



Victorian Budget  
2024/25

# Helping Families

2024/25 Budget Update

Presented by Tim Pallas MP  
Treasurer of the State of Victoria

# ACKNOWLEDGEMENT OF COUNTRY

The Victorian Department of Treasury and Finance acknowledges that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history. We proudly acknowledge Victoria's Aboriginal communities and recognise the value and ongoing contribution of Aboriginal people and communities to Victorian life. We pay our respect to Elders past and present and emerging.

As we work to ensure Victorian Aboriginal communities continue to thrive, the Government acknowledges the invaluable contributions of generations that have come before us, who have fought tirelessly for the rights of their people and communities towards self-determination. We reflect on the continuing impact of government policies and practices and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples towards improved cultural, social and economic outcomes.



*'lim-ba nindee thana warn-ga-ilee'*  
(Preserve our Dreaming Lore) – Gonnai Language  
Bitja (Dixon Patten Jnr) Yorta Yorta, Gonnai,  
Gunditjmara and Dhudhuroa of Bayila Creative

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# Budget Update

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## 2024-25



Presented by

**Tim Pallas MP**

Treasurer of the State of Victoria

for the information of Honourable Members



# TABLE OF CONTENTS

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<b>Chapter 1 – Economic and fiscal overview</b> .....	<b>1</b>
Strong growth in jobs and investment .....	1
Strong financial management .....	3
<b>Chapter 2 – Economic context</b> .....	<b>7</b>
Victorian economic conditions and outlook .....	7
Australian economic conditions and outlook.....	13
International economic conditions and outlook .....	14
Risks to the Victorian outlook .....	15
<b>Chapter 3 – Budget position and outlook</b> .....	<b>17</b>
General government sector .....	18
Budget and forward estimates outlook .....	19
Fiscal risks.....	30
Non-financial public sector.....	36
Non-financial public sector net debt and net financial liabilities.....	38
State of Victoria.....	40
<b>Chapter 4 – Estimated financial statements and notes</b> .....	<b>43</b>
Estimated consolidated general government sector comprehensive operating statement.....	43
Estimated consolidated general government sector balance sheet .....	45
Estimated consolidated general government sector cash flow statement .....	46
Estimated consolidated general government sector statement of changes in equity ..	48
<b>Chapter 5 – Supplementary uniform presentation framework tables</b> .....	<b>87</b>
<b>Chapter 6 – Sensitivity analysis</b> .....	<b>111</b>
Fiscal effects of variations to the economic outlook .....	112
Sensitivity to independent variations in major economic parameters.....	119
<b>Chapter 7 – Contingent assets and contingent liabilities</b> .....	<b>121</b>
Contingent assets .....	121
Contingent liabilities.....	122

<b>Appendix A – Specific policy initiatives affecting the budget position .....</b>	<b>129</b>
<b>Appendix B – Amendments to the 2024-25 output performance measures.....</b>	<b>145</b>
<b>Appendix C – Tax expenditures and concessions .....</b>	<b>147</b>
<b>Appendix D – Requirements of the <i>Financial Management Act 1994</i> .....</b>	<b>151</b>
<b>Style conventions.....</b>	<b>153</b>

# CHAPTER 1 – ECONOMIC AND FISCAL OVERVIEW

## STRONG GROWTH IN JOBS AND INVESTMENT

The Victorian economy continues to grow and the labour market is strong. The number of Victorians with a job reached a record level in September 2024, and the unemployment rate remains historically low at 4.5 per cent. Over 280 000 more Victorians gained work over the past two years – the fastest jobs growth of any state or territory over this period (see Chart 1.1), and there are well over 600 000 more Victorians in work than during the pandemic-related trough in Victorian employment in September 2020. The share of working-age Victorians in employment and the participation rate are both near record highs and above the national average.

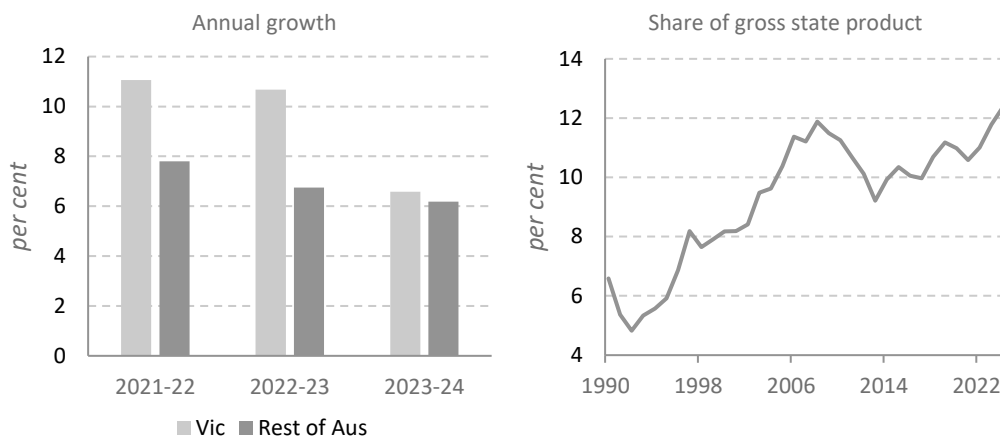
Real gross state product (GSP) grew by 1.5 per cent in 2023-24, amid the global and national challenges of high inflation and elevated interest rates. Victoria's economy is now 11.5 per cent larger than it was in 2018-19, prior to the COVID-19 pandemic, and is 4.6 per cent larger in per capita terms.

High inflation and elevated interest rates have slowed growth, as has been the case nationally and in many advanced economies. However, the Victorian economy has remained resilient. Business investment has been particularly strong – rising by 6.6 per cent in 2023-24, the second highest of any state, and by 31 per cent over the three years to 2023-24 – to reach its highest share of overall economic activity on record (see Chart 1.2). Other data shows more than 100 000 new businesses have been created in Victoria since June 2020 – an increase of almost 17 per cent, the largest percentage growth of any state.

**Chart 1.1: Growth in employment over the two years to October 2024, seasonally adjusted**



**Chart 1.2: Real business investment**



Source: Australian Bureau of Statistics

Real GSP is forecast to grow by a solid 2.50 per cent in both 2024-25 and 2025-26, and real GSP per capita – a key measure of living standards – is forecast to grow in each year of the forward estimates. Most major components of GSP are expected to add to growth in 2024-25, with household consumption being a major contributor. Declining inflation, personal income tax cuts and firm wages growth will each help lift real household incomes, and this is expected to boost consumer spending. Meanwhile, the level of business investment is forecast to remain high, supported by a large pipeline of construction projects (including infrastructure work), as well as continued high private sector expenditure in digitisation projects and renewable energy transition projects.

The high level of economic activity has meant that the number of Victorians in work is near a record high. The strong labour market has supported all groups of working Victorians, with the shares of women, men and young people in work all above pre-pandemic levels. Unemployment remains historically low at 4.5 per cent, while the regional unemployment rate is even lower at 3.8 per cent.

After growing by a strong 3.5 per cent in 2023-24, employment is forecast to grow by a further 2.50 per cent in 2024-25. Unemployment is forecast to remain around its current level of 4.50 per cent in 2024-25, which remains low by historical standards.

The healthy labour market has underpinned higher wages, which grew by 3.6 per cent in 2023-24, the fastest rate of nominal wages growth in over a decade. Wages are forecast to grow by a further 3.50 per cent in 2024-25 as labour market conditions remain positive. Notably, wage growth is forecast to exceed inflation in 2024-25, as inflation pressures continue to gradually ease.



## STRONG FINANCIAL MANAGEMENT

In response to the COVID-19 pandemic, the Government developed in the *2020-21 Budget* a comprehensive fiscal strategy to protect Victorian households and businesses and provide a strong foundation for recovery. This initially involved a four-step plan to support Victorians, grow the economy and return to surpluses over the medium term.

The Government has consistently reported on its progress over the last four years, and recently updated the plan in the *2024-25 Budget* to introduce a new fifth step. This plan provides a clear framework:

- **Step 1:** creating jobs, reducing unemployment and restoring economic growth
- **Step 2:** returning to an operating cash surplus
- **Step 3:** returning to operating surpluses
- **Step 4:** stabilising net debt levels as a proportion of GSP
- **Step 5:** reducing net debt as a proportion of GSP.

### Progress towards achieving the Government's fiscal strategy

The first step – creating jobs, reducing unemployment and restoring economic growth – has been achieved, with strong employment outcomes and robust economic growth.

The second step in the Government's fiscal strategy – returning to an operating cash surplus – means the State is generating sufficient cash inflows to exceed its cash outflows on operating activities, a key pillar of fiscal sustainability. The Government achieved an operating cash surplus for the past two years including an operating cash surplus of \$2.6 billion in 2023-24 and continues to forecast operating cash surpluses across the forward estimates, reaching \$6.4 billion in 2027-28.

The third step – returning to an operating surplus – is important as this is where the Government generates sufficient revenues to cover its cash expenditure and support the ongoing replacement of existing assets. The Government is forecasting operating surpluses of \$1.6 billion in 2025-26, \$1.7 billion in 2026-27 and \$2.0 billion in 2027-28.

The fourth step – stabilising net debt as a percentage of GSP – involves progressively improving operating cash flow surpluses while growing the economy. These surpluses will fund a higher proportion of capital expenditure, reducing the reliance on borrowings. The *2024-25 Budget Update* continues to forecast the achievement of this step by the end of the forward estimates.

In the *2020-21 Budget*, net debt in 2023-24 was projected to be 28.9 per cent of the economy, compared to the 21.9 per cent result published in the *2023-24 Financial Report*. Net debt is \$21.5 billion lower than originally forecast for 2023-24 in the *2020-21 Budget*.

The fifth step – introduced in the *2024-25 Budget* – involves reducing net debt as a percentage of GSP. The net debt to GSP ratio is a measure of the size of net debt relative to the size of the economy, providing an indication of the Government's ability to service its debt. Net debt to GSP is forecast to decline from 25.2 per cent in 2026-27 to 25.0 per cent in 2027-28 and is forecast to be lower in the budget year and each year of the forward estimates when compared to the *2024-25 Budget*.

## Financial position

Net cash flows from operating activities for the general government sector are forecast to be in surplus by \$0.4 billion in 2024-25 and remain in surplus over the forward estimates, reaching \$6.4 billion in 2027-28.

The net result from transactions for the general government sector is forecast to be in deficit by \$3.6 billion in 2024-25. The Government continues to forecast a return to an operating surplus in 2025-26 of \$1.6 billion, increasing to \$1.7 billion in 2026-27 and \$2.0 billion in 2027-28. The *2024-25 Budget Update* forecasts higher operating surpluses across the forward estimates when compared to the *2024-25 Budget*.

**Table 1.1: General government fiscal aggregates**

	Unit of measure	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
Net result from transactions	\$ billion	(3.6)	1.6	1.7	2.0
Net cash flows from operating activities	\$ billion	0.4	7.2	7.1	6.4
Government infrastructure investment <sup>(a)(b)</sup>	\$ billion	23.5	21.7	18.7	15.6
Net debt	\$ billion	155.2	168.5	179.0	187.3
Net debt to GSP <sup>(c)</sup>	per cent	24.2	25.0	25.2	25.0

*Notes:*

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

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

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

Total revenue for the general government sector is expected to be \$98.1 billion in 2024-25 and is expected to grow by an average of 4.0 per cent a year over the forward estimates, reaching \$110.4 billion in 2027-28.

Total expenses are expected to be \$101.7 billion in 2024-25 and are expected to grow by an average of 2.2 per cent over the forward estimates, reaching \$108.4 billion in 2027-28.

Government infrastructure investment (GII) is expected to have peaked in 2023-24 and will reduce to \$15.6 billion by the end of the forward estimates, ensuring a sustainable infrastructure pipeline. GII averages \$19.9 billion a year over the budget and forward estimates period which is marginally higher than at the *2024-25 Budget*, primarily reflecting additional investment by the Commonwealth in the joint infrastructure program included in the *2024-25 Commonwealth Budget*.

The Government continues to return its capital program towards pre-COVID levels by the end of the forward estimates to take account of the strength of the Victorian economy as well as industry capacity in the construction sector.

Net debt is expected to be \$155.2 billion at 30 June 2025 and increase to \$187.3 billion by 30 June 2028. This is an improvement in the budget year and each year of the forward estimates, including an improvement of \$0.5 billion to 2027-28 when compared with the *2024-25 Budget*. As a proportion of GSP, net debt is projected to be 24.2 per cent at 30 June 2025 before reaching 25.2 per cent in 2026-27 and then declining to 25.0 per cent in 2027-28. Net debt to GSP is forecast to be lower in the budget year and each year of the forward estimates when compared with the *2024-25 Budget*.

## Long-term objectives and targets

The Government's long-term financial management objectives as set out in Table 1.2 remain unchanged from the *2024-25 Budget*.

**Table 1.2: Long-term financial management objectives**

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

Progress towards these financial management objectives is supported by the measures and targets in Table 1.3. These measures and targets are also unchanged from the *2024-25 Budget*.

**Table 1.3: Financial measures and targets**

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

The Government will review and publish its financial objectives and measures, consistent with requirements under the *Financial Management Act 1994*, as part of the forthcoming 2025-26 budget.



## CHAPTER 2 – ECONOMIC CONTEXT

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- The Victorian economy continues to grow and the labour market is strong, despite the ongoing challenges of high inflation and elevated interest rates.
- Victoria’s unemployment rate averaged a low 4.0 per cent in 2023-24, while the share of the working-age population in employment is near a record high.
- The economy grew by 1.5 per cent in 2023-24, and real gross state product is well above pre-pandemic levels. The rate of economic growth is forecast to increase in 2024-25, to 2.50 per cent. Growth is expected to be supported by higher real household incomes as inflation declines and wage growth remains firm.
- The labour market is strong and employment is forecast to grow by a further 2.50 per cent in 2024-25.
- Inflation has eased over the past year but remains relatively high, as it does nationally and in many other advanced economies. In response, the Reserve Bank of Australia has held interest rates at an elevated level, which is restraining activity in some sectors of the economy. Inflation is expected to continue to moderate over the remainder of 2024-25.
- Risks to Victoria’s economy include uncertainty around the outlook for household consumption, potential changes to US trade and fiscal policies and their impacts on the global economy, slower growth in China, and geopolitical conditions.

### VICTORIAN ECONOMIC CONDITIONS AND OUTLOOK

The Victorian economy has continued to grow amid ongoing global challenges of high inflation and elevated interest rates. In 2023-24, growth in Victoria’s real gross state product (GSP) was 1.5 per cent, which was slightly above national gross domestic product (GDP) growth of 1.4 per cent. Real GSP is now 11.5 per cent larger than it was in 2018-19, before the COVID-19 pandemic, and 4.6 per cent larger in per capita terms.

The high level of economic activity has supported a healthy labour market. Employment rose by a strong 3.5 per cent in 2023-24 and the share of Victoria’s working-age population in employment is near a record high. Unemployment also remains historically low at 4.5 per cent.

Inflation has eased over the past year, although it remains relatively high, and the Reserve Bank of Australia (RBA) has held the cash rate at a 12-year high to bring inflation down. Cost-of-living pressures have weighed on household budgets and led to a slowdown in household spending. Per capita consumption has declined and household saving buffers have returned to around pre-pandemic levels, where they have stabilised, after rising through the pandemic period.

The Victorian economy is forecast to grow by 2.50 per cent in 2024-25. This growth is expected to be driven by stronger household consumption, as inflation eases and employment and wage growth remain firm, supporting real household incomes. GSP growth is also expected to be supported by increased public demand from expanded Commonwealth social benefits programs and infrastructure spending. Business investment is forecast to remain at elevated levels.

Victorian employment is forecast to grow a further 2.50 per cent in 2024-25, following very strong growth of 3.5 per cent in 2023-24. The unemployment rate is expected to remain around its current level of 4.50 per cent. While higher than the 4.00 per cent average in 2023-24 due to strong growth in Victoria’s workforce, the unemployment rate remains low by historical standards, and is lower than the average in the decade before the COVID-19 pandemic.

Table 2.1 sets out the latest economic forecasts, with the *2024-25 Budget* forecasts in italics where different.

**Table 2.1: Victorian economic forecasts <sup>(a)</sup>** **(per cent)**

	<i>2023-24 actual</i>	<i>2024-25 forecast</i>	<i>2025-26 forecast</i>	<i>2026-27 projection</i>	<i>2027-28 projection</i>
Real gross state product	1.50	2.50	2.50 2.75	2.75	2.75
Employment	3.50	2.50 1.00	0.75 1.75	1.75	1.75
Unemployment rate <sup>(b)</sup>	4.00	4.50 4.25	4.75 4.50	4.75	4.75
Consumer price index <sup>(c)</sup>	4.00	2.50 2.75	3.00 2.50	2.50	2.50
Wage price index <sup>(d)</sup>	3.60	3.50 3.75	3.25	3.25	3.25
Population <sup>(e)</sup>	2.60 <sup>(f)</sup> 2.30	1.80	1.70	1.70	1.70

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

Notes:

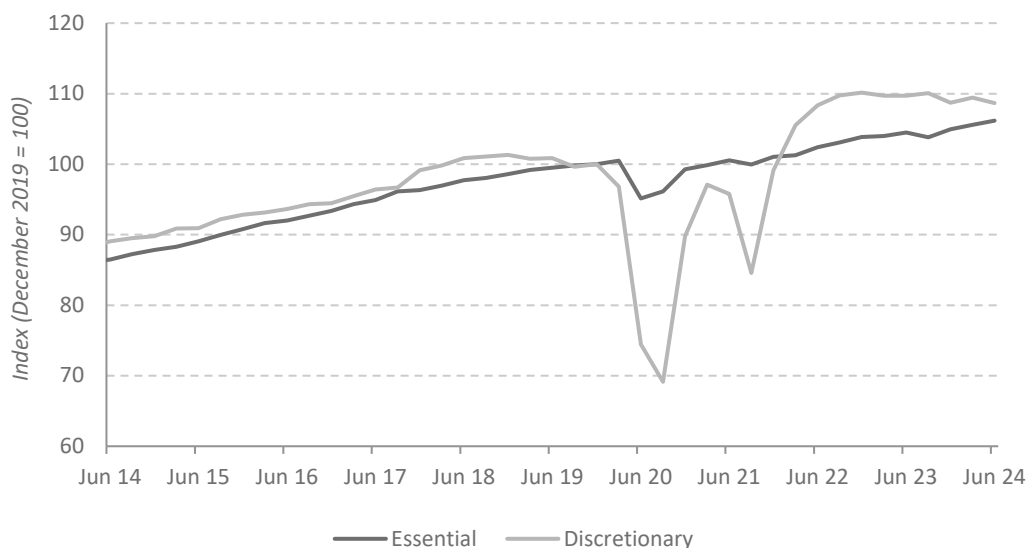
- (a) Percentage change in year average terms compared with the previous year, except for the unemployment rate (see note (b)) and population (see note (e)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (e)). The key assumptions underlying the economic forecasts include interest rates that broadly follow market economists’ expectations; an Australian dollar trade-weighted index of 62.3; and oil prices that follow the path suggested by oil futures.
- (b) Year average.
- (c) Melbourne consumer price index.
- (d) Wage price index, Victoria (based on total hourly rates of pay, excluding bonuses).
- (e) Percentage change over the year to 30 June. Forecasts are rounded to the nearest 0.1 percentage point.
- (f) Estimate, actual not yet available.

## Gross state product

Victoria’s economy grew by 1.5 per cent in 2023-24 and is forecast to grow by 2.50 per cent in 2024-25. Growth in 2023-24 was underpinned by strong growth in business investment and an increase in government consumption driven largely by Commonwealth spending. Household consumption is expected to be a major contributor to GSP growth in 2024-25, alongside continued strength in public demand driven by the Commonwealth Government. Most major components of GSP are forecast to contribute positively to growth in 2024-25.

Household consumption was subdued in 2023-24, growing by 0.6 per cent. Household budgets have been constrained by ongoing cost-of-living pressures due to high inflation and elevated interest rates, and discretionary spending fell over the past year (see Chart 2.1). In 2024-25, household consumption growth is forecast to pick up, supported by a rise in real household disposable income. Wage growth is expected to remain firm, alongside low unemployment, while recent income tax cuts and a further decline in inflation will also support growth in real incomes. While stronger household income growth should support aggregate spending, some households will continue to face challenging financial conditions.

**Chart 2.1: Victorian household consumption** <sup>(a)(b)</sup>



Source: Australian Bureau of Statistics, Victorian Department of Treasury and Finance

Notes:

(a) ‘Essential’ spending accounts for about two-thirds of total consumer spending.

(b) ‘Transport services’ and ‘net expenditure interstate’ are excluded from the discretionary and essential categories, due to difficulties attributing them between categories.

Dwelling investment declined in 2023-24 due to ongoing supply constraints in the residential construction industry, notwithstanding Victoria having the most housing approvals, commencements and completions of any state or territory. Firms continued to report labour shortages, especially for finishing trades like tilers, plasterers and glaziers. This limited the amount of construction work that firms were able to complete, although dwelling completions picked up in the final months of 2023-24.

Dwelling investment is forecast to increase modestly in 2024-25, alongside a further gradual easing in capacity constraints. Elevated interest rates, construction costs and market conditions are subduing demand for residential construction. However, there remains a large backlog of residential construction work in the pipeline, which is expected to support activity in the near term (see Chart 2.2).

Business investment grew strongly in 2023-24. Growth was broad-based, with increases in intellectual property investment, machinery and equipment investment and non-dwelling construction. Following strong growth over the past three years, which has brought business investment to its highest share of overall economic activity on record, investment growth is forecast to moderate in 2024-25. Surveyed business conditions have eased in 2024. Firms' utilisation of their available productive capacity has also eased, though it remains above the long-run average. Nonetheless, investment intentions as reported by surveyed firms point to ongoing growth in 2024-25. The investment outlook is also supported by a large pipeline of non-residential and engineering projects (including infrastructure work), as well as continued high private sector expenditure on digitisation projects, and renewable energy transition projects (see Chart 2.2).

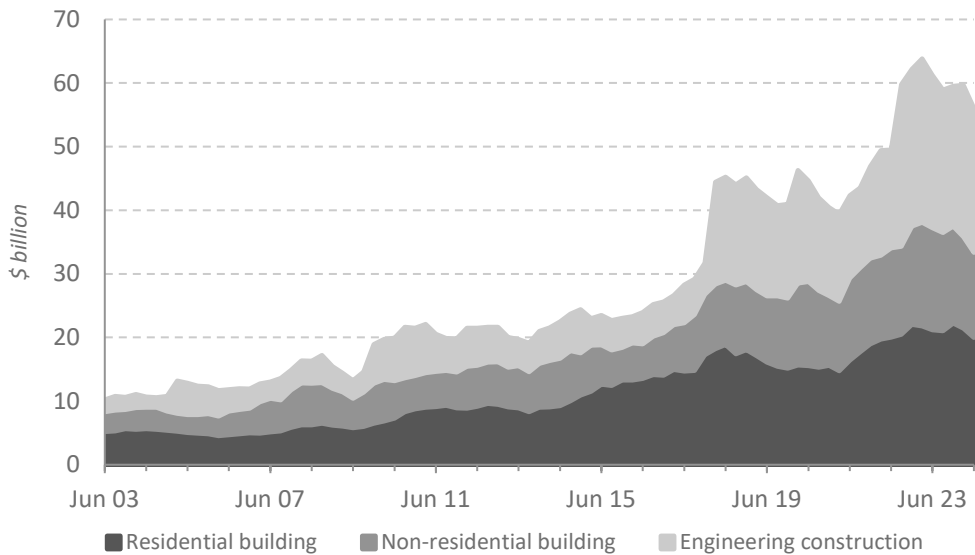
Public demand also contributed to Victoria's GSP growth in 2023-24. Growth was driven by increased Commonwealth spending across many national social benefits programs and infrastructure projects. Public demand is expected to add to growth again in 2024-25, led by large increases in Commonwealth consumption expenditure, including assistance to households, and infrastructure spending. Victorian Government public demand growth is expected to be subdued in 2024-25, consistent with the Government's economic and fiscal strategy outlined in the *2024-25 Budget*.

Net international trade detracted slightly from GSP growth in 2023-24. The continued return of international students and tourists drove strong growth in services exports, which are now above pre-COVID levels, although spending by Victorians travelling overseas also grew strongly. Goods imports and exports both increased, supported by strong growth in business investment and agricultural production, respectively.

In 2024-25, net trade is forecast to make a small contribution to growth. International education is expected to remain Victoria's largest export. The number of international students is expected to increase more slowly due to stricter Commonwealth Government visa requirements, while growth in services imports is expected to moderate after strong growth in the previous three years. Goods exports growth is expected to slow, following the strong outcome in 2023-24, while goods imports growth is also expected to moderate in line with more subdued growth in business investment.



**Chart 2.2: Total Victorian construction pipeline**



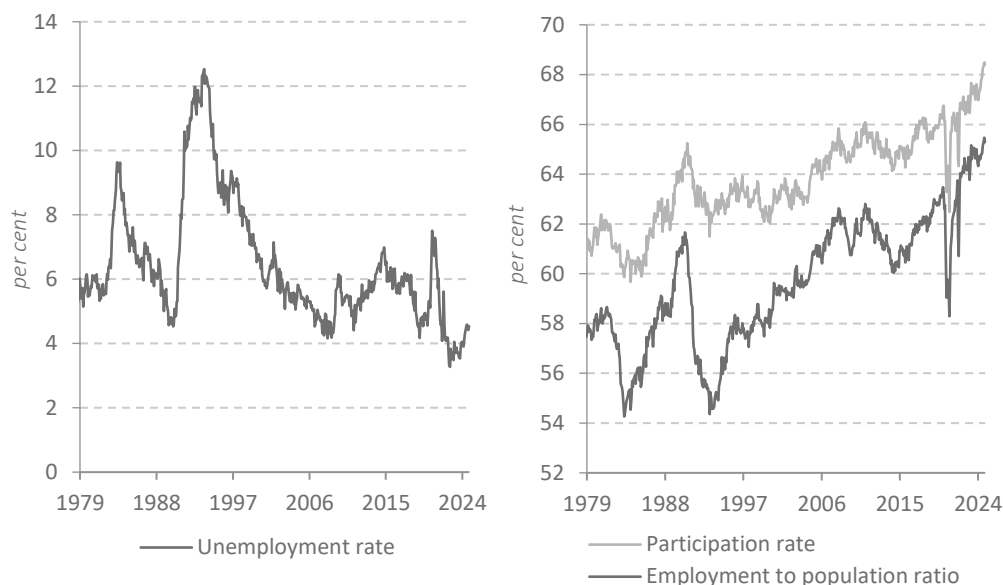
Source: Australian Bureau of Statistics

## The labour market

The Victorian labour market remains healthy. Employment growth was strong at 3.5 per cent in 2023-24. This reflected elevated demand for workers, along with strong growth in the labour force due to both strong population growth and a rise in workforce participation to record levels. As a result, the share of working-age Victorians in employment reached a record high (Chart 2.3). Employment growth is expected to ease in 2024-25 but remain elevated at 2.50 per cent.

The unemployment rate averaged 4.0 per cent in 2023-24, which is very low by historical standards, although it has risen moderately over the past year. This increase has been driven by the large increase in the number of people entering the labour force, which has exceeded the strong growth in employment. The unemployment rate has been around 4.5 per cent in recent months – which remains historically low and below the average in the decade before the COVID-19 pandemic – and is expected to remain around this level for the rest of 2024-25.

**Chart 2.3: Unemployment rate, participation rate and employment to population ratio**



Source: Australian Bureau of Statistics

## Prices and wages

Inflation has eased further over the past year but remains relatively high, as it does nationally and in many other advanced economies. In year-ended terms, inflation reached a peak of 8.0 per cent in December 2022, and by September 2024 had eased to 3.0 per cent.

The easing of inflationary pressure has been driven by slower growth in prices for goods, as global supply chain disruptions have eased and demand has moderated. Services price growth, though, has been more persistent, partly due to higher wages growth coupled with a lack of productivity growth. Rents and the cost of insurance have also increased across Australia over the past year, adding to services inflation.

In year-average terms, headline Melbourne inflation is forecast to decline to 2.50 per cent in 2024-25, from 4.0 per cent in 2023-24. However, some of this decline reflects the full-year impact of Commonwealth energy rebates, which commenced in July 2024. When these rebates unwind in 2025-26, headline inflation is forecast to temporarily increase again, to 3.00 per cent.

Victorian wages grew by 3.6 per cent in 2023-24, the fastest rate of nominal wages growth since 2011. Wage growth was nonetheless below the national rate, especially for the public sector due to the timing of negotiating replacement of Victorian Public-Sector Enterprise Bargaining Agreements (EBAs) as they progressively reach their nominal expiry date.

Wages are expected to grow solidly in 2024-25, at 3.50 per cent. This is faster than the expected increase in consumer prices, resulting in a rise in real wages. Growth in private sector wages is expected to remain firm, although growth is expected to continue easing from its recent peak due to labour market conditions that are less tight than in 2023-24. Aggregate wages growth should be supported by the progressive finalisation of the replacement of Victorian public sector EBAs. Rises in minimum and award wages will also contribute to overall wages growth. The Fair Work Commission raised the national minimum wage and modern awards by 3.75 per cent (which applied from 1 July 2024) which was lower than the increases in the previous two years (of between 4.6 and 5.2 per cent in 2022 and 5.75 per cent in 2023).

## Population

Victoria's population growth has remained strong, growing by 2.7 per cent over the year to March 2024. Strong population growth over the past two years has been driven by overseas arrivals, particularly international students, following temporary disruptions to international student arrivals during the COVID-19 pandemic.

Departures of many of these temporary migrants are expected to commence over the coming year. Student arrivals are also expected to decline. Policies outlined in the Commonwealth's *Migration Strategy*, including strengthened requirements for international students, have already resulted in a reduction in student visa grants. These factors are expected to lead to a smaller contribution to population growth from net overseas migration.

Overall, population growth is expected to slow sharply in 2024-25 to 1.8 per cent, in line with the Commonwealth Government's forecasts for Victorian population.

## AUSTRALIAN ECONOMIC CONDITIONS AND OUTLOOK

The Australian economy grew by 1.4 per cent in 2023-24, as elevated interest rates and high inflation weighed on activity. Growth was constrained by subdued household consumption and a decline in dwelling investment. However, the labour market was resilient: employment growth was strong, and the unemployment rate remained low.

In its November 2024 *Statement on Monetary Policy* the RBA forecast the Australian economy to grow by 1.7 per cent in 2024-25, which is a little below the RBA's February forecast of 1.9 per cent. Growth is expected to be driven by household consumption and public demand. The RBA expects household consumption to increase alongside real income growth supported by the Commonwealth's income tax cuts and declining inflation, as well as rising household wealth. Strength in public demand is expected to be driven by increased Commonwealth spending on the provision of government services to households.

The national labour market is expected to moderate in 2024-25. The RBA forecasts employment to grow by 2.2 per cent over the year to the June quarter 2025 and the unemployment rate to rise modestly to 4.4 per cent, although this remains below pre-pandemic levels. Growth in nominal wages is expected to ease, with the RBA forecasting Australian wages to grow by 3.4 per cent over the year to June 2025, down from 4.1 per cent over the year to June 2024.

Australian inflation has moderated and is expected to ease further. The headline annual inflation rate was 2.8 per cent in the September quarter 2024, down from its peak in December 2022 of 7.8 per cent. The RBA forecasts inflation to decline to 2.5 per cent in year-ended terms by June 2025, as state and Commonwealth government cost-of-living measures bring down average price growth – particularly electricity rebates and rent assistance. Inflation is then expected to rise temporarily as the electricity rebate unwinds. Underlying inflation is forecast to continue to decline gradually and return to the RBA’s 2 to 3 per cent inflation target range in mid-to-late 2025 and to the midpoint of the target in late 2026.

## **INTERNATIONAL ECONOMIC CONDITIONS AND OUTLOOK**

The global economy has remained fairly resilient amid the challenges of high inflation and elevated interest rates. Demand has been constrained and activity has slowed, but global growth has been more resilient than earlier expected. Inflation has eased since its peak in 2022, and central banks in several advanced economies have begun lowering interest rates.

In its October 2024 *World Economic Outlook*, the International Monetary Fund (IMF) forecast the global economy to grow by 3.2 per cent in 2024 and 2025, similar to the 3.3 per cent recorded in 2023. However, this is below the 3.8 per cent annual average recorded over the two decades to 2019. These world forecasts are unchanged since the *2024-25 Budget*.

Inflation has eased globally, particularly in advanced economies, though price pressures persist in some countries. Higher interest rates have constrained demand, which has reduced price pressure. Easing supply chain disruptions, an increase in the labour supply, and lower oil prices have also contributed to lower headline inflation in many economies. The IMF forecasts global inflation to be 5.8 per cent in 2024 and 4.3 per cent in 2025, slightly lower than at *2024-25 Budget*. By 2026, the IMF expects global inflation will fall below its average level of 3.6 per cent recorded in the 20 years prior to the pandemic.

## RISKS TO THE VICTORIAN OUTLOOK

The outlook for consumer spending remains a key source of uncertainty for the Victorian economy, both to the upside and the downside. With household incomes expected to improve due to income tax cuts, ongoing firm wage growth and easing inflation, households may feel more confident about their financial position and hence spending growth could be stronger than forecast. Alternatively, uncertainty around the labour market outlook could lead some households to increase precautionary savings and moderate spending.

The path of inflation nationally, and hence the outlook for interest rates, is also uncertain. Though inflation is easing, services inflation remains high, partly driven by higher labour costs. Persistence in services inflation could mean overall price growth remains elevated for some time. Should this occur, the RBA could keep interest rates elevated for longer than expected.

The pace at which labour cost growth and services inflation eases will be related to how soon unemployment returns to around its trend rate (or the rate at which labour market tightness is not adding to inflationary pressure). The trend rate of unemployment is an important forecasting assumption but cannot be observed, creating uncertainty about its true level. The trend unemployment rate may be lower than currently estimated, possibly due in part to the current cyclical strength in the labour market. A lower trend unemployment rate would lead to higher employment and GSP growth, without generating unsustainable pressures on labour cost growth or inflation.

Meanwhile, the outlook for the global economy is a further uncertainty. One source of uncertainty stems from possible changes to US fiscal and trade policies following the recent US election, which could affect US and global inflation and economic growth, although the scale and timing are uncertain. Another risk to the outlook stems from heightened geopolitical tensions; for example, any escalation in the conflict in the Middle East or Russia's invasion of Ukraine may add to global inflation, with disruptions to energy markets. Economic growth in China could also ease more than expected, which would weigh on the global economy and likely lead to a decline in demand for Victorian exports.

Chapter 6 *Sensitivity analysis* provides further information on the estimated economic and fiscal impacts of a lower trend unemployment rate, and of a downturn in the Victorian and Australian economies driven by weaker than expected growth in consumer spending.



