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DELIVERING FOR ALL VICTORIANS

VICTORIAN BUDGET 19/20

2019-20 FINANCIAL REPORT

(incorporating Quarterly Financial Report No. 4)

Presented by Tim Pallas MP
Treasurer of the State of Victoria

VICTORIA State Government

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Financial Report

(incorporating Quarterly Financial Report No. 4)

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Treasurer of the State of Victoria

for the information of Honourable Members

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CHAPTER 1 – FOREWORD

PURPOSE

The *2019-20 Financial Report* presents the consolidated financial outcomes for the State of Victoria, including the general government sector, the public non-financial corporations sector and the public financial corporations sector.

This chapter outlines the economic and fiscal context for the State's financial performance and position, and summarises the 2019-20 results.

Chapter 2 analyses the results for the general government sector, comparing them with actual outcomes in 2018-19 and the revised estimates for the year as presented in the *2019-20 Budget Update*. Chapter 3 presents the 2019-20 results for the State of Victoria.

Chapter 4 contains the audited financial statements as required under the *Financial Management Act 1994*. These are presented in line with applicable Australian accounting standards and pronouncements, in particular AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Chapter 5 provides supplementary information required under the Uniform Presentation Framework. Appendix A includes the Quarterly Financial Report for the general government sector as required by Section 26 of the *Financial Management Act 1994*. Appendix B presents a compliance index providing a linkage between the relevant legislative provisions relating to the preparation of this report and the disclosure provided therein.

ECONOMIC CONTEXT

The Victorian economy grew more slowly in the first half of 2019-20 after several years of strong growth. Over the five years to 2019-20, Victoria's average economic growth has been above the national average. The 2019-20 Victorian bushfires had considerable impacts on affected regions of Victoria and some sectors of the economy. This was followed by the global onset of coronavirus, with Victoria's first case recorded on 25 January 2020 and the World Health Organisation declaring a pandemic in March.

The coronavirus (COVID-19) pandemic has resulted in the largest global recession since the Great Depression and is severely affecting the Australian and Victorian economies. Public health restrictions – which have been necessary to slow the spread of COVID-19 and save lives – limited economic activity across a range of sectors in the June quarter. Sharp falls in consumer and business confidence, and the closure of national borders to international students, tourists and migrants, also lowered economic activity. As a result, Victoria's state final demand fell by 8.5 per cent in the June quarter 2020.

For 2019-20 as a whole, state final demand fell by 1.0 per cent. Consumer spending, which fell by 2.9 per cent, led this overall decline in domestic demand. Public demand was the only component of state final demand that increased in the year, with public consumption (which rose by 6.8 per cent) and public investment (1.8 per cent) both contributing to growth.

COVID-19 has had a significant impact on employment. Employment was growing strongly up until March 2020, with 522 800 jobs created since November 2014. But COVID-19 impacts on the economy led to 168 400 Victorians losing work between March and June 2020.

This employment fall pushed Victoria's unemployment rate up from 5.2 per cent in March to 7.5 per cent in June 2020. In addition, many people left the workforce after March as the labour market deteriorated and public health restrictions impeded looking for work, and so were not counted as officially unemployed.

The significant employment losses in the June quarter left the level of employment at the end of the year around a two-year low. In 2019-20 overall, though, employment rose by 1.2 per cent in year-average terms, reflecting the strong growth earlier in the year. Full-time employment rose by 1.1 per cent and part-time employment rose by 1.3 per cent. Between November 2014 and June 2020, 354 400 jobs had been created in the Victorian economy, including 66 200 in regional Victoria.

Over the year to March 2020 (latest available data), population growth in Victoria remained the highest of all the Australian states and territories but slowed from 2.2 per cent to 1.8 per cent. This added further downward pressure to economic growth. The slowdown in population growth was largely driven by lower net overseas migration.

Consistent with weak labour market conditions, wage growth in Victoria slowed to 2.4 per cent in 2019-20, with the slowdown particularly apparent in the second half of the year. Inflation was low at 1.7 per cent in 2019-20, mainly reflecting impacts of COVID-19 on automotive fuel prices and free childcare from April to June.

FISCAL OUTCOMES

The Government recorded a general government sector operating deficit of $6.5 billion for 2019-20.

The 2019-20 operating result was $7.2 billion lower than the revised estimate in the *2019-20 Budget Update*. This is primarily due to the impact of COVID-19 and the Government's response.

Total revenue from transactions for the general government sector was $67.9 billion, which was $3.0 billion lower than the revised estimates and $1.7 billion lower than the previous year.

State taxation revenue was $23.2 billion, $1.2 billion below the revised estimate and $418 million lower than in 2018-19. The decrease compared with the revised budget was primarily driven by lower payroll tax of $787 million, reflecting $673 million of payroll tax refunds and waivers provided as part of the Government's response to COVID-19. The lower revenue outcome was also driven by reduced collections from gambling taxes resulting from the temporary closure of Crown Casino, hotels and clubs in the last few months of the year as part of the Government's public health response to COVID-19. These reductions were partially offset by an increase in land transfer duty in 2019-20 as a result of an improvement in Victorian dwelling prices before the onset of COVID-19. Due to the lag associated with property settlements, most of the impact of COVID-19 on land transfer duty collections will occur from 2020-21.

Dividends, income tax and rate equivalent revenue was $810 million, $15 million below the revised estimate and $220 million lower than 2018-19. The decrease in 2019-20 was mainly due to lower dividends received from the public financial corporations sector, partially offset by higher dividends from the water corporations.

Revenue from the sale of goods and services of $7.9 billion was $216 million lower than the revised budget and $222 million higher than 2018-19. The lower amount compared with the revised budget is primarily due to lower hospital and patient fees as a result of restrictions on elective surgery during the COVID-19 response. The increase compared with 2018-19 was primarily driven by an increase in the capital asset charge received resulting from an increase in the VicTrack asset base.

Grant revenue of $32.8 billion was $1.1 billion below the revised budget estimate and $514 million lower than 2018-19. The decrease compared with the revised budget was largely driven by a reduction in GST revenue of $1.7 billion primarily due to the weakening in the Australian economy resulting from COVID-19.

Total expenses for the general government sector were $74.5 billion in 2019-20, $4.2 billion higher than the revised budget estimate in the *2019-20 Budget Update* and $5.9 billion higher than the previous year.

Employee expenses of $27.2 billion for 2019-20 were $1.1 billion above the revised budget estimate and $1.8 billion higher than 2018-19. Compared with the previous year, this increase can be attributed to additional resources in the health sector for the COVID-19 response, additional resources required for the bushfire response and suppression activities, and additional police following the implementation of the Community Safety Statement. The increase in employee expenses also reflects increases in remuneration levels in enterprise bargaining agreements consistent with Government wages policy, including the teachers, police and public health sector agreements.

Other operating expenses in 2019-20 were $22.2 billion, $656 million higher than the revised budget and $1.2 billion higher than the previous year. The increase since 2018-19 includes the purchase of additional supplies and services in the health sector in response to COVID-19, as well as additional resources required for the bushfire response and suppression activities.

Grant expenses of $15.3 billion for 2019-20 were $2.3 billion higher than the revised budget and $2.0 billion higher than in 2018-19. The increase was primarily due to payments from the Business Support Fund, Working for Victoria Fund and Experience Economy Package as part of the Government's COVID-19 response.

Government infrastructure investment, which includes general government net infrastructure investment and estimated construction related cash outflows for Partnership Victoria projects (net of asset sales), was $12.0 billion in 2019-20. This was $3.8 billion below the revised budget in the *2019-20 Budget Update*. The decrease from the revised budget primarily reflects variations to the timing of the State's capital program, especially in the transport and community safety sectors.

Net debt for the general government sector was $44.3 billion (9.6 per cent of estimated gross state product) at 30 June 2020 and $4 billion higher than the revised budget estimate. This increase primarily reflects the additional borrowings required to finance the Government's COVID-19 response.

Compared with 2018-19 as included in this report, reported net debt has increased by $18.8 billion. This in part reflects additional borrowings required to finance the Government's COVID-19 response as well as the Government's infrastructure program. It also includes a $3.6 billion restatement of the net debt balance at 1 July 2019 resulting from the implementation of the new leases accounting standard from that date.

Victoria continues to be rated triple-A by Moody's Investors Service and Standard & Poor's.

CHAPTER 2 – GENERAL GOVERNMENT SECTOR OUTCOME

- The Government recorded a general government sector operating deficit of $6.5 billion in 2019-20.
- The 2019-20 operating result was $7.2 billion lower than the revised estimate in the *2019-20 Budget Update*. Revenue was $3.0 billion lower than expected and expenses were $4.2 billion higher than expected, primarily due to the impacts of the coronavirus (COVID-19) pandemic and the Government's response. Details of these measures can be found in Chapter 4, Note 8.2 (Table 8.2.14) for Treasurer's Advance funded initiatives in 2019-20.
- The level of government infrastructure investment, which includes general government net infrastructure investment and estimated construction related cash outflows for Partnership Victoria projects (net of asset sales), was $12.0 billion for 2019-20. This was $3.8 billion lower than the revised budget. The decrease primarily reflects variations to the timing of the State's capital program, especially in the transport and community safety sectors.
- Net debt for the general government sector was $44.3 billion (9.6 per cent of gross state product (GSP)) at 30 June 2020 compared with $40.4 billion (8.8 per cent of GSP) expected in the revised budget published in the *2019-20 Budget Update*.
- Victoria continues to be rated triple-A by Moody's Investors Service (Moody's) and Standard & Poor's (S&P). Moody's in its latest report noted that 'the credit profile of Victoria reflects the strong institutional framework for Australian states, the ability to adjust State based revenues and expenditures as required. The standalone credit profile reflects Victoria's strong and diverse economic base and is further supported by secure and predictable grants from the Government of Australia'.

S&P in its latest report placed Victoria on negative credit watch. However, the report noted 'despite the downturn, Victoria will retain its considerable economic strength on a global scale. Australia's institutional framework is one of the strongest in the world and underpins the rating of Victoria. This framework sets a high standard of financial management within Australia, and Victoria is no exception'.

FISCAL OBJECTIVES

Due to the far-reaching implications and consequential economic impacts of COVID-19, the 2020-21 Victorian budget was deferred to later in 2020, after the publication of this *2019-20 Financial Report*. As a result, references in this financial report to the revised budget are to the *2019-20 Budget Update*. Caution therefore needs to be exercised in interpreting and drawing conclusions from variances against this budgeted outcome as the revised budget did not include provisions for the 2019-20 Victorian bushfires and the impact of COVID-19 on revenue and expenses.

As part of the *2019-20 Budget,* the Government outlined its fiscal strategy and objectives for the 2019-20 financial year, including:

- general government net debt as a percentage of GSP to be maintained at a sustainable level over the medium term;
- fully fund the unfunded superannuation liability by 2035; and
- achieve a net operating surplus consistent with maintaining general government net debt at a sustainable level over the medium term.

The 2019-20 results were heavily impacted by COVID-19, which is resulting in the largest global recession since the Great Depression, severely affecting the Australian and Victorian economies, and ongoing at the time of publication of this report. In response to COVID-19, the Government used its strong fiscal position and balance sheet to protect the community and minimise the impact on jobs. This resulted in:

- a net operating deficit of $6.5 billion for the 2019-20 financial year; and
- net debt to GSP increasing from 5.6 per cent at 30 June 2019 to 9.6 per cent at 30 June 2020. Whilst this is within the 12 per cent net debt to GSP target, the full effects of COVID-19 on net debt to GSP will continue to be felt in future years.

The Government remains on track to fully fund the unfunded superannuation liability by 2035, with a contribution of $1.1 billion made to the State Superannuation Fund, under section 90(2) of the *State Superannuation Act 1988*, to fund this liability in 2019-20.

Fiscal aggregates are useful for assessing the impact of the financial transactions of government and its controlled entities on the economy. These measures, derived from the audited financial statements in Chapter 4, are shown in Table 2.1.

Table 2.1: Key fiscal aggregates for the general government sector [(a)(b)(c)] **($ million)**

	2019 actual	*2020 actual*	*2020 revised*
Operating statement aggregates			
Net result from transactions – net operating balance	971	(6 539)	618
Net result	229	(7 899)	279
Net lending/(borrowing)	(4 115)	(11 024)	(5 911)
Comprehensive result – total change in net worth	(921)	(964)	3 842
Cash surplus/(deficit)	(2 223)	(12 478)	(9 583)
Balance sheet aggregates			
Net worth	185 471	156 092	189 693
Net financial worth	28 719	(21 612)	19 041
Net financial liabilities	73 106	96 654	87 268
Net debt	25 492	44 312	40 348
			(per cent)
Net debt to GSP [(d)]	**5.6**	**9.6**	**8.8**

Notes:

(a) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. Refer to Chapter 4, Note 9.7.2 for further details.*

(b) *The 2018-19 comparative figures have been restated to correct a prior period error within the administered items for the Department of Justice and Community Safety. Refer to Chapter 4, Note 6.3.1 for further details.*

(c) *Certain June 2020 balances have decreased due to the adoption of AASB 16* Leases *from 1 July 2019. Refer to Chapter 4, Notes 5.2 and 9.7.2 for further details.*

(d) *The GSP forecasts used within this report have been derived with reference to the estimated nominal GSP as at August 2020. The ratios to GSP may vary from publications year to year due to revisions to the Australian Bureau of Statistics data.*

The **net result from transactions** deficit of $6.5 billion was $7.2 billion lower than the $618 million surplus forecast in the *2019-20 Budget Update*.

The deficit was largely due to the impacts of COVID-19, including the significant dampening of key government revenue sources such as taxation revenue and the goods and services tax (GST) grants received from the Commonwealth along with the cost of the Government's support measures. These measures included support for jobs and businesses, delivering the frontline health response, addressing the impact on the Victorian education and transport sectors and providing additional social support.

The **net result** is a further measure of financial performance for the period, including the impact of market movements on the value of assets and liabilities. The 2019-20 net result was $8.2 billion lower than the revised budget and $8.1 billion lower compared with 2018-19. The decrease from the prior year was due to the same reasons as explained for the net result from transactions, as well as higher losses from other economic flows in 2019-20, mainly related to the revaluation of transport assets.

The **net lending** measure broadly reflects the net impact of the general government sector on the economy and financial markets, including the impact of operating and capital investing transactions. Net borrowings of $11.0 billion for 2019-20 were $5.1 billion higher than the revised estimate, mainly attributable to the lower net result from transactions compared with the revised estimate, partially offset by the lower government infrastructure investment.

The 2019-20 **comprehensive result – total change in net worth** has improved marginally. The decrease of $4.8 billion from the revised budget is attributable to the change in the net result from transactions as previously explained. The decrease is also due to the loss on investments of the general government sector in other sector entities primarily due to the impact of COVID-19 and the remeasurement of superannuation defined benefit plans. These decreases were partially offset by the higher than forecast revaluation of land under roads.

The **cash deficit** position in 2019-20 reflects the sum of net cash flows from operating and investing activities. The deficit position in 2019-20 deteriorated compared with 2018-19, primarily due to the impact of COVID-19 on the 2019-20 net result from transactions. The 2018-19 outcome was also strengthened by the proceeds from the commercialisation of land titles and register functions of Land Use Victoria.

Net worth is a measure of economic wealth and is equal to net assets outlined in Table 2.4. The decrease since the revised budget, and compared with 2018-19, is primarily due to a reduction in the reported value of assets in the public non-financial corporations sector following the adoption of AASB 16 *Leases* from 1 July 2019, the higher borrowings required to finance the Government's response to the impacts of COVID-19, and the remeasurement of superannuation defined benefit plans.

The year-on-year movement in **net financial worth**, which is equal to total financial assets less total liabilities, was mainly due to decreased investment in other sector entities, increased borrowings, and revaluation of the superannuation liability, partially offset by increased cash holdings, mainly to facilitate increased short-term liquidity requirements.

Net financial liabilities are total liabilities less financial assets (excluding investments in other sector entities). Net financial liabilities were $96.7 billion at 30 June 2020, $9.4 billion higher than the revised budget. This increase was primarily due to higher borrowings related to the Government's COVID-19 response, and an increased superannuation liability due to lower than expected investment returns on superannuation assets and a reduction in the bond yields that underlie the key superannuation valuation assumptions during 2019-20. The increase was also partially due to a lower fines receivable balance in the Department of Justice and Community Safety (DJCS) which was not reflected in the revised budget.

Net debt represents gross debt less liquid financial assets. Net debt of $44.3 billion at 30 June 2020 was $4 billion higher than the revised estimate in the *2019-20 Budget Update*. This increase reflects the additional borrowings undertaken over the June quarter to finance higher expenditure in the Government's COVID-19 response.

Compared with 2018-19 as included in this report, reported net debt increased by $18.8 billion. This reflects additional borrowings required to finance the Government's COVID-19 response, as well as the Government's infrastructure program. It also reflects the impact of the first-time implementation of the new leases and service concessions Australian accounting standards from 1 July 2019, as outlined in Note 9.7 of Chapter 4 of this financial report.

FINANCIAL PERFORMANCE

Table 2.2 shows an operating deficit of $6.5 billion in 2019-20 compared with the revised 2019-20 estimate of a surplus of $618 million.

Table 2.2: Summary of operating statement [(a)(b)] **($ million)**

	2020 actual	*2020 revised*	*Revised variance*	*% revised variance*	*2019 actual*
Revenue from transactions					
Taxation revenue	23 167	24 382	(1 215)	(5)	23 585
Interest revenue	619	712	(93)	(13)	817
Dividends, income tax equivalent and rate equivalent revenue	810	825	(15)	(2)	1 030
Sales of goods and services	7 902	8 118	(216)	(3)	7 680
Grant revenue	32 789	33 889	(1 099)	(3)	33 303
Other revenue	2 662	3 025	(364)	(12)	3 184
Total revenue from transactions	**67 948**	**70 951**	**(3 002)**	**(4)**	**69 600**
Expenses from transactions					
Employee expenses	27 214	26 089	1 125	4	25 406
Net superannuation interest expense	407	407	..	..	688
Other superannuation	3 073	2 965	108	4	2 797
Depreciation	3 894	3 717	177	5	3 056
Interest expense	2 328	2 556	(228)	(9)	2 321
Grant expense	15 331	13 015	2 316	18	13 355
Other operating expenses	22 241	21 584	656	3	21 006
Total expenses from transactions	**74 487**	**70 333**	**4 155**	**6**	**68 629**
Net result from transactions – net operating balance	**(6 539)**	**618**	**(7 157)**	**n.a.**	**971**
Total other economic flows included in net result	**(1 360)**	**(339)**	**(1 021)**	**302**	**(742)**
Net result	**(7 899)**	**279**	**(8 178)**	**n.a.**	**229**

Notes:

(a) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Chapter 4, Note 9.7.2 for further details.*

(b) *The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Chapter 4, Note 6.3.1 for further details.*

Revenue

Total revenue from transactions for the year was $67.9 billion, which is $3.0 billion lower than the revised estimates. This was $1.7 billion, or 2.4 per cent, lower than the previous year.

Table 2.3 shows that State taxation revenue decreased by $1.2 billion compared with the revised estimate. This was primarily driven by lower payroll tax of $787 million, including $673 million of payroll tax refunds and waivers provided by the Government as part of the Economic Survival Package response to COVID-19, as well as lower gambling taxes resulting from the temporary closure of Crown Casino, hotels and clubs in the last few months of the year as part of the Government's public health response to COVID-19.

The decrease of $418 million in taxation revenue compared with 2018-19 is attributable to the same reasons as the variance compared to the revised budget, partially offset by an increase in land transfer duty in 2019-20 as a result of an improvement in Victorian dwelling prices before the onset of COVID-19. Due to the lag associated with property settlements, most of the impact of COVID-19 on land transfer duty collections will occur from 2020-21.

Table 2.3: Taxation (a) **($ million)**

	2020 actual	*2020 revised*	*Revised variance*	*% revised variance*	*2019 actual*
Taxes on employers' payroll and labour force	**5 803**	**6 590**	**(787)**	**(12)**	**6 280**
Taxes on immovable property					
Land tax	3 447	3 545	(98)	(3)	3 509
Fire Services Property Levy	708	709	(1)	..	648
Congestion levy	110	101	8	8	111
Metropolitan improvement levy	190	183	7	4	174
Total taxes on property	**4 455**	**4 538**	**(83)**	**(2)**	**4 442**
Gambling taxes					
Public lotteries	530	502	29	6	523
Electronic gaming machines	844	1 115	(271)	(24)	1 121
Casino	161	233	(73)	(31)	241
Racing and other sports betting	166	156	10	6	110
Other	10	11	(2)	(14)	11
Financial and capital transactions					
Land transfer duty	6 143	6 025	118	2	6 009
Metropolitan planning levy	21	20	1	4	20
Financial accommodation levy	153	163	(11)	(7)	147
Growth areas infrastructure contribution	244	293	(49)	(17)	283
Levies on statutory corporations	**157**	**157**	**..**	**..**	**157**
Taxes on insurance	**1 484**	**1 467**	**17**	**1**	**1 373**
Total taxes on the provision of goods and services	**9 911**	**10 143**	**(231)**	**(2)**	**9 996**
Motor vehicle taxes					
Vehicle registration fees	1 775	1 771	4	..	1 645
Duty on vehicle registrations and transfers	895	1 008	(113)	(11)	909
Liquor licence fees	**..**	**25**	**(25)**	**(100)**	**24**
Other	**328**	**307**	**22**	**7**	**289**
Total taxes on the use of goods and performance of activities	**2 998**	**3 111**	**(113)**	**(4)**	**2 867**
Total taxation revenue	**23 167**	**24 382**	**(1 215)**	**(5)**	**23 585**

Note:
(a) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Chapter 4, Note 9.7.2 for further details.*

Dividends, income tax and rate equivalent income of $810 million decreased by $220 million compared with the previous year. The decrease is mainly due to lower dividend revenue received from the public financial corporations sector, partially offset by higher dividends from the water corporations.

Dividends, income tax and rate equivalent income in 2019-20 was $15 million below the revised estimate.

Revenue from the sale of goods and services was $7.9 billion, $222 million higher than in 2018-19 primarily due to an increase in capital asset charge received resulting from an increase in the VicTrack asset base.

Revenue from the sale of goods and services in 2019-20 was $216 million lower than the revised budget. The decrease is primarily due to lower hospital and patient fees as a result of restrictions on elective surgery during the COVID-19 response, and lower regulatory fees as a result of reduced traffic volumes resulting in fewer traffic fines being issued in the second half of 2019-20.

Grant revenue of $32.8 billion was $514 million lower compared with 2018-19. The decrease was largely driven by a reduction in GST revenue of $1.4 billion primarily due to weakening in the Australian economy resulting from COVID-19. This decrease was partly offset by an increase in grants to hospitals as part of the COVID-19 response, and Commonwealth grants for non-government schools, including the bringing forward of some payments to non-government schools into 2019-20 from 2020-21.

Grant revenue was $1.1 billion below the revised budget estimate. This primarily reflects lower GST revenue from the Commonwealth. The decrease was partially offset by additional grants received from the Commonwealth as part of the COVID-19 public health response.

Other revenue for 2019-20 was $522 million lower than the 2018-19 actual outcome. The decrease is partially due to the initial recognition of the fair value of the Support Agreements underlying the Victorian Renewable Energy Auction Scheme in 2018-19.

Other revenue was also $364 million lower than the 2019-20 revised budget partially due to lower fines revenue resulting from reduced traffic volumes due to COVID-19 restrictions.

Expenses

Total general government sector expenses for 2019-20 increased to $74.5 billion in 2019-20, an increase of $5.9 billion (8.5 per cent) compared with the previous year. Total expenses were $4.2 billion higher than the revised estimate in the *2019-20 Budget Update*. The increase in total expenses mainly reflects the impact of the support measures implemented by the Government in response to COVID-19. This includes measures to support jobs and businesses, deliver the frontline health response, address the impact on the Victorian education and transport sectors and to provide additional social support.

Employee expenses of $27.2 billion for 2019-20 were $1.1 billion (4.3 per cent) higher than the revised budget and $1.8 billion (7.1 per cent) higher than 2018-19. Compared with the previous year, this increase can be attributed to additional resources in the health sector for the COVID-19 response, additional resources required for the bushfire response and suppression activities and additional police following the implementation of the Community Safety Statement. The increase in employee expenses also reflects increases in remuneration levels in enterprise bargaining agreements, including the teachers, police and public health sector agreements.

Other superannuation expense of $3.1 billion for 2019-20 was $108 million higher than the revised budget and $276 million higher than in 2018-19, primarily due to higher employer contributions to the defined contribution plans.

Depreciation expense increased by $838 million from the prior year to $3.9 billion in 2019-20. This increase is primarily due to the implementation of the new accounting standard AASB 16 *Leases* from 1 July 2019 as well as additional depreciation in the health sector resulting from the increased asset base following the revaluation in the prior year.

Other operating expenses in 2019-20 were $22.2 billion, $656 million higher than the revised budget and $1.2 billion higher than the previous year. The increase since 2018-19 includes the purchase of additional supplies and services in the health sector in response to COVID-19, as well as additional resources required for the bushfire response and suppression activities.

Grant expense of $15.3 billion was $2.3 billion higher than the revised budget and $2.0 billion higher than in 2018-19. The increase was primarily due to payments from the Business Support Fund, Working for Victoria Fund and Experience Economy Package as part of the Government's COVID-19 response.

Other economic flows included in the net result

The net result differs from the net result from transactions due to other economic flows, which includes revaluation gains and losses recognised for the period.

The net result from transactions is the Government's net surplus measure for the purposes of its fiscal strategy.

Other economic flows included in the net result for 2019-20 totalled a net loss of $1.4 billion, primarily due to the revaluation of transport sector assets during the year. The amount also partially reflects the revaluation of long service leave reflecting bond rate movements used in the valuation process and the valuation of doubtful debts for fines and regulatory fees.

FINANCIAL POSITION

Table 2.4 shows the general government sector net assets decreased by $29.4 billion to $156.1 billion in 2019-20. This was $33.6 billion (18 per cent) lower than expected in the 2019-20 revised budget.

Table 2.4: Summary balance sheet [(a)(b)(c)] **($ million)**

	2020 actual	*Revised variance*	*2020 revised*	*Actual movement*	*2019 actual*
Assets					
Financial assets (excluding investment in other sector entities)	28 294	5 817	22 477	2 130	26 164
Investment in other sector entities:					
Public non-financial corporations	74 884	(30 289)	105 173	(24 232)	99 116
Public financial corporations	159	(978)	1 137	(2 550)	2 709
Non-financial assets	177 703	7 052	170 652	20 951	156 752
Total assets	**281 040**	**(18 399)**	**299 439**	**(3 701)**	**284 741**
Liabilities					
Superannuation	31 228	2 791	28 437	2 596	28 632
Borrowings	62 807	10 074	52 732	21 911	40 896
Other liabilities	30 914	2 338	28 577	1 172	29 742
Total liabilities	**124 949**	**15 203**	**109 746**	**25 678**	**99 270**
Net assets	**156 092**	**(33 601)**	**189 693**	**(29 379)**	**185 471**

Notes:

(a) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Chapter 4, Note 9.7.2 for further details.*

(b) *The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Chapter 4, Note 6.3.1 for further details.*

(c) *The June 2020 investment in other sector entities balance decreased due to the adoption of AASB 16* Leases *from 1 July 2019. Refer to Chapter 4, Notes 5.2 and 9.7.2 for further details.*

Assets

Financial assets in Table 2.4 include cash, investments, loans and placements. The value of financial assets held by the general government sector increased by $2.1 billion during the year. The increase is mainly due to higher cash balances in 2019-20, partially offset by lower outstanding advances associated with the arrangements established to invest and ultimately apply the proceeds of the Port of Melbourne Lease transaction.

General government investments in other sector entities decreased by $26.8 billion in the year. This was mainly due to a reduction in the reported value of assets in the public non-financial corporations following the adoption of AASB 16 *Leases* from 1 July 2019. Additionally, investment in public financial corporations was also lower, reflecting the impact of lower bond yields on the valuation of the insurers claims liabilities as well as lower than expected investment returns on the assets held by these entities.

Non-financial assets increased by $21.0 billion during 2019-20, mainly due to the revaluation of land under road assets and the Government's investment in infrastructure.

It is also driven by an increase in the right of use assets following the implementation of AASB 16 *Leases* and an increase in service concession assets (SCAs), primarily due to progressive recognition of SCAs under construction. In addition, higher inventories reflect the Government's COVID-19 response including the purchase of additional personal protective equipment.

Liabilities

Total liabilities as at 30 June 2020 were $15.2 billion and $25.7 billion higher than the 2019-20 revised budget and the 2018-19 outcome respectively. The increase compared with the revised budget and the prior year mainly reflects additional borrowings undertaken over the June quarter to meet higher expenditure and liquidity requirements in the Government's COVID-19 response. Impacts on the State's finances include reduced revenue and additional expenditure, with the increase from the prior year also attributable to the Government's infrastructure program and the impact of the new accounting standards which were effective from 1 July 2019.

Total liabilities also increased from the revised budget and the prior year due to an increased superannuation liability reflecting a reduction in bond yields and lower than expected investment returns in 2019-20.

CASH FLOWS

Table 2.5 outlines the use of cash resources. It summarises cash generated through the operations of government departments and other general government sector agencies, and how the cash has been invested in fixed assets.

A detailed cash flow statement is provided in Chapter 4.

Table 2.5: Application of cash resources [(a)(b)] **($ million)**

	2019 actual	*2020 actual*	*2020 revised*
Net result from transactions – net operating balance	971	(6 539)	618
Add back: Non-cash revenues and expenses (net) [(c)]	6 420	3 626	2 740
Net cash flows from operating activities	**7 391**	**(2 913)**	**3 358**
Less: Total net investment in fixed assets [(d)]	**8 173**	**8 207**	**9 589**
Leases and service concession arrangements	1 773	2 224	2 914
Other movements	1 303	1 910	1 847
Decrease/(increase) in net debt [(e)]	**(3 859)**	**(15 254)**	**(10 993)**

Notes:

(a) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Chapter 4, Note 9.7.2 for further details.*

(b) *The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Chapter 4, Note 6.3.1 for further details.*

(c) *Includes depreciation, prepayments and movements in the unfunded superannuation liability and liability for employee benefits, as well as operating cash flows not required to be recognised in the operating statement for the respective year.*

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

(e) *The 2020 movement in net debt reflects the change from 1 July 2019 to 30 June 2020. The increase in the reported value of net debt as at 1 July 2019 is due to the adoption of AASB 16* Leases. *Refer to Chapter 4, Note 9.7.2 for further details.*

GOVERNMENT INFRASTRUCTURE INVESTMENT

Infrastructure supports delivery of high-quality services to the community. It has a significant and ongoing impact on state and national productivity and generates significant direct and indirect employment and wider economic benefits.

Government infrastructure investment, which includes general government net infrastructure investment and estimated construction related cash outflows for Partnership Victoria projects (net of asset sales), was $12.0 billion for 2019-20. This was $3.8 billion below the revised budget in the *2019-20 Budget Update*. The decrease from the revised budget primarily reflects variations to the timing of the State's capital program, including in the transport and community safety sectors.

The Government's infrastructure scorecard 2019-20

Major projects completed during the year include:

- Casey Hospital expansion;
- Chandler Highway Upgrade;
- Community Safety Statement (Police Assistance Line/Online reporting);
- Drysdale Bypass;
- Family violence information sharing system reform (Central Information Point);
- Melbourne Park redevelopment – Stage 2;
- Non-urban train radio renewal;
- Princes Highway duplication project – Winchelsea to Colac;
- Public Safety – Police Response (Intelligence capability);
- Public Safety – Police Response (Mobile technology solution);
- Wyndham Vale stabling yard; and
- Yan Yean Road duplication.

Major projects under procurement or in progress include:

- 75 level crossing removals by 2025;
- Additional VLocity trains;
- Ballarat Health Services expansion and redevelopment;
- Building a world-class Geelong Performing Arts Centre;
- Caulfield to Dandenong conventional signalling and power infrastructure upgrade;
- Child Link;
- Chisholm Road prison project;
- City Loop fire and safety upgrade (Stage 2) and intruder alarm;
- Courts case management system;
- Cranbourne line duplication;
- Cranbourne-Pakenham and Sunbury line upgrade;
- Echuca-Moama Bridge;
- Frankston Hospital;
- Frankston line stabling;
- Goulburn Valley Health redevelopment;
- Goulburn-Murray Water Connections Project;
- High Capacity Metro Trains Project;

The Government's infrastructure scorecard 2019-20 *(continued)*

- Hurstbridge Line upgrade – Stage 2;
- Infringement Management and Enforcement Services (IMES) Reform Project information technology solution;
- M80 Ring Road upgrade;
- Melbourne Airport Rail;
- Melbourne Park redevelopment – Stage 3;
- Men's prison system capacity;
- Metro Tunnel;
- Metropolitan Network Modernisation program;
- Monash Freeway Upgrade – Stage 2;
- Mordialloc Freeway;
- More E-Class trams and infrastructure;
- Murray Basin Rail Project;
- New Footscray Hospital;
- New schools construction;
- New trains for Sunbury;
- New youth justice facility;
- North East Link;
- Northern Hospital inpatient expansion – Stage 2;
- Public housing renewal program;
- Regional Rail Revival;
- Royal Victorian Eye and Ear Hospital redevelopment;
- Safe Digital Clinical Systems – Parkville Precinct electronic medical records;
- Shepparton Corridor Upgrade – Stage 2;
- Suburban Rail Loop;
- Suburban Roads Upgrade;
- Ten new community hospitals;
- Tram procurement and supporting infrastructure;
- Victorian Heart Hospital;
- Waurn Ponds Track Duplication – Stage 2;
- West Gate Tunnel Project;
- Western Highway duplication – Ballarat to Stawell;
- Western Rail Plan;
- Western Roads Upgrade; and
- Women's prison system capacity.

CHAPTER 3 – STATE OF VICTORIA OUTCOME

- The State's balance sheet continues to be in a strong position, with net assets of $179 billion at 30 June 2020.
- The **net result from transactions** for the State in 2019-20 was a deficit of $9 billion, compared with a deficit of $1.8 billion in the previous year. This was mainly driven by deficits of $6.5 billion in the general government sector and $1.9 billion in the public financial corporations (PFC) sector.
- The **net result** for the State was a deficit of $15.7 billion in 2019-20 compared with a deficit of $9.2 billion 2018-19. This movement is mainly due to the deficit in the general government sector net result, financial assets and liability revaluation losses in the public non-financial corporations (PNFC) sector and in the PFC sector attributable to movements in bond discount rates and broader weakened market conditions.

This chapter sets out the financial results for the State of Victoria for 2019-20.

The State comprises the general government sector, discussed in Chapter 2, the PNFC sector and the PFC sector.

The PFC and PNFC sectors, which are discussed in this chapter, comprise a wide range of entities that generally provide goods and services on a commercial basis, primarily funded from user charges and fees.

When considering the State of Victoria results, it should be noted that transactions between these sectors are eliminated to arrive at the consolidated position. These eliminations mean that the result for the State of Victoria is not simply the sum of the results and variations for each individual sector.

The full financial statements for the State of Victoria are provided in Chapter 4.

FINANCIAL PEFORMANCE

Table 3.1 summarises the operating performance for the State of Victoria. This table shows the State recorded a net deficit from transactions of $9 billion in 2019-20 compared with a deficit of $1.8 billion in 2018-19.

The **net result** for the State was a deficit of $15.7 billion. This compares with a $9.2 billion deficit in 2018-19. These outcomes are further detailed in Table 3.1.

OPERATING STATEMENT

Table 3.1: 2019-20 summary operating statement – State of Victoria [(a)(b)(c)] **($ million)**

	2020 actual	*2020 revised*	*Revised variance*	*% revised variance*	*2019 actual*
Revenue from transactions					
Taxation revenue	22 730	23 941	(1 212)	(5.1)	23 176
Interest revenue	484	457	27	6.0	678
Dividends	2 352	1 876	475	25.3	2 426
Sales of goods and services	15 810	16 263	(453)	(2.8)	15 648
Grant revenue	32 505	32 342	163	0.5	32 654
Other revenue	3 447	3 659	(213)	(5.8)	4 056
Total revenue from transactions	**77 327**	**78 539**	**(1 212)**	**(1.5)**	**78 637**
Expenses from transactions					
Employee expenses	28 503	27 457	1 046	3.8	26 644
Net superannuation interest expense	408	411	(3)	(0.8)	690
Other superannuation	3 245	3 134	111	3.5	2 961
Depreciation	6 467	6 345	122	1.9	5 553
Interest expense	3 002	3 093	(91)	(3.0)	2 912
Other operating expenses	33 447	33 095	353	1.1	32 090
Grant expense	11 276	9 168	2 107	23.0	9 571
Total expenses from transactions	**86 348**	**82 704**	**3 644**	**4.4**	**80 420**
Net result from transactions – net operating balance	**(9 021)**	**(4 165)**	**(4 856)**	**116.6**	**(1 782)**
Total other economic flows included in net result	(6 677)	(411)	(6 266)	n.a.	(7 454)
Net result	**(15 699)**	**(4 576)**	**(11 122)**	**243.0**	**(9 236)**

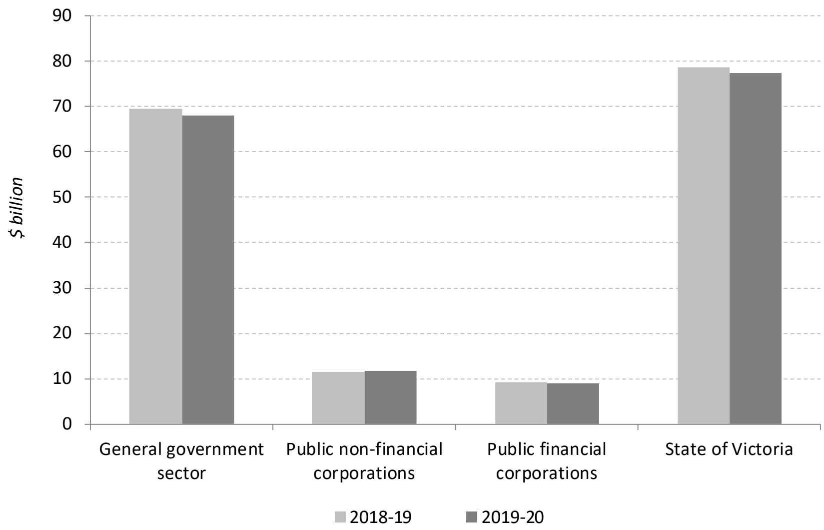
Notes:
(a) Figures in this table are subject to rounding to the nearest million and may not add up to the totals.
(b) The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059 Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 in Chapter 4 for further details.*
(c) The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Chapter 4, Note 6.3.1 for further details.

Revenue

Total State revenue declined by 1.7 per cent or $1.3 billion in 2019-20 to $77.3 billion and was $1.2 billion lower than the revised forecast in the *2019-20 Budget Update*. The general government sector accounts for 88 per cent of total State revenue.

Decreases in taxation, grant, interest and other revenue in the general government sector in 2019-20 compared with 2018-19 were the main contributors toward these changes.

Chart 3.1: Revenue contributions by sector [(a)]



Note:
(a) The State of Victoria will not equal the sum of the general government, PNFC and PFC sectors due to inter-sector eliminations.

Within the PNFC sector, operating revenue increased by 1 per cent to $11.7 billion in 2019-20 compared with the previous year. This was mainly due to an increase in the sales of goods and services for metropolitan water corporations and grant revenue for VicTrack, V/Line Passenger Corporation and the Director of Housing.

In the PFC sector, operating revenue decreased by 2 per cent to $9.1 billion in 2019-20 compared with $9.3 billion in 2018-19 mainly due to a decline in dividends received from investments and interest revenue.

The PFC sector experienced lower investment returns overall due to unfavourable conditions in global equity markets during the second half of 2019-20, with the Transport Accident Commission, WorkSafe and Victorian Managed Insurance Authority recording an average return of 1 per cent on their investment portfolios for the financial year compared with 7.5 per cent the previous year. Most of the unfavourable movements in investment returns compared with the previous year are included in total other economic flows impacting the net result.

Expenses

Total State expenses increased by 7.4 per cent or $5.9 billion to $86.3 billion during 2019-20 and was $3.6 billion higher than the revised forecast in the *2019-20 Budget Update*. Most of these movements reflect the activities of the general government sector discussed in the previous chapter.

In the PNFC sector, total expenses were $11.2 billion in 2019-20 which is lower by $680 million compared with the previous year. Total expenses were also $835 million lower than the revised forecast in the *2019-20 Budget Update*. The decrease in expenses was mainly due to a decline in interest, grant and depreciation expenses offset by higher employee and other operating expenses.

The decrease in interest expenses in 2019-20 was mainly due to lower interest expenses for the Melbourne Port Lessor due to a decline in borrowings, and the refinancing of maturing PNFC borrowings at lower interest rates. The decrease in grant expenses was mainly due to lower grant expenses in Director of Housing in 2019-20 compared with grant expenses that were higher in 2018-19 due to assets provided free of charge to Aboriginal Housing Victoria. The decrease in depreciation expenses was mainly due to the impact of the lower reported value of VicTrack assets following the adoption of AASB 16 *Leases* from 1 July 2019. The increase in other operating expenses was mainly driven by higher desalination plant operating costs due to higher water order and higher energy costs for metropolitan water entities, and an increase in the capital asset charge for VicTrack reflecting an increase in its asset base.

Within the PFC sector, total expenses were consistent with the prior year at $11 billion.

Net result from transactions

The State's net result from transactions in 2019-20 was a deficit of $9 billion, compared with a deficit of $1.8 billion in the previous year after allowing for inter-sector eliminations. This outcome reflects:

- a $6.5 billion deficit within the general government sector (discussed in the previous chapter);
- a $465 million surplus within the PNFC sector; and
- a $1.9 billion deficit within the PFC sector.

The PNFC sector recorded a $465 million net surplus from transactions in 2019-20 compared with a deficit of $329 million in 2018-19. The increase in the net surplus from transactions was mainly due to an increase in sale of goods and services, grant revenue and a decline in depreciation, interest and grant expenses.

The PFC sector recorded a net deficit from transactions of $1.9 billion in 2019-20 compared with a $1.8 billion deficit in 2018-19. The increase in the deficit was mainly driven by decreased dividends and interest revenue.

Net result

At the consolidated State level, the net result for 2019-20 was a deficit of $15.7 billion.

The difference between the net result and the net result from transactions comprises other economic flows. This includes the impact of changes in bond rates used to value the State's insurance liabilities and variations in the investment returns on the assets invested to fund the State's insurance liabilities.

Other economic flows contributed a deficit of $6.7 billion to the State's net result. This arose partly due to the negative impact of unrealised capital losses on the State's insurance agencies investment assets offset by the net impact of a revaluation expense due to a decline in both discount rates (negative) and inflation rates (positive) used to value the liabilities of the State's insurance agencies and Treasury Corporation of Victoria (TCV) borrowings. Asset write-offs for VicTrack in the PNFC sector in 2019-20 also contributed towards this deficit.

FINANCIAL POSITION

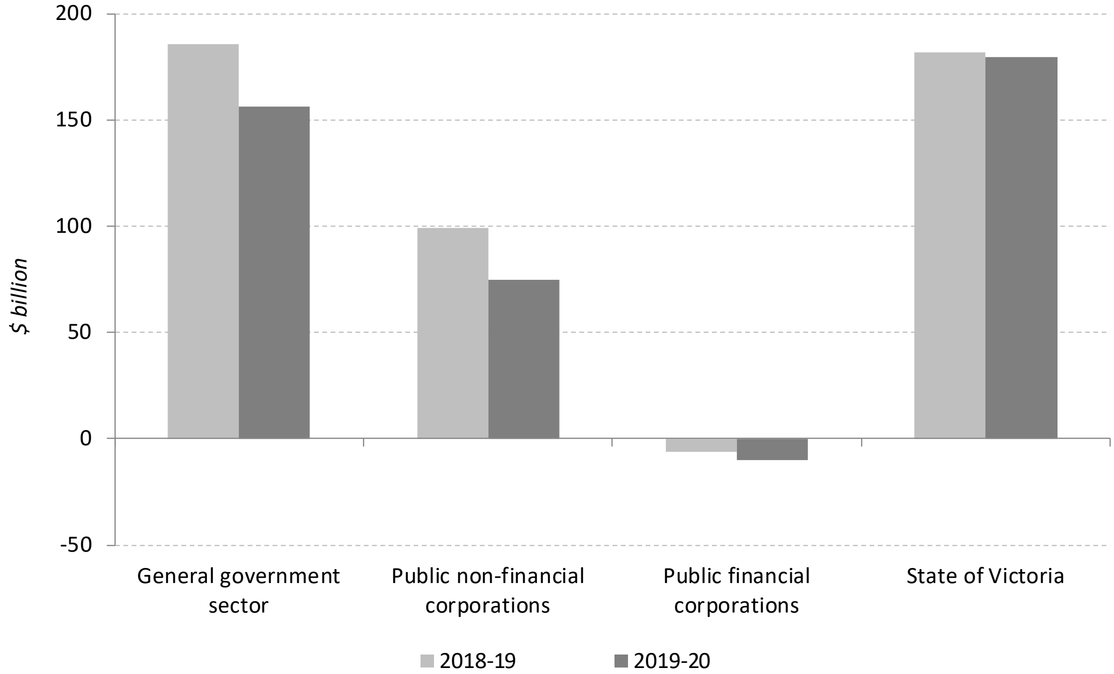
Table 3.2 shows the State's net assets decreased by $2 billion to $179 billion at 30 June 2020. This mainly reflects an increase in total liabilities by $32 billion due to an increase in the valuation of superannuation liabilities, increase in borrowings, an increase in the value of claims liabilities of the insurers and the impact of the changes to accounting standards for leases and service concession arrangements. This was partially offset by a $30 billion increase in total assets. The increase in non-financial assets was due to new investments and revaluation gains during the year.

Table 3.2: Summary balance sheet – State of Victoria (a)(b)(c) **($ billion)**

	2020 actual	*Revised variance*	*2020 revised*	*Actual movement*	*2019 actual*
Assets					
Financial assets	69	7	62	2	67
Non-financial assets	315	6	310	28	288
Total assets	**385**	**13**	**371**	**30**	**354**
Liabilities					
Superannuation	31	3	28	3	29
Borrowings	88	10	78	22	66
Other liabilities	86	3	83	8	78
Total liabilities	**205**	**16**	**190**	**32**	**173**
Net assets	**179**	**(2)**	**182**	**(2)**	**182**

Notes:
(a) *Figures in this table are subject to rounding to the nearest billion and may not add up to the totals.*
(b) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 in Chapter 4 for further details.*
(c) *The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Chapter 4, Note 6.3.1 for further details.*

Chart 3.2: Net assets by sector as at 30 June (a)



Note:
(a) General government net assets exclude investments in other sector entities and the State of Victoria will not equal the sum of the general government, PNFC and PFC sectors due to inter-sector eliminations.

The lower net assets were mainly driven by a valuation decrease of $4 billion in the PFC sector. Increase in claims expenses, resulting in an increase in the value of claims liabilities of the State's insurers, was the main contributor to the decrease in the net assets of the PFC sector.

Chart 3.2 shows the contribution to the change in net assets by sector during 2019-20. The reported net asset position of the PFC sector is impacted by the accounting convention adopted for TCV whereby its fixed interest rate loans to government clients are measured at book value, whereas its liabilities are reported at market value.

This valuation methodology for TCV's loans enables consolidation with the borrowings of the general government and the PNFC sector clients. This creates a valuation difference between TCV's assets and liabilities when reported in the PFC sector. This difference is eliminated when TCV's loans to government clients are consolidated in the whole of State accounts. Note that in TCV's own accounts, both assets and liabilities are reported at market value. This is also impacted by the claims liabilities of the insurers explained above.

CASH FLOWS

After excluding non-cash items and operating cash flows not required to be recognised in the operating statement for the respective year, the change in operating receipts and payments for the State were broadly in line with the same factors that underpinned the income and expense movements discussed earlier in this chapter.

Infrastructure investment

Net cash flows from investments in non-financial assets comprised $9.6 billion invested by the general government sector and $2.5 billion in the PNFC sector, particularly in the water sector.

Investment in water-related infrastructure included:

- upgrading and renewal of water and sewer assets by the Melbourne metropolitan water corporations, including the O'Shannassy Reservoir Outlet Pipe Renewal and Upper Yarra Dam Safety Upgrade (Melbourne Water Corporation), water reticulation renewal projects and Donnybrook Road Link Branch Sewer (Yarra Valley Water), Boneo Water Recycling Plant Upgrade and Digital Utilities Program (South East Water), and Melbourne CBD Sewer Augmentation Strategy Stage 2A – Lonsdale Street Sewer and M205 Carlton Water Main Renewal (City West Water); and
- upgrading and renewal of water and sewer assets in regional Victoria including Goulburn-Murray Water's Connections Project.

FINANCIAL SUSTAINABILITY (NON-FINANCIAL PUBLIC SECTOR)

The sustainability of the non-financial public sector (NFPS) is significant for the State's credit rating. The NFPS comprises the general government sector and the PNFC sector. The credit rating agencies consider the level of net debt, net financial liabilities and the State's capacity to service these liabilities.

Table 3.3 shows NFPS net debt of $60 billion at June 2020, compared with $40.1 billion the previous year and higher than the revised estimate of $57.1 billion.

The ratio of NFPS net debt to gross state product (GSP) was 13.1 per cent at 30 June 2020 compared with 8.8 per cent at 30 June 2019. The movement in net debt was also impacted by the implementation of new Australian accounting standards, as outlined in Chapter 4.

Table 3.3: Non-financial public sector net debt and net financial liabilities as at 30 June[(a)(b)(c)] **($ million)**

	2020 actual	*Revised variance*	*2020 revised*	*Actual movement*	*2019 actual*
Assets					
Cash and deposits	14 569	7 066	7 503	3 197	11 372
Advances paid	483	(16)	499	65	418
Investments, loans and placements	3 227	(360)	3 587	(114)	3 341
Total	**18 279**	**6 690**	**11 589**	**3 147**	**15 131**
Liabilities					
Deposits held and advances received	1 660	238	1 421	136	1 524
Borrowings	76 584	9 301	67 282	22 920	53 664
Total	**78 243**	**9 540**	**68 703**	**23 056**	**55 188**
Net debt	**59 965**	**2 850**	**57 115**	**19 908**	**40 056**
Superannuation	31 293	2 806	28 487	2 610	28 683
Net debt plus superannuation liabilities	**91 258**	**5 656**	**85 602**	**22 518**	**68 739**
Other liabilities (net)	30 026	2 857	27 170	2 032	27 994
Net financial liabilities	**121 284**	**8 512**	**112 771**	**24 551**	**96 733**
					(per cent)
Net debt to GSP [(d)]	13.1		12.4		8.8
Net debt plus superannuation liabilities to GSP [(d)]	19.9		18.6		15.1
Net financial liabilities to GSP [(d)]	26.4		24.5		21.3

Notes:

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

(b) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 in Chapter 4 for further details.*

(c) *The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Chapter 4, Note 6.3.1 for further details.*

(d) *The GSP forecasts used within this report have been derived with reference to the estimated nominal GSP as at August 2020. The ratios to GSP may vary from publications year to year due to revisions to the Australian Bureau of Statistics data.*

Indicators of financial condition

Table 3.4 shows key financial indicators of financial sustainability for the NFPS.

The operating cash flow surplus to revenue ratio has decreased in 2019-20 compared with 2018-19. This was mainly due to a decline in operating revenue and an increase in general government sector operating expenditure attributable to the coronavirus (COVID-19) pandemic.

The interest expense to revenue ratio has steadily decreased since 2013-14. The ratio increased slightly over 2019-20 from 3.7 to 3.9 per cent due to the increase in the level of borrowings undertaken over the June quarter to meet higher expenditure in response to COVID-19 and to maintain higher liquidity levels.

The gross debt to revenue ratio has fallen steadily since 2012-13 from 86.5 per cent to 75.5 per cent as at June 2019. However, this increased to 110.1 per cent in 2019-20 due to the increase in the level of borrowings during the June quarter in response to COVID-19, the implementation of new Australian accounting standards along with decreases in revenue, especially taxation and GST revenue.

Table 3.4: Indicators of financial condition for NFPS (a)(b) **(per cent)**

	2012	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*
Operating cash flow surplus to revenue	7.6	4.9	10.0	9.1	11.7	24.4	8.7	12.4	(2.2)
Gross debt to revenue (c)	66.5	86.5	81.5	81.0	76.8	64.7	69.8	75.5	110.1
Interest expense to revenue	3.8	4.8	5.0	4.9	4.4	3.9	3.7	3.7	3.9

Notes:

(a) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details.*

(b) *The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Chapter 4, Note 6.3.1 for further details.*

(c) *Gross debt comprises borrowings, deposits held, and advances received.*

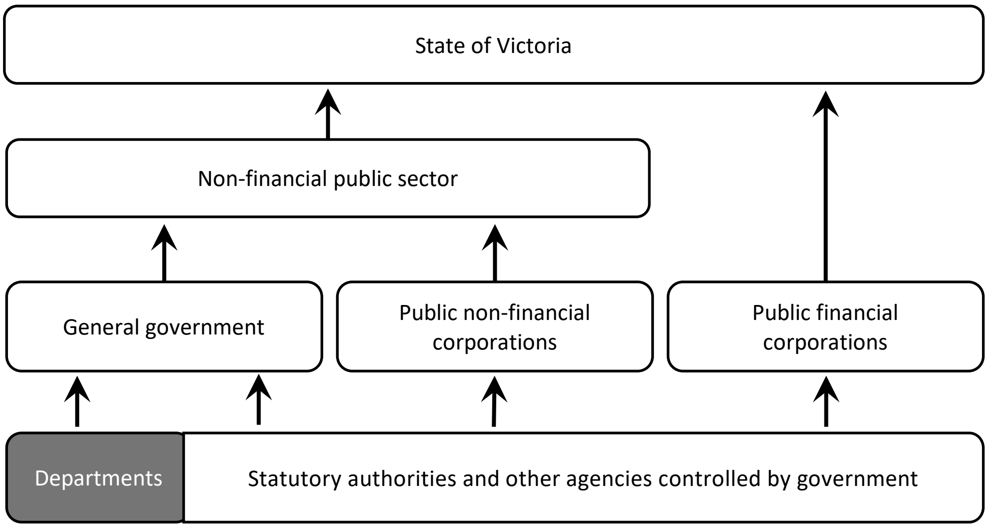
CHAPTER 4 – ANNUAL FINANCIAL REPORT

REPORT STRUCTURE

The Treasurer of Victoria presents the Annual Financial Report of the State of Victoria ("State") for the financial year ended 30 June 2020, as follows:

PUBLIC SECTOR TERMS EXPLAINED

The State of Victoria reporting entity includes government departments, public non-financial corporations (PNFCs), public financial corporations (PFCs) and other government controlled entities. The State and most of its subsidiary entities are not-for-profit entities.



The State controlled entities are classified into several sectors according to the System of National Accounts, as follows:

Term	*Explanation*
General government sector (GGS)	The Victorian general government sector includes all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. The general government sector is not a separate entity but represents a sector within the State of Victoria reporting entity, and is reported in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The primary function of entities within the general government sector is to provide public services (outputs), which are mainly non-market in nature for the collective consumption of the community, and involve the transfer or redistribution of revenue, which is financed mainly through taxes and other compulsory levies.
Public non-financial corporations (PNFC) sector	The primary function of entities in the PNFC sector is to provide goods and services in a competitive market that is non-regulatory and non-financial in nature. Such entities are financed mainly through sales to the consumers of these goods and services.
Public financial corporations (PFC) sector	The PFC sector comprises entities engaged primarily in providing financial intermediation services or auxiliary financial services and which have one or more of the following characteristics: • they perform a central borrowing function; • they provide insurance services; • they accept call, term or savings deposits; or • they have the ability to incur liabilities and acquire financial assets in the market on their own account.
Non-financial public sector (NFPS)	The NFPS sector represents the consolidation of the general government and PNFC sectors.

Note 9.1 disaggregates information about these sectors. Disclosing this information assists users of the financial statements to determine the effects of differing activities on the financial performance and position of the State. It also assists users to identify the resources used in providing a range of goods and services, and the extent to which the State has recovered the costs of those resources from revenues attributable to those activities.

