Getting on with the job

Victorian Budget 17/18

2017-18 Budget Update

Presented by Tim Pallas MP
Treasurer of the State of Victoria

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Government

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for the information of Honourable Members

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CHAPTER 1 – ECONOMIC AND FISCAL OVERVIEW

The Victorian economy continued to grow strongly in 2016-17, with real gross state product (GSP) growth of 3.3 per cent – the strongest of all Australian states. The robust performance reflects above-trend growth in household consumption, dwelling investment and public demand.

Victoria's GSP growth is forecast to be 3.0 per cent in 2017-18, 0.25 percentage points higher than in the *2017-18 Budget*. The positive outlook is supported by high population growth, above trend employment growth, low interest rates and the global economic environment. Victoria's population growth is historically high and is expected to be 2.3 per cent in 2017-18, 0.4 percentage points higher than forecast in the *2017-18 Budget*. Victoria's high population growth reflects the attraction of Victoria as a place to live, study and work.

Victorian employment grew by 3.9 per cent in 2016-17, the highest growth since 1989-90. Regional employment increased by 3.7 per cent, adding more than 25 000 jobs in the regions. Since November 2014 more than 284 000 jobs have been created in Victoria. The strongest regional per cent growth has been in Latrobe-Gippsland, with 11 200 jobs created over the year to October.

Victoria's general government sector surplus is forecast to be $1.7 billion in 2017-18, up from $1.2 billion in the *2017-18 Budget* and growing to $2.6 billion in 2020-21. The improvement in the fiscal outlook is largely due to strong revenue growth, underpinned by increases in population and employment, combined with the uplift in broader economic growth and dwelling investment.

Net debt as a proportion of GSP is expected to be 5.1 per cent in 2017-18, before increasing to 5.7 per cent by 2020-21. The level of net debt reflects the Government's significant ongoing investment in productivity-enhancing infrastructure, and is maintained at manageable levels consistent with a triple-A credit rating. This investment will provide the necessary service capability to meet a growing population.

Continuing the Government's dedication to upskilling the Victorian workforce, the current payroll tax exemption for wages paid to apprentices and trainees by not-for-profit Group Training Organisations will be extended to include for-profit Group Training Organisations that employ new entrants under an approved training scheme. This builds on the regional payroll tax cut announced in the *2017-18 Budget*.

Further to the *Homes for Victorians* package announced in March 2017, the Government has produced a set of rental reforms designed to make renting fairer. These reforms include limiting rent increases to once a year, making bonds smaller and fairer, allowing tenants to more easily keep pets, cracking down on rental bidding, reimbursing tenants faster for repairs and prohibiting false, misleading and deceptive representations by landlords.

The Government continues to ease the financial burden on families and individuals. From 1 January 2018 vehicle registration changes will enable owners of cars, utes, vans, motorcycles and other light vehicles the flexibility to choose between shorter term quarterly or half yearly registrations or continue with an annual registration fee.

New enhanced franchise agreements for operating Melbourne's train and tram networks have recently been established. These enhancements will create 700 new jobs, including 375 apprenticeships, and require a minimum 85 per cent local content in operating the networks and maintaining the network infrastructure and rolling stock. Under the new contract there will be higher targets for reliability, punctuality and other performance indicators.

The efficiency of Victoria's rail transport network will be further improved by investing $222 million in upgrades on the Cranbourne-Pakenham line to enable High Capacity Metro Trains to operate. In addition to this, the Government has secured funding from the Commonwealth for the Regional Rail Revival Plan (see Box 1.1 for further information).

The Government is also making significant investments to promote community safety as Victoria's population grows. Recruitment and deployment is continuing for the 3 135 new police officers funded in the 2016-17 and 2017-18 budgets, along with new custody officers and Protective Service Officers. New investments also support increased capacity in the corrections and youth justice systems.

Despite Victoria having the highest population growth in the nation, Victoria currently receives a disproportionately low share of Commonwealth funding and will receive only 10.3 per cent of Commonwealth infrastructure funding, compared to a population share of 25.5 per cent [1]. The Victorian Government continues to advocate for a fair share of Commonwealth funding.

In recent times the Commonwealth Government has adopted an increasingly coercive approach to federal financial relations, which risks compromising the states' and territories' fiscal autonomy and service delivery obligations. Victoria looks forward to a return to a more collaborative approach to federal financial relations.

[1] This includes the full Commonwealth contribution for the Regional Rail Revival Plan as well as $5.3 billion to NSW for Badgerys Creek.

Box 1.1: Regional Rail Revival Plan

In the *2017-18 Budget,* the Government announced the Regional Rail Revival Plan, the biggest revival of all time of the rail network in regional Victoria.

Funding of the Plan required full receipt of Victoria's entitlement under the National Partnership Agreement on Asset Recycling from the Commonwealth. Under this agreement, Victoria was entitled to a further $1.5 billion from the lease of the Port of Melbourne to invest in priority infrastructure. The Government has now secured this funding commitment from the Commonwealth. The Plan will fund upgrades on every regional passenger rail line and support the creation of over 1 000 jobs in regional Victoria.

The *2017-18 Budget* was prepared with a view to the Government's long-term financial management objectives outlined in Table 1.1.

Table 1.1: Long-term financial management objectives

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

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

Table 1.2: Financial measures and targets for the *2017-18 Budget*

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

This Budget Update confirms Victoria remains on track to meet the objectives and targets set out in the *2017-18 Budget.*

CHAPTER 2 – ECONOMIC CONTEXT

- Economic conditions in Victoria are strong and forecast to remain robust.
- The outlook for real gross state product (GSP) has strengthened since the *2017-18 Budget,* reflecting upward revisions to Victoria's population growth, employment growth and continued low interest rates.
- Real GSP growth is now forecast to be 3.0 per cent in 2017-18, 0.25 percentage points higher than in the *2017-18 Budget*. Dwelling construction, household consumption and public infrastructure spending are expected to contribute positively to growth.
- The risks to the outlook are roughly balanced. The potential for further strength in population growth and the labour market broadly offsets the downside risks from high household debt and weak income growth.

VICTORIAN ECONOMIC CONDITIONS AND OUTLOOK

Economic conditions in Victoria are strong and the outlook has strengthened since the *2017-18 Budget*. The forecasts for real GSP and employment growth have been upgraded.

Economic growth is now expected to remain above-trend in 2017-18, supported by robust population and employment growth, low interest rates and a generally supportive global economic environment. Real GSP per capita increased 0.9 per cent in 2016-17 and is forecast to continue to grow over the forward estimates.

Victoria's labour market is strong. The labour force participation rate reached an historic peak of 65.7 per cent in 2016-17. Employment growth is forecast to be above trend in 2017-18 and 2018-19, reflecting stronger economic conditions, faster population growth and a higher labour force participation rate.

Household consumption is expected to grow near trend, with the positive impact of strong employment growth, population growth, and rising household wealth partly offset by high household debt and low income growth.

There is also a greater demand for government services from the growing and ageing population, and increased government investment spending, including in transport infrastructure.

Growth in international services exports, particularly in tourism and education, should improve Victoria's international trade position. Strong demand from Asia is supporting the outlook for trade, including for Victoria's food and fibre exports which rose 6.0 per cent to $12.8 billion in 2016-17.

Business investment is expected to remain subdued, consistent with conditions in other jurisdictions.

Dwelling investment is expected to remain high, but growth is forecast to moderate to trend over the forward estimates after a long period of robust growth.

Population growth is forecast to be 2.3 per cent in 2017-18, 0.4 percentage points higher than forecast in the *2017-18 Budget*. The upgrade is mostly due to the significant upward revision to Victoria's estimated population growth as a result of the Australian Bureau of Statistics (ABS) 2016 Census (see Box 2.1: Victoria's population revisions).

Nationally, inflation expectations for consumer prices and wages remain subdued. The upgrade to population growth has seen a temporary lift in the unemployment rate forecast relative to the *2017-18 Budget* as the economy absorbs the large increase in the labour force.

Table 2.1 sets out the economic forecasts, with the *2017-18 Budget* forecasts in italics where different.

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

	2016-17 actual	*2017-18 forecast*	*2018-19 forecast*	*2019-20 projection*	*2020-21 projection*
Real gross state product	3.3	3.00	2.75	2.75	2.75
		2.75			
Employment	3.9	3.00	2.00	1.75	1.75
		2.00	*1.50*	*1.50*	*1.50*
Unemployment rate [(b)]	5.9	5.75	5.75	5.50	5.50
		5.50	*5.50*		
Consumer price index [(c)]	1.9	2.00	2.25	2.50	2.50
Wage price index [(d)]	2.0	2.25	2.50	2.75	3.00
			2.75	*3.00*	*3.25*
Population [(e)]	2.4 [(f)]	2.3	2.2	2.1	2.0
		1.9	*1.8*	*1.8*	*1.8*

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

Notes:

(a) Percentage change in year average compared with previous year, except for unemployment rate (see note (b)) and population (see note (e)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note(e)).
The key assumptions underlying the economic forecasts include: interest rates that follow the market forward curve; the exchange rate remaining at its current level; and oil prices that follow the path implied by oil futures.

(b) Year average, per cent.

(c) Melbourne consumer price index.

(d) Total hourly rate excluding bonuses.

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

(f) Forecast.

Gross state product

Victoria's GSP expanded by 3.3 per cent in 2016-17, the strongest of all the states and the 25th year of uninterrupted growth. The largest contributors to growth were household consumption, public demand and dwelling investment.

The forecast for real GSP has been upgraded and growth is now expected to remain above-trend in 2017-18, supported by robust population and employment growth, low interest rates and the supportive global economic environment.

Household consumption growth was the strongest of all the states in 2016-17, due to population and employment growth, and the positive impact from low interest rates. Household consumption is forecast to grow at trend, reflecting high levels of net interstate and overseas migration, strong employment growth, rising household wealth, and the positive impact on purchasing power from subdued inflation.

Conditions in Victoria's housing market are solid and house price growth has been higher than average. In the near term, dwelling investment is forecast to remain high, mostly due to the large amount of high-density construction work in the pipeline. Growth is forecast to remain positive over the forward estimates, supported by high population growth, but to moderate to trend after a long period of robust growth. House price growth is expected to remain positive but to slow as the recent increase in supply enters the market and as interest rates begin to normalise.

Business investment is forecast to remain subdued, consistent with trends observed in other national and international jurisdictions. While the outlook for non-residential construction is robust, machinery and equipment investment remains weak.

Demand for government services and infrastructure has increased mostly due to Victoria's population growth, and is expected to grow over the forward estimates.

Victoria's international trade is benefiting from supportive conditions in the global economy, including in China, despite the modest rise in the exchange rate since the *2017-18 Budget*. International services exports, particularly in tourism and education, are likely to support international trade, which is forecast to grow around trend over the forward estimates. The modestly higher exchange rate is not expected to have a material impact on the outlook for Victoria's international trade.

Inflation

Inflation was below the Reserve Bank of Australia's (RBA) target band of 2-3 per cent in 2016-17. This reflects lower wages growth, the effect of increased competition in the retail sector, and elevated spare capacity in the economy.

Looking forward, inflation is forecast to gradually return towards the RBA's target band, consistent with the outlook for a modest recovery in wages growth and a reduction in spare capacity in the economy. Measured inflation is likely to be lower following the ABS' recent update to the weights in the consumer price index expenditure basket. This will result in a lower weight for higher inflation items.

Labour market and wages

Conditions in the labour market are strong and the outlook has generally strengthened since the *2017-18 Budget*.

Employment rose by 3.9 per cent in 2016-17, which is the highest growth since 1989-90. The main contributors to growth were the service sectors including education, health care, and professional services. Activity was broad-based with regional employment growth the highest in regional Australia. Since November 2014 there have been more than 284 000 jobs created in Victoria.

Employment growth is forecast to be above trend in 2017-18 and 2018-19, reflecting robust economic conditions on the demand side, and strong population growth and a higher labour force participation rate on the supply side. Employment is then forecast to grow at the revised estimate of trend growth in the projection years.

Victoria's labour force participation rate increased 1.0 percentage points to a record high of 65.7 per cent in 2016-17. The increase was mostly due to rising female participation, including those aged over 50 years old. The participation rate is forecast to remain high but to moderate over the forward estimates.

Victoria's unemployment rate was unchanged in 2016-17 as above-trend employment growth was sufficient to absorb the growth in the labour force. The forecasts now anticipate that the unemployment rate will gradually decline to its natural rate of around 5.5 per cent in line with continued solid economic conditions and an anticipated moderation in the participation rate.

While Victorian wages growth has been subdued, wages are forecast to gradually rise over the forward estimates as spare capacity in the labour market is absorbed and labour productivity growth strengthens.

Population

Population growth is forecast at 2.3 per cent in 2017-18, 0.4 percentage points higher than forecast in the *2017-18 Budget*. The upgrade is mostly due to the significant upward revision to Victoria's estimated population growth as a result of the Australian Bureau of Statistics (ABS) 2016 Census (see Box 2.1: Victoria's population revisions).

Population growth is forecast to moderate to around 2.0 per cent by 2020-21 as economic activity and labour market conditions return toward trend and as conditions in the mining states stabilise. The impact from the ageing of the population is expected to be mostly offset by growth in net overseas migration as overseas migrants are, on average, younger than the existing population.

Box 2.1: Victoria's population revisions

As a result of the ABS' 2016 Census 'rebasing' process, Victoria's estimated residential population was revised up by 1.8 per cent to 6.18 million in June 2016, an increase of almost 110 000 people. The ABS is not able to identify which population categories (births, interstate migration or overseas migration) were previously underestimated.

Victoria's net overseas migration of 74 051 persons in 2016 was the highest for a calendar year since 2008. As a share of national net overseas migration, Victoria accounted for 35.4 per cent, a record and well above Victoria's population share of 25.6 per cent. In addition to net overseas migration, Victoria recorded the highest net interstate migration among the states in 2016 and a new record of 17 987 persons.

As a result of the rebasing, Victoria's population growth was revised up by 0.35 percentage points to 2.4 per cent over the year to June 2016. This is the highest population growth since the early 1980s and well above the national average of 1.6 per cent.

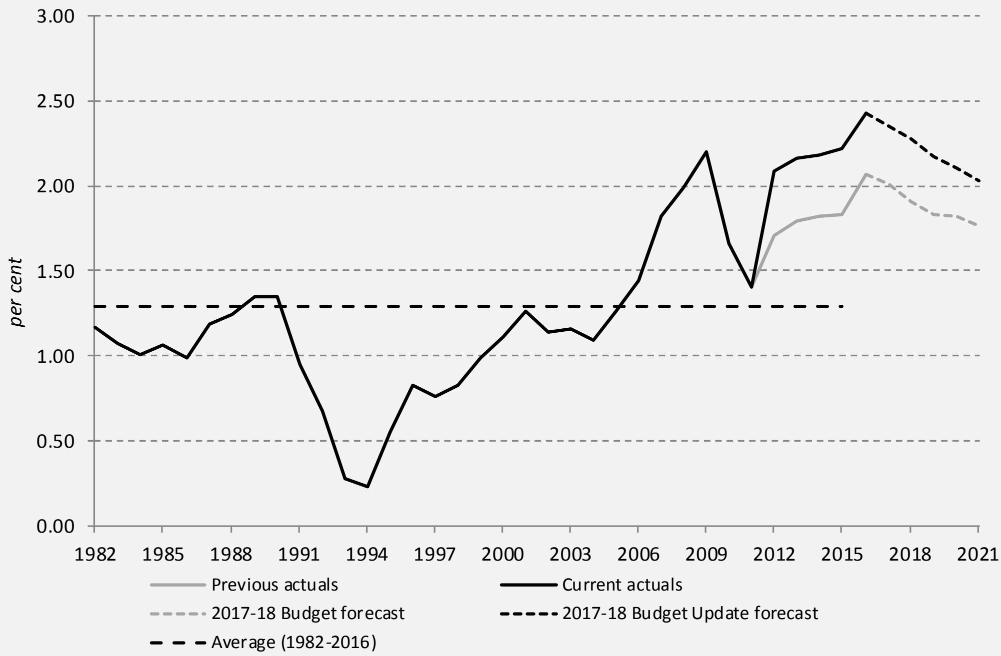
The forecasts for population growth have been revised up compared to those in the *2017-18 Budget* to reflect this updated information (Chart 2.1). Population growth is now forecast to be 2.0 per cent in 2020-21.

Higher population growth has significant implications for the economic and labour market outlook. More people generally translates into more spending and an increase in the supply of labour, which supports employment growth, along with increased demand for government services such as education, health and public transport. See Appendix D *Sensitivity Analysis* for an assessment of the impact from higher than expected population growth and improved labour market conditions.

Victoria's net overseas migration was the largest contributor to Victoria's population growth in 2016 and an important contributor to economic activity. Overseas migrants are typically younger than the average Victorian and are more educated with 48 per cent holding a post-school qualification compared to 43 per cent of the existing population.

Partly as a result of the upgrades to population growth, and the higher labour force participation rate, the outlook for employment growth has been upgraded. Employment growth is now forecast to be 1.75 per cent in 2019-20 and 2020-21, 0.25 percentage points higher than forecast in the *2017-18 Budget*.

Chart 2.1: Victoria's population growth forecast



AUSTRALIAN ECONOMIC CONDITIONS AND OUTLOOK

The Australian economy expanded by 2.0 per cent in 2016-17 as weakness in business investment was offset by higher household consumption, public demand and net exports. Wages growth and inflation were subdued.

Looking ahead, the Commonwealth Treasury forecasts the economy to strengthen, consistent with a pickup in household spending, improved business conditions and a recovering labour market. In the medium term, low interest rates, a broadening of the global economic recovery, and a further reduction in the drag on growth from mining investment will support Australia's outlook.

Economic conditions are expected to gradually converge across the states. The mining states of Queensland and Western Australia appear to be stabilising, evidenced by improving employment outcomes, and higher business confidence and conditions. Conditions in New South Wales are expected to remain solid, in line with robust household consumption and gradually improving non-mining business investment.

Wages growth and inflation are forecast to recover, consistent with a reduction in spare capacity in the labour market.

INTERNATIONAL ECONOMIC CONDITIONS AND OUTLOOK

The global economic outlook is broadly unchanged since the *2017-18 Budget*. The International Monetary Fund (IMF) forecasts global growth to be 3.6 per cent in 2017 and 3.7 per cent in 2018. However, despite the solid headline forecasts, there are some risks to the outlook. Growth remains weak in a number of countries, including Japan and the United Kingdom, and inflation is low in most advanced economies.

The IMF lowered the outlook for the United States to growth of 2.2 per cent in 2017 and 2.3 per cent in 2018. The downward revision mostly reflects the unwinding of the proposed fiscal stimulus package from the Trump administration.

In Europe, the recovery is expected to proceed at a slightly faster pace, with gross domestic product (GDP) growth of 2.1 per cent and 1.9 per cent in 2017 and 2018, respectively.

The growth outlook for China has been raised by 0.2 percentage points to 6.8 per cent in 2017, reflecting the impact of policy easing and supply side reforms. The forecast for 2018 is also modestly higher at 6.5 per cent due to the expectation that the Chinese authorities will maintain an expansionary policy mix to meet the target of doubling China's GDP between 2010 and 2020.

RISKS TO THE OUTLOOK

The risks to the outlook are broadly balanced and largely unchanged from the *2017-18 Budget*. See Appendix D *Sensitivity Analysis* for an assessment of the impact from some of these risks.

The labour market has been a source of strength for Victoria's economy. The *2017-18 Budget Update* forecasts above-trend growth in employment, a modest decline in the unemployment rate and an elevated but gradually declining participation rate. A higher than expected participation rate could lead to higher employment and GSP growth.

Australia's economic performance is heavily influenced by global economic conditions and international trade. An increase in global tariffs could reduce the competitiveness of Victoria's exports, lower Australia's terms of trade and lower Victoria's GSP growth.

Victoria's population growth is dependent on interstate and overseas migration flows that are subject to economic and political uncertainty. Higher than expected migration flows, potentially from a policy change or improved economic conditions, could lead to stronger population growth and improved labour market and economic conditions.

Nationally, a faster than expected recovery in the mining states could lead to a reversal in Victoria's positive interstate migration flows. This could reduce Victoria's population growth and slow economic and labour market activity.

Given the elevated level of household debt, a faster than expected rise in interest rates could pressure household spending and confidence, resulting in slower dwelling construction and household consumption growth.

CHAPTER 3 – BUDGET POSITION AND OUTLOOK

- The general government sector operating surplus is estimated to be $1.7 billion in 2017-18 and average $2.2 billion across the forward estimates.
- Net debt is projected to be $28.2 billion by June 2021 or 5.7 per cent of gross state product (GSP). This is consistent with maintaining Victoria's triple-A credit rating.
- Revenue growth is expected to average 4.5 per cent a year over the budget and forward estimates, exceeding average expense growth of 4.4 per cent a year.
- Estimated government infrastructure investment (GII) averages $10.2 billion a year over the budget and forward estimates compared with an average of $4.9 billion a year from 2005-06 to 2014-15.

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

This chapter also reconciles and explains any movements since the *2017-18 Budget* that affect the estimated net result from transactions, including the impact of new policy initiatives.

GENERAL GOVERNMENT SECTOR

Overview

The operating result (net result from transactions) for the general government sector in 2017-18 is forecast to be a surplus of $1.7 billion, with operating surpluses averaging $2.2 billion over the forward estimates.

Relative to the *2017-18 Budget*, the net result from transactions in 2017-18 has been revised up by $560 million, reflecting stronger than expected taxation and GST revenue. The net result from transactions has been revised down by an average of $253 million in 2019-20 and 2020-21. This reflects the funding of new Government initiatives to service a growing population, including the enhanced franchise agreements for operating Melbourne's train and tram networks and additional funding to support health services, including more elective surgery procedures.

Table 3.1: General government fiscal aggregates

	Unit of measure	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Net result from transactions	$ billion	1.7	2.1	2.0	2.6
Government infrastructure investment [(a)(b)]	$ billion	10.6	10.7	10.3	9.0
Net debt	$ billion	21.6	23.6	26.1	28.2
Net debt to GSP	per cent	5.1	5.3	5.5	5.7

Source: Department of Treasury and Finance

Notes:

(a) Includes general government net infrastructure investment and estimated cash flows for Partnerships Victoria projects and the State contribution to the West Gate Tunnel Project.

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

Infrastructure investment, as measured by GII, will average $10.2 billion a year over the next four years. The historical average was $4.9 billion a year from 2005-06 to 2014-15.

Relative to the *2017-18 Budget*, net debt to GSP has eased over the budget and forward estimates. Net debt as a proportion of GSP is expected to be 5.1 per cent at June 2018, increasing to 5.7 per cent by June 2021, compared to 6.0 per cent expected at the end of the forward estimates in the *2017-18 Budget*.

BUDGET AND FORWARD ESTIMATES OUTLOOK

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

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

	2017-18 revised	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Revenue				
Taxation	22 175	23 804	24 935	25 787
Dividends, tax equivalent revenue and interest [(b)]	2 175	1 468	1 334	1 462
Sales of goods and services	7 261	7 630	8 046	8 312
Grant revenue	30 221	32 216	32 190	33 413
Other current revenue	2 554	2 687	2 629	2 688
Total revenue	**64 386**	**67 804**	**69 134**	**71 662**
% change [(c)]	*7.1*	*5.3*	*2.0*	*3.7*
Expenses				
Employee expenses	23 094	24 593	25 116	25 907
Superannuation [(d)]	3 210	3 202	3 236	3 250
Depreciation	2 734	2 960	3 222	3 542
Interest expense	2 286	2 282	2 304	2 373
Other operating expenses	20 558	20 333	19 711	20 442
Grants expenses	10 792	12 317	13 558	13 507
Total expenses	**62 673**	**65 688**	**67 147**	**69 021**
% change	*7.7*	*4.8*	*2.2*	*2.8*
Net result from transactions	**1 713**	**2 117**	**1 987**	**2 641**
Total other economic flows included in net result [(e)]	**(253)**	**(140)**	**(265)**	**(267)**
Net result	**1 460**	**1 977**	**1 722**	**2 374**

Source: Department of Treasury and Finance

Notes:

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

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

(c) The 2017-18 revised per cent change refers to 2016-17 actual figures, adjusted to remove the one-off receipt of revenue associated with the upfront payment of the Port Licence Fee.

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

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

Revenue outlook

Total revenue in 2017-18 is expected to be $64.4 billion, with revenue growth averaging 4.5 per cent over the budget and forward estimates. Population growth in Victoria is above the national average and has underpinned resilience in the property market, boosted Victoria's share of GST revenue and driven our strong economic growth.

Taxation

State taxation revenue is expected to be $22.2 billion in 2017-18, with growth averaging 4.7 per cent a year over the budget and forward estimates. This is largely underpinned by above forecast property taxes, partly offset by lower than expected gambling and insurance revenue. Specifically:

- property market conditions have been more robust than anticipated, driving strong growth in land transfer duty collections. In 2018-19, revenue growth is forecast to moderate, reflecting expectations of softening conditions in the property market after a long period of robust growth;
- land tax revenue is expected to be higher than forecast in the *2017-18 Budget* over the next four years due to ongoing strength in land values and continued compliance activity. Victoria's planned introduction of centralised annual land valuations in 2019 is expected to result in more gradual changes in annual land tax revenue growth;
- payroll tax revenue is forecast to grow by 4.9 per cent in 2017-18 to $6.0 billion. This is higher than forecast in the *2017-18 Budget.* Over the budget and forward estimates, payroll tax revenue is expected to be driven by strong growth in employment and total hours worked. However, this is partially offset by a slower than anticipated recovery in wages growth relative to the *2017-18 Budget*;
- gambling taxes are expected to grow by 1.6 per cent in 2017-18 to $1.8 billion. Growth is weaker than anticipated in the *2017-18 Budget*, reflecting lower spending growth on gambling products;
- taxes on insurance are expected to be around $1.3 billion in 2017-18 in line with the *2017-18 Budget,* with growth easing slightly over the next three years; and
- motor vehicle taxes are expected to decline by 0.5 per cent in 2017-18 to $2.4 billion reflecting the introduction of new quarterly and six monthly payment options when registering light motor vehicles. Over the forward estimates, growth is expected to return to trend.

