomes

In response to the recommendations of the Victorian Parliamentary Economic, Education, Jobs and Skills Committee Inquiry, the Government will undertake feasibility studies into the introduction of portable long service leave schemes in selected industries. The Government will also investigate possible models for the regulation of the labour hire industry as raised by the Victorian Inquiry into the Labour Hire Industry and Insecure Work.

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

Rural Assistance Commissioner

The Government established a new statutory body called the Rural Assistance Commissioner, to undertake the functions of the previous Rural Finance Corporation.

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

V/Line wheel wear management

As part of its wheel wear management strategy, V/Line will install new hardware that allows it to capture timely and accurate data on the wheel condition of its VLocity trains without the need to withdraw a VLocity from service. This strategy also includes having additional spare wheel sets and improved maintenance.

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

Asset initiatives

Table A.5: Asset initiatives – Department of Economic Development, Jobs, Transport and Resources

($ million)

	2016-17	*2017-18*	*2018-19*	*2019-20*	*TEI*
Myki ticketing services retender [(a)]	2.4	2.5	6.2	14.9	68.5
Nine additional X'Trapolis Trains	..	38.9	97.2	38.9	175.0
Outer Suburban Arterial Roads – western package [(a)(b)]	tbc	tbc	tbc	tbc	tbc
V/Line wheel wear management	5.5	..	..	..	5.5
	7.9	**41.4**	**103.4**	**53.8**	**249.0**

Notes:

(a) The TEI includes funding beyond 2019-20.

(b) Funding is to be confirmed upon contractual completion of public private partnership procurement processes and is not reported at this time due to commercial sensitivities.

Myki **ticketing services retender**

The Government has undertaken a competitive retender for the operational and maintenance services for Victoria's *myki* ticketing system for the next seven years, with options to extend for three additional years. This allows the Government time to make improvements and upgrades to the existing system, as well as the development of a strategic technological roadmap for future ticketing.

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

- Train Services output; and
- Tram Services output.

Nine additional X'Trapolis Trains

The Government will purchase nine additional six-car X'Trapolis trains. The new trains will allow for improved train reliability and, together with the Government's recent investment in X'Trapolis and high capacity metro trains, will manage growing demand across the metropolitan train network.

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

Outer Suburban Arterial Roads – western package

The western package of the OSARs Program combines eight high-priority road upgrades with maintenance on more than 700 kilometres of road stretching from Werribee to Footscray. The package will be delivered as an availability public private partnership (PPP) with an estimated whole-of-life investment of $1.8 billion, which will ensure motorists benefit from new high-quality roads while maintaining the existing network to a high standard.

The upgrades will include a combination of duplication and widening works to western arterial roads including:

- Dunnings Road and Palmers Road, from Point Cook Road to Princes Freeway, Point Cook;
- Palmers Road, from Princes Freeway to Western Freeway, Truganina;
- Derrimut Road, from Sayers Road to Dohertys Road, Tarneit;
- Leakes Road, from Fitzgerald Road to Derrimut Road, Truganina;
- Dohertys Road, from Fitzgerald Road to Grieve Parade, Laverton North;
- Dohertys Road, from Foundation Road to Palmers Road, Truganina;
- Princes Freeway/Forsyth Road interchange, Hoppers Crossing; and
- Duncans Road interchange, Werribee/Werribee South.

The package will transform the outer western road network by boosting capacity and improving road pavement conditions with intersection upgrades, almost 30 kilometres of lane duplication, and integrated road maintenance.

Expressions of interest were called for in November 2016. The request for proposal is expected to be released in early 2017, with construction expected to begin in 2018.

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

V/Line wheel wear management

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

DEPARTMENT OF ENVIRONMENT, LAND, WATER AND PLANNING

Output initiatives

Table A.6: Output initiatives – Department of Environment, Land, Water and Planning

($ million)

	2016-17	*2017-18*	*2018-19*	*2019-20*
Additional aviation resources for firefighting	11.1	..	..	..
Fighting Extinction Fund	1.6	..	..	..
Land Use Victoria	2.3	..	..	..
Recovery of bushfire affected communities	5.8	..	..	..
Supporting growth through effective planning	1.0	..	..	..
	21.7	**..**	**..**	**..**

Additional aviation resources for firefighting

An additional five firefighting aviation resources including two large air tankers, two helitaks and one fixed wing aircraft will continue to be available to support the State's firefighting capability for the 2016-17 bushfire season.

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

Fighting Extinction Fund

New conservation programs will be established for six species of reptiles, frogs and invertebrates that are in danger of becoming extinct.

This initiative contributes to the Department of Environment, Land, Water and Planning's Management of Forests, Parks and Public Land output.

Land Use Victoria

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

Recovery of bushfire affected communities

Local communities will be supported to assist recovery from the 2015-16 summer bushfire season. Works on drainage, erosion management and retaining walls will be undertaken in Colac Otway Shire. A contribution towards the Moorabool Shire Council community hub will improve facilities for the community. Indigo Shire Council will be assisted to extend the Barnawartha recovery support officer role for a further year.

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

Supporting growth through effective planning

Additional planning staff will improve the responsiveness of the planning system, to better meet the needs of a growing population and current levels of development.