Independent Auditor's Report

To the Treasurer of the State of Victoria

Opinion	I have audited the consolidated financial report of the State of Victoria (State) and the Victorian General Government Sector (General Government Sector), which comprises the: • consolidated State and General Government Sector balance sheets as at 30 June 2020 • consolidated State and General Government Sector comprehensive operating statements for the year then ended • consolidated State and General Government Sector statements of changes in equity for the year then ended • consolidated State and General Government Sector cash flow statements for the year then ended • notes to the financial statements, including significant accounting policies • certification by the Treasurer and the Department of Treasury and Finance. In my opinion, the consolidated financial report presents fairly, in all material respects, the financial positions of the State and the General Government Sector as at 30 June 2020 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Section 24 of the *Financial Management Act 1994* and applicable Australian Accounting Standards.
Basis for opinion	I have conducted my audit in accordance with the *Audit Act 1994*, which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the *Auditor's responsibilities for the audit of the financial report* section of my report. My independence is established by the *Constitution Act 1975*. My staff and I are independent of the State and the General Government Sector in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.
Key audit matters	Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

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Key audit matter	How I addressed the matter
Recognition and measurement of transport assets Refer to Note 4.1 *Land, buildings, infrastructure plant and equipment*	
Significant spending on capital projects in the transport sector results in large additions to the State's asset base each year. The State is ultimately responsible for ensuring proper accounts and records are maintained to sufficiently explain the financial impact these assets have on the financial operations and financial position of the State. I considered this to be a key audit matter because: • transport assets are financially significant • capital projects in the transport sector are complex, and each project results in multiple assets being constructed • a significant degree of management judgement is required to: o determine individual assets within a project o determine which expenses should be capitalised o allocate capital expenses to individual assets. • multiple agencies are involved in the management and delivery of capital projects in the transport sector which makes the timely recognition and derecognition of assets challenging • Victorian Rail Track (VicTrack) is the custodial owner of a large portion of the State's transport assets. Significant asset accounting issues were identified at VicTrack • transport assets were subject to a formal independent revaluation in 2019–20. A significant degree of judgement was required to determine the key assumptions used in valuing transport assets • extensive disclosures are required by Australian Accounting Standards which are critical to the users understanding of the valuation of transport assets.	My key procedures included: • assessing management's process to identify individual assets within a project, and the costs directly attributable to those assets • assessing the results of the work undertaken by management to review work in progress balances and capitalise completed projects • reviewing management's assessment of the existence of assets, and the completeness and accuracy of asset records • physically inspecting a sample of assets to confirm they existed, and to verify the completeness and accuracy of asset records • reviewing the accounting treatment for asset additions, disposals and replacements against the requirements of Australian Accounting standards • assessing the results of independent valuations, challenging assumptions contained within, and investigating significant variances • assessing the potential impact of identified issues on the financial statements • assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.

Key audit matter	How I addressed the matter
Recognition and measurement of service concession assets and liabilities Refer to Note 4.1 *Land, buildings, infrastructure, plant and equipment*, Note 4.2 *Other non-financial assets,* Note 5.1 *Borrowings*, Note 5.3 *Service concession arrangements,* and Note 6.4.1 *Payables*	

Service concession assets – $25.0 billion
 	
Service concession financial liabilities – $6.1 billion
 	
Service concession grant of a right to the operator (GORTO) liabilities – $9.4 billion
 	
In line with the State's direction prescribed in FRD 124 *Transitional requirements on the application of AASB 1059 Service Concession Arrangements: Grantors,* the State has early adopted AASB 1059 from 1 July 2019. The State has applied the requirements of the standard retrospectively, meaning application of the requirements to all service concession arrangements from the date construction of the asset commenced.
 	
For certain service concession assets, the State has granted the operators the right to charge the public directly for the use of the assets. For all other service concession assets, the State has contractual obligations to make payments and other contributions to the operators for the construction and operation of the assets.
 	
I considered this to be a key audit matter because:
• service concession assets and liabilities are financially significant
• this is the first year of applying AASB 1059, and the requirements are complex and require significant judgement in their application
• service concession arrangements and the financial models used to value the assets and liabilities are complex
• a significant degree of management judgement is required to determine the key assumptions used in valuing the assets and liabilities
• information may not be available to value service concession assets and liabilities, particularly those which were built several years ago and haven't previously been valued by the State
• the required disclosures for service concession assets and liabilities are extensive, particularly in the first year of applying AASB 1059.
	My key procedures included:
	• reviewing all contracts, supporting schedules, financial models and professional accounting advice received by the State, where applicable
	• engaging appropriately qualified independent subject matter experts to review the valuation methodologies and financial models and assess the:
	  o appropriateness of fair value methodologies
	  o reasonableness and consistency of assumptions
	  o reasonableness of inputs against underlying data and supporting documentation
	  o accuracy of models.
	• assessing the completeness and accuracy of service concession assets and liabilities against the contracts and underlying financial models for each project
	• challenging the reasonableness of asset amounts compared to actual costs incurred
	• assessing the accounting treatment against the requirements of AASB 1059, and the reasonableness of management judgements made in the application of the standard
	• assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.

Key audit matter	How I addressed the matter
Lease arrangements for operational transport assets Refer to Note 5.2 *Leases*	
VicTrack is the custodial owner of the State's transport assets and leases all operational transport assets to the Department of Transport to run the State's transport network. Operational transport assets include land, stations, track, rolling stock and signalling systems. The Department of Transport (a general government sector entity) reassessed the classification of these leases for 30 June 2020 after the introduction of AASB 16 *Leases*. The Department concluded the arrangements were finance leases because it obtained substantially all the risks and rewards of ownership of the assets. VicTrack (a public non-financial corporation) did not reassess the classification of the leases and incorrectly classified the lease arrangements as operating leases for 30 June 2020. As a result, I issued an adverse opinion of the financial report of VicTrack because it did not present fairly, in all material respects, in accordance with the financial reporting requirements of the *Financial Management Act 1994* and applicable Australian Accounting Standards. A central adjustment was performed on consolidation to address the divergent accounting treatment between the Department of Transport and VicTrack. I considered this to be a key audit matter because: • operational transport assets are financially significant • this is the first year of applying AASB 16 and its application requires significant judgement, particularly for arrangements that have significantly below market terms and conditions • each arrangement is complex with varying terms and conditions, including below market lease payments. The State elected to measure the assets and liabilities subject to these arrangements initially at cost as per the temporary relief given to not-for-profit entities by AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* • there was divergent accounting treatment between government sectors • extensive disclosures are required by Australian Accounting Standards which are critical to the users understanding of the nature of the arrangements.	My key procedures included: • reviewing all lease arrangements, legislation, professional accounting advice received by the State, and other key information to understand the nature of the operational transport assets, the obligations of each party, and how the assets are being used by each party in the public transport system • assessing the accounting treatment against the requirements of AASB 16 and the AASB *Conceptual Framework for Financial Reporting*, and the reasonableness of management judgements made in the application of the standard and framework • engaging an appropriately qualified independent technical expert to review and challenge my technical considerations and the conclusions I formed • reviewing the completeness and accuracy of information provided for consolidation into the financial statements • assessing the accuracy of central consolidation and elimination adjustments • assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.

<table>
<tr><th>Key audit matter</th><th>How I addressed the matter</th></tr>
<tr><td colspan="2">Valuation of defined benefit superannuation liability
Refer to Note 6.5 Superannuation</td></tr>
<tr><td>Defined benefit superannuation liability – $31.3 billion.

I considered this to be a key audit matter because:
the defined benefit superannuation liability is financially significant
the underlying model used to value the liability is complex
a significant degree of management judgement is required to determine the method, the model and key assumptions used in valuing the liability
a small adjustment to an assumption may have a significant effect on the total value of the liability
extensive disclosures are required by Australian Accounting Standards which are critical to the users understanding of the valuation of this liability.
Management engage an actuary to value the liability as at 30 April, then adjust the value of the liability to account for actual market performance and movements in key assumptions up to 30 June.</td><td>My key procedures included:
testing the operating effectiveness of key controls supporting the membership data used in the model
reconciling membership data in the model to the data in the Emergency Services Superannuation Scheme (ESSS) system
obtaining management’s actuarial report and year-end adjustments, and engaging an appropriately qualified independent actuary to:
assess the appropriateness of management's selection and application of the method, significant assumptions and data used in valuing the liability
assess the appropriateness of the model used to value the liability
challenge the reasonableness of key assumptions by comparing against accepted industry benchmarks
assess the reasonableness of the reported liability value.
assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.</td></tr>
</table>

Key audit matter	How I addressed the matter
Valuation of provision for insurance claims Refer to Note 6.6 *Other provisions*	

Provision for insurance claims – $44.3 billion.
 	
I considered this to be a key audit matter because:
• the provision for insurance claims is financially significant
• the underlying models used to value the provision is complex
• the valuation of the provision is subject to significant management assumptions and estimation uncertainty
• a small adjustment to an assumption may have a significant effect on the total value of the provision
• extensive disclosures are required by Australian Accounting Standards which are critical to the users understanding of the valuation of this provision.
 	
Management engage actuaries to value the provision as at 30 June.
	My key procedures included:
	• testing the operating effectiveness of key controls supporting the underlying claims data used in the models
	• reconciling claims data in the models to the data in the Victorian WorkCover Authority, Transport Accident Commission and Victorian Managed Insurance Authority systems
	• obtaining management's actuarial reports, and engaging an appropriately qualified independent actuary to:
	  o assess the appropriateness of management's selection and application of the methods, significant assumptions and data used in valuing the provision
	  o assess the appropriateness of the models used to value the provision
	  o challenge the reasonableness of key assumptions by comparing against claims history and accepted industry benchmarks
	  o assess the reasonableness of the reported provision value.
	• assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.

Other information	The Treasurer of Victoria is responsible for the Other Information, which comprises the information in chapters 1–3 of the 2019–20 Financial Report but does not include the consolidated financial report in chapter 4 of the 2019–20 Financial Report and my auditor's report thereon. My opinion on the consolidated financial report does not cover the Other Information and accordingly, I do not express any form of assurance conclusion on the Other Information. However, in connection with my audit of the consolidated financial report, my responsibility is to read the Other Information and in doing so, consider whether it is materially inconsistent with the consolidated financial report or the knowledge I obtained during the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude there is a material misstatement of the Other Information, I am required to report that fact. I have nothing to report in this regard.
Treasurer's responsibilities for the financial report	The Treasurer of Victoria is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Financial Management Act 1994*, and for such internal control as the Treasurer determines is necessary to enable the preparation of a consolidated financial report that is free from material misstatement, whether due to fraud or error. In preparing the financial report, the Treasurer is responsible for assessing the State and the General Government Sector's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.

Auditor's responsibilities for the audit of the financial report	As required by the *Audit Act 1994*, my responsibility is to express an opinion on the consolidated financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the consolidated financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report. As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also: • identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. • obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State and the General Government Sector's internal control • evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Treasurer • conclude on the appropriateness of the Treasurer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the State and the General Government Sector's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the State and the General Government Sector to cease to continue as a going concern. • evaluate the overall presentation, structure and content of the consolidated financial report, including the disclosures, and whether the consolidated financial report represents the underlying transactions and events in a manner that achieves fair presentation • obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the State and the General Government Sector to express an opinion on the consolidated financial report. I remain responsible for the direction, supervision and performance of the audit of the consolidated financial report. I remain solely responsible for my audit opinion.

Auditor's responsibilities for the audit of the financial report (continued)	I communicate with the Treasurer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit. From the matters communicated with the Treasurer, I determine those matters that were of most significance in the audit of the consolidated financial report of the current period and are therefore key audit matters. I describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

MELBOURNE
12 October 2020

Andrew Greaves
Auditor-General

CERTIFICATION BY THE TREASURER AND THE DEPARTMENT OF TREASURY AND FINANCE

The Department of Treasury and Finance has prepared the *Annual Financial Report* through consolidating the financial information provided by the Victorian public sector reporting entities listed herein.

In our opinion, the *Annual Financial Report*, which comprises the consolidated comprehensive operating statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, and notes to the financial statements of the State and the Victorian general government sector as at 30 June 2020:

(a) presents fairly the State's and the Victorian general government sector's financial positions as at 30 June 2020 and their financial performance and cash flows for the financial year ended on that date; and

(b) has been prepared in accordance with Australian Accounting Standards and pronouncements, in particular AASB 1049 *Whole of Government and General Government Sector Financial Reporting* and the financial reporting requirements contained in Part 5 of the *Financial Management Act 1994*.

At the time of signing, we are not aware of any circumstances which would render any particulars included in the *Annual Financial Report* to be misleading or inaccurate.

Tim Pallas MP
Treasurer

David Martine
Secretary

Authorised for issue on:

5 October 2020

CONSOLIDATED COMPREHENSIVE OPERATING STATEMENT

For the financial year ended 30 June [(a)(b)] **($ million)**

		State of Victoria		General government sector	
	Notes	2020	2019	2020	2019
Revenue from transactions					
Taxation revenue	2.1	22 730	23 176	23 167	23 585
Interest revenue	2.2	484	678	619	817
Dividends, income tax equivalent and rate equivalent revenue	2.3	2 352	2 426	810	1 030
Sales of goods and services	2.4	15 810	15 648	7 902	7 680
Grant revenue	2.5	32 505	32 654	32 789	33 303
Other revenue	2.6	3 447	4 056	2 662	3 184
Total revenue from transactions		**77 327**	**78 637**	**67 948**	**69 600**
Expenses from transactions					
Employee expenses	3.1	28 503	26 644	27 214	25 406
Net superannuation interest expense	3.2	408	690	407	688
Other superannuation	3.2	3 245	2 961	3 073	2 797
Depreciation	4.1.2	6 467	5 553	3 894	3 056
Interest expense	5.8	3 002	2 912	2 328	2 321
Grant expense	3.3	11 276	9 571	15 331	13 355
Other operating expenses	3.4	33 447	32 090	22 241	21 006
Total expenses from transactions	3.5, 3.6	**86 348**	**80 420**	**74 487**	**68 629**
Net result from transactions – net operating balance		**(9 021)**	**(1 782)**	**(6 539)**	**971**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets		(190)	(68)	(92)	(38)
Net gain/(loss) on financial assets or liabilities at fair value		(2 476)	(1 466)	80	(36)
Share of net profit/(loss) from associates/joint venture entities		3	1	3	1
Other gains/(losses) from other economic flows	9.3	(4 014)	(5 922)	(1 351)	(669)
Total other economic flows included in net result		**(6 677)**	**(7 454)**	**(1 360)**	**(742)**
Net result		**(15 699)**	**(9 236)**	**(7 899)**	**229**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus		16 504	3 646	12 519	4 742
Remeasurement of superannuation defined benefits plans	3.2	(2 735)	(3 385)	(2 721)	(3 371)
Other movements in equity		(98)	311	(107)	197
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value		(182)	(60)	(173)	(65)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	6.1	..	..	(2 583)	(2 654)
Total other economic flows – other comprehensive income		**13 490**	**511**	**6 935**	**(1 150)**
Comprehensive result – total change in net worth		**(2 208)**	**(8 725)**	**(964)**	**(921)**
KEY FISCAL AGGREGATES					
Net operating balance		**(9 021)**	**(1 782)**	**(6 539)**	**971**
Less: Net acquisition of non-financial assets from transactions	9.1	8 871	8 482	4 485	5 086
Net lending/(borrowing)		**(17 893)**	**(10 265)**	**(11 024)**	**(4 115)**

The accompanying notes form part of these financial statements.

Notes:

(a) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*

(b) *The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Note 6.3.1 for further details.*

CONSOLIDATED BALANCE SHEET

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

		State of Victoria			General government sector		
	Notes	2020	2019	2018	2020 (c)	2019	2018
Assets							
Financial assets							
Cash and deposits	5.6	19 185	12 694	6 494	13 037	9 775	6 257
Advances paid	5.7	483	418	378	6 550	8 340	9 793
Receivables and contract assets	6.3	9 069	8 584	7 549	6 108	5 464	4 994
Investments, loans and placements	5.7	40 381	45 098	42 336	2 589	2 539	3 928
Investments accounted for using the equity method		10	45	53	10	45	53
Investments in other sector entities	6.1	..	..	..	75 043	101 825	101 253
Total financial assets		**69 128**	**66 840**	**56 809**	**103 337**	**127 989**	**126 277**
Non-financial assets							
Inventories	6.2	1 710	1 064	1 050	666	165	175
Non-financial assets held for sale		226	304	462	192	223	389
Land, buildings, infrastructure, plant and equipment	4.1.1	309 065	282 541	270 071	173 743	153 949	143 634
Other non-financial assets	4.2	4 401	3 618	2 859	3 103	2 415	1 730
Total non-financial assets		**315 402**	**287 527**	**274 441**	**177 703**	**156 752**	**145 928**
Total assets	3.6	**384 530**	**354 367**	**331 250**	**281 040**	**284 741**	**272 205**
Liabilities							
Deposits held and advances received	5.5	1 693	1 691	2 154	3 681	5 250	6 524
Payables and contract liabilities	6.4	28 754	26 591	22 475	16 870	15 401	10 945
Borrowings	5.1	87 778	65 916	51 350	62 807	40 896	35 086
Employee benefits	3.1	9 662	8 604	7 570	9 028	8 020	7 020
Superannuation	6.5	31 293	28 683	25 233	31 228	28 632	25 205
Other provisions	6.6	45 859	41 164	32 025	1 335	1 072	1 034
Total liabilities		**205 039**	**172 650**	**140 808**	**124 949**	**99 270**	**85 813**
Net assets		**179 491**	**181 717**	**190 442**	**156 092**	**185 471**	**186 392**
Accumulated surplus/(deficit)		76 661	71 069	80 676	68 166	54 691	54 873
Reserves		102 830	110 648	109 766	87 925	130 780	131 519
Net worth		**179 491**	**181 717**	**190 442**	**156 092**	**185 471**	**186 392**
FISCAL AGGREGATES							
Net financial worth		(135 912)	(105 810)	(83 999)	(21 612)	28 719	40 464
Net financial liabilities		135 912	105 810	83 999	96 654	73 106	60 789
Net debt		29 422	9 397	4 298	44 312	25 492	21 632

The accompanying notes form part of these financial statements.

Notes:

(a) *The 1 July 2018 and June 2019 comparatives have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. A third balance sheet has been included to show the effect of this change in accordance with the requirements of AASB 101* Presentation of financial statements*. Refer to Note 9.7.2. for further details.*

(b) *The 1 July 2018 and June 2019 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Note 6.3.1 for further details.*

(c) *The June 2020 general government sector investment in other sector entities balances has decreased due to the adoption of AASB 16* Leases *from 1 July 2019. Refer to Notes 5.2 and 9.7.2 for further details.*

CONSOLIDATED CASH FLOW STATEMENT

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

	Notes	State of Victoria 2020	State of Victoria 2019	General government sector 2020	General government sector 2019
Cash flows from operating activities					
Receipts					
Taxes received		22 820	22 824	23 257	23 233
Grants		34 013	32 719	34 302	33 353
Sales of goods and services [(b)]		17 544	17 047	8 515	8 263
Interest received		368	453	636	808
Dividends, income tax equivalent and rate equivalent receipts		2 352	2 426	818	1 040
Other receipts		2 381	5 583	2 066	4 973
Total receipts		**79 479**	**81 053**	**69 593**	**71 671**
Payments					
Payments for employees		(27 605)	(25 944)	(26 362)	(24 731)
Superannuation		(3 777)	(3 585)	(3 605)	(3 429)
Interest paid		(2 712)	(2 613)	(2 086)	(2 062)
Grants and subsidies		(11 586)	(9 304)	(15 676)	(13 226)
Goods and services [(b)]		(31 903)	(28 787)	(23 232)	(20 041)
Other payments		(1 520)	(792)	(1 543)	(791)
Total payments		**(79 103)**	**(71 025)**	**(72 506)**	**(64 280)**
Net cash flows from operating activities	5.6	**375**	**10 028**	**(2 913)**	**7 391**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	3.5, 3.6	(12 548)	(12 486)	(9 734)	(9 856)
Sales of non-financial assets		370	364	170	243
Net cash flows from investments in non-financial assets		**(12 178)**	**(12 122)**	**(9 565)**	**(9 613)**
Cash flows from investments in financial assets for policy purposes					
Cash inflows		698	407	2 545	2 235
Cash outflows		(785)	(307)	(1 187)	(795)
Net cash flows from investments in financial assets for policy purposes		**(87)**	**100**	**1 358**	**1 440**
Cash flows from investments in financial assets for liquidity management purposes					
Cash inflows		8 065	3 503	587	2 857
Cash outflows		(4 170)	(5 743)	(1 077)	(1 221)
Net cash flows from investments in financial assets for liquidity management purposes [(c)]		**3 896**	**(2 240)**	**(491)**	**1 636**
Net cash flows from investing activities		**(8 369)**	**(14 263)**	**(8 698)**	**(6 537)**
Cash flows from financing activities					
Advances received		140	16	140	211
Advances repaid		(51)	(30)	(1 792)	(1 602)
Advances received (net) [(c)]		90	(14)	(1 651)	(1 391)
Borrowings received		18 852	12 068	20 588	6 194
Borrowings repaid		(4 369)	(1 135)	(4 146)	(2 220)
Net borrowings [(c)]		14 483	10 933	16 442	3 974
Deposits received		4 784	2 089	4 710	2 015
Deposits repaid		(4 872)	(2 574)	(4 628)	(1 933)
Deposits received (net) [(c)]		(88)	(484)	82	82
Net cash flows from financing activities		**14 484**	**10 435**	**14 873**	**2 665**
Net increase/(decrease) in cash and cash equivalents		**6 490**	**6 200**	**3 262**	**3 518**
Cash and cash equivalents at beginning of reporting period		12 695	6 494	9 775	6 257
Cash and cash equivalents at end of the reporting period	5.6	**19 185**	**12 694**	**13 037**	**9 775**
FISCAL AGGREGATES					
Net cash flows from operating activities		375	10 028	(2 913)	7 391
Net cash flows from investments in non-financial assets		(12 178)	(12 122)	(9 565)	(9 613)
Cash surplus/(deficit)		**(11 803)**	**(2 094)**	**(12 478)**	**(2 223)**

The accompanying notes form part of these financial statements.

Notes:

(a) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*

(b) *These items include goods and services tax.*

(c) *In accordance with AASB 107* Statement of Cash Flows*, Treasury Corporation of Victoria (TCV) is not required to gross up its cash flow information for whole of government consolidation purposes. The net cash movements for TCV have been added to cash inflows or outflows for both financial years ended 30 June 2020 and 30 June 2019.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

State of Victoria	*Accumulated surplus/(deficit)*	*Non-financial assets revaluation surplus*	*Other reserves*	*Total*
2020				
Balance at 1 July 2019 [(b)]	**67 687**	**108 396**	**1 643**	**177 726**
Impact of new accounting standards	3 366	607	..	3 973
Restated balance at 1 July 2019 [(c)]	**71 053**	**109 002**	**1 643**	**181 699**
Net result for the year	(15 699)	..	..	(15 699)
Other comprehensive income for the year	(2 895)	16 504	(119)	13 490
Transfer to/(from) accumulated surplus	24 201	(24 201)	..	..
Balance at 30 June 2020	**76 661**	**101 305**	**1 524**	**179 491**
2019				
Balance at 1 July 2018	**78 429**	**108 122**	**1 615**	**188 167**
Prior period adjustment	(1 215)	**..**	**..**	(1 215)
Impact of new accounting standards	3 461	29	..	3 490
Balance at 1 July 2018 [(d)]	**80 676**	**108 151**	**1 615**	**190 442**
Net result for the year [(d)]	(9 236)	..	..	(9 236)
Other comprehensive income for the year	(3 163)	3 646	28	511
Transfer to/(from) accumulated surplus	2 792	(2 792)	..	..
Balance at 30 June 2019 [(d)]	**71 069**	**109 004**	**1 643**	**181 717**

The accompanying notes form part of these financial statements.

Notes:

(a) *The 1 July 2018 and June 2019 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Note 6.3.1 for further details.*

(b) *The 1 July 2019 opening balance represents the 30 June 2019 closing balance adjusted for the impact of AASB 1059* Service Concession Arrangements: Grantors. This difference has been included within the impact of new accounting standards line.

(c) *The 1 July 2019 balance has been restated resulting from the application of AASB 15* Revenue from Contracts with Customers*, AASB 1058* Income of Not for Profit Entities*, AASB 16* Leases *and AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details.*

(d) *The 1 July 2018 and June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details.*

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

General government sector	*Accumulated surplus/(deficit)*	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
2020					
Balance at 1 July 2019 [(b)]	**51 309**	**65 454**	**63 697**	**1 020**	**181 480**
Impact of new accounting standards	3 443	608	(28 475)	..	(24 424)
Restated balance at 1 July 2019 [(c)]	**54 752**	**66 062**	**35 222**	**1 020**	**157 056**
Net result for the year	(7 899)	..	..	..	(7 899)
Other comprehensive income for the year	(2 889)	12 519	(2 583)	(112)	6 935
Transfer to/(from) accumulated surplus	24 201	(24 201)	..	..	..
Balance at 30 June 2020	**68 166**	**54 379**	**32 639**	**908**	**156 092**
2019					
Balance at 1 July 2018	**52 626**	**64 084**	**66 351**	**1 055**	**184 116**
Prior period adjustment	(1 215)	..	..	..	(1 215)
Impact of new accounting standards	3 461	29	..	..	3 490
Restated balance at 1 July 2018 [(d)]	**54 873**	**64 113**	**66 351**	**1 055**	**186 392**
Net result for the year [(d)]	229	..	..	..	229
Other comprehensive income for the year	(3 204)	4 742	(2 654)	(35)	(1 150)
Transfer to/(from) accumulated surplus	2 792	(2 792)	..	..	..
Balance at 30 June 2019 [(d)]	**54 691**	**66 063**	**63 697**	**1 020**	**185 471**

The accompanying notes form part of these financial statements.

Notes:

(a) *The 1 July 2018 and June 2019 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Note 6.3.1 for further details.*

(b) *The 1 July 2019 opening balance represents the 30 June 2019 closing balance adjusted for the impact of AASB 1059* Service Concession Arrangements: Grantors. This difference has been included within the impact of new accounting standards line.

(c) *The 1 July 2019 balance has been restated resulting from the application of AASB 15* Revenue from Contracts with Customers*, AASB 1058* Income of Not for Profit Entities*, AASB 16* Leases *and AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*

(d) *The 1 July 2018 and June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details.*

1. ABOUT THIS REPORT

Basis of preparation

This *Annual Financial Report* presents the audited general purpose consolidated financial statements of the State and the Victorian general government sector for the year ended 30 June 2020. This report informs users about the Government's stewardship of the resources entrusted to it.

Accounting policies selected and applied ensure that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

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

These financial statements are in Australian dollars and the historical cost convention is used except for:

- the 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 acquisition, are measured at a revalued amount being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amounts do not materially differ from their fair value;
- productive trees in commercial native forests, which are measured at their fair value less estimated costs to sell;
- derivative financial instruments, managed investment schemes, certain debt securities and investment properties after initial recognition, which are measured at fair value with changes reflected in the consolidated comprehensive operating statement (fair value through profit or loss or fair value through other comprehensive income); and
- certain liabilities, most notably unfunded superannuation and insurance claim provisions, which are subject to actuarial assessments.

Judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in applying Australian Accounting Standards that have significant effects on the financial statements and estimates relate to:

- the fair value of land, buildings, infrastructure, plant and equipment (Note 7.5);
- service concession arrangements (Note 5.3);
- superannuation expense and liability (Notes 3.2 and 6.5);
- actuarial assumptions for employee benefit provisions based on likely tenure of existing staff, patterns of leave claims, future salary movements and future discount rates (Note 3.1);
- GST revenue is recognised based on the State's entitlement to the annual GST pool (Note 2.5);
- recognition of grant revenue as income of not-for-profit entities where arrangements do not contain sufficiently specific performance obligations (Note 2.5);
- provisions for outstanding insurance claims (Note 6.6.1); and
- financial instruments carried at fair value classified at Level 3 of the fair value hierarchy (Note 7.4).

All amounts in the financial statements have been rounded to the nearest $1 000 000 except in the *Public Account disclosure* in Note 8.2 and the *Related party transactions disclosure* in Note 9.5, which are rounded to the nearest $1 000.

Figures in the *2019-20 Financial Report* may not add due to rounding.

Basis for consolidation

The consolidated financial statements of the State incorporate assets and liabilities of all reporting entities it controlled as at 30 June 2020 and the revenue and expenses of controlled entities for the part of the reporting period in which control existed (Note 9.9).

The consolidated financial statements of the Victorian general government sector incorporate the assets and liabilities, revenue and expenses of entities classified as general government. Entities in the public non-financial corporation (PNFC) and public financial corporation (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 the net assets of the PNFC and PFC sector entities before consolidation eliminations. Where the carrying amount of the entity's net assets is less than zero (before consolidation), the amount is not included in the general government sector, but the net liabilities will be consolidated at the State level. Any change in the carrying amount of the investment from period to period is accounted for as if the change in carrying amount is a change in fair value and accounted for in a manner consistent with AASB 9 *Financial Instruments*.

Entities which are not controlled by the State, including local government authorities, universities and denominated hospitals, are not consolidated into the financial statements for the State.

Where entities adopt dissimilar accounting policies and their effect is considered material, adjustments are made to ensure consistent policies are adopted in these financial statements.

In preparing the consolidated financial statements for reporting the State and the Victorian general government sector, all material transactions and balances between consolidated government-controlled entities are eliminated.

Although certain entities prepare their audited financial statements on a calendar year basis, their information on transactions and balances supplied for consolidation purposes reflect adjusted audited figures that relate to the following financial year ending 30 June.

Consistent with the requirements of AASB 1004 *Contributions*, contributions by owners (that is, contributed capital and its repayment) are treated as equity transactions and, therefore, do not form part of the revenues and expenses of the relevant sectors of government.

Compliance

These general purpose financial statements have been prepared in the manner and form as determined by the Treasurer, in accordance with the *Financial Management Act 1994* and applicable standards of the Australian Accounting Standards Board (AASB), which include Interpretations issued by the AASB. In particular, they are presented consistent with the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Where appropriate, those AASBs paragraphs applicable to not-for-profit entities have been applied.

The Government Finance Statistics (GFS) information included in this report is based on the GFS manual (the Australian Bureau of Statistics (ABS) publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015* as updated from time to time). Note 9.4 describes the significant reconciling differences between Australian Accounting Standards and the requirements contained in the GFS Manual.

Material events impacting on this report

The coronavirus (COVID-19) pandemic has introduced significant economic and fiscal uncertainties since early 2020. The Victorian Government, in its public health response to contain the spread of COVID-19, put in place restrictions on individuals and businesses. This has resulted in the limiting of economic activity in the last quarter of 2019-20, which has significantly impacted the State's revenue base, especially taxation revenue and GST grants.

The Government has incurred significant additional spending to support Victorians through the crisis, with social, economic and business support measures in addition to its public health response. Details of these measures can be found in Note 8.2 (Table 8.2.14) for Treasurer's Advance funded initiatives in 2019-20. Other initiatives such as taxation refunds were funded via a Special Appropriation under the *Taxation Administration Act 1997*. The amount of these refunds can be found in Note 2.1.

1. ABOUT THIS REPORT

Further COVID-19 related impacts have been considered and, where deemed appropriate, specifically included in relevant disclosures throughout the *2019-20 Financial Report* to reflect the material management judgements, estimates and assumptions in the valuation of key balances within the financial report:

- Note 3.3: Grant expense;
- Note 3.6: Classification of the functions of government disclosure;
- Note 4.1: Impairment;
- Note 6.5: Superannuation;
- Note 6.6: Other provisions;
- Note 7.1.6: Liquidity Risk;
- Note 7.5: Fair value determination of non-financial assets; and
- Note 9.6: Subsequent events.

2. HOW FUNDS ARE RAISED

Introduction

This section presents the sources and amounts of revenue raised by the State.

The income and revenue recognition are determined by the State based on the substance of the relevant arrangement in accordance with the requirements of AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for Profit Entities*.

Structure

2.1 Taxation revenue

($ million)

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Taxes on employers' payroll and labour force [(a)]	**5 719**	**6 203**	**5 803**	**6 280**
Taxes on immovable property				
Land tax	3 404	3 483	3 447	3 509
Fire Services Property Levy	708	648	708	648
Congestion levy	110	111	110	111
Metropolitan improvement levy	190	174	190	174
Total taxes on property	**4 412**	**4 416**	**4 455**	**4 442**
Gambling taxes				
Public lotteries [(b)]	530	523	530	523
Electronic gaming machines [(b)]	844	1 121	844	1 121
Casino [(b)]	161	241	161	241
Racing and other sports betting	166	110	166	110
Other	10	11	10	11
Financial and capital transactions				
Land transfer duty	6 143	6 009	6 143	6 009
Metropolitan planning levy	21	20	21	20
Financial accommodation levy	..	..	153	147
Growth areas infrastructure contribution	244	283	244	283
Levies on statutory corporations	**..**	**..**	**157**	**157**
Taxes on insurance	**1 484**	**1 373**	**1 484**	**1 373**
Total taxes on the provision of goods and services	**9 602**	**9 692**	**9 911**	**9 996**
Motor vehicle taxes				
Vehicle registration fees	1 773	1 643	1 775	1 645
Duty on vehicle registrations and transfers	895	909	895	909
Liquor licence fees [(a)]	**..**	**24**	**..**	**24**
Other [(c)]	**328**	**289**	**328**	**289**
Total taxes on the use of goods and performance of activities [(c)]	**2 996**	**2 866**	**2 998**	**2 867**
Total taxation revenue [(c)]	**22 730**	**23 176**	**23 167**	**23 585**

Notes:

(a) *As at 30 June 2020, as part of the Economic Survival Package, the State had refunded and waived $673 million of payroll tax for the 2019-20 financial year to small and medium-sized businesses and refunded $23 million of liquor licencing fees for affected venues and small businesses.*

(b) *Public lotteries, electronic gaming machines and casino taxes include gambling licence revenue recognised under AASB 15* Revenue from Contracts with Customers.

(c) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*

Taxation revenue represents revenue earned from the State's taxpayers. For taxes (excluding gambling licence revenue), revenue will continue to be recognised under AASB 1058 when the relevant taxable event has occurred. As a result, there are no changes to the revenue recognition for taxes.

State taxation revenue is recognised upon the earlier of either the receipt by the State of a taxpayer's self-assessment or the time when the taxpayer's obligation to pay arises, pursuant to the issue of an assessment.

Gambling licence revenue is assessed and accounted for under AASB 15.

2.2 Interest revenue

Interest revenue includes interest earned on bank term deposits and other investments, and the unwinding over time of the discount on financial assets. Interest revenue is recognised using the effective interest method, which allocates the interest over the relevant period.

Net realised and unrealised gains and losses on the revaluation of investments do not form part of revenue from transactions, but are reported either as part of revenue from other economic flows in the net result or as unrealised gains or losses taken direct to equity, forming part of the total change in net worth in the comprehensive result.

2.3 Dividends, income tax equivalent and rate equivalent revenue

($ million)

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Dividends from PFC sector	..	..	59	470
Dividends from PNFC sector	..	..	347	158
Dividends from non-public sector	2 352	2 426	103	73
Dividends	**2 352**	**2 426**	**509**	**701**
Income tax equivalent revenue from PFC sector	..	..	6	29
Income tax equivalent revenue from PNFC sector	..	..	290	296
Income tax equivalent revenue	**..**	**..**	**297**	**325**
Local government rate equivalent revenue	..	..	4	5
Total dividends, income tax equivalent and rate equivalent revenue	**2 352**	**2 426**	**810**	**1 030**

General government sector dividends, income tax equivalent and rate equivalent revenue, represent revenue earned from other sectors of government. Such revenue for the general government sector is recognised when the right to receive the payment is established.

Dividends and income tax equivalent revenue are mainly from the public non-financial corporation (PNFC) and public financial corporation (PFC) sectors. These revenues are based on established dividend policy and the profitability of the PNFCs and PFCs.

While most government departments and agencies are exempt from federal income tax, certain larger PNFC and PFC entities are subject to income tax equivalents payable to the general government sector in accordance with the National Tax Equivalent Regime (NTER). The primary objective of the NTER is to promote competitive neutrality, through uniformly applying income tax laws, between NTER entities and their privately held counterparts.

Dividends and income tax equivalents from the PNFC and PFC sectors are eliminated on consolidation into the financial statements of the State.

Dividends earned from the non-public sector are recognised when the right to receive payment is established.

Dividends by entity **($ million)**

	General government sector	
	2020	2019
Public financial corporations		
Victorian Managed Insurance Authority	..	408
Transport Accident Commission [(a)]	..	..
Treasury Corporation of Victoria	50	50
State Trustees Ltd	2	5
Victorian Funds Management Corporation	7	7
Dividends from PFC sector	**59**	**470**
Public non-financial corporations		
Melbourne Water Corporation	73	24
City West Water Corporation	76	20
South East Water Corporation	133	59
Yarra Valley Water Corporation	64	44
Development Victoria	..	9
Others	1	1
Dividends from PNFC sector	**347**	**158**

Note:

(a) *Amounts equivalent to dividends paid by the Transport Accident Commission are received and reported as contributions forming part of grant revenue, consistent with the requirements of AASB 1023* General Insurance Contracts*. There was no amount paid in 2019-20 (2018-19: $255 million).*

2.4 Sales of goods and services [(a)]

($ million)

	State of Victoria		General government sector	
	2020	2019	2020	2019
Revenue items accounted for under AASB 15				
Sale of goods	515	580	76	84
Provision of services [(b)]	13 921	13 750	4 562	4 500
Refunds and reimbursements	263	302	18	73
Income accounted for under AASB 1058 statutory requirement				
Motor vehicle regulatory fees	234	231	234	231
Other regulatory fees	566	470	546	455
Inter-sector capital asset charge	..	..	2 384	2 257
Revenue items accounted for under AASB 16				
Rental	311	314	82	80
Total sales of goods and services	**15 810**	**15 648**	**7 902**	**7 680**

Notes:

(a) *The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Note 6.3.1 for further details.*

(b) *Further disclosure on provision of services is available on the Department of Treasury and Finance's website (www.dtf.vic.gov.au). This further disclosure is not subject to audit by the Victorian Auditor-General's Office.*

The sale of goods and services included in the table above (excluding regulatory fees and inter-sector capital asset charge, which are recognised under AASB 1058 and rental which is recognised under AASB 16 *Leases*), represent transactions that the State has determined to be classified as revenue from contracts with customers in accordance with AASB 15. Revenue is only recognised when the performance obligation is satisfied. The impact of initially applying AASB 15 on the State's revenue from contracts with customers is described in Note 9.7.2. Due to the modified retrospective transition method chosen in applying AASB 15, comparative information has not been restated to reflect the new requirements.

Regulatory fees are accounted for under AASB 1058 as they represent income arising from statutory requirements and is recognised when the State has the right to receive payment. The State has determined this to be when an invoice is issued and recognises an asset and the corresponding income.

Inter-sector capital asset charge is a recognised when the charge is levied on the written-down value of controlled non-current physical assets of State government departments and some PNFCs. This represents the opportunity cost of capital used in service delivery. The charge is calculated on the budgeted carrying amount of applicable non-financial physical assets. At a general government level, the capital asset charge is levied on the PNFC entities.

Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in the contract with the customer. The State recognises revenue when it transfers control of a good or service to the customer. i.e. when, or as, the performance obligations for the sale of goods and services to the customer are satisfied:

- customers obtain control of the supplies and consumables at a point in time when the goods are delivered to and have been accepted at their premises;
- revenue from the sale of goods is recognised when the goods are delivered and have been accepted by the customer at their premises; and
- revenue from the rendering of services is recognised at a point in time when the performance obligation is satisfied when the service is completed; and over time when the customer simultaneously receives and consumes the services as it is provided.

There has been no material change in the recognition of revenue from the sale of goods and services as a result of the adoption of AASB 15.

Consideration received in advance of recognising the associated revenue from the customer is recorded as a contract liability (Note 6.4). Where the performance obligations are satisfied but not yet billed, a contract asset is recorded (Note 6.3).

Previous accounting policy for 30 June 2019

Revenue from the **provision of services** was recognised by reference to the stage of completion of the services being performed. The revenue was recognised when:

- the amount of the revenue, stage of completion and transaction costs incurred could be reliably measured; and
- it was probable that the economic benefits associated with the transaction would flow to the entity.

Under this method, revenue was recognised with reference to labour hours supplied or to labour hours supplied as a percentage of total services to be performed in each annual reporting period.

Revenue from the **sale of goods** was recognised when:

- the State no longer had any of the significant risks and rewards of ownership of the goods transferred to the buyer;
- the State no longer had continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- the amount of revenue, and the costs incurred or to be incurred in respect of the transactions, could be reliably measured; and
- it was probable that the economic benefits associated with the transaction would flow to the State.

2.5 Grant revenue

($ million)

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
General purpose grants	15 370	16 720	15 370	16 720
Specific purpose grants for on-passing	4 426	4 044	4 426	4 044
Specific purpose grants	12 678	11 879	12 672	11 877
Total	**32 474**	**32 643**	**32 468**	**32 641**
Other contributions and grants	31	10	321	662
Total grant revenue	**32 505**	**32 654**	**32 789**	**33 303**

Grants income mainly comprises contributions from the Commonwealth to assist the State in meeting its general or specific service delivery obligations, primarily for the purpose of aiding in the financing of the operations of the recipient, capital purposes and/or for on-passing to other recipients. Grants also include grants from other jurisdictions.

On initial recognition of the assets, the State recognises any related contributions by owners, increases in liabilities, decreases in assets, and revenue (related amounts) in accordance with other Australian Accounting Standards. Related amounts may take the form of:

a) contributions by owners, in accordance with AASB 1004;
b) revenue or a contract liability arising from a contract with a customer, in accordance with AASB 15;
c) a lease liability in accordance with AASB 16;
d) a financial instrument, in accordance with AASB 9; or
e) a provision, in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets.*

The State first assesses the cash grant to determine how to recognise the related amounts. For grants that are enforceable and contained sufficiently specific performance obligations, they are recognised under AASB 15. Revenue from grants under AASB 15 are recognised when the State satisfies the performance obligation as described in Note 2.4. The State does not have any material grant revenue recognised under AASB 15 for the year.

The State only recognises grant income as income of not-for-profit entities where they do not meet any of the other related amounts described above and the State has an unconditional right to receive cash which usually coincides with the receipt of cash.

Income from grants to construct capital assets that are controlled by the State is recognised progressively as the assets are constructed. The progressive percentage costs incurred are used to recognise income because this most closely reflects the progress to completion as costs are incurred as the works are done.

The impact of initially applying AASB 15 and AASB 1058 on the State's grant revenue and grant income is described in Note 9.7. Due to the modified retrospective transition method chosen in applying AASB 15 and AASB 1058 respectively, comparative information has not been restated to reflect the new requirements. The adoption of AASB 15 and AASB 1058 did not have an impact on other comprehensive income and the cash flow statement for the financial year.

As a result of the transitional impacts of adopting AASB 15 and AASB 1058, a portion of the grant revenue and grant income has been deferred. If the grant revenue is accounted for in accordance with AASB 15, the deferred grant revenue has been recognised in contract liabilities, whereas grant income in relation to the construction of capital assets, which the State controls, has been recognised in accordance with AASB 1058 and recognised in the deferred grant income liability (Note 6.4).

The goods and services tax (GST) is collected by the Commonwealth and paid to states and territories in the form of general purpose grants. Funds are typically remitted by the Commonwealth monthly throughout the financial year based on estimates of each State's relative share of the GST pool for that financial year. The Commonwealth subsequently updates each State's share of the national GST pool when the final aggregate GST pool is known and adjusts any over or under payment during the year through the remittance of funds in the subsequent year. The State has made the significant judgement that the legislation, operation and objectives of the GST arrangements are such that its entitlement to the annual GST pool forms the basis for GST income recognition, rather than the funding progressively received from the Commonwealth across the financial year. As a result, the State monitors and tracks its share of the GST pool progressively to determine if a receivable or payable needs to be recognised at the end of each reporting period.

Victoria's GST income was $15.4 billion in 2019-20 which was $1.3 billion lower than that progressively paid by the Commonwealth during the year based on the forecast GST pool included in the Commonwealth's *2019-20 Mid-year Economic and Fiscal Outlook*. The reduction was largely driven by a lower national GST pool due to weaker national household consumption and dwelling investment, along with a fall in the share of consumption subject to GST during the coronavirus (COVID-19) pandemic. As a result, the State has made the judgement that the overpayment of $1.3 billion needs to be recognised as unearned income (refer to note 6.4) representing funding received in advance for the following year's GST income entitlement.

Previous accounting policy for 30 June 2019

Revenue from grants was recognised when the State obtained control over the contribution. This was generally when the cash was received.

Grant revenue arose from transactions in which a party provided goods, services or labour, assets (or extinguished a liability) to the State or the general government sector without receiving approximately equal value in return. While grants to governments might provide some goods or services to the transferor, generally they did not give the transferor a claim to receive benefits directly of approximately equal value.

For this reason, grants were referred to by the AAS as involuntary transfers and were termed non-reciprocal transfers.

Grants could be paid as **general purpose grants**, which referred to grants that were not subject to conditions regarding their specific use. General purpose grants primarily relate to the GST. Please refer to the previous page for the accounting treatment adopted for the GST. Alternatively, they might be paid as **specific purpose grants**, which were paid for a particular purpose and/or had conditions attached regarding their use.

Grants for on-passing were grants paid to one institutional sector (e.g. a state-based general government entity) to be passed on to another institutional sector (e.g. local government or a private non-profit institution).

2.6 Other revenue [a][b]

($ million)

	State of Victoria		General government sector	
	2020	2019	2020	2019
Fair value of assets received free of charge or for nominal consideration	467	444	41	111
Fines	651	572	650	571
Royalties	121	116	111	103
Donations and gifts [c]	338	281	234	198
Other non-property rental	82	86	33	34
Other revenue – Education	402	616	402	616
Other revenue – Health [c]	220	205	220	205
Revenue related to economic service concession arrangements	320	301	320	301
Other miscellaneous revenue	845	1 435	649	1 045
Total other revenue	**3 447**	**4 056**	**2 662**	**3 184**

Notes:

(a) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*

(b) *The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Note 6.3.1 for further details.*

(c) *The 2018-19 comparative figures have been reclassified to correctly reflect the nature of the transactions.*

Other revenue comes from a variety of miscellaneous sources, as the above table summarises.

Resources received free of charge or for nominal consideration are recognised at fair value when the State obtains control over them, irrespective of whether these contributions are subject to restrictions or conditions over their use.

Contributions in the form of services are only recognised when a fair value can be reliably determined and the services would have been purchased if not received as a donation.

Fines are collected from road safety cameras, toll road evasions, police on-the-spot, court and other (non-traffic) statutory infringements. Revenue is recognised at the time the notice of the fine is issued.

Revenue related to economic service concession arrangements reflects the progressive unwinding of the grant of a right to the operator liability (Note 6.4) recognised applying AASB 1059 *Service Concession Arrangements: Grantors*. Refer to Note 5.3 for details on service concession arrangements.

Other education revenue mainly comprises locally raised funds from school fetes, fundraising events, and voluntary contributions made by parents.

Other health revenue mainly comprises research funding from non-government organisations and non-salary cost recovery from external organisations in the health sector.

Other miscellaneous revenue includes all other revenue from various sources, which are not able to be classified elsewhere.

3. HOW FUNDS ARE SPENT

Introduction

This section accounts for the major components of expenditure incurred by the State towards the delivery of services and on capital or infrastructure projects during the year, as well as any related obligations outstanding at 30 June 2020.

Structure

3.1 Employee expenses and provision for outstanding employee benefits

Employee expenses (operating statement)

Employee expenses in the operating statement are a major component of operating costs and include all costs related to employment, including wages and salaries, fringe benefits tax, leave entitlements and redundancy payments. The majority of employee expenses in the operating statement are wages and salaries.

Employee benefits (balance sheet)

As part of annual operations, the State provides for benefits accruing to employees but payable in future periods in respect of wages and salaries, annual leave and long service leave, and related on-costs for services rendered to the reporting date. In measuring employee benefits, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted to reflect the estimated timing and amount of benefit payment. The table below shows the key components of this provision at 30 June.

Total provision for employee benefits and on-costs at 30 June **($ million)**

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Current				
Accrued salaries and wages	**868**	**697**	**820**	**656**
Other employee benefits	**106**	**102**	**81**	**84**
Annual leave				
Unconditional and expected to settle within 12 months	1 649	1 433	1 518	1 317
Unconditional and expected to settle after 12 months	313	234	273	196
Long service leave				
Unconditional and expected to settle within 12 months	866	941	791	866
Unconditional and expected to settle after 12 months	3 667	3 195	3 492	3 029
On-costs				
Unconditional and expected to settle within 12 months	300	317	271	294
Unconditional and expected to settle after 12 months	621	566	583	529
Total current employee benefits and on-costs	**8 390**	**7 487**	**7 828**	**6 971**
Non-current				
Long service leave	1 125	990	1 059	927
On-costs	147	127	141	121
Total non-current employee benefits and on-costs	**1 272**	**1 117**	**1 200**	**1 048**
Total employee benefits and on-costs	**9 662**	**8 604**	**9 028**	**8 020**

Wages and salaries, annual leave and sick leave

Liabilities for employee benefits are recognised in the provision for employee benefits and classified as current liabilities where the State does not have an unconditional right to defer settlement of these liabilities.

Long service leave

Consistent with the above policy, unconditional long service leave (LSL) is disclosed as a current liability; even where the State does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of this current LSL liability are measured at:

- undiscounted value – if the State expects to wholly settle within 12 months; or
- present value – if the State does not expect to wholly settle within 12 months.

Conditional LSL is disclosed as a non-current liability as there is a right to defer the settlement of the entitlement until the employee has completed the requisite years of service. This non-current LSL liability is measured at present value.

Any gain or loss following revaluation of the present value of non-current LSL liability is recognised as a transaction, except to the extent that a gain or loss arises due to changes in bond interest rates for which it is then recognised as an other economic flow in the net result.

On-costs

Employee benefits on-costs such as payroll tax, workers compensation and superannuation are recognised separately as a component of the provision for employee benefits.

Movements in provisions of on-costs **($ million)**

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Opening balance	1 010	865	944	804
Additional provisions recognised	213	279	188	261
Additions due to acquisitions	11	6	10	..
Reductions arising from payments/other sacrifices of future economic benefits	(168)	(150)	(149)	(134)
Reductions resulting from remeasurement or settlement without cost	(8)	(6)	(7)	(4)
Unwind of discount and effect of changes in the discount rate	9	16	9	17
Closing balance	**1 068**	**1 010**	**995**	**944**
Represented by:				
Current	921	884	854	823
Non-current	147	127	141	121

3.2 Superannuation interest expense and other superannuation expenses

Superannuation expense recognised in the operating statement

The State recognises the net superannuation expense from transactions on the following basis:

- in relation to defined contribution (i.e. accumulation) superannuation plans, the associated expense is simply the employer contributions that are paid or payable in respect of employees who are members of these plans during the reporting period; and
- for defined benefit plans, the superannuation expense reflects the employer financed component of defined benefits that are expected to accrue over the reporting period (i.e. service cost), along with the net superannuation interest expense.

The remeasurements of the net superannuation liability are recognised under other economic flows – other comprehensive income and consist of:

- actuarial gains and losses, which reflect the change in the defined benefit obligation that have arisen due to differences between actual outcomes and the assumptions used to calculate the superannuation expense from transactions;
- the return on plan assets, excluding amounts included in the net superannuation interest expense; and
- the effect of any change in actuarial assumptions during the period.

These remeasurements are fully recognised as other comprehensive income in the period in which they occur. For more details on the superannuation liability, please refer to Note 6.5.

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

	State of Victoria	
	2020	*2019*
Defined benefit plans		
Net superannuation interest expense	408	690
Current service cost	1 115	1 008
Remeasurements:	..	..
Expected return on superannuation assets excluding interest income	(1 316)	(1 039)
Other actuarial (gain)/loss on superannuation assets	2 428	516
Actuarial and other adjustments to unfunded superannuation liability	1 622	3 908
Total expense recognised in respect of defined benefit plans	**4 257**	**5 083**
Defined contribution plans		
Employer contributions to defined contribution plans	2 046	1 866
Other (including pensions)	84	87
Total expense recognised in respect of defined contribution plans	**2 130**	**1 953**
Total superannuation (gain)/expense recognised in operating statement	**6 387**	**7 035**
Represented by:		
Net superannuation interest expense	408	690
Other superannuation	3 245	2 961
Superannuation expense from transactions	**3 653**	**3 651**
Remeasurement recognised in other comprehensive income	**2 735**	**3 385**
Total superannuation costs recognised in operating statement	**6 387**	**7 035**

Net superannuation interest expense is the change during the period in the net defined benefit liability that arises from the passage of time. This is effectively calculated by applying the discount rate (a long-term Government bond yield) to the net superannuation liability without reference to the expected rate of investment return on plan assets.

Other superannuation includes all superannuation expenses from transactions except the net superannuation interest expense. It includes current service cost, which is the increase in entitlements associated with the employment services provided in the current period, and employer contributions to defined contribution plans.

3.3 Grant expense

($ million)

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Current grant expense				
Commonwealth Government	1 595	1 885	1 594	1 883
Local government (including grants for on-passing)	1 246	1 170	1 246	1 170
Private sector and not-for-profit on-passing	3 755	3 404	3 755	3 404
Other private sector and not-for-profit [(a)]	4 118	2 632	4 069	2 583
Grants within the Victorian Government	..	..	4 147	3 965
Grants to other state governments	294	36	292	36
Total current grant expense	**11 008**	**9 127**	**15 104**	**13 041**
Capital grant expense				
Local government (including grants for on-passing)	41	25	41	25
Private sector and not-for-profit on-passing	165	175	140	153
Grants within the Victorian Government	..	..	20	33
Other grants	63	244	27	104
Total capital grant expense	**268**	**444**	**227**	**314**
Total grant expense	**11 276**	**9 571**	**15 331**	**13 355**

Note:
(a) The increase in other private sector and not-for-profit grants includes payments to support businesses during COVID-19, including as part of the Business Support Fund initiative.

Grants and other transfers to third parties are recognised as an expense in the reporting period in which they are paid or payable.

They include transactions such as grants, subsidies, personal benefit payments made in cash to individuals, other transfer payments made to local government, non-government schools and community groups.

For the general government sector, these include grants and transfer payments to public non-financial corporations and public financial corporations.

3.4 Other operating expenses [(a)(b)]

($ million)

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Purchase of supplies and consumables [(c)]	5 734	5 426	4 641	4 299
Cost of goods sold	214	230	23	30
Finance expenses and fees	551	475	109	43
Purchase of services [(c)]	16 872	15 922	15 111	14 216
Insurance claims expense	7 322	7 089	372	284
Maintenance	1 685	1 560	984	853
Operating lease payments	..	480	..	404
Short-term and low value lease expense	125	..	124	..
Other	944	908	877	877
Total other operating expenses	**33 447**	**32 090**	**22 241**	**21 006**

Notes:
(a) AASB 16 Leases *has been applied for the first time from 1 July 2019.*
(b) The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Note 6.3.1 for further details.
(c) A breakdown of purchase of supplies and consumables and purchase of services is provided in the following two tables.

Other operating expenses generally represent the day-to-day running costs incurred in normal operations and includes supplies and services costs, which are recognised as an expense in the reporting period in which they are incurred. The carrying amounts of any inventories held for distribution are expensed when distributed.

Audit fees of $380 000 ($413 000 in 2019) were paid or payable to the Victorian Auditor-General's Office for the audit of the Annual Financial Report of the State of Victoria. The Victorian Auditor-General's Office provided no other services, relating to audit fees, to the State other than the review of the Estimated Financial Statements and the financial audits of departments and agencies.

Operating lease payments up until 30 June 2019 (including contingent rentals) were recognised on a straight-line basis over the lease term, except where another systematic basis was more representative of the time pattern of the benefits derived from the use of the leased asset. The leased asset was not recognised on the balance sheet.

From 1 July 2019, the following lease payments are recognised on a straight-line basis:

- **Short-term leases** – leases with a term less than 12 months; and
- **Low value leases** – leases where the underlying asset's fair value (when new, regardless of the age of the asset being leased) is no more than $10 000.

Variable lease payments are not included in the measurement of the lease liability (i.e. variable lease payments that do not depend on an index or a rate, initially measured using the index or rate as at the commencement date). These payments are recognised in the period in which the event or condition that triggers those payments occur.

From 1 July 2019 all leases, other than those within the above categories, are recognised on the State's balance sheet (refer to Notes 5.2 and 9.7 for further details).

Insurance claims expense includes claims incurred during the financial year and any costs associated with processing and resolving claims, net of reinsurance recoveries.

Purchase of supplies and consumables **($ million)**

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Medicinal pharmacy and medical supplies	1 598	1 549	1 598	1 549
Office supplies and consumables	221	230	207	214
Specialised operational supplies and consumables	322	292	209	191
Other purchase of supplies and consumables	3 593	3 355	2 626	2 346
Total purchase of supplies and consumables	**5 734**	**5 426**	**4 641**	**4 299**

Purchase of services **($ million)**

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Service contracts	8 596	8 159	8 113	7 723
Accommodation/occupancy	1 186	1 097	1 013	928
Medical and client care services	368	382	368	382
Staff related expenses (non-labour related)	334	371	302	333
Other purchase of services	6 388	5 912	5 316	4 851
Total purchases of services	**16 872**	**15 922**	**15 111**	**14 216**

3.5 Total operating expenses and purchases of non-financial assets by department [(a)(b)(c)]

The following table discloses the funds spent by each portfolio department, including operating expenditure and capital expenditure, as part of the department's normal activities.