## CHAPTER 3 – BUDGET POSITION AND OUTLOOK

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- The *2024-25 Budget Update* outlines the changes in the Government’s fiscal position by the end of the forward estimates compared with the *2024-25 Budget*.
- The Government continues to deliver on its fiscal strategy to restore the state’s finances following the COVID-19 pandemic.
- Net cash flows from operating activities for the general government sector continue to be forecast to be in surplus by \$0.4 billion in 2024-25, increasing to \$6.4 billion in 2027-28, demonstrating the Government’s commitment to strong financial management.
- The net result from transactions for the general government sector is forecast to be in deficit by \$3.6 billion in 2024-25, before improving to an estimated surplus of \$1.6 billion in 2025-26. The operating surplus is then forecast to increase to \$2.0 billion in 2027-28.
- The *2024-25 Budget Update* forecasts higher operating surpluses across the forward estimates when compared to the *2024-25 Budget*.
- Net debt as a percentage of GSP is forecast to stabilise and decline within the forward estimates from 25.2 per cent in 2026-27 to 25.0 per cent in 2027-28.
- Net debt to GSP is forecast to be lower in the budget year and each year of the forward estimates when compared with the *2024-25 Budget*.
- Government infrastructure investment (GII) is expected to continue to reduce from a peak in 2023-24 to \$15.6 billion by 2027-28.
- The Government is on track to fully fund the state’s unfunded superannuation liability by 2035.

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

It takes into account the financial impacts as at 20 November 2024 of all decisions that affect the financial statements, unless otherwise stated. This chapter also reconciles and explains any movements since the *2024-25 Budget* that affect the estimated net result from transactions.

## GENERAL GOVERNMENT SECTOR

### Overview

As first outlined in the *2020-21 Budget*, the Government developed a fiscal strategy in response to the COVID-19 pandemic and provide a strong foundation for recovery. It involved a four-step plan to support Victorians through the pandemic and to restore the budget over the medium term.

In the *2024-25 Budget*, the Government further progressed its fiscal strategy with the introduction of a new fifth step. This updated plan continues to provide a clear framework:

- **Step 1:** creating jobs, reducing unemployment and restoring economic growth
- **Step 2:** returning to an operating cash surplus
- **Step 3:** returning to operating surpluses
- **Step 4:** stabilising net debt levels as a proportion of GSP
- **Step 5:** reducing net debt as a proportion of GSP.

Economic indicators demonstrate the success of step 1. The Victorian economy is performing well, with gross state product above pre-pandemic levels and the labour market strong.

The Government achieved step 2 as outlined in the *2022-23 Financial Report* and *2023-24 Financial Report*, delivering operating cash surpluses consecutively across 2022-23 and 2023-24. The Government continues to forecast operating cash surpluses across the forward estimates with \$0.4 billion in 2024-25 increasing to \$6.4 billion in 2027-28.

The net result from transactions for the general government sector is forecast to be in deficit by \$3.6 billion in 2024-25, before improving to an estimated surplus of \$1.6 billion in 2025-26 (Step 3). The operating surplus is then forecast to increase to \$2.0 billion in 2027-28.

The *2024-25 Budget Update* continues to forecast the achievement of the Government's fiscal strategy, with net debt as a percentage of GSP stabilising (Step 4) and then declining (Step 5) by the end of the forward estimates. Net debt as a proportion of GSP is expected to decline from 25.2 per cent in 2026-27 to 25.0 per cent in 2027-28.

Total revenue for the general government sector is expected to be \$98.1 billion in 2024-25 before reaching \$110.4 billion in 2027-28.

Total general government sector expenditure is expected to be \$101.7 billion in 2024-25 and grow by an average of 2.2 per cent a year over the forward estimates, reaching \$108.4 billion in 2027-28. This estimated average annual growth in expenditure is comparatively low relative to the forecast growth in the size of the Victorian economy as measured by GSP. Total expected expenditure includes the impact of all relevant government decisions, including those relating to service delivery and savings.

Interest expense as a share of total revenue is expected to average 7.5 per cent a year over the budget and forward estimates, lower than the average of 7.8 per cent a year when compared with the *2024-25 Budget*.



**Table 3.1: General government fiscal aggregates**

	<i>Unit of measure</i>	<i>2024-25 revised</i>	<i>2025-26 estimate</i>	<i>2026-27 estimate</i>	<i>2027-28 estimate</i>
Net result from transactions	\$ billion	(3.6)	1.6	1.7	2.0
Net cash flows from operating activities	\$ billion	0.4	7.2	7.1	6.4
Government infrastructure investment <sup>(a)(b)</sup>	\$ billion	23.5	21.7	18.7	15.6
Net debt	\$ billion	155.2	168.5	179.0	187.3
Net debt to GSP <sup>(c)</sup>	per cent	24.2	25.0	25.2	25.0

*Notes:*

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

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

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

Government infrastructure investment (GII) is expected to have peaked in 2023-24 and will reduce to \$15.6 billion by the end of the forward estimates. GII averages \$19.9 billion a year over the budget and forward estimates period which is marginally higher than at the *2024-25 Budget*. The Government continues to return its capital program towards pre-COVID levels by the end of the forward estimates to take account of the strength of the Victorian economy as well as industry capacity in the construction sector.

Net debt is expected to be \$155.2 billion at June 2025 and \$187.3 billion by June 2028. This is an improvement in the budget year and each year of the forward estimates, including an improvement of \$0.5 billion to 2027-28 when compared with the *2024-25 Budget*.

As a proportion of GSP, net debt is projected to be 24.2 per cent at June 2025, before peaking at 25.2 per cent by June 2027. Net debt to GSP is then forecast to decline by June 2028 to 25.0 per cent. Net debt to GSP is forecast to be lower in the budget year and each year of the forward estimates when compared with the *2024-25 Budget*.

## BUDGET AND FORWARD ESTIMATES OUTLOOK

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

**Table 3.2: Summary operating statement for the general government sector <sup>(a)</sup> (\$ million)**

	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Revenue and income from transactions</b>				
Taxation	39 152	41 563	43 776	45 788
Dividends, TER and interest <sup>(b)</sup>	2 523	2 264	2 334	2 398
Sales of goods and services	7 080	7 165	7 252	7 317
Grants	45 598	49 165	49 861	51 325
Other revenue and income	3 706	3 269	3 813	3 536
<b>Total revenue and income from transactions</b>	<b>98 059</b>	<b>103 426</b>	<b>107 036</b>	<b>110 364</b>
% change	5.4	5.5	3.5	3.1
<b>Expenses from transactions</b>				
Employee expenses	37 526	38 433	40 046	41 233
Superannuation <sup>(c)</sup>	4 867	4 913	5 040	5 193
Depreciation	5 512	5 840	6 040	6 177
Interest expense	6 582	7 410	8 345	9 317
Grant expense	17 728	17 483	17 362	17 497
Other operating expenses	29 438	27 769	28 486	28 993
<b>Total expenses from transactions</b>	<b>101 653</b>	<b>101 847</b>	<b>105 318</b>	<b>108 410</b>
% change	4.5	0.2	3.4	2.9
<b>Net result from transactions – Net operating balance</b>	<b>(3 595)</b>	<b>1 579</b>	<b>1 718</b>	<b>1 954</b>
<b>Total other economic flows included in net result <sup>(d)</sup></b>	<b>(248)</b>	<b>(283)</b>	<b>(228)</b>	<b>(158)</b>
<b>Net result</b>	<b>(3 843)</b>	<b>1 296</b>	<b>1 490</b>	<b>1 796</b>

*Notes:*

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

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

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

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

## Revenue outlook

Total revenue for the general government sector is forecast to be \$98.1 billion in 2024-25. Total revenue is then expected to grow by an average of 4.0 per cent a year over the forward estimates, reaching \$110.4 billion in 2027-28.

### Taxation

Taxation revenue is forecast to be \$39.2 billion in 2024-25 and grow by an average of 5.4 per cent per year over the forward estimates. Growth in taxation revenue is primarily driven by growth in the State's three largest tax lines – payroll tax, land tax and land transfer duty.

- Revenue from taxes on employers' payroll and labour force, inclusive of payroll tax, the COVID Debt Levy – Payroll 10m+, and the Mental Health and Wellbeing Levy, is forecast to be \$11.1 billion in 2024-25, and is expected to grow by an average of 4.9 per cent per year over the forward estimates. The strength of the Victorian labour market continues to support the near-term outlook. Strong labour market conditions are underpinned by elevated employment growth, low unemployment, and solid nominal wages growth which is expected to result in a rise in real wages in 2024-25 and across the forward estimates.
- Revenue from land taxes is expected to be \$7.7 billion in 2024-25. Land taxes revenue in 2024-25 reflects an expected moderation in the growth of land values, consistent with the Valuer General Victoria's revaluation outcomes for 2023. Land taxes are expected to grow by an average of 5.0 per cent per year over the forward estimates, with the cooling in residential property values in 2024, and the moderation of non-residential property value growth, flowing through to land tax revenue in 2025-26.
- Revenue from land transfer duty is forecast to grow to \$8.7 billion in 2024-25. The forecast increase in revenue is driven by rising settlement volumes, which are supported by population and income growth. Victorian dwelling prices are expected to grow at below trend rates in 2024-25, then return to around average growth rates in 2025-26 alongside an expected improvement in borrowing conditions. Land transfer duty revenue is forecast to increase by an average of 5.4 per cent per year over the forward estimates, reflecting the forecast recovery in residential prices and robust long-term growth drivers.
- Revenue from gambling taxes is forecast to be \$2.8 billion in 2024-25 then decline by an average of 0.9 per cent per year over the forward estimates. The reduction in revenue over the forward estimates primarily reflects the expected impact of gambling harm minimisation measures, which affect electronic gaming machine revenue in hotels, clubs and the casino.
- Revenue from motor vehicle taxes is forecast to be \$3.6 billion in 2024-25, reflecting indexation of registration fees. Growth in stamp duty revenue is expected to slow in 2024-25 after substantial growth in 2023-24 driven by the normalisation of supply chains and clearance of backlogged orders. Over the forward estimates, revenue from motor vehicle taxes is expected to increase by an average of 6.2 per cent per year.

- Insurance tax revenue is expected to grow to \$2.2 billion in 2024-25, reflecting premium growth across most insurance products. Over the forward estimates, growth is expected to average 4.8 per cent per year.
- Emergency Services and Volunteers Fund revenue is expected to reach \$1.0 billion in 2024-25, before increasing to \$1.8 billion in 2027-28. The increase reflects policy changes detailed in Appendix A *Specific policy initiatives affecting the budget position*.

### **Dividends, income tax equivalent and interest**

Dividends and income tax equivalent revenue is projected to be \$1.1 billion in 2024-25 and increase to \$1.3 billion by 2027-28.

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

Interest revenue is received on the cash and deposits held by the general government sector entities. Total interest is expected to be to \$1.4 billion in 2024-25 before moderating to \$1.1 billion by 2027-28, mainly in line with an expected fall in interest rates in the medium term.

### **Sales of goods and services**

Revenue generated by the sales of goods and services is expected to increase to \$7.1 billion in 2024-25 and grow by an average of 1.1 per cent a year over the forward estimates, reaching \$7.3 billion in 2027-28.

### **Grants**

Total grant revenue is expected to be \$45.6 billion in 2024-25 and increase by an average of 4.0 per cent a year over the forward estimates, reaching \$51.3 billion in 2027-28.

Victoria's GST revenue is forecast to be \$23.6 billion in 2024-25. Over the forward estimates, GST revenue is expected to grow by an average of 2.7 per cent per year. This reflects the strong outcome in Victoria's no-worse-off relativity in 2024-25, which is forecast to remain elevated in 2025-26, driven by strength in commodity prices. Victoria's relativity is then forecast to decline over 2026-27 and 2027-28 as commodity prices return to long-run trends. Additionally, GST revenue growth is supported by growth in the national GST pool over the whole period.

### **Other revenue and income**

Other revenue and income includes fines, royalties, donations and gifts, assets received free of charge and other miscellaneous revenues. Other revenue and income is expected to be \$3.7 billion in 2024-25, decreasing slightly to \$3.5 billion in 2027-28.

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

## Expenses outlook

Total expenses for the general government sector are forecast to reach \$101.7 billion in 2024-25 and increase by an average of 2.2 per cent a year over the forward estimates to \$108.4 billion in 2027-28.

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

- Employee expenses (including superannuation) are forecast to be \$42.4 billion in 2024-25. Average growth over the forward estimates of 3.1 per cent a year is forecast, consistent with service delivery requirements and enterprise bargaining agreements.
- Depreciation expense is forecast to be \$5.5 billion in 2024-25 and grow by an average of 3.9 per cent a year over the forward estimates to \$6.2 billion by 2027-28. Growth in depreciation is broadly in line with continuing high levels of investment in infrastructure.
- Interest expense is forecast to be \$6.6 billion in 2024-25, and to increase to \$9.3 billion by 2027-28, as the Government increases borrowings to continue significant levels of infrastructure investment. Interest expense as a share of total revenue is expected to average 7.5 per cent a year over the budget and forward estimates, lower than the average of 7.8 per cent a year when compared with the *2024-25 Budget*.
- Grant expenses are forecast to be \$17.7 billion in 2024-25. Grant expenses are then expected to decline by an average of 0.4 per cent a year over the forward estimates.
- Other operating expenses are forecast to be \$29.4 billion in 2024-25. Other operating expenses are then expected to decrease by an average of 0.5 per cent a year over the forward estimates.

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

## Reconciliation of estimates to the 2024-25 Budget

Relative to the 2024-25 Budget, the net result from transactions has been revised down by \$1.4 billion in 2024-25, and up by an average of \$59 million across 2025-26 to 2027-28 (Table 3.3).

**Table 3.3: Reconciliation of estimates to the 2024-25 Budget** <sup>(a)</sup> (\$ million)

	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Net result from transactions: 2024-25 Budget</b>	<b>(2 191)</b>	<b>1 500</b>	<b>1 637</b>	<b>1 937</b>
<b>Policy variations</b>				
Revenue policy initiatives	1	690	886	930
Output policy initiatives <sup>(b)</sup>	(1 539)	(901)	(1 143)	(1 211)
	<b>(1 538)</b>	<b>(211)</b>	<b>(257)</b>	<b>(282)</b>
<b>Economic/demographic variations</b>				
Taxation	160	(133)	(82)	(234)
Investment income <sup>(c)</sup>	112	31	6	(7)
	<b>272</b>	<b>(102)</b>	<b>(77)</b>	<b>(241)</b>
<b>Commonwealth grant variations</b>				
General purpose grants	114	856	314	624
Specific purpose grants <sup>(d)</sup>	273	(127)	596	1 741
	<b>387</b>	<b>728</b>	<b>910</b>	<b>2 365</b>
<b>Administrative variations</b>				
Contingency offset for new policy initiatives <sup>(e)</sup>	..	..	..	..
Other administrative variations	(524)	(336)	(496)	(1 824)
	<b>(524)</b>	<b>(336)</b>	<b>(496)</b>	<b>(1 824)</b>
<b>Total variation since 2024-25 Budget</b>	<b>(1 404)</b>	<b>79</b>	<b>81</b>	<b>17</b>
<b>Net result from transactions: 2024-25 Budget Update</b>	<b>(3 595)</b>	<b>1 579</b>	<b>1 718</b>	<b>1 954</b>

*Notes:*

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

(b) This is represented in Table 3.4 as the 2024-25 Budget Update output policy initiatives.

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

(d) Reflects the change in grant revenue as per Note 4.2.4 of Chapter 4 less associated expense movements.

(e) Represents releases from the funding not allocated to specific purposes contingency included in the 2024-25 Budget Update.

Further information on total output contingencies can be found at Note 4.3.7 of Chapter 4 Estimated financial statements and notes.

## Policy variations

Policy variations reflect specific initiatives by the Government that have a fiscal impact and are related to a new policy or represent a change in the Government's existing policy position since the *2024-25 Budget*.

The *2024-25 Budget Update* funds \$3.2 billion in output initiatives over the four years to 2027-28. Table 3.4 shows the impact of the new output initiatives since the previous publication.

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

**Table 3.4: Net impact of new output initiatives since the 2024-25 Budget<sup>(a)</sup> (\$ million)**

	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>New output initiatives</b>	<b>1 929</b>	<b>461</b>	<b>421</b>	<b>381</b>
Less:				
Reprioritisations and revenue offsets <sup>(b)</sup>	110	189	189	189
Adjustments <sup>(c)</sup>	280	(628)	(911)	(1 019)
Savings <sup>(d)</sup>	..	..	..	..
<b>New net output policy initiatives</b>	<b>1 539</b>	<b>901</b>	<b>1 143</b>	<b>1 211</b>
Less: Contingency offset for new policy <sup>(e)</sup>	..	..	..	..
<b>Net impact</b>	<b>1 539</b>	<b>901</b>	<b>1 143</b>	<b>1 211</b>

*Notes:*

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

(b) This includes the reprioritisation of resources previously allocated to departments and revenue offsets.

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

(d) Includes output savings only.

(e) Represents releases from the funding not allocated to specific purposes contingency associated with 2024-25 Budget Update new output initiatives. Further information on total output contingencies can be found at Note 4.3.7 of Chapter 4 Estimated financial statements and notes.

### **Economic and demographic variations**

Since the *2024-25 Budget*, Victoria's taxation revenue has been revised up by \$160 million in 2024-25 (an increase of around 0.4 per cent), and down by an average of \$150 million across 2025-26 to 2027-28, largely due to upgrades to land transfer duty offset by downgrades in land taxes.

### **Commonwealth grants variations**

Commonwealth general purpose grants (or GST grants) have been revised up by \$114 million in 2024-25, \$856 million in 2025-26, \$314 million in 2026-27 and \$624 million in 2027-28 compared with the *2024-25 Budget*. These changes largely reflect an improved outlook for Victoria's no-worse-off GST sharing relativity driven by ongoing strength in commodities prices leading to elevated royalty revenues in mining states. This is supported by an increase in the national GST pool forecast which largely reflects stronger than expected cash receipts in 2024-25.

Net changes to specific purpose grants are expected to improve the operating result by \$0.3 billion in 2024-25, decrease it by \$0.1 billion in 2025-26, before again improving the operating result by \$0.6 billion in 2026-27 and \$1.7 billion in 2027-28 relative to the *2024-25 Budget*. The movements primarily reflect increased infrastructure grant revenue expected from the Commonwealth for capital projects included in the *2024-25 Commonwealth Budget*.

### **Administrative variations**

Other administrative variations are expected to decrease the operating result by an average of \$795 million across 2024-25 to 2027-28 compared with the *2024-25 Budget*. The main variations since the *2024-25 Budget* include:

- an increase in depreciation expense associated with the revaluation of hospital buildings in 2023-24
- adjustments to the provisions for decisions made but not yet allocated that are outlined in Note 4.3.7 in Chapter 4 *Estimated financial statements and notes*.



## Capital expenditure

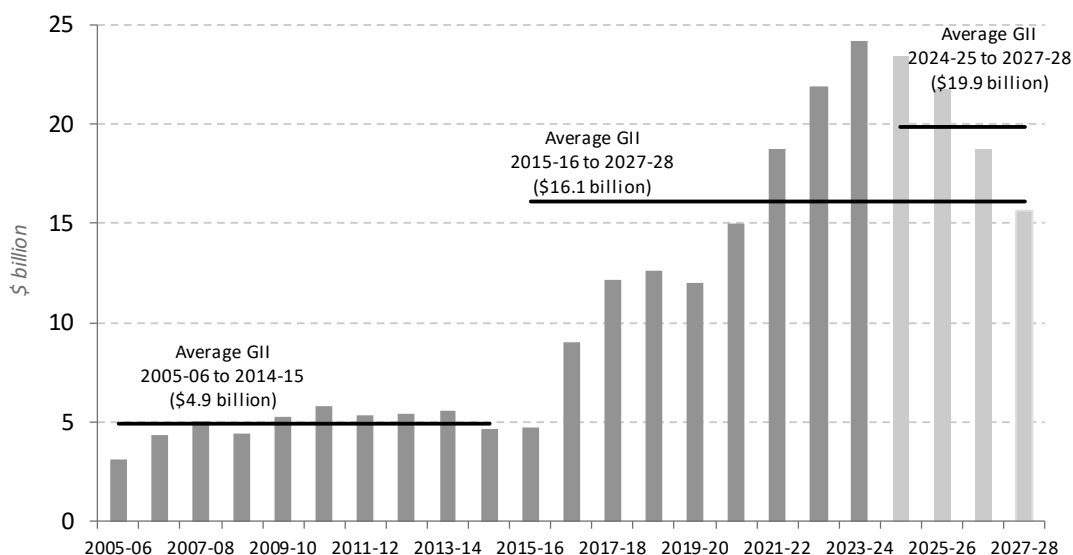
Government infrastructure investment (GII) measures investment funded by the Government and estimated private sector construction related expenditure on public private partnership projects.

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

GII is expected to average \$19.9 billion a year over the budget and forward estimates period. The Government continues to return its capital program towards pre-COVID levels by the end of the forward estimates to take account of the strength of the Victorian economy as well as industry capacity in the construction sector.

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

**Chart 3.1: Government infrastructure investment <sup>(a)(b)(c)</sup>**



**Notes:**

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

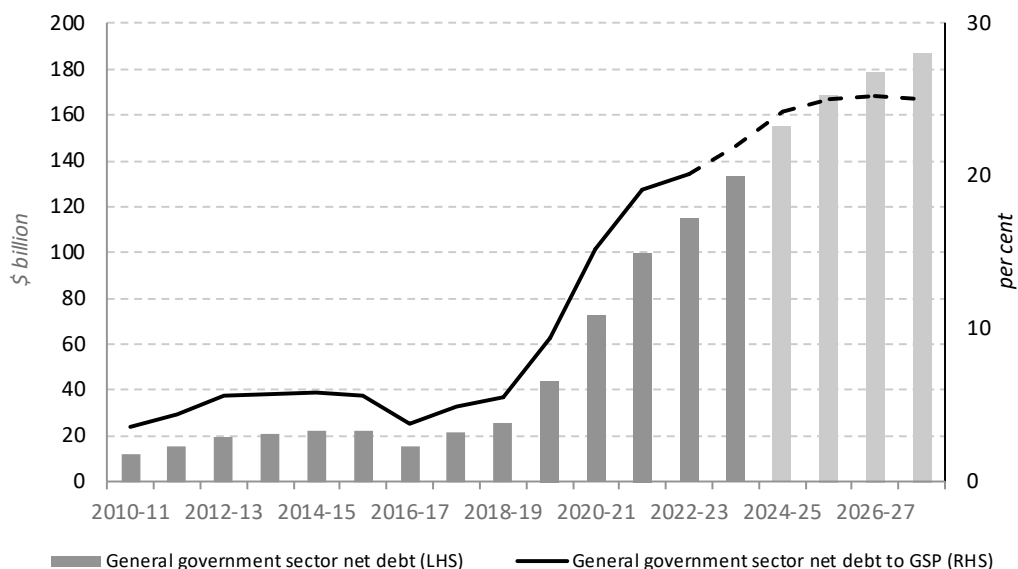
## Net debt

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

Stabilising and reducing net debt as a percentage of GDP – the fourth and fifth steps in the Government’s fiscal strategy – are important objectives for the Government. Net debt is projected to be \$155.2 billion at June 2025 and is forecast to increase to \$187.3 billion by June 2028 (see Chart 3.2). This is an improvement in the budget year and each year of the forward estimates, including an improvement of \$0.5 billion to 2027-28 when compared with the *2024-25 Budget*.

As a proportion of GDP, net debt is projected to increase to 24.2 per cent in June 2025, before reaching 25.2 per cent by June 2027 and reducing to 25.0 per cent by June 2028. Net debt to GDP is forecast to be lower in the budget year and each year of the forward estimates when compared with the *2024-25 Budget*.

**Chart 3.2: General government net debt to GDP**



The application of cash resources for the general government sector (as shown in Table 3.5) outlines the annual movements in net debt showing that progressively less debt is being incurred over the forward estimates.

**Table 3.5: Application of cash resources for the general government sector <sup>(a)</sup> (\$ million)**

	2024-25 <i>revised</i>	2025-26 <i>estimate</i>	2026-27 <i>estimate</i>	2027-28 <i>estimate</i>
<b>Net result from transactions</b>	<b>(3 595)</b>	<b>1 579</b>	<b>1 718</b>	<b>1 954</b>
Add back: Operating cash flows not recognised in the net operating balance <sup>(b)</sup>	4 002	5 665	5 418	4 470
<b>Net cash flows from operating activities</b>	<b>407</b>	<b>7 244</b>	<b>7 136</b>	<b>6 424</b>
<b>Less: Total net investment in fixed assets <sup>(c)</sup></b>	<b>19 801</b>	<b>19 742</b>	<b>17 462</b>	<b>14 412</b>
<b>Surplus/(deficit) of cash from operations after funding net investment in fixed assets</b>	<b>(19 394)</b>	<b>(12 498)</b>	<b>(10 326)</b>	<b>(7 988)</b>
Less:				
Leases and service concession arrangements <sup>(d)</sup>	2 618	982	555	640
Other movements	(93)	(143)	(348)	(368)
<b>Decrease/(increase) in net debt</b>	<b>(21 919)</b>	<b>(13 337)</b>	<b>(10 533)</b>	<b>(8 260)</b>

*Notes:*

- (a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.*
- (b) Includes depreciation, prepayments and movements in the superannuation liability and liability of employee benefits for the year, and the progressive unwinding of the grant of a right to the operator liability.*
- (c) Includes total purchases of plant, property and equipment, and net capital contributions to other sectors of government net of proceeds from asset sales.*
- (d) Includes most operating leases, which are required to be recognised as lease liabilities, and also includes the financial liabilities relating to public private partnership projects including the Frankston Hospital Redevelopment, the High Capacity Metro Trains, the Metro Tunnel, the new Footscray Hospital, the new Melton Hospital, and the Nyaal Banyul Geelong Convention and Event Centre.*

## Unfunded superannuation liability

The Government is on track to fully fund the State’s unfunded superannuation liability by 2035. Note 4.3.3 of Chapter 4 *Estimated financial statements and notes* shows information on the reported superannuation liability.

## FISCAL RISKS

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

Details of specific contingent assets and liabilities, defined as possible assets or liabilities that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, are contained within Chapter 7 *Contingent assets and contingent liabilities*.

### General fiscal risks

There are risks to Victoria's economic outlook and the forecasts are subject to uncertainty.

The outlook for consumer spending remains a key source of uncertainty for the Victorian economy. Consumption has been subdued over the past year, reflecting the impact of high inflation and elevated interest rates on household budgets. Household disposable income is expected to increase in 2024-25, which should support a rebound in spending. However, there is uncertainty around how strong this rebound will be, which has implications for economic activity and employment growth.

The path of inflation and hence the outlook for interest rates contribute to the uncertainty around the outlook for consumer spending and dwelling investment. Although overall inflation is easing, services inflation remains high, and there is uncertainty about how persistent services inflation will be. This has implications for the Reserve Bank of Australia's monetary policy. The stance of monetary policy will affect the outlook for economic activity and employment growth. For example, GST revenue, land transfer duty revenue and interest expense are significantly linked to changes in economic growth, inflation and/or interest rates.

Another uncertainty is the outlook for the global economy. One source of uncertainty stems from possible changes to US fiscal and trade policies following the recent US election, which could affect US and global inflation and economic growth, although the scale and timing are uncertain. Another risk to the outlook stems from heightened geopolitical tensions; for example, any escalation in the conflict in the Middle East or Russia's invasion of Ukraine may add to global inflation, with disruptions to energy markets. Economic growth in China could also ease more than expected, which would weigh on the global economy and likely lead to a decline in demand for Victorian exports.

The Government's forecast revenues, expenses and borrowings are predicated on a series of assumptions, including those related to the global economy. If these assumptions do not eventuate, the actual financial outcomes may differ from the Government's current budget.

Chapter 6 *Sensitivity analysis* contains information on the impact of variations in the macroeconomic outlook on the Government's key fiscal aggregates. This includes an upside scenario where the trend unemployment rate is lower than assumed in the central forecasts, and a downside scenario where a slowdown in Victorian and Australian demand, partly due to uncertainty around the trajectory for interest rates and inflation, weighs on the Victorian economy.

Further detail on the economic outlook and risks to the outlook is included in Chapter 2 *Economic context*.

## **State taxes**

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

Victoria's labour market remains strong. While some easing is expected in the coming year, if the labour market is more resilient, and unemployment lower than forecast, this could lead to stronger revenue from taxes on employers' payroll and labour force. Conversely, if unemployment rises more than anticipated, wage growth may slow beyond expectations, weakening the revenue outlook for these taxes.

## **Property-related taxes**

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

Property prices and transaction volumes continue to face pressure from restrictive monetary policy, as high borrowing costs limit housing lending and suppress sentiment. Strong population growth and a tight labour market have supported the property market, contributing to a gradual recovery that began in early 2023. However, dwelling prices have been moderately declining through 2024 amid elevated listing numbers, while transaction volumes have continued to rise. Tight credit conditions are expected to persist throughout 2024-25, presenting a risk to revenue from land transfer duty in the near term and land tax in the medium term. A higher than forecast increase in unemployment poses further risk to buyer demand and raises the potential for elevated distressed selling activity, which has been limited to date and remains below pre-pandemic levels. Alternatively, a lower than expected unemployment rate could improve the outlook for property prices and transaction volumes, providing an upside risk to land transfer duty revenue. There is also uncertainty about the impact of delays and disruptions in the construction industry on property sales volumes.

Non-residential properties are beginning to experience higher market activity as tight credit conditions were a brake on major purchases throughout 2023 and 2024. Higher transaction volumes bode well for land transfer revenue expectations but uncertainty in value growth poses a risk to land valuations and land tax revenue. Industrial property value growth is expected to slow from historic highs in the near-term as supply catches up with demand. Commercial properties continue to present uncertainty to the revenue outlook as the office sector faces value bifurcation of prime and subprime assets and Melbourne CBD retail faces high vacancy headwinds.

## **Interest expenses**

The State's debt portfolio is made up predominantly of fixed-interest debt, which means that most of the interest expense on existing debt is not exposed to movements in interest rates. However, approximately 7 to 10 per cent of this debt matures each year and must be refinanced at the current market interest rate. The interest expense on the refinancing of maturing debt, along with new borrowings and a small proportion of floating-rate notes in the portfolio, are subject to changes in interest rates.

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

The government debt management strategy seeks to smooth the impact of interest rate movements by borrowing in largely fixed rate loans and spreading the maturity dates on the majority of these loans evenly over a period of approximately twelve years. This overall strategy provides greater certainty to the Government when budgeting for interest expense and reduces the risk of large annual fluctuations in budget interest costs due to movements in interest rates. This also helps stabilise interest expense over the medium term by managing the amount of debt that is either maturing or subject to resetting of interest rates, in any one period.

## **Employee expenses**

Employee expenses are the State's largest expense. Two important determinants of employee expenses are wages growth and the number of employees. Wages growth is primarily driven by enterprise bargaining agreements, which are subject to the Government's Wages Policy. Other factors contributing to projected employee expenses include the anticipated composition and profile of the workforce.

## **Demand for government services**

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

The estimates incorporate contingency provisions to mitigate the impact of expenditure risks that may be realised during the next four years. The contingency provisions are sized to allow for the likely growth in Victoria's population and the derived increased demand for core government services.

Note 4.3.7 and Note 4.3.8 of Chapter 4 *Estimated financial statements and notes* discloses general government output and asset contingencies not allocated to departments.

## **Capital program risks**

Additional Commonwealth investment in the joint infrastructure program included in the *2024-25 Commonwealth Budget* was a step forward in strengthening the partnership to fund nationally significant projects. However, Victoria still does not receive its fair share of Commonwealth infrastructure funding, falling far short of its population share for the last 10 years. If this pattern of inequitable distribution of federal funding persists, it will endanger Victorians' access to affordable housing, secure jobs and high-quality services.

Strong employment outcomes mean Victoria is continuing to experience skills shortages in the construction sector.

The Victorian Government is making major investments in growing workforce capacity to meet current and future needs, and equip Victorians for the jobs of today and tomorrow. Initiatives such as Free TAFE, the Priority Apprenticeship Pathways program to encourage apprenticeship opportunities across the state, and the wider use of modern construction methods, such as offsite and modular construction, seek to improve productivity and address skills shortages.

## **Specific fiscal risks**

### **Commonwealth schools funding**

In mid-2019, Victoria signed the National School Reform Agreement and an accompanying bilateral agreement that expires on 31 December 2024 (following a one-year extension).

In November 2024, Victoria signed a one-year Interim School Funding Agreement 2025 and an accompanying bilateral agreement that will commence on 1 January 2025 and expire on 31 December 2025.

Estimates of funding required to acquit the Schooling Resource Standard target each year are based on estimated student numbers and profile projections and are subject to indexation.

As expenditure targets are based on actual rather than forecast student data, there is a risk that allocated funding does not meet final expenditure targets.

### **Commonwealth housing funding**

The National Agreement on Social Housing and Homelessness (NASHH) was signed by the Commonwealth, states and territories in May 2024 for the term 1 July 2024 to 30 June 2029. The NASHH replaces the National Housing and Homelessness Agreement.

Commonwealth funding contributions are indexed annually by wage inflation and funding is allocated amongst the states on a population basis, therefore annual payments may vary from estimates.

Victoria is required to match the Commonwealth's funding contribution towards the Homelessness component of funding. There is a risk the matched funding requirement could vary from estimates due to actual indexation and population share diverging from budget estimates.

## **Disability reform**

The bilateral agreement outlining Victoria's contribution to the National Disability Insurance Scheme (NDIS) was renewed in December 2023 for five years. Under the agreement, Victoria's contributions continue to be indexed at 4 per cent annually, with a total contribution of \$3.2 billion in 2024-25.

The Commonwealth, states and territories continue to negotiate disability reforms following the release of the NDIS Review. Potential reforms that carry fiscal risk, and are subject to negotiation with the Commonwealth, include changes to the state and territory NDIS contribution rate, the transfer of disability foundational supports from the NDIS to Victoria and continuation of the National Partnership Agreement on Disability Care Australia Fund payments (DCAF). The Commonwealth has signalled its intent to cease DCAF payments that contribute to state and territory NDIS funding.

## **Commonwealth health funding**

The National Health Reform Agreement (NHRA) sets out joint responsibility between the states and territories and the Commonwealth for supporting public hospitals.

The *2024-25 Budget* provided \$1.2 billion in additional funding to address the reduction in Commonwealth funding for Victoria's hospitals under the NHRA.

Under the 2020-25 Addendum to the NHRA, the Commonwealth co-funds public hospitals by contributing 45 per cent of the annual efficient expenditure growth of eligible activity, capped at a national growth rate of 6.5 per cent compared with the previous year's total Commonwealth contributions.

The Commonwealth, states and territories are negotiating an Addendum to replace the current Addendum when it expires on 30 June 2025, representing a risk to the forward estimates.