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

Asset initiatives

Table A.7: Asset initiatives – Department of Environment, Land, Water and Planning

($ million)

	2016-17	*2017-18*	*2018-19*	*2019-20*	*TEI*
Land Use Victoria	4.0	2.8	..	..	6.8
	4.0	**2.8**	**..**	**..**	**6.8**

Land Use Victoria

Land Use Victoria has been established to create a single agency providing strategic advice to Government on land holdings, and a centre of expertise in government land information. The new functions will provide strategic land use assessments on potential future uses of government land and develop the Government Land Information Service as a central source of information for government landholdings.

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

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Output initiatives

Table A.8: Output initiatives – Department of Health and Human Services

($ million)

	2016-17	*2017-18*	*2018-19*	*2019-20*
Improved private rental access programs for disadvantaged Victorians	..	16.4	16.8	..
Improving ambulance response times	65.9	60.3	101.8	115.3
Redevelopment of public housing estate program	16.3	..	..	..
Responses to homelessness	1.7	52.1	25.7	18.3
Strengthened workforce response in youth justice precincts	3.9	6.6	..	..
Strengthened youth justice response	..	10.0	17.0	2.4
Supercare Pharmacies – additional funding	2.0	4.1	10.0	9.6
	89.9	**149.5**	**171.3**	**145.6**

Improved private rental access programs for disadvantaged Victorians

Existing private rental access support will be extended to continue to assist people to enter or maintain private rental housing. It is short-term in nature, in preference to more intense interventions, such as crisis and transitional housing.

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

Improving ambulance response times

Ambulance response times will be improved by: employing 450 paramedics over the next three years; establishing six new super response centres to meet demand in key areas; building new or upgrading 15 ambulance stations; purchasing new ambulance vehicles and equipment; creating 12 new services in rural and remote towns with a local paramedic and vehicle; and investing in hospital emergency departments to increase the availability of beds.

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

- Ambulance Emergency Services output;
- Ambulance Non-Emergency Services output; and
- Emergency Services output.

Redevelopment of public housing estate program

The Government will establish a project planning and delivery program to redevelop existing public housing estates. This program will engage Development Victoria, the community housing sector, and the private sector, and will lead to the redevelopment of public housing properties, new social housing dwellings and private properties.

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

Responses to homelessness

The Government will help 19 000 people at risk of or experiencing homelessness over the next five years, providing targeted support in particular for rough sleepers, young people and veterans. The package includes support for more than 1 900 people to access housing, mental health, alcohol and drug services.

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

Strengthened workforce response in youth justice precincts

Staffing and managerial supervision will be increased to address safety concerns at Malmsbury and Parkville Youth Justice Precincts.

This initiative contributes to the Department of Health and Human Services' Youth Justice Custodial Services output.

Strengthened youth justice response

A new intensive monitoring bail supervision scheme will be implemented to manage young people who come into contact with the youth justice system in the community while awaiting trial. A Youth Control Order will provide a new more intensive and targeted supervision sentencing option for the Children's Court.

The existing Youth Justice Bail Supervision program will be expanded to enable statewide supervision and support of young people in the community while awaiting a court hearing.

The hours of operation of the Central After-Hours Assessment and Bail Placement Service will be extended and the role of staff will be expanded to enable additional support to young people and their families following a court hearing.

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

- Community-based Services output; and
- Child Protection and Family Services output.

Supercare Pharmacies – additional funding

Additional funding will support the establishment of 20 Supercare Pharmacies across metropolitan and regional Victoria. They will stay open for 24 hours and a nurse will be present between 6pm and 10pm to provide face-to-face advice and services.

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

Asset initiatives

Table A.9: Asset initiatives – Department of Health and Human Services

($ million)

	2016-17	*2017-18*	*2018-19*	*2019-20*	*TEI*
Casey Hospital expansion	..	13.5	15.1	..	28.6
Meeting ambulance response targets	15.1	22.6	29.3	..	66.9
Redevelopment of public housing estate program	35.0	50.0	50.0	50.0	185.0
	50.1	**86.1**	**94.4**	**50.0**	**280.5**

Casey Hospital expansion

Funding will be provided to expand the Casey Hospital, including the fit-out of two shell floors to deliver an additional 64 multi-day beds.

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

Meeting ambulance response targets

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

Redevelopment of public housing estate program

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

DEPARTMENT OF JUSTICE AND REGULATION

Output initiatives

Table A.10: Output initiatives – Department of Justice and Regulation

($ million)

	2016-17	*2017-18*	*2018-19*	*2019-20*
Accelerated deployment of police	20.7	4.2	1.3	..
Additional support for volunteers	15.0	..	..	..
Emergency response to December 2015 Victorian bushfires	0.9	..	..	..
Enhancing the CFA's capability	1.5	2.0	2.0	2.0
Flemington Racecourse grandstand upgrade	4.0	5.0	1.0	..
Summer Fire Information and Education Program	3.5	..	..	..
	45.6	**11.2**	**4.3**	**2.0**

Accelerated deployment of police

Victoria Police will be funded to accelerate the recruitment and deployment of 150 frontline police, 12 months ahead of schedule. As a result, a total of 300 frontline police will be recruited and sworn by 30 June 2017. More frontline police will enhance Victoria Police's capability to serve the Victorian community and uphold the law.