($ million)

	Expenses from transactions		*Purchases of non-financial assets*	
State of Victoria	*2020*	*2019*	*2020*	*2019*
Education and Training	19 491	17 957	1 567	1 706
Environment, Land, Water and Planning	10 376	9 980	1 972	2 042
Health and Human Services	31 043	28 686	1 256	1 536
Jobs, Precincts and Regions	4 619	1 976	361	136
Justice and Community Safety	13 929	10 142	576	612
Premier and Cabinet	925	800	39	35
Transport	17 012	17 145	6 083	5 895
Treasury and Finance	11 172	14 332	108	82
Parliament	227	214	22	24
Courts	714	650	80	66
Regulatory bodies and other part budget funded agencies [(d)]	2 867	2 729	244	238
Total	112 374	104 611	12 307	12 371
Less eliminations and adjustments [(e)]	(26 026)	(24 191)	241	115
Grand total	**86 348**	**80 420**	**12 548**	**12 486**
General government sector				
Education and Training	19 491	17 957	1 567	1 706
Environment, Land, Water and Planning	4 067	3 912	141	165
Health and Human Services	29 508	27 084	911	1 199
Jobs, Precincts and Regions	3 524	1 309	172	73
Justice and Community Safety	8 846	7 817	512	613
Premier and Cabinet	898	774	36	35
Transport	9 479	10 098	5 926	5 554
Treasury and Finance	8 415	7 813	56	40
Parliament	227	214	22	24
Courts	714	650	80	66
Regulatory bodies and other part budget funded agencies [(d)]	2 867	2 729	244	238
Total	88 036	80 357	9 668	9 713
Less eliminations and adjustments [(e)]	(13 548)	(11 728)	66	143
Grand total	**74 487**	**68 629**	**9 734**	**9 856**

Notes:

(a) *On 29 November 2018, the Premier announced various machinery of government changes effective from 1 January 2019. Please see Note 9.8 in the* 2018-19 Financial Report *for further details.*

(b) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*

(c) *The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Note 6.3.1 for further details.*

(d) *Other general government sector agencies, which receive less than 50 per cent of their revenue from appropriations and therefore are not allocated to departments.*

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

3.6 Classification of the functions of government disclosure

The classification of the functions of government (COFOG) framework disclosures required under AASB 1049 *Whole of Government and General Government Sector Financial Reporting* classify expenses, acquisition of non-financial assets and total assets in terms of their purposes. This information is presented to facilitate improved inter-jurisdictional comparison of the financial operations of public sector jurisdictions.

The major COFOG groups reflect the broad objectives of government and the groups and subgroups detail the means by which these broad objectives are achieved.

The major groups are:

- **General public services:** Includes legislative and executive organs, financial and fiscal affairs, external affairs, foreign economic aid, general services, basic research, research and development – general public services, public debt transactions.
- **Public order and safety:** Includes police services, civil and fire protection services, law courts, prisons, research and development.
- **Economic affairs:** Includes general economic, commercial and labour affairs, agriculture, forestry, fishing and hunting, fuel and energy, mining, manufacturing, and construction, communication, other industries, research and development.
- **Environmental protection:** Includes waste management, waste water management, pollution abatement, protection of biodiversity and landscape, research and development.
- **Housing and community amenities:** Includes housing and community development, water supply, street lighting, research and development.
- **Health:** Includes medical products, appliances, and equipment, outpatient services, hospital services, mental health institutions, community health services, public health services, research and development.
- **Recreation, culture and religion:** Includes recreational and sporting services, cultural services, broadcasting and publishing services, religious and other community services, research and development.
- **Education:** Includes pre-primary and primary education, secondary education, tertiary education, education not defined by level, subsidiary services to education, research and development.
- **Social protection:** Includes sickness and disability, old age, survivors, family and children, unemployment, housing, social exclusion, research and development.
- **Transport:** Includes road transport, bus transport, water transport, railway transport, air transport, multi-mode urban transport, pipeline and other transport, research and development.

Total operating expenses, purchases of non-financial assets and total assets by classification of the functions of government [(a)(b)]

The following table presents the operating and capital expenditure and total assets held by classification of the functions of government.

($ million)

	Expenses from transactions		Purchases of non-financial assets		Total assets	
State of Victoria	*2020*	*2019*	*2020*	*2019*	*2020*	*2019*
General public services	13 779	13 115	282	142	9 047	5 250
Public order and safety	9 168	8 276	723	873	11 737	10 158
Economic affairs [(c)]	3 064	1 881	69	284	1 185	1 155
Environmental protection	940	953	131	104	11 799	11 619
Housing and community amenities	5 200	4 954	2 034	1 987	51 976	51 240
Health	21 708	19 450	763	1 030	20 475	19 319
Recreation, culture and religion	1 732	1 853	243	491	14 636	14 078
Education	16 796	15 764	1 573	1 705	28 171	27 002
Social protection	6 787	7 120	463	444	28 542	28 529
Transport	8 002	7 800	6 068	5 323	144 196	122 464
Not allocated by purpose [(d)(e)]	(828)	(746)	199	103	62 766	63 554
Total	**86 348**	**80 420**	**12 548**	**12 486**	**384 530**	**354 367**
General government sector						
General public services	4 494	4 226	150	92	4 449	2 294
Public order and safety	9 357	8 441	723	873	11 737	10 158
Economic affairs [(c)]	3 100	1 916	63	279	1 127	1 091
Environmental protection	964	981	131	104	11 797	11 618
Housing and community amenities	2 015	1 956	93	82	2 245	2 452
Health	22 115	19 794	763	1 030	20 475	19 319
Recreation, culture and religion	864	883	127	198	7 668	7 561
Education	16 891	15 851	1 573	1 705	28 171	27 002
Social protection	6 171	6 437	160	167	2 073	1 985
Transport	9 274	8 868	5 928	5 182	88 340	73 461
Not allocated by purpose [(d)(e)(f)]	(757)	(724)	24	143	102 957	127 802
Total	**74 487**	**68 629**	**9 734**	**9 856**	**281 040**	**284 741**

Notes:

(a) *The 2018-19 and June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details.*

(b) *The 2018-19 and June 2019 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Note 6.3.1 for further details.*

(c) *The increase in the economic affairs expense from transactions reflects the support provided to businesses as part of the Government's COVID-19 response.*

(d) *Not allocated by purpose for expenses and purchases of non-financial assets represents eliminations and adjustments.*

(e) *Not allocated by purpose for total assets represents eliminations and adjustments, and financial assets which are not able to be allocated by purpose.*

(f) *June 2020 total assets balance has decreased due to the adoption of AASB 16* Leases *from 1 July 2019. Refer to Notes 5.2 and 9.7.2 for further details.*

4. MAJOR ASSETS AND INVESTMENTS

Introduction

This section outlines those assets that the State controls, reflecting investing activities in the current and prior years.

Structure

4.1 Land, buildings, infrastructure, plant and equipment

4.1.1 Total land, buildings, infrastructure, plant and equipment [(a)(b)(c)(d)]

($ million)

	State of Victoria			*General government sector*		
2020	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*
Buildings	69 010	(5 002)	64 008	47 684	(3 280)	44 404
Land and national parks	102 855	..	102 855	70 174	..	70 174
Infrastructure systems	88 988	(7 390)	81 598	5 873	(519)	5 355
Plant, equipment and vehicles	17 793	(6 878)	10 915	9 050	(4 764)	4 286
Roads and road infrastructure	34 901	(85)	34 816	34 787	(71)	34 717
Earthworks	9 116	..	9 116	9 116	..	9 116
Cultural assets	5 963	(207)	5 756	5 898	(207)	5 691
Total land, buildings, infrastructure, plant and equipment	**328 626**	**(19 561)**	**309 065**	**182 583**	**(8 840)**	**173 743**
2019						
Buildings	58 403	(2 453)	55 950	36 641	(1 402)	35 239
Leased buildings	5 771	(591)	5 180	5 589	(496)	5 093
Land and national parks	89 187	..	89 187	58 765	..	58 765
Infrastructure systems	81 774	(6 158)	75 615	4 938	(572)	4 367
Plant, equipment and vehicles	14 558	(5 700)	8 859	7 165	(4 158)	3 007
Leased plant, equipment and vehicles	987	(665)	322	515	(302)	213
Roads and road infrastructure	56 270	(23 483)	32 787	56 159	(23 472)	32 688
Earthworks	8 916	..	8 916	8 916	..	8 916
Cultural assets	5 915	(189)	5 725	5 850	(189)	5 661
Total land, buildings, infrastructure, plant and equipment	**321 780**	**(39 239)**	**282 541**	**184 539**	**(30 590)**	**153 949**

Notes:

(a) *AASB 16* Leases *has been applied for the first time from 1 July 2019.*

(b) *The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*

(c) *The State of Victoria balances include work in progress of $3.5 billion (2019: $3.5 billion) for buildings, $15.4 billion (2019: $11.8 billion) for infrastructure systems, $1.9 billion (2019: $1.2 billion) for plant, equipment and vehicles and $6.5 billion (2019: $4.7 billion) for roads and road infrastructure, as part of the State's capital program. Work in progress is not subject to depreciation.*

(d) *The general government sector balances include work in progress of $2.7 billion (2019: $2.8 billion) for buildings, $4.1 billion (2019: $3.1 billion) for infrastructure systems, $937 million (2019: $608 million) for plant, equipment and vehicles and $6.5 billion (2019: $4.7 billion) for roads and road infrastructure, as part of the State's capital program. Work in progress is not subject to depreciation.*

The following 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: land, buildings, infrastructure, plant and equipment [(a)] **($ million)**

	State of Victoria			*General government sector*		
2020	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*
Buildings	9 469	(925)	8 545	8 907	(826)	8 080
Infrastructure systems	21	(1)	20	6	..	6
Plant, equipment and vehicles	921	(239)	681	740	(213)	527
Total right of use assets: land, buildings, infrastructure, plant and equipment	**10 411**	**(1 166)**	**9 245**	**9 653**	**(1 039)**	**8 614**

Note:
(a) AASB 16 Leases *has been applied for the first time from 1 July 2019.*

Total service concession assets related land, buildings, infrastructure, plant and equipment [(a)] **($ million)**

	State of Victoria			*General government sector*		
2020	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*
Buildings	2 293	(26)	2 267	2 293	(26)	2 267
Land and national parks	2 531	..	2 531	2 531	..	2 531
Infrastructure systems	8 445	(620)	7 824	3 590		3 590
Plant, equipment and vehicles	719	(19)	700	719	(19)	700
Roads and road infrastructure	11 207	..	11 207	11 207	..	11 207
Total service concession land, buildings, infrastructure, plant and equipment assets	**25 195**	**(665)**	**24 530**	**20 341**	**(45)**	**20 296**
2019						
Buildings	2 178	(141)	2 037	2 178	(141)	2 037
Land and national parks	1 756	..	1 756	1 756	..	1 756
Infrastructure systems	7 306	(535)	6 770	2 452		2 452
Plant, equipment and vehicles	504	(30)	474	504	(30)	474
Roads and road infrastructure	9 203	(211)	8 992	9 203	(211)	8 992
Total service concession land, buildings, infrastructure, plant and equipment assets	**20 947**	**(917)**	**20 030**	**16 094**	**(382)**	**15 712**

Note:
(a) The State of Victoria and general government sector balances include work in progress of $160 million (2019: $57 million) for buildings, $3.6 billion (2019: $2.5 billion) for infrastructure systems, $517 million (2019: $288 million) for plant, equipment and vehicles and $4.1 billion (2019: $2.3 billion) for roads and road infrastructure, as part of the State's capital program. Work in progress is not subject to depreciation.

Recognition and measurement

Initial recognition

All non-financial physical assets are measured initially at cost, except for service concession assets (SCA) which are initially measured at fair value (current replacement cost (CRC)). All are subsequently revalued at fair value less accumulated depreciation and impairment. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition.

The cost of constructed non-financial physical assets includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads. The cost of leasehold improvements is capitalised when incurred.

The initial cost for non-financial physical assets under a finance lease (under AASB 117 *Leases* until 30 June 2019) was measured at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

The initial cost for a right-of-use asset acquired by lessees (under AASB 16 *Leases* from 1 July 2019) is measured at cost which comprises the initial amount of the lease liability adjusted for:

- any lease payments made at or before the commencement date;
- any initial direct costs incurred; and
- any estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received.

Certain assets are acquired under leases, which form part of a public private partnership (refer Note 5.4).

SCAs are initially recognised at CRC, calculated in accordance with the cost approach to fair value measurement. The CRC reflects the amount that would be required to currently replace the asset's service capacity.

The CRC for the SCA includes the costs that are directly attributable to the design and construction of the SCA by the operator. AASB 116 *Property, Plant and Equipment* is applied which provides guidance on the elements of costs included:

- the purchase price;
- costs directly attributable to bringing the asset to its location or condition necessary; and
- borrowing costs of the operator during construction as it forms part of the CRC of the SCA asset.

The same principle applies to existing assets owned by the State and transferred to a SCA under a new or an existing service concession arrangement, with any difference between the fair value of the asset using CRC and the carrying value of the asset being accounted for as if it were a revaluation (i.e. taken to the asset revaluation surplus).

Subsequent measurement

Right-of-use assets are depreciated on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

In addition, the right-of-use asset is periodically reduced by impairment losses, if any and adjusted for certain remeasurements of the lease liability.

SCAs are measured at fair with regard to the asset's CRC.

All non-financial physical assets are subsequently measured at fair value less accumulated depreciation and impairment. Non-financial physical assets are measured at fair value with regard to the asset's highest and best use after due consideration is made for any legal or physical restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset.

Theoretical opportunities that may be available in relation to the asset are not taken into account until it is virtually certain that the restrictions will no longer apply. Therefore, unless otherwise disclosed, the current use of these non-financial physical assets will be their highest and best use.

Refer to Note 7.5 for a summary of revaluation details.

Assets under construction

The accumulation of costs incurred during the construction of SCAs results in a progressive build-up of the asset. A corresponding liability (either financial liability or grant of a right to the operator liability, refer to Note 5.3) is also progressively recognised.

As part of the implementation of AASB 1059 *Service Concession Arrangements: Grantors*, the State applies the fair value proxy approach for the SCAs that are under construction. This approach captures the financing cost incurred during the construction of a SCA by the private sector with an aim of achieving faithful representation of the CRC of SCA construction in progress balances.

The financing cost to the State implied in the service concession arrangement contract during the construction of a SCA is used as a proxy of the financing cost incurred by the private sector constructing the asset. The cost is an indication of an increase in the fair value of the SCA construction in progress that is measured with the CRC method. The increment in the CRC of the SCA construction in progress is recorded as an increase in the asset revaluation (i.e. taken to the asset revaluation surplus).

Impairment

Goodwill and intangible assets with indefinite useful lives (and intangible assets not yet available for use) are tested annually for impairment and whenever there is an indication that the asset may be impaired.

All other assets are assessed annually for indications of impairment, except for:

- inventories (refer Note 6.2);
- non-financial physical assets held for sale;
- certain biological assets related to agricultural activity (refer Note 4.2);
- investment properties that are measured at fair value (refer Note 4.2); and
- assets arising from construction contracts (refer Note 4.1).

If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off as an other economic flow, except to the extent that the write-down can be debited to an asset revaluation surplus amount applicable to that class of asset.

If there is an indication that there has been a change in the estimate of an asset's recoverable amount since the last impairment loss was recognised, the carrying amount would be increased to its recoverable amount. This reversal of the impairment loss occurs only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

It is deemed that, in the event of the loss or destruction of an asset, the future economic benefits arising from the use of the asset will be replaced unless a specific decision to the contrary has been made. The recoverable amount for most assets is measured at the higher of current replacement cost and fair value less costs to sell. Recoverable amount for assets held primarily to generate net cash inflows are measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

Note 7.5 describes the fair value determination of non-financial assets.

4.1.2 Depreciation [(a)]

($ million)

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Buildings	2 686	1 804	2 057	1 198
Leased buildings	..	213	..	202
Infrastructure systems	1 497	1 535	42	77
Leased infrastructure systems	..	5	..	..
Plant, equipment and vehicles	1 099	898	699	564
Leased plant, equipment and vehicles	..	34	..	34
Roads and road infrastructure	894	811	890	807
Cultural assets	20	20	20	20
Intangible produced assets	272	233	186	155
Total depreciation	**6 467**	**5 553**	**3 894**	**3 056**

Note:
(a) *The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*

4. MAJOR ASSETS AND INVESTMENTS

The following two tables are subsets of total depreciation expense.

Depreciation of right of use (leased) assets [(a)] **($ million)**

	State of Victoria		General government sector	
	2020	2019	2020	2019
Buildings	719	..	663	..
Infrastructure systems	5	..	4	..
Plant, equipment and vehicles	140	..	114	..
Total depreciation	**864**	**..**	**781**	**..**

Note:
(a) AASB 16 Leases *has been applied for the first time from 1 July 2019.*

Depreciation of service concession assets **($ million)**

	State of Victoria		General government sector	
	2020	2019	2020	2019
Buildings	63	41	63	41
Infrastructure systems	82	78	..	..
Plant, equipment and vehicles	22	20	22	20
Roads and road infrastructure	166	179	166	179
Intangible produced assets	4	3	4	3
Total depreciation of service concession assets	**337**	**321**	**255**	**243**

All infrastructure assets, buildings, plant and equipment and other non-financial physical assets (excluding assets held for sale, land and investment properties) that have finite useful lives are depreciated. Depreciation is generally calculated on a straight-line basis, at rates that allocate the asset's value, less any estimated residual value, over its estimated useful life.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, and adjustments made where appropriate.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term. Where there is ownership of the underlying leased asset or if the cost of the right-of-use asset reflects the exercise of a purchase option, the right-of-use asset is depreciated over its useful life.

Leasehold improvements are depreciated over the shorter of the lease term and useful lives.

Typical estimated useful lives for the different asset classes for current and prior years are included in the table below:

Asset	*Useful life*
Buildings	20 to 100 years
Leased assets (2019: Leasehold buildings)	2 to 60 years
Infrastructure systems:	
water infrastructure – storage facilities	25 to 300 years
water infrastructure – other	25 to 100 years
rail infrastructure	50 to 100 years
other infrastructure	10 to 32 years
Plant, equipment and vehicle (including leased assets)	3 to 10 years
Road and road infrastructure (including bridges)	60 to 90 years
Cultural assets (with finite useful lives)	100 years
Intangible produced assets	3 to 5 years
Service concession assets:	
roads and bridges	50 to 100 years
other infrastructure	5 to 100 years
buildings	3 to 75 years
plant, equipment and vehicles	1 to 50 years

Indefinite life assets

Land, earthworks, land under declared roads, Port of Melbourne channels and core cultural assets, which are considered to have an indefinite life, are not depreciated. Depreciation is not recognised in respect of these assets because their service potential has not, in any material sense, been consumed during the reporting period.

Intangible assets

Intangible produced assets with finite useful lives are depreciated as an expense from transactions on a systematic (typically straight-line) basis over the asset's useful life. Depreciation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

All intangible assets are tested for impairment whenever there is an indication that the asset may be impaired.

If intangible assets have been determined to have an indefinite useful life, they are reviewed for impairment on an annual basis.

The consumption of intangible non-produced assets with finite useful lives is not classified as a transaction, but as amortisation and included in the net result as an other economic flow.

Other non-financial assets

See Note 4.2 for further information on intangible assets.

Reconciliation of movements in carrying values during the financial period [(a)] ($ million)

State of Victoria	Land and buildings 2020	Land and buildings 2019	Plant, equipment vehicle and infrastructure system 2020	Plant, equipment vehicle and infrastructure system 2019	Roads, road infrastructure and earthworks 2020	Roads, road infrastructure and earthworks 2019	Cultural assets 2020	Cultural assets 2019	Total 2020	Total 2019
Opening balance	**150 317**	**147 736**	**84 796**	**76 945**	**41 703**	**30 188**	**5 725**	**5 709**	**282 541**	**260 578**
Recognition of service concession asset on initial application of AASB 1059	..	1 400	..	1 409	..	6 667	..	..	..	9 476
Recognition of right-of-use assets on initial application of AASB 16	3 403	..	648	..		..	..	..	4 051	..
Restated balance at 1 July	**153 719**	**149 136**	**85 444**	**78 354**	**41 703**	**36 855**	**5 725**	**5 709**	**286 592**	**270 053**
Acquisitions of self-owned assets	3 096	3 516	6 583	5 338	1 496	2 593	40	16	11 215	11 463
Additions of right-of-use assets	321	..	211	..	..	..	..	..	531	..
Additions of service concession arrangement assets	73	51	1 388	1 671	1 646	1 824	..	..	3 107	3 545
Reclassification	180	(563)	(146)	1 785	19	(1 271)	..	1	53	(48)
Revaluation	12 314	652	1 179	248	(33)	2 671	10	1	13 469	3 572
Disposals	(361)	(495)	(195)	(178)	(5)	..	..	..	(561)	(673)
Assets recognised for the first time	247	90	657	105	1	208	..	18	904	420
Impairment	(40)	(53)	(10)	(56)	..	(364)	..	..	(50)	(473)
Depreciation	(2 686)	(2 017)	(2 596)	(2 471)	(894)	(811)	(20)	(20)	(6 196)	(5 319)
Closing balance	**166 864**	**150 317**	**92 514**	**84 796**	**43 932**	**41 703**	**5 756**	**5 725**	**309 065**	**282 541**

General government sector	Land and buildings 2020	Land and buildings 2019	Plant, equipment vehicle and infrastructure system 2020	Plant, equipment vehicle and infrastructure system 2019	Roads, road infrastructure and earthworks 2020	Roads, road infrastructure and earthworks 2019	Cultural assets 2020	Cultural assets 2019	Total 2020	Total 2019
Opening balance	**99 098**	**94 273**	**7 587**	**4 131**	**41 604**	**30 091**	**5 661**	**5 646**	**153 950**	**134 141**
Recognition of service concession asset on initial application of AASB 1059	..	1 400	..	1 409	..	6 667	..	..	..	9 476
Recognition of right-of-use assets on initial application of AASB 16	3 059	..	504	..		..	..	..	3 563	..
Restated balance at 1 July	**102 156**	**95 673**	**8 091**	**5 540**	**41 604**	**36 758**	**5 661**	**5 646**	**157 513**	**143 616**
Acquisitions of self-owned assets	2 540	3 188	4 771	2 764	1 491	2 861	40	16	8 841	8 829
Additions of right-of-use assets	341	..	184	..	..	..	..	..	525	..
Additions of service concession arrangement assets	73	51	1 388	1 671	1 646	1 824	..	..	3 107	3 545
Reclassification	147	44	(130)	1 220	18	(1 271)	..	1	35	(5)
Revaluation	11 528	1 877	75	(164)	(33)	2 670	10	..	11 581	4 383
Disposals	(133)	(323)	(116)	(92)	(5)	..	..	..	(254)	(415)
Assets recognised for the first time	21	62	41	122	..	207	..	18	62	409
Assets transferred between Government entities	1	(69)	(3 921)	(2 797)	2	(273)	..	..	(3 918)	(3 139)
Impairment	(38)	(6)	(2)	(3)	..	(364)	..	..	(41)	(373)
Depreciation	(2 057)	(1 400)	(740)	(674)	(890)	(807)	(20)	(20)	(3 708)	(2 901)
Closing balance	**114 578**	**99 098**	**9 641**	**7 587**	**43 833**	**41 604**	**5 691**	**5 661**	**173 743**	**153 950**

Note:
(a) *The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*

The following two tables are subsets of the total reconciliation of movements in carrying value.

Reconciliation of movements in carrying values of right of use assets during the financial period [a] **($ million)**

	State of Victoria 2020	*General government sector 2020*
Opening balance	9 535	8 826
Additions of right of use assets	531	525
Revaluation	44	43
Depreciation	(864)	(781)
Closing balance	**9 246**	**8 614**

Note:
(a) AASB 16 Leases *has been applied for the first time from 1 July 2019.*

Reconciliation of movements in carrying values of service concession arrangement assets during the financial period **($ million)**

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Opening balance	20 031	17 081	15 713	12 683
Additions of service concession arrangement assets	3 107	3 545	3 107	3 545
Revaluation	1 726	(214)	1 727	(214)
Disposals		(64)		(61)
Depreciation	(333)	(318)	(251)	(240)
Closing balance	**24 530**	**20 031**	**20 296**	**15 713**

4.2 Other non-financial assets [(a)]

($ million)

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Intangible produced assets	3 787	3 481	2 477	2 209
Accumulated depreciation	(1 917)	(1 826)	(1 212)	(1 088)
Service concession assets – intangible produced	480	473	480	473
Accumulated depreciation	..	..	..	..
Intangible non-produced assets	956	909	109	109
Accumulated amortisation	(356)	(309)	(46)	(40)
Total intangibles	**2 950**	**2 728**	**1 809**	**1 663**
Investment properties	303	289	294	280
Biological assets	54	60	2	2
Other assets [(a)]	1 094	541	998	470
Service concession assets – other	..	..	..	..
Total other non-financial assets	**4 401**	**3 618**	**3 103**	**2 415**

Note:
(a) The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059 Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*

Reconciliation of movement in intangibles, investment properties and biological assets [(a)(b)] **($ million)**

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Opening balance	3 067	2 322	1 935	1 203
Acquisitions of self-owned intangible produced assets	463	543	288	377
Additions of service concession arrangement assets [(c)]	7	458	7	458
Reclassification	21	94	4	93
Revaluation	(6)	9	7	7
Disposals	(24)	(20)	(24)	(20)
Assets recognised for the first time	113	2	79	..
Impairment	(18)	(70)	..	(26)
Amortisation and depreciation [(d)]	(318)	(273)	(191)	(159)
Closing balance	**3 305**	**3 067**	**2 104**	**1 935**

Notes:
(a) *The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details.*
(b) *Reconciliation does not include movements in other assets.*
(c) *Due to the adoption of AASB 1059* Service Concession Arrangements: Grantors*, some intangible assets have been recognised that were previously not. This includes the Titling and Registry database of $419 million.*
(d) *For produced and non-produced intangible assets.*

Purchased **intangible assets** are initially recognised at cost. When the recognition criteria in AASB 138 *Intangible Assets* is met, internally generated intangible assets are recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Certain intangible assets have indefinite useful lives because the value does not diminish with use and they can be used multiple times over an extended period with no foreseeable limit. As a result, a finite life cannot be determined. Subsequent measurement is at fair value with regards to such assets' current replacement cost.

Investment properties represent properties held to earn rentals or for capital appreciation, or both. Investment properties exclude properties held to meet service delivery objectives of the State. Investment properties are initially recognised at cost.

Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the State. Subsequent to initial recognition at cost, investment properties are revalued to fair value, with changes in the fair value recognised as other economic flows in the comprehensive operating statement in the period that they arise.

Fair values are determined based on a market comparable approach that reflects recent transaction prices for similar properties.

Biological assets comprise productive trees in commercial native forests and any living animal (or breeding stock), plant or agricultural produce that is the harvested product of biological assets. These biological assets are measured at fair value less costs to sell and are revalued at 30 June each year. An increase or decrease in the fair value of these biological assets is recognised in the consolidated comprehensive operating statement as an other economic flow.

Other non-financial assets include prepayments, which represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

4.3 Investments in associates and joint operations

Investments are classified as either **associates or joint arrangements** (joint ventures or joint operations).

The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Joint arrangements are contractual arrangements between the State (or a subsidiary entity) and one or more other parties to undertake an economic activity that is subject to joint control.

The investments in joint operations are disclosed below.

4.3.1 Joint operations

The State has classified the following arrangements as joint operations, based on the rights and obligations of each investor to the arrangement.

For these arrangements, the State recognises, in its financial statements:

- its direct right to the assets, liabilities, revenues and expenses; and
- its share of any jointly held or incurred assets, liabilities, revenues and expenses.

Royal Melbourne Showgrounds

The State entered into a joint venture agreement with the Royal Agricultural Society of Victoria (RASV) in 2003 to redevelop the Royal Melbourne Showgrounds. The State of Victoria's interest in the unincorporated joint venture at 30 June 2020 was 50 per cent (50 per cent in 2019).

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

In May 2020, RASV advised the State that it is unable to meet its share of the quarterly service payments under the Development and Operations Agreement with PPP Solutions (Showgrounds) Nominee Pty Ltd. Accordingly, the State has recognised a financial guarantee liability amounting to $61.1 million in relation to this obligation.

AgriBio Project

In April 2008, the State entered into a joint venture agreement with La Trobe University to establish a world-class research facility on the university's campus in Bundoora.

The State of Victoria's interest in the unincorporated joint venture at 30 June 2020 was 75 per cent (75 per cent in 2019).

Murray Darling Basin Authority

The Commonwealth and the basin states – New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory – entered into the intergovernmental agreement for the Murray Darling Basin Reform. Under the *Water Act 2007* (Cth), the Murray Darling Basin Authority (MDBA) was established by the Commonwealth on 3 July 2008, and the participants have a joint interest in the infrastructure assets and water rights.

The MDBA undertakes activities that support the sustainable and integrated management of the water resources of the Murray-Darling Basin in a way that best meets the social, economic and environmental needs of the Basin and its communities.

The share in the individually controlled assets was transferred at transition in the original proportions of the share of the entity held by the individual jurisdictions as follows:

- New South Wales: 26.7 per cent;
- South Australia: 26.7 per cent;
- Victoria: 26.7 per cent; and
- the Commonwealth Government: 20 per cent.

5. FINANCING STATE OPERATIONS

Introduction

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

This section presents the financing of the State and general government sector's operations, including material commitments, leases and service concession arrangements recorded by the State.

Structure

5.1 Borrowings [a][b]

($ million)

	State of Victoria		General government sector	
	2020	*2019*	*2020*	*2019*
Current borrowings				
Domestic borrowings	9 850	14 814	12 639	8 626
Finance lease liabilities	..	296	..	194
Lease liabilities	693	..	638	..
Service concession arrangement liabilities	1 103	511	1 095	445
Derivative financial instruments	235	137	3	9
Total current borrowings	**11 880**	**15 758**	**14 375**	**9 274**
Non-current borrowings				
Domestic borrowings	61 520	41 016	36 150	23 140
Foreign currency borrowings	555	149	..	..
Finance lease liabilities	..	3 874	..	3 855
Lease liabilities	7 598	..	7 031	..
Service concession arrangement liabilities	5 027	4 492	4 917	4 433
Derivative financial instruments	1 197	628	334	194
Total non-current borrowings	**75 898**	**50 158**	**48 431**	**31 622**
Total borrowings	**87 778**	**65 916**	**62 807**	**40 896**

Notes:
(a) *AASB 16* Leases *has been applied for the first time from 1 July 2019.*
(b) *The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*

Borrowings refer to interest bearing liabilities mainly raised from public borrowings through the Treasury Corporation of Victoria (TCV), lease liabilities, service concession arrangement liabilities and other interest-bearing arrangements.

Borrowings exclude liabilities raised from other government entities, which are classified as deposits held and advances received.

Borrowings are classified as financial instruments (Note 7.1). All interest bearing liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The measurement basis subsequent to initial recognition depends on whether the State has categorised its interest bearing liabilities as either financial liabilities measured at fair value through profit or loss, or financial liabilities at amortised cost. The classification depends on the nature and purpose of the interest bearing liabilities. The State determines the classification of its interest bearing liabilities at initial recognition.

The State's public borrowings are measured at fair value through profit or loss on trade date on the basis that the financial liability forms a group of financial liabilities, which are managed on a fair value basis in accordance with documented risk strategies.

Derivative financial instruments, after initial recognition, are measured at fair value with changes reflected in the comprehensive operating statement (fair value through profit or loss).

Derivatives are designated at fair value. They are initially recognised at fair value on the date on which a derivative contract is entered into. Any gains or losses arising from changes in the fair value of derivatives after initial recognition, are recognised in the consolidated comprehensive operating statement as an other economic flow included in the net result.

5.2 Leases

Recognition and measurement of leases as a lessee (under AASB 16 Leases from 1 July 2019)

For any new contracts entered into on or after 1 July 2019, the State considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition the State assesses whether the contract meets three key evaluations:

- whether the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the State and for which the supplier does not have substantive substitution rights;
- whether the State has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract and has the right to direct the use of the identified asset throughout the period of use; and
- whether the State has the right to make decisions in respect of how and for what purpose the asset is used throughout the period of use.

Separation of lease and non-lease components

At inception or on reassessment of a contract that contains a lease component, the State separates out and accounts separately for non-lease components within a lease contract and excludes these amounts when determining the lease liability and right-of-use asset amount.

Lease Liability – initial measurement

The lease liability is initially measured at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily determinable or the State's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments (including in-substance fixed payments);
- variable payments based on an index or rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments arising from purchase and termination options reasonably certain to be exercised.

Lease Liability – subsequent measurement

Subsequent to initial measurement, the liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

Short-term leases and leases of low-value assets

The State has elected to account for short-term leases and leases of low-value assets using the practical expedients outlined in AASB 16. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term. Note 3.4 outlines the definition of a short-term and low value lease.

State's leasing activities

Office Accommodation leases

The State of Victoria has a number of office accommodation leases which are leased by entities throughout the general government, public non-financial corporation (PNFC) and public financial corporation (PFC) sectors. The majority of these leases in magnitude and number are within the general government sector.

The Shared Service Provider group within the Department of Treasury and Finance, holds a number of office accommodation leases which are occupied by clients in the general government sector and managed through a service arrangement. The lease contracts terms are various depending on market availability and the Government's location and tenure requirements, with a range of terms from 5 years to 30 years with options to renew after that date in general. Property leases for government office accommodation are recognised by the central Shared Service Provider as right-of-use assets with a corresponding lease liability, under AASB 16.

Health Sector

Health Services lease various properties such as consulting suites, warehouses, carer support units, treatment areas such as dialysis suites, staff accommodation (generally for medical staff on rotation), offices, opportunity shops, ambulance stations and related facilities. They also lease a range of medical and non-medical equipment, IT equipment, network infrastructure, motor vehicles and aircraft for transport services. Most lease contracts are for periods between 1 and 10 years with options to renew for various lease terms although some Health Services have contracts of up to 30 years. Health Services also have in place short term rental agreements that can be terminated with limited notice (often one month).

Emergency Management

The State has entered into leases for airport hangars, and emergency management system hosting and storage. These assets are leased to assist the State in delivering its fire and emergency management outputs. The assets are leased for a period between 1 and 3 years.

Buses

The State has entered into leases relating to buses with a lease term of the same duration as the franchise term of seven years with an option to extend for a further three years.

Financial impacts of leases

Financial information relating to leases is disclosed in the following notes of the AFR:

- Note 3.4: Other Operating expenses;
- Note 4.1.2: Depreciation;
- Note 4.1: Reconciliation of movements in carrying values during the financial period;
- Note 4.1: Reconciliation of movements in carrying values of right of use assets during the financial period;
- Note 5.1: Borrowings;
- Note 5.6: Changes in liabilities arising from financing activities; and
- Note 5.8: Interest expense

Leases at significantly below-market terms and conditions

Right-of-use assets under leases at significantly below-market terms and conditions that are entered into principally to enable the State to further its objectives, are initially and subsequently measured at cost. The State elected to initially measure the recognition of the right-of-use asset arising from leases that are significantly below market terms and conditions at cost as per the temporary relief given to not-for-profit entities by AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*.

These right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

Transport Leases between the general government sector (Department of Transport) and the public non-financial corporations sector (Victorian Rail Track)

Background

Victorian Rail Track (VicTrack) is the custodial owner of the State's transport-related land, infrastructure, rolling stock and associated assets, which the State, through the Department of Transport (DoT), is highly dependent on to further its objectives of providing Victorians with a transport system. DoT leases metropolitan, regional and interstate train and tram assets from VicTrack at nominal cost in order to provide public transport services in Victoria via:

- the Metropolitan Infrastructure and Operational Control and Management Systems Head Leases effective November 2017, for the duration of the operators' franchise agreements which is 7 years plus a day, with a 3-year extension option;
- the State Rolling Stock Head Leases effective 27 November 2009, for the shorter of 40 years or when the assets are handed back to VicTrack;
- V/Line Head Lease – regional infrastructure and a number of velocity trains; and
- Australian Rail Track Corporation (ARTC) Head Lease – infrastructure and rolling stock lease.

Through these Head Leases, VicTrack provides access to its leased assets to assist the State in furthering its objectives. DoT has the right to direct the use of the assets as it directs the timetables, routes and fares without the influence of VicTrack. Additionally, DoT is deemed to obtain substantially all the economic benefits from the use of the leased assets from VicTrack as it directs the use of the assets to achieve its objectives. DoT provides these assets to rail and tram operators and track access providers (i.e. ARTC, Metro Trains Melbourne (MTM), V/Line and Yarra Trams) through various franchisee agreements.

The State has classified the Head Leases entered with VicTrack as leases that are significantly below market terms and conditions, and principally enable the State to further its objectives.

Impact on the general government sector

The State discloses the following information in relation to these arrangements:

- the State elected to initially measure the recognition of the right-of-use asset arising from leases that are significantly below market terms and conditions at cost as per the temporary relief given to not-for-profit entities by AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*. Therefore, the right-of-use asset value in the general government sector is nominal;
- the corresponding liability of the right-of-use arrangement is recognised at nominal value as per above; and
- there is no difference between the right-of-use asset and the lease liability, therefore an adjustment to the opening balance of the general government sector's accumulated surplus as at 1 July 2019 is not required.

However, as outlined below for the PNFC sector impacts, the reduction in the reported value of the assets in the PNFC sector has also resulted in a corresponding adjustment to the general government sector's investment in other sector entities amount on the balance sheet. This has resulted in an opening 1 July 2019 adjustment to the investment in other sector entities revaluation surplus.

Please refer to Note 9.7.2 for the transitional impacts of this change under AASB 16.

Impact on the public non-financial corporations sector

The application of the new accounting standards has resulted in the leases being reassessed as finance leases with a resulting decrease in the carrying value of the assets to a nominal value with a corresponding adjustment to opening retained earnings.

As these assets are recognised at nominal value in both general government and PNFC sectors, their fair value is reinstated as a consolidation adjustment in the non-financial public sector.

Presentation of right-of-use assets and lease liabilities

The State presents right-of-use assets as property plant equipment unless they meet the definition of investment property, in which case they are disclosed as investment property on the balance sheet. Lease liabilities are presented as borrowings on the balance sheet.

Recognition and measurement of leases (under AASB 117 *Leases* until 30 June 2019)

In the comparative period, leases of property, plant and equipment were classified as either finance leases or operating leases.

Leases of property, plant and equipment where the State as a lessee had substantially all of the risks and rewards of ownership were classified as finance leases. Finance leases were initially recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. The leased asset was accounted for as a non-financial physical asset and depreciated over the shorter of the estimated useful life of the asset or the term of the lease. Minimum finance lease payments were apportioned between the reduction of the outstanding lease liability and the periodic finance expense, which was calculated using the interest rate implicit in the lease and charged directly to the consolidated comprehensive operating statement.

Contingent rentals associated with finance leases were recognised as an expense in the period in which they were incurred.

Assets held under other leases were classified as operating leases and were not recognised in the State's balance sheet. Operating lease payments were recognised as an operating expense in the comprehensive operating statement on a straight-line basis over the lease term.

5.3 Service concession arrangements

In line with the State of Victoria's direction prescribed in FRD 124 *Transitional requirements on the application of* AASB 1059 *Service Concession Arrangements: Grantors,* the State has early adopted AASB 1059 from 1 July 2019. Further transitional disclosures are included in Note 9.7.2.

The Standard addresses the accounting for a service concession arrangement by a grantor that is a public sector entity by prescribing the accounting for the arrangement from a grantor's perspective.

Prior to the issuance of AASB 1059, there was no definitive accounting guidance in Australia for service concession arrangements, which include a number of public private partnership arrangements. The AASB issued the new standard to address the lack of specific accounting guidance and based the content thereof broadly on its international equivalent: *International Public Sector Accounting Standard 32 Service Concession Arrangements: Grantors*.

For arrangements within the scope of AASB 1059, on transition and at initial recognition a public sector grantor is required to record the asset(s) used in the service concession arrangement at current replacement cost in accordance with the cost approach to fair value under AASB 13 *Fair Value Measurement*, with a related liability, which could be a financial liability, an accrued revenue liability (referred to as the grant of a right to the operator liability) or a combination of both.

The nature of the liability and subsequent accounting depends on the consideration exchanged in the arrangement between the State and the operator.

The State initially recognises the liability at the same amount as the service concession asset (SCA), adjusted by the amount of any other consideration from the State to the operator, or from the operator to the grantor.

Exception to this principle occurs when the grantor reclassifies an existing asset to a SCA. When this occurs, no liability is recognised unless additional consideration is provided by the operator. Instead, the State recognises a SCA and a corresponding liability for the amounts spent on the upgrade/expansion work.

A **financial liability** is recognised where the State has a contractual obligation to pay the operator for providing the SCA. It is measured in accordance with AASB 9 *Financial Instruments* and is recognised as a borrowing (Note 5.1). The liability is increased by interest charges (Note 5.8), based on the interest rate implicit in the arrangement. Where the interest rate is not specified in the arrangement, the prevailing market rate of interest for a similar instrument with similar credit ratings is used. The liability is reduced by any payments made by the State to the Operator as required by the contract.

A **grant of a right to the operator (GORTO) liability** is recognised where the State does not have a contractual obligation to pay cash or another financial asset but grants the right to the operator to earn revenue from the public use of the asset (Note 6.4.1). This type of arrangement is commonly referred to as an economic service concession arrangement. It represents unearned revenue and is progressively reduced over the period of the arrangement in accordance with its substance (Note 2.6).

The State has applied the transitional provisions of AASB 1059 and elected a full retrospective approach to prior reporting periods. The effect of this is as if the standard has always been applied. Retrospective application requires the derecognition or adjustment of any service concession assets and liabilities recognised under previous accounting policies and the initial recognition of service concession assets and liabilities under AASB 1059. As well as below, Note 9.7.2 summarises the impact of applying the standard.

The practical application of AASB 1059 continues to evolve and as more experience is gained in applying the standard, the application to the State may be reviewed. Specifically, areas of significant judgement involve the unit of account for assets held by Melbourne Port Lessor (MPL) Pty Ltd, the extent of regulation of those assets and how significant this regulation is in the transaction as a whole. Should AASB 1059 apply in future reporting periods, in whole or in part to the assets held by MPL, the value of the assets subject to the service concession arrangement will need to be revalued to current replacement cost and this may differ to the current carrying value.

In line with the transitional requirements of the Standard, any net cumulative adjustment between the recognition of service concession assets and financial liabilities and/or GORTO liabilities have been recognised in accumulated surplus as at 1 July 2018.

After initial recognition, service concession assets are measured by applying the revaluation model for the State's property, plant and equipment (Note 4.1) and intangible assets (Note 4.2).

The State has reviewed all of its arrangements, including those disclosed in Note 5.4 and arrangements which the State has with another entity that includes a SCA to assess whether AASB 1059 applies. The following material arrangements were identified.

Commissioned service concession arrangements

Grant of a Right to the Operator (GORTO) Model

CityLink

DoT manages the statutory functions and powers of the State under the *Melbourne City Link Act 1995*. These functions and powers include the administration of the contractual arrangements, revenue and assets of the CityLink Project.

The State and CityLink Melbourne Limited (CML) amongst others, entered into the Melbourne City Link Concession Deed on 30 October 1995. Under the terms of the Concession Deed, CML is responsible for the construction, financing and operation of the City Link road network during the concession period. As part of the Concession Deed, the State of Victoria granted to the operator, for a specified period of time (referred to as a concession period), the right to collect fees from users of the assets. Under the new accounting standards, this is referred to as the grant of a right to the operator (GORTO) model.

The Concession Deed requires CML to pay to the State, specified concession fees at specified intervals during the concession period. In accordance with the Concession Deed, CML has exercised an option to meet its obligations to pay concession fees by way of issuing concession notes. These notes are non-interest-bearing promissory notes payable by CML at the end of the concession period or earlier in the event of CML achieving certain financial profitability levels and cash flows.

The State of Victoria, CML and Transurban Infrastructure Management Limited (TIML) entered into the M1 Corridor Deed of Assignment (Deed of Assignment) on 25 July 2006. Under the terms of the Deed of Assignment, all concession notes held by, and due to be issued to the State in accordance with the Concession Deed, were assigned to TIML for a defined payment stream over a four-year period ending 30 June 2010.

In 2015, the State, CML and TIML entered into further agreements (as part of the CityLink Tulla Widening project) whereby TIML has undertaken works on CityLink and other road networks, and made further payments to the State, in exchange for variations to the Concession Deed.

The value of concession notes due to be received by the State in accordance with the Concession Deed has been disclosed at the present value of concession notes to be issued in future periods by CML. The present value of the concession notes has been calculated based on an interest rate implied in the estimated concession note redemption profile included in the Deed of Assignment. The present value of the concession notes is disclosed as a GORTO liability.

CML is responsible for the operation and the delivery of maintenance to the CityLink road network at their own discretion based on terms and conditions specified in the agreement, which are critical to the provision of the public service.

The concession period to operate the CityLink road network has been extended as a result of the partial funding of the West Gate Tunnel Project and under the contractual arrangements existing as at 30 June 2020, and will expire on the 14 January 2045.

A summary of the arrangement is included below.

($ million)

		Pre-AASB 1059 accounting			*Application of AASB 1059*		
Note		*Line item*	*2020*	*2019*	*Line item*	*2020*	*2019*
2.1	Taxation revenue	Other	69	68			
2.6	Other revenue				Revenue related to economic service concession arrangements	160	158
3.4	Other operating expenses	Purchases of services	30	30	Purchases of services	30	30
4.1.1	Total land, buildings, infrastructure, plant and equipment				Land and roads and road infrastructure	4 661	3 798
4.1.2	Depreciation				Roads and road infrastructure	68	80
6.4.1	Payables	Unearned income	700	739	Grant of a right to the operator liability	2 101	2 231
Consolidated statement of changes in equity					Non-financial assets revaluation surplus	931	..

The Concession Deed provides for CML to lease certain land and road infrastructure from the State during the concession period. At the end of this period, these assets along with the constructed CityLink service concession assets, rights and obligations will be returned to the State as the State retains the residual interest in the road infrastructure at the end of the project term.

The State's role is to monitor that TIML meets its contractual obligations, and to intervene in the operation of the road only in extreme circumstances. The State has an interest in monitoring CityLink both from a safety perspective and also as a representative of the broader public interest.

Under the terms of the Concession Deed, there are certain provisions under which the State could be entitled to share in the financial success of the CityLink project as follows:

- additional concession fees where the CML revenue and equity return exceed the benchmarks set out in the original Base Case Financial Model;
- variable lease rental expected to commence in 2035;
- early end to concession period if specified equity return threshold is reached; and
- share of revenue based on compensable enhancements events which result in additional revenue for CityLink.

To-date, none of the above events have occurred.

There were no changes to the arrangements during the reporting period.

EastLink

DoT manages the statutory functions and powers of the State under the *EastLink Project Act 2004*. These functions and powers include the management of agreements concerning the development, delivery and operation of the EastLink Project.

The State and ConnectEast Pty Ltd (ConnectEast), amongst others, entered into the EastLink Concession Deed on 14 October 2004. Under the terms of the Concession Deed, ConnectEast is responsible for the construction, financing and operation of the EastLink Project. As part of the Concession Deed, the State granted to the operator, for a specified period of time (referred to as a concession period), the right to collect fees from users of the assets. Under the new accounting standards, this is referred to as the grant of a right to the operator model.

ConnectEast has a right to operate the EastLink road network for the duration of the concession period which is due to expire on 30 November 2043. EastLink opened to traffic in June 2008.

ConnectEast is responsible for the operation and the delivery of maintenance of the road infrastructure with the objective of making the road available for public use; at their own discretion based on terms and conditions specified in the agreement.

A summary of the arrangement is included below.

($ million)

Note	*Application of AASB 1059 Line item*	*2020*	*2019*
2.6 Other revenue	Revenue related to economic service concession arrangements	90	90
4.1.1 Total land, buildings, infrastructure, plant and equipment	Land and roads and road infrastructure	3 663	3 505
4.1.2 Depreciation	Roads and road infrastructure	88	90
6.4.1 Payables	Grant of a right to the operator liability	2 247	2 337
Consolidated statement of changes in equity	Non-financial assets revaluation surplus	245	..

The Concession Deed provides for ConnectEast to lease certain land and road infrastructure from the State during the concession period. At the end of this period, these assets along with the constructed Eastlink service concession assets, rights and obligations will be returned to the State as the State retains the residual interest in the road infrastructure at the end of the project term.

ConnectEast has committed to a regime of key performance indicators that ensures a level of service delivery for the users.

The Concession Deed contains compensable enhancement provisions that enable the State to claim 50 per cent of any additional revenue derived by 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 arising as a result of opening the Peninsula Link road network. This claim remains outstanding. Refer to Note 7.2 for further details on this claim.

There were no changes to the arrangements during the reporting period.

Land Use Victoria

On 27 August 2018, following a competitive market engagement process, Victorian Land Registry Services (VLRS) was announced as the successful tenderer for the commercialisation of part of the land titles and registry functions of Land Use Victoria. VLRS is backed by First State Super, which is fully Australian-owned and one of Australia's largest superannuation funds.

VLRS commenced on 27 September 2018 (Stage 1) and is responsible for part of Registration, Landata and Systems Branches of Land Use Victoria for a term of 40 years. The services, such as processing title searches, registrations, inquiries and modifications/changes to land registry titles have continued to be delivered to the public and stakeholders, customers and clients in a seamless manner ensuring service delivery requirements are maintained and key performance indicators met.

The second stage of the transition of services to VLRS was in November 2019. The Registrar of Titles has remained with the State and has retained all statutory obligations and powers. The Registrar of Titles is responsible for preserving the integrity and security of the land register and enforcing service standards. The State will also continue to own the land registry data and provide the State Guarantee of title.

The arrangement provides VLRS with access to the State Material Licence, which includes all State Data, Operating Manual, State Software, and the rights to provide operator and non-statutory services (e.g. certain Title and LANDATA© Search Products and Property Certificates).

The State pays a Service Fee to VLRS for the services it provides being Purchase Order Registration services and Landata services and this is included in other operating expenses (Note 3.4).

The Operating Concession Deed (OCD) required VLRS to pay a Concession Licence Fee to the State of $2.8 billion and was paid to the consolidated revenue via the Department of Environment, Land, Water and Planning (DELWP). This was received on 27 September 2018 and treated as a licence fee and recognised as unearned revenue in Note 6.4.1. Subsequently, revenue has been recognised on a straight-line basis and the liability reduced simultaneously.

On 1 July 2019, DELWP assessed that the arrangement meets the definition of a service concession arrangement under AASB 1059. The unearned concession licence fee is to be accounted for as GORTO liability. GORTO revenue is to be recognised on a straight-line basis and GORTO liability reduced over the concession period. The mechanism of realising the unearned concession licence fee revenue has not changed by transition to AASB 1059. The initial implementation impact of AASB 1059 only involves reclassification of the unearned licence fee balances with no adjustment made to the figures.

However, the revenue and liability previously recognised has been reclassified to make clear it relates to a service concession arrangement. This includes the reclassification of unearned income to GORTO liability. The detailed reclassification is available in the summary of the transition impact table below.

Prior to AASB 1059, the Land Registry Services (LRS) software (the Victorian Online Titles System (VOTS)) was recorded by DELWP as an intangible asset however, the Titling and Registry database (database) of LRS did not meet the recognition criteria of AASB 138 *Intangible Assets* and therefore no value for the asset was recognised in the financial statements. In applying AASB 1059, from the date of the transaction completion at 27 September 2018, the VOTS was revalued to $37 million, and the Titling and Registry database was recognised at $419 million (Note 4.2). The valuation is based on the current replacement cost of the asset, with the corresponding adjustment taken through the physical asset revaluation surplus. Details of the fair value measurement of the service concession intangible assets have been included in Note 4.2.

Subsequent to the initial recognition, both intangible assets are elected to be carried under the revaluation model in line with AASB 138. The database is assessed to have infinite life, therefore not depreciated. The software asset will be depreciated over the useful life of 10 years and the fair value is reassessed at each year end period.

A summary of the impact of the application of AASB 1059 is included below. The adoption of AASB 1059 does not have an impact on periods prior to 2018-19.

($ million)

		Pre-AASB 1059 accounting			*Application of AASB 1059*		
Note		*Line item*	*2020*	*2019*	*Line item*	*2020*	*2019*
2.6	Other revenue	Sales of goods and services	71	54	Revenue related to economic service concession arrangements	71	54
4.1.2	Depreciation	Intangible produced assets	..	..	Intangible produced assets	4	3
4.2	Other non-financial assets	Intangible produced assets	..	..	Intangible produced assets	477	470
6.4.1	Payables	Unearned income	2 732	2 803	Grant of a right to the operator liability	2 732	2 803

Financial Liability Model

Peninsula Link

The State entered into a Peninsula Link Project Deed with Southern Way Pty Ltd (Southern Way) on 20 January 2010 under a public private partnership financial liability model for the construction, financing and operation of the Peninsula Link road infrastructure for a period of 25 years ending on 13 January 2038. Peninsula Link opened to traffic in January 2013.

The State compensates Southern Way through quarterly service payments for delivery of ongoing services based on key performance indicators. These payments comprise a capital component associated with the design, construction and financing of Peninsula Link, and components relating to the ongoing operation, maintenance and pavement intervention costs.

The capital component of the contract with Southern Way relating to the design and construction of Peninsula Link was previously accounted for as a finance lease with the State being the lessee. This treatment was in accordance with the then accounting policy for availability based private provision of public infrastructure projects.

With the introduction of AASB 1059, the assets and liabilities previously disclosed by the State as finance leases and leasehold assets have been reclassified as service concession financial liabilities and service concession assets.

A summary of the arrangement is included below.

($ million)

Note		*Pre-AASB 1059 accounting* Line item	2020	2019	*Application of AASB 1059* Line item	2020	2019
4.1.1	Total land, buildings, infrastructure, plant and equipment	Leased roads and road infrastructure	818	677	Land and roads and road infrastructure	818	677
4.1.2	Depreciation	Leased roads and road infrastructure	10	9	Roads and road infrastructure	10	9
5.1	Borrowings	Finance lease liabilities	673	692	Service concession arrangement liabilities	673	692
5.8	Interest expense	Finance charges on finance lease liabilities	79	81	Finance charges on service concessions	79	81
Consolidated statement of changes in equity		Non-financial assets revaluation surplus	151	..	Non-financial assets revaluation surplus	151	..

At the end of this period, the Peninsula Link service concession assets, rights and obligations will be returned to the State as the State retains residual interest in the road infrastructure at the end of the project term.

Southern Way has committed to a regime of key performance indicators that ensures a level of service delivery for the users.

The contract does not include any options to extend or renew the services. The contract may be terminated in certain circumstances.

Southern Way must comply with the annual works plan which details scheduled servicing, maintenance, refurbishment and replacement of assets during the concession period which must be consistent with the asset replacement and refurbishment program in terms of nature, scope and scale.

Southern Way will be provided with appropriate access to the asset in order to fulfil its obligations.

There were no changes to the arrangements during the reporting period.

5. FINANCING STATE OPERATIONS

Southern Cross Station

In July 2002, the State entered into a Service and Development Agreement (SDA) with Civic Nexus Pty Ltd (CNPL) for the redevelopment of Southern Cross Station (Station) under a public private partnership financial liability model. CNPL is responsible for the design, construction, operation and maintenance of the Station for a period of 30 years ending in June 2036, at which time these service concession assets, rights and obligations will transfer back to the State. Construction commenced in September 2002 and was completed in August 2006.

The State compensates CNPL through quarterly service payments for delivery of operating and maintenance services that are subject to abatement in accordance with the terms and conditions of the SDA. These payments comprise a capital component associated with the design, construction and financing of the Station redevelopment, and components relating to the ongoing operation and maintenance costs.

The State has control over what services are provided with the project assets, and as a result, CNPL is required to operate and maintain the project asset with the objective of making the asset available for public use, at their own discretion based on terms and conditions specified in the agreement. These functions are critical to the provision of public services as the assets would not be capable of operating, from an operational and safety perspective, without these maintenance services which bring the assets to a specified operating standard.

The State will have access to the assets over their entire useful life. The residual interest in the project assets will rest with the State as the underlying Station is currently recognised on the State's balance sheet. At the end of this period, the project's service concession assets, rights and obligations will be returned to the State.

A summary of the arrangement is included below.

($ million)

		Pre-AASB 1059 accounting			*Application of AASB 1059*		
Note		*Line item*	*2020*	*2019*	*Line item*	*2020*	*2019*
3.4	Other operating expenses	Purchases of services	24	19	Purchases of services	24	19
4.1.1	Total land, buildings, infrastructure, plant and equipment	Buildings	489	492	Buildings	489	492
4.1.2	Depreciation	Leased Buildings	12	12	Buildings	12	12
5.1	Borrowings	Finance lease liabilities	363	369	Service concession arrangement liabilities	363	369
5.8	Interest expense	Finance charges on finance lease liabilities	32	32	Finance charges on service concessions	32	32
Consolidated statement of changes in equity		Non-financial assets revaluation surplus	59	..	Non-financial assets revaluation surplus	59	..

There were no changes to the arrangements during the reporting period.