Dividends, income tax equivalent and interest

Dividend and income tax equivalent (ITE) revenue is projected to increase to $1.3 billion in 2017-18. This growth is mainly due to increased dividends and ITEs from the metropolitan water entities and increased dividends from the Treasury Corporation of Victoria. Over the forward estimates, dividends and ITE revenue is expected to ease, averaging $557 million per year.

Interest income is earned on holdings of cash and deposits across a number of general government sector agencies, including departments, hospitals and schools. Total interest income is expected to be $906 million in 2017-18, and decrease by an average of 2.4 per cent a year over the following three years as money is drawn down to fund infrastructure from the Victorian Transport Fund.

Sales of goods and services

Revenue from the sales of goods and services is expected to grow by 4.6 per cent in 2017-18 to $7.3 billion. This growth largely reflects an increase in capital asset charge revenue from VicTrack associated with an increase in its asset base. Over the forward estimates, growth is expected to average 4.6 per cent a year. In the *2017-18 Budget*, growth was expected to be lower, averaging 4.1 per cent a year over the budget and forward estimates.

Grants

Total grants revenue is expected to grow by 9.7 per cent to $30.2 billion in 2017-18 and increase by 3.4 per cent a year on average over the following three years. In the *2017-18 Budget*, growth was expected to be lower, averaging 4.1 per cent a year over the budget and forward estimates.

GST grants revenue is anticipated to grow by 12.9 per cent to $15.4 billion in 2017-18. This increase is attributed to the substantial revision to Victoria's population growth rate, including an additional forecast payment of $327 million due to population revisions associated with the 2016 Census. Over the forward estimates, Victorian GST revenue is estimated to increase on average by 5.4 per cent a year, supported by continued strength in population growth. However, this is partially offset by a lower relativity forecast due to Victoria's stronger financial position relative to other states, particularly Western Australia.

Commonwealth grants for specific purposes are projected to be $14.6 billion per year on average across the budget and forward estimates. The Commonwealth provides these grants as contributions towards health care, education, disability services and major infrastructure investment.

Commonwealth grant revenue reduces in 2019-20 largely due to the transfer of responsibility for disability services to the National Disability Insurance Agency as part of the full roll out of the National Disability Insurance Scheme (NDIS).

Other current revenue

Other current revenue includes fines, royalties, donations and gifts, assets received free of charge and other miscellaneous revenues. Other current revenue is projected to decrease by 3.4 per cent to $2.6 billion in 2017-18, driven by a large one-off increase in revenue in 2016-17 from the assets received free of charge associated with the transfer of assets from the Greater Geelong City Council to the Kardinia Park Stadium Trust. Other current revenue is projected to increase by an average of 1.7 per cent a year across the forward estimates.

Expenses outlook

The Government is expected to spend $62.7 billion in 2017-18. Total expenses are expected to grow by 4.4 per cent a year on average over the four years to $69.0 billion in 2020-21.

Specifically:

- grant expenses are forecast to increase by 3.1 per cent to $10.8 billion in 2017-18. Growth is expected to increase to an average of 7.8 per cent a year over the forward estimates, largely driven by payments made to the National Disability Insurance Agency for the delivery of disability services as part of the full roll out of the NDIS;
- depreciation expense is forecast to grow by 4.5 per cent to $2.7 billion in 2017-18 and increase by 9.0 per cent a year on average over the forward estimates to $3.5 billion in 2020-21. This reflects the Government's increased investment in infrastructure and the impacts of asset revaluations;
- employee expenses (including superannuation) are forecast to grow by 7.3 per cent in 2017-18, moderating to an average annual increase of 3.5 per cent over the forward estimates. The increase in 2017-18 largely reflects growth in staffing levels associated with delivering additional services, including initiatives to end family violence, the recruitment of additional police officers and increased investment in hospitals to respond to growing patient demand. The increases in employee expenses also reflect the increases in average remuneration levels consistent with enterprise bargaining agreements, including teachers, police and health sector agreements;
- other operating expenses are forecast to increase by 10.7 per cent in 2017-18 and decrease by an average of 0.2 per cent over the forward estimates to $20.4 billion in 2020-21. The growth in 2017-18 reflects the increased operating expenses for supplies and services largely associated with the new franchise agreements for metropolitan trains and trams; and
- interest expense is forecast to be $2.3 billion in 2017-18. Interest expense over the forward estimates is projected to be relatively stable.

Reconciliation of estimates to the *2017-18 Budget*

Relative to the *2017-18 Budget*, the net result from transactions has been revised up by $560 million in 2017-18, up by $142 million in 2018-19, down by $419 million in 2019-20 and down by $87 million in 2020-21.

Table 3.3: Reconciliation of estimates to the *2017-18 Budget* [(a)] **($ million)**

	2017-18 revised	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Net result from transactions: *2017-18 Budget*	**1 153**	**1 975**	**2 405**	**2 727**
Policy decision variations				
Revenue policy decision variations	(193)	(36)	(1)	..
Output policy decision variations [(b)]	(279)	(249)	(521)	(143)
	(472)	**(285)**	**(522)**	**(143)**
Economic/demographic variations				
Taxation	563	712	482	180
Investment income [(c)]	98	5	(184)	(156)
	661	**717**	**298**	**24**
Commonwealth grant variations				
General purpose grants	638	25	(72)	15
Specific purpose grants [(d)]	(311)	(42)	418	210
	326	**(16)**	**346**	**225**
Administrative variations				
Contingency offset for new policy [(e)]	20	..	..	..
Other administrative variations	25	(273)	(541)	(192)
	44	**(273)**	**(541)**	**(192)**
Total variation since *2017-18 Budget*	**560**	**142**	**(419)**	**(87)**
Net result from transactions: *2017-18 Budget Update*	**1 713**	**2 117**	**1 987**	**2 641**

Source: Department of Treasury and Finance

Notes:

(a) *Figures in this table are subject to rounding to the nearest million and may not add up to totals.*
(b) *This is represented in Table 3.4 as the* 2017-18 Budget Update *output policy decisions.*
(c) *Investment income includes dividends and income tax and rate equivalent revenue.*
(d) *Reflects the change in grant revenue as per Chapter 4 Note 4.2.4* Grant Revenue less associated expense movements.
(e) *Represents releases from the funding not allocated to specific purposes contingencies associated with demand for Government services. Further information on this contingency can be found at Note 4.3.5 of Chapter 4* Estimated Financial Statements and notes.

Policy decision variations

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

Revenue policy decision variations

Details of the specific policy initiatives since the *2017-18 Budget* are contained in Appendix A *Specific policy initiatives affecting the budget position.*

Output policy decision variations

Table 3.4 shows the impact of new output initiatives since the *2017-18 Budget*, with further detail contained in Appendix A *Specific policy initiatives affecting the budget position*.

Table 3.4: Net impact of the *2017-18 Budget Update* new output initiatives [(a)] ($ million)

	2017-18 revised	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
New output initiatives	**478**	**561**	**449**	**333**
Less:				
Funding from reprioritisation of existing resources [(b)]	40	18	12	12
Adjustments [(c)]	159	294	(84)	177
Savings	..	..	..	..
2017-18 Budget Update *output policy decisions*	**279**	**249**	**521**	**143**
Less: contingency offset for new policy [(d)]	20	..	..	..
Net impact	**260**	**249**	**521**	**143**

Source: Department of Treasury and Finance

Notes:
(a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.
(b) This includes the reprioritisation of resources previously allocated to departments and revenue offsets.
(c) Primarily incorporates the net impact of the creation and release of decisions made but not yet allocated contingencies.
(d) Represents releases from the funding not allocated to specific purposes contingency associated with demand for Government services. Further information on this contingency can be found at Note 4.3.5 of Chapter 4 Estimated Financial Statements and notes.

Economic and demographic variations

Taxation revenue has been revised up by $563 million in 2017-18 and by $458 million a year on average over the forward estimates. This reflects:

- stronger population and employment growth with forecasts for these now higher than what was factored into the *2017-18 Budget*; and
- continued near-term strength in the Victorian property market with growth in prices and volumes supporting property related revenue.

Partially offsetting this, gambling tax revenue has been revised down consistent with low spending growth on gambling products by households and strong competition from online gambling products (some of which are untaxed).

Commonwealth grants variations

Commonwealth general purpose grants (or GST grants) estimates have been revised up by $638 million in 2017-18 compared with the *2017-18 Budget*. This increase is driven by a stronger outlook for Victoria's share of the national population. Over the forward estimates, GST is broadly unchanged.

Net changes to specific purpose grants have decreased the operating result by $311 million in 2017-18, but increased it by an average of around $195 million over the forward estimates. These movements primarily reflect the impacts of updated payment phasings expected under the Regional Rail Revival program.

Administrative variations

Other administrative variations are expected to increase the operating result by $25 million in 2017-18 and decrease it by an average of $336 million a year over the forward estimates. These movements reflect:

- an expected increase in expenses related to schools funding provided in previous years. This reflects student enrolments exceeding previous forecasts and the expected accelerated spending in schools to support the achievement of Education State targets; and
- carryover of departmental expenditure from 2016-17.

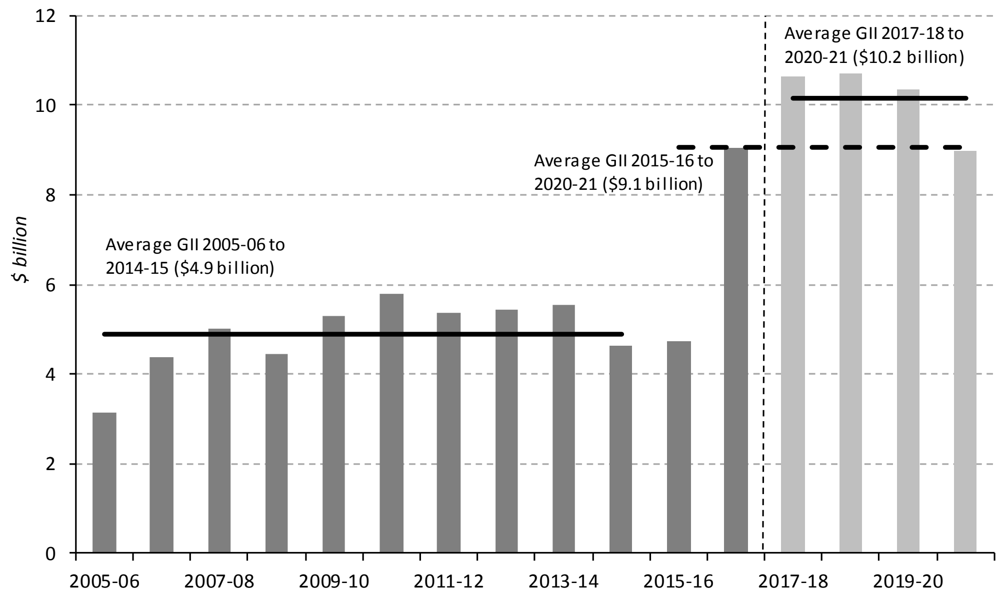
Superannuation expenses have also increased, primarily due to movements in the bond yields that underlie the key superannuation valuation assumptions.

Capital expenditure

Government infrastructure investment (GII), which measures investment funded or facilitated by the Government, is at historically high levels.

GII averages $10.2 billion per annum over the budget and forward estimates, up from the $9.6 billion average over the same period in the *2017-18 Budget*. GII is significantly higher than the average GII from 2005-06 to 2014-15 of $4.9 billion a year (Chart 3.1). This reflects the Government's investment in projects such as the Metro Tunnel, the Level Crossing Removal Program, the West Gate Tunnel Project, the Western Roads Upgrade and more recently, the new franchise agreements for metropolitan trains and trams.

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



Source: Department of Treasury and Finance

Notes:

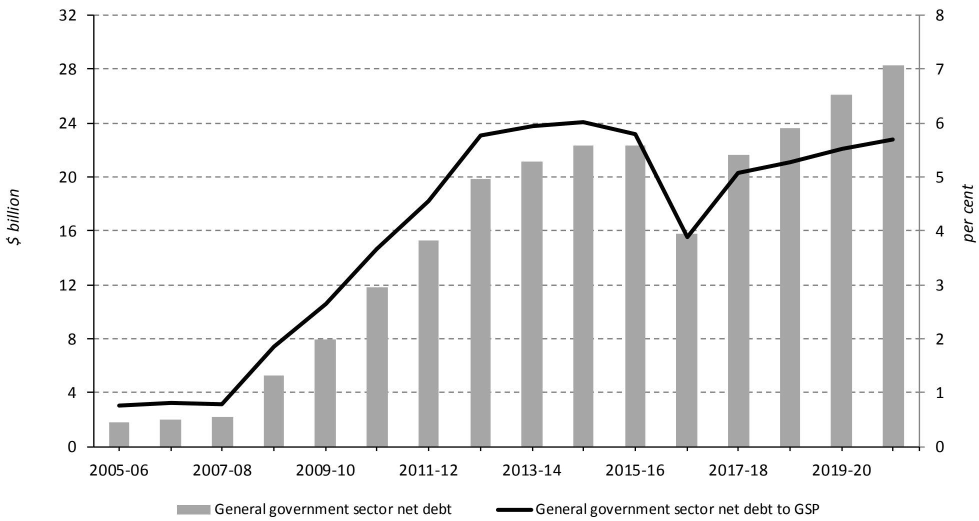
(a) Includes general government net infrastructure investment and estimated construction cash flows for Partnerships Victoria projects and the State contribution to the West Gate Tunnel Project.

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

Net debt

Net debt as a proportion of GSP is expected to be 5.1 per cent at June 2018 (Chart 3.2), rising to 5.7 per cent by June 2021. The decrease in net debt as a proportion of GSP from 6.0 per cent in the *2017-18 Budget* is largely due to improved taxation forecasts (including land transfer duty), GST revenue forecasts in line with upgraded population estimates in the 2016 Census and upward revisions to Victoria's GSP as a result of population upgrades.

Chart 3.2: General government sector net debt



Source: Department of Treasury and Finance

The application of cash resources for the general government sector (Table 3.5) outlines the annual movements in net debt. General government sector cash from operating activities is expected to average $4.7 billion a year over the next four years.

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

	2017-18 revised	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Net result from transactions	**1 713**	**2 117**	**1 987**	**2 641**
Add back: non-cash revenue and expenses (net) [(b)]	2 180	3 844	2 136	2 130
Net cash flows from operating activities	**3 893**	**5 961**	**4 122**	**4 771**
Less: Total net investment in fixed assets [(c)]	**6 165**	**5 844**	**4 699**	**4 269**
Surplus/(deficit) of cash from operations after funding net investment in fixed assets	**(2 271)**	**117**	**(577)**	**502**
Finance leases [(d)]	647	419	315	1 022
Other movements	2 954	1 700	1 564	1 627
Decrease/(increase) in net debt	**(5 872)**	**(2 002)**	**(2 456)**	**(2 147)**

Source: Department of Treasury and Finance

Notes:

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

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

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

(d) The 2017-18 estimate relates to the Ravenhall Prison project, the new Bendigo Hospital project (stage 2) and the New Schools PPP project (tranche 2). The 2018-19 and 2019-20 estimates relate to the High Capacity Metro Trains project. The 2020-21 estimates relate to the High Capacity Metro Trains project and Western Roads Upgrade.

Unfunded superannuation liability

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

FISCAL RISKS

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

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

General fiscal risks

State taxes

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

Land transfer duty in particular is subject to unique risks. For example, the outlook for interest rates is a key driver of future revenue. The Reserve Bank of Australia is holding the official cash rate at historic lows, however, Australia's high level of household debt means there is greater sensitivity to changes in mortgage repayments. If interest rates rise more quickly than currently expected, land transfer duty revenue will likely be lower than forecast.

The fiscal implications of variations in economic parameters from forecasts are outlined in further detail in Appendix D *Sensitivity analysis*.

Employee expenses

Employee expenses are the State's largest expense. The Government's wages policy sets the framework for enterprise agreement negotiations and in part contributes to the projection of employee expenses. The composition and profile of the workforce and rostering arrangements also contribute to the projection of employee expenses.

Demand growth

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

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

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

Specific fiscal risks

National Disability Insurance Scheme

Victoria commenced transition to the NDIS on 1 July 2016 and is expected to reach full roll out across the State by July 2019. Once fully implemented, Victoria's investment in the NDIS will be an estimated $2.5 billion a year, with the Commonwealth estimated to provide $2.6 billion a year for Victorians. The Productivity Commission's review of NDIS costs will inform the future of the scheme including the states/territories and Commonwealth's financial responsibility for participant demand, cost overruns and market development. Victoria will work with the Commonwealth to monitor and manage any risks associated with transition.

Commonwealth schools funding

The Victorian Government has signed a one-year interim agreement with the Commonwealth to ensure funding is not at risk for schools for 2018. Commonwealth contributions to school education via Quality Schools funding is yet to be determined for the 2019 school year onwards. The quantum and conditions of funding are dependent on formal negotiations between the Commonwealth, the states and the non-government schools sector.

Universal Access to Early Childhood Education

The Commonwealth's financial contribution to assist the States in providing 15 hours per week of preschool support per student is supplied under the National Partnership Agreement on Universal Access to Early Childhood Education. Funding under this agreement is due to cease on 31 December 2018, with ongoing Commonwealth funding uncertain.

National Health Reform

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

These arrangements were scheduled to cease from 1 July 2017, however, in April 2016 the Commonwealth agreed to continue the NHRA from 1 July 2017 until 30 June 2020. Conditions attached to the Agreement may increase fiscal exposure for the State and include:

- a national cap on Commonwealth annual expenditure growth of 6.5 per cent (above which the State will be required to fund all hospital activity);
- reduced funding to the State for avoidable hospital admissions or unsafe care; and
- the Commonwealth withholding funds until hospital activity data is provided.

The State has engaged in early negotiations with the Commonwealth on the next national health agreement to commence from July 2020.

Victoria’s GST revenue

The distribution of GST grants between states and territories is determined by the size of the national GST pool and each jurisdiction’s population share weighted by its GST relativity. Revenue sharing relativities are determined by the Commonwealth Treasurer, as informed by the recommendations of the Commonwealth Grants Commission. The Productivity Commission is currently undertaking an inquiry into Australia’s system of horizontal fiscal equalisation (HFE) with the final report expected to be handed to the Commonwealth Government by 31 January 2018. The Commonwealth Government’s response to the inquiry may have implications for the distribution of GST revenue to the states and territories. For example, under one approach proposed by the Productivity Commission, it is estimated that Victoria’s GST payments would reduce by $972 million in 2017-18, with an ongoing impact in future years.

There are three specific risks to Victoria’s GST revenue:

- the outlook for the national GST pool reflects current expectations of a return to trend in nominal consumption growth over the next four years, with steady recoveries in growth in consumer prices and incomes. This is expected to be accompanied by lower dwelling investment in 2018-19. If consumer prices and wages growth do not pick up as forecast, or the growth in dwelling investment is slower than expected, there is a risk that the GST pool could grow more slowly than anticipated. Movements in the household savings ratio are also a key source of uncertainty for consumer spending and the GST pool outlook;
- Victoria’s population growth rate relative to the national average can have a significant impact on Victoria’s share of the national GST pool. Victoria’s population growth is currently the highest in the nation, driven by strong employment growth. If Victoria’s net overseas or interstate migration is higher than forecast, Victoria’s share of GST revenue would increase. Conversely, other states’ higher than expected net overseas or interstate migration would negatively affect Victoria’s GST revenue; and
- mining royalties are an important driver for the annual per capita relativities of each jurisdiction over the following three years. Royalty revenue is influenced by commodity prices, the value of the Australian dollar and production and export volumes. Variation in prices relative to current forecasts, particularly in iron ore and coal, pose a risk for Victoria’s GST revenue.

Non-financial public sector

This section overviews the NFP sector, which consolidates the PNFC and general government sectors. The PNFC sector comprise of entities that provide services primarily funded from user charges and fees. The largest PNFCs provide water, housing and transport services. The debt level of the NFP sector is an important measure of the State's financial sustainability that supports the State's triple-A credit rating.

Summary operating statement

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

	2017-18 revised	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Revenue				
Taxation revenue	21 811	23 365	24 476	25 465
Dividends, income tax equivalent and interest [(b)]	891	566	548	627
Sales of goods and services	11 430	11 618	12 108	12 946
Grant revenue	30 216	32 210	32 184	33 407
Other current revenue	3 182	3 265	3 213	3 273
Total revenue	**67 530**	**71 025**	**72 529**	**75 718**
% change [(c)]	6.2	5.2	2.1	4.4
Expenses				
Employee expenses	24 277	25 814	26 374	27 196
Superannuation [(d)]	3 328	3 323	3 360	3 377
Depreciation	5 008	5 284	5 634	6 078
Interest expense	2 678	2 736	2 809	2 938
Grant expense	7 486	9 045	10 132	10 063
Other operating expenses	24 019	23 385	22 790	24 161
Total expenses	**66 797**	**69 587**	**71 097**	**73 813**
% change	7.4	4.2	2.2	3.8
Net result from transactions	**733**	**1 438**	**1 432**	**1 905**

Source: Department of Treasury and Finance

Notes:

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

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

(c) *The 2017-18 revised per cent change refers to 2016-17 actual figures, adjusted to remove the one-off receipt of revenue associated with the upfront payment of the Port Licence Fee.*

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

The net result from transactions for the NFP sector is projected to reach $1.9 billion by 2020-21. This is largely due to the general government sector forecasting a $1.7 billion surplus in 2017-18 which increases to a $2.6 billion surplus by 2020-21.

The net result from transactions in the PNFC sector is projected to be an average deficit of $467 million across the forward estimates period. The deficits mainly reflect:

- unfunded depreciation expenses for VicTrack. However, over the forward estimates VicTrack is estimated to generate an average operating cash flow surplus of $78 million; and
- unfunded depreciation expenses and costs associated with the Director of Housing managing a large and ageing asset portfolio.

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

Application of cash resources

The NFP sector is forecast to record operating cash flow surpluses across the budget and forward estimates period, which will fund approximately 60 per cent of NFP sector infrastructure program. This enables the State to deliver infrastructure projects without compromising debt sustainability.

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

	2017-18 revised	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Net result from transactions	733	1 438	1 432	1 905
Add back: non-cash income and expenses (net) [(b)]	4 152	5 857	4 094	4 348
Net cash flow from operating activities	**4 885**	**7 295**	**5 525**	**6 253**
Less: Total net investment in fixed assets [(c)]	**11 449**	**9 874**	**8 594**	**7 752**
Surplus/(deficit) of cash from operations after funding net investments in fixed assets	**(6 564)**	**(2 579)**	**(3 068)**	**(1 499)**
Less:				
Finance leases [(d)]	647	419	315	1 022
Other movements	(43)	(5)	(11)	(2)
Decrease/(increase) in net debt	**(7 168)**	**(2 993)**	**(3 373)**	**(2 518)**

Source: Department of Treasury and Finance

Notes:

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

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

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

(d) The 2017-18 estimate relates to the Ravenhall Prison project, the new Bendigo Hospital project (stage 2) and the New Schools PPP project (tranche 2). The 2018-19 and 2019-20 estimates relate to the High Capacity Metro Trains project. The 2020-21 estimates relate to the High Capacity Metro Trains project and Western Roads Upgrade.

The NFP sector is projected to invest a total of $40 billion in non-financial assets from 2017-18 to 2020-21. The key infrastructure projects under development include:

- significant investment in transport infrastructure, including new trains (metropolitan and regional) and trams to meet patronage growth and improve network performance;
- upgrading and renewal of water and sewer assets by the Melbourne metropolitan water corporations, including an increase in the capacity of the Western Treatment Plant (Melbourne Water Corporation), the Epping Main Sewer and Craigieburn Sewer Transfer Hub (Yarra Valley Water), the Boneo Water Recycling Plant (South East Water), and the West Werribee Dual Water Supply Project (City West Water); and
- upgrading and renewal of water and sewer assets in regional Victoria, including Goulburn-Murray Water's Connections Project, which will connect irrigators to a modernised main system of irrigation channels, and the modernisation of various irrigation systems by Southern Rural Water.

NON-FINANCIAL PUBLIC SECTOR NET DEBT AND NET FINANCIAL LIABILITIES

Table 3.8 details NFP sector net debt and financial liabilities. It shows that net debt is projected to increase in nominal terms over the estimates period.

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

	2017-18 revised	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Assets				
Cash and deposits	5.6	6.0	6.4	6.8
Advances paid	0.3	0.3	0.3	0.2
Investments, loans and placements	4.4	4.2	4.2	4.1
Total	**10.3**	**10.5**	**10.9**	**11.1**
Liabilities				
Deposits held and advances received	0.9	0.9	0.9	0.9
Borrowings	46.4	49.6	53.3	56.1
Total	**47.3**	**50.5**	**54.3**	**57.0**
Net debt [(a)]	**37.0**	**40.0**	**43.4**	**45.9**
Superannuation liability	23.0	22.1	21.1	20.1
Net debt plus superannuation liabilities	**60.0**	**62.1**	**64.5**	**66.0**
Other liabilities (net) [(b)]	14.6	16.1	15.8	14.8
Net financial liabilities [(c)]	**74.7**	**78.2**	**80.3**	**80.8**
(per cent)				
Net debt to GSP [(d)]	8.7	8.9	9.2	9.2
Net debt plus superannuation liability to GSP [(d)]	14.1	13.8	13.7	13.3
Net financial liabilities to GSP [(d)]	17.5	17.4	17.0	16.3
Net debt plus superannuation liability to revenue [(e)]	**88.9**	**87.4**	**88.9**	**87.2**

Source: Department of Treasury and Finance

Notes:
(a) Net debt is the sum of deposits held, advances received and borrowings less the sum of cash, advances paid and investments, loans and placements.
(b) Includes other benefits and provisions, payables and other liabilities less other non-equity financial assets.
(c) Net financial liabilities is the sum of superannuation, borrowings and other net financial liabilities less non-equity financial assets.
(d) Ratios to GSP may vary from publications year to year due to revisions made by the Australian Bureau of Statistics to its published GSP data.
(e) The sum of NFP sector net debt plus the superannuation liability as a proportion of NFP sector total operating revenue.