This initiative contributes to the Department of Justice and Regulation's Policing Services and Crime Prevention output.

Additional support for volunteers

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

Emergency response to December 2015 Victorian bushfires

Funding was provided to coordinate support for the communities of Wye River/Separation Creek, Barnawartha and Scotsburn, which were impacted by the December 2015 Victorian bushfires. The funding coordinated the provision of services to clean up damage and resettle communities impacted by the bushfires.

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

Enhancing the CFA's capability

The Country Fire Authority (CFA) will receive funding to enhance its capability to manage and support career and volunteer fire fighters. The additional investment will support the CFA delivering its expanded operations.

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

Flemington Racecourse grandstand upgrade

The Victoria Racing Club will receive funding contributing to the construction of a new state of the art grandstand. This project will expand the grandstand's capacity and upgrade the amenity of Flemington Racecourse. The grandstand upgrade will assist Flemington Racecourse retain its competitiveness against other Australian racing and sporting venues, helping to ensure Victoria remains the major events capital of Australia.

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

Summer Fire Information and Education Program

A program of fire safety information and education will be funded and delivered through a combination of direct marketing, traditional and social media, and public relations.

The program will promote key fire safety advice, including leaving early and community awareness of fire risk and planning in preparation for the 2016-17 summer period.

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

Asset initiatives

Table A.11: Asset initiatives – Department of Justice and Regulation

($ million)

	2016-17	*2017-18*	*2018-19*	*2019-20*	*TEI*
Additional support for volunteers	20.0	..	..	..	20.0
Enhancing the CFA's capability	1.0	..	..	..	1.0
	21.0	**..**	**..**	**..**	**21.0**

Additional support for volunteers

Volunteer brigades in the CFA will receive funding for new vehicles, including 10 heavy tankers and two bulk water carriers. Funding will also be provided for new work wear and personal protection clothing to more than 8 000 CFA volunteers. The next generation of CFA volunteers will be supported with investments in the Junior Support Brigade.

A statewide volunteer support package will fund training and development grants to provide immediate support for volunteer emergency support organisations. A program of grants will also support the sustainability of emergency services organisations.

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

Enhancing the CFA's capability

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

DEPARTMENT OF TREASURY AND FINANCE

Asset initiatives

Table A.12: Asset initiatives – Department of Treasury and Finance

($ million)

	2016-17	*2017-18*	*2018-19*	*2019-20*	*TEI*
Greener Government Buildings	12.8	21.0	..	..	33.8
	12.8	**21.0**	**..**	**..**	**33.8**

Greener Government Buildings

The Greener Government Buildings program will reduce ongoing energy consumption in government buildings and infrastructure, including hospitals, schools, TAFEs, correctional facilities and Melbourne's freeway lighting. Energy efficiency will be achieved by installing various technologies such as LED lighting, heating and cooling upgrades, building automation and solar power. Energy saved will result in lower energy bills and the abatement of greenhouse gas emissions. As a result, this initiative will reduce the Government's environmental impact.

This initiative contributes to outputs across multiple departments, including: the Department of Education and Training; the Department of Health and Human Services; the Department of Justice and Regulation; and the Department of Economic Development, Jobs, Transport and Resources.

APPENDIX B – AMENDMENTS TO THE 2016-17 OUTPUT PERFORMANCE MEASURES

Output measures for all departments were published in Chapter 2 and Appendix A of Budget Paper No. 3 *Service Delivery*. The Public Accounts and Estimates Committee has completed its review of the measures which were substantially changed and proposed to be discontinued and tabled its report in Parliament on 24 November 2016. The Government will consider the Committee's report and respond to the recommendations within the legislated timeline. All agreed changes to output performance measures will be reflected in the next budget publication.

APPENDIX C – TAX EXPENDITURES AND CONCESSIONS

Tax expenditures and concessions represent 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

Tax expenditures are estimated to be $6.1 billion in 2016-17, 35 per cent of which will accrue to owner-occupier households.

Tax expenditures can come in the form of exemptions, reduced rates, deductions or rebates of tax for a certain type of taxpayer, activity or asset. Benefits from marginal rates and tax-free thresholds are not treated as tax expenditures, since they apply to all tax payers.

Tax expenditures are estimated by taking the difference between the reduced tax paid by a person or entity receiving preferential treatment and the actual tax paid by similar taxpayers who do not receive that treatment. This approach assumes taxpayers' behaviour is the same in each circumstance.

Table C.1 outlines the aggregated tax expenditure estimates by the main tax categories for the period 2015-16 to 2019-20.

Tax expenditures for land transfer duty were significantly higher than expected for 2015-16 as there were a series of large corporate reconstruction exemptions. Corporate reconstructions occur when there is a transfer of property, or a change in the beneficial ownership (including in land) from one member of a corporate group to another member of the group, or when there is an acquisition of a beneficial interest by a member of a corporate group from another member of the group arising from a legitimate corporate restructure. The high value of exemptions was largely attributable to 12 separate transactions relating to land containing electricity distribution and sub-transmission networks.

Growth in total tax expenditures are strongly influenced by the biennial revaluation cycle for unimproved land values. This revaluation cycle determines the value of land tax assessments and subsequent land tax expenditures. Land tax expenditures are estimated to increase by 33 per cent in 2016-17, as this is a revaluation year.