Desalination Plant

The State entered into a 30-year public private partnership arrangement with the AquaSure consortium (AquaSure) on 30 July 2009. The Victorian Desalination Project (VDP) was initiated to design, build, finance and operate a desalination plant, transfer pipeline and 220 kilovolt underground power cable capable of supplying 150 gigalitres of water per annum into the Melbourne network. Construction of the Desalination Plant began in 2009 and the project term commenced in 2012 upon successful commissioning. AquaSure is required to transfer the project assets to the State at the end of the project term for no additional payment by the State and Melbourne Water Corporation has purchased the rights to acquire the assets at that time.

Under the arrangement, the State has an obligation to make Water Security Payments (WSPs) to the consortium provided the plant is maintained to the appropriate standard. The WSPs have two components: capital payments for the project assets and other expenses for operating, maintenance and lifecycle costs.

The State will also make Water Usage Payments for any water that is ordered and delivered to the required standard. Water can be ordered annually for flexible amounts from 0 to 150 gigalitres (in set increments).

A Statement of Obligations (SoO) was issued to the Melbourne Water Corporation under section 4I of the *Water Industry Act 1994* that required Melbourne Water Corporation to pay all monies as required by the State under the project deed with AquaSure. The arrangement was codified through the Water Interface Agreement (WIA) between the State, DELWP and Melbourne Water Corporation. DELWP does not control any receipt arising from this arrangement and is required to pay the amounts from the Melbourne Water Corporation into the consolidated fund.

As at 30 June 2020 AquaSure had produced the 125 gigalitres for the 2019-20 water order.

On 24 March 2020 the Minister for Water issued the 2020-21 Supply Notice with a Required Annual Water Volume for 125 gigalitres in 2020-21 and non-binding forecasts of 150 gigalitres for 2021-22 and 2022-23.

Debt refinancing of the project

In December 2019, the State approved AquaSure to refinance its external debt, including the introduction of the Treasury Corporation of Victoria as a financier. The refinancing resulted in the State being entitled to a refinancing benefit under the VDP Project Deed. The VDP Project Deed entitles the State to an adjustment to the water service payments from those in the original financial model to reflect the changes in refinancing costs incurred by Aquasure.

In June 2020, the full transaction documentation was updated which included the financial model and the WIA. This was undertaken to reflect the change in the State's financial risk exposure, required to complete the December 2019 debt restructure of the VDP. This resulted in a $283 million reduction in the State's liability under the VDP Project Deed, with a reduction in the contractual receivable from Melbourne Water Corporation of $38 million. The reduction in the State's liability and receivable has been recognised as a net gain of $245 million on refinancing activities.

Debt modification impact assessment

When there is a refinancing benefit, AASB 9 requires an assessment to be conducted to determine if the modification of debt is substantial, meaning the difference is at least 10 per cent or greater between the present value of the modified cash flow and original cash flow, being both discounted at the original effective interest rate. Substantial debt modification is to be treated as an extinguishment of the existing debt and a recognition of a new liability.

In conducting the debt modification assessment, the State has adjusted the methodology applied to previous refinancing transactions which was based on calculating the cumulative cashflow change from all previous refinancing activities. The updated methodology compares the post-modification cashflows against those immediately before the refinancing transaction. The change in methodology does not impact the prior year assessment and the calculation of the previous debt modifications.

For 2019-20, the refinancing benefit is not considered to be a substantial modification to the existing debt as the change is less than 10 per cent and as such, AASB 9 requires the resulting gain/loss from refinancing to be recognised immediately in the net result and reduces the future liability and interest expense profile.

Impact of accounting standard changes

The State has assessed the agreements between AquaSure, DELWP (on behalf of the State) and Melbourne Water Corporation and concluded that the agreements are connected and should form one single commercial arrangement. Under the combined arrangement, Melbourne Water Corporation is considered the ultimate grantor under AASB 1059, and AquaSure the private sector operator that provides public services on behalf of Melbourne Water Corporation. DELWP, on behalf of the State, administers the arrangement and recognises contractual liability on the capital portion of WSPs to AquaSure and contractual receivable from Melbourne Water Corporation determined in the SoO as financial instruments under AASB 9. These were previously recognised as a finance lease liability and receivable under AASB 117.

The VDP related financial assets and liabilities of DELWP are measured at amortised cost under the requirements of AASB 9.

The State is also following the measurement principles of AASB 9 for the accounting treatment of the financial liability to AquaSure as part of the VDP. The impacts on periods before 2018-19 are mainly reclassification of line items, which are in line with the impacts on the reporting periods disclosed.

A summary of the arrangement is included below.

($ million)

Note		*Pre-AASB 1059 accounting* Line item	2020	2019	*Application of AASB 1059* Line item	2020	2019
4.1.1	Total land, buildings, infrastructure, plant and equipment	Infrastructure systems	4 072	4 149	Infrastructure systems	4 072	4 149
4.1.2	Depreciation	Infrastructure systems	78	78	Infrastructure systems	78	78
5.1	Borrowings	Finance lease liabilities	3 603	3 718	Service concession arrangement liabilities	3 603	3 718
5.8	Interest expense	Finance charges on finance leases	413	427	Finance charges on service concessions	413	427

Fulham Correctional Centre

In October 1995, the State entered into a public private partnership arrangement with Australasian Correctional Investment Ltd (ACI) for the finance, design, construction, maintenance, and operation (including providing custodial services) of Fulham Correctional Centre. The construction of the prison was completed in 1997 and the operational phase under the original contract was due to end in 2017. However, a contract extension was entered into in April 2015, with the terms of the contract extension coming into effect on 1 July 2016. The contract extension has an initial term of 11 years and subject to ACI's performance, a further term of 8.3 years that would end in October 2035.

ACI is subject to key performance indicators over the term of the contract extension. Where there is unsatisfactory performance, the contract gives ACI the ability to rectify its performance, however if this is not satisfactory the State can adjust the quarterly payments made to ACI. Where performance is not rectified, the State can terminate the contract.

The State first recognised the prison buildings, plant and equipment as finance leased assets with a corresponding liability in 2005-06, following the State's transition to the Australian Equivalents to International Financial Reporting Standards. Prior to this date, the lease was treated as an operating lease. The finance lease ended in 2016-17 with the prison assets reverting to the State. The prison assets were subsequently reclassified as service concession assets upon the application of AASB 1059.

A summary of the service concession balances is included in the table below.

($ million)

Note	*Application of AASB 1059* Line item	2020	2019
4.1.1 Total land, buildings, infrastructure, plant and equipment	Buildings	182	115
4.1.2 Depreciation	Buildings	3	3

Port Phillip Prison

In July 1996, the State entered into a public private partnership arrangement with G4S Correctional Services (Australia) Pty Ltd for the finance, design, construction, maintenance, and operation (including providing custodial services) of Port Phillip Prison. The construction of the prison was completed in 1997 and the operational phase under the original contract was due to end in 2017. However, a contract extension was entered into in December 2015, with the terms of the contract extension coming into effect on 10 September 2017. The contract extension also novated from G4S Correctional Services (Australia) Pty Ltd to G4S Custodial Services Pty Ltd on 10 September 2017. For simplicity, both G4S entities are referred to as G4S. The contract extension has an initial term of 10 years and subject to G4S' performance, a further term of 10 years that would end in September 2037.

G4S is subject to key performance indicators over the term of the contract extension. Where there is unsatisfactory performance, the contract gives G4S the ability to rectify its performance, however if this is not satisfactory the State can adjust the quarterly payments made to G4S. Where performance is not rectified, the State can terminate the contract.

The State first recognised the prison buildings, plant and equipment as finance leased assets with a corresponding liability in 2005-06, following the State's transition to the Australian Equivalents to International Financial Reporting Standards. Prior to this date, the lease was treated as an operating lease. The finance lease ended in 2012-13 with the prison assets reverting to the State. The prison assets were subsequently reclassified as service concession assets upon the application of AASB 1059.

A summary of the service concession balances is included in the table below.

($ million)

Note	*Application of AASB 1059 Line item*	*2020*	*2019*
4.1.1 Total land, buildings, infrastructure, plant and equipment	Buildings	221	185
4.1.2 Depreciation	Buildings	5	5

5. FINANCING STATE OPERATIONS

Ravenhall Correction Centre

In September 2014, the State entered into a public private partnership arrangement with GEO Consortium for the finance, design, construction, maintenance and operation (including providing custodial services) of Ravenhall Correctional Centre. The construction of the prison was completed in November 2017 and the operational phase is due to expire in 2042.

GEO Consortium is subject to key performance indicators over the term of the contract. Where there is unsatisfactory performance, the contract gives the consortium the ability to rectify its performance, however if this is not satisfactory the State can adjust the quarterly payments made to the consortium. Where performance is not rectified, the State can terminate the contract.

The State recognised the prison buildings, plant and equipment as finance leased assets with a corresponding liability in accordance with AASB 117 in November 2017. The prison assets and liability were subsequently reclassified as service concession assets and liability upon the application of AASB 1059.

A summary of the service concession balances is included in the table below.

($ million)

		Application of AASB 1059		
Note		*Line item*	*2020*	*2019*
4.1.1	Total land, buildings, infrastructure, plant and equipment	Buildings	835	796
4.1.2	Depreciation	Buildings	19	23
5.1	Borrowings	Service concession arrangement liabilities	520	530
5.8	Interest expense	Finance charges on service concessions	31	44

Other immaterial service concession arrangements

There are several other SCAs which are immaterial to the State. The financial impacts of these have been aggregated below. These arrangements include the metropolitan bus service contracts (the State compensates the operators with a service fee that covers the cost of fleet, fuel, labour and overhead and the operators do not receive a share of the ticketing revenue), the prisoner transportation system and some hospital related SCAs.

A summary of the arrangements is included below.

($ million)

Note	*Application of AASB 1059 Line item*	*2020*	*2019*
4.1.1 Total land, buildings, infrastructure, plant and equipment	Service concession assets	1 178	1 146
4.1.2 Depreciation	Service concession assets	45	38
5.1 Borrowings	Service concession arrangement liabilities	129	134
5.8 Interest expense	Finance charges on service concessions	7	..
Consolidated statement of changes in equity	Non-financial assets revaluation surplus	7	..
Consolidated statement of changes in equity	Accumulated surplus/(deficit)	..	(18)

There were no changes to the arrangements during the reporting period.

Uncommissioned service concession arrangements

Hybrid model (GORTO and Financial liability models)

West Gate Tunnel

On 11 December 2017, the State entered into a public private partnership contract with Transurban (Project Co) to deliver the West Gate Tunnel Project under a hybrid arrangement (a combination of grant of a right to the operator and State Contribution). Transurban is responsible for the design, construction, financing, operation and maintenance of the West Gate Tunnel Project over a 28-year period to January 2045.

The project will be funded through a combination of State Contribution, tolls imposed on users of the West Gate Tunnel (until 2045), adjustments to various CityLink tolls during the remaining term of Transurban's existing CityLink Concession (to 2035), and a 10-year extension of the CityLink Concession (from 2035 to 2045).

Project Co will design, construct, operate, toll and maintain the West Gate Tunnel assets for public use under this arrangement.

The arrangement was not recognised under previous accounting standards and therefore the *2018-19 Financial Report* did not include these amounts. However, in compliance with the standard, the comparatives have been adjusted under the full retrospective approach this year.

A summary of the arrangement is included below.

($ million)

		Pre-AASB 1059 accounting			*Application of AASB 1059*		
Note		*Line item*	*2020*	*2019*	*Line item*	*2020*	*2019*
4.1.1	Total land, buildings, infrastructure, plant and equipment		..	..	Roads and road infrastructure	3 226	1 916
4.2	Other non-financial assets	Other assets	642	255			
5.1	Borrowings	Advances from non-public sector	..	31	Service concession arrangement liabilities	..	31
6.4.1	Payables		..	..	Grant of a right to the operator liability	2 311	1 661
Consolidated statement of changes in equity					Non-financial assets revaluation surplus	273	

At the end of the concession term, Project Co will hand back the West Gate Tunnel assets to the State. As a result, the State controls any significant residual interest in these assets at the end of the arrangement.

The contract does not include any options to extend or renew the services. The contract may be terminated in certain circumstances.

Project Co must comply with the annual works plan which details scheduled servicing, maintenance, refurbishment and replacement of assets during the concession period which must be consistent with the asset replacement and refurbishment program in terms of nature, scope and scale.

Project Co will be provided with appropriate access to the asset in order to fulfil its obligations.

There were no other changes to the arrangements during the reporting period.

Financial Liability Model

High Capacity Metro Trains

In November 2016, the State entered into a project agreement with Evolution Rail Consortium comprising of Downer Rail, CRRC and Plenary to deliver the High Capacity Metro Trains (HCMT) Project under a public private partnership financial liability model. Under the contract, the Evolution Rail consortium will design, build, commission and finance a fleet of 65 high capacity trains, a depot at Pakenham East (including a train maintenance facility (TMF) and a stabling yard), a light service facility (LSF) at Calder Park and two simulators. Evolution Rail will also be responsible for the maintenance of the fleet, and the maintenance and operation of the TMF, the LSF and the simulators, over the maintenance phase of the contract for a period of 30 years until 2053.

The State will pay for the construction costs over the contract term through partial service payments (PSPs), State contributions (SCs) and full quarterly service payments (QSPs).

The PSPs are in relation to HCMTs only and represent pro-rata payments to the consortium during the phased delivery of the HCMTs, as and when a train comes into service. The payment commences from when the fifth HCMT enters service and is applicable until commencement of the QSP at the date of provisional acceptance of all 65 HCMT sets.

The SCs are made on the achievement of the relevant milestones; SC initial fleet (37th HCMT), SC provisional acceptance of the project (65th HCMT), SC final acceptance of the final fleet (approximately six months after the provisional acceptance of the project).

The QSPs are sized in a manner so as to compensate the consortium's fixed debt and equity repayments over the term of the project, maintenance costs and other associated operating costs. QSPs are payable when all assets subject to the arrangement are available for use up until contract expiry.

The State has control over what services will be provided with the project assets during the operational phase of the arrangement, and as a result, the consortium will be responsible for the maintenance of the HCMTs, maintenance and operation of the TMF and LSF. These functions are critical to the provision of public services as the asset performance and safety is directly dependent on the maintenance. Furthermore, the consortium is responsible for the scheduling of the maintenance of HCMTs in order to meet the required availability and best maintenance practices at its own discretion.

The arrangement was not recognised under previous accounting standards and therefore the *2018-19 Financial Report* did not include these amounts. However, in compliance with the standard, the comparatives have been adjusted under the full retrospective approach. A summary of the arrangement is included below.

($ million)

		Pre-AASB 1059 accounting			*Application of AASB 1059*		
Note		*Line item*	*2020*	*2019*	*Line item*	*2020*	*2019*
4.1.1	Total land, buildings, infrastructure, plant and equipment		..	..	Plant, equipment and vehicles	515	287
5.1	Borrowings	Finance lease liabilities	..	275	Service concession arrangement liabilities	745	572
5.8	Interest expense		..	..	Finance charges on service concessions	20	24
Consolidated statement of changes in equity					Accumulated surplus/(deficit)	(24)	
Consolidated statement of changes in equity			..	..	Non-financial assets revaluation surplus	44	24

Once the stabling yard has been constructed by the consortium, it will be returned to the State with no ongoing maintenance obligations for the consortium upon achievement of provisional acceptance of the depot. The arrangement between the State and consortium covering the returned rail assets is not considered a service concession arrangement. The maintained rail assets (HCMTs, the TMF and the LSF) will be handed back to the State at the end of the concession period as the State retains residual interest in the infrastructure assets at the end of the project term.

The contract does not include any options to extend or renew the services. The consortium must comply with the annual works plan which details scheduled servicing, maintenance, refurbishment and replacement of assets during the concession period which must be consistent with the asset replacement and refurbishment program in terms of nature, scope and scale.

The consortium will be provided with appropriate access to the asset in order to fulfil its obligations.

There were no changes to the arrangements during the reporting period.

Metro Tunnel Project – Tunnel and Stations

In December 2017, the State entered into an agreement with Cross Yarra Partnership (Project Co) – a consortium comprising Lendlease Engineering, John Holland, Bouygues Construction and Capella Capital – to deliver the Metro Tunnel – Tunnel and Stations package under a public private partnership financial liability model. Project Co is responsible for the design, construction and financing the twin nine-kilometre tunnels under the central business district, five underground stations, station fit-out, mechanical and electrical systems and certain commercial opportunities at the new Stations. Project Co will also be responsible for specific maintenance and other services to support the use of the infrastructure delivered by the package for 25 years until 2048.

The State will compensate Project Co through State Contributions during the construction phase, and quarterly service payments (QSPs) that commence after Provisional Acceptance and continue for the duration of the concession period. These QSPs are sized in a manner to compensate Project Co for the costs incurred during the construction and maintenance phases.

The State has control over what services will be provided with the project assets during the operational phase of the arrangement and Project Co will be responsible for providing maintenance, cleaning and other similar facilities management services over the project assets. These functions are critical to the provision of public services as the asset performance and safety is directly dependent on the maintenance. Furthermore, Project Co has the managerial discretion as to how and when the maintenance activities, such as scheduling of staff and resources, are completed by submitting a plan to the State.

The arrangement was not recognised under previous accounting standards and therefore the *2018-19 Financial Report* did not include these amounts. However, in compliance with the standard, the comparatives have been adjusted under the full retrospective approach this year.

A summary of the arrangement is included below.

($ million)

Note		*Pre-AASB 1059 accounting* Line item	2020	2019	*Application of AASB 1059* Line item	2020	2019
4.1.1	Total land, buildings, infrastructure, plant and equipment	Infrastructure systems	146	77	Infrastructure systems	3 590	2 452
4.2	Other non-financial assets	Other assets	460	105			
5.1	Borrowings		..	..	Service concession arrangement liabilities	2 984	2 269
5.8	Interest expense		..	..	Finance charges on service concessions	148	83
Consolidated statement of changes in equity					Accumulated surplus/(deficit)	(99)	(16)
Consolidated statement of changes in equity			..	..	Non-financial assets revaluation surplus	247	99

At the end of the concession period, the tunnels and stations service concession assets, rights and obligations will be returned to the State as the State retains residual interest in the infrastructure at the end of the project term.

The contract does not include any options to extend or renew the services. The contract may be terminated in certain circumstances.

Project Co must comply with the annual works plan which details scheduled servicing, maintenance, refurbishment and replacement of assets during the concession period which must be consistent with the asset replacement and refurbishment program in terms of nature, scope and scale.

Project Co will be provided with appropriate access to the asset in order to fulfil its obligations, Project Co will also be provided with a lease to operate some commercial tenancies within the constructed asset through the concession period.

Refer to Note 7.2 for an unquantifiable contingent liability in relation to this project.

Western Roads Upgrade

In December 2017, the State signed the Western Roads Upgrade contract under a public private partnership financial liability model with Netflow OSARS (Western) Partnership (the Consortium) – comprising Plenary, Cintra, WBHO and Amey-Broadspectrum – for roads upgrades (eight road projects and seven road rehabilitation projects) and maintenance. These works are expected to be completed progressively in the 2020 calendar year, after which the Consortium will be required to maintain the relevant area of the road network for 20 years. The roads upgrade package involves primarily brownfield upgrades (refurbishment, duplications, widenings, interchange upgrades) of significant arterials roads and interchanges with limited greenfield (new builds/extension) works and the ongoing provision of periodic, routine maintenance and rehabilitation of pavements, structures, drainage and roadside assets.

The State will pay for the construction and maintenance costs over the contract term through quarterly service payments (QSPs) and/or State contributions (as per the Project Deed).

The State will compensate the Consortium on a periodic basis during the construction phase for the repairs and maintenance services provided on existing brownfield arterial roads through the QSPs during the operations phase.

During construction phase, the Consortium will undertake construction of new assets in both brownfield sites and greenfield sites as well as initial rehabilitation on existing brownfield arterial roads in order to bring the assets to a specified operating standard. Payments for these works will form part of the QSPs to the Consortium. In addition, the QSPs to the Consortium will cover the payments for repairs, maintenance and replacement over the operations phase.

The State has an option to make a contribution to the Consortium two years post commercial acceptance and to the extent that the State does not exercise this option, the Consortium has the option to call on the State to make the contribution.

The capital QSPs to the consortium will only commence following commercial acceptance.

The State has control over what services will be provided with the project assets during the operational phase of the arrangement, and as a result, the consortium will be responsible for the delivery of maintenance and lifecycle services (routine and periodic) within the maintenance network during the maintenance phase. These functions are critical to the provision of public services as the assets would not be capable of operating, from an operational and safety perspective, without these maintenance services which bring the assets to a specified operating standard. Furthermore, the consortium has discretion over the development of asset management and maintenance plans. It proactively manages the asset (invest lifecycle/asset replacement) over the long-term in accordance with the contract.

The State will have access to the assets over their entire useful life. The residual interest in the greenfield assets will rest with the State. Brownfield assets are currently recognised on the State's balance sheet.

The arrangement was not recognised under previous accounting standards and therefore the *2018-19 Financial Report* did not include these amounts. However, in compliance with the standard, the comparatives have been adjusted under the full retrospective approach.

A summary of the arrangement is included below.

($ million)

		Pre-AASB 1059 accounting			*Application of AASB 1059*		
Note		*Line item*	*2020*	*2019*	*Line item*	*2020*	*2019*
4.1.1	Total land, buildings, infrastructure, plant and equipment	Roads and road infrastructure	143	130	Roads and road infrastructure	920	394
5.1	Borrowings	Service concession arrangement liabilities	..	..	Service concession arrangement liabilities	598	264
5.8	Interest expense	Finance charges on service concessions	..	..	Finance charges on service concessions	25	10
Consolidated statement of changes in equity					Accumulated surplus/(deficit)	(12)	(2)
Consolidated statement of changes in equity		Non-financial assets revaluation surplus	..	..	Non-financial assets revaluation surplus	37	12

The contract does not include any options to extend or renew the services. The contract may be terminated in certain circumstances.

The consortium must comply with the annual works plan which details scheduled servicing, maintenance, refurbishment and replacement of assets during the concession period which must be consistent with the asset replacement and refurbishment program in terms of nature, scope and scale. The consortium will be provided with appropriate access to the asset in order to fulfil its obligations.

There were no changes to the arrangements during the reporting period.

5.4 Public private partnerships

The State from time to time enters into certain arrangements with private sector participants to design and construct or upgrade assets used to provide public services. These arrangements usually include the provision of operational and maintenance services for a specified period of time.

These arrangements are often referred to as public private partnerships (PPPs).

These PPPs usually take one of two main forms. In the more common form, the State pays the operator over the arrangement period, subject to specified performance criteria being met. At the date of commitment to the principal provisions of the arrangement, these estimated periodic payments are allocated between a component related to the design and construction or upgrading of the asset, and the components related to the ongoing operation and maintenance of the asset. The former component is accounted for as either a lease, a service concession arrangement or construction of an item of property, plant and equipment.

The remaining components are accounted for as commitments for operating costs, which are expensed in the comprehensive operating statement as they are incurred.

The other form of PPP is one in which the State grants to an operator, for a specified period of time, the right to collect fees from users of the PPP asset, in return for which the operator constructs the asset and has the obligation to supply agreed upon services, including maintenance of the asset for the period of the concession. These private sector entities typically lease land, and sometimes State works, from the State and construct infrastructure. At the end of the concession period, the land and state works, together with the constructed facilities, will be returned to the State.

Prior to 1 July 2019, all PPPs for which the State had to make payment in exchange for the PPP asset were accounted for under AASB 117 as finance leases.

After 1 July 2019, AASB 1059 applies to arrangements where an operator provides public services, using a service concession asset, on behalf of the State and importantly, the operator manages at least some of the public service at its own discretion. The State must also control the asset for AASB 1059 to apply. This means that certain PPP arrangements will not be within the scope of AASB 1059 and will continue to be accounted for as either leases or assets being constructed by the State and conversely, certain arrangements that are not PPPs (such as certain external service arrangements) could be captured within the scope of AASB 1059. The State has determined which arrangements should be accounted for under AASB 1059 and details of these are included in Note 5.3.

The following tables for PPP commitments comprise the following:

- for commissioned PPPs only the operating and maintenance commitments of the PPP arrangement are included in the commitments amounts as the capital component (i.e. the construction of the underlying asset) is recorded as either a lease or service concession arrangement liability on the State's balance sheet; and
- for uncommissioned PPPs, the commitments include the capital component not yet recognised on the balance sheet (i.e. the amount relating to the asset which hasn't been constructed as yet), the State's future capital contributions as well as the operating and maintenance commitments for the PPP contract.

For PPPs which are recognised as service concession arrangements under AASB 1059, the amounts recognised on the balance sheet for both commissioned and uncommissioned PPPs can be found in Note 5.3.

Commissioned public private partnership commitments [a][b] **($ million)**

	State of Victoria 2020 Other commitments		General government sector 2020 Other commitments		State of Victoria 2019 Other commitments		General government sector 2019 Other commitments	
	Present value	Nominal value	Present value	Nominal value	Present value	Nominal value	Present value	Nominal value
Commissioned public private partnerships other commitments								
Leases								
AgriBio Project	130	263	130	263	128	271	128	271
Bendigo Hospital	612	1 263	612	1 263	606	1 298	606	1 298
Barwon Water	73	108	..	..	59	90	..	..
Casey Hospital	100	136	100	136	102	143	102	143
Central Highlands Water	19	41	..	..	22	50	..	..
Coliban Water	65	87	..	..	70	98	..	..
County Court	23	28	23	28	34	42	34	42
Emergency Services Telecommunications	..	..	..	..	187	242	187	242
Melbourne Convention Centre	216	405	216	405	236	430	236	430
New Schools PPP	134	257	134	257	161	313	161	313
Partnerships Victoria in Schools	98	232	98	232	163	375	163	375
Royal Children's Hospital	849	1 623	849	1 623	840	1 677	840	1 677
Royal Melbourne Showgrounds	19	32	19	32	19	34	19	34
Royal Women's Hospital	244	397	244	397	249	421	249	421
Victorian Comprehensive Cancer Centre (VCCC)	394	927	394	927	384	946	384	946
Service concession arrangements – Financial liability model								
Peninsula Link	218	410	218	410	214	422	214	422
Prisons	6 415	10 742	6 415	10 742	6 599	11 299	6 599	11 299
Southern Cross Station	257	499	257	499	259	523	259	523
Victorian Desalination Plant	1 553	4 197	1 553	4 197	1 670	4 270	1 670	4 270
Sub-total	**11 419**	**21 647**	**11 263**	**21 411**	**12 003**	**22 945**	**11 852**	**22 707**

Notes:
(a) The liability payments of commissioned public private partnerships are recognised on the balance sheet and are not disclosed as a commitment.
(b) The present value of other commitments has been discounted to 30 June of the respective financial years.

Uncommissioned public private partnership commitments [a][b][c][d] ($ million)

	State of Victoria				General government sector			
	2020				2020			
	Liability [e]	*Capital contribution* [g]	*Other commitments*	*Total commitments*	*Liability* [e]	*Capital contribution* [g]	*Other commitments*	*Total commitments*
	Discounted value [f]		*Present value*	*Nominal value*	*Discounted value* [f]		*Present value*	*Nominal value*
Uncommissioned public private partnerships total commitments								
Leases								
Casey Hospital expansion	..	..	..	..	..	..	..	..
Service concession arrangements – Financial liability model								
High Capacity Metro Trains [h]	725	341	1 074	6 132	725	341	1 074	6 132
Metro Tunnel Project – Tunnel and Stations [h]	3 231	4 032	604	10 089	3 231	4 032	604	10 089
Western Roads Upgrade [h]	178	..	705	2 281	178	..	705	2 281
Service concession arrangements – Hybrid model (GORTO and Financial liability models)								
West Gate Tunnel Project [h]	..	1 295	..	1 295	..	1 295	..	1 295
Sub-total	**4 134**	**5 668**	**2 384**	**19 796**	**4 134**	**5 668**	**2 384**	**19 796**
Total commitments for public private partnerships			**13 803**	**41 443**			**13 646**	**41 207**

Notes:

(a) *The discounted value of the liability payments has been discounted to the expected date of commissioning and the present value of other commitments has been discounted to 30 June of the respective financial years.*

(b) *The liability payments represent the total liability payments for the uncommissioned public private partnerships less those liabilities recorded on the balance sheet.*

(c) *The capital contributions represent the State's total capital contribution for the uncommissioned public private partnerships.*

(d) *The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors *with the associated capital component of the public private partnership arrangements recognised progressively on the balance sheet. Refer to Notes 5.3 and Note 9.7.2 for further details.*

(e) *Depending on the arrangement, this liability can relate to a lease, service concession arrangement or the construction of an item of property, plant and equipment.*

(f) *The liability payments include the expected future liabilities yet to be recognised on the balance sheet.*

(g) *Capital contribution is measured at nominal value.*

(h) *Commitments nominal value includes the capital portion of the service concession liability that has been reported on the balance sheet. Refer to Note 5.3 for further details relating to service concession arrangements.*

State of Victoria				*General government sector*			
2019				*2019*			
Liability (e)	*Capital contribution (g)*	*Other commitments*	*Total commitments*	*Liability (e)*	*Capital contribution (g)*	*Other commitments*	*Total commitments*
Discounted value (f)		*Present value*	*Nominal value*	*Discounted value (f)*		*Present value*	*Nominal value*
2	14	2	19	2	14	2	19
916	341	1 025	6 132	916	341	1 025	6 132
4 121	4 408	573	10 465	4 121	4 408	573	10 465
548	..	721	2 312	548	..	721	2 312
..	1 710	..	1 710	..	1 710	..	1 710
5 587	**6 474**	**2 321**	**20 638**	**5 587**	**6 474**	**2 321**	**20 638**
		14 324	**43 583**			**14 173**	**43 344**

Public private partnership commitment payables [(a)(b)] **($ million)**

Nominal values	*State of Victoria 2020*	*General government sector 2020*	*State of Victoria 2019*	*General government sector 2019*
Public private partnership commitments				
Less than 1 year	2 909	2 882	2 444	2 419
1 year but less than 5 years	8 851	8 739	10 055	9 952
5 years or more	29 684	29 586	31 083	30 973
Total public private partnership commitments	**41 443**	**41 207**	**43 583**	**43 344**

Notes:
(a) *The figures presented are inclusive of GST.*
(b) *The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors *with the associated capital component of the public private partnership arrangements recognised progressively on the balance sheet. Refer to Notes 5.3 and Note 9.7.2 for further details.*

5.5 Deposits held and advances received

Deposits held include deposits, security deposits, and trust fund balances held on behalf of public or private sector bodies. Advances received include loans and other repayable funds from public sector bodies for policy purposes.

Deposits held and advances received are categorised as financial liabilities at amortised cost.

5.6 Cash flow information and balances

Cash and deposits, including cash equivalents, comprise cash on hand and cash at bank, deposits at call and those highly liquid investments with an original maturity of three months or less, which are held for the purpose of meeting short-term cash commitments rather than for investment purposes, and which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

For cash flow statement presentation purposes, cash and cash equivalents include bank overdrafts, which are included as current borrowings on the balance sheet.

Reconciliation of cash and cash equivalents **($ million)**

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Cash	7 884	3 983	7 153	3 397
Deposits at call [(a)]	11 301	8 712	5 884	6 378
Cash and cash equivalents	**19 185**	**12 694**	**13 037**	**9 775**
Bank overdraft	..	..	..	..
Balances as per cash flow statement	**19 185**	**12 694**	**13 037**	**9 775**

Note:

(a) The State's deposits at call includes $6.5 billion ($5.4 billion in 2019) relating to the Central Banking System (CBS) while the general government sector includes $5.7 billion ($4.7 billion in 2019) relating to the CBS.

Reconciliation of net result to net cash flows from operating activities [(a)(b)] **($ million)**

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Net result	(15 699)	(9 236)	(7 899)	229
Non-cash movements				
Revenue related to economic service concession arrangements	(320)	(587)	(320)	(301)
Depreciation and amortisation	6 513	5 595	3 899	3 063
Revaluation of investments	1 657	(574)	160	(310)
Assets (received)/provided free of charge	(374)	(157)	(11)	65
Assets not previously/no longer recognised	(70)	(99)	(70)	(99)
Revaluation of assets	2 694	447	828	349
Discount/premium on other financial assets/borrowings	(102)	(178)	3	2
Foreign currency dealings	2	1	2	1
Unrealised (gains)/losses on borrowings	400	1 790	..	..
Discounting of assets and liabilities	1	(1)	1	(1)
Movements included in investing and financing activities				
Net gain/loss from sale of investments	448	(239)	59	(115)
Net gain/loss from sale of non-financial assets	185	68	87	38
Realised gains/losses on borrowings	(2)	92	(245)	60
Movements in assets and liabilities				
Increase/(decrease) in allowance for impairment losses	(148)	347	(169)	352
Increase/(decrease) in payables	1 212	3 335	1 222	3 710
Increase/(decrease) in employee benefits	1 059	1 033	1 009	1 000
Increase/(decrease) in superannuation	(125)	65	(125)	56
Increase/(decrease) in other provisions	4 584	9 105	151	48
(Increase)/decrease in receivables	(500)	(791)	(464)	(823)
(Increase)/decrease in other non-financial assets	(1 041)	12	(1 030)	67
Net cash flows from operating activities	**375**	**10 028**	**(2 913)**	**7 391**

Notes:

(a) The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059 Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details.*

(b) The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Note 6.3.1 for further details.

5. FINANCING STATE OPERATIONS

Changes in liabilities arising from financing activities [a] **($ million)**

State of Victoria			*Non-cash changes*		
2020	*Opening balance*	*Cash flows*	*New lease liabilities/service concession arrangements*	*Fair value changes*	*Closing balance*
Borrowings and derivative instruments	56 713	15 689	..	956	73 357
Lease liabilities	8 351	(769)	709	..	8 291
Service concession arrangements liabilities	4 986	(437)	1 580	..	6 130
Advances and deposits received	1 691	1	..	..	1 693
2019					
Borrowings and derivative instruments	43 406	11 478	..	1 859	56 743
Lease liabilities	4 446	(328)	52	..	4 170
Service concession arrangements liabilities	3 498	(217)	1 721	..	5 003
Advances and deposits received	2 154	(498)	..	35	1 691

General government sector			*Non-cash changes*		
2020	*Opening balance*	*Cash flows*	*New lease liabilities/service concession arrangements*	*Fair value changes*	*Closing balance*
Borrowings and derivative instruments	31 940	17 508	..	(321)	49 126
Lease liabilities	7 661	(637)	644	..	7 669
Service concession arrangements liabilities	4 861	(429)	1 580	..	6 012
Advances and deposits received	5 250	(1 569)	..	..	3 681
2019					
Borrowings and derivative instruments	27 573	4 334	..	63	31 970
Lease liabilities	4 141	(144)	52	..	4 049
Service concession arrangements liabilities	3 372	(216)	1 721	..	4 878
Advances and deposits received	6 524	(1 309)	..	35	5 250

Note:
(a) *The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*

5.7 Advances paid and investments, loans and placements

($ million)

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Current advances paid and investments, loans and placements				
Loans and advances paid	140	35	2 084	2 084
Equities and managed investment schemes	3 406	1 948	848	916
Australian dollar term deposits	130	2 264	112	176
Debt securities	2 822	5 270	6	9
Derivative financial instruments	1 182	506	192	295
Total current advances paid and investments, loans and placements	**7 680**	**10 022**	**3 242**	**3 479**
Non-current advances paid and investments, loans and placements				
Loans and advances paid	343	383	4 466	6 256
Equities and managed investment schemes	29 113	32 414	1 379	1 084
Australian dollar term deposits	29	33	29	33
Debt securities	2 441	2 118	22	25
Derivative financial instruments	1 258	546	1	3
Total non-current advances paid and investments, loans and placements	**33 184**	**35 494**	**5 897**	**7 400**
Total advances paid and investments, loans and placements	**40 864**	**45 516**	**9 139**	**10 879**
Represented by:				
Advances paid	483	418	6 550	8 340
Investments, loans and placements	40 381	45 098	2 589	2 539

The items in the table above are financial instruments (Note 7.1) that have been classified into financial instrument categories, depending on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

Any dividend or interest earned on these financial assets is recognised in the consolidated comprehensive operating statement as a revenue or income transaction.

Advances paid include long and short-term loans, non-marketable debentures and long and short-term promissory agreements (bonds and bills) mainly issued to the PNFC and PFC sectors, for policy rather than liquidity management purposes. Advances are initially measured at fair value and subsequently measured at amortised cost. They exclude equity contributions and are eliminated on consolidation of the State's position.

5.8 Interest expense [(a)(b)]

($ million)

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Interest on interest-bearing liabilities	2 178	2 142	1 561	1 595
Finance charges on finance leases	..	321	..	316
Finance charges on lease liabilities	413	..	391	..
Finance charges on service concessions	352	378	342	378
Discount interest on payables	58	72	33	31
Total interest expense	**3 002**	**2 912**	**2 328**	**2 321**

Notes:
(a) AASB 16 Leases *has been applied for the first time from 1 July 2019.*
(b) The 2019 comparative figures have been restated to reflect the adoption of AASB 1059 Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details*

Interest expense represents costs incurred in relation to borrowings. It includes interest on advances, loans, overdrafts, bonds and bills, deposits, interest components of lease repayments, service concession financial liabilities and the amortisation of discounts or premiums in relation to borrowings.

The State recognises borrowing costs immediately as an expense, even where they are directly attributable to the acquisition, construction or production of a qualifying asset.

5.9 Commitments for future expenditure

Commitments for future expenditure include operating and capital commitments arising from contracts.

These commitments are disclosed at their nominal value and are inclusive of the GST payable.

These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the consolidated balance sheet.

Commitments for future expenditure [(a)] **($ million)**

Nominal values	*State of Victoria 2020*	*General government sector 2020*	*State of Victoria 2019*	*General government sector 2019*
Capital expenditure commitments				
Land and buildings	2 236	2 021	1 872	1 760
Plant, equipment and vehicles	358	311	298	253
Infrastructure systems	10 427	9 240	6 614	5 755
Road networks and earthworks	103	103	600	600
Other	216	99	159	101
Total capital expenditure commitments	**13 339**	**11 773**	**9 542**	**8 468**
Operating and lease commitments not included in the lease liability				
Rail services	8 081	8 081	9 765	9 668
Bus services	6 388	6 388	4 675	4 674
Other [(b)]	2 791	2 784	5 771	4 945
Total operating and new short-term lease commitments	**17 259**	**17 252**	**20 212**	**19 287**
Other commitments				
Building occupancy services	..	..	..	51
Capital investment commitments	251	..	299	..
Commercial contracts	185	16	149	25
Debt collection services (Traffic camera office)	..	..	57	57
Emergency Alert System	27	27	38	38
Emergency Telecommunication Networks	340	340	..	..
Goulburn-Murray Water Connections Project	38	..	70	..
Information technology	338	273	366	337
New ticketing solution (myki)	384	384	529	529
Outsourcing of services	262	204	299	227
Policing services	284	284	466	466
Provision for Health Services	1 694	1 694	1 857	1 857
Traffic camera services (Traffic camera office)	656	656	261	261
Transport Accident Commission funded medical research	9	..	13	..
Other	4 176	3 862	4 291	3 995
Total other commitments	**8 644**	**7 739**	**8 697**	**7 844**
Total commitments	**39 242**	**36 764**	**38 451**	**35 599**

Notes:
(a) *The figures presented are inclusive of GST.*
(b) *The significant decrease is due to operating leases now being reflected on the balance sheet since the application of AASB 16* Leases. *Please refer to the lease liability reconciliation table in Note 9.7.2 for further details.*

Commitments for future expenditure payables [(a)] **($ million)**

Nominal values	*State of Victoria 2020*	*General government sector 2020*	*State of Victoria 2019*	*General government sector 2019*
Capital expenditure commitments payable				
Less than 1 year	7 980	6 920	5 467	4 660
1 year but less than 5 years	5 252	4 747	3 848	3 581
5 years or more	107	106	228	226
Total capital expenditure commitments	**13 339**	**11 773**	**9 542**	**8 468**
Operating lease commitments not included in the lease liability				
Less than 1 year	3 738	3 735	3 972	3 824
1 year but less than 5 years	9 726	9 723	11 300	10 913
5 years or more	3 795	3 794	4 940	4 550
Total operating and new short-term lease commitments	**17 259**	**17 252**	**20 212**	**19 287**
Total other commitments payable				
Less than 1 year	4 136	3 831	4 124	3 833
1 year but less than 5 years	3 866	3 396	3 900	3 451
5 years or more	643	513	672	560
Total other commitments	**8 645**	**7 739**	**8 697**	**7 844**
Total commitments (inclusive of GST)	**39 242**	**36 764**	**38 451**	**35 599**

Note:
(a) The figures presented are inclusive of GST.

6. OTHER ASSETS AND LIABILITIES

Introduction

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

Structure

Assets

Liabilities

6.1 Investments in other sector entities

The general government sector investments in other sector entities are measured at net asset value.

The net gain/(loss) on equity investments in other sector entities is measured at the proportional share of the carrying amount of net assets and represents the net gain or loss relating to the equity held by the general government sector in other sector entities. It arises from a change in the carrying amount of net assets of the subsidiaries. The net gains are measured based on the proportional share of the subsidiary's carrying amount of net assets before elimination of inter-sector balances.

Investments in other sector entities [(a)] ($ million)

	2020	2019
Balance of investment in PNFC and PFC sectors at beginning of period	**101 825**	**101 253**
Impact of accounting standards	(28 475)	..
Restated balance of investment in PNFC and PFC sectors at beginning of period	**73 350**	**101 253**
Net contributions/(returns) to other sectors by owner	4 276	3 226
Revaluation gain/(loss) for period	(2 583)	(2 654)
Total investments in other sector entities	**75 043**	**101 825**

Note:

(a) The 1 July 2019 and 30 June 2020 balances have decreased due to the adoption of AASB 16 Leases *from 1 July 2019. Refer to Notes 5.2 and 9.7.2 for further details.*

6.2 Inventories

($ million)

	State of Victoria		General government sector	
	2020	2019	2020	2019
At cost				
Raw materials	8	6	7	5
Work in progress	107	60	13	2
Finished goods	91	77	6	4
Consumable stores	647	200	586	139
Land and other assets held as inventory	850	713	53	15
At net realisable value				
Finished goods	3	4	..	..
Consumable stores	4	4	..	..
Total inventories	**1 710**	**1 064**	**666**	**165**

Inventories include goods and other property held either for sale, or for distribution at zero or nominal cost, or for consumption in the ordinary course of business operations.

Inventories held for distribution are measured at cost, adjusted for any loss of service potential. All other inventories, including land held as inventory, are measured at the lower of cost and net realisable value.

Where inventories are acquired for no cost or nominal consideration, they are measured at current replacement cost at the date of acquisition.

Cost includes an appropriate portion of fixed and variable overhead expenses. Cost is assigned to land held as inventory (undeveloped, under development and developed) and to other high-value, low-volume inventory items on a specific identification of cost basis. Cost for all other inventory is measured on the basis of weighted average cost.

Bases used in assessing loss of service potential for inventories held for distribution include current replacement cost and technical or functional obsolescence. Technical obsolescence occurs when an item still functions for some or all of the tasks it was originally acquired to do, but no longer matches existing technologies. Functional obsolescence occurs when an item no longer functions the way it did when it was first acquired.

Other inventories include raw materials, work in progress, finished goods and consumable stores and are measured at weighted average cost.

6.3 Receivables and contract assets [(a)]

($ million)

	State of Victoria		General government sector	
	2020	2019	2020	2019
Contractual				
Sales of goods and services [(b)]	1 344	1 414	899	911
Accrued investment income	43	55	9	27
Contract assets	74	..	1	..
Other receivables	2 289	2 147	1 104	866
Allowance for impairment losses of contractual receivables	(211)	(198)	(129)	(138)
Statutory				
Sales of goods and services	8	6	5	5
Taxes receivable	3 611	3 251	3 715	3 363
Fines and regulatory fees	2 690	2 808	2 690	2 808
GST input tax credits recoverable	1 530	1 418	525	419
Other receivables	1	11	..	..
Allowance for impairment losses of statutory receivables	(2 708)	(2 796)	(2 708)	(2 796)
Other				
Actuarially determined	398	469	..	..
Total receivables [(b)]	**9 069**	**8 584**	**6 108**	**5 464**
Represented by:				
Current receivables [(b)]	7 607	7 073	5 894	5 142
Non-current receivables	1 461	1 510	214	322

Notes:
(a) The June 2019 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Note 6.3.1 for further details.
(b) The June 2019 comparative figures have been restated to reflect more current information.

Receivables consist of:

- contractual receivables, classified as financial instruments;
- contract assets;
- statutory receivables that do not arise from contracts; and
- other actuarially determined receivables.

Contractual receivables are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Contractual receivables are classified as financial instruments (Note 7.1).

Contract assets relate to the State's right to consideration in exchange for goods transferred to customers for works completed, but not yet billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional, at this time an invoice is issued. This usually occurs when the State issues an invoice to the customer.

Statutory receivables are recognised and measured similarly to contractual receivables (except for impairment) but are not classified as financial instruments because they do not arise from contracts.

Allowance for impairment losses: The State applies AASB 9 simplified approach for all contractual receivables to measure expected credit losses using a lifetime expected loss allowance based on the assumptions about risk default and expected loss rates.

The expected loss rate is based on past history, existing market conditions as well as forward-looking estimates at the end of the financial year.

6.3.1 Prior period adjustment

The new infringement management system was implemented on 31 December 2017 to coincide with legislative changes made under the *Fines Reform Act 2014*, without financial reporting functionality. In 2019-20 the Department of Justice and Community Safety (DJCS) produced financial reporting functionality to support the new system, which subsequently identified errors in the amounts reported in prior years for administered fines revenue. These errors do not affect fines previously issued to or collected from individuals.

DJCS also separately identified previous errors dating back to at least 2006 in the calculation of, and accounting treatment for, the allowance for impairment losses from unpaid fines, whereby the accounting methodology reduced the allowance made for unpaid fines expected to be collected in the future via non-cash mechanisms. This resulted in overstatements in the amount of net fines receivables expected to be collected in cash and reported in previous years. These errors did not affect fines income, fines previously issued or associated cash collections, and do not relate to the new infringement management system.

These errors have been corrected by restating each of the affected line items of the operating statement and balance sheet for the 2018-19 comparative year and balance sheet at 1 July 2018 as shown in the tables below.

Prior period adjustment **($ million)**

General government	*Before prior period adjustments 2018-19 actual 30 Jun*	*Net impact of prior period adjustments 2018-19 actual 30 Jun*	*After prior period adjustments 2018-19 actual 30 Jun*
Revenue from transactions			
Sales of goods and services	7 697	(17)	7 680
Other revenue	3 343	(159)	3 184
Total revenue from transactions	**69 776**	**(176)**	**69 600**
Expenses from transactions			
Other operating expenses	21 982	24	21 006
Total expenses from transactions	**68 605**	**24**	**68 629**
Net result from transactions – net operating balance	**1 171**	**(200)**	**971**
Total other economic flows included in net result	**(993)**	**251**	**(742)**
Net result	**178**	**51**	**229**

Prior period adjustment **($ million)**

	Before prior period adjustments		*Net impact of prior period adjustments*		*After prior period adjustments*	
General government	*Opening 1 July 2018*	*Closing 30 June 2019*	*Opening 1 July 2018*	*Closing 30 June 2019*	*Opening 1 July 2018*	*Closing 30 June 2019*
Assets						
Receivables and contract assets	6 209	6 628	(1 215)	(1 164)	4 994	5 464
Total assets	**273 420**	**285 905**	**(1 215)**	**(1 164)**	**272 205**	**284 741**
Net assets	**187 607**	**186 635**	**(1 215)**	**(1 164)**	**186 392**	**185 471**
Accumulated surplus/(deficit)	56 008	55 855	(1 215)	(1 164)	54 873	54 691
Net worth	**187 607**	**186 635**	**(1 215)**	**(1 164)**	**186 392**	**185 471**
Fiscal aggregates						
Net financial worth	41 679	29 883	(1 215)	(1 164)	40 464	28 719
Net financial liabilities	59 574	71 942	1 215	1 164	60 789	73 106
Net debt	21 632	25 492	..	..	21 632	25 492

6.4 Payables and contract liabilities

6.4.1 Payables [(a)] ($ million)

	State of Victoria		General government sector	
	2020	2019	2020	2019
Contractual				
Accounts payable	2 415	2 737	814	1 727
Accrued expenses	4 237	3 392	3 709	2 918
Contract liabilities	140	..	68	..
Grant of a right to the operator liability	9 392	8 980	9 392	8 980
Unearned income	11 141	11 394	1 491	1 717
Statutory				
Accrued taxes payable	128	88	94	59
Unearned income [(b)]	1 302	..	1 302	..
Total payables	**28 754**	**26 591**	**16 870**	**15 401**
Represented by:				
Current payables	10 569	8 323	7 010	5 571
Non-current payables	18 186	18 268	9 860	9 829

Notes:
(a) *The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details.*
(b) *The unearned income represents a $1.3 billion overpayment of GST from the Commonwealth Government during the 2019-20 financial year, primarily due to the impact of COVID-19 on the GST pool. Refer to Note 2.5 for further details.*

Payables consist of:

- contractual payables, such as accounts payable and accrued expenses;
- contract liabilities;
- statutory payables (accrued taxes payable), such as GST and fringe benefits tax payables;
- unearned income; and
- grant of right to the operator liability.

Contractual payables are classified as financial instruments (Note 7.1) and measured at amortised cost. Accounts payable represent liabilities for goods and services provided to the State prior to the end of the financial year that are unpaid and arise when the State becomes obliged to make future payments in respect of the purchase of those goods and services.

Contract liabilities relate to consideration received in advance from customers, in respect of developer and customer contributions towards infrastructure works in the water industry, in which set performance obligations have not yet been satisfied.

Statutory payables are recognised and measured similarly to contractual payables but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from contracts.

Unearned income comprises upfront fees received for the medium-term lease over the Port of Melbourne. This unearned income is recognised progressively as revenue, over the term of the relevant arrangements. Unearned income also includes the overpayment of GST resulting from a lower national GST pool than forecast (Note 2.5).

Grant of a right to the operator liabilities relate to economic service concession arrangements and are recognised applying AASB 1059 *Service Concession Arrangements: Grantors* (Note 5.3). It represents unearned revenue and is progressively reduced over the period of the arrangement in accordance with its substance (Note 2.6).

6.4.2 Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to the performance obligations that are not satisfied at the end of the reporting period was $4 million as at 30 June 2020 and is expected to be recognised as revenue in future periods.

6.5 Superannuation

The disclosure in this note is for the consolidated State of Victoria only, as more than 99 per cent of the $31.3 billion superannuation liability is recorded in the general government sector.

Net superannuation liability

The State's public sector defined benefit superannuation plans are responsible for the liability for employee superannuation entitlements. These plans are not consolidated in the Annual Financial Report as they are not controlled by the State. However, the majority of the superannuation liability is the responsibility of the State and is recognised accordingly.

At each reporting date, a liability or asset is recognised in respect of defined benefit superannuation obligations. This is measured as the difference between the present value of the defined benefit obligations at the reporting date and the net market value of the superannuation plans' assets.

The superannuation liabilities of agencies for which the State is not responsible, such as universities, are not reflected in the balance sheet.

Defined benefit plans: These provide benefits based on years of service and final average salary. At each reporting date, a liability or asset is recognised in respect of defined benefit superannuation obligations.

The present value of defined benefit obligations is based upon future payments, which are expected to arise due to membership of the superannuation plan to date, taking into account the taxes payable by the plan.

Consideration is given to expected future salary levels and employee departures. Expected future payments are discounted to present values using yields applying to long-term Commonwealth Government Bonds.

Furthermore, the inflation assumption is based upon the relationship between nominal and index linked bond yields of similar duration. This approach ensures that the inflation assumption reflects market expectations and is compatible with the market-based discount rate that is used to value the outstanding liability.

Defined contribution plans: The State has no obligation to fund any shortfall in these funds and is only responsible for meeting agreed and/or legislated contribution requirements.

6. OTHER ASSETS AND LIABILITIES

Net superannuation liability ($ million)

	State of Victoria 2020	State of Victoria 2019
Emergency Services and State Super		
Defined benefit obligation	48 606	47 402
Tax liability [(a)]	2 911	2 677
Plan assets	(21 658)	(22 810)
Net liability/(asset)	**29 859**	**27 269**
Other funds [(b)]		
Defined benefit obligation	2 929	2 946
Tax liability [(a)]	..	..
Plan assets	(1 496)	(1 532)
Net liability/(asset)	**1 434**	**1 414**
Total superannuation		
Defined benefit obligation	51 536	50 347
Tax liability [(a)]	2 911	2 677
Plan assets	(23 153)	(24 342)
Superannuation liability	**31 293**	**28 683**
Represented by:		
Current liability	1 115	1 106
Non-current liability	30 179	27 577
Total superannuation liability	**31 293**	**28 683**

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

Reconciliation of the defined benefit obligation ($ million)

	State of Victoria 2020	State of Victoria 2019
Opening balance of defined benefit obligation	**53 025**	**48 741**
Current service cost	1 115	1 008
Interest cost	741	1 315
Contributions by plan participants	238	233
Remeasurements:		
Actuarial (gain)/loss arising from change in financial assumptions	1 298	4 253
Actuarial (gain)/loss arising from change in demographic assumptions	..	(346)
Actuarial (gain)/loss due to other experience	325	..
Benefits paid	(2 294)	(2 181)
Closing balance of defined benefit obligation	**54 446**	**53 025**

Reconciliation of the fair value of plan assets

($ million)

	State of Victoria	
	2020	2019
Opening balance of plan assets	**24 342**	**23 508**
Interest income	334	626
Remeasurements:		
Expected return on plan assets excluding interest income	1 316	1 039
Actuarial gain/(loss) relative to expected return	(2 428)	(516)
Employer contributions	1 646	1 633
Contributions by plan participants	238	233
Benefits paid (including tax paid)	(2 294)	(2 181)
Closing balance of plan assets	**23 153**	**24 342**

The State's defined benefit superannuation plans

The State's defined benefit superannuation plans provide benefits based on years of service and final average salary. These are:

State Super Funds (SSF), a collection of defined benefit schemes providing both lump sum and pension benefits (Revised Scheme, New Scheme, State Employees Retirement Benefits Scheme, Transport Scheme, Melbourne Water Corporation Employees Superannuation Scheme, Port of Melbourne Authority Superannuation Scheme and Parliamentary Contributory Superannuation Fund). All schemes are now closed to new members.

Emergency Services Superannuation Scheme Defined Benefit (ESSS DB), a defined benefit lump sum scheme, which remains open to new members. It also has a number of pensioners remaining from prior schemes.

Constitutionally Protected Pension Schemes, defined benefit pensions that continue to be provided to new office holders.

Health Super Division of First State Super (Health Super), a defined benefit scheme that provides both lump sum and pension benefits. This scheme is closed to new members.

The SSF, ESSS DB and Constitutionally Protected Pension Schemes are exempt public sector superannuation schemes. The schemes comply with national superannuation standards under a Heads of Government Agreement and are treated as complying for concessional tax and superannuation guarantee purposes.

The Emergency Services Superannuation Board (ESSB) is responsible for the governance of the SSF and ESSS DB and acts as paying agent for constitutionally protected pensions. The ESSB has the following roles:

- administration of the schemes, including payment of benefits to beneficiaries in accordance with the governing rules of the schemes;
- management and investment of the assets of the schemes, the responsibility for which is primarily outsourced to the Victorian Funds Management Corporation; and
- compliance with superannuation law and other applicable regulations in accordance with the Heads of Government Agreement.

However, constitutionally protected pensions are governed by Victorian Acts for which the Attorney-General is responsible.

First State Super is a regulated public offer superannuation fund. The FSS Trustee Corporation (FSSTC) is responsible for the governance of First State Super and therefore Health Super. As trustee, the FSSTC has the following roles:

- administration of Health Super, including payment of benefits to beneficiaries in accordance with the governing rules;
- management and investment of the assets of Health Super; and
- compliance with superannuation law and other applicable regulations.

6. OTHER ASSETS AND LIABILITIES

Superannuation assumptions

The significant actuarial assumptions used for superannuation reporting purposes are the discount rate, future rates of wages growth and the inflation rate that is used to index pensions, as detailed below.

Victorian statutory superannuation funds	*Actuary*	*Financial assumptions*	*Per cent per annum 2020*	*2019*
Emergency Services and State Super	PwC Securities Ltd.	Expected return on assets [(a)]	7.6	7.6
		Discount rate [(b)]	1.0	1.5
		Wages growth [(c)]	2.4	2.7
		Inflation rate	0.9	1.2
Constitutionally Protected Pensions	PwC Securities Ltd.	Discount rate [(b)]	1.0	1.5
		Wages growth [(c)]	2.4	2.7
		Inflation rate	n.a.	n.a.
Health Super Fund	Mercer (Australia) Pty. Ltd.	Expected return on assets [(a)]	4.8	5.0
		Discount rate [(b)]	1.0	1.5
		Wages growth [(c)]	2.4	2.7
		Inflation rate	0.9	1.2

Notes:
(a) The expected return on assets stated is gross of tax. This rate is adjusted in the calculation process to reflect the assumed rate of tax payable by each scheme.
(b) In accordance with accounting standards, the discount rate is based on a long-term Commonwealth bond rate. The rate stated above is an annual effective rate, gross of tax.
(c) The wages growth assumption is derived from the yields on Commonwealth Government bonds.