## **National Skills Agreement**

The National Skills Agreement (NSA) replaced the National Agreement for Skills and Workforce Development and commenced on 1 January 2024, expiring 31 December 2028.

The NSA provides access to a total of \$3.2 billion in funding to Victoria over the five-year term of the agreement. This includes up to \$231 million in funding to Victoria for Specific Policy Initiatives, subject to matched funding. Victoria's Specific Policy Initiatives under the NSA will be agreed in Victoria's bilateral Implementation Plan, to be agreed no later than 30 June 2025. Finalisation of the Implementation Plan may vary Victoria's revenue under the agreement in the forward estimates.



## **Victoria's GST revenue**

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

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

GST is dependent on nominal consumption in Australia and the outlook for nominal consumption is dependent on the path of inflation and interest rates. If inflation declines faster than expected, real income growth could increase more than anticipated, which may lead households to feel more confident about their financial situation, supporting nominal consumption. Alternatively, while increases in the price level tend to support nominal consumption, if inflation remains elevated for an extended period, households may respond by reducing spending and increasing savings.

Further uncertainty in the national GST pool forecast arises from the outcomes of GST compliance activity undertaken by the Australian Taxation Office.

Victoria's share of the GST pool is determined by the Commonwealth Grants Commission (CGC), and is sensitive to a broad range of factors, including demographics, infrastructure needs, developments in property markets and global commodity prices (particularly for iron ore, thermal coal and coking coal).

The methodology for determining each state's share of GST revenue is currently under review by the CGC. Changes to the methodology and updates to data used by the CGC could have a material impact on Victoria's future GST revenue when the outcomes of the review are released in March 2025.

There is uncertainty in population share as net international migration has reduced from its elevated levels after the pandemic. Commonwealth migration policy changes could impact Victoria's population growth compared with other states, affecting Victoria's share of GST.

### ***Commonwealth no-worse-off guarantee for GST entitlement***

In 2018, the Commonwealth changed the GST distribution system. During a six-year transition period commencing in 2021-22, each state or territory is entitled to receive additional Commonwealth financial assistance to ensure it is no-worse-off compared to its GST entitlement had the Commonwealth not changed the system. The no-worse-off guarantee was legislated until the end of the transition period in 2026-27. On 6 December 2023 National Cabinet agreed to extend the guarantee for three years to 2029-30, to provide funding certainty for states and territories for that period.

Victoria is, like most states, likely to be worse off in the long term unless the Commonwealth Government makes the no-worse-off guarantee permanent. Victoria continues to work with other states and the Commonwealth to ensure Victoria receives its fair share of GST.

## NON-FINANCIAL PUBLIC SECTOR

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

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

### Summary operating statement

**Table 3.6: Summary operating statement for the non-financial public sector <sup>(a)</sup> (\$ million)**

	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Revenue and income from transactions</b>				
Taxation	38 605	40 984	43 173	45 156
Dividends, income tax equivalent and interest <sup>(b)</sup>	1 692	1 358	1 441	1 529
Sales of goods and services	14 772	15 321	15 724	16 038
Grants	45 620	49 181	49 876	51 339
Other revenue and income	4 430	4 045	4 610	4 384
<b>Total revenue and income from transactions</b>	<b>105 119</b>	<b>110 889</b>	<b>114 824</b>	<b>118 447</b>
<i>% change <sup>(c)</sup></i>	5.3	5.5	3.5	3.2
<b>Expenses from transactions</b>				
Employee expenses	39 378	40 221	41 876	43 121
Superannuation <sup>(d)</sup>	5 099	5 156	5 290	5 450
Depreciation	8 887	9 546	9 940	10 125
Interest expense	7 169	8 252	9 311	10 408
Grant expense	15 368	15 664	15 652	15 804
Other operating expenses	34 132	32 123	32 846	33 396
<b>Total expenses from transactions</b>	<b>110 034</b>	<b>110 962</b>	<b>114 915</b>	<b>118 304</b>
<i>% change <sup>(c)</sup></i>	4.4	0.8	3.6	2.9
<b>Net result from transactions</b>	<b>(4 915)</b>	<b>(72)</b>	<b>(91)</b>	<b>142</b>
Total other economic flows included in net result	(257)	(258)	(222)	97
<b>Net result</b>	<b>(5 172)</b>	<b>(330)</b>	<b>(312)</b>	<b>240</b>

*Notes:*

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

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

(c) The revenue and expense growth for 2024-25 is based on published figures in the 2023-24 Financial Report.

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

The net result from transactions of the NFPS is projected to improve from a deficit of \$4.9 billion in 2024-25 to a surplus of \$142 million by 2027-28. This is largely driven by the net result from transactions for the general government sector as discussed earlier in this chapter.

## Application of cash resources

The NFPS is forecast to record an operating cash flow surplus of \$2.3 billion in 2024-25 before increasing to \$9.0 billion in 2025-26 and then falling slightly to \$8.8 billion in 2026-27 and \$8.2 billion in 2027-28. By 2027-28, the NFPS operating cash flow surplus is projected to fund 44.6 per cent of the NFPS infrastructure program with the remainder funded by borrowings.

**Table 3.7: Application of cash resources for the non-financial public sector <sup>(a)</sup> (\$ million)**

	2024-25 <i>revised</i>	2025-26 <i>estimate</i>	2026-27 <i>estimate</i>	2027-28 <i>estimate</i>
Net result from transactions	(4 915)	(72)	(91)	142
Add back: operating cash flows not recognised in the net operating balance <sup>(b)</sup>	7 194	9 026	8 899	8 012
<b>Net cash flows from operating activities</b>	<b>2 279</b>	<b>8 954</b>	<b>8 808</b>	<b>8 155</b>
<b>Less: Total net investment in fixed assets <sup>(c)</sup></b>	<b>24 844</b>	<b>23 941</b>	<b>21 787</b>	<b>18 263</b>
<b>Surplus/(deficit) of cash from operations after funding net investments in fixed assets</b>	<b>(22 565)</b>	<b>(14 987)</b>	<b>(12 979)</b>	<b>(10 109)</b>
Less:				
Leases and service concession arrangements <sup>(d)</sup>	3 867	2 305	1 203	917
Other movements	11	(76)	(285)	(355)
<b>Decrease/(increase) in net debt</b>	<b>(26 443)</b>	<b>(17 216)</b>	<b>(13 897)</b>	<b>(10 670)</b>

*Notes:*

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

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

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

(d) *Includes most operating leases which are now required to be recognised as lease liabilities. This also includes financial liabilities relating to public private partnerships including the Frankston Hospital Redevelopment, the High Capacity Metro Trains, the Homes Victoria Ground Lease Model Project 2, the Metro Tunnel, the new Footscray Hospital, the new Melton Hospital, North East Link – Primary Package (Tunnels), and the Nyaal Banyul Geelong Convention and Event Centre.*

For the NFPS, the total net investment in fixed assets is projected to average \$22.2 billion a year over the budget and forward estimates and, in addition to the Government infrastructure investment discussed earlier in this chapter, includes:

- investment in transport infrastructure and rolling stock to meet patronage levels and improve network performance such as the new regional and metropolitan trains, Next Generation Trams, Metro Tunnel infrastructure works and stabling and maintenance facilities for rolling stock
- the State Electricity Commission’s investments in Renewable Energy Parks in Melbourne and Horsham
- various water and sewer related infrastructure projects, such as the Western Treatment Plant primary treatment capacity upgrade, rollout of digital water meters, various regional Water Treatment and Reclamation Plant upgrades including Bendigo, Gisborne, Wodonga and Warrnambool, and the East Grampians rural water supply project.

## NON-FINANCIAL PUBLIC SECTOR NET DEBT AND NET FINANCIAL LIABILITIES

Table 3.8 details NFPS net debt and financial liabilities.

**Table 3.8: Non-financial public sector net debt and financial liabilities <sup>(a)</sup>** (\$ billion)

	2024-25 <i>revised</i>	2025-26 <i>estimate</i>	2026-27 <i>estimate</i>	2027-28 <i>estimate</i>
<b>Assets</b>				
Cash and deposits	12.8	13.0	13.5	14.4
Advances paid	0.4	0.4	0.4	0.4
Investments, loans and placements	17.7	18.9	20.3	21.9
<b>Total</b>	<b>30.9</b>	<b>32.2</b>	<b>34.2</b>	<b>36.6</b>
<b>Liabilities</b>				
Deposits held and advances received	1.7	1.7	1.6	1.6
Borrowings	210.9	229.5	245.4	258.5
<b>Total</b>	<b>212.6</b>	<b>231.2</b>	<b>247.1</b>	<b>260.2</b>
<b>Net debt <sup>(b)</sup></b>	<b>181.8</b>	<b>199.0</b>	<b>212.9</b>	<b>223.5</b>
Superannuation liability	19.3	19.6	19.8	18.7
<b>Net debt plus superannuation liability</b>	<b>201.1</b>	<b>218.6</b>	<b>232.7</b>	<b>242.2</b>
Other liabilities (net) <sup>(c)</sup>	41.2	40.5	39.4	38.6
<b>Net financial liabilities <sup>(d)</sup></b>	<b>242.3</b>	<b>259.1</b>	<b>272.0</b>	<b>280.8</b>
	<b>(per cent)</b>			
Net debt to GSP <sup>(e)</sup>	28.4	29.5	30.0	29.9
Net debt plus superannuation liability to GSP <sup>(e)</sup>	31.4	32.4	32.8	32.4
Net financial liabilities to GSP <sup>(e)</sup>	37.8	38.4	38.3	37.5
Net debt plus superannuation liability to revenue <sup>(f)</sup>	191.3	197.1	202.6	204.5

**Notes:**

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

Due to ongoing investments in infrastructure projects over the budget and forward estimates, primarily in the general government sector, NFPS net debt is projected to increase to \$223.5 billion by 2027-28. Given this, the NFPS net debt to GSP ratio is projected to increase from 28.4 per cent in 2024-25 to 30.0 per cent in 2026-27 before falling slightly to 29.9 per cent in 2027-28.

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

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

	2024-25 <i>revised</i>	2025-26 <i>estimate</i>	2026-27 <i>estimate</i>	2027-28 <i>estimate</i>
Operating cash flow surplus to revenue	2.2	8.1	7.7	6.9
Gross debt to revenue <sup>(a)</sup>	202.3	208.5	215.2	219.7
Interest expense to revenue	6.8	7.4	8.1	8.8

*Note:*

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

The operating cash flow surplus to revenue ratio indicates the proportion of cash generated from operations that can be used to fund infrastructure. Due to improvements in the general government sector operating cash position, this ratio is forecast to increase from 2.2 per cent in 2024-25 to 6.9 per cent by 2027-28.

The ratio of gross debt to revenue, which indicates the overall debt burden, is estimated to be 202.3 per cent in 2024-25 and increase to 219.7 per cent in 2027-28.

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

## STATE OF VICTORIA

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

**Table 3.10: Summary operating statement of the State of Victoria <sup>(a)</sup>** (\$ million)

	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Revenue and income from transactions</b>				
Taxation	38 576	40 954	43 142	45 124
Dividends and interest	5 409	5 222	5 555	5 774
Sales of goods and services	21 476	22 454	23 284	24 034
Grants	44 994	47 951	49 528	49 797
Other revenue and income	4 458	4 075	4 333	4 415
<b>Total revenue and income from transactions</b>	<b>114 912</b>	<b>120 656</b>	<b>125 841</b>	<b>129 144</b>
% change <sup>(b)</sup>	6.8	5.0	4.3	2.6
<b>Expenses from transactions</b>				
Employee expenses	39 047	40 057	41 736	42 976
Superannuation <sup>(c)</sup>	5 156	5 216	5 352	5 513
Depreciation	8 971	9 622	10 009	10 189
Interest expense	7 924	8 881	9 962	11 074
Grant expense	15 403	15 671	15 641	15 765
Other operating expenses	45 353	44 115	45 403	47 059
<b>Total expenses from transactions</b>	<b>121 855</b>	<b>123 562</b>	<b>128 102</b>	<b>132 576</b>
% change <sup>(b)</sup>	5.0	1.4	3.7	3.5
<b>Net result from transactions</b>	<b>(6 943)</b>	<b>(2 907)</b>	<b>(2 261)</b>	<b>(3 432)</b>
Total other economic flows included in net result	(1 907)	1 452	1 643	2 722
<b>Net result</b>	<b>(8 850)</b>	<b>(1 454)</b>	<b>(619)</b>	<b>(710)</b>

*Notes:*

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

(b) The revenue and expense growth for 2024-25 is based on published figures in the 2023-24 Financial Report.

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

Table 3.10 shows that the State's net result from transactions is projected to improve from a deficit of \$6.9 billion in 2024-25 to a deficit of \$3.4 billion in 2027-28. This improvement is primarily due to the general government sector result which is explained earlier in this chapter.

The net result from transactions excludes other economic flows such as capital gains on the investments held by the State's insurance agencies, movements in deferred tax assets, risk margins and claims handling expenses. Other economic flows are projected to average \$1 billion a year over the budget and forward estimates noting that the annual figure varies between a deficit of \$1.9 billion in 2024-25 and a surplus of \$2.7 billion in 2027-28.

When other economic flows are included, the State's net result improves from a deficit of \$8.9 billion in 2024-25 to a deficit of \$0.7 billion in 2027-28.

**Table 3.11: Summary balance sheet for the State of Victoria <sup>(a)</sup>****(\$ billion)**

	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Assets</b>				
Total financial assets <sup>(b)</sup>	119.3	124.8	131.7	138.4
Total non-financial assets <sup>(c)</sup>	473.0	499.6	518.9	537.5
<b>Total assets</b>	<b>592.4</b>	<b>624.4</b>	<b>650.6</b>	<b>675.9</b>
<b>Liabilities</b>				
Superannuation	19.3	19.6	19.8	18.7
Borrowings	222.3	241.4	257.8	271.4
Deposits held and advances received	1.9	1.8	1.8	1.8
Other liabilities <sup>(d)</sup>	111.3	115.2	118.6	122.5
<b>Total liabilities</b>	<b>354.8</b>	<b>378.0</b>	<b>398.0</b>	<b>414.3</b>
<b>Net assets</b>	<b>237.5</b>	<b>246.4</b>	<b>252.5</b>	<b>261.6</b>

**Notes:**

- (a) This is a summary balance sheet. The comprehensive balance sheet is presented in Chapter 5. Figures in this table are subject to rounding to the nearest billion and may not add up to totals.
- (b) Financial assets include cash and deposits, advances paid, investments, loans and placements, receivables, and investments accounted for using the equity method.
- (c) Non-financial assets include inventories, non-financial assets held for sale, land, buildings, infrastructure, plant and equipment, and other non-financial assets.
- (d) Other liabilities consist of payables, employee benefits, other provisions and contract liabilities.

Table 3.11 shows that the state's net assets are projected to increase over the budget and forward estimates, from \$237.5 billion in 2024-25 to \$261.6 billion by 2027-28. This reflects a forecast increase in total assets of \$83.5 billion over this period, partly offset by a \$59.5 billion increase in liabilities.

The increase in total assets is largely due to the state's non-financial assets, including infrastructure, being estimated to increase from \$473.0 billion in 2024-25 to \$537.5 billion by 2027-28.

The projected increase in total liabilities, from \$354.8 billion in 2024-25 to \$414.3 billion by 2027-28, is largely due to borrowings increasing from \$222.3 billion in 2024-25 to \$271.4 billion by 2027-28.





# CHAPTER 4 – ESTIMATED FINANCIAL STATEMENTS AND NOTES

## ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR COMPREHENSIVE OPERATING STATEMENT

For the financial year ended 30 June

(\$ million)

	Notes	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Revenue and income from transactions</b>						
Taxation	4.2.1	38 979	39 152	41 563	43 776	45 788
Interest income		1 283	1 396	1 077	1 084	1 096
Dividends, income tax equivalent and rate equivalent income	4.2.2	1 015	1 127	1 187	1 250	1 303
Sales of goods and services	4.2.3	6 794	7 080	7 165	7 252	7 317
Grants	4.2.4	44 812	45 598	49 165	49 861	51 325
Other revenue and income	4.2.5	3 201	3 706	3 269	3 813	3 536
<b>Total revenue and income from transactions</b>		<b>96 084</b>	<b>98 059</b>	<b>103 426</b>	<b>107 036</b>	<b>110 364</b>
<b>Expenses from transactions</b>						
Employee expenses	4.3.1	36 538	37 526	38 433	40 046	41 233
Net superannuation interest expense	4.3.2	774	783	787	796	785
Other superannuation	4.3.2	3 872	4 084	4 126	4 245	4 408
Depreciation	4.4.2	5 234	5 512	5 840	6 040	6 177
Interest expense	4.5.3	6 502	6 582	7 410	8 345	9 317
Grant expense	4.3.4	17 619	17 728	17 483	17 362	17 497
Other operating expenses	4.3.5	27 737	29 438	27 769	28 486	28 993
<b>Total expenses from transactions</b>	4.3.7	<b>98 276</b>	<b>101 653</b>	<b>101 847</b>	<b>105 318</b>	<b>108 410</b>
<b>Net result from transactions – Net operating balance</b>		<b>(2 191)</b>	<b>(3 595)</b>	<b>1 579</b>	<b>1 718</b>	<b>1 954</b>
<b>Other economic flows included in net result</b>						
Net gain/(loss) on disposal of non-financial assets		11	10	16	13	13
Net gain/(loss) on financial assets or liabilities at fair value		80	238	158	245	273
Share of net profit/(loss) from associates/joint venture entities		32	(45)	(45)	(45)	(45)
Other gains/(losses) from other economic flows	4.6.1	(459)	(452)	(411)	(441)	(399)
<b>Total other economic flows included in net result</b>		<b>(336)</b>	<b>(248)</b>	<b>(283)</b>	<b>(228)</b>	<b>(158)</b>
<b>Net result</b>		<b>(2 527)</b>	<b>(3 843)</b>	<b>1 296</b>	<b>1 490</b>	<b>1 796</b>

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

For the financial year ended 30 June

(\$ million)

	Notes	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Other economic flows –</b>						
<b>Other comprehensive income</b>						
<b>Items that will not be reclassified to net result</b>						
Changes in non-financial assets revaluation surplus		6 787	6 760	8 694	5 809	8 979
Remeasurement of superannuation defined benefit plans	4.3.2	725	(520)	718	702	702
Other movements in equity		13	252	15	17	20
<b>Items that may be reclassified subsequently to net result</b>						
Net gain/(loss) on financial assets at fair value		25	3	3	3	3
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets <sup>(a)</sup>	4.4.6	(4 143)	(8 421)	(19 852)	(830)	(1 010)
<b>Total other economic flows – Other comprehensive income</b>		<b>3 407</b>	<b>(1 927)</b>	<b>(10 423)</b>	<b>5 701</b>	<b>8 694</b>
<b>Comprehensive result – Total change in net worth</b>		<b>880</b>	<b>(5 770)</b>	<b>(9 127)</b>	<b>7 191</b>	<b>10 490</b>
<b>KEY FISCAL AGGREGATES<sup>(b)</sup></b>						
<b>Net operating balance</b>		<b>(2 191)</b>	<b>(3 595)</b>	<b>1 579</b>	<b>1 718</b>	<b>1 954</b>
Less: Net acquisition of non-financial assets from transactions <sup>(c)</sup>	4.3.9	9 088	7 621	(9 232)	7 881	4 886
<b>Net lending/(borrowing)</b>		<b>(11 279)</b>	<b>(11 216)</b>	<b>10 810</b>	<b>(6 163)</b>	<b>(2 933)</b>

The accompanying notes form part of these Estimated Financial Statements.

Notes:

(a) The movement in 2025-26 primarily reflects the derecognition of completed Metro Tunnel assets transferred to VicTrack, as required under AASB 16 Leases.

(b) The fiscal aggregates are defined in Note 9.9 of the 2023-24 Financial Report.

(c) The movement in 2025-26 primarily reflects the transfer of the Metro Tunnel assets from the Department of Transport and Planning in the general government sector to VicTrack in the public non-financial corporations sector upon its completion.

# ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR BALANCE SHEET

As at 30 June

(\$ million)

	Notes	2025 budget <sup>(a)</sup>	2025 revised	2026 estimate	2027 estimate	2028 estimate
<b>Assets</b>						
<b>Financial assets</b>						
Cash and deposits		14 784	11 224	11 716	12 279	12 915
Advances paid	4.5.2	6 342	6 342	6 348	6 366	6 360
Receivables and contract assets	4.2.6	10 738	10 063	10 629	11 197	11 713
Investments, loans and placements	4.5.2	16 407	16 888	17 941	19 410	20 997
Investments accounted for using equity method		1 222	1 166	1 146	1 069	992
Investments in other sector entities	4.4.6	101 916	99 515	103 739	107 028	110 111
<b>Total financial assets</b>		<b>151 410</b>	<b>145 198</b>	<b>151 520</b>	<b>157 350</b>	<b>163 087</b>
<b>Non-financial assets</b>						
Inventories		372	370	343	289	288
Non-financial assets held for sale		228	228	229	221	214
Land, buildings, infrastructure, plant and equipment	4.4.1 4.4.3	285 717	283 908	283 663	297 607	311 594
Other non-financial assets	4.4.4	5 937	6 165	6 035	5 823	5 688
<b>Total non-financial assets</b>		<b>292 254</b>	<b>290 672</b>	<b>290 270</b>	<b>303 940</b>	<b>317 784</b>
<b>Total assets</b>	4.4.5	<b>443 664</b>	<b>435 869</b>	<b>441 790</b>	<b>461 290</b>	<b>480 871</b>
<b>Liabilities</b>						
Deposits held and advances received		1 520	1 472	1 423	1 424	1 425
Payables	4.3.6	7 444	6 498	6 432	6 426	6 422
Borrowings	4.5.1	189 574	188 137	203 074	215 657	226 131
Employee benefits	4.3.1	11 105	11 473	11 826	12 180	12 540
Superannuation	4.3.3	18 122	19 346	19 642	19 792	18 656
Other provisions		3 026	2 840	2 880	2 963	3 097
Other liabilities	4.2.7	22 176	22 056	21 592	20 736	20 000
<b>Total liabilities</b>		<b>252 966</b>	<b>251 822</b>	<b>266 869</b>	<b>279 179</b>	<b>288 271</b>
<b>Net assets</b>		<b>190 698</b>	<b>184 047</b>	<b>174 920</b>	<b>182 111</b>	<b>192 601</b>
Accumulated surplus/(deficit)		41 565	39 242	41 616	43 825	46 344
Reserves		149 133	144 805	133 304	138 286	146 257
<b>Net worth</b>		<b>190 698</b>	<b>184 047</b>	<b>174 920</b>	<b>182 111</b>	<b>192 601</b>
<b>FISCAL AGGREGATES<sup>(b)</sup></b>						
Net financial worth		(101 556)	(106 624)	(115 350)	(121 829)	(125 184)
Net financial liabilities		203 472	206 139	219 089	228 857	235 295
Net debt		153 559	155 155	168 492	179 025	187 285

The accompanying notes form part of these Estimated Financial Statements.

Notes:

(a) Balances represent actual opening balances at 1 July 2024 plus 2024-25 budgeted movements.

(b) The fiscal aggregates are defined in Note 9.9 of the 2023-24 Financial Report.

# ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR CASH FLOW STATEMENT

For the financial year ended 30 June

(\$ million)

	Notes	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Taxes received		38 488	39 469	41 058	43 290	45 474
Grants		44 811	45 454	49 172	49 861	51 325
Sales of goods and services <sup>(a)</sup>		7 389	7 711	7 800	7 893	7 967
Interest received		1 121	1 246	916	907	894
Dividends, income tax equivalent and rate equivalent receipts		1 043	1 183	1 214	1 276	1 330
Other receipts		2 097	2 073	2 233	2 593	2 313
<b>Total receipts</b>		<b>94 949</b>	<b>97 135</b>	<b>102 392</b>	<b>105 821</b>	<b>109 302</b>
<b>Payments</b>						
Payments for employees		(36 567)	(37 187)	(38 093)	(39 705)	(40 886)
Superannuation		(4 025)	(4 267)	(3 900)	(4 188)	(5 626)
Interest paid		(6 258)	(6 340)	(7 257)	(8 319)	(9 272)
Grants and subsidies		(17 485)	(18 263)	(17 389)	(17 338)	(17 487)
Goods and services <sup>(a)</sup>		(27 756)	(28 943)	(27 280)	(28 073)	(28 496)
Other payments		(1 060)	(1 727)	(1 230)	(1 061)	(1 111)
<b>Total payments</b>		<b>(93 152)</b>	<b>(96 728)</b>	<b>(95 148)</b>	<b>(98 685)</b>	<b>(102 878)</b>
<b>Net cash flows from operating activities</b>		<b>1 797</b>	<b>407</b>	<b>7 244</b>	<b>7 136</b>	<b>6 424</b>
<b>Cash flows from investing activities</b>						
<b>Cash flows from investments in non-financial assets</b>						
Purchases of non-financial assets	4.3.8	(17 669)	(16 391)	(17 661)	(15 579)	(13 780)
Sales of non-financial assets		677	620	1 055	704	536
<b>Net cash flows from investments in non-financial assets</b>		<b>(16 991)</b>	<b>(15 772)</b>	<b>(16 605)</b>	<b>(14 874)</b>	<b>(13 244)</b>
Net cash flows from investments in financial assets for policy purposes		(3 552)	(4 029)	(3 136)	(2 588)	(1 168)
<b>Subtotal</b>		<b>(20 544)</b>	<b>(19 801)</b>	<b>(19 742)</b>	<b>(17 462)</b>	<b>(14 412)</b>
Net cash flows from investment in financial assets for liquidity management purposes		(1 487)	(1 843)	(951)	(1 241)	(1 223)
<b>Net cash flows from investing activities</b>		<b>(22 031)</b>	<b>(21 644)</b>	<b>(20 693)</b>	<b>(18 704)</b>	<b>(15 635)</b>
<b>Cash flows from financing activities</b>						
Advances received (net)		(5)	(5)	(60)	(11)	(10)
Net borrowings		20 713	18 204	13 989	12 129	9 846
Deposits received (net)		..	(48)	11	11	11
<b>Net cash flows from financing activities</b>		<b>20 707</b>	<b>18 151</b>	<b>13 940</b>	<b>12 130</b>	<b>9 847</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>474</b>	<b>(3 086)</b>	<b>492</b>	<b>562</b>	<b>635</b>
Cash and cash equivalents at beginning of reporting period <sup>(b)</sup>		14 310	14 310	11 224	11 716	12 278
<b>Cash and cash equivalents at end of reporting period<sup>(b)(c)</sup></b>		<b>14 784</b>	<b>11 224</b>	<b>11 716</b>	<b>12 278</b>	<b>12 913</b>

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

For the financial year ended 30 June

(\$ million)

	Notes	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>FISCAL AGGREGATES <sup>(d)</sup></b>						
Net cash flows from operating activities		1 797	407	7 244	7 136	6 424
Net cash flows from investments in non-financial assets		(16 991)	(15 772)	(16 605)	(14 874)	(13 244)
<b>Cash surplus/(deficit)</b>		<b>(15 194)</b>	<b>(15 364)</b>	<b>(9 361)</b>	<b>(7 738)</b>	<b>(6 820)</b>

The accompanying notes form part of these Estimated Financial Statements.

Notes:

- (a) Sales of goods and services and payments for goods and services are inclusive of goods and services tax.
- (b) 2024-25 budget figures have been restated to represent actual opening balances at 1 July 2024.
- (c) Cash and cash equivalents at the end of the reporting period does not equal cash and deposits on the balance sheet. This is due to overdrafts being included in the cash flow statement balances.
- (d) The fiscal aggregates are defined in Note 9.9 of the 2023-24 Financial Report.

# ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June

(\$ million)

	Accumulated surplus/ (deficit)	Non-financial assets revaluation surplus	Investment in other sector entities revaluation surplus	Other reserves	Total
<b>2024-25 budget <sup>(a)</sup></b>					
Balance at 1 July 2024	43 405	98 544	46 381	1 528	189 859
Opening balance adjustment <sup>(b)(c)</sup>	(51)	..	10	..	(41)
<b>Restated balance at 1 July 2024</b>	<b>43 354</b>	<b>98 544</b>	<b>46 391</b>	<b>1 528</b>	<b>189 818</b>
Net result for the year	(2 527)	..	..	..	(2 527)
Other comprehensive income for the year	738	6 787	(4 143)	25	3 407
Transfer to/(from) accumulated surplus	..	..	..	..	..
<b>Total equity as at 30 June 2025</b>	<b>41 565</b>	<b>105 332</b>	<b>42 248</b>	<b>1 554</b>	<b>190 698</b>
<b>2024-25 revised</b>					
Balance at 1 July 2024	43 405	98 544	46 381	1 528	189 859
Opening balance adjustment <sup>(b)(c)</sup>	(51)	..	10	..	(41)
<b>Restated balance at 1 July 2024</b>	<b>43 354</b>	<b>98 544</b>	<b>46 391</b>	<b>1 528</b>	<b>189 818</b>
Net result for the year	(3 843)	..	..	..	(3 843)
Other comprehensive income for the year	(269)	6 760	(8 421)	3	(1 927)
Transfer to/(from) accumulated surplus	..	..	..	..	..
<b>Total equity as at 30 June 2025</b>	<b>39 242</b>	<b>105 304</b>	<b>37 970</b>	<b>1 532</b>	<b>184 047</b>
<b>2025-26 estimate</b>					
Balance at 1 July 2025	39 242	105 304	37 970	1 532	184 047
Net result for the year	1 296	..	..	..	1 296
Other comprehensive income for the year	733	8 694	(19 852)	3	(10 423)
Transfer to/(from) accumulated surplus	345	(345)	..	..	..
<b>Total equity as at 30 June 2026</b>	<b>41 616</b>	<b>113 653</b>	<b>18 117</b>	<b>1 534</b>	<b>174 920</b>
<b>2026-27 estimate</b>					
Balance at 1 July 2026	41 616	113 653	18 117	1 534	174 920
Net result for the year	1 490	..	..	..	1 490
Other comprehensive income for the year	720	5 809	(830)	3	5 701
Transfer to/(from) accumulated surplus	..	..	..	..	..
<b>Total equity as at 30 June 2027</b>	<b>43 825</b>	<b>119 461</b>	<b>17 287</b>	<b>1 537</b>	<b>182 111</b>
<b>2027-28 estimate</b>					
Balance at 1 July 2027	43 825	119 461	17 287	1 537	182 111
Net result for the year	1 796	..	..	..	1 796
Other comprehensive income for the year	722	8 979	(1 010)	3	8 694
Transfer to/(from) accumulated surplus	..	..	..	..	..
<b>Total equity as at 30 June 2028</b>	<b>46 344</b>	<b>128 440</b>	<b>16 277</b>	<b>1 540</b>	<b>192 601</b>

The accompanying notes form part of these Estimated Financial Statements.

Notes:

- (a) Balances represent actual opening balances at 1 July 2024 plus 2024-25 budgeted movements.
- (b) On 1 July 2024, the previous State Electricity Commission of Victoria, established under the State Electricity Commission Act 1958 (SEC Act) was abolished by the commencement of the State Electricity Commission Amendment Act 2024 and the residual financial assets were transferred to the Department of Energy, Environment and Climate Action. This has resulted in the 1 July 2024 opening balance not equalling the 30 June closing balance.
- (c) VicForests ceased operations on 30 June 2024 and the residual assets and liabilities together with residual responsibilities for native forest management were transferred to the Department of Energy, Environment and Climate Action following proclamation of the Sustainable Forests (Timber) Repeal Act 2024, effective from 1 July 2024. This has resulted in the 1 July 2024 opening balance not equalling the 30 June closing balance.

## 4.1 ABOUT THIS REPORT

### Basis of preparation

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

The detailed accounting policies applied in preparing the Estimated Financial Statements for the 2024-25 budget year, and the three forward years, are consistent with those in the *2023-24 Financial Report* for the State of Victoria as presented to Parliament. The audited 30 June 2024 asset and liability balances, as reported in the *2023-24 Financial Report*, form the basis on which asset and liability balances are projected over the next four years.

The accrual basis of accounting has been applied in preparing the Estimated Financial Statements whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

The Estimated Financial Statements are presented in Australian dollars, which is also the functional currency of the Victorian general government sector.

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

- general government sector investments in other sector entities which are measured at net asset value
- non-financial physical assets including service concession arrangement assets and right-of-use assets which, subsequent to initial recognition, are measured at a revalued amount being their fair value at the reporting date less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations are made with sufficient regularity to ensure the carrying amounts do not materially differ from their fair values
- certain liabilities, most notably unfunded superannuation, which are subject to actuarial assessments
- financial assets at fair value through other comprehensive income, which are measured at fair value with movements reflected in other economic flows – other comprehensive income
- financial assets classified at fair value through profit and loss, which are measured at fair value with movements reflected in other economic flows included in the net result.

For assets and liabilities measured at fair value in the estimated balance sheet, the principles of AASB 13 *Fair Value Measurement* have been applied. In December 2022, the Australian Accounting Standards Board published AASB 2022-10 *Amendments to the Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* clarifying the application of AASB 13 in the context of the public sector prospectively for annual periods beginning on or after 1 January 2024.

AASB 2022-10 clarified the application of the highest and best use concept and added a new Appendix F explaining and illustrating the application of the principles on developing unobservable inputs and the application of the cost approach. In accordance with FRD 103 *Non-financial physical assets*, the State applies Appendix F prospectively as part of the scheduled formal and interim asset valuations during 2025-2029.

As required by AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, the estimated comprehensive operating statement distinguishes between transactions and other economic flows based on the principles in the Government Finance Statistics (GFS) Manual. Transactions are those economic flows that are considered to arise as a result of policy decisions, usually interactions between two entities by mutual agreement, and also flows within an entity, such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the Government and the taxpayer. Transactions may be settled in cash or settled in kind (e.g. assets provided/given free of charge or for nominal consideration).

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

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

All amounts in the Estimated Financial Statements have been rounded to the nearest \$1 million unless otherwise stated. The Estimated Financial Statements may not add due to rounding.

## Reporting entity

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

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



## Basis for consolidation

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

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

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

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

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

Except as stated in Note 4.6.4, the significant entities consolidated within the sector comprise those general government sector entities listed in Note 9.8 of Chapter 4 of the *2023-24 Financial Report* for the State of Victoria.

## Compliance

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

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

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

The information presented in the estimated financial statements takes into account the financial impacts as at 20 November 2024 of all decisions that affect the financial statements, unless otherwise stated.

## Key financial measures

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

The Government's financial sustainability objectives for the *2024-25 Budget Update* are that:

- the net operating balance will return to a surplus by 2025-26
- an operating cash surplus will be maintained over the budget and forward estimates period
- net debt to GSP will stabilise and begin to decline by the end of the forward estimates period.

The Government's long-term financial management objectives and fiscal measures and targets for the *2024-25 Budget Update* are set out in Chapter 1 *Economic and fiscal overview*.