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

($ million)

Description	*2015-16*	*2016-17*	*2017-18*	*2018-19*	*2019-20*
Land tax	2 990.4	3 985.7	3 918.3	4 447.8	4 359.0
Fire Services Property Levy	21.9	21.9	21.5	21.7	21.9
Payroll tax	1 159.7	1 220.6	1 281.6	1 343.1	1 411.6
Gambling tax	74.7	75.0	75.9	76.7	77.5
Motor vehicle taxes	178.2	188.8	195.1	202.0	209.3
Land transfer duties [(b)]	2 043.9	586.6	668.9	695.9	729.9
Congestion levy	51.5	52.4	53.5	54.7	56.0
Total estimated tax expenditures	**6 520.3**	**6 131.1**	**6 214.7**	**6 841.9**	**6 865.3**

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) The high level of land transfer duty tax expenditures in 2015-16 is due to a significant increase in the value of corporate reconstruction exemptions. In December 2015, the State Revenue Office reviewed a series of related high value transactions that were subsequently found to be exempt under section 250 of the Duties Act 2000 *(corporate reconstruction). 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 reduce the price of a good or service for particular groups. The State will provide approximately $1.6 billion in concessions in 2016-17.

Certain characteristics of consumers, such as possession of a Commonwealth pension card or a health care card, are the basis for entitlement. Concessions allow certain groups in the community to access or purchase important amenities such as energy, education, health and transportation at a partial or full discount.

Table C.2 outlines the main concessions provided by the Victorian Government.

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: Concessions by category [a]

($ million)

Description	*2015-16*	*2016-17*
Electricity	164.6	168.6
Mains gas	63.5	65.9
Municipal rates	94.5	96.1
Water and sewerage	166.8	169.6
Total energy, municipal rates, water and sewerage	**489.4**	**500.1**
Ambulance	377.2	388.5
Dental services and spectacles [b]	154.5	106.5
Community health programs	111.3	143.6
Total health	**643.0**	**638.6**
Education [c][d]	**92.4**	**68.3**
Hardship schemes	**41.6**	**43.5**
Social and community services	**5.7**	**5.6**
Private transport	**190.4**	**200.6**
Public transport	**147.3**	**154.0**
Total for items estimated	**1 609.8**	**1 610.7**

Source: Department of Treasury and Finance

Notes:
(a) Some concessions are unable to be directly measured and are estimates only.
(b) The lower concession expenditure estimated for dental services in 2016-17 is a result of the National Partnership Agreement on Adult Public Dental Services ceasing in June 2016. The State's dental program will continue.
(c) The lower concessions reflects a better alignment of funding and demand.
(d) Despite a reduction in concessions for 2016-17, additional funding is available in the Victorian Training Guarantee.

APPENDIX D – SENSITIVITY ANALYSIS

The *2016-17 Budget Update* is predicated on macroeconomic forecasts and assumptions that are subject to variation. This section quantifies the expected 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 major economic parameters 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 major economic parameters is considered with reference to historical examples. The analysis attempts to capture some, though not all, of the interrelationships between economic variables in a feasible scenario. This provides a better understanding of the aggregate fiscal impact where the general economic environment is materially different from the 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 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, where 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 indicators being 1 per cent higher than expected from 2016-17 [(a)(b)(c)(d)(e)(f)]

($ million)

	2016-17 estimate	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
GSP				
Income from transactions	177	186	201	210
Expenses from transactions	6	(2)	(9)	(17)
Net result from transactions	**171**	**187**	**210**	**226**
Net debt	**(171)**	**(358)**	**(568)**	**(795)**
Employment [(g)]				
Income from transactions	53	69	66	69
Expenses from transactions	(1)	(4)	(7)	(10)
Net result from transactions	**54**	**73**	**73**	**79**
Net debt	**(54)**	**(128)**	**(200)**	**(279)**
Consumer prices [(h)]				
Income from transactions	341	335	287	304
Expenses from transactions	72	72	65	56
Net result from transactions	**269**	**263**	**222**	**249**
Net debt	**(270)**	**(542)**	**(771)**	**(1 026)**
Average weekly earnings				
Income from transactions	80	69	3	(18)
Expenses from transactions	8	5	4	5
Net result from transactions	**72**	**64**	**(1)**	**(22)**
Net debt	**(72)**	**(137)**	**(135)**	**(113)**
Total employee expenses [(i)]				
Income from transactions	33	32	34	34
Expenses from transactions	231	277	300	317
Net result from transactions	**(198)**	**(245)**	**(266)**	**(283)**
Net debt	**198**	**430**	**683**	**952**
Domestic share prices				
Income from transactions	..	2	2	1
Expenses from transactions	..	(1)	(2)	(2)
Net result from transactions	**..**	**3**	**3**	**3**
Net debt	**..**	**(2)**	**(4)**	**(6)**
Overseas share prices				
Income from transactions	..	6	6	4
Expenses from transactions	..	(1)	(2)	(2)
Net result from transactions	**..**	**8**	**8**	**6**
Net debt	**..**	**(7)**	**(13)**	**(17)**
Property prices [(j)]				
Income from transactions	102	104	112	116
Expenses from transactions	(3)	(8)	(12)	(17)
Net result from transactions	**105**	**112**	**124**	**133**
Net debt	**(108)**	**(223)**	**(351)**	**(487)**