Impact of COVID-19

The economic uncertainty associated with COVID-19 has adversely impacted investment returns on the State's defined benefit superannuation assets in 2019-20. At the same time, reductions in the Commonwealth Government bond yields that underlie the key superannuation valuation assumptions increased the defined benefit superannuation obligation that the State is required to report under Australian Accounting Standards. In combination, both of these factors increased the State's reported superannuation liability in 2019-20.

Changes in the reported superannuation liability that arise solely due to changes in the bond yields that underlie its valuation do not affect the amount of cash required to fund this liability over time. However, superannuation funding requirements will vary over time to reflect any differences between the actual and expected returns on superannuation assets. The impact that COVID-19 ultimately has on the State's superannuation funding requirements can only be assessed when investment market volatility abates, and the investment outlook becomes clearer.

Sensitivity analysis

The key risks associated with the State's defined benefit superannuation plans are:

- investment risk – the risk that investment returns will be lower than assumed and that State contributions will need to increase to offset the shortfall;
- wages growth risk – the risk that wages or salaries (on which future benefits are based) will rise more rapidly than assumed, thereby increasing defined benefits and requiring additional employer contributions;
- pension growth risk – the risk that CPI and therefore pension increases will be higher than assumed, thereby increasing defined benefit pension payments and requiring additional employer contributions; and
- longevity risk – the risk that pensioners will live longer than expected, thereby increasing defined benefit pension payments and requiring additional employer contributions.

To illustrate the impact that movements in these assumptions can have on the State's superannuation liability, the defined benefit obligation has been remeasured under the scenarios below.

The assumptions below have been adjusted while maintaining all other assumptions. There have been no changes to the methods and assumptions used to prepare this sensitivity analysis since the prior period.

These scenarios are expected to have the following impact on the State's defined benefit obligation:

		Base case	*Discount rate plus 0.5 per cent*	*Wage growth plus 0.5 per cent*	*Inflation rate plus 0.5 per cent*
Discount rate	(per cent a year)	1.0	1.5	1.0	1.0
Salary growth	(per cent a year)	2.4	2.4	2.9	2.4
Inflation rate	(per cent a year)	0.9	0.9	0.9	1.4
Estimated impact	(per cent)	**n.a.**	**(6.0)**	**1.2**	**4.6**
Estimated change in defined benefit obligation	($ million)	**n.a.**	**(3 229)**	**646**	**2 476**

Target asset allocation **(per cent)**

Asset class	*2020*	*2019*
Domestic equity	19.3	27.6
International equity	29.1	27.6
Domestic debt assets	24.9	17.8
International debt assets	3.0	
Property	7.4	7.5
Cash	7.8	4.1
Other (including private equity, hedge funds and infrastructure)	8.6	15.4
Total	**100**	**100**

The assets are invested in the asset classes shown above. The chosen assets are not designed to match the liabilities exactly. However, the nature of the liabilities is considered in setting the investment strategy.

At 30 June 2020, the plans held investments within the central banking system worth $392 million.

Funding arrangements

The funding of the defined benefit plans varies by plan as follows:

SSF – The scheme is partially funded, with participating employers generally contributing the cost of service as it accrues while the State meets the cost of past service.

ESSS DB – A funded scheme, with a funding target of 110 per cent to 120 per cent of vested benefits. The board's shortfall limit is 95 per cent of vested benefits.

Constitutionally Protected Pension Schemes – Unfunded schemes (i.e. there are no assets) and benefits are paid from the Consolidated Fund as they fall due.

Health Super – A funded scheme where employers contribute in accordance with the actuary's recommendations, which are designed to achieve a target asset level of 107 per cent of the scheme's vested benefits.

In the 2020-21 financial year, employer contributions of $1.6 billion, in total, are expected to be paid to the defined benefit plans. Of this, $1.1 billion relates to the funding of the SSF's past service liability.

The weighted average duration of the defined benefit obligation is approximately 12 years.

6.6 Other provisions

($ million)

	State of Victoria		General government sector	
	2020	*2019*	*2020*	*2019*
Provision for insurance claims				
WorkSafe Victoria	2 830	2 418	..	..
Transport Accident Commission	1 671	1 589	..	..
Victorian Managed Insurance Authority	541	358	..	..
Other agencies	47	37	43	34
Current provision for insurance claims	**5 089**	**4 402**	**43**	**34**
Other provisions	868	880	511	339
Total current other provisions	**5 957**	**5 282**	**554**	**373**
Non-current provision for insurance claims				
WorkSafe Victoria	17 402	13 763	..	..
Transport Accident Commission	19 703	19 659	..	..
Victorian Managed Insurance Authority	2 002	1 749	..	..
Other agencies	78	60	77	59
Non-current provision for insurance claims	**39 186**	**35 231**	**77**	**59**
Other provisions	716	652	704	640
Total non-current other provisions	**39 902**	**35 882**	**781**	**699**
Total other provisions	**45 859**	**41 164**	**1 335**	**1 072**

Other provisions are recognised when the State has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be received from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

6.6.1 Insurance claims

Assumptions used in measurement of liability for outstanding insurance claims

The liability for outstanding insurance claims is independently assessed by actuaries. It covers claims reported but not yet paid, claims incurred but not yet reported, and the anticipated costs of settling those claims. Due to the inherent uncertainty in the estimate of the outstanding insurance claims, a risk margin is included. The risk margin is set to increase the probability that the liability estimate will be sufficient to a level of 75 per cent.

The actuaries take into account projected inflation and other factors to arrive at expected future payments. These are then discounted to the reporting date using a market determined, risk-free discount rate to determine the liability for outstanding insurance claims.

Impact of COVID-19

The financial positions of the State's insurance agencies, the Transport Accident Commission, WorkSafe Victoria (WorkSafe) and the Victorian Managed Insurance Authority (VMIA), have been adversely impacted by COVID-19. This primarily relates to the impact that economic uncertainty has had on investment markets which resulted in the investment returns on insurance assets falling well short of expectations in 2019-20. As a result of the ongoing investment market uncertainty, none of the State's insurers made payments to the State in 2019-20.

To date, COVID-19 has not had a significant impact on the claims incurred by the State's insurers. However, the full impact COVID-19 has on insurance claims is yet to materialise; especially in terms of the impact that the business downturn has on the ability of injured workers to return to suitable employment. This is expected to result in many injured workers receiving WorkSafe benefits for a longer period than they otherwise would have, thereby increasing WorkSafe's claims costs and liabilities. WorkSafe's premium revenue has also fallen due to the impact that COVID-19 has had on Victorian remuneration and this is likely to persist.

The slowdown in the building industry, and the potential for higher builder insolvency rates in future, is also expected to increase the cost of Domestic Building Insurance claims that the VMIA underwrites.

Reconciliation of movements in insurance claims [(a)] **($ million)**

	State of Victoria	
	2020	*2019*
Opening balance	39 632	30 854
Effect of changes in assumptions and claims experience	1 244	5 766
Cost of prior year claims (unwinding of discount)	726	546
Increase in claims incurred [(b)]	7 266	6 362
Claim payments during the year [(b)]	(4 151)	(3 823)
Other	(443)	(73)
Closing balance	**44 275**	**39 632**

Notes:

(a) Reconciliation of movements in insurance claims is only disclosed for the whole of State as they are only material for the State's insurance entities in the public financial corporations sector.

(b) Claim payments and claims incurred during the year are net of recoveries.

Insurance claims assumptions

		Weighted average expected term to settlement (years)		Financial assumptions used (%) (a)(b)(c)					
				Weighted average inflation rate (%) (d)(e)		Weighted average discount rate (%)		Prudential margin used (%) (f)	
Entity	*Actuary*	*2020*	*2019*	*2020*	*2019*	*2020*	*2019*	*2020*	*2019*
Victorian WorkCover Authority (WorkSafe Victoria)	PwC Actuarial Ltd.	7.82	7.30	AWE inflation 0 to 20 years = 2.32 21+ years = 3.02 CPI inflation 0 to 20 years = 1.79 21+ years = 2.02	AWE inflation 0 to 20 years = 3. 37 21+ years = 3.02 CPI inflation 0 to 20 years = 2.14 21+ years = 2.02	0 to 20 years = 1.17 21+ years = 2.83	0 to 20 years = 1.50 21+ years = 2.86	9.50	8.00
Transport Accident Commission	PwC Actuarial Ltd.	18.39	19.07	AWE inflation 0 to 20 years = 2.67 21+ years = 3.08 CPI inflation 0 to 20 years = 1.85 21+ years = 2.09	AWE inflation 0 to 20 years = 3.27 21+ years = 3.06 CPI inflation 0 to 20 years = 2.11 21+ years = 2.08	0 to 20 years = 1.48 21+ years = 3.30	0 to 20 years = 1.74 21+ years = 3.27	11.00	11.00
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Medical Indemnity)	3.90	4.00	5.30	5.80	0.60	1.10	Risk margin = 20.00 CHE = 2.00	Risk margin = 20.00 CHE (g) = 2.50
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd. (Liability)	3.30	3.10	1.80	2.30	0.40	1.10	Risk margin = 31.70 CHE = 4.00	Risk margin = 31.70 CHE = 6.50
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Property)	1.10	1.00	1.80	2.30	0.40	1.10	Risk margin = 17.50 CHE = 4.00	Risk margin = 17.50 CHE = 6.50
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Other)	2.00	2.60	1.80	2.30	0.40	1.10	Risk margin = 30.60 CHE = 4.00	Risk margin = 30.90 CHE = 6.20
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Dust Diseases and Workers' Compensation)	11.30	11.70	4.30	4.50	1.30	1.70	Risk margin = 30.30 CHE = 7.00	Risk margin = 30.70 CHE = 7.00
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Domestic Building Insurance)	3.00	3.10	1.80	2.30	0.40	1.10	Risk margin =23.50 CHE = 4.50	Risk margin =23.50 CHE = 5.00

Notes:
(a) The inflation rate assumptions are based on the anticipated rise in costs relevant to a particular entity.
(b) Financial assumptions used for provisions not later than 1 year and later than 1 year are the same unless otherwise specified.
(c) Data in Financial assumptions used columns are weighted averages unless otherwise specified.
(d) The inflation rates used by the Transport Accident Commission are not weighted averages for 21+ years.
(e) AWE = Victorian Average Weekly Earnings.
(f) Refers to Claims Handling Expenses. Claims handling expenses is an allowance made for the direct expenses to be incurred in settling claims.

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Introduction

The State is exposed to risks from both its activities and outside factors. In addition, it is often necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements.

This section presents information on financial instruments, contingent assets and liabilities, and fair value determinations on the State's assets and liabilities.

Structure

7.1 Financial instruments

Introduction

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of the State's activities, certain financial assets and financial liabilities arise under statute rather than a contract (for example, taxes, fines and penalties). Such assets and liabilities (statutory receivables and payables) are initially recognised and measured in the same manner as financial instruments, even though they are not financial instruments. The disclosure requirements associated with financial instruments therefore do not apply.

The main purposes for the State to hold financial instruments are:

- for liquidity management purposes;
- to manage financial risk;
- to fund the State's capital expenditure program; and
- to meet long-term insurance and superannuation liabilities.

Categories of financial instruments **($ million)**

2020	State of Victoria	General government sector
Financial assets		
Cash and deposits	19 185	13 037
Financial assets designated at fair value through profit/loss (FVTPL)	37 629	766
Financial assets mandatorily measured at fair value through profit or loss	1 094	193
Financial assets at amortised cost	4 091	8 548
Financial assets measured at fair value through other comprehensive income	52	52
Investment in equity instrument designated at fair value through other comprehensive income	1 462	1 461
Total financial assets [(a)]	**63 514**	**24 058**
Financial liabilities		
Financial liabilities designated at fair value through profit and loss	62 322	..
Financial liabilities mandatorily measured at fair value through profit or loss	1 137	269
Financial liabilities at amortised cost	32 621	70 741
Total financial liabilities [(b)]	**96 079**	**71 011**

2019	State of Victoria	General government sector
Financial assets		
Cash and deposits	12 694	9 775
Financial assets designated at fair value through profit/loss (FVTPL)	43 126	911
Financial asset mandatorily measured at fair value through profit or loss	575	297
Financial assets at amortised cost	4 107	10 211
Financial assets measured at fair value through other comprehensive income	46	46
Investment in equity instrument designated at fair value through other comprehensive income	1 081	1 080
Total financial assets [(a)(c)]	**61 628**	**22 320**
Financial liabilities		
Financial liabilities designated at fair value through profit and loss	46 887	302
Financial liabilities mandatorily measured at fair value through profit or loss	639	204
Financial liabilities at amortised cost [(c)]	26 175	50 285
Total financial liabilities [(b)(c)]	**73 701**	**50 791**

Notes:

(a) The State's total financial assets exclude statutory receivables, contract assets and other receivables of $5 604 million ($5 166 million in 2019) while the general government's total financial assets exclude statutory receivables and contract assets of $4 226 million ($3 798 million in 2019).

(b) The State's total financial liabilities exclude statutory taxes payable, unearned income, contract liabilities, grant of a right to the operator liabilities and advance premiums of $22 146 million ($20 498 million in 2019) while the general government's total financial liabilities exclude statutory taxes payable, contract liabilities, grant of a right to the operator liabilities, and unearned income of $12 347 million ($10 756 million in 2019).

(c) The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059 Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details.*

Categories of financial instruments

Financial assets at amortised cost are classified within this category if both of the following criteria are met and the assets are not designated as fair value through profit or loss:

- the assets are held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are initially recognised on the date they originated and initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these assets are measured at amortised cost using the effective interest method (less any impairment).

Financial assets measured at fair value through other comprehensive income

Debt instruments are measured at fair value through other comprehensive income if both of the following criteria are met and the assets are not designated as fair value through profit or loss:

- the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Upon disposal of these debt instruments, any related balance in the fair value reserve is reclassified to profit or loss.

Equity investments are measured at fair value through other comprehensive income if the assets are not held for trading and the State has irrevocably elected at initial recognition to recognise these equity investments in this category.

Such assets are initially recognised at fair value. Subsequent to initial recognition, they are measured at fair value with gains and losses arising from changes in fair value, recognised in other economic flows – other comprehensive income.

Upon disposal of these equity instruments, any related balance in fair value reserve is reclassified to retained earnings.

Financial assets at fair value through the profit or loss are financial instruments that are not classified at amortised cost or at fair value through other comprehensive income.

At initial recognition, an irrevocable designation at fair value through profit or loss is allowed subject to certain criteria. Financial instruments may be designated at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or recognising the gains and losses on them on different bases.

Financial instruments at fair value through the profit or loss are initially measured at fair value and attributable transaction costs are expensed as incurred. Subsequently, any changes in fair value are recognised in the net result as an other economic flow.

Financial assets and liabilities at fair value through net result are categorised as such at trade date, or if they are classified as held for trading or designated as such upon initial recognition. Financial instrument assets are designated at fair value through net result on the basis that the financial assets form part of a group of financial assets that are managed based on their fair values and have their performance evaluated in accordance with documented risk management and investment strategies. Financial instruments at fair value through net result are initially measured at fair value; attributable transaction costs are expensed as incurred. Subsequently, any changes in fair value are recognised in the net result as other economic flows unless the changes in fair value relate to changes in the State's own credit risk. In this case, the portion of the change attributable to changes in the State's own credit risk is recognised in other comprehensive income with no subsequent recycling to net result when the financial liability is derecognised. The State recognises some debt securities that are held for trading in this category and designated certain debt securities as fair value through net result in this category.

Financial liabilities at amortised cost are initially recognised on the date they are originated. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the interest bearing liability, using the effective interest rate method (refer to Note 5.1).

Financial instrument liabilities measured at amortised cost include all of the State's payables, deposits held and advances received, and interest bearing arrangements other than those designated at fair value through profit or loss.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivatives after initial recognition are recognised in the consolidated comprehensive operating statement as an other economic flow included in the net result.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the State retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass through arrangement; or
- the State has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset; or
  - has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Where the State has retained substantially all the risks and rewards and not transferred control, the asset is recognised to the extent of the State's continuing involvement in the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised as an other economic flow in the consolidated comprehensive operating statement.

Reclassification of financial instruments

Subsequent to initial recognition reclassification of financial liabilities is not permitted. Financial assets are required to be reclassified between fair value through net result, fair value through other comprehensive income and amortised cost when and only when the State's business model for managing its financial assets has changes such that its previous classification would no longer apply.

If under rare circumstances an asset is reclassified, the reclassification is applied prospectively from the reclassification date and previously recognised gains, losses or interest should not be restated. If the asset is reclassified to fair value, the fair value should be determined at the reclassification date and any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in net result.

Impairment of financial assets

The State records the allowance for impairment for the relevant financial instruments consistent with the expected credit loss approach required by AASB 9. Subject to AASB 9 impairment assessment include the State's contractual receivables, statutory receivables and its investment in debt instruments.

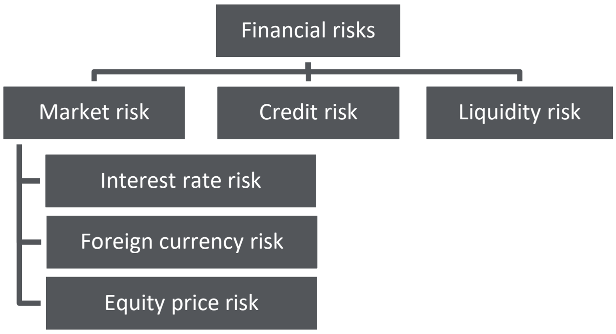
All financial instrument assets, except those measured at fair value through profit or loss, are subject to review at each reporting date.

Recognition of a loss allowance for expected credit losses on a financial asset is required. Under the general approach if the credit risk for a financial asset has increased significantly-then the loss allowance is measured at an amount equal to the lifetime expected credit losses. If the credit risk has not increased significantly then the loss allowance is measured at an amount equal to 12 months' expected credit losses. Under the simplified approach which has been applied to trade receivables, the measurement of their loss allowance is at an amount equal to lifetime expected credit losses.

The amount of the allowance is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. In assessing impairment of statutory (non-contractual) financial assets, which are not financial instruments, professional judgement is applied in assessing materiality using estimates, averages and other computational methods in accordance with AASB 136 *Impairment of Assets*.

Financial risk management

The State is exposed to a number of financial risks, including:



As a whole, the State's financial risk management program seeks to manage these risks and the associated volatility on its financial performance.

Responsible and prudent financial risk management is carried out individually by the State's entities, in accordance with the State's risk management framework, developed by the Department of Treasury and Finance (DTF) and established by the Treasurer. The State's risk management framework comprises the following key components:

- the Treasurer is responsible for approving and establishing the prudential framework containing policies and guidelines on financial risk management;
- the Senior Executive Group of DTF is responsible for advising the Government on the management of the State's financial risks;
- DTF's Financial Assets and Liabilities Group provides oversight of the State's key financial balance sheet and financial market risks. These risks relate to the State's investments, borrowings, superannuation and insurance claims liabilities, as well as exposures to interest rate, foreign exchange and commodity price volatility and liquidity position;
- DTF administers the State's Central Banking System (CBS). The CBS is a DTF cash management initiative that allows the State to reduce its external borrowings, resulting in interest savings. Savings are achieved through a bank account pooling arrangement of department and agency accounts, utilising surplus funds to reduce the State's funding obligations;
- the Treasury Corporation of Victoria (TCV) is the State's central borrowing authority and financing advisor. An independent prudential supervisor is appointed by the Treasurer to monitor TCV's compliance with its prudential framework;
- the Victorian Funds Management Corporation (VFMC) acts as the State's central investment fund manager providing expertise in developing investment strategy and providing funds management services in accordance with each entity's investment objectives. An independent prudential supervisor is appointed by the Treasurer to monitor VFMC's compliance with its prudential framework; and
- the State's entities are responsible for setting their own financial risk policy and objectives in accordance with the Standing Directions 2018. All entities are responsible for the day-to-day operational management of their financial instruments and associated risks in accordance with the Standing Directions.

The Standing Directions cover areas such as financial management objectives, responsibility structure and delegation, and policies and guidance on interest rate risk, foreign exchange risk, counterparty risk, commodity price risk, investment risk, credit risk, liquidity risk and operational risk. The Accountable Officer of each of the State's entities is responsible for advising its board, the responsible Minister and, for Portfolio Agencies, the Accountable Officer of their Portfolio Department, and DTF of any material compliance deficiency, and of planned and completed remedial actions, as soon as practicable.

A number of the State's entities enter into derivative financial instruments in accordance with the Treasurer's prudential and financial management framework, in order to manage their exposure to movements in interest rates, foreign currency exchange rates and commodity-related exposures.

These derivative financial instruments, which include interest rate swaps, futures and forward foreign exchange contracts, are used to manage the risks inherent in either borrowings, financial asset investments or cash flow denominated in foreign currency. Derivative financial instruments are not used to add leverage to the State's financial position.

7.1.1 Interest rate risk

The State is exposed to interest rate risk through borrowings and investments in interest bearing financial assets, such as deposits and debt securities. Interest rate risk could be in the form of fair value risk or cash flow risk:

- Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. It relates to financial instruments with fixed interest rates, measured at fair value and represents the most significant interest rate risk for the State; and
- Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Only a small portion of the State's financial instruments are exposed to cash flow interest rate risk and these arise from financial assets and financial liabilities with floating interest rates, which are measured at amortised cost.

The interest rate exposure table provides details of the carrying amounts of financial assets and liabilities that expose the State to either interest rate fair value risk or interest rate cash flow risk.

Interest rate exposure as at 30 June [(a)(b)] **($ million)**

	State of Victoria				General government sector			
2020	*Floating rate*	*Fixed rate*	*Non-interest bearing*	*Total*	*Floating rate*	*Fixed rate*	*Non-interest bearing*	*Total*
Financial assets								
Cash and deposits	18 644	177	364	19 185	12 543	172	322	13 037
Receivables	88	36	3 340	3 465	10	5	1 866	1 882
Advances paid	244	2	237	483	2 412	3 603	535	6 550
Term deposits	20	139	..	159	20	120	..	140
Derivative financial instruments	189	896	1 355	2 440	189	..	4	193
Equities and managed investment schemes	489	299	31 731	32 519	189	295	1 744	2 227
Debt securities	1 276	3 980	7	5 263	18	3	7	28
Total financial assets	**20 950**	**5 531**	**37 034**	**63 514**	**15 381**	**4 199**	**4 478**	**24 058**
Financial liabilities								
Payables, deposits held and advances received	438	40	7 823	8 301	2 520	30	5 654	8 204
Derivative financial instruments	..	1 121	311	1 432	..	266	71	337
Interest-bearing liabilities	1 933	69 992	..	71 925	11	48 778	..	48 789
Lease liabilities	129	7 967	195	8 291	106	7 380	183	7 669
Service concession arrangement liabilities	..	6 130	..	6 130	..	6 012	..	6 012
Total financial liabilities	**2 501**	**85 250**	**8 328**	**96 079**	**2 637**	**62 466**	**5 907**	**71 011**
2019								
Financial assets								
Cash and deposits	12 139	153	402	12 694	9 322	91	362	9 775
Receivables	84	29	3 305	3 418	28	..	1 638	1 667
Advances paid	258	6	153	418	4 183	3 722	435	8 340
Term deposits	48	2 249	..	2 297	48	161	..	209
Derivative financial instruments	285	267	499	1 052	285	..	12	297
Equities and managed investment schemes	595	248	33 518	34 362	283	244	1 473	1 999
Debt securities	212	7 143	33	7 389	..	..	33	34
Total financial assets	**13 622**	**10 096**	**37 911**	**61 629**	**14 149**	**4 218**	**3 954**	**22 321**
Financial liabilities								
Payables, deposits held and advances received	300	134	7 351	7 785	4 027	123	5 744	9 894
Derivative financial instruments	..	626	138	764	..	191	13	204
Interest-bearing liabilities	7	55 971	..	55 978	..	31 766	..	31 766
Finance lease liabilities	..	4 123	46	4 170	..	4 002	46	4 049
Service concession arrangement liabilities	..	5 003	..	5 003	..	4 878	..	4 878
Total financial liabilities	**308**	**65 858**	**7 536**	**73 701**	**4 027**	**40 960**	**5 804**	**50 790**

Notes:
(a) The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059 Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*
(b) AASB 16 Leases *has been applied for the first time from 1 July 2019.*

Interest rate risk management

The State's policy for managing interest rate risk on borrowings is to achieve relative certainty of cash interest cost while seeking to minimise net borrowing cost within portfolio risk management guidelines. Generally, this is achieved by undertaking fixed rate borrowings across a range of maturity profiles.

Derivative instruments, such as interest rate swaps and futures contracts, are used to either change the interest rate between fixed and floating rates of interest or between different floating rates of interest.

At 30 June 2020, approximately 96 per cent (96 per cent in 2019) of the State's borrowings are at fixed rates of interest. There has been no change in the State's exposure to interest rate risk or the manner in which it manages and measures the risk from the previous reporting period.

Interest rate sensitivity analysis

The State has analysed the possible effects of changes in interest rates on its financial position and result using the following assumptions:

- The exposure to interest rates for both derivative and non-derivative instruments at the reporting date, and the stipulated change taking place at the beginning of the financial year, are held constant throughout the reporting period; and
- Based on historic movements, and in particular, management's knowledge and experience of the recent volatility in global financial markets, the State has assessed that it may be exposed to a reasonably possible increase or decrease of 50 basis points in interest rates (100 basis points in 2019).

With all other variables held constant, the impact of a 50 basis point increase or decrease on the net result and net assets at 30 June 2020 is a $1.7 billion increase/$1.8 billion decrease and a 100 basis point increase or decrease as at 30 June 2019 is a $2.2 billion increase/$2.4 billion decrease.

The State's sensitivity to interest rates is mainly attributable to the revaluation of fixed interest borrowings at fair value and the revaluation of the insurance and superannuation liabilities, however this does not impact on the net result from transactions.

7.1.2 Foreign currency risk

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign monetary items existing at the end of the reporting period are translated at the closing rate at the date of the end of the reporting period. Non-monetary assets carried at fair value that are denominated in foreign currencies are translated to the functional currency at the rates prevailing at the date when the fair value was determined.

Foreign currency translation differences are recognised in other economic flows in the consolidated comprehensive operating statement and accumulated in a separate component of equity, in the period in which they arise.

The State is also exposed to foreign currency risk through investments in foreign currency denominated financial assets, primarily international equities. This exposure is mainly via the major currencies such as the United States dollar, Canadian dollar, Japanese yen, Swiss franc, the euro, British pound and the New Zealand dollar.

The carrying amount of the State's foreign currency denominated monetary assets and monetary liabilities at the reporting date is $4.8 billion ($4.0 billion in 2019) of equities and managed investment schemes and $555 million ($149 million in 2019) of foreign currency borrowings.

When managing foreign currency, VFMC, the State's fund manager, determines an optimal foreign currency exposure range at the total portfolio level in accordance with the investment risk management plan approved by the Treasurer. In the implementation of this approach, international equities and a portion of international debt investments are unhedged, whilst other investments denominated in foreign currency such as infrastructure and hedge funds, are hedged back to Australian dollars. In certain circumstances, VFMC may deviate from this approach with the aim to improve the expected risk-adjusted portfolio outcomes, in accordance with VFMC's governance frameworks.

TCV is the State's central borrowing authority and part of its funding program is comprised of foreign currency borrowings. The State's policy is to hedge any material foreign currency exposures arising from borrowings. TCV uses foreign exchange options, spot and forward foreign exchange rate contracts to manage offshore borrowings.

There has been no material change in the State's exposure to foreign currency risk or the manner in which it manages and measures this risk from the previous reporting period.

Foreign currency sensitivity analysis

The State has analysed the possible effects of change in exchange rates against the Australian dollar on its financial position and result using the following assumptions:

- Exposure to the pool of foreign currencies for both derivative and non-derivative instruments at the reporting date, and the stipulated change taking place at the beginning of the financial year are held constant throughout the reporting period; and
- Based on historic movements, future expectations and management's knowledge and experience of the foreign currency markets, the State has assessed that it may be exposed to an increase or decrease of 15 per cent against the Australian dollar (15 per cent in 2019).

With all other variables held constant, the impact of a 15 per cent increase or decrease in exchange rates on economic flows and net assets at 30 June 2020 is $177 million decrease/$139 million increase ($218 million decrease/$188 million increase in 2019).

The State's exposure to foreign currency risk has no direct impact on the net result from transactions.

7.1.3 Equity price risk

The State is exposed to equity price risk from Australian and international investments in equities directly and indirectly via managed investment schemes or funds. These investments are selected as part of a diversified portfolio to match investment objectives appropriate to the State's liabilities. The State limits its equity price risk through diversifying its investment portfolio. This is determined by VFMC and reflected in the investment risk management plans approved by the Treasurer, and in accordance with the *Borrowing and Investments Powers Act 1987* and the prudential supervisory policies and framework of the State.

There has been no material change in the State's exposure to equity price risk or the manner in which it manages and measures the risk from the previous reporting period.

Equity price sensitivity analysis

The State has analysed the possible effects of changes in equity prices on its financial position and result using the following assumptions:

- Exposure to equity securities for both derivative and non-derivative instruments at the reporting date, and the stipulated change taking place at the beginning of the financial year are held constant throughout the reporting period; and
- Based on historic movements, future expectations and management's knowledge and experience of the volatility of the equity markets, the State has assessed that it may be exposed to a reasonably possible increase or decrease of 15 per cent to equity prices (increase or decrease of 15 per cent in 2019).

With all other variables held constant, the impact of a 15 per cent increase or decrease in listed equities prices on economic flows and net assets at 30 June 2020 is $1 million increase/$1 million decrease ($2 million increase/$3 million decrease in 2019) and from unlisted equities is $3.0 billion increase/$3.0 billion decrease ($3.3 billion increase/$3.2 billion decrease in 2019).

The State's exposure to equity price sensitivity has no direct impact on the net result from transactions.

7.1.4 Credit risk

Credit risk refers to the possibility that a borrower will default on its financial obligations as and when they fall due. The State's exposure to credit risk mainly arises through its investments in fixed interest instruments and contractual loans and receivables. Most of the State's investments and derivatives are centrally managed by TCV and VFMC. Limits are set both in terms of the quality and amount of credit exposure in accordance with the *Borrowings and Investment Powers Act 1987* and the prudential supervisory policies and framework of the State.

The State has a material credit risk exposure resulting from the level of investments and derivative transactions with the four major Australian banks, which is managed by reference to the credit quality and exposure policies that have been established.

The State's maximum exposure to credit risk, without taking account of the value of any collateral obtained at the reporting date, in relation to each class of recognised financial asset, is the carrying amount of those assets as recognised in the balance sheet.

There has been no material change to the State's credit risk profile in 2019-20.

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

The table below provides information on the credit quality of the State's financial assets.

Credit quality of financial assets **($ million)**

State of Victoria		*Other*		
2020	*(triple-A credit rating)*	*(min triple-B credit rating)*	*Other (not rated)*	*Total*
Financial assets				
Financial assets with loss allowance measured at 12 month expected credit loss				
Cash and deposits	14 698	3 000	209	17 907
Advances paid	50	..	91	142
Term deposits	28	24	11	63
Debt securities	..	..	8	8
Financial assets with loss allowance measured at lifetime credit loss (not credit impaired)				
Cash and deposits	24	1 237	17	1 278
Receivables applying the simplified approach for impairment	1 618	281	1 886	3 785
Advances paid	..	..	16	16
Term deposits	3	69	..	72
Financial assets with loss allowance measured at lifetime credit loss (credit impaired)				
Term deposits	..	25	..	25
Debt securities	..	20	..	20
Total financial assets	**16 421**	**4 657**	**2 238**	**23 315**

2019				
Financial assets				
Financial assets with loss allowance measured at 12 month expected credit loss				
Cash and deposits	4 074	8 027	593	12 694
Advances paid	27	..	16	43
Term deposits	46	218	4	268
Debt securities	..	..	7	7
Financial assets with loss allowance measured at lifetime credit loss (not credit impaired)				
Receivables applying the simplified approach for impairment	232	1 112	2 445	3 789
Financial assets with loss allowance measured at lifetime credit loss (credit impaired)				
Debt securities	..	26	..	26
Total financial assets	**4 379**	**9 382**	**3 066**	**16 827**

Credit quality of financial assets *(continued)* **($ million)**

General government sector	*Government agencies*	*Other*			
2020	*(triple-A credit rating)*	*(triple-A credit rating)*	*(min triple-B credit rating)*	*(not rated)*	*Total*
Financial assets					
Financial assets with loss allowance measured at 12 month expected credit loss					
Cash and deposits	11 664	118	304	144	12 230
Advances paid	5 782	50	..	83	5 915
Term deposits	2	22	18	1	44
Debt securities	..	..	..	8	8
Financial assets with loss allowance measured at lifetime credit loss (not credit impaired)					
Cash and deposits	..	5	802	..	807
Receivables applying the simplified approach for impairment	273	575	115	1 204	2 168
Advances paid	329	..	..	16	345
Term deposits	..	3	69	..	72
Financial assets with loss allowance measured at lifetime credit loss (credit impaired)					
Term deposits	..	..	25	..	25
Debt securities	..	..	20	..	20
Total financial assets	**18 051**	**773**	**1 354**	**1 456**	**21 634**

2019					
Financial assets					
Financial assets with loss allowance measured at 12 month expected credit loss					
Cash and deposits	1 462	1 816	6 240	256	9 775
Advances paid	7 890	27	..	6	7 923
Term deposits	30	20	154	4	208
Debt securities	..	..	..	7	7
Financial assets with loss allowance measured at lifetime credit loss (not credit impaired)					
Receivables applying the simplified approach for impairment	199	188	62	1 630	2 080
Financial assets with loss allowance measured at lifetime credit loss (credit impaired)					
Debt securities	..	..	26	..	26
Total financial assets	**9 581**	**2 052**	**6 483**	**1 905**	**20 020**

7.1.5 Other matters

Offsetting financial instruments

A master netting arrangement or similar arrangement can be set up with counterparties where required by general market practice. To the extent that these arrangements meet the criteria for offsetting in the consolidated balance sheet, they are reported on a net basis.

Financial instrument assets and liabilities are offset, with the net amount reported in the consolidated balance sheet only where there is a currently legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Some master netting arrangements do not result in an offset of balance sheet assets and liabilities. Where the State does not have a legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as default, insolvency or bankruptcy, they are reported on a gross basis.

The following tables provide information on the impact of offsetting on the balance sheet, as well as the financial impact of netting for instruments subject to an enforceable master netting arrangement, as well as available cash and financial instrument collateral.

The State has entered into arrangements that do not meet the criteria for offsetting in a normal course of business but allow for the relevant amounts to be set off in certain circumstances, such as bankruptcy, default or insolvency.

The effect of these arrangements is reflected in the column related amounts not offset.

The net amount column shows the impact on the State balance sheet if all existing rights of offset were exercised.

Master netting or similar arrangements [(a)] **($ million)**

State of Victoria	*Effects of offsetting on the balance sheet*				
2020	*Gross amounts*	*Gross amounts set off in the consolidated balance sheet*	*Net amounts presented in the consolidated balance sheet*	*Related amounts not offset*	*Net amount*
Financial assets					
Derivative financial instruments	3 206	(766)	2 440	(1 232)	1 208
Financial liabilities					
Derivative financial instruments	2 200	(769)	1 432	(1 292)	140
2019					
Financial assets					
Derivative financial instruments	1 571	(519)	1 052	(490)	562
Financial liabilities					
Derivative financial instruments	1 283	(519)	764	(468)	297

Note:
(a) Master netting or similar arrangements is only disclosed for the whole of State as they are only material for the State's insurance entities in the public financial corporations sector.

Net gain or loss by category of financial instruments

The net gains or losses on financial assets and liabilities held at 30 June 2020 are determined as follows:

- For financial assets at amortised cost the net gain or loss is calculated by taking the interest revenue, plus or minus foreign exchange gains or losses arising from revaluation of the financial assets, and minus any impairment recognised in the net result;
- For financial liabilities measured at amortised cost, the net gain or loss is calculated by taking the interest expense, plus or minus foreign exchange gains or losses arising from the revaluation of financial liabilities measured at amortised cost; and
- For financial assets and liabilities that are designated at fair value through profit or loss, the net gain or loss is calculated by taking the movement in the fair value of the financial asset or liability.

Net gain or loss by category of financial instruments **($ million)**

2020	*State of Victoria*	*General government sector*
Financial assets		
Cash and deposits	(7)	(45)
Financial assets designated at fair value through profit/loss (FVTPL)	(972)	(20)
Financial assets mandatorily measured at fair value through profit or loss	(975)	(39)
Financial assets at amortised cost	(23)	(7)
Financial assets measured at fair value through other comprehensive income	(2)	(58)
Investment in equity instrument designated at fair value through other comprehensive income	..	..
Total financial assets	**(1 978)**	**(168)**
Financial liabilities		
Financial liabilities designated at fair value through profit and loss	(690)	..
Financial liabilities mandatorily measured at fair value through profit or loss	(70)	..
Financial liabilities at amortised cost	(283)	(283)
Total financial liabilities	**(1 043)**	**(284)**

2019		
Financial assets		
Cash and deposits	(1)	..
Financial assets designated at fair value through profit/loss (FVTPL)	300	(12)
Financial assets mandatorily measured at fair value through profit or loss	120	31
Financial assets at amortised cost	(43)	(36)
Financial assets measured at fair value through other comprehensive income	25	24
Investment in equity instrument designated at fair value through other comprehensive income	1	9
Total financial assets	**401**	**15**
Financial liabilities		
Financial liabilities designated at fair value through profit and loss	(1 852)	..
Financial liabilities mandatorily measured at fair value through profit or loss	(152)	(60)
Total financial liabilities	**(2 004)**	**(60)**

Breakdown of interest revenue [(a)] **($ million)**

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Interest revenue from financial assets not at fair value through the operating statement	180	259	619	826
Interest revenue from financial assets at fair value through the operating statement	412	573	..	..
Total	**592**	**832**	**619**	**826**

Note:
(a) These items include amounts that relate to discount interest on financial assets. Therefore, figures in this table cannot be reconciled to the primary financial statements.

Breakdown of interest and fee expense items [(a)(b)] **($ million)**

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Interest expense from financial liabilities not at fair value through the operating statement	1 196	1 142	2 295	2 290
Interest expense from financial liabilities at fair value through the operating statement	1 883	1 889	3	2
Fee expenses from financial liabilities not at fair value through the operating statement	100	38	106	42
Fee expenses from financial liabilities at fair value through the operating statement	450	437	3	1
Total	**3 630**	**3 506**	**2 406**	**2 335**

Notes:
(a) These items do not include amounts that relate to discount interest on financial liabilities. Therefore, figures in this table cannot be reconciled to the primary financial statements.
(b) The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059 Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*

7.1.6 Liquidity risk

Liquidity risk arises from being unable to meet financial obligations as they fall due. The State is exposed to liquidity risk mainly through the maturity of its external borrowings raised by TCV and the requirement to fund cash deficits. Liquidity management policy has three main components as follows.

Short-term liquidity management and control

The State's central treasury, TCV, is responsible for ensuring that the State's liquidity requirements can be met at all times.

TCV has an enhanced liquidity policy to assist the Government to manage the whole of Victorian government liquidity risk. The policy requires daily measurement of the whole of Victorian government liquidity ratio, which measures TCV's liquid assets (after discounting to reflect potential loss of value in the event of a quick sale), versus 12 months of debt refinancing and interest obligations.

The policy also measures the daily going concern net and cumulative cash flow limits to manage short-term liquidity exposures during normal operating liquidity conditions and the monitoring of going concern and liquidity stress scenario cash flows out to 12 months.

As at 30 June 2020, the whole of Victorian government liquidity ratio stood at 248 per cent against a limit of 80 per cent (118 per cent against a limit of 80 per cent in 2019). The increase in the liquidity ratio was a result of TCV accessing financial markets to pre-position itself ahead of the forecast increase in borrowing requirements, in the State's response to COVID-19. The investment of these additional funds in liquid assets in advance of the timing of expenditure, increased the liquidity ratio.

Long-term liquidity management monitoring

The State's policy on long-term management of liquidity primarily focuses on the diversification of funding sources and debt maturities.

Managing a liquidity crisis

In the event of a liquidity crisis, the State has liquidity crisis management plans in place to manage liquidity conditions. The liquidity crisis management plans are a set of protocols established to respond to specific conditions during a crisis.

Maturity analysis of financial liabilities

Disclosed are details of the State's maturity analysis for its domestic borrowings, lease liabilities and service concession arrangement liabilities. The maturity analysis for the remainder of the State's financial liabilities are immaterial to the financial report.

Domestic borrowings **($ million)**

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Carrying amount [(a)]	71 370	55 830	48 789	31 766
Nominal amount [(b)]	76 502	56 255	58 419	34 039
Contractual maturity				
0 to 3 months	4 167	3 520	3 453	2 686
3 months to 1 year	7 451	12 716	10 555	6 967
1 to 2 years	5 297	1 783	2 340	2 601
2 to 5 years	19 934	12 522	9 444	5 649
5 years or more	**39 652**	**25 715**	**32 627**	**16 136**

Notes:
(a) *The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*
(b) *Represents undiscounted nominal amount.*

Lease liabilities payable [(a)(b)] **($ million)**

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Less than 1 year	878	715	812	616
1 year but less than 5 years	3 159	1 988	2 942	1 972
5 years or more	5 288	5 171	4 930	5 165
Minimum lease payments	**9 325**	**7 874**	**8 685**	**7 753**
Future finance charges	1 034	3 704	1 016	3 704
Total lease liabilities	**8 291**	**4 170**	**7 669**	**4 049**

Notes:
(a) *AASB 16* Leases *has been applied for the first time from 1 July 2019.*
(b) *The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*

Service concession arrangement liabilities payable **($ million)**

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Less than 1 year	190	208	181	201
1 year but less than 5 years	1 910	1 564	1 869	1 525
5 years or more	5 634	4 964	5 566	4 885
Minimum liability payments	**7 734**	**6 737**	**7 616**	**6 611**
Future finance charges	1 604	1 734	1 604	1 734
Total service concession arrangement liabilities	**6 130**	**5 003**	**6 012**	**4 878**

7.2 Contingent assets and contingent liabilities (State of Victoria)

Contingent assets and contingent liabilities are not recognised in the balance sheet but are disclosed and, if quantifiable, are measured at nominal value.

Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

Contingent assets

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

These are classified as either quantifiable, where the potential economic benefit is known, or non-quantifiable.

The table below contains quantifiable contingent assets as at 30 June 2020 (arising from outside of government).

Quantifiable contingent assets [(a)] **($ million)**

	State of Victoria	
	2020	*2019*
General government	127	178
Public non-financial corporations	431	510
Public financial corporations	..	..
Eliminations	(65)	(10)
Total contingent assets – State of Victoria	**494**	**678**
Guarantees, indemnities and warranties	150	133
Legal proceedings and disputes	17	48
Other	326	497
Total contingent assets – State of Victoria	**494**	**678**

Note:
(a) Figures reflect contingent assets that arise from outside of government.

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:

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

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

The table below contains quantifiable contingent liabilities as at 30 June 2020.

Quantifiable contingent liabilities **($ million)**

	State of Victoria	
	2020	*2019*
General government	15 947	12 983
Public non-financial corporations	203	224
Public financial corporations	..	..
Eliminations [(a)]	(14 731)	(12 477)
Total contingent liabilities – State of Victoria	**1 419**	**730**
Guarantees, indemnities and warranties [(b)]	881	189
Legal proceedings and disputes	286	252
Other	252	289
Total contingent liabilities – State of Victoria	**1 419**	**730**

Notes:
(a) Mainly represents the guarantee of borrowings provided by the Treasurer for the public sector borrowings portfolio.
(b) Inclusive of loans provided by TCV to entities other than the State of Victoria and participating authorities, subject to the provision of a guarantee by the Treasurer.

Non-quantifiable contingent liabilities

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

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

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

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

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

Cladding rectification

The 2014 fire at the Lacrosse apartment building in Melbourne's Docklands and the 2017 Grenfell fire in London highlighted the fire safety risks from the non-compliant use of exterior cladding on buildings. Subsequent investigations and the 2019 fire at the Neo200 Tower on Spencer Street have highlighted that dangerous materials have been used on some buildings throughout Victoria.

The Victorian Government Cladding Taskforce is investigating the extent of non-compliant cladding on buildings statewide.

On behalf of the Cladding Taskforce, the Victorian Building Authority has undertaken a building audit to assess the extent of non-compliant cladding on buildings.

The building audit has identified a number of buildings that require rectification. These buildings are being risk-assessed to inform the extent of rectification works required. The Government has committed funding for cladding rectification initiatives.

Department of Education and Training

The Department 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 Departmental 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; and
- 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; and
  - the school council has insufficient funds to pay the claim.

National redress scheme – sexual abuse of children in institutions

On 13 June 2018, the *National Redress Scheme for Institutional Child Sexual Abuse (Commonwealth Powers) Act 2018* commenced.

The Act refers powers to the Commonwealth Parliament to ensure that Victorian institutions can participate in the National Redress Scheme. The National Redress Scheme commenced on 1 July 2018 and will run for 10 years. The Scheme will deliver a financial payment of up to $150 000, access to psychological counselling and an apology from the responsible institution to eligible survivors of institutional child abuse. This implements a recommendation of the Victorian Parliamentary Inquiry Betrayal of Trust report and the Royal Commission into Institutional Responses to Child Sexual Abuse.

The Government has set aside funding in the budget estimates over the next 10 years for redress. Due to the historical nature of the abuse in question, the precise number of eligible survivors of abuse is difficult to estimate. Consequently, the exact financial implications for Victoria remain uncertain.

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; or
- financial loss – the entitlement to financial loss compensation is triggered when a development permit is refused because the property is required for a public purpose.

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

Public transport rail partnership agreements

The Department of Transport (DoT) is party to contractual arrangements with franchisees to operate metropolitan rail transport services across the State, from 30 November 2017 until 30 November 2024. The major contingent liabilities arising in the event of early termination or expiry of the contract are:

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

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

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

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

Fiskville independent investigation and closure of training college

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

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

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

The Government's response to the Fiskville Inquiry was tabled in Parliament on 24 November 2016. The response supported all of the 31 recommendations of the Victorian Parliamentary Inquiry into the CFA Training College at Fiskville, either in full, in principle or in part.

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

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

Compulsory property acquisitions

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

Land remediation – environmental concerns

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

Royal Melbourne Showgrounds redevelopment

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

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.

Victorian Managed Insurance Authority – insurance cover

The Victorian Managed Insurance Authority (VMIA) was established in 1996 as an insurer for State Government departments, participating bodies and other entities as defined under the *Victorian Managed Insurance Authority Act 1996*. The VMIA insures its clients for property, public and products liability, professional indemnity, contract works and domestic building insurance for the Victorian residential builders.

The VMIA reinsures in the private market for losses above $50 million arising out of any one occurrence, up to a limit of $950 million for public and products liability, and for losses above $50 million arising out of any one event, up to a limit of $3.6 billion for property. Further, the VMIA reinsures in the private market for losses above $10 million arising out of any one event, up to a limit of $1.5 billion for terrorism. The risk of losses above these reinsured levels is borne by the State.

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

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

COVID-19 class action – Victorian businesses

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

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

COVID-19 class action – Victorian residents

A class action has been filed in the Supreme Court of Victoria against the State of Victoria, the Ministers for Health and Jobs, and the Secretaries of DHHS and DJPR, relating to the psychological and psychiatric injury suffered by Victorian residents under stage 3 and 4 restrictions. The VMIA has been notified of this proceeding. VMIA's Combined Liability Policy will respond.

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

COVID-19 related claim notifications

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

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

2019-20 Victorian bushfires

During the period December 2019 to February 2020, Victoria experienced significant loss and damage to homes, farms, properties, community assets, roads and other infrastructure as a result of several large bushfires across parts of Victoria, including East Gippsland and North East Victoria.

In order to minimise the environmental, social and economic impact of the bushfires, a State coordinated clean-up program was activated in January 2020 with a single contractor, Grocon Constructors Pty Ltd (Grocon).

The Victorian Government has agreed to demolish, remove and safely dispose of all applicable buildings destroyed or damaged beyond repair, regardless of insurance arrangements and is contributing towards the cost of the clean-up.

The costs of the clean-up will be jointly shared with the Commonwealth Government under the Commonwealth-State Disaster Recovery Funding Arrangements (DRFA). At this stage it is impractical to accurately quantify the financial effects of these liabilities.

Southern Cross Station Target Capacity Threshold

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

The Royal Commission into the Management of Police Informants

The Royal Commission into the Management of Police Informants commenced hearings in February 2019. The Commissioner presented a Progress Report to the Governor of Victoria on 1 July 2019.

In May 2020 the time for the Commission to hand its report and recommendations to the Governor was extended until 30 November 2020. Victoria Police anticipates it may receive claims for compensation. Victoria Police will assess any litigation as it arises.

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

Planning scheme compensation

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

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

Metro Tunnel Project – Tunnel and Stations

To facilitate delivery of the Metro Tunnel Project, the State and the Cross Yarra Partnership (CYP) reached financial close on 18 December 2017 for delivery of the Tunnel and Stations Public-Private Partnership (T&S PPP). This PPP has been reported as a service concession arrangement and all current commitments disclosed in Note 5.4.

On 30 June 2020, a Commercial Principles deed was signed between the parties to record a set of agreed non-binding principles to resolve project issues that have arisen during delivery. Agreed commercial outcomes are expected to be formalised in amending deed(s) that have not been signed at the date of this report. It is expected that the cost to complete the project will exceed the planned cost as agreed in December 2017. The State may incur additional liabilities to those disclosed in Note 5.1 to meet some of these additional costs and may receive additional value from the project in return. Details of the non-binding principles and the estimated financial impacts are not disclosed in order to not prejudice the State's interests or any other interested party in these ongoing negotiations.

7.3 Fair value determination

This section sets out information on how the State determines fair value for financial reporting purposes. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair values are determined for the following assets and liabilities:

- Financial assets and liabilities at fair value;
- Land, buildings, infrastructure, plant and equipment (including service concession and right of use assets);
- Investment properties; and
- Biological assets.

In addition, the fair values of other assets and liabilities are determined for disclosure purposes (financial assets and liabilities carried at amortised cost).

The State determines the policies and procedures for determining fair values for both financial and non-financial assets and liabilities as required.

For the purpose of fair value disclosures, the State has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability.

Fair value hierarchy

In determining fair values a number of inputs are used. To increase consistency and comparability in the financial statements, these inputs are categorised into three levels, also known as the fair value hierarchy. The levels are as follows:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The State determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair value disclosure

For those assets and liabilities for which fair value determination is applied, the following disclosures are provided:

- Carrying amount and the fair value (which would be the same for those assets measured at fair value);
- Which level of the fair value hierarchy was used to determine the fair value; and
- In respect of those assets and liabilities subject to fair value determination using Level 3 inputs:
  - a reconciliation of the movements in fair values from the beginning of the year to the end; and
  - details of significant unobservable inputs used in the fair value determination.

This section is divided between financial instruments and non-financial physical assets.

7.4 Fair value determination of financial assets and liabilities

How fair values are determined

The fair values of the State's financial assets and liabilities are determined as follows:

- Level 1 – the financial instruments with standard terms and conditions and traded in an active liquid market are determined with reference to quoted market prices;
- Level 2 – the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices from observable current market transactions; and
- Level 3 – the fair value of derivative instruments, such as interest rate futures contracts, are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instrument for non-optional derivatives, and option pricing models for optional derivatives.

Fair value of financial instruments measured at amortised cost [(a)] **($ million)**

	2020		2019	
State of Victoria	*Carrying amount*	*Fair value*	*Carrying amount*	*Fair value*
Financial assets				
Non-current receivables	104	102	120	120
Financial liabilities				
Lease liabilities	8 291	9 777	4 170	5 162
Service concession arrangement liabilities	6 130	7 281	5 003	5 003

General government sector				
Financial assets				
Non-current receivables	80	78	98	98
Financial liabilities				
Lease liabilities	7 669	9 107	4 049	5 041
Service concession arrangement liabilities	6 012	7 163	4 878	4 878

Note:
(a) *The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details.*

Financial assets and liabilities measured at fair value **($ million)**

State of Victoria	*Carrying amount as at*	*Fair value measurement at end of reporting period using:*		
2020	*30 June*	*Level 1*	*Level 2*	*Level 3*
Financial assets				
Cash	19 185	19 185	..	..
Derivative assets	2 440	10	2 241	189
Term deposits	..	..	..	..
Advances paid	37	36	1	..
Equities and managed investment schemes	32 519	2 942	21 046	8 531
Debt securities at fair value	5 263	1 199	4 064	..
Total financial assets	**59 444**	**23 372**	**27 352**	**8 720**
Financial liabilities				
Domestic borrowings	71 370	61 424	9 947	..
Foreign currency borrowings	555	..	555	..
Derivative financial liabilities	1 432	132	1 300	..
Total financial liabilities	**73 357**	**61 555**	**11 802**	**..**
2019				
Financial assets				
Cash	12 694	12 694	..	..
Derivative assets	1 052	26	741	285
Term deposits	2 029	7	2 022	..
Advances paid	46	46	..	..
Equities and managed investment schemes	34 362	2 366	24 421	7 575
Debt securities at fair value	7 389	2 868	4 520	..
Total financial assets	**57 571**	**18 008**	**31 703**	**7 860**
Financial liabilities				
Domestic borrowings [(a)]	55 830	49 263	6 566	..
Foreign currency borrowings	149	..	149	..
Derivative financial liabilities	764	11	570	184
Total financial liabilities	**56 743**	**49 274**	**7 285**	**184**

Note:
(a) *The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details.*

General government sector [(a)]	*Carrying amount as at*	*Fair value measurement at end of reporting period using:*		
2020	*30 June*	*Level 1*	*Level 2*	*Level 3*
Financial assets				
Cash	13 037	13 037	..	..
Derivative assets	193	4	..	189
Term deposits	..	..	..	..
Advances paid	36	36	..	..
Equities and managed investment schemes	2 227	1 606	510	112
Debt securities at fair value	28	28	..	..
Total financial assets	**15 521**	**14 711**	**510**	**301**
2019				
Financial assets				
Cash	9 775	9 775	..	..
Derivative assets	297	12	..	285
Term deposits	..	..	..	..
Advances paid	45	45	..	..
Equities and managed investment schemes	1 999	1 353	620	26
Debt securities at fair value	34	7	27	..
Total financial assets	**12 150**	**11 193**	**647**	**311**

Note:
(a) *The general government sector's financial liabilities are measured at amortised cost and therefore not required to be disclosed in the above table for financial assets and liabilities measured at fair value, in accordance with Australian Accounting Standards.*

Reconciliation of Level 3 fair value movements [(a)] **($ million)**

	Derivative assets		Equities and managed investment schemes		Debt securities at fair value	
State of Victoria	*2020*	*2019*	*2020*	*2019*	*2020*	*2019*
Opening balance	285	..	7 575	7 092	..	..
Total gains and losses recognised in:	..	..	..	..	..	..
Net result	8	285	(367)	(25)	..	..
Other comprehensive income	(104)	..	(310)	581	..	..
Purchase	..	..	2 633	283	..	..
Sales	..	..	(1 000)	(360)	..	..
Settlements	..	..	..	3	..	..
Transfers from other levels	..	..	..	..	..	..
Transfers out of Level 3	..	..	(1)	..	..	..
Closing balance	**189**	**285**	**8 531**	**7 575**	**..**	**..**

Note:

(a) Reconciliation of Level 3 fair value movements is only disclosed for the whole of State as they are only material for the State's insurance entities in the public financial corporations sector.

Description of Level 3 valuation techniques used and key inputs to valuation

The majority of the State's Level 3 financial assets relate to either investment funds/trusts managed by VFMC on behalf of the State's insurance entities or derivative financial instruments in the general government sector. Approximately one third of the funds under management by VFMC are directly managed internally while two-thirds are managed externally by fund managers selected by VFMC.

The disclosure below provides details of the inputs and assumptions used in the valuation models for various asset classes. The State is not privy to the detailed inputs and assumptions used by external fund managers to value the underlying investment assets and is not in a position to provide a sensitivity analysis.

The unlisted investment fund/trust assets include the following asset classes; infrastructure, non-traditional strategies, property and private equity.

Infrastructure

Infrastructure investments comprise both domestic and international exposures to transport, social, energy and other infrastructure assets through unlisted funds and trusts. The valuations of unlisted infrastructure investments are based primarily on the discounted cash flow methodology. Key inputs and assumptions, which are subject to estimation uncertainty, include the risk-free discount rate, risk premium, asset utilisation rates, capital expenditure and operating cost forecasts and other estimated future cash flows dependent on the longer-term general economic forecasts and the forecast performance of applicable underlying assets.

Non-traditional strategies

Non-traditional strategies comprise investments in hedge funds and other non-traditional investments such as insurance investments. These are assets that do not fit within the definition of other asset classes, but which provide diversification benefits to the total portfolio. Investments are made through externally managed unlisted pooled vehicles.