## Key judgements, estimates and assumptions

Judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources, and the forecasting of certain revenue and expenses. 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.

Risks to Victoria's economic outlook remain, although the elevated uncertainties of recent years associated with the COVID-19 pandemic have eased. These risks include the outlook for consumer spending, the outlook for inflation, and hence for interest rates, as well as prospects for global economic growth against a backdrop of elevated geopolitical volatility. This means that these estimates are subject to a degree of uncertainty. For example, goods and services tax (GST) revenue, land transfer duty revenue and interest expense are significantly linked to changes in economic growth, inflation and/or interest rates.

## Economic assumptions

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

### Economic assumptions

	2023-24 actual	2024-25 forecast	2025-26 forecast	2026-27 projection	2027-28 projection
					(\$ billion)
Nominal gross state product	606.1	640.6	673.9	710.2	748.3
					(percentage change) <sup>(a)</sup>
Real gross state product	1.50	2.50	2.50	2.75	2.75
Employment	3.50	2.50	0.75	1.75	1.75
Unemployment rate <sup>(b)</sup>	4.00	4.50	4.75	4.75	4.75
Consumer price index <sup>(c)</sup>	4.00	2.50	3.00	2.50	2.50
Wage price index <sup>(d)</sup>	3.60	3.50	3.25	3.25	3.25
Population <sup>(e)</sup>	2.60 <sup>(f)</sup>	1.80	1.70	1.70	1.70

#### Notes:

- (a) *Percentage change in year average terms compared with the previous year, except for the unemployment rate (see note (b)) and population (see note (e)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (e)). The key assumptions underlying the economic forecasts include interest rates that broadly follow market economists' expectations; an Australian dollar trade-weighted index of 62.3; and oil prices that follow the path suggested by oil futures.*
- (b) *Year average.*
- (c) *Melbourne consumer price index.*
- (d) *Wage price index, Victoria (based on total hourly rates of pay, excluding bonuses).*
- (e) *Percentage change over the year to 30 June. Forecasts are rounded to the nearest 0.1 percentage point.*
- (f) *Estimate, actual not yet available.*

## Economic risks that affect the Estimated Financial Statements

There are risks to Victoria's economic outlook and the forecasts are subject to uncertainty, although the elevated uncertainties of previous budgets associated with the COVID-19 pandemic have eased.

The outlook for consumer spending remains a key source of uncertainty for the Victorian economy. Consumption has been subdued over the past year, reflecting the impact of high inflation and elevated interest rates on household budgets. Household disposable income is expected to increase in 2024-25, which should support a rebound in spending. However, there is uncertainty around how strong this rebound will be, which has implications for economic activity and employment growth.

The path of inflation and hence the outlook for interest rates contribute to the uncertainty around the outlook for consumer spending and dwelling investment. Although overall inflation is easing, services inflation remains high and there is uncertainty about how persistent services inflation will be. This has implications for the Reserve Bank of Australia's monetary policy as well as that for other major central banks. The stance of monetary policy will affect the outlook for economic activity and employment growth. For example, GST revenue, land transfer duty revenue and interest expense are significantly linked to changes in economic growth, inflation and/or interest rates.

Another uncertainty is the outlook for the global economy. One source of uncertainty stems from possible changes to US fiscal and trade policies following the recent US election, which could affect US and global inflation and economic growth, although the scale and timing are uncertain. Another risk to the outlook stems from heightened geopolitical tensions; for example, any escalation in the conflict in the Middle East or Russia's invasion of Ukraine may add to global inflation, with disruptions to energy markets. Economic growth in China could also ease more than expected, which would weigh on the global economy and likely lead to a decline in demand for Victorian exports.

Further detail on the economic outlook and risks to the outlook is included in Chapter 2 *Economic context*.

## 4.2 HOW FUNDS ARE RAISED

### Introduction

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

Revenue and income recognition is determined by the State based on the substance of the arrangement in accordance with the requirements of AASB 15 *Revenue from Contracts with Customers*, AASB 16 *Leases*, AASB 1058 *Income of Not-for-Profit Entities* and AASB 1059 *Service Concession Arrangements: Grantors*.

### Structure

4.2.1	Taxation.....	56
4.2.2	Dividends, income tax equivalent and rate equivalent income.....	57
4.2.3	Sales of goods and services .....	58
4.2.4	Grants .....	58
4.2.5	Other revenue and income.....	59
4.2.6	Receivables and contract assets .....	60
4.2.7	Other liabilities .....	60

#### 4.2.1 Taxation

(\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>TAXES ON EMPLOYERS' PAYROLL AND LABOUR FORCE</b>					
Payroll tax	9 071	9 071	9 410	9 904	10 426
COVID Debt Levy – Payroll \$10m+	1 031	1 031	1 084	1 146	1 215
Mental Health and Wellbeing Levy	1 031	1 031	1 084	1 146	1 215
<b>Total taxes on employers' payroll and labour force</b>	<b>11 133</b>	<b>11 133</b>	<b>11 578</b>	<b>12 195</b>	<b>12 856</b>
<b>TAXES ON IMMOVABLE PROPERTY</b>					
Land tax	6 523	6 510	6 582	7 006	7 538
COVID Debt Levy – Landholdings	1 258	1 207	1 218	1 294	1 390
Emergency Services and Volunteers Fund <sup>(a)</sup>	1 033	1 033	1 649	1 800	1 800
Congestion levy	118	120	223	229	235
Metropolitan improvement levy	214	214	221	221	221
Windfall gains tax	109	134	135	142	150
<b>Total taxes on immovable property</b>	<b>9 256</b>	<b>9 218</b>	<b>10 029</b>	<b>10 691</b>	<b>11 334</b>
<b>TAXES ON THE PROVISION OF GOODS AND SERVICES</b>					
<b>Gambling taxes <sup>(b)</sup></b>					
Public lotteries	694	718	746	760	776
Electronic gaming machines	1 407	1 434	1 417	1 373	1 223
Casino	196	196	201	205	206
Racing and other sports betting	435	399	447	456	466
Other	18	18	19	20	20
<b>Financial and capital transactions</b>					
Land transfer duty	8 526	8 723	9 145	9 674	10 202
Metropolitan planning levy	21	20	22	23	24
Financial accommodation levy	207	207	234	254	278
Growth areas infrastructure contributions	336	260	286	300	250
<b>Levies on statutory corporations <sup>(c)</sup></b>	<b>176</b>	<b>176</b>	<b>176</b>	<b>176</b>	<b>176</b>
<b>Taxes on insurance</b>	<b>2 191</b>	<b>2 221</b>	<b>2 322</b>	<b>2 436</b>	<b>2 554</b>
<b>Total taxes on the provision of goods and services</b>	<b>14 207</b>	<b>14 373</b>	<b>15 015</b>	<b>15 676</b>	<b>16 176</b>
<b>TAXES ON THE USE OF GOODS AND PERFORMANCE OF ACTIVITIES</b>					
<b>Motor vehicle taxes</b>					
Vehicle registration fees	2 244	2 245	2 419	2 597	2 778
Duty on vehicle registrations and transfers	1 370	1 370	1 422	1 485	1 551
<b>Liquor licence fees</b>	<b>31</b>	<b>33</b>	<b>34</b>	<b>36</b>	<b>37</b>
<b>Other</b>	<b>738</b>	<b>780</b>	<b>1 066</b>	<b>1 096</b>	<b>1 057</b>
<b>Total taxes on the use of goods and performance of activities</b>	<b>4 383</b>	<b>4 427</b>	<b>4 941</b>	<b>5 213</b>	<b>5 422</b>
<b>Total taxation</b>	<b>38 979</b>	<b>39 152</b>	<b>41 563</b>	<b>43 776</b>	<b>45 788</b>

Notes:

- (a) This line item was previously listed as the Fire Services Property Levy. From 1 July 2025 this line item will be replaced by the Emergency Services and Volunteers Fund, and include emergency and disaster response services, including Fire Rescue Victoria, Country Fire Agency, Victorian State Emergency Service, Triple Zero Victoria, the State Control Centre, and Emergency Recovery Victoria.
- (b) The public lotteries, electronic gaming machines, casino, racing and other sports betting and other gambling taxes balances include gambling licence revenue forecasts of \$184 million in 2024-25, \$215 million in 2025-26, \$215 million in 2026-27 and \$215 million in 2027-28, recognised under AASB 15. The balance of these items is recognised under AASB 1058.
- (c) The sixth tranche of the environmental contribution levy commenced on 1 July 2024 for a period of four years concluding on 30 June 2028.

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

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
Dividends from PFC sector	84	83	82	79	82
Dividends from PNFC sector	157	157	186	188	192
Dividends from non-public sector	549	664	654	731	796
<b>Dividends</b>	<b>789</b>	<b>903</b>	<b>923</b>	<b>998</b>	<b>1 070</b>
Income tax equivalent income from PFC sector	7	5	4	4	5
Income tax equivalent income from PNFC sector	213	213	254	243	223
<b>Income tax equivalent income</b>	<b>221</b>	<b>218</b>	<b>258</b>	<b>247</b>	<b>228</b>
Local government rate equivalent income	5	5	6	5	5
<b>Total dividends, income tax equivalent and rate equivalent income</b>	<b>1 015</b>	<b>1 127</b>	<b>1 187</b>	<b>1 250</b>	<b>1 303</b>

#### Dividends by entity <sup>(a)</sup> (\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Public financial corporations</b>					
Victorian Managed Insurance Authority	..	..	..	..	..
WorkSafe Victoria	..	..	..	..	..
Transport Accident Commission	..	..	..	..	..
Treasury Corporation of Victoria	75	75	73	72	75
State Trustees Ltd	..	1	1	..	..
Victorian Funds Management Corporation	7	5	6	5	5
Other/not allocated <sup>(b)</sup>	2	2	3	3	3
<b>Dividends from PFC sector</b>	<b>84</b>	<b>83</b>	<b>82</b>	<b>79</b>	<b>82</b>
<b>Public non-financial corporations</b>					
Greater Western Water	63	63	83	74	86
Melbourne Water Corporation	..	..	13	21	13
South East Water Corporation	20	20	15	13	11
Yarra Valley Water Corporation	14	14	4	9	16
Development Victoria	25	25	21	19	14
Others/not allocated <sup>(b)</sup>	34	34	51	51	51
<b>Dividends from PNFC sector</b>	<b>157</b>	<b>157</b>	<b>186</b>	<b>188</b>	<b>192</b>

*Notes:*

(a) Due to the requirements of AASB 1023 General Insurance Contracts, amounts equivalent to dividends that are to be paid by the Transport Accident Commission are received and reported as contributions forming part of grant revenue. The amounts that are forecast to be paid by the Transport Accident Commission, noting these are subject to annual review, are \$300 million in 2024-25, \$900 million in 2025-26, and \$1.2 billion in 2027-28. Based on current projections, the Transport Accident Commission is expected to remain financially sustainable, with an Insurance Funding Ratio above the midpoint of the preferred range, across the forward estimates.

(b) Savings and efficiency initiatives introduced in the 2023-24 Budget will continue to be implemented by the PNFC and PFC sectors. Revised dividends payable by individual agencies will be determined following consultation with the relevant agencies.

#### 4.2.3 Sales of goods and services

(\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Amounts recognised as revenue from contracts with customers (AASB 15)</b>					
Sale of goods	92	93	91	90	91
Provision of services <sup>(a)</sup>	5 466	5 750	5 813	5 902	5 960
<b>Amounts recognised as income of not-for-profit entities (AASB 1058)</b>					
Motor vehicle regulatory fees	318	318	324	343	333
Other regulatory fees	823	814	832	812	826
<b>Amounts recognised as lease income (AASB 16)</b>					
Rental	95	105	105	106	106
<b>Total sales of goods and services</b>	<b>6 794</b>	<b>7 080</b>	<b>7 165</b>	<b>7 252</b>	<b>7 317</b>

Note:

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

#### 4.2.4 Grants <sup>(a)</sup>

(\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
General purpose grants	23 487	23 601	25 870	26 075	25 571
Specific purpose grants for on-passing	6 000	5 327	6 251	6 510	6 780
Specific purpose grants	14 611	15 779	15 641	16 756	17 260
<b>Total</b>	<b>44 098</b>	<b>44 707</b>	<b>47 761</b>	<b>49 341</b>	<b>49 611</b>
Other contributions and grants	714	891	1 404	520	1 714
<b>Total grants</b>	<b>44 812</b>	<b>45 598</b>	<b>49 165</b>	<b>49 861</b>	<b>51 325</b>

Note:

(a) Grants predominantly relate to grants from the Commonwealth Government which are recognised under AASB 1058. The State has not recognised any material grant revenue under AASB 15 over the budget and forward estimates.



#### 4.2.5 Other revenue and income

(\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Amounts recognised as revenue from contracts with customers (AASB 15)</b>					
Royalties	144	144	144	144	144
Other revenue – Health	261	261	261	261	261
Other miscellaneous revenue	631	722	701	704	701
<b>Amounts recognised as income of not-for-profit entities (AASB 1058)</b>					
Fair value of assets received free of charge or for nominal consideration <sup>(a)</sup>	98	481	2	2	2
Fines	946	976	882	944	967
Donations and gifts <sup>(b)</sup>	214	216	217	219	219
Other income – Education	373	373	382	391	401
Other miscellaneous income <sup>(c)</sup>	..	..	..	308	..
<b>Amounts recognised as lease income (AASB 16)</b>					
Other non-property rental	31	31	31	31	29
<b>Revenue items accounted for under AASB 1059</b>					
Revenue related to economic service concession arrangements	502	502	648	809	813
<b>Total other revenue and income</b>	<b>3 201</b>	<b>3 706</b>	<b>3 269</b>	<b>3 813</b>	<b>3 536</b>

*Notes:*

(a) *The fair value of assets and services received free of charge or for nominal consideration in 2024-25 reflect adjustments for expected costs under the Metro Tunnel service concession arrangement.*

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

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

#### 4.2.6 Receivables and contract assets

(\$ million)

	2025 <i>budget</i>	2025 <i>revised</i>	2026 <i>estimate</i>	2027 <i>estimate</i>	2028 <i>estimate</i>
<b>Contractual</b>					
Sales of goods and services	710	707	744	778	812
Accrued investment income	84	84	86	89	92
Other receivables	2 481	2 624	2 671	2 740	2 811
Allowance for impairment losses of contractual receivables	(155)	(158)	(158)	(158)	(158)
<b>Statutory</b>					
Sales of goods and services	1	1	1	1	1
Taxes receivable	6 853	6 045	6 498	6 932	7 314
Fines and regulatory fees	2 716	2 716	2 796	2 775	2 780
GST input tax credits recoverable	531	527	527	528	529
Allowance for impairment losses of statutory receivables	(2 482)	(2 482)	(2 536)	(2 487)	(2 467)
<b>Total receivables and contract assets</b>	<b>10 738</b>	<b>10 063</b>	<b>10 629</b>	<b>11 197</b>	<b>11 713</b>
Current receivables and contract assets	9 968	9 296	9 865	10 437	10 956
Non-current receivables and contract assets	770	768	764	760	756

#### 4.2.7 Other liabilities

(\$ million)

	2025 <i>budget</i>	2025 <i>revised</i>	2026 <i>estimate</i>	2027 <i>estimate</i>	2028 <i>estimate</i>
Contract liabilities	478	478	481	481	481
Grant of a right to the operator liability	19 950	19 979	19 575	18 785	17 991
Unearned income	1 748	1 599	1 536	1 470	1 528
<b>Total other liabilities</b>	<b>22 176</b>	<b>22 056</b>	<b>21 592</b>	<b>20 736</b>	<b>20 000</b>
<b>Represented by:</b>					
Current other liabilities	1 826	1 677	1 825	1 825	1 823
Non-current other liabilities	20 351	20 379	19 767	18 912	18 177

## 4.3 HOW FUNDS ARE SPENT

### Introduction

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

### Structure

4.3.1	Employee expenses and provision for outstanding employee benefits liabilities .....	62
4.3.2	Superannuation expense .....	63
4.3.3	Superannuation liability .....	64
4.3.4	Grant expense .....	66
4.3.5	Other operating expenses .....	67
4.3.6	Payables .....	68
4.3.7	Total expenses by classification of the functions of government (COFOG) and by portfolio department .....	69
4.3.8	Purchases of non-financial assets by COFOG and by portfolio department .....	71
4.3.9	Net acquisition of non-financial assets from transactions .....	72

### 4.3.1 Employee expenses and provision for outstanding employee benefits liabilities

Employee expenses and employee benefits are forecast on the basis of staffing profiles and current salaries, conditions and on-costs. For the forecast period, employee expenses and employee benefits mainly include the expected financial impact of budget decisions and approved wage outcomes in line with the Government’s Wages Policy, which applies to all Victorian public sector enterprise agreements. Forecast employee expenses also reflect the estimated impact of budget decisions that affect employee expense levels. Greater than 95 per cent of employee expenses over the budget and forward estimates in the operating statement are salaries and wages. Employee expenses are recognised in the period in which the employee provides the services.

<b>Provision for employee benefits (balance sheet)</b>	<b>(\$ million)</b>				
	<i>2025 budget</i>	<i>2025 revised</i>	<i>2026 estimate</i>	<i>2027 estimate</i>	<i>2028 estimate</i>
<b>Current</b>					
Accrued salaries and wages	475	835	850	865	880
Other employee benefits	138	138	138	138	138
Annual leave	3 075	3 077	3 110	3 146	3 181
Long service leave	6 172	6 172	6 320	6 466	6 613
<b>Total current employee benefits and on-costs</b>	<b>9 860</b>	<b>10 222</b>	<b>10 419</b>	<b>10 615</b>	<b>10 812</b>
<b>Non-current</b>					
Long service leave	1 245	1 251	1 408	1 565	1 727
<b>Total non-current employee benefits and on-costs</b>	<b>1 245</b>	<b>1 251</b>	<b>1 408</b>	<b>1 565</b>	<b>1 727</b>
<b>Total employee benefits</b>	<b>11 105</b>	<b>11 473</b>	<b>11 826</b>	<b>12 180</b>	<b>12 540</b>

### 4.3.2 Superannuation expense

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

	2024-25 <i>budget</i>	2024-25 <i>revised</i>	2025-26 <i>estimate</i>	2026-27 <i>estimate</i>	2027-28 <i>estimate</i>
<b>Defined benefit plans</b>					
Net superannuation interest expense	774	783	787	796	785
Current service cost	1 037	998	1 156	1 232	1 316
Remeasurements:					
Expected return on superannuation assets excluding interest income	(725)	(641)	(718)	(702)	(702)
Other actuarial (gain)/loss on superannuation assets	..	(361)	..	..	..
Actuarial and other adjustments to unfunded superannuation liability	..	1 522	..	..	..
<b>Total expense recognised in respect of defined benefit plans</b>	<b>1 086</b>	<b>2 302</b>	<b>1 225</b>	<b>1 326</b>	<b>1 398</b>
<b>Defined contribution plans</b>					
Employer contributions to defined contribution plans	2 732	2 982	2 865	2 905	2 983
Other (including pensions)	103	103	105	108	110
<b>Total expense recognised in respect of defined contribution plans</b>	<b>2 835</b>	<b>3 086</b>	<b>2 970</b>	<b>3 013</b>	<b>3 093</b>
<b>Total superannuation (gain)/expense recognised in operating statement</b>	<b>3 921</b>	<b>5 387</b>	<b>4 195</b>	<b>4 338</b>	<b>4 490</b>
<b>Represented by:</b>					
Net superannuation interest expense	774	783	787	796	785
Other superannuation	3 872	4 084	4 126	4 245	4 408
<b>Superannuation expense from transactions</b>	<b>4 646</b>	<b>4 867</b>	<b>4 913</b>	<b>5 040</b>	<b>5 193</b>
<b>Remeasurements recognised in other comprehensive income</b>	<b>(725)</b>	<b>520</b>	<b>(718)</b>	<b>(702)</b>	<b>(702)</b>
<b>Total superannuation expense recognised in operating statement</b>	<b>3 921</b>	<b>5 387</b>	<b>4 195</b>	<b>4 338</b>	<b>4 490</b>

The accounting policies relating to superannuation expenses and liabilities are consistent with the *2024-25 Budget*. However, the forecast assumptions have been revised for each relevant defined benefit superannuation scheme as in the following table.

## Superannuation assumptions

(per cent)

### Underlying assumptions for all listed schemes <sup>(a)</sup>

Discount rate <sup>(b)</sup>	4.1
Wages growth <sup>(c)</sup>	3.3
Inflation rate <sup>(c)(d)</sup>	2.5

### Expected return on assets <sup>(e)</sup>

Emergency Services and State Super	7.0
Health Super Fund Defined Benefit Scheme	4.6
Constitutionally protected schemes <sup>(f)</sup>	n.a.

#### Notes:

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

## 4.3.3 Superannuation liability

### Reconciliation of the superannuation liabilities

(\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Emergency Services and State Super</b>					
Defined benefit obligation	39 315	41 189	41 187	41 232	41 351
Tax liability <sup>(a)</sup>	2 218	2 039	2 074	2 075	1 870
Plan assets	(24 410)	(24 801)	(24 582)	(24 523)	(25 617)
<b>Net liability/(asset)</b>	<b>17 122</b>	<b>18 427</b>	<b>18 679</b>	<b>18 784</b>	<b>17 604</b>
<b>Other funds <sup>(b)</sup></b>					
Defined benefit obligation	1 850	1 748	1 763	1 780	1 800
Tax liability <sup>(a)</sup>	..	..	..	..	..
Plan assets	(850)	(829)	(801)	(772)	(748)
<b>Net liability/(asset)</b>	<b>1 000</b>	<b>919</b>	<b>963</b>	<b>1 008</b>	<b>1 052</b>
<b>Total superannuation</b>					
Defined benefit obligation	41 165	42 937	42 950	43 012	43 151
Tax liability <sup>(a)</sup>	2 218	2 039	2 074	2 075	1 870
Plan assets	(25 261)	(25 630)	(25 383)	(25 295)	(26 365)
<b>Total superannuation liability</b>	<b>18 122</b>	<b>19 346</b>	<b>19 642</b>	<b>19 792</b>	<b>18 656</b>
<b>Represented by:</b>					
Current superannuation liability	317	317	550	1 885	1 858
Non-current superannuation liability	17 805	19 030	19 092	17 907	16 798

#### Notes:

- (a) Tax liability is the present value of tax payments on contributions that are expected to be required to fund accrued benefits.  
 (b) Other funds include constitutionally protected schemes and the State's share of liabilities of the defined benefit scheme of the Health Super Fund (which is now part of Aware Super).

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

	<i>2024-25 budget</i>	<i>2024-25 revised</i>	<i>2025-26 estimate</i>	<i>2026-27 estimate</i>	<i>2027-28 estimate</i>
<b>Opening balance of defined benefit obligation</b>	<b>43 661</b>	<b>43 661</b>	<b>44 976</b>	<b>45 024</b>	<b>45 087</b>
Current service cost	1 037	998	1 156	1 232	1 316
Interest expense	1 788	1 873	1 797	1 797	1 795
Contributions by plan participants	221	219	219	220	223
Actuarial (gains)/losses on the defined benefit obligation, due to:					
Changes in financial assumptions	..	1 522	..	..	..
Benefits paid (including tax paid)	(3 326)	(3 296)	(3 123)	(3 188)	(3 399)
<b>Closing balance of defined benefit obligation</b>	<b>43 382</b>	<b>44 976</b>	<b>45 024</b>	<b>45 087</b>	<b>45 021</b>

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

	<i>2024-25 budget</i>	<i>2024-25 revised</i>	<i>2025-26 estimate</i>	<i>2026-27 estimate</i>	<i>2027-28 estimate</i>
<b>Opening balance of plan assets</b>	<b>25 435</b>	<b>25 435</b>	<b>25 630</b>	<b>25 383</b>	<b>25 295</b>
Interest income	1 015	1 089	1 011	1 002	1 010
Return on plan assets not included in interest income	725	1 002	718	702	702
Employer contributions	1 191	1 182	929	1 176	2 534
Contributions by plan participants	221	219	219	220	223
Benefits paid (including tax paid)	(3 326)	(3 296)	(3 123)	(3 188)	(3 399)
<b>Closing balance of plan assets</b>	<b>25 261</b>	<b>25 630</b>	<b>25 383</b>	<b>25 295</b>	<b>26 365</b>

#### 4.3.4 Grant expense

(\$ million)

	<i>2024-25 budget</i>	<i>2024-25 revised</i>	<i>2025-26 estimate</i>	<i>2026-27 estimate</i>	<i>2027-28 estimate</i>
<b>Current grant expense</b>					
Commonwealth Government	3 297	3 304	3 463	3 584	3 717
Local government (including grants for on-passing)	1 476	880	1 464	1 146	1 072
Private sector and not-for-profit for on-passing	5 235	5 252	5 368	5 594	5 827
Other private sector and not-for-profit	4 769	5 099	4 610	4 713	4 628
Grants within the Victorian Government	2 339	2 536	2 140	1 941	1 946
Grants to other state governments	102	141	121	123	97
<b>Total current grant expense</b>	<b>17 218</b>	<b>17 213</b>	<b>17 165</b>	<b>17 100</b>	<b>17 286</b>
<b>Capital grant expense</b>					
Local government (including grants for on-passing)	191	191	120	115	114
Private sector and not-for-profit on-passing	187	238	168	124	87
Other private sector and not-for-profit	4	6	..	..	..
Grants within the Victorian Government	..	60	..	..	..
Other grants	19	19	30	22	10
<b>Total capital grant expense</b>	<b>401</b>	<b>515</b>	<b>317</b>	<b>262</b>	<b>211</b>
<b>Total grant expense</b>	<b>17 619</b>	<b>17 728</b>	<b>17 483</b>	<b>17 362</b>	<b>17 497</b>



### 4.3.5 Other operating expenses

(\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
Purchase of supplies and consumables <sup>(a)</sup>	8 392	7 886	7 723	9 108	9 685
Cost of goods sold	33	37	31	31	31
Finance expenses and fees <sup>(b)</sup>	27	27	27	27	27
Purchase of services <sup>(a)</sup>	16 386	17 767	16 878	16 360	16 233
Insurance claims expense	369	481	393	397	400
Maintenance	1 352	1 377	1 353	1 366	1 370
Short-term and low value lease expense	100	117	113	116	117
Other	1 079	1 748	1 250	1 080	1 131
<b>Total other operating expenses</b>	<b>27 737</b>	<b>29 438</b>	<b>27 769</b>	<b>28 486</b>	<b>28 993</b>

Notes:

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

(b) Includes items such as bank fees and associated costs involved in entering into loan transactions, and credit card and corporate card charges.

### Purchase of supplies and consumables

(\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
Medicinal pharmacy and medical supplies	2 159	2 436	2 261	2 271	2 252
Office supplies and consumables	190	213	208	201	202
Specialised operational supplies and consumables	286	317	207	201	201
Other purchase of supplies and consumables	5 757	4 920	5 047	6 434	7 030
<b>Total purchase of supplies and consumables</b>	<b>8 392</b>	<b>7 886</b>	<b>7 723</b>	<b>9 108</b>	<b>9 685</b>

### Purchase of services

(\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
Service contracts	10 327	10 532	10 768	10 314	10 421
Accommodation/occupancy	981	1 122	1 069	1 080	1 081
Medical and client care services	507	572	536	537	535
Staff related expenses (non-labour related)	388	410	373	359	357
Other purchase of services	4 183	5 132	4 133	4 071	3 840
<b>Total purchase of services</b>	<b>16 386</b>	<b>17 767</b>	<b>16 878</b>	<b>16 360</b>	<b>16 233</b>

**4.3.6 Payables**

**(\$ million)**

	<i>2025 budget</i>	<i>2025 revised</i>	<i>2026 estimate</i>	<i>2027 estimate</i>	<i>2028 estimate</i>
<b>Contractual</b>					
Accounts payable	1 461	1 337	1 329	1 322	1 317
Accrued expenses	5 916	5 093	5 034	5 035	5 036
<b>Statutory</b>					
Accrued taxes payable	67	68	68	69	69
<b>Total payables</b>	<b>7 444</b>	<b>6 498</b>	<b>6 432</b>	<b>6 426</b>	<b>6 422</b>
<b>Represented by:</b>					
Current payables	7 285	6 347	6 281	6 275	6 270
Non-current payables	159	151	151	151	152

#### 4.3.7 Total expenses by classification of the functions of government (COFOG) and by portfolio department

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

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
General public services	10 055	10 265	10 729	12 048	13 097
Public order and safety <sup>(a)</sup>	11 313	11 769	10 901	10 894	10 837
Economic affairs <sup>(a)</sup>	3 013	3 598	2 338	1 828	1 625
Environmental protection	1 021	1 262	1 086	1 027	1 026
Housing and community amenities <sup>(b)</sup>	2 630	2 069	2 417	2 297	2 243
Health	29 995	31 822	31 231	32 383	33 412
Recreation, culture and religion <sup>(a)</sup>	1 158	1 350	1 137	800	678
Education	24 132	24 677	25 052	25 967	26 944
Social protection <sup>(c)</sup>	8 424	9 403	8 501	8 191	8 255
Transport	8 441	9 058	8 396	8 384	8 757
Not allocated by function <sup>(d)</sup>	(1 906)	(3 620)	60	1 498	1 535
<b>Total expenses from transactions</b>	<b>98 276</b>	<b>101 653</b>	<b>101 847</b>	<b>105 318</b>	<b>108 410</b>

Notes:

- (a) The variation in this classification over the forward estimates is driven by the funding profile of fixed-term initiatives.
- (b) The decrease in the Housing and community amenities classification in the 2024-25 revised estimate is largely driven by the Commonwealth bringing forward some of the 2024-25 local government grants for on-passing to 2023-24.
- (c) The increase in the Social protection classification in the 2024-25 revised estimate is largely driven by the funding profile of the Energy Bill Relief Fund.
- (d) Mainly comprises the provision for future demand growth, departmental underspending, eliminated purchases of supplies and consumables between government entities, and items not yet formalised at the time of publication.

##### Total expenses from transactions by portfolio department (\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
Education	22 016	22 399	22 262	22 005	22 400
Energy, Environment and Climate Action	3 114	3 621	2 943	2 733	2 563
Families, Fairness and Housing	8 158	9 163	8 219	8 026	8 142
Government Services	2 147	1 652	2 109	2 064	2 103
Health	27 874	31 448	29 928	30 109	29 803
Jobs, Skills, Industry and Regions	4 385	5 208	4 085	3 333	3 127
Justice and Community Safety	9 632	10 214	9 197	9 183	9 237
Premier and Cabinet	546	564	400	476	310
Transport and Planning	8 617	9 381	8 663	8 560	8 651
Treasury and Finance <sup>(a)</sup>	14 198	14 381	14 945	16 286	17 640
Parliament	381	387	382	386	392
Courts	887	923	906	923	867
Regulatory bodies and other part funded agencies <sup>(b)</sup>	3 321	3 633	3 197	3 129	3 125
Output contingencies not allocated to departments <sup>(c)</sup>	5 379	3 171	7 152	10 619	12 255
<b>Total expenses by department</b>	<b>110 653</b>	<b>116 146</b>	<b>114 388</b>	<b>117 832</b>	<b>120 613</b>
<i>Less eliminations and adjustments<sup>(d)</sup></i>	<i>(12 378)</i>	<i>(14 493)</i>	<i>(12 541)</i>	<i>(12 514)</i>	<i>(12 203)</i>
<b>Total expenses from transactions</b>	<b>98 276</b>	<b>101 653</b>	<b>101 847</b>	<b>105 318</b>	<b>108 410</b>

Notes:

- (a) The increase over the forward estimates is primarily driven by an increase in interest expense associated with the increase in borrowings over the forward estimates.
- (b) Other general government sector agencies not allocated to departmental portfolios.
- (c) The following table provides a breakdown of the general government output contingencies not allocated to departments.
- (d) Mainly payroll tax (including the COVID Debt Levy – Payroll \$10m+), the mental health and wellbeing levy, departmental underspend estimates and inter-departmental transfers.

**General government output contingencies not allocated to departments <sup>(a)</sup> (\$ million)**

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
Decisions made but not yet allocated <sup>(b)</sup>	5 279	3 071	6 752	9 819	11 055
Funding not allocated to specific purposes <sup>(c)</sup>	100	100	400	800	1 200
<b>Total general government output contingencies</b>	<b>5 379</b>	<b>3 171</b>	<b>7 152</b>	<b>10 619</b>	<b>12 255</b>

*Notes:*

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

### 4.3.8 Purchases of non-financial assets by COFOG and by portfolio department

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

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
General public services	132	126	132	112	97
Public order and safety	1 114	1 217	466	271	243
Economic affairs	134	181	97	86	83
Environmental protection	278	242	166	121	37
Housing and community amenities	79	76	22	22	15
Health	2 608	2 303	2 077	1 349	1 150
Recreation, culture and religion	202	243	283	420	249
Education	3 046	3 161	1 932	910	720
Social protection	97	135	130	127	101
Transport	11 747	13 326	10 947	7 256	6 311
Not allocated by function <sup>(a)</sup>	(1 769)	(4 619)	1 410	4 905	4 774
<b>Total purchases of non-financial assets</b>	<b>17 669</b>	<b>16 391</b>	<b>17 661</b>	<b>15 579</b>	<b>13 780</b>

Note:

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

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

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
Education	2 729	3 038	1 802	555	281
Energy, Environment and Climate Action	286	302	237	184	111
Families, Fairness and Housing	71	94	47	47	45
Government Services	108	104	116	95	88
Health	2 253	2 258	1 435	599	256
Jobs, Skills, Industry and Regions	186	142	26	26	26
Justice and Community Safety	459	586	200	108	99
Premier and Cabinet	15	1	2	8	2
Transport and Planning	8 078	9 840	7 311	4 748	3 181
Treasury and Finance	15	13	12	6	6
Parliament	7	9	3	3	3
Courts	307	314	32	22	22
Regulatory bodies and other part funded agencies <sup>(a)</sup>	327	300	224	187	128
Asset contingencies not allocated to departments <sup>(b)</sup>	5 640	3 709	7 331	5 882	7 156
Adjustments <sup>(c)</sup>	(2 812)	(4 319)	(1 118)	3 109	2 376
<b>Total purchases of non-financial assets</b>	<b>17 669</b>	<b>16 391</b>	<b>17 661</b>	<b>15 579</b>	<b>13 780</b>

Notes:

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

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

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

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

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
Decisions made but not yet allocated <sup>(a)(b)</sup>	6 785	4 023	9 638	7 439	7 088
Funding not allocated to specific purposes <sup>(c)</sup>	..	..	600	1 200	2 100
<b>Total general government asset contingencies</b>	<b>6 785</b>	<b>4 023</b>	<b>10 238</b>	<b>8 639</b>	<b>9 188</b>

*Notes:*

- (a) A provision to account for asset policy decisions for which the funding has yet to be allocated to various departments such as transport, health, education and housing. The provision over the forward estimates reflects the State's significant infrastructure program.
- (b) Asset contingencies include equity contributions to other sectors for capital projects which are included as part of net cash flows from investments in financial assets for policy purposes, rather than purchases of non-financial assets, on the cash flow statement.
- (c) An unallocated provision available for future government asset investment decisions.