NFP sector net debt is projected to increase to $45.9 billion by 2020-21 following the Government's substantial and ongoing investment in infrastructure projects over the forward estimates. The projected NFP sector net debt to GSP ratio will increase from 8.7 per cent in 2017-18 to 9.2 per cent in 2020-21 predominantly driven by the general government sector.

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

The ratio of operating cash flow to revenue is a measure of the relative size of the operating result and therefore provides a measure of operating performance. This ratio remains broadly flat over the forward estimates. Improving operating cash flow surpluses over the forward estimates are supported by improving revenue leading to a relatively flat projection for this ratio, which increase from 7.2 per cent in 2017-18 to 8.3 per cent in 2020-21.

The ratio of NFP sector's interest expense to revenue is a measure of the State's debt service burden. This ratio is expected to be 4.0 per cent in 2017-18 and remain stable over the forward estimates. This is due to higher interest costs from rising debt levels being offset by increasing revenues. The overall debt burden is evidenced by the ratio of gross debt to revenue, which is estimated to be 70.1 per cent in 2017-18, increasing to 75.3 per cent by 2020-21.

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

	2017-18 revised	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Operating cash flow surplus to revenue	7.2	10.3	7.6	8.3
Gross debt to revenue [(a)]	70.1	71.2	74.8	75.3
Interest expense to revenue	4.0	3.9	3.9	3.9

Source: Department of Treasury and Finance

Note:

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

STATE OF VICTORIA

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

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

	2017-18 revised	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Revenue				
Taxation revenue	21 794	23 349	24 459	25 448
Dividends, income tax equivalent and interest	2 014	2 014	2 178	2 250
Sales of goods and services	15 151	15 486	16 150	17 175
Grant revenue	29 429	31 536	31 466	32 736
Other current revenue	3 206	3 291	3 240	3 302
Total revenue	**71 594**	**75 676**	**77 494**	**80 911**
% change [(b)]	5.2	5.7	2.4	4.4
Expenses				
Employee expenses	24 272	25 795	26 328	27 154
Superannuation [(c)]	3 355	3 349	3 387	3 404
Depreciation	5 056	5 331	5 689	6 142
Interest expense	2 722	2 754	2 813	2 942
Grant expense	7 505	9 064	10 151	10 084
Other operating expenses	30 203	29 859	29 587	31 198
Total expenses	**73 112**	**76 152**	**77 955**	**80 924**
% change	7.4	4.2	2.4	3.8
Net result from transactions	**(1 518)**	**(476)**	**(461)**	**(14)**
Total other economic flows included in net result	**2 373**	**1 595**	**1 552**	**1 348**
Net result	**854**	**1 119**	**1 091**	**1 334**

Source: Department of Treasury and Finance

Notes:

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

(b) *The 2017-18 revised per cent change refers to 2016-17 actual figures, adjusted to remove the one-off receipt of revenue associated with the upfront payment of the Port Licence Fee.*

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

Table 3.10 shows that the net result from transactions for the State in 2017-18 is projected to be a deficit of $1.5 billion, decreasing to a deficit of $14 million by 2020-21.

The State's insurers contribute substantially to the projected deficits because a significant portion of investment returns used to fund future claims costs is reported under other economic flows.

Consequently, the net result is a more meaningful measure of the expected operating position of the PFC sector and the State as it includes this substantial projected investment income. The net result at State level is a surplus of $854 million in 2017-18 improving to $1.3 billion by 2020-21.

Table 3.11 highlights the State's financial position over the forward estimates. Total liabilities are projected to increase to $142 billion by 2020-21. Offsetting this are financial assets and non-financial assets. Financial assets are projected to increase to $58 billion in line with the assumed growth in investments returns. Non-financial assets are projected to increase by $29 billion to $283 billion, primarily from the Government's infrastructure program and revaluation of fixed assets. As a result, the State's net assets are forecast to increase from $179 billion in 2017-18 to $199 billion in 2020-21.

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

	2017-18 revised	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Assets				
Total financial assets	55	55	57	58
Total non-financial assets	254	262	277	283
Total assets	**308**	**317**	**333**	**341**
Liabilities				
Superannuation	23	22	21	20
Borrowings	51	53	56	59
Deposits held and advances received	2	2	2	2
Other liabilities	54	58	60	61
Total liabilities	**130**	**134**	**139**	**142**
Net assets	179	183	194	199

Source: Department of Treasury and Finance

Note:

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

CHAPTER 4 – ESTIMATED FINANCIAL STATEMENTS AND NOTES

ESTIMATED GENERAL GOVERNMENT SECTOR COMPREHENSIVE OPERATING STATEMENT

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

	Notes	*2017-18 budget*	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Revenue from transactions						
Taxation revenue	4.2.1	21 827	22 175	23 804	24 935	25 787
Interest revenue		899	906	876	873	843
Dividends, income tax equivalent and rate equivalent revenue	4.2.2	1 171	1 269	592	460	619
Sales of goods and services	4.2.3	7 187	7 261	7 630	8 046	8 312
Grant revenue	4.2.4	29 818	30 221	32 216	32 190	33 413
Other revenue	4.2.5	2 502	2 554	2 687	2 629	2 688
Total revenue from transactions		**63 405**	**64 386**	**67 804**	**69 134**	**71 662**
Expenses from transactions						
Employee expenses		23 011	23 094	24 593	25 116	25 907
Net superannuation interest expense	4.3.2	761	714	699	670	639
Other superannuation	4.3.2	2 347	2 495	2 503	2 566	2 612
Depreciation	4.4.2	2 788	2 734	2 960	3 222	3 542
Interest expense	4.5.3	2 181	2 286	2 282	2 304	2 373
Grant expense	4.3.3	11 333	10 792	12 317	13 558	13 507
Other operating expenses	4.3.4	19 830	20 558	20 333	19 711	20 442
Total expenses from transactions	4.3.5	**62 252**	**62 673**	**65 688**	**67 147**	**69 021**
Net result from transactions – net operating balance		**1 153**	**1 713**	**2 117**	**1 987**	**2 641**
Other economic flows included in net result						
Net gain/(loss) on disposal of non-financial assets		82	94	212	98	98
Net gain/(loss) on financial assets or liabilities at fair value		22	23	24	21	26
Other gains/(losses) from other economic flows	4.7.1	(370)	(370)	(377)	(383)	(391)
Total other economic flows included in net result		**(266)**	**(253)**	**(140)**	**(265)**	**(267)**
Net result		887	1 460	1 977	1 722	2 374

ESTIMATED GENERAL GOVERNMENT SECTOR COMPREHENSIVE OPERATING STATEMENT *(continued)*

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

	Notes	*2017-18 budget*	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Other economic flows – other comprehensive income						
Items that will not be reclassified to net result						
Changes in non-financial assets revaluation surplus		3 660	3 661	649	7 844	1 507
Remeasurement of superannuation defined benefit plans	4.3.2	915	1 979	921	935	949
Other movements in equity		7	7	21	(14)	8
Items that may be reclassified subsequently to net result						
Net gain/(loss) on financial assets at fair value		1	1	2	3	2
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	4.6.1	(966)	(621)	850	1 081	621
Total other economic flows – other comprehensive income		**3 617**	**5 027**	**2 442**	**9 849**	**3 086**
Comprehensive result – total change in net worth		**4 504**	**6 488**	**4 419**	**11 571**	**5 460**
KEY FISCAL AGGREGATES						
Net operating balance		**1 153**	**1 713**	**2 117**	**1 987**	**2 641**
Less: Net acquisition of non-financial assets from transactions	4.3.6	1 813	1 865	720	371	601
Net lending/(borrowing)		**(660)**	**(152)**	**1 397**	**1 616**	**2 040**

Source: Department of Treasury and Finance

The accompanying notes form part of these Estimated Financial Statements.

ESTIMATED GENERAL GOVERNMENT SECTOR BALANCE SHEET

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

	Notes	2018 budget [(a)]	2018 revised	2019 estimate	2020 estimate	2021 estimate
Assets						
Financial assets						
Cash and deposits		5 938	4 777	5 205	5 734	6 009
Advances paid	4.5.2	10 230	9 974	8 258	6 657	5 005
Receivables		6 026	6 008	6 278	6 485	6 889
Investments, loans and placements	4.5.2	2 889	3 386	3 225	3 185	3 232
Investments accounted for using equity method		47	47	47	47	47
Investments in other sector entities	4.6.1	96 203	97 042	102 220	106 274	109 703
Total financial assets		**121 333**	**121 233**	**125 234**	**128 382**	**130 886**
Non-financial assets						
Inventories		175	175	179	184	188
Non-financial assets held for sale		402	402	404	405	406
Land, buildings, infrastructure, plant and equipment	4.4.1	127 449	127 535	129 402	137 829	139 788
Other non-financial assets	4.4.4	1 495	1 487	1 681	2 315	2 757
Total non-financial assets		**129 521**	**129 599**	**131 666**	**140 733**	**143 139**
Total assets	4.4.5	**250 854**	**250 832**	**256 900**	**269 115**	**274 024**
Liabilities						
Deposits held and advances received		6 439	6 181	4 533	3 008	1 416
Payables	4.6.2	5 841	5 860	7 581	7 274	6 667
Borrowings	4.5.1	34 052	33 589	35 791	38 660	41 068
Employee benefits	4.3.1	6 747	6 765	7 065	7 315	7 590
Superannuation	4.6.3	23 987	22 990	22 058	21 083	20 073
Other provisions		1 256	932	937	1 270	1 244
Total liabilities		**78 323**	**76 317**	**77 966**	**78 610**	**78 059**
Net assets		**172 532**	**174 515**	**178 934**	**190 505**	**195 965**
Accumulated surplus/(deficit)		53 275	54 911	57 830	60 474	63 804
Reserves		119 257	119 604	121 104	130 032	132 161
Net worth		**172 532**	**174 515**	**178 934**	**190 505**	**195 965**
FISCAL AGGREGATES						
Net financial worth		43 011	44 916	47 268	49 773	52 827
Net financial liabilities		53 193	52 126	54 952	56 501	56 877
Net debt		21 435	21 634	23 636	26 092	28 239

Source: Department of Treasury and Finance

The accompanying notes form part of these Estimated Financial Statements.

Note:
(a) Balances represent actual opening balances at 1 July 2017 plus 2017-18 budgeted movements.

ESTIMATED GENERAL GOVERNMENT SECTOR
CASH FLOW STATEMENT

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

	Notes	*2017-18 budget*	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Cash flows from operating activities						
Receipts						
Taxes received		21 688	22 013	23 700	24 704	25 363
Grants		29 817	30 220	32 216	32 190	33 413
Sales of goods and services [(a)]		8 076	8 167	9 946	8 706	9 000
Interest received		898	905	875	872	842
Dividends, income tax equivalent and rate equivalent receipts		1 174	1 272	531	455	614
Other receipts		2 001	2 082	2 150	2 098	2 156
Total receipts		**63 655**	**64 659**	**69 417**	**69 025**	**71 388**
Payments						
Payments for employees		(22 773)	(22 837)	(24 296)	(24 870)	(25 634)
Superannuation		(3 107)	(3 142)	(3 213)	(3 276)	(3 312)
Interest paid		(2 144)	(2 249)	(2 245)	(2 267)	(2 331)
Grants and subsidies		(11 294)	(10 753)	(12 316)	(13 132)	(13 505)
Goods and services [(a)]		(20 005)	(21 055)	(20 638)	(20 576)	(21 012)
Other payments		(732)	(731)	(748)	(782)	(823)
Total payments		**(60 054)**	**(60 766)**	**(63 457)**	**(64 903)**	**(66 617)**
Net cash flows from operating activities		**3 601**	**3 893**	**5 961**	**4 122**	**4 771**
Cash flows from investing activities						
Purchases of non-financial assets	4.3.6	(8 780)	(9 289)	(8 602)	(7 180)	(7 656)
Sales of non-financial assets		503	532	789	506	536
Cash flows from investments in non-financial assets		(8 277)	(8 757)	(7 813)	(6 675)	(7 120)
Net cash flows from investments in financial assets for policy purposes [(b)]		2 348	2 593	1 969	1 975	2 851
Subtotal		**(5 930)**	**(6 165)**	**(5 844)**	**(4 699)**	**(4 269)**
Net cash flows from investment in financial assets for liquidity management purposes		801	305	182	116	4
Net cash flows from investing activities		**(5 129)**	**(5 860)**	**(5 662)**	**(4 583)**	**(4 265)**
Cash flows from financing activities						
Advances received (net)		(2 649)	(2 907)	(1 648)	(1 525)	(1 592)
Net borrowings		4 584	4 121	1 771	2 513	1 361
Net cash flows from financing activities		**1 935**	**1 214**	**124**	**988**	**(231)**
Net increase/(decrease) in cash and cash equivalents		**408**	**(753)**	**422**	**527**	**274**
Cash and cash equivalents at beginning of reporting period [(c)]		5 530	5 530	4 776	5 199	5 726
Cash and cash equivalents at end of reporting period [(c)(d)]		**5 937**	**4 776**	**5 199**	**5 726**	**6 000**

ESTIMATED GENERAL GOVERNMENT SECTOR
CASH FLOW STATEMENT *(continued)*

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

	Notes	*2017-18 budget*	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
FISCAL AGGREGATES						
Net cash flows from operating activities		3 601	3 893	5 961	4 122	4 771
Net cash flows from investments in non-financial assets		(8 277)	(8 757)	(7 813)	(6 675)	(7 120)
Cash surplus/(deficit)		**(4 676)**	**(4 864)**	**(1 852)**	**(2 552)**	**(2 349)**

Source: Department of Treasury and Finance

The accompanying notes form part of these Estimated Financial Statements.

Notes:

(a) Inclusive of goods and services tax.

(b) Includes net advances to PNFCs for policy purposes of $2 907 million in 2017-18, $1 648 million in 2018-19, $1 525 million in 2019-20 and $1 592 million in 2020-21.

(c) 2017-18 Budget *figures have been restated to represent actual opening balances at 1 July 2017.*

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

ESTIMATED GENERAL GOVERNMENT SECTOR STATEMENT OF CHANGES IN EQUITY

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

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*
2017-18 budget [(a)]		
Balance at 1 July 2017	51 464	55 745
Net result for the year	887	..
Other comprehensive income for the year	923	3 660
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2018	**53 275**	**59 405**
2017-18 revised		
Balance at 1 July 2017	51 464	55 745
Net result for the year	1 460	..
Other comprehensive income for the year	1 986	3 661
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2018	**54 911**	**59 406**
2018-19 estimate		
Balance at 1 July 2018	54 911	59 406
Net result for the year	1 977	..
Other comprehensive income for the year	942	649
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2019	**57 830**	**60 055**
2019-20 estimate		
Balance at 1 July 2019	57 830	60 055
Net result for the year	1 722	..
Other comprehensive income for the year	922	7 844
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2020	**60 474**	**67 899**
2020-21 estimate		
Balance at 1 July 2020	60 474	67 899
Net result for the year	2 374	..
Other comprehensive income for the year	956	1 507
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2021	**63 804**	**69 406**

Source: Department of Treasury and Finance

The accompanying notes form part of these Estimated Financial Statements.

Note:
(a) Balances represent actual opening balances at 1 July 2017 plus 2017-18 budgeted movements.

Investment in other sector entities revaluation surplus	*Other reserves*	*Total*
60 149	669	168 027
..	..	887
(966)	1	3 617
..	..	..
..	..	..
59 183	**669**	**172 532**
60 149	669	168 027
..	..	1 460
(621)	1	5 027
..	..	..
..	..	..
59 528	**669**	**174 515**
59 528	669	174 515
..	..	1 977
850	1	2 442
..	..	..
..	..	..
60 378	**671**	**178 934**
60 378	671	178 934
..	..	1 722
1 081	3	9 849
..	..	..
..	..	..
61 459	**674**	**190 505**
61 459	674	190 505
..	..	2 374
621	2	3 086
..	..	..
..	..	..
62 080	**675**	**195 965**

4.1 ABOUT THIS REPORT

This note summarises the basis applied in preparing and presenting these updated Estimated Financial Statements for the general government sector, which includes the forecasts for the budget year and the estimates for the three subsequent years.

The accounting policies and forecast assumptions applied are consistent with those of the Estimated Financial Statements as published in the 2017-18 Budget Paper No. 5 *Statement of Finances*, which should be read in conjunction with this statement. For further details of the accounting policies, refer to Chapter 4 *Annual Financial Report* of the 2016-17 *Financial Report* for the State of Victoria as presented to the Parliament.

To gain a better understanding of the terminology and key aggregates used in this report, a glossary of terms can be found in Note 9.9 of Chapter 4 *Annual Financial Report* of the *2016-17 Financial Report* for the State of Victoria.

Basis of preparation

The Estimated Financial Statements have been prepared for the 2017-18 year in accordance with the accounting policies expected to be used in preparing historically oriented general purpose financial statements for that year, and the same accounting policies have been used for the subsequent three years.

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

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

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

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

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

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

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

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

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

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

Reporting entity

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

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

Basis for consolidation

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

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

Where the carrying amount of a PNFC or PFC entity's net assets before consolidation eliminations is less than zero, the carrying amount is not included in the general government sector.

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

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

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

The significant entities consolidated within the sector comprise those general government sector entities listed in Note 9.8 of Chapter 4 *Annual Financial Report* of the *2016-17 Financial Report* for the State of Victoria, except as stated in Note 4.7.5 of these Estimated Financial Statements.

Compliance

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

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

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

The information presented in the Estimated Financial Statements takes into account all policy decisions made by the Victorian Government as well as known Commonwealth funding revisions and circumstances that may have a material effect on the Estimated Financial Statements as at 29 November 2017.

Key financial measures

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

For the *2017-18 Budget*, the Government set its sustainability objectives as:

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

Material economic assumptions

The Estimated Financial Statements have been prepared using material economic and other assumptions listed below, which have been updated since the publication of the *2017-18 Budget*.

Key economic assumptions [(a)]

	2016-17 actual	*2017-18 forecast*	*2018-19 forecast*	*2019-20 projection*	*2020-21 projection*
			($ billion)		
Nominal gross state product	406.5	427.2	449.3	472.2	496.8
			(percentage change)		
Real gross state product	3.3	3.00	2.75	2.75	2.75
Employment	3.9	3.00	2.00	1.75	1.75
Unemployment rate [(b)]	5.9	5.75	5.75	5.50	5.50
Consumer price index [(c)]	1.9	2.00	2.25	2.50	2.50
Wage price index [(d)]	2.0	2.25	2.50	2.75	3.00
Population [(e)]	2.4[(f)]	2.30	2.20	2.10	2.00

Source: Department of Treasury and Finance

Notes:

(a) Percentage change in year average compared with previous year, except for the unemployment rate (see note (b)) and population (see note (e)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (e)).
The key assumptions underlying the economic forecasts include: interest rates that follow the market forward curve; the exchange rate remaining at its current level; and oil prices that follow the path implied by oil futures.

(b) Year average, per cent.

(c) Melbourne consumer price index.

(d) Total hourly rate excluding bonuses.

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

(f) Forecast.

Sensitivity analysis

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

4.2 HOW FUNDS ARE RAISED

Introduction

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

Revenue from transactions is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably estimated at fair value.

Structure

4.2.1 Taxation revenue 47

4.2.2 Dividends, income tax equivalent and rate equivalent revenue 48

4.2.3 Sales of goods and services 49

4.2.4 Grant revenue 49

4.2.5 Other revenue 49

4.2.1 Taxation revenue ($ million)

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Taxes on employers' payroll and labour force	**5 898**	**5 968**	**6 251**	**6 533**	**6 910**
Taxes on immovable property					
Land tax	2 366	2 426	2 949	3 201	3 265
Fire Services Property Levy	674	662	662	688	695
Congestion levy	118	122	124	127	130
Metropolitan improvement levy	162	162	166	170	174
Financial and capital transactions					
Land transfer duty	6 164	6 573	6 882	7 139	7 424
Metropolitan planning levy	27	28	29	30	31
Financial accommodation levy	154	156	185	203	220
Growth areas infrastructure contributions	175	220	248	277	294
Total taxes on property	**9 840**	**10 350**	**11 246**	**11 834**	**12 234**
Gambling taxes					
Public lotteries	438	413	418	423	425
Electronic gaming machines	1 126	1 086	1 107	1 128	1 144
Casino	236	227	237	245	252
Racing	74	73	70	66	62
Other	29	28	32	35	39
Levies on statutory corporations [(a)]	**112**	**112**	**157**	**157**	**..**
Taxes on insurance	**1 289**	**1 292**	**1 370**	**1 453**	**1 541**
Total taxes on the provision of goods and services	**3 304**	**3 232**	**3 391**	**3 506**	**3 463**
Motor vehicle taxes					
Vehicle registration fees	1 594	1 415	1 638	1 749	1 828
Duty on vehicle registrations and transfers	925	944	978	1 010	1 041
Liquor licence fees	**23**	**23**	**24**	**24**	**25**
Other	**243**	**243**	**278**	**280**	**285**
Total taxes on the use of goods and performance of activities	**2 786**	**2 625**	**2 916**	**3 062**	**3 179**
Total taxation revenue	**21 827**	**22 175**	**23 804**	**24 935**	**25 787**

Source: Department of Treasury and Finance

Note:

(a) The fourth tranche of environmental contribution levy commenced on 1 July 2016 for a period of four years concluding 30 June 2020.

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

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Dividends from PFC sector	475	501	92	70	80
Dividends from PNFC sector	457	498	225	141	195
Dividends from non-public sector	26	25	26	26	28
Dividends	**958**	**1 024**	**343**	**236**	**304**
Income tax equivalent revenue from PFC sector	6	8	75	46	105
Income tax equivalent revenue from PNFC sector	195	231	167	171	203
Income tax equivalent revenue	**201**	**239**	**242**	**216**	**308**
Local government rate equivalent revenue	12	6	7	8	7
Total dividends, income tax equivalent and rate equivalent revenue	**1 171**	**1 269**	**592**	**460**	**619**

Source: Department of Treasury and Finance

Dividends by entity ($ million)

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Public financial corporations					
Victorian Managed Insurance Authority	365	365	43	34	41
Treasury Corporation of Victoria	104	125	41	30	34
State Trustees Ltd	5	5	4	2	2
Victorian Funds Management Corporation	2	7	4	3	3
Dividends from PFC sector	**475**	**501**	**92**	**70**	**80**
Public non-financial corporations					
City West Water Corporation	43	57	24	13	17
Melbourne Water Corporation	44	58	31	..	..
South East Water Corporation	90	100	54	41	44
Yarra Valley Water Corporation	28	31	23	10	14
State Electricity Commission of Victoria	210	210	60	30	65
Development Victoria	41	40	29	44	51
Others	2	2	3	3	4
Dividends from PNFC sector	**457**	**498**	**225**	**141**	**195**

Source: Department of Treasury and Finance

4.2.3 Sales of goods and services ($ million)

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Motor vehicle regulatory fees	206	208	218	225	259
Other regulatory fees	534	533	536	545	555
Sale of goods	79	79	79	82	84
Provision of services [(a)]	4 257	4 268	4 438	4 768	4 961
Rental	74	74	75	76	77
Refunds and reimbursements	56	56	56	56	56
Inter-sector capital asset charge	1 981	2 044	2 228	2 295	2 320
Total sales of goods and services	**7 187**	**7 261**	**7 630**	**8 046**	**8 312**

Source: Department of Treasury and Finance

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

4.2.4 Grant revenue ($ million)

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
General purpose grants	14 744	15 381	16 168	16 964	18 016
Specific purpose grants for on-passing	3 757	3 493	3 955	4 172	4 381
Grants for specific purposes	10 503	10 543	11 404	10 321	10 330
Total	**29 004**	**29 418**	**31 526**	**31 457**	**32 727**
Other contributions and grants [(a)]	814	804	689	732	685
Total grant revenue	**29 818**	**30 221**	**32 216**	**32 190**	**33 413**

Source: Department of Treasury and Finance

Note:
(a) Includes contributions from other sectors.

4.2.5 Other revenue ($ million)

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Fair value of assets received free of charge or for nominal consideration	80	81	68	69	57
Fines	820	821	836	853	871
Royalties	95	95	90	90	98
Donations and gifts	248	255	255	245	267
Other non-property rental	21	25	26	26	26
Other revenue – Education	535	603	618	634	649
Other revenue – Health	54	75	79	83	87
Other miscellaneous revenue	650	598	715	629	632
Total other revenue	**2 502**	**2 554**	**2 687**	**2 629**	**2 688**

Source: Department of Treasury and Finance

4.3 HOW FUNDS ARE SPENT

Introduction

This section details the major forecast operating expenditure for the general government sector's operating activities (expenses from transactions) and capital or infrastructure projects during the year, as well as any related obligations.

Structure

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4.3.1 Employee expenses and provision for outstanding employee benefits

Employee expenses and employee benefits are forecast on the basis of staffing profiles and current salaries, conditions and on costs. For the forecast period, employee expenses and employee benefits includes the expected financial impact of employing more staff to increase service delivery and approved wage outcomes, with allowance made for further adjustments and expected wages growth in line with wages policy. Employee expenses forecasts also reflect the estimated impact of expected savings and new initiatives. The majority of employee expenses in the operating statement are salaries and wages.