The valuation of hedge fund investments is based primarily on the underlying assets, which may be quoted on an exchange or traded in a dealer market. For less liquid securities, valuation methodologies are set out by each fund manager. Depending on the investment, the methodologies applied include discounted cash flow, amortised cost, direct comparison and other market accepted methodologies. The fund manager may choose to appoint independent valuation agents to seek independent price verification. Key inputs and assumptions, which are subject to estimation uncertainty, include the appropriate credit spread and other risk premium, the risk-free discount rate, future cash flows, and future economic and regulatory conditions.

The insurance investments include an unlisted trust with exposure to a portfolio of United States of America life insurance policies. The valuation of insurance investments is based on the discounted cash flow methodology, with key assumptions of insureds' mortality and premium payments on the valuation date. Other assumptions and interdependencies include the weighted average discount rate, life expectancy estimates obtained from qualified providers, and expected premium payments based on the back-solving premiums optimisation method.

Property investments

Property investments comprise externally managed unlisted property trusts with exposure to the domestic and international commercial, industrial, retail and development property market.

The valuations of unlisted property investments are primarily based on discounted cash flow, capitalisation and direct comparison methodologies. The assumptions, which may be subject to estimation uncertainty, include the estimated future profits and cash flows, risk-free rate, risk premium, and future economic and regulatory conditions.

Private equities

VFMC's holdings of private equity investments are small and being phased out. Private equity investments are valued primarily on multiples of earnings, discounted cash flow, market equivalents and other accepted methodologies. Key inputs and assumptions, which are subject to estimation uncertainty, include the estimated future profits and cash flows, the risk-free discount rate, the risk premium, and future economic and regulatory conditions.

Derivative financial instruments

The fair value of derivative instruments resulting from the forward sale of large-scale generation certificates (LGCs) are determined by the State with reference to observable market prices of LGCs currently trading in the market as at reporting date. These instruments are categorised as Level 1 for fair value purposes.

In the absence of an active market, the fair value of derivative contracts for difference and the LGCs receivable are valued using unobservable inputs such as future wholesale electricity prices provided by external advisors, comparable risk-free rates of zero coupon government bonds and LGC price forecasts. In addition, assumptions are applied to forecast the renewable energy generation volumes over the life of the instrument. Adjustments are made to the valuations when necessary to recognise differences in the instrument's terms. To the extent that the significant inputs are unobservable, the State categorises these investments as Level 3.

The fair value of derivative financial instruments is based on the discounted cash flow technique. The selection of variables requires significant judgement and therefore there is a range of reasonably possible assumptions in estimating the fair value of derivatives. Significant inputs in applying this technique include growth rates applied for cash flows and discount rates used.

7.5 Fair value determination of non-financial assets

Revaluations of non-financial physical assets

Non-financial physical assets are revalued on a cyclical basis in accordance with the Financial Reporting Directions (FRDs) issued by the Assistant Treasurer. A full revaluation normally occurs every five years, based upon the asset's classification of the functions of government framework. This led to assets within the transport purpose group being formally revalued in 2019-20. However, a revaluation may occur more frequently if fair value assessments indicate material changes in values. Independent valuers are generally used to conduct these scheduled revaluations.

The market that the assets are valued in as at 30 June 2020 is being impacted by the uncertainty that COVID-19 has caused. The valuer has advised that the current market environment, impacted by COVID-19, creates significant valuation uncertainty. The value assessed at the valuation date may therefore change over a relatively short time period.

Certain infrastructure assets are revalued using specialised advisors. Any interim revaluations are determined in accordance with the requirements of the FRDs.

Revaluation increases or decreases arise from differences between an asset's carrying value and fair value.

Net revaluation increases (where the carrying amount of a class of assets is increased) are recognised in other economic flows – other comprehensive income and accumulated in equity under the asset revaluation surplus. However, the net revaluation increase is recognised in the net result to the extent that it reverses a net revaluation decrease in respect of the same class of non-financial asset previously recognised as an expense (other economic flows) in the net result.

Net revaluation decreases are recognised in other economic flows – other comprehensive income to the extent that a credit balance exists in the asset revaluation surplus in respect of the same class of non-financial asset. Otherwise, the net revaluation decreases are recognised immediately as other economic flows in the net result. The net revaluation decrease recognised in other economic flows – other comprehensive income reduces the amount accumulated in equity under the asset revaluation surplus.

Revaluation increases and decreases relating to individual assets within a class of non-financial asset, are offset against one another within that class but are not offset in respect of assets in different classes. Any asset revaluation surplus is not normally transferred to accumulated funds on derecognition of the relevant asset.

Biological assets are measured at fair value less costs to sell and are revalued at 30 June each year. For breeding livestock, fair value is based on the amount that could be expected to be received from the disposal of livestock with similar attributes.

For productive trees, revaluation to fair value is determined using a discounted cash flow method based on expected net future cash flows, discounted by a current market determined rate. After harvest, productive trees are treated as inventories.

An increase or decrease in the fair value of these biological assets is recognised in the consolidated comprehensive operating statement as an other economic flow.

The fair value of **cultural assets** and collections, **heritage assets** and other non-financial physical assets (including Crown land and infrastructure assets) that the State intends to preserve because of their unique historical, cultural or environmental attributes, is measured at the replacement cost of the asset less, where applicable, accumulated depreciation (calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset) and any accumulated impairment. These policies and any legislative limitations and restrictions imposed on their use and/or disposal may impact their fair value.

Road network assets (including earthworks of the declared road networks) are measured at fair value, determined by reference to the asset's current replacement cost.

Land under declared roads acquired prior to 1 July 2008 is measured at fair value. Land under declared roads acquired on or after 1 July 2008 is measured initially at the cost of acquisition and subsequently at fair value. The fair value methodology applied by the Valuer-General Victoria is based on discounted site values for relevant municipal areas applied to the land area under the arterial road network, including related reservations.

Infrastructure assets of water, rail and port authorities within the public non-financial corporation sector are measured at fair value. The fair value of infrastructure systems and plant, equipment and vehicles, is normally determined by reference to the asset's current replacement cost, or where the infrastructure is held by a for-profit entity, the fair value may be derived from estimates of the present value of future cash flows.

Note 4.1.1 describes the recognition and measurement of land, buildings, infrastructure, plant and equipment.

7.5.1 Land, buildings, infrastructure, plant and equipment

Carry amounts, fair values and fair value hierarchy [(a)] **($ million)**

State of Victoria	Carrying amount 2020	Fair value measurement at the end of the 2020 reporting period using: Level 1	Level 2	Level 3	Carrying amount 2019	Fair value measurement at the end of the 2019 reporting period using: Level 1	Level 2	Level 3
Buildings	**51 978**	**..**	**9 941**	**42 037**	**52 623**	**..**	**9 995**	**42 627**
Non-specialised buildings	11 968	..	9 273	2 694	12 114	..	9 408	2 706
Specialised buildings	38 840	..	658	38 182	39 408	..	578	38 830
Heritage buildings	1 171	..	10	1 161	1 100	..	9	1 091
Land and national parks	**102 855**	**..**	**23 060**	**79 795**	**89 187**	**..**	**23 058**	**66 129**
Non-specialised land	22 834	..	21 554	1 280	24 577	..	21 839	2 739
Specialised land	44 243	..	1 506	42 737	39 124	..	1 219	37 905
Land under roads	34 398	..	..	34 398	24 266	..	..	24 266
National parks and other 'land only' holdings	1 379	..	..	1 379	1 219	..	..	1 219
Plant, equipment, vehicles and infrastructure systems	**73 590**	**..**	**2 499**	**71 091**	**71 180**	**..**	**1 254**	**69 926**
Infrastructure systems	66 223	..	2 372	63 852	63 804	..	1 156	62 647
Rolling stock	2 854	..	..	2 854	3 551	..	..	3 551
Plant, equipment and vehicles	4 512	..	127	4 385	3 825	..	98	3 728
Roads, road infrastructure and earthworks	**37 448**	**..**	**..**	**37 448**	**37 008**	**..**	**..**	**37 008**
Cultural assets	**5 756**	**..**	**115**	**5 640**	**5 725**	**..**	**1 930**	**3 795**
Total land, buildings, infrastructure, plant and equipment [(a)]	**271 627**	**..**	**35 616**	**236 011**	**255 723**	**..**	**36 237**	**219 486**

Notes:

(a) *The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details*

(b) *The State's total land, building, infrastructure, plant and equipment in this table excludes leased and construction in progress assets, which are valued at cost. The total of excluded assets is $37 435 million (2019: $26 818 million).*

General government sector	Carrying amount 2020	Fair value measurement at the end of the 2020 reporting period using: Level 1	Level 2	Level 3	Carrying amount 2019	Fair value measurement at the end of the 2019 reporting period using: Level 1	Level 2	Level 3
Buildings	**33 586**	**..**	**1 320**	**32 265**	**32 645**	**..**	**1 271**	**31 373**
Non-specialised buildings	2 709	..	718	1 990	2 741	..	694	2 047
Specialised buildings	29 716	..	602	29 114	28 812	..	577	28 235
Heritage buildings	1 161	..	1	1 161	1 092	..	1	1 091
Land and national parks	**70 174**	**..**	**2 548**	**67 626**	**58 765**	**..**	**2 477**	**56 288**
Non-specialised land	2 231	..	1 117	1 114	3 965	..	1 336	2 629
Specialised land	32 165	..	1 431	30 735	29 315	..	1 141	28 173
Land under roads	34 398	..	..	34 398	24 266	..	..	24 266
National parks and other 'land only' holdings	1 379	..	..	1 379	1 219	..	..	1 219
Plant, equipment, vehicles and infrastructure systems	**3 863**	**..**	**66**	**3 797**	**3 368**	**..**	**43**	**3 325**
Infrastructure systems	1 256	..	..	1 256	1 224	..	..	1 224
Plant, equipment and vehicles	2 607	..	66	2 541	2 144	..	43	2 102
Roads, road infrastructure and earthworks	**37 349**	**..**	**..**	**37 349**	**36 909**	**..**	**..**	**36 909**
Cultural assets	**5 691**	**..**	**51**	**5 640**	**5 661**	**..**	**1 866**	**3 795**
Total land, buildings, infrastructure, plant and equipment [(a)]	**150 663**	**..**	**3 985**	**146 678**	**137 347**	**..**	**5 657**	**131 690**

Notes:

(a) *The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*

(b) *The general government sector's total land, building, infrastructure, plant and equipment in this table excludes leased and construction in progress assets, which are valued at cost. The total of excluded assets is $23 080 million (2019: $16 602 million).*

Reconciliation of Level 3 fair value movements [(a)]

($ million)

State of Victoria *2020*	*Opening balance*	*Depreciation*	*Impairment*	*Assets recognised for the first time*	*Revaluation*	*Acquisitions/ (disposals)*	*Capitalisation of work-in-progress*	*Transfers in/out of Level 3*	*Reclassification*	*Closing balance*
Buildings	**42 627**	**(1 581)**	**(7)**	**266**	**(14)**	**811**	**1 743**	**2 141**	**(3 950)**	**42 037**
Non-specialised buildings	2 706	(147)	..	155	16	69	4	285	(394)	2 695
Specialised buildings	38 830	(1 409)	(7)	111	(30)	736	1 739	1 768	(3 556)	38 182
Heritage buildings	1 091	(24)	..	..	..	6	..	88	..	1 161
Land and national parks	**66 129**	**..**	**(2)**	**200**	**11 746**	**56**	**29**	**(1 768)**	**3 404**	**79 794**
Non-specialised land	2 739	..	..	..	116	56	..	..	(1 630)	1 280
Specialised land	37 905	..	(2)	200	1 498	(160)	29	(1 768)	5 034	42 736
Land under roads	24 266	..	..	..	10 132	..	..	..	..	34 398
National parks and other 'land only' holdings	1 219	..	..	..	..	160	..	..	..	1 379
Plant, equipment, vehicles and infrastructure systems	**69 926**	**(2 392)**	**(5)**	**211**	**1 507**	**1 294**	**1 709**	**(1 201)**	**42**	**71 091**
Infrastructure systems	62 647	(1 098)	(4)	107	1 451	697	1 463	(1 407)	(4)	63 852
Rolling stock	3 551	(238)	..	..	(482)	..	..	..	22	2 854
Plant, equipment and vehicles	3 728	(1 055)	(1)	105	538	596	246	205	24	4 385
Roads, road infrastructure and earthworks	**37 008**	**(893)**	**..**	**..**	**(33)**	**10**	**553**	**..**	**804**	37 448
Cultural assets	**3 795**	**(20)**	**..**	**..**	**10**	**39**	**..**	**1 815**	**..**	5 640
Total	**219 486**	**(4 885)**	**(14)**	**677**	**13 216**	**2 210**	**4 034**	**986**	**300**	**236 011**

2019	*Opening balance*	*Depreciation*	*Impairment*	*Assets recognised for the first time*	*Revaluation*	*Acquisitions/ (disposals)*	*Capitalisation of work-in-progress*	*Transfers in/out of Level 3*	*Reclassification*	*Closing balance*
Buildings	**39 298**	**(1 436)**	**(1)**	**45**	**2 817**	**494**	**1 085**	**91**	**233**	**42 627**
Non-specialised buildings	**2 173**	**(87)**	**..**	**16**	**358**	**(1)**	**1**	**77**	**169**	**2 706**
Specialised buildings	36 303	(1 320)	(1)	29	2 430	511	1 084	14	(220)	38 830
Heritage buildings	823	(29)	..	..	29	(16)	..	..	284	1 091
Land and national parks	**67 538**	**..**	**(4)**	**63**	**(1 567)**	**202**	**35**	**(13)**	**(125)**	**66 129**
Non-specialised land	2 469	..	..	..	27	244	..	..	(2)	2 739
Specialised land	39 578	..	(4)	61	(1 593)	(28)	35	(13)	(133)	37 905
Land under roads	24 257	..	..	..	..	..	..	..	9	24 266
National parks and other 'land only' holdings	1 233	..	..	1	(1)	(14)	..	..	..	1 219
Plant, equipment, vehicles and infrastructure systems	**66 049**	**(2 496)**	**(51)**	**63**	**419**	**1 907**	**4 125**	**(163)**	**72**	**69 926**
Infrastructure systems	59 376	(1 151)	(12)	21	435	1 385	2 506	..	88	62 647
Rolling stock	3 101	(171)	..	..	..	364	258	..	..	3 551
Plant, equipment and vehicles	3 572	(1 173)	(39)	42	(16)	159	1 361	(163)	(16)	3 728
Roads, road infrastructure and earthworks	**33 575**	**(842)**	**(364)**	**14**	**2 685**	**251**	**1 690**	**..**	**..**	**37 008**
Cultural assets	**3 749**	**(17)**	**..**	**8**	**..**	**44**	**..**	**9**	**2**	**3 795**
Total	**210 209**	**(4 791)**	**(420)**	**192**	**4 354**	**2 899**	**6 935**	**(75)**	**181**	**219 486**

Note:

(a) *The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*

Reconciliation of Level 3 fair value movements *(continued)* [(a)]

($ million)

General government sector *2020*	*Opening balance*	*Depreciation*	*Impairment*	*Assets recognised for the first time*	*Revaluation*	*Acquisitions/ (disposals)*	*Capitalisation of work-in-progress*	*Assets transferred between Government entities*	*Transfers in/out of Level 3*	*Reclassification*	*Closing balance*
Buildings	**31 373**	**(1 356)**	**(4)**	**245**	**187**	**218**	**1 663**	**(6)**	**364**	**(419)**	**32 266**
Non-specialised buildings	2 047	(125)	..	153	16	15	..	..	276	(391)	1 991
Specialised buildings	28 235	(1 207)	(4)	92	171	199	1 663	(7)	..	(28)	29 114
Heritage buildings	1 091	(24)	..	..	..	5	..	1	88	..	1 161
Land and national parks	**56 288**	**..**	**(1)**	**202**	**11 247**	**(5)**	**24**	**(8)**	**(1)**	**(122)**	**67 626**
Non-specialised land	2 629	..	..	..	116	(5)	..	..	..	(1 627)	1 113
Specialised land	28 173	..	(1)	202	999	(1)	24	(167)	..	1 505	30 735
Land under roads	24 266	..	..	..	10 132	..	..	..	..	..	34 398
National parks and other 'land only' holdings	1 219	..	..	..	..	..	..	160	..	..	1 379
Plant, equipment, vehicles and infrastructure systems	**3 325**	**(570)**	**(2)**	**90**	**64**	**681**	**206**	**(4)**	**..**	**5**	**3 797**
Infrastructure systems	1 224	(71)	..	..	59	44	..	1	..	..	1 256
Plant, equipment and vehicles	2 102	(498)	(1)	90	5	637	206	(5)	..	5	2 541
Roads, road infrastructure and earthworks	**36 909**	**(890)**	**..**	**..**	**(33)**	**4**	**552**	**3**	**..**	**804**	**37 349**
Cultural assets	**3 795**	**(20)**	**..**	**..**	**10**	**39**	**..**	**..**	**1 815**	**..**	**5 640**
Total	**131 690**	**(2 836)**	**(6)**	**537**	**11 475**	**938**	**2 446**	**(15)**	**2 178**	**269**	**146 677**
2019											
Buildings	**27 876**	**(1 121)**	**(1)**	**23**	**2 726**	**294**	**1 519**	**(52)**	**16**	**93**	**31 373**
Non-specialised buildings	1 565	(61)	..	16	350	4	..	9	..	163	2 047
Specialised buildings	25 504	(1 030)	(1)	6	2 347	290	1 519	(61)	16	(354)	28 235
Heritage buildings	807	(29)	..	..	29	..	..	..	..	284	1 091
Land and national parks	**57 543**	**..**	**(4)**	**50**	**(1 435)**	**374**	**5**	**(189)**	**(11)**	**(45)**	**56 288**
Non-specialised land	2 399	..	..	..	19	349	..	(105)	..	(32)	2 629
Specialised land	29 654	..	(4)	49	(1 454)	39	5	(83)	(11)	(22)	28 173
Land under roads	24 257	..	..	..	..	..	..	..	..	9	24 266
National parks and other 'land only' holdings	1 233	..	..	1	(1)	(14)	..	..	..	..	1 219
Plant, equipment, vehicles and infrastructure systems	**3 272**	**(576)**	**(1)**	**33**	**9**	**494**	**257**	**23**	**(165)**	**(19)**	**3 325**
Infrastructure systems	1 204	(85)	..	..	..	27	56	22	..	..	1 224
Plant, equipment and vehicles	2 068	(491)	(1)	32	9	467	201	1	(165)	(19)	2 102
Roads, road infrastructure and earthworks	**33 478**	**(839)**	**(364)**	**14**	**2 681**	**(5)**	**1 690**	**254**	**..**	**..**	**36 909**
Cultural assets	**3 749**	**(17)**	**..**	**8**	**..**	**44**	**..**	**..**	**9**	**2**	**3 795**
Total	**125 918**	**(2 552)**	**(370)**	**127**	**3 980**	**1 202**	**3 470**	**36**	**(151)**	**30**	**131 690**

Note:

(a) *The June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*

Description of valuation techniques and significant unobservable inputs to Level 3 fair value measurements

The State measures all non-financial physical assets initially at cost and subsequently revalues the assets at fair value less accumulated depreciation and impairment. The disclosure below provides additional information about the Level 3 measurements (fair value measurements using significant unobservable inputs).

The Victorian not-for-profit public sector entities hold their recurring non-financial assets measured at Level 3 primarily for service potential rather than their ability to generate net cash inflows, which is the case with the Victorian for-profit public sector entities.

The Government's designated entities as for profit in accordance with FRD 108C *Classification of entities as for profit*, are considered to be primarily held to generate future net cash flows.

See below the respective fair value disclosures for not-for-profit and for-profit public sector entities. The disclosures refer to the significant asset balances within each of the different Level 3 asset classes. These assets are measured at the end of the reporting period using inputs not based on observable market data. The sensitivity of the unobservable input to fair value has been assessed and a significant increase or decrease in the significant unobservable input will result in significant higher or lower valuation of the underlying asset.

Fair value disclosure for assets held primarily for service potential

Asset class	*Valuation technique*	*Significant unobservable input*
Buildings		
Non-specialised buildings	Current replacement cost	Direct cost per square metre Useful life
Specialised buildings	Current replacement cost	Direct cost per square metre Useful life
Heritage buildings	Current replacement cost	Community service obligation (CSO) adjustment [(a)] Direct cost per square metre Useful life
Land and national parks		
Non-specialised land	Market approach	CSO adjustment [(a)]
Specialised land	Market approach	CSO adjustment [(a)]
Land under roads	Market approach	CSO adjustment [(a)]
National parks	Market approach	CSO adjustment [(a)]
Plant, equipment, vehicles and infrastructure systems		
Infrastructure systems and rolling stock	Current replacement cost	Cost: per square metre per unit Useful life
Plant, equipment and vehicles	Current replacement cost	Cost per unit Useful life
Roads and roads infrastructure		
Roads and roads infrastructure	Current replacement cost	Cost per kilometre lane Useful life
Earthworks	Current replacement cost	Cost per kilometre
Cultural assets		
Cultural assets	Professional judgement	Statistically verified random sample

Note:
(a) The CSO adjustment reflects the specialised nature of the asset being valued through a market approach. The CSO adjustment is a reflection of the valuer's assessment of the impact of restrictions associated with an asset to the extent that is also equally applicable to market participants. This approach takes into account the highest and best use consideration for fair value measurement and considers the use of the asset that is physically possible, legally permissible, and financially feasible.

Fair value disclosure for assets held primarily for generating net cash inflows

Asset class	*Valuation technique*	*Significant unobservable input*	*Range*
Buildings			
Metropolitan water corporations	Current replacement cost	Direct cost per unit	\$3 000 to \$45 030 000
		Direct cost per square metre	\$100 to \$8 600
		Useful life	1–60 years
Land			
Metropolitan water corporations	Market approach	CSO adjustment [(a)]	1–92 per cent
Channels			
Ports	Discounted cash flow method (income approach)	Discount rates [(b)]	8.6 per cent
Infrastructure			
Ports	Current replacement cost	Cost per unit	\$33 700 to \$4 831 000
Metropolitan water corporations	Discounted cash flow method (income approach)	Discount rates [(b)]	5.0–6.0 per cent
		Terminal value growth rate	3.0–4.0 per cent
		Useful life	2–245 years
Plant, equipment and vehicles	Current replacement cost	Useful life	2–50 years
		Cost per unit	\$1–\$2 005 000

Notes:

(a) The CSO adjustment reflects the specialised nature of the asset being valued through a market approach. The CSO adjustment is a reflection of the valuer's assessment of the impact of restrictions associated with an asset to the extent that is also equally applicable to market participants. This approach takes into account the highest and best use consideration for fair value measurement and considers the use of the asset that is physically possible, legally permissible, and financially feasible.

(b) Applicable to the valuation using the income approach.

8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

Introduction

This section presents a summary of the original published budget estimates for the Victorian general government sector and explains the material variances between the estimates and actual outcomes as presented in these financial statements.

It also provides disclosure of information in respect of the Public Account, in accordance with the requirement of the *Financial Management Act 1994* (FMA).

Structure

8.1 Explanations of material variances between budget and actual outcomes

The tables and notes that follow explain material variances between the general government sector original budget as published in Chapter 1 of 2019-20 Budget Paper No. 5 *Statement of Finances* and actual outcomes.

The original budget data is sourced from the estimated financial statements, which were reviewed by the Auditor-General, but is not subject to an audit.

For the general government sector comprehensive operating statement, variances are considered to be material where the variance exceeds the greater of 10 per cent of the original budget estimates or $50 million. In regard to the other statements, high level explanations of major variances in the key aggregates, where material, have been provided.

Consolidated comprehensive operating statement for the financial year ending 30 June **($ million)**

General government sector	*Notes*	*Published budget*	*2020 actual*	*Budget variance*	*%*
Revenue from transactions					
Taxation revenue	(a)	24 328	23 167	(1 161)	(5)
Interest revenue	(b)	719	619	(101)	(14)
Dividends, income tax equivalent and rate equivalent revenue	(c)	863	810	(53)	(6)
Sales of goods and services	(d)	8 030	7 902	(129)	(2)
Grant revenue	(e)	34 093	32 789	(1 303)	(4)
Other revenue	(f)	2 999	2 662	(337)	(11)
Total revenue from transactions		71 032	67 948	(3 083)	(4)
Expenses from transactions					
Employee expenses	(g)	26 208	27 214	1 006	4
Net superannuation interest expense	(h)	565	407	(158)	(28)
Other superannuation	(i)	2 960	3 073	113	4
Depreciation	(j)	3 748	3 894	146	4
Interest expense	(k)	2 611	2 328	(284)	(11)
Grant expense	(l)	12 934	15 331	2 397	19
Other operating expenses	(m)	20 955	22 241	1 286	6
Total expenses from transactions		69 982	74 487	4 505	6
Net result from transactions – net operating balance		1 050	(6 539)	(7 589)	(723)
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets		40	(92)	(132)	(329)
Net gain/(loss) on financial assets or liabilities at fair value		25	80	55	222
Share of net profit/(loss) from associates/joint venture entities, excluding dividends		..	3	3	..
Other gains/(losses) from other economic flows		(388)	(1 351)	(963)	248
Total other economic flows included in net result	(n)	(323)	(1 360)	(1 036)	321
Net result		726	(7 899)	(8 625)	(1 188)
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus		3 204	12 519	9 314	291
Remeasurement of superannuation defined benefits plans		1 109	(2 721)	(3 830)	(345)
Other movements in equity		47	(107)	(154)	(327)
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value		2	(173)	(176)	n.a.
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets		692	(2 583)	(3 275)	(473)
Total other economic flows – other comprehensive income		5 055	6 935	1 879	37
Comprehensive result – total change in net worth		**5 782**	**(964)**	**(6 746)**	**(117)**

Revenue from transactions

Revenue from transactions was $67.9 billion for the year to 30 June 2020. This is $3.1 billion (4 per cent) lower than the original budget. Movements in revenue items from the original budget are discussed below.

a) Taxation revenue was $1.2 billion lower than the original budget. This was primarily driven by lower than budgeted payroll tax due to $673 million payroll tax refunds and waivers provided as part of the COVID-19 Economic Survival Package. Gambling taxes revenue was $263 million lower than the original budget, driven by the temporary closure of the Crown Casino, hotels and clubs in the last few months of the year resulting from the Government's public health response to COVID-19. These reductions were partially offset by an increase in land transfer duty in 2019-20 as a result of an improvement in Victorian dwelling prices before the onset of COVID-19.

b) Interest revenue was lower than the original budget by $101 million. This is primarily due to lower advance balances for the Victorian Transport Fund (VTF) along with lower interest rates associated with these advances.

c) Dividends, income tax equivalent and rate equivalent revenue was lower than the original published budget by $53 million. This was largely due to the deferral of an expected dividend payment from the Victorian Management Insurance Authority (VMIA) and Development Victoria.

d) Revenue from the sales of goods and services was lower by $129 million. The lower amount compared to budget is primarily due to lower hospital and patient fees as a result of restrictions on elective surgery during the COVID-19 response. It is also attributable to lower regulatory fees due to the impact of reduced traffic volumes resulting in fewer traffic fines being issued in the second half of 2019-20. This was partially offset by an increase due to the reclassification of certain schools revenue to sales of goods and services from other revenue.

e) Grant revenue was $1.3 billion lower than the original published budget, largely driven by a reduction in GST revenue of $2.2 billion due to the weakening in the Australian economy resulting from COVID-19. This decrease was partially offset by an increase in Commonwealth grants for non-government schools, including the bringing forward of some payments to non-government schools into 2019-20 from 2020-21.

f) Other revenue was $337 million lower than the published budget. This is mainly due to the reclassification of certain schools other revenue to sales of goods and services revenue. It is also attributable to a decrease in traffic camera fines revenue due to a decrease in traffic volumes as a result of COVID-19 public health restrictions.

Expenses from transactions

Expenses from transactions were $74.5 billion for the year to 30 June 2020. This is $4.5 billion (6 per cent) higher than the original budget. Movements in expense items from the original budget are discussed below.

g) Employee expenses were $1 billion higher than originally estimated. This can be attributed to additional resources in the health sector for the COVID-19 response, additional resources required for the bushfire response and suppression activities, and additional police following the implementation of the Community Safety Statement.

h) Net superannuation interest expense was $158 million lower than the published budget due to reductions in the bond yields that underlie the superannuation valuation assumptions.

i) Other superannuation expense was $113 million higher than the original budget due to an increase in employer contributions to superannuation defined contribution funds across Departments. This increase is in line with the increase in employee expenses.

j) Depreciation was higher by $146 million partially due to the impact of the asset revaluations within the health sector in 2018-19 resulting in additional depreciation expense in 2019-20 as well as higher depreciation of right of use assets recognised under the new AASB 16 *Leases*.

k) Interest expense was $284 million lower than the original published budget primarily due to the timing of recognition of certain right of use lease liabilities and the lower interest paid on port lessor advances, which decreased in 2019-20.

l) Grant expenses were $2.4 billion higher than the published budget. This was primarily due to payments from the Business Support Fund, Working for Victoria Program and Experience Economy Package as part of the Government's COVID-19 response.

m) Other operating expenses were $1.3 billion higher than the original published budget. This was primarily due to the increased service delivery requirements across departments. This included the purchase of additional supplies and services in the health sector in response to COVID-19, additional resources required for the bushfire response and suppression activities, as well as funding the transport sector.

Other economic flows included in net result

n) Total other economic flows included in the net result have decreased by $1.0 billion since the original budget. This decrease primarily reflects the revaluation of transport sector assets during the year and a loss on revaluation of annual and long-service leave liabilities due to a decrease in the discount rate.

8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

Consolidated balance sheet as at 30 June **($ million)**

General government sector	*Published budget*	*2020 actual [a]*	*Budget variance*	*%*
Assets				
Financial assets				
Cash and deposits	6 149	13 037	6 888	112
Advances paid	6 648	6 550	(98)	(1)
Receivables and contract assets	6 337	6 108	(229)	(4)
Investments, loans and placements	2 671	2 589	(82)	(3)
Investments accounted for using the equity method	44	10	(34)	(77)
Investments in other sector entities	110 672	75 043	(35 629)	(32)
Total financial assets	**132 521**	**103 337**	**(29 184)**	**(22)**
Non-financial assets				
Inventories	198	666	468	237
Non-financial assets held-for-sale	354	192	(162)	(46)
Land, buildings, infrastructure, plant and equipment	165 256	173 743	8 487	5
Other non-financial assets	1 746	3 103	1 357	78
Total non-financial assets	**167 554**	**177 703**	**10 150**	**6**
Total assets	**300 075**	**281 040**	**(19 034)**	**(6)**
Liabilities				
Deposits held and advances received	3 184	3 681	496	16
Payables and contract liabilities	15 885	16 870	985	6
Borrowings	51 258	62 807	11 548	23
Employee benefits	7 636	9 028	1 392	18
Superannuation	26 101	31 228	5 127	20
Other provisions	927	1 335	408	44
Total liabilities	**104 992**	**124 949**	**19 957**	**19**
Net assets	**195 083**	**156 092**	**(38 991)**	**(20)**
Accumulated surplus/(deficit)	56 420	68 166	11 747	21
Reserves	138 663	87 925	(50 738)	(37)
Net worth	**195 083**	**156 092**	**(38 991)**	**(20)**
FISCAL AGGREGATES				
Net financial worth	27 529	(21 612)	(49 141)	(179)
Net financial liabilities	83 142	96 654	13 512	16
Net debt	38 975	44 312	5 337	14

Net financial worth

Net financial worth is total financial assets minus total liabilities. Net financial worth was $49.1 billion lower than originally published. This was due to a decrease in financial assets of $29.2 billion and higher liabilities of $20 billion.

The decrease in financial assets was primarily driven by a reduction in the reported value of assets in the public non-financial corporations sector following the adoption of AASB 16 from 1 July 2019.

The higher than expected liabilities were primarily due to an $11.5 billion increase in borrowings to meet higher expenditure and liquidity requirements in response to COVID-19.

There was also a $5.1 billion increase in superannuation liabilities reflecting the remeasurement of superannuation defined benefit plans.

Net financial liabilities

Net financial liabilities are total liabilities less all financial assets (excluding investments in other sectors). Net financial liabilities were $13.5 billion higher than the original budget. This increase was primarily due to additional borrowings undertaken over the June quarter to meet higher expenditure and liquidity requirements in response to COVID 19, and an increased superannuation liability reflecting a reduction in bond yields during 2019-20.

Total payables were higher than the original budget by $1 billion mainly due to unearned income associated with the receipt in 2019-20 of earlier than collected GST revenues from the Commonwealth Government.

The higher than expected employee benefits were primarily driven by increases across health services for various leave entitlements as staff have taken less leave during the COVID-19 pandemic.

Net debt

Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowings less the sum of cash and deposits, advances paid and investments, loans and placements. Net debt was $5.3 billion higher compared with the original budget. This was due to increased borrowings, partially offset by the increase in cash and deposits as described under Net financial worth.

Non-financial assets

Non-financial assets were $10.2 billion higher than originally budgeted. This was primarily due to the revaluation of land under road assets in the transport sector. In addition, higher inventories reflect the Government's COVID-19 response including the purchase of additional personal protective equipment.

8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

Consolidated cash flow statement for the year ended 30 June **($ million)**

General government sector	*Published budget*	*2020 actual*	*Budget variance*	*%*
Cash flows from operating activities				
Receipts				
Taxes received	24 098	23 257	(841)	(3)
Grants	34 118	34 302	184	1
Sales of goods and services	8 774	8 515	(259)	(3)
Interest received	719	636	(83)	(12)
Dividends, income tax equivalent and rate equivalent receipts	857	818	(39)	(5)
Other receipts	2 134	2 066	(69)	(3)
Total receipts	**70 701**	**69 593**	**(1 108)**	**(2)**
Payments				
Payments for employees	(25 898)	(26 362)	(464)	2
Superannuation	(3 497)	(3 605)	(108)	3
Interest paid	(2 081)	(2 086)	(6)	..
Grants and subsidies	(12 927)	(15 676)	(2 750)	21
Goods and services	(20 895)	(23 232)	(2 337)	11
Other payments	(801)	(1 543)	(742)	93
Total payments	**(66 099)**	**(72 506)**	**(6 407)**	**10**
Net cash flows from operating activities	**4 602**	**(2 913)**	**(7 515)**	**(163)**
Cash flows from investing activities				
Cash flows from investments in non-financial assets				
Purchases of non-financial assets	(13 102)	(9 734)	3 368	(26)
Sales of non-financial assets	825	170	(656)	(79)
Net cash flows from investments in non-financial assets	**(12 277)**	**(9 565)**	**2 712**	**(22)**
Net cash flows from investments in financial assets for policy purposes	3 106	1 358	(1 748)	(56)
Subtotal	**(9 171)**	**(8 207)**	**964**	**(11)**
Net cash flows from investments in financial assets for liquidity management purposes	(361)	(491)	(130)	36
Net cash flows from investing activities	**(9 532)**	**(8 698)**	**834**	**(9)**
Cash flows from financing activities				
Advances received (net)	(1 930)	(1 651)	279	(14)
Net borrowings	4 821	16 442	11 621	241
Deposits received (net)	..	82	82	..
Net cash flows from financing activities	**2 891**	**14 873**	**11 983**	**415**
Net increase/(decrease) in cash and cash equivalents	**(2 039)**	**3 262**	**5 302**	**(260)**
Cash and cash equivalents at beginning of reporting period	8 189	9 775	1 586	19
Cash and cash equivalents at end of the reporting period	**6 149**	**13 037**	**6 888**	**112**

Net cash flows from operating activities

Total cash flows from operating activities were $7.5 billion lower than originally budgeted. This was due to increases in grants and payment for services in response to COVID-19. This includes economic support measures including business support grants and education and social initiatives to support skills and training and address the social impacts of COVID-19.

In addition, tax revenue was lower than originally budgeted. This was primarily driven by lower payroll tax as well as lower gambling taxes, resulting from public health restrictions and the Government's response to COVID-19.

A reconciliation of the net result to net cash flows from operating activities is provided at Note 5.6.

Net cash flows from investing activities

Total net cash flows from investing activities were $834 million lower than the original budget. This decrease was driven by variations to the timing of expenditure on the State's capital program partially offset by the deferral of payments from the State's insurance agencies due to financial market uncertainty.

Net cash flows from financing activities

Total net cash inflows from financing activities were $12.0 billion higher than originally budgeted. This was primarily due to additional borrowings undertaken over the June quarter to meet higher expenditure and liquidity requirements in response to COVID-19, along with the lower tax receipts primarily attributable to COVID-19.

Consolidated statement of changes in equity

The major variations between actual outcomes and the original published budget for the statement of changes in equity are largely addressed in the explanations provided previously.

Consolidated statement of changes in equity **($ million)**

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
2019-20 original budget					
Balance at 1 July 2019	54 536	67 878	65 790	1 097	189 301
Net result for the year	726	..	..	..	726
Other comprehensive income for the year	1 158	3 204	692	1	5 055
Transfer to/(from) accumulated surplus	..	..	..	..	..
Balance at 30 June 2020	**56 420**	**71 083**	**66 483**	**1 098**	**195 083**
2019-20 actual					
Balance at 1 July 2019 [(a)]	54 752	66 062	35 222	1 020	157 056
Net result for the year	(7 899)	..	..	..	(7 899)
Other comprehensive income for the year	(2 889)	12 519	(2 583)	(112)	6 935
Transfer to/(from) accumulated surplus	24 201	(24 201)	..	..	..
Balance at 30 June 2020	**68 166**	**54 379**	**32 639**	**908**	**156 092**
Variance to original budget					
Balance at 1 July 2019	217	(1 817)	(30 569)	(77)	(32 245)
Net result for the year	(8 625)	..	..	..	(8 625)
Other comprehensive income for the year	(4 046)	9 314	(3 275)	(113)	1 879
Transfer to/(from) accumulated surplus	24 201	(24 201)	..	..	..
Balance at 30 June 2020	**11 747**	**(16 704)**	**(33 844)**	**(190)**	**(38 991)**

Note:

(a) *The 1 July 2019 balance has been restated resulting from the application of AASB 15* Revenue from Contracts with Customers*, AASB 1058* Income of Not for Profit Entities*, AASB 16* Leases *and AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details.*

8.2 Public Account disclosures

The *Financial Management Act 1994* (FMA) requires certain disclosures of information in respect of the transactions and balances of the Public Account.

The Public Account is the Government's official bank account. The Public Account holds the cash balances of the Consolidated Fund and the Trust Fund.

The FMA, among other things, also provides for:

- temporary advances from the Public Account for a number of purposes related to the needs of the Government;
- investment of the Public Account in trustee securities; and
- temporary borrowings should the balance in the Consolidated Fund be insufficient to meet commitments during a financial year.

Consolidated Fund

The Consolidated Fund established by the FMA is the Government's primary financial account and receives all consolidated revenue under the *Constitution Act 1975* from which payments, appropriated by Parliament, are made.

Trust Fund

Within the Public Account, the Trust Fund embraces a range of specific purpose accounts established for funds that are not subject to parliamentary appropriation. Examples include accounts to record specific purpose payments from the Commonwealth for on-passing by the State to third parties, suspense account balances for accounting purposes, working accounts for commercial and departmental service units, and accounts facilitating the receipt and disbursement of other funds held by the State in trust. Additional accounts may also be established within the Trust Fund by legislation to receive State revenues hypothecated to particular purposes (e.g. lotteries revenue for hospitals and charities).

Structure of Public Account disclosure

8.2.1 Summarised consolidated fund receipts and payments for the financial year ended 30 June

($ thousand)

	Notes	*2020*	*2019*
Receipts			
Taxation		23 642 942	23 637 495
Fines and regulatory fees		892 779	734 542
Grants received		21 248 060	22 307 008
Sales of goods and services [(a)]		7 470 457	7 056 995
Interest received		464 251	467 012
Dividends, income tax equivalent and rate equivalent receipts		723 482	966 835
Other receipts [(a)]		689 595	3 591 941
Total cash inflows from operating activities [(a)]		**55 131 565**	**58 761 829**
Total cash inflows from investing and financing activities [(a)]		**15 789 035**	**5 594 680**
Total consolidated fund receipts	8.2.2	**70 920 600**	**64 356 509**
Payments			
Special appropriations			
Special appropriations (excluding Section 33, *Financial Management Act, No. 18 of 1994)*		5 104 195	5 077 142
Section 33 *Financial Management Act, No. 18 of 1994*		266 473	382 627
Total special appropriations	8.2.7	**5 370 667**	**5 459 770**
Annual appropriations			
Provision of outputs			
Provision of outputs – net application	8.2.8	48 391 203	45 573 086
Section 29 *Financial Management Act, No. 18 of 1994* (appropriation of annotated receipts)	8.2.11	2 467 225	2 324 913
Section 32 *Financial Management Act, No. 18 of 1994* (prior year unspent appropriations brought forward)	8.2.12	269 656	281 209
Section 35 *Financial Management Act, No. 18 of 1994* (temporary advances)	8.2.15	40 493	..
Advance to Treasurer to be sanctioned	8.2.13, 8.2.14	4 313 174	1 353 137
Total provision of outputs		**55 481 752**	**49 532 345**
Additions to net asset base			
Additions to net asset base – net application	8.2.8	3 896 370	3 473 528
Section 29 *Financial Management Act, No. 18 of 1994* (appropriation of annotated receipts)	8.2.11	329 979	540 700
Section 32 *Financial Management Act, No. 18 of 1994* (prior year unspent appropriations brought forward)	8.2.12	660 449	384 353
Section 35 *Financial Management Act, No. 18 of 1994* (temporary advances)	8.2.15	246 796	..
Advance to Treasurer to be sanctioned	8.2.13, 8.2.14	585 777	400 583
Total additions to net asset base		**5 719 371**	**4 799 164**
Payments made on behalf of the State			
Payments made on behalf of the State	8.2.8	5 561 615	4 702 946
Total payments made on behalf of State		**5 561 615**	**4 702 946**
Other			
Contribution by the State under agreements pursuant to Section 25 of *the Murray-Darling Basin Act 1993*	8.2.8	21 800	28 128
Victorian Law Reform Commission – pursuant to Section 17 (b) of the Victorian Law Reform Commission Act 2000	8.2.8	670	662
Payment to Regional Growth Fund pursuant to Section 4 of *the Regional Growth Fund Act No. 8 of 2011*	8.2.8	..	125 000
Total other		**22 470**	**153 790**
Total annual appropriations		**66 785 207**	**59 188 246**
Applied appropriations remaining unspent relating to the 2019-20 appropriations		(1 596 042)	(1 090 858)
Total payments		**70 559 832**	**63 557 157**
Consolidated fund balance 1 July		**599 764**	**(199 588)**
Add total receipts for year		**70 920 600**	**64 356 509**
Less total payments for year		**(70 559 832)**	**(63 557 157)**
Consolidated fund balance 30 June [(b)]		**960 532**	**599 764**

8.2.1 Summarised consolidated fund receipts and payments for the financial year ended 30 June *(continued)*

($ thousand)

	Notes	2020	2019
Reconciliation of unspent appropriations:			
Applied appropriations unspent at end of year		9 932 952	8 603 383
add payments made during the year under the Financial Management Act, No. 18 of 1994, Section 33		266 473	382 627
Subtotal		**10 199 425**	**8 986 010**
less applied appropriations unspent at beginning of year		(8 603 383)	(7 895 152)
Current year appropriations remaining unspent as at 30 June		**1 596 042**	**1 090 858**

Notes:

(a) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details.*

(b) *A temporary advance may be arranged if the money in the Consolidated Fund is likely to be insufficient to meet appropriations authorised by any Act. See Note 8.2.6 for further information.*

8.2.2 Consolidated fund receipts for the financial year ended 30 June [(a)]

($ thousand)

	Estimate 2020	*Actual 2020*	*Actual 2019*
Operating activities			
Taxation			
Payroll tax	7 239 981	7 246 607	7 003 524
Land tax	3 495 718	3 486 099	3 499 055
Fire Services Property Levy	709 049	708 096	647 688
Congestion levy	101 326	109 729	111 336
Financial and capital transactions			
Land transfer duty	5 901 396	5 699 558	5 897 244
Other property duties	..	..	861
Metropolitan Planning Levy	22 417	20 865	20 314
Financial accommodation levy	178 007	152 704	147 302
Growth areas infrastructure contribution	124 963	145 596	153 772
Gambling			
Public lotteries	479 719	575 841	554 268
Electronic gaming machines	945 559	688 138	983 323
Casino taxes [(b)]	237 510	215 528	203 245
Racing	106 000	131 631	76 947
Other gambling [(b)]	81 198	98 841	100 360
Levies on statutory corporations	156 609	156 609	156 609
Taxes on insurance	1 479 344	1 484 179	1 372 647
Motor vehicle			
Registration fees pursuant to the *Road Safety Act, No. 127 of 1986*	1 797 269	1 784 548	1 658 227
Stamp duty on vehicle transfers	1 029 361	895 465	908 986
Franchise fees			
Liquor	25 794	22 065	24 048
Other	325 664	20 841	117 742
Total taxation	**24 436 885**	**23 642 942**	**23 637 495**
Fines and regulatory fees			
Fines	377 597	318 404	324 030
Regulatory fees	544 112	574 374	410 512
Total fines and regulatory fees	**921 709**	**892 779**	**734 542**
Grants received			
Department of Education and Training	8 178	6 832	6 647
Department of Environment, Land, Water and Planning	150	453	..
Department of Health and Human Services	44 041	133 150	88 190
Department of Jobs, Precincts and Regions	..	..	..
Department of Justice and Community Safety	..	382	582
Department of Premier and Cabinet	..	11 618	..
Department of Transport	..	32 678	46
Department of Treasury and Finance	22 818 519	21 062 662	22 211 521
Parliament	..	285	..
Regulatory bodies and other part budget funded agencies	..	..	23
Total grants received	**22 870 887**	**21 248 060**	**22 307 008**
Sales of goods and services			
Capital asset charge	6 449 557	6 455 241	5 864 524
Other sales of goods and services [(c)]	1 030 815	1 015 217	1 192 471
Total sales of goods and services [(c)]	**7 480 372**	**7 470 457**	**7 056 995**
Interest received	**484 259**	**464 251**	**467 012**
Dividends, income tax equivalent and rate equivalent revenue			
Dividends	517 018	406 220	627 346
Income tax equivalent revenue	226 527	313 177	334 828
Local government tax equivalent revenue	7 004	4 084	4 662
Total dividends, income tax equivalent and rate equivalent revenue	**750 549**	**723 482**	**966 835**

8.2.2 Consolidated fund receipts for the financial year ended 30 June *(continued)*

($ thousand)

	Estimate 2020	*Actual 2020*	*Actual 2019*
Other receipts			
Land rent received	16 657	23 341	24 507
Royalties received	109 423	111 155	102 797
Other [(c)]	539 381	555 099	3 464 638
Total other receipts [(c)]	**665 461**	**689 595**	**3 591 941**
Total cash inflows from operating activities [(c)]	**57 610 122**	**55 131 565**	**58 761 829**
Cash inflows from investing activities			
Proceeds from sale of property, plant and equipment [(c)]	..	49 366	101 753
Other loans	642	(71)	..
Return of capital – government entities [(d)]	1 370 555	1 725	438 328
Total cash inflows from investing activities	**1 371 197**	**51 020**	**540 081**
Cash inflows from financing activities			
Loans to government agencies [(c)]	114 045	41 035	(4 398)
Borrowings [(c)]	7 687 201	15 696 979	5 058 997
Total cash inflows from financing activities	**7 801 246**	**15 738 015**	**5 054 599**
Total cash inflows from investing and financing activities [(c)]	**9 172 443**	**15 789 035**	**5 594 680**
Total consolidated fund receipts	**66 782 565**	**70 920 600**	**64 356 509**

Notes:

(a) *On 29 November 2018, the Premier announced various machinery of government changes effective from 1 January 2019. Please see Note 9.9 for further details.*

(b) *The 2018-19 comparative figures have been restated to reflect more current information.*

(c) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details.*

(d) *Scheduled capital payments from the Victorian Workcover Authority and the Victorian Managed Insurance Authority were deferred due to the uncertainty of financial markets.*

8.2.3 Trust fund cash flow statement for the financial year ended 30 June

($ thousand)

	2020	2019
Cash flows from operating activities		
Receipts		
Taxation	434 211	384 105
Regulatory fees and fines	80 011	82 877
Grants received	21 848 929	17 627 231
Sale of goods and services	639 444	497 059
Interest received	93 433	180 669
Dividend received	86 873	46 049
Net transfers from the consolidated fund	4 684 341	3 679 615
Other receipts	45 613	153 502
Payments		
Payments for employees	(355 994)	(271 344)
Superannuation	(27 289)	(23 282)
Interest paid	(79 448)	(6 598)
Grants and subsidies	(22 800 673)	(19 904 198)
Goods and services	(3 216 553)	(1 674 441)
Net cash flows from operating activities	**1 432 896**	**771 244**
Cash flows from investing activities		
Purchase of non-financial assets	(469 475)	(92 079)
Sales of non-financial assets	84 064	75 204
Net proceeds from customer loans	1 704 299	1 362 029
Other investing activities	(2 553 482)	(1 761 935)
Net cash flows from investing activities	**(1 234 594)**	**(416 781)**
Cash flows from financing activities		
Net borrowings	48 088	(469 415)
Net cash flows from financing activities	**48 088**	**(469 415)**
Net increase/(decrease) in trust fund cash and deposits	**246 391**	**(114 952)**

8.2.4 Trust fund summary for the financial year ended 30 June

($ thousand)

	Balances held 2020	*Balances held 2019*
State Government funds		
Accounts established to receive levies imposed by Parliament and record the expenditure thereof	604 564	740 739
Accounts established to receive monies provided in the annual budget and record the expenditure thereof	679 441	682 635
Specific purpose operating accounts established for various authorities	1 970 723	1 435 819
Suspense and clearing accounts to facilitate accounting procedures	609 115	744 580
Treasury Trust Fund	239 258	262 805
Agency and deposit accounts	460 290	489 460
Total State Government funds	**4 563 390**	**4 356 038**
Joint Commonwealth and State funds	**238 871**	**97 907**
Commonwealth Government funds		
Commonwealth Grants passed on to individuals and organisations	44 776	87 447
Total Commonwealth Government funds	**44 776**	**87 447**
Prizes, scholarships, research and private donations	**364 278**	**317 807**
Total trust fund	**5 211 316**	**4 859 199**

8.2.5 Reconciliation of cash flows to balances held

($ thousand)

	Balances held at 30 June 2019	*Net movement for year*	*Balances held at 30 June 2020*
Cash and deposits			
Cash balances outside the Public Account	(174)	89	(85)
Deposits held with the Public Account – specific trusts	19 125	(4 220)	14 904
Deposits held with the Public Account – general trusts	14	..	14
Other balances held in the Public Account	4 423 689	388 935	4 812 625
Total cash and deposits	**4 442 654**	**384 805**	**4 827 459**
Investments			
Investments held with the Public Account – specific trusts	1 016 309	328 080	1 344 388
Total investments	**1 016 309**	**328 080**	**1 344 388**
Total fund balances	**5 458 963**	**712 884**	**6 171 847**
Less funds held outside the Public Account			
Cash	(174)	89	(85)
Total fund balances held outside the Public Account	**(174)**	**89**	**(85)**
Total funds held in the Public Account [(a)]	**5 459 137**	**712 795**	**6 171 932**

Note:
(a) See Note 8.2.6 for details of securities and investments including amounts held in the Public Account on behalf of trust accounts.

8.2.6 Details of securities held and included in the balances at 30 June

($ thousand)

	2020	*2019*
Funds held at 30 June		
Trust accounts		
Amounts invested on behalf of specific trusts	1 359 293	1 035 433
Amounts invested on behalf of general trusts	14	14
General account balances	3 852 093	3 823 926
Total trust accounts	**5 211 400**	**4 859 373**
Consolidated fund account balance [(a)]	**960 532**	**599 764**
Total funds held in the public account	**6 171 932**	**5 459 137**
Represented by:		
Stocks and securities held with/in –		
Managed Investments	1 344 202	1 015 919
Treasury Corporation of Victoria	15 105	19 529
	1 359 307	**1 035 447**
Cash and investments held with/in –		
Treasury Corporation of Victoria	(2 620 000)	1 010 000
Cash at bank balances held in Australia	6 271 623	2 481 831
	3 651 623	**3 491 831**
Total stock, securities, cash and investments	**5 010 930**	**4 527 279**
Temporary Advance from the Treasury Corporation of Victoria to the Consolidated Fund pursuant to *Section 38 of the Financial Management Act, No. 18 of 1994* [(a)]	..	350 000
Add cash advanced pursuant to Sections 36 and 37 of the *Financial Management Act, No. 18 of 1994*	1 161 002	581 858
Total funds held in the public account	**6 171 932**	**5 459 137**

Note:
(a) A temporary advance is required if the money in the Consolidated Fund is likely to be insufficient to meet appropriations authorised by any Act.

8.2.7 Consolidated Fund payments: special appropriations [(a)]

($ thousand)

	2020	*2019*
Education and Training	225 469	44 910
Environment, Land, Water and Planning	167 601	157 119
Health and Human Services	1 374 682	1 697 269
Jobs, Precincts and Regions	2 692	8 381
Justice and Community Safety	51 357	107 931
Premier and Cabinet	62 963	128 876
Transport [(b)]	660 010	184 181
Treasury and Finance	2 555 150	2 857 906
Parliament	53 677	45 127
Courts	217 066	228 068
Total special appropriations	**5 370 667**	**5 459 770**

Notes:
(a) On 29 November 2018, the Premier announced various machinery of government changes effective from 1 January 2019. Please see Note 9.9 for further details.
(b) The Transport Legislation Amendment (Better Roads Victoria and Other Amendments) Act 2019 *was assented to on 26 March 2019 and resulted in the Better Roads Victoria trust being funded via a special appropriation going forward.*

8.2.8 Consolidated Fund payments: annual appropriations [(a)]

($ thousand)

2020	*Provision of outputs*	*Additions to net asset base*	*Payments made on behalf of the State*	*Total*
Education and Training	13 885 544	440 715	..	14 326 259
Environment, Land, Water and Planning	1 412 637	114 830	706 283	2 233 751
Health and Human Services	15 506 793	90 088	63 851	15 660 732
Jobs, Precincts and Regions	1 626 153	178 320	70 592	1 875 066
Justice and Community Safety	7 658 365	1 365	36 000	7 695 731
Premier and Cabinet	575 821	..	..	575 821
Transport	6 791 100	3 031 316	..	9 822 415
Treasury and Finance	390 092	..	4 706 688	5 096 780
Parliament	152 876	..	..	152 876
Courts	392 493	39 735	..	432 228
Total annual appropriations	**48 391 874**	**3 896 370**	**5 583 415**	**57 871 658**

2019				
Education and Training	13 110 117	594 131	..	13 704 248
Environment, Land, Water and Planning	1 307 648	113 139	659 152	2 079 939
Health and Human Services	14 689 063	157 651	62 294	14 909 009
Jobs, Precincts and Regions	958 597	91 482	35 730	1 085 810
Justice and Community Safety	7 019 038	95 862	36 000	7 150 901
Premier and Cabinet	544 989	1 620	18 330	564 939
Transport	7 222 052	2 404 058	34 387	9 660 497
Treasury and Finance	366 815	..	3 885 180	4 251 995
Parliament	140 743	6 514	..	147 257
Courts	339 686	9 070	..	348 756
Total annual appropriations	**45 698 749**	**3 473 528**	**4 731 074**	**53 903 351**

Note:
(a) On 29 November 2018, the Premier announced various machinery of government changes effective from 1 January 2019. Please see Note 9.9 for further details.