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

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
Purchases of non-financial assets (including change in inventories)	17 646	16 369	17 647	15 567	13 780
Less: Sales of non-financial assets	(677)	(620)	(1 055)	(704)	(536)
Less: Depreciation and amortisation	(5 234)	(5 512)	(5 840)	(6 040)	(6 177)
Less: Other movements in non-financial assets <sup>(a)(b)(c)</sup>	(2 646)	(2 616)	(19 983)	(942)	(2 181)
<b>Total net acquisition of non-financial assets from transactions</b>	<b>9 088</b>	<b>7 621</b>	<b>(9 232)</b>	<b>7 881</b>	<b>4 886</b>

*Notes:*

- (a) Other movements in non-financial assets includes transferring fixed assets to other sectors of government, recognising the right-of-use assets under lease arrangements, and recognising service concession arrangements, including from public private partnerships.
- (b) The public private partnerships across the budget and forward estimates relate to the Frankston Hospital Redevelopment, the High Capacity Metro Trains, the Metro Tunnel, the new Footscray Hospital, the new Melton Hospital, the Nyaal Banyul Geelong Convention and Event Centre, and the West Gate Tunnel.
- (c) The movement in 2025-26 primarily reflects the transfer of the Metro Tunnel assets from the Department of Transport and Planning in the general government sector to VicTrack in the public non-financial corporations sector upon its completion.

## 4.4 MAJOR ASSETS AND INVESTMENTS

### Introduction

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

### Structure

4.4.1	Total land, buildings, infrastructure, plant and equipment.....	73
4.4.2	Depreciation .....	75
4.4.3	Reconciliation of movements in land, buildings, infrastructure, plant and equipment.....	76
4.4.4	Other non-financial assets.....	76
4.4.5	Total assets by classification of the functions of government .....	77
4.4.6	Investments in other sector entities .....	77

### 4.4.1 Total land, buildings, infrastructure, plant and equipment <sup>(a)</sup> (\$ million)

	2025 budget	2025 revised	2026 estimate	2027 estimate	2028 estimate
Buildings	72 091	70 606	78 463	82 000	84 487
Land and national parks	98 891	98 331	99 215	102 798	109 792
Infrastructure <sup>(b)</sup>	33 698	35 263	20 063	23 066	26 682
Plant, equipment and vehicles	6 762	6 866	7 032	6 350	3 617
Roads and road infrastructure	54 885	53 451	58 271	62 371	65 343
Earthworks	12 456	12 456	12 468	12 480	12 492
Cultural assets	6 934	6 934	8 152	8 542	9 183
<b>Total land, buildings, infrastructure, plant and equipment</b>	<b>285 717</b>	<b>283 908</b>	<b>283 663</b>	<b>297 607</b>	<b>311 594</b>

*Notes:*

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

(b) The decrease in 2025-26 primarily reflects the transfer of the Metro Tunnel assets from the Department of Transport and Planning in the general government sector to VicTrack in the public non-financial corporations sector upon its completion.

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

**Total right-of-use (leased) assets: Buildings, infrastructure, plant and equipment (\$ million)**

	2025 budget	2025 revised	2026 estimate	2027 estimate	2028 estimate
Buildings	9 196	9 349	8 477	7 796	7 124
Infrastructure	3	3	3	4	4
Plant, equipment and vehicles	551	549	739	639	543
<b>Total right-of-use assets: buildings, infrastructure, plant and equipment</b>	<b>9 750</b>	<b>9 901</b>	<b>9 219</b>	<b>8 439</b>	<b>7 671</b>

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

	2025 budget	2025 revised	2026 estimate	2027 estimate	2028 estimate
Buildings	2 368	2 368	2 399	2 336	2 299
Land	3 729	3 729	3 729	3 729	3 729
Infrastructure <sup>(a)</sup>	10 965	11 911	2 519	2 535	2 565
Plant, equipment and vehicles	425	409	444	448	451
Roads and road infrastructure	19 004	19 380	19 760	19 344	18 928
Earthworks	1 130	1 130	1 130	1 130	1 130
<b>Total service concession assets: land, buildings, infrastructure, plant and equipment</b>	<b>37 622</b>	<b>38 928</b>	<b>29 982</b>	<b>29 523</b>	<b>29 101</b>

Note:

(a) The decrease in 2025-26 primarily reflects the transfer of the Metro Tunnel assets from the Department of Transport and Planning in the general government sector to VicTrack in the public non-financial corporations sector upon its completion.



#### 4.4.2 Depreciation (\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
Buildings <sup>(a)</sup>	2 900	3 247	3 415	3 456	3 529
Infrastructure	67	64	57	57	59
Plant, equipment and vehicles <sup>(a)</sup>	850	832	839	838	845
Roads and road networks <sup>(a)</sup>	1 086	1 121	1 282	1 444	1 504
Cultural assets	12	12	12	12	12
Intangible produced assets <sup>(b)</sup>	318	235	235	234	228
<b>Total depreciation</b>	<b>5 234</b>	<b>5 512</b>	<b>5 840</b>	<b>6 040</b>	<b>6 177</b>

Notes:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2024-25 to 2027-28.

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

The following two tables are subsets of total depreciation expense.

#### Depreciation of right-of-use (leased) assets (\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
Buildings	803	814	792	788	788
Plant, equipment and vehicles	117	109	110	108	108
<b>Total depreciation of right-of-use assets</b>	<b>920</b>	<b>924</b>	<b>902</b>	<b>896</b>	<b>897</b>

#### Depreciation of service concession assets (\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
Buildings	61	74	74	74	74
Plant, equipment and vehicles	28	35	38	41	45
Roads and road infrastructure	177	231	357	470	470
Intangible produced assets	1	1	1	1	1
<b>Total depreciation of service concession assets</b>	<b>268</b>	<b>341</b>	<b>470</b>	<b>587</b>	<b>590</b>

#### 4.4.3 Reconciliation of movements in land, buildings, infrastructure, plant and equipment <sup>(a)</sup>

(\$ million)

	2025 budget	2025 revised	2026 estimate	2027 estimate	2028 estimate
Carrying amount at the start of the year	269 691	269 690	283 908	283 663	297 607
Additions of self-owned assets <sup>(b)</sup>	18 150	16 449	18 042	15 922	14 115
Additions of right-of-use assets	248	469	166	82	96
Additions of service concession arrangement assets	660	1 800	361	42	44
Disposals at written-down value	(561)	(290)	(967)	(631)	(486)
Revaluations	6 787	6 760	8 694	5 809	8 979
Asset transfers <sup>(c)</sup>	(4 343)	(5 694)	(20 936)	(1 474)	(2 811)
Depreciation expense	(4 916)	(5 277)	(5 605)	(5 806)	(5 949)
<b>Carrying amount at the end of the year</b>	<b>285 717</b>	<b>283 908</b>	<b>283 663</b>	<b>297 607</b>	<b>311 594</b>

Notes:

- (a) The reconciliation of movements comprises land and buildings, infrastructure systems, plant, equipment, vehicles, roads, roads infrastructure and cultural assets, right-of-use (leased) assets and service concession assets. It excludes intangible assets, investment properties and other non-financial assets.
- (b) Represents additions of assets recognised under AASB 116 Property, Plant and Equipment.
- (c) Represents the transfer of assets to/from the public non-financial corporations sector. The movement in 2025-26 primarily reflects the transfer of the Metro Tunnel assets from the Department of Transport and Planning in the general government sector to VicTrack in the public non-financial corporations sector upon its completion.

#### 4.4.4 Other non-financial assets

(\$ million)

	2025 budget	2025 revised	2026 estimate	2027 estimate	2028 estimate
Intangible produced assets	3 045	3 082	3 188	3 206	3 282
Accumulated depreciation	(2 004)	(1 932)	(2 125)	(2 315)	(2 503)
Service concession assets – Intangible produced	3 540	3 540	3 540	3 540	3 540
Accumulated depreciation	(9)	(9)	(10)	(12)	(13)
Intangible non-produced assets	77	75	76	77	78
Accumulated amortisation	(67)	(60)	(59)	(58)	(56)
<b>Total intangibles</b>	<b>4 581</b>	<b>4 697</b>	<b>4 609</b>	<b>4 439</b>	<b>4 328</b>
Investment properties	321	321	310	293	293
Other assets	1 035	1 148	1 116	1 091	1 067
<b>Total other non-financial assets</b>	<b>5 937</b>	<b>6 165</b>	<b>6 035</b>	<b>5 823</b>	<b>5 688</b>

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

	2025 budget	2025 revised	2026 estimate	2027 estimate	2028 estimate
General public services	3 114	3 109	3 028	2 883	2 640
Public order and safety	16 409	16 512	17 411	16 832	16 245
Economic affairs	1 754	1 998	3 111	3 255	3 396
Environmental protection	16 910	16 872	17 017	17 067	17 036
Housing and community amenities	3 813	3 810	5 504	5 439	5 387
Health	33 921	33 591	34 141	36 305	35 948
Recreation, culture and religion	8 799	8 842	9 053	9 401	9 579
Education	47 612	47 714	52 489	55 174	57 472
Social protection	2 710	2 748	2 802	3 023	3 183
Transport <sup>(a)</sup>	159 763	160 876	150 233	154 781	163 044
Not allocated by function <sup>(b)</sup>	148 859	139 798	146 999	157 127	166 942
<b>Total assets</b>	<b>443 664</b>	<b>435 869</b>	<b>441 790</b>	<b>461 290</b>	<b>480 871</b>

Notes:

- (a) The decrease in 2025-26 primarily reflects the transfer of the Metro Tunnel assets from the Department of Transport and Planning in the general government sector to VicTrack in the public non-financial corporations sector upon its completion.
- (b) Represents financial assets that are not able to be allocated by function. This mainly includes balances relating to the general government sector's investment in other sector entities.

#### 4.4.6 Investments in other sector entities (\$ million)

	2025 budget	2025 revised	2026 estimate	2027 estimate	2028 estimate
Balance of investment in PNFC and PFC sectors at beginning of period	98 143	98 143	99 515	103 739	107 028
Net contributions to other sectors by owner <sup>(a)</sup>	7 916	9 793	24 076	4 119	4 094
Revaluation gain/(loss) for period <sup>(b)</sup>	(4 143)	(8 421)	(19 852)	(830)	(1 010)
<b>Investment in other sector entities at end of period</b>	<b>101 916</b>	<b>99 515</b>	<b>103 739</b>	<b>107 028</b>	<b>110 111</b>

Notes:

- (a) The movement in 2025-26 primarily reflects the transfer of the Metro Tunnel assets from the Department of Transport and Planning in the general government sector to VicTrack in the public non-financial corporations sector upon its completion.
- (b) The movement in 2025-26 primarily reflects the derecognition of completed Metro Tunnel assets transferred to VicTrack, as required under AASB 16 Leases.

## 4.5 FINANCING STATE OPERATIONS

### Introduction

State operations are financed through a variety of means, including surplus cash flows from operating activities, asset recycling, advances and borrowings.

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

### Structure

4.5.1	Borrowings .....	78
4.5.2	Advances paid and investments, loans and placements .....	79
4.5.3	Interest expense .....	79

### 4.5.1 Borrowings

(\$ million)

	2025 <i>budget</i>	2025 <i>revised</i>	2026 <i>estimate</i>	2027 <i>estimate</i>	2028 <i>estimate</i>
<b>Current borrowings</b>					
Domestic borrowings	14 479	14 621	14 615	14 596	14 904
Lease liabilities	609	652	541	416	284
Service concession arrangement liabilities	450	400	377	1 678	319
Derivative financial instruments	46	46	46	46	46
<b>Total current borrowings</b>	<b>15 585</b>	<b>15 719</b>	<b>15 580</b>	<b>16 736</b>	<b>15 553</b>
<b>Non-current borrowings</b>					
Domestic borrowings	161 856	160 165	175 758	189 211	201 523
Lease liabilities	6 941	7 077	6 582	5 991	5 470
Service concession arrangement liabilities	4 955	4 939	4 929	3 503	3 398
Derivative financial instruments	237	237	225	216	188
<b>Total non-current borrowings</b>	<b>173 989</b>	<b>172 418</b>	<b>187 494</b>	<b>198 921</b>	<b>210 578</b>
<b>Total borrowings</b>	<b>189 574</b>	<b>188 137</b>	<b>203 074</b>	<b>215 657</b>	<b>226 131</b>

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

	2025 budget	2025 revised	2026 estimate	2027 estimate	2028 estimate
<b>Current advances paid and investments, loans and placements</b>					
Loans and advances paid	230	226	205	194	155
Equities and managed investment schemes	852	852	869	885	901
Australian dollar term deposits	349	337	339	342	344
Debt securities	4	4	4	4	4
Derivative financial instruments	27	27	5	5	5
<b>Total current advances paid and investments, loans and placements</b>	<b>1 463</b>	<b>1 447</b>	<b>1 422</b>	<b>1 429</b>	<b>1 409</b>
<b>Non-current advances paid and investments, loans and placements</b>					
Loans and advances paid	6 112	6 115	6 143	6 173	6 205
Equities and managed investment schemes	15 141	15 635	16 692	18 143	19 710
Australian dollar term deposits	3	3	3	3	3
Debt securities	22	21	21	21	21
Derivative financial instruments	9	9	9	9	9
<b>Total non-current advances paid and investments, loans and placements</b>	<b>21 287</b>	<b>21 783</b>	<b>22 867</b>	<b>24 348</b>	<b>25 947</b>
<b>Total advances paid and investments, loans and placements</b>	<b>22 750</b>	<b>23 229</b>	<b>24 289</b>	<b>25 777</b>	<b>27 356</b>
<b>Represented by:</b>					
Advances paid	6 342	6 342	6 348	6 366	6 360
Investments, loans and placements	16 407	16 888	17 941	19 410	20 997

#### 4.5.3 Interest expense (\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
Interest on interest bearing liabilities and deposits	5 740	5 830	6 639	7 615	8 653
Interest on lease liabilities	375	364	359	348	333
Interest on service concession liabilities	360	362	386	357	307
Discount interest on payables	27	27	26	25	24
<b>Total interest expense</b>	<b>6 502</b>	<b>6 582</b>	<b>7 410</b>	<b>8 345</b>	<b>9 317</b>

## 4.6 OTHER DISCLOSURES

### Introduction

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

### Structure

4.6.1	Other gains/(losses) from other economic flows .....	80
4.6.2	Reconciliation of Government Finance Statistics and Australian Accounting Standards .....	81
4.6.3	Prospective accounting and reporting changes .....	84
4.6.4	Controlled entities.....	85

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

	2024-25 <i>budget</i>	2024-25 <i>revised</i>	2025-26 <i>estimate</i>	2026-27 <i>estimate</i>	2027-28 <i>estimate</i>
Net (increase)/decrease in allowances for credit losses	(94)	(92)	(89)	14	(14)
Amortisation of intangible non-produced assets	(7)	(1)	(1)	(1)	(1)
Bad debts written off	(320)	(321)	(287)	(390)	(362)
Other gains/(losses)	(38)	(38)	(35)	(65)	(22)
<b>Total other gains/(losses) from other economic flows</b>	<b>(459)</b>	<b>(452)</b>	<b>(411)</b>	<b>(441)</b>	<b>(399)</b>

#### 4.6.2 Reconciliation of Government Finance Statistics and Australian Accounting Standards

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

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

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

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

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

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

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

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



<i>Convergence difference</i>	<i>AASB 1049 treatment</i>	<i>ABS GFS treatment</i>	<i>Fiscal aggregate impact</i>
<b>Port of Melbourne lease transaction</b>			
Port Licence Fee	The 15-year prepaid Port Licence Fee from the medium-term lease of the Port of Melbourne is recognised upfront upon receipt.	The 15-year prepaid Port Licence Fee from the medium-term lease of the Port of Melbourne is recognised as revenue over the 15-year period.	<ul style="list-style-type: none"> <li>• Comprehensive result – Total change in net worth</li> <li>• Net lending/borrowing</li> <li>• Net result from transactions – Net operating balance</li> <li>• Net worth</li> </ul>
Port of Melbourne lease transaction	The Port of Melbourne lease transaction is treated as an operating lease with the leased assets remaining with the PNFC sector.	The Port of Melbourne lease transaction is recognised as a sale of equity from the general government sector.	<ul style="list-style-type: none"> <li>• Cash surplus/deficit</li> <li>• Comprehensive result – Total change in net worth</li> <li>• Net lending/borrowing</li> <li>• Net result from transactions – Net operating balance</li> <li>• Net worth</li> </ul>
<b>Doubtful receivables</b>			
	Provisions for expected credit losses are included on the balance sheet as a reduction in assets.	The act of creating provisions is not considered an economic event and is therefore not included on the balance sheet.	<ul style="list-style-type: none"> <li>• Comprehensive result – Total change in net worth</li> <li>• Net worth</li> </ul>
<b>Provisions</b>			
	Provisions recognised under AASB 137 are recorded when there is a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.	The act of creating provisions is not considered an economic event and is therefore not included on the balance sheet. The associated expense is not recognised on the operating statement.	<ul style="list-style-type: none"> <li>• Comprehensive result – Total change in net worth</li> <li>• Net lending/borrowing</li> <li>• Net result from transactions – Net operating balance</li> <li>• Net worth</li> </ul>
<b>Investment in other sector entities</b>			
	The net worth of investments in other sector entities for the general government sector includes doubtful receivables, future tax benefits and deferred tax liabilities of the PNFC and PFC sectors.	The determination of net worth is exclusive of this.	<ul style="list-style-type: none"> <li>• Comprehensive result – Total change in net worth</li> <li>• Net worth</li> </ul>

#### 4.6.3 Prospective accounting and reporting changes

New and revised accounting standards have been issued that are not effective for the 2024-25 reporting period. These accounting standards have not been applied to the Estimated Financial Statements. The State is reviewing its existing policies and assessing the potential implications of:

- *AASB 17 Insurance Contracts, AASB 2022-8 Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments and AASB 2022-9 Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector.*
  - AASB 17 replaces AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* for not-for-profit public sector entities for annual reporting periods beginning on or after 1 July 2026.
  - AASB 2022-9 amends AASB 17 to make public sector-related modifications (for example, it specifies the pre-requisites, indicators, and other considerations in identifying arrangements that fall within the scope of AASB 17 in a public sector context). This Standard applies for annual reporting periods beginning on or after 1 July 2026.
  - AASB 2022-8 makes consequential amendments to other AASs so that public sector entities are permitted to continue to apply AASB 4 and AASB 1023 to annual periods before 1 July 2026.
- *AASB 2024-2 Amendments to Australian Accounting Standards – Classification and Measurement of Financial Instruments*
  - AASB 2024-2 amends AASB 7 *Financial Instruments: Disclosures* and AASB 9 *Financial Instruments*.
  - AASB 2024-2 amends requirements related to:
    - settling financial liabilities using an electronic payment system
    - assessing contractual cash flow characteristics of financial assets with environmental, social and corporate governance (ESG) and similar features
    - disclosure requirements for investments in equity instruments designated at fair value through other comprehensive income and financial instruments with contingent features that do not relate directly to basic lending risks and costs.
  - This amendment applies to annual reporting periods beginning on or after 1 January 2026.
- *AASB 18 Presentation and Disclosure in Financial Statements*
  - AASB 18 replaces AASB 101 *Presentation of Financial Statements* to improve how entities communicate in their financial statements, with a particular focus on information about financial performance in the statement of comprehensive income.
  - AASB 18 applies to annual reporting periods beginning on or after 1 January 2027 for for-profit entities and applies to annual reporting periods beginning on or after 1 January 2028 for not-for-profit public sector entities. The delayed date of one year will allow the AASB to consult with stakeholders and consider potential modifications for application by not-for-profit public sector entities.

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

#### 4.6.4 Controlled entities

Note 9.8 in Chapter 4 of the *2023-24 Financial Report* for the State of Victoria lists significant controlled entities that were consolidated in that financial report.

The following are changes to entities since 1 July 2024, which have been consolidated in this financial report:

##### **General government**

**Department of Energy, Environment and Climate Action <sup>(a)(b)</sup>**

**Department of Jobs, Skills, Industry and Regions <sup>(c)</sup>**

**Department of Justice and Community Safety <sup>(d)</sup>**

*Notes:*

- (a) On 1 July 2024, the previous State Electricity Commission of Victoria, established under the State Electricity Commission Act 1958 (SEC Act) was abolished by the commencement of the State Electricity Commission Amendment Act 2024.
- (b) VicForests ceased operations on 30 June 2024 and the residual assets and liabilities together with residual responsibilities for native forest management were transferred to the Department of Energy, Environment and Climate Action following proclamation of the Sustainable Forests (Timber) Repeal Act 2024, effective from 1 July 2024. This has resulted in the 1 July 2024 opening balance not equalling the 30 June closing balance.
- (c) On 21 August 2024, Victoria 2026 Pty Ltd, was officially deregistered as a company from Australian Securities and Investments Commission (ASIC). The decision to deregister was made following the July 2023 announcement that Victoria would no longer host the 2026 Commonwealth Games.
- (d) The Victorian Responsible Gambling Foundation ceased operations on 1 July 2024 and all property, rights and liabilities have been transferred to the Department of Justice and Community Safety following proclamation of the Victorian Responsible Gambling Foundation Repeal and Advisory Councils Act 2024, effective from 25 June 2024.



## 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 <sup>(a)</sup>** (\$ million)

	2024-25 <i>budget</i>	2024-25 <i>revised</i>	2025-26 <i>estimate</i>	2026-27 <i>estimate</i>	2027-28 <i>estimate</i>
<b>Revenue and income from transactions</b>					
Interest income	27	90	42	42	49
Dividend income	31	22	19	20	21
Sales of goods and services	7 968	8 039	8 510	8 838	9 108
Grants	2 358	2 619	2 159	1 956	1 939
Other revenue and income	681	724	776	797	848
<b>Total revenue and income from transactions</b>	<b>11 065</b>	<b>11 493</b>	<b>11 506</b>	<b>11 653</b>	<b>11 965</b>
<b>Expenses from transactions</b>					
Employee expenses	1 850	1 967	1 906	1 952	2 013
Net superannuation interest expense	4	4	4	4	4
Other superannuation	203	227	239	246	253
Depreciation	2 121	2 194	2 279	2 361	2 307
Interest expense	1 077	1 055	1 237	1 354	1 469
Grant expense	490	415	502	410	409
Other operating expenses	4 913	5 298	5 016	5 056	5 150
Other property expenses	239	202	195	176	167
<b>Total expenses from transactions</b>	<b>10 899</b>	<b>11 362</b>	<b>11 378</b>	<b>11 558</b>	<b>11 772</b>
<b>Net result from transactions –</b>	<b>166</b>	<b>131</b>	<b>128</b>	<b>95</b>	<b>193</b>
<b>Net operating balance</b>					
Net gain/(loss) on disposal of non-financial assets	52	52	51	30	292
Net gain/(loss) on financial assets or liabilities at fair value	..	..	7	3	(6)
Share of net profit/(loss) from associates/joint venture entities	..	..	16	12	11
Other gains/(losses) from other economic flows <sup>(b)</sup>	(4 129)	(4 782)	(19 495)	(1 057)	(1 499)
<b>Total other economic flows included in net result</b>	<b>(4 078)</b>	<b>(4 730)</b>	<b>(19 421)</b>	<b>(1 012)</b>	<b>(1 202)</b>
<b>Net result</b>	<b>(3 912)</b>	<b>(4 599)</b>	<b>(19 292)</b>	<b>(917)</b>	<b>(1 009)</b>
<b>Other economic flows –</b>					
<b>Other comprehensive income</b>					
<b>Items that will not be reclassified to net result</b>					
Changes in non-financial assets revaluation surplus	62	8	638	191	41
Remeasurement of superannuation defined benefit plans	..	9	..	..	..
Other movements in equity	3	3	(8)	(12)	(14)

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

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Items that may be reclassified subsequently to net result</b>					
Net gain/(loss) on financial assets at fair value	(5)	(13)	2	..	..
<b>Total other economic flows – Other comprehensive income</b>	<b>60</b>	<b>8</b>	<b>633</b>	<b>179</b>	<b>27</b>
<b>Comprehensive result – Total change in net worth</b>	<b>(3 851)</b>	<b>(4 591)</b>	<b>(18 659)</b>	<b>(739)</b>	<b>(982)</b>
<b>KEY FISCAL AGGREGATES</b>					
<b>Net operating balance</b>	<b>166</b>	<b>131</b>	<b>128</b>	<b>95</b>	<b>193</b>
Less: Net acquisition of non-financial assets from transactions <sup>(c)</sup>	11 717	14 099	27 647	7 077	6 242
<b>Net lending/(borrowing)</b>	<b>(11 551)</b>	<b>(13 968)</b>	<b>(27 519)</b>	<b>(6 982)</b>	<b>(6 050)</b>

*Notes:*

- (a) *Savings and efficiency initiatives introduced in the 2023-24 Budget will continue to be implemented by the public non-financial corporations sector. The impact of these initiatives is reflected over the budget and forward estimates.*
- (b) *The movement in 2025-26 primarily reflects the derecognition of completed Metro Tunnel assets transferred to VicTrack, as required under AASB 16 Leases.*
- (c) *The movement in 2025-26 primarily reflects the transfer of the Metro Tunnel assets from the Department of Transport and Planning in the general government sector to VicTrack in the public non-financial corporations sector upon its completion.*

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

	2025 <i>budget<sup>(a)</sup></i>	2025 <i>revised</i>	2026 <i>estimate</i>	2027 <i>estimate</i>	2028 <i>estimate</i>
<b>Assets</b>					
<b>Financial assets</b>					
Cash and deposits	1 198	1 578	1 251	1 241	1 464
Advances paid	41	28	27	24	21
Receivables and contract assets	1 950	1 847	1 846	1 789	1 755
Investments, loans and placements	849	797	945	915	881
Investments accounted for using equity method	611	213	257	261	263
<b>Total financial assets</b>	<b>4 648</b>	<b>4 463</b>	<b>4 326</b>	<b>4 231</b>	<b>4 385</b>
<b>Non-financial assets</b>					
Inventories	1 353	1 482	1 514	1 699	1 507
Non-financial assets held for sale	12	13	13	13	13
Land, buildings, infrastructure, plant and equipment	130 269	131 842	140 601	146 365	151 349
Other non-financial assets	3 538	3 611	3 908	4 218	4 543
<b>Total non-financial assets</b>	<b>135 172</b>	<b>136 948</b>	<b>146 036</b>	<b>152 296</b>	<b>157 412</b>
<b>Total assets</b>	<b>139 820</b>	<b>141 411</b>	<b>150 362</b>	<b>156 527</b>	<b>161 797</b>
<b>Liabilities</b>					
Deposits held and advances received	2 825	2 820	2 906	2 990	3 088
Payables	1 859	2 125	2 256	2 126	2 098
Borrowings	26 807	26 948	30 513	33 700	36 149
Employee benefits	603	596	613	634	658
Superannuation	1	3	3	2	2
Other provisions	11 951	11 959	12 100	12 141	12 160
Other liabilities	8 763	8 885	8 688	8 504	8 322
<b>Total liabilities</b>	<b>52 808</b>	<b>53 335</b>	<b>57 078</b>	<b>60 098</b>	<b>62 477</b>
<b>Net assets</b>	<b>87 012</b>	<b>88 076</b>	<b>93 284</b>	<b>96 429</b>	<b>99 320</b>
Accumulated surplus/(deficit)	(37 596)	(38 264)	(57 755)	(58 866)	(60 073)
Reserves	124 608	126 340	151 039	155 295	159 393
<b>Net worth</b>	<b>87 012</b>	<b>88 076</b>	<b>93 284</b>	<b>96 429</b>	<b>99 320</b>
<b>FISCAL AGGREGATES</b>					
Net financial worth	(48 160)	(48 872)	(52 752)	(55 867)	(58 092)
Net financial liabilities	48 160	48 872	52 752	55 867	58 092
Net debt	27 544	27 365	31 195	34 509	36 871

Note:

(a) Balances represent actual opening balances at 1 July 2024 plus 2024-25 budgeted movements.

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

(\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Grants	2 358	2 623	2 158	1 956	1 938
Sales of goods and services <sup>(a)</sup>	8 471	8 593	9 091	9 483	9 764
Interest received	27	99	41	42	50
Dividend receipts	25	22	19	20	21
Other receipts	235	405	429	467	491
<b>Total receipts</b>	<b>11 114</b>	<b>11 741</b>	<b>11 739</b>	<b>11 967</b>	<b>12 264</b>
<b>Payments</b>					
Payments for employees	(1 847)	(1 972)	(1 891)	(1 932)	(1 992)
Superannuation	(207)	(220)	(244)	(250)	(258)
Interest paid	(1 039)	(1 015)	(1 186)	(1 320)	(1 444)
Grants and subsidies	(281)	(202)	(289)	(196)	(196)
Goods and services <sup>(a)</sup>	(5 687)	(5 858)	(5 744)	(5 930)	(5 993)
Other payments	(436)	(446)	(489)	(479)	(460)
<b>Total payments</b>	<b>(9 498)</b>	<b>(9 713)</b>	<b>(9 843)</b>	<b>(10 107)</b>	<b>(10 342)</b>
<b>Net cash flows from operating activities</b>	<b>1 617</b>	<b>2 028</b>	<b>1 896</b>	<b>1 860</b>	<b>1 922</b>
<b>Cash flows from investing activities</b>					
<b>Cash flows from investments in non-financial assets</b>					
Purchases of non-financial assets	(8 142)	(9 225)	(7 532)	(7 120)	(5 679)
Sales of non-financial assets	218	225	223	185	619
<b>Net cash flows from investments in non-financial assets</b>	<b>(7 924)</b>	<b>(8 999)</b>	<b>(7 308)</b>	<b>(6 935)</b>	<b>(5 060)</b>
Net cash flows from investments in financial assets for policy purposes	(542)	(143)	(34)	..	(1)
<b>Subtotal</b>	<b>(8 466)</b>	<b>(9 142)</b>	<b>(7 343)</b>	<b>(6 935)</b>	<b>(5 061)</b>
Net cash flows from investment in financial assets for liquidity management purposes	(5)	44	(33)	(30)	3
<b>Net cash flows from investing activities</b>	<b>(8 471)</b>	<b>(9 098)</b>	<b>(7 376)</b>	<b>(6 964)</b>	<b>(5 058)</b>
<b>Cash flows from financing activities</b>					
Advances received (net)	99	99	94	95	99
Net borrowings	2 105	2 321	2 115	2 502	2 077
Deposits received (net)	(8)	(12)	(9)	(11)	(1)
Other financing (net)	3 466	3 919	2 931	2 409	1 063
<b>Net cash flows from financing activities</b>	<b>5 661</b>	<b>6 327</b>	<b>5 131</b>	<b>4 995</b>	<b>3 238</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(1 193)</b>	<b>(743)</b>	<b>(349)</b>	<b>(109)</b>	<b>103</b>
Cash and cash equivalents at beginning of reporting period <sup>(b)(c)</sup>	2 251	2 251	1 508	1 158	1 049
<b>Cash and cash equivalents at end of reporting period <sup>(b)(c)</sup></b>	<b>1 058</b>	<b>1 508</b>	<b>1 158</b>	<b>1 049</b>	<b>1 152</b>



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

(\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>FISCAL AGGREGATES</b>					
Net cash flows from operating activities	1 617	2 028	1 896	1 860	1 922
Dividends paid	(157)	(157)	(186)	(188)	(192)
Net cash flows from investments in non-financial assets	(7 924)	(8 999)	(7 308)	(6 935)	(5 060)
<b>Cash surplus/(deficit)</b>	<b>(6 464)</b>	<b>(7 128)</b>	<b>(5 599)</b>	<b>(5 263)</b>	<b>(3 329)</b>

*Notes:*

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

(b) 2024-25 budget figures have been restated to represent actual opening balances at 1 July 2024.

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

**Table 5.4 Public non-financial corporations sector statement of changes in equity for the financial year ended 30 June <sup>(a)</sup> (\$ million)**

	Accumulated surplus/(deficit)	Contributions by owners	Non-financial assets revaluation surplus	Other reserves	Total
<b>2024-25 budget <sup>(b)</sup></b>					
Balance at 1 July 2024	(33 520)	82 246	33 475	843	83 045
Opening balance adjustment <sup>(c)(d)</sup>	7	214	(211)	..	10
<b>Restated balance at 1 July 2024</b>	<b>(33 512)</b>	<b>82 460</b>	<b>33 264</b>	<b>843</b>	<b>83 055</b>
Net result for the year	(3 912)	..	..	..	(3 912)
Other comprehensive income for the year	(16)	..	62	14	60
Dividends paid	(157)	..	..	..	(157)
Transactions with owners in their capacity as owners	..	7 965	..	..	7 965
<b>Total equity as at 30 June 2025</b>	<b>(37 596)</b>	<b>90 426</b>	<b>33 326</b>	<b>857</b>	<b>87 012</b>
<b>2024-25 revised</b>					
Balance at 1 July 2024	(33 520)	82 246	33 475	843	83 045
Opening balance adjustment <sup>(c)(d)</sup>	7	214	(211)	..	10
<b>Restated balance at 1 July 2024</b>	<b>(33 512)</b>	<b>82 460</b>	<b>33 264</b>	<b>843</b>	<b>83 055</b>
Net result for the year	(4 599)	..	..	..	(4 599)
Other comprehensive income for the year	4	..	8	(4)	8
Dividends paid	(157)	..	..	..	(157)
Transactions with owners in their capacity as owners	..	9 770	..	..	9 770
<b>Total equity as at 30 June 2025</b>	<b>(38 264)</b>	<b>92 230</b>	<b>33 272</b>	<b>838</b>	<b>88 076</b>
<b>2025-26 estimate</b>					
Balance at 1 July 2025	(38 264)	92 230	33 272	838	88 076
Net result for the year	(19 292)	..	..	..	(19 292)
Other comprehensive income for the year	(12)	..	638	7	633
Dividends paid	(186)	..	..	..	(186)
Transactions with owners in their capacity as owners	..	24 053	..	..	24 053
<b>Total equity as at 30 June 2026</b>	<b>(57 755)</b>	<b>116 283</b>	<b>33 910</b>	<b>845</b>	<b>93 284</b>
<b>2026-27 estimate</b>					
Balance at 1 July 2026	(57 755)	116 283	33 910	845	93 284
Net result for the year	(917)	..	..	..	(917)
Other comprehensive income for the year	(7)	..	191	(5)	179
Dividends paid	(188)	..	..	..	(188)
Transactions with owners in their capacity as owners	..	4 071	..	..	4 071
<b>Total equity as at 30 June 2027</b>	<b>(58 866)</b>	<b>120 354</b>	<b>34 101</b>	<b>840</b>	<b>96 429</b>
<b>2027-28 estimate</b>					
Balance at 1 July 2027	(58 866)	120 354	34 101	840	96 429
Net result for the year	(1 009)	..	..	..	(1 009)
Other comprehensive income for the year	(5)	..	41	(9)	27
Dividends paid	(192)	..	..	..	(192)
Transactions with owners in their capacity as owners	..	4 066	..	..	4 066
<b>Total equity as at 30 June 2028</b>	<b>(60 073)</b>	<b>124 420</b>	<b>34 142</b>	<b>831</b>	<b>99 320</b>

Notes:

- (a) A range of savings and efficiency initiatives will be implemented by the public non-financial corporations sector. The impact of these initiatives is reflected over the budget and forward estimates.
- (b) Balances represent actual opening balances at 1 July 2024 plus 2024-25 budgeted movements.
- (c) On 1 July 2024, the previous State Electricity Commission of Victoria, established under the State Electricity Commission Act 1958 (SEC Act) was abolished by the commencement of the State Electricity Commission Amendment Act 2024 and the residual financial assets were transferred to the Department of Energy, Environment and Climate Action. This has resulted in the 1 July 2024 opening balance not equalling the 30 June closing balance.
- (d) VicForests ceased operations on 30 June 2024 and the residual assets and liabilities together with residual responsibilities for native forest management were transferred to the Department of Energy, Environment and Climate Action following proclamation of the Sustainable Forests (Timber) Repeal Act 2024, effective from 1 July 2024. This has resulted in the 1 July 2024 opening balance not equalling the 30 June closing balance.