Table D.1: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2016-17 *(continued)*

($ million)

	2016-17 estimate	*2017-18 estimate*	*2018-19 estimate*	*2019-20 estimate*
Property volumes				
Income from transactions	59	61	63	67
Expenses from transactions	(2)	(4)	(7)	(10)
Net result from transactions	**61**	**65**	**70**	**77**
Net debt	**(61)**	**(126)**	**(196)**	**(273)**
Interest rates [k]				
Income from transactions	188	147	102	193
Expenses from transactions	5	198	193	177
Net result from transactions	**183**	**(51)**	**(91)**	**16**
Net debt	**(183)**	**(332)**	**(440)**	**(644)**

Source: Department of Treasury and Finance

Notes:

(a) *For the* 2016-17 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, employee expenses, domestic and overseas share prices, and property prices.*

(b) *Variations are applied to the economic variables in the budget year. For the forward estimates 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 smaller deficit. A positive number for net debt denotes a higher level of net debt in the relevant year compared with a no-variation scenario. Numbers may not balance due to rounding.*

(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. The difference between the cumulative net result from transactions and net debt is due to non-cash expenses and gross sale proceeds (where applicable).*

(g) *A shock to employment is assumed to impact payroll tax revenue to an extent consistent with no change to historical relationships between total employment, part-time/full-time employment shares, and payroll tax revenue.*

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

(i) *Represents a one-off 1 per cent increase in total employee expenses relative to a no-variation scenario. This could be generated through a change in the size of the workforce, the price of the workforce (salaries, overtime, allowances and bonuses, long service leave expenses, fringe benefits tax and WorkSafe premiums) or through other management decisions regarding the composition and profile of the workforce.*

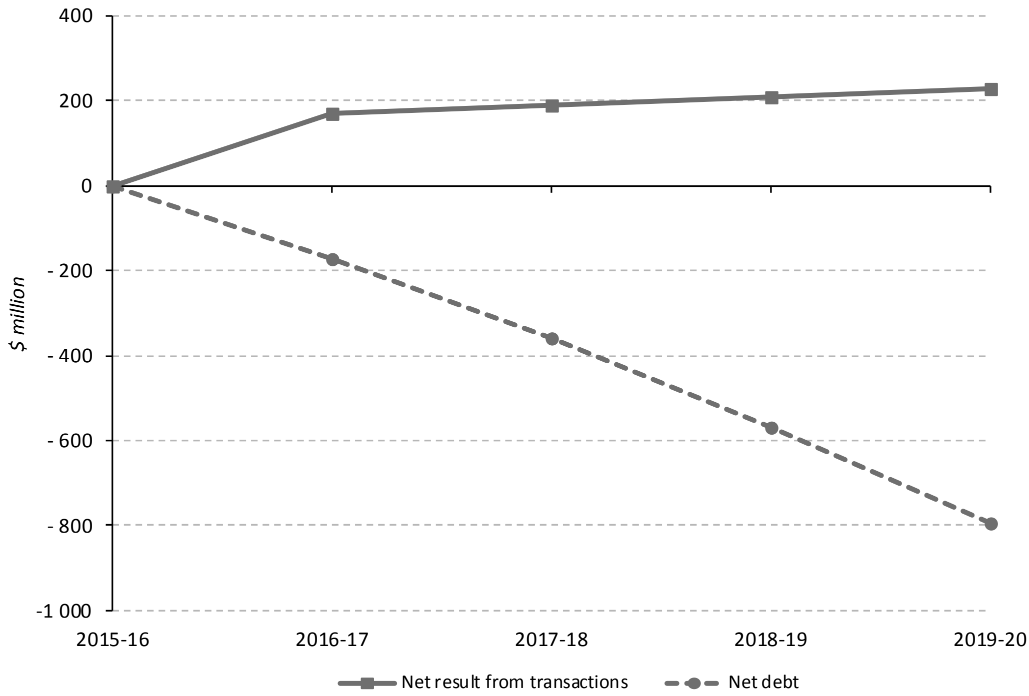
(j) *Other economic flows include gross sale proceeds from land and buildings.*

(k) *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 impact in each year accumulates over the forward estimates.

Chart D.1: Sensitivity of key fiscal aggregates to GSP being 1 per cent higher than expected from 2016-17 [(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 in the valuation of insurance liabilities of state-owned insurance agencies, partially offset by a loss on the valuation of investment assets.