8.2.9 Amounts paid into working accounts pursuant to Section 23 of the *Financial Management Act 1994* for the year ended 30 June

($ thousand)

	2020	*2019*
Appropriation transfer equivalent to consolidated fund receipts	27 516	22 586
Interest received on credit balances	85	405
Total amounts paid into working accounts	**27 601**	**22 991**

8.2.10 Transfers pursuant to Sections 30 and 31 of the *Financial Management Act 1994* for the financial year ended 30 June 2020

($ thousand)

	Decrease	*Increase*
Section 30 and 31 transfers		
(Transfers between items of departmental appropriations)		
Education and Training		
Provision of outputs	21 482	
Additions to the net asset base		21 482
Environment, Land, Water and Planning		
Provision of outputs		26 247
Additions to the net asset base	26 247	
Health and Human Services		
Provision of outputs		42 069
Additions to the net asset base	42 069	
Jobs, Precincts and Regions		
Provision of outputs	306	
Additions to the net asset base		306
Justice and Community Safety		
Provision of outputs		301 189
Additions to the net asset base	301 189	
Premier and Cabinet		
Provision of outputs	7 011	
Additions to the net asset base		7 011
Transport		
Provision of outputs		62 596
Additions to the net asset base	62 596	
Courts		
Provision of outputs		1 986
Additions to the net asset base	1 986	
Total Section 30 and 31 transfers	**462 886**	**462 886**

8.2.11 Appropriation of revenue and asset sale proceeds pursuant to Section 29 of the *Financial Management Act 1994* for the financial year ended 30 June 2020

($ thousand)

		Source		
Department	*Outputs*	*Commonwealth*	*Other*	*Total*
Education and Training	88 660	540 866	6 832	636 358
Environment, Land, Water and Planning	128 872	27 913	..	156 785
Health and Human Services	255 571	559 045	3 122	817 737
Jobs, Precincts and Regions	58 446	41 462	..	99 908
Justice and Community Safety	191 804	76 213	193	268 210
Premier and Cabinet	1 557	..	..	1 557
Transport	245 314	444 339	..	689 653
Treasury and Finance	..	17 500	10 464	27 964
Parliament	27 468	..	..	27 468
Courts	71 566	..	..	71 566
Total appropriation	**1 069 257**	**1 707 337**	**20 611**	**2 797 205**

8.2.12 Section 32 carryovers – *Financial Management Act 1994* for the financial year ended 30 June

Amounts approved for carryover to 2019-20 pursuant to Section 32 of the *Financial Management Act 1994* **($ thousand)**

Department	*Provision of outputs*	*Additions to net assets*	*Payments made on behalf of State*	*Total carryover*
Education and Training	37 466	64 272	..	101 738
Environment, Land, Water and Planning	15 601	507	..	16 108
Health and Human Services	51 799	..	..	51 799
Jobs, Precincts and Regions	79 171	3 000	..	82 171
Justice and Community Safety	69 893	217 506	..	287 399
Premier and Cabinet	5 000	3 499	..	8 499
Transport	17 400	465 109	..	482 509
Treasury and Finance	4 290	1 000	..	5 290
Parliament	6 716	..	..	6 716
Courts	5 549	24 034	..	29 583
Total carryovers by department	**292 884**	**778 927**	**..**	**1 071 811**

Amounts applied against carryover of appropriations in 2019-20 pursuant to Section 32 of the *Financial Management Act 1994* **($ thousand)**

Department	*Provision of outputs*	*Additions to net assets*	*Payments made on behalf of State*	*Total carryover*
Education and Training	32 482	55 458	..	87 940
Environment, Land, Water and Planning	15 601	507	..	16 108
Health and Human Services	49 782	..	..	49 782
Jobs, Precincts and Regions	62 943	2 764	..	65 706
Justice and Community Safety	69 893	198 354	..	268 247
Premier and Cabinet	5 000	..	..	5 000
Transport	17 400	379 333	..	396 733
Treasury and Finance	4 290	..	..	4 290
Parliament	6 716	..	..	6 716
Courts	5 549	24 034	..	29 583
Total carryovers by department	**269 656**	**660 449**	**..**	**930 105**

Amounts approved for carryover to 2020-21 pursuant to Section 32 of the *Financial Management Act 1994* **($ thousand)**

Department	*Provision of outputs*	*Additions to net assets*	*Payments made on behalf of State*	*Total carryover*
Education and Training	57 452	157 498	..	214 950
Environment, Land, Water and Planning	15 971	2 334	..	18 305
Health and Human Services	44 905	..	..	44 905
Jobs, Precincts and Regions	3 875	13 666	..	17 541
Justice and Community Safety	35 605	79 417	..	115 023
Premier and Cabinet	2 140	102	..	2 242
Transport	117 566	1 159 315	..	1 276 882
Treasury and Finance	15 277	..	..	15 277
Parliament	7 305	..	..	7 305
Courts	2 909	7 340	..	10 249
Total carryovers by department	**303 006**	**1 419 673**	**..**	**1 722 679**

8.2.13 Payments from advance to the Treasurer exclusive of those attributable to COVID-19 for the financial year ended 30 June

($ thousand)

Department	*Purpose*	*2019-20*
Education and Training	Essential Maintenance and Compliance in schools	112 638
	School Enrolment Based Funding	74 041
	Camps, Sports and Excursions Fund	36 183
	English as an Additional Language	25 737
	Kindergarten Enrolment Based Funding	2 379
		250 978
Environment, Land, Water and Planning	Bushfire response and recovery	318 682
	Cladding rectification program	37 915
	Additional aviation resources for firefighting	14 133
	Power saving bonus extension	12 286
	Enhanced preparedness for the 2019-20 fire season	8 900
	Alpine Resorts – Southern Alpine Resort Management Board	7 070
	Immediate support for Victoria’s Wildlife and Biodiversity	7 000
	Drought response	5 875
	Local government service support payment	5 240
	Fencing upgrades to help landholders recover from fire	3 200
	Recycling industry support	2 330
	Early works for transport infrastructure projects	660
	Improve access to emergency water supply points	500
		423 791
Health and Human Services	Additional resources for health services	118 150
	Scheduled asset replacement in the health sector	94 023
	Supplementation for the hospital and charities fund	92 833
	National Disability Insurance Scheme – Transfer of disability accommodation and respite services	70 550
	Elective surgery Blitz	40 000
	Joan Kirner Women’s and Children’s Hospital	21 800
	Civil claims for historical institutional child abuse	19 152
	Walter and Eliza Hall Institute for medical research	18 000
	Family violence Central Information Point	16 989
	Increased support for children with complex disabilities	10 196
	Bushfire response	7 308
	Implementation of recommendations from the Royal Commission into Victoria’s Mental Health System	4 887
	Responses to drought and dry seasonal conditions	1 650
	National Disability Insurance Scheme – Home and Community Care	661
		516 199
Jobs, Precincts and Regions	Repowering and cash advance facility	47 471
	Drought Response	24 710
	Building the visitor economy: tourism marketing campaign	14 635
	Victorian Forestry Plan	14 451
	Victoria: The Basketball Capital of Australia – Melbourne Arena upgrades	6 500
	Bushfire Response	4 801
	Eureka Sport Precinct	3 880
	Ikon Park upgrades	3 800
	Victorian Home of Golf and National High Performance Centre	2 297
	Beckley Park racing precinct	1 997
	National Biosecurity Control Agreements	1 882
	Reid Oval	1 750
	Worker Transfer Scheme	1 742
	Whitten Oval preliminary design	1 000
	Ryan’s Reserve upgrades	750
	AgriBio Centre for AgriBioscience	674

8.2.13 Payments from advance to the Treasurer exclusive of those attributable to COVID-19 for the financial year ended 30 June *(continued)*

($ thousand)

Department	*Purpose*	*2019-20*
Jobs, Precincts and Regions *(continued)*	Community Cricket Program	500
	Melbourne Markets	482
	Regent Theatre	468
	Legal costs associated with litigation	418
	Community Sports Infrastructure Loans	293
	Royal Melbourne Showgrounds	162
	Shareholding management and advisory costs related to Carbon Revolution	145
	Young Farmers Scholarship Program	125
	Job fairs in Melbourne's north and west	94
	Globally Connected Investment and Trade	48
		135 073
Justice and Community Safety	Bushfire Community Recovery Package and Clean-up Program	161 000
	Support Victoria Police's operations	121 284
	Royal Commission into the Management of Police Informants	67 318
	Bushfire Financial Assistance Grant Programs	59 247
	Fiskville and Regional Victoria funding to Country Fire Authority	37 255
	Bushfire suppression	37 250
	Resource funding for Metropolitan Fire Brigade and Country Fire Authority	29 320
	Summer fire information and education program	9 428
	Mobile camera replacement program	9 183
	Fire Services Reform implementation	9 176
	Bushfire Case Support Program for the Department of Health and Human Services – Natural Disaster Financial Assistance	7 900
	Emergency Services Telecommunications Authority funding supplementation	6 795
	Crime Prevention Initiatives	4 903
	Victoria State Emergency Service facilities	4 900
	Support to progress agreements under the *Traditional Owner Settlement Act 2010*	4 000
	Funding supplementation for Tattersalls duty payments to other jurisdictions	2 793
	Victorian Ombudsman funding supplementation	2 310
	Working with Children Check	2 304
	Reducing incarceration of women	1 791
	Inspector General for Emergency Management inquiry into Victoria's 2019-20 Fire Season	845
	Victorian Inspectorate resourcing	452
	Port Campbell Surf Life Saving Club	440
	Fire Services Statement funding to Country Fire Authority towards new station at Newborough	100
	Best practice integrity oversight	22
		580 018
Premier and Cabinet	Bushfire Recovery Victoria – Establishment	15 160
	Royal Commission into Victoria's Mental Health System	13 606
	Bushfire Recovery Victoria – Council Assistance Fund	10 000
	Victorian Pride Centre	10 000
	Bushfire Recovery Victoria – mental health package	8 500
	Bushfire Recovery Victoria – Bushfire recovery activities – support to local councils	7 300
	Suburban Rail Loop Authority financing	3 021
	Industrial Relations Victoria – Wage Inspectorate Victoria	2 888
	Bushfire Recovery Victoria – Wine industry support	2 500
	Jobs and Skills Exchange	2 100
	Bushfire Disaster appeal fund	2 000
	Living Learning Partnerships addressing Disadvantage (PADs)	1 488
	Costs associated with administration changes	1 300
	Labour Hire Authority	1 213
	Addressing Security and workplace requirements	1 164

8.2.13 Payments from advance to the Treasurer exclusive of those attributable to COVID-19 for the financial year ended 30 June *(continued)*

($ thousand)

Department	*Purpose*	*2019-20*
Premier and Cabinet	Munarra Centre for Regional Excellence	1 151
(continued)	Public Record Office Victoria (PROV) for asset maintenance and renewal	781
	Security Upgrade for the Office for the Leader of the Opposition	650
	Additional support for former Premiers	400
	Government House – security upgrade	300
	75th anniversary of the end of World War 2	200
	Victorian Inspectorate	72
		85 793
Transport	Level Crossing Removal Program	336 831
	Public transport rail partnership agreements	31 300
	V/Line operations and maintenance	27 500
	Bushfire remediation works on the road network	16 050
	Additional VLocity Carriages	12 180
	Hurstbridge Line Upgrade Stage 2	10 468
	Streamlining Hoddle Street	3 980
	Better Boating	2 720
	Barwon Heads Road upgrade	2 451
	Hall Road Upgrade	1 817
	Narre Warren North Road Upgrade	1 405
	South Road upgrade	1 364
	Transport and Amenity Program	1 188
	Westernport Highway	801
	Car Parks for Commuters	484
	New bike lanes on St Kilda Road	450
	Establishment of Melbourne Seafarers' Centre	300
	Traffic Infringement Camera Trials	227
		451 516
Treasury and Finance	Funding for the Suburban Rail Loop	5 098
	Business unit reform advisory services and scoping study	5 000
	Land remediation	5 000
	Legal Costs	2 016
	Office of Projects Victoria funding contribution for Department of Education	393
		17 507
Parliament	Electorate Office Relocations & Refurbishments	2 400
	Parliamentary Advisers	1 452
	Implementation of Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards legislation	1 057
		4 909
Courts	Additional depreciation equivalent funding following an asset revaluation	3 600
	Bourke Street Coronial Inquest	1 990
	Judicial Commission of Victoria resourcing	1 635
	Aboriginal Justice Agreement Phase Four	1 386
	Royal Commission into the Management of Police Informants	828
		9 439
Total Payments from Advance to the Treasurer exclusive of those attributable to COVID-19		**2 475 224**

8.2.14 Payments from advance to the Treasurer attributable to COVID-19 for the financial year ended 30 June

($ thousand)

Department	*Purpose*	*2019-20*
Education and Training	TAFE and Training sector COVID-19 Response and Viability	68 900
	Kindergarten Viability during COVID-19	19 075
	COVID-safe training for hospitality businesses and local government	1 000
		88 975
Environment, Land, Water and Planning	Delivery of Development Facilitation Initiatives to Support COVID-19 Recovery (Victorian Planning Authority development facilitation)	8 600
	Financial support for portfolio entities	4 400
	Financial support – Alpine Resort Management Board	1 800
	Financial support for Committees of Management	1 230
	Targeted support for Victorians struggling with energy bills	74
		16 104
Health and Human Services	COVID-19 Response Additional support for the health system with additional equipment and ICU capacity	433 180
	COVID-19 Response Extra funding boost for Victoria's health system	282 644
	Elective surgery blitz	50 000
	Increase testing, tracing and response capacity	33 196
	Rent relief scheme	30 527
	COVID-19 support for the children and families system	17 474
	Emergency accommodation program	17 080
	Additional support for Victoria's mental health system	7 081
	Peter Doherty Institute COVID-19 Research	6 000
	COVID-19 support for people with disability	4 250
	Health procurement and supply chain	3 400
	Food relief program	1 840
		886 672
Jobs, Precincts and Regions	Economic Survival Package – Business Support Fund	784 671
	International Quarantine of Travellers	142 235
	Economic Survival Package – Working for Victoria Fund	108 955
	Experience Economy Survival Package	45 960
	Emergency Support For Victoria's International Students	20 831
	Emergency Accommodation Framework – additional funding for accommodation for family violence victim survivors and perpetrators	20 000
	Melbourne Convention and Exhibition Trust	11 650
		1 134 302
Justice and	Additional legal assistance services and ICT upgrades	9 180
Community Safety	Victoria Police COVID-19 Response	5 855
	Supporting people with disability in Victoria	615
		15 650
Premier and Cabinet	Good Friday Appeal	8 560
	COVID 19 response – Public Health Communications campaign	6 500
	COVID-19 response – Multicultural and faith communities	2 240
	Anzac Appeal, Legacy and Victorian Veterans Council	1 550
	COVID-19 response – Victoria Together (music component)	721
	COVID 19 response – Victoria Together	453
	Support for South Sudanese disadvantaged youth during COVID 19	86
		20 110
Transport	Support for the metropolitan public transport network and services	145 810
	Support for the regional public transport network and services	27 000
	Support for public transport rail partnerships	25 200
	Additional metropolitan and regional public transport cleaning costs	16 173
	Registration and licensing services resourcing	12 769
	Rent relief supplementation	7 768
		234 720

8.2.14 Payments from advance to the Treasurer attributable to COVID-19 for the financial year ended 30 June *(continued)*

($ thousand)

Department	*Purpose*	*2019-20*
Treasury and Finance	Economic Survival Package – Refund of Liquor Licenses	22 590
	Cenitex to support remote working	2 800
	Economic Survival Package – Implementation	300
		25 690
Courts	Victorian Civil and Administrative Tribunal remote hearing services	1 504
		1 504
Total Payments from advance to the Treasurer attributable to COVID-19		**2 423 727**

8.2.15 Payments from advances and unused advances carried forward to 2019-20 pursuant to Section 35 and 35(4) of the *Financial Management Act 1994*

Department	*Purpose*	*2019-20*
Transport	Suburban Rail Loop	100 654
	Public acquisition overlay compensation	63 083
	Cranbourne Line Duplication	59 952
	North East Link	38 200
	Chandler Highway Upgrade	25 400
Total payments from advances pursuant to Section 35 (4) of the Financial Management Act 1994		**287 289**

8.2.16 Government guarantees

Details of payments made in fulfilment of any guarantee by the Government

In September 2019, the State of Victoria entered a Deed of Guarantee and Indemnity (the Deed) with the Treasury Corporation Victoria (TCV). Under the terms of the Deed, the State unconditionally and irrevocably guaranteed the repayment to TCV of a short-term loan by a third party, Korda Mentha as administrators for SKM, and indemnified TCV against demands, claims, suits, actions, damages, liabilities, losses, costs and expenses incurred by TCV in relation to that loan. In May 2020, the State under the guarantee paid $3 million, plus interest, to TCV to fully satisfy the third party's obligations to TCV. No consideration was payable by TCV for the provision of the guarantee.

Money received or recovered in respect of any guarantee payments

There has been no money recovered during 2019-20 in respect of any guarantee payments.

8.2.17 Allocations pursuant to Section 28 of the *Financial Management Act 1994* for the financial year ended 30 June

There have been no amounts allocated during 2019-20 under Section 28 of the *Financial Management Act 1994*.

9. OTHER DISCLOSURES

Introduction to this section

This section includes several additional disclosures that assist the understanding of this financial report.

Structure

9.1 Disaggregated information

Disaggregated operating statement for the financial year ended 30 June [(a)(b)] **($ million)**

	General government sector		*Public non-financial corporations*	
	2020	*2019*	*2020*	*2019*
Revenue from transactions				
Taxation revenue	23 167	23 585	..	..
Interest revenue	619	817	44	114
Dividends, income tax equivalent and rate equivalent revenue	810	1 030	32	30
Sales of goods and services	7 902	7 680	6 657	6 497
Grant revenue	32 789	33 303	4 170	3 999
Other revenue	2 662	3 184	766	914
Total revenue from transactions	**67 948**	**69 600**	**11 668**	**11 554**
Expenses from transactions				
Employee expenses	27 214	25 406	1 451	1 374
Net superannuation interest expense	407	688	1	2
Other superannuation	3 073	2 797	139	135
Depreciation	3 894	3 056	1 824	2 455
Interest expense	2 328	2 321	916	987
Grant expense	15 331	13 355	270	430
Other operating expenses	22 241	21 006	6 310	6 190
Other property expenses	..	..	293	311
Total expenses from transactions	**74 487**	**68 629**	**11 204**	**11 883**
Net result from transactions – net operating balance	**(6 539)**	**971**	**465**	**(329)**
Other economic flows included in net result				
Net gain/(loss) on disposal of non-financial assets	(92)	(38)	(98)	(30)
Net gain/(loss) on financial assets or liabilities at fair value	80	(36)	9	64
Share of net profit/(loss) from associates/joint venture entities	3	1	..	..
Other gains/(losses) from other economic flows	(1 351)	(669)	(198)	99
Total other economic flows included in net result	**(1 360)**	**(742)**	**(287)**	**133**
Net result	**(7 899)**	**229**	**178**	**(196)**
Other economic flows – other comprehensive income				
Items that will not be reclassified to net result				
Changes in non-financial assets revaluation surplus	12 519	4 742	154	(1 231)
Remeasurement of superannuation defined benefits plans	(2 721)	(3 371)	(14)	(14)
Other movements in equity	(107)	197	10	114
Items that may be reclassified subsequently to net result				
Net gain/(loss) on financial assets at fair value	(173)	(65)	(8)	4
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	(2 583)	(2 654)	..	..
Total other economic flows – other comprehensive income	**6 935**	**(1 150)**	**141**	**(1 126)**
Comprehensive result – total change in net worth	**(964)**	**(921)**	**319**	**(1 322)**
FISCAL AGGREGATES				
Net operating balance	**(6 539)**	**971**	**465**	**(329)**
Purchases of non-financial assets (including change in inventories)	10 182	9 846	2 684	2 667
Less: Sales of non-financial assets	(170)	(243)	(205)	(113)
Less: Depreciation and amortisation	(3 894)	(3 056)	(1 824)	(2 455)
Plus: Other movements in non-financial assets	(1 633)	(1 461)	4 347	3 329
Less: Net acquisition of non-financial assets from transactions	**4 485**	**5 086**	**5 002**	**3 427**
Net lending/(borrowing)	**(11 024)**	**(4 115)**	**(4 537)**	**(3 756)**

Notes:
(a) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details.*
(b) *The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Note 6.3.1 for further details.*

Public financial corporations		Inter-sector eliminations		State of Victoria	
2020	*2019*	*2020*	*2019*	*2020*	*2019*
..	..	(437)	(409)	22 730	23 176
1 851	1 957	(2 029)	(2 211)	484	678
2 218	2 322	(708)	(957)	2 352	2 426
4 996	4 968	(3 745)	(3 497)	15 810	15 648
..	..	(4 455)	(4 649)	32 505	32 654
19	19	..	(61)	3 447	4 056
9 084	**9 266**	**(11 374)**	**(11 782)**	**77 327**	**78 637**
381	349	(543)	(485)	28 503	26 644
..	..	..	..	408	690
32	29	..	..	3 245	2 961
73	41	676	..	6 467	5 553
1 789	1 815	(2 031)	(2 211)	3 002	2 912
283	650	(4 607)	(4 864)	11 276	9 571
8 383	8 160	(3 486)	(3 265)	33 447	32 090
58	(2)	(351)	(309)	..	..
10 998	**11 042**	**(10 341)**	**(11 134)**	**86 348**	**80 420**
(1 914)	**(1 777)**	**(1 033)**	**(648)**	**(9 021)**	**(1 782)**
..	..	..	..	(190)	(68)
(2 566)	(1 494)	..	..	(2 476)	(1 466)
..	..	..	..	3	1
560	(3 159)	(3 025)	(2 192)	(4 014)	(5 922)
(2 005)	**(4 653)**	**(3 025)**	**(2 192)**	**(6 677)**	**(7 454)**
(3 920)	**(6 430)**	**(4 058)**	**(2 840)**	**(15 699)**	**(9 236)**
1	..	3 831	135	16 504	3 646
..	..	..	..	(2 735)	(3 385)
(1)	..	..	..	(98)	311
..	..	..	..	(182)	(60)
..	..	2 583	2 654	..	..
..	**..**	**6 414**	**2 788**	**13 490**	**511**
(3 919)	**(6 430)**	**2 356**	**(52)**	**(2 208)**	**(8 725)**
(1 914)	**(1 777)**	**(1 033)**	**(648)**	**(9 021)**	**(1 782)**
133	50	(4)	(93)	12 995	12 470
(1)	(1)	5	(7)	(370)	(364)
(73)	(41)	(676)	..	(6 467)	(5 553)
..	..	..	61	2 714	1 928
59	**7**	**(675)**	**(39)**	**8 871**	**8 482**
(1 974)	**(1 784)**	**(358)**	**(609)**	**(17 893)**	**(10 265)**

9. OTHER DISCLOSURES

Disaggregated balance sheet as at 30 June [(a)(b)] ($ million)

	General government sector			*Public non-financial corporations*		
	2020 (b)	*2019*	*2018*	*2020 (c)*	*2019*	*2018*
Assets						
Financial assets						
Cash and deposits	13 037	9 775	6 257	1 532	1 597	1 419
Advances paid	6 550	8 340	9 793	2 226	3 981	5 345
Receivables and contract assets	6 108	5 464	4 994	1 773	1 660	1 827
Investments, loans and placements	2 589	2 539	3 928	638	802	1 281
Loans receivable from non-financial public sector [(d)]	..	..	..	..	..	..
Investments accounted for using equity method	10	45	53	..	..	..
Investments in other sector entities	75 043	101 825	101 253	..	..	..
Total financial assets	**103 337**	**127 989**	**126 277**	**6 169**	**8 040**	**9 872**
Non-financial assets						
Inventories	666	165	175	1 044	899	875
Non-financial assets held for sale	192	223	389	34	82	72
Land, buildings, infrastructure, plant and equipment	173 743	153 949	143 634	105 027	128 482	126 329
Other non-financial assets	3 103	2 415	1 730	2 985	1 342	1 393
Total non-financial assets	**177 703**	**156 752**	**145 928**	**109 092**	**130 804**	**128 670**
Total assets	**281 040**	**284 741**	**272 205**	**115 261**	**138 844**	**138 542**
Liabilities						
Deposits held and advances received	3 681	5 250	6 524	2 669	4 460	5 787
Payables and contract liabilities	16 870	15 401	10 945	10 029	10 109	10 417
Borrowings	62 807	40 896	35 086	17 395	16 489	16 218
Employee benefits	9 028	8 020	7 020	517	476	442
Superannuation	31 228	28 632	25 205	65	51	28
Other provisions	1 335	1 072	1 034	9 702	8 144	8 279
Total liabilities	**124 949**	**99 270**	**85 813**	**40 377**	**39 728**	**41 171**
Net assets [(e)]	**156 092**	**185 471**	**186 392**	**74 884**	**99 116**	**97 370**
Accumulated surplus/(deficit)	68 166	54 691	54 873	(15 963)	2 960	3 517
Reserves	87 925	130 780	131 519	90 847	96 156	93 853
Net worth [(e)]	**156 092**	**185 471**	**186 392**	**74 884**	**99 116**	**97 370**
FISCAL AGGREGATES						
Net financial worth	(21 612)	28 719	40 464	(34 208)	(31 688)	(31 300)
Net financial liabilities	96 654	73 106	60 789	34 208	31 688	31 300
Net debt	44 312	25 492	21 632	15 668	14 568	13 961

Notes:

(a) *The 1 July 2018 and June 2019 comparatives have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. A third balance sheet has been included to show the effect of this change in accordance with the requirements of AASB 101* Presentation of financial statements*. Refer to Note 9.7.2. for further details.*

(b) *The 1 July 2018 and June 2019 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Note 6.3.1 for further details.*

(c) *Certain June 2020 balances have decreased due to the adoption of AASB 16* Leases *from 1 July 2019. Refer to Notes 5.2 and 9.7.2 for further details*

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

(e) *The net assets and net worth of the public financial corporations sector incorporates the impact of Treasury Corporation of Victoria's external loan liabilities being reported at market value while the corresponding assets, that is lending to the non-financial public sector, are reported at amortised cost. This mismatch has contributed to the negative net asset position of the sector.*

Public financial corporations			*Inter-sector eliminations*			*State of Victoria*		
2020	*2019*	*2018*	*2020* (b)	*2019*	*2018*	*2020*	*2019*	*2018*
8 069	4 067	5 554	(3 453)	(2 745)	(6 736)	19 185	12 694	6 494
12	28	18	(8 305)	(11 931)	(14 779)	483	418	378
1 758	2 190	1 455	(571)	(730)	(726)	9 069	8 584	7 549
37 448	42 164	39 279	(294)	(407)	(2 151)	40 381	45 098	42 336
48 921	33 745	33 524	(48 921)	(33 745)	(33 524)	..	..	..
..	..	..	..	..	..	10	45	53
..	..	..	(75 043)	(101 825)	(101 253)	..	..	..
96 208	**82 194**	**79 829**	**(136 586)**	**(151 383)**	**(159 168)**	**69 128**	**66 840**	**56 809**
..	..	..	..	..	..	1 710	1 064	1 050
..	..	..	..	..	..	226	304	462
412	110	108	29 883	..	..	309 065	282 541	270 071
4 120	2 844	885	(5 807)	(2 983)	(1 149)	4 401	3 618	2 859
4 532	**2 954**	**993**	**24 076**	**(2 983)**	**(1 149)**	**315 402**	**287 527**	**274 441**
100 739	**85 148**	**80 822**	**(112 510)**	**(154 367)**	**(160 318)**	**384 530**	**354 367**	**331 250**
259	2 290	7 644	(4 916)	(10 308)	(17 800)	1 693	1 691	2 154
2 379	1 807	1 951	(524)	(725)	(837)	28 754	26 591	22 475
63 682	47 087	39 472	(56 106)	(38 556)	(39 426)	87 778	65 916	51 350
117	108	109	..	..	..	9 662	8 604	7 570
..	..	..	..	..	..	31 293	28 683	25 233
44 424	40 003	30 895	(9 602)	(8 055)	(8 183)	45 859	41 164	32 025
110 862	**91 295**	**80 070**	**(71 148)**	**(57 644)**	**(66 246)**	**205 039**	**172 650**	**140 808**
(10 122)	**(6 148)**	**751**	**(41 362)**	**(96 722)**	**(94 072)**	**179 491**	**181 717**	**190 442**
(10 196)	(6 216)	684	34 654	19 634	21 602	76 661	71 069	80 676
74	68	67	(76 016)	(116 356)	(115 673)	102 830	110 648	109 766
(10 122)	**(6 148)**	**751**	**(41 362)**	**(96 722)**	**(94 072)**	**179 491**	**181 717**	**190 442**
(14 654)	(9 102)	(241)	(65 438)	(93 739)	(92 922)	(135 912)	(105 810)	(83 999)
14 654	9 102	241	(9 605)	(8 086)	(8 330)	135 912	105 810	83 999
(30 509)	**(30 627)**	**(31 259)**	**(49)**	**(36)**	**(36)**	**29 422**	**9 397**	**4 298**

9. OTHER DISCLOSURES

Disaggregated cash flow statement for the financial year ended 30 June [(a)] **($ million)**

	General government sector		Public non-financial corporations	
	2020	2019	2020	2019
Cash flows from operating activities				
Receipts				
Taxes received	23 257	23 233	..	..
Grants	34 302	33 353	4 164	4 012
Sales of goods and services [(b)]	8 515	8 263	7 190	7 026
Interest received	636	808	49	122
Dividends, income tax equivalent and rate equivalent receipts	818	1 040	32	30
Other receipts	2 066	4 973	197	611
Total receipts	**69 593**	**71 671**	**11 631**	**11 802**
Payments				
Payments for employees	(26 362)	(24 731)	(1 413)	(1 346)
Superannuation	(3 605)	(3 429)	(140)	(127)
Interest paid	(2 086)	(2 062)	(932)	(1 004)
Grants and subsidies	(15 676)	(13 226)	(79)	(74)
Goods and services [(b)]	(23 232)	(20 041)	(4 503)	(4 609)
Other payments	(1 543)	(791)	(2 864)	(2 746)
Total payments	**(72 506)**	**(64 280)**	**(9 931)**	**(9 907)**
Net cash flows from operating activities	**(2 913)**	**7 391**	**1 700**	**1 895**
Cash flows from investing activities				
Cash flows from investments in non-financial assets				
Purchases of non-financial assets	(9 734)	(9 856)	(2 684)	(2 673)
Sales of non-financial assets	170	243	205	113
Net cash flows from investments in non-financial assets	**(9 565)**	**(9 613)**	**(2 480)**	**(2 559)**
Cash flows from investments in financial assets for policy purposes				
Cash inflows	2 545	2 235	1 787	1 491
Cash outflows	(1 187)	(795)	(16)	(38)
Net cash flows from investments in financial assets for policy purposes	**1 358**	**1 440**	**1 771**	**1 453**
Sub-total	**(8 207)**	**(8 173)**	**(709)**	**(1 106)**
Cash flows from investments in financial assets for liquidity management purposes [(c)]				
Cash inflows	587	2 857	191	540
Cash outflows	(1 077)	(1 221)	(56)	(52)
Net cash flows from investments in financial assets for liquidity management purposes	**(491)**	**1 636**	**135**	**488**
Net cash flows from investing activities	**(8 698)**	**(6 537)**	**(574)**	**(618)**
Cash flows from financing activities				
Advances received	140	211	25	5
Advances repaid	(1 792)	(1 602)	(1 763)	(1 369)
Advances received (net) [(c)]	(1 651)	(1 391)	(1 738)	(1 364)
Borrowings received	20 588	6 194	2 310	2 113
Borrowings repaid	(4 146)	(2 220)	(1 723)	(1 785)
Net borrowings [(c)]	16 442	3 974	587	328
Deposits received	4 710	2 015	74	75
Deposits repaid	(4 628)	(1 933)	(127)	(38)
Deposits received (net) [(c)]	82	82	(53)	36
Other financing inflows	..	..	402	386
Other financing outflows	..	..	(391)	(485)
Other financing (net) [(c)]	..	..	11	(99)
Net cash flows from financing activities	**14 873**	**2 665**	**(1 193)**	**(1 098)**
Net increase/(decrease) in cash and cash equivalents	**3 262**	**3 518**	**(67)**	**179**
Cash and cash equivalents at beginning of reporting period	9 775	6 257	1 598	1 419
Cash and cash equivalents at end of the reporting period	**13 037**	**9 775**	**1 532**	**1 597**
FISCAL AGGREGATES				
Net cash flows from operating activities	(2 913)	7 391	1 700	1 895
Dividends paid	..	..	(347)	(158)
Net cash flows from investments in non-financial assets	(9 565)	(9 613)	(2 480)	(2 559)
Cash surplus/(deficit)	**(12 478)**	**(2 223)**	**(1 127)**	**(822)**

Notes:

(a) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 for further details.*

(b) *These items include goods and services tax.*

(c) *In accordance with AASB 107* Statement of Cash Flows, *Treasury Corporation of Victoria (TCV) is not required to gross up its cash flow information for whole of government consolidation purposes. The net cash movements for TCV have been added to cash inflows or outflows for both financial years ended 30 June 2020 and 30 June 2019.*

Public financial corporations 2020	*2019*	*Inter-sector eliminations 2020*	*2019*	*State of Victoria 2020*	*2019*
..	..	(437)	(409)	22 820	22 824
..	..	(4 452)	(4 645)	34 013	32 719
5 648	5 156	(3 809)	(3 399)	17 544	17 047
1 734	1 745	(2 051)	(2 222)	368	453
2 218	2 322	(716)	(967)	2 352	2 426
57	46	62	(46)	2 381	5 583
9 656	**9 269**	**(11 402)**	**(11 689)**	**79 479**	**81 053**
(372)	(352)	543	485	(27 605)	(25 944)
(32)	(29)	..	..	(3 777)	(3 585)
(1 745)	(1 772)	2 052	2 226	(2 712)	(2 613)
(283)	(650)	4 452	4 645	(11 586)	(9 304)
(5 235)	(4 962)	1 067	826	(31 903)	(28 787)
(4)	(34)	2 892	2 779	(1 520)	(792)
(7 671)	**(7 799)**	**11 005**	**10 962**	**(79 103)**	**(71 025)**
1 985	**1 469**	**(397)**	**(727)**	**375**	**10 028**
(133)	(50)	4	93	(12 548)	(12 486)
1	1	(5)	7	370	364
(132)	**(49)**	**(1)**	**99**	**(12 178)**	**(12 122)**
17	..	(3 650)	(3 319)	698	407
(2)	(9)	420	534	(785)	(307)
15	**(9)**	**(3 231)**	**(2 784)**	**(87)**	**100**
(117)	**(58)**	**(3 232)**	**(2 685)**	**(12 265)**	**(12 022)**
10 517	5 223	(3 230)	(5 116)	8 065	3 503
(21 249)	(7 980)	18 213	3 509	(4 170)	(5 743)
(10 732)	**(2 757)**	**14 984**	**(1 607)**	**3 896**	**(2 240)**
(10 849)	**(2 815)**	**11 752**	**(4 292)**	**(8 369)**	**(14 263)**
29	52	(54)	(252)	140	16
(61)	(33)	3 565	2 974	(51)	(30)
(32)	19	3 511	2 722	90	(14)
15 258	6 031	(19 304)	(2 270)	18 852	12 068
(301)	(349)	1 800	3 219	(4 369)	(1 135)
14 958	5 682	(17 505)	949	14 483	10 933
..	59	(1)	(59)	4 784	2 089
(1 999)	(5 431)	1 882	4 829	(4 872)	(2 574)
(1 999)	(5 373)	1 881	4 770	(88)	(484)
3	4	(405)	(390)	..	..
(63)	(474)	454	959	..	..
(60)	(470)	49	568	..	..
12 867	**(141)**	**(12 063)**	**9 010**	**14 484**	**10 435**
4 003	**(1 487)**	**(708)**	**3 991**	**6 490**	**6 200**
4 067	5 554	(2 745)	(6 736)	12 695	6 494
8 069	**4 067**	**(3 453)**	**(2 745)**	**19 185**	**12 694**
1 985	1 469	(397)	(727)	375	10 028
(60)	(470)	407	627	..	..
(132)	(49)	(1)	99	(12 178)	(12 122)
1 793	**951**	**9**	**(1)**	**(11 803)**	**(2 094)**

Disaggregated statement of changes in equity for the financial year ended 30 June

($ million)

	Accumulated surplus/(deficit)	*Contributions by owners*	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
General government sector						
Balance at 1 July 2019	**51 309**	**..**	**65 454**	**63 697**	**1 020**	**181 480**
Impact of new accounting standards	3 443	..	608	(28 475)	..	(24 424)
Restated balance at 1 July 2019 (a)	**54 752**	**..**	**66 062**	**35 222**	**1 020**	**157 056**
Net result for the year	(7 899)	..	..	..	..	(7 899)
Other comprehensive income for the year	(2 889)	..	12 519	(2 583)	(112)	6 935
Transfer to/(from) accumulated surplus	24 201	..	(24 201)	..	..	..
Dividends paid	..	..	..	..	..	..
Transactions with owners in their capacity as owners	..	..	..	..	..	..
Balance at 30 June 2020	**68 166**	**..**	**54 379**	**32 639**	**908**	**156 092**
PNFC sector						
Balance at 1 July 2019	**2 960**	**62 949**	**32 620**	**..**	**586**	**99 116**
Impact of new accounting standards	(18 753)	..	(9 728)	..	..	(28 480)
Restated balance at 1 July 2019 (b)	**(15 792)**	**62 949**	**22 893**	**..**	**586**	**70 636**
Net result for the year	178	..	..	..	..	178
Other comprehensive income for the year	(1)	..	154	..	(11)	141
Transfer to/(from) accumulated surplus	..	..	..	..	..	..
Dividends paid	(347)	..	..	..	..	(347)
Transactions with owners in their capacity as owners	..	4 276	..	..	..	4 276
Balance at 30 June 2020	**(15 963)**	**67 225**	**23 046**	**..**	**575**	**74 884**
PFC sector						
Balance at 1 July 2019	**(6 216)**	**29**	**2**	**..**	**37**	**(6 148)**
Impact of new accounting standards	5	..	..	..	..	5
Restated balance at 1 July 2019 (b)	**(6 211)**	**29**	**2**	**..**	**37**	**(6 143)**
Net result for the year	(3 920)	..	..	..	..	(3 920)
Other comprehensive income for the year	(5)	..	1	..	4	..
Transfer to/(from) accumulated surplus	..	..	..	..	..	..
Dividends paid	(60)	..	..	..	..	(60)
Transactions with owners in their capacity as owners	..	..	..	..	..	..
Balance at 30 June 2020	**(10 196)**	**29**	**4**	**..**	**41**	**(10 122)**
Eliminations	34 654	(67 254)	23 877	(32 639)	..	(41 362)
Total State of Victoria	**76 661**	**..**	**101 305**	**..**	**1 524**	**179 491**

Notes:

(a) *The 1 July 2019 balance has been restated resulting from the application of AASB 15* Revenue from Contracts with Customers*, AASB 1058* Income of Not-for-Profit Entities*, AASB 16* Leases *and AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details.*

(b) *The 1 July 2019 balance has been restated resulting from the application of AASB 15* Revenue from Contracts with Customers*, AASB 1058* Income of Not-for-Profit Entities*, and AASB 16* Leases*. Refer to Note 9.7.2 for further details.*

Disaggregated statement of changes in equity for the financial year ended 30 June *(continued)* [(a)] **($ million)**

	Accumulated surplus/(deficit)	*Contributions by owners*	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
General government sector						
Balance at 1 July 2018 [(b)]	**52 626**	**..**	**64 084**	**66 351**	**1 055**	**184 116**
Prior period adjustment	(1 215)	..	..	..	..	(1 215)
Impact of new accounting standards	3 461	..	29	..	..	3 490
Restated balance at 1 July 2018 [(b)]	**54 873**	**..**	**64 113**	**66 351**	**1 055**	**186 392**
Net result for the year [(b)]	229	..	..	..	..	229
Other comprehensive income for the year [(b)]	(3 204)	..	4 742	(2 654)	(35)	(1 150)
Transfer to/(from) accumulated surplus	2 792	..	(2 792)	..	..	..
Dividends paid	..	..	..	..	..	..
Transactions with owners in their capacity as owners	..	..	..	..	..	..
Balance at 30 June 2019	**54 691**	**..**	**66 063**	**63 697**	**1 020**	**185 471**
PNFC sector						
Balance at 1 July 2018	**3 517**	**59 478**	**33 851**		**523**	**97 370**
Impact of new accounting standards	..	..	..	..	..	..
Restated balance at 1 July 2018 [(b)]	**3 517**	**59 478**	**33 851**	**..**	**523**	**97 370**
Net result for the year [(b)]	(196)	..	..	..	..	(196)
Other comprehensive income for the year	42	..	(1 231)	..	63	(1 126)
Transfer to/(from) accumulated surplus	(245)	245	..	..	..	..
Dividends paid	(158)	..	..	..	..	(158)
Transactions with owners in their capacity as owners	..	3 226	..	..	..	3 226
Balance at 30 June 2019	**2 960**	**62 949**	**32 620**	**..**	**586**	**99 116**
PFC sector						
Balance at 1 July 2018	684	29	2	..	36	751
Net result for the year	(6 430)	..	..	..	..	(6 430)
Other comprehensive income for the year	(1)	..	..	..	1	..
Transfer to/(from) accumulated surplus	..	..	..	..	..	..
Dividends paid	(470)	..	..	..	..	(470)
Transactions with owners in their capacity as owners	..	..	..	..	..	..
Balance at 30 June 2019	**(6 216)**	**29**	**2**	**..**	**37**	**(6 148)**
Eliminations	19 634	(62 978)	10 319	(63 697)	..	(96 722)
Total State of Victoria	**71 069**	**..**	**109 004**	**..**	**1 643**	**181 717**

Notes:

(a) The 1 July 2018 and the June 2019 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Note 6.3.1 for further details.

(b) The 1 July 2018 and the June 2019 balances have been restated resulting from the application of AASB 1059 Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details.*

9.2 Funds under management

The State has responsibility for transactions and balances relating to trust funds held on behalf of third parties external to the State. The funds managed on behalf of third parties are not recognised in these financial statements as they are managed on a fiduciary and custodial basis, and therefore are not controlled by the State. Funds under management are reported in the table below.

($ million)

	State of Victoria		*General Government Sector*	
	2020	*2019*	*2020*	*2019*
Cash and investments in common and premium funds	1 151	1 221	95	95
Funds under management by Legal Services Board	1 199	1 199	1 199	1 199
Funds under management by the Senior Master of the Supreme Court	1 963	2 024	1 963	2 024
Funds under management for The Victorian Bushfire Appeal Fund	..	1	..	1
Investments, real estate, personal and other assets	4 408	4 152	30	27
Other funds held	15	28	13	12
Residential tenancies bonds money	1 267	1 218	1 267	1 218
Total funds under management	**10 005**	**9 844**	**4 568**	**4 577**

9.3 Other gains/(losses) from other economic flows

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions. This includes remeasurements of certain liabilities for variables such as movements in discount rates used to value these liabilities.

Total other gains/(losses) from other economic flows [(a)] **($ million)**

	State of Victoria		*General government sector*	
	2020	*2019*	*2020*	*2019*
Net (increase)/decrease in allowances for credit losses	281	(375)	285	(371)
Amortisation of intangible non-produced assets	(46)	(42)	(5)	(7)
Net swap interest revenue/(expense)	..	(5)	..	..
Bad debts written off	(767)	(59)	(755)	(46)
Other gains/(losses)	(3 482)	(5 440)	(876)	(245)
Total other gains/(losses) from other economic flows	**(4 014)**	**(5 922)**	**(1 351)**	**(669)**

Note:
(a) The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Note 6.3.1 for further details.

9.4 Reconciliation between Government Finance Statistics and Australian Accounting Standards

This note identifies the unconverged differences between the Australian Accounting Standards reporting (upon which this report is based) and the Government Finance Statistics (GFS) reporting.

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

In December 2019, AASB 2019-7 *Amendments to Australian Accounting Standards – Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP/GFS Reconciliations* was issued to modify AASB 1049 *Whole of Government and General Government Sector Financial Reporting* requirements by providing optional relief from the disclosure of key fiscal aggregates measured in accordance with the GFS where they differ from the key fiscal aggregates provided pursuant this Accounting Standard.

If the optional relief is adopted, AASB 2019-7 requires an explanation of how each of the key fiscal aggregates required per AASB 1049 is calculated and how it differs from the corresponding key fiscal aggregate measured in accordance with the ABS GFS.

While the standard applies from the 2020-21 financial year, early adoption is permitted, which the State has elected to do.

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 net cash flows from investments in non-financial assets (less dividends paid for the public non-financial corporation (PNFC) and public financial corporation (PFC) sectors);
- **Comprehensive result – total change in net worth** is the amount included in the operating statement representing 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; and
- **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.

9. OTHER DISCLOSURES

Convergence difference	*AASB 1049 Treatment*	*ABS GFS Treatment*	*Fiscal aggregate impact*
AASB 16 *Leases*			
	Operating leases are recognised on the balance sheet under AASB 16 *Leases* unless the lease is shorter than 12 months or where the underlying assets are worth less than $10 000.	Under GFS, operating leases are not recognised on the balance sheet.	• Cash surplus/ deficit • Comprehensive result – total change in net worth • Net lending/ borrowing • Net result from transactions – net operating balance • Net worth
AASB 1059 *Service concession arrangements*			
	Economic service concession arrangements, such as toll roads, are recognised on the State's balance sheet under AASB 1059 *Service Concession Arrangements: Grantors*.	Under GFS, economic service concession arrangements, such as toll roads, are not recognised on the balance sheet.	• Cash surplus/ deficit • Comprehensive result – total change in net worth • Net lending/ borrowing • Net result from transactions – net operating balance • Net worth
AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*			
	Deferral of revenue recognition, such as where performance obligations exist or for capital grants from the Commonwealth Government, is a requirement under AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*.	Under GFS, the deferral of revenue recognition, such as where performance obligations exist or for capital grants from the Commonwealth Government, is not recognised. This timing difference is expected to impact all the key fiscal aggregates. While it is expected that there will not be a net change to the fiscal aggregates over time, there will be convergence differences in any given year.	• Cash surplus/ deficit • Comprehensive result – total change in net worth • Net lending/ borrowing • Net result from transactions – net operating balance • Net worth
Port of Melbourne lease transaction			
Port Licence Fee	Under Australian Accounting Standards (AAS) the 15-year prepaid Port Licence Fee from the medium-term lease of the Port of Melbourne is recognised upfront upon receipt.	Under GFS, the 15-year prepaid Port Licence Fee from the medium-term lease of the Port of Melbourne is recognised as revenue over the 15-year period.	• Comprehensive result – total change in net worth • Net lending/ borrowing • Net result from transactions – net operating balance • Net worth
Port of Melbourne lease transaction	Under AAS the Port of Melbourne lease transaction has been treated as an operating lease with the leased assets remaining with the PNFC sector.	Under GFS, the Port of Melbourne lease transaction is recognised as a sale of equity from the general government sector.	• Cash surplus/ deficit • Comprehensive result – total change in net worth • Net lending/ borrowing • Net result from transactions – net operating balance • Net worth

Convergence difference	*AASB 1049 Treatment*	*ABS GFS Treatment*	*Fiscal aggregate impact*
PNFC/PFC dividends			
	Under AAS, dividends are classified as after-profit distributions to owners.	Under GFS, dividends paid/payable are recognised as an expense from transactions on the operating statement.	• Comprehensive result – total change in net worth • Net lending/ borrowing • Net result from transactions – net operating balance • Net worth
Doubtful receivables			
	Under AAS, provisions for doubtful receivables are included on the balance sheet as an offset to assets.	Under GFS, the act of creating provisions is not considered an economic event and is therefore not included on the balance sheet.	• Comprehensive result – total change in net worth • Net worth
Future tax benefits / deferred tax liabilities			
	Under AAS, tax effect accounting is adopted, whereby differences between tax and accounting bases are deferred as either future income tax benefit assets or provisions for deferred liabilities.	Under GFS, deferred tax is not recognised.	• Comprehensive result – total change in net worth • Net worth
Investment in other sector entities			
	Under AAS, 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.	Under GFS, the determination of net worth is exclusive of this.	• Comprehensive result – total change in net worth • Net worth
PNFC/PFC net worth			
	Under AAS, the PNFC/PFC sectors report net worth as assets less liabilities.	Under GFS, the PNFC/PFC sectors report zero net worth, as the ownership interest is recognised as a liability.	• Comprehensive result – total change in net worth • Net worth

9.5 Related party transactions

The State of Victoria reporting entity includes government departments, PNFC, PFC and other government-controlled entities.

Key management personnel

All cabinet ministers are considered members of the key management personnel of the State of Victoria reporting entity for 2019-20. They are listed below.

Position title	*Key management personnel*
Premier	Hon Daniel Andrews
Deputy Premier	Hon James Merlino
Ministers of the Crown	Hon Jacinta Allan
	Hon Lily D'Ambrosio
	Hon Ben Carroll
	Hon Luke Donnellan
	Mr Martin Foley
	Hon Jill Hennessy
	Hon Melissa Horne
	Hon Natalie Hutchins [a]
	Mr Gavin Jennings [b]
	Hon Marlene Kairouz [c]
	Hon Shaun Leane [a]
	Ms Jenny Mikakos [d]
	Hon Lisa Neville
	Hon Martin Pakula
	Mr Tim Pallas
	Hon Danny Pearson [a]
	Hon Jaala Pulford
	Mr Robin Scott [e]
	Hon Adem Somyurek [e]
	Ms Ros Spence [f]
	Hon Jaclyn Symes
	Hon Gayle Tierney
	Hon Gabrielle Williams
	Hon Richard Wynne

Notes:
(a) Appointed to Ministry on 22 June 2020.
(b) Held Ministry until 23 March 2020.
(c) Held Ministry until 16 June 2020.
(d) Held Ministry until 26 September 2020.
(e) Held Ministry until 15 June 2020.
(f) Appointed to Ministry on 23 March 2020.

Related parties of the State of Victoria reporting entity include:

- all cabinet ministers and their close family members; and
- other arrangements or entities jointly controlled by the ministers or their close family members, or entities that they have significant influence over.

Transactions and balances with key management personnel and other related parties

Given the breadth and depth of State government activities, related parties transact with the Victorian public sector as normal citizens in a manner consistent with other members of the public, involving the receipt of services and benefits, and payment of taxes and other government fees and charges. No transactions have occurred with related parties on terms and conditions more or less favourable than those conducted under standard government policies, procedures and practices.

Outside of normal citizen type transactions, transactions are disclosed only when they are considered necessary to draw attention to the possibility that the State's financial position and profit or loss may have been affected by the existence of related parties, and by transactions and outstanding balances, including commitments, with such parties.

There were no material related party transactions that involved key management personnel, their close family members and their personal business interests. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

Remuneration of key management personnel

The remuneration and allowances of ministers are set by the *Parliamentary Salaries and Superannuation Act 1968* and the aggregated remuneration for ministers is $9.3 million in 2020 ($8.4 million in 2019).

($ thousand)

State of Victoria	*2020*	*2019*
Salaries and short-term employee benefits	8 751	7 924
Post-employment benefits	571	460
Other long-term benefits	..	..
Termination benefits	..	..
Share based payments	n.a.	n.a.
Total	**9 322**	**8 384**

9.6 Subsequent events

Assets, liabilities, revenues or expenses arise from past transactions or other past events. Adjustments are made to amounts recognised in the financial statements for events, which occur after the reporting period and before the date the statements are authorised for issue, where those events provide information about conditions which existed at the reporting date. If required, note disclosure is made about events that occur between the end of the reporting period and the date the statements are authorised for issue where the events relate to conditions which arose after the reporting period that are considered to be of material interest.

Post 30 June 2020, the Victorian Government enacted stage 4 restrictions associated with COVID-19 which restricted movement and activity for individuals and businesses, in an effort to contain the spread of COVID-19. Under these restrictions, businesses were directed to work from home and to reduce output.

With significant uncertainty around the duration of the pandemic, further significant impacts to the State's finances are expected, through a lower revenue base, resulting from reduced economic activity, and continued expenditure on support measures. However, it is not possible to estimate the extent of the economic impact at this stage. It is anticipated that further impacts of COVID-19 will be reflected in the upcoming 2020-21 budget and the interim financial reports released throughout 2020-21.

9.7 Major changes in accounting policies

9.7.1 Change in accounting standards

Leases

The State has applied AASB 16 with a date of initial application of 1 July 2019.

The State has elected to apply AASB 16 using the modified retrospective approach, as per the transitional provisions of AASB 16 for all leases for which it is a lessee. The cumulative effect of initial application is recognised in retained earnings as at 1 July 2019. Accordingly, the comparative information presented is not restated and is reported under AASB 117 *Leases* and related interpretations.

Previously, the State determined at contract inception whether an arrangement is or contains a lease under AASB 117 and Interpretation 4 *Determining whether an arrangement contains a Lease*. Under AASB 16, the State assesses whether a contract is or contains a lease based on the definition of a lease as explained in Note 5.2.

On transition to AASB 16, the State has elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and Interpretation 4 were not reassessed for whether there is or contains a lease. Therefore, the definition of a lease under AASB 16 was applied to contracts entered into or changed on or after 1 July 2019.

Leases classified as operating leases under AASB 117

As a lessee, the State previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the State. Under AASB 16, the State recognises right-of-use assets and lease liabilities for all leases except where exemption is availed in respect of short-term and low value leases.

On adoption of AASB 16, the State recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 July 2019. On transition, right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

The State has elected to apply the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- applied a single discount rate to a portfolio of leases with similar characteristics;
- adjusted the right-of-use assets by the amount of AASB 137 onerous contracts provision immediately before the date of initial application, as an alternative to an impairment review;
- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term;

- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

For leases that were classified as finance leases under AASB 117, the carrying amount of the right-of-use asset and lease liability at 1 July 2019 are determined as the carrying amount of the right of use asset and lease liability under AASB 117 immediately before that date.

Impacts on financial statements

Please refer to the below reconciliation table and Note 9.7.2 for further information.

When measuring lease liabilities, the State discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted average rate applied is 2.7 per cent.

Lease liability reconciliation **($ million)**

	State of Victoria	*General government sector*
Total Operating lease commitments disclosed at 30 June 2019	5 514	5 076
Discounted using the incremental borrowing rate at 1 July 2019	5 409	4 874
Finance lease liabilities as at 30 June 2019	4 170	4 049
Recognition exemption for:	..	..
Short-term leases	(9)	(6)
Leases of low-value assets	(1)	..
Extension and termination options reasonably certain to be exercised	646	508
Variable lease payments based on an index or rate	(51)	(5)
Residual value guarantees	..	..
Other	(1 814)	(1 759)
Lease liabilities recognised at 1 July 2019	**8 351**	**7 662**

Service Concession Arrangements: Grantors

AASB 1059 *Service Concession Arrangements: Grantors* applies to annual reporting periods beginning on or after 1 January 2020 however in line with FRD 124 *Transitional requirements on the application of AASB 1059 Service Concession Arrangements: Grantors*, the State has early adopted it from 1 July 2019.

In line with the FRD 124 requirements, the State has applied the transitional provisions of AASB 1059 and applied a full retrospective approach to prior reporting periods. The effect of this is that it has been applied as if it has always been in effect. Where applicable, comparatives have been restated and retained earnings adjusted at 1 July 2018 to reflect the impact of the standard.

The State has reviewed all of its arrangements to assess whether AASB 1059 applies.

Note 5.3 includes the material arrangements which have been determined to be within the scope of AASB 1059. This includes details about the transitional application of AASB 1059 and how the standard has been applied to these arrangements, including tables that summarise the impact of applying the standard compared to prior accounting treatment.

Notes 5.3 and 5.4 also include information about which public private partnerships fall within the scope of AASB 1059 and those previously leasing arrangements (including public private partnerships) which fall within the scope of AASB 1059.

Revenue from Contracts with Customers

In accordance with FRD 121 *Transitional requirements on the application of AASB 15 Revenue from Contracts with Customers*, the State has applied the transitional provisions of AASB 15 retrospectively with the cumulative effect of initially applying this standard against the opening retained earnings at 1 July 2019. Under this transition method, the State applied this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

Comparative information has not been restated.

The following practical expedient has been used for uncompleted contracts when applying AASB 15 retrospectively under the modified approach for contracts modified before the date of initial application. The State has reflected the aggregate of all past contract modifications that occurred before the date of initial application when identifying performance obligations and determining and allocating the transaction price.

The practical expedient has been consistently applied to all contracts within the current reporting period and the effect of applying the practical expedient is disclosed Note 9.7.2.

Income of Not-for-Profit Entities

In accordance with FRD 122 *Transitional requirements on the application of AASB 1058 Income of Not-for-Profit Entities*, the State has applied the transitional provision of AASB 1058, retrospectively with the cumulative effect of initially applying this standard against the opening retained earnings at 1 July 2019. Under this transition method, the State applied this standard retrospectively only to contracts and transactions that are not completed contracts at the date of initial application.

Comparative information has not been restated.

9.7.2 Financial impact of the new accounting standards

This note explains the impact of the adoption of the following new accounting standards for the first time, from 1 July 2019:

- AASB 15 *Revenue from Contracts with Customers*;
- AASB 1058 *Income of Not-for-Profit Entities*;
- AASB 16 *Leases;* and
- AASB 1059 *Service Concession Arrangements: Grantors.*

The transitional impacts of applying the new accounting standards are reported in the tables below.