**Table 5.5 Net acquisition of non-financial assets –  
Public non-financial corporations sector**

(\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
Purchases of non-financial assets (including change in inventories)	8 141	9 224	7 532	7 120	5 679
Less: Sales of non-financial assets	(218)	(225)	(223)	(185)	(619)
Less: Depreciation and amortisation	(2 121)	(2 194)	(2 279)	(2 361)	(2 307)
Plus: Other movements in non-financial assets <sup>(a)(b)(c)</sup>	5 915	7 294	22 617	2 503	3 489
<b>Total net acquisition of non-financial assets from transactions</b>	<b>11 717</b>	<b>14 099</b>	<b>27 647</b>	<b>7 077</b>	<b>6 242</b>

*Notes:*

- (a) The other movements in non-financial assets primarily include fixed asset transfers from the general government sector to the public non-financial corporations sector and recognising service concession arrangements arising from public private partnerships.*
- (b) The public private partnerships across the budget and forward estimates relates to the Homes Victoria Ground Lease Model Project 2 and the North East Link – Primary Package (Tunnels).*
- (c) The movement in 2025-26 primarily reflects the transfer of the Metro Tunnel assets from the Department of Transport and Planning in the general government sector to VicTrack in the public non-financial corporations sector upon its completion.*

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

(\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Revenue and income from transactions</b>					
Taxation	38 447	38 605	40 984	43 173	45 156
Interest income	803	919	598	608	625
Dividends, income tax equivalent and rate equivalent income	670	773	760	834	904
Sales of goods and services	14 393	14 772	15 321	15 724	16 038
Grants	44 846	45 620	49 181	49 876	51 339
Other revenue and income	3 883	4 430	4 045	4 610	4 384
<b>Total revenue and income from transactions</b>	<b>103 042</b>	<b>105 119</b>	<b>110 889</b>	<b>114 824</b>	<b>118 447</b>
<b>Expenses from transactions</b>					
Employee expenses	38 282	39 378	40 221	41 876	43 121
Net superannuation interest expense	778	788	791	800	789
Other superannuation	4 076	4 311	4 365	4 490	4 662
Depreciation	8 700	8 887	9 546	9 940	10 125
Interest expense	7 171	7 169	8 252	9 311	10 408
Grant expense	15 611	15 368	15 664	15 652	15 804
Other operating expenses	32 026	34 132	32 123	32 846	33 396
<b>Total expenses from transactions</b>	<b>106 644</b>	<b>110 034</b>	<b>110 962</b>	<b>114 915</b>	<b>118 304</b>
<b>Net result from transactions – Net operating balance</b>	<b>(3 602)</b>	<b>(4 915)</b>	<b>(72)</b>	<b>(91)</b>	<b>142</b>
<b>Other economic flows included in net result</b>					
Net gain/(loss) on disposal of non-financial assets	63	62	67	43	305
Net gain/(loss) on financial assets or liabilities at fair value	80	238	164	248	267
Share of net profit/(loss) from associates/joint venture entities	32	(45)	(29)	(33)	(34)
Other gains/(losses) from other economic flows	(523)	(512)	(460)	(480)	(441)
<b>Total other economic flows included in net result</b>	<b>(348)</b>	<b>(257)</b>	<b>(258)</b>	<b>(222)</b>	<b>97</b>
<b>Net result</b>	<b>(3 949)</b>	<b>(5 172)</b>	<b>(330)</b>	<b>(312)</b>	<b>240</b>
<b>Other economic flows – Other comprehensive income</b>					
<b>Items that will not be reclassified to net result</b>					
Changes in non-financial assets revaluation surplus	6 843	6 753	9 569	6 070	9 031
Remeasurement of superannuation defined benefit plans	725	(511)	718	702	702
Other movements in equity	16	255	8	6	6
<b>Items that may be reclassified subsequently to net result</b>					
Net gain/(loss) on financial assets at fair value	21	(10)	5	3	3
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	(258)	(3 768)	(1 057)	46	114
<b>Total other economic flows – Other comprehensive income</b>	<b>7 347</b>	<b>2 719</b>	<b>9 243</b>	<b>6 826</b>	<b>9 856</b>
<b>Comprehensive result – Total change in net worth</b>	<b>3 398</b>	<b>(2 453)</b>	<b>8 913</b>	<b>6 514</b>	<b>10 096</b>
<b>KEY FISCAL AGGREGATES</b>					
<b>Net operating balance</b>	<b>(3 602)</b>	<b>(4 915)</b>	<b>(72)</b>	<b>(91)</b>	<b>142</b>
Less: Net acquisition of non-financial assets from transactions	19 352	20 446	16 872	13 269	9 375
<b>Net lending/(borrowing)</b>	<b>(22 954)</b>	<b>(25 360)</b>	<b>(16 945)</b>	<b>(13 359)</b>	<b>(9 232)</b>

**Table 5.7 Non-financial public sector balance sheet as at 30 June**

**(\$ million)**

	2025 <i>budget</i> <sup>(a)</sup>	2025 <i>revised</i>	2026 <i>estimate</i>	2027 <i>estimate</i>	2028 <i>estimate</i>
<b>Assets</b>					
<b>Financial assets</b>					
Cash and deposits	15 982	12 802	12 967	13 520	14 378
Advances paid	400	386	366	368	378
Receivables and contract assets	12 494	11 731	12 303	12 803	13 266
Investments, loans and placements	17 256	17 685	18 886	20 326	21 878
Investments accounted for using equity method	1 833	1 379	1 403	1 330	1 255
Investments in other sector entities	14 953	11 442	10 458	10 603	10 794
<b>Total financial assets</b>	<b>62 917</b>	<b>55 424</b>	<b>56 383</b>	<b>58 950</b>	<b>61 950</b>
<b>Non-financial assets</b>					
Inventories	1 725	1 852	1 857	1 988	1 795
Non-financial assets held for sale	241	241	242	234	227
Land, buildings, infrastructure, plant and equipment	462 679	463 248	490 024	509 457	528 486
Other non-financial assets	6 996	7 302	7 166	6 938	6 783
<b>Total non-financial assets</b>	<b>471 641</b>	<b>472 643</b>	<b>499 289</b>	<b>518 617</b>	<b>537 291</b>
<b>Total assets</b>	<b>534 558</b>	<b>528 067</b>	<b>555 672</b>	<b>577 567</b>	<b>599 241</b>
<b>Liabilities</b>					
Deposits held and advances received	1 765	1 713	1 652	1 642	1 642
Payables	9 015	8 378	8 449	8 331	8 312
Borrowings	212 267	210 914	229 537	245 439	258 531
Employee benefits	11 708	12 069	12 439	12 814	13 197
Superannuation	18 122	19 349	19 644	19 794	18 658
Other provisions	3 228	3 033	3 067	3 192	3 372
Other liabilities	30 852	30 863	30 221	29 179	28 256
<b>Total liabilities</b>	<b>286 957</b>	<b>286 318</b>	<b>305 010</b>	<b>320 391</b>	<b>331 969</b>
<b>Net assets</b>	<b>247 600</b>	<b>241 749</b>	<b>250 662</b>	<b>257 176</b>	<b>267 272</b>
Accumulated surplus/(deficit)	62 593	60 383	61 120	61 520	62 477
Reserves	185 007	181 366	189 543	195 656	204 795
<b>Net worth</b>	<b>247 600</b>	<b>241 749</b>	<b>250 662</b>	<b>257 176</b>	<b>267 272</b>
<b>FISCAL AGGREGATES</b>					
Net financial worth	(224 040)	(230 894)	(248 626)	(261 441)	(270 019)
Net financial liabilities	238 993	242 336	259 085	272 044	280 814
Net debt	180 394	181 755	198 971	212 867	223 538

Note:

(a) Balances represent actual opening balances at 1 July 2024 plus 2024-25 budgeted movements.

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

(\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Taxes received	37 957	38 922	40 479	42 687	44 842
Grants	44 845	45 480	49 188	49 876	51 339
Sales of goods and services <sup>(a)</sup>	15 512	16 010	16 544	17 017	17 355
Interest received	740	869	539	538	537
Dividends, income tax equivalent and rate equivalent receipts	697	834	791	865	936
Other receipts	2 327	2 445	2 660	3 057	2 803
<b>Total receipts</b>	<b>102 078</b>	<b>104 561</b>	<b>110 202</b>	<b>114 040</b>	<b>117 811</b>
<b>Payments</b>					
Payments for employees	(38 308)	(39 044)	(39 865)	(41 515)	(42 753)
Superannuation	(4 233)	(4 487)	(4 143)	(4 439)	(5 883)
Interest paid	(6 889)	(6 880)	(8 048)	(9 251)	(10 338)
Grants and subsidies	(15 442)	(15 869)	(15 535)	(15 594)	(15 758)
Goods and services <sup>(a)</sup>	(32 881)	(34 269)	(32 420)	(33 366)	(33 806)
Other payments	(1 067)	(1 733)	(1 236)	(1 067)	(1 117)
<b>Total payments</b>	<b>(98 820)</b>	<b>(102 281)</b>	<b>(101 248)</b>	<b>(105 232)</b>	<b>(109 656)</b>
<b>Net cash flows from operating activities</b>	<b>3 258</b>	<b>2 279</b>	<b>8 954</b>	<b>8 808</b>	<b>8 155</b>
<b>Cash flows from investing activities</b>					
<b>Cash flows from investments in non-financial assets</b>					
Purchases of non-financial assets	(25 712)	(25 534)	(25 089)	(22 591)	(19 347)
Sales of non-financial assets	895	845	1 279	890	1 156
<b>Net cash flows from investments in non-financial assets</b>	<b>(24 817)</b>	<b>(24 688)</b>	<b>(23 811)</b>	<b>(21 701)</b>	<b>(18 191)</b>
Net cash flows from investments in financial assets for policy purposes	(531)	(156)	(130)	(86)	(72)
<b>Subtotal</b>	<b>(25 348)</b>	<b>(24 844)</b>	<b>(23 941)</b>	<b>(21 787)</b>	<b>(18 263)</b>
Net cash flows from investment in financial assets for liquidity management purposes	(1 492)	(1 799)	(984)	(1 271)	(1 220)
<b>Net cash flows from investing activities</b>	<b>(26 840)</b>	<b>(26 644)</b>	<b>(24 925)</b>	<b>(23 058)</b>	<b>(19 484)</b>
<b>Cash flows from financing activities</b>					
Advances received (net)	(5)	(5)	(60)	(11)	(10)
Net borrowings	22 877	20 601	16 174	14 713	12 068
Deposits received (net)	(9)	(61)	..	1	10
<b>Net cash flows from financing activities</b>	<b>22 863</b>	<b>20 535</b>	<b>16 114</b>	<b>14 703</b>	<b>12 067</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(719)</b>	<b>(3 829)</b>	<b>143</b>	<b>453</b>	<b>738</b>
Cash and cash equivalents at beginning of reporting period <sup>(b)(c)</sup>	16 561	16 561	12 732	12 874	13 327
<b>Cash and cash equivalents at end of reporting period <sup>(b)(c)</sup></b>	<b>15 842</b>	<b>12 732</b>	<b>12 874</b>	<b>13 327</b>	<b>14 065</b>
<b>FISCAL AGGREGATES</b>					
Net cash flows from operating activities	3 258	2 279	8 954	8 808	8 155
Net cash flows from investments in non-financial assets	(24 817)	(24 688)	(23 811)	(21 701)	(18 191)
<b>Cash surplus/(deficit)</b>	<b>(21 559)</b>	<b>(22 409)</b>	<b>(14 857)</b>	<b>(12 893)</b>	<b>(10 036)</b>

*Notes:*

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

(b) 2024-25 budget figures have been restated to represent actual opening balances at 1 July 2024.

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

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

(\$ million)

	Accumulated surplus/(deficit)	Non-financial assets revaluation surplus	Investment in other sector entities revaluation surplus	Other reserves	Total
<b>2024-25 budget <sup>(a)</sup></b>					
Balance at 1 July 2024	65 605	161 183	15 040	2 371	244 199
Opening balance adjustment <sup>(b)</sup>	215	(211)	..	..	3
<b>Restated balance at 1 July 2024</b>	<b>65 820</b>	<b>160 972</b>	<b>15 040</b>	<b>2 371</b>	<b>244 202</b>
Net result for the year	(3 949)	..	..	..	(3 949)
Other comprehensive income for the year	722	6 843	(258)	39	7 347
Transfer to/(from) accumulated surplus	..	..	..	..	..
<b>Total equity as at 30 June 2025</b>	<b>62 593</b>	<b>167 815</b>	<b>14 781</b>	<b>2 410</b>	<b>247 600</b>
<b>2024-25 revised</b>					
Balance at 1 July 2024	65 605	161 183	15 040	2 371	244 199
Opening balance adjustment <sup>(b)</sup>	215	(211)	..	..	3
<b>Restated balance at 1 July 2024</b>	<b>65 820</b>	<b>160 972</b>	<b>15 040</b>	<b>2 371</b>	<b>244 202</b>
Net result for the year	(5 172)	..	..	..	(5 172)
Other comprehensive income for the year	(265)	6 753	(3 768)	(1)	2 719
Transfer to/(from) accumulated surplus	..	..	..	..	..
<b>Total equity as at 30 June 2025</b>	<b>60 383</b>	<b>167 725</b>	<b>11 271</b>	<b>2 370</b>	<b>241 749</b>
<b>2025-26 estimate</b>					
Balance at 1 July 2025	60 383	167 725	11 271	2 370	241 749
Net result for the year	(330)	..	..	..	(330)
Other comprehensive income for the year	721	9 569	(1 057)	10	9 243
Transfer to/(from) accumulated surplus	345	(345)	..	..	..
<b>Total equity as at 30 June 2026</b>	<b>61 120</b>	<b>176 948</b>	<b>10 214</b>	<b>2 380</b>	<b>250 662</b>
<b>2026-27 estimate</b>					
Balance at 1 July 2026	61 120	176 948	10 214	2 380	250 662
Net result for the year	(312)	..	..	..	(312)
Other comprehensive income for the year	713	6 070	46	(3)	6 826
Transfer to/(from) accumulated surplus	..	..	..	..	..
<b>Total equity as at 30 June 2027</b>	<b>61 520</b>	<b>183 018</b>	<b>10 261</b>	<b>2 377</b>	<b>257 176</b>
<b>2027-28 estimate</b>					
Balance at 1 July 2027	61 520	183 018	10 261	2 377	257 176
Net result for the year	240	..	..	..	240
Other comprehensive income for the year	717	9 031	114	(6)	9 856
Transfer to/(from) accumulated surplus	..	..	..	..	..
<b>Total equity as at 30 June 2028</b>	<b>62 477</b>	<b>192 049</b>	<b>10 374</b>	<b>2 372</b>	<b>267 272</b>

Notes:

(a) Balances represent actual opening balances at 1 July 2024 plus 2024-25 budgeted movements.

(b) VicForests ceased operations on 30 June 2024 and the residual assets and liabilities together with residual responsibilities for native forest management were transferred to the Department of Energy, Environment and Climate Action following proclamation of the Sustainable Forests (Timber) Repeal Act 2024, effective from 1 July 2024. This has resulted in the 1 July 2024 opening balance not equalling the 30 June closing balance.

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

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
Purchases of non-financial assets (including change in inventories)	25 679	25 500	25 063	22 537	19 347
Less: Sales of non-financial assets	(895)	(845)	(1 279)	(890)	(1 156)
Less: Depreciation and amortisation	(8 700)	(8 887)	(9 546)	(9 940)	(10 125)
Plus: Other movements in non-financial assets <sup>(a)(b)</sup>	3 268	4 678	2 634	1 561	1 309
<b>Total net acquisition of non-financial assets from transactions</b>	<b>19 352</b>	<b>20 446</b>	<b>16 872</b>	<b>13 269</b>	<b>9 375</b>

*Notes:*

- (a) *The other movements in non-financial assets includes recognising right-of-use assets under lease arrangements, and recognising service concession arrangements arising from public private partnerships.*
- (b) *The public private partnerships across the budget and forward estimates relate to the Frankston Hospital Redevelopment, the High Capacity Metro Trains, the Homes Victoria Ground Lease Model Project 2, the Metro Tunnel, the new Footscray Hospital, the new Melton Hospital, the North East Link – Primary Package (Tunnels), the Nyaal Banyul Geelong Convention and Event Centre, and the West Gate Tunnel.*



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

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Revenue and income from transactions</b>					
Interest income	6 630	6 890	7 794	8 973	10 191
Dividend income	2 113	2 670	2 902	3 113	3 216
Sales of goods and services	8 574	8 596	9 182	9 759	10 335
Grants	7	7	9	11	34
Other revenue and income	23	28	30	30	31
<b>Total revenue and income from transactions</b>	<b>17 347</b>	<b>18 191</b>	<b>19 916</b>	<b>21 887</b>	<b>23 807</b>
<b>Expenses from transactions</b>					
Employee expenses	544	556	576	595	603
Other superannuation	56	57	60	62	63
Depreciation	82	84	77	70	64
Interest expense	6 295	6 503	7 367	8 534	9 734
Grant expense	669	650	1 229	331	1 519
Other operating expenses	13 447	12 274	13 348	14 377	15 305
Other property expenses	7	5	4	4	33
<b>Total expenses from transactions</b>	<b>21 100</b>	<b>20 129</b>	<b>22 661</b>	<b>23 972</b>	<b>27 321</b>
<b>Net result from transactions – Net operating balance <sup>(b)</sup></b>	<b>(3 753)</b>	<b>(1 939)</b>	<b>(2 745)</b>	<b>(2 085)</b>	<b>(3 514)</b>
<b>Other economic flows included in net result</b>					
Net gain/(loss) on financial assets or liabilities at fair value	401	(2 456)	491	520	1 145
Other gains/(losses) from other economic flows	1 708	855	1 279	1 425	1 451
<b>Total other economic flows included in net result</b>	<b>2 109</b>	<b>(1 602)</b>	<b>1 769</b>	<b>1 945</b>	<b>2 598</b>
<b>Net result</b>	<b>(1 644)</b>	<b>(3 540)</b>	<b>(976)</b>	<b>(139)</b>	<b>(916)</b>
<b>Other economic flows – Other comprehensive income</b>					
<b>Items that will not be reclassified to net result</b>					
Changes in non-financial assets revaluation surplus	..	1	..	..	..
Other movements in equity	..	..	(1)	(2)	(1)
<b>Total other economic flows – Other comprehensive income</b>	<b>..</b>	<b>1</b>	<b>(1)</b>	<b>(2)</b>	<b>(1)</b>
<b>Comprehensive result – Total change in net worth</b>	<b>(1 644)</b>	<b>(3 539)</b>	<b>(977)</b>	<b>(142)</b>	<b>(917)</b>
<b>KEY FISCAL AGGREGATES</b>					
<b>Net operating balance</b>	<b>(3 753)</b>	<b>(1 939)</b>	<b>(2 745)</b>	<b>(2 085)</b>	<b>(3 514)</b>
Less: Net acquisition of non-financial assets from transactions	(65)	(51)	(37)	(37)	(34)
<b>Net lending/(borrowing)</b>	<b>(3 688)</b>	<b>(1 887)</b>	<b>(2 708)</b>	<b>(2 048)</b>	<b>(3 479)</b>

*Notes:*

- (a) *Savings and efficiency initiatives introduced in the 2023-24 Budget will continue to be implemented by the public financial corporations sector. The impact of these initiatives is reflected in the budget and forward estimates.*
- (b) *Capital gains on the investment portfolios of the State's insurance agencies (WorkSafe Victoria, Transport Accident Commission and Victorian Managed Insurance Authority) are classified as other economic flows. As these capital gains are available to fund claims expenses, the net result more meaningfully reflects the underlying operations and performance of the PFC sector than the net result from transactions.*

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

	2025 budget <sup>(a)</sup>	2025 revised	2026 estimate	2027 estimate	2028 estimate
<b>Assets</b>					
<b>Financial assets</b>					
Cash and deposits	3 903	2 905	2 998	3 124	3 247
Advances paid	32	23	17	14	13
Receivables	2 768	2 765	2 850	2 958	3 093
Investments, loans and placements	68 499	70 160	73 491	77 735	81 374
Loans receivable from non-financial public sector <sup>(b)</sup>	181 542	180 866	198 802	214 608	229 221
Investments accounted for using equity method	12	12	12	13	14
<b>Total financial assets</b>	<b>256 757</b>	<b>256 731</b>	<b>278 170</b>	<b>298 453</b>	<b>316 964</b>
<b>Non-financial assets</b>					
Land, buildings, infrastructure, plant and equipment	289	306	290	269	243
Other non-financial assets	3 808	3 040	3 063	3 098	3 005
<b>Total non-financial assets</b>	<b>4 096</b>	<b>3 346</b>	<b>3 353</b>	<b>3 367</b>	<b>3 248</b>
<b>Total assets</b>	<b>260 854</b>	<b>260 077</b>	<b>281 523</b>	<b>301 820</b>	<b>320 211</b>
<b>Liabilities</b>					
Deposits held and advances received	215	217	219	206	192
Payables	1 514	1 392	1 439	1 506	1 585
Borrowings <sup>(c)</sup>	190 245	192 310	210 729	227 025	242 108
Employee benefits	139	141	143	146	148
Other provisions	55 165	54 298	58 214	62 268	66 426
Other liabilities	1 546	1 584	1 632	1 644	1 648
<b>Total liabilities</b>	<b>248 825</b>	<b>249 943</b>	<b>272 375</b>	<b>292 795</b>	<b>312 108</b>
<b>Net assets<sup>(d)</sup></b>	<b>12 028</b>	<b>10 134</b>	<b>9 148</b>	<b>9 025</b>	<b>8 104</b>
Accumulated surplus/(deficit)	11 420	9 525	8 466	8 245	7 246
Reserves	609	609	682	780	858
<b>Net worth<sup>(d)</sup></b>	<b>12 028</b>	<b>10 134</b>	<b>9 148</b>	<b>9 025</b>	<b>8 104</b>
<b>FISCAL AGGREGATES</b>					
Net financial worth	7 932	6 788	5 795	5 658	4 856
Net financial liabilities	(7 932)	(6 788)	(5 795)	(5 658)	(4 856)
Net debt	(63 517)	(61 427)	(64 360)	(68 251)	(71 556)

*Notes:*

(a) Balances represent actual opening balances at 1 July 2024 plus 2024-25 budgeted movements.

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

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

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

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

(\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Grants	7	7	8	10	33
Sales of goods and services <sup>(a)</sup>	9 432	9 502	10 087	10 683	11 307
Interest received	6 276	6 366	7 269	8 449	9 667
Dividend receipts	2 113	2 670	2 902	3 113	3 216
Other receipts	107	116	29	32	17
<b>Total receipts</b>	<b>17 936</b>	<b>18 662</b>	<b>20 295</b>	<b>22 287</b>	<b>24 241</b>
<b>Payments</b>					
Payments for employees	(541)	(552)	(574)	(593)	(601)
Superannuation	(56)	(57)	(60)	(62)	(63)
Interest paid	(5 825)	(5 623)	(6 477)	(7 643)	(8 848)
Grants and subsidies	(669)	(650)	(1 228)	(330)	(1 519)
Goods and services <sup>(a)</sup>	(8 289)	(8 158)	(9 005)	(9 814)	(10 556)
Other payments	(40)	(38)	(3)	(3)	(4)
<b>Total payments</b>	<b>(15 420)</b>	<b>(15 077)</b>	<b>(17 347)</b>	<b>(18 445)</b>	<b>(21 590)</b>
<b>Net cash flows from operating activities</b>	<b>2 516</b>	<b>3 585</b>	<b>2 948</b>	<b>3 842</b>	<b>2 650</b>
<b>Cash flows from investing activities</b>					
<b>Cash flows from investments in non-financial assets</b>					
Purchases of non-financial assets	(18)	(33)	(40)	(33)	(30)
Sales of non-financial assets	1	1	1	1	1
<b>Net cash flows from investments in non-financial assets</b>	<b>(17)</b>	<b>(33)</b>	<b>(39)</b>	<b>(33)</b>	<b>(30)</b>
Net cash flows from investments in financial assets for policy purposes	8	17	5	..	(1)
<b>Subtotal</b>	<b>(9)</b>	<b>(16)</b>	<b>(35)</b>	<b>(33)</b>	<b>(31)</b>
Net cash flows from investment in financial assets for liquidity management purposes	(31 455)	(31 932)	(20 252)	(19 006)	(16 665)
<b>Net cash flows from investing activities</b>	<b>(31 464)</b>	<b>(31 948)</b>	<b>(20 286)</b>	<b>(19 038)</b>	<b>(16 696)</b>
<b>Cash flows from financing activities</b>					
Advances received (net)	(16)	(34)	(12)	(6)	(2)
Net borrowings	28 992	27 407	17 438	15 316	14 187
Deposits received (net)	15	35	14	(7)	(12)
Other financing (net)	(10)	(9)	(9)	19	(4)
<b>Net cash flows from financing activities</b>	<b>28 982</b>	<b>27 399</b>	<b>17 430</b>	<b>15 322</b>	<b>14 169</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>33</b>	<b>(965)</b>	<b>93</b>	<b>126</b>	<b>123</b>
Cash and cash equivalents at beginning of reporting period <sup>(b)</sup>	3 870	3 870	2 905	2 998	3 124
<b>Cash and cash equivalents at end of reporting period <sup>(b)</sup></b>	<b>3 903</b>	<b>2 905</b>	<b>2 998</b>	<b>3 124</b>	<b>3 247</b>
<b>FISCAL AGGREGATES</b>					
Net cash flows from operating activities	2 516	3 585	2 948	3 842	2 650
Dividends paid	(84)	(83)	(82)	(79)	(82)
Net cash flows from investments in non-financial assets	(17)	(33)	(39)	(33)	(30)
<b>Cash surplus/(deficit)</b>	<b>2 415</b>	<b>3 469</b>	<b>2 827</b>	<b>3 731</b>	<b>2 538</b>

Notes:

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

(b) 2024-25 budget figures have been restated to represent actual opening balances at 1 July 2024.

**Table 5.14 Public financial corporations sector statement of changes in equity for the financial year ended 30 June <sup>(a)</sup> (\$ million)**

	Accumulated surplus/(deficit)	Contributions by owners	Non-financial assets revaluation surplus	Other reserves	Total
<b>2024-25 budget <sup>(b)</sup></b>					
Balance at 1 July 2024	13 148	465	9	61	13 683
Net result for the year	(1 644)	..	..	..	(1 644)
Other comprehensive income for the year	(1)	..	..	1	..
Dividends paid	(84)	..	..	..	(84)
Transactions with owners in their capacity as owners	..	74	..	..	74
<b>Total equity as at 30 June 2025</b>	<b>11 420</b>	<b>538</b>	<b>9</b>	<b>62</b>	<b>12 028</b>
<b>2024-25 revised</b>					
Balance at 1 July 2024	13 148	465	9	61	13 683
Net result for the year	(3 540)	..	..	..	(3 540)
Other comprehensive income for the year	..	..	1	..	1
Dividends paid	(83)	..	..	..	(83)
Transactions with owners in their capacity as owners	..	74	..	..	74
<b>Total equity as at 30 June 2025</b>	<b>9 525</b>	<b>538</b>	<b>10</b>	<b>61</b>	<b>10 134</b>
<b>2025-26 estimate</b>					
Balance at 1 July 2025	9 525	538	10	61	10 134
Net result for the year	(976)	..	..	..	(976)
Other comprehensive income for the year	(1)	..	..	..	(1)
Dividends paid	(82)	..	..	..	(82)
Transactions with owners in their capacity as owners	..	73	..	..	73
<b>Total equity as at 30 June 2026</b>	<b>8 466</b>	<b>611</b>	<b>10</b>	<b>61</b>	<b>9 148</b>
<b>2026-27 estimate</b>					
Balance at 1 July 2026	8 466	611	10	61	9 148
Net result for the year	(139)	..	..	..	(139)
Other comprehensive income for the year	(2)	..	..	..	(2)
Dividends paid	(79)	..	..	..	(79)
Transactions with owners in their capacity as owners	..	98	..	..	98
<b>Total equity as at 30 June 2027</b>	<b>8 245</b>	<b>709</b>	<b>10</b>	<b>61</b>	<b>9 025</b>
<b>2027-28 estimate</b>					
Balance at 1 July 2027	8 245	709	10	61	9 025
Net result for the year	(916)	..	..	..	(916)
Other comprehensive income for the year	(1)	..	..	..	(1)
Dividends paid	(82)	..	..	..	(82)
Transactions with owners in their capacity as owners	..	78	..	..	78
<b>Total equity as at 30 June 2028</b>	<b>7 246</b>	<b>787</b>	<b>10</b>	<b>61</b>	<b>8 104</b>

*Notes:*

(a) A range of savings and efficiency initiatives will be implemented by the public financial corporations sector. The impact of these initiatives is reflected in the budget and forward estimates.

(b) Balances represent actual opening balances at 1 July 2024 plus 2024-25 budgeted movements.

**Table 5.15 Net acquisition of non-financial assets –  
Public financial corporations sector**

(\$ million)

	<i>2024-25 budget</i>	<i>2024-25 revised</i>	<i>2025-26 estimate</i>	<i>2026-27 estimate</i>	<i>2027-28 estimate</i>
Purchases of non-financial assets less sale of non-financial assets (including change in inventories)	17	33	39	33	30
Less: Depreciation and amortisation	(82)	(84)	(77)	(70)	(64)
<b>Total net acquisition of non-financial assets from transactions</b>	<b>(65)</b>	<b>(51)</b>	<b>(37)</b>	<b>(37)</b>	<b>(34)</b>

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

(\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Revenue and income from transactions</b>					
Taxation	38 418	38 576	40 954	43 142	45 124
Interest income	1 624	2 053	1 647	1 691	1 741
Dividend income	2 692	3 355	3 575	3 864	4 033
Sales of goods and services	21 034	21 476	22 454	23 284	24 034
Grants	44 284	44 994	47 951	49 528	49 797
Other revenue and income	3 906	4 458	4 075	4 333	4 415
<b>Total revenue and income from transactions</b>	<b>111 957</b>	<b>114 912</b>	<b>120 656</b>	<b>125 841</b>	<b>129 144</b>
<b>Expenses from transactions</b>					
Employee expenses	37 974	39 047	40 057	41 736	42 976
Net superannuation interest expense	778	788	791	800	789
Other superannuation	4 131	4 368	4 425	4 552	4 724
Depreciation	8 782	8 971	9 622	10 009	10 189
Interest expense	7 665	7 924	8 881	9 962	11 074
Grant expense	15 729	15 403	15 671	15 641	15 765
Other operating expenses	44 343	45 353	44 115	45 403	47 059
<b>Total expenses from transactions</b>	<b>119 402</b>	<b>121 855</b>	<b>123 562</b>	<b>128 102</b>	<b>132 576</b>
<b>Net result from transactions – Net operating balance</b>	<b>(7 445)</b>	<b>(6 943)</b>	<b>(2 907)</b>	<b>(2 261)</b>	<b>(3 432)</b>
<b>Other economic flows included in net result</b>					
Net gain/(loss) on disposal of non-financial assets	63	62	67	43	305
Net gain/(loss) on financial assets or liabilities at fair value	481	(2 218)	655	768	1 412
Share of net profit/(loss) from associates/joint venture entities	32	(45)	(29)	(32)	(32)
Other gains/(losses) from other economic flows	593	294	760	864	1 038
<b>Total other economic flows included in net result</b>	<b>1 169</b>	<b>(1 907)</b>	<b>1 452</b>	<b>1 643</b>	<b>2 722</b>
<b>Net result</b>	<b>(6 277)</b>	<b>(8 850)</b>	<b>(1 454)</b>	<b>(619)</b>	<b>(710)</b>
<b>Other economic flows – Other comprehensive income</b>					
<b>Items that will not be reclassified to net result</b>					
Changes in non-financial assets revaluation surplus	6 843	6 754	9 569	6 070	9 031
Remeasurement of superannuation defined benefit plans	725	(511)	718	702	702
Other movements in equity	16	255	6	4	5
<b>Items that may be reclassified subsequently to net result</b>					
Net gain/(loss) on financial assets at fair value	21	(10)	5	3	3
<b>Total other economic flows – Other comprehensive income</b>	<b>7 605</b>	<b>6 488</b>	<b>10 298</b>	<b>6 778</b>	<b>9 741</b>
<b>Comprehensive result – Total change in net worth</b>	<b>1 329</b>	<b>(2 362)</b>	<b>8 844</b>	<b>6 159</b>	<b>9 032</b>
<b>KEY FISCAL AGGREGATES</b>					
<b>Net operating balance</b>	<b>(7 445)</b>	<b>(6 943)</b>	<b>(2 907)</b>	<b>(2 261)</b>	<b>(3 432)</b>
Less: Net acquisition of non-financial assets from transactions	19 287	20 281	16 866	13 256	9 365
<b>Net lending/(borrowing)</b>	<b>(26 733)</b>	<b>(27 223)</b>	<b>(19 773)</b>	<b>(15 518)</b>	<b>(12 797)</b>

**Table 5.17 State of Victoria balance sheet as at 30 June**

**(\$ million)**

	2025 budget <sup>(a)</sup>	2025 revised	2026 estimate	2027 estimate	2028 estimate
<b>Assets</b>					
<b>Financial assets</b>					
Cash and deposits	19 053	15 662	15 908	16 596	17 592
Advances paid	400	386	366	368	378
Receivables and contract assets	14 839	14 088	14 739	15 341	15 934
Investments, loans and placements	85 687	87 800	92 330	98 013	103 202
Investments accounted for using equity method	1 845	1 391	1 416	1 343	1 269
<b>Total financial assets</b>	<b>121 824</b>	<b>119 325</b>	<b>124 758</b>	<b>131 661</b>	<b>138 375</b>
<b>Non-financial assets</b>					
Inventories	1 725	1 852	1 857	1 988	1 795
Non-financial assets held for sale	241	241	242	234	227
Land, buildings, infrastructure, plant and equipment	462 966	463 553	490 313	509 725	528 729
Other non-financial assets	7 177	7 391	7 220	6 948	6 756
<b>Total non-financial assets</b>	<b>472 109</b>	<b>473 037</b>	<b>499 632</b>	<b>518 895</b>	<b>537 507</b>
<b>Total assets</b>	<b>593 934</b>	<b>592 363</b>	<b>624 390</b>	<b>650 556</b>	<b>675 882</b>
<b>Liabilities</b>					
Deposits held and advances received	1 916	1 854	1 788	1 775	1 774
Payables	10 130	9 385	9 499	9 444	9 501
Borrowings	220 072	222 291	241 401	257 798	271 366
Employee benefits	11 848	12 209	12 583	12 960	13 345
Superannuation	18 122	19 349	19 644	19 794	18 658
Other provisions	58 376	57 314	61 264	65 443	69 782
Other liabilities	32 233	32 414	31 821	30 792	29 875
<b>Total liabilities</b>	<b>352 697</b>	<b>354 817</b>	<b>378 000</b>	<b>398 007</b>	<b>414 301</b>
<b>Net assets</b>	<b>241 236</b>	<b>237 545</b>	<b>246 390</b>	<b>252 549</b>	<b>261 581</b>
Accumulated surplus/(deficit)	70 941	67 380	66 991	67 083	67 089
Reserves	170 296	170 165	179 399	185 466	194 492
<b>Net worth</b>	<b>241 236</b>	<b>237 545</b>	<b>246 390</b>	<b>252 549</b>	<b>261 581</b>
<b>FISCAL AGGREGATES</b>					
Net financial worth	(230 873)	(235 492)	(253 242)	(266 346)	(275 926)
Net financial liabilities	230 873	235 492	253 242	266 346	275 926
Net debt	116 848	120 298	134 585	144 597	151 968

Note:

(a) Balances represent actual opening balances at 1 July 2024 plus 2024-25 budgeted movements.