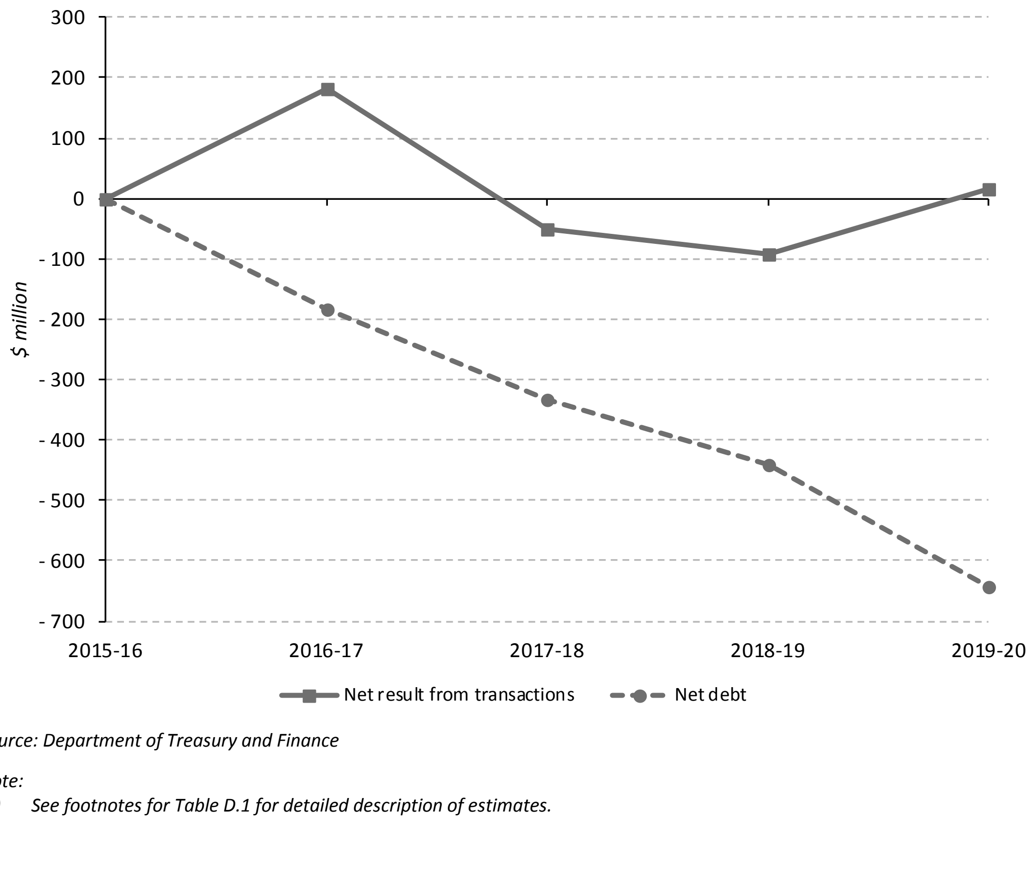
As dividends of the State's insurance agencies are based on performance from insurance operations, which excludes the initial impact of discount rate movements, the increase in interest rates will have little direct impact on dividends in the budget year. As income tax equivalents (ITEs) of the insurance 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 forward estimates. The increase in the superannuation expense that is associated with an increase in interest rates is a non-cash item, therefore it does not have an impact on net debt.

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 2016-17 [(a)]



Source: Department of Treasury and Finance

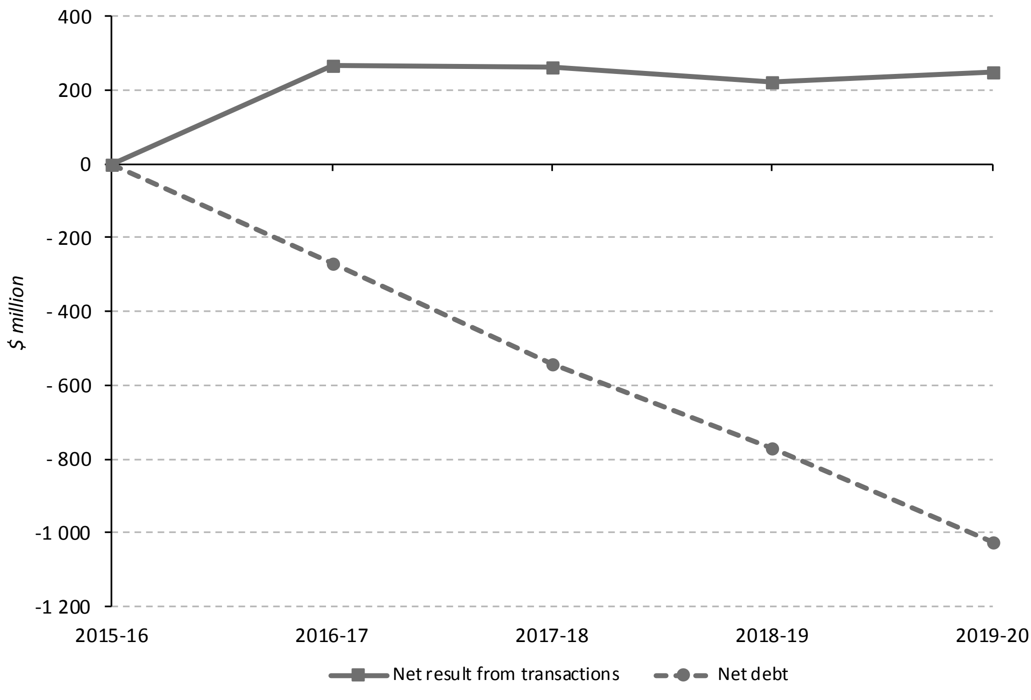
Note:
(a) See footnotes for Table D.1 for detailed description of estimates.