Employee benefits (balance sheet) **($ million)**

	2018 budget	*2018 revised*	*2019 estimate*	*2020 estimate*	*2021 estimate*
Current					
Accrued salaries and wages	516	507	522	533	549
Other employee benefits	66	66	66	66	66
Annual leave	1 522	1 520	1 556	1 578	1 614
Long service leave	3 777	3 776	3 917	4 026	4 172
Total current employee benefits and on-costs	**5 882**	**5 869**	**6 061**	**6 204**	**6 401**
Non-current					
Long service leave	865	896	1 005	1 111	1 189
Total non-current employee benefits	**865**	**896**	**1 005**	**1 111**	**1 189**
Total employee benefits	**6 747**	**6 765**	**7 065**	**7 315**	**7 590**

Source: Department of Treasury and Finance

4.3.2 Superannuation expense and other superannuation expenses

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

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Defined benefit plans					
Net superannuation interest expense	761	714	699	670	639
Current service cost	780	920	890	886	884
Remeasurements:					
Expected return on superannuation assets excluding interest income	(915)	(950)	(921)	(935)	(949)
Other actuarial (gain)/loss on superannuation assets	..	90	..	..	..
Actuarial and other adjustments to unfunded superannuation liability	..	(1 118)	..	..	..
Total expense recognised in respect of defined benefit plans	**626**	**(344)**	**668**	**621**	**574**
Defined contribution plans					
Employer contributions to defined contribution plans	1 502	1 510	1 547	1 612	1 659
Other (including pensions)	65	65	66	68	69
Total expense recognised in respect of defined contribution plans	**1 567**	**1 575**	**1 614**	**1 680**	**1 728**
Total superannuation (gain)/expense recognised in operating statement	**2 193**	**1 231**	**2 281**	**2 301**	**2 302**
Represented by:					
Net superannuation interest expense	761	714	699	670	639
Other superannuation	2 347	2 495	2 503	2 566	2 612
Superannuation expense from transactions	**3 108**	**3 210**	**3 202**	**3 236**	**3 250**
Remeasurements recognised in other comprehensive income	**(915)**	**(1 979)**	**(921)**	**(935)**	**(949)**
Total superannuation expense recognised in operating statement	**2 193**	**1 231**	**2 281**	**2 301**	**2 302**

Source: Department of Treasury and Finance

The accounting policies relating to superannuation expenses and liabilities are consistent with the *2017-18 Budget*. However, the forecast assumptions have been revised for each relevant defined benefit superannuation scheme as in the following table.

Superannuation assumptions (per cent)

Underlying assumptions for all listed schemes [(a)]	
Discount rate [(b)]	3.1
Wages growth [(c)]	3.3
Inflation rate [(d)]	1.8
Expected return on assets [(e)]	
Emergency Services and State Super	8.0
Health Super Fund Defined Benefit Scheme	5.7
Constitutionally protected schemes [(f)]	n.a.

Source: Department of Treasury and Finance

Notes:

(a) *All rates are nominal annual rates and are applicable to all the listed schemes.*

(b) *The discount rate is based on a long-term fixed interest Commonwealth bond rate. The rate stated above is an annual effective rate, gross of tax.*

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

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

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

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

4.3.3 Grant expense ($ million)

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Current grant expense					
Commonwealth Government [(a)]	1 041	1 056	1 946	2 776	2 865
Local government (including grants for on-passing)	976	802	939	773	788
Private sector and not-for-profit for on-passing	3 195	3 209	3 372	3 559	3 763
Other private sector and not-for-profit	2 579	2 072	2 479	2 819	2 504
Grants within the Victorian Government	3 444	3 506	3 468	3 525	3 534
Grants to other state governments	11	13	11	11	11
Total current grant expense	**11 247**	**10 659**	**12 215**	**13 462**	**13 465**
Capital grant expense					
Local government (including grants for on-passing)	15	15	20	..	..
Private sector and not-for-profit on-passing	48	80	37	34	38
Other private sector and not-for-profit	4	4	4	4	4
Grants within the Victorian Government	19	33	41	14	..
Other grants	..	..	..	44	..
Total capital grant expense	**86**	**133**	**102**	**96**	**42**
Total grant expense	**11 333**	**10 792**	**12 317**	**13 558**	**13 507**

Source: Department of Treasury and Finance

Note:

(a) *The increase in Commonwealth grant expense is largely driven by the State's contribution to the NDIS.*

4.3.4 Other operating expenses ($ million)

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Purchase of supplies and consumables [(a)]	6 431	6 448	6 452	6 573	7 234
Cost of goods sold	30	29	30	31	32
Finance expenses and fees	31	31	32	32	32
Purchase of services [(a)(b)]	11 288	11 916	11 624	10 856	10 850
Insurance claims expense	229	242	256	261	268
Maintenance	740	785	823	808	832
Operating lease payments	304	324	321	323	325
Other	777	783	795	827	869
Total other operating expenses	**19 830**	**20 558**	**20 333**	**19 711**	**20 442**

Source: Department of Treasury and Finance

Notes:

(a) A breakdown of purchase of supplies and consumables and purchase of services is provided in the following two tables.

(b) The reduction in purchase of services is largely driven by the State's existing expenditure on disability services, including payments to disability service providers, being allocated towards the State's contribution to the NDIS. These services will be funded by the NDIS.

Purchase of supplies and consumables ($ million)

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Medicinal pharmacy and medical supplies	1 257	1 287	1 281	1 296	1 315
Office supplies and consumables	145	188	182	174	174
Specialised operational supplies and consumables	123	119	129	125	133
Other purchase of supplies and consumables	4 906	4 853	4 859	4 979	5 612
Total purchase of supplies and consumables	**6 431**	**6 448**	**6 452**	**6 573**	**7 234**

Source: Department of Treasury and Finance

Purchase of services ($ million)

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Service contracts [(a)]	6 976	7 010	7 064	6 510	6 533
Accommodation/occupancy	685	739	768	775	801
Medical and client care services	333	339	344	351	359
Staff related expenses (non-labour related)	246	303	238	230	232
Other purchase of services	3 048	3 525	3 209	2 991	2 925
Total purchase of supplies and consumables	**11 288**	**11 916**	**11 624**	**10 856**	**10 850**

Source: Department of Treasury and Finance

Note:

(a) The reduction in service contracts is largely driven by the State's existing expenditure on disability services, including payments to disability service providers, being allocated towards the State's contribution to the NDIS. These services will be funded by the NDIS.

4.3.5 Total expenses by government purpose and by portfolio department

Expenses by government purpose classification [a] **($ million)**

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Expenses					
General public services [b]	2 686	2 806	2 541	2 428	2 343
Public order and safety	7 403	7 472	7 714	8 011	8 262
Education	15 392	15 506	15 863	15 964	16 511
Health	18 153	18 278	19 119	19 714	20 183
Social security and welfare [c]	4 905	5 007	5 306	5 587	5 844
Housing and community amenities	3 440	3 234	3 292	3 205	2 983
Recreation and culture	775	804	735	665	655
Fuel and energy	303	276	219	493	56
Agriculture, forestry, fishing, and hunting	475	470	431	376	329
Transport and communications	7 443	7 503	7 580	7 747	7 969
Other economic affairs	1 047	1 247	939	679	556
Other purposes	1 197	1 200	1 257	1 307	1 429
Not allocated by purpose [b][d]	(966)	(1 130)	690	971	1 902
Total expenses by government purpose classification	**62 252**	**62 673**	**65 688**	**67 147**	**69 021**

Source: Department of Treasury and Finance

Notes:

(a) *Note 3.6 of the* 2016-17 Financial Report *for the State of Victoria provides definitions and descriptions of government purpose classifications.*

(b) *Certain* 2017-18 Budget *figures have been restated to reflect more current information.*

(c) *The State's contribution to the NDIS transition is expected to increase over the next four years as more clients transition into the scheme.*

(d) *Mainly comprising provision for future demand growth, departmental underspending, eliminated purchases of supplies and consumables between government entities, and items not yet formalised at the time of publication.*

Total expenses by portfolio department ($ million)

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Expenses from transactions					
Economic Development, Jobs, Transport and Resources	9 552	9 851	9 556	9 326	9 337
Education and Training	17 145	17 341	17 697	17 768	18 201
Environment, Land, Water and Planning	3 294	3 141	3 080	3 303	2 627
Health and Human Services	25 048	25 236	25 349	26 092	26 570
Justice and Regulation	6 879	6 920	7 237	7 419	7 602
Premier and Cabinet	667	706	537	441	403
Treasury and Finance	7 116	7 325	7 779	7 231	7 454
Parliament	222	224	221	225	228
Courts	573	614	628	655	662
Regulatory bodies and other part funded agencies [(a)]	2 172	2 281	2 206	2 232	2 273
Output contingencies not allocated to departments [(b)]	1 114	771	2 467	3 082	4 438
Total expenses by department	**73 783**	**74 409**	**76 758**	**77 775**	**79 796**
Less eliminations and adjustments [(c)]	(11 532)	(11 737)	(11 070)	(10 628)	(10 775)
Total expenses	**62 252**	**62 673**	**65 688**	**67 147**	**69 021**

Source: Department of Treasury and Finance

Notes:

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

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

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

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

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Decisions made but not yet allocated [(a)]	1 014	691	1 867	2 182	2 888
Funding not allocated to specific purposes [(b)]	100	80	600	900	1 550
Total general government output contingencies	**1 114**	**771**	**2 467**	**3 082**	**4 438**

Source: Department of Treasury and Finance

Notes:

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

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

4.3.6 Purchases of non-financial assets by government purpose and by portfolio department

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

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
General public services	79	96	82	40	57
Public order and safety	1 314	1 432	804	542	307
Education	989	1 121	742	285	172
Health	1 079	1 061	651	307	336
Social security and welfare	112	150	88	87	86
Housing and community amenities	108	112	91	82	53
Recreation and culture	88	84	79	28	22
Fuel and energy	4	4	3	13	13
Agriculture, forestry, fishing, and hunting	9	28	7	6	6
Transport and communications	6 578	7 005	6 312	4 448	4 756
Other economic affairs	104	143	2	16	7
Not allocated by purpose[(b)]	(1 685)	(1 947)	(261)	1 325	1 842
Total purchases of non-financial assets	**8 780**	**9 289**	**8 602**	**7 180**	**7 656**

Source: Department of Treasury and Finance

Notes:
(a) Note 3.6 of the 2016-17 Financial Report *for the State of Victoria provides definitions and descriptions of government purpose classifications.*
(b) Estimated amount available to be allocated to departments and projects in future budgets, including major capital investment. It also includes departmental spending, which may be subject to carryover.

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

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Economic Development, Jobs, Transport and Resources	5 601	6 664	4 537	2 313	2 400
Education and Training	1 040	1 172	799	343	230
Environment, Land, Water and Planning	130	124	97	95	76
Health and Human Services	1 073	1 237	729	394	427
Justice and Regulation	847	1 021	471	347	186
Premier and Cabinet	18	25	19	13	11
Treasury and Finance	24	42	65	28	47
Parliament	21	31	..	..	..
Courts	67	85	44	15	7
Regulatory bodies and other part funded agencies [(a)]	281	287	187	137	102
Asset contingencies not allocated to departments [(b)]	1 425	811	2 647	3 784	3 777
Adjustments [(c)]	(1 747)	(2 210)	(992)	(290)	393
Total purchases of non-financial assets	**8 780**	**9 289**	**8 602**	**7 180**	**7 656**

Source: Department of Treasury and Finance

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

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

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Decisions made but not yet allocated [(a)]	1 425	811	2 247	2 984	2 577
Funding not allocated to specific purposes [(b)]	..	..	400	800	1 200
Total general government asset contingencies	**1 425**	**811**	**2 647**	**3 784**	**3 777**

Source: Department of Treasury and Finance

Notes:

(a) A provision to account for asset policy decisions for which the funding has yet to be allocated to departments.

(b) An unallocated provision available for future government asset investment decisions.

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

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Purchases of non-financial assets (including change in inventories)	8 747	9 256	8 606	7 185	7 660
Less: Sales of non-financial assets	(503)	(532)	(789)	(506)	(536)
Less: Depreciation and amortisation	(2 788)	(2 734)	(2 960)	(3 222)	(3 542)
Plus: Other movements in non-financial assets [(a)]	(3 643)	(4 125)	(4 138)	(3 087)	(2 981)
Total net acquisition of non-financial assets from transactions	**1 813**	**1 865**	**720**	**371**	**601**

Source: Department of Treasury and Finance

Note:

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

4.4 MAJOR ASSETS AND INVESTMENTS

Introduction

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

Structure

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4.4.2 Depreciation 59

4.4.3 Reconciliation of movements in land, buildings, infrastructure, plant and equipment 59

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4.4.5 Total assets by government purpose classification 60

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

	2018 budget	*2018 revised*	*2019 estimate*	*2020 estimate*	*2021 estimate*
Buildings	28 642	28 638	29 722	30 958	31 414
Buildings leasehold	5 557	5 562	5 383	5 210	5 040
Land and national parks	50 528	50 541	50 379	53 878	54 234
Infrastructure systems	1 335	1 339	1 330	1 319	1 297
Plant, equipment and vehicles	2 343	2 466	2 323	2 050	1 728
Leased plant, equipment and vehicles	168	168	153	137	121
Roads and road infrastructure	23 408	23 351	24 410	26 679	27 950
Leased roads and road infrastructure	628	628	618	663	651
Earthworks	9 229	9 229	9 480	10 568	10 715
Cultural assets	5 610	5 613	5 604	6 367	6 637
Total land, buildings, infrastructure, plant and equipment	**127 449**	**127 535**	**129 402**	**137 829**	**139 788**

Source: Department of Treasury and Finance

4.4.2 Depreciation ($ million)

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Buildings [(a)]	1 141	1 108	1 166	1 320	1 444
Leasehold buildings	178	178	194	193	193
Infrastructure systems	33	33	36	37	38
Plant, equipment and vehicles [(a)]	595	594	622	623	650
Leased plant, equipment and vehicles	17	17	16	15	14
Roads and road networks [(a)]	650	626	741	833	1 013
Leased roads and road infrastructure	9	9	11	11	12
Cultural assets	23	23	27	26	27
Intangible produced assets [(b)]	143	146	147	163	152
Total depreciation	**2 788**	**2 734**	**2 960**	**3 222**	**3 542**

Source: Department of Treasury and Finance

Notes:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2017-18 to 2020-21.

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

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

	2017-18 budget	2017-18 revised	2018-19 estimates	2019-20 estimates	2020-21 estimates
Carrying amount at the start of the year	121 776	121 776	127 535	129 402	137 829
Additions [(b)]	9 314	9 840	9 114	7 413	8 248
Disposals at written down value	(371)	(389)	(527)	(391)	(404)
Revaluations	3 659	3 661	649	7 844	1 507
Asset transfers [(c)]	(4 284)	(4 766)	(4 556)	(3 379)	(4 003)
Depreciation expense	(2 645)	(2 588)	(2 813)	(3 059)	(3 390)
Carrying amount at the end of the year	**127 449**	**127 535**	**129 402**	**137 829**	**139 788**

Source: Department of Treasury and Finance

Notes:

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

(b) Includes assets acquired under finance lease arrangements.

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

4.4.4 Other non-financial assets ($ million)

	2018 budget	2018 revised	2019 estimate	2020 estimate	2021 estimate
Intangible produced assets	1 748	1 723	1 738	1 718	1 728
Accumulated depreciation	(985)	(975)	(1 097)	(1 241)	(1 371)
Intangible non-produced assets	105	130	131	131	131
Accumulated amortisation	(44)	(44)	(47)	(50)	(52)
Total intangibles	**823**	**833**	**724**	**558**	**436**
Investment properties	183	166	166	158	160
Biological assets	4	4	6	7	9
Other assets	484	483	785	1 592	2 152
Total other non-financial assets	**1 495**	**1 487**	**1 681**	**2 315**	**2 757**

Source: Department of Treasury and Finance

4.4.5 Total assets by government purpose classification [(a)] ($ million)

	2018 budget	2018 revised	2019 estimate	2020 estimate	2021 estimate
General public services	2 032	2 122	2 043	1 926	1 834
Public order and safety	9 684	9 780	10 103	10 637	10 670
Education	23 460	23 592	23 864	24 810	24 860
Health	14 804	14 787	14 536	13 903	13 285
Social security and welfare	2 183	2 224	2 255	2 285	2 313
Housing and community amenities	9 897	9 902	10 528	12 178	12 680
Recreation and culture	9 545	9 543	9 542	9 491	9 432
Fuel and energy	25	25	26	26	25
Agriculture, forestry, fishing, and hunting	504	522	496	469	442
Transport and communications	58 327	58 320	59 873	66 915	68 232
Other economic affairs	532	558	383	391	390
Other purposes	6	6	6	6	6
Not allocated by purpose [(b)]	119 854	119 450	123 244	126 077	129 854
Total assets	**250 854**	**250 832**	**256 900**	**269 115**	**274 024**

Source: Department of Treasury and Finance

Notes:

(a) *Note 3.6 of the* 2016-17 Financial Report *for the State of Victoria provides definitions and descriptions of government purpose classifications.*

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

4.5 FINANCING STATE OPERATIONS

Introduction

State operations are financed through a variety of means. Recurrent operations are generally financed from cash flows from operating activities (see consolidated cash flow statement). Asset investment operations are generally financed from a combination of surplus cash flows from operating activities, asset sales, advances and borrowings.

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

Structure

4.5.1 Borrowings 61

4.5.2 Advances paid and investments, loans and placements 62

4.5.3 Interest expense 62

4.5.1 Borrowings ($ million)

	2018 budget	*2018 revised*	*2019 estimate*	*2020 estimate*	*2021 estimate*
Current borrowings					
Domestic borrowings	752	752	759	761	761
Finance lease liabilities [(a)]	234	217	197	150	152
Derivative financial instruments	5	5	5	5	5
Total current borrowings	**992**	**975**	**961**	**916**	**918**
Non-current borrowings					
Domestic borrowings	23 340	22 937	24 968	27 793	29 450
Finance lease liabilities [(a)]	9 622	9 578	9 763	9 852	10 601
Derivative financial instruments	99	99	99	99	99
Total non-current borrowings	**33 061**	**32 614**	**34 830**	**37 744**	**40 150**
Total borrowings	**34 052**	**33 589**	**35 791**	**38 660**	**41 068**

Source: Department of Treasury and Finance

Note:
(a) Further detailed disclosures on finance lease liabilities can be found in the 2016-17 Financial Report *for the State of Victoria.*

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

	2018 budget	2018 revised	2019 estimate	2020 estimate	2021 estimate
Current advances paid and investments, loans and placements					
Loans and advances paid	1 306	738	272	99	51
Equities and managed investment schemes	1 054	952	934	943	984
Australian dollar term deposits	543	1 344	1 269	1 216	1 185
Debt securities	1	1	1	1	1
Derivative financial instruments	5	5	5	38	58
Total current advances paid and investments, loans and placements	**2 909**	**3 041**	**2 482**	**2 298**	**2 279**
Non-current advances paid and investments, loans and placements					
Loans and advances paid	8 924	9 236	7 986	6 558	4 954
Equities and managed investment schemes	368	372	357	354	363
Australian dollar term deposits	882	675	623	596	605
Debt securities	24	24	24	24	24
Derivative financial instruments	11	11	11	11	11
Total non-current advances paid and investments, loans and placements	**10 210**	**10 319**	**9 001**	**7 544**	**5 958**
Total advances paid and investments, loans and placements	**13 119**	**13 359**	**11 483**	**9 842**	**8 237**
Represented by:					
Advances paid	10 230	9 974	8 258	6 657	5 005
Investments, loans and placements	2 889	3 386	3 225	3 185	3 232

Source: Department of Treasury and Finance

4.5.3 Interest expense ($ million)

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Interest on interest-bearing liabilities	1 253	1 262	1 275	1 294	1 379
Finance charges on finance leases	891	987	971	974	952
Discount interest on payables	37	37	37	37	42
Total interest expense	**2 181**	**2 286**	**2 282**	**2 304**	**2 373**

Source: Department of Treasury and Finance

4.6 OTHER ASSETS AND LIABILITIES

Introduction

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

Structure

4.6.1 Investments in other sector entities 63

4.6.2 Payables 63

4.6.3 Superannuation 64

4.6.1 Investments in other sector entities ($ million)

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Balance of investment in PNFC and PFC sectors at beginning of period	92 509	92 509	97 042	102 220	106 274
Net contributions to other sectors by owner	4 660	5 153	4 328	2 972	2 809
Revaluation gain/(loss) for period	(966)	(621)	850	1 081	621
Investment in other sector entities at end of period	**96 203**	**97 042**	**102 220**	**106 274**	**109 703**

Source: Department of Treasury and Finance

4.6.2 Payables ($ million)

	2018 budget	*2018 revised*	*2019 estimate*	*2020 estimate*	*2021 estimate*
Current payables					
Accounts payable and accrued expenses	3 450	3 449	3 402	3 351	3 109
Accrued taxes payable	44	44	45	46	46
Unearned income	533	534	589	584	578
Total current payables	**4 027**	**4 027**	**4 037**	**3 981**	**3 733**
Non-current payables					
Accounts payable and accrued expenses	1 813	1 832	3 544	3 293	2 934
Total non-current payables	**1 813**	**1 832**	**3 544**	**3 293**	**2 934**
Total payables	**5 841**	**5 860**	**7 581**	**7 274**	**6 667**

Source: Department of Treasury and Finance

4.6.3 Superannuation

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

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Emergency Services and State Super					
Defined benefit obligation	41 576	40 248	39 834	39 369	38 844
Tax liability [(a)]	2 533	2 544	2 444	2 341	2 237
Plan assets	(21 139)	(20 926)	(21 370)	(21 804)	(22 212)
Net liability/(asset)	**22 971**	**21 865**	**20 909**	**19 906**	**18 869**
Other funds [(b)]					
Defined benefit obligation	1 954	2 089	2 086	2 085	2 085
Tax liability [(a)]	..	..	..	..	..
Plan assets	(937)	(964)	(937)	(908)	(881)
Net liability/(asset)	**1 016**	**1 125**	**1 149**	**1 177**	**1 204**
Total superannuation					
Defined benefit obligation	43 530	42 337	41 920	41 454	40 929
Tax liability [(a)]	2 533	2 544	2 444	2 341	2 237
Plan assets	(22 076)	(21 891)	(22 306)	(22 712)	(23 093)
Superannuation liability	**23 987**	**22 990**	**22 058**	**21 083**	**20 073**
Represented by:					
Current liability	1 076	1 078	1 082	1 075	1 057
Non-current liability	22 912	21 911	20 976	20 008	19 016
Total superannuation liability	**23 987**	**22 990**	**22 058**	**21 083**	**20 073**

Source: Department of Treasury and Finance

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 present value of the defined benefit obligation ($ million)

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Opening balance of defined benefit obligation	**46 545**	**46 545**	**44 881**	**44 364**	**43 795**
Current service cost	780	920	890	886	884
Interest expense	1 396	1 336	1 367	1 351	1 331
Contributions by plan participants	188	199	193	187	182
Actuarial and other adjustments to unfunded superannuation liability	..	(1 118)	..	..	..
Benefits paid	(2 846)	(3 002)	(2 966)	(2 992)	(3 026)
Closing balance of defined benefit obligation	**46 063**	**44 881**	**44 364**	**43 795**	**43 166**

Source: Department of Treasury and Finance

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

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Opening balance of plan assets	**21 645**	**21 645**	**21 891**	**22 306**	**22 712**
Interest income	635	622	668	681	692
Return on plan assets not included in interest income	915	860	921	935	949
Employer contributions	1 540	1 567	1 600	1 596	1 584
Contributions by plan participants	188	199	193	187	182
Benefits paid (including tax paid)	(2 846)	(3 002)	(2 966)	(2 992)	(3 026)
Closing balance of plan assets	**22 076**	**21 891**	**22 306**	**22 712**	**23 093**

Source: Department of Treasury and Finance

4.7 OTHER DISCLOSURES

Introduction

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

Structure

4.7.1 Other gains/(losses) from other economic flows 66

4.7.2 Reconciliation to Government Finance Statistics 67

4.7.3 Financial instruments 68

4.7.4 Prospective accounting and reporting changes 68

4.7.5 Controlled entities 69

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

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Net (increase)/decrease in provision for doubtful receivables	(205)	(205)	(212)	(208)	(230)
Amortisation of intangible non-produced assets	(4)	(4)	(4)	(4)	(4)
Bad debts written off	(159)	(159)	(159)	(169)	(155)
Other gains/(losses)	(2)	(2)	(2)	(3)	(3)
Total other gains/(losses) from other economic flows	**(370)**	**(370)**	**(377)**	**(383)**	**(391)**

Source: Department of Treasury and Finance

4.7.2 Reconciliation to Government Finance Statistics [(a)] ($ million)

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Net result from transactions – net operating balance	**1 153**	**1 713**	**2 117**	**1 987**	**2 641**
Convergence differences:					
Licence fees [(b)]	52	52	52	52	52
plus total convergence difference:	52	52	52	52	52
GFS net operating balance	**1 205**	**1 765**	**2 169**	**2 039**	**2 693**
Net lending/(borrowing)	**(660)**	**(152)**	**1 397**	**1 616**	**2 040**
Convergence differences:					
Licence fees [(b)]	52	52	52	52	52
plus total convergence difference:	52	52	52	52	52
GFS net lending/(borrowing)	**(608)**	**(100)**	**1 449**	**1 668**	**2 092**
Comprehensive result – total change in net worth	**4 504**	**6 488**	**4 419**	**11 571**	**5 460**
Contribution by non-controlling interest					
Convergence differences:					
Doubtful receivables of the general government sector [(c)]	165	165	172	169	191
Net gain on equity investments in other sector entities measured at proportional share of the carrying amount of net assets/(liabilities) [(d)]	(278)	(168)	(356)	173	(38)
Unearned income relating to licence fees [(b)]	52	52	52	52	52
plus total convergence difference:	(61)	49	(131)	395	205
GFS total change in net worth	**4 444**	**6 537**	**4 288**	**11 966**	**5 665**
Net worth	**172 532**	**174 515**	**178 934**	**190 505**	**195 965**
Convergence differences:					
Doubtful receivables of the general government sector [(c)]	1 101	1 101	1 273	1 442	1 633
Investments in other sector entities [(e)]	7 196	7 306	6 950	7 124	7 086
Unearned income relating to licence fees [(b)]	(731)	(731)	(679)	(626)	(574)
plus total convergence difference:	7 566	7 676	7 545	7 939	8 144
GFS net worth	**180 097**	**182 191**	**186 479**	**198 445**	**204 110**
Cash surplus/(deficit)	**(4 676)**	**(4 864)**	**(1 852)**	**(2 552)**	**(2 349)**
Convergence differences:					
Less: Acquisitions under finance leases and similar arrangements [(f)(g)]	(647)	(647)	(419)	(315)	(1 022)
GFS cash surplus/(deficit)	**(5 323)**	**(5 511)**	**(2 271)**	**(2 867)**	**(3 371)**

Source: Department of Treasury and Finance

Notes:

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

(b) The convergence difference arises because the GFS recognises the 15-year prepaid Port Licence Fee from the medium-term lease of the Port of Melbourne as revenue over the 15-year period.