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

(\$ million)

	<i>2024-25 budget</i>	<i>2024-25 revised</i>	<i>2025-26 estimate</i>	<i>2026-27 estimate</i>	<i>2027-28 estimate</i>
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Taxes received	37 927	38 893	40 449	42 656	44 810
Grants	44 283	44 864	47 958	49 528	49 797
Sales of goods and services <sup>(a)</sup>	23 018	23 737	24 585	25 504	26 325
Interest received	1 208	1 478	1 063	1 097	1 128
Dividend receipts	2 687	3 383	3 607	3 896	4 065
Other receipts	2 436	2 563	2 691	2 783	2 821
<b>Total receipts</b>	<b>111 558</b>	<b>114 919</b>	<b>120 355</b>	<b>125 464</b>	<b>128 948</b>
<b>Payments</b>					
Payments for employees	(37 997)	(38 709)	(39 698)	(41 373)	(42 606)
Superannuation	(4 289)	(4 545)	(4 203)	(4 500)	(5 946)
Interest paid	(6 914)	(6 754)	(7 787)	(9 013)	(10 118)
Grants and subsidies	(15 561)	(15 915)	(15 545)	(15 584)	(15 721)
Goods and services <sup>(a)</sup>	(40 048)	(41 604)	(40 041)	(41 339)	(42 699)
Other payments	(1 067)	(1 733)	(1 236)	(1 067)	(1 117)
<b>Total payments</b>	<b>(105 875)</b>	<b>(109 259)</b>	<b>(108 511)</b>	<b>(112 875)</b>	<b>(118 208)</b>
<b>Net cash flows from operating activities</b>	<b>5 683</b>	<b>5 660</b>	<b>11 844</b>	<b>12 589</b>	<b>10 740</b>
<b>Cash flows from investing activities</b>					
<b>Cash flows from investments in non-financial assets</b>					
Purchases of non-financial assets	(25 729)	(25 453)	(25 160)	(22 649)	(19 402)
Sales of non-financial assets	896	846	1 280	891	1 157
<b>Net cash flows from investments in non-financial assets</b>	<b>(24 834)</b>	<b>(24 607)</b>	<b>(23 881)</b>	<b>(21 758)</b>	<b>(18 245)</b>
Net cash flows from investments in financial assets for policy purposes	(458)	(82)	(59)	9	3
<b>Subtotal</b>	<b>(25 291)</b>	<b>(24 689)</b>	<b>(23 940)</b>	<b>(21 749)</b>	<b>(18 242)</b>
Net cash flows from investment in financial assets for liquidity management purposes	(3 828)	(5 304)	(3 298)	(4 468)	(3 270)
<b>Net cash flows from investing activities</b>	<b>(29 120)</b>	<b>(29 993)</b>	<b>(27 237)</b>	<b>(26 217)</b>	<b>(21 512)</b>
<b>Cash flows from financing activities</b>					
Advances received (net)	(13)	(22)	(66)	(14)	(11)
Net borrowings	22 777	20 413	15 683	14 229	11 649
Deposits received (net)	(9)	(61)	..	1	10
<b>Net cash flows from financing activities</b>	<b>22 755</b>	<b>20 330</b>	<b>15 617</b>	<b>14 216</b>	<b>11 648</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(682)</b>	<b>(4 004)</b>	<b>223</b>	<b>588</b>	<b>876</b>
Cash and cash equivalents at beginning of reporting period <sup>(b)(c)</sup>	19 595	19 595	15 591	15 815	16 403
<b>Cash and cash equivalents at end of reporting period <sup>(b)(c)</sup></b>	<b>18 913</b>	<b>15 591</b>	<b>15 815</b>	<b>16 403</b>	<b>17 278</b>



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

(\$ million)

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>FISCAL AGGREGATES</b>					
Net cash flows from operating activities	5 683	5 660	11 844	12 589	10 740
Net cash flows from investments in non-financial assets	(24 834)	(24 607)	(23 881)	(21 758)	(18 245)
<b>Cash surplus/(deficit)</b>	<b>(19 151)</b>	<b>(18 947)</b>	<b>(12 037)</b>	<b>(9 169)</b>	<b>(7 505)</b>

*Notes:*

- (a) Sales of goods and services and payments for goods and services are inclusive of goods and services tax.
- (b) 2024-25 budget figures have been restated to represent actual opening balances at 1 July 2024.
- (c) Cash and cash equivalents at the end of the reporting period does not equal cash and deposits on the balance sheet. This is due to overdrafts being included in the cash flow statement balances.

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

(\$ million)

	Accumulated surplus/(deficit)	Non-financial assets revaluation surplus	Other reserves	Total
<b>2024-25 budget <sup>(a)</sup></b>				
Balance at 1 July 2024	76 281	161 192	2 432	239 904
Opening balance adjustment <sup>(b)</sup>	215	(211)	..	3
<b>Restated balance at 1 July 2024</b>	<b>76 495</b>	<b>160 980</b>	<b>2 432</b>	<b>239 908</b>
Net result for the year	(6 277)	..	..	(6 277)
Other comprehensive income for the year	722	6 843	40	7 605
Transfer to/(from) accumulated surplus	..	..	..	..
<b>Total equity as at 30 June 2025</b>	<b>70 941</b>	<b>167 824</b>	<b>2 472</b>	<b>241 236</b>
<b>2024-25 revised</b>				
Balance at 1 July 2024	76 281	161 192	2 432	239 904
Opening balance adjustment <sup>(b)</sup>	215	(211)	..	3
<b>Restated balance at 1 July 2024</b>	<b>76 495</b>	<b>160 980</b>	<b>2 432</b>	<b>239 908</b>
Net result for the year	(8 850)	..	..	(8 850)
Other comprehensive income for the year	(265)	6 754	(1)	6 488
Transfer to/(from) accumulated surplus	..	..	..	..
<b>Total equity as at 30 June 2025</b>	<b>67 380</b>	<b>167 734</b>	<b>2 431</b>	<b>237 545</b>
<b>2025-26 estimate</b>				
Balance at 1 July 2025	67 380	167 734	2 431	237 545
Net result for the year	(1 454)	..	..	(1 454)
Other comprehensive income for the year	719	9 569	10	10 298
Transfer to/(from) accumulated surplus	345	(345)	..	..
<b>Total equity as at 30 June 2026</b>	<b>66 991</b>	<b>176 958</b>	<b>2 441</b>	<b>246 390</b>
<b>2026-27 estimate</b>				
Balance at 1 July 2026	66 991	176 958	2 441	246 390
Net result for the year	(619)	..	..	(619)
Other comprehensive income for the year	711	6 070	(3)	6 778
Transfer to/(from) accumulated surplus	..	..	..	..
<b>Total equity as at 30 June 2027</b>	<b>67 083</b>	<b>183 028</b>	<b>2 438</b>	<b>252 549</b>
<b>2027-28 estimate</b>				
Balance at 1 July 2027	67 083	183 028	2 438	252 549
Net result for the year	(710)	..	..	(710)
Other comprehensive income for the year	716	9 031	(6)	9 741
Transfer to/(from) accumulated surplus	..	..	..	..
<b>Total equity as at 30 June 2028</b>	<b>67 089</b>	<b>192 059</b>	<b>2 433</b>	<b>261 581</b>

Notes:

(a) Balances represent actual opening balances at 1 July 2024 plus 2024-25 budgeted movements.

(b) VicForests ceased operations on 30 June 2024 and the residual assets and liabilities together with residual responsibilities for native forest management were transferred to the Department of Energy, Environment and Climate Action following proclamation of the Sustainable Forests (Timber) Repeal Act 2024, effective from 1 July 2024. This has resulted in the 1 July 2024 opening balance not equalling the 30 June closing balance.

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

	2024-25 budget	2024-25 revised	2025-26 estimate	2026-27 estimate	2027-28 estimate
Purchases of non-financial assets (including change in inventories)	25 697	25 420	25 134	22 595	19 402
Less: Sales of non-financial assets	(896)	(846)	(1 280)	(891)	(1 157)
Less: Depreciation and amortisation	(8 782)	(8 971)	(9 622)	(10 009)	(10 189)
Plus: Other movements in non-financial assets <sup>(a)(b)</sup>	3 268	4 678	2 634	1 561	1 309
<b>Total net acquisition of non-financial assets from transactions</b>	<b>19 287</b>	<b>20 281</b>	<b>16 866</b>	<b>13 256</b>	<b>9 365</b>

Notes:

- (a) *The other movements in non-financial assets includes recognising right-of-use assets under lease arrangements, and recognising service concession arrangements arising from public private partnerships.*
- (b) *The public private partnerships across the budget and forward estimates relate to the Frankston Hospital Redevelopment, the High Capacity Metro Trains, the Homes Victoria Ground Lease Model Project 2, the Metro Tunnel, the new Footscray Hospital, the new Melton Hospital, the North East Link – Primary Package (Tunnels), the Nyaal Banyul Geelong Convention and Event Centre, and the West Gate Tunnel.*



## CHAPTER 6 – SENSITIVITY ANALYSIS

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The *2024-25 Budget Update* relies on forecasts and judgements about the economic, operating and financial conditions for the Victorian general government sector. Uncertainty in these conditions, for example as a result of international developments and other risks to the national economy, may cause the actual results to differ from budget projections.

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

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

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

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

## FISCAL EFFECTS OF VARIATIONS TO THE ECONOMIC OUTLOOK

The scenario component of the sensitivity analysis quantifies two key risks identified in Chapter 2 *Economic context* and presents how these risks might affect the State's economic and fiscal aggregates.

The first scenario considers a downturn in Victorian and Australian aggregate demand, partly due to uncertainty around the trajectory for interest rates and inflation. The second scenario considers the implications of a lower trend unemployment rate, resulting in higher employment and investment activity.

The economic effects of these scenarios have been modelled using VURMTAX, a computable general equilibrium model developed by the Centre of Policy Studies at Victoria University. The results of the scenarios are presented as deviations from the 'business as usual' base case, which reflects the central economic forecasts outlined in Chapter 2 *Economic context*.

The changes in economic variables resulting from the modelled shocks are then mapped into estimated revenue and expenditure effects using elasticities that describe the historical relationship between fiscal outcomes and major macroeconomic parameters.<sup>1</sup>

### Scenario A: A domestic economic slowdown

Household consumption is expected to rebound in 2024-25, as real wages growth, easing inflation and income tax cuts support a rise in real household disposable incomes.

However, as discussed in the Risks section of Chapter 2 *Economic context*, the path of inflation – and hence the outlook for interest rates – is uncertain. Although inflation is easing, services inflation remains high, and if it proves more persistent, the Reserve Bank of Australia (RBA) may keep interest rates elevated for longer than expected. As a result, real household disposable income, and hence consumer spending, may not rebound as much as forecast. Additionally, as labour market conditions ease, this could lead to uncertainty among households around the jobs outlook, causing households to take on less debt, increase precautionary savings and moderate discretionary spending by more than is assumed in the base case. In this environment, lower consumer demand for goods and services would weigh on business confidence and investment.

This scenario explores the implications of lower national household and business confidence and spending, which disrupts both the Victorian and Australian economies.

Higher household precautionary savings from early 2025 weighs on spending, resulting in household consumption being 0.16 per cent lower than the base case in 2024-25, and remaining 0.71 per cent lower in 2025-26. Lower aggregate demand results in businesses utilising less capital, which is modelled as a decline in the productivity of the capital stock. This lowers the incentive for firms to invest, leading to 0.12 per cent lower Victorian business investment than the base case in 2024-25, with investment remaining 0.67 per cent lower in 2025-26.

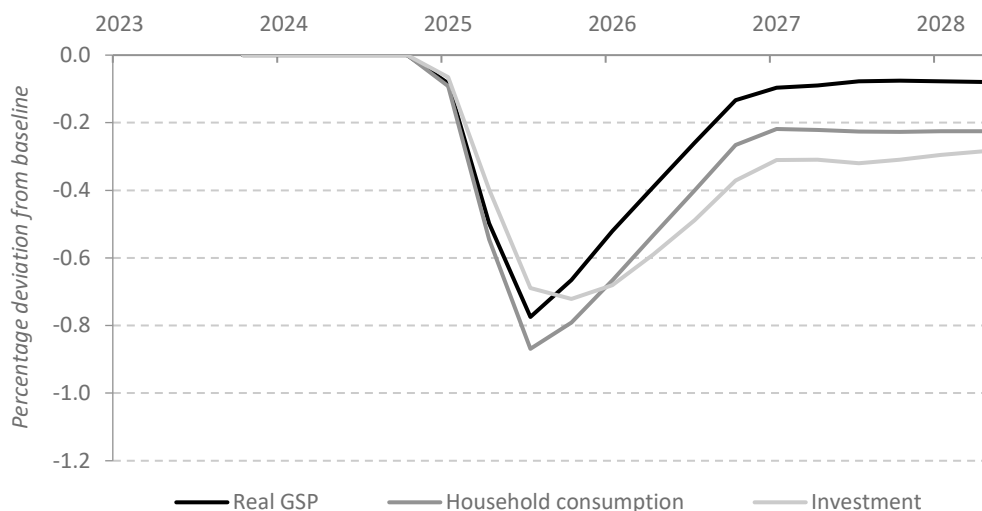
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<sup>1</sup> The Department of Treasury and Finance maintains a set of elasticities covering the relationships between major economic parameters and revenue and expenditure lines, including superannuation, and dividends and income tax equivalents from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

Higher prices stemming from lower productivity reduce the international competitiveness of exports, which decline in 2025. Imports also decline due to lower domestic consumption and investment, though to a lesser extent than the decline in exports. Therefore, the shock initially leads to a worsening of the trade balance. However, as the real exchange rate adjusts, Victorian exports become more competitive, and the trade balance improves from the start of 2026 onwards. This improvement partly offsets the negative impact of the fall in consumption and investment on gross state product (GSP).

Collectively, the shocks to household consumption and investment reduce the level of Victoria’s GSP, compared with the base case, by 0.14 per cent in 2024-25, 0.59 per cent in 2025-26, 0.14 per cent in 2026-27, and 0.08 per cent in 2027-28. The peak economic impact occurs in 2025-26, when consumer and business confidence effects are assumed to have a significant role in lowering household consumption and business investment (see Chart 6.1). Consumption and investment largely recover later in the forecast period as these confidence effects dissipate.

**Chart 6.1: The impact of a domestic economic slowdown on select variables**



Reduced domestic activity results in less demand for labour, causing employment to be 0.11 per cent lower in 2024-25 and 0.41 per cent lower in 2025-26, compared with the base case. This results in more spare capacity in the labour market, with the unemployment rate being 0.11 percentage points higher in 2024-25 and 0.38 percentage points higher in 2025-26. This in turn places downward pressure on wages growth.

This scenario assumes that government consumption remains unchanged, with no further discretionary fiscal expenditure in response to the shock. In practice, though, governments and the RBA may intervene to mitigate the shock’s impacts by responding in a counter-cyclical manner.

Table 6.1 summarises the economic effects of this shock.

**Table 6.1: Projected impact of a domestic economic slowdown on major economic parameters <sup>(a)</sup>**

	(per cent)			
	2024-25 estimate	2025-26 estimate	2026-27 estimate	2027-28 estimate
Real GSP	(0.14)	(0.59)	(0.14)	(0.08)
Employment (levels)	(0.11)	(0.41)	(0.03)	0.02
Consumer price index	0.00	0.04	0.07	0.05
Wage price index	(0.01)	(0.15)	(0.19)	(0.18)

Note:

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

Table 6.2 details the projected negative impact of the shock on the State's finances. Lower domestic spending and investment lead to lower property-related taxation revenue, including land transfer duty and land taxes. Lower employment and wages growth lead to a decline in payroll tax revenue, and reduced household consumption results in a smaller national GST pool and hence lower GST grant revenue for Victoria. As a result, government income from transactions is lower over the forward estimates.

Expenses from transactions are also lower relative to the base case in the scenario. This is driven by lower public sector wage costs which reduce employee expenses. These estimated impacts on expenses reflect the assumed relationship between public and private sector wages in the model: namely that public sector wage growth corresponds to private sector wage growth in the medium to long term. The decrease in expenses is partly offset by higher interest expenses due to a higher level of debt (resulting from revenue falling by more than expenses in this scenario).

**Table 6.2: Projected impact of a domestic economic slowdown on fiscal parameters <sup>(a)</sup>**

	(\$ million)			
	2024-25 estimate	2025-26 estimate	2026-27 estimate	2027-28 estimate
Income from transactions	(83.0)	(367.6)	(91.1)	(74.2)
Expenses from transactions	1.0	(8.9)	(26.6)	(32.9)
<b>Net result from transactions</b>	<b>(84.0)</b>	<b>(358.7)</b>	<b>(64.5)</b>	<b>(41.3)</b>
Other economic flows	(0.1)	(0.3)	0.7	0.3
<b>Net result</b>	<b>(84.1)</b>	<b>(359.0)</b>	<b>(63.8)</b>	<b>(41.0)</b>
<b>Net debt (cumulative)</b>	<b>84.1</b>	<b>440.9</b>	<b>502.1</b>	<b>542.6</b>
Net debt to GSP ratio (percentage point difference)	0.01	0.07	0.07	0.07

Note:

(a) Figures may not add due to rounding.



## Scenario B: A lower trend unemployment rate in Victoria

As outlined in Chapter 2 *Economic context*, the unemployment rate is expected to remain around its current rate of 4.50 per cent in 2024-25. It is then projected to gradually rise further to a rate consistent with inflation settling within the RBA's target band. This is the trend unemployment rate of the Victorian economy or, more technically, the non-accelerating inflation rate of unemployment (NAIRU) – the unemployment rate that is consistent with stable inflation. The Department of Treasury and Finance's current estimate of the Victorian NAIRU is 4.75 per cent.

Economic theory suggests that when the unemployment rate is below the NAIRU, there is a shortage of workers, which results in competition between firms to attract and retain employees, and puts upward pressure on wages and inflation. Conversely, when the unemployment rate is above the NAIRU, there is an excess supply of workers, which reduces competition between firms and puts downward pressure on wages and inflation.

The NAIRU is subject to uncertainty, due to several factors. These include that it can vary over time, depending on changes in economic policies and other structural changes in the labour market. And it cannot be observed directly and must be modelled statistically, leading to uncertainty around statistical estimates.

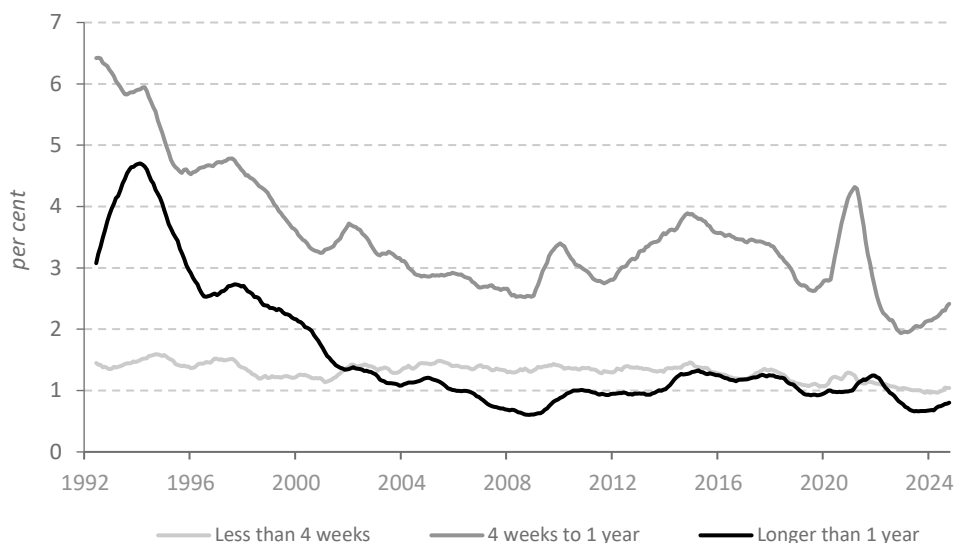
There are several reasons the NAIRU can change over time, including changes in the nature of workplace bargaining and improved labour market efficiency (for example, through better technology and job-matching). Estimates of Australia's NAIRU have declined over the past few decades.<sup>2</sup> In recent budgets, the Department of Treasury and Finance has also revised down its estimate of Victoria's NAIRU. It is possible, though, that the NAIRU has declined even further. One recent factor that could have contributed to a further decline is the strength of the labour market over the past two years or so, which may have lowered the rate of structural unemployment.

The Victorian labour market recovered strongly from the COVID-19 pandemic and conditions remain stronger than they were in the years before the pandemic. The share of working-age Victorians in employment is around a record high and the unemployment rate is low by historical standards. Importantly, for considerations of the NAIRU, rates of long-term unemployment (those unemployed for more than a year) are near the lowest levels in the past 30 years (see Chart 6.2). This suggests that there may have been some decline in the level of structural unemployment – that is, the rate of unemployment that persists through economic cycles due to mismatches between workers' skills or location and the available jobs.

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<sup>2</sup> Commonwealth Treasury (2023), 'Working Future: The Australian Government's White Paper on Jobs and Opportunities'.

**Chart 6.2: Unemployment rates by duration, Victoria <sup>(a)</sup>**



Sources: Australian Bureau of Statistics

Note:

(a) Data are 12-month moving averages.

Strong demand for workers in recent years and limited numbers of available workers have meant that some Victorians who previously found it hard to gain employment have now found a job. Having found employment, many of these workers may have gained the skills and experience they need to stay employed in their current roles, or they may find themselves more employable in the future with the transferrable skills they have gained. Such a dynamic may have lowered the level of structural unemployment.

Lower structural unemployment implies that the effective pool of workers who are appropriately skilled for available jobs is larger, thus putting less upward pressure on wages, and ultimately inflation, for a given unemployment rate. In other words, a lasting reduction in long-term unemployment may have lowered the NAIRU.

The second potential reason the NAIRU may be lower than assumed in the baseline forecasts relates to uncertainty in measuring it. The NAIRU can only be estimated using statistical models, which inherently lead to uncertain estimates. Further, there are several methods available to model the NAIRU in practice, and each method can provide different results. These issues are not unique to Victoria, with the Commonwealth Treasury and RBA also recently noting that there is considerable uncertainty around their respective NAIRU estimates.<sup>3</sup>

<sup>3</sup> Reserve Bank of Australia (2024), Statement on Monetary Policy, February; Commonwealth Treasury (2023), ‘Working Future: The Australian Government’s White Paper on Jobs and Opportunities’.

To quantify the effects of the NAIRU being lower than currently estimated, this scenario considers the economic and fiscal effects of the trend unemployment rate being 4.25 per cent – that is, 0.5 percentage points below the rate assumed in the baseline economic projections. In the scenario, the unemployment rate peaks at 4.50 per cent in 2024-25, before falling back to 4.25 per cent in 2025-26, lower than the forecasts outlined in Chapter 2 *Economic Context*.

The lower trend rate of unemployment leads to more employment, which is higher than in the base case by 0.05 per cent in 2024-25, rising to be 0.48 per cent higher in 2027-28. Higher employment for a given level of capital stock means that labour is relatively less productive, putting downward pressure on wages. However, in the scenario, firms increase investment as they expect higher employment in the future will lead to higher returns to capital. This increases the capital stock and therefore labour productivity, putting some upward pressure on wages. These offsetting factors mean that wages are broadly the same as the base case in 2024-25, but are 0.13 per cent lower in 2025-26, declining to be 0.30 per cent lower in 2027-28. Despite the decrease in wages, aggregate household labour income is higher in all years relative to the base case, reflecting that the increase in employment more than offsets the decrease in wages.

Higher labour income and higher returns to capital lead to higher aggregate household income, which results in increased household consumption. Lower labour costs lead to improved international competitiveness of the Australian and Victorian economies, resulting in a fall in the real exchange rate and an increase in export volumes. This is broadly offset by an increase in import volumes due to higher demand from Victorians for overseas goods (notwithstanding some downward pressure on imports from improved competitiveness of locally produced goods). Overall, GSP is higher by 0.05 per cent in 2024-25, increasing to be 0.42 per cent in 2027-28 compared with the base case (see Chart 6.3).

**Chart 6.3: The impact of a lower trend unemployment rate on select variables**

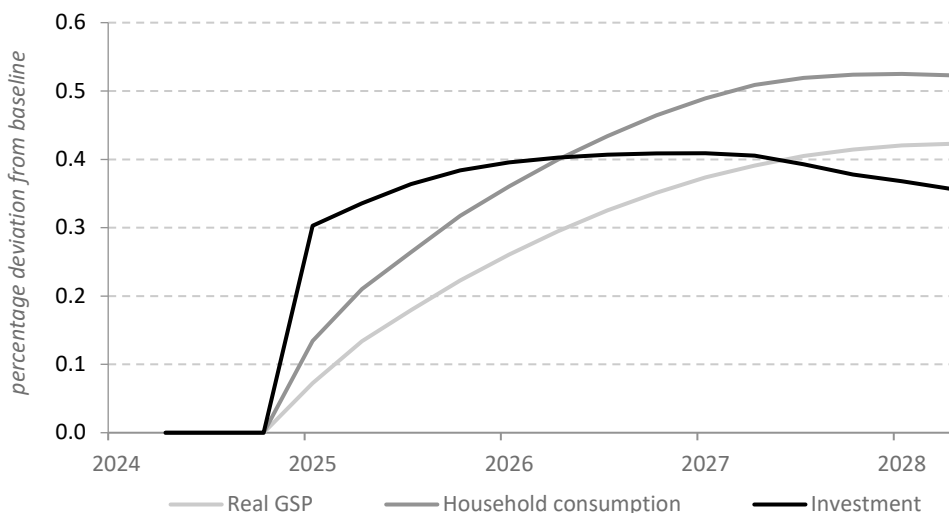


Table 6.3 summarises the economic effects of this shock.

**Table 6.3: The effect of lower unemployment on major economic parameters <sup>(a)</sup> (per cent)**

	2024-25 estimate	2025-26 estimate	2026-27 estimate	2027-28 estimate
Real GSP	0.05	0.24	0.36	0.42
Employment (levels)	0.05	0.26	0.41	0.48
Consumer price index	0.02	0.11	0.16	0.19
Wage price index	(0.01)	(0.13)	(0.24)	(0.30)

Note:

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

Under this scenario, general government sector revenue is higher, as shown in Table 6.4. Higher household income growth increases Victorian household consumption, which increases the GST pool and hence leads to higher GST grant revenue for Victoria. Higher labour income growth also increases payroll and property related tax collections. Expenses from transactions are lower under this scenario, with lower wage growth relative to the base case putting downward pressure on public sector employment expenses (as with the earlier scenario presented above, the model assumes that public sector wage growth corresponds to private sector wage growth in the medium to long term). Overall, the increase in revenue and decrease in expenses improves the net result. Net debt is therefore lower over the forward estimates.

**Table 6.4: Projected fiscal impact of a lower trend unemployment rate <sup>(a)</sup> (\$ million)**

	2024-25 estimate	2025-26 estimate	2026-27 estimate	2027-28 estimate
Income from transactions	59.1	287.1	423.0	471.4
Expenses from transactions	6.0	6.5	(56.3)	(116.7)
<b>Net result from transactions</b>	<b>53.1</b>	<b>280.7</b>	<b>479.3</b>	<b>588.1</b>
Other economic flows	0.3	5.2	4.8	4.2
<b>Net result</b>	<b>53.4</b>	<b>285.8</b>	<b>484.1</b>	<b>592.3</b>
<b>Net debt (cumulative)</b>	<b>(53.4)</b>	<b>(350.6)</b>	<b>(848.6)</b>	<b>(1455.9)</b>
Net debt to GSP ratio (percentage point difference)	(0.01)	(0.05)	(0.12)	(0.19)

Note:

(a) Figures may not add due to rounding.

## SENSITIVITY TO INDEPENDENT VARIATIONS IN MAJOR ECONOMIC PARAMETERS

Table 6.5 presents the sensitivity of financial aggregates where the levels of key economic parameters are 1 per cent (or, for interest rates, 1 percentage point) above the forecast for each year of the budget and forward estimates, holding all else constant.

The effects shown are broadly symmetric; that is, the estimated fiscal impacts would apply approximately equally in the opposite direction where there is a decrease in the parameter. Differences may arise to the extent that the impact on income tax equivalent income may not be symmetric because that line item is subject to a floor of zero, and the impact on dividends may be affected by some entities facing caps on the share of profits that can be returned to the general government sector.

**Table 6.5: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2024-25** <sup>(a)(b)(c)(d)(e)</sup> (\$ million)

	2024-25 estimate	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>GSP</b>				
Income from transactions	160	175	176	173
Expenses from transactions	1	(7)	(15)	(25)
<b>Net result from transactions</b>	<b>159</b>	<b>181</b>	<b>191</b>	<b>198</b>
<b>Net debt</b>	<b>(159)</b>	<b>(341)</b>	<b>(532)</b>	<b>(729)</b>
<b>Employment <sup>(f)</sup></b>				
Income from transactions	145	150	157	163
Expenses from transactions	381	402	434	464
<b>Net result from transactions</b>	<b>(236)</b>	<b>(252)</b>	<b>(277)</b>	<b>(301)</b>
<b>Net debt</b>	<b>236</b>	<b>488</b>	<b>765</b>	<b>1066</b>
<b>Consumer prices <sup>(g)</sup></b>				
Income from transactions	159	368	374	321
Expenses from transactions	304	419	429	440
<b>Net result from transactions</b>	<b>(145)</b>	<b>(51)</b>	<b>(55)</b>	<b>(119)</b>
<b>Net debt</b>	<b>144</b>	<b>65</b>	<b>(16)</b>	<b>(39)</b>
<b>Average weekly earnings <sup>(h)</sup></b>				
Income from transactions	149	153	159	166
Expenses from transactions	3	(4)	(11)	(20)
<b>Net result from transactions</b>	<b>146</b>	<b>157</b>	<b>171</b>	<b>186</b>
<b>Net debt</b>	<b>(146)</b>	<b>(303)</b>	<b>(474)</b>	<b>(660)</b>
<b>Total employee expenses</b>				
Income from transactions	..	48	166	181
Expenses from transactions	384	481	517	550
<b>Net result from transactions</b>	<b>(384)</b>	<b>(432)</b>	<b>(350)</b>	<b>(369)</b>
<b>Net debt</b>	<b>384</b>	<b>776</b>	<b>1085</b>	<b>1412</b>
<b>Domestic share prices <sup>(i)</sup></b>				
Income from transactions	7	1	2	3
Expenses from transactions	..	(2)	(1)	1
<b>Net result from transactions</b>	<b>7</b>	<b>3</b>	<b>2</b>	<b>2</b>
<b>Net debt</b>	<b>(19)</b>	<b>(32)</b>	<b>(47)</b>	<b>(62)</b>

**Table 6.5: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2024-25 (continued) (\$ million)**

	2024-25 estimate	2025-26 estimate	2026-27 estimate	2027-28 estimate
<b>Overseas share prices <sup>(i)</sup></b>				
Income from transactions	17	2	4	6
Expenses from transactions	..	(3)	(2)	(1)
<b>Net result from transactions</b>	<b>17</b>	<b>6</b>	<b>6</b>	<b>7</b>
<b>Net debt</b>	<b>(45)</b>	<b>(78)</b>	<b>(114)</b>	<b>(156)</b>
<b>Property prices</b>				
Income from transactions	207	214	227	241
Expenses from transactions	(5)	(16)	(27)	(41)
<b>Net result from transactions</b>	<b>212</b>	<b>229</b>	<b>254</b>	<b>282</b>
<b>Net debt</b>	<b>(214)</b>	<b>(452)</b>	<b>(712)</b>	<b>(998)</b>
<b>Property transaction volumes</b>				
Income from transactions	84	88	93	98
Expenses from transactions	(2)	(6)	(9)	(14)
<b>Net result from transactions</b>	<b>86</b>	<b>93</b>	<b>102</b>	<b>112</b>
<b>Net debt</b>	<b>(86)</b>	<b>(179)</b>	<b>(281)</b>	<b>(393)</b>
<b>Interest rates <sup>(i)</sup></b>				
Income from transactions	763	175	165	160
Expenses from transactions	77	(37)	177	395
<b>Net result from transactions</b>	<b>685</b>	<b>211</b>	<b>(12)</b>	<b>(234)</b>
<b>Net debt <sup>(k)</sup></b>	<b>(685)</b>	<b>(615)</b>	<b>(313)</b>	<b>229</b>

Notes:

- (a) Variations are applied to the economic variables effective from the first day in the budget year (1 July 2024). It is assumed that each variable's growth rate matches that under a no-variation scenario for the forward estimates period. This implies that the level of all economic variables (other than interest rates) is 1 per cent higher in level terms in each year of the budget and forward estimates. Interest rates are assumed to be 1 percentage point higher in each year of the budget and forward estimates.
- (b) A positive number for income from transactions denotes an increase in revenue. A positive number for expenses from transactions denotes an increase in expenses (and hence a reduction in the net result from transactions). A positive number for the net result from transactions denotes a higher surplus or smaller deficit. A positive number for net debt denotes a higher level of net debt in the relevant year compared with a no-variation scenario.
- (c) Only reasonably quantifiable impacts have been included in the analysis.
- (d) Figures may not add due to rounding.
- (e) Estimates of net debt are approximately equal to the cumulative impact of the net result from transactions. The difference between the cumulative net result from transactions and net debt is due to non-cash expenses.
- (f) A shock to employment is assumed to impact payroll tax revenue. Both public and private sector employment levels are assumed to be 1 per cent higher across the four years, with the shares of full-time and part-time employment held constant; the rise in public sector employment increases general government sector employee expenses.
- (g) Estimates assume that higher consumer prices flow through to government operating expenses, such as the purchase of supplies and consumables and the purchase of services. For simplicity, these estimates make no assumptions about agencies' administrative actions or government policy responses to mitigate the effects of higher inflation on aggregate spending. It is assumed an increase in consumer prices within the budget year does not affect employee entitlements.
- (h) A positive shock to average weekly earnings increases the expenses of public financial and non-financial corporations and reduces the general government sector's income from dividends and ITEs.
- (i) The smaller impact on the net result from transactions, compared with the impact on net debt, reflects that only the income component of the State's investment return (and not the capital gain) is recorded on the operating statement.
- (j) Interest rates are assumed to be 1 percentage point higher in each year of the budget and forward estimates. The fiscal impact is based on the portion of government debt that would be repriced due to being refinanced, and the portion of debt exposed to changes in interest rates (that is, not issued at fixed interest rates), as well as new debt issuance. An increase in interest rates potentially also improves the net asset position of some public authorities, resulting in an increase in distributions paid to the government; this increases income from transactions in the budget year.
- (k) The larger impact on the net debt, compared with the impact on the net result from transactions, reflects that a reduction in non-cash superannuation expenses reduces operating expenses but does not reduce the net debt.