Sensitivity to consumer prices

Higher consumer prices lead to higher taxation revenue, as the nominal values of tax bases increase. 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 over the forward estimates. 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 2016-17 [(a)]



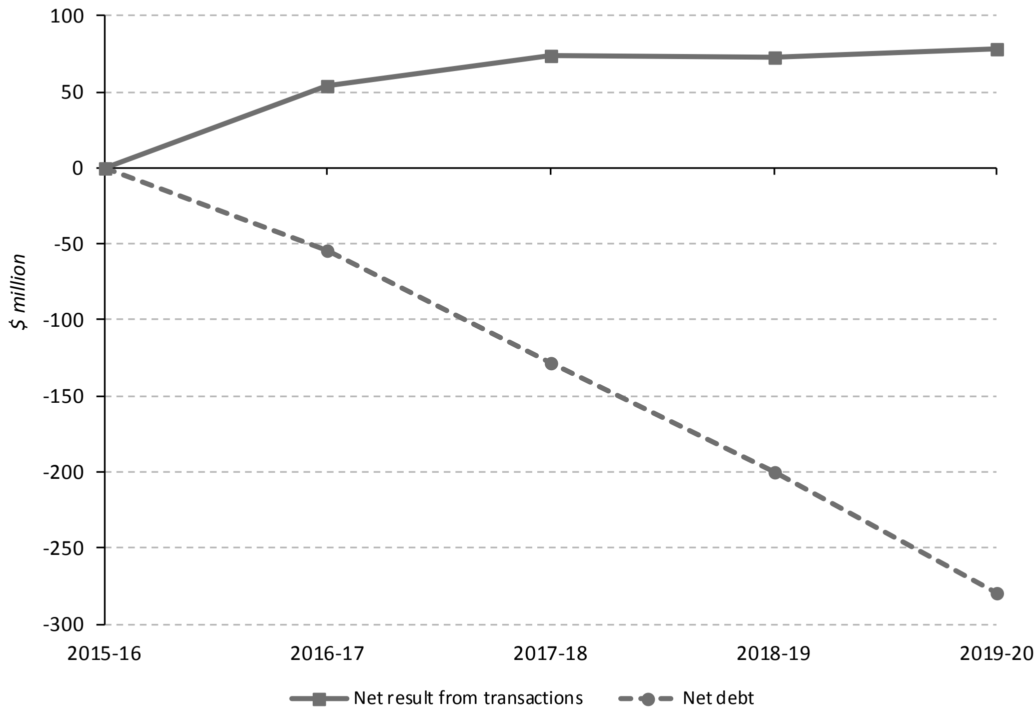
Source: Department of Treasury and Finance

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 generates 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 2016-17 [(a)]



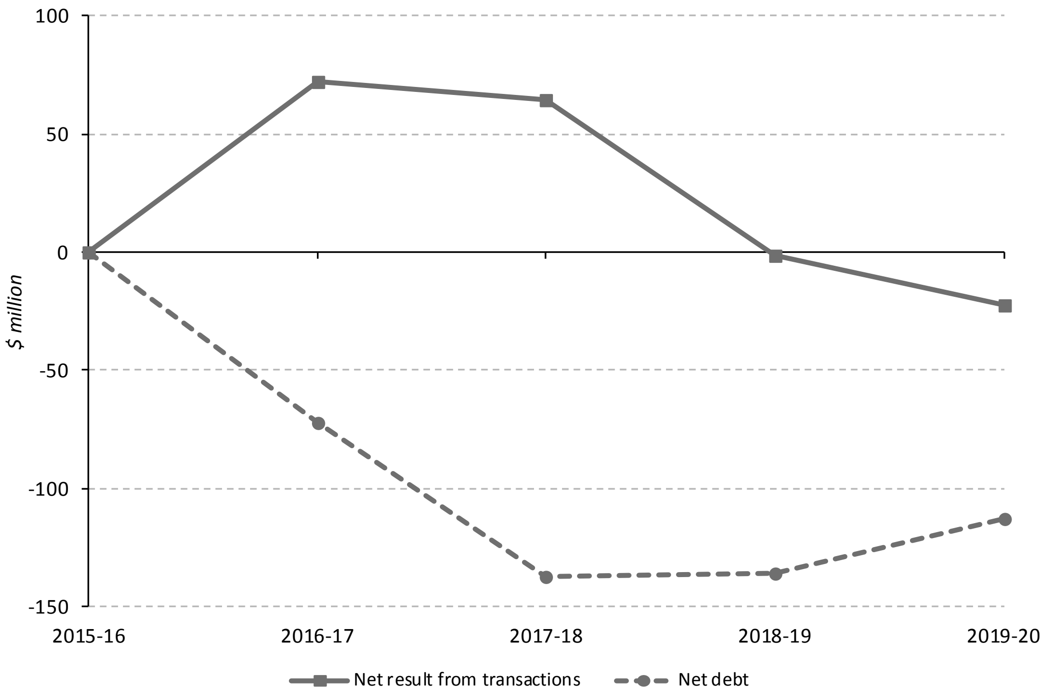
Source: Department of Treasury and Finance

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 each year. An increase in the average expense per claim for WorkSafe Victoria reduces ITEs. The combined initial effects lead to a higher net result from transactions where the increase in payroll tax dominates but higher WorkSafe claims push this into negative territory by the end of the forward estimates.

Chart D.5: Sensitivity of key fiscal aggregates to average weekly earnings being 1 per cent higher than expected from 2016-17 [(a)]



Source: Department of Treasury and Finance

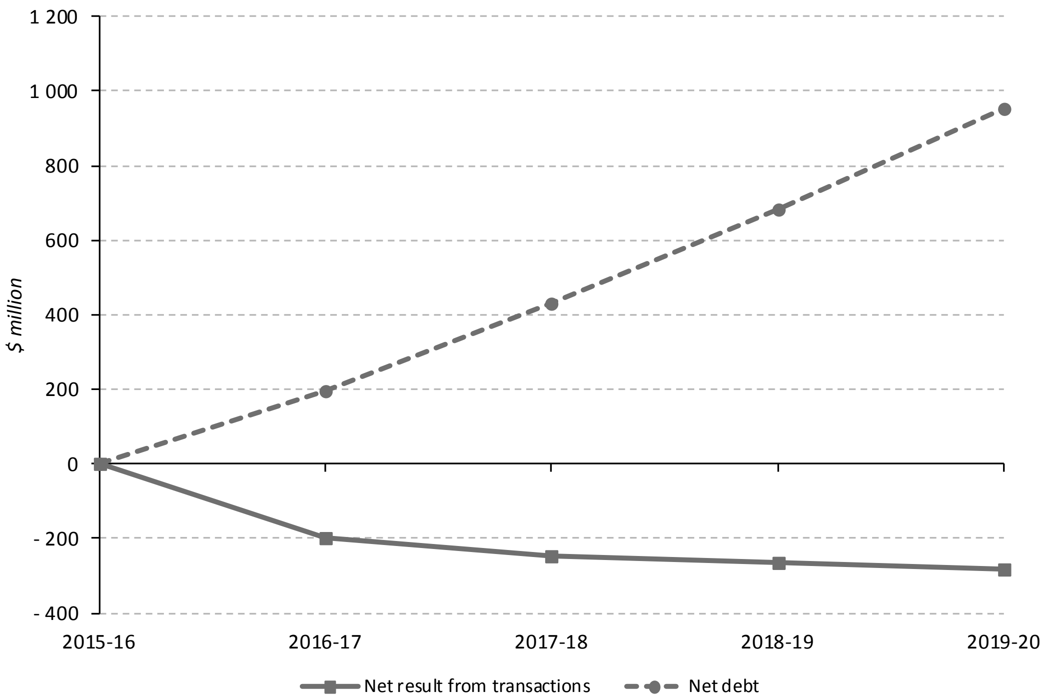
Note:
(a) See footnotes for Table D.1 for detailed description of estimates.

Sensitivity to total employee expenses

An increase in employee expenses above forecast levels could be generated through a policy decision to increase the public sector workforce, a change to the price paid to the workforce, through other management decisions regarding the composition and profile of the workforce, or any combination of these that increases the total employee expenses base by 1 per cent.

Increased employee entitlements raise the value of the superannuation liability and flow through to a greater superannuation expense over the forward estimates. These impacts result in a decline in the net result from transactions and cumulatively higher net debt over the budget and forward estimates.

Chart D.6: Sensitivity of key fiscal aggregates to total employee expenses being 1 per cent higher than expected from 2016-17 [(a)]



Source: Department of Treasury and Finance

Note:
(a) See footnotes for Table D.1 for detailed description of 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 no significant impact on ITEs within the forward estimates. 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 and the associated increase in superannuation fund assets, 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 increases the net result from transactions and lowers 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 year and previous years. Similarly, an economic shock in a given year will affect fiscal outcomes in that year 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 [c]	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 [d]	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) Actual growth rates may differ from those in previous publications due to revisions in Australian Bureau of Statistics data.
(d) Wage Price Index, Victoria (based on total hourly rates of pay, 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 the 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. The impact of the global financial crisis on employment was relatively small due to employers choosing to reduce hours rather than lay off staff. As a result, the forecast error of employment was smaller. 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 (c)	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 (d)	3.8	4.0	0.3

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) Actual growth rates may differ from those in previous publications due to revisions in Australian Bureau of Statistics data.
(d) 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 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 reluctance of employers to shed 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 appears 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 more than offset 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*	*Forecast error (%)*
Payroll taxes	3 963	3 980	17	..
Land transfer duty	3 737	2 801	(936)	(25)
Other own-sourced revenue	5 683	5 846	163	3
Taxation revenue	**13 383**	**12 627**	**(756)**	**(6)**
Other revenue	14 146	17 339	3 193	23
GST	10 281	9 319	(962)	(9)
Total revenue	**37 810**	**39 285**	**1 475**	**4**
Total expenses	**36 982**	**39 034**	**2 051**	**6**
Net result from transactions	**828**	**251**	**(576)**	**(70)**

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 *2016-17 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 *2016-17 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 *2016-17 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
tbc	to be confirmed
ongoing	continuing output, program, project etc.
(x xxx.x)	negative amount
x xxx.0	rounded amount

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

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

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

2016-17 Budget Update
dtf.vic.gov.au

Treasury
and Finance