(c) The convergence difference in accounts receivable arises because GFS does not recognise doubtful receivables, whereas a provision for doubtful receivables is recognised in the balance sheet.

(d) Net gain on equity investments in other sector entities includes doubtful receivables, future tax benefits and deferred tax liability of the PNFC and PFC sectors.

(e) Investments in other sector entities for general government sector includes doubtful receivables, future tax benefits and deferred tax liability of the PNFC and PFC sectors.

(f) The convergence difference arises because for GFS, assets acquired under finance leases are considered to be cash outlays and is included as part of the GFS cash surplus/(deficit).

(g) The finance lease acquisition in 2017-18 relates to the Ravenhall Prison project, the new Bendigo Hospital project (stage 2) and the New Schools PPP project (tranche 2). The 2018-19 and 2019-20 estimates relate to the High Capacity Metro Trains Project. The 2020-21 estimates relate to the High Capacity Metro Trains Project and the Western Roads Upgrade.

4.7.3 Financial instruments

Note 7.1 in the *2016-17 Financial Report* for the State of Victoria contains comprehensive disclosures of the State's (including the general government sector's) financial instruments, including financial risk management objectives and policies.

There has been no substantive change to the accounting classification of financial assets and liabilities for the general government sector as reported in the *2016-17 Financial Report* for the State of Victoria.

4.7.4 Prospective accounting and reporting changes

Certain new and revised accounting standards have been issued but are not effective for the 2017-18 reporting period. There is no intention to early adopt the accounting standards and they have not been applied to the Estimated Financial Statements.

The State is reviewing its existing policies to assess the potential implications. These accounting standards include:

- AASB 9 *Financial Instruments*, operative for reporting periods commencing 1 January 2018 as revised by AASB 2014-1 *Amendments to Australian Accounting Standards* (Part E *Financial Instruments*). AASB 9 simplifies requirements for the classification and measurement of financial assets, introduces a new hedging accounting model and also a revised impairment loss model to recognise impairment loss earlier, as opposed to the current requirement to recognise impairment loss only when incurred.
- AASB 15 *Revenue from Contracts with Customers*, operative for reporting periods commencing 1 January 2019 for not-for-profit entities. The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. The changes in revenue recognition may result in changes to the timing and amount of revenue recognised.
- AASB 16 *Leases*, operative for reporting periods commencing 1 January 2019. The key changes introduced by AASB 16 include the requirement to recognise most operating leases on the balance sheet, which will result in an increase in net debt.
- AASB 1058 *Income of Not-for-Profit Entities*, operative for reporting periods commencing 1 January 2019. This standard will replace AASB 1004 *Contributions* and establishes revenue recognition principles for transactions where the consideration to acquire an asset is significantly less than fair value to enable not-for-profit entities to further their objectives. Under AASB 1058, revenue from capital grants that are provided under an enforceable agreement that have sufficiently specific obligations, will now also be deferred and recognised as the performance obligations are satisfied.
- AASB 1059 *Service Concession Arrangements: Grantors*, operative for reporting periods commencing 1 January 2019. This standard prescribes the accounting treatment for certain public private partnership (PPP) arrangements involving a private sector operator providing public services related to a service concession asset on behalf of the State for a specific period of time.

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

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

4.7.5 Controlled entities

Note 9.8 Controlled entities in the *2016-17 Financial Report* for the State of Victoria lists significant controlled entities, which were consolidated in that financial report.

The following are changes in general government sector entities since 1 July 2017, which have also been incorporated in this financial report:

General government sector	
Department of Health and Human Services	**Department of Economic Development, Jobs, Transport and Resources**
Corryong Health [(a)]	Victorian Fisheries Authority [(c)]
Department of Premier and Cabinet	**Courts**
Victorian Information Commissioner [(b)]	Judicial Commission of Victoria [(d)]

Notes:

(a) On 4 July 2017, Upper Murray Health and Community Services changed its name to Corryong Health.

(b) Effective from 1 September 2017, the Office of the Victorian Information Commissioner commenced operations and took over the responsibilities of the Freedom of Information Commissioner and the Office of the Commissioner for Privacy and Data Protection.

(c) The Victorian Fisheries Authority is an independent statutory authority established on 1 July 2017 to effectively manage Victoria's fisheries resources.

(d) Effective from 1 July 2017, the Judicial Commission of Victoria commenced operations under the Judicial Commission of Victoria Act 2016.

CHAPTER 5 – SUPPLEMENTARY UNIFORM PRESENTATION FRAMEWORK TABLES

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

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Revenue from transactions					
Interest revenue	156	165	118	88	58
Dividend revenue	18	16	15	16	16
Sales of goods and services	6 507	6 683	6 788	6 830	7 275
Grant revenue	3 450	3 540	3 509	3 539	3 534
Other revenue	590	627	579	584	585
Total revenue from transactions	**10 720**	**11 031**	**11 010**	**11 055**	**11 468**
Expenses from transactions					
Employee expenses	1 246	1 246	1 285	1 323	1 356
Other superannuation	111	119	120	124	127
Depreciation	2 409	2 274	2 324	2 412	2 536
Interest expense	1 134	1 121	1 091	1 074	1 068
Grant expense	383	349	392	267	89
Other operating expenses	5 812	6 166	6 079	6 090	6 622
Other property expenses	205	232	166	170	209
Total expenses from transactions	**11 301**	**11 508**	**11 456**	**11 461**	**12 007**
Net result from transactions – net operating balance	**(581)**	**(477)**	**(446)**	**(405)**	**(539)**
Total other economic flows included in net result	**286**	**357**	**300**	**330**	**50**
Net result	**(295)**	**(121)**	**(146)**	**(75)**	**(489)**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	2	..	1 172	1 128	1 077
Remeasurement of superannuation defined benefits plans	(4)	(1)	(4)	(4)	(4)
Other movements in equity	(15)	6	(3)	(4)	(5)
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	1	32	(8)	1	(14)
Total other economic flows – other comprehensive income	**(17)**	**38**	**1 156**	**1 120**	**1 054**
Comprehensive result – total change in net worth	**(312)**	**(83)**	**1 011**	**1 045**	**565**

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

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
KEY FISCAL AGGREGATES					
Net operating balance	**(581)**	**(477)**	**(446)**	**(405)**	**(539)**
Less: Net acquisition of non-financial assets from transactions	4 991	5 352	5 025	3 688	3 375
Net lending/(borrowing)	**(5 572)**	**(5 829)**	**(5 471)**	**(4 094)**	**(3 914)**

Source: Department of Treasury and Finance

Note:

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

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

	2018 budget [(a)]	2018 revised	2019 estimate	2020 estimate	2021 estimate
Assets					
Financial assets					
Cash and deposits	874	819	812	678	756
Advances paid	5 769	5 406	3 757	2 211	610
Receivables	1 610	1 632	1 716	1 848	1 828
Investments, loans and placements	979	1 051	1 024	1 032	892
Investments accounted for using equity method	1 661	1 675	1 708	1 742	1 786
Total financial assets	**10 893**	**10 583**	**9 016**	**7 510**	**5 873**
Non-financial assets					
Inventories	981	760	1 006	1 275	1 134
Non-financial assets held for sale	29	23	22	22	22
Land, buildings, infrastructure, plant and equipment	121 455	122 019	127 910	132 935	137 517
Other non-financial assets	1 491	1 389	1 357	1 299	1 295
Total non-financial assets	**123 955**	**124 190**	**130 296**	**135 532**	**139 968**
Total assets	**134 848**	**134 774**	**139 312**	**143 042**	**145 840**
Liabilities					
Deposits held and advances received	6 221	5 790	4 138	2 609	1 009
Payables	9 998	9 904	9 737	9 522	9 360
Borrowings	17 016	16 871	17 829	18 620	18 937
Employee benefits	431	437	434	447	458
Superannuation	37	37	37	37	37
Other provisions	8 128	8 035	7 723	7 919	7 953
Total liabilities	**41 832**	**41 075**	**39 899**	**39 154**	**37 753**
Net assets	**93 016**	**93 699**	**99 413**	**103 888**	**108 087**
Accumulated surplus/(deficit)	2 960	3 060	2 647	2 385	1 659
Reserves	90 057	90 639	96 766	101 504	106 428
Net worth	**93 016**	**93 699**	**99 413**	**103 888**	**108 087**
FISCAL AGGREGATES					
Net financial worth	(30 939)	(30 491)	(30 883)	(31 643)	(31 881)
Net financial liabilities	30 939	30 491	30 883	31 643	31 881
Net debt	15 616	15 385	16 375	17 309	17 687

Source: Department of Treasury and Finance

Note:

(a) Balances represent actual opening balances at 1 July 2017 plus 2017-18 budgeted movements.

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

($ million)

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Cash flows from operating activities					
Receipts					
Grants	3 439	3 529	3 475	3 539	3 534
Sales of goods and services [b]	6 957	7 085	7 209	7 233	7 829
Interest received	167	188	129	99	58
Dividend receipts	18	15	15	16	16
Other receipts	506	466	302	226	322
Total receipts	**11 086**	**11 282**	**11 130**	**11 112**	**11 760**
Payments					
Payments for employees	(1 240)	(1 234)	(1 290)	(1 315)	(1 346)
Superannuation	(116)	(120)	(125)	(129)	(131)
Interest paid	(1 129)	(1 124)	(1 082)	(1 070)	(1 066)
Grants and subsidies	(137)	(91)	(74)	(60)	(38)
Goods and services [b]	(4 561)	(4 812)	(4 438)	(4 384)	(4 949)
Other payments	(2 323)	(2 417)	(2 568)	(2 634)	(2 564)
Total payments	**(9 506)**	**(9 798)**	**(9 578)**	**(9 591)**	**(10 095)**
Net cash flows from operating activities	**1 580**	**1 484**	**1 552**	**1 521**	**1 665**
Cash flows from investing activities					
Net cash flows from investments in non-financial assets	(3 051)	(2 759)	(2 742)	(2 589)	(1 750)
Net cash flows from investments in financial assets for policy purposes	2 586	2 981	1 709	1 588	1 684
Net cash flows from investment in financial assets for liquidity management purposes	139	98	20	12	134
Net cash flows from investing activities	**(325)**	**320**	**(1 013)**	**(990)**	**67**
Cash flows from financing activities					
Advances received (net)	(2 539)	(2 907)	(1 648)	(1 529)	(1 600)
Net borrowings	1 091	947	958	791	316
Deposits received (net)	1	(62)	(3)	..	..
Other financing (net)	(87)	(116)	147	74	(370)
Net cash flows from financing activities	**(1 535)**	**(2 138)**	**(546)**	**(664)**	**(1 654)**
Net increase/(decrease) in cash and cash equivalents	**(280)**	**(334)**	**(7)**	**(134)**	**78**
Cash and cash equivalents at beginning of reporting period [c]	1 153	1 153	819	812	678
Cash and cash equivalents at end of reporting period [c]	**873**	**819**	**812**	**678**	**756**

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

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
FISCAL AGGREGATES					
Net cash flows from operating activities	1 580	1 484	1 552	1 521	1 665
Dividends paid	(457)	(498)	(225)	(141)	(195)
Net cash flows from investments in non-financial assets	(3 051)	(2 759)	(2 742)	(2 589)	(1 750)
Cash surplus/(deficit)	**(1 929)**	**(1 773)**	**(1 415)**	**(1 210)**	**(281)**

Source: Department of Treasury and Finance

Notes:

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

(b) Inclusive of goods and services tax.

(c) 2017-18 Budget *figures have been restated to represent actual opening balances at 1 July 2017.*

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

	Accumulated surplus/(deficit)	*Contribution by owners*
2017-18 budget [(a)]		
Balance at 1 July 2017	3 751	54 902
Net result for the year	(295)	..
Other comprehensive income for the year	(39)	..
Dividends paid	(457)	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	4 660
Total equity as at 30 June 2018	**2 960**	**59 562**
2017-18 revised		
Balance at 1 July 2017	3 751	54 902
Net result for the year	(121)	..
Other comprehensive income for the year	(24)	..
Dividends paid	(498)	..
Transfer to/(from) accumulated surplus	(48)	..
Transactions with owners in their capacity as owners	..	5 153
Total equity as at 30 June 2018	**3 060**	**60 055**
2018-19 estimate		
Balance at 1 July 2018	3 060	60 055
Net result for the year	(146)	..
Other comprehensive income for the year	(42)	..
Dividends paid	(225)	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	4 928
Total equity as at 30 June 2019	**2 647**	**64 984**
2019-20 estimate		
Balance at 1 July 2019	2 647	64 984
Net result for the year	(75)	..
Other comprehensive income for the year	(46)	..
Dividends paid	(142)	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	3 572
Total equity as at 30 June 2020	**2 385**	**68 556**
2020-21 estimate		
Balance at 1 July 2020	2 385	68 556
Net result for the year	(489)	..
Other comprehensive income for the year	(42)	..
Dividends paid	(195)	..
Transfer to/(from) accumulated surplus	..	..
Transactions with owners in their capacity as owners	..	3 829
Total equity as at 30 June 2021	**1 659**	**72 385**

Source: Department of Treasury and Finance

Note:
(a) Balances represent actual opening balances at 1 July 2017 plus 2017-18 budgeted movements.

	Non-financial assets revaluation surplus	*Other reserves*	*Total*
	29 985	488	89 126
	..	..	(295)
	2	20	(17)
	..	..	(457)
	..	..	..
	..	..	4 660
	29 987	**508**	**93 016**
	29 985	488	89 126
	..	..	(121)
	..	62	38
	..	..	(498)
	48	..	..
	..	..	5 153
	30 034	**550**	**93 699**
	30 034	550	93 699
	..	..	(146)
	1 172	27	1 156
	..	..	(225)
	..	..	..
	..	..	4 928
	31 206	**576**	**99 413**
	31 206	576	99 413
	..	..	(75)
	1 128	38	1 120
	..	..	(142)
	..	..	..
	..	..	3 572
	32 333	**614**	**103 888**
	32 333	614	103 888
	..	..	(489)
	1 077	19	1 054
	..	..	(195)
	..	..	..
	..	..	3 829
	33 410	**633**	**108 087**

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

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Cash surplus/(deficit)	**(1 929)**	**(1 773)**	**(1 415)**	**(1 210)**	**(281)**
Convergence differences:					
Acquisitions under finance leases and similar arrangements	..	..	..	..	..
GFS cash surplus/(deficit) [(a)]	**(1 929)**	**(1 773)**	**(1 415)**	**(1 210)**	**(281)**

Source: Department of Treasury and Finance

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

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

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Purchases of non-financial assets less sales of non-financial assets (including change in inventories)	3 040	2 761	2 746	2 584	1 750
Less: Depreciation	(2 409)	(2 274)	(2 324)	(2 412)	(2 536)
Plus: Other movements in non-financial assets [(b)]	4 360	4 865	4 603	3 516	4 161
Total net acquisition of non-financial assets	**4 991**	**5 352**	**5 025**	**3 688**	**3 375**

Source: Department of Treasury and Finance

Notes:
(a) Certain line items have been aggregated in the table above due to commercial sensitivities.
(b) The other movements in non-financial assets relates to fixed asset transfers from the general government sector to the public non-financial corporations sector.

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

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Revenue from transactions					
Taxation revenue	21 468	21 811	23 365	24 476	25 465
Interest revenue	339	342	357	391	397
Dividends, income tax equivalent and rate equivalent revenue	524	549	209	157	230
Sales of goods and services	11 293	11 430	11 618	12 108	12 946
Grant revenue	29 812	30 216	32 210	32 184	33 407
Other revenue	3 092	3 182	3 265	3 213	3 273
Total revenue from transactions	**66 528**	**67 530**	**71 025**	**72 529**	**75 718**
Expenses from transactions					
Employee expenses	24 196	24 277	25 814	26 374	27 196
Net superannuation interest expense	761	714	699	670	639
Other superannuation	2 458	2 614	2 624	2 690	2 739
Depreciation	5 198	5 008	5 284	5 634	6 078
Interest expense	2 600	2 678	2 736	2 809	2 938
Grant expense	8 151	7 486	9 045	10 132	10 063
Other operating expenses	23 051	24 019	23 385	22 790	24 161
Total expenses from transactions	**66 416**	**66 797**	**69 587**	**71 097**	**73 813**
Net result from transactions – net operating balance	**113**	**733**	**1 438**	**1 432**	**1 905**
Total other economic flows included in net result	**(224)**	**(144)**	**(63)**	**(159)**	**(497)**
Net result	**(112)**	**589**	**1 375**	**1 272**	**1 408**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	3 661	3 633	1 791	9 454	2 943
Remeasurement of superannuation defined benefit plans	911	1 977	917	931	944
Other movements in equity	(14)	8	12	(23)	(3)
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	2	34	(6)	4	(12)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	(196)	(40)	65	178	251
Total other economic flows – other comprehensive income	**4 364**	**5 612**	**2 779**	**10 543**	**4 123**
Comprehensive result – total change in net worth	**4 253**	**6 201**	**4 153**	**11 815**	**5 531**
KEY FISCAL AGGREGATES					
Net operating balance	**113**	**733**	**1 438**	**1 432**	**1 905**
Less: Net acquisition of non-financial assets from transactions	6 804	7 218	5 744	4 059	3 976
Net lending/(borrowing)	**(6 691)**	**(6 486)**	**(4 306)**	**(2 628)**	**(2 071)**

Source: Department of Treasury and Finance

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

Table 5.8: Non-financial public sector balance sheet as at 30 June ($ million)

	2018 budget [(a)]	2018 revised	2019 estimate	2020 estimate	2021 estimate
Assets					
Financial assets					
Cash and deposits	6 811	5 596	6 017	6 412	6 765
Advances paid	259	272	264	256	249
Receivables	6 837	6 844	7 191	7 505	7 876
Investments, loans and placements	3 868	4 437	4 250	4 216	4 123
Investments accounted for using equity method	2 196	2 211	2 243	2 278	2 322
Investments in other sector entities	3 190	3 346	2 811	2 389	1 619
Total financial assets	**23 161**	**22 706**	**22 775**	**23 055**	**22 954**
Non-financial assets					
Inventories	1 156	935	1 185	1 459	1 322
Non-financial assets held for sale	431	425	426	427	428
Land, buildings, infrastructure, plant and equipment	248 904	249 554	257 313	270 764	277 305
Other non-financial assets	2 648	2 611	2 798	3 434	3 872
Total non-financial assets	**253 139**	**253 524**	**261 721**	**276 084**	**282 927**
Total assets	**276 301**	**276 230**	**284 497**	**299 139**	**305 881**
Liabilities					
Deposits held and advances received	998	940	938	939	939
Payables	15 452	15 432	16 974	16 477	15 669
Borrowings	46 989	46 381	49 602	53 328	56 099
Employee benefits	7 178	7 202	7 500	7 761	8 048
Superannuation	24 024	23 027	22 095	21 120	20 109
Other provisions	1 388	1 027	1 015	1 326	1 298
Total liabilities	**96 029**	**94 010**	**98 124**	**100 951**	**102 161**
Net assets	**180 272**	**182 220**	**186 373**	**198 188**	**203 719**
Accumulated surplus/(deficit)	76 010	77 740	80 009	82 152	84 469
Reserves	104 262	104 480	106 364	116 036	119 250
Net worth	**180 272**	**182 220**	**186 373**	**198 188**	**203 719**
FISCAL AGGREGATES					
Net financial worth	(72 868)	(71 304)	(75 348)	(77 896)	(79 207)
Net financial liabilities	76 058	74 650	78 159	80 284	80 827
Net debt	37 049	37 017	40 009	43 382	45 900

Source: Department of Treasury and Finance

Note:

(a) Balances represent actual opening balances at 1 July 2017 plus 2017-18 budgeted movements.

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

($ million)

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Cash flows from operating activities					
Receipts					
Taxes received	21 330	21 649	23 261	24 245	25 042
Grants	29 799	30 203	32 205	32 184	33 407
Sales of goods and services [(b)]	12 627	12 798	14 372	13 235	14 191
Interest received	349	353	368	402	397
Dividends, income tax equivalent and rate equivalent receipts	524	548	155	156	229
Other receipts	2 541	2 575	2 469	2 375	2 485
Total receipts	**67 170**	**68 126**	**72 831**	**72 597**	**75 751**
Payments					
Payments for employees	(23 952)	(24 008)	(25 523)	(26 118)	(26 912)
Superannuation	(3 223)	(3 262)	(3 338)	(3 404)	(3 443)
Interest paid	(2 558)	(2 633)	(2 691)	(2 767)	(2 894)
Grants and subsidies	(7 975)	(7 298)	(8 875)	(9 648)	(10 003)
Goods and services [(b)]	(23 999)	(25 305)	(24 354)	(24 345)	(25 416)
Other payments	(737)	(735)	(754)	(788)	(830)
Total payments	**(62 442)**	**(63 242)**	**(65 535)**	**(67 071)**	**(69 498)**
Net cash flows from operating activities	**4 728**	**4 885**	**7 295**	**5 525**	**6 253**
Cash flows from investing activities					
Net cash flows from investments in non-financial assets	(11 328)	(11 518)	(10 555)	(9 264)	(8 870)
Net cash flows from investments in financial assets for policy purposes	50	69	681	670	1 119
Net cash flows from investment in financial assets for liquidity management purposes	949	411	206	91	128
Net cash flows from investing activities	**(10 330)**	**(11 037)**	**(9 668)**	**(8 503)**	**(7 624)**
Cash flows from financing activities					
Advances received (net)					
Net borrowings	5 729	5 122	2 790	3 370	1 724
Deposits received (net)	1	(56)	(3)	1	..
Other financing (net)	..	..	..	..	..
Net cash flows from financing activities	**5 730**	**5 065**	**2 788**	**3 371**	**1 724**
Net increase/(decrease) in cash and cash equivalents	**127**	**(1 087)**	**415**	**393**	**353**
Cash and cash equivalents at beginning of reporting period [(c)]	6 683	6 683	5 595	6 010	6 404
Cash and cash equivalents at end of reporting period [(c)(d)]	**6 810**	**5 595**	**6 010**	**6 404**	**6 757**
FISCAL AGGREGATES					
Net cash flows from operating activities	4 728	4 885	7 295	5 525	6 253
Net cash flows from investments in non-financial assets	(11 328)	(11 518)	(10 555)	(9 264)	(8 870)
Cash surplus/(deficit)	**(6 600)**	**(6 633)**	**(3 260)**	**(3 739)**	**(2 617)**

Source: Department of Treasury and Finance

Notes:

(a) *Certain line items have been aggregated in the table above due to commercial sensitivities.*
(b) *Inclusive of goods and services tax.*
(c) 2017-18 Budget *figures have been restated to represent actual opening balances at 1 July 2017.*
(d) *Cash and cash equivalents and the end of the reporting period does not equal cash and deposits on the balance sheet. This is due to overdrafts being included in the cash flow statement balances.*

Table 5.10: Non-financial public sector statement of changes in equity for the financial year ended 30 June

($ million)

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*
2017-18 budget [(a)]		
Balance at 1 July 2017	75 243	95 895
Net result for the year	(112)	..
Other comprehensive income for the year	878	3 661
Transfer to/(from) accumulated surplus	..	..
Total equity as at 30 June 2018	**76 010**	**99 556**
2017-18 revised		
Balance at 1 July 2017	75 243	95 895
Net result for the year	589	..
Other comprehensive income for the year	1 956	3 633
Transfer to/(from) accumulated surplus	(48)	48
Total equity as at 30 June 2018	**77 740**	**99 576**
2018-19 estimate		
Balance at 1 July 2018	77 740	99 576
Net result for the year	1 375	..
Other comprehensive income for the year	895	1 791
Transfer to/(from) accumulated surplus	..	..
Total equity as at 30 June 2019	**80 009**	**101 367**
2019-20 estimate		
Balance at 1 July 2019	80 009	101 367
Net result for the year	1 272	..
Other comprehensive income for the year	870	9 454
Transfer to/(from) accumulated surplus	..	..
Total equity as at 30 June 2020	**82 152**	**110 821**
2020-21 estimate		
Balance at 1 July 2020	82 152	110 821
Net result for the year	1 408	..
Other comprehensive income for the year	909	2 943
Transfer to/(from) accumulated surplus	..	..
Total equity as at 30 June 2021	**84 469**	**113 764**

Source: Department of Treasury and Finance

Note:

(a) Balances represent actual opening balances at 1 July 2017 plus 2017-18 budgeted movements.

Investment in other sector entities revaluation surplus	Other reserves	Total
3 725	1 156	176 019
..	..	(112)
(196)	21	4 364
..	..	..
3 529	**1 177**	**180 272**
3 725	1 156	176 019
..	..	589
(40)	63	5 612
..	..	..
3 685	**1 219**	**182 220**
3 685	1 219	182 220
..	..	1 375
65	28	2 779
..	..	..
3 750	**1 247**	**186 373**
3 750	1 247	186 373
..	..	1 272
178	41	10 543
..	..	..
3 927	**1 288**	**198 188**
3 927	1 288	198 188
..	..	1 408
251	21	4 123
..	..	..
4 178	**1 308**	**203 719**

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

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Cash surplus/(deficit)	**(6 600)**	**(6 633)**	**(3 260)**	**(3 739)**	**(2 617)**
Convergence differences:					
Acquisitions under finance leases and similar arrangements [(a)]	(647)	(647)	(419)	(315)	(1 022)
GFS cash surplus/(deficit) [(b)]	**(7 247)**	**(7 280)**	**(3 679)**	**(4 054)**	**(3 639)**

Source: Department of Treasury and Finance

Notes:

(a) The finance lease acquisition in 2017-18 relates to the Ravenhall Prison project, the new Bendigo Hospital project (stage 2) and the New Schools PPP project (tranche 2). The 2018-19 and 2019-20 estimates relate to the High Capacity Metro Trains Project. The 2020-21 estimates relate to the High Capacity Metro Trains Project and the Western Roads Upgrade.