# CHAPTER 7 – CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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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.

Table 7.1 contains quantifiable contingent assets as at 20 November 2024 (arising from outside of government).

**Table 7.1: Quantifiable contingent assets** (\$ million)

	<i>As at Nov 2024</i>	<i>Published budget estimate<sup>(a)</sup></i>
Guarantees, indemnities and warranties	48	56
Legal proceedings and disputes	19	..
Other	73	150
<b>Total contingent assets</b>	<b>140</b>	<b>206</b>

*Note:*

(a) As published in the 2024-25 Budget.

## Non-quantifiable contingent assets

### Peninsula Link compensable enhancement claim

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

On 2 January 2014, the State lodged a compensable enhancement claim as a result of opening Peninsula Link. The claim remains outstanding.

## CONTINGENT LIABILITIES

Contingent liabilities are either:

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

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

Table 7.2 contains quantifiable contingent liabilities as at 20 November 2024.

**Table 7.2: Quantifiable contingent liabilities** (\$ million)

	<i>As at Nov 2024</i>	<i>Published budget estimate <sup>(a)</sup></i>
Guarantees, indemnities and warranties <sup>(b)</sup>	1 462	1 481
Legal proceedings and disputes	411	337
Other	429	354
Non-general government debt <sup>(c)</sup>	18 183	16 768
<b>Total contingent liabilities</b>	<b>20 485</b>	<b>18 939</b>

Notes:

(a) As published in the 2024-25 Budget.

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

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



## **Non-quantifiable contingent liabilities**

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

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

### **Compulsory property acquisitions**

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

### **COVID-19 class action – Victorian businesses**

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

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

### **COVID-19 related claim notifications**

The Department of Transport and Planning has received and may receive notifications under the contractual agreements by the contractors in relation to the possible impact of COVID-19 on a number of projects. Current and possible future claims cannot be reliably estimated at this stage, as quantifiable claims are still under review and/or have not yet been provided for under the contract.

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

## Department of Education

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

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

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

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

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

### **Fiskville independent investigation and closure of training college**

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

The CFA has a number of contingent liabilities arising from the closure of Fiskville and the notices issued by the EPA. These relate to any further notices that may be issued by the EPA, any regulatory infringements that may be imposed by the EPA, compensation that may be sought, and any legal claims that may be made.

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

### **Land remediation – environmental concerns**

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

### **Native Title**

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

### **October 2022 flood event**

In October 2022, Victoria experienced significant rainfall which caused a major widespread flood event, resulting in loss and damage to many homes, farms, properties, community assets, roads, local government infrastructure and other infrastructure. These impacts continue to be felt in many local government areas across regional Victoria and metropolitan Melbourne. The Victorian and Commonwealth governments are working cooperatively to implement relief and recovery initiatives to be cost shared under the Disaster Recovery Funding Arrangements (DRFA). The Victorian Government has also initiated a number of separate programs not eligible under the DRFA to support communities impacted by the flood event.

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

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

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

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

### **Planning scheme compensation**

Under section 98 of the *Planning and Environment Act 1987*, the owner or occupier of any land may claim compensation from the planning authority for financial loss suffered as the natural, direct and reasonable consequence of the land being reserved, or declared as reserved for a public purpose under a planning scheme. The future liability depends on a number of factors and cannot be reliably quantified.

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

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

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

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

### **Public transport rail partnership agreements**

The Department of Transport and Planning (DTP) is party to contractual arrangements with franchisees to operate across the state:

- metropolitan tram service with Yarra Trams from 30 November 2017 until 1 December 2024
- metropolitan tram service with Yarra Journey Makers (YJM) from 1 December 2024 until 1 December 2033
- metropolitan train services with Metro Trains Melbourne from 30 November 2017 until 28 November 2027.

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

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

### **Royal Commission into the Management of Police Informants**

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

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

### **Royal Melbourne Showgrounds redevelopment**

The State has entered into an agreement with the Royal Agricultural Society of Victoria (RASV) pursuant to which the State agrees to support certain payment obligations of RASV that may arise under the Non-Core Development Agreement subject to the RASV complying with certain obligations as set out in that Deed. The possible liability depends on a number of future events and cannot be reliably and readily quantified.

### **Victorian Managed Insurance Authority – Insurance cover**

The VMIA was established in 1996 as an insurer for state government departments, participating bodies as defined under the *Victorian Managed Insurance Authority Act 1996* and other entities as declared by the Minister. The VMIA insures its clients for property, public and products liability, professional indemnity, medical indemnity, contract works and a range of other insurances. The VMIA also provides domestic building insurance to Victorian residential builders.

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

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

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

### **Yallourn Power Station safety net**

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

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

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

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

## **APPENDIX A – SPECIFIC POLICY INITIATIVES AFFECTING THE BUDGET POSITION**

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Appendix A outlines specific policy initiatives that affect outputs and assets, including Treasurer’s Advances, agreed by the Government since the *2024-25 Budget*.

The following tables provide details of:

- revenue initiatives
- output and asset initiatives for departments.

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

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

## REVENUE INITIATIVES

**Table A.1: Revenue initiatives**

(\$ million)

	2024-25	2025-26	2026-27	2027-28
<b>Revenue initiatives</b>				
Aligning vehicle registration fees for zero and low emission vehicles	..	15.0	57.0	93.0
Bulk-billing payroll tax exemption for general practitioners	..	(26.0)	(26.0)	(26.0)
Emergency Services and Volunteers Fund	..	610.9	765.0	765.0
Exclude Alpine Resort Areas from the Vacant Residential Land Tax	..	..	..	..
Harmonising congestion levy rates with Sydney and expanding the congestion boundary	..	99.8	102.5	105.1
New exemption from land tax for charitable housing	..	..	..	..
Off-the-plan stamp duty concession for apartments, units and townhouses	(2.6)	(17.2)	(19.9)	(15.1)
Removing the friendly society tax exemptions for demutualised and commercially-controlled entities	3.3	7.0	7.3	7.7
<b>Total revenue initiatives</b>	<b>0.7</b>	<b>689.5</b>	<b>885.9</b>	<b>929.7</b>

### Revenue initiatives

#### *Aligning vehicle registration fees for zero and low emission vehicles*

From 1 January 2026, zero and low emission vehicles (ZLEVs) will no longer receive the annual \$100 registration discount. The proportion of sales of light vehicles without internal combustion engines is growing rapidly, from 8.9 per cent in the second quarter of 2022 to 24.2 per cent in the second quarter of 2024, with the proportion of electric vehicle variants more than quadrupling over the same two-year period. Registration renewal fees for ZLEVs will automatically revert to the standard light vehicle registration charge.

ZLEVs pay less or no fuel excise, and this will help ensure that all road users contribute their fair share to building and maintaining Victoria's roads.

#### *Bulk-billing payroll tax exemption for general practitioners*

From 1 July 2025, payments made by general practitioner (GP) clinics to employee and contractor GPs relating to bulk-billed consultations will be exempt from payroll tax. Bulk-billing occurs when a doctor accepts the full Medicare rebate as payment, with no out-of-pocket costs for patients. For the purposes of this exemption, payments made through the Department of Veterans' Affairs, as well as the Transport Accident Commission and WorkCover, will also be treated as bulk-billed if there are no out-of-pocket costs for patients.

The exemption will support GPs to provide more bulk-billed consultations and improve access to healthcare for Victorians.



### *Emergency Services and Volunteers Fund*

The Fire Services Property Levy will be replaced by the *Emergency Services and Volunteers Fund*, and include emergency and disaster response services.

From 1 July 2025, the Fund will make sure Victoria's emergency services – including FRV, the CFA, VicSES, Triple Zero Victoria, the State Control Centre, and Emergency Recovery Victoria – have the resources they need to keep Victorians safe, and to help them recover from natural disasters.

This will bring Victoria into line with other states.

Every dollar raised will go towards vital life-saving equipment, vehicles, staff, training for volunteers, community education, and recovery support for when Victorians need it most.

And because emergency services volunteers give so much, an exemption will be available for eligible CFA and VicSES volunteers on their principal place of residence.

Fires, floods and storms are becoming more frequent. This dedicated funding will ensure hardworking emergency services have the tools and resources they need to keep Victorians safe.

### *Exclude Alpine Resort Areas from the Vacant Residential Land Tax*

From 1 January 2025, residential land located in Victoria's six alpine resort areas, specified in the *Alpine Resorts Act 1983*, will be excluded from the Vacant Residential Land Tax (VRLT). Given the seasonal nature of demand for accommodation in alpine resort areas, properties in these areas may otherwise be considered vacant for VRLT purposes, even though they are not suitable for use as long-term accommodation. The initiative will align with the expansion of the VRLT from inner and middle metropolitan Melbourne to the rest of Victoria from the 2025 land tax year.

### *Harmonising congestion levy rates with Sydney and expanding the congestion boundary*

Congestion levy rates will increase from 1 January 2026, with category 1 areas increasing to approximately \$3 030, in line with the expected parking space levy rates in Sydney's CBD, and category 2 areas increasing to approximately \$2 150.

Further, the category 2 area boundary will be expanded to include additional inner suburbs along Hoddle Street and Punt Road. The current category 2 area boundary does not capture inner-eastern suburbs despite these areas having similar proximity to Melbourne's CBD as other suburbs that are subject to the levy. The increased category 2 rate will apply to the expansion area.

The existing exemptions will continue to apply.

The congestion levy boundary was last expanded in the *2013-14 Budget*.

These changes aim to reduce congestion and encourage the use of public transport by commuters to the CBD and inner-city areas.

### *New exemption from land tax for charitable housing*

The Government has introduced a land tax exemption for housing owned or managed by a charitable institution and provided to occupants in connection with the charitable purpose to relieve poverty. This exemption will also extend to vacant land owned by charitable institutions and declared by its owner to be held for such future use and occupation. The exemption will commence in the 2025 land tax year.

### *Off-the-plan stamp duty concession for apartments, units and townhouses*

From 21 October 2024, the land transfer duty off-the-plan concession has been temporarily expanded to all eligible purchases of off-the-plan apartments, townhouses and units, with no price threshold. Prior to 21 October 2024, the concession was limited to purchases eligible for the first home buyer concession or the principal place of residence concession, and price thresholds applied.

The concession applies to contracts signed on or after 21 October 2024 and before 21 October 2025, even if the transaction is settled after the end of the eligibility period. This applies to any apartment, townhouse or unit that is in a strata subdivision. Properties in a strata subdivision retain common property such as a shared driveway or hallway.

The concession will cut upfront costs for purchasers, speed up construction, and make it more affordable to buy off-the-plan. Additional off-the-plan purchases will help kick-start residential developments that have been approved but are currently on hold due to a lack of pre-sales.

### *Removing the friendly society tax exemptions for demutualised and commercially-controlled entities*

From 1 January 2025, the insurance duty exemption for friendly societies will be restricted to certain traditional friendly societies. The restricted exemption will only apply to societies with a mutual structure that have dominant activities that fall within the scope of traditional beneficial objects for which friendly societies historically existed, such as providing health and welfare benefits, providing education, dispensing medicine, or other activities. Friendly societies that are demutualised or under commercial control will not qualify for the exemption.

The Government will also abolish the land transfer duty exemption for friendly societies, as it is infrequently claimed and no longer appropriate to offer in modern circumstances. Friendly societies may still benefit from other duty exemptions where they are eligible, such as the charity exemption.

## DEPARTMENT OF EDUCATION

### Output initiatives

Table A.2: Output initiatives – Education (\$ million)

	2024-25	2025-26	2026-27	2027-28
<b>School Education – Primary and Secondary</b>				
Strengthening Women’s Safety – Expansion of the Respectful Relationships program	2.5	2.0	1.6	1.7
<b>Total output initiatives</b>	<b>2.5</b>	<b>2.0</b>	<b>1.6</b>	<b>1.7</b>

#### School Education – Primary and Secondary

##### *Strengthening Women’s Safety – Expansion of the Respectful Relationships program*

Funding is provided to support and expand delivery of the Respectful Relationships program to support schools to promote respectful and positive attitudes and behaviours. The expansion will deliver the program to more Catholic and independent schools. The investment will provide additional support and training to schools in delivering the program.

Funding is also provided for the expansion of the Modelling Respect and Equality program.

This initiative contributes to the Department of Education’s:

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

# DEPARTMENT OF ENERGY, ENVIRONMENT AND CLIMATE ACTION

## Output initiatives

**Table A.3: Output initiatives – Energy, Environment and Climate Action** (\$ million)

	2024-25	2025-26	2026-27	2027-28
<b>Agriculture</b>				
Drought Package for south west Victoria	13.2	..	..	..
<b>Energy</b>				
Deliver the Commonwealth’s Energy Bill Relief	4.3	..	..	..
Delivering the offshore wind program	15.7	11.2	20.0	..
Gippsland Offshore Wind Transmission Project	12.5	..	..	..
<b>Management of Public Land and Forests</b>				
Free Camping	9.0	..	..	..
<b>Total output initiatives</b>	<b>54.6</b>	<b>11.2</b>	<b>20.0</b>	<b>..</b>

### Agriculture

#### *Drought Package for south west Victoria*

Funding is provided to support farming communities affected by the drought conditions in south west Victoria. This includes the On-Farm Drought Infrastructure Grant program, enabling farmers in eligible regions to apply for up to \$5 000 as a co-contribution grant for on-farm improvements to manage drought conditions and build preparedness and resilience for the future. Counselling and advice for farmers experiencing financial and emotional distress is also available to assist and safeguard wellbeing.

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

### Energy

#### *Deliver the Commonwealth’s Energy Bill Relief*

Funding is provided to support payments to residents and small businesses as part of the Commonwealth’s Energy Bill relief program. This program provides rebates on electricity bills of \$300 for residential customers and \$325 for small business customers.

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

#### *Delivering the offshore wind program*

Funding is provided to support Australia’s first tranche of offshore wind procurement that will generate the first 2 gigawatts of grid-scale renewable energy.

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

### *Gippsland Offshore Wind Transmission Project*

Funding is provided to progress development of the Gippsland Offshore Wind Transmission Project to support future offshore wind energy generation.

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

### **Management of Public Land and Forests**

#### *Free Camping*

Funding is provided to support free camping at all 131 of Parks Victoria's paid campgrounds from 1 December 2024 until 30 June 2025.

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

# DEPARTMENT OF FAMILIES, FAIRNESS AND HOUSING

## Output initiatives

**Table A.4: Output initiatives – Families, Fairness and Housing** (\$ million)

	2024-25	2025-26	2026-27	2027-28
<b>Disability Services</b>				
Worker and Carer Exclusion Scheme	1.6	..	..	..
<b>Family Violence Service Delivery</b>				
Strengthening Women’s Safety	20.8	22.5	21.9	5.1
<b>Total output initiatives</b>	<b>22.4</b>	<b>22.5</b>	<b>21.9</b>	<b>5.1</b>

### Disability Services

#### *Worker and Carer Exclusion Scheme*

Funding is provided to implement the Worker and Carer Exclusion Scheme to address risks posed by individual out-of-home care workers and carers who are not suitable to work in the sector. The scheme increases protections for children and young people in out-of-home care by establishing Worker and Carer Exclusion Scheme Panels, a Worker and Carer Exclusion Scheme database and by expanding the range of conduct that can result in a worker or carer being excluded from working.

This initiative contributes to the Department of Families, Fairness and Housing’s Disability Services output.

### Family Violence Service Delivery

#### *Strengthening Women’s Safety*

Funding is provided for reforms to change culture and deliver new support for victim survivors of violence against women, including the following initiatives:

- A justice navigator pilot to support victim survivors of sexual assault
- A saturation prevention model pilot in Ballarat
- Effective perpetrator interventions, including strengthening responses for high-risk perpetrators
- Support for women and children to stay safely in their homes
- Therapeutic supports for children and victim survivors.

This initiative contributes to the Department of Families, Fairness and Housing’s Family Violence Service Delivery and Primary Prevention of Family Violence outputs.

## Asset initiatives

**Table A.5: Asset initiatives – Families, Fairness and Housing** (\$ million)

	2024-25	2025-26	2026-27	2027-28	TEI
<b>Family Violence Service Delivery</b>					
Strengthening Women’s Safety	1.6	1.7	1.7	..	5.0
<b>Total asset initiatives</b>	<b>1.6</b>	<b>1.7</b>	<b>1.7</b>	<b>..</b>	<b>5.0</b>

### Family Violence Service Delivery

#### *Strengthening Women’s Safety*

Funding is provided to improve the Central Information Point system.

This contributes to the Department of Families, Fairness and Housing’s Family Violence Service Delivery output.

# DEPARTMENT OF HEALTH

## Output initiatives

Table A.6: Output initiatives – Health

(\$ million)

	2024-25	2025-26	2026-27	2027-28
<b>Admitted Services</b>				
Delivering a better health system	1 535.5	..	..	..
<b>Drug Services</b>				
Pill Testing Trial	1.9	2.5	..	..
<b>Public Health</b>				
Newborn and infant RSV immunisation	18.7	..	..	..
<b>Total output initiatives</b>	<b>1 556.0</b>	<b>2.5</b>	<b>..</b>	<b>..</b>

### Admitted Services

#### *Delivering a better health system*

Funding is provided to support Victoria’s hospitals to deliver world-class care, supported by establishment of Hospitals Victoria and Local Health Service Networks. Funding will also support a further 10 000 elective surgeries.

This initiative contributes to the Department of Health’s:

- Admitted Services output
- Small Rural Services – Acute Health output.

### Drug Services

#### *Pill Testing Trial*

Funding is provided to establish a pill testing trial, including a fixed site in metropolitan Melbourne and mobile testing at music festival sites. Funding also provides an uplift to drug surveillance capability.

This initiative contributes to the Department of Health’s Drug Services output.

### Public Health

#### *Newborn and infant RSV immunisation*

Funding is provided for the Respiratory Syncytial Virus (RSV) immunisation program to deliver maternal and infant vaccinations to protect newborns and infants at risk of RSV, which is a major cause of emergency department presentations for infants under five years.

This initiative contributes to the Department of Health’s Public Health output.



# DEPARTMENT OF JOBS, SKILLS, INDUSTRY AND REGIONS

## Output initiatives

Table A.7: Output initiatives – Jobs, Skills, Industry and Regions (\$ million)

	2024-25	2025-26	2026-27	2027-28
<b>Training, Higher Education and Workforce Development</b>				
Implementing Apprenticeships Taskforce recommendations	3.3	1.7	..	..
<b>Total output initiatives</b>	<b>3.3</b>	<b>1.7</b>	<b>..</b>	<b>..</b>

### Training, Higher Education and Workforce Development

#### *Implementing Apprenticeships Taskforce recommendations*

Funding is provided to commence work to implement the supported recommendations from the Apprenticeships Taskforce and to undertake further work on recommendations where their implementation requires further consideration. This includes establishment of a dedicated regulator, piloting a central helpdesk service for apprentices and trainees, and provision of additional supports to address safety, harassment, training quality and fairness at work.

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

# DEPARTMENT OF JUSTICE AND COMMUNITY SAFETY

## Output initiatives

**Table A.8: Output initiatives – Justice and Community Safety** (\$ million)

	2024-25	2025-26	2026-27	2027-28
<b>Advocacy, Human Rights and Victim Support</b>				
Strengthening Women’s Safety – legal services and supports	11.5	4.3	2.1	0.5
<b>Emergency Management Capability</b>				
Supporting our emergency services and volunteers <sup>(a)</sup>	..	50.0	50.0	50.0
<b>Racing, Gambling, Liquor and Casino Regulation</b>				
Establishing the tobacco licensing scheme	3.0	..	..	..
<b>Total output initiatives</b>	<b>14.5</b>	<b>54.3</b>	<b>52.1</b>	<b>50.5</b>

Note:

(a) This initiative also includes \$50 million of funding in 2028-29.

### Advocacy, Human Rights and Victim Support

#### *Strengthening Women’s Safety – legal services and supports*

Funding is provided for initiatives to strengthen women’s safety. This includes improving how Family Violence Intervention Orders are issued and served, increased funding for legal assistance services for victim survivors of family violence, and a range of family violence programs.

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

### Emergency Management Capability

#### *Supporting our emergency services and volunteers*

Funding is provided for a range of additional supports to ensure our hardworking emergency services and volunteers have the tools and resources they need to keep Victorians safe and to help them recover from natural disasters.

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

### Racing, Gambling, Liquor and Casino Regulation

#### *Establishing the tobacco licensing scheme*

Funding is provided to support the establishment of a new tobacco licensing scheme, including a dedicated tobacco regulator and tougher enforcement.

This initiative contributes to the Department of Justice and Community Safety’s Racing, Gambling, Liquor and Casino Regulation output.

## DEPARTMENT OF PREMIER AND CABINET

### Output initiatives

Table A.10: Output initiatives – Premier and Cabinet (\$ million)

	2024-25	2025-26	2026-27	2027-28
<b>Social Policy Advice and Intergovernmental Relations</b>				
Donation for the My Room Children’s Cancer Charity	0.5	..	..	..
<b>Total output initiatives</b>	<b>0.5</b>	<b>..</b>	<b>..</b>	<b>..</b>

#### Social Policy Advice and Intergovernmental Relations

##### *Donation for the My Room Children’s Cancer Charity*

Funding is provided for a donation to My Room Children’s Cancer Charity, a volunteer-led organisation working to support patients and families affected by cancer.

This initiative contributes to the Department of Premier and Cabinet’s Social Policy Advice and Intergovernmental Relations output.

# DEPARTMENT OF TRANSPORT AND PLANNING

## Output initiatives

**Table A.11: Output initiatives – Transport and Planning** (\$ million)

	2024-25	2025-26	2026-27	2027-28
<b>Bus Services</b>				
Zero Emission Buses <sup>(a)</sup>	tbc	tbc	tbc	tbc
<b>Planning and Heritage</b>	..	..	..	..
Activity Centre Program Expansion	5.6	..	..	..
10-year Greenfields plan	1.8	..	..	..
<b>Suburbs</b>				
Pick My Park	10.0	20.0	..	..
<b>Tram Services</b>				
Metropolitan tram franchise agreement <sup>(b)</sup>	256.7	347.2	325.2	324.0
<b>Total output initiatives</b>	<b>274.1</b>	<b>367.2</b>	<b>325.2</b>	<b>324.0</b>

Note:

(a) Funding is not reported at this time as commercial arrangements are still to be finalised.

(b) Excludes existing provisions for the tram contract.

### Bus Services

#### Zero Emission Buses

Funding is provided for the replacement of existing diesel buses with Zero Emission Buses, delivering a cleaner, and more sustainable bus fleet. This supports the Government's commitment for all new buses purchased for Victoria's public transport routes from 1 July 2025 to be Zero Emission Buses and a pathway towards net zero emissions by 2045.

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

### Planning and Heritage

#### Activity Centre Program Expansion

Funding is provided for an expansion of the Activity Centre Program to deliver more homes for young people, families and downsizers around 50 train stations and tram stops in Melbourne's inner suburbs.

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

#### 10-year Greenfields plan

Funding is provided to rollout a greenfields plan to unlock a decade-long pipeline of new homes and backyards, including the review of several existing greenfields Precinct Structure Plans within Melbourne.

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

## Suburbs

### *Pick My Park*

Funding is provided to create and upgrade more green spaces in growing suburbs through:

- Park Upgrades: focused on improving existing parks and open spaces
- New Urban Parks: focused on transforming underutilised land in growing urban areas into new, accessible green spaces.

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

## Tram Services

### *Metropolitan tram franchise agreement*

Funding is provided for the new franchise agreement to operate Melbourne's tram network for the next nine years, including management of 500 trams, 1 600 tram stops, 24 routes and more than 250 kilometres of double track. The new franchise term commenced on 1 December 2024.

The new contract focuses on performance, with strict benchmarks and more monitoring across day and night services to improve reliability. Funding is also provided to deliver passengers more consistent real time information about tram services and better customer experience.

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

## Asset initiatives

**Table A.12: Asset initiatives – Transport and Planning** (\$ million)

	2024-25	2025-26	2026-27	2027-28	TEI
<b>Tram Services</b>					
Metropolitan tram franchise agreement <sup>(a)</sup>	28.2	38.7	16.5	29.8	211.7
<b>Total asset initiatives</b>	<b>28.2</b>	<b>38.7</b>	<b>16.5</b>	<b>29.8</b>	<b>211.7</b>

Note:

(a) TEI includes funding beyond 2027-28 and excludes existing provisions for the tram contract.

## Tram Services

### *Metropolitan tram franchise agreement*

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

# COURT SERVICES VICTORIA

## Output initiatives

**Table A.13: Output initiatives – Court Services Victoria** (\$ million)

	2024-25	2025-26	2026-27	2027-28
<b>Courts</b>				
Additional magistrate in the Children’s Court	0.7	..	..	0.1
<b>Total output initiatives</b>	<b>0.7</b>	<b>..</b>	<b>..</b>	<b>0.1</b>

### Courts

#### *Additional magistrate in the Children’s Court*

Funding is provided to deliver an additional magistrate in the Children’s Court, to support the implementation of the *Youth Justice Act 2024*.

This initiative contributes to the Court Services Victoria’s Courts output.

## **APPENDIX B – AMENDMENTS TO THE 2024-25 OUTPUT PERFORMANCE MEASURES**

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Output measures for all departments were published in the *2024-25 Department Performance Statement*. The Public Accounts and Estimates Committee has completed its review of the measures which were substantially changed or proposed to be discontinued, and tabled its report in Parliament on 31 October 2024. 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

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

### TAX EXPENDITURES

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

Over the decade to 2023-24, the State has forgone \$96.7 billion in revenue from tax expenditures. In 2024-25, tax expenditures are forecast to be \$17.6 billion.

The tax expenditures outlined below include exemptions, reduced rates and deductions or rebates of tax for a certain type of taxpayer, activity or asset. Table C.1 aggregates tax expenditure estimates by the main tax categories for the period 2024-25 to 2027-28.

Tax expenditure estimates have been revised since the *2024-25 Budget* to reflect updated revenue collections.

Consistent with previous years, land tax makes the largest contribution to total estimated tax expenditures in 2024-25, primarily due to the principal place of residence and primary production exemptions. Payroll tax expenditures form the highest non-property related tax expenditure. The following decisions have been reflected in the tax expenditure totals for the *2024-25 Budget Update*:

- From 1 July 2024, transfers of commercial and industrial property may be exempt from land transfer duty if the transaction is at least the second transaction of the property since 1 July 2024.
- From 21 October 2024, purchases of dwellings in a strata subdivision may be eligible for a 12-month temporary off-the-plan concession.
- From 1 July 2025, an ongoing exemption for wages paid to general practitioners for bulk-billed consultations will be introduced.
- From 1 January 2026, congestion levy rates will increase and the congestion area boundary will be expanded to include additional inner-eastern suburbs along Hoddle Street and Punt Road. As existing exemptions will continue to apply, associated tax expenditures are expected to increase.

- From 1 January 2026, zero and low emission vehicles will no longer receive an annual registration discount.
- From 1 July 2026, eligible volunteers for the Country Fire Authority and Victoria State Emergency Service will receive an exemption from the Emergency Services and Volunteers Fund on their principal place of residence.

**Table C.1: Estimates of aggregate tax expenditures by type of tax <sup>(a)</sup> (\$ million)**

Description	2024-25	2025-26	2026-27	2027-28
Payroll tax	1 815	1 908	2 014	2 120
COVID Debt Levy – Payroll \$10m+	107	116	123	131
Mental Health and Wellbeing Levy	107	116	123	131
Land tax <sup>(b)</sup>	12 253	12 375	13 179	14 190
Emergency Services and Volunteers Fund <sup>(c)</sup>	30	30	37	37
Land transfer duty <sup>(d)</sup>	1 744	1 860	2 014	2 176
Gambling taxes <sup>(e)</sup>	92	90	80	81
Insurance duty	841	924	1 031	1 150
Motor vehicle taxes <sup>(f)</sup>	556	574	579	599
Congestion levy <sup>(g)</sup>	81	146	149	153
<b>Total estimated tax expenditures</b>	<b>17 626</b>	<b>18 139</b>	<b>19 328</b>	<b>20 769</b>

*Notes:*

- (a) All amounts have been rounded to the nearest \$1 million unless otherwise stated. Figures may not add due to rounding.
- (b) Land tax estimates include the COVID Debt Levy – Landholdings.
- (c) This line item was previously listed as the Fire Services Property Levy. The increase in this expenditure since the 2024-25 Budget reflects the replacement of the Fire Services Property Levy with the Emergency Services and Volunteers Fund, and inclusion of emergency and disaster response services, as outlined in Appendix A, which includes an exemption for eligible volunteers from the Country Fire Authority and Victoria State Emergency Service from 1 July 2026.
- (d) The increase in land transfer duty tax expenditures since the 2024-25 Budget reflects the Off-the-plan stamp duty concession for apartments, units and townhouse, as outlined in Appendix A, and the introduction of exemptions for commercial and industrial property where the transaction is at least the second transaction of the property since 1 July 2024.
- (e) The changes to gambling taxes expenditures since the 2024-25 Budget reflect revisions in underlying electronic gaming machine tax revenue estimates from updated data and changes to estimated revenue impacts of harm minimisation reforms.
- (f) The movement in motor vehicle taxes expenditures since the 2024-25 Budget reflects an increase in luxury duty for non-passenger motor vehicles due to a change in data availability and the Aligning vehicle registration fees for zero and low emission vehicles initiative which removes registration discounts for zero and low emission vehicles from 1 January 2026.
- (g) The increase in congestion levy tax expenditures since the 2024-25 Budget reflects the introduction of the Harmonising congestion levy rates with Sydney and expanding the congestion boundary initiative which increases the congestion levy rates and expands the congestion area boundary from 1 January 2026.

## CONCESSIONS

Concessions are direct budget outlays or reduced government charges that reduce the price of a good or service for particular groups. Over the decade to 2023-24, the State has provided approximately \$18.2 billion in concessions. In 2024-25, concessions are forecast to be around \$2.5 billion.

Certain characteristics of a consumer, such as possession of a Commonwealth Government Pensioner Concession Card or Health Care Card, can be the basis for such entitlements. Concessions allow recipients to access or purchase important public services such as energy, education, health and transportation at a reduced cost. Table C.2 classifies the major concessions by category.

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

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

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

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

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

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

**Table C.2: Concessions by category** <sup>(a)(b)</sup>

(\$ million)

<i>Description</i>	<i>2024-25</i>
Electricity	135
Mains gas	80
Municipal rates	104
Water and sewerage	182
<b>Total energy, municipal rates, water and sewerage</b>	<b>501</b>
Ambulance	587
Dental services and spectacles	169
Community health programs	155
<b>Total health</b>	<b>911</b>
<b>Education</b>	<b>443</b>
<b>Hardship schemes</b>	<b>103</b>
<b>Social and community services</b>	<b>7</b>
<b>Private transport</b>	<b>310</b>
<b>Public transport</b>	<b>220</b>
<b>Total for items estimated</b>	<b>2 495</b>

*Notes:**(a) All amounts have been rounded to the nearest \$1 million unless otherwise stated. Figures may not add due to rounding.**(b) The increase in concessions since the 2024-25 Budget reflects higher than expected actual concessions data for 2023-24.*

## APPENDIX D – REQUIREMENTS OF THE FINANCIAL MANAGEMENT ACT 1994

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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 *2024-25 Budget Update*.

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

**Table D.1: Statements required by the *Financial Management Act 1994* and their location in the *2024-25 Budget Update***

<i>Relevant section of the Act and corresponding requirement</i>	<i>Location</i>
<b>Sections 23 E-G</b>	
Statement of financial policy objectives and strategies for the year including the short- and long-term financial objectives, key financial measures, the relationship to the principles of sound financial management and any temporary financial policy actions	Chapter 1 <i>Economic and fiscal overview</i>
<b>Sections 23 H-N</b>	
Estimated general government sector financial statements for the year comprising: <ul style="list-style-type: none"> <li>• an estimated statement of financial performance</li> <li>• an estimated statement of financial position at the end of the year</li> <li>• an estimated statement of cash flows for the year</li> <li>• a statement of the accounting policies on which these statements are based and explanatory notes</li> </ul>	Chapter 4 <i>Estimated financial statements and notes</i> (including estimated consolidated general government sector comprehensive operating statement, estimated consolidated general government sector balance sheet, estimated consolidated general government sector cash flow statement, and estimated consolidated general government sector statement of changes in equity provided as per AASB 1049)



## STYLE CONVENTIONS

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

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

The notation used in the tables is as follows:

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

Please refer to the **Treasury and Finance glossary for budget and financial reports** at [dtf.vic.gov.au](http://dtf.vic.gov.au) for additional terms and references.