Transitional impacts of AASB 1059 *Service Concession Arrangements: Grantors* **($ million)**

State of Victoria	*Before new accounting standard 2018-19 actual 30 Jun*	*Net impact of AASB 1059 2018-19 actual 30 Jun*	*After new accounting standard 2018-19 actual 30 Jun*
Revenue from transactions			
Total revenue from transactions	**78 457**	**180**	**78 637**
Expenses from transactions			
Depreciation	5 362	190	5 553
Interest expense	2 694	218	2 912
Other expenses	71 979	(24)	71 955
Total expenses from transactions	**80 035**	**385**	**80 420**
Net result from transactions – net operating balance	**(1 578)**	**(204)**	**(1 782)**
Total other economic flows included in net result	**(7 454)**	**..**	**(7 454)**
Net result	**(9 032)**	**(204)**	**(9 236)**

General government			
Revenue from transactions			
Total revenue from transactions	**69 419**	**180**	**69 600**
Expenses from transactions			
Depreciation	2 865	190	3 056
Interest expense	2 103	218	2 321
Other expenses	63 276	(24)	63 252
Total expenses from transactions	**68 244**	**385**	**68 629**
Net result from transactions – net operating balance	**1 175**	**(204)**	**971**
Total other economic flows included in net result	**(742)**	**..**	**(742)**
Net result	**434**	**(204)**	**229**

9. OTHER DISCLOSURES

Transitional impacts of AASB 1059 *Service Concession Arrangements: Grantors* *(continued)* **($ million)**

	Before new accounting standard		*Net impact of AASB 1059*		*After new accounting standard*	
State of Victoria	*Opening 1 July 2018*	*Closing 30 June 2019*	*Opening 1 July 2018*	*Closing 30 June 2019*	*Opening 1 July 2018*	*Closing 30 June 2019*
Assets						
Total financial assets	**56 809**	**66 905**	**..**	**(66)**	**56 809**	**66 840**
Non-financial assets						
Land, buildings, infrastructure, plant and equipment	260 578	270 119	9 493	12 422	270 071	282 541
Other non-financial assets	4 512	4 876	(142)	110	4 370	4 986
Total non-financial assets	**265 090**	**274 995**	**9 351**	**12 532**	**274 441**	**287 527**
Total assets	**321 899**	**341 901**	**9 351**	**12 466**	**331 250**	**354 367**
Liabilities						
Deposits held and advances received	2 331	1 618	(176)	73	2 154	1 691
Payables and contract liabilities	18 243	21 201	4 232	5 390	22 475	26 591
Borrowings	49 545	62 904	1 806	3 012	51 350	65 916
Other liabilities	64 829	78 451	..	..	64 829	78 451
Total liabilities	**134 947**	**164 175**	**5 861**	**8 475**	**140 808**	**172 650**
Net assets	**186 952**	**177 726**	**3 490**	**3 991**	**190 442**	**181 717**
Accumulated surplus/(deficit)	77 215	67 687	3 461	3 382	80 676	71 069
Reserves	109 737	110 039	29	609	109 766	110 648
Net worth	**186 952**	**177 726**	**3 490**	**3 991**	**190 442**	**181 717**
Fiscal Aggregates						
Net financial worth	(78 138)	(97 269)	(5 861)	(8 541)	(83 999)	(105 810)
Net financial liabilities	78 138	97 269	5 861	8 541	83 999	105 810
Net debt	2 668	6 312	1 629	3 085	4 298	9 397

General government						
Assets						
Total financial assets	**126 277**	**127 989**	**..**	**..**	**126 277**	**127 989**
Non-financial assets						
Land, buildings, infrastructure, plant and equipment	134 141	141 593	9 493	12 356	143 634	153 949
Other non-financial assets	2 436	2 693	(142)	110	2 294	2 803
Total non-financial assets	**136 577**	**144 286**	**9 351**	**12 466**	**145 928**	**156 752**
Total assets	**262 853**	**272 275**	**9 351**	**12 466**	**272 205**	**284 741**
Liabilities						
Deposits held and advances received	6 700	5 177	(176)	73	6 524	5 250
Payables and contract liabilities	6 713	10 011	4 232	5 390	10 945	15 401
Borrowings	33 280	37 885	1 806	3 012	35 086	40 896
Other liabilities	33 258	37 723	..	..	33 258	37 723
Total liabilities	**79 952**	**90 795**	**5 861**	**8 475**	**85 813**	**99 270**
Net assets	**182 902**	**181 480**	**3 490**	**3 991**	**186 392**	**185 471**
Accumulated surplus/(deficit)	51 411	51 309	3 462	3 382	54 873	54 691
Reserves	131 491	130 171	28	609	131 519	130 780
Net worth	**182 902**	**181 480**	**3 490**	**3 991**	**186 392**	**185 471**
Fiscal Aggregates						
Net financial worth	46 325	37 194	(5 861)	(8 475)	40 464	28 719
Net financial liabilities	54 928	64 631	5 861	8 475	60 789	73 106
Net debt	20 003	22 407	1 629	3 085	21 632	25 492

Transitional impact of AASB 16 *Leases* **($ million)**

State of Victoria	*Before new accounting standard Opening 1 July 2019*	*Net impact of AASB 16 Opening 1 July 2019*	*After new accounting standard Opening 1 July 2019*
Assets			
Total financial assets	**66 840**	**..**	**66 840**
Non-financial assets			
Land, buildings, infrastructure, plant and equipment	282 541	4 034	286 575
Other non-financial assets	4 986	(10)	4 976
Total non-financial assets	**287 527**	**4 024**	**291 551**
Total assets	**354 367**	**3 944**	**358 311**
Liabilities			
Borrowings	65 870	4 181	70 051
Other liabilities	106 734	..	106 734
Total liabilities	**172 603**	**4 181**	**176 784**
Net assets	**181 763**	**(237)**	**181 527**
Accumulated surplus/(deficit)	71 116	(237)	70 879
Net worth	**181 763**	**(237)**	**181 527**
Fiscal Aggregates			
Net financial worth	(105 764)	(4 181)	(109 945)
Net financial liabilities	105 764	4 181	109 945
Net debt	9 350	4 180	13 531

General government			
Assets			
Total financial assets	**127 989**	**(28 525)**	**99 464**
Non-financial assets			
Land, buildings, infrastructure, plant and equipment	153 949	3 546	157 496
Other non-financial assets	2 803	(10)	2 793
Total non-financial assets	**156 752**	**3 536**	**160 289**
Total assets	**284 741**	**(24 989)**	**259 752**
Liabilities			
Borrowings	40 850	3 612	44 462
Other liabilities	58 374	..	58 374
Total liabilities	**99 224**	**3 612**	**102 836**
Net assets	**185 517**	**(28 601)**	**156 916**
Accumulated surplus/(deficit)	54 738	(125)	54 613
Reserves	130 780	(28 476)	102 303
Net worth	**185 517**	**(28 601)**	**156 916**
Fiscal Aggregates			
Net financial worth	28 765	(32 137)	(3 372)
Net financial liabilities	73 060	32 137	105 197
Net debt	25 445	3 612	29 057

9. OTHER DISCLOSURES

Transitional impact of AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* **($ million)**

State of Victoria	*Before new accounting standards Opening 1 July 2019*	*Net impact of AASB 15 and 1058 Opening 1 July 2019*	*After new accounting standards Opening 1 July 2019*
Assets			
Total financial assets	**66 840**	**64**	**66 903**
Non-financial assets			
Other non-financial assets	4 986	40	5 026
Total non-financial assets	**287 527**	**40**	**287 567**
Total assets	**354 367**	**104**	**354 470**
Liabilities			
Payables and contract liabilities	26 591	(38)	26 554
Other liabilities	146 012	(31)	145 981
Total liabilities	**172 603**	**(69)**	**172 534**
Net assets	**181 763**	**173**	**181 936**
Accumulated surplus/(deficit)	71 116	173	71 288
Net worth	**181 763**	**173**	**181 936**
Fiscal Aggregates			
Net financial worth	(105 764)	133	(105 631)
Net financial liabilities	105 764	(133)	105 631
Net debt	9 350	..	9 350

General government			
Assets			
Total financial assets	**127 989**	**25**	**128 014**
Non-financial assets			
Other non-financial assets	2 803	(54)	2 749
Total non-financial assets	**156 752**	**(54)**	**156 698**
Total assets	**284 741**	**(29)**	**284 712**
Liabilities			
Payables and contract liabilities	15 401	(154)	15 247
Other liabilities	83 823	(15)	83 808
Total liabilities	**99 224**	**(168)**	**99 055**
Net assets	**185 517**	**139**	**185 657**
Accumulated surplus/(deficit)	54 738	139	54 877
Net worth	**185 517**	**139**	**185 657**
Fiscal Aggregates			
Net financial worth	28 765	193	28 958
Net financial liabilities	73 060	(193)	72 867
Net debt	25 445	..	25 445

9.8 Other accounting policies

9.8.1 Accounting for the goods and services tax

Revenues, expenses and assets are recognised net of the amount of associated GST, except where the GST incurred is not recoverable from the taxation authority. In this case the GST payable is recognised as part of the cost of acquisition of an asset or part of an item of expense.

Receivables and payables are stated inclusive of GST receivable or payable. Cash flows are presented on a gross basis. The GST components of cash flows from investing or financing activities are presented as an operating cash flow. Commitments and contingent assets and liabilities are also stated inclusive of GST.

9.8.2 Prospective accounting and reporting changes

Certain new and revised accounting standards have been issued but are not effective for the 2019-20 reporting period. These accounting standards have not been applied to the Annual Financial Report.

The State is reviewing its existing policies and assessing the potential implications of these accounting standards which includes the following:

AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material

This Standard principally amends AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. It applies to reporting periods beginning on or after 1 January 2020 with earlier application permitted. The State has not earlier adopted the Standard.

The amendments refine and clarify the definition of material in AASB 101 and its application by improving the wording and aligning the definition across AASB Standards and other publications. The amendments also include some supporting requirements in AASB 101 in the definition to give it more prominence and clarify the explanation accompanying the definition of material.

The State is in the process of analysing the impacts of this Standard. However, it is not anticipated to have a material impact.

AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current

This Standard amends AASB 101 to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. It initially applied to annual reporting periods beginning on or after 1 January 2022 with earlier application permitted however the AASB has recently issued ED 301 *Classification of Liabilities as Current or Non-Current – Deferral of Effective Date* with the intention to defer the application by one year to periods beginning on or after 1 January 2023. The State will not early adopt the Standard.

The State is in the process of analysing the impacts of this Standard. However, it is not anticipated to have a material impact.

Several other amending standards and AASB interpretations have been issued that apply to future reporting periods but are considered to have limited impact on the State's reporting.

9.9 Controlled entities

The table below contains a list of the significant controlled entities which have been consolidated for the purposes of the financial report. Unless otherwise noted below, all such entities are wholly-owned. The entities below may include additional consolidated entities, for which only the parent entity has been listed.

The principal activities of the controlled entities reflect the three sectors of government they are within as set out in the reporting structure under public sector terms explained (refer to page 26). Further, Note 3.6 reflects the broad objectives of these controlled entities.

General government

Department of Education and Training

Adult Community and Further Education Board
Adult Multicultural Education Services
TAFEs including:
- Bendigo Kangan Institute
- Box Hill Institute
- Chisholm Institute
- Federation Training
- Gordon Institute of TAFE
- Goulburn Ovens Institute of TAFE
- Holmesglen Institute
- Melbourne Polytechnic
- South West Institute of TAFE
- Sunraysia Institute of TAFE
- William Angliss Institute of TAFE
- Wodonga Institute of TAFE

Victorian Curriculum and Assessment Authority
Victorian Institute of Teaching
Victorian Registration and Qualifications Authority

Department of Environment, Land, Water and Planning

Architects Registration Board of Victoria
Catchment Management Authorities including:
- Corangamite Catchment Management Authority
- East Gippsland Catchment Management Authority
- Glenelg Hopkins Catchment Management Authority
- Goulburn Broken Catchment Management Authority
- Mallee Catchment Management Authority
- North Central Catchment Management Authority
- North East Catchment Management Authority
- Port Phillip and Westernport Catchment Management Authority
- West Gippsland Catchment Management Authority
- Wimmera Catchment Management Authority

Caulfield Racecourse Reserve Trust
Dhelkunya Dja Land Management Board
Energy Safe Victoria
Environment Protection Authority
Gunaikurnai Traditional Owner Land Management
Heritage Council of Victoria
Office of the Commissioner for Environmental Sustainability
Parks Victoria
Royal Botanic Gardens Board Victoria
Surveyors Registration Board of Victoria
Sustainability Victoria
Trust for Nature (Victoria)
Victorian Building Authority
Victorian Environmental Water Holder
Victorian Planning Authority
Yorta Yorta Traditional Owner Land Management Board

Department of Health and Human Services

Commission for Children and Young People
Health Purchasing Victoria
Hospitals, Health and Ambulance Services including:
- Albury Wodonga Health
- Alexandra District Health
- Alfred Health
- Alpine Health
- Ambulance Victoria
- Austin Health
- Bairnsdale Regional Health Service
- Ballarat Health Services
- Barwon Health
- Bass Coast Health
- Beaufort and Skipton Health Service
- Beechworth Health Service
- Benalla Health
- Bendigo Health [(a)]
- Boort District Health
- Casterton Memorial Hospital
- Castlemaine Health
- Central Gippsland Health Service
- Central Highlands Rural Health [(b)]
- Cohuna District Hospital
- Colac Area Health
- Corryong Health
- Dental Health Services Victoria
- Djerriwarrh Health Services
- East Grampians Health Service
- East Wimmera Health Service
- Eastern Health
- Echuca Regional Health
- Edenhope and District Memorial Hospital
- Great Ocean Road Health [(c)]
- Gippsland Southern Health Service
- Goulburn Valley Health
- Heathcote Health
- Hesse Rural Health Service
- Heywood Rural Health
- Inglewood and Districts Health Service
- Kerang District Health
- Kooweerup Regional Health Service
- Kyabram District Health Service [(d)]
- Latrobe Regional Hospital
- Maldon Hospital
- Mallee Track Health and Community Service
- Mansfield District Hospital
- Maryborough District Health Service
- Melbourne Health
- Mildura Base Public Hospital [(e)]
- Monash Health
- Moyne Health Services
- NCN Health [(f)]
- Northeast Health Wangaratta
- Northern Health
- Omeo District Health
- Orbost Regional Health
- Peninsula Health
- Peter MacCallum Cancer Institute
- Portland District Health
- Robinvale District Health Services
- Rochester and Elmore District Health Service
- Rural Northwest Health
- Seymour Health
- South Gippsland Hospital
- South West Healthcare
- Stawell Regional Health
- Swan Hill District Health
- Tallangatta Health Service
- Terang and Mortlake Health Service
- The Kilmore and District Hospital
- The Royal Children's Hospital
- The Royal Victorian Eye and Ear Hospital
- The Royal Women's Hospital
- Timboon and District Healthcare Service
- Victorian Assisted Reproductive Treatment Authority

General government (continued)

- Victorian Institute of Forensic Mental Health
- West Gippsland Healthcare Group
- West Wimmera Health Service
- Western District Health Service
- Western Health
- Wimmera Health Care Group
- Yarram and District Health Service
- Yarrawonga Health
- Yea and District Memorial Hospital

The Queen Elizabeth Centre
Tweddle Child and Family Health Service
Victorian Health Promotion Foundation
Victorian Pharmacy Authority

Department of Jobs, Precincts and Regions

Australian Centre for the Moving Image
Dockland Studios Melbourne Pty Ltd
Film Victoria
Game Management Authority
Library Board of Victoria
Melbourne Cricket Ground Trust
Melbourne Recital Centre Limited
Museums Board of Victoria
National Gallery of Victoria, Council of Trustees
Rural Assistance Commissioner
Veterinary Practitioners Registration Board of Victoria
Victorian Institute of Sport Limited
Victorian Institute of Sport Trust
Victorian Racing Integrity Board [(g)]
Victorian Racing Commissioner [(g)]
Victorian Racing Tribunal [(g)]
Visit Victoria

Department of Justice and Community Safety

Country Fire Authority
Emergency Services Telecommunications Authority
Independent Broad-based Anti-corruption Commission [(h)]
Metropolitan Fire and Emergency Services Board
Office of Public Prosecutions
Ombudsman Victoria [(h)]
Professional Standards Council of Victoria
Residential Tenancies Bond Authority
Sentencing Advisory Council
Victoria Legal Aid
Victoria Police (Office of the Chief Commissioner of Police)
Victoria State Emergency Service Authority
Victorian Commission for Gambling and Liquor Regulation
Victorian Equal Opportunity and Human Rights Commission
Victorian Information Commissioner
Victorian Inspectorate [(h)]
Victorian Institute of Forensic Medicine
Victorian Law Reform Commission
Victorian Legal Services Board and Commissioner
Victorian Responsible Gambling Foundation

Department of Premier and Cabinet [(h)(i)]

Family Violence Prevention Agency [(j)]
Labour Hire Licensing Authority
Portable Long Service Authority [(k)]
Shrine of Remembrance Trustees
Victorian Aboriginal Heritage Council
Victorian Electoral Commission
Victorian Multicultural Commission
Victorian Public Sector Commission
Victorian Veterans Council
Victorian Independent Remuneration Tribunal

Department of Transport [(l)]

Commercial Passenger Vehicles Victoria
Head, Transport for Victoria [(m)]
Roads Corporation [(n)]
Victorian Fisheries Authority

Department of Treasury and Finance

Cenitex [(o)]
Essential Services Commission
Infrastructure Victoria [(i)]

Courts

Judicial College of Victoria
Judicial Commission of Victoria

Parliament of Victoria

Victorian Auditor-General's Office

Public non-financial corporation

Department of Environment, Land, Water and Planning

Alpine Resorts Management Board including:

- Alpine Resorts Co-ordinating Council
- Falls Creek Alpine Resort Management Board
- Mount Buller and Mount Stirling Alpine Resort Management Board
- Mount Hotham Alpine Resort Management Board
- Southern Alpine Resort Management Board

Phillip Island Nature Parks

Waste and Resource Recovery Groups including:

- Barwon South West Waste and Resource Recovery Group
- Gippsland Waste and Resource Recovery Group
- Goulburn Valley Waste and Resource Recovery Group
- Grampians Central Waste and Resource Recovery Group
- Metropolitan Waste and Resource Recovery Group
- Loddon Mallee Waste and Resource Recovery Group
- North East Waste and Resource Recovery Group

Water authorities including:

- Barwon Region Water Corporation
- Central Gippsland Region Water Corporation
- Central Highlands Region Water Corporation
- City West Water Corporation
- Coliban Region Water Corporation
- East Gippsland Region Water Corporation
- Gippsland and Southern Rural Water Corporation
- Goulburn Murray Rural Water Corporation
- Goulburn Valley Region Water Corporation
- Grampians Wimmera Mallee Water Corporation
- Lower Murray Urban and Rural Water Corporation
- Melbourne Water Corporation
- North East Region Water Corporation
- South East Water Corporation
- South Gippsland Region Water Corporation
- Wannon Region Water Corporation
- Western Region Water Corporation
- Westernport Region Water Corporation
- Yarra Valley Water Corporation

Zoological Parks and Gardens Board

Department of Health and Human Services

Cemeteries including:

- Ballarat General Cemeteries Trust
- Bendigo Cemeteries Trust
- Geelong Cemeteries Trust
- The Greater Metropolitan Cemeteries Trust
- Southern Metropolitan Cemeteries Trust
- The Mildura Cemetery Trust

Director of Housing

Public non-financial corporation (continued)		
Department of Jobs, Precincts and Regions [p]	Melbourne Convention and Exhibition Trust	**Department of Premier and Cabinet**
Agriculture Victoria Services Pty Ltd	Melbourne Market Authority	Queen Victoria Women's Centre Trust
Australian Grand Prix Corporation	Murray Valley Wine Grape Industry Development Committee	VITS Language Link
Dairy Food Safety Victoria	Primesafe	**Department of Transport**
Development Victoria [q]	State Sport Centres Trust	Melbourne Port Lessor Pty Ltd
Emerald Tourist Railway Board	VicForests	Port of Hastings Development Authority
Fed Square Pty Ltd	Victorian Arts Centre Trust	V/Line Corporation
Geelong Performing Arts Centre Trust	Victorian Strawberry Industry Development Committee	Victorian Ports Corporation (Melbourne)
Greyhound Racing Victoria	**Department of Justice and Community Safety**	Victorian Rail Track
Harness Racing Victoria	Accident Compensation Conciliation Service	Victorian Regional Channels Authority
Kardinia Park Stadium Trust		**Department of Treasury and Finance**
Launch Victoria Ltd		State Electricity Commission of Victoria
Melbourne and Olympic Parks Trust		Victorian Plantations Corporation (shell)

Public financial corporation		
Department of Justice and Community Safety	**Department of Transport**	**Department of Treasury and Finance**
Victorian WorkCover Authority	Transport Accident Commission	State Trustees Limited
		Treasury Corporation of Victoria
		Victorian Funds Management Corporation
		Victorian Managed Insurance Authority

Notes:
(a) Effective from 22 October 2019, Bendigo Health Care Group changed its name to Bendigo Health.
(b) Effective from 30 November 2019, Hepburn Health Service and Kyneton District Health Service were amalgamated into Central Highlands Rural Health.
(c) Effective from 1 July 2019, Lorne Community Hospital and Otway Health were amalgamated into Great Ocean Road Health.
(d) Effective from 22 October 2019, Kyabram and District Health Services changed its name to Kyabram District Health Service.
(e) Effective from 17 December 2019, Mildura Base Public Hospital was established to manage the Mildura Hospital.
(f) Effective from 1 July 2019, Numurkah District Health Service, Cobram District Health and Nathalia District Hospital were amalgamated into NCN Health.
(g) Effective from 1 July 2019, the Victorian Racing Commissioner, Victorian Racing Integrity Board and Victorian Racing Tribunal were consolidated into the Department of Jobs, Precincts and Regions.
(h) Effective from 1 May 2020, as a result of the machinery of government changes relating to the Special Minister of State portfolio, the Independent Broad-based Anti-corruption Commission (IBAC), Ombudsman Victoria, Victorian Information Commissioner and Victorian Inspectorate temporarily transferred from the Department of Premier and Cabinet to the Department of Justice and Community Safety. Effective from 1 July 2020, IBAC, the Ombudsman and the Victorian Inspectorate integrity bodies were transferred from the Department of Justice and Community Safety to become budget independent offices of Parliament.
(i) Effective from 1 May 2020, Infrastructure Victoria transferred from the Department of Premier and Cabinet to the Department of Treasury and Finance.
(j) Effective from 1 July 2019, the Family Violence Prevention Agency was transferred from the Department of Health and Human Services to the Department of Premier and Cabinet by agreement between the Secretaries of both departments.
(k) The Portable Long Service Authority was established under the Long Service Benefits Portability Act 2018 and, by Order of the Governor in Council, commenced on 1 July 2019.
(l) Effective 1 January 2020, the Linking Melbourne Authority was abolished.
(m) Effective from 1 January 2020, Head, Transport for Victoria was reconstituted as a body corporate to administer Victoria's train, tram, bus and road system. The Public Transport Development Authority was subsequently abolished with the creation of Head, Transport for Victoria.
(n) Effective from 1 July 2019, the Public Transport Development Authority and Roads Corporation (with the exception of registration and licensing and some heavy vehicle functions) were consolidated into the Department of Transport.
(o) Effective from 1 August 2020, Cenitex transferred from the Department of Treasury and Finance to the Department of Premier and Cabinet.
(p) The Greater Sunraysia Pest Free Area Industry Development Committee was abolished during the 2019-20 financial year.
(q) Effective from 1 July 2020, portfolio responsibility for Development Victoria transferred from the Department of Jobs, Precincts and Regions to the Department of Transport.

9.10 Glossary of technical terms

The following is a summary of the major technical terms used in this report as sourced from the *Uniform Presentation Framework (2019)*. Technical terms that have been discussed elsewhere in this chapter are excluded from the list below.

ABS GFS manual represents the ABS publication Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015 as updated from time to time.

Capital grants are transactions in which the ownership of an asset (other than cash and inventories) is transferred from one institutional unit to another, to enable the recipient to acquire another asset or in which the funds realised by the disposal of another asset are transferred, for which no economic benefits of equal value are receivable or payable in return.

Cash surplus/deficit represents the net cash flows from operating activities plus net cash flows from investments in non-financial assets (less dividends paid for the PNFC and PFC sectors).

Cash surplus/deficit – ABS GFS version is equal to the cash surplus deficit (above) less the value of assets acquired under agreements meeting the definition of material finance leases prior to the application of AASB 16 *Leases* and similar arrangements.

Change in net worth (comprehensive result) is revenue from transactions less expenses from transactions plus other economic flows and measures the variation in a government's accumulated assets and liabilities.

Comprehensive result is the amount included in the operating statement representing total change in net worth other than transactions with owners as owners.

Current grants are amounts payable or paid for current purposes for which no economic benefits of equal value are receivable or payable in return.

Effective interest method is the method used to calculate the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

Fiscal aggregates: Analytical balances that are useful for macroeconomic analysis purposes, including assessing the impact of a government and its sectors on the economy.

Key fiscal aggregates defined under ABS GFS manual are required to be disclosed under AASB 1049. They are: opening net worth, net operating balance, net lending/(borrowing), change in net worth due to revaluations, change in net worth due to other changes in the volume of assets, total change in net worth, closing net worth, and cash surplus/(deficit). AASB 1049 also allows additional fiscal aggregates to be included such as net financial worth, net financial liabilities and net debt.

Government Finance Statistics (GFS) enables policymakers and analysts to study developments in the financial operations, financial position and liquidity situation of the Government. More details about the GFS can be found in the Australian Bureau of Statistics GFS manual *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015*.

Infrastructure systems provide essential services used in delivering final services or products. They are generally a complex interconnected network of individual assets and mainly include sewerage systems, water storage and supply systems, and public transport assets owned by the State.

Interest expense represents costs incurred in connection with borrowings. It includes interest on advances, loans, overdrafts, bonds and bills, deposits, interest components of lease repayments, service concession financial liabilities and amortisation of discounts or premiums in relation to borrowings.

Leases are rights conveyed in a contract, or part of a contract, the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Net acquisition of non-financial assets (from transactions) are purchases (and other acquisitions) of non-financial assets less sales (or disposals) of non-financial assets less depreciation plus changes in inventories and other movements in non-financial assets. Includes only those increases or decreases in non-financial assets resulting from transactions and therefore excludes write offs, impairment write downs and revaluations.

Net cash flows from investments in financial assets (liquidity management purposes) are cash receipts from liquidation or repayment of investments in financial assets for liquidity management purposes less cash payments for such investments. Investment for liquidity management purposes means making funds available to others with no policy intent and with the aim of earning a commercial rate of return.

Net cash flows from investments in financial assets (policy purposes) represents cash payments made for acquiring financial assets for policy purposes, less cash receipts from the repayment and liquidation of such investments in financial assets.

Acquisition of financial assets for policy purposes is distinguished from investments in financial assets (liquidity management purposes) by the underlying government motivation for acquiring the assets. Acquisition of financial assets for policy purposes includes loans made by government that are motivated by Government policies, such as encouraging the development of certain industries or assisting people affected by natural disaster.

For the general government sector, this item also includes cash flows arising from the acquisition and disposal by government of its investments (contributed capital) in entities in the PNFC and PFC sectors.

Net debt equals sum of deposits held, advances received, government securities, loans and other borrowing less the sum of cash and deposits, advances paid and investments, loans and placements. For the PFC sector, this also includes loans receivable from other sector entities.

Net financial liabilities is calculated as liabilities less financial assets, other than equity in PNFCs and PFCs. This measure is broader than net debt as it includes significant liabilities, other than borrowings (e.g. accrued employee liabilities such as superannuation and long service leave entitlements). For the PNFC and PFC sectors, it is equal to negative net financial worth.

Net financial worth is equal to financial assets minus liabilities. It is a broader measure than net debt as it incorporates provisions made (such as superannuation, but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

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 operating balance – net result from transactions: Net result from transactions or net operating balance is a key fiscal aggregate and 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 result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as other non-owner movements in equity.

Net worth is calculated as assets less liabilities, which is an economic measure of wealth.

Non-financial assets are all assets that are not financial assets. It includes inventories, land, buildings, infrastructure, road networks, land under roads, plant and equipment, cultural and heritage assets, intangibles and biological assets such as commercial forests.

Non-financial public sector represents the consolidated transactions and assets and liabilities of the general government and PNFC sectors. In compiling statistics for the non-financial public sector, transactions and debtor creditor relationships between sub sectors are eliminated to avoid double counting.

Non-produced assets are assets needed for production that have not themselves been produced. They include land, subsoil assets, and certain intangible assets. Non-produced intangibles are intangible assets needed for production that have not themselves been produced. They include constructs of society such as patents.

Operating result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as other non-owner movements in equity. Refer also net result.

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions. In simple terms, other economic flows are changes arising from market remeasurements. They include gains and losses from disposals, revaluations and impairments of non-current physical and intangible assets; actuarial gains and losses arising from defined benefit superannuation plans; fair value changes of financial instruments and agricultural assets; and depletion of natural assets (non-produced) from their use or removal.

Produced assets include buildings, plant and equipment, inventories, cultivated assets and certain intangible assets. Intangible produced assets may include computer software, motion picture films and research and development costs (which does not include the start-up costs associated with capital projects).

Roads include road pavement and road works in progress. All land under roads is included under the category of 'land'.

Road infrastructure mainly includes sound barriers, bridges and traffic signal control systems.

Service concession arrangement is a contract effective during the reporting period between a grantor and an operator in which:

a) the operator has the right of access to the service concession asset (or assets) to provide public services on behalf of the grantor for a specified period of time;
b) the operator is responsible for at least some of the management of the public services provided through the asset and does not act merely as an agent on behalf of the grantor; and
c) the operator is compensated for its services over the period of the service concession arrangement.

Taxation revenue represents revenue received from the State's taxpayers and includes: payroll tax, land tax, duties levied principally on conveyances and land transfers, gambling taxes levied mainly on private lotteries, electronic gaming machines, casino operations and racing, insurance duty relating to compulsory third party, life and non-life policies, insurance company contributions to fire brigades, Fire Services Property Levy, motor vehicle taxes, including registration fees and duty on registrations and transfers, levies (including the environmental levy) on statutory corporations in other sectors of government, and other taxes, including landfill levies, licence and concession fees.

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 taxpayers. Transactions can be cash or in kind (e.g. assets provided/given free of charge or for nominal consideration). In simple terms, transactions arise from the policy decisions of the Government.

CHAPTER 5 – SUPPLEMENTARY UNIFORM PRESENTATION FRAMEWORK TABLES

THE ACCRUAL GOVERNMENT FINANCE STATISTICS PRESENTATION

The Government Finance Statistics (GFS) system employed by the Australian Bureau of Statistics is designed to provide statistics relating to the finances of the Australian public sector. The statistics show the consolidated transactions and balances of the various institutional sectors of government from an economic viewpoint, providing details of the revenue, expenses, payments, receipts, assets and liabilities. It includes only those transactions and balances over which a government exercises control under its legislative or policy framework and excludes from the calculation of net operating balance both revaluations (realised and unrealised gains or losses) arising from a change in market prices, and other changes in the volume of assets that result from discoveries, depletion and destruction of assets. These gains and losses are classified as other economic flows.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES/GOVERNMENT FINANCE STATISTICS HARMONISATION

In October 2007, the Australian Accounting Standards Board issued a new standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, applicable from 1 July 2008. The objective as set out by the Financial Reporting Council in December 2002 is 'to achieve an Australian accounting standard for a single set of government reports which are auditable, comparable between jurisdictions, and in which the outcome statements as directly comparable with the relevant budget statements'. This standard incorporates the major elements of the GFS framework, including the presentation formats and key fiscal aggregates, into a standard based on generally accepted accounting principles.

The current Uniform Presentation Framework (UPF) was agreed by the Council of Federal Financial Relations in February 2019, based on the 2015 update to the Australian System of Government Finance Statistics (GFS) Framework AASB 1049, and is applicable from the reporting period commencing 1 July 2018. In addition to the audited Annual Financial Report presented in Chapter 4, the following statements are also required to be presented under the UPF.

FINANCIAL STATEMENTS FOR THE NON-FINANCIAL PUBLIC SECTOR

Table 5.1: Non-financial public sector operating statement for the financial year ended 30 June [a][b] **($ million)**

	2020	*2019*
Revenue from transactions		
Taxation revenue	22 745	23 191
Interest	181	334
Dividends and income tax equivalent and rate equivalent revenue	200	603
Sales of goods and services	11 769	11 637
Grant revenue	32 772	33 290
Other revenue	3 427	4 037
Total revenue from transactions	**71 095**	**73 092**
Expenses from transactions		
Employee expenses	28 597	26 718
Net superannuation interest expense	408	690
Other superannuation	3 213	2 931
Depreciation	6 395	5 511
Interest expense	2 761	2 711
Grant expense	11 260	9 557
Other operating expenses	25 560	24 479
Total expenses from transactions	**78 194**	**72 597**
Net result from transactions – net operating balance	**(7 099)**	**495**
Other economic flows included in net result		
Net gain/(loss) on disposal of non-financial assets	(190)	(68)
Net gain/(loss) on financial assets or liabilities at fair value	89	28
Share of net profit/(loss) from associates/joint venture entities	3	1
Other gains/(losses) from other economic flows	(3 259)	(836)
Total other economic flows included in net result	**(3 357)**	**(874)**
Net result	**(10 456)**	**(379)**
Other economic flows – other comprehensive income		
Items that will not be reclassified to net result		
Changes in non-financial assets revaluation surplus	16 503	3 646
Remeasurement of superannuation defined benefits plans	(2 735)	(3 385)
Other movements in equity	(97)	311
Items that may be reclassified subsequently to net result		
Net gain/(loss) on financial assets at fair value	(182)	(60)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	(2 555)	(1 332)
Total other economic flows – other comprehensive income	**10 935**	**(820)**
Comprehensive result – total change in net worth	**479**	**(1 199)**
FISCAL AGGREGRATES		
Net operating balance	**(7 099)**	**495**
Net acquisition of non-financial assets from transactions		
Purchases of non-financial assets (including change in inventories)	12 863	12 419
Less: Sales of non-financial assets	(369)	(363)
Less: Depreciation and amortisation	(6 395)	(5 511)
Plus/(less): Other movements in non-financial assets	2 714	1 928
Less: Net acquisition of non-financial assets from transactions	**8 813**	**8 474**
Net lending/(borrowing)	**(15 912)**	**(7 978)**

Notes:

(a) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 in Chapter 4 for further details.*

(b) *The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Chapter 4, Note 6.3.1 for further details.*

Table 5.2: Non-financial public sector balance sheet for the financial year ended 30 June [(a)(b)] ($ million)

	2020	2019
Assets		
Financial assets		
Cash and deposits	14 569	11 372
Advances paid	483	418
Receivables and contract assets	7 581	6 704
Investments, loans and placements	3 227	3 341
Investments accounted for using the equity method	10	45
Investments in other sector entities	162	2 712
Total financial assets	**26 032**	**24 593**
Non-financial assets		
Inventories	1 710	1 064
Non-financial assets held for sale	226	304
Land, buildings, infrastructure, plant and equipment	308 655	282 431
Other non-financial assets	4 197	3 428
Total non-financial assets	**314 789**	**287 226**
Total assets	**340 820**	**311 820**
Liabilities		
Deposits held and advances received	1 660	1 524
Payables and contract liabilities	26 637	25 086
Borrowings	76 584	53 664
Employee benefits	9 545	8 496
Superannuation	31 293	28 683
Other provisions	1 435	1 162
Total liabilities	**147 154**	**118 614**
Net assets	**193 667**	**193 206**
Accumulated surplus/(deficit)	90 381	79 546
Reserves	103 285	113 659
Net worth	**193 667**	**193 206**
FISCAL AGGREGATES		
Net financial worth	(121 122)	(94 021)
Net financial liabilities	121 284	96 733
Net debt	59 965	40 056

Notes:

(a) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 in Chapter 4 for further details.*

(b) *The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Chapter 4, Note 6.3.1 for further details.*

Table 5.3: Non-financial public sector cash flow statement for the financial year ended 30 June [a] **($ million)**

	2020	2019
Cash flows from operating activities		
Receipts		
Taxes received	22 836	22 839
Grants	34 279	33 340
Sales of goods and services [b]	12 911	12 854
Interest received	199	324
Dividends, income tax equivalent and rate equivalent receipts	198	607
Other receipts	2 289	5 535
Total receipts	**72 712**	**75 500**
Payments		
Payments for employees	(27 708)	(26 015)
Superannuation	(3 745)	(3 556)
Interest paid	(2 532)	(2 456)
Grants and subsidies	(11 569)	(9 275)
Goods and services [b]	(27 188)	(24 379)
Other payments	(1 520)	(792)
Total payments	**(74 262)**	**(66 472)**
Net cash flows from operating activities	**(1 550)**	**9 027**
Cash flows from investing activities		
Cash flows from investments in non-financial assets		
Purchases of non-financial assets	(12 416)	(12 435)
Sales of non-financial assets	369	363
Net cash flows from investments in non-financial assets	**(12 047)**	**(12 072)**
Net cash flows from investments in financial assets for policy purposes	(86)	100
Sub-total	**(12 133)**	**(11 972)**
Net cash flows from investments in financial assets for liquidity management purposes	(356)	2 119
Net cash flows from investing activities	**(12 489)**	**(9 853)**
Cash flows from financing activities		
Advances received (net)	106	(23)
Net borrowings	17 099	4 427
Deposits received (net)	30	118
Net cash flows from financing activities	**17 235**	**4 522**
Net increase/(decrease) in cash and cash equivalents	**3 196**	**3 697**
Cash and cash equivalents at beginning of the reporting period	11 373	7 676
Cash and cash equivalents at end of the reporting period	**14 569**	**11 372**
FISCAL AGGREGATES		
Net cash flows from operating activities	(1 550)	9 027
Net cash flows from investments in non-financial assets	(12 047)	(12 072)
Cash surplus/(deficit)	**(13 597)**	**(3 045)**

Notes:

(a) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 in Chapter 4 for further details*

(b) *These items include goods and services tax.*

Table 5.4: Non-financial public sector statement of changes in equity ($ million)

2020	*Accumulated surplus/(deficit)*	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
Balance at 1 July 2019 before new accounting standards	**76 164**	**108 393**	**3 051**	**1 606**	**189 215**
Impact of new accounting standards	3 362	607	5	..	3 973
Restated Balance at 1 July 2019 [(a)]	**79 526**	**109 000**	**3 056**	**1 606**	**193 188**
Net result for the year	(10 456)	..	..	..	(10 456)
Other comprehensive income for the year	(2 890)	16 503	(2 555)	(123)	10 935
Transfer to/(from) accumulated surplus	24 201	(24 201)	..	..	..
Total equity as at 30 June 2020	**90 381**	**101 302**	**501**	**1 483**	**193 667**

2019					
Balance at 1 July 2018 before new accounting standards	**76 834**	**108 120**	**4 382**	**1 579**	**190 915**
Impact of new accounting standards	3 461	29	..	..	3 490
Restated Balance at 1 July 2018 [(b)(c)]	**80 295**	**108 149**	**4 382**	**1 579**	**194 405**
Net result for the year [(c)]	(379)	..	..	..	(379)
Other comprehensive income for the year	(3 162)	3 646	(1 332)	28	(820)
Transfer to/(from) accumulated surplus	2 792	(2 792)	..	..	..
Total equity as at 30 June 2019 [(b)(c)]	**79 546**	**109 002**	**3 051**	**1 606**	**193 206**

Notes:

(a) *The 1 July 2019 balance has been restated resulting from the application of AASB 15* Revenue from Contracts with Customers*, AASB 1058* Income of Not-for-Profit Entities*, AASB 16* Leases *and AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 in Chapter 4 for further details.*

(b) *The 1 July 2018 and June 2019 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 in Chapter 4 for further details.*

(c) *The 1 July 2018 and June 2019 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Chapter 4, Note 6.3.1 for further details.*

Table 5.5: General government sector detailed expenses by function [(a)(b)(c)] ($ million)

	2020	2019
General public services	**4 494**	**4 226**
Executive and legislative organs, financial and fiscal affairs, external affairs	1 902	2 037
General Services	616	261
Public debt transactions	1 529	1 518
General public services NEC [(d)]	447	410
Public order and safety	**9 357**	**8 441**
Police services	3 572	3 232
Civil and fire protection services	2 390	1 978
Law courts	1 590	1 481
Prisons	1 805	1 751
Economic affairs	**3 100**	**1 916**
General economic, commercial and labour affairs	1 581	591
Economic affairs NEC [(d)]	262	307
Agriculture, forestry, fishing and hunting	576	476
Fuel and energy	371	241
Other industries	310	302
Environmental protection	**964**	**981**
Protection of biodiversity and landscape	477	457
Environmental protection NEC [(d)]	487	524
Housing and community amenities	**2 015**	**1 956**
Housing development	..	..
Community development	1 896	1 838
Water supply	119	118
Housing and Communities amenities NEC [(d)]	..	..
Health	**22 115**	**19 794**
Medical products, appliances and equipment	..	..
Outpatient Services	2 158	2 116
Hospital Services	17 144	15 040
Mental health institutions	..	..
Community health services	2 299	2 241
Public health services	390	328
Health NEC [(d)]	123	70
Recreation, culture and religion	**864**	**883**
Recreational and sporting services	363	335
Cultural Services	502	549
Education	**16 891**	**15 851**
Pre-primary and primary education	7 476	7 058
Secondary education	6 007	5 629
Tertiary education	2 184	1 976
Education not definable by level	104	98
Subsidiary services to education	129	125
Education NEC [(d)]	991	964
Social protection	**6 171**	**6 437**
Sickness and disability	2 316	2 807
Old age	418	376
Family and children	1 881	1 807
Housing	871	797
Social protection NEC [(d)]	685	650
Transport	**9 274**	**8 868**
Road transport	2 359	2 368
Bus transport	1 199	1 178
Water transport	111	111
Railway transport	5 004	4 878
Multi-mode urban transport	600	333
Transport NEC [(d)]	..	..
Not allocated by purpose [(e)]	(757)	(724)
Total expenses	**74 487**	**68 629**

Notes:

(a) *The 2018-19 comparative figures have been restated to reflect the adoption of AASB 1059* Service Concession Arrangements: Grantors*. Refer to Note 9.7.2 for further details.*

(b) *Chapter 4, Note 3.6 provides definitions and descriptions of the classification of the functions of government.*

(c) *The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Chapter 4, Note 6.3.1 for further details.*

(d) *NEC: Not elsewhere classified.*

(e) *Not allocated by purpose represents eliminations and adjustments.*

APPENDIX A – GENERAL GOVERNMENT SECTOR QUARTERLY FINANCIAL REPORT

Table A.1: Operating statement for the past five quarters [(a)(b)] **($ million)**

	2018-19	2019-20			
	Jun	*Sep*	*Dec*	*Mar*	*Jun*
Revenue from transactions					
Taxation revenue	4 896	5 839	5 556	7 555	4 216
Interest revenue	209	160	160	140	160
Dividends, income tax equivalent and rate equivalent revenue	603	57	435	82	235
Sales of goods and services	1 953	1 947	2 051	1 934	1 970
Grant revenue	8 337	7 822	7 988	8 802	8 178
Other revenue	1 100	652	793	710	507
Total revenue from transactions	**17 099**	**16 477**	**16 983**	**19 223**	**15 266**
Expenses from transactions					
Employee expenses	6 916	6 578	6 663	6 741	7 232
Net superannuation interest expense	172	141	63	101	102
Other superannuation	725	752	763	767	792
Depreciation	846	886	928	970	1 110
Interest expense	632	564	581	593	589
Grant expense	3 516	3 259	3 187	4 341	4 544
Other operating expenses	6 287	5 102	5 138	5 337	6 663
Total expenses from transactions	**19 094**	**17 282**	**17 323**	**18 851**	**21 032**
Net result from transactions – net operating balance	**(1 995)**	**(805)**	**(340)**	**373**	**(5 766)**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	27	9	(44)	..	(57)
Net gain/(loss) on financial assets or liabilities at fair value	91	1	18	200	(138)
Share of net profit/(loss) from associates/joint venture entities	..	..	..	..	3
Other gains/(losses) from other economic flows	(197)	(171)	(175)	(240)	(764)
Total other economic flows included in net result	**(79)**	**(161)**	**(201)**	**(40)**	**(957)**
Net result	**(2 075)**	**(967)**	**(542)**	**332**	**(6 723)**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	4 586	229	22	117	12 151
Remeasurement of superannuation defined benefits plans	(1 192)	(976)	1 651	(1 438)	(1 958)
Other movements in equity	(219)	(57)	(108)	58	..
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	(2)	(17)	(40)	(22)	(94)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	(1 414)	..	(843)	..	(1 740)
Total other economic flows – other comprehensive income	**1 759**	**(821)**	**682**	**(1 285)**	**8 359**
Comprehensive result – total change in net worth	**(316)**	**(1 787)**	**140**	**(953)**	**1 636**
KEY FISCAL AGGREGATES					
Net operating balance	**(1 995)**	**(805)**	**(340)**	**373**	**(5 766)**
Less: Net acquisition of non-financial assets from transactions	1 996	859	1 328	899	1 400
Net lending/(borrowing)	**(3 992)**	**(1 664)**	**(1 668)**	**(526)**	**(7 166)**

Notes:

(a) *Certain prior period balances have been restated reflecting the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 in Chapter 4 for further details.*

(b) *The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Chapter 4, Note 6.3.1 for further details.*

Table A.2: Balance sheet as at the end of the past five quarters [a][b][c] ($ million)

	2018-19	2019-20			
	Jun	*Sep*	*Dec*	*Mar*	*Jun*
Assets					
Financial assets					
Cash and deposits	9 775	6 343	7 303	9 236	13 037
Advances paid	8 340	7 884	7 659	7 408	6 550
Receivables and contract assets	5 464	5 193	5 305	7 275	6 108
Investments, loans and placements	2 539	3 000	2 885	2 776	2 589
Investments accounted for using the equity method	45	45	45	45	10
Investments in other sector entities	101 825	74 262	74 333	75 235	75 043
Total financial assets	**127 989**	**96 726**	**97 529**	**101 975**	**103 337**
Non-financial assets					
Inventories	165	177	183	198	666
Non-financial assets held for sale	223	216	204	200	192
Land, buildings, infrastructure, plant and equipment	153 949	158 573	160 015	160 979	173 743
Other non-financial assets	2 415	3 238	2 904	2 711	3 103
Total non-financial assets	**156 752**	**162 204**	**163 306**	**164 089**	**177 703**
Total assets	**284 741**	**258 930**	**260 835**	**266 064**	**281 040**
Liabilities					
Deposits held and advances received	5 250	4 792	4 810	4 568	3 681
Payables and contract liabilities	15 401	15 223	14 601	14 808	16 870
Borrowings	40 896	44 642	48 709	53 457	62 807
Employee benefits	8 020	8 034	8 056	8 183	9 028
Superannuation	28 632	29 884	28 162	29 565	31 228
Other provisions	1 072	1 085	1 089	1 028	1 335
Total liabilities	**99 270**	**103 662**	**105 427**	**111 609**	**124 949**
Net assets	**185 471**	**155 268**	**155 409**	**154 455**	**156 092**
Accumulated surplus/(deficit)	54 691	76 509	77 397	76 349	68 166
Reserves	130 780	78 759	78 011	78 106	87 925
Net worth	**185 471**	**155 268**	**155 409**	**154 455**	**156 092**
FISCAL AGGREGATES					
Net financial worth	28 719	(6 935)	(7 897)	(9 634)	(21 612)
Net financial liabilities	73 106	81 197	82 230	84 869	96 654
Net debt	25 492	32 208	35 673	38 605	44 312

Notes:

(a) *Certain prior period balances have been restated reflecting the adoption of AASB 1059* Service Concession Arrangements: Grantors. *Refer to Note 9.7.2 in Chapter 4 for further details.*

(b) *Prior period and June 2020 investment in other sector entities balances have decreased due to the adoption of AASB 16* Leases *from 1 July 2019. Refer to Notes 5.2 and 9.7.2 in Chapter 4 for further details.*

(c) *The 2018-19 comparative figures have been restated to correct a prior period error within administered items for the Department of Justice and Community Safety. Refer to Chapter 4, Note 6.3.1 for further details.*

Table A.3: Statement of cash flows for the past five quarters ($ million)

	2018-19	2019-20			
	Jun	*Sep*	*Dec*	*Mar*	*Jun*
Cash flows from operating activities					
Receipts					
Taxes received	6 550	5 870	6 036	5 657	5 694
Grants	8 386	7 827	8 000	8 814	9 660
Sales of goods and services [(a)]	1 857	2 333	2 016	2 273	1 893
Interest received	203	171	162	139	164
Dividends, income tax equivalent and rate equivalent receipts	563	98	435	82	203
Other receipts	963	516	246	666	637
Total receipts	**18 522**	**16 815**	**16 896**	**17 632**	**18 250**
Payments					
Payments for employees	(6 158)	(6 592)	(6 658)	(6 691)	(6 421)
Superannuation	(1 156)	(616)	(897)	(902)	(1 189)
Interest paid	(526)	(488)	(518)	(532)	(549)
Grants and subsidies	(3 330)	(3 255)	(3 593)	(4 345)	(4 483)
Goods and services [(a)]	(4 968)	(6 100)	(5 181)	(5 291)	(6 661)
Other payments	(203)	(216)	(188)	(319)	(820)
Total payments	**(16 341)**	**(17 267)**	**(17 035)**	**(18 082)**	**(20 122)**
Net cash flows from operating activities	**2 181**	**(452)**	**(139)**	**(450)**	**(1 872)**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(2 980)	(2 310)	(2 269)	(2 136)	(3 019)
Sales of non-financial assets	106	42	38	28	62
Net cash flows from investments in non-financial assets	**(2 874)**	**(2 268)**	**(2 231)**	**(2 109)**	**(2 958)**
Net cash flows from investments in financial assets for policy purposes	261	398	(23)	243	740
Sub-total	**(2 613)**	**(1 870)**	**(2 254)**	**(1 866)**	**(2 218)**
Net cash flows from investments in financial assets for liquidity management purposes	2 825	(489)	98	98	(198)
Net cash flows from investing activities	**212**	**(2 359)**	**(2 156)**	**(1 768)**	**(2 415)**
Cash flows from financing activities					
Advances received (net)	(50)	(365)	(167)	(102)	(1 017)
Net borrowings	1 656	(165)	3 237	4 393	8 976
Deposits received (net)	56	(93)	184	(140)	130
Net cash flows from financing activities	**1 661**	**(622)**	**3 255**	**4 151**	**8 089**
Net increase/(decrease) in cash and cash equivalents	**4 053**	**(3 432)**	**960**	**1 933**	**3 801**
Cash and cash equivalents at beginning of the reporting period	5 722	9 775	6 343	7 303	9 236
Cash and cash equivalents at end of the reporting period	**9 775**	**6 343**	**7 303**	**9 236**	**13 037**
FISCAL AGGREGATES					
Net cash flows from operating activities	2 181	(452)	(139)	(450)	(1 872)
Net cash flows from investments in non-financial assets	(2 874)	(2 268)	(2 231)	(2 109)	(2 958)
Cash surplus/(deficit)	**(693)**	**(2 719)**	**(2 370)**	**(2 559)**	**(4 830)**

Note:
(a) These items are inclusive of goods and services tax.

APPENDIX B – *FINANCIAL MANAGEMENT ACT 1994* – COMPLIANCE INDEX

The *Financial Management Act 1994* (the Act) requires the Minister to prepare an audited annual financial report for tabling in Parliament. This report has been prepared in accordance with applicable Australian Accounting Standards and the Act.

The Act also requires the annual financial report to meet certain requirements. The following compliance index explains how these requirements are met, together with appropriate references in this document.

Financial Management Act 1994 *reference*	*Requirement*	*Comments/reference*
Section 24(1)	The Minister must prepare an annual financial report for each financial year.	Refer to Chapter 4
Section 24(2)	The annual financial report: (a) must be prepared in the manner and form determined by the Minister, having regard to appropriate financial reporting frameworks;	Manner is in accordance with Australian Accounting Standards and Ministerial Directions. Form is consolidated comprehensive operating statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity and accompanying notes. Refer to Chapter 4
	(b) must present fairly the financial position of the State and the Victorian general government sector at the end of the financial year; and	Refer to Chapter 4, consolidated balance sheet
	(i) the transactions on the Public Account;	Refer Chapter 4 Note 8.2 Public Account disclosures
	(ii) the transactions of the Victorian general government sector; and	Refer Chapter 4, consolidated comprehensive operating statement, consolidated cash flow statement and selected notes
	(iii) other financial transactions of the State;	Refer Chapter 4, consolidated comprehensive operating statement, consolidated cash flow statement and selected notes

Financial Management Act 1994 *reference*	*Requirement*	*Comments/reference*
	in respect of the financial year;	
	(c) must include details of amounts paid into working accounts under section 23;	Refer Chapter 4, Note 8.2.9 Amounts paid into working accounts pursuant to Section 23 of the *Financial Management Act 1994* for the year ended 30 June
	(d) must include details of amounts allocated to departments during the financial year under section 28;	Refer Chapter 4, Note 8.2.17 Allocations pursuant to Section 28 of the *Financial Management Act 1994* for the financial year ended 30 June
	(e) must include details of money credited under section 29 to an item in a schedule to an appropriation Act for that financial year;	Refer Chapter 4, Note 8.2.11 Appropriation of revenue and asset sale proceeds pursuant to Section 29 of the *Financial Management Act 1994* for the financial year ended 30 June 2020
	(f) must include particulars of amounts transferred in accordance with determinations under section 30 or 31;	Refer Chapter 4, Note 8.2.10 Transfers pursuant to Sections 30 and 31 of the *Financial Management Act 1994* for the financial year ended 30 June 2020
	(g) must include details of;	
	(i) amounts appropriated in respect of the financial year as a result of a determination under section 32 in respect of unused appropriation for the preceding financial year;	Refer Chapter 4, Note 8.2.12 Section 32 carryovers – *Financial Management Act 1994* for the financial year ended 30 June
	(ii) the application during the financial year of amounts referred to in subparagraph (i); and	Refer Chapter 4, Note 8.2.12 Section 32 carryovers – *Financial Management Act 1994* for the financial year ended 30 June
	(iii) amounts appropriated in respect of the next financial year as a result of a determination under section 32 in respect of unused appropriation for the financial year;	Refer Chapter 4, Note 8.2.12 Section 32 carryovers – *Financial Management Act 1994* for the financial year ended 30 June
	(h) must include;	
	(i) details of expenses and obligations met from money advanced to the Minister under section 35(1) during the financial year; and	Refer Chapter 4, Note 8.2.15 Payments from advances and unused advances carried forward to 2019-20 pursuant to Section 35 and 35(4) of the *Financial Management Act 1994*
	(ii) a statement of the reasons for carrying forward any part of an unused advance to the next financial year under section 35(4);	Refer Chapter 4, Note 8.2.15 Payments from advances and unused advances carried forward to 2019-20 pursuant to Section 35 and 35(4) of the *Financial Management Act 1994*

Financial Management Act 1994 *reference*	*Requirement*	*Comments/reference*
	(i) must include details of payments made during the financial year out of money advanced to the Treasurer in an annual appropriation Act for that year to meet urgent claims;	Refer Chapter 4, Note 8.2.13 Payments from advance to the Treasurer exclusive of those attributable to COVID-19 for the financial year ended 30 June, and Note 8.2.14 Payments from advance to the Treasurer attributable to COVID-19 for the financial year ended 30 June
	(j) must include details of;	
	(i) payments made during the financial year in fulfilment of any guarantee by the Government under any Act; and	Refer Chapter 4, Note 8.2.16 Government guarantees
	(ii) money received or recovered by the Minister or Treasurer during the financial year in respect of any guarantee payments;	Refer Chapter 4, Note 8.2.16 Government guarantees
	(k) must include details, as at the end of the financial year, of;	
	(i) the liabilities (including contingent liabilities under guarantees and indemnities or in respect of superannuation payments and all other contingent liabilities) and assets of the State; and	Refer Chapter 4, consolidated balance sheet Refer Chapter 4, Note 7.2 Contingent assets and contingent liabilities (State of Victoria) Refer Chapter 4, Note 3.2 Superannuation interest expense and other superannuation expenses
	(ii) prescribed assets and prescribed liabilities of prescribed bodies;	Refer Chapter 4, Note 9.1 Disaggregated information, and Chapter 5, Table 5.2 Non-financial public sector balance sheet for the financial year ended 30 June
	(l) must be audited by the Auditor-General.	Refer Chapter 4, *Report of the Auditor-General*
Section 26(1)	The Minister must prepare a quarterly financial report for each quarter of each financial year.	Refer Appendix A
Section 26(2)	A quarterly financial report comprises:	
	(a) a statement of financial performance of the Victorian general government sector for the quarter;	Refer Appendix A
	(b) a statement of financial position of the Victorian general government sector at the end of the quarter;	Refer Appendix A
	(c) a statement of cash flows of the Victorian general government sector for the quarter; and	Refer Appendix A

Financial Management Act 1994 *reference*	*Requirement*	*Comments/reference*
	(d) a statement of the accounting policies on which the statements required by paragraphs (a), (b) and (c) are based.	Refer Chapter 4
Section 26(2A)	A quarterly financial report must be prepared in the manner and form determined by the Minister, having regard to appropriate financial reporting frameworks.	Refer to Appendix A for agreed form
Section 26(3A)	The quarterly financial report for the quarter ending on 30 June in a financial year must include, in addition to the statements referred to in sub-section (2)(a) to (d) for that quarter, those statements for the period of 12 months ending on that 30 June.	Refer to Chapter 4, consolidated comprehensive operating statement, consolidated balance sheet, consolidated cash flow statement and selected notes

STYLE CONVENTIONS

Figures in the tables and in the text have been rounded. Discrepancies in tables between totals and sums of components reflect rounding. Percentage 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
(x xxx.x)	negative amount
x xxx.0	rounded amount
201x	financial year

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

The Annual Financial Report is based on the style set in the example of a general purpose financial report for a government in illustrative example A of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The styles used in other chapters of this document are generally consistent with those used in other publications relating to the annual budget papers.

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