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

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

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Purchases of non-financial assets (including change in inventory) less sales of non-financial assets	11 322	11 523	10 563	9 263	8 874
Less: Depreciation	(5 198)	(5 008)	(5 284)	(5 634)	(6 078)
Plus: Other movements in non-financial assets [(b)]	680	703	465	429	1 179
Total net acquisition of non-financial assets	**6 804**	**7 218**	**5 744**	**4 059**	**3 976**

Source: Department of Treasury and Finance

Notes:

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

(b) The other movements in non-financial assets in 2017-18 predominantly relates to the Ravenhall Prison project, the new Bendigo Hospital project (stage 2) and the New Schools PPP project (tranche 2). The 2018-19 and 2019-20 estimates relate to the High Capacity Metro Trains Project. The 2020-21 estimates relate to the High Capacity Metro Trains Project and the Western Roads Upgrade.

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

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Revenue from transactions					
Interest revenue	2 130	2 151	2 209	2 320	2 455
Dividend revenue	1 105	1 177	1 180	1 274	1 320
Sales of goods and services	4 535	4 560	4 746	4 961	5 192
Other revenue	24	25	26	28	29
Total revenue from transactions	**7 794**	**7 913**	**8 162**	**8 583**	**8 995**
Expenses from transactions					
Employee expenses	351	379	375	363	377
Other superannuation	26	27	26	27	27
Depreciation	49	47	47	55	64
Interest expense	1 951	1 741	1 793	1 852	1 970
Grant expense [(a)]	803	803	672	709	610
Other operating expenses [(a)]	6 355	6 658	6 995	7 354	7 681
Other property expenses	3	144	69	66	105
Total expenses from transactions	**9 538**	**9 799**	**9 978**	**10 426**	**10 833**
Net result from transactions – net operating balance [(b)]	**(1 745)**	**(1 886)**	**(1 816)**	**(1 843)**	**(1 838)**
Other economic flows included in net result					
Net gain/(loss) on financial assets or liabilities at fair value	1 087	1 349	832	845	936
Other gains/(losses) from other economic flows	792	1 150	877	922	984
Total other economic flows included in net result	**1 879**	**2 498**	**1 710**	**1 767**	**1 919**
Net result	**134**	**613**	**(106)**	**(76)**	**81**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Net gain/(loss) on financial assets at fair value	2	2	2	2	2
Total other economic flows – other comprehensive income	**2**	**2**	**3**	**3**	**3**
Comprehensive result – total change in net worth	**136**	**615**	**(103)**	**(73)**	**84**
KEY FISCAL AGGREGATES					
Net operating balance	**(1 745)**	**(1 886)**	**(1 816)**	**(1 843)**	**(1 838)**
Less: Net acquisition of non-financial assets from transactions	7	39	76	92	102
Net lending/(borrowing)	**(1 752)**	**(1 925)**	**(1 892)**	**(1 934)**	**(1 940)**

Source: Department of Treasury and Finance

Notes:
(a) Certain 2017-18 Budget figures have been restated to reflect more current information.
(b) Capital gains on the investment portfolios of the State's insurance agencies (WorkSafe Victoria, Transport Accident Commission and Victorian Managed Insurance Authority) are classified as other economic flows. As these capital gains are available to fund claims expenses, the net result provides a more meaningful reflection of the underlying operating and performance of the public financial corporations sector than the net result from transactions.

Table 5.14: Public financial corporations sector balance sheet as at 30 June ($ million)

	2018 budget [(a)]	2018 revised	2019 estimate	2020 estimate	2021 estimate
Assets					
Financial assets					
Cash and deposits	4 272	3 697	3 826	4 053	4 355
Advances paid	17	5	5	5	5
Investments, loans and placements	37 638	35 318	34 582	34 892	35 132
Loans receivable from non-financial public sector [(b)]	35 728	35 913	39 176	42 993	45 037
Receivables	1 547	1 213	1 324	1 363	1 380
Total financial assets	**79 202**	**76 147**	**78 913**	**83 306**	**85 909**
Non-financial assets					
Land, buildings, infrastructure, plant and equipment	98	131	213	314	420
Other non-financial assets	757	625	674	698	762
Total non-financial assets	**855**	**756**	**887**	**1 012**	**1 182**
Total assets	**80 057**	**76 903**	**79 799**	**84 317**	**87 092**
Liabilities					
Deposits held and advances received	6 139	5 165	4 914	4 654	4 486
Payables	1 953	1 728	1 832	1 853	1 854
Borrowings [(c)]	42 436	40 319	42 483	46 250	48 448
Employee benefits	109	88	90	93	95
Other provisions	29 546	29 277	30 948	32 679	34 437
Total liabilities	**80 182**	**76 576**	**80 268**	**85 529**	**89 319**
Net assets [(d)]	**(126)**	**327**	**(468)**	**(1 211)**	**(2 228)**
Accumulated surplus/(deficit)	(218)	234	(563)	(1 309)	(2 328)
Reserves	92	92	95	98	100
Net worth [(d)]	**(126)**	**327**	**(468)**	**(1 211)**	**(2 228)**
FISCAL AGGREGATES					
Net financial worth	(981)	(429)	(1 355)	(2 223)	(3 410)
Net financial liabilities	981	429	1 355	2 223	3 410
Net debt	(29 080)	(29 450)	(30 191)	(31 039)	(31 596)

Source: Department of Treasury and Finance

Notes:

(a) Balances represent actual opening balances at 1 July 2017 plus 2017-18 budgeted movements.

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

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

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

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

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Cash flows from operating activities					
Receipts					
Sales of goods and services [(a)]	4 989	5 038	5 243	5 398	5 703
Interest received	2 099	2 091	2 151	2 261	2 394
Dividends receipts	1 105	1 177	1 180	1 274	1 320
Other receipts	41	145	98	178	124
Total receipts	**8 234**	**8 451**	**8 672**	**9 111**	**9 541**
Payments					
Payments for employees	(349)	(398)	(413)	(402)	(374)
Superannuation	(26)	(27)	(30)	(30)	(27)
Interest paid	(2 008)	(1 799)	(1 850)	(1 906)	(2 021)
Grants and subsidies [(b)]	(803)	(803)	(672)	(709)	(610)
Goods and services [(a)(b)]	(4 581)	(5 052)	(4 940)	(5 258)	(5 547)
Other payments	(6)	(7)	(143)	(86)	(178)
Total payments	**(7 772)**	**(8 087)**	**(8 049)**	**(8 392)**	**(8 757)**
Net cash flows from operating activities	**462**	**364**	**624**	**719**	**784**
Cash flows from investing activities					
Purchases of non-financial assets	(57)	(88)	(124)	(148)	(166)
Sales of non-financial assets	1	1	1	1	1
Cash flows from investments in non-financial assets	(57)	(87)	(123)	(147)	(165)
Net cash flows from other investment in financial assets for policy purposes	..	12	(2)	(2)	..
Net cash flows from investments in financial assets for liquidity management purposes	(2 563)	(273)	(1 632)	(3 219)	(1 285)
Net cash flows from investing activities	**(2 619)**	**(348)**	**(1 757)**	**(3 368)**	**(1 451)**
Cash flows from financing activities					
Advances received (net)	..	(29)	..	..	..
Net borrowings	3 899	2 151	2 204	3 806	2 238
Deposits received (net)	(1 224)	(2 169)	(251)	(260)	(168)
Other financing (net)	(475)	(501)	(692)	(670)	(1 100)
Net cash flows from financing activities	**2 200**	**(548)**	**1 261**	**2 876**	**969**
Net increase/(decrease) in cash and cash equivalents	**43**	**(531)**	**128**	**227**	**303**
Cash and cash equivalents at beginning of reporting period [(c)]	4 229	4 229	3 697	3 826	4 053
Cash and cash equivalents at end of reporting period [(c)]	**4 272**	**3 697**	**3 826**	**4 053**	**4 355**
FISCAL AGGREGATES					
Net cash flows from operating activities	462	364	624	719	784
Dividends paid	(475)	(501)	(92)	(70)	(80)
Net cash flows from investments in non-financial assets	(57)	(87)	(123)	(147)	(165)
Cash surplus/(deficit)	**(69)**	**(224)**	**409**	**503**	**538**

Source: Department of Treasury and Finance

Notes:

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

(b) *Certain* 2017-18 Budget *figures have been restated to reflect more current information.*

(c) 2017-18 Budget *figures have been restated to represent actual opening balances at 1 July 2017.*

Table 5.16: Public financial corporations sector statement of changes in equity for the financial year ended 30 June **($ million)**

	Accumulated surplus/(deficit)	*Contribution by owners*
2017-18 budget [(a)]		
Balance at 1 July 2017	143	29
Net result for the year	134	..
Other comprehensive income for the year	(1)	..
Dividends paid	(475)	..
Transfer to/(from) accumulated surplus	(20)	20
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2018	**(218)**	**49**
2017-18 revised		
Balance at 1 July 2017	143	29
Net result for the year	613	..
Other comprehensive income for the year	..	..
Dividends paid	(501)	..
Transfer to/(from) accumulated surplus	(20)	20
Transactions with owners in their capacity as owners	..	..
Total equity as at 30 June 2018	**234**	**49**
2018-19 estimate		
Balance at 1 July 2018	234	49
Net result for the year	(106)	..
Other comprehensive income for the year	..	..
Dividends paid	(92)	..
Transfer to/(from) accumulated surplus	(600)	600
Transactions with owners in their capacity as owners	..	(600)
Total equity as at 30 June 2019	**(563)**	**49**
2019-20 estimate		
Balance at 1 July 2019	(563)	49
Net result for the year	(76)	..
Other comprehensive income for the year	..	..
Dividends paid	(70)	..
Transfer to/(from) accumulated surplus	(600)	600
Transactions with owners in their capacity as owners	..	(600)
Total equity as at 30 June 2020	**(1 309)**	**49**
2020-21 estimate		
Balance at 1 July 2020	(1 309)	49
Net result for the year	81	..
Other comprehensive income for the year	..	..
Dividends paid	(80)	..
Transfer to/(from) accumulated surplus	(1 020)	1 020
Transactions with owners in their capacity as owners	..	(1 020)
Total equity as at 30 June 2021	**(2 328)**	**49**

Source: Department of Treasury and Finance

Note:
(a) Balances represent actual opening balances at 1 July 2017 plus 2017-18 budgeted movements.

Non-financial assets revaluation surplus	Other reserves	Total
2	39	213
..	..	134
..	3	2
..	..	(475)
..	..	..
..	..	..
2	**41**	**(126)**
2	39	213
..	..	613
..	2	2
..	..	(501)
..	..	..
..	..	..
2	**41**	**327**
2	41	327
..	..	(106)
..	3	3
..	..	(92)
..	..	..
..	..	(600)
2	**44**	**(468)**
2	44	(468)
..	..	(76)
..	3	3
..	..	(70)
..	..	..
..	..	(600)
2	**47**	**(1 211)**
2	47	(1 211)
..	..	81
..	3	3
..	..	(80)
..	..	..
..	..	(1 020)
2	**49**	**(2 228)**

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

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Cash surplus/(deficit)	**(69)**	**(224)**	**409**	**503**	**538**
Convergence differences:					
Acquisitions under finance leases and similar arrangements	..	..	..	..	..
GFS cash surplus/(deficit) [(a)]	**(69)**	**(224)**	**409**	**503**	**538**

Source: Department of Treasury and Finance

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

Table 5.18: Net acquisition of non-financial assets – public financial corporations sector **($ million)**

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Purchases of non-financial assets less sales of non-financial assets (including change in inventories)	57	87	123	147	165
Less: Depreciation	(49)	(47)	(47)	(55)	(64)
Plus: Other movements in non-financial assets	..	..	..	..	..
Total net acquisition of non-financial assets	**7**	**39**	**76**	**92**	**102**

Source: Department of Treasury and Finance

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

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Revenue from transactions					
Taxation revenue	21 453	21 794	23 349	24 459	25 448
Interest revenue	743	797	792	862	886
Dividends revenue	1 148	1 217	1 222	1 315	1 364
Sales of goods and services	14 998	15 151	15 486	16 150	17 175
Grant revenue	29 334	29 429	31 536	31 466	32 736
Other revenue	3 116	3 206	3 291	3 240	3 302
Total revenue from transactions	**70 791**	**71 594**	**75 676**	**77 494**	**80 911**
Expenses from transactions					
Employee expenses	24 173	24 272	25 795	26 328	27 154
Net superannuation interest expense	761	714	699	670	639
Other superannuation	2 484	2 641	2 650	2 716	2 766
Depreciation	5 247	5 056	5 331	5 689	6 142
Interest expense	2 825	2 722	2 754	2 813	2 942
Grant expense	8 147	7 505	9 064	10 151	10 084
Other operating expenses	29 263	30 203	29 859	29 587	31 198
Total expenses from transactions	**72 901**	**73 112**	**76 152**	**77 955**	**80 924**
Net result from transactions – net operating balance	**(2 110)**	**(1 518)**	**(476)**	**(461)**	**(14)**
Total other economic flows included in net result	**1 655**	**2 373**	**1 595**	**1 552**	**1 348**
Net result	**(455)**	**854**	**1 119**	**1 091**	**1 334**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	3 661	3 633	1 791	9 454	2 943
Remeasurement of superannuation defined benefits plans	911	1 977	917	931	944
Other movements in equity	(14)	8	13	(23)	(2)
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	4	36	(4)	6	(10)
Total other economic flows – other comprehensive income	**4 562**	**5 654**	**2 717**	**10 368**	**3 875**
Comprehensive result – total change in net worth	**4 107**	**6 508**	**3 836**	**11 459**	**5 209**
KEY FISCAL AGGREGATES					
Net operating balance	**(2 110)**	**(1 518)**	**(476)**	**(461)**	**(14)**
Less: Net acquisition of non-financial assets from transactions	6 811	7 257	5 820	4 151	4 077
Net lending/(borrowing)	**(8 921)**	**(8 776)**	**(6 296)**	**(4 612)**	**(4 091)**

Source: Department of Treasury and Finance

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

Table 5.20: State of Victoria balance sheet as at 30 June ($ million)

	2018 budget [(a)]	2018 revised	2019 estimate	2020 estimate	2021 estimate
Assets					
Financial assets					
Cash and deposits	6 267	6 588	7 249	8 033	8 670
Advances paid	259	272	264	256	249
Receivables	8 103	7 774	8 179	8 531	8 916
Investments, loans and placements	40 334	37 820	37 036	37 412	37 746
Investments accounted for using equity method	2 196	2 211	2 243	2 278	2 322
Total financial assets	**57 160**	**54 666**	**54 972**	**56 509**	**57 903**
Non-financial assets					
Inventories	1 156	935	1 185	1 459	1 322
Non-financial assets held for sale	431	425	426	427	428
Land, buildings, infrastructure, plant and equipment	249 002	249 685	257 526	271 078	277 725
Other non-financial assets	2 766	2 752	2 929	3 553	3 981
Total non-financial assets	**253 355**	**253 796**	**262 065**	**276 517**	**283 456**
Total assets	**310 515**	**308 462**	**317 037**	**333 026**	**341 359**
Liabilities					
Deposits held and advances received	1 941	1 567	1 564	1 565	1 565
Payables	17 134	16 885	18 478	18 000	17 190
Borrowings	52 855	50 649	52 771	56 447	59 373
Employee benefits	7 287	7 290	7 590	7 854	8 143
Superannuation	24 024	23 027	22 095	21 120	20 109
Other provisions	30 932	30 302	31 961	34 003	35 732
Total liabilities	**134 174**	**129 720**	**134 459**	**138 990**	**142 113**
Net assets	**176 341**	**178 742**	**182 578**	**194 037**	**199 246**
Accumulated surplus/(deficit)	75 564	77 903	79 917	81 879	84 122
Reserves	100 777	100 838	102 660	112 158	115 124
Net worth	**176 341**	**178 742**	**182 578**	**194 037**	**199 246**
FISCAL AGGREGATES					
Net financial worth	(77 014)	(75 054)	(79 488)	(82 481)	(84 210)
Net financial liabilities	77 014	75 054	79 488	82 481	84 210
Net debt	7 937	7 535	9 786	12 311	14 273

Source: Department of Treasury and Finance

Note:
(a) Balances represent actual opening balances at 1 July 2017 plus 2017-18 budgeted movements.

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

($ million)

	2017-18 budget	*2017-18 revised*	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Cash flows from operating activities					
Receipts					
Taxes received	21 314	21 633	23 245	24 228	25 024
Grants	29 321	29 416	31 531	31 466	32 736
Sales of goods and services [(b)]	16 786	17 004	18 735	17 714	18 932
Interest received	723	748	744	815	826
Dividends receipts	1 148	1 217	1 222	1 315	1 364
Other receipts	2 582	2 714	2 567	2 553	2 610
Total receipts	**71 874**	**72 731**	**78 045**	**78 091**	**81 492**
Payments					
Payments for employees	(23 927)	(24 022)	(25 542)	(26 112)	(26 868)
Superannuation	(3 248)	(3 289)	(3 368)	(3 435)	(3 471)
Interest paid	(2 840)	(2 735)	(2 767)	(2 826)	(2 950)
Grants and subsidies	(7 970)	(7 317)	(8 894)	(9 668)	(10 024)
Goods and services [(b)]	(28 436)	(29 886)	(28 771)	(29 047)	(30 319)
Other payments	(737)	(735)	(875)	(829)	(903)
Total payments	**(67 159)**	**(67 984)**	**(70 217)**	**(71 916)**	**(74 535)**
Net cash flows from operating activities	**4 715**	**4 748**	**7 827**	**6 175**	**6 957**
Cash flows from investing activities					
Net cash flows from investments in non-financial assets	(11 385)	(11 604)	(10 678)	(9 411)	(9 036)
Net cash flows from investments in financial assets for policy purposes	50	70	80	69	100
Net cash flows from investment in financial assets for liquidity management purposes	3 423	6 126	1 698	590	700
Net cash flows from investing activities	**(7 912)**	**(5 408)**	**(8 900)**	**(8 753)**	**(8 237)**
Cash flows from financing activities					
Advances received (net)	(1)	(18)	(1)	(1)	(1)
Net borrowings	3 595	1 755	1 731	3 359	1 917
Deposits received (net)	1	(356)	(3)	1	..
Net cash flows from financing activities	**3 595**	**1 380**	**1 727**	**3 359**	**1 917**
Net increase/(decrease) in cash and cash equivalents	**398**	**720**	**654**	**782**	**637**
Cash and cash equivalents at beginning of reporting period [(c)]	5 868	5 868	6 588	7 243	8 024
Cash and cash equivalents at end of reporting period [(c)(d)]	**6 266**	**6 588**	**7 243**	**8 024**	**8 661**
FISCAL AGGREGATES					
Net cash flows from operating activities	4 715	4 748	7 827	6 175	6 957
Net cash flows from investments in non-financial assets	(11 385)	(11 604)	(10 678)	(9 411)	(9 036)
Cash surplus/(deficit)	**(6 670)**	**(6 857)**	**(2 851)**	**(3 236)**	**(2 079)**

Source: Department of Treasury and Finance

Notes:

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

(b) Inclusive of goods and services tax.

(c) 2017-18 Budget figures have been restated to represent actual opening balances at 1 July 2017.

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

Table 5.22: State of Victoria statement of changes in equity for the financial year ended 30 June

($ million)

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*	*Other reserves*	*Total*
2017-18 budget [(a)]				
Balance at 1 July 2017	75 141	95 897	1 195	172 234
Net result for the year	(455)	..	..	(455)
Other comprehensive income for the year	878	3 661	23	4 562
Transfer to/(from) accumulated surplus	..	..	..	..
Total equity as at 30 June 2018	**75 564**	**99 558**	**1 218**	**176 341**
2017-18 revised				
Balance at 1 July 2017	75 141	95 897	1 195	172 234
Net result for the year	854	..	..	854
Other comprehensive income for the year	1 956	3 633	65	5 654
Transfer to/(from) accumulated surplus	(48)	48	..	..
Total equity as at 30 June 2018	**77 903**	**99 578**	**1 260**	**178 742**
2018-19 estimate				
Balance at 1 July 2018	77 903	99 578	1 260	178 742
Net result for the year	1 119	..	..	1 119
Other comprehensive income for the year	895	1 791	31	2 717
Transfer to/(from) accumulated surplus	..	..	..	..
Total equity as at 30 June 2019	**79 917**	**101 370**	**1 291**	**182 578**
2019-20 estimate				
Balance at 1 July 2019	79 917	101 370	1 291	182 578
Net result for the year	1 091	..	..	1 091
Other comprehensive income for the year	870	9 454	44	10 368
Transfer to/(from) accumulated surplus	..	..	..	..
Total equity as at 30 June 2020	**81 879**	**110 823**	**1 334**	**194 037**
2020-21 estimate				
Balance at 1 July 2020	81 879	110 823	1 334	194 037
Net result for the year	1 334	..	..	1 334
Other comprehensive income for the year	909	2 943	23	3 875
Transfer to/(from) accumulated surplus	..	..	..	..
Total equity as at 30 June 2021	**84 122**	**113 766**	**1 357**	**199 246**

Source: Department of Treasury and Finance

Note:

(a) Balances represent actual opening balances at 1 July 2017 plus 2017-18 budgeted movements.

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

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Cash surplus/(deficit)	**(6 670)**	**(6 857)**	**(2 851)**	**(3 236)**	**(2 079)**
Convergence differences:					
Acquisitions under finance leases and similar arrangements [(a)]	(647)	(647)	(419)	(315)	(1 022)
GFS cash surplus/(deficit) [(b)]	**(7 317)**	**(7 503)**	**(3 270)**	**(3 551)**	**(3 101)**

Source: Department of Treasury and Finance

Notes:

(a) The finance lease acquisition in 2017-18 relates to the Ravenhall Prison project, the new Bendigo Hospital project (stage 2) and the New Schools PPP project (tranche 2). The 2018-19 and 2019-20 estimates relate to the High Capacity Metro Trains Project. The 2020-21 estimates relate to the High Capacity Metro Trains Project and the Western Roads Upgrade.

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

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

	2017-18 budget	2017-18 revised	2018-19 estimate	2019-20 estimate	2020-21 estimate
Purchases of non-financial assets (including change in inventory) less sales of non-financial assets	11 378	11 610	10 686	9 410	9 040
Less: Depreciation	(5 247)	(5 056)	(5 331)	(5 689)	(6 142)
Plus: Other movements in non-financial assets [(b)]	680	703	465	429	1 179
Total net acquisition of non-financial assets	**6 811**	**7 257**	**5 820**	**4 151**	**4 077**

Source: Department of Treasury and Finance

Notes:

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

(b) The other movements in non-financial assets in 2017-18 predominantly relates to the Ravenhall Prison project, the new Bendigo Hospital project (stage 2) and the New Schools PPP project (tranche 2). The 2018-19 and 2019-20 estimates relate to the High Capacity Metro Trains Project. The 2020-21 estimates relate to the High Capacity Metro Trains Project and the Western Roads Upgrade.

VICTORIA'S LOAN COUNCIL ALLOCATION

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

Table 5.25 compares the Victorian 2017-18 LCA nomination approved by the Loan Council in April 2017, with a revised LCA based upon *2017-18 Budget Update* estimates.

Table 5.25: Loan Council Allocation **($ million)**

	2017-18 nomination	*2017-18 revised*
General government cash deficit (+) or surplus (-)	3 412	4 864
Public non-financial corporations sector cash deficit (+) or surplus (-)	1 395	1 773
Non-financial public sector cash deficit (+) or surplus (-) [(a)]	4 802	6 633
Acquisitions under finance leases and similar arrangements	647	647
ABS GFS cash deficit (+) or surplus (-)	5 448	7 280
Less net cash flows from investments in financial assets for policy purposes [(b)]	733	(69)
Plus memorandum items [(c)]	291	406
Loan Council Allocation	**5 007**	**7 755**
Tolerance limit (2 per cent of non-financial public sector cash receipts from operating activities) [(d)]	**1 305**	**1 305**

Source: Department of Treasury and Finance

Notes:

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

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

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

(d) *A tolerance limit equal to 2 per cent of total non-financial public sector cash receipt from operating activities applies to the movement between a jurisdiction's LCA budget estimate and LCA outcome (calculated using estimates in the* 2017-18 Budget Update*). The tolerance limit applying to the movement between Victoria's 2017-18 LCA nomination and its LCA revised budget estimate is $1 305 million (2 per cent of $65 232 million).*

As part of the Loan Council arrangements, the Council has agreed that if at any time a state or territory finds it is likely to exceed its tolerance limit, in either direction, it is required to provide an explanation to the Council and, in line with the emphasis of increased transparency, to make the explanation public. Victoria's 2017-18 revised LCA (a deficit of $7.8 billion) exceeds the tolerance limit established under the LCA nomination process due to the increase in capital investment in programs, mainly in the transport sector.

NEW INFRASTRUCTURE PROJECTS WITH PRIVATE SECTOR INVOLVEMENT

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

Listed below are the public private partnership (PPP) projects that are expected to be contracted in the 2017-18 financial year, for which the Government has financial exposure to in the case of private sector default.

Casey Hospital expansion

The Casey Hospital expansion will significantly increase the floor area of the existing facility through a new multi-storey tower that connects with the existing hospital. The expansion will add 128 beds, four new operating theatres and a new central sterile services department. The expansion will provide significant across-the-board benefits in improving local access for patients and providing an increased range of acute services, provide improved and sustainable patient outcomes, and improved operational efficiency.

The State entered into a contract with Plenary Health in September 2017 to expand the hospital as a modification under the existing Casey Hospital PPP. The expansion contract term aligns with the existing contract which expires in 2029. The expansion is expected to be operational in 2019.

Western Roads Upgrade

The Western Roads Upgrade (previously known as the Western Suburbs Roads Package) combines eight high-priority road upgrades with maintenance on more than 700 lane kilometres of road, stretching from Werribee to Footscray. The package will be procured as an availability PPP, which will ensure motorists benefit from new high quality roads, while the existing network is maintained to a high standard for years to come. The upgrades will involve both duplication and widening works to western arterial roads.

The project will transform the outer-western road network by boosting capacity and improving road pavement conditions with intersection upgrades, almost 30 kilometres of lane duplication, and road maintenance. These priority road upgrades and maintenance works will cut travel times, improve road safety and better connect communities in key growth corridors. The package will be delivered within five years, and the maintenance and rehabilitation contract will continue for a further 20 years. Construction is expected to begin in 2018.

Metro Tunnel – Tunnel and stations package

The Metro Tunnel project involves building twin nine-kilometre rail tunnels to create a new end-to-end rail line from Sunbury in the west to Cranbourne/Pakenham in the south-east. Five new underground stations will be built at North Melbourne, Parkville, State Library, Town Hall and Anzac (Domain), with the two new CBD stations directly connected to Flinders Street and Melbourne Central.

The Metro Tunnel is being built through a series of work packages. The Tunnel and Stations package valued at $6 billion is being procured as an availability-based PPP project. The successful consortium will be contracted to design, finance, construct and maintain the tunnels and provide defined asset management services at the stations. Construction is expected to begin in 2018. The contract term is for a 25-year operating period from Provisional Acceptance. Commercial opportunities for development above the Town Hall and State Library stations will be separately contracted.

To support increased frequency and network benefits, the other work packages will deliver early works, high capacity signalling and communication systems, and rail infrastructure upgrades in the corridor. Together with the PPP package above, the total funding allocated to the Metro Tunnel Project is $11.0 billion.

There are no other Partnerships Victoria contracts greater than $5 million that are currently expected to be signed during the 2017-18 financial year.

CHAPTER 6 – CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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

CONTINGENT ASSETS

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

These are classified as either quantifiable, where the potential economic benefit is known, or non-quantifiable. Table 6.1 below contains quantifiable contingent assets as at 29 November 2017.

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

	As at Dec 2017	*Published budget estimate* [(a)]
Guarantees, indemnities and warranties	44	16
Legal proceedings and disputes	9	10
Other [(b)]	100	103
Total contingent assets	**152**	**128**

Source: Department of Treasury and Finance

Notes:

(a) As published in the 2017-18 Budget.

(b) Other contingent assets in the general government sector consists of a contingent payment for Crown Melbourne licence amendments that may be payable in the 2022 calendar year.

Non-quantifiable contingent assets

CityLink compensable enhancement claims

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

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

Peninsula Link compensable enhancement claim

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

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

CONTINGENT LIABILITIES

Contingent liabilities are:

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

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

The table below contains quantifiable contingent liabilities as at 29 November 2017.

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

	As at Dec 2017	*Published budget estimate* [(a)]
Guarantees, indemnities and warranties	234	257
Legal proceedings and disputes	128	172
Other	42	113
Non-general government debt [(b)]	11 239	11 128
Total contingent liabilities	**11 643**	**11 670**

Source: Department of Treasury and Finance

Notes:
(a) As published in the 2017-18 Budget.
(b) Mainly represents the guarantee of borrowings provided by the Treasurer for the public sector borrowings portfolio.

Non-quantifiable contingent liabilities

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

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

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

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

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

Department of Education and Training

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

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

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

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

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

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

Public transport rail partnership agreements

Public Transport Victoria (PTV) is party to contractual arrangements with franchisees to operate metropolitan rail transport services in 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 PTV or a successor. In the case of some assets, a reversion back to PTV would entail those assets being purchased; and
- unfunded superannuation – at the early termination or expiry of the contract, PTV will assume any unfunded superannuation amounts (apart from contributions the operator is required to pay over the contract term) to the extent that the State becomes the successor operator.

Level Crossing Removal Program

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

Fiskville independent investigation and closure of training college

An independent investigation was undertaken into the historical use of chemicals for live firefighting training at Fiskville 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 CFA at the Penshurst, Bangholme, West Sale, Wangaratta, Huntly, and Longerenong have been the subject of notices issued by the Environment Protection Authority (EPA).

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

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

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

Compulsory property acquisitions

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

Land remediation – environmental concerns

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

Native Title

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

Royal Melbourne Showgrounds redevelopment

Under the State's commitment to the Royal Agricultural Society of Victoria (RASV), the State backs certain obligations of RASV that may arise out of the joint venture agreement. Under the State's commitment to RASV, the State will pay (in the form of a loan) the amount requested by RASV. If any outstanding loan amount remains unpaid at the date which is 25 years after the commencement of the operation term, RASV will be obliged to satisfy the outstanding loan amount. This may take the form of a transfer to the State of the whole of the RASV participating interest in the joint venture.

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

The State has also entered into the State Support Deed – Non Core Land with Showgrounds Retail Developments Pty Ltd and the RASV, whereby the State guarantees certain payment obligations of the RASV under the non-core development agreement.

Victorian Managed Insurance Authority – insurance cover

The Victorian Managed Insurance Authority (VMIA) was established in 1996 as an insurer for state government departments, participating bodies and other entities as defined under the *Victorian Managed Insurance Authority Act 1996*. The VMIA 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 $1 billion 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, 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 in 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 1993, 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 by more than 20 per cent of the initial estimate on which the risk premium was based.

2016 flood and storm events

In September 2016 a severe flood and storm event impacted 51 local government areas across Victoria. The State of Victoria formally activated the Commonwealth Government-State Natural Disaster Relief and Recovery Arrangements (NDRRA) following this event. Local councils have commenced the restoration of damaged essential assets. To date the estimated cost of damage is $194 million. Financial assistance is provided jointly by the Victorian and Commonwealth governments under the NDRRA. It is not possible to quantify the cost to the State until all claims have been received.

The State also activated NDRRA for a number of storm and flood events from July 2016 up to April 2017. However, the financial impact of these events is still being assessed and is not expected to be as significant as the September 2016 events.

Other commitments

Alcoa contribution and advance facility

The State has entered into a funding agreement effective 2017-18 that may require provision of financial support to a Victorian smelter.

APPENDIX A – SPECIFIC POLICY INITIATIVES AFFECTING THE BUDGET POSITION

Appendix A outlines specific policy initiatives that affect outputs and assets, including Treasurer's Advances, agreed by the Government since the *2017-18 Budget*.

The following tables provide details of:

- revenue initiatives; and
- output and asset initiatives for departments.

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

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

REVENUE INITIATIVES

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

	2017-18	2018-19	2019-20	2020-21
Land tax absentee owner surcharge exemption for absentee trusts	(6.0)	(7.0)	(7.0)	(7.0)
Payroll tax exemption for approved group training organisations	..	(4.0)	(4.3)	(4.5)
Short term registration for light vehicles	(186.7)	(25.5)	10.5	11.1
Total revenue initiatives	**(192.7)**	**(36.5)**	**(0.8)**	**(0.4)**

Land tax absentee owner surcharge exemption for absentee trusts

There is currently an exemption to the land tax absentee owner surcharge for Australian-based absentee corporations that conduct a commercial operation in Australia and whose commercial activities make a significant contribution to the Victorian economy. This initiative will extend the exemption to land owners that are trustees of absentee trusts, subject to the same requirements as absentee corporations as set out in the Treasurer's Guidelines.

Payroll tax exemption for approved group training organisations

The current payroll tax exemption for wages paid to apprentices and trainees under an approved training scheme by not-for-profit group training organisations, will be extended to include for-profit group training organisations.

Short-term registration for light vehicles

Quarterly and six monthly options for new light vehicle registrations and registration renewals will be introduced from 1 January 2018. This will provide Victorian motorists with greater choice and flexibility in payment and registration.

This initiative contributes to the Department of Economic Development, Jobs Transport and Resources' Transport Safety, Security and Emergency Management output.

DEPARTMENT OF ECONOMIC DEVELOPMENT, JOBS, TRANSPORT AND RESOURCES

Output initiatives

Table A.2: Output initiatives – Department of Economic Development, Jobs, Transport and Resources **($ million)**

	2017-18	*2018-19*	*2019-20*	*2020-21*
Great Alpine Road improvement works [(a)]	0.1	0.3	0.2	0.1
Great Ocean Road improvement works [(b)]	0.2	0.4	0.4	0.4
Green Triangle Package [(c)]	0.4	0.4	0.4	..
Hyland Highway Road improvement works [(d)(e)]	0.1	0.2	0.1	0.0
Labour Hire Licensing Authority	2.7	4.1	1.2	0.6
Metropolitan train and tram franchise agreements [(f)]	191.3	353.0	303.9	179.7
Monaro Highway road improvement works [(g)(e)]	0.1	0.2	0.1	0.0
Murray Valley Highway upgrade [(h)]	0.1	0.3	0.3	..
Port Phillip Ferries	2.1	1.7	1.3	..
Princes Highway East – Upgrades east of Sale [(i)]	0.2	0.7	0.6	0.4
Purchase of Australian Sustainable Hardwoods	11.5	..	..	..
Rutherglen Alternative Truck Route [(e)(j)]	0.0	0.1	0.0	..
Short term registration for light vehicles	8.1	17.0	17.9	18.9
Urban Congestion package [(k)]	0.5	0.1	..	..
Western Highway – Stawell to South Australian border [(l)]	0.2	0.3	0.2	0.1
Total output initiatives [(m)]	**217.6**	**378.8**	**326.7**	**200.2**

Notes:
(a) The project includes Commonwealth funding of $0.3 million.
(b) The project includes Commonwealth funding of $1.0 million.
(c) The project includes Commonwealth funding of $0.6 million.
(d) The project includes Commonwealth funding of $0.2 million.
(e) Funding represented as 0.0 due to rounding.
(f) Excludes existing provisions for rail contracts, farebox collections and other lease payments.
(g) The project includes Commonwealth funding of $0.2 million.
(h) The project includes Commonwealth funding of $0.4 million.
(i) The project includes Commonwealth funding of $1.0 million.
(j) The project includes Commonwealth funding of $0.1 million.
(k) The project includes Commonwealth funding of $0.01 million.
(l) The project includes Commonwealth funding of $0.4 million.
(m) Table may not add due to rounding.

Great Alpine Road improvement works

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

Great Ocean Road improvement works

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

Green Triangle Package

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

Hyland Highway road improvement works

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

Labour Hire Licensing Authority

The Government will establish the Labour Hire Licensing Authority, which will protect workers through the licensing of labour hire providers. This new regulatory body and licencing system was a central recommendation of the Victorian Inquiry into the Labour Hire Industry and Insecure Work.

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

Metropolitan train and tram franchise agreements

New franchise agreements to operate Melbourne's train and tram networks for the next seven years have been agreed. The new contracts will deliver 700 new jobs, including 375 apprenticeships, and include a minimum 85 per cent local content. The new franchise term commenced on 30 November 2017.

Funding is also provided for a renewal of metropolitan train and tram infrastructure and operational control management systems as well as life extensions on the tram fleet and provides for the management of the new franchise arrangements.

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

- Train Services output; and
- Tram Services output.

Monaro Highway road improvement works

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

Murray Valley Highway upgrade

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

Port Phillip Ferries

A new passenger ferry service between Portarlington and the Docklands (Victoria Harbour) will be trialled for three years. The trial will provide additional travel options for visitors to the Bellarine Peninsula, encouraging people from Melbourne, interstate and overseas to visit the various Bellarine Peninsula attractions and support the local economy.

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

Princes Highway East – Upgrades east of Sale

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

Purchase of Australian Sustainable Hardwoods

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

Rutherglen Alternative Truck Route

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

Short-term registration for light vehicles

Refer to the initiative description under revenue initiatives.

Urban Congestion Package

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

Western Highway – Stawell to South Australian border

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

Asset initiatives

Table A.3: Asset initiatives – Department of Economic Development, Jobs, Transport and Resources **($ million)**

	2017-18	2018-19	2019-20	2020-21	TEI
Darebin Trail – Farm Road Link	..	0.2	0.8	2.2	3.2
Great Alpine Road improvement works (a)(b)	2.2	8.2	5.3	1.4	17.3
Great Ocean Road improvement works (c)(d)	5.3	11.1	11.0	10.5	48.1
Green Triangle Package (e)(f)	9.6	9.6	9.6	..	38.8
High Capacity Signalling Trains onboard equipment	3.0	13.0	14.0	5.0	35.0
Hyland Highway Road improvement work (a)(g)	1.3	4.3	2.9	1.0	9.6
Metropolitan train and tram franchise agreements (c)	141.3	165.0	119.5	124.7	850.7
Monaro Highway road improvement works (a)(h)	1.3	4.3	2.9	1.0	9.6
Murray Valley Highway upgrade (a)(i)	3.7	8.7	6.8	..	19.2
Network Transition Plan – Phase A	102.3	100.2	19.8	..	222.3
Princes Highway East – Upgrades east of Sale (a)(j)	6.0	17.8	14.4	9.6	48.1
Property acquisition – Hyde St, Yarraville	4.0	3.0	3.0	..	10.0
Purchase of Australian Sustainable Hardwoods	50.6	..	..	..	50.6
Rutherglen Alternative Truck Route (a)(k)	0.9	2.4	0.5	..	3.8
Urban Congestion package (a)(l)(m)	13.3	4.5	0.5	..	19.2
Western Highway – Stawell to South Australian border (a)(n)	3.8	7.7	5.3	1.4	19.2
Total asset initiatives (o)	**348.6**	**360.0**	**216.2**	**156.8**	**1 404.9**

Notes:
(a) TEI includes planning funding announced in 2017-18 Budget.
(b) The project includes Commonwealth funding of $8.7 million.
(c) TEI includes funding beyond 2020-21.
(d) The project includes Commonwealth funding of $24.0 million.
(e) The project includes Commonwealth funding of $19.4 million.
(f) TEI includes $10.0 million funding announced in 2017-18 Budget.
(g) The project includes Commonwealth funding of $4.8 million.
(h) The project includes Commonwealth funding of $4.8 million.
(i) The project includes Commonwealth funding of $9.6 million.
(j) The project includes Commonwealth funding of $24.0 million.
(k) The project includes Commonwealth funding of $1.9 million.
(l) The project includes Commonwealth funding of $5.0 million.
(m) TEI includes funding in 2016-17.
(n) The project includes Commonwealth funding of $9.6 million.
(o) Table may not add due to rounding.

Darebin Trail – Farm Road Link

Improved access will be provided to the Darebin Trail from the South Alphington area to more than 600 kilometres of off-road trails, both bike and walking, in the north metropolitan sub-region, and eastern metropolitan sub-region.

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

Great Alpine Road improvement works

A range of improvement works will be undertaken at key locations on the Great Alpine Road between Wangaratta and Bruthen to improve safety, amenity and freight efficiency. The improvements will include widening sealed lane widths and shoulders at targeted locations, intersection upgrades and safety barrier installations.

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

Great Ocean Road improvement works

The Great Ocean Road between Torquay and Allansford will be upgraded to address deterioration in the condition of the road and improve safety. Works include road surface renewal, bridge improvements and safety barrier replacements. This project builds on previous investments by the State and Commonwealth governments in improving the Great Ocean Road.

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

Green Triangle Package

Key roads servicing the Port of Portland including the Henty Highway, Portland-Nelson Road and Portland-Casterton Road will be strengthened and resurfaced to support freight operations and improve safety in the Green Triangle region.

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

High Capacity Signalling Trains onboard equipment

High Capacity Signalling (HCS) onboard equipment will be installed on the new High Capacity Metro Trains. The advanced technology will enable trains to safely run closer together, and run more often.

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

Hyland Highway road improvement works

A range of road network improvement works will be undertaken on the Hyland Highway in south-west Victoria to improve safety and route reliability.

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

Metropolitan train and tram franchise agreements

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

Monaro Highway road improvement works

A range of road network improvement works will be undertaken on the Monaro Highway, a key freight route between Victoria and New South Wales, to improve safety, amenity and freight efficiency.

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

Murray Valley Highway upgrade

A range of road network improvements will be undertaken on the Murray Valley Highway between Echuca and Yarrawonga to improve road safety and amenity. These include intersection upgrades, shoulder sealing and safety barrier installations.

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

Network Transition Plan – Stage A

Power, signalling and platform upgrades will be undertaken on the Cranbourne-Pakenham Line to enable the operation of High Capacity Metro Trains along the line and through the City Loop.

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

Princes Highway East – Upgrades east of Sale

The Princes Highway in East Gippsland will be upgraded to improve safety and amenity. These upgrades include intersection works, pavement restoration and safety enhancements.

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

Property acquisition – Hyde St Yarraville

Funding is provided for the voluntary purchase of up to 10 properties in Hyde Street, Yarraville to improve alignment between land uses and offset the impact of increased truck volumes on Hyde Street arising from the West Gate Tunnel Project.

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

Purchase of Australian Sustainable Hardwoods

The Government, through its ownership of Heyfield ASH Holdings Pty Ltd, purchased shares in Australian Sustainable Hardwoods Pty Ltd together with land on which it operates a timber mill in Heyfield. In addition, funding is being provided to cover the associated costs of the sale and restructure of the company.

This will help to retain local jobs, sustain the local timber industry and give certainty to the Heyfield community.

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

Rutherglen Alternative Truck Route

An alternative route for heavy vehicles travelling on the Murray Valley Highway will be constructed to provide a detour around the township of Rutherglen with the objective of increasing township amenity and safety for pedestrians and local road users.

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

Urban Congestion Package

Key congestion points on metropolitan roads will be upgraded to improve travel times and safety in metropolitan Melbourne. The initial projects include:

- Henderson Road Bridge (Corhanwarrabul Creek Bridge), road bridge;
- Nepean Highway, Forest Drive, intersection upgrade;
- Bergins Road, intersection upgrade;
- Bedford Road, Canterbury Road, development;
- Maroondah Highway, Dunlavin Road, intersection upgrade;
- Footscray Road, service road upgrade; and
- Geelong Road, Millers Road, intersection upgrade.

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

Western Highway – Stawell to South Australian border

A three-year program of safety and efficiency upgrades to the Western Highway from Stawell to the South Australian border.

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

DEPARTMENT OF EDUCATION AND TRAINING

Output initiatives

Table A.4: Output initiatives – Department of Education and Training ($ million)

	2017-18	*2018-19*	*2019-20*	*2020-21*
Inclusive Education package	7.0	12.0	..	..
Kindergarten information management system	1.0	..	..	..
Maintaining universal access to four-year-old kindergarten	1.8	1.8	..	..
Total output initiatives	**9.8**	**13.8**	**..**	**..**

Inclusive Education package

The Government will invest in a package of early childhood inclusive education initiatives to provide additional support for children with disabilities. This includes a boost to the Children's Facilities Capital Program, more inclusive education equipment, workforce inclusion training, Autism Spectrum Disorder training for Maternal and Child Health nurses, the extension of Early Childhood Intervention Services, additional Kindergarten Inclusion Support packages and an inclusive education awareness campaign.

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

Kindergarten information management system

Scoping work will be undertaken on the kindergarten information management system to enable the system to support initiatives introduced in the Education State Early Childhood Reform plan. This system is used by the Department of Education and Training to interact and engage with kindergarten providers.

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

Maintaining universal access to four-year-old kindergarten

Support will be provided to supplement the contribution provided by the Commonwealth Government for kindergarten places in 2018. This includes additional costs for educator to child ratios, teacher salaries and other related costs.

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

Asset initiatives

Table A.5: Asset initiatives – Department of Education and Training ($ million)

	2017-18	2018-19	2019-20	2020-21	TEI
Metro school upgrades	0.8	2.9	8.8	0.1	12.7
Rural and regional school upgrades	1.9	23.2	1.1	0.2	26.5
Total asset initiatives [(a)]	**2.8**	**26.1**	**10.0**	**0.3**	**39.2**

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

Metro school upgrades

To improve educational outcomes through the provision of high-quality facilities, the following four schools in the metropolitan area will receive additional funding for upgrades:

- Bell Primary School;
- Fairfield Primary School;
- Northcote Primary School; and
- Thornbury High School.

This initiative contributes to the Department of Education and Training's:

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

Rural and regional school upgrades

To improve educational outcomes through the provision of high-quality facilities, the Government will relocate the senior campus of Wonthaggi Secondary College to a purpose-built site. The new senior campus will have outdoor learning areas, a library and buildings with specialist facilities.

This initiative contributes to the Department of Education and Training's School Education – Secondary output.

DEPARTMENT OF ENVIRONMENT, LAND, WATER AND PLANNING

Output initiatives

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

($ million)

	2017-18	*2018-19*	*2019-20*	*2020-21*
Additional aviation resources for firefighting	12.9	..	..	..
Securing our energy future – Solar trams	..	..	..	4.7
Victorian Renewable Energy Target scheme [(a)]	tbc	tbc	tbc	tbc
Total output initiatives	**12.9**	**..**	**..**	**4.7**

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

Additional aviation resources for firefighting

An additional six firefighting aviation resources, including two large air tankers, three helitaks and one fixed wing aircraft will be available to support the State's firefighting capability for the 2017-18 bushfire season.

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

Securing our energy future – Solar trams

The Securing our energy future – Solar trams initiative will provide further funding until 2027-28 to promote investment in renewable energy and offset the total electricity consumption of Yarra Trams.

This initiative will be funded from the Sustainability Fund.

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

Victorian Renewable Energy Target scheme

The Government will support up to 650 megawatts of new renewable energy generation, awarding commercial contracts through a reverse auction mechanism. This will bring forward significant investment in new renewable energy projects in Victoria.

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

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Output initiatives

Table A.7: Output initiatives – Department of Health and Human Services ($ million)

	2017-18	2018-19	2019-20	2020-21
Establishment of a Victorian Fixated Threat Assessment Centre [(a)]	8.7	15.8	..	..
Health service funding support [(a)]	115.0	..	..	..
Responding better to people's end of life care preferences [(a)]	19.0	10.4	10.6	10.9
Social Impact Bonds – implementation of round one	..	2.8	3.7	5.1
Tackling the drug problem in Victoria [(a)]	19.5	17.3	16.4	16.9
Total output initiatives [(b)]	**162.2**	**46.2**	**30.8**	**32.9**

Notes:
(a) These initiatives contribute to activity that attracts Commonwealth funding under the National Health Reform Agreement. Estimates of the Commonwealth's contribution are included.
(b) Table may not add due to rounding.

Establishment of a Victorian Fixated Threat Assessment Centre

The Victorian Fixated Threat Assessment Centre (FTAC) will coordinate responses to serious threats of violence posed by people with complex needs. Co-located police and mental health clinicians will assess threats to public safety posed by high-risk individuals, facilitate joint responses to reduce those threats, and engage or re-engage individuals with mental health or alcohol and drug treatment needs with appropriate services.

Specialised public mental health services to meet the needs of this cohort will be established, including high-security bed-based models of care, lower security step-down facilities, and home-based treatment teams.

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

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

Health service funding support

Additional funding will be provided to support health services to deliver additional elective surgery procedures, support emergency departments in responding to an unprecedented flu season, provide additional inpatient hospital activity and meet rising costs of service delivery.

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

- Admitted Services output;
- Emergency Services output; and
- Small Rural Services – Acute Health output.

Responding better to people’s end of life care preferences

The Government will provide additional support to Victorians requiring end of life care including home-based palliative care in rural and regional Victoria and increased capacity in regional palliative care consultancy services. A 24-hour expert advice line will also be established to address the variability of access to after-hours palliative care advice for clients, carers and generalist health services. Funding will also support planning and implementation of the Voluntary Assisted Dying program.

This initiative contributes to the Department of Health and Human Services’ Non-admitted Services output.

Social Impact Bonds – implementation of round one

Social impact bonds allow investors to fund service providers to develop and test new programs that tackle complex social issues. The Government pays investors on the achievement of agreed outcomes. The initiative will fund two social impact bonds to deliver better outcomes for up to 180 long-term homeless people and 200 out-of-home care leavers. Programs are designed to prevent homelessness, improve educational attainment and employment opportunities, address health issues (including mental health and addiction), improve social inclusion, and create a positive pathway to independence.

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

- Housing Assistance output; and
- Child Protection and Family Services output.

Tackling the drug problem in Victoria

An additional 69 residential rehabilitation beds will be established to address the impacts of drug use in Victoria. These additional services are part of a wider strategy including a trial of a single medically-supervised injecting centre in Richmond, new service models for complex clients, and work to address quality and safety concerns in privately operated rehabilitation services.

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

- Drug Prevention and Control output; and
- Drug Treatment and Rehabilitation output.

Asset initiatives

Table A.8: Asset initiatives – Department of Health and Human Services ($ million)

	2017-18	*2018-19*	*2019-20*	*2020-21*	*TEI*
Establishment of a Victorian Fixated Threat Assessment Centre	0.5	1.0	..	..	1.5
Total asset initiatives	**0.5**	**1.0**	**..**	**..**	**1.5**

Establishment of a Victorian Fixated Threat Assessment Centre

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

DEPARTMENT OF JUSTICE AND REGULATION

Output initiatives

Table A.9: Output initiatives – Department of Justice and Regulation ($ million)

	2017-18	2018-19	2019-20	2020-21
Access to Justice	4.0	5.2	6.3	7.9
Establishment of a Victorian Fixated Threat Assessment Centre	1.9	3.1	..	..
Prison capacity expansion	34.3	67.4	67.8	70.4
Residential Tenancies Act reforms	0.5	2.9	1.0	0.5
Summer fire information and education program	4.0	..	..	..
Youth Justice Review and Strategy	13.1	12.2	11.8	12.9
Total output initiatives [(a)]	**57.8**	**90.8**	**86.9**	**91.6**

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

Access to Justice

Funding will be provided for additional legal assistance services, alternative dispute resolution services for small civil claims, and support for self-represented litigants to respond to the recommendations of the Access to Justice Review. The Victorian Civil and Administrative Tribunal will also modernise processes, including automatic online registration of orders. This will reduce barriers faced by disadvantaged people accessing the legal system.

This initiative contributes to the Department of Justice and Regulation's Public Prosecutions and Legal Assistance and Dispute Resolution and Civil Justice Support Services outputs.

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

Establishment of a Victorian Fixated Threat Assessment Centre

Refer to the initiative description under Department of Health and Human Services.

Prison capacity expansion

Increased bed capacity and associated essential services will be funded across Victoria's prison system in response to a growing prison population. This includes dedicated premises for the Adult Parole Board and the new Post-Sentence Authority.

This initiative contributes to the Department of Justice and Regulation's Prisoner Supervision and Support output.

Residential Tenancies Act reforms

A number of initiatives will be funded to assist residential tenants. These include enabling faster release of bonds at the end of a tenancy, introducing a landlord and agent blacklist available to renters, and the establishment of a new Commissioner for Residential Tenancies.

This initiative contributes to the Department of Justice and Regulation's Regulation of the Victorian Consumer Marketplace output.

This initiative contributes to the Department of Premier and Cabinet's Strategic Advice and Government Support output.

Summer fire information and education program

A program of fire safety information and education will be delivered through a combination of direct marketing, traditional and social media, and public relations. The program will provide fire safety advice and promote community awareness of fire risk and planning in preparation for the 2017-18 summer period.

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

Youth Justice Review and Strategy

Funding will be provided to implement priority recommendations of the Armytage and Ogloff review, and strengthen and modernise the youth justice system.

Actions funded include a new custodial operating model, better staff training, a targeted recruitment campaign, additional Safety and Emergency Response Team staff, an Aboriginal Liaison Officer, and improved risk and needs assessment.

This initiative contributes to the Department of Justice and Regulation's Youth Justice Custodial Services output.

Asset initiatives

Table A.10: Asset initiatives – Department of Justice and Regulation ($ million)

	2017-18	2018-19	2019-20	2020-21	TEI
Establishment of a Victorian Fixated Threat Assessment Centre	0.6	..	..	..	0.6
Prison capacity expansion	39.8	54.6	11.1	..	105.6
Victoria State Emergency Services Northcote Unit relocation	3.0	..	..	..	3.0
Youth Justice secure bed expansion	17.8	61.7	..	..	79.6
Total asset initiatives [(a)]	**61.2**	**116.4**	**11.1**	**..**	**188.7**

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

Establishment of a Victorian Fixated Threat Assessment Centre

Refer to the initiative description under Department of Health and Human Services.

Prison capacity expansion

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

Victorian State Emergency Services Northcote Unit relocation

An expanded and upgraded facility will be built as part of relocating the Victorian State Emergency Services (VICSES) Unit in Northcote to the former Heidelberg West Police station. This will equip VICSES with fit-for-purpose facilities to train and attract volunteers to continue servicing the community during emergency events.

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

Youth Justice secure bed expansion

Additional beds at the Parkville Youth Justice Precinct and the Malmsbury Youth Justice precinct will be constructed to increase capacity across the youth justice system. A new comprehensive security solution including upgraded fencing and CCTV surveillance will also be constructed around the secure area at the Malmsbury Youth Justice Precinct.

This initiative contributes to the Department of Justice and Regulation's Youth Justice Custodial Services output.

DEPARTMENT OF PREMIER AND CABINET

Output initiatives

Table A.11: Output initiatives – Department of Premier and Cabinet ($ million)

	2017-18	2018-19	2019-20	2020-21
Residential Tenancies Act reforms	0.1	..	..	..
Latrobe Valley GovHub [(a)]	1.0	17.0	..	..
Total output initiatives	**1.1**	**17.0**	**..**	**..**

Note:
(a) Includes funding from the Latrobe Valley Community Infrastructure and Investment Fund announced as part of the 2016-17 Budget Update.

Residential Tenancies Act reforms

Refer to the initiative description under the Department of Justice and Regulation.

Latrobe Valley GovHub

A new high-quality professional services hub will be developed in the Latrobe Valley to consolidate and house Victorian public service functions and agencies. Private sector tenants will also be sought for the development.

This support will encourage long-term jobs growth and economic diversification in the Latrobe Valley, and assist in activating urban renewal in the area surrounding the hub.

This initiative contributes to the Department of Premier and Cabinet's Government-wide Leadership, Reform and Implementation output.

Asset initiatives

Table A.12: Asset initiatives – Department of Premier and Cabinet ($ million)

	2017-18	2018-19	2019-20	2020-21	TEI
Latrobe Valley GovHub	..	3.0		..	3.0
Total asset initiatives	**..**	**3.0**	**..**	**..**	**3.0**

Latrobe Valley GovHub

Refer to output initiative for a description of this initiative.

DEPARTMENT OF TREASURY AND FINANCE

Output initiatives

Table A.13: Output initiatives – Department of Treasury and Finance ($ million)

	2017-18	2018-19	2019-20	2020-21
Essential Services Commission – new regulatory information system	0.7	..	..	..
Incentive fund for regulatory burden reduction	8.7	6.8	3.0	1.1
Social Impact Bonds – commencement of round two	0.5	..	..	..
Total output initiatives	**9.9**	**6.8**	**3.0**	**1.1**

Essential Services Commission – new regulatory information system

Work will be undertaken to develop a new regulatory information system for the Essential Services Commission and upgrade the existing website and wi-fi technology.

This initiative contributes to the Department of Treasury and Finance's Economic Regulatory Services output.

Incentive fund for regulatory burden reduction

An incentive fund will be established to continue Government's commitment to reducing red tape for Victorian businesses, individuals, not-for-profit organisations and government service providers. This will support the attraction of new business to Victoria.

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

Social Impact Bonds – commencement of round two

Social impact bonds enable investors to fund service providers to develop and test new programs to address complex social issues. This funding will enable the Government to engage the market on a second round of social impact bonds.

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

PARLIAMENT

Output initiatives

Table A.14: Output initiatives – Parliament **($ million)**

	2017-18	2018-19	2019-20	2020-21
Additional funding for Electorate Officers	0.2	0.2	0.2	0.2
Increase support for Legislative Council Investigative Committees	..	0.7	0.7	0.8
Total output initiatives (a)	**0.2**	**0.9**	**0.9**	**0.9**

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

Additional funding for Electorate Officers

Parliament will receive additional funding for Electorate Officers for the Speaker of the Legislative Assembly and the President of the Legislative Council, recognising increases in their respective workload.

This initiative contributes to Parliament's Provision of Information and Resources to Parliament output.

Increase support for Legislative Council Investigative Committees

Parliament will receive additional funding to support the work of Legislative Council Investigative Committees.

This initiative contributes to Parliament's Provision of Information and Resources to Parliament output.

COURT SERVICES VICTORIA

Output initiatives

Table A.15: Output initiatives – Court Services Victoria **($ million)**

	2017-18	2018-19	2019-20	2020-21
Access to Justice	1.9	1.1	1.1	1.2
Implementation of Youth Justice Reform	5.1	5.1	..	..
Total output initiatives [(a)]	**6.9**	**6.2**	**1.1**	**1.2**

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

Access to Justice

Refer to the initiative description under the Department of Justice and Regulation.

Implementation of Youth Justice Reform

The Children's Court will deliver increased judicial monitoring and case management to implement Youth Control Orders and the Intensive Monitoring and Control Bail Supervision scheme. This will provide for more intensive and targeted sentencing and bail programs for young offenders.

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

Asset initiatives

Table A.16: Asset initiatives – Court Services Victoria **($ million)**

	2017-18	2018-19	2019-20	2020-21	TEI
Access to Justice	3.4	1.9	..	..	5.3
Implementation of Youth Justice Reform	4.1	9.5	..	..	13.7
Total asset initiatives [(a)]	**7.5**	**11.5**	**..**	**..**	**18.9**

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

Access to Justice

Refer to the initiative description under the Department of Justice and Regulation.

Implementation of Youth Justice Reform

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

APPENDIX B – AMENDMENTS TO THE 2017-18 OUTPUT PERFORMANCE MEASURES

Output measures for all departments were published in Chapter 2 and Appendix A of Budget Paper No. 3 *Service Delivery*. The Public Accounts and Estimates Committee has completed its review of the measures which were substantially changed or proposed to be discontinued, and tabled its report in Parliament on 31 October 2017. The Government will consider the Committee's report and respond to the recommendations within the legislated timeline. All agreed changes to output performance measures will be reflected in the next budget publication.

APPENDIX C – TAX EXPENDITURES AND CONCESSIONS

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

TAX EXPENDITURES

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

Over the past decade, the State has forgone $42.7 billion in revenue in the form of tax expenditures. In 2017-18, tax expenditures are forecast to be $6.9 billion, 44 per cent of which will accrue to owner-occupier households.

The tax expenditures outlined below can include exemptions, reduced rates, deductions or rebates of tax for a certain type of taxpayer, activity or asset. Table C.1 aggregates tax expenditure estimates by the main tax categories for the period 2016-17 to 2020-21. In estimating tax expenditures, it is assumed that taxpayer behaviour is unchanged by the concession.

Land tax expenditures form a significant portion of total estimated tax expenditures. The current biennial land revaluation determines a property's latest site value used in tax assessments. Since the revaluation is performed on all land, including exempt land, increases arising from this revaluation also raise land tax expenditures. For example, a revaluation year such as 2016-17 causes strong growth in land tax expenditures, with more subdued growth in the following year, in this case 2017-18. The current biennial property valuation process is expected to be centralised within the Valuer-General Victoria and undertaken annually from 2019.

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

Description	*2016-17*	*2017-18*	*2018-19*	*2019-20*	*2020-21*
Land tax [(b)]	3 925	3 956	4 796	5 198	5 302
Fire Services Property Levy	22	22	22	22	22
Payroll tax	1 184	1 339	1 400	1 467	1 545
Gambling tax	75	77	78	79	80
Motor vehicle taxes	186	172	197	209	219
Land transfer duties [(c)]	836	1 282	1 292	1 266	1 247
Congestion levy	53	56	57	59	60
Total estimated tax expenditures	**6 281**	**6 904**	**7 842**	**8 300**	**8 475**

Source: Department of Treasury and Finance

Notes:

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

(b) The biennial land revaluation causes strong growth in expenditures in 2016-17, with more subdued growth in the following year. This effect is removed from 2018-19 onwards given the Government's intent to move to annual valuations.

(c) The high level of land transfer duty tax expenditure from 2017-18 reflects the abolition of stamp duty for first time buyers and the re-targeting of off-the-plan stamp duty reductions or exemptions that commenced from 1 July 2017.

CONCESSIONS

Concessions are direct budget outlays or reduced government charges that reduce the price of a good or service for particular groups. Over the past decade, the State has provided $14.3 billion in concessions. In 2017-18, concessions are forecast to be about $1.6 billion.

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

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

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

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

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

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

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

Description	2016-17	2017-18
Electricity	148	151
Mains gas	62	65
Municipal rates	96	97
Water and sewerage	168	173
Total energy, municipal rates, water and sewerage	**473**	**486**
Ambulance	389	400
Dental services and spectacles [b]	160	149
Community health programs	102	111
Total health	**651**	**660**
Education	**67**	**66**
Hardship schemes	**40**	**42**
Social and community services	**5**	**5**
Private transport	**203**	**216**
Public transport	**154**	**161**
Total for items estimated	**1 593**	**1 636**

Source: Department of Treasury and Finance

Notes:

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

(b) The higher concessions on dental services for 2016-17 is due to the remainder of unspent 2015-16 National Partnership Agreement on Adult Public Dental Services funding that has been transferred into 2016-17.

APPENDIX D – SENSITIVITY ANALYSIS

The *2017-18 Budget Update* incorporates macroeconomic forecasts and assumptions that are based on the best information available at the time of publication. They are subject to unforeseen changes in economic circumstances, which may affect general government revenue and expenditure.

This sensitivity analysis explores the impact of variations in these parameters on the key fiscal aggregates of the general government sector.

Two types of analysis are presented.

First, the sensitivity analysis considers the fiscal impacts of independent variations in major macroeconomic parameters. This type of analysis is useful in assessing, for example, the impact on the fiscal aggregates of a forecast error in an economic parameter.

Second, the scenario analysis quantifies the fiscal impacts of simultaneous variations in a number of macroeconomic parameters. Scenario analysis takes account of links between key international, Australian and Victorian economic variables. This provides a useful indication of the fiscal impact of material variations from the macroeconomic outlook.

Care should be exercised, however, in interpreting these results. The relationships between economic and fiscal aggregates are complex, and typically depend on the specific characteristics of the economic shock. The results presented are intended to be used as a guide and are relevant only once the conditions outlined in the assumptions for each specific case are met.

SENSITIVITY TO INDEPENDENT VARIATIONS IN MAJOR ECONOMIC PARAMETERS

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

Table D.1: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2017-18 [(a)(b)(c)(d)] ($ million)

	2017-18 estimate	2018-19 estimate	2019-20 estimate	2020-21 estimate
Real GSP				
Income from transactions	117	124	129	137
Expenses from transactions	..	(5)	(10)	(16)
Net result from transactions	**117**	**128**	**140**	**154**
Net debt	**(117)**	**(245)**	**(385)**	**(539)**
Employment [(e)]				
Income from transactions	79	79	83	88
Expenses from transactions	234	257	270	285
Net result from transactions	**(156)**	**(177)**	**(186)**	**(197)**
Net debt	**156**	**333**	**520**	**717**
Consumer prices [(f)]				
Income from transactions	155	265	279	291
Expenses from transactions	211	217	208	212
Net result from transactions	**(56)**	**48**	**71**	**79**
Net debt	**56**	**(2)**	**(81)**	**(169)**
Average weekly earnings				
Income from transactions	(41)	1	39	36
Expenses from transactions	5	7	6	4
Net result from transactions	**(47)**	**(6)**	**33**	**31**
Net debt	**47**	**53**	**20**	**(12)**
Total employee expenses [(g)]				
Income from transactions	..	23	81	89
Expenses from transactions	236	294	311	332
Net result from transactions	**(236)**	**(270)**	**(230)**	**(243)**
Net debt	**236**	**514**	**810**	**1 127**
Domestic share prices				
Income from transactions	6	4	2	1
Expenses from transactions	..	(2)	(3)	(3)
Net result from transactions	**6**	**6**	**5**	**4**
Net debt	**(6)**	**(10)**	**(12)**	**(14)**
Overseas share prices				
Income from transactions	17	10	6	4
Expenses from transactions	..	(3)	(3)	(4)
Net result from transactions	**17**	**13**	**9**	**8**
Net debt	**(17)**	**(28)**	**(35)**	**(41)**
Property prices				
Income from transactions	74	93	96	101
Expenses from transactions	(2)	(6)	(10)	(15)
Net result from transactions	**75**	**99**	**107**	**116**
Net debt	(79)	(184)	(294)	(415)

Table D.1: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2017-18 *(continued)* **($ million)**

	2017-18 estimate	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Property volumes				
Income from transactions	69	73	75	78
Expenses from transactions	(2)	(5)	(8)	(12)
Net result from transactions	**71**	**78**	**84**	**90**
Net debt	**(71)**	**(149)**	**(232)**	**(322)**
Interest rates (h)				
Income from transactions	130	87	90	94
Expenses from transactions	7	175	172	156
Net result from transactions	**122**	**(88)**	**(81)**	**(62)**
Net debt	**(122)**	**(206)**	**(296)**	**(394)**

Source: Department of Treasury and Finance

Notes:

(a) Variations are applied to the economic variables in the budget year. It is assumed that variables' growth rates match those under a no-variation scenario for the forward years. This implies that economic variables are 1 per cent higher across the four years, compared with a no-variation scenario.

(b) A positive number for income from transactions denotes an increase in revenue. A positive number for expenses from transactions denotes an increase in expenses (and hence a reduction in the net result from transactions). A positive number for the net result from transactions denotes a higher surplus or smaller deficit. A positive number for net debt denotes a higher level of net debt in the relevant year compared with a no-variation scenario. Numbers may not balance due to rounding.

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

(d) Estimates of net debt are approximately equal to the cumulative impact of the net result from transactions. The difference between the cumulative net result from transactions and net debt is due to non-cash expenses and gross sale proceeds (where applicable).

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

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

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

(h) Assumes interest rates (i.e. short and long-term rates) are 1 percentage point higher in each year of the budget and forward estimates.

IMPACTS OF VARIATIONS TO THE ECONOMIC OUTLOOK

The previous section considered the fiscal implications of independent variations in selected economic parameters. Typically, however, variations in economic parameters do not occur in isolation. The *2017-18 Budget* adopted a new methodology to quantify some of the risks described in Chapter 2 *Economic context* occurring simultaneously. This provides a better understanding the effects of potential departures from the economic outlook, and the extent to which the fiscal aggregates are sensitive to adverse economic shocks.

This section considers three scenarios:

- a negative trade shock to the world's major trading economies – the United States (US), China and the European Union (EU);
- a positive shock to population growth in Victoria; and
- a positive shock to both population growth and Victoria's labour force participation rate.[2]

The results generated in each scenario are mutually exclusive and non-additive.

Sensitivity to global trade

As a medium-sized open economy, Australia's economic performance is vulnerable to shifts in economic and financial conditions abroad. A significant risk to Victoria's economic outlook identified in Chapter 2 is the rise in protectionist sentiment in some major economies.

This scenario models a 10 percentage point rise in both the costs of Victoria's goods exported to the US, China and the EU, and to goods imported into Victoria from those economies.[3] This change in the terms of trade has been applied in the Victoria University Regional Model (VURM) – a computable general equilibrium model of the Australian states and territories. The modelling yields a 13 per cent decline, on average, in demand for Victoria's exports.

Table D.2 summarises the effects of this scenario on major Victorian economic parameters. Growth in real gross state product (GSP) is lower, reflecting a fall in the terms of trade associated with weaker demand for Victoria's exports. Slower wages growth is in line with softer labour market and broader economic conditions. The indirect effects of increases in prices of imported goods results in higher consumer price inflation. Domestic demand moves away from imported goods and services, towards domestically produced goods and services, although this does not fully offset the decline in demand.[4]

[2] All three scenarios have been modelled as deviations from a business as usual base case. The analysis relies on applications of the VURM as described in the *2017-18 Budget*. Technical documentation of the model's equations and database can be downloaded from:
www.copsmodels.com/elecpapr/g-254.htm

[3] See the *OECD Economic Outlook, Volume 2016 Issue 2* and *OECD Economic Outlook, interim Report March 2017*. Together, the US, China and the EU made up almost half of Australia's trade for 2016.

[4] Growth of Victoria's exports such as higher education, tourism and manufacturing fare better in relative terms as the depreciation helps to insulate trade-exposed industries.

Table D.2: Economic impact of a global trade shock [(a)] **(per cent)**

	2017-18 estimate	2018-19 estimate	2019-20 estimate	2020-21 estimate
Real GSP	(0.17)	(0.32)	(0.46)	(0.59)
Employment	(0.12)	(0.20)	(0.24)	(0.27)
Consumer Price Index	0.01	0.02	0.03	0.04
Wage Price Index	(0.11)	(0.28)	(0.50)	(0.75)

Source: Centre of Policy Studies, Victoria University.

Note:

(a) Figures reported are the change in the level of each parameter relative to the baseline of no change in the economic outlook, for each year of the budget.

Table D.3 presents the fiscal impact of the changes in economic parameters under this scenario. Land transfer duty, payroll tax and GST revenues are weaker over the next four years as a result of slower growth in GSP, consumption, property prices and wages.

Expenses from transactions are also lower as weaker wages growth reduces employee expenses and in some cases outlays on grants and transfers. To fund Victoria's widening fiscal deficit, borrowings rise, increasing net debt.

Table D.3: Fiscal impact of a global trade shock **($ million)**

	2017-18 estimate	2018-19 estimate	2019-20 estimate	2020-21 estimate
Income from transactions	(76.7)	(209.9)	(310.9)	(432.4)
Expenses from transactions	2.1	(18.7)	(81.7)	(146.8)
Net result from transactions	**(78.9)**	**(191.3)**	**(229.2)**	**(285.6)**
Other economic flows	(1.1)	(3.0)	(2.8)	(4.1)
Net result	**(80.0)**	**(194.2)**	**(232.1)**	**(289.8)**
Net debt (cumulative)	**80.0**	**268.4**	**494.3**	**777.3**

Source: Department of Treasury and Finance

Sensitivity to population growth

Victoria's population growth has significantly exceeded expectations in recent years. Over the year to March 2017, it grew 2.4 per cent, which was materially higher than the 1.6 per cent national average.

The forecast is for Victoria's population growth to remain strong but moderate over the next four years in line with strengthening conditions in Australia's mining states. This scenario models the impact of an additional positive population growth shock to Victoria. The shock assumes that population growth is 0.1 percentage point higher in 2017-18, and 0.2 percentage points higher in each of the forward years.[5]

[5] It is assumed that new arrivals to Victoria have the same employment and labour force participation probabilities as the existing population.

Table D.4 reports the effects on major economic parameters. Stronger population growth has the effect of raising real household consumption, investment in new capacity and GSP. This is accompanied by an increase in demand for labour with flow on effects to employment. As in the current economic cycle, a higher population is assumed to boost the supply of labour to Victoria's economy, resulting in some downward pressure on wages. This, in turn, is expected to lead to lower costs of production and inflation outcomes.

Table D.4: Economic impact of higher population growth [(a)] (per cent)

	2017-18 estimate	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Real GSP	0.05	0.15	0.28	0.42
Employment	0.08	0.23	0.41	0.60
Consumer Price Index	(0.02)	(0.06)	(0.10)	(0.14)
Wage Price Index	(0.09)	(0.26)	(0.45)	(0.64)

Source: Centre of Policy Studies, Victoria University.

Note:

(a) Figures reported are the change in the level of each parameter relative to the baseline of no change in the economic outlook, for each year of the budget.

Table D.5 summarises the estimated fiscal impacts of this scenario. With higher growth in GSP, consumption, employment and property prices, income from transactions is higher over the forward estimates. This translates into higher growth in revenue from land transfer duty and payroll tax. GST revenue is also higher reflecting the increase in Victoria's population share.

The higher population also results in elevated demand and related expenditure on public services (such as on transport, health and education services). However, employee entitlement and superannuation expenses are reduced as stronger growth in labour supply relative to demand leads to lower wage growth and inflation.

The overall effect is for revenue growth to outpace higher government expenditure, resulting in improved fiscal balances and lower borrowings.

Table D.5: Fiscal impact of higher population growth ($ million)

	2017-18 estimate	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Income from transactions	36.0	91.8	205.9	354.8
Expenses from transactions	25.4	53.1	71.0	115.1
Net result from transactions	**10.6**	**38.7**	**134.9**	**239.7**
Other economic flows	0.0	0.1	0.2	0.4
Net result	**10.7**	**38.8**	**135.1**	**240.1**
Net debt (cumulative)	**(11.2)**	**(51.7)**	**(191.3)**	**(440.2)**

Source: Department of Treasury and Finance

Impact of higher population growth and an increase in the participation rate

As well as a strong rate of population growth, Victoria has also experienced high rates of labour force participation. An upside risk to the budget is for labour force participation to be even higher over the forecast horizon. Under this scenario, both high population growth and a high labour force participation rate are assumed.[6]

Table D.6 presents the overall economic effects. The results are similar to those in the high population growth only scenario. However, the magnitudes of the impacts are more pronounced in this scenario. In particular, employment growth effects are larger than in the high population growth only scenario, reflecting a greater increase in the size of the workforce. Higher labour force participation has the effect of lowering wage pressures. This stimulates firms' demand for labour on average, and capital also becomes more productive. Overall, there is a larger pick up in private investment, and a more pronounced rise in consumption growth. Together these underpin a larger acceleration in GSP.

Table D.6: Economic impact of higher population and participation rate [(a)] (per cent)

	2017-18 estimate	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Real GSP	0.13	0.43	0.87	1.39
Employment	0.20	0.65	1.30	2.02
Consumer Price Index	(0.05)	(0.16)	(0.31)	(0.48)
Wage Price Index	(0.24)	(0.75)	(1.43)	(2.16)

Source: Centre of Policy Studies, Victoria University.

Note:

(a) Figures reported are the change in the level of each parameter relative to the baseline of no change in the economic outlook, for each year of the budget.

Table D.7 summarises the projected fiscal impacts of higher population and labour force participation. Similar to the high population growth only scenario, land transfer duty and GST revenue increases. The higher land transfer duty reflects higher housing demand. The effect on employment is even more pronounced as a result of more people entering the labour force than in the population only scenario. Revenue from payroll tax consequently rises at a higher rate than under the high population growth only scenario. Income tax equivalents (ITEs) in Victoria also rise, reflecting additional revenue from WorkSafe Victoria in line with stronger employment growth.

Weaker growth in wages and lower inflation outcomes help to mitigate rising expenses associated with additional demand for public services. They also lower superannuation expenses, other operating expenses, and borrowing costs over the forward estimates. Finally, higher population growth generates more revenue from grants (excluding GST revenue), although this is partly offset by the effects of lower inflation.

Overall, the larger increase in revenue relative to expenses in the forward years improves fiscal balances and reduces net debt.

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[6] As applied in the *2017-18 Budget*, the labour participation rate is assumed to be 0.17 percentage point higher in 2017-18, 0.34 percentage higher in 2018-19, 0.49 percentage higher in 2019-2020 and 0.64 percentage higher in 2020-2021.

Table D.7: Fiscal impact of higher population and participation rate **($ million)**

	2017-18 estimate	*2018-19 estimate*	*2019-20 estimate*	*2020-21 estimate*
Income from transactions	41.7	94.3	204.3	356.0
Expenses from transactions	43.9	65.1	11.1	(15.8)
Net result from transactions	**(2.2)**	**29.2**	**193.2**	**371.8**
Other economic flows	0.1	0.2	0.6	1.3
Net result	**(2.1)**	**29.4**	**193.8**	**373.0**
Net debt (cumulative)	**1.5**	**(28.8)**	**(226.5)**	**(607.6)**

Source: Department of Treasury and Finance

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

The *Financial Management Act 1994* (the Act) requires the Minister to prepare a budget update for tabling in Parliament each financial year. The provisions of the Act have been complied with in the *2017-18 Budget Update*.

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

Table E.1: Statements required by the *Financial Management Act 1994* and location in the *2017-18 Budget Update*

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

Table E.1: Statements required by the *Financial Management Act 1994* and location in the *2017-18 Budget Update (continued)*

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

STYLE CONVENTIONS

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

The notation used in the tables and charts 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.